

DRAWDOWN INFORMATION MEMORANDUM



Arion Bank hf.

(incorporated with limited liability in Iceland)

Issue of U.S.\$100,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Convertible Notes under the €3,000,000,000 Euro Medium Term Note Programme

Issue Price: 100 per cent.

This drawdown information memorandum (the “**Information Memorandum**”) (which must, unless otherwise expressly set out herein, be read and construed as one document in conjunction with all documents incorporated by reference herein, including certain sections of the base prospectus dated 18 July 2019 (the “**Base Prospectus**”) relating to the €3,000,000,000 Euro Medium Term Note Programme (the “**Programme**”) of Arion Bank hf. (the “**Bank**”) as supplemented by a supplement dated 14 February 2020 – see *Documents Incorporated by Reference*) is prepared in connection with the issue by the Bank of U.S.\$100,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Convertible Notes (the “**Notes**”) issued by the Bank under the Programme. The Notes will constitute direct, unsecured, unguaranteed and subordinated obligations of the Bank, as described in Condition 3 below.

The Notes will bear interest on their Outstanding Principal Amount (as defined in Condition 21 below) from (and including) 26 February 2020 (the “**Issue Date**”) to (but excluding) 26 August 2025 (the “**First Reset Date**” and, together with every fifth anniversary thereof, each a “**Reset Date**”) at a fixed rate of 6.250 per cent. per annum. In respect of each period from (and including) a Reset Date to (but excluding) the next succeeding Reset Date (each a “**Reset Period**”), the Notes will bear interest at a fixed rate of 4.842 per cent. per annum above the CMT Rate (as defined in the terms and conditions of the Notes (the “**Conditions**”). Subject to the rights and obligations of the Bank to cancel any payment of interest in respect of the Notes, interest on the Notes will be payable semi-annually in arrear on 26 February and 26 August in each year (each an “**Interest Payment Date**”), commencing on 26 August 2020.

The Notes are perpetual securities and have no fixed date for redemption and Holders do not have the right to call for their redemption. Subject as provided herein, if permitted at the relevant time by the Applicable Banking Regulations and if (to the extent then required under the Applicable Banking Regulations) the permission of the Central Bank of Iceland - Financial Supervisory Authority (*Seðlabanki Íslands - Fjármálaeftirlit*) (the “**FME**”) has been granted, the Notes may be redeemed at the option of the Bank in whole (but not in part) (i) on any day falling in the period commencing on (and including) 26 February 2025 and ending on (and including) 25 August 2025; (ii) on the First Reset Date or on any Interest Payment Date thereafter or (iii) following the occurrence of a Capital Disqualification Event, a Withholding Tax Event or a Tax Deductibility Event, in each case at their Outstanding Principal Amount together with accrued interest (excluding any interest which has been cancelled) and in the manner described herein.

Interest on the Notes will be due and payable only at the sole discretion of the Bank, and the Bank may elect, in its sole and absolute discretion, to cancel any payment of interest in respect of the Notes in whole or in part at any time and for any reason, and payments of interest in respect of the Notes will also not be made in certain other circumstances as provided in Condition 5(b) below. Any interest cancelled or deemed to have been cancelled (in each case, in whole or in part) in such circumstances shall not be due and shall not accumulate or be payable at any time thereafter nor constitute a default by the Bank for any purpose nor constitute the occurrence of any event related to the insolvency of the Bank nor entitle the holders to take any action as a result thereof nor in any way limit or restrict the Bank from making any payment of interest or equivalent payment or other distribution in connection with any instrument ranking junior to the Notes (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any Existing Tier 1 Instrument or other Additional Tier 1 Instrument, and Holders shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation or deemed cancellation. The Bank may use such cancelled payments without restriction to meet its obligations as they fall due.

In the event that the CET1 ratio of the Bank on a solo basis or of the Group on a consolidated basis is less than 5.125 per cent., as determined by the Bank or the FME (or any agent appointed by the FME for the purposes of making such determination) (a “Capital Adequacy Event”) or on the occurrence of a Non-Viability Event (as defined in the Conditions) (each a “Conversion Trigger Event”), the Notes will be converted (without any requirement for the consent or approval of Holders) into Conversion Shares at the prevailing Conversion Price (each as defined in the Conditions). In the case of a Capital Adequacy Conversion (as defined in the Conditions), prior to any delivery of Conversion Shares to a Holder the Bank may elect that a Settlement Shares Offer shall be made, which will delay the delivery of Conversion Shares to a Holder and may result in a Holder receiving, wholly or partly in place of such Conversion Shares,

payment of the cash proceeds of such Settlement Shares Offer to which that Holder is entitled, after deduction of the Settlement Shares Offer Expenses. See Condition 6 below.

This Information Memorandum does not comprise a prospectus for the purposes of Regulation (EU) 2017/1129. Application has been made to the Luxembourg Stock Exchange in its capacity as market operator of Euro MTF under the Luxembourg law dated 16 July 2019 relating to prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) to list the Notes on the Euro MTF market of the Luxembourg Stock Exchange (the “**Euro MTF**”). This Information Memorandum constitutes listing particulars for the purpose of such application and has been approved by the Luxembourg Stock Exchange.

References in this Information Memorandum to the Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Euro MTF and are listed on the Official List of the Luxembourg Stock Exchange. The Euro MTF is not a regulated market for the purposes of Directive 2014/65/EC (as amended, “**MiFID II**”).

The Bank has been rated BBB+ by S&P Global Ratings Europe Limited (“**S&P**”). The Notes are expected to be rated BB by S&P. 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.

S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “**CRA Regulation**”). As such, S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority (“**ESMA**”) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.

For a description of certain matters that prospective investors should consider, see “Risk Factors” herein.

The Notes will initially be represented by a global Note in registered form (the “**Global Note**”), which will be deposited on or about the Issue Date with a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”) and registered in the name of the nominee for the common depositary of Euroclear and Clearstream, Luxembourg. Interests in the Global Note will be exchangeable for definitive Notes in registered form only in certain limited circumstances.

The Notes are not intended to be offered, sold or otherwise made available and should not be offered, sold or otherwise made available to retail clients in the EEA, as defined in MiFID II. For these purposes, reference(s) to the EEA include(s) the United Kingdom. Prospective investors are referred to the section headed “Prohibition on marketing and sales to retail investors” for further information.

Sole Structuring Advisor

Barclays

Joint Lead Managers

Barclays

Goldman Sachs International

Morgan Stanley

Information Memorandum dated 24 February 2020

The Bank accepts responsibility for the information contained in this document. To the best of the knowledge of the Bank (which has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Information Memorandum should be read and construed in conjunction with all of the documents incorporated in this Information Memorandum by reference (see “*Documents Incorporated by Reference*” below).

The Joint Lead Managers 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 Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Information Memorandum or any other information provided by the Bank in connection with the Notes. No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Information Memorandum or any other information provided by the Bank in connection with the Notes.

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

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

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

This Information Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Information Memorandum and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law in certain jurisdictions. The Joint Lead Managers do not represent that this Information Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank or the Joint Lead Managers which is intended to permit a public offering of the Notes or distribution of this Information Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Information Memorandum 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 Information Memorandum comes are required by the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Information Memorandum and any document incorporated by reference herein, see “*Subscription and Sale*”. In particular, the Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons (as defined in Regulation S under the Securities Act). **This Information Memorandum may not be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.**

This Information Memorandum does not constitute an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Bank or the Joint Lead Managers that any recipient of

this Information Memorandum should subscribe for or purchase any securities. Each recipient of this Information Memorandum shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Bank.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Bank has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Prohibition of sales to EEA and UK retail investors

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”) or in the United Kingdom (the “UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of 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. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

MiFID II Product Governance/Target Market

Professional investors and ECPs only target market – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

Prohibition on marketing and sales to retail investors

The Notes are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in June 2015, the United Kingdom Financial Conduct Authority (the “FCA”) published the Product Intervention (Contingent Convertible Instruments and Mutual Society Shares) Instrument 2015 (the “PI Instrument”). In addition, (i) on 1 January 2018, the provisions of the PRIIPs Regulation became directly applicable in all EEA member states and (ii) MiFID II was required to be implemented in EEA member states by 3 January 2018. Together the PI Instrument, PRIIPs and MiFID II are referred to as the “Regulations”. For the purposes of this section entitled “Prohibition on marketing and sales to retail investors”, references to the EEA include the United Kingdom.

The Regulations set out various obligations in relation to (i) the manufacture and distribution of financial instruments and (ii) the offering, sale and distribution of packaged retail and insurance-based investment products and certain contingent write down or convertible securities, such as the Notes.

Potential investors in the Notes should inform themselves of, and comply with, any applicable laws, regulations or regulatory guidance with respect to any resale of the Notes (or any beneficial interests therein) including the Regulations.

Each of the Joint Lead Managers is required to comply with some or all of the Regulations. By purchasing, or making or accepting an offer to purchase, any Notes (or a beneficial interest in such Notes) from the Bank and/or the Joint Lead Managers, each prospective investor represents, warrants, agrees with and undertakes to the Bank and each of the Joint Lead Managers that:

- (1) it is not a retail client in the EEA (as defined in MiFID II);
- (2) whether or not it is subject to the Regulations, it will not:
 - (A) sell or offer the Notes (or any beneficial interests therein) to retail clients in the EEA (as defined in MiFID II); or
 - (B) communicate (including the distribution of this Information Memorandum) or approve an invitation or inducement to participate in, acquire or underwrite the Notes (or any beneficial interests therein) where that invitation or inducement is addressed to or disseminated in such a way that it is likely to be received by a retail client in the EEA (in each case within the meaning of MiFID II).

In selling or offering the Notes or making or approving communications relating to the Notes it may not rely on the limited exemptions set out in the PI Instrument; and

- (3) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes (or any beneficial interests therein), including (without limitation) MiFID II and any other applicable laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes (or any beneficial interests therein) by investors in any relevant jurisdiction.

Each prospective investor further acknowledges that:

- (i) the identified target market for the Notes (for the purposes of the product governance obligations in MiFID II) is eligible counterparties and professional clients; and
- (ii) no key information document (KID) under PRIIPs has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under PRIIPs.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes (or any beneficial interests therein) from the Bank and/or the Joint Lead Managers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

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

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

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

Notice to residents of Qatar

The Notes will not be offered, sold or delivered, at any time, directly or indirectly, in the State of Qatar (“**Qatar**”) (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Information Memorandum has not been and will not be reviewed or approved by or registered with the Qatar Central Bank, the Qatar Stock Exchange, the Qatar Financial Markets Authority or the Qatar Financial Centre Regulatory Authority in accordance with their regulations or any other regulations in Qatar and the Qatar Financial Centre. The Notes are not and will not be traded on the Qatar Stock Exchange.

Notice to residents in Kuwait

Unless all necessary approvals from the Kuwait Capital Markets Authority (the “**CMA**”) pursuant to Law No. 7 of 2010, and its executive bylaws (each as amended) (the “**CMA Rules**”) together with the various resolutions, regulations, directives and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in the State of Kuwait (“**Kuwait**”), have been given in respect of the marketing and sale of the Notes, the Notes may not be offered for sale, nor sold, in Kuwait.

This Information Memorandum is not for general circulation to the public in Kuwait nor will the Notes be sold by way of a public offering in Kuwait. In the event that the Notes are intended to be purchased onshore in Kuwait, the same may only be so purchased through a licensed person duly authorised to undertake such activity pursuant to the CMA Rules. Investors from Kuwait acknowledge that the CMA and all other regulatory bodies in Kuwait assume no responsibility whatsoever for the contents of this Information Memorandum and do not approve the contents thereof or verify the validity and accuracy of its contents. The CMA, and all other regulatory bodies in Kuwait, assume no responsibility whatsoever for any damages that may result from relying (in whole or in part) on the contents of this Information Memorandum. Prior to purchasing any Notes, it is recommended that a prospective holder of any Notes seeks professional advice from its advisors in respect to the contents of this Information Memorandum so as to determine the suitability of purchasing the Notes.

PRIOR TO MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY, IN LIGHT OF THEIR OWN FINANCIAL CIRCUMSTANCES AND INVESTMENT OBJECTIVES, ALL THE INFORMATION SET FORTH IN THIS INFORMATION MEMORANDUM AND, IN PARTICULAR, THE CONSIDERATIONS SET FORTH IN THE SECTION ENTITLED “RISK FACTORS”. PROSPECTIVE INVESTORS SHOULD MAKE SUCH ENQUIRIES AS THEY DEEM NECESSARY WITHOUT RELYING ON THE BANK OR ANY JOINT LEAD MANAGER.

PRESENTATION OF INFORMATION

Certain Defined Terms and Conventions

Capitalised terms which are used but not defined in any particular section of this Information Memorandum will have the meaning attributed to them in “*Terms and Conditions of the Notes*” or any other section of this Information Memorandum. In addition, the following terms as used in this Information Memorandum have the meanings defined below:

All references in this Information Memorandum to:

- “**2019 Consolidated Financial Statements**” means the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2019;
- “**2018 Consolidated Financial Statements**” means the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2018;
- “**2017 Consolidated Financial Statements**” means the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2017;
- “**Group**” are to the Bank and its consolidated subsidiaries, taken as a whole;
- “**ISK**”, “**krona**” and “**kronur**” are to Icelandic Krona;
- “**€**” or “**euro**” are 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; and
- “**U.S.\$**” or “**U.S. dollars**” are to the currency of the United States of America.

Certain figures in this Information Memorandum, 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.

This Information Memorandum (including the information incorporated by reference in it) 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 Information Memorandum (including the information incorporated by reference in it) titled "*Risk Factors*" and "*Description of the Bank*" as well as elsewhere.

Forward Looking Statements

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 Information Memorandum (including the information incorporated by reference in it) 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 Information Memorandum (including the information incorporated by reference in it) titled "*Risk Factors*".

PRESENTATION OF FINANCIAL INFORMATION

Presentation of Financial Information

The consolidated financial information as of and for the years ended 31 December 2019, 2018 and 2017 has, unless otherwise stated, and except for the below, been derived from the 2019 Consolidated Financial Statements, the 2018 Consolidated Financial Statements and the 2017 Consolidated Financial Statements incorporated by reference in this Information Memorandum (together, the "**Annual Financial Statements**"). The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ("**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. Financial information in this Information Memorandum is presented on a consolidated basis unless otherwise indicated.

On 1 January 2018, the Group adopted IFRS 9, Financial Instruments ("**IFRS 9**") and, as permitted by the transition provisions of IFRS 9, the comparative period was not restated; accordingly, all comparative period information presented in this Information Memorandum is presented in accordance with International Accounting Standard 39, Financial Instruments: Recognition and Measurement ("**IAS 39**"). The Group also elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting under IAS 39. The impact of the adoption of the new standard of ISK 942 million has been recognised directly in retained earnings on 1 January 2018.

In addition, on 1 January 2018 the Group also adopted IFRS 15, Revenue from Contracts with Customers ("**IFRS 15**"). IFRS 15 was applied using the modified retrospective method, with the effect of initial application recognised on the date of initial application and without restatement of the comparative periods. The adoption of IFRS 15 did not, in the Bank's view, have a material impact on the consolidated statement of comprehensive income.

The audited consolidated financial statements as of and for the year ended 31 December 2017 do not reflect the changes from the application of IFRS 9 and IFRS 15. Those audited consolidated financial statements applied IAS 39 and IAS 18, Revenue, which were the accounting standards in effect at the time for each period. Therefore, due to the adoption of the new accounting standards, the consolidated financial statements as of and for the year ended 31 December 2017 are not directly comparable with the consolidated financial statements as of and for the years ended 31 December 2018 and 2019.

The Annual Financial Statements have been audited by Deloitte ehf. (“**Deloitte**”). No other information in this Information Memorandum has been audited or reviewed by Deloitte or any other independent auditors.

The Bank's shareholding in the subsidiary Valitor Holding hf. (“**Valitor**”) was 100 per cent. at 31 December 2019. The Bank is in the process of potentially divesting the Bank's shareholding in Valitor and the Bank is aiming to complete the sale of Valitor within the 12 months set as the requirement for classification as a held for sale asset in IFRS. In accordance with IFRS 5, Non-current assets and the disposal groups held for sale (“**IFRS 5**”) Valitor has been classified as a disposal group held for sale in the 2019 Consolidated Financial Statements, resulting in a change in presentation in the consolidated income statement. The net earnings of Valitor are recognised in a single line item as discontinued operations held for sale, net of income tax. The comparative figures in the 2019 Consolidated Financial Statements have 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.

The Bank has the following operating segments: (1) Corporate Banking; (2) Retail Banking; (3) Asset Management; (4) Investment Banking; (5) Treasury; and (6) Other Divisions and Subsidiaries, consisting of Valitor, Vördur, Landey and other smaller entities.

KPIs and Non-IFRS Information

This Information Memorandum 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 Information Memorandum 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 2018 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 Information Memorandum is unaudited and has not been prepared in accordance with IFRS or any other generally accepted accounting principles.

STABILISATION

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

TABLE OF CONTENTS

RISK FACTORS	11
OVERVIEW OF THE NOTES	27
DOCUMENTS INCORPORATED BY REFERENCE	32
CAPITAL ADEQUACY AND DISTRIBUTABLE ITEMS	34
TERMS AND CONDITIONS OF THE NOTES	36
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES	71
USE OF PROCEEDS	74
DESCRIPTION OF THE CONVERSION SHARES	77
ICELANDIC SECURITIES MARKET	81
TAXATION	85
SUBSCRIPTION AND SALE	88
GENERAL INFORMATION	93

RISK FACTORS

Prospective investors should have regard to the risk factors described under the section headed “Risk Factors – Factors that may affect the Bank’s ability to fulfil its obligations under Notes issued under the Programme” on pages 17 to 39 of the Base Prospectus and the section headed “Risk Factors – Risks related to the market generally” on pages 47 to 50 of the Base Prospectus, which are incorporated by reference into this Information Memorandum.

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

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below and in the Base Prospectus.

Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum (including information incorporated by reference herein) and reach their own views prior to making any investment decision.

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

Risks relating to the structure of the Notes

There is a real risk that Holders will lose some or all of their investment in a Winding-Up of the Bank, and Holders may only claim payment in the Winding-Up of the Bank

In the event of the Winding-Up (in Icelandic: *slitameðferð*) of the Bank occurring prior to a Conversion Trigger Event, the rights of the Holders of the Notes to payments on or in respect of the Notes rank:

- (i) *pari passu* without any preference among themselves;
- (ii) at least *pari passu* with payments to holders of any other Additional Tier 1 Instruments and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, *pari passu* with the Notes;
- (iii) in priority to payments to holders of all classes of share capital of the Bank in their capacity as such holders and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, junior to the Notes; and
- (iv) junior in right of payment to the payment of any present or future claims of Senior Creditors.

In the event of the Winding-Up of the Bank occurring on or after the date on which a Conversion Trigger Event occurs, but before the Conversion Shares to be issued and delivered to the Settlement Shares Depository on Conversion have been so delivered, there shall be payable by the Bank in respect of each Note (in lieu of any other payment by the Bank), such amount, if any, as would have been payable to the Holder of such Note if, on the day preceding the commencement of the Winding-Up and thereafter, such Holder were the holder of such number of Conversion Shares as that Holder would have been entitled to receive on Conversion.

Therefore, if there were to be a Winding-Up of the Bank, any assets of the Bank would first be applied to satisfy all rights and claims of Senior Creditors. If the Bank does not have sufficient assets to settle claims of such Senior Creditors in full, the claims of the Holders will not be settled and, as a result, the Holders will lose the entire amount of their investment in the Notes. In such Winding-Up, the Notes will share equally in payment with claims under any other Additional Tier 1 Instruments and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, *pari passu* with the Notes if the Bank does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, Holders could lose all or part of their investment.

Furthermore, Holders should be aware that, upon the occurrence of a Conversion all of the Bank's obligations under the Notes shall be irrevocably and automatically released in consideration of the Bank's issuance of the Conversion Shares to the Settlement Shares Depository and each holder will be effectively further subordinated due to the change in their status on the Winding-Up after the Conversion Date from being the holder of a debt instrument ranking ahead of holders of Ordinary Shares to being the holder of Ordinary Shares of the Bank. As a result, upon the occurrence of a Conversion, the Holders could lose all or part of their investment in the Notes irrespective of whether the Bank has sufficient assets available to settle what would have been the claims of the Holders or other securities subordinated to the same extent as the Notes, in the Winding-Up proceedings or otherwise. Therefore, even if other securities that rank *pari passu* with the Notes are paid in full, following the Conversion Date in respect of a Conversion, the Holders will have no rights to the repayment of the principal amount of the Notes or the payment of interest on the Notes and will rank as holders of Ordinary Shares of the Bank.

Although the Notes may pay a higher rate of interest than securities which are not subordinated, there is a real risk that Holders will lose all or some of their investment in the event of a Winding-Up of the Bank.

There are no events of default in relation to the Notes and Holders may only claim payment in respect of the Notes in a Winding-Up of the Bank. See "*There are no events of default*" below.

The Council of the European Union has adopted the BRRD which provides for a range of actions to be taken in relation to credit institutions, investment firms, certain financial institutions and certain holding companies of those entities (each a "relevant entity") considered to be at risk of failing. The implementation of the BRRD in Iceland and its impact on the Bank is currently unclear but the taking of any action under the BRRD following its implementation could materially affect the value of any Notes

Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing relevant entity. This is 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.

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 European Union (the "EU"). The BRRD was incorporated into the EEA Agreement on 9 February 2018 with Decision No 21/2018 of the EEA Joint Committee. A committee has been established, charged with the task of preparing new legislation implementing the BRRD in Iceland. The BRRD has been partly implemented in Iceland through Act No. 54/2018. This act implements the BRRD provisions relating to recovery planning, early intervention and intra-group financial support. In the third quarter of 2019 a bill was submitted to the Icelandic Parliament to provide for the further implementation of the BRRD in Iceland. This bill is, as at the date of this Information Memorandum, still under review by the Icelandic Parliament and it is, therefore, not clear when implementation will take place. The Notes may be subject to the exercise, in the future, of a bail-in power by the Relevant Resolution Authority (as defined in Condition 21 below under "Terms and Conditions of the Notes"), and the Notes include a contractual consent to the application of any Statutory Loss Absorption Powers (as defined in Condition 21 below under "Terms and Conditions of the Notes"), and consequently, investors may lose part or all of their investment in the Notes (see Condition 20 below under "Terms and Conditions of the Notes").

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) bail-in – which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing relevant entity (which write-down may result in the reduction of such claims to zero) and to convert certain unsecured debt claims

(including the Notes) to equity or other instruments of ownership (the general bail-in tool), which equity or other instruments could also be subject to any future cancellation, transfer or dilution.

The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

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

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

Prior to the full implementation of the BRRD in Iceland, the Notes may further be subject as directed by the Relevant Resolution Authority to conversion into equity upon the occurrence of a Non-Viability Event pursuant to Condition 6(b) below (each of the capitalised terms has the meaning given in Condition 21 below).

Any application of the general bail-in tool under the BRRD shall be in accordance with the hierarchy of claims in normal insolvency proceedings. Accordingly, the impact of such application on holders of the Notes will depend on their ranking in accordance with such hierarchy, including any priority given to other creditors such as depositors.

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

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. As Iceland has not yet implemented the BRRD it is currently unclear how such requirements may be applied to Icelandic banks such as the Bank in the future.

The powers currently set out in the BRRD and under Condition 6(b) below will, in certain circumstances, impact the rights of creditors. Once the BRRD is implemented in Iceland (and before such implementation in the case of any conversion pursuant to Condition 6(b) below) holders of Notes may be subject to the application of the general bail-in tool and non-viability loss absorption or the conversion of such Notes pursuant to Condition 6(b) below, as applicable, which may result in such holders losing some or all of their investment (see further “*There is a real risk that Holders will lose some or all of their investment in a Winding-Up of the Bank, and Holders may only claim payment in the Winding-Up of the Bank*”). Such application of the general bail-in tool could also involve modifications to or the disapplication of provisions in the conditions of the Notes, including alteration of the principal amount or any interest payable on the Notes or any other dates on which payments may be due, as well as the suspension of payments for a certain period. The exercise of any power under the BRRD pursuant to Condition 6(b) below or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Bank to satisfy its obligations under any Notes.

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. It is currently unclear how BRRD II will be implemented in Iceland and when this will occur.

The Notes may be subject to loss absorption on any application of the resolution tools or at the point of non-viability of the Bank or the Group

In addition to the application of the general bail-in tool to the Notes (see “*The Council of the European Union has adopted the BRRD which provides for a range of actions to be taken in relation to credit institutions, investment firms, certain financial institutions and certain holding companies of those entities (each a “relevant entity”) considered to be at risk of failing. The implementation of the BRRD in Iceland and its impact on the Bank is currently unclear but the taking of any action under the BRRD following its implementation could materially affect the value of any Notes*”), the BRRD and the Conditions contemplate that the Notes may be subject to non-viability loss absorption. As a result, following the implementation of the BRRD, resolution authorities may require the permanent write-down of capital instruments such as the Notes (which write-down may be in full) or the conversion of them into equity capital at the point of non-viability and before any other resolution action is taken. Prior to the full implementation of the BRRD in Iceland, such non-viability loss absorption is provided for in Condition 6(b) below of the Notes by way of conversion into Conversion Shares. Any shares issued to holders of the Notes upon any such conversion into equity may also be subject to any future cancellation, transfer or dilution.

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

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which (i) the relevant authority determines that the relevant entity meets the conditions for resolution or (ii) the relevant authority or authorities, as the case may be, determine(s) that the relevant entity or its group will no longer be viable unless the relevant capital instruments (such as the Notes) are written-down or converted into equity or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the economy of an EEA member state and to preserve financial stability. This is further reflected in the definition of “Non-Viability Event” under Condition 21 below.

The occurrence of a Non-Viability Event or the application of the general bail-in tool or any non-viability loss absorption measure pursuant to any Applicable Statutory Loss Absorption Regime (including the BRRD) or Condition 6(b) below of the Notes may result in Noteholders losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of the Notes and/or the ability of the Bank to satisfy its obligations under the Notes.

The Notes are subject to the provisions of the laws of Iceland and their official interpretation, which may change and have a material adverse effect on the terms and market value of the Notes.

Certain provisions of the Conditions are expressed to be governed by, or subject to the provisions of, Icelandic law. Such provisions are drafted on the basis of the laws of Iceland in effect as at the date of this Information Memorandum. Changes in the laws of Iceland or their official interpretation by regulatory authorities such as the FME after the date hereof may affect the rights and effective remedies of Holders as well as the market value of the Notes.

Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on an investment in the Notes. They could also include the introduction of a variety of statutory resolution, loss-absorption and bail-in measures and tools, which may affect the rights of holders of obligations issued by the Bank, including the Notes.

Any such changes could impact the calculation of the CET1 Ratios or the CET1 Capital of the Bank or the Group, or the Risk Weighted Assets of the Bank or the Group. Furthermore, because the occurrence of a Conversion Trigger Event depends, in part, on the calculation of these ratios and capital measures, any change in Icelandic law

that could affect the calculation of such ratios and measures could also affect the determination of whether a Conversion Trigger Event has actually occurred.

Such calculations may also be affected by changes in applicable accounting rules, the Group's accounting policies and the application by the Group of these policies. Any such changes, including changes over which the Bank or the Group has a discretion, may have a material adverse impact on the reported financial position of the Bank or the Group and accordingly may give rise to the occurrence of a Conversion Trigger Event in circumstances where such Conversion Trigger Event may not otherwise have occurred, notwithstanding the adverse impact this will have for Holders.

