

## INFORMATION MEMORANDUM



### REPUBLIC OF ICELAND

U.S.\$5,000,000,000

### Euro Medium Term Note Programme

The Republic of Iceland (the "**Issuer**") has established a U.S.\$5,000,000,000 Euro Medium Term Note Programme (the "**Programme**"). This Information Memorandum supersedes any information memorandum and any supplement with respect to the Programme issued prior to the date hereof. Any Notes (as defined below) issued under the Programme on or after the date of this Information Memorandum are issued subject to the provisions described herein. This does not affect Notes issued prior to the date of this Information Memorandum.

This Information Memorandum comprises neither a base prospectus for the purposes of Regulation (EU) 2017/1129 (the "**EU Prospectus Regulation**"), a prospectus for the purposes of any legislation in any European Economic Area jurisdiction implementing the EU Prospectus Regulation (including but not limited to Part VI of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**")), nor listing particulars given in compliance with the listing rules made under Part VI of the FSMA by the Financial Conduct Authority in its capacity as competent authority (the "**FCA**").

Under the Programme, the Issuer may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). Notes may be issued in bearer or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$5,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Information Memorandum to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Application may be made to the FCA in its capacity as a competent authority for the Notes issued under the Programme to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's main market (the "**Market**"). References to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") and may not be offered or sold in the United States unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. The Notes are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

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

The Programme has been rated A by S&P Global Ratings Europe Limited ("**Standard & Poor's**"), A2 by Moody's Investors Service Ltd. ("**Moody's**") and A by Fitch Ratings Ltd. ("**Fitch**"). Notes issued under the Programme may be rated or unrated by any one or more of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Pricing Supplement and will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arranger  
**Citigroup**

**Barclays**

Dealers  
**Citigroup**

**UBS Investment Bank**

The date of this Information Memorandum is 6 January 2021

## **IMPORTANT INFORMATION**

### ***Responsibility for this Information Memorandum***

The Issuer, having made all reasonable enquiries, confirms that this Information Memorandum contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Information Memorandum is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Information Memorandum are honestly held and that there are no other facts the omission of which would make this Information Memorandum or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility for the information contained in this Information Memorandum accordingly.

### ***Unauthorised information***

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

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

The Dealers do not accept any responsibility for any social, environmental and sustainability assessment of the Notes and make no representation or warranty or assurance as to whether the Notes will meet any investor expectations or requirements regarding such "environmental", "green", "sustainable", "social" or similar labels. The Dealers are not responsible for the use of proceeds for the Notes, nor the impact or monitoring of such use of proceeds. No representation or assurance is given by the Dealers as to the suitability or reliability of any opinion or certification of any third party made available in connection with the Notes, nor is any such opinion or certification a recommendation by the Dealers to buy, sell or hold the Notes. In the event that the Notes are listed, or admitted to trading on a dedicated "environmental", "green", "sustainable", "social" or other equivalently-labelled segment of a stock exchange or securities market, no representation or assurance is given by the Dealers that such listing or admission will be obtained or maintained for the lifetime of the Notes.

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

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

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

### ***Restrictions on distribution***

The distribution of this Information Memorandum and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum or any Pricing Supplement comes are required by the Issuer and the Dealers 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 or any Pricing Supplement and other offering material relating to the Notes, see "*Subscription and Sale and Transfer and Selling Restrictions*".

This Information Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Information Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers 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 Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this document 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 or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Information Memorandum and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Information Memorandum and the offer or sale of Notes in the United States, the United Kingdom, the EEA and Japan, see "*Subscription and Sale and Transfer and Selling Restrictions*".

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

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

### **U.S. INFORMATION**

**This Information Memorandum is being submitted on a confidential basis in the United States to a limited number of QIBs (as defined under "Form of the Notes") for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.**

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

**Registered Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act. Each purchaser of Registered Notes in the United States is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act ("Rule 144A").**

**Each purchaser or holder of Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together "Legended Notes") will be deemed, by**

its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*".

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Information Memorandum or confirmed the accuracy or determined the adequacy of the information contained in this Information memorandum. Any representation to the contrary is unlawful.

***MiFID II Product Governance / Target Market under Directive 2014/65/EU (as amended, "EU MiFID II")***

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

The Pricing Supplement in respect of any Notes will include a legend entitled "EU MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

***Product Governance under UK MiFIR***

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR product governance rules set out in the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

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

***Product Classification Pursuant to Section 309b of the Securities And Futures Act (Chapter 289 of Singapore)***

The Pricing Supplement in respect of any Notes may include a legend entitled "Singapore Securities and Futures Act Product Classification" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"). The Issuer will make a determination in relation to each issue about the classification of the Notes being offered for the purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for the purposes of section 309B(1)(c) of the SFA.

***Ratings***

Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Pricing Supplement. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued or endorsed by a credit rating agency established in the EEA and registered under Regulation (EU) No 1060/2009 on credit rating agencies (the "**EU CRA Regulation**") or by a credit

rating agency which is certified under the EU CRA Regulation and/or (2) issued or endorsed by a credit rating agency established in the UK and registered under Regulation (EU) No 1060/2009 on credit rating agencies as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**") or by a credit rating agency which is certified under the UK CRA Regulation will be disclosed in the Pricing Supplement.

#### *Stabilisation*

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

## **PRESENTATION OF FINANCIAL INFORMATION**

All references in this document to "U.S. dollars", "U.S.\$" and "\$" refer to United States dollars and to "ISK", "króna" or "krónur" refer to the lawful currency of the Republic of Iceland. In addition, references to "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the functioning of the European Union, as amended. References to the "year-end" of a particular year, mean "31 December" in such year.

## **CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

Some statements in this Information Memorandum may be deemed to be forward looking statements. Forward looking statements include statements concerning the plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Information Memorandum, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*" and "*The Republic of Iceland*" and other sections of this Information Memorandum. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Information Memorandum, if one or more of the risks or uncertainties materialise, which the Issuer has otherwise identified in this Information Memorandum, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results may vary from those expected, estimated or predicted.

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

## TABLE OF CONTENTS

IMPORTANT INFORMATION .....	1
SUMMARY OF THE PROGRAMME .....	2
RISK FACTORS .....	6
FORM OF THE NOTES .....	13
FORM OF PRICING SUPPLEMENT .....	17
TERMS AND CONDITIONS OF THE NOTES .....	29
USE OF PROCEEDS .....	60
OVERVIEW OF THE REPUBLIC OF ICELAND .....	61
THE ECONOMY .....	64
FOREIGN TRADE AND INTERNATIONAL BALANCE OF PAYMENTS .....	72
MONETARY DEVELOPMENTS AND INTERNATIONAL RESERVES .....	77
PUBLIC DEBT .....	85
PUBLIC FINANCE .....	88
BOOK-ENTRY CLEARANCE SYSTEMS .....	97
TAXATION .....	101
SUBSCRIPTION AND SALE .....	103
TRANSFER RESTRICTIONS .....	107
GENERAL INFORMATION .....	109

## SUMMARY OF THE PROGRAMME

*The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Information Memorandum and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.*

Issuer:	The Republic of Iceland
Description:	Euro Medium Term Note Programme
Arranger:	Citigroup Global Markets Limited
Dealers:	Barclays Bank Ireland PLC Barclays Bank PLC Citigroup Global Markets Europe AG Citigroup Global Markets Limited UBS Europe SE and any other Dealers appointed in accordance with the Dealer Agreement.
Principal Paying Agent:	Citibank, N.A., London Branch
Registrar:	Citigroup Global Markets Europe AG
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale and Transfer and Selling Restrictions</i> ") including the following restrictions applicable at the date of this Information Memorandum.  <b>Notes having a maturity of less than one year</b>  Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see " <i>Subscription and Sale and Transfer and Selling Restrictions</i> ".
Programme Size:	Up to U.S.\$5,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as set out in the applicable Pricing Supplement. Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i> .



Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as supplemented, amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement)) as published by the International Swaps and Derivatives Association, Inc., including, if specified in the relevant Pricing Supplement, the ISDA Benchmark Supplement; or</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "<i>Certain Restrictions – Notes having a maturity of less than one year</i>" above.</p>

Denomination of Notes:	<p>Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "<i>Certain Restrictions – Notes having a maturity of less than one year</i>" above.</p> <p>Unless otherwise stated in the applicable Pricing Supplement, the minimum denomination of each Legended Note will be U.S.\$200,000 or its approximate equivalent in other Specified Currencies.</p>
Taxation:	<p>All payments of principal and interest in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, subject as provided in Condition 7. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted.</p>
Negative Pledge:	None.
Cross Default:	None.
Status of the Notes:	<p>The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank pari passu, without preference among themselves, with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, provided however that consistent with similar provisions in the Issuer's other indebtedness, the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.</p>
Rating:	<p>The Programme's foreign currency rating is A in respect of Notes with a maturity of more than one year by Standard &amp; Poor's, A2 in respect of Notes with a maturity of more than one year by Moody's and A in respect of Notes with a maturity of more than one year by Fitch.</p> <p>Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.</p>
Listing:	<p>Application may be made to the FCA for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market.</p> <p>The Notes may also be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchange(s).</p>
Governing Law:	<p>The Notes will be governed by, and construed in accordance with, English law.</p>
Selling Restrictions:	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA, United Kingdom, Japan, Singapore and Switzerland and such other restrictions as may be required in connection with the offer, sale and transfer of a particular Tranche of</p>

Notes, see "*Subscription and Sale and Transfer and Selling Restrictions*".