Furthermore, any change in the laws or regulations of Iceland or any change in the application or official interpretation thereof may in certain circumstances result in the Bank having the option to redeem the Notes in whole but not in part (see "*The Notes may be redeemed at the option of the Bank in certain circumstances*" below). In any such case, the Notes would cease to be outstanding, which could materially and adversely affect investors and frustrate investment strategies and goals.

Such legislative and regulatory uncertainty could affect an investor's ability to value the Notes accurately and therefore affect the market price of the Notes given the extent and impact on the Notes of one or more regulatory or legislative changes.

Following the occurrence of a Conversion Trigger Event, the Holders will lose all of their claims for payment under the Notes and receive Conversion Shares instead (which are more deeply subordinated than the Notes) and/or, in the case of a Capital Adequacy Conversion, may receive instead the cash proceeds of the Settlement Shares Offer to which that Holder is entitled, after deduction of the Settlement Shares Offer Expenses

Following the occurrence of a Conversion Trigger Event, the Holders will lose all of their claims for payment under the Notes and receive Conversion Shares instead (which are more deeply subordinated than the Notes) and/or, in the case of a Capital Adequacy Conversion in respect of which the Bank has elected in its sole and absolute discretion that a Settlement Shares Offer should be made to some or all of the Bank's Shareholders at that time, net cash proceeds of such Settlement Shares Offer to which the Holders are entitled, after deduction of the Settlement Shares Offer Expenses. The number and/or value of the Conversion Shares received by Holders following a Conversion may be less than Holders may have expected. In addition, Holders may not receive Conversion Shares if they fail to submit a duly completed Delivery Notice in the manner or within the prescribed period set out in the Conditions.

The Notes are being issued for regulatory capital adequacy purposes with the intention and purpose of being eligible as Additional Tier 1 Capital of the Bank and the Group. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Conditions. One of these relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of the Bank or the Group. Accordingly, following the occurrence of a Conversion Trigger Event, (i) the Notes will be converted into Conversion Shares, (ii) the Outstanding Principal Amount of the Notes will be permanently reduced to zero and, accordingly, shall equal zero at all times thereafter, (iii) any accrued and unpaid interest in respect of the Notes shall be cancelled automatically and no further interest shall accrue or be due and payable on the Notes at any time thereafter, and (iv) the Holders will no longer have any rights or claim against the Bank with respect to the payment of any principal, interest or other amount on or in respect of the Notes, which obligations and liabilities of the Bank shall irrevocably and automatically be released (except as provided in Condition 2(a)(ii)) and (iv) unless otherwise determined by the Relevant Resolution Authority and subject to the last paragraph of Condition 6(h) below, the Bank's only remaining obligation under the Notes shall be an obligation to deliver Conversion Shares to the Settlement Shares Depositary on behalf of the Holders.

Once a Note has been converted into Conversion Shares, the Outstanding Principal Amount of such Note will not be restored in any circumstances (including where the relevant Conversion Trigger Event ceases to continue), no further interest will accrue or be payable on such Note at any time thereafter and the Holders shall have no recourse to the Bank for any further payment in respect of the Notes (but without prejudice to the Bank's obligation to deliver the relevant number of Conversion Shares to the Settlement Shares Depositary).

If a Conversion Trigger Event (and consequent Conversion) occurs, Holders will only have claims under their Conversion Shares, and such claims in the Winding-Up (in Icelandic: *slitameðferð*) of the Bank are the most junior-ranking of all claims. Claims in respect of Conversion Shares are not for a fixed principal amount, but rather are limited to a share of the surplus assets (if any) remaining following payment of all amounts due in respect of the liabilities of the Bank.

Further, the Conditions provide that a Holder, Settlement Shares Offer Agent or Selling Agent must pay (in the case of the Settlement Shares Offer Agent or the Selling Agent by means of deduction from the net proceeds of sale referred to in Conditions 6(h) below and 6(i) below) any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Conversion and such Holder, Settlement Shares Offer Agent or the Selling Agent (as the case may be) must pay (in the case of the Settlement Shares Offer Agent or the Selling Agent, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Note, Conversion Share or interest therein.

If a Holder fails to deliver a duly completed Delivery Notice to a Paying and Conversion Agent in the manner and within the prescribed timeframe specified in the Conditions then, subject to the making of a Settlement Shares Offer, the Bank may in its sole and absolute discretion (and the relevant Holders of such Notes shall be deemed to agree thereto) elect to appoint a Selling Agent to procure that all Conversion Shares held by the Settlement Shares Depository in respect of which no duly completed Delivery Notice has been delivered shall be sold by the Selling Agent as soon as reasonably practicable. The net proceeds of any such sale of Conversion Shares shall then, subject to the deduction of certain amounts including in respect of taxes, fees or costs as described in Condition 6(h) below, be distributed rateably by the Settlement Shares Depository to the relevant Holders. There is therefore a risk that Holders will not receive Conversion Shares following the occurrence of a Conversion Trigger Event.

Any Conversion Trigger Event will likely be accompanied by a prior deterioration in the market price of the Ordinary Shares, which may be expected to continue after announcement of the relevant Conversion Trigger Event. Therefore, in the event of the occurrence of a Conversion Trigger Event, the Current Market Price of an Ordinary Share may be below the Floor Price, and investors could receive Conversion Shares at a time when the market price of the Conversion Shares is considerably less than the Conversion Price. In such circumstances, Holders may receive a smaller number of Conversion Shares than expected by the Holders. In addition, there may be a delay in a Holder receiving its Conversion Shares following a Conversion, during which time the market price of the Ordinary Shares may fall further. As a result, the value of the Conversion Shares received following a Conversion could be substantially lower than the price paid for the Notes at the time of their purchase.

Also, because the Notes are denominated in a currency other than ISK and any Conversion Shares will be denominated in ISK, fluctuations in the exchange rates between these two currencies may adversely affect the number of Conversion Shares delivered to a Holder as a result of a Conversion.

Holders may lose a right to dividends, distributions, voting or other rights emanating from the Conversion Shares in the event of Winding-Up (in Icelandic: slitameðferð) of the Bank prior to the registration in the Bank's share register of such Conversion Shares

In the event of the Winding-Up (in Icelandic: *slitameðferð*) of the Bank after the Conversion Date but before the Conversion Shares have been registered in the Bank's share register, the Conversion Shares may not be registered at all or may only be registered if the liquidator or the administrator in the winding-up (in Icelandic: *slitameðferð*) (if and when appointed) so agrees. The Conversion Shares will carry a right to dividends, distributions, voting and other rights having a record date that occurs on or after the Registration Date. If the Conversion Shares are not registered in the Bank's share register, the Holders will not have the benefit of any dividends, distributions, voting or other rights in relation to the share capital of the Bank emanating from the Conversion Shares which are contingent upon such registration.

The circumstances that may give rise to a Conversion Trigger Event are unpredictable

The occurrence of a Conversion Trigger Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Bank's control (and such occurrence may also be determined by the FME (or any agent appointed by the FME for the purpose of making such determination)). For example, the occurrence of one or more of the risks described in these Risk Factors, or the deterioration of the circumstances described therein, will substantially increase the likelihood of the occurrence of the Conversion Trigger Event. Furthermore, the occurrence of the Conversion Trigger Event depends, in part, on the calculation of the CET1 Ratios, which can be affected, among other things, by the growth of the business and future earnings of the Bank and/or the Group, as applicable; expected payments by the Bank and/or the Group, as applicable, in respect of dividends and distributions and other equivalent payments in respect of instruments ranking junior to the Notes as well as other Additional Tier 1 Instruments; regulatory changes (including possible changes in accounting rules, regulatory capital definitions, calculations and risk weighted assets) and the Bank's ability to actively manage the risk weighted assets of the Bank and the Group. The usual reporting cycle of the Bank is for the CET1 Ratios of the

Bank and the Group to be reported on a quarterly basis in conjunction with its interim financial reporting, which may mean investors are given limited warning of any significant deterioration in those CET1 Ratios. In addition, since the FME may require the Bank to calculate the CET1 Ratios at any time and may itself determine (or appoint an agent for the purpose of making such determination) the occurrence of a Conversion Trigger Event, the Conversion Trigger Event could occur at any time.

Due to the inherent uncertainty in advance of any determination of a Conversion Trigger Event regarding whether any such Conversion Trigger Event may exist, it will be difficult to predict when, if at all, a Conversion may occur. Accordingly, trading behaviour in respect of the Notes is not necessarily expected to follow trading behaviour associated with other types of interest-bearing securities. Any actual or perceived indication that the Bank and/or the Group, as applicable, is trending towards the Conversion Trigger Event can be expected to have an adverse effect on the market price of the Notes. Under such circumstances, investors may not be able to sell their Notes easily or at prices comparable to other similar yielding instruments.

Holders will bear the risk of fluctuations in the price of the Ordinary Shares and/or movements in the CET1 Ratio that could give rise to the occurrence of a Conversion Trigger Event

The market price of the Notes is expected to be affected by fluctuations in the market price of the Ordinary Shares, in particular if at any time there is a significant deterioration in the CET1 Ratio of the Bank or the Group. It is impossible to predict whether the price of the Ordinary Shares will rise or fall. Market prices of the Ordinary Shares will be influenced by, among other things, the financial position of the Bank and the Group, their results of operations and by political, economic, financial and other factors. Any decline in the market price of the Ordinary Shares or any actual or perceived indication that the CET1 Ratio of the Bank or the Group is trending towards the occurrence of a Conversion Trigger Event may have an adverse effect on the market price of the Notes. The level of the CET1 Ratio of the Bank or the Group may also significantly affect the market price of the Notes and/or the Ordinary Shares.

The Bank will have no obligation to consider the interests of the Noteholders in connection with the strategic decisions of the Group, including in respect of capital management. Noteholders will not have any claim against the Bank or any other member of the Group relating to decisions that affect the business and operations of the Group, including its capital position, regardless of whether they result in the occurrence of a Conversion Trigger Event. Such decisions could cause Noteholders to lose all or part of the value of their investment in the Notes.

The value of the Notes may decline because Holders do not have anti-dilution protection in all circumstances. In particular, the occurrence of corporate actions or events in respect of which no adjustment to the Floor Price is made may adversely affect the value of the Notes

The number of Conversion Shares which are to be issued and delivered in respect of each Note on a Conversion shall be determined by dividing the Outstanding Principal Amount of such Note immediately prior to the Conversion Date by the prevailing Conversion Price rounded down, if necessary, to the nearest whole number of Conversion Shares.

In respect of any Conversion Date occurring prior to the QTE Effective Date in respect of a Qualifying Takeover Event, the Conversion Price will be, if the Ordinary Shares are:

- (a) then admitted to trading on a Relevant Stock Exchange, the highest of:
 - (i) the Current Market Price of an Ordinary Share, translated into U.S. dollars at the Prevailing Exchange Rate;
 - (ii) the Floor Price; and
 - (iii) the par value of an Ordinary Share (being ISK 1.00 on the Issue Date), translated into U.S. dollars at the Prevailing Exchange Rate,in each case on the Conversion Date; or
- (b) not then admitted to trading on a Relevant Stock Exchange, the higher of (a)(ii) and (iii) above;

The Floor Price will be adjusted upon the occurrence of certain corporate actions, as specified in Condition 6(l) below. However, save as specified in Condition 6(l) below, there is no requirement that there should be an adjustment of the Floor Price for any other corporate actions or events that may affect the market price of the Conversion Shares.

Accordingly, the occurrence of corporate actions or events in respect of which no adjustment to the Floor Price is made may adversely affect the value of the Notes.

Perpetual Notes

The Bank is under no obligation to redeem the Notes at any time and the Holders have no right to call for their redemption. The only circumstances in which Holders may claim payment in respect of the Notes is in the Winding-Up (in Icelandic: *slitameðferð*) of the Bank (see “*There are no events of default*” below).

The Notes may be redeemed at the option of the Bank in certain circumstances

The Bank may redeem all Notes at their Outstanding Principal Amount, together with accrued interest (if any) thereon (excluding any interest which has been cancelled) on any day falling in the period commencing on (and including) 26 February 2025 and ending on (and including) 25 August 2025 or on the First Reset Date or on any Interest Payment Date thereafter if permitted at the relevant time by the Applicable Banking Regulations and it has been granted the permission of the FME (if such permission is then required under the Applicable Banking Regulations).

The Bank may also redeem all Notes at their Outstanding Principal Amount, together with accrued interest (if any) thereon (excluding any interest which has been cancelled) if there is a Capital Disqualification Event, a Withholding Tax Event or a Tax Deductibility Event, in each case if permitted at the relevant time by the Applicable Banking Regulations and it has been granted the permission of the FME (if such permission is then required under the Applicable Banking Regulations).

The Bank may only redeem the Notes following the occurrence of a Withholding Tax Event, a Tax Deductibility Event or a Capital Disqualification Event before the fifth anniversary of the Issue Date if the following conditions are also met (if and to the extent required under Applicable Banking Regulations):

- (i) in the case of redemption due to the occurrence of a Withholding Tax Event or a Tax Deductibility Event, the Bank demonstrates to the satisfaction of the FME that the relevant event is material and was not reasonably foreseeable as at the Issue Date; or
- (ii) in the case of redemption due to the occurrence of a Capital Disqualification Event, the Bank demonstrates to the satisfaction of the FME that the Capital Disqualification Event was not reasonably foreseeable as at the Issue Date.

The conditions in (i) and (ii) above to any redemption of the Notes upon the occurrence of a Withholding Tax Event, a Tax Deductibility Event or a Capital Disqualification Event only apply to any such redemption of the Notes before the fifth anniversary of the Issue Date and the Bank may exercise its option to redeem the Notes in such circumstances on or at any time after the fifth anniversary of the Issue Date (including as a result of a Withholding Tax Event, a Tax Deductibility Event or a Capital Disqualification Event that occurred before the fifth anniversary of the Issue Date) without complying with these conditions.

It is not possible to predict whether or not any change in the laws or regulations of Iceland or the application or official interpretation thereof, or any of the other events referred to above, will occur and so lead to the circumstances in which the Bank is able to elect to redeem the Notes, and if so whether or not the Bank will elect to exercise such option to redeem the Notes. Any decision by the Bank to exercise any option to redeem the Notes will involve consideration at the relevant time of, among other things, the economic impact of such redemption, the capital requirements of the Bank and/or the Group, prevailing market conditions and regulatory developments. It will also require the approval of the FME, if and to the extent required by Applicable Banking Regulations.

As at the date of this Information Memorandum, the Bank cannot claim a deduction in computing its taxation liabilities in Iceland in respect of any payment of interest to be made on the Notes. However, a bill was presented to the Icelandic Parliament in the third quarter of 2019 to amend various laws on taxes and charges (withholding, taxation etc.) (*Doc. No. 626, Case No. 450*) with the intention that payments of interest under securities such as the Notes would be deductible from income tax. The initial wording of the bill is, however, in the opinion of the Bank not sufficiently clear on the issue of deductibility of the Notes. The final wording of the bill is currently under review by the tax committee of the Icelandic Parliament.

There can also be no assurances that, in the event of any such early redemption, Holders will be able to reinvest the proceeds at a rate that is equal to the return on the Notes. In the case of any early redemption of the Notes at the option of the Bank on or at any time after the fifth anniversary of the Issue Date, the Bank may be expected to

exercise this option when its funding costs are lower than the rate at which interest is then payable in respect of the Notes. In these circumstances, the rate at which Holders are able to reinvest the proceeds of such redemption is unlikely to be as high as, and may be significantly lower than, that rate of interest.

In addition, the redemption feature of the Notes is likely to limit their market value. During any period when the Bank has the right to elect to redeem the Notes (or where there is an actual or perceived increase in the likelihood that the Bank has such right), the market value of the Notes is unlikely to rise substantially above the price at which they can be redeemed. This may also be true prior to such period.

Holders of the Notes only have a limited ability to realise their investment in the Notes

The Bank may have the option to redeem the Notes in certain circumstances but the ability of the Bank to redeem or purchase the Notes is subject to the Bank satisfying certain conditions. See “*The Notes may be redeemed at the option of the Bank in certain circumstances*” above and Condition 7 below. There can be no assurance that such conditions will be satisfied by the Bank at the relevant time or that, if redemption or purchase does occur, Holders will be able to reinvest the amount received upon any such redemption or purchase and at a rate that will provide the same rate of return as their investment in the Notes.

Therefore, Holders have no ability to realise their investment, except:

- (i) if the Bank exercises its rights to redeem or purchase the Notes in accordance with Condition 7 below; or
- (ii) through the sale of their Notes, which sale will be subject to the existence of a secondary market for the Notes at the relevant time (see “*Risks related to the market generally – An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes*” in the Base Prospectus).

Payments of interest on the Notes are discretionary and subject to the fulfilment of certain conditions

The Notes accrue interest as further described in Condition 4 below, but the Bank may elect, in its sole and absolute discretion, to cancel any payment of interest that is otherwise scheduled to be paid on an Interest Payment Date in whole or in part at any time and for any reason, as described in Condition 5(a) below. The Bank shall not make an interest payment on the Notes on any Interest Payment Date (and such interest payment shall therefore be deemed to have been cancelled and thus shall not be due and payable on such Interest Payment Date) (i) if the Bank has an amount of Distributable Items (as defined in Condition 21 below) on such Interest Payment Date that is less than the sum of all distributions or interest payments on all other own funds instruments of the Bank paid and/or required and/or scheduled to be paid in the then current financial year (excluding any such interest payments or distributions which (x) are not required to be made out of Distributable Items or (y) have already been provided for, by way of deduction, in the calculation of Distributable Items); or (ii) if and to the extent that such payment would cause a breach of any binding regulatory restriction or prohibition on payments on Additional Tier 1 Instruments pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Bank and/or the Group), in each case, as described in Condition 5(b) below.

Furthermore, interest will only be due and payable if the Solvency Condition is satisfied, as described in Condition 3(c) below.

It is the current intention of the Bank’s board of directors that, whenever exercising its discretion to declare dividends in respect of its Ordinary Shares, or its discretion to cancel interest on the Notes or any other Additional Tier 1 Instruments of the Bank, the board will take into account the relative ranking of these instruments in the Bank’s capital structure. However, the board may at any time depart from this approach at its sole discretion.

See “*CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements will restrict the Bank from making some payments in certain circumstances, which may include payments of interest on the Notes and result in the cancellation of such payments*” below.

There can, therefore, be no assurances that a Holder will receive payments of interest in respect of the Notes. Unpaid interest is not cumulative or payable at any time thereafter and, accordingly, if any interest payment (or part thereof) is not made in respect of the Notes as a result of any requirement for, or election of, the Bank to cancel such interest payment then the right of the Holders to receive the relevant interest payment (or part thereof) in respect of the relevant Interest Period will be extinguished and the Bank will have no obligation to pay such interest

(or part thereof) or to pay any interest thereon, whether or not interest on the Notes is paid in respect of any future Interest Period.

Any interest cancelled or deemed to have been cancelled (in each case, in whole or in part) in such circumstances shall not be due and shall not accumulate or be payable at any time thereafter nor constitute a default by the Bank for any purpose nor constitute the occurrence of any event related to the insolvency of the Bank nor entitle the holders to take any action as a result thereof nor in any way limit or restrict the Bank from making any payment of interest or equivalent payment or distribution in connection with any instrument ranking junior to the Notes (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Additional Tier 1 Instrument, and Holders shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation or deemed cancellation. The Bank may use such cancelled payments without restriction to meet its obligations as they fall due.

Furthermore, upon the occurrence of a Conversion Trigger Event, any accrued and unpaid interest on the Notes will be cancelled.

CRD IV introduces capital requirements that are in addition to the minimum capital ratio. These additional capital requirements will restrict the Bank from making some payments in certain circumstances, which may include payments of interest on the Notes and result in the cancellation of such payments

Under CRD IV, institutions are required to hold a minimum amount of regulatory capital of 8 per cent. of risk weighted assets. In addition to these so-called “own funds” requirements under CRD IV, supervisory authorities may impose additional capital requirements to cover other risks (thereby increasing the regulatory minimum required under CRD IV), which could include further capital requirements. The Bank may also decide to hold additional capital. See “*Factors that may affect the Bank’s ability to fulfil its obligations under Notes issued under the Programme – There are regulatory, compliance and legal risks inherent in the Banks businesses*” and “*- Application of CRD IV (and the CRD V Directive when implemented) could adversely affect the Bank’s results*” in the Base Prospectus.

CRD IV further introduces capital buffer requirements that are in addition to the minimum capital requirement and are required to be satisfied with common equity tier 1 capital. It introduces five new capital buffers: (i) the capital conservation buffer, (ii) the institution-specific countercyclical buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Bank and/or the Group as determined by the FME.

Under Article 141 of the CRD Directive, Member States of the European Union must require that institutions that fail to meet the “combined buffer requirement” (which, as implemented in Iceland, involves for the Bank the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the systemic risk buffer) will be subject to restricted “discretionary payments” (which are defined broadly by CRD IV as payments relating to CET1 Capital, variable remuneration and payments on Additional Tier 1 Instruments such as the Notes).

Where any such restrictions are to apply they will be scaled according to the extent of the breach of the “combined buffer requirement” and calculated as a percentage of the profits of the institution since the last distribution of profits or “discretionary payment”. Such calculation will result in a “Maximum Distributable Amount” in each relevant period. As an example, the scaling is such that in the bottom quartile of the “combined buffer requirement”, no “discretionary distributions” will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement (including where additional capital requirements are imposed by the FME that have the result of increasing the regulatory minimum required under CRD IV) it may be necessary to reduce discretionary payments, including the potential exercise by the Bank of its discretion to cancel (in whole or in part) interest payments in respect of the Notes. In addition, any actual or perceived breach of the “combined buffer requirement” can be expected to have an adverse effect on the market price of the Notes.

The CRD IV Directive has been partly implemented in Iceland in four phases. The first phase was implemented through Act No. 57/2015 which implemented four out of the five capital buffers mentioned above, excluding the global systemically important institutions buffer. The second phase was implemented through Act No. 96/2016 which mainly addresses definitions, authorisations, capital contribution, leverage ratio, supervisory review and evaluation and capital. The third phase was implemented through Act No. 61/2017 which mainly addressed supplementary supervision with regard to financial conglomerates. The fourth phase was implemented through Act No. 8/2019 and addressed board members and auditors.

Any failure by the Bank and/or the Group to comply with its MREL requirement could result, among other things, in the imposition of restrictions or prohibitions on discretionary payments by the Bank, including interest payments on the Notes

Directive 2019/878/EU of the European Parliament and of the European Council of 20 May 2019 (the “**CRD V Directive**”) and Regulation (EU) No. 2019/876 of the European Parliament and of the Council of 20 May 2019 (the “**CRR II**”) provide for extensive changes to the EU regulatory framework, including the MREL requirement. The Bank does not currently have information on the preparations or timing for the implementation of the CRD V Directive and CRR II in Iceland. Upon such implementation, the applicable combined buffer requirements will be positioned above the relevant MREL requirement, and this may result in an increased risk of a breach of the combined buffer requirement and the resulting imposition of restrictions or prohibitions on discretionary payments by the Bank, including interest payments on the Notes (subject to a potential six month grace period in certain circumstances).

Holder will have to submit a duly completed Delivery Notice in order to receive delivery of the Conversion Shares and they (or their nominee, custodian or other representative) will have to have an account with Nasdaq CSD Iceland in order to receive the Conversion Shares. In the case of a Capital Adequacy Conversion, delivery of Conversion Shares to a Holder and/or payment of the cash proceeds of any Settlement Shares Offer (after deduction of the Settlement Shares Offer Expenses) may be further delayed by any Settlement Shares Offer.

In order to obtain delivery of the Conversion Shares, a Holder must deliver a duly completed Delivery Notice (and the relevant Notes) to the Settlement Shares Depository in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg or (if the Notes are in definitive form) to a Paying and Conversion Agent. The Delivery Notice must contain certain information, including the Holder’s Nasdaq CSD Iceland account details. Accordingly, Holders (or their nominee, custodian or other representative) will have to have an account with Nasdaq CSD Iceland in order to receive the Conversion Shares. In the case of any Holder which fails to deliver a duly completed Delivery Notice, together with the relevant Notes held by it, the relevant Conversion Shares shall, (in the case of a Capital Adequacy Conversion) subject to a Settlement Shares Offer, continue to be held by the Settlement Shares Depository on behalf of such Holder until such Holder delivers a duly completed Delivery Notice, together with its relevant Notes, to a Paying and Conversion Agent as provided in the Conditions or the sale of such Conversion Shares by a Selling Agent also as provided in the Conditions. The Bank shall have no liability to any Holder for any loss resulting from such Holder not receiving any Conversion Shares (or, in the case of a Capital Adequacy Conversion in respect of which the Bank has elected in its sole and absolute discretion that a Settlement Shares Offer should be made to some or all of the Bank’s Shareholders at that time, cash proceeds) or from any delay in the receipt thereof, in each case as a result of such Holder failing to submit a valid Delivery Notice on a timely basis or at all.

In the case of a Capital Adequacy Conversion, if the Bank in its discretion so elects, prior to any delivery of Conversion Shares to a Holder there will first be a Settlement Shares Offer, which may not be completed for a period of up to 40 Business Days from the Business Day immediately following the Conversion Date, resulting in further delays in the delivery of Conversion Shares to a Holder and/or payment of the cash proceeds of such Settlement Shares Offer to which that Holder is entitled, after deduction of the Settlement Shares Offer Expenses. A Settlement Shares Offer may also result in a Holder receiving, wholly or partly in place of such Conversion Shares, payment of such cash proceeds.

Receipt by the Settlement Shares Depository of the Conversion Shares shall irrevocably discharge and satisfy the Bank’s obligations in respect of the Notes

The Bank will deliver the Conversion Shares to the Settlement Shares Depository on the Registration Date. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank’s obligations in respect of the Notes. With effect on and from the delivery of any such Conversion Shares to the Settlement Shares Depository, a Holder shall have recourse only to the Settlement Shares Depository for the delivery of the relevant Conversion Shares to be delivered in respect of its Note(s) or, in the circumstances described in the Conditions, any cash amounts to which that Holder is entitled under the Conditions, as the case may be.

In addition, the Bank has not yet appointed a Settlement Shares Depository and the Bank may not be able to appoint a Settlement Shares Depository if a Conversion occurs. In such a scenario, the Bank would inform Holders of any alternative arrangements in connection with the issuance and/or delivery of the Conversion Shares, and such arrangements may be disadvantageous to, and more restrictive on, the Holders. For example, such arrangements

may involve Holders having to wait longer to receive their Conversion Shares than would be the case under the arrangements expected to be entered into with a Settlement Shares Depository. An issue of the Conversion Shares by the Bank to the relevant recipient in accordance with these alternative arrangements shall constitute a complete and irrevocable release of all of the Bank's obligations in respect of the Notes.

Holders may, in certain circumstances, be obliged to make a takeover bid upon the occurrence of a Conversion Trigger Event if they take delivery of Conversion Shares

Upon the occurrence of a Conversion Trigger Event, a Holder receiving Conversion Shares may have to make a takeover bid addressed to all the Shareholders of the Bank pursuant to Act No. 108/2007 on Securities Transactions, as amended (the "**Securities Transactions Act**") implementing Directive 2004/25/EC of the European Parliament and of the Council if its aggregate holding of voting rights in the Bank (or its voting rights aggregated with those of its related parties) represent at least 30 per cent. of all the voting rights in the Bank.

If a Takeover Event occurs, the Notes may be convertible into shares of an entity other than the Bank or the Outstanding Principal Amount of the Notes may be subject to a write-down upon a Conversion Trigger Event.

If a Qualifying Takeover Event occurs, then following a Conversion Trigger Event, the Notes shall become convertible into the Approved Entity Shares of the Acquirer at a Conversion Price determined pursuant to paragraph (b) of the definition of "Conversion Price" as set out in Condition 21 below and subject to a Floor Price as further detailed in Condition 6(m) below. There can be no assurance as to the nature of any such Acquirer, or of the risks associated with becoming an actual or potential shareholder in such Acquirer and, accordingly, a Qualifying Takeover Event may have an adverse effect on the value of the Notes.

In the case of a Non-Qualifying Takeover Event, the Notes will not be subject to Conversion unless the Conversion Date occurs prior to the occurrence of the Non-Qualifying Takeover Event. If a Conversion Date occurs following the Non-Qualifying Takeover Event, the full Outstanding Principal Amount of each Note will be automatically and immediately written down to zero and the Notes will be cancelled in their entirety. Noteholders will be automatically deemed to have irrevocably waived their right to receive, and no longer have any rights against the Bank with respect to, repayment of the aggregate principal amount of the Notes so written down and all accrued but unpaid interest and any other amounts payable on the Notes will be cancelled. There can be no assurance that a Takeover Event will not be a Non-Qualifying Takeover Event, in which case investors may lose their investment in the Notes.

In addition, the Bank has considerable discretion in determining whether a Qualifying Takeover Event has occurred. A Qualifying Takeover Event requires the New Conversion Condition to be satisfied. For the New Conversion Condition to be satisfied, among other requirements, the Bank must determine, in its sole and absolute discretion, that the arrangements to deliver Approved Entity Shares following a Conversion are in place and that such arrangements are in the best interests of the Bank and its shareholders taken as a whole having regard to the interests of its stakeholders (including, but not limited to, the Holders) and are consistent with applicable law and regulation (including, but not limited to, the guidance of any applicable regulatory body). Therefore, the Bank may consider factors other than the interests of Holders in determining whether the New Conversion Condition is satisfied.

Further, a Takeover Event shall occur only where the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Bank has or will become unconditionally vested in an Acquirer (together with any associate). There can be no assurance that the acquisition by an Acquirer of the right to cast 50 per cent. or less of the votes which may ordinarily be cast on a poll at a general meeting of the Bank will not have an adverse effect on the value of the Notes.

Holders who receive Conversion Shares upon the occurrence of a Conversion Trigger Event may be subject to disclosure obligations and/or may need approval by the Bank's regulators and other authorities

As the Notes are convertible into Conversion Shares in certain circumstances, an investment in the Notes may result in a Holder, upon Conversion of its Notes into Conversion Shares, having to comply with certain disclosure and/or approval requirements pursuant to the Securities Transactions Act and other laws and regulations. Non-compliance with such disclosure and/or approval requirements may lead to the incurrence by the Holder of substantial fines, imprisonment of up to two years and/or suspension of voting rights associated with the Conversion Shares and/or a refusal on the part of the FME to provide the relevant approval in respect of the acquisition of the Ordinary Shares by the Holder.

Holders who receive Conversion Shares may be subject to compulsory acquisition proceedings in relation to their Conversion Shares

Pursuant to the Securities Transactions Act, a Shareholder that directly or indirectly holds more than 90 per cent. of the shares of the Bank is entitled to acquire the other Shareholders' shares and each minority Shareholder is entitled to require such majority Shareholder to acquire its shares. If an agreement on the purchase price cannot be reached between the parties, the purchase price shall be determined by two court appraisers. A Shareholder or a holder of a convertible or a warrant who does not participate in the arbitration will be represented by a trustee appointed by the FME.

Notes are not aggregated for the purposes of determining the number of Conversion Shares to be issued in respect of a Holder's holding in the Notes

If one or more Delivery Notices and relevant Notes are delivered by a Holder to the Settlement Shares Depository (as provided in Condition 6(h) below) such that any Conversion Shares to be issued and delivered to such Holder following a Conversion are to be registered in the same name, the number of Conversion Shares to be issued and delivered in respect thereof shall be calculated on the basis of individual Notes and not on the basis of the aggregate Outstanding Principal Amount of such Notes to be converted.

The number of Conversion Shares to be issued in respect of each Note shall be determined in accordance with the calculation in Condition 6(f) below and such calculation shall be rounded down, if necessary, to the nearest whole number of Conversion Shares. Fractions of Conversion Shares will not be issued following a Conversion and no cash payment will be made in lieu thereof. There is therefore a risk that a Holder submitting more than one Delivery Notice may receive fewer Conversion Shares than it would otherwise have received had its holding in the Notes been aggregated (where the aggregate principal amount of a Holder's Notes would have qualified such Holder for additional Conversion Shares when calculated in accordance with Condition 6(f) below).

Substitution and variation of the Notes without Holder consent

Subject to Condition 7(h) below, if a Withholding Tax Event, a Tax Deductibility Event or a Capital Disqualification Event occurs, the Bank may, instead of redeeming the Notes, and without the consent or approval of the Holders, at any time either substitute the Notes or vary their terms accordingly, provided that they remain or, as appropriate, so that they become, Qualifying Securities. Qualifying Securities are, among other things, notes that have terms not materially less favourable to a Holder, as reasonably determined by the Bank, than the terms of the Notes. See Condition 7(h) below.

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

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

There are no events of default

Holders have no ability to require the Bank to redeem their Notes. The terms of the Notes do not, therefore, provide for any events of default. The Bank is entitled to cancel the payment of any interest payments in whole or in part at any time and as further contemplated in Condition 5 below (see "*Payments of interest on the Notes are discretionary and subject to the fulfilment of certain conditions*" above) and such cancellation will not constitute any event of default or similar event or entitle Holders to take any related action against the Bank.

Notwithstanding that the Notes are perpetual securities and have no fixed date for redemption, Holders may prove or claim payment under the laws of Iceland and as further provided in Condition 9 below in the Winding-Up (in Icelandic: *slitameðferð*) of the Bank in respect of the then Outstanding Principal Amount of the Notes together with any accrued and unpaid interest on the Notes that has not been cancelled, and such claims shall be subordinated as described in Condition 3(a) below. However, these are the only circumstances in which any such claim for payment may be made by Holders.

If the Bank exercised its right to redeem or purchase the Notes in accordance with Condition 7 below but failed to make payment of the relevant outstanding principal amount to redeem the Notes when due, such failure would not constitute an event of default but may entitle Holders to bring a claim for breach of contract against the Bank, which, if successful, could result in damages. Following any such failure to pay amounts in respect of the Notes when due, Holders may also take any steps available to them to institute winding-up proceedings for the Bank but may only otherwise claim payment in respect of the Notes in the Winding-Up (in Icelandic: *slitameðferð*) of the Bank.

There is no restriction on the amount or type of further securities or indebtedness which the Bank may issue or incur

There is no restriction on the amount or type of further securities or indebtedness which the Bank may issue or incur which ranks senior to, or *pari passu* with, the Notes. The incurrence of any such further indebtedness may reduce the amount recoverable by Holders on a liquidation, dissolution or winding-up of the Bank in respect of the Notes and may limit the ability of the Bank to meet its obligations in respect of the Notes, and result in a Holder losing all or some of its investment in the Notes. In addition, the Notes do not contain any restriction on the Bank issuing securities ranking *pari passu* with the Notes and having similar or preferential terms to the Notes.

Risks related to the Notes generally

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

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

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

The Conditions also provide that the Fiscal Agent and the Bank may, without the consent of Holders, agree to any modification of the Notes which is (1) not prejudicial, as determined by the Bank, to the interests of the Holders or (2) 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. See “*Risks relating to the structure of the Notes – Substitution and variation of the Notes without Holder consent*”.

The interest rate on the Notes will reset on each Reset Date

The Notes will initially bear interest at the Initial Rate of Interest until (but excluding) the First Reset Date. On the First Reset Date and each subsequent Reset Date thereafter, the interest rate will be reset to the sum of the Reset Margin and the CMT Rate for such Reset Period on the relevant Reset Determination Date. The interest rate following any Reset Date may be less than the Initial Rate of Interest and/or the interest rate that applies immediately prior to such Reset Date, which could affect the amount of any interest payments under the Notes and so the market value of the Notes. See Condition 4(a) below.

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

The Conditions of the Notes are based on English law or, where indicated, Icelandic law in effect as at the date of this Information Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to English and/or Icelandic law or administrative practice after the date of this Information Memorandum and any such change could materially adversely impact the value of any Notes affected by it.

The Notes are not investment grade and are subject to the risks associated with non-investment grade securities.

The Notes, upon issuance, will not be considered to be investment grade securities, and as such they will be subject to a higher risk of price volatility than more highly rated securities. Furthermore, increases in leverage or deteriorating outlooks for the Bank or volatile markets could lead to a significant deterioration in market prices of below-investment grade rated securities such as the Notes.

The Bank’s gross-up obligation under the Notes is limited to payments of interest

The Bank’s obligation to pay Additional Amounts in respect of any withholding or deduction in respect of Iceland taxes under the terms of the Notes applies only to payments of interest in respect of the Notes and not to payments of principal. Accordingly, the Bank would not be required to pay any Additional Amounts under the terms of the Notes to the extent any such withholding or deduction applied to payments of principal. In such circumstances,

Noteholders may receive less than the full amount of principal due in respect of the Notes, and the market value of the Notes may be adversely affected.

There may not be any trading market for the Notes

The Notes are a new issue of securities and have no established trading market. Although application will be made to have the Notes admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF, there can be no assurance that an active trading market will develop. Even if an active trading market does develop, it may not be liquid and may not continue. The liquidity and the market prices for the Notes can be expected to vary with changes in market and economic conditions, the Bank's financial condition and prospects and other factors that generally influence the market prices of securities. If the secondary market for the Notes is limited, there may be few buyers and this may reduce the relevant market price of the Notes.

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

Whilst the Notes will be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each a "**Specified Denomination**"), it is possible that the Notes may be traded in amounts in excess of the minimum Specified Denomination (being U.S.\$200,000) that are not Specified Denominations or integral multiples of the minimum Specified Denomination. In such a case an investor who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, an investor who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed in accordance with the terms set out in the Global Note) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If the Global Note representing the Notes are exchanged for definitive Notes (in the circumstances described in the Global Note), investors should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

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

The Icelandic statutory exemption from withholding only applies to Notes registered with a securities depository in an OECD state, EU state, an EFTA state or the Faroe Islands. If the Global Note representing the Notes are exchanged for definitive Notes (in the circumstances described in the Global Note), investors should be aware that the tax exemption may not be available. However, the Bank will be required to pay the necessary additional amounts under Condition 10 below in such circumstances to cover any resulting amounts deducted or withheld.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Notes will be represented on issue by a Global Note and, except in the circumstances described in the Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

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

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

The terms of the Notes contain a waiver of set-off rights

The Conditions of the Notes provide that no holder of a Note may at any time exercise or claim any Set-Off Rights (as defined in Condition 3(b) below) against any right, claim or liability of the Bank or that the Bank may have or

acquire against such Holder, directly or indirectly and howsoever arising (and including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any kind or any non-contractual obligation, whether or not relating to that Note).

The Conditions of the Notes provide that a Holder of a Note shall be deemed to have waived all Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. As a result, those Noteholders will not at any time be entitled to set-off the Bank's obligations under the Notes against obligations owed by them to the Bank.

OVERVIEW OF THE NOTES

The following is an overview of certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Information Memorandum. See, in particular, "Terms and Conditions of the Notes".

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

Issuer:	Arion Bank hf.
Legal Entity Identifier (LEI):	RIL4VBPDB0M7Z3KXSF19
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Notes. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes. These are set out under " <i>Risk Factors</i> " and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of the Notes and certain market risks.
Issue size:	U.S.\$100,000,000
Status:	The Notes constitute direct, unsecured, unguaranteed and subordinated obligations of the Bank. See Condition 3(a) below.
Solvency Condition:	Except in a Winding-Up of the Bank and without prejudice to Condition 6 below, all payments in respect of, or arising from (including any damages awarded for breach of any obligations under), the Notes are, in addition to the right or obligation of the Bank to cancel payments of interest under Condition 5 below, conditional upon the Bank being solvent at the time of payment by the Bank and no principal, interest or any other amount shall be or become due and payable in respect of, or arising from, the Notes except to the extent that the Bank could make such payment and still be solvent immediately thereafter.
Interest and Interest Payment Dates:	<p>The Notes will bear interest, payable in arrear on 26 February and 26 August in each year, commencing on 26 August 2020 at the relevant Rate of Interest.</p> <p>The Rate of Interest will reset on the First Reset Date and on each Reset Date thereafter. See Condition 4(a) below.</p>
Interest cancellation:	Interest on the Notes will be due and payable only at the sole discretion of the Bank, and the Bank may elect, in its sole and absolute discretion, to cancel any payment of interest that would otherwise be payable on any Interest Payment Date in whole or in part at any time and for any reason. The Bank will also be obliged to cancel interest in certain circumstances. See Condition 5 below.
Issuer call:	The Bank may, subject to Condition 7(g) below, having given not less than 15 days' nor more than 30 days' notice to the Noteholders (which notice shall, save as provided in Condition 7(i) below, be irrevocable) in accordance with Condition 16 below, redeem all the Notes at their Outstanding Principal Amount, together with accrued interest (if any) thereon (excluding any interest which has been cancelled in accordance

with the Conditions), on any day falling in the period commencing on (and including) 26 February 2025 and ending on (and including) 25 August 2025 or on the First Reset Date or on any Interest Payment Date thereafter. See Condition 7(b) below.

Redemption following Withholding Tax Event or Tax Deductibility Event:

The Bank may, subject to Condition 7(g) below, having given not less than 15 days' nor more than 30 days' notice to the Noteholders (which notice shall, save as provided in Condition 7(i) below, be irrevocable) in accordance with Condition 16 below, redeem all the Notes at their Outstanding Principal Amount, together with accrued interest (if any) thereon (excluding any interest which has been cancelled in accordance with the Conditions), on any date, if either (i) a Withholding Tax Event or (ii) a Tax Deductibility Event has occurred and cannot be avoided by the Bank taking reasonable measures available to it. See Condition 7(c) below.

Redemption following Capital Disqualification Event:

The Bank may, subject to Condition 7(g) below, having given not less than 15 days' nor more than 30 days' notice to the Noteholders (which notice shall, save as provided in Condition 7(i) below, be irrevocable) in accordance with Condition 16 below, redeem all the Notes at their Outstanding Principal Amount, together with accrued interest (if any) thereon (excluding any interest which has been cancelled in accordance with the Conditions), on any date, if a Capital Disqualification Event has occurred and is continuing on such date. See Condition 7(d) below.

Capital Adequacy Conversion:

If a Capital Adequacy Event occurs at any time on or after the Issue Date, then the Notes will, without delay and in any event on a date within one month of the date of occurrence of the Capital Adequacy Event (or within such shorter period as may be required by the FME or Applicable Banking Regulations), be converted (without any requirement for the consent or approval of Noteholders) into Conversion Shares at the prevailing Conversion Price in accordance with Condition 6 below.

Non-Viability Conversion:

If a Non-Viability Event occurs at any time on or after the Issue Date, then the Notes will, on the date specified by the Relevant Resolution Authority, be converted (without any requirement for the consent or approval of Noteholders) into Conversion Shares at the prevailing Conversion Price in accordance with Condition 6 below, save that the provisions of Condition 6(i) below shall not apply following a Non-Viability Conversion and there shall be no Settlement Shares Offer following a Non-Viability Conversion.

Conversion Price:

(a) In respect of any Conversion Date occurring prior to the QTE Effective Date in respect of a Qualifying Takeover Event, if the Ordinary Shares are:

- (A) then admitted to trading on a Relevant Stock Exchange, the highest of:
 - (i) the Current Market Price of an Ordinary Share, translated into U.S. dollars at the Prevailing Exchange Rate;
 - (ii) the Floor Price; and

- (iii) the par value of an Ordinary Share (being ISK 1.00 on the Issue Date), translated into U.S. dollars at the Prevailing Exchange Rate,

in each case on the Conversion Date; or

- (B) not then admitted to trading on a Relevant Stock Exchange, the higher of (A)(A)(ii) and (A)(A)(iii) above; and

- (b) in respect of any Conversion Date occurring on or after the QTE Effective Date in respect of a Qualifying Takeover Event, if the Approved Entity Shares are:

- (A) then admitted to trading on a Relevant Stock Exchange, the highest of:

- (i) the Current Market Price of an Approved Entity Share, translated (if necessary) into U.S. dollars at the Prevailing Exchange Rate;

- (ii) the New Floor Price; and

- (iii) the par value of an Approved Entity Share, translated (if necessary) into U.S. dollars at the Prevailing Exchange Rate,

in each case on the Conversion Date; or

- (B) not then admitted to trading on a Relevant Stock Exchange, the higher of (b)(A)(ii) and (b)(A)(iii) above;

The Floor Price is U.S.\$0.473, subject to adjustment in accordance with Condition 6(l) below.

Delivery of Conversion Shares to Settlement Shares Depository:

Subject to the last paragraph of Condition 6(h) below, the obligation of the Bank to issue and deliver Conversion Shares to a Noteholder shall be satisfied by the delivery of such Conversion Shares to the Settlement Shares Depository as soon as practicable following the Registration Date. Such delivery will be deemed to have occurred when the Conversion Shares are registered in the name of the Settlement Shares Depository by the Share Registrar as described in Condition 6(f) below. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Notes.

See Condition 6(h) below (Procedure for settlement and delivery of Conversion Shares to Noteholders).

Prior to any delivery of Conversion Shares to a Holder the Bank may (in respect of a Capital Adequacy Conversion only), in its sole and absolute discretion, elect that a Settlement Shares Offer shall be made, which will delay the delivery of Conversion Shares to a Holder and may result in a Holder receiving, wholly or partly in place of such Conversion Shares, payment of the cash proceeds of such Settlement Shares Offer to which that Holder is entitled, after deduction of the Settlement Shares Offer Expenses. See Condition 6(i) below.

No Events of Default; Holders may claim in Winding-Up only:

In the event that the Bank gives notice to redeem the Notes in accordance with Condition 7(b) below, Condition 7(c) below or Condition 7(d) below and the Bank fails to make payment of

any principal or interest when due in respect of such redemption and the default continues for a period of five Business Days, the Holders may take any steps available to them to institute Winding-Up proceedings (*slitameðferð*) for the Bank (including, without limitation, petitioning the FME to institute Winding-Up proceedings for the Bank) in Iceland and not elsewhere, and prove or claim in the Winding-Up of the Bank.

In the Winding-Up of the Bank, the Notes shall become immediately due and payable at their Outstanding Principal Amount together with any accrued and unpaid (and uncanceled) interest to the date of payment.

Meetings of Holders and modifications:

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes or any of the provisions of the Agency Agreement. These provisions permit defined majorities to bind all Holders including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. See Condition 15 below.

Taxation:

All payments of principal, interest and any other amounts in respect of the Notes by or on behalf of the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Iceland or any political subdivision or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes or duties is required by law. In that event, the Bank will (in respect of payments of interest (but not principal or any other amount), and subject to the exceptions set out in Condition 10 below) pay such additional amounts as shall be necessary in order that the net amounts receivable by the holders of the Notes after such withholding or deduction shall equal the amounts of interest which would otherwise have been receivable in respect of the Notes, as the case may be, in the absence of such withholding or deduction. See Condition 10 below.

Form of the Notes:

The Notes will initially be represented by the Global Note which will be deposited on or about the Issue Date with a common depository for Euroclear and Clearstream, Luxembourg and registered in the name of the nominee for the common depository for Euroclear and Clearstream, Luxembourg. Interests in the Global Note will be exchangeable for definitive Notes in registered form only in certain limited circumstances. See "*Summary of Provisions relating to the Notes while in Global Form*" below.

Substitution or variation:

If at any time a Capital Disqualification Event, Withholding Tax Event or a Tax Deductibility Event occurs, the Bank may either substitute all (but not some only) of the Notes, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Securities. See Condition 7(h) below.

Denominations:

The Notes will be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Listing and admission to trading:

Application has been made to the Luxembourg Stock Exchange

for the Notes to be admitted to trading on the Euro MTF and listed on the Official List of the Luxembourg Stock Exchange.

Luxembourg Listing Agent:

Banque Internationale à Luxembourg, société anonyme

Governing law:

The Notes and any non-contractual obligations arising out of or in respect of the Notes will be governed by, and shall be construed in accordance with, English law, except with respect to the provisions of Condition 3 below, which are governed by, and shall be construed in accordance with, the laws of Iceland. Any non-contractual obligations arising out of or in respect of Condition 3 below are governed by, and shall be construed in accordance with, the laws of Iceland.

Notes in global form:

In the case of Global Notes, individual investors' rights against the Bank will be governed by a Deed of Covenant executed by the Bank on 26 February 2020 (as amended and/or supplemented and/or restated from time to time), a copy of which will be available for inspection at the specified office of each of the Paying and Conversion Agents.

Selling Restrictions:

There are certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering materials in the United States of America, the United Kingdom, Iceland, Belgium, Japan, Hong Kong, Singapore, Canada, Switzerland, State of Qatar, Kuwait, the United Arab Emirates (excluding the Dubai International Financial Centre), Denmark, Finland and Norway, see "Subscription and Sale".

Ratings:

The Notes are expected to be rated BB by S&P. 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.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Information Memorandum:

- (a) The following sections of the Base Prospectus:
- “Risk Factors – Factors that may affect the Bank’s ability to fulfil its obligations under Notes issued under the Programme” on pages 17 to 39;
 - “Risk Factors – Risks related to the market generally” on pages 47 to 50 thereof;
 - the section entitled “Financial Markets in Iceland” as set out on page 106-108 thereof;
 - the section entitled “Description of the Bank” as set out on pages 109-130 thereof;
 - the section entitled “Key Financial Indicators” as set out on page 131 thereof;
 - the section entitled “Funding and Liquidity” as set out on page 132 thereof;
 - the section entitled “Risk Management” as set out on pages 133-143 thereof;
 - the section entitled “Capital Adequacy” as set out on pages 144-145 thereof;
 - the section entitled “Management and Employees” as set out on pages 146-154 thereof.
- (b) The supplement to the Base Prospectus dated 14 February 2020.
- (c) The Annual Financial Statements, including the information set out at the following pages of the 2019 Consolidated Financial Statements, the 2018 Consolidated Financial Statements and the 2017 Consolidated Financial Statements, respectively, in particular:

	2019 Consolidated Financial Statements	2018 Consolidated Financial Statements	2017 Consolidated Financial Statements
Consolidated Statement of Financial Position	Page 14	Page 13	Page 13
Significant Accounting Policies	Pages 70 to 84	Pages 75 to 89	Pages 77 to 94
Consolidated Statement of Cash Flows.....	Page 17	Pages 15 to 16	Pages 15 to 16
Consolidated Statement of Comprehensive Income	Page 13	Page 12	Page 12
Consolidated Statement of Changes in Equity.....	Pages 15 to 16	Page 14	Page 14
Notes.....	Pages 18 to 84	Pages 17 to 89	Pages 17 to 94
Independent Auditors’ Report	Pages 9 to 11	Pages 8 to 10	Pages 9 to 11

- (d) Page 2 of the Bank’s Factbook for the financial year ended 31 December 2019.

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

Copies of documents incorporated by reference in this Information Memorandum may be obtained from the Luxembourg Stock Exchange's website at www.bourse.lu, from the registered office of the Bank and from the specified offices of the Paying Agents for the time being in London and can be viewed electronically free of charge at www.arionbanki.is/.

Any websites referenced in this Information Memorandum are referenced for information purposes only and the contents of any website referenced in this Information Memorandum do not form part of (and are not incorporated by reference into) this Information Memorandum.

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

CAPITAL ADEQUACY AND DISTRIBUTABLE ITEMS

Capital Adequacy of the Group

The following table sets forth details of the risk-weighted assets and capital ratios of the Group:

	As of 31 December,		
	2019	2018	2017
	<i>(ISK millions except percentages)</i>		
Common equity tier 1 ratio (%)	21.2	21.2	23.6
Tier 1 ratio (%)	21.2	21.2	23.6
Total capital ration (%)	24.0	22.0	24.0
Total risk-weighted assets	719,755	796,599	766,768

The table below sets forth the distance Capital Adequacy Event of the Group:

	As of 31 December, 2019	As of 31 December, 2018
		<i>(in ISK millions)</i>
Distance to Capital Adequacy Event ¹	115,804	127,963

Capital Adequacy of the Bank

The following table sets forth details of the risk-weighted assets and capital ratios of the Bank:

	As of 31 December,		
	2019	2018	2017
	<i>(ISK millions except percentages)</i>		
Common equity tier 1 ratio (%)	23.5	23.5	26.0
Tier 1 ratio (%)	23.5	23.5	26.0
Total capital ratio (%)	26.2	24.3	26.4
Total risk-weighted assets	722,812	807,035	767,668

The table below sets forth the distance to Capital Adequacy Event of the Bank:

	As of 31 December, 2019	As of 31 December, 2018
		<i>(in ISK millions)</i>
Distance to Capital Adequacy Event ¹	132,551	147,955

¹ The distance to Capital Adequacy Event reflects as of 31 December 2019 and 31 December 2018 the amount of common equity tier 1 capital above the Capital Adequacy Event level applicable to the Notes (being a CET1 ratio of less than 5.125 per cent.).

Maximum Distributable Amount

The table below sets forth the distance to Maximum Distributable Amount of the Bank:

	As of 31 December, 2019	As of 31 December, 2018
	<i>(in ISK millions)</i>	
Distance to Maximum Distributable Amount ²	41,746	52,582

² The distance to Maximum Distributable Amount reflects as of 31 December 2019 and 31 December 2018 the amount of common equity tier 1 capital above the required amount of common equity tier 1 capital before the application of any Maximum Distributable Amount restrictions to the Bank.

TERMS AND CONDITIONS OF THE NOTES

The following, except for paragraphs in italics, are the terms and conditions of the Notes, which will be endorsed on each Note in definitive form (if issued).

The U.S.\$100,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Convertible Notes (the “**Notes**”, which expression shall in these terms and conditions (the “**Conditions**”), unless the context otherwise requires, include any further notes issued pursuant to Condition 17 below) are issued by Arion Bank hf. (the “**Bank**”) in accordance with an agency agreement dated 19 June 2017, as supplemented by a supplemental agency agreement dated 10 July 2018, a second supplemental agency agreement dated 18 July 2019 and a further supplemental agency agreement dated 26 February 2020 (as further amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”), each made between the Bank, Citibank, N.A., London Branch in its capacities as fiscal agent and principal paying and conversion agent (the “**Fiscal Agent**”, which expression shall include any successor to Citibank, N.A., London Branch in its capacity as such), certain other financial institutions named therein in their capacities as paying and conversion agents (the “**Paying and Conversion Agents**”, which expression shall include the Fiscal Agent and any substitute or additional paying and conversion agents appointed in accordance with the Agency Agreement), Citibank, N.A., London Branch in its capacities as Transfer Agent (the “**Transfer Agent**”, which expression shall include any additional or successor transfer agents) and initial agent bank (the “**Agent Bank**”, which expression shall include any successor thereto) and Citigroup Global Markets Europe AG as registrar (the “**Registrar**”, which expression shall include any successor registrar). The Fiscal Agent, the Agent Bank, the Paying and Conversion Agents, the Registrar and the Transfer Agents are together referred to as “**Agents**”.