United States Selling  
Restrictions:

Regulation S, Category 1. Rule 144A and TEFRA C or D/TEFRA not applicable, as specified in the applicable Pricing Supplement.

## **RISK FACTORS**

*In purchasing Notes, investors assume the risk that the Issuer 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 Issuer becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Information Memorandum a number of factors which could materially adversely affect its business and ability to make payments due. The following factors may affect the ability of the Issuer to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies that may or may not occur, and the Issuer is not in a position to express a view on the likelihood that any such contingency will occur.*

*Factors that are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*Prospective investors should note that the inability of the Issuer to pay interest, principal, or other amounts on or in connection with any Notes may occur for other reasons that may not be considered significant or material risks by the Issuer based on information currently available to it or that it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and draw their own conclusions prior to making any investment decision.*

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

#### **Iceland's economy remains vulnerable to external shocks**

Iceland's economy remains vulnerable to external shocks, including resource shocks (e.g. catch failure in the fisheries or negative shocks to energy production or tourism) affecting the country's exports, as well as shocks to demand in foreign markets for Iceland's exports, all of which could have an adverse effect on Iceland's economic growth and its ability to service its public debt.

Although Iceland's financial system has progressed on its recovery path since in the 2008 financial crisis, some vulnerabilities remain.

Almost 70% of Iceland's export revenues come from three sources: marine products (19% of export revenue in 2019), aluminium (16%), tourism (35%), and industrial goods 23%. Iceland has been subject to external terms of trade shocks, especially from the prices of marine products and aluminium. Shocks to the marine sector have considerably more impact on the Icelandic economy than shocks to the aluminium sector as the bulk of raw materials for aluminium production are imported and the aluminium firms are foreign owned. The increased share of tourism in export revenues in recent years has increased the risk of shocks to that sector in particular.

Historically the marine sector has been the main source of volatility for the Icelandic economy. These shocks have been much less significant during the last 20 years than in previous years, contributing to smaller variations in GDP in recent years as compared with previous periods. During the recent financial crisis, neither marine products nor aluminium suffered any significant reduction in demand. In fact, aluminium production increased significantly. The third main export industry in the country, tourism, grew significantly following the financial crisis because of the favourable effects of the depreciated Icelandic króna. The number of tourists visiting Iceland increased from approximately 485,000 in 2010 to approximately 2 million in 2019, or by 432%.

External shocks to Iceland's economy could cause economic or financial volatility and may threaten debt sustainability, negatively affect investor confidence in Iceland and have an adverse effect on Iceland's ability to service its public debts. Sizeable wage hikes, excessive capital flows, and a weakened commitment to fiscal consolidation could also lead to significant overheating of the domestic economy with heightened risks for the country's monetary, fiscal or external stability.

#### **Exceptional circumstances and expected severe economic downturn due to the COVID-19 pandemic**

The outbreak of the virus SARS-CoV-2 and the disease it causes ("**COVID-19**") poses a new risk to the global economy, including the economy of Iceland. Whilst the direct and indirect impact of the COVID-19 outbreak remains uncertain, a number of central banks and governments have announced financial stimulus packages in anticipation of a significant negative impact on GDP during 2020. It is extremely difficult to evaluate the financial

impact of the pandemic, or the impact of the measures aimed at containing the pandemic. Concerns also remain as to whether such measures will be sufficient to counter anticipated macro-economic risks.

The reduction in economic activity as a result of the COVID-19 pandemic is expected to contribute to a substantial worsening of the budgetary position. Additionally, in the event of weaker than expected budgeted growth, driven by decreased external or domestic demand or other COVID-19 consequences, the Issuer may need to implement further cost-reduction or revenue raising measures in order to meet its targets. Such measures may further adversely affect economic growth.

Specifically, in the case of Iceland, as a country dependent on tourism, it is highly exposed to health, economic, and financial contagion from the global effects of COVID-19.

Weakened economic activity in Iceland due to the COVID-19 pandemic, and its effects on the health and wellbeing of Iceland's working population, combined with the wider impact to the global supply chain, markets and economies, and heightened volatility and adverse conditions in global capital markets, could impact business operations across Iceland's economy generally. Such weakening of the economy and/or operations could have a material adverse impact on the economic growth and performance of Iceland and the country's trading partners. Any of these factors, individually or collectively, could adversely affect economic growth in Iceland and, consequently, have an adverse effect on Iceland's fiscal position.

#### **The development of Iceland's economy is dependent on the implementation of fiscal, political and other reforms**

Iceland is continuously in the process of implementing various reforms. The Issuer may not succeed in implementing such proposed or future fiscal, political and other reforms. Should there be any failure to implement such proposed or future reforms, this may adversely affect the potential development of Iceland's economy.

#### **Iceland's credit ratings may change**

There can be no guarantee that the Issuer will not experience credit rating downgrades. It should be noted that the Issuer's credit rating has been downgraded in the past and could be downgraded in the future.

Any downgrade in the credit rating of the Issuer or any Notes could have a material adverse effect on the value of such Notes.

#### **Iceland's economy is highly dependent on international trade**

As an island located in the North Atlantic, Iceland's economy is vulnerable to certain risks associated with its location, size and geography. Iceland's economy depends on export industries that take advantage of Iceland's natural resources including its fishing grounds and its hydroelectric and geothermal energy resources, which are used in certain energy-intensive businesses, such as aluminium smelters. The marine sector and aluminium production together accounted for approximately 35% of Iceland's exports in 2019.

Iceland is dependent on imports of fuel for transport purposes and industrial supplies, capital goods and transport equipment, as well as consumer goods. Only about 20% of Iceland's total land area is classified as arable, and Iceland imports significant amounts of food and beverages. Since it is an island, planes and ships are the only means by which Iceland is able to receive imports.

As a result, Iceland's economy is highly dependent on international trade, with imports and exports of goods and services representing 40.4% and 45.3% of GDP, respectively, in 2019. This means that Iceland's economy may be vulnerable to external events that disrupt trade flows to and from Iceland. Such events include, but are not limited to: natural events, including volcanic activity; political events; changes in the exchange rate of the króna against other currencies; economic conditions of major trading partners; Iceland's relationship with trading partners and any disputes with those partners over, for example, fishing rights; tariffs and other trade barriers.

#### **The level of public debt and risk relating to government guaranteed liabilities of the IL-Fund and Landsvirkjun**

The current level of public debt is one of the consequences of COVID-19. Gross government debt at the end of the third quarter of 2020 was ISK 1.146 billion, or 39.7% of GDP, and net debt was 26.7% of GDP. Gross debt levels peaked in 2011 at 91% of GDP. An overall deficit is expected in 2020 as well as for 2021 to 2025 due to the effects of COVID-19 according to the published fiscal plan for 2021-2025.

At the end of the third quarter of 2020, direct government guarantees amounted to ISK 894 billion or 31% of GDP. Roughly 83% of guarantees are on the government owned IL-Fund. Therefore, the government is directly exposed to the local mortgage market. Almost 8% of guarantees are for Landsvirkjun (the National Power Company of Iceland).

IL-Fund had government guaranteed liabilities of ISK 742 billion at the end of the third quarter of 2020. Prepayment risk and the accompanying duration mismatch is currently the IL-Fund's most significant risk. Operating results for the Housing Financing Fund ("HFF") (IL-Fund's predecessor) had deteriorated significantly in its last two years of operation, however HFF's capital ratio according to Basel II rules was 8,64% at the end of the second quarter of 2019 (8.9% at year-end 2018), significantly above the long term objective of a 5% capital ratio. The IL-Fund's sole objective is the winding down of HFF assets and liabilities. Due to significant prepayment risk and duration mismatch there is a risk that the Treasury will have to absorb further losses from the IL-Fund.

Landsvirkjun is a partnership company owned by the State. Landsvirkjun has government guaranteed liabilities of ISK 68 billion at the end of the third quarter of 2020. The main risk factor in Landsvirkjun's operations is how few and large its main customers are in relation to its total revenue. Almost 85% of electricity sold by Landsvirkjun is purchased by seven customers, of which two purchase over 55% of the total energy generation of the company. Furthermore, these two customers are also in the same industry, aluminium production. To categorise Landsvirkjun's revenue by industry shows that 67% are from aluminium smelters, 14% from public utilities and 19% from other industries. A further risk factor is Landsvirkjun's exposure to price fluctuations in aluminium as almost 20% of its income is linked to aluminium prices. Landsvirkjun has managed to considerably reduce this link to aluminium prices in its revenue by entering into derivative contracts and more importantly by renegotiating electricity sales contracts with its customers.

### **Geographic risks**

Iceland has historically experienced significant geological events in the form of earthquakes and volcanic eruptions. Iceland carries a high concentration of active volcanoes due to Iceland's location on the mid-Atlantic Ridge, a divergent tectonic plate boundary, and due to its location over a hotspot. Depending on their severity, such events can have far reaching effects on all sectors of the economy. Any significant geological events in the future may have a negative impact on Iceland's tourism industry, debt levels and could materially disrupt Iceland's imports and exports which may in turn have a negative effect on Iceland's economy.

### **Migratory fish stocks**

Although Iceland employs a quota system for sustainability purposes, major shifts and or migrations of fish stocks into other jurisdictions, or depletion for any reason, could significantly impact local fisheries and their creditors. (source: Fishery related credit statistics). A shock to the marine industry in Iceland may have an adverse effect on Iceland's economic growth.

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

### **The Notes may not be a suitable investment for all investors.**

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) 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;
- (b) 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;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- (d) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and
- (e) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

### **Risks related to Notes generally**

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

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

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

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

No assurance can be given as to the impact of any possible judicial decision or change to English or, as the case may be, 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.

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

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

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

### **Risks related to certain types of Notes**

***There are risks that certain benchmark rates may be administered differently or discontinued in the future, including the potential phasing-out of LIBOR after 2021, which may adversely affect the trading market for, value of and return on, Notes based on such benchmarks.***

LIBOR, EURIBOR and other rates and indices which are deemed to be "benchmarks" are the subject of recent international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or disappear entirely, or have other consequences that cannot be predicted.

The Benchmarks Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds was published in the Official Journal of the EU on 29 June 2016 and became applicable from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to a rate or index deemed to be a benchmark, in particular, if the methodology or other terms of a benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to such benchmark; (ii) trigger changes in the rules or methodologies used in the benchmarks or (iii) lead to the disappearance of the benchmark.

As an example of such benchmark reforms, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and, on 12 July 2018, announced that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmark Regulation. Such announcements indicate that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021. In addition, on 29 November 2017, the Bank of England and the FCA announced that, from January 2018, its working group on Sterling risk free rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("**SONIA**") over the next four years across sterling bond, loan and derivative markets so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

Further, on 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate ("**€STR**") as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

Any of the above changes or any other consequential changes to benchmarks as a result of EU, United Kingdom, or other international, national, or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes could have a material adverse effect on the trading market for, value of and return on any Notes linked to such benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms, investigations and licensing issues in making any investment decision with respect to the Notes linked to a benchmark.

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

***In respect of any Notes issued with a specific use of proceeds, such as an Environmental Bond, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor***

The Pricing Supplement relating to any specific Series of Notes may provide that it will be the Issuer's intention to apply an amount equal to the proceeds from an offer of those Notes specifically for projects and activities that promote climate-friendly and other environmental purposes ("**Environmental Projects**"). Prospective investors should have regard to the information set out in the relevant Pricing Supplement regarding such use of proceeds



and must determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary. In particular no assurance is given by the Issuer that the use of such proceeds for any Environmental Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Environmental Projects.

Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green", "environmental" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green", "environmental" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Environmental Projects will meet any or all investor expectations regarding such "green", "sustainable" or other equivalently-labelled performance objectives (including Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, the so called "EU Taxonomy", once implemented) or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Environmental Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Notes and in particular with any Environmental Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Information Memorandum. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Notes are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Environmental Projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer or any other person that any such listing or admission to trading will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

While it is the intention of the Issuer to apply the proceeds of any Notes so specified for Environmental Projects in, or substantially in, the manner described in the relevant Pricing Supplement, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Environmental Projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Environmental Projects. Nor can there be any assurance that such Environmental Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Environmental Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Notes and also potentially the value of any

other Notes which are intended to finance Environmental Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

### **Risks related to the market generally**

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

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

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

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

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

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

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

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

## FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and Registered Notes will be issued outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A.

### **Bearer Notes**

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

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

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

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

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

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

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means

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

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

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

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

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

### **Registered Notes**

The Registered Notes of each Tranche offered and sold in reliance on Regulation S outside the United States will be represented by a global note in registered form (a "**Regulation S Global Note**").

The Registered Notes of each Tranche may only be offered and sold in the United States in private transactions to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("**QIBs**"). The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a "**Rule 144A Global Note**" and, together with a Regulation S Global Note, the "**Registered Global Notes**"). No sale of Legended Notes (as defined under "**U.S. Information**" above) in the United States to any one purchaser will be for less than U.S.\$200,000 (or its foreign currency equivalent) principal amount.

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("**DTC**") for the accounts of Euroclear and Clearstream, Luxembourg or (ii) be deposited with a common depository or, if the Registered Global Notes are intended to be issued under the New Safekeeping Structure ("**NSS**"), a common safekeeper for, and registered in the name of the nominee for the Common Depository of, Euroclear and Clearstream, Luxembourg or, in the case of NSS, in the name of a nominee of the common safekeeper, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Global Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

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

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5(d)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent, or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5(d)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act, (iii) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

### **Transfer of Interests**

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

### **General**

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series.

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 9. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then from 8.00 p.m. (London time) on such day holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg and/or DTC on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 7 June 2019, executed by the

Issuer. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver Definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

## FORM OF PRICING SUPPLEMENT

*The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Pricing Supplement but denotes directions for completing the Pricing Supplement.*

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

**[EU MIFID II product governance / Retail investors, professional investors and ECPs target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties, professional clients and retail clients, each as defined in Directive 2014/65/EU (as amended, "**EU MiFID II**"); **EITHER** [and (ii) all channels for distribution of the Notes are appropriate[, including investment advice, portfolio management, non-advised sales and pure execution services]] **OR** [(ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and (iii) the following channels for distribution of the Notes to retail clients are appropriate - investment advice[, / and] portfolio management[, / and] [non-advised sales][and pure execution services][, subject to the distributor's suitability and appropriateness obligations under EU MiFID II, as applicable]]. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under EU MiFID II, as applicable].]

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

**[UK MIFIR product governance / Retail investors, professional investors and ECPs target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is retail clients, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"), and eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**") and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA ("**UK MiFIR**"); **EITHER** [and (ii) all channels for distribution of the Notes are appropriate[, including investment advice, portfolio management, non-advised sales and pure execution services]] **OR** [(ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and (iii) the following channels for distribution of the Notes to retail clients are appropriate - investment advice[, / and] portfolio management[, / and] [non-advised sales][and pure execution services][, subject to the distributor's suitability and appropriateness obligations under COBS, as applicable]]. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to

the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under COBS, as applicable].]

**[Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products "]/["capital markets products other than prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]

[Date]

## THE REPUBLIC OF ICELAND

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

### under the U.S.\$5,000,000,000 Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Information Memorandum dated 6 January 2021. This Pricing Supplement is supplemental to and must be read in conjunction with such Information Memorandum.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Information Memorandum dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Information Memorandum dated 6 January 2021, save in respect of the Conditions which are extracted from the Information Memorandum dated [original date] and are attached hereto.]

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Pricing Supplement]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

- |    |       |   |  |
|----|-------|---|--|
| 1. | (i)   | Series Number:  | [●]  |
|    | (ii)  | Tranche Number:   | [●]  |
|    | (iii) | Date on which the Notes will be consolidated and form a single Series | [The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 23 below, which is expected to occur on or about [date]]][Not Applicable] |
| 2. |       | Specified Currency or Currencies:                                     | [●]  |
| 3. |       | Aggregate Nominal Amount:   |  |
|    | (i)   | Series:   | [●]  |



- (ii) Tranche: [●]
4. (i) Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (in the case of fungible issues only, if applicable)]
- (ii) Net proceeds (required only for listed issues): [●]
5. (a) Specified Denominations: [●]
- (b) Calculation Amount: (in relation to calculation of interest in global form see Conditions) [●]  
(If there is only one Specified Denomination, insert the Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. there must be a common factor in the case of two or more Specified Denominations)
6. (i) Issue Date: [●]
- (ii) Interest Commencement Date (if different from the Issue Date): [●]
7. Maturity Date: [Specify date or for Floating Rate Notes – Interest Payment Date falling in or nearest to *[specify month and year]*]
8. Interest Basis: [[●] per cent. Fixed Rate]  
[[●] month [LIBOR/EURIBOR] +/- [●] per cent. Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
[specify other]  
(further particulars specified below)
9. Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]  
[Instalment]  
[specify other]
10. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]/[Not Applicable]

11. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]/[Not Applicable]
12. Listing: [Applications have been made for the Notes to be admitted to trading on the London Stock Exchange's main market and listing on the Official List of the FCA/[●]/ *specify other*/None]
13. Method of distribution: [Syndicated/Non-syndicated]