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

Any reference to “**Noteholders**” or “**Holders**” in relation to the Notes shall mean the person or persons in whose name the Notes are registered.

The Noteholders are entitled to the benefit of the deed of covenant dated 26 February 2020 (as amended and/or supplemented and/or restated from time to time, the “**Deed of Covenant**”) and made by the Bank. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying and Conversion Agents. The Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

1. Form, Specified Denominations and title

The Notes are issued in registered form and, serially numbered and in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (each a “**Specified Denomination**”).

Subject as set out below, title to the Notes passes upon registration of transfers in accordance with the provisions of the Agency Agreement.

The registered Holder of any Note will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

2. Transfers of Notes

(a) Transfers of Notes in definitive form

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Note in definitive form may be transferred in whole or in part in the Specified Denomination. In order to effect any such transfer (a) the Holder or Holders must (i) surrender the Note for registration of the transfer of the Note (or the relevant part of the Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the Holder or Holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Bank and the Registrar may from time to time prescribe (the initial such regulations being set out in Annex 3 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 Note in definitive form of a like aggregate nominal amount to the Note (or the relevant part of the Note) transferred. In the case of the transfer of part only of a Note in definitive form, a new Note in definitive form in respect of the balance of the Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

(b) Costs of registration

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

3. Status

(a) Status and subordination

The Notes constitute direct, unsecured, unguaranteed and subordinated obligations of the Bank. In the event of the winding-up (in Icelandic: *slitameðferð*) of the Bank (a “**Winding-Up**”):

- (I) prior to the occurrence of a Conversion Trigger Event, the rights and claims of the Holders of the Notes to payments on or in respect of the Notes shall rank:
 - (A) *pari passu* without any preference among themselves;
 - (B) at least *pari passu* with payments to holders of any other Additional Tier 1 Instruments and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, *pari passu* with the Notes;
 - (C) in priority to payments to holders of all classes of share capital of the Bank in their capacity as such holders and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, junior to the Notes; and
 - (D) junior in right of payment to the payment of any present or future claims of Senior Creditors; and
- (II) on or after the date on which a Conversion Trigger Event occurs, but before the Conversion Shares to be issued and delivered to the Settlement Shares Depositary on Conversion have been so delivered, there shall be payable by the Bank in respect of each Note (in lieu of any other payment by the Bank), such amount, if any, as would have been payable to the Holder of such Note if, on the day preceding the commencement of the Winding-Up and thereafter, such Holder were the holder of such number of Conversion Shares as that Holder would have been entitled to receive on Conversion.

(b) Waiver of Set-off Rights

No Holder of a Note may at any time exercise or claim any Set-Off Rights against any right, claim or liability of the Bank or that the Bank may have or acquire against such Holder, directly or indirectly and howsoever arising (and including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any kind or any non-contractual obligation, whether or not relating to that Note) and each Holder of any Note shall be deemed to have waived all Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities.

Notwithstanding the preceding sentence, if any amount payable by the Bank in respect of, or arising under or in connection with, any Note to any Holder of such Note is discharged by set-off or any netting, such Holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Bank and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Bank and, accordingly, any such discharge shall be deemed not to have taken place.

Nothing in this Condition 3(b) is intended to provide, or shall be construed as acknowledging, any Set-Off Rights or that any such Set-Off Right is or would be available to any Holder of any Note but for this Condition 3(b).

In this Condition 3(b), “**Set-Off Rights**” means any and all rights or claims of any Holder of a Note against the Bank for deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with any Note.

(c) Solvency Condition

Except in a Winding-Up of the Bank and without prejudice to Condition 6 below, all payments in respect of, or arising from (including any damages awarded for breach of any obligations under), the Notes are, in addition to the right or obligation of the Bank to cancel payments of interest under Condition 5 below, conditional upon the Bank being solvent at the time of payment by the Bank and no principal, interest or any other amount shall be or become due and payable in respect of, or arising from, the Notes except to the extent that the Bank could make such payment and still be solvent immediately thereafter (the “**Solvency Condition**”).

The Bank shall be considered to be solvent if (x) it is able to pay its debts owed to its Senior Creditors as they fall due and (y) its Assets exceed its Liabilities.

In this Condition:

“**Assets**” means the unconsolidated gross assets of the Bank, as shown in the latest published audited balance sheet of the Bank, but adjusted for subsequent events in such manner as the directors of the Bank may determine; and

“**Liabilities**” means the unconsolidated gross liabilities of the Bank, as shown in the latest published audited balance sheet of the Bank, but adjusted for contingent and prospective liabilities and for subsequent events in such manner as the directors of the Bank may determine.

4. Interest

(a) Rate of Interest

The Notes shall bear interest on their Outstanding Principal Amount, in respect of the period from (and including):

- (i) the Issue Date to (but excluding) 26 August 2025 (the “**First Reset Date**”) at the rate of 6.250 per cent. per annum (the “**Initial Rate of Interest**”); and
- (ii) each Reset Date to (but excluding) the next succeeding Reset Date (each a “**Reset Period**”), at the rate per annum equal to the sum of the Reset Margin and the CMT Rate for such Reset Period (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards), as determined by the Agent Bank on the relevant Reset Determination Date,

each a “**Rate of Interest**”. Subject to Condition 5 below, such interest will be payable in arrear on 26 February and 26 August in each year (each an “**Interest Payment Date**”), commencing on 26 August 2020 (the “**First Interest Payment Date**”) up to and including the date of redemption, Conversion or purchase and cancellation, of the Notes. The Agent Bank will at or as soon as practicable after the Relevant Time on each Reset Determination Date, determine the Rate of Interest for the relevant Reset Period.

(b) Accrual of interest

Subject to Condition 3(c) above, Condition 5 below and Condition 6 below, each Note will cease to bear interest from (and including) the due date for its redemption pursuant to Condition 7(b) below, Condition 7(c) below or Condition 7(d) below or the date of substitution thereof pursuant to Condition 7(h) below, as the case may be, unless payment is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (i) the date on which all amounts due in respect of such Note have been paid;
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 16 below.

(c) Calculation of Interest Amounts

Interest will be calculated on the Outstanding Principal Amount of each Note. The Fiscal Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Notes for each Interest Period or other relevant period within a Reset Period by applying the relevant Rate of Interest to each U.S.\$1,000 in principal amount of the Notes (the “**Calculation Amount**”), multiplying such sum by the Day Count Fraction and rounding the resultant figure to

the nearest cent, half a cent being rounded upwards. The amount of interest payable in respect of each Note shall be the product of the Interest 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 of such Note without any further rounding.

(d) Publication of Rates of Interest and Interest Amounts

Except in the case of the Initial Rate of Interest, the Agent Bank will cause the Rate of Interest and each Interest Amount for each Interest Period within a Reset Period to be notified to the Bank and any stock exchange on which the Notes are for the time being listed and/or admitted to trading and notice thereof to be published in accordance with Condition 16 below as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. 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 business in London.

(e) Agent Bank

The Bank will maintain an Agent Bank. The name of the initial Agent Bank is set out in the preamble to these Conditions.

The Bank may from time to time replace the Agent Bank with another leading investment, merchant or commercial bank or financial adviser or financial institution of international repute or such other institution of appropriate expertise. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Rate of Interest in respect of any Reset Period as provided in Condition 4(a), the Bank shall forthwith appoint another leading investment, merchant or commercial bank or financial adviser or financial institution of international repute or such other institution of appropriate expertise to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(f) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Agent Bank, the Registrar, the Fiscal Agent, the other Paying and Conversion Agents and all Noteholders and (in the absence as aforesaid) no liability to the Bank or the Noteholders shall attach to the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5. Cancellation of Interest

(a) Interest payments discretionary

Interest on the Notes will be due and payable only at the sole discretion of the Bank, and the Bank may elect, in its sole and absolute discretion, to cancel any payment of interest that would otherwise be payable on any Interest Payment Date, in whole or in part, at any time, and for any reason. If the Bank provides notice to cancel a portion, but not all, of an interest payment or the Bank fails to give any notice of non-payment and the Bank subsequently does not make such interest payment (or the relevant part thereof) on the relevant Interest Payment Date, such non-payment shall evidence the Bank’s exercise of its discretion to cancel such interest payment (or the relevant part thereof), and accordingly such interest payment (or the relevant part thereof) shall also not be due and payable.

(b) Restriction on interest payments

Subject to the extent permitted in Condition 5(c) below, the Bank shall not make an interest payment on the Notes on any Interest Payment Date (and such interest payment shall therefore be deemed to have been cancelled and thus shall not be due and payable on such Interest Payment Date):

- (i) if the Bank has an amount of Distributable Items on such Interest Payment Date that is less than the sum of all distributions or interest payments on the Notes and all other own funds instruments of the Bank paid and/or required and/or scheduled to be paid in the then current financial year (excluding any such interest payments or distributions which (x) are not required to be made out of Distributable Items or (y) have already been provided for, by way of deduction, in the calculation of Distributable Items); or
- (ii) if and to the extent that such payment would cause a breach of any binding regulatory restriction or prohibition on payments on Additional Tier 1 Instruments pursuant to Applicable Banking Regulations (including, without limitation, any such restriction or prohibition relating to any Maximum Distributable Amount applicable to the Bank and/or the Group).

(c) Partial interest payment

The Bank may, in its sole discretion, elect to make a partial interest payment on the Notes on any Interest Payment Date, only to the extent that such partial interest payment may be made without breaching the restrictions set out in Condition 5(b) above.

(d) Effect of interest cancellation

Interest will only be due and payable on an Interest Payment Date to the extent that (i) the Solvency Condition is satisfied before and immediately after payment and (ii) it is not cancelled or deemed to have been cancelled in accordance with Condition 5(a) above or Condition 5(b) above. Any interest cancelled or deemed to have been cancelled (in each case, in whole or in part) in such circumstances shall not be due and shall not accumulate or be payable at any time thereafter nor constitute a default by the Bank for any purpose nor constitute the occurrence of any event related to the insolvency of the Bank nor entitle the Holders to take any action as a result thereof nor in any way limit or restrict the Bank from making any payment of interest or equivalent payment or distribution in connection with any instrument ranking junior to the Notes (including, without limitation, any CET1 Capital of the Bank or the Group) or in respect of any other Additional Tier 1 Instrument, and Holders shall have no rights thereto or to receive any additional interest or compensation as a result of such cancellation or deemed cancellation. The Bank may use such cancelled payments without restriction to meet its obligations as they fall due.

(e) Notice of interest cancellation

If practicable, the Bank shall provide notice of any cancellation of interest (in whole or in part) to the Holders in accordance with Condition 16 below on or prior to the relevant Interest Payment Date. If practicable, the Bank shall endeavour to provide such notice at least five (5) Business Days prior to the relevant Interest Payment Date. Failure to provide such notice shall not constitute a default under the Notes for any purpose and will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation or deemed cancellation of interest, or give Holders any rights as a result of any such failure to notify.

6. Conversion following a Conversion Trigger Event

(a) Conversion following a Capital Adequacy Event

If a Capital Adequacy Event occurs at any time on or after the Issue Date, then the Notes will, without delay and in any event on a date within one month of the date of occurrence of the Capital Adequacy Event (or within such shorter period as may be required by the FME or Applicable Banking Regulations) (such date, the “**Capital Adequacy Conversion Date**”), be converted (without any requirement for the consent or approval of Noteholders) into Conversion Shares at the then prevailing Conversion Price (such conversion, a “**Capital Adequacy Conversion**”) in accordance with this Condition 6.

For the purposes of determining whether a Capital Adequacy Event has occurred, the Bank will (i) calculate the CET1 Ratios of the Bank and the Group based on information (whether or not published) available to management of the Bank, including information internally reported within the Bank pursuant to its procedures for ensuring effective ongoing monitoring of the capital ratios of the Bank and the Group and (ii) calculate and publish the CET1 Ratios of the Bank and the Group on at least a quarterly basis.

(b) Conversion following a Non-Viability Event

If a Non-Viability Event occurs at any time on or after the Issue Date, then the Notes will, on the date specified by the Relevant Resolution Authority (such date, the “**Non-Viability Conversion Date**”), be converted (without any requirement for the consent or approval of Noteholders) into Conversion Shares at the then prevailing Conversion Price (such conversion, a “**Non-Viability Conversion**”) in accordance with this Condition 6, save that the provisions of Condition 6(i) below shall not apply following a Non-Viability Conversion and there shall be no Settlement Shares Offer following a Non-Viability Conversion.

Notwithstanding the previous paragraph of this Condition 6(b), with effect on and from the date on which an Applicable Statutory Loss Absorption Regime becomes effective in respect of the Notes, the provisions of the previous paragraph of this Condition 6(b) and the remaining provisions of this Condition 6 (in respect of a Non-Viability Conversion only, and without prejudice to the continuing application of all provisions of this Condition 6 in respect of a Capital Adequacy Conversion) will lapse and cease to have any effect (and without any requirement for the consent or approval of Noteholders or any notice to be given to Noteholders), except (i) to the extent such provisions are required by, or to give binding effect in relation to the Notes to, the Applicable Statutory Loss Absorption Regime or (ii) their disapplication would cause a Capital Disqualification Event. If a Non-Viability Event occurs on or after such date, the Relevant Resolution Authority (or the Bank following instructions from the Relevant Resolution Authority) may (without any requirement for the consent or approval of Noteholders or any

notice to be given to Noteholders) take such action in respect of the Notes as is required or permitted by such Applicable Statutory Loss Absorption Regime.

(c) Effect of Conversion

From and including the Conversion Date:

- (i) the Outstanding Principal Amount of the Notes will be permanently reduced to zero and, accordingly, shall equal zero at all times thereafter;
- (ii) any accrued and unpaid interest in respect of the Notes shall be cancelled automatically and no further interest shall accrue or be due and payable on the Notes at any time thereafter;
- (iii) Holders will have no rights or claim against the Bank with respect to the payment of any principal, interest or other amount on or in respect of the Notes, which obligations and liabilities of the Bank shall irrevocably and automatically be released (except as provided in Condition 3(a)(II) above); and
- (iv) unless otherwise determined by the Relevant Resolution Authority and subject to the last paragraph of Condition 6(h) below, the Bank's only remaining obligation under the Notes shall be an obligation to deliver Conversion Shares to the Settlement Shares Depository on behalf of the Noteholders on the Registration Date in accordance with this Condition 6.

A Conversion will not constitute an event of default or a breach of the Bank's obligations or duties or a failure to perform by the Bank in any manner or the occurrence of any event related to the insolvency of the Bank and shall not entitle Holders to take any action to petition for the Winding-Up of the Bank or otherwise.

(d) No optional conversion or cash redemption

The Notes are not at any time convertible into Ordinary Shares or any other security at the option of the Noteholders or the Bank, and no amount in respect of the Notes is redeemable in cash as a result of a Conversion.

(e) Conversion procedure

Within 5 Business Days after the occurrence of a Conversion Trigger Event (or within such shorter period as the FME or (if applicable) the Relevant Resolution Authority or Applicable Banking Regulations may require), the Bank shall give notice of the occurrence of such Conversion Trigger Event (a "**Conversion Notice**") to Noteholders in accordance with Condition 16 below and to the Fiscal Agent (the date on which such notice is given, the "**Conversion Notice Date**"), which notice shall specify whether a Capital Adequacy Event or a Non-Viability Event has occurred and shall specify the Conversion Price. The Bank shall further give notice to Noteholders in accordance with Condition 16 below and to the Fiscal Agent as soon as reasonably practicable following the giving of the Conversion Notice of the details of the arrangements for the settlement of the Conversion, whether or not (following a Capital Adequacy Conversion only) the Bank has elected that a Settlement Shares Offer shall be made and, if so, the details of the Settlement Shares Offer Agent appointed, the expected Registration Date and details of the appointment of any Selling Agent (a "**Conversion Settlement Notice**", and the date on which such notice is given, the "**Conversion Settlement Notice Date**").

Any failure by the Bank to give any such notice to or otherwise to so notify Noteholders will not in any way impact on the effectiveness of, or otherwise invalidate, any Conversion, or give Holders any rights as a result of such failure.

(f) Conversion Shares

The number of Conversion Shares which are to be issued and delivered in respect of each Note on a Conversion shall be determined by dividing the Outstanding Principal Amount of such Note immediately prior to the Conversion Date by the prevailing Conversion Price rounded down, if necessary, to the nearest whole number of Conversion Shares.

Unless otherwise determined by the Relevant Resolution Authority in the case of a Non-Viability Conversion, the Conversion Shares issued and delivered on a Conversion will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the date on which such Conversion Shares are registered in the Bank's share register through registration of such Conversion Shares in one or more share accounts maintained with the Share Registrar (such date, the "**Registration Date**"), except in any such case for any right excluded by mandatory provisions of applicable law and except that such Conversion Shares will only carry a right to dividends, distributions or payments and other rights having a record date or other due date for the establishment or entitlement for which that falls on or after the Registration Date. If the Registration Date is to be other than as specified in the

Conversion Settlement Notice, the Bank shall give notice of such revised Registration Date to Noteholders in accordance with Condition 16 below and to the Fiscal Agent.

If a Qualifying Takeover Event shall have occurred, then, where the Conversion Date falls on or after the QTE Effective Date, Approved Entity Shares of the Approved Entity shall be issued to the Settlement Shares Depository on the Conversion Date instead of Conversion Shares, in accordance with Condition 6(m) below.

If a Non-Qualifying Takeover Event shall have occurred, then, where the Conversion Date falls on or after the date of completion of the Non-Qualifying Takeover Event, the Notes shall not be subject to Conversion at any time but, instead, upon the occurrence of a Conversion Trigger Event on or subsequent to the date of completion of the Non-Qualifying Takeover Event, the full Outstanding Principal Amount of each Note will automatically and immediately be written down to zero, each Note will be cancelled, the Noteholders will be automatically deemed to have irrevocably waived their right to receive, and no longer have any rights against the Bank with respect to, repayment of the aggregate principal amount of the Notes written down pursuant to this Condition and all accrued but unpaid interest and any other amounts payable on each Note will be cancelled, irrespective of whether such amounts have become due and payable prior to the occurrence of the Conversion Trigger Event. For the avoidance of doubt, nothing in this Condition 6(f) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Fiscal Agent, the Registrar or any Paying and Conversion Agent or their rights and remedies in respect thereof.

(g) Delivery of Conversion Shares to Settlement Shares Depository

Subject to the last paragraph of Condition 6(h) below, the obligation of the Bank to issue and deliver Conversion Shares to a Noteholder shall be satisfied by the delivery of such Conversion Shares to the Settlement Shares Depository as soon as practicable following the Registration Date. Such delivery will be deemed to have occurred when the Conversion Shares are registered in the name of the Settlement Shares Depository by the Share Registrar as described in Condition 6(f) above. Receipt of the Conversion Shares by the Settlement Shares Depository shall discharge the Bank's obligations in respect of the Notes.

Noteholders shall have recourse to the Bank only for the issue and delivery of Conversion Shares to the Settlement Shares Depository pursuant to these Conditions. With effect on and from the delivery of any such Conversion Shares to the Settlement Shares Depository, a Noteholder shall have recourse only to the Settlement Shares Depository for the delivery of the relevant Conversion Shares to be delivered in respect of its Note(s) as determined in accordance with Condition 6(f) above or, in the circumstances described in Condition 6(h)(iv) below and (in respect of a Capital Adequacy Conversion only) Condition 6(i) below, any cash amounts to which that Noteholder is entitled under Condition 6(h)(iv) below or (in respect of a Capital Adequacy Conversion only) Condition 6(i) below, as the case may be.

(h) Procedure for settlement and delivery of Conversion Shares to Noteholders

On any Conversion, the Conversion Shares to be issued and delivered shall be issued and delivered subject to and as provided below:

- (i) on the Registration Date, the Bank shall deliver (in accordance with Condition 6(g) above) to the Settlement Shares Depository such number of Conversion Shares as is required to satisfy in full its obligation to deliver Conversion Shares on the Registration Date;
- (ii) in order to obtain delivery of the relevant Conversion Shares from the Settlement Shares Depository upon any Conversion on or following the Settlement Date or (following a Capital Adequacy Conversion where the Bank elects that a Settlement Shares Offer shall be made) following the Offer Settlement Date, the relevant Noteholder must deliver a duly completed Delivery Notice, together with the relevant Notes held by it, to a Paying and Conversion Agent at its specified office by no later than the 5th Business Day (in the relevant place of delivery) immediately preceding the Offer Settlement Date (if there is a Settlement Shares Offer) or the 35th Business Day (in the relevant place of delivery) after the Conversion Settlement Notice Date (if there is no Settlement Shares Offer) (such Business Day being the "**Notice Cut-off Date**");
- (iii) subject to completion of any Settlement Shares Offer and as otherwise provided herein, the Fiscal Agent shall give instructions to the Settlement Shares Depository for the Conversion Shares (or, if there is a Settlement Shares Offer, for any Conversion Shares not sold pursuant to the Settlement Shares Offer) to be delivered by the Settlement Shares Depository on the Settlement Date (or, if there is a Settlement Shares Offer, on the Offer Settlement Date) in accordance with the instructions given in the relevant Delivery Notice, provided that such duly completed Delivery Notice and the relevant Notes have been so delivered not later than the Notice Cut-off Date; and

- (iv) in the case of any Noteholder which fails to deliver a duly completed Delivery Notice, together with the relevant Notes held by it by the Notice Cut-off Date, the relevant Conversion Shares shall, subject to any Settlement Shares Offer, continue to be held by the Settlement Shares Depository on behalf of such Noteholder until (i) such Noteholder delivers a duly completed Delivery Notice, together with its relevant Notes, to a Paying and Conversion Agent as provided above or (ii) the sale of such Conversion Shares by a Selling Agent as provided below.

The Bank may in its sole and absolute discretion (and the relevant Holders of such Notes shall be deemed to agree thereto) elect to appoint a person (the “**Selling Agent**”) to procure that all Conversion Shares held by the Settlement Shares Depository (or, if there is a Settlement Shares Offer, all Conversion Shares held by the Settlement Shares Depository that are not sold pursuant to the Settlement Shares Offer) and in respect of which a duly completed Delivery Notice and the relevant Notes have not been delivered on or before the Notice Cut-Off Date, shall be sold by the Selling Agent as soon as reasonably practicable. The Selling Agent may be the Bank, the Settlement Shares Depository or a third party.

In the relevant Conversion Settlement Notice, the Bank shall notify Noteholders whether it has appointed a Selling Agent for the sale of any such Conversion Shares. Subject to the deduction by or on behalf of each of the Selling Agent and the Settlement Shares Depository of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Selling Agent or the Settlement Shares Depository in connection with the issue, allotment and sale thereof, the net proceeds of any such sale of Conversion Shares, converted into U.S. dollars at the Prevailing Exchange Rate on the date of sale of such Conversion Shares, if necessary, shall as soon as reasonably practicable be distributed rateably by the Settlement Shares Depository to the relevant Noteholders in accordance with Condition 11 below or in such other manner and at such time as shall be notified to the relevant Noteholders in accordance with Condition 16 below and to the Fiscal Agent. Such payment shall for all purposes discharge the obligations of the Bank, the Settlement Shares Depository and the Selling Agent in respect of the Conversion of the relevant Notes.

Delivery of the Conversion Shares by the Settlement Shares Depository to Noteholders will be made solely by book-entry with the Share Registrar and no physical share certificate will be delivered to any Noteholder in respect of any Conversion Share. Any Delivery Notice shall be irrevocable. Failure properly to complete and deliver a Delivery Notice and deliver the relevant Notes may result in such Delivery Notice being treated as null and void, and the sale of any applicable Conversion Shares to which the relevant Noteholder may be entitled in accordance with this Condition 6(h). Any determination as to whether any Delivery Notice has been properly completed and delivered together with the relevant Note(s) as provided in this Condition 6(h) shall be made by the Settlement Shares Depository in its sole discretion and shall, in the absence of manifest error, be conclusive and binding on the relevant Noteholder.

For so long as any Conversion Shares are held by the Settlement Shares Depository on behalf of a Noteholder, the Settlement Shares Depository, subject to applicable laws, shall also hold any Cash Dividends and any other dividends or rights distributed to all other Shareholders as a class in respect of such Conversion Shares for such Noteholder. The Settlement Shares Depository shall use its reasonable endeavours to sell any such rights in the open market before expiry and it shall hold the cash proceeds received from such sale (after deduction of any costs or expenses incurred by it in relation thereto) on behalf of each Noteholder. Cash Dividend(s) (and other dividends or rights or proceeds therefrom) shall be paid to the relevant Noteholder in accordance with the instructions given in the relevant Delivery Notice or otherwise in accordance with Condition 11 below.

The Bank, the Settlement Shares Depository and the Selling Agent shall have no liability in respect of the exercise or non-exercise of any discretion or power pursuant to this Condition 6(h) or in respect of any sale of any Conversion Shares or rights, whether for the timing of any such sale or the price at or manner in which any such Conversion Shares or rights are sold or the inability to sell any such Conversion Shares or rights.

If the Bank does not appoint a Selling Agent prior to the Conversion Settlement Notice Date, or if any Conversion Shares are not sold by the Selling Agent in accordance with this Condition 6(h), such Conversion Shares shall continue to be held by the Settlement Shares Depository until the relevant Noteholder delivers a duly completed Delivery Notice and the relevant Notes to a Paying and Conversion Agent as provided above.

Any costs incurred by the Settlement Shares Depository or any parent, subsidiary or affiliate of the Settlement Shares Depository in connection with the holding by the Settlement Shares Depository of any Conversion Shares and any amount received in respect thereof shall be deducted by the Settlement Shares Depository from such amount prior to the delivery of such Conversion Shares and payment of such amount to the relevant Noteholder.

Neither the Settlement Shares Depository nor the Bank shall have any liability to any Noteholder for any loss resulting from such Noteholder not receiving any Conversion Shares (or cash proceeds) or from any delay in the

receipt thereof, in each case as a result of such Noteholder failing to deliver a duly completed Delivery Notice and the relevant Notes on a timely basis or at all.

If the Bank has been unable to appoint a Settlement Shares Depository prior to the Conversion Settlement Notice Date, it shall make such other arrangements prior to the Conversion Settlement Notice Date for the issuance and/or delivery of the Conversion Shares to the Noteholders as it shall consider reasonable in the circumstances, which may include issuing the Conversion Shares to the Noteholders directly, which issuance shall irrevocably and automatically release all of the Bank's obligations under the Notes as if the Conversion Shares had been issued to the Settlement Shares Depository. In such circumstances, the Bank will specify details about the relevant arrangements in the Conversion Settlement Notice.

(i) Settlement Shares Offer

By no later than 10 Business Days following the Conversion Notice Date in respect of a Capital Adequacy Conversion, the Bank may, in its sole and absolute discretion, elect that an offer (a "**Settlement Shares Offer**") of some or all of the Conversion Shares shall be made to some or all of the Bank's Shareholders at that time. The following provisions of this Condition 6(i) apply only following a Capital Adequacy Conversion where the Bank elects that a Settlement Shares Offer shall be made.

If the Bank elects that a Settlement Shares Offer shall be made, the Bank shall appoint a placement agent (the "**Settlement Shares Offer Agent**") who shall, acting on behalf, and for the account, of the Noteholders, conduct the Settlement Shares Offer. The Settlement Shares Offer Agent may be the Bank, the Settlement Shares Depository or a third party. The Settlement Shares Offer shall be made on a *pro rata* basis to all Shareholders of the Bank on the applicable record date who are eligible to participate in the Settlement Shares Offer in accordance with the terms of the Settlement Shares Offer. The Settlement Shares Offer shall be made subject to applicable laws and regulations in effect at the relevant time and shall be conducted, if at all, only to the extent that the Bank decides, in its sole and absolute discretion, that it is practicable to do so. If a prospectus or other offering document is required to be prepared in connection with a Settlement Shares Offer, the Bank will facilitate the preparation of such prospectus or other offering document, and the Bank and/or its directors will take responsibility for such prospectus or other offering document, in each case, if and to the extent then required by applicable laws and regulations then in effect.

The Settlement Shares Depository shall deliver the relevant Conversion Shares to or to the order of the Settlement Shares Offer Agent for this purpose prior to the end of the Offer Settlement Period (as defined below).

The Conversion Shares shall be offered to such Shareholders pursuant to the Settlement Shares Offer at a price per Conversion Share equal to the prevailing Conversion Price plus the amount necessary to provide for the payment by subscribing shareholders of the Settlement Shares Offer Expenses (as defined below) in order that the cash proceeds received from the Settlement Shares Offer will result in the payment to Noteholders in respect of each Conversion Share to which they would otherwise have been entitled of an amount not less than the Conversion Price. The Settlement Shares Offer shall be completed or terminated in a period of no more than 40 Business Days from (and including) the Business Day immediately following the Conversion Date to (and including) the date of completion or termination of the Settlement Shares Offer (such period, the "**Offer Settlement Period**"). Neither the Bank nor the Settlement Shares Depository shall incur any liability whatsoever to the Noteholders in respect of the appointment of the Settlement Shares Offer Agent or its conduct.

In the event of the Settlement Shares Offer being fully subscribed by or before the end of the Offer Settlement Period, Noteholders shall, pursuant to the agreement appointing the Settlement Shares Offer Agent, be entitled to receive from the Settlement Shares Offer Agent on the 5th Business Day from (and including) the Business Day immediately following the end of the Offer Settlement Period (the "**Offer Settlement Date**"), in respect of each Conversion Share to which they were otherwise entitled, the cash proceeds realised from such sale of such Conversion Share in the Settlement Shares Offer (being an amount not less than the Conversion Price after the deduction by or on behalf of the Settlement Shares Offer Agent and the Settlement Shares Depository of any amount payable in respect of any capital, stamp, issue, registration and/or transfer taxes and duties (if any) and any fees or costs incurred by or on behalf of the Bank, the Settlement Shares Offer Agent or the Settlement Shares Depository in connection with the issue, allotment and sale of the Conversion Shares (the "**Settlement Shares Offer Expenses**"), rounded to the nearest cent, half a cent being rounded upwards). In the event that the Settlement Shares Offer is only partially subscribed, Noteholders shall in aggregate be entitled to receive from the Settlement Shares Offer Agent, pursuant to these Conditions and the agreement appointing the Settlement Shares Offer Agent, on a *pro rata* basis (a) the cash proceeds realised from the sale of the relevant Conversion Shares in such Settlement Shares Offer (after the deduction of the Settlement Shares Offer Expenses), which shall be an amount not less than the Conversion Price multiplied by the aggregate number of Conversion Shares sold on the Offer Settlement Date, together with (b) the number of Conversion Shares not subscribed pursuant to the Settlement Shares Offer on the dates described in Condition 6(h) above from the Settlement Shares Depository. If no Conversion Shares are

subscribed in the Settlement Shares Offer, Noteholders shall be entitled to receive the relevant Conversion Shares from the Settlement Shares Depository on the Offer Settlement Date.

The Bank shall give notice of the Offer Settlement Date and the Notice Cut-off Date to Noteholders in accordance with Condition 16 below promptly following the commencement of the Settlement Shares Offer, which Notice Cut-off Date shall be not less than 10 Business Days following the date of such notice.

(j) Taxes and duties

A Noteholder, Settlement Shares Offer Agent or Selling Agent must pay (in the case of the Settlement Shares Offer Agent or the Selling Agent by means of deduction from the net proceeds of sale referred to in Condition 6(h) above and Condition 6(i) above) any taxes and capital, stamp, issue and registration and transfer taxes or duties arising on Conversion and such Noteholder, Settlement Shares Offer Agent or the Selling Agent (as the case may be) must pay (in the case of the Settlement Shares Offer Agent or the Selling Agent, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Note or interest therein.

Neither the Bank, nor any member of the Group shall be liable for any stamp duty, stamp duty reserve tax, or any other capital, issue, transfer, registration, financial transaction or documentary tax that may arise or be paid as a consequence of the delivery of Conversion Shares (or the Conversion Share component, if any, of any consideration receivable by any Noteholder following a Settlement Shares Offer), which tax shall be borne solely by the Holder or, if different, the person to whom the Conversion Shares (or the Conversion Share component, if any, of such consideration) are delivered.

(k) Fractions

Fractions of Conversion Shares will not be issued and delivered on Conversion and no cash payment or other adjustment will be made in lieu thereof. Without prejudice to the generality of the foregoing, if one or more Delivery Notices and the related Notes are received by or on behalf of the Settlement Shares Depository such that the Conversion Shares to be delivered by the Settlement Shares Depository are to be registered in the same name, the number of such Conversion Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Notes being so converted and rounded down to the nearest whole number of Conversion Shares.

Where Conversion Shares are to be issued and delivered to the Selling Agent pursuant to Condition 6(h) above, the number of Conversion Shares to be so issued and delivered shall be calculated on the basis of the aggregate principal amount of the Notes to be converted in respect of which such issue and delivery is to be made and rounded down, if necessary, to the nearest whole number of Conversion Shares.

(l) Adjustment of Floor Price

Upon the happening of any of the events described below, the Floor Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision affecting the number of Ordinary Shares in issue, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and
- B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Bank shall issue any Ordinary Shares credited as fully paid to Shareholders as a class by way of capitalisation of profits or reserves (in Icelandic: *útgáfa jöfnunarhluta*) (including any share premium account or capital redemption reserve) other than (i) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could

otherwise have elected to receive, (ii) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (iii) where any such Ordinary Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (iii) (A) If and whenever the Bank shall pay any Extraordinary Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Extraordinary Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Extraordinary Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend.

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Extraordinary Dividend can be determined.

“**Effective Date**” means, in respect of this Condition 6(l)(iii)(A), the first date on which the Ordinary Shares are traded ex-the relevant Cash Dividend on the Relevant Stock Exchange.

“**Extraordinary Dividend**” means any Cash Dividend which is expressed by the Bank or declared by the Board of Directors of the Bank to be a capital distribution, extraordinary dividend, extraordinary distribution, special dividend, special distribution or return of value to Shareholders or any analogous or similar term, in which case the Extraordinary Dividend shall be such Cash Dividend.

- (B) If and whenever the Bank shall pay or make any Non-Cash Dividend to Shareholders, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Non-Cash Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Non-Cash Dividend by the number of Ordinary Shares entitled to receive the relevant Non-Cash Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Bank or any member of the Group, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy

back, and treating as not being in issue any Ordinary Shares, or any Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Non-Cash Dividend is capable of being determined as provided herein.

“**Effective Date**” means, in respect of this Condition 6(l)(iii)(B), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Bank or any member of the Group, the date on which such purchase, redemption or buy back is made (or, in any such case if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein) or in the case of a Spin-Off, the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

- (C) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) below of the definition of "Dividend" and in the definition of "Fair Market Value") be determined as at the Effective Date.
- (D) In making any calculations for the purposes of this Condition 6(l)(iii), such adjustments (if any) shall be made as an Independent Adviser may determine in good faith to be appropriate to reflect (i) any consolidation or sub-division of any Ordinary Shares or (ii) the issue of Ordinary Shares by way of capitalisation of profits or reserves (or any like or similar event) or (iii) any increase in the number of Ordinary Shares in issue in the Relevant Year in question.
- (iv) If and whenever the Bank shall issue Ordinary Shares to Shareholders as a class by way of rights, or the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to acquire, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the Effective Date;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued or granted by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate,

provided that if, on the Effective Date, such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of Condition 6(l)(iv) above, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this Condition 6(l)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (v) If and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire Ordinary Shares or Securities which by their term carry (directly or indirectly) rights of conversion into, or exchange or subscription for, rights to otherwise acquire, Ordinary Shares), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this Condition 6(l)(v), the first date on which the Ordinary Shares are traded ex-the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.

- (vi) If and whenever the Bank shall issue (otherwise than as mentioned in Condition 6(l)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Notes or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or right to otherwise acquire Ordinary Shares) or if and whenever the Bank or any member of the Group or (at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall issue or grant (otherwise than as mentioned in Condition 6(l)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares (other than the Notes, which term shall for this purpose include any Other Contingently Convertible Securities), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant; and

C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights,

provided that if, on the Effective Date, such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 6(l)(vi), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

"Effective Date" means, in respect of this Condition 6(l)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

- (vii) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity (otherwise than as mentioned in Condition 6(l)(iv) above, Condition 6(l)(v) above or Condition 6(l)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Notes, which term shall for this purpose include any Other Contingently Convertible Securities) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be reclassified or redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, purchase of, or rights to otherwise acquire Ordinary Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such reclassification or redesignation would purchase at such Current Market Price per Ordinary Share; and
- C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such reclassification or redesignation;.

provided that if, on the Effective Date, such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified or redesignated or at such other time as may be provided), then for the purposes of this Condition 6(l)(vii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, reclassification or redesignation had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

"Effective Date" means, in respect of this Condition 6(l)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

- (viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Notes, which term shall for this purpose include any Other Contingently Convertible Securities) as are mentioned in Condition 6(1)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Floor Price shall be adjusted by multiplying the Floor Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Bank or any member of the Group (or at the direction or request or pursuant to any arrangements with the Bank or any member of the Group) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Adviser in good faith shall consider appropriate for any previous adjustment under this Condition 6(1)(viii) or Condition 6(1)(vii) above;

provided that if, on the Effective Date, such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this Condition 6(1)(viii), "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Effective Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Effective Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this Condition 6(1)(viii), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

- (ix) If and whenever the Bank or any member of the Group or (at the direction or request of or pursuant to any arrangements with the Bank or any member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Floor Price falls to be adjusted under Condition 6(1)(ii) above, Condition 6(1)(iii) above, Condition 6(1)(iv) above, Condition 6(1)(v) above or Condition 6(1)(vi) above or Condition 6(1)(x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day)) the Floor Price shall be adjusted by multiplying the Floor Price in force immediately before the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this Condition 6(l)(ix), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

- (x) If the Bank determines that a reduction to the Floor Price should be made for whatever reason, the Floor Price will be reduced (either generally or for a specified period as notified to Noteholders) in such manner and with effect from such date as the Bank shall determine and notify to the Noteholders in accordance with Condition 16 below.

Notwithstanding the foregoing provisions:

- (A) where the events or circumstances giving rise to any adjustment pursuant to this Condition 6(l) have already resulted or will result in an adjustment to the Floor Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Floor Price or where more than one event which gives rise to an adjustment to the Floor Price occurs within such a short period of time that, in the opinion of the Bank, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result; and
- (B) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Floor Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once.

For the purpose of any calculation of the consideration receivable or price pursuant to Condition 6(l)(iv) above, Condition 6(l)(vi) above, Condition 6(l)(vii) above and Condition 6(l)(viii) above, the following provisions shall apply:

- (1) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (2) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Bank to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Effective Date as referred to in Condition 6(l)(iv) above, Condition 6(l)(vi) above, Condition 6(l)(vii) above or Condition 6(l)(viii) above, as the case may be, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (3) if the consideration or price determined pursuant to (1) or (2) above (or any component thereof) shall be expressed in a currency other than the Share Currency, it shall be converted into the Share Currency at the Prevailing Exchange Rate on the relevant Effective Date (in the case of (1) above) or the relevant date of first public announcement (in the case of (2) above);
- (4) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and

- (5) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Bank or another entity.

(m) Qualifying Takeover Event

Within 10 Business Days following the occurrence of a Takeover Event, the Bank shall give notice thereof to the Noteholders in accordance with Condition 16 below and to the Fiscal Agent by means of a Takeover Event Notice.

If the Takeover Event is a Qualifying Takeover Event, the Notes shall, where the Conversion Date falls on or after the QTE Effective Date, be converted into or exchanged for Approved Entity Shares of the Approved Entity, *mutatis mutandis* as provided in Condition 6 above, at a Conversion Price determined pursuant to paragraph (b) of the definition of “Conversion Price” in Condition 21 below and subject to a Floor Price that shall initially be the New Floor Price, which may be higher or lower than the Floor Price, and references in these Conditions to “Conversion Shares” shall be deemed to be references to Approved Entity Shares.

The New Floor Price shall be subject to adjustment in the circumstances provided for in Condition 6(1) above (if necessary with such modifications and amendments as an Independent Adviser acting in good faith shall determine to be appropriate and references to “Ordinary Shares” shall be read as references to Approved Entity Shares), and the Bank shall give notice to the Noteholders in accordance with Condition 16 below and to the Fiscal Agent of the New Floor Price and of any such modifications and amendments thereafter.

In the case of a Qualifying Takeover Event:

- (i) the Bank shall, to the extent permitted by applicable law and regulation, on or prior to the QTE Effective Date, enter into such agreements and arrangements (which may include amendments and modifications to these Conditions and the Agency Agreement) as may be required to ensure that, with effect from the QTE Effective Date, the Notes shall be convertible into, or exchangeable for, Approved Entity Shares, *mutatis mutandis* in accordance with, and subject to, the provisions in Condition 6 above (as may be so supplemented, amended or modified), at a Conversion Price determined pursuant to paragraph (b) of the definition of “Conversion Price” in Condition 21 below and subject to a Floor Price that shall initially be the New Floor Price, and any references to the “Floor Price” shall be construed as references to the New Floor Price; and
- (ii) upon the occurrence of a Conversion Trigger Event where the Conversion Date falls on or after the QTE Effective Date, the Bank shall procure (to the extent within its control) the issue of the relevant number of Approved Entity Shares *mutatis mutandis* in the manner provided in Condition 6 above, as may be amended or modified as provided above.

(n) Decision of an Independent Adviser

If any doubt shall arise as to whether an adjustment falls to be made to the Floor Price or as to the appropriate adjustment to the Floor Price, and following consultation between the Bank and an Independent Adviser, a written determination of such Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

(o) Share or option schemes

No adjustment will be made to the Floor Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Bank or any of member of the Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option or similar scheme.

(p) Rounding down and notice of adjustment to the Floor Price

On any adjustment, the resultant Floor Price, if not an integral multiple of a cent, shall be rounded down to the nearest whole multiple of a cent. No adjustment shall be made to the Floor Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Floor Price then in effect. Any adjustment not required to be made and/or any amount by which the Floor Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Floor Price shall be given by the Bank to Noteholders in accordance with Condition 16 below and to the Fiscal Agent promptly after the determination thereof.

(q) Purchase or Redemption of Ordinary Shares

The Bank or any member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back any shares of the Bank (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Noteholders.

(r) Agreement and waiver by the Noteholders

Notwithstanding any other provision of these Conditions, by its acquisition of the Notes, each Noteholder (including, for these purposes, each holder of a beneficial interest in the Notes) shall (i) agree to all the Conditions, including, without limitation, those related to (x) the occurrence of a Conversion Trigger Event and any related Conversion and (y) the appointment of the Settlement Shares Depositary, the issuance of the Conversion Shares to the Settlement Shares Depositary (or to the relevant recipient in accordance with these Conditions) and the potential sale of the Conversion Shares pursuant to a Settlement Shares Offer or by a Selling Agent, (ii) agree that effective upon, and following, a Conversion, no amount shall be due and payable to the Holders under the Notes and the liability of the Bank to pay any such amounts (including the principal amount of, or any interest in respect of, the Notes) shall be automatically released, and the Holders shall not have any rights to take any action with respect to the occurrence of a Conversion Trigger Event and any related Conversion and (iii) waive any claims related to or arising out of or in connection with a Conversion Trigger Event and/or any Conversion.

7. Redemption, purchase, variation and substitution

(a) No fixed redemption date

The Notes are perpetual securities which have no fixed redemption date. The Bank shall only have the right to redeem or purchase the Notes in accordance with the relevant provisions set out in this Condition 7. The Notes are not redeemable at the option of the Noteholders at any time.

(b) Redemption at the option of the Bank (issuer call)

The Bank may, subject to Condition 7(g) below, having given not less than 15 days' nor more than 30 days' notice to the Noteholders (which notice shall, save as provided in Condition 7(i) below, be irrevocable) in accordance with Condition 16 below, redeem all the Notes at their Outstanding Principal Amount, together with accrued interest (if any) thereon (excluding any interest which has been cancelled in accordance with these Conditions):

- (i) on any day falling in the period commencing on (and including) 26 February 2025 and ending on (and including) 25 August 2025; or
- (ii) on the First Reset Date or on any Interest Payment Date thereafter.

(c) Redemption at the option of the Bank following a Withholding Tax Event or a Tax Deductibility Event

The Bank may, subject to Condition 7(g) below, having given not less than 15 days' nor more than 30 days' notice to the Noteholders (which notice shall, save as provided in Condition 7(i) below, be irrevocable) in accordance with Condition 16 below, redeem all the Notes at their Outstanding Principal Amount, together with accrued interest (if any) thereon (excluding any interest which has been cancelled in accordance with these Conditions), on any date, if either (i) on the occasion of the next payment of interest due under the Notes, the Bank has or will become obliged to pay Additional Amounts pursuant to Condition 10 below (a "**Withholding Tax Event**") or (ii) the Bank would no longer be entitled to claim a deduction in computing its taxation liabilities in Iceland in respect of any payment of interest to be made on the Notes on the occasion of the next payment due under the Notes (or the amount of such deduction would be materially reduced) (a "**Tax Deductibility Event**"), in each case as a result of any change in, or amendment to, the laws or regulations of Iceland or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and such obligation, loss of entitlement (or reduction) cannot be avoided by the Bank taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date (i) on which the Bank would be obliged to pay such Additional Amounts, or (ii) on which the Bank would no longer be entitled to claim such a deduction (or the amount of such deduction would be materially reduced) in respect of such payment (as applicable), were a payment in respect of the Notes then due, provided that any reduction in, or loss of, any entitlement to claim such a deduction as a result of the implementation into law of the Bill on amendment to

various laws on taxes and charges (withholding, taxation etc.) (Doc. No. 626, Case No. 450) shall not constitute a Tax Deductibility Event.

(d) Redemption at the option of the Bank following a Capital Disqualification Event

The Bank may, subject to Condition 7(g) below, having given not less than 15 days' nor more than 30 days' notice to the Noteholders (which notice shall, save as provided in Condition 7(i) below, be irrevocable) in accordance with Condition 16 below, redeem all the Notes at their Outstanding Principal Amount, together with accrued interest (if any) thereon (excluding any interest which has been cancelled in accordance with these Conditions), on any date, if a Capital Disqualification Event has occurred and is continuing on such date.

(e) Purchases of Notes

The Bank and any member of the Group may, subject to Condition 7(g) below, in those circumstances permitted by Applicable Banking Regulations, purchase (or otherwise acquire), or procure others to purchase (or otherwise acquire) beneficially for its account, Notes in any manner, at any time and at any price. The Notes so purchased (or acquired), while held by or on behalf of the Bank, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for the purposes of passing a written resolution of the Holders.

(f) Cancellation of redeemed and purchased Notes

All Notes redeemed or purchased in accordance with this Condition 7 will forthwith be cancelled and may not be reissued or resold. References in this Condition 7 to the purchase of Notes by the Bank or its Subsidiaries shall not include the purchase of Notes otherwise than as beneficial owner.

(g) Conditions to redemption and purchase

Notwithstanding any other provision of these Conditions, the Bank may redeem the Notes (and give notice thereof to the Holders), and the Bank or any other member of the Group may purchase Notes, only if permitted at the relevant time by the Applicable Banking Regulations and it has been granted the permission of the FME (if such permission is then required under the Applicable Banking Regulations) and, in the case of any redemption before the fifth anniversary of the Issue Date, if and to the extent required under the Applicable Banking Regulations:

- (I) in the case of redemption pursuant to Condition 7(c) above due to the occurrence of a Withholding Tax Event or a Tax Deductibility Event, the Bank demonstrates to the satisfaction of the FME that the relevant event is material and was not reasonably foreseeable as at the Issue Date; or
- (II) in the case of redemption pursuant to Condition 7(d) above due to the occurrence of a Capital Disqualification Event, the Bank demonstrates to the satisfaction of the FME that the Capital Disqualification Event was not reasonably foreseeable as at the Issue Date.

Any refusal by the FME to give its permission as contemplated above shall not constitute a default for any purpose.

Notwithstanding the above conditions, if, at the time of any redemption, substitution, variation or purchase, the prevailing Applicable Banking Regulations permit the repayment, substitution, variation or purchase only after compliance with one or more alternative or additional pre-conditions to those set out above in this Condition 7(g) or in Condition 7(h) below, the Bank shall comply with such other and/or, as appropriate, additional pre-condition(s).

(h) Substitution or variation instead of redemption

If at any time a Withholding Tax Event, a Tax Deductibility Event or a Capital Disqualification Event occurs of if required in order to ensure the effectiveness or enforceability of Condition 20, then the Bank may, if permitted at the relevant time by the Applicable Banking Regulations and only if it has been granted the permission of the FME (if such permission is then required under Applicable Banking Regulations), without any requirement for the consent or approval of the Holders and having given not less than 15 days' nor more than 30 days' notice to the Holders (which notice shall, save as provided in Condition 7(i) below, be irrevocable) in accordance with Condition 16 below, at any time either substitute all (but not some only) of the Notes, or vary the terms of the Notes so that they remain or, as appropriate, become, Qualifying Securities provided that such variation or substitution does not itself give rise to any right of the Bank to redeem the varied or substituted securities.

(i) Occurrence of a Conversion Trigger Event

If:

- (I) any notice of redemption of the Notes is given pursuant to this Condition 7 and prior to the relevant redemption date a Conversion Trigger Event occurs, the relevant redemption notice shall be automatically

rescinded and shall be of no force and effect, no payment of the relevant redemption amount shall be due and payable and a Conversion shall occur in accordance with Condition 6 above; or

- (II) the Bank gives notice of its intention to substitute or vary the terms of the Notes in accordance with Condition 7 above and prior to such substitution or variation, as the case may be, a Conversion Trigger Event occurs, the relevant substitution or variation notice shall be automatically rescinded and shall be of no force and effect, such substitution or variation, as the case may be, shall not occur and a Conversion shall occur in accordance with Condition 6 above.

8. Undertakings

So long as any Note remains outstanding, the Bank will, save with the approval of an Extraordinary Resolution:

- (A) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on Conversion, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (B) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associates of the offeror) to acquire all or a majority of the issued Ordinary Shares, give notice of such offer to the Noteholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer may be obtained from the specified offices of the Paying and Conversion Agents and, where such an offer has been recommended by the board of directors of the Bank, or where such an offer has become or been declared unconditional in all respects, use all reasonable endeavours to procure that a like offer is extended to the holders of any Conversion Shares issued during the period of the offer and/or to the holders of the Notes;
- (C) issue, allot and deliver Ordinary Shares upon Conversion subject to and as provided in Condition 6 above;
- (D) use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares and the Ordinary Shares issued upon Conversion will be admitted to listing and trading on the Relevant Stock Exchange or will be listed and/or admitted to trading on another Recognised Stock Exchange;
- (E) as soon as practicable following the relevant Conversion Date, register or procure that there is registered in the Bank's share register, the Settlement Shares Depository or other relevant holder of the relevant number of Conversion Shares;
- (F) at all times ensure that its board of directors is authorised to issue, free from pre-emptive rights, sufficient Ordinary Shares to enable Conversion of the Notes, and all rights of subscription and exchange for Ordinary Shares, to be satisfied in full; and
- (G) where the provisions of Condition 6 above require or provide for a determination by an Independent Adviser or a role to be performed by a Settlement Shares Depository and/or a Settlement Shares Offer Agent, the Bank shall use all reasonable endeavours promptly to appoint such person for such purpose.

9. No Events of Default; Holders may claim in Winding-Up only

In the event that the Bank gives notice to redeem the Notes in accordance with Condition 7(b) above, Condition 7(c) above or Condition 7(d) above and the Bank fails to make payment of any principal when due in respect of such redemption and the default continues for a period of five Business Days, the Holders may take any steps available to them to institute Winding-Up proceedings for the Bank (including, without limitation, petitioning the FME to institute Winding-Up proceedings for the Bank) in Iceland and not elsewhere, and prove or claim in the Winding-Up of the Bank.

In the Winding-Up of the Bank, the Notes shall become immediately due and payable at their Outstanding Principal Amount together with any accrued and unpaid (and uncanceled) interest to the date of payment and Holders' claims for such payment shall be subordinated as provided in Condition 3 above.

No remedy against the Bank, other than as referred to in this Condition 9, shall be available to the Holders, whether for the recovery of amounts owing in respect of the Notes or the Agency Agreement or in respect of any breach by the Bank of any of its other obligations under or in respect of the Notes or under the Agency Agreement.

10. Taxation

All payments of principal, interest and any other amount in respect of the Notes by or on behalf of the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature

imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, in respect of payments of interest (but not principal or any other amount), the Bank will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes after such withholding or deduction shall equal the amount of interest which would otherwise have been receivable in respect of the Notes, as the case may be, in the absence of such withholding or deduction (“**Additional Amounts**”), except that no such Additional Amounts shall be payable with respect to any Note:

- (A) presented for payment in Iceland; or
- (B) the holder of which is liable for such taxes or duties in respect of such Note by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note; 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 Business Day).

As used herein:

- (I) “**Tax Jurisdiction**” means Iceland or any political subdivision or any authority thereof or therein having power to tax; and
- (II) the “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Fiscal Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 16 below.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include any Additional Amounts which may be payable with respect to such amounts under this Condition 10.

Notwithstanding any other provision of these Conditions, all payments of principal, interest and any other amount by or on behalf of the Bank in respect of the Notes shall be made net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Bank nor any other person will be required to pay any Additional Amounts in respect of FATCA Withholding.

11. Payments

(a) Payments generally

Subject as provided below payments will be made by credit or transfer to a U.S. dollar account maintained by the payee with a bank in New York City as specified in the register of Holders of the Notes maintained by the Registrar (the “**Register**”).

(b) Payment against surrender of Notes

Payments of principal in respect of each Note will be made in the manner provided in Condition 11(a) above only against presentation or surrender (or, in the case of part payment of any sum due, endorsement) of such Note to the Holder (or the first named of joint Holders) of the Note appearing in the Register 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.

Payments of interest in respect of each Note will be made in the manner provided in Condition 11(a) above to the Holder (or the first named of joint Holders) of the Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the “**Record Date**”). Payment of the interest due in respect of each Note on redemption will be made in the same manner as payment of the principal amount of such Note.

No commissions or expenses shall be charged to the Holders by the Registrar in respect of any payments of principal or interest in respect of the Notes.

(c) Payments in the United States

Notwithstanding the foregoing provisions of this Condition 11, U.S. dollar payments of principal and/ or interest in respect of such Notes will be made at the specified office of a Paying and Conversion Agent in the United States if:

- (i) the Bank has appointed Paying and Conversion Agents with specified offices outside the United States with the reasonable expectation that such Paying and Conversion Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
 - (ii) 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
 - (iii) such payment is then permitted under United States law without involving, in the opinion of the Bank, adverse tax consequences to the Bank.
- (d) Payments subject to fiscal laws**

Save as provided in Condition 10 above, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws or regulations to which the Bank agrees to be subject and the Bank will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commissions or expenses shall be charged to the Holders in respect of such payments.