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

14. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: [●] per cent. per annum payable in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [●] in each year up to and including the Maturity Date  
*(Amend appropriately in the case of irregular coupons)*
- (iii) Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [●] per Calculation Amount
- (iv) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [[●] per Calculation Amount Payable on the Interest Payment Date falling in/on [●]]/[Not Applicable]
- (v) Day Count Fraction: [30/360 /Actual/Actual (ICMA)/[●]/specify other]
- (vi) Determination Date(s): [[●] in each year]/[Not Applicable]  
*[Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
15. **Floating Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Specified Period(s)/Specified Interest Payment Dates: [[●] [, subject to adjustment in accordance with the Business Day Convention set out in (ii) below/, not subject to any adjustment, as the Business Day Convention in (ii) below is specified to be Not Applicable]
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[●]] [Not Applicable]
- (iii) Additional Business Centre(s): [●]
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination / ISDA Determination/[●]]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [●]
- (vi) Screen Rate Determination:
- Reference Rate: [●] month [LIBOR/EURIBOR/[●]/specify other Reference Rate]  
  
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)
  - Interest Determination Date(s): [●]  
  
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
  - Relevant Screen Page: [●]  
  
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]  
  
(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)

	– ISDA Benchmarks Supplement:	[Applicable / Not Applicable]
(viii)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation ( <i>specify for each short or long interest period</i> )]
(ix)	Margin(s):	[+/-] [●] per cent. per annum
(x)	Minimum Rate of Interest:	[●] per cent. per annum
(xi)	Maximum Rate of Interest:	[●] per cent. per annum
(xii)	Day Count Fraction:	[Actual/Actual (ISDA)][Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360][30/360][Bond Basis] [30E/360][Eurobond Basis] [Other]
(xiii)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●] / Not Applicable
16.	<b>Zero Coupon Note Provisions</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i)	Accrual Yield:	[●] per cent. per annum
(ii)	Reference Price:	[●]
(iii)	Any other formula/basis of determining amount payable:	[●]
(iv)	Day Count Fraction in relation to Early Redemption Amounts:	[Conditions 6(d)(iii) and 6(i) apply/specify other] (Consider applicable day count fraction if not U.S. dollar denominated)
17.	<b>Index Linked Interest Note Provisions</b>	[Applicable/Not Applicable]  (If not applicable, delete the remaining subparagraphs of this paragraph)
(i)	Index/Formula:	[give or annex details]
(ii)	Calculation Agent responsible for calculating the principal and/or interest due:	[●] / Not Applicable

- (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): [●] / Not Applicable
  - (iv) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [●] / Not Applicable
  - (v) Specified Period(s)/Specified Interest Payment Dates: [●] / Not Applicable
  - (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
  - (vii) Additional Business Centre(s): [●] / Not Applicable
  - (viii) Minimum Rate of Interest: [●] per cent. per annum
  - (ix) Maximum Rate of Interest: [●] per cent. per annum
  - (x) Day Count Fraction: [●]
18. **Dual Currency Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
  - (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [●] / Not Applicable
  - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●] / Not Applicable
  - (iv) Person at whose option Specified Currency(ies) is/are payable: [●] / Not Applicable

#### **PROVISIONS RELATING TO REDEMPTION**

19. Issuer Call: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●] / Not Applicable
  - (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[●] per Calculation Amount/specify other/see Appendix]

- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [●] / Not Applicable
- (b) Maximum Redemption Amount: [●] / Not Applicable
- (iv) Notice periods (if other than as set out in the Conditions): [●] / Not Applicable
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
20. Investor Put: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●] / Not Applicable
- (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (iii) Notice periods (if other than as set out in the Conditions): [●] / Not Applicable
- (N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
21. Final Redemption Amount of each Note: [[●] per Calculation Amount/specify other/see Appendix]
22. Early Redemption Amount of each Note payable on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(d)): [[●] per Calculation Amount/specify other/see Appendix]
- (N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)*

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

23. Form of Notes: [Bearer Notes:
- (a) Form: [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes only upon an Exchange Event]
- [Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date]
- [Permanent Bearer Global Note exchangeable for Definitive Bearer Notes only upon an Exchange Event]
- [Registered Notes:
- [Regulation S Global Note(s) (U.S.\$ [●] aggregate nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]
- [Rule 144A Global Note (U.S.\$ [●] aggregate nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]
- (b) New Global Note: [Yes/No]
- (c) New Safekeeping Structure [Yes/No]
24. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
- (Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 15(iii) and 17(vii) relate)*
25. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
24. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
27. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]

- (ii) Instalment Date(s): [Not Applicable/*give details*]
28. Other terms or special conditions: [Not Applicable/*give details*]

## **DISTRIBUTION**

29. (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Stabilising Manager (if any): [Not Applicable/*give name*]
30. If non-syndicated, name of relevant Dealer: [●]
31. U.S. selling restrictions: [Reg. S Compliance Category 1/Rule 144A; TEFRA D/TEFRA C/ TEFRA not applicable]
32. Additional selling restrictions: [Not Applicable/*give details*]

## **OPERATIONAL INFORMATION**

33. (i) Issuer LEI: 254900IPCJWRC6XAJN15
- (ii) ISIN: [●]
- (iii) Common Code: [●]
- (iv) CUSIP: [●]
- (v) CINS: [●]
- (vi) FISN: [See the website of the Association of National Numbering Agencies (ANNA) or alternatively source from the responsible National Numbering Agency that assigned the ISIN /Not Applicable / Not Available]
- (vii) CFI: [See the website of the Association of National Numbering Agencies (ANNA) or alternatively source from the responsible National Numbering Agency that assigned the ISIN / Not Applicable / Not Available]
- (If the FISN and/or CFI code is not required or requested, it/they should be specified to be "Not Applicable")*
34. Any clearing system(s) other than Euroclear, Clearstream, Luxembourg and DTC and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
35. Delivery: Delivery [against/free of] payment
36. Additional Paying Agent(s) (if any): [●]
37. Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
- [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositaries as common safekeeper[, and registered in the name of a nominee of one of the international central securities depositaries]



acting as common safekeeper, that is, held under the NSS,] *[include this text for Registered Notes which are to be held under the NSS]* and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] *[include this text if "yes" is selected in which case the Notes must be issued in NGN/NSS form]*

[Whilst the designation is specified as "No" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the international central securities depositaries as common safekeeper [, and registered in the name of a nominee of one of the international central securities depositaries acting as common safekeeper, that is, held under the NSS,] *[include this text for Registered Notes which are to be held under the NSS]*. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## USE OF PROCEEDS

38. Use of proceeds:

[An amount equal to the net proceeds from each issue of Notes will be utilised by the Issuer for general financing purposes and to refinance existing debt.]

[The Issuer intends to apply an amount equal to the net proceeds from this offer of Notes specifically for [Environmental projects and activities that promote climate-friendly and/or other environmental purposes] *[For Environmental Bonds, include web-link for relevant framework and any other relevant information]*

*[Specify other]*

## LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$5,000,000,000 Euro Medium Term Note Programme of the Republic of Iceland.

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:.....

*Duly authorised*

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 4, 5, 6 (except Condition 6(b)) 10, 11, 12, 13 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 16, they will not necessitate the preparation of a supplementary Information Memorandum. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplementary Information Memorandum will be prepared, if appropriate.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each Definitive Note, in the latter case only if permitted by the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Applicable Pricing Supplement" for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by the Republic of Iceland (the "**Issuer**") pursuant to the Agency Agreement (as defined below).

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

- (i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of each Specified Denomination in the Specified Currency;
- (ii) any Global Note;
- (iii) any definitive Notes in bearer form ("**Bearer Notes**") issued in exchange for a Global Note in bearer form; and
- (iv) any definitive Notes in registered form ("**Registered Notes**") (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated Agency Agreement dated 7 June 2019, (such Agency Agreement, as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**"), and made between the Issuer, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), Citibank, N.A., London Branch as exchange agent (the "**Exchange Agent**", which expression shall include any successor exchange agent) and Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents).

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

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the "**applicable Pricing Supplement**" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

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

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

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of covenant as modified and/or supplemented and/or restated from time to time, the "**Deed of Covenant**") dated 7 June 2019 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary or common safekeeper, as the case may be 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 Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as the "**Agents**"). If the Notes are to be admitted to trading on the main market of the London Stock Exchange, the applicable Pricing Supplement will be published on the website of the London Stock Exchange through a regulatory information service. If this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the currency (the "**Specified Currency**") and the denominations (the "**Specified Denomination(s)**") specified in the applicable Pricing Supplement. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the applicable Pricing Supplement.

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

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

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to

the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

For so long as the Depository Trust Company ("**DTC**") or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

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

## **2. TRANSFERS OF REGISTERED NOTES**

### **(a) Transfers of interests in Registered Global Notes**

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, 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 beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note of the same series only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

### **(b) Transfers of Registered Notes in definitive form**

Subject as provided in Condition 2(c) and 2(f) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 11 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal

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

(c) **Registration of transfer upon partial redemption**

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

(d) **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 Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) **Transfers of interests in Legended Notes**

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or
- (ii) to a transferee who takes delivery of such interest through a Legended Note where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or
- (iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(f) **Exchanges of Registered Notes generally**

Holders of Registered Notes in definitive form that were sold outside the United States in accordance with Regulation S ("**Regulation S Notes**") may exchange such Notes for Regulation S Global Notes at any time and holders of Rule 144A Notes in definitive form may exchange such Notes for interests in a Rule 144A Global Note of the same type at any time.