(e) Payments on Payment Days

If the date for payment of any amount in respect of any Note 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 12 below) is:

- (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 the relevant place of presentation; and
- (ii) 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 New York City.

12. Prescription

The Notes 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 10 above) therefor.

13. The Agents

The initial Agents and their respective initial specified offices are specified in the Agency Agreement. The Bank reserves the right at any time to vary or terminate the appointment of any Agent (including the Fiscal Agent) and to appoint additional or other Agents provided that it will at all times maintain (i) a Fiscal Agent, an Agent Bank, a Transfer Agent and a Registrar and (ii) so long as any Notes are listed on any stock exchange, a Transfer Agent with a specified office in such place as may be required by the rules and regulations of such stock exchange and any other relevant authority. The Agents reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Agents will be notified promptly to the Holders.

In addition, the Bank shall forthwith appoint a Paying and Conversion Agent having a specified office in New York City in the circumstances described in Condition 11(c) above. Notice of any variation, termination, appointment or change in Paying and Conversion Agents will be given to the Noteholders promptly by the Bank in accordance with Condition 16 below.

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

14. Replacement of Notes

If any Note, is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and the requirements of any stock exchange, listing authority and/or quotation system on which the relevant Notes are listed, traded and/or quoted upon payment by the claimant of all expenses incurred in such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Bank and the Registrar may require. Mutilated or defaced Notes, must be surrendered before replacements will be delivered therefor.

15. Meetings of Holders and Modification

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Bank and shall be convened by the Bank if required in writing by Noteholders holding not less than five per cent. of the then Outstanding Principal Amount of the Notes. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. of the then Outstanding Principal Amount of the Notes, or at any adjourned meeting one or more persons being or representing Noteholders whatever the Outstanding Principal Amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes (including, among others, the provisions concerning the subordination of the Notes in Condition 3 above, the due date for payment of any interest or principal in respect of the Notes, reducing or cancelling the Outstanding Principal Amount of any Note, reducing the rate of interest or cancelling the interest payable in respect of the Notes, altering the method for calculating the amount of any interest payable on any date in respect of the Notes, altering the currency of payment of the Notes, altering the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution or to modify any provisions of Condition 6 above (except any modification made in accordance with Condition 6(m) above), the quorum shall be one or more persons holding or representing not less than two thirds of the then Outstanding Principal Amount of the Notes, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the then Outstanding Principal Amount of the Notes. The Agency Agreement provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than three-fourths of the votes cast on such resolution, or (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths of the then Outstanding Principal Amount of the Notes, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting and whether or not they voted on the resolution.

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

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

Any such modification shall be binding on the Noteholders and any such modification shall be notified to the Noteholders in accordance with Condition 16 below as soon as practicable thereafter.

Notwithstanding the foregoing, the agreement or approval of the Holders shall not be required in the case of any variation of these Conditions and/or the Agency Agreement required to be made in connection with the substitution or variation of the Notes pursuant to Condition 7(h) above.

These Conditions may only be modified or waived if the Bank has notified the FME of such proposed modification or waiver and/or obtained the prior permission of the FME, as the case may be, if and to the extent that such notice and/or permission is then required by Applicable Banking Regulations.

16. Notices

All notices regarding the Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the Holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing. The Bank shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those

rules. Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Registrar.

17. Further issues

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

18. Governing law and jurisdiction

The Notes, the Agency Agreement, the Deed of Covenant and any non-contractual obligations arising out of or in respect of the Notes, the Agency Agreement and the Deed of Covenant are governed by, and shall be construed in accordance with, English law, except with respect to the provisions of Condition 3 above, which are governed by, and shall be construed in accordance with, the laws of Iceland. Any non-contractual obligations arising out of or in respect of Condition 3 above are governed by, and shall be construed in accordance with, the laws of Iceland.

The Bank irrevocably agrees for the benefit of the Holders of the Notes that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes (respectively, **Proceedings** and **Disputes**), which may arise out of or in connection with the Notes (including any Proceedings or Disputes relating to any non-contractual obligations arising out of or in connection with the Notes) and, for such purposes, irrevocably submits to the jurisdiction of such courts. The Bank irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum. The Bank agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London, EC2V 7EX. In the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, the Bank shall forthwith appoint a person in England to accept service of process on its behalf in England and notify the name and address of such person to the Holders in accordance with Condition 16 above. Nothing contained herein shall affect the right to serve process in any other manner permitted by law. The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Holders or any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

19. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of any Notes 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.

20. Acknowledgement of Statutory Loss Absorption Powers

Notwithstanding, and to the exclusion of, any other term of the Notes, or any other agreements, arrangements or understandings between any of the parties thereto or between the Bank and any Noteholder (which includes each holder of a beneficial interest in the Notes), each Noteholder by its acquisition of the Notes will be deemed to acknowledge, accept, and agree, that any liability of the Bank in respect of the Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

- (A) the effect of the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority, which exercise may include and result in (without limitation) any of the following, or a combination thereof:
 - (i) the reduction of all, or a portion, of the Outstanding Principal Amount of, or any interest on, the Notes or any other outstanding amounts due under or in respect of the Notes;
 - (ii) the conversion of all, or a portion, of the Outstanding Principal Amount of, or any interest on, the Notes or any other outstanding amounts due under or in respect of the Notes into shares, other securities or other obligations of the Bank or another person, and the issue to or conferral on the Noteholder of such shares, securities or obligations including by means of an amendment, modification or variation of the terms of the Notes;
 - (iii) the cancellation of the Notes; and

- (iv) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period; and
- (B) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority.

By its acquisition of the Notes, each Noteholder (including, for these purposes, each holder of a beneficial interest in the Notes) acknowledges, accepts, consents and agrees to be bound by the exercise of any Statutory Loss Absorption Powers as they may be exercised without any prior notice by the Relevant Resolution Authority of its decision to exercise such powers with respect to such Notes.

Upon the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority with respect to the Notes, the Bank will provide written notice to the Noteholders as soon as practicable regarding such exercise of the Statutory Loss Absorption Powers for the purpose of notifying Noteholders of such occurrence.

21. Definitions

In these Conditions:

“**Accounting Currency**” means ISK or such other primary currency used in the presentation of the Group's financial statements from time to time;

“**Acquirer**” means the person that controls the Bank following a Takeover Event. For the purposes of this definition, “**control**” means the acquisition or holding of legal or beneficial ownership of more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Bank or the right to appoint or remove a majority of the board of directors of the Bank;

“**Additional Tier 1 Capital**” means Additional Tier 1 capital as defined in Applicable Banking Regulations;

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

“**Applicable Banking Regulations**” means at any time the laws, regulations, requirements, guidelines and policies relating to bank or bank holding company capital adequacy, prudential supervision (including leverage) or resolution then in effect in Iceland including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to bank or bank holding company capital adequacy, prudential supervision (including leverage) or resolution of the FME or the Relevant Resolution Authority, respectively, in each case to the extent then in effect in Iceland (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank or the Group);

“**Applicable Statutory Loss Absorption Regime**” means a Statutory Loss Absorption Regime that is applicable to the Notes;

“**Approved Entity**” means a body corporate which, on the occurrence of the Takeover Event, has in issue Approved Entity Shares;

“**Approved Entity Shares**” means ordinary shares in the capital of a body corporate that constitute equity share capital or the equivalent (or depository or other receipts representing the same) which are listed and admitted to trading on an Approved Stock Exchange;

“**Approved Stock Exchange**” means an EEA Regulated Market or another regulated, regularly operating, recognised stock exchange or securities market in an OECD member state;

“**Business Day**” means 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 Reykjavik, London and New York City or the relevant place of delivery, as applicable;

“**Capital Adequacy Conversion**” has the meaning given in Condition 6(a) above;

“**Capital Adequacy Conversion Date**” has the meaning given in Condition 6(a) above;

a “**Capital Adequacy Event**” shall occur if at any time the Bank, the FME or any agent appointed for such purpose by the FME has determined that the CET1 Ratio of the Bank on a solo basis or of the Group on a consolidated basis is less than 5.125 per cent.;

a “**Capital Disqualification Event**” means the determination by the Bank, after consultation with the FME, that as a result of a change in Icelandic law or Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date, the aggregate Outstanding Principal Amount of

the Notes is excluded in whole or in part from inclusion in the Additional Tier 1 Capital of either the Bank or the Group;

“**Cash Dividend**” means (a) any Dividend which is to be paid or made in cash (in whatever currency), but other than falling within paragraph (b) of the definition of "Spin-Off" and (b) any Dividend determined to be a Cash Dividend pursuant to paragraph of the definition of "Dividend", but a Dividend falling within paragraph (c) or (d) of the definition of "Dividend" shall be treated as being a Non-Cash Dividend;

“**CET1 Capital**” means, at any time, the sum, expressed in the Accounting Currency, of all amounts that constitute the Common Equity Tier 1 Capital at such time of the Bank or of the Group (as the case may be) less any deductions therefrom required to be made at such time, as calculated on a solo basis in respect of the Bank or on a consolidated basis in respect of the Group in accordance with Applicable Banking Regulations applicable to either the Bank and/or the Group (as the case may be), on such date (which calculation shall be binding on the Holders);

“**CET1 Ratio**” means, at any time, the ratio of CET1 Capital of the Relevant Entity, as at such date, to the Risk Weighted Assets of the Relevant Entity, as at the same date, expressed as a percentage and, for the avoidance of doubt, on the basis that all measures used in such calculation shall be calculated applying the transitional provisions set out in Part Ten of CRR as transposed or implemented into the law of Iceland and in accordance with the Applicable Banking Regulations then applicable to the Relevant Entity;

“**Clearstream, Luxembourg**” means Clearstream Banking S.A.;

“**CMT Rate**” means the rate determined by the Agent Bank and expressed as a percentage equal to:

- (a) the yield for United States Treasury Securities at “constant maturity” for a designated maturity of five years, as published in the H.15(519) under the caption “treasury constant maturities (nominal)”, as that yield is displayed on the CMT Rate Screen Page at the Relevant Time; or
- (b) if the yield referred to in paragraph (a) above is not published on the CMT Rate Screen Page by the Relevant Time, the yield for United States Treasury Securities at “constant maturity” for a designated maturity of five years as published in the H.15(519) under the caption “treasury constant maturities (nominal)” at the Relevant Time; or
- (c) if the yield referred to in paragraph (b) above is not published by the Relevant Time, the Reset Reference Quoted Rate;

“**CMT Rate Screen Page**” means “H15T5Y” on the Bloomberg service or any successor service or such other page as may replace that page on that service or any successor information service for the purpose of displaying “treasury constant maturities” as reported in H.15(519);

“**Common Equity Tier 1 Capital**” means common equity tier 1 capital as interpreted and applied in accordance with Applicable Banking Regulations;

“**Conversion**” means a Capital Adequacy Conversion or a Non-Viability Conversion, as applicable;

“**Conversion Date**” means the Capital Adequacy Conversion Date or the Non-Viability Conversion Date, as applicable;

“**Conversion Notice**” has the meaning given in Condition 6(e) above;

“**Conversion Notice Date**” has the meaning given in Condition 6(e) above;

“**Conversion Price**” means:

- (a) in respect of any Conversion Date occurring prior to the QTE Effective Date in respect of a Qualifying Takeover Event, if the Ordinary Shares are:
 - (A) then admitted to trading on a Relevant Stock Exchange, the highest of:
 - (i) the Current Market Price of an Ordinary Share, translated into U.S. dollars at the Prevailing Exchange Rate;
 - (ii) the Floor Price; and
 - (iii) the par value of an Ordinary Share (being ISK 1.00 on the Issue Date), translated into U.S. dollars at the Prevailing Exchange Rate,
- in each case on the Conversion Date; or

- (B) not then admitted to trading on a Relevant Stock Exchange, the higher of (a)(A)(ii) and (a)(A)(iii) above; and
- (b) in respect of any Conversion Date occurring on or after the QTE Effective Date in respect of a Qualifying Takeover Event, if the Approved Entity Shares are:
 - (A) then admitted to trading on a Relevant Stock Exchange, the highest of:
 - (i) the Current Market Price of an Approved Entity Share, translated (if necessary) into U.S. dollars at the Prevailing Exchange Rate;
 - (ii) the New Floor Price; and
 - (iii) the par value of an Approved Entity Share, translated (if necessary) into U.S. dollars at the Prevailing Exchange Rate,
 in each case on the Conversion Date; or
 - (B) not then admitted to trading on a Relevant Stock Exchange, the higher of (b)(A)(ii) and (b)(A)(iii) above;

“**Conversion Settlement Notice**” has the meaning given in Condition 6(e) above;

“**Conversion Settlement Notice Date**” has the meaning given in Condition 6(e) above;

“**Conversion Shares**” means the Ordinary Shares which are issued automatically following a Conversion;

“**Conversion Trigger Event**” means a Capital Adequacy Event or Non-Viability Event;

“**CRD IV Directive**” means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as the same may be amended or replaced from time to time (including, without limitation, by the transposition of Directive (EU) 2019/878 into Icelandic law at any time after the Issue Date);

“**CRR**” means Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on the prudential requirements for credit institutions and investment firms, as the same may be amended or replaced from time to time (including, without limitation, by the transposition of Regulation (EU) 2019/876 into Icelandic law at any time after the Issue Date);

“**Current Market Price**” means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the 5 consecutive dealing days ending on the dealing day immediately preceding such date (the “**Relevant Period**”); provided that if at any time during the Relevant Period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex-any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), then:

- (A) if the Ordinary Shares to be issued and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such Dividend or entitlement; or
- (B) if the Ordinary Shares to be issued and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex-any other entitlement) shall for the purposes of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such Dividend or entitlement,

and provided further that:

- (i) if on each of the dealing days in the Relevant Period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount

thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement relating to such Dividend or entitlement; and

- (ii) if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the dealing days in the Relevant Period (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in the Relevant Period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the Relevant Period, or if the Ordinary Shares are not admitted to trading on a Relevant Stock Exchange at any relevant time for these purposes, the Current Market Price shall be determined in good faith by an Independent Adviser;

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with Condition 4 above, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a 360-day year consisting of 12 months of 30 days each) divided by 360;

“dealing day” means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time);

“Delivery Notice” means a notice in the form for the time being currently available from the specified office of any Paying and Conversion Agent, which contains the relevant account and related details for the delivery of any Ordinary Shares and all relevant certifications and/or representations as may be required by applicable law and regulations, and which are required to be delivered in connection with a Conversion of the Notes and the delivery of the Ordinary Shares;

“Distributable Items” means, subject as otherwise defined from time to time in Applicable Banking Regulations, in relation to interest otherwise scheduled to be paid on an Interest Payment Date, the amount of the profits of the Bank at the end of the last financial year immediately preceding such Interest Payment Date plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments of the Bank less any losses brought forward, profits which are non-distributable pursuant to applicable Icelandic law or regulation or the Bank’s constitutional documents and sums placed to non-distributable reserves in accordance with applicable Icelandic law or regulation or the constitutional documents of the Bank, those profits, losses and reserves being determined on the basis of the individual accounts of the Bank and not on the basis of the consolidated accounts of the Group;

“Dividend” means any dividend or distribution to Shareholders in respect of the Ordinary Shares (including a Spin-Off) whether of cash, assets or other property (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital, provided that:

(a) where:

- (i) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a Cash Dividend of an amount equal to the greater of (A) the Fair Market Value of such cash amount and (B) the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of the first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued and delivered is determined; or
- (ii) there shall (other than in circumstances subject to proviso (i) above) be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or

capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a Cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a Cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares to be issued and delivered is determined;

- (b) any issue of Ordinary Shares falling within Condition 6(l)(i) above or Condition 6(l)(ii) above shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Bank by or on behalf of the Bank or any member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Bank or any member of the Group, the weighted average price per Ordinary Share (before expenses) on any one day (a **Specified Share Day**) in respect of such purchases or redemptions or buy backs (translated, if not in the Share Currency, into the Share Currency at the Prevailing Exchange Rate on such day) exceeds by more than 5 per cent. the average of the daily Volume Weighted Average Price of an Ordinary Share on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Share Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by the Bank or, as the case may be, any member of the Group (translated where appropriate into the Share Currency as provided above) exceeds the product of (i) 105 per cent. of the daily Volume Weighted Average Price of an Ordinary Share determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;
- (d) if the Bank or any member of the Group shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Adviser; and
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Bank for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from a person other than (or in addition to) the Bank, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Bank, and the foregoing provisions of this definition, and the provisions of these Conditions, including references to the Bank paying or making a dividend, shall be construed accordingly;

“**EEA Regulated Market**” means a market as defined by Article 4.1(21) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments, as the same may be amended from time to time;

“**Euroclear**” means Euroclear Bank SA/NV;

“**Fair Market Value**” means, with respect to any property on any date, the fair market value of that property as determined by an Independent Adviser in good faith provided that (a) the Fair Market Value of a Cash Dividend shall be the amount of such Cash Dividend; (b) the Fair Market Value of any other cash amount shall be the amount of such cash; (c) where Securities, Spin-Off Securities, options, warrants or other rights or assets are publicly traded on a stock exchange or securities market of adequate liquidity (as determined by an Independent Adviser in good faith), the Fair Market Value (i) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (ii) of such options, warrants or other rights or assets shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights or assets, in the case of both (i) and (ii) above during the period of five dealing days on the relevant stock exchange or securities market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights or assets are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights or assets are publicly traded; and (d) where

Securities, Spin-Off Securities, options, warrants or other rights or assets are not publicly traded on a stock exchange or securities market of adequate liquidity (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights or assets shall be determined by an Independent Adviser in good faith, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights or assets, including as to the expiry date and exercise price (if any) thereof. Such amounts shall, in the case of (a) above, be translated into the Share Currency (if such Cash Dividend is declared or paid or payable in a currency other than the Share Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in the Share Currency; and in any other case, shall be translated into the Share Currency (if expressed in a currency other than the Share Currency) at the Prevailing Exchange Rate on that date. In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;

“**First Reset Date**” has the meaning given in Condition 4(a) above;

“**Floor Price**” means U.S.\$0.473, subject to adjustment in accordance with Condition 6(l) above and Condition 6(m) above;

“**FME**” means the Financial Supervisory Authority of Iceland (*Fjármálaeftirlitið*) or such other or successor authority in Iceland having primary bank supervisory authority with respect to the Bank and/or the Group at the relevant time;

“**Governmental Entity**” means (i) the government of Iceland, (ii) an agency of the government of Iceland or (iii) a person or entity (other than a body corporate) controlled by the government of Iceland or any such agency referred to in (ii). If the Bank is then organised in another jurisdiction, the references to the "government of Iceland" shall be read as references to the government of such other jurisdiction;

“**Group**” means the Bank and its consolidated subsidiaries, taken as a whole, which are subject to prudential consolidation in accordance with the Applicable Banking Regulations;

“**H.15(519)**” means the weekly statistical release designated as H.15(519), or any successor publication, published by the board of governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15> or any successor site or publication;

“**Icelandic Companies Act**” means the Icelandic Act on Public Limited Companies No. 2/1995;

“**Icelandic Krona**” or “**ISK**” means the lawful currency of Iceland;

“**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;

“**Interest Period**” means the period from (and including) an Interest Payment Date (or the Issue Date) to (but excluding) the next (or first) Interest Payment Date);

“**Issue Date**” means 26 February 2020;

“**Maximum Distributable Amount**” means any maximum distributable amount relating either to the Bank and/or the Group (as the case may be) required to be calculated in accordance with Article 141 of the CRD IV Directive as transposed or implemented into the law of Iceland and in accordance with Applicable Banking Regulations or, as the case may be, any equivalent or similar law, rule or provision of the Applicable Banking Regulations which requires a maximum distributable amount to be calculated by the Bank when it is failing to meet a capital adequacy requirement;

The “**New Conversion Condition**” shall be satisfied if (a) by not later than seven Business Days following the completion of a Takeover Event where the Acquirer is an Approved Entity, there shall be arrangements in place for the Approved Entity to provide for issuance of Approved Entity Shares following a Conversion of the Notes on terms *mutatis mutandis* identical to Condition 6 above and (b) the Bank, in its sole and absolute discretion has determined that such arrangements are in the best interests of the Bank and its Shareholders taken as a whole having regard to the interests of its stakeholders (including, but not limited to, the Holders) and are consistent with applicable law and regulation (including, but not limited to, the guidance of any applicable regulatory body);

“**New Floor Price**” means the amount determined in accordance with the following formula, which shall apply from the QTE Effective Date and which shall be subject to adjustment from time to time in accordance with Condition 6(l) above as if references therein to the “Floor Price” were references to the New Floor Price:

$$\text{NFP} = \text{EFP} * (\text{VWAPAES} / \text{VWAPOS})$$

where:

“**NFP**” is the New Floor Price.

“**EFP**” is the Floor Price in effect on the dealing day immediately prior to the QTE Effective Date.

“**VWAPAES**” means the average of the Volume Weighted Average Price of the Approved Entity Shares (translated, if necessary, into U.S. dollars at the Prevailing Exchange Rate on the relevant dealing day) on each of the five dealing days ending on the dealing day prior to the closing date of the Takeover Event (and where references in the definition of "Volume Weighted Average Price" to "Ordinary Share" shall be construed as a references to the Approved Entity Shares and in the definition of "dealing day," references to the "Relevant Stock Exchange" shall be construed as references to the relevant Recognised Stock Exchange).

“**VWAPOS**” is the average of the Volume Weighted Average Price of the Ordinary Shares (translated, if necessary, into U.S. dollars at the Prevailing Exchange Rate on the relevant dealing day) on each of the five dealing days ending on the dealing day immediately prior to the closing date of the Takeover Event;

“**Non-Cash Dividend**” means any Dividend which is not a Cash Dividend, and shall include a Spin-Off;

“**Non-Qualifying Takeover Event**” means a Takeover Event that is not a Qualifying Takeover Event;

“**Non-Viability Conversion**” has the meaning given in Condition 6(b) above;

“**Non-Viability Conversion Date**” has the meaning given in Condition 6(b) above;

a “**Non-Viability Event**” means the occurrence of any of the following events:

- (A) the Relevant Resolution Authority determines that the Bank is or will be Non-Viable without a Non-Viability Conversion;
- (B) the Relevant Resolution Authority decides to inject capital into the Bank or provide any other equivalent extraordinary measure of financial support without which the Bank would become Non-Viable; or
- (C) any other event or circumstance specified in Applicable Banking Regulations or any Applicable Statutory Loss Absorption Regime that leads to a determination by the Relevant Resolution Authority that the Bank is Non-Viable.

“**Non-Viable**” has the meaning given to it or to any similar term in Applicable Banking Regulations or any Applicable Statutory Loss Absorption Regime at the relevant time and shall include any restructuring or resolution of the Bank under the Icelandic Act on Financial Undertakings, No. 161/2002 or the Icelandic Act on Bankruptcy, etc. No. 21/1991 or any other similar event or circumstance specified in the Applicable Banking Regulations or any Applicable Statutory Loss Absorption Regime;

“**Notice Cut-Off Date**” has the meaning given in Condition 6(h) above;

“**Offer Settlement Date**” has the meaning given in Condition 6(i) above;

“**Offer Settlement Period**” has the meaning given in Condition 6(i) above;

“**Ordinary Shares**” means fully paid ordinary shares in the capital of the Bank, each of which confers on the holder one vote at general meetings of the Bank;

“**Other Contingently Convertible Securities**” means any substantially similar securities or instruments to the Notes which securities or instruments are contingently convertible into Ordinary Shares other than at the option of the holders thereof;

“**Outstanding Principal Amount**” means, in respect of a Note, the principal amount of that Note as issued on the Issue Date, as such amount may be reduced, on one or more occasions, pursuant to a Conversion or pursuant to any write-down or conversion of the Notes pursuant to the exercise of any Statutory Loss Absorption Powers;

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, unincorporated association, limited liability company, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity);

“**Prevailing Exchange Rate**” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the

Reference Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined or, if such rate cannot be so determined by reference to the Reference Page, the rate determined in such other manner as an Independent Adviser in good faith shall prescribe;

“**QTE Effective Date**” means the date with effect from which the New Conversion Condition shall have been satisfied;

“**Qualifying Securities**” means securities issued directly by the Bank that:

- (A) (other than in respect of the effectiveness and enforceability of Condition 20) have terms not materially less favourable to an investor in the Notes (as reasonably determined by the Bank following consultation with an Independent Adviser) than the terms of the Notes;
- (B) contain terms such that they comply with the minimum requirements under Applicable Banking Regulations for inclusion in the Additional Tier 1 Capital of the Bank or the Group (as applicable);
- (C) include a ranking at least equal to the ranking of the Notes;
- (D) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Notes;
- (E) have the same redemption rights as the Notes, provided that (if and only to the extent required in order for the Notes to qualify, or to continue to qualify, as Additional Tier 1 Capital of either the Bank or the Group pursuant to the Applicable Banking Regulations) the optional redemption rights provided in Condition 7(b)(i) may be disappplied;
- (F) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation (save to the extent such interest has been cancelled in accordance with these Conditions);
- (G) are assigned (or maintain) at least the same credit ratings, if any, as were assigned to the Notes immediately prior to such variation or substitution (or, if a solicited credit rating assigned to the Notes was, as a result of Condition 20 becoming ineffective or unenforceable, amended prior to such variation or substitution, the solicited credit rating that was assigned to the Notes prior to such amendment); and
- (H) are listed on a regularly operating internationally recognised stock exchange if the Notes were so listed immediately prior to such variation or substitution;

“**Qualifying Takeover Event**” means a Takeover Event where: (i) the Acquirer is an Approved Entity; and (ii) the New Conversion Condition is satisfied;

“**Reference Page**” means the relevant page on Bloomberg or such other information service provider that displays the relevant information;

“**Registration Date**” has the meaning given in Condition 6(f) above;

“**Relevant Entity**” means the Bank or the Group, as applicable;

“**Relevant Resolution Authority**” means the FME or any successor authority that is responsible for the determination of any Non-Viability Event in respect of the Bank and/or the Group or that otherwise has the power to implement loss absorption measures with respect to the Bank and/or the Group under any Applicable Statutory Loss Absorption Regime;

“**Relevant Stock Exchange**” means Nasdaq Iceland or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on NASDAQ Iceland, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing;

“**Relevant Time**” means, in respect of a Reset Determination Date, at or around 4.30 p.m., (New York City time) on that Reset Determination Date;

“**Representative Amount**” means a principal amount of United States Treasury Securities that is representative of a single transaction in such United States Treasury Securities in the New York City market at the Relevant Time;

“**Reset Date**” means the First Reset Date and every fifth anniversary thereof;

“**Reset Determination Date**” means, in relation to each Reset Date, the second U.S. Government Securities Business Day immediately preceding such Reset Date;

“**Reset Margin**” means 4.842 per cent. per annum;

“**Reset Quotation**” means, in relation to a Reset Determination Date, the rate quoted by a Reset Reference Bank as being the yield-to-maturity based on the secondary market bid price of such Reset Reference Bank for Reset United States Treasury Securities at approximately the Relevant Time on such Reset Determination Date;

“**Reset Reference Banks**” means five banks which are primary United States Treasury Securities dealers or market makers in pricing corporate bond issues denominated in U.S. dollars in New York City as selected by the Bank following consultation with the Agent Bank;