(g) **Definitions**

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

**"Legended Note"** means Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A;

**"QIB"** means a "**qualified institutional buyer**" within the meaning of Rule 144A;

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

"**Regulation S Global Note**" means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Rule 144A Global Note**" means a Registered Global Note representing Notes sold in the United States or to QIBs; and

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

### 3. STATUS OF THE NOTES

The Notes and any relative Receipt and Coupons are the direct, unconditional and unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, *provided, however*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

"**External Indebtedness**" means all obligations of the Issuer in respect of borrowed money and guarantees given by the Issuer in respect of money borrowed by others.

### 4. INTEREST

#### (a) Interest on Fixed Rate Notes

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

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

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

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

- (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

- (i) if "Actual/Actual (ICMA)" is specified in the applicable Pricing Supplement:
  - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
  - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
    - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if "30/360" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

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

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

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes**

(i) *Interest Payment Dates*

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

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Pricing



Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

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

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

- (A) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "**Business Day**" means:

- (i) day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre (other than TARGET2 System) specified in the applicable Pricing Supplement;
  - (ii) if TARGET2 System is specified as an Additional Business Centre in the applicable Pricing Supplement, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer ("**TARGET2**") System (the "**TARGET2 System**") is open; and
  - (iii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.
- (ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions, and as amended and updated as at the Issue Date of the first Tranche of the Notes and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (or any successor or replacement rate) ("**LIBOR**") or on the Euro-zone inter-bank offered rate (or any successor or replacement rate) ("**EURIBOR**"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A):

"**ISDA Benchmarks Supplement**" means the Benchmarks Supplement (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms)) published by the International Swaps and Derivatives Association, Inc;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms)) as published by the International Swaps and Derivatives Association, Inc. including, if specified in the relevant Final Terms, the ISDA Benchmark Supplement; and

"**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

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

(B) *Screen Rate Determination for Floating Rate Notes*

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

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

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of

EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement. Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

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

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 4(b)(ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 4(b)(ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

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

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the rate of interest to:

- (A) in the case of Floating Rate Notes or Index Linked Notes which are represented by a Global note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

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

amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest for any Interest Period:

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(v) *Linear Interpolation*

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Pricing Supplement) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Pricing Supplement), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

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

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

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

(vii) *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(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) **Interest on Dual Currency Interest Notes**

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) **Interest on Partly Paid Notes**

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) **Accrual of interest**

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

- (i) the date on which all amounts due in respect of such Note have been paid; and
- (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 Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 13.

5. **PAYMENTS**

(a) **Method of payment**

Subject as provided below:

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

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(b) **Presentation of definitive Bearer Notes, Receipts and Coupons**

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent

outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Note Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

(c) **Payments in respect of Bearer Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. On the occasion of each payment, (i) in the case of any Global Note which is not issued in new global note ("**NGN**") form, a record of such payment made on such Global Note in bearer form, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Principal Paying Agent, and such record shall be *prima facie* evidence that the payment in question has been made, and (ii) in the case of any Global Note which is in NGN form, the Principal Paying Agent shall

instruct Euroclear and/or Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

(d) **Payments in respect of Registered Notes**

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

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

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

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars unless the participant in DTC with an interest in the Notes has elected to receive any part of such payment in that Specified Currency, in the manner specified in the Agency Agreement and in accordance with the rules and procedures for the time being of DTC.

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

(e) **General provisions applicable to payments**

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



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

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer 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 Issuer, adverse tax consequences to the Issuer.

Any payments of interest, proceeds from redemption of Notes, Coupons, Receipts or Talons payable to a foreign individual or a foreign legal entity under the programme will be paid by the Central Bank of Iceland on behalf of the Issuer.

(f) **Payment Day**

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 8) 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 (1) the relevant place of presentation; and (2) any Additional Financial Centre (other than TARGET2 System) specified in the applicable Pricing Supplement;
- (ii) if TARGET2 System is specified as an Additional Financial Centre in the applicable Pricing Supplement, a day on which the TARGET2 System is open; and
- (iii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (iv) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has not elected to receive any part of such payment in a Specified Currency other than U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) **Interpretation of principal and interest**

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

- (i) any additional amounts which may be payable with respect to principal under Condition 7;
- (ii) the Final Redemption Amount of the Notes;

- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6(d)); and

any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

## 6. REDEMPTION AND PURCHASE

### (a) **Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

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

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than a Higher Redemption Amount, in each case as may be specified in the applicable Pricing Supplement.

In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6(b) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

(c) **Redemption at the option of the Noteholders (Investor Put)**

If Investor Put is specified as being applicable in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Pricing Supplement.

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

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

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg and DTC by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 9.

(d) **Early Redemption Amounts**

For the purpose of Condition 9:

- (i) each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount; and
- (ii) each Zero Coupon Note will be redeemed, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

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

where:

"**RP**" means the Reference Price;

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

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

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(e) **Instalments**

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined pursuant to Condition 6(d) above.

(f) **Partly Paid Notes**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(g) **Purchases**

The Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

(h) **Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 6(g) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(i) **Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6(a), (b) or (c) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6(d)(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 13.

7. **TAXATION**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case

may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon presented for payment:

- (a) by or on behalf of a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the Republic of Iceland other than the mere holding of such Note, Receipt or Coupon; or
- (b) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on the expiry of such period of 30 days.

As used herein:

- (i) the "**Relevant Date**" means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount of the money payable has not been received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, the date on which, the full amount of such money having been so received, notice to that effect shall have been duly published in accordance with Condition 13; and
- (ii) "**Tax Jurisdiction**" means the Republic of Iceland or any political subdivision or any authority thereof of therein having power to tax.

Any reference in these Conditions to principal and/or interest in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

## 8. **PRESCRIPTION**

The Notes, (whether in bearer or registered form) Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

## 9. **EVENTS OF DEFAULT**

### (a) **Declaration of Acceleration**

If any of the following events (each an "**Event of Default**") occurs and is continuing:

- (i) if there is default for more than 20 days in the payment of any interest due and payable on or in respect of the Notes or any of them; or
- (ii) if the Issuer shall fail duly to perform or observe any other term, undertaking or agreement contained in the Notes for a period of 30 days after the date on which written notice of such failure, requiring the Issuer to remedy the same, shall first have been given to the Issuer by any holder of a Note,

then the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Principal Paying Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

### (b) **Withdrawal of Declaration of Acceleration**

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such

declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall, give notice thereof to the Noteholders (with a copy to the Principal Paying Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

10. **REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

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

11. **AGENTS**

The initial Agents are set out above. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in of the applicable Pricing Supplement.

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

- (a) there will at all times be a Principal Paying Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and
- (d) there will at all times be a Paying Agent in a jurisdiction within the European Economic Area, other than the jurisdiction in which the Issuer is incorporated.
- (e) In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

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

12. **EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

13. **NOTICES**

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a

manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules.

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

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

#### 14. **MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS**

##### **(a) Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions**

- (i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the Agency Agreement. The Issuer will determine the time and place of the meeting. The Issuer will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
- (ii) The Issuer will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 14(a)(i) above have delivered a written request to the Issuer or the Principal Paying Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Principal Paying Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (iii) The Issuer will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Aggregation Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

- (iv) The notice convening any meeting will specify, inter alia:
  - (A) the date, time and location of the meeting;
  - (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
  - (C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
  - (D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
  - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
  - (F) whether Condition 14(b), Condition 14(c), or Condition 14(d) below shall apply and, if relevant, in relation to which other series of debt securities it applies;
  - (G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
  - (H) such information that is required to be provided by the Issuer in accordance with Condition 14(f) below;
  - (I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 14(g) below; and
  - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 14(a)(iv) above shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
- (vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
- (ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.
- (x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 14 and Condition 15 or provisions



substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

(b) **Modification of this Series of Notes only**

- (i) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 14(a) above by a majority of:
  - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
  - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.
- (iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
  - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
  - (B) in the case of a matter other than a Reserved Matter more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

- (iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be, and on all Couponholders.

(c) **Multiple Series Aggregation – Single limb voting**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.
- (ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 14(a) above, as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
- (iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable Agency Agreement) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities

of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

- (iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be, and on all Couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.
  - (v) The "**Uniformly Applicable**" condition will be satisfied if:
    - (A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
    - (B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
  - (vi) It is understood that a proposal under Condition 14(c)(i) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).
  - (vii) Any modification or action proposed under Condition 14(c)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 14(c) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.
- (d) **Multiple Series Aggregation – Two limb voting**
- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

- (ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 14(a) above, as supplemented if necessary, which is passed by a majority of:
  - (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
- (iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable Agency Agreement) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
  - (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

- (iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all Couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.
- (v) Any modification or action proposed under Condition 14(d)(i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 14(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters**

In these Conditions, "**Reserved Matter**" means any proposal:

- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";
- (v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";
- (vi) to change the definition of "Uniformly Applicable";
- (vii) to change the definition of "outstanding" or to modify the provisions of Condition 14(i) below;
- (viii) to change the legal ranking of the Notes;
- (ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 9;
- (x) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 18;
- (xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (xii) to modify the provisions of this Condition 14(e);
- (xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
  - (A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
  - (B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) **Information**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 14(b), Condition 14(c) or Condition 14(d) above, the Issuer shall publish in accordance with this Condition, and provide the Aggregation Agent with the following information:

- (i) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (ii) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (iii) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (iv) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 14(a)(iv)(G) above.

(g) **Claims Valuation**

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 14(c) and Condition 14(d) above, the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) **Manifest error, etc.**

The Notes, these Conditions and the provisions of the Agency Agreement may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless the Issuer solely determines that it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(i) **Notes controlled by the Issuer**

For the purposes of (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution (ii) this Condition 14 and (iii) Condition 9, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

- (i) "**public sector instrumentality**" means the Central Bank of Iceland, any department, ministry or agency of the government of the Republic of Iceland or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Iceland or any of the foregoing; and
- (ii) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Aggregation Agent a copy of the certificate prepared pursuant to Condition 15, which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Aggregation Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) **Publication**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 15(g).

(k) **Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders and Couponholders.

15. **Aggregation Agent; Aggregation Procedures**

(a) **Appointment**

The Issuer will appoint an aggregation agent (the "**Aggregation Agent**") to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or Agency Agreement in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions**

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate**

For the purposes of Condition 15(b) and Condition 15(c) above, the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 14(b), 14(c) or 14(d), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and
- (ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 14(i) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 15 to be notified to the Principal Paying Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) **Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 15 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Principal Paying Agent, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication**

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 14, this Condition 15 and Condition 9:

- (i) on [www.lanamal.is](http://www.lanamal.is);
- (ii) through DTC, Euroclear, Clearstream, Luxembourg and any other clearing system in which the Notes are held;

- (iii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iv) in such other places and in such other manner as may be customary.

## 16. **FURTHER ISSUES**

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

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

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

## 18. **GOVERNING LAW, JURISDICTION AND WAIVER OF IMMUNITY**

### 18.1 **Governing law**

The Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and construed in accordance with, English law.

### 18.2 **Submission to Jurisdiction**

- (a) The English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons (a "**Dispute**") and accordingly each of the Issuer and any Noteholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 18.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

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

The Issuer irrevocably appoints the Ambassador of the Republic of Iceland to the Court of St. James at his official residence in England for the time being as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of the Ambassador of the Republic of Iceland to the Court of St. James being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

### 18.4 **Waiver of immunity**

- (a) The Issuer hereby irrevocably waives, to the extent permitted by applicable law and international conventions, (i) any immunity from jurisdiction it may have in any proceedings in respect of any Dispute ("**Proceedings**") in the courts of England, and (ii) except as provided below, any immunity from attachment or execution to which its assets or property might otherwise be entitled in any Proceedings in the courts of England, and agrees that it will not claim any such immunity in any such Proceedings.
- (b) Notwithstanding the foregoing, the above waiver shall not constitute a waiver of immunity from attachment or execution with respect to:
  - (i) assets and property of the Issuer located in the Republic of Iceland;



- (ii) the premises and property of the Issuer 's diplomatic and consular missions;
  - (iii) assets and property of the Issuer outside the Republic of Iceland not used or intended to be used for a commercial purpose;
  - (iv) assets and property of the Issuer's central bank or monetary authority;
  - (v) assets and property of a military character or under the control of a military authority or defence agency of the Issuer; or
  - (vi) assets and property forming part of the cultural heritage of the Issuer.
- (c) For the purposes of the foregoing, "property" includes, without limitation, accounts, bank deposits, cash, revenues, securities and rights, including rights against third parties.
- (d) The foregoing constitutes a limited and specific waiver by the Republic solely for the purposes of the Notes, and under no circumstance shall it be construed as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Notes.

#### 18.5 **Other documents**

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

## USE OF PROCEEDS

The net proceeds from each issue of Notes will be utilised by the Issuer for general financing purposes and to refinance existing debt.

If so specified in the relevant Pricing Supplement, the Issuer will apply an amount equal to the net proceeds from an offer of Notes specifically for Environmental Projects. Such Notes may also be referred to as "**Environmental Bonds**" or Republic of Iceland's Environmental Bonds.

## OVERVIEW OF THE REPUBLIC OF ICELAND

### Geography

Iceland is located in the North Atlantic between Norway, Scotland, and Greenland. It is the second-largest island in Europe and the third-largest in the Atlantic Ocean, with a land area of some 103,000 square kilometres, a coastline of 4,970 kilometres, and a 200-nautical-mile exclusive economic zone extending over 758,000 square kilometres in the surrounding waters. Iceland enjoys a warmer climate than its northerly location would indicate because a part of the Gulf Stream flows around the southern and western coasts of the country. Approximately 23% of the total land area of Iceland is arable land or pasture. Less than 5% of this area is cultivated, with the remainder used for grazing or left undeveloped. With only 3 inhabitants per square kilometre, Iceland is one of the least densely populated countries in Europe. On 1 January 2020, the population of Iceland was 364,134. The population grew by 7,142 from the previous year, corresponding to a 2.0% rise in population. Around 63% of the population (228,418) live in the capital city of Reykjavik and its surrounding municipalities. The largest urban area after the capital area is Akureyri, in the north, with a population of 18,775.

### History and institutional framework

Iceland was settled in the ninth century. The majority of the settlers were of Norse origin, with a smaller Celtic element. A general legislative and judicial assembly, the *Althingi*, was established in 930, and a uniform code of laws for the country was established at the same time. In 1262, Iceland entered into a union with the Norwegian monarchy. When the Danish and Norwegian monarchies were united in a confederacy in 1380, Iceland came under Danish rule that lasted for more than five hundred years. Iceland was granted a new constitution in 1874 (the "**Constitution**") and obtained home rule in 1904. With the Act of Union in 1918, Iceland became a sovereign state in a monarchical union with Denmark. In 1944, Iceland terminated this union with Denmark and founded a republic. The native language, Icelandic, belongs to the Nordic group of the Germanic languages. The present constitution was adopted on 17 June 1944, when the Republic was established.

Iceland has a multi-party parliamentary system of government. Legislative power is vested in the Parliament (the *Althingi*) and executive power in a cabinet headed by the prime minister. The Government must be supported by a majority of Parliament in order to remain in power. The 63 members of the *Althingi* are elected from six constituencies on the basis of proportional representation, for a term of four years. A parliamentary bill becomes law when it is passed by the *Althingi* and signed by the president of the country.

The president is the head of state and is elected for a term of four years by a direct vote of the electorate. The most recent presidential elections were held in 2020. General elections are generally held every four years, but the Constitution allows for early dissolution of Parliament, which triggers early elections. Iceland has a tradition of political stability. Since 1918, governments have normally been formed by a coalition of two or more political parties that have jointly held a majority in Parliament.

Iceland's court system is divided into three levels: district courts, which are the courts of first instance, a court of appeal and the Supreme Court, which holds the highest judicial power in Iceland. The Constitution provides for the courts' independence, according to which judges have judicial power, shall only abide by the law in their official duties, and cannot be discharged from office except by judicial decision.

The Central Bank of Iceland (the "**Central Bank**" or "**CBI**") was established by an Act of Parliament in April 1961. The Central Bank is an independent institution owned by the State but under separate administration. Its objective is to promote price stability, financial stability, and sound and secure financial activities. The Central Bank shall also undertake such tasks as are consistent with its role as a central bank, such as maintaining international reserves and promoting a safe, effective financial system, including domestic and cross-border payment intermediation.

As of 1 January 2020, the Central Bank is responsible for the tasks entrusted by law and Governmental directives to the Financial Supervisory Authority, and financial supervision is now part of the Central Bank's operations. The Central Bank shall therefore monitor supervised entities to ensure that their activities are in compliance with the law and with Governmental directives, and that they are in other respects consistent with sound and appropriate business practices.

With the approval of the Prime Minister, the Central Bank may declare a quantitative target for inflation. The target is currently, from 2001, defined as a twelve-month inflation rate of 2.5%. The Central Bank is authorised, with the approval of the Minister, to declare a target for the exchange rate of the Icelandic króna versus foreign currencies. The Central Bank is required to promote the implementation of the Government's economic policy as

long as it does not consider this inconsistent with the Central Bank's objectives. The Prime Minister's Office oversees matters pertaining to the Central Bank, insofar as they belong to the political sphere. The Central Bank is supervised by a seven-member Supervisory Board elected by Parliament.

## International relations

Iceland has participated actively in international cooperation. It belongs to a group of Nordic countries that includes Denmark, Sweden, Norway, and Finland, as well as Greenland and the Faroe Islands. The Nordic countries have established wide-ranging cooperation in a variety of fields, including economic affairs and international representation, in some of which the Baltic states have taken an increasingly active part. Iceland is a member of the Nordic Council and specialised institutions such as the Nordic Investment Bank. Iceland is also a member of the Arctic Council and a number of other regional bodies. It became a member of the United Nations in 1946 and is an active participant in most of its affiliated agencies. Iceland is a founding member of the Bretton Woods institutions that became operational in 1945, the International Monetary Fund ("**IMF**"), and the International Bank for Reconstruction and Development (now part of the World Bank). It is one of the original members of the Organisation for Economic Cooperation and Development ("**OECD**") and of the European Bank for Reconstruction and Development. It joined the Council of Europe in 1950 and has participated in the Organisation for Security and Cooperation in Europe since the Organisation's inception in 1975. In 1964, Iceland became a party to the General Agreement on Tariffs and Trade, the predecessor to the World Trade Organisation.