“**Reset Reference Quoted Rate**” means the percentage rate per annum determined by the Agent Bank on the basis of the Reset Quotations provided by the Reset Reference Banks to the Agent Bank at the request of the Bank at or around the Relevant Time and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards). If four or more quotations are so provided, the Reset Reference Quoted Rate will be the arithmetic mean of those quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two or three quotations are provided, the Reset Reference Quoted Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Quoted Rate will be the quotation provided. If no quotations are provided, the Reset Reference Quoted Rate will be (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the relevant CMT Rate in respect of the immediately preceding Reset Period or (ii) in the case of the Reset Period commencing on the First Reset Date, 1.408 per cent.;

“**Reset United States Treasury Securities**” means United States Treasury Securities with an original maturity equal to five years, a remaining term to maturity of no less than four years and in a Representative Amount. If two or more United States Treasury Securities have remaining terms to maturity of no less than four years, the United States Treasury Security with the longer remaining term to maturity will be used. If two United States Treasury Securities have remaining terms to maturity equally close to five years, the United States Treasury Security with the largest nominal amount outstanding will be used;

“**Risk Weighted Assets**” means, at any time, the aggregate amount, expressed in the Accounting Currency, of the risk weighted assets of either the Bank or the Group (as the case may be), as at such date, as calculated by the Bank, on a solo basis in respect of the Bank or on a consolidated basis in respect of the Group in accordance with the Applicable Banking Regulations applicable to either the Bank and/or the Group (as the case may be), on such date (which calculation shall be binding on the Holders). For the purposes of this definition, the term “risk weighted assets” means the risk weighted assets or total risk exposure amount, as calculated by the Bank, in accordance with the Applicable Banking Regulations applicable to either the Bank and/or the Group (as the case may be);

“**Securities**” means any securities including, without limitation, shares in the capital of the Bank, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Bank;

“**Selling Agent**” has the meaning given in Condition 6(h)(iv) above;

“**Senior Creditors**” means creditors of the Bank: (a) who are depositors of the Bank; (b) who are other unsubordinated creditors of the Bank; (c) whose claims are, or are expressed to be, subordinated to the claims of unsubordinated creditors of the Bank but not further or otherwise; or (d) whose claims rank, or are expressed to rank, junior to the claims of other creditors of the Bank, whether subordinated or unsubordinated, other than those whose claims rank, or are expressed to rank, *pari passu* with, or junior to, the claims of the Holders in a Winding-Up (and, for the avoidance of doubt, Senior Creditors shall include holders of Tier 2 Instruments);

“**Settlement Date**” means, where there is no Settlement Shares Offer: (i) with respect to any Conversion Shares in relation to which a duly completed Delivery Notice has been received by a Paying and Conversion Agent on or prior to the Notice Cut-Off Date, the date that is 5 Business Days after the later of (x) the Conversion Date and (y) the date on which the relevant Delivery Notice has been received by a Paying and Conversion Agent; and (ii) with respect to any Conversion Shares in relation to which a duly completed Delivery Notice has not been received by a Paying and Conversion Agent on or prior to the Notice Cut-Off Date, the date on which the Settlement Shares Depositary delivers the relevant Conversion Shares to the relevant Holder;

“**Settlement Shares Depositary**” means a reputable independent financial institution, trust company or similar entity to be appointed by the Bank on or prior to any date when a function ascribed to the Settlement Shares Depositary in these Conditions is required to be performed to perform such functions and who will hold Conversion Shares in a designated custody account for the benefit of the Noteholders and otherwise on terms consistent with these Conditions;

“**Settlement Shares Offer**” has the meaning given in Condition 6(i) above;

“**Settlement Shares Offer Expenses**” has the meaning given in Condition 6(i) above;

“Settlement Shares Offer Agent” has the meaning given in Condition 6(i) above;

“Share Currency” means Icelandic Krona or, if at the relevant time or for the purposes of the relevant calculation or determination Nasdaq Iceland is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at such time;

“Share Registrar” means Nasdaq CSD Iceland or any other person appointed by the Bank to carry out the duties of registrar for the Ordinary Shares and any successor thereto;

“Shareholders” means the holders of Ordinary Shares;

“Solvency Condition” has the meaning given in Condition 3(c) above;

“Spin-Off” means:

- (i) a distribution of Spin-Off Securities by the Bank to Shareholders as a class; or
- (ii) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Bank) to Shareholders as a class, pursuant in each case to any arrangements with the Bank or any member of the Group;

“Spin-Off Securities” means equity share capital of an entity other than the Bank or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Bank;

“Statutory Loss Absorption Power” means any write-down, conversion, transfer, modification, suspension or similar or related powers existing from time to time under, and exercised in compliance with, any Statutory Loss Absorption Regime;

“Statutory Loss Absorption Regime” means any statutory regime implemented or directly effective in Iceland which provides any Relevant Resolution Authority with the powers to implement loss absorption measures in respect of capital instruments (such as the Notes), including, but not limited to, any regime resulting from the implementation in Iceland of, or which otherwise contains provisions analogous to, Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time;

“Subsidiary” means in relation to any company at any particular time, any other company which is then a subsidiary (within the meaning of the Icelandic Companies Act, as amended) of that company;

A **“Takeover Event”** shall occur if an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associate (as defined in the Icelandic Act on Securities Transactions No. 108/2007) of the offeror), to acquire all or a majority of the issued Ordinary Shares and (such offer having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Bank has or will become unconditionally vested in any person and/or any associate of that person (as defined in the Icelandic Act on Securities Transactions No. 108/2007);

“Takeover Event Notice” means a notice given to the Holders in accordance with Condition 16 above notifying them that a Takeover Event has occurred and specifying: (1) the identity of the Acquirer; (2) whether the Takeover Event is a Qualifying Takeover Event or a Non-Qualifying Takeover Event; (3) in the case of a Qualifying Takeover Event, if determined at such time, the New Floor Price; and (4) if applicable, the QTE Effective Date;

“Tax Deductibility Event” has the meaning given in Condition 7(c) above;

“Tier 2 Capital” means Tier 2 capital as defined in Applicable Banking Regulations;

“Tier 2 Instruments” means any debt instruments of the Bank that at the time of issuance comply with the then current requirements under Applicable Banking Regulations in relation to Tier 2 Capital;

“United States” means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction);

“United States Treasury Securities” means securities that are direct obligations of the United States Treasury, issued other than on a discount rate basis;

“U.S.\$” and **“U.S. dollars”** mean the lawful currency of the United States;

“U.S. Government Securities Business Day” means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association or its successor recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities;

“Volume Weighted Average Price” means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from the Reference Page or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined or as an Independent Adviser might otherwise determine in good faith to be appropriate;

“Voting Rights” means the right generally to vote at a general meeting of Shareholders of the Bank (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency);

“Winding-Up” has the meaning given in Condition 3(a) above; and

“Withholding Tax Event” has the meaning given in Condition 7(c) above.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders **“as a class”** or **“by way of rights”** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders, other than Shareholders to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Adviser determines in good faith appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Conditions 6 above and 8 above only, (a) references to the **“issue”** of Conversion Shares, Ordinary Shares or Conversion Shares or Ordinary Shares being **“issued”** shall, if not otherwise expressly specified in these Conditions, include the transfer and/or delivery of Conversion Shares or Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Bank or any member of the Group, and (b) Ordinary Shares held by or on behalf of the Bank or any member of the Group (and which, in the case of Condition 6(1)(iv) above and Condition 6(1)(vi) above, do not rank for the relevant right or other entitlement) shall not be considered as or treated as **“in issue”** or **“issued”** or entitled to receive any Dividend, right or other entitlement.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Global Note which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

1. Accountholders

For so long as all of the Notes are represented by a Global Note and such Global Note is 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 Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Holders) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Bank solely in the registered Holder of the Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered Holder of the Global Note.

2. Payments

Payments of principal in respect of Notes represented by the Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Global Note to the order of the Registrar or such other Paying and Conversion Agent as shall have been notified to the Holders for such purposes.

Payments of interest in respect of Notes represented by the Global Note will be made to the Holder (or the first named of joint Holders) of the Note appearing in the Register 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. Payment of the interest due in respect of each Note on redemption will be made in the same manner as payment of the principal amount of such Note.

A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Registrar, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes.

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

3. Notices

For so long as all of the Notes are represented by a Global Note and such Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Holders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant Accountholders rather than by publication as required by Condition 16 above, provided that, so long as the Notes are listed on any stock exchange, notices shall also be published in accordance with the rules of such exchange. Any such notice shall be deemed to have been given to the Holders on the day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Holder are represented by a Global Note and subject to paragraph 9 below, notices to be given by such Holder may be given by such Holder (where applicable) through the applicable clearing system's operational procedures approved for this purpose and otherwise in such manner as the Registrar and the applicable clearing system may approve for this purpose.

4. Interest calculation

For so long as the Notes are represented by a Global Note, interest payable to the registered Holder of a Global Note will be calculated by applying the Rate of Interest to the principal sum for the time being outstanding of the

Global Note and multiplying the sum by the Day Count Fraction. The resultant figure is rounded to the nearest cent (half a cent being rounded upwards).

5. Exchange and benefits

The Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if (each of the following being an “**Exchange Event**”):

- (a) an event as set out in Condition 9 above has occurred and is continuing; or
- (b) the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or
- (c) the Bank has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

The Bank will promptly give notice to Holders if an Exchange Event occurs. Thereupon, in the case of (a) or (b) above, the holder of the Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Bank and the Registrar and, in the case of (c) above, the Bank may give notice to the Registrar of its intention to exchange the Global Note for definitive Notes. Any exchange shall occur no later than 45 days after the date of receipt of the first relevant notice by the Registrar. Exchanges will be made upon presentation of the Global Note at the office of the Registrar on any day on which banks are open for general business in London. In exchange for the Global Note the Bank will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes, security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Global Note, the Bank will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

In the event that (a) the Global Note (or any part hereof) has become due and repayable in accordance with the Conditions and payment in full of the amount due has not been made to the registered Holder in accordance with the foregoing or (b) the Global Note has become exchangeable for definitive Notes and default is made by the Bank in the required delivery of such definitive Notes or (c) there is a winding-up (in Icelandic: *slitameðferð*) of the Bank, then, unless (in the case of (a) above) within the period of seven days commencing on the relevant due date payment in full of the amount due in respect of the Global Note is received by the registered Holder in accordance with the foregoing or (in the case of (b) above) by 6.00 p.m. (London time) on the thirtieth day after the day on which delivery of the definitive Notes were first due to be made, such delivery has not been made, then each Accountholder shall have from such seventh or thirtieth day (as the case may be) Direct Rights against the Bank on, and subject to, the terms of the Deed of Covenant executed by the Bank on 26 February 2020 in respect of the Notes and the registered Holder will have no further rights under the Global Note to the extent such rights are exercised by way of any exercise of Direct Rights by an Accountholder (with the capitalised terms used in this paragraph that are defined in the Deed of Covenant to have the same meaning when used herein).

6. Prescription

Claims against the Bank in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 10 above).

7. Cancellation

Cancellation of any Note represented by a Global Note and required by the Conditions to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Registrar of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

8. Transfers of interests in the Global Note

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

rules and operating procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement.

9. Delivery Notices

Notwithstanding the provisions of Condition 6(h) above if the Notes are represented by the Global Note and held through Euroclear or Clearstream, Luxembourg, the Holder shall give a Delivery Notice to the Registrar in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg prior to the Notice Cut-off Date (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Settlement Shares Depositary by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time with the following details: (1) the name of the Holder; (2) the principal amount of Notes held by it; (3) the account details; and (4) such other details as Euroclear or Clearstream, Luxembourg may require. Any reference in the Conditions to the delivery of Delivery Notices shall be construed accordingly.

10. Electronic Consents

For so long as the Notes are represented by a Global Note, for the purposes of Condition 15 above, consent given by way of electronic consents through Euroclear or Clearstream, Luxembourg (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than three fourths of the then outstanding Principal Amount of the Notes shall (in addition to the existing provisions with respect to the passing of an Extraordinary Resolution of the Noteholders as set out in Condition 15 above) be effective as an Extraordinary Resolution of the Noteholders.

11. Acknowledgment of Statutory Loss Absorption Powers

By its acquisition of the Notes (as represented by the Global Note), each Noteholder (including, for these purposes, each holder of a beneficial interest in the Notes) shall be deemed to have authorised, directed and requested Euroclear, Clearstream, Luxembourg, any accountholder in Euroclear or Clearstream, Luxembourg and any other intermediary through which it holds such Notes to take any and all necessary action, if required, to implement the exercise of any Statutory Loss Absorption Powers with respect to such Notes as it may be exercised, without any further action or direction on the part of such Noteholder, the Registrar, the Fiscal Agent or any Paying Agent.

USE OF PROCEEDS

The proceeds of the issue of the Notes will be used by the Bank for general corporate purposes, which include making a profit.

DESCRIPTION OF THE BANK

RECENT DEVELOPMENTS

Recent Changes in Organisational Structure of the Bank

The Board of Directors of the Bank approved at the end of September 2019 a new organisational structure for the Bank, effective immediately. The organisational changes are part of the Bank's effort to achieve its targets of a 50% cost-to-income ratio and return on equity exceeding 10%. The number of divisions was reduced by two and the responsibility for various other tasks was redistributed within the Bank with the aim of simplifying the business. The business segments are now three: Retail Banking, Corporate & Investment Banking, and Markets. The support units are three: Finance, Information Technology, and Risk Management. The aim of these changes is to make the Bank more competitive and to increase return on equity. The Bank's core strategy remains unchanged, and the Bank will continue to provide comprehensive financial services to individuals, companies and investors and to be at the forefront of digital banking. The main change is that investment banking activities have been transferred into two new divisions, Markets, and Corporate & Investment Banking. The aim of Markets will be to refine the Bank's focus within its securities business, while Corporate & Investment Bank will provide companies and institutions with a full range of financing and advisory services. The Bank will enhance its services to customers seeking the most cost-effective financing by acting as financial intermediary with third parties such as funds and other institutional investors.

These changes resulted in a reduction in the number of employees of 12%, or approximately 100 people. 80% of these redundancies were at the Bank's headquarters and 20% at its branches.

Update on Legal Proceedings:

Legal proceedings regarding conduct in bankruptcy of BM Valla and Artun: Two cases were filed against the Bank by the shareholders of BM Vallá hf. and Fasteignafélagið Ártún ehf. The Bank was acquitted in one of the cases by the District Court of Reykjavík and the Court of Appeal. The plaintiffs have requested to appeal the case before the Supreme Court and are awaiting decision. The second case awaits the result of this other case.

Disputes relating to United Silicon: the company United Silicon was granted a moratorium on payments on 14 August 2017 and filed for bankruptcy on 22 January 2018. The Bank had collateral in the company's assets and the estate transferred the assets to the Bank. The trustee in the estate approved the Bank's secured claims but two unsecured creditors lodged a protest against the Bank's lien on the assets of United Silicon. The trustee in the bankruptcy referred the disagreement to the District Court of Reykjanes. The Bank examined these protests and rejected them all. In January 2020 the dispute was settled between the parties with minor effect on the Bank's value of the assets and the court case discontinued.

Settlement with the Financial Supervisory Authority: The Financial Supervisory Authority informed the Bank in April 2018 that it was looking into the Bank's handling of conflicts of interest in respect of the Bank's role in the financing of the United Silicon plant at Helguvík. The Financial Supervisory Authority concluded its investigation in November 2019 by means of a settlement in which the Bank recognized that the Bank failed to keep a formal and systematic record of its analysis of conflicts of interest concerning the investment by pension funds in bonds in 2015 and their participation in share capital increases of Sameinað Silikon hf. in 2016 and 2017. Matters of this nature may be brought to a conclusion by means of settlement as it does not constitute a serious offence, and the Bank agreed to pay a fine of ISK 21 million.

Recent Announcements:

On 23 January 2020 the following was announced: Discontinued operations and assets held for sale will have a negative impact of ISK 8 billion after tax on the Bank's fourth quarter 2019 results. The effect on the Bank's capital ratios is insignificant and the ratios remain robust. The negative impact on results in the quarter is chiefly attributable to two factors: a) Valitor; Following the decision by the board of directors of Valitor, a subsidiary of the Bank, on 30 December to reorganize the company in order to strengthen its core operations and to turn around its losses, the company devised a new business plan. As this impairment concerns intangible assets, it has no effect on the Bank's capital ratios. The organizational changes implemented by Valitor will significantly reduce the company's investment need and operating expenses going forward and are designed to transform the company's operating losses into positive EBITDA. Valitor is a financially robust, international payment solutions company

which offers a diverse range of acquiring, payment portal and issuing services. Valitor is still in an active sale process. b) Stakksberg; Stakksberg is a holding company for the silicon plant at Helguvík. The plant is in the process of being sold. Owing to uncertainty on the silicon markets, several producers have scaled back production and closed their plants. Therefore there is spare production capacity in the market which is likely to have a negative impact on the sale process of the silicon plant at Helguvík. The Bank is therefore impairing Stakksberg's assets which will have a negative impact on the Bank's Q4 results. The impairment will have an insignificant impact on the Bank's capital ratios.

Prepayment of Covered Bonds: The Bank prepaid in full in October 2019 the contractual covered bond issuance (Arion CB2) in the amount of ISK 60 billion, which was largely owned by the Housing Financing Fund (HFF). At the same time the Bank sold to HFF a mortgage loan portfolio in the amount of ISK 50 Billion.

Appointment of new Managing Director: Styrmir Sigurjónsson has been appointed managing director of Information Technology & CTO at Arion Bank, taking up this position and joining the senior management team of the Bank on 17 February 2020. Styrmir has extensive experience of IT and product development and since 2009 has been at Natera in the United States. Natera specializes in genetic testing and diagnostics and is listed on the NASDAQ CM. Since 2012 Styrmir has held a number of managerial roles at the company, has been senior VP of R&D data science and engineering since 2017 and managed a development team of over 200 employees across multiple countries. Before joining Natera, Styrmir worked for Straumur Investment Bank, FL Group and Citi. Styrmir has a Ph.D. and an M.S. in electrical engineering from Stanford and a C.S. degree in electrical and computer engineering from the University of Iceland

Recent changes in Shareholders of the Bank

As at 12 February 2020 there were ten shareholders in the Bank holding more than 2.5 per cent. of the share capital as shown in the table below.

As of 12 February 2020	Percentage of all shares
Taconic Capital Advisors UK LLP	23.5
Sculptor Capital Management	9.5
Gildi Pension Fund.....	8.8
Stoðir Hf.	5.0
Lansdowne Partners	4.2
Live Pension Fund.....	3.9
Goldman Sachs International	3.7
Arion Banki Hf. (shares held in treasury)	3.6
LSR Pension Fund.....	3.5
Eaton Vance	3.2

DESCRIPTION OF THE CONVERSION SHARES

As of 31 December 2019, the authorised share capital of the Bank was ISK 1,814,000,000 represented by 1,814,000,000 issued and outstanding ordinary shares, each with a par value of ISK 1.00 (together with the issued ordinary shares held in treasury by the Bank, the “**Ordinary Shares**”), and the Bank had 1,814,000,000 Ordinary Shares issued and approximately 1,773,000,000 Ordinary Shares outstanding (with approximately 41,000,000 Ordinary Shares held by the Bank; see “—*Buyback of Shares*”).

The Ordinary Shares have been issued in accordance with Icelandic law, have been fully paid and are denominated in ISK. The rights associated with the Ordinary Shares, including those set out in the articles of association of the Bank, can only be changed in accordance with the procedures set forth in the Public Limited Companies Act.

The Ordinary Shares are denominated in ISK. The Ordinary Shares are traded in ISK on Nasdaq Iceland under the ISIN IS0000028157.

The Bank has commissioned Skandinaviska Enskilda Banken AB (publ) (hereinafter referred to as “**SEB**”), on behalf of depository receipt holders, to hold Ordinary Shares in a custody account and to issue one Swedish Depository Receipt (a “**SDR**”) for each deposited Ordinary Share. The SDRs are registered at Euroclear Sweden AB and listed on Nasdaq Stockholm AB (hereinafter referred to as “**Nasdaq Stockholm**”). The SDRs are denominated in Swedish kronor. The SDRs are traded in Swedish kronor on Nasdaq Stockholm under the ISIN SE0010413567.

The Ordinary Shares are listed and admitted to trading under the symbol “ARION” on Nasdaq Iceland and the SDRs to trading under the symbol “ARIONS” on Nasdaq Stockholm.

Information regarding the past and future performance of the Ordinary Shares can be obtained at <https://www2.arionbanki.is/english/about-us/investor-relations/equity-investors/>

Buyback of Ordinary Shares

In February 2018, the Bank acquired 190,000,000, or 9.5 per cent., of its Ordinary Shares in a transaction with Kaupskil for a price of ISK 90.203 per Ordinary Share, the amount for which was a part of the release of the Bank’s excess capital and was deducted from the proposed dividend of ISK 25 billion which had been approved by the shareholders’ meeting on 12 February 2018. The authority to buy back such Ordinary Shares arose from a temporary provision in the articles of association of the Bank, which was approved at the same shareholders’ meeting and which expired on 15 April 2018.

In September 2019 the Board of Directors of the Bank authorised the management of the Bank to initiate share buy-back programmes in Iceland and Sweden to purchase its own shares (including in the form of SDRs). This is in accordance with an authorisation granted by the Bank’s Annual General Meeting on 20 March 2019 and the prior approval of the Financial Supervisory Authority dated 10 September 2019. The Board of Directors of the Bank approved in January 2020 a revised buy-back programme on the basis of the authorisation provided at the Bank’s Annual General Meeting on 20 March 2019 and the approval given by the Financial Supervisory Authority/Central Bank of Iceland on 23 January 2020.

The revised share buy-back programme authorizes the Bank to buy a maximum of 100,000,000 shares/SDRs, corresponding to 5.5% of issued shares in the Bank, for up to ISK 8 billion at market value. The revised programme represents an increase of up to 41 million shares/SDRs, corresponding to 2.3% of issued shares in the Bank, for up to ISK 3.5 billion at market value, in the Bank’s authorization to buy back shares. When the share buyback programme was launched on 31 October 2019 the Bank was authorised to buy up to 59 million shares/SDRs for up to ISK 4.5 billion at market value.

As at the date of this Information Memorandum, the Bank is authorised to buy up to 17,000,000 SDRs in Sweden, corresponding to 0.9% of issued shares, and up to 83,000,000 shares in Iceland, corresponding to 4.6% of issued shares. The total consideration for purchased SDRs shall not exceed ISK 1,360,000,000 in Sweden and ISK 6,640,000,000 for purchased shares in Iceland (a total of ISK 8.0 billion). The Bank currently owns 55,225,289 own shares.

Transactions under the share buy-back programmes shall be publicly disclosed in accordance with applicable law and regulation in Iceland and Sweden respectively. The share buy-back programmes shall end no later than 17 March 2020 but the CEO is entitled to discontinue the share buy-back programmes at any time.

Any cancellation of the Ordinary Shares held by the Bank would be subject to approval by the shareholders and subject to prior approval of the FME, which would not likely be proposed until the next annual general meeting.

Certain rights attached to the Ordinary Shares

General meetings and voting rights

The annual general meetings are held before the end of April each year. The supreme authority in the affairs of the Bank is in the hands of legitimate shareholders' meetings. One vote is attached to each Icelandic Krona of share capital, and decisions at shareholders' meetings are generally taken by majority vote. No voting rights are attached to the Bank's own shares while held by the Bank.

Preferential rights

No special rights are attached to the Ordinary Shares of the Bank.

Pre-emptive rights and increases of share capital

An increase in the share capital of the Bank may be authorised at a meeting of shareholders. Shareholders have pre-emptive rights to an increase in the Bank's share capital in proportion to their holdings of the Ordinary Shares and within the time limits specified in the resolution to increase the share capital. However, a meeting of shareholders can, by a two-thirds majority vote, waive pre-emptive rights to increases of share capital, if there is no discrimination.

Action required to change the rights of the shareholders

Each shareholder is under the obligation, without the necessity of any specific undertaking, to abide by the articles of association of the Bank in their current form or as amended from time to time. Shareholders' liability for the Bank's affairs is limited to the share contribution of each shareholder. According to Article 20.1 of the articles of association of the Bank, the articles of association may be amended at a lawfully convened meeting of shareholders.

The notice of the meeting of shareholders is required to state the business of such meeting of shareholders. Any proposals for amendments of the articles of association of the Bank are required to be included in the notice of the meeting of shareholders. A decision to amend articles of association of the Bank requires the approval of two-thirds of the votes cast, if shareholders controlling at least two-thirds of the Ordinary Shares represented in the meeting of shareholders participate in the vote, on the condition that other voting power is not reserved in the articles of association of the Bank or in statutory law. This requirement is in accordance with Article 93 of the Public Limited Companies Act. According to article 94 of the Public Limited Companies Act, more stringent rules apply in certain cases.

Repurchases of Ordinary Shares

Pursuant to Icelandic law, the Bank may only repurchase Ordinary Shares within certain limits and in compliance with the following requirements:

- the repurchase of the Ordinary Shares is required to be pursuant to authority granted to the board of directors at a meeting of shareholders, with the resolution granting such authorisation specifying the maximum number of the Ordinary Shares that may be repurchased and the minimum and maximum price which may be paid for the Ordinary Shares. As the Bank's shares are admitted to trading on a regulated securities market, it is, however, not permitted to repurchase its own shares at a higher price than the price in the last independent transaction or the highest existing independent offer in the trading systems where the transactions are carried out, whichever is higher. Such purchases are permitted, however, if made by a market maker;
- the duration of the authorisation to repurchase Ordinary Shares cannot exceed five years;
- the aggregate nominal value of the Ordinary Shares repurchased, together with the aggregate nominal value of the Ordinary Shares already held by the Bank and its subsidiaries, may not exceed 10 per cent. of the Bank's share capital;
- the Bank can only repurchase the Ordinary Shares to the extent that its capital and reserves (equity) exceed its non-distributable reserves and, after deducting repurchased Ordinary Shares, its share capital must amount to a minimum of EUR 5 million;
- the Ordinary Shares repurchased are required to be fully paid; and
- prior approval from the FME has been obtained.

Rights to dividends and liquidation proceeds

Payment of dividends is proposed by the board of directors and must be approved by the shareholders at a general meeting (whether an annual general meeting or an extraordinary general meeting). Dividends must be paid no later than six months after the date of the general meeting at which such dividends were approved. Any dividends declared are payable to the shareholders of record at the time of the payment of dividends. However, the general meeting may decide that the dividends will be payable to the shareholders of record on a different date, provided that the alternative date is stipulated in the general meeting's resolution on dividend payment and is notified to the market via Nasdaq Iceland.

There are no provisions in the articles of association of the Bank regarding the expiration of the right to dividends that have not been collected. As a result, such rights lapse after four years according to Act No. 14/1905 on the Expiry of Debts and Other Claim Rights.

The date for the payment of dividends is decided by the shareholders at the general meeting. Dividends in respect of Ordinary shares registered with NASDAQ (Iceland) are paid through NASDAQ (Iceland). The date for the payment of dividends through Euroclear Sweden is the date after payment of dividends in Iceland. Dividends on the Ordinary Shares registered with Euroclear Sweden are paid by Euroclear Sweden. Dividends are declared at the general meeting and paid in Icelandic Krona. However, payment of dividends on the Ordinary Shares registered with Euroclear Sweden is made in Swedish Krona. The currency exchange is made on the third day immediately preceding the date of the payment of dividends. The exchange rate is fixed two days before the payment of dividends in Iceland and three days before the payment of dividends in Sweden. As a result, the exchange rate between Icelandic Krona and Swedish Krona may fluctuate from the date of the annual general meeting to the date of exchange, which may consequently affect the amount of dividends paid in Sweden.