Iceland joined the European Free Trade Association ("**EFTA**") in 1970 and entered into a free-trade agreement with the European Economic Community in 1972. In May 1992, the member countries of EFTA and the European Union signed an agreement to establish a zone for the free movement of goods, services, capital and persons, the EEA. The agreement took effect on 1 January 1994. Iceland signed an association agreement to the Schengen Agreement and has been a member of the Schengen Area since 2001 alongside the other Nordic countries. Through this agreement, Iceland is a part of the single market of the European Union. Iceland is a party to numerous free trade agreements with other countries through its EFTA membership. Furthermore, Iceland has negotiated bilateral free trade agreements with China, Greenland, and the Faroe Islands.

Iceland is a founding member of the North Atlantic Treaty Organisation, established in 1949. The US maintained a permanent military presence at a base in Iceland from 1951 until 2006. Peacetime defence is now the responsibility of the Icelandic government, but arrangements have been made for the return of US forces in times of crisis or war, and documents have been signed with Denmark and Norway regarding cooperation on security and defence.

## The welfare system

Iceland is a modern welfare state that guarantees access to universal health care, education, and a high degree of social security for its citizens. Public spending on health, education, social security, welfare and other social affairs amounted to 26.7% of GDP in 2016. Average life expectancy in Iceland was 81.0 years for men and 84.2 years for women in 2019, and infant mortality was 1.1 per 1,000 live births in 2019, which testifies to the advanced status of health care and lifestyle choices in Iceland.

The Icelandic old-age pension system is composed of three pillars: a tax-financed public pension scheme, mandatory funded occupational pension schemes, and voluntary pension saving with deferred taxes. Public pensions are fully financed by taxes. The public pension system provides an old-age pension, a disability pension, and a survivors' pension. In most cases, the old-age pension is paid from the age of 67. It is mandatory to pay at least 15.5% of total wages and salaries to pension funds. Employees contribute 4% of this share, and the rest is contributed by the employer. The funds have grown rapidly in recent decades, as their coverage has become almost total and the return on their assets has been strong, although fluctuating with the economic cycle. Assets were equivalent to about 191% of GDP at the end of September 2020.

## Social protection expenditure

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	<i>(% of GDP)</i>										
Social protection, total .....	10.6	10.6	11.1	10.6	10.1	10.1	9.4	9.1	9.7	10.0	10.8
1 Sickness .....	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
2 Disability .....	2.6	2.6	2.8	2.8	2.9	2.9	2.8	2.7	3.1	3.1	3.3
3 Old age .....	2.1	2.0	2.5	2.5	2.4	2.6	2.5	2.5	3.0	3.1	3.3
4 Survivors .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 Family and children .....	2.6	2.6	2.3	2.2	2.3	2.3	2.1	2.0	2.0	2.1	2.2
6 Unemployment .....	1.6	1.6	1.5	1.3	0.9	0.7	0.6	0.4	0.5	0.6	0.9

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	<i>(% of GDP)</i>										
7 Housing .....	0.9	1.0	1.4	1.1	0.7	0.7	0.6	0.5	0.4	0.4	0.4
8 Social exclusion n.e.c. ....	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
9 Social protection n.e.c.....	0.4	0.4	0.2	0.2	0.4	0.4	0.4	0.4	0.3	0.4	0.4

## Education

Iceland has a strong system of education run by both public and private institutions. Public education is compulsory between the ages of six and sixteen. A good command of English and the Scandinavian languages is widespread. In 2019, about 45% of adults aged 25-64 held a university degree (ISCED 5+6+7+8<sup>1</sup>) up from 29% in 2005. Roughly one out of every five university degrees held by Icelanders has been obtained in another country. These are predominantly funded through taxes, with minimal direct costs to its citizens. The education system is divided into:

- Pre-primary school education is defined by law as the first level of the educational system, providing education and care for children who have not reached six years of age, at which point compulsory education begins.
- Compulsory education is organised in a single-structure system; i.e., primary and lower secondary education form part of the same school level and generally take place in the same school. Legislation on compulsory education stipulates that education shall be mandatory for children and adolescents between the ages of six and sixteen.
- Upper secondary education (34 institutions) is not compulsory, but anyone who has completed compulsory education has the right to enter an upper secondary school. Students are usually between 16 and 20 years of age. General academic education is primarily organised as a three-year course leading to a matriculation examination. The length of the courses in vocational education varies, lasting from one semester to ten, however four-year courses are the most prevalent.
- A modern higher education system that dates back to the foundation of the University of Iceland in 1911. The legal framework covering higher education in Iceland is the Higher Education Institutions Act, no 63/2006. The Act applies to institutions that provide higher education leading to a degree and have been accredited by the Ministry of Education, Science and Culture. The ministry has also issued the National Qualification Framework for Iceland, no 530/2011, a systematic description of the structure of education and degrees awarded in higher education that is specifically based on learning outcomes. All accredited higher education institutions in Iceland must follow this framework. The Minister of Education, Science and Culture grants accreditation to higher education institutions that fulfil the criteria laid down in national legislation as well as internationally accepted criteria. The Quality Board for Icelandic Higher Education has issued a Quality Enhancement Framework that includes reviews at institutional and subject levels as well as continuing and additional accreditation reviews of higher education institutions.

## Educational attainment of the population aged 25-64 in accordance with ISCED

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total (thousands) .....	160.6	164.1	163.6	162.6	162	161.2	163.3	164.4	166.1	168.9	173.7	181.1	187.1
Basic education (1, 2).....	31%	31%	30%	29%	29%	29%	28%	27%	25%	22%	23%	22%	21%
Upper secondary education (3, 4).....	38%	37%	37%	38%	37%	36%	36%	36%	36%	38%	35%	34%	34%
Tertiary education (5, 6, 7, 8).....	31%	32%	33%	33%	34%	35%	36%	37%	39%	40%	42%	44%	45%

<sup>1</sup> The International Standard Classification of Education (ISCED) was developed by UNESCO to facilitate comparisons of education statistics and indicators across countries on the basis of uniform and internationally agreed definitions. ISCED codes 5-8 correspond to university education and higher.

## THE ECONOMY

### Background and characteristics

The Icelandic economy generated GDP of ISK 2,970 billion in 2019 (2018: ISK 2,788 billion). Iceland's living standards are among the highest in the world. According to World Bank data, gross national income per capita measured in terms of purchasing power parities amounted to U.S.\$ 61,170 in 2019.

Historically, prosperity has been built largely on Iceland's comparative advantages in abundant marine and energy resources. In the years prior to the 2008 financial crisis, the financial services and construction sectors were the main drivers of economic growth, and conversely, the contraction was most pronounced within those sectors after 2008. GDP growth resumed in late 2010, however, and the contribution from the services sector was driven by a resurgence in domestic demand and growth in tourism-related services, supported by a competitive real exchange rate in the early phase of the recovery period that lasted nearly a decade.

Economic developments and the outlook have changed radically since COVID-19 began to spread within and between countries in 2020. In response to COVID-19, the Government implemented pandemic response measures, which, in addition to voluntary social distancing, have caused significant economic disruption, especially to tourism-related services. As a result, GDP decreased by 5.7% year-on-year in the first half of 2020.

Selected economic indicators	2016	2017	2018	2019
Gross domestic product (ISK billion) .....	2,491	2,616	2,788	2,970
Gross domestic product (USD billion).....	20.6	24.5	25.7	24.2
GDP growth (%).....	6.6	4.5	3.9	1.9
Consumer price index (average) .....	1.7	1.8	2.7	3.0
Unemployment (% of labour force) .....	2.3	2.1	2.4	3.5
Labour productivity .....	3.5	3.3	1.4	0.7
Real wages.....	7.1	4.8	2.2	2.4
Nominal wages .....	11.3	6.9	6.5	4.9
USDISK (average).....	121	107	108	123
EURISK (average).....	134	121	128	137
Terms of trade (average).....	2.4	1.7	-3.6	-0.7
Trade Balance .....	6.2	4.1	3.0	4.9
Current account balance (% of GDP).....	7.6	3.8	3.2	6.2
— services account balance .....	10.3	10.4	8.8	8.4
Central government debt (% of GDP).....	73.9	63.7	59.4	67.6
Central government balance (% of GDP) <sup>(1)</sup> .....	12.1	1.7	1.0	-1.3
Gross external debt (% of GDP) .....	156.3	114.6	111.7	109.0
Net IIP (% of GDP).....	2	2	10	22
Central Bank reserves (% of GDP) .....	33	26	26	28
Central Bank reserves (USD billion) .....	7.2	6.6	6.3	6.8

<sup>(1)</sup> Central government balance (% of GDP) includes stability contributions.