The Bank withholds Icelandic tax on dividends. In addition, Euroclear Sweden withholds Swedish tax on dividends paid to Swedish individuals. See "*Taxation – Iceland*".

Upon liquidation of the Bank, shareholders would be entitled to receive proportionately any assets remaining after the payment of the Bank's debt and taxes and the expenses of the liquidation.

Legal and regulatory requirements

The Public Limited Companies Act provides that it is only permissible to allocate as dividend profit in accordance with approved annual accounts for the immediately preceding fiscal year profit brought forward from previous years and disposable earnings after deducting any losses which have not been met and any moneys which according to Icelandic laws and articles of association of the Bank shall be contributed to a reserve fund or for other use.

The Public Limited Companies Act further provides that a shareholders' meeting will decide upon the allocation of dividends after a company's board of directors has submitted proposals in that respect, and prohibits allocation of more dividends than the board of directors proposes or approves. Shareholders holding a total of at least 10.0 per cent. of the share capital may at an annual general meeting, provided that the company's board of directors be advised thereof, require an annual general meeting to decide upon the allocation of a sum as dividends amounting to at least 25.0 per cent. of the remainder of annual profits after any losses of previous years have been met and any amounts to be contributed to a reserve fund in accordance with Icelandic laws or articles of association of the Bank, or which cannot be allocated as dividends for other reasons, have been deducted. It is, however, not permissible to require allocation of more than the equivalent of 2.0 per cent. of the Bank's capital and reserves (equity).

The date of maturity of dividends shall be no later than six months after a decision relating to the allocation thereof has been made.

The Bank will follow Nasdaq Iceland's proposals on dividend payments, which is that trading in the Ordinary Shares exclusive of dividends begins the business day immediately following the day the dividend proposal is approved and that payment of dividends will be made no later than 30 days after the record date. With the exception of dividend payments, shareholders are not entitled to any of the Bank's profits.

Restrictions on ownership and transfer of Ordinary Shares

The articles of association of the Bank do not contain any limitations on the ability to transfer the Ordinary Shares, and shareholders may pledge the Ordinary Shares unless otherwise prohibited by law. Pre-emptive rights to increases in the share capital are transferable according to the Public Limited Companies Act.

However, special rules apply to qualifying holdings in financial institutions such as the Bank, pursuant to Articles 40-49.b. of the Financial Undertakings Act. Parties who propose to acquire a qualifying holding in the Bank must seek in advance the approval of the FME. In addition, the approval of the FME is required when a

party, alone or jointly with others, intends to increase its holding to such an extent that the direct or indirect ownership in the share capital, guarantee capital or voting rights reaches or exceeds 20.0 per cent., 33.0 per cent. or 50.0 per cent. or comprises such a large portion that the Bank may be regarded as its subsidiary company. A “qualifying holding” is a direct or indirect holding in a financial undertaking which represents 10.0 per cent. or more of its share capital, guarantee capital or voting rights or any other holding which enables the exercise of a significant influence on the management of the Bank. If the owner of a “qualifying holding” intends to reduce its shareholding with the result that such owner will not subsequently own a “qualifying holding”, this is required to be reported to the FME in advance together with the shareholding following the reduction. If the shareholding decreases below the specified levels or to such an extent that the Bank ceases to be a subsidiary of the parent company in question, this is also required to be reported.

A person acquiring the Ordinary Shares cannot exercise its rights as a shareholder until such person’s name has been registered in the Bank’s share registry or such person has announced and proven the ownership of the Ordinary Shares. The electronic registration of securities is governed by Act No. 131/1997 on Electronic Registration of Title to Securities and Regulation No. 397/2000 based on thereon.

A printout from Nasdaq CSD Iceland on the ownership of the Ordinary Shares is considered a valid registration of the Ordinary Shares. The Bank considers the share registry as full proof of ownership of the Ordinary Shares and the rights attached to them. Dividends and all announcements to shareholders are sent to the parties registered in the Bank’s share registry as owner of the Ordinary Shares. The Bank has no liability if payments or announcements do not reach their recipients because a notification of change of address has not been delivered.

Rights to the Ordinary Shares in electronic form must be registered with Nasdaq CSD Iceland. Share certificates may not be issued or endorsed for registered rights to the Ordinary Shares in electronic form, and any such attempted transactions are void. Registration of the ownership of the Ordinary Shares in electronic form with Nasdaq CSD Iceland, subsequent to Nasdaq CSD Iceland’s final entry, formally gives a registered owner legal authorisation to the rights to which they are registered.

ICELANDIC SECURITIES MARKET

The following is a description of the Icelandic securities market, including a brief summary of certain provisions of the laws and securities market regulations in Iceland in effect as of the date of this Information Memorandum. The summary is not intended to provide a comprehensive description of all such regulatory matters and should not be considered exhaustive. Moreover, the laws, rules, regulations and procedures summarised below may be amended or reinterpreted.

Nasdaq Iceland

Nasdaq Iceland is a regulated market in Iceland, a part of the Nordic List and operated by Kauphöll Íslands hf., and is the only Icelandic market on which shares, bonds, derivatives and other securities are traded. Shares trade on Nasdaq Iceland and all transactions, except for interest-bearing financial instruments, are executed through INET. Companies on the Nordic List are divided into three segments: large cap, mid cap and small cap. Companies with a market capitalisation in excess of EUR 1 billion are included in the large cap segment. Companies with a market capitalisation between EUR 150 million and EUR 1 billion are included in the mid cap segment. Companies with a market capitalisation less than EUR 150 million are included in the small cap segment. The segments are normally revised at year-end and the segments are reset, effective on the first trading day in January, based on average market capitalisation in November of the previous year. Companies with a market capitalisation of more than 50.0 per cent. of the minimum or maximum threshold for a segment will be transferred into a new segment with immediate effect. Companies with a market capitalisation of less than 50.0 per cent. of the minimum or maximum threshold for a segment have a transitional period until the next review (*i.e.*, at least 12 months) and, therefore, are subject to an additional review before being transferred into a new segment. Furthermore, listed companies are divided into industry sectors in accordance with the global standard, the Industry Classification Benchmark. This classification is based on the listed company's main operations, *i.e.*, the business area that generates the most revenue for such listed company.

Trading in securities on Nasdaq Iceland

Trading on Nasdaq Iceland is conducted on behalf of customers by duly authorised Icelandic and foreign banks and other securities brokers as well as the Icelandic Central Bank. While banks and brokers are permitted to act as principals in trading both on and off Nasdaq Iceland, they generally engage in transactions as agents. Clearing and settlement of trades take place through an electronic account-based security system administered by Nasdaq CSD Iceland.

Trading through INET comprises all securities listed on Nasdaq Iceland, except for certain interest-bearing financial instruments, such as bonds. Member firms of Nasdaq Iceland are able to operate from remote locations via computer access. The brokers' representatives are able to trade securities via workstations that have been developed by Nasdaq Iceland or via their own electronic data processing systems that are linked to INET. The round lot for all securities traded on Nasdaq Iceland is one security. In INET, bids and offers are entered in the relevant order book and automatically matched to trades when price, volume and other order conditions are met. INET continuously broadcasts all trading information. The information is displayed in real time in the form of order books, market summaries, concluded trades, index information and different kinds of reports. A two-day settlement schedule (T+2) applies to securities trading.

Nasdaq Iceland's trading hours in respect of equity securities are 09:30 a.m. to 3:30 p.m. GMT on business days.

In addition to official trading on Nasdaq Iceland through automatic order matching in INET, securities may also be traded off Nasdaq Iceland (*i.e.*, outside INET) during and outside the official trading hours ("**manual trades**"). Manual trades during official trading hours must normally be entered into at a price within the volume weighted average spread reported in INET at the time of the trade or, for manual trades during the closing call, at the time prior to the closing call auction. Manual trades outside the official trading hours must normally be effected at a price within the volume weighted average spread reported in INET at the close of trading hours. However, in the absence of a spread and in situations where there is a change in the market conditions during the closing call or after the close of trading hours, as the case may be, manual trades outside the official trading hours must be effected at a price that takes into account the market situation at the time of the trade. Manual trades that qualify as large scale (EUR 50,000 to EUR 500,000, depending on the average daily turnover in the relevant security) may be effected without regard to any spread.

All manual trades must normally be reported in INET within three minutes from the time of the trade, although manual trades outside the official trading hours must be reported during the pre-trading session on the following exchange day and not later than 15 minutes prior to the opening of the trading hours.

Securities market regulations

The Nordic List is regulated under European Union directives, primarily MiFID, which has been implemented through the Securities Transactions Act. Kauphöll Íslands hf. is authorised pursuant to Act No. 110/2007 on Stock Exchanges, as amended (the “**Stock Exchanges Act**”) to operate a regulated market under the supervision of the FME. The FME is a governmental agency responsible for, among other things, supervising and monitoring the Icelandic securities market and market participants. The FME also issues regulations that supplement Icelandic securities market laws and participates in preparing draft legislation. Furthermore, pursuant to the Stock Exchanges Act, Kauphöll Íslands hf. is required to have its own rules that govern the trading on Nasdaq Iceland. The Nasdaq Iceland Rules, based on European standards and European Union directives such as MiFID II and Directive 2004/109/EC (the “**Transparency Directive**”), set forth listing requirements and disclosure rules for companies listed on Nasdaq Iceland. The objective of the regulatory system governing trading on and off Nasdaq Iceland is to achieve transparency, objectivity and equality of treatment among market participants. Nasdaq Iceland records information with respect to the banks and brokers involved, the issuer, the number of shares, the price and the time of each transaction. Each bank or broker is required to maintain records indicating trades carried out as agent or as principal. All trading information reported in INET is publicly available. Through its surveillance activities, Nasdaq Iceland ensures that securities issuers and Nasdaq Iceland members work in accordance with exchange rules. Nasdaq Iceland is also obligated under the Stock Exchanges Act to inform the FME if it suspects any violations of securities market legislation.

The Securities Transactions Act, implementing in part Directive (2003/6/EC) (the “**Market Abuse Directive**”), provides sanctions for insider trading and unlawful disclosure of insider information. The Securities Transactions Act also contains provisions prohibiting market manipulation, making illegal any actions (in connection with trading on the securities market or otherwise) intended to affect unduly the market price or other conditions of trade in financial instruments or otherwise mislead buyers or sellers of such instruments, such as through spreading false or misleading information. Market manipulation may also constitute fraud under Icelandic law. The FME, in cooperation with Nasdaq Iceland, enforces compliance with the Securities Transactions Act and other insider trading rules. Criminal offences are enforced in court by the Icelandic District Prosecutor (*Héradssaksóknari*). Moreover, the FME may cause the operating licence of a bank or broker to be revoked, if the bank or broker has engaged in improper conduct, including market manipulation. Nasdaq Iceland monitors trading data for indications of unusual market activity and trading behaviour.

Securities registration

Shares are registered in the account-based electronic securities system operated by Nasdaq CSD Iceland, a central securities depository and clearing organisation authorised under the Electronic Registration of Title to Securities Act. Among other things, Nasdaq CSD Iceland maintains the register of shareholders in Icelandic companies listed on Nasdaq Iceland. Shares administered by Nasdaq CSD Iceland are registered in book-entry form on securities accounts (*i.e.*, VS accounts) and no share certificates are issued. Title to shares is ensured exclusively through registration with Nasdaq CSD Iceland. All transactions and other changes to accounts are entered in the system of Nasdaq CSD Iceland through banks or other securities institutions that have been approved as account operators by Nasdaq CSD Iceland.

Shares may be registered on VS accounts and subsequently entered in the register of shareholders, either in the name of the beneficial owner (owner registered shares) or in the name of a nominee authorised by Nasdaq CSD Iceland (nominee registered shares), in which case a note thereof is made in the securities system. The relationship between the nominee and the beneficial owner is governed by agreement. To exercise certain rights, such as participation at a general meeting of shareholders, shareholders whose shares are registered in the name of a nominee must temporarily re-register the shares in their own names. Nominees are also required to report the holdings of underlying beneficial owners to Nasdaq CSD Iceland on a regular basis.

The rights attaching to shares that are eligible for dividends, rights issues or bonus issues accrue to those holders whose names are recorded in the register of shareholders as of a particular record date, and the dividends are normally distributed to bank accounts as specified by the holders registered with Nasdaq CSD Iceland. The relevant record date must be specified in the resolution declaring a dividend or capital increase, or any similar matter in which shareholders have preferential rights. Where the registered holder is a nominee, the nominee receives, for the account of the beneficial owner, dividends and other financial rights attaching to the shares, such as subscription rights in conjunction with rights offerings, as well as new shares subscribed through the exercise of subscription rights. Dividends are remitted in a single payment to the nominee who is

responsible for the distribution of such dividends to the beneficial owner. A similar procedure is applied for subscription rights and newly issued shares.

Compensation scheme for investors

Commercial banks, savings banks, companies providing investment services and other parties engaging in securities trading pursuant to Icelandic law and established in Iceland shall be members of the Depositors' and Investors' Guarantee Fund according to the Deposit Guarantees Act. Investor compensation is payable only if an institution is in the FME's opinion unable to render payment of the amount of securities or is declared bankrupt and it is impossible for the investor to recover its securities or cash. The investor compensation does not cover financial loss due to changes in value of shares and other securities.

Investor compensation covers securities handled by securities companies, securities brokers and some other institutions on behalf of customers in the course of providing investment services, such as the purchase, sale and deposition of financial instruments. For the purposes of the scheme, securities refers to securities that are either in the custody or under the administration or supervision of a member company of the compensation scheme, which is under obligation to effect refunding or return thereof in accordance with existing laws or contracts.

There is no cap on the compensation that can be obtained by investors in securities, provided that the securities department of the compensation scheme is adequately financed. In the event that the assets are insufficient to pay the total amount of guaranteed securities and cash in the member companies concerned, payments from the securities department shall be divided among the claimants as follows: each claim up to EUR 20,887 will be paid in full (but only if sufficient funds are available to pay all claims up to EUR 20,887 and, if not, then claims will be paid in equal proportions) and any amount in excess of EUR 20,887 shall be paid in equal proportions depending on the extent of the department's assets. No further claims can be made against the Depositors' and Investors' Guarantee Fund at a later stage even if losses suffered by the claimants have not been compensated in full.

Transactions and ownership disclosure requirements

Under the Securities Transactions Act, which implements the Transparency Directive in part, a shareholder is required to notify both the company in which it holds shares and the FME, when its voting rights attached to the shares (including options for shares) reach, exceed or fall below 5.0 per cent., 10.0 per cent., 15.0 per cent., 20.0 per cent., 25.0 per cent., 30.0 per cent., 35.0 per cent., 40.0 per cent., 50.0 per cent., $66\frac{2}{3}$ per cent. or 90.0 per cent. of the total number of votes in a company. For the purposes of calculating a person's or entity's shareholding, not only the shares and financial instruments directly held by the shareholder are included, but also those held by related parties. The Securities Transactions Act contains a list of related parties whose shareholding must be aggregated for the purposes of the disclosure requirements. Related parties include, but are not limited to, subsidiaries, proxies and parties to shareholders' agreements (see "*Restrictions on ownership and transfer of Ordinary Shares*" above).

Mandatory Bids and Squeeze-Out Proceedings

Pursuant to the Securities Transactions Act, any Icelandic or foreign legal entity or natural person who holds less than 30.0 per cent. of the total voting rights in a company listed on a regulated market in Iceland must make a bid for the acquisition of all the remaining shares issued by the target company (a mandatory takeover bid) should such legal entity or natural person alone, or together with a related party, obtain 30.0 per cent. or more of the total voting rights in the company. This applies where the increased holding is the result of a purchase, subscription, conversion or any other form of acquisition of shares in the target company (other than a public offer) or the result of the establishment of a certain close relationship. In this context, a related party can be an entity within the same corporate group as the buyer, a spouse, co-habitant or minor child, as well as any person or entity that cooperates with the buyer to obtain control over the company or with whom an agreement has been reached regarding the coordinated exercise of voting rights with the object of achieving a long-term controlling influence on the company's management.

The public offer must be made within four weeks after the acquisition that triggered the mandatory bid requirement. An authorisation from the FME is required to permit the acquirer (or the related party) to reduce its level of voting share ownership within such time to below 30.0 per cent.

Under the Securities Transactions Act and the Public Limited Companies Act, a shareholder with shares representing more than 90.0 per cent. of all shares in a company has the right to redeem remaining shares in

such company. In respect of companies with shares traded on a regulated market, such as Nasdaq Iceland, the redemption value must correspond to the market value, unless special reasons (such as following a takeover bid) require otherwise. In addition, any minority shareholder that possesses shares that may, pursuant to the Securities Transactions Act and the Public Limited Companies Act, be redeemed by a majority shareholder is entitled to require such majority shareholder to redeem its shares.

TAXATION

ICELAND

The comments below are of a general nature based on the Bank's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of Notes. They may not apply to certain classes of person such as dealers. Prospective holders of Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

Furthermore, investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Prospective investors are advised to consult their tax advisers as to the consequences, under the tax law of the countries of their respective citizenship, residence or domicile, of a purchase of Notes, including but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption.

The summary below is of a general nature based upon the law and practice of Iceland as in effect on the date of this Information Memorandum. It should not be construed as providing specific advice as to Icelandic taxation and is subject to any change in law or practice in Iceland that may take effect after such date. It relates only to the position of persons who are the absolute beneficial owners of the Notes.

Non-Icelandic Tax Residents

As a general rule, Article 3 (8) of the Income Tax Act No. 90/2003 (the "ITA") provides that any interest received from Iceland (outbound payments), such as the interest payable under the Notes, by any person or entity residing outside of Iceland is taxable income in Iceland. According to Article 70 (8) of the ITA, the current tax rate on taxable income under Article 3 (8) is (a) 12 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 150,000.00); 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 the Bank, in its own name, registered with a securities depository in 1) a member state of the OECD, 2) a member state of the EEA, 3) a member state of The European Free Trade Association ("EFTA"), or 4) the Faroe Islands, and which do not constitute business covered by Articles 13. b – 13. n of Act No. 87/1992 on Foreign Exchange, as amended (which contain some restrictions on cross-border capital movements since Iceland is under foreign exchange restrictions subject to Icelandic law). In 2015, the ITA was amended by Amendment Act No. 107/2015 to provide for an exemption from the general rule for payments of interest on notes or bonds issued in connection with a composition agreement or by the Bank 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 issue of the Notes is within the scope of the exemption contained in paragraph 3 of Article 3 (8) of the ITA and based on this confirmation, has registered the Notes with the RSK and the RSK has provided a certificate confirming that the Notes are exempt from such taxation.

In the event that such exemption were to be withdrawn in the future, the Bank will make the relevant withholding at source in accordance with the provisions of Regulation no. 630/2013, on the taxation and withholding of interest to non-Icelandic tax residents subject to limited tax liability (as based on Article 3 (8) of the ITA and Article 41 of the Act No. 45/1987 on Withholding of Public Levies at Source). Condition 10 above provides for payment by the Bank of the necessary additional amounts in such circumstances to cover any resulting amounts deducted or withheld.

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

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

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

Icelandic Tax Residents

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

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

Subject to certain exemptions (which apply, inter alia, to most banks and pension funds), the Bank is required to withhold a 22 per cent. tax on the interest paid to the holders of Notes who are Icelandic residents, cf. Act No. 94/1996 on Withholding of Tax on Financial Income. Such withholding is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder. However, the Bank should generally not be held responsible for withholding tax on income related to bonds that have been registered as exempted with the Director of Revenue, unless the Bank has knowledge that the bonds have been acquired by an Icelandic tax resident, cf. inter alia explanatory notes accompanying Act No. 39/2013, amending the ITA. This exemption of the withholding obligation does not affect the tax obligations of the relevant bondholder.

THE PROPOSED FINANCIAL TRANSACTIONS TAX

On 14th February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common financial transactions tax (the “**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, a **participating Member State**). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT and its potential impact on the Notes.

Luxembourg Taxation

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended (the “**Relibi Law**”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 20 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Accordingly, payments of interest under the Notes coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of 20 per cent.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 24 February 2020, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of Notes, less the agreed commissions. The Bank will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the issue price to the Bank.

The United States of America

The Notes and any Conversion Shares to be issued following the occurrence of a Conversion Trigger Event have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“**Regulation S**”).

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder.

Each Joint Lead Manager has represented and agreed that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Each Joint Lead Manager has further agreed that it will have sent to each lead manager to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of the Notes, any offer or sale of Notes within the United States by any Joint Lead Manager (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 applicable exemption from registration under the Securities Act.

The United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) 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 Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA and UK Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA or the UK. For the purposes of this provision the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Iceland

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

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

Belgium

Each Joint Lead Manager has represented and agreed that an offering of Notes may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a “**Belgian Consumer**”) and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “**FIEA**”) and each Joint Lead Manager has represented and agreed that it has not offered or sold and will not offer or sell the Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949), as amended), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

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

Singapore

Each Joint Lead Manager has acknowledged that this Information Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered pursuant to exemptions under the SFA. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes, or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Information Memorandum or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA or to any person pursuant to Section 275(1A) of the SFA and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 2(1) of the SFA) or securities-based derivatives contracts (as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; or
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

In connection with Section 309B of the SFA and the CMP Regulations 2018, the Bank has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).

Canada

Each Joint Lead Manager has represented and agreed that it has not offered or sold and will not offer or sell any of the Notes in Canada except to purchasers in the provinces of Canada purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes or

Conversion Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Information Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Switzerland

The offering of the Notes in Switzerland is exempt from the prospectus requirement under the Swiss Financial Services Act ("**FinSA**") because the Notes have a minimum denomination of CHF 100,000 (or equivalent in another currency) or more. This Information Memorandum does not constitute a prospectus as such term is understood pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Notes.

State of Qatar

Each Joint Lead Manager has represented and agreed that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Notes in Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of Qatar (including the Qatar Financial Centre); and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar. This Information Memorandum has not been filed with, reviewed or approved by the Qatar Central Bank, the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or any other relevant Qatar governmental body or securities exchange and may not be publicly distributed in Qatar (including the QFC).

Kuwait

Each Joint Lead Manager has represented and agreed that the Notes have not been and will not be offered, marketed and/or sold in Kuwait except through a licensed person duly authorised to undertake such activity pursuant to the CMA Rules and, unless all necessary approvals from the CMA pursuant to the CMA Rules and unless all necessary approvals from the CMA pursuant to the CMA Rules, together with the various resolutions, regulations, directives and instructions issued pursuant thereto or in connection therewith (regardless of nomenclature), or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing and/or sale of the Notes. The Notes may not be offered onshore in Kuwait except to Professional Clients as defined in the CMA Rules.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Denmark

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer, sell or deliver any of the Notes directly or indirectly in the Kingdom of Denmark by way of a public offering, unless in compliance with the Danish Capital Markets Act, consolidated act no. 931 of 6 September 2019, as amended, and any executive orders issued thereunder and in compliance with Executive Order no. 1580 of 17 December 2018 issued pursuant to, inter alia, the Danish Financial Business Act, consolidated act no. 937 of 6 September 2019, as amended, to the extent applicable.

Finland

Each Joint Lead Manager has represented and agreed that it has not offered or sold and will not offer, sell or deliver any Notes directly or indirectly in Finland by way of a public offering, unless in compliance with all applicable provisions of the laws of Finland, including the Finnish Securities Markets Act (746/2012) and any regulation issued thereunder, as supplemented and amended from time to time.

Norway

Each Joint Lead Manager has represented and agreed that it has not offered or sold and will not offer, sell or deliver any Notes directly or indirectly in Norway by way of a public offering, unless in compliance with the Norwegian Securities Trading Act of 29 June 2007 no. 75 and the Securities Trading Regulations of 29 June 2007 no. 876, and any regulations passed thereunder, as supplemented and/or amended or replaced from time to time.

General

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in each jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Information Memorandum (in preliminary or final form) and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Bank nor any of the other Joint Lead Managers shall have any responsibility therefor.

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

GENERAL INFORMATION

Authorisation

The issue of the Notes has been duly authorised by (i) a resolution of the shareholders of the Bank on 20 March 2019 and (ii) a resolution of the Bank's Board dated 8 May 2019.

Listing of Notes

Application has also been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the Euro MTF and to be listed on the Official List of the Luxembourg Stock Exchange. The Euro MTF is not a regulated market for the purposes of MiFID II.

Documents Available

For so long as the Notes remain outstanding, copies of the following documents will, when published, be available free of charge from the registered office of the Bank and from the specified office of each of the Paying Agent and the Conversion Agent:

- (a) the articles of association (with an English translation thereof) of the Bank;
- (b) the Annual Financial Statements (with an English translation thereof) in each case together with the audit reports prepared in connection therewith. The Bank currently prepares audited consolidated accounts on an annual basis. The Bank does not currently prepare non-consolidated accounts;
- (c) the most recently published audited annual financial statements of the Bank and the most recently published unaudited interim financial statements (if any) of the Bank (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Bank currently prepares unaudited consolidated interim accounts on a quarterly basis;
- (d) the Agency Agreement, the Deed of Covenant and the forms of the Global Note and the Notes in definitive form; and
- (e) a copy of this Information Memorandum, the Base Prospectus and the supplement to the Base Prospectus dated 14 February 2020.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for the Notes allocated by Euroclear and Clearstream, Luxembourg are 212514144 and XS2125141445, respectively.

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

Yield

The yield of the Notes is 6.348 per cent. on an annual basis. The yield is calculated on the basis of the issue price to the First Reset Date as at the Issue Date of the Notes and is not an indication of future yield.

Significant or Material Change

There has been no significant change in the financial position of the Group since 31 December 2019 and there has been no material adverse change in the prospects of the Bank since 31 December 2019.

Litigation

Except as disclosed in "*Description of the Bank—Legal Proceedings*" on pages 128-130 of the Base Prospectus and in "*Description of the Bank - Recent Developments*" in this Information Memorandum, neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Auditors

On 19 March 2015 Deloitte, members of The Institute of State Authorised Public Accountants in Iceland, were appointed auditors of the Bank. Deloitte has audited the Annual Financial Statements, without qualification, in accordance with International Standards on Auditing.

Deloitte does not have a material interest in the Bank.

Joint Lead Managers transacting with the Bank

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

In addition to the above, Goldman Sachs International holds shares in the Bank. Please see page 76 for further information.

REGISTERED AND PRINCIPAL OFFICE OF THE BANK

Arion Bank hf.

Borgartúni 19
105 Reykjavík
Iceland

SOLE STRUCTURING ADVISOR

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

JOINT LEAD MANAGERS

Goldman Sachs International

Plumtree Court
25 Shoe Lane
London EC4A 4AU
United Kingdom

Morgan Stanley & Co.

International plc

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

FISCAL AGENT

Citibank, N.A., London Branch

6th Floor, Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citigroup Global Markets Europe AG

Reuterweg 16
60323 Frankfurt am Main
Germany

PAYING AND CONVERSION AGENT

Citibank, N.A., London Branch

6th Floor, Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

INDEPENDENT AUDITORS OF THE BANK

Deloitte ehf.
Smaratorgi 3
201 Kopavogur
Iceland

LEGAL ADVISERS

To the Bank as to English law

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

To the Bank as to Icelandic law

LEX
Borgartúni 26
105 Reykjavík
Iceland

To the Joint Lead Managers as to English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Joint Lead Managers as to Icelandic law

LOGOS
Efstaleiti 5
103 Reykjavík
Iceland

LISTING AGENT

Banque Internationale à Luxembourg, société anonyme
60, route d'Esch
L-2953 Luxembourg
Luxembourg