Sources: Statistics Iceland, Central Bank of Iceland, Directorate of Labour, and Ministry of Finance and Economic Affairs.

### Recent economic developments

The main driver of growth in recent years has been the increase in tourism and derived activities. An increase in domestic demand followed, as job creation supported household demand and growth of the sector called for increased investment. Since the global financial crisis in 2010, GDP increased on average by nearly 3.5% per year until 2019. In 2019, however, the growth outlook deteriorated as signs of a slowdown in tourism-related exports emerged and a contraction in marine exports was expected.

In early 2020, details emerged about the disease, and spread of, COVID-19. In late February 2020, the first infection in Iceland was registered and in March public health measurements to contain the spread of the virus were implemented with a significant impact on economic activity, albeit less restrictive than in many of the neighbouring countries. In the forecast in *Monetary Bulletin* 2020/1 published in February 2020, before the pandemic reached Iceland, GDP was forecast to grow by 0.8% in 2020. An indication of the economic impact of the pandemic can be found by comparing that forecast to the forecast in the most recent publication of *Monetary Bulletin* 2020/4 from November 2020, where GDP is forecast to decline by 8.5% in 2020. Both exports and domestic demand contribute substantially to this turnaround, with exports contributing a sizable share in an international context due to the large share of tourism in GDP. The economy is expected to start to recover in 2021 once a vaccination is available and on the assumption that this will allow for life to normalize gradually as

the year progresses. As the circumstances dictate, the outlook is highly uncertain, but GDP is forecast to grow by 2.3% 2021 and by 5.7% 2022 as the economic recovery gains momentum.

Following the turmoil related to COVID-19, the exchange rate of the króna has depreciated. By mid-November, the króna had depreciated by nearly 14% since the turn of the year. Exchange rate developments have historically been a key determinant for inflation in Iceland. Inflation was at the Central Bank's 2.5% inflation target in the second quarter of 2020. Following the depreciation of the króna, inflation has risen and measured 3.2% in the third quarter of 2020, reaching 3.6% by October. Short-term inflation expectations have risen recently, but medium- and long-term expectations do not appear to have become unmoored from the target. The outlook is for inflation to average 3.7% until early 2021, and then, once the effects of the depreciation of the króna disappear from measurements, it is expected to begin to ease relatively quickly, owing to the sizeable slack that has developed in the economy.

Along with the GDP contraction, labour demand has decreased and unemployment increased. In 2019, unemployment was on average 3.6% but is expected to rise to 5.9% in 2020. Unemployment is expected to peak in the first six months of 2021 and to be 8.3% on average over the whole year before it decreases again as the economic recovery gains pace.

### Composition of output and expenditure

Services form the bulk of economic activity, accounting for 74.2% of GDP in 2019 (75% of GDP in 2018). The marine sector accounted for 6.1% of GDP in 2019 (5.6% of GDP in 2018) and remains one of the most important sources of export revenues, although its relative weight in total export revenues has declined in recent years as tourism-related services have increased rapidly. Manufacturing (excluding fish processing) accounted for 7.2% of GDP in 2019 (7.1% of GDP in 2018), and construction accounted for 7.9% of GDP in 2019 (7.8% of GDP in 2018). Financial and insurance activities accounted for 5.9% of GDP in 2019 (6.0% of GDP in 2018). From 2010, the beginning of the post-crisis economic recovery, until 2019, GDP grew by 35.6%, nearly 60% of this was due to growth in the private services sector and the remaining growth was from the construction sector and growth in public services.

Private consumption contributed 50.6% of GDP in 2019 (51.0% in 2018), and public consumption and gross fixed capital formation contributed 24.5% and 20.1% of GDP in 2019 (24% and 21.6% in 2018), respectively. After the financial crisis struck in 2008, the investment-to-GDP ratio fell well below the long-term average of 21% of GDP, but in 2013-2017 it rose sharply and has been close to its long-term average since 2016. The ratio of public consumption to GDP declined at the height of the pre-crisis boom, as private sector activity outpaced public sector activity. However, the ratio rose just after the crisis, as the private sector contracted more than the public sector. In 2011-2016, the public consumption ratio was on a declining path, as the economic recovery had been driven by exports and domestic private sector demand. However, since 2016, the public consumption ratio has risen.

Iceland is an open economy. In 2019, imports and exports of goods and services amounted to 40.4% and 45.3% of GDP, respectively (imports were 44.5% and exports 47.5% of GDP in 2018). In the first half of 2020 these shares measured significantly lower due to effects of the COVID-19 pandemic.

### Composition of GDP

IN BILLION ISK	2016		2017		2018		2019	
		% GDP		% GDP		% GDP		% GDP
Private final consumption expenditure.....	1,236	50	1,317	50	1,422	51	1,502	51
Government final consumption expenditure.....	571	23	614	23	670	24	727	24
Gross fixed capital formation.....	526	21	575	22	601	22	598	20
Changes in inventories.....	3	0	1	0	11	0	-3	0
Gross domestic final expenditure.....	2,335	94	2,507	96	2,704	97	2,824	95
Exports of goods and services.....	1,187	48	1,206	46	1,324	48	1,346	45
— Goods, fob.....	540	22	531	20	614	22	652	22
— Services.....	646	26	676	26	710	25	693	23
Less: Imports of goods and services.....	1,031	41	1,098	42	1,241	45	1,200	40
— Goods, fob.....	642	26	695	27	777	28	755	25
— Services.....	389	16	403	15	464	17	445	15
Gross Domestic Product.....	2,491	100	2,616	100	2,788	100	2,970	100

Source: Statistics Iceland

## Baseline macroeconomic and inflation forecast

	Volume change year-on-year (%)					
	2018	2019	2020 (F)	2021 (F)	2022 (F)	2023 (F)
<i>GDP and its main components</i>						
Private consumption .....	4.7	1.3	-5.5	2.7	3.9	3.7
Public consumption .....	4	4.2	3.9	1	2.2	2.5
Gross capital formation.....	-1	-6.6	-15.5	3.1	4.8	7
Business investment.....	-11.4	-18	-19.9	-0.1	14.5	12.2
Residential investment .....	15.5	31.2	-18.8	-10.3	0.8	4.7
Public investment.....	31.2	-9.8	3.6	28.6	-11.8	-4.5
Domestic demand .....	3.6	-0.2	-4.7	1.9	3.6	4
Exports of goods and services.....	1.7	-4.9	-30.1	11.7	22.2	5.1
Imports of goods and services.....	0.8	-10.2	-23.9	10.7	17.7	5.6
Contribution of net trade to growth (% of GDP).....	0.4	2.2	-4	0.4	2.2	0
Gross domestic product (GDP).....	3.9	1.9	-8.5	2.3	5.7	3.9
Gross domestic product (GDP) at current prices (ISK billion) .....	2,788	2,970	2,815	2,977	3,209	3,428

F=forecast according to official budget forecasts.

Source: Monetary Bulletin 2020/4, Central Bank of Iceland

The baseline macroeconomic and inflation forecast reflects an assessment of the most likely economic developments over the next three years. It is based on forecasts and assumptions concerning developments in the external environment of the Icelandic economy, and the effects of those developments on the Icelandic economy. The forecast is also based on how individual markets function and how monetary policy is transmitted to the real economy. All of these factors are highly uncertain, and economic developments, whether domestic or international, could deviate somewhat from the baseline scenario.

## Gross domestic product, by sector (%)

	2014	2015	2016	2017	2018	2019
Agriculture.....	1.1	1.1	1	1.0	0.9	1.0
Fishing and aquaculture .....	4.8	4.9	4.1	3.3	3.5	4.1
Mining and quarrying .....	0.1	0.1	0.1	0.1	0.2	0.2
Manufacturing .....	12.6	11.8	10.4	10.1	9.5	9.7
— manufacture of food products.....	5.2	5.0	4.4	4.2	4.3	4.4
— fish processing.....	3.3	3.2	2.5	2.4	2.4	2.5
— manufacture of basic metals.....	2.9	2.4	1.5	2.0	1.2	1.1
Electricity and water supply .....	4.0	4.2	3.6	3.6	3.8	3.8
Construction .....	5.3	5.4	6.8	7.4	7.8	7.9
Wholesale and retail trade.....	17.4	18.8	20.3	20.2	20.0	19.0
Transportation and storage.....	5.7	6.5	6.9	6.8	7.0	6.3
Accommodation and food service activities .....	2.8	3.2	3.8	3.9	3.8	3.9
Information and communication .....	4.4	4.6	4.7	4.6	4.6	4.6
— computer programming and information services.....	2.3	2.6	2.8	2.7	2.8	2.8
Financial and insurance activities .....	7.6	6.7	6.5	6.5	6.0	5.9
Real estate activities .....	11.4	10.8	10.6	10.9	10.7	10.8
Professional, scientific and technical activities .....	4.5	4.5	4.5	4.2	4.4	4.4
— scientific research and development.....	0.8	1.0	1.0	0.9	0.9	0.9
Administrative and support service activities .....	3.2	3.7	4.0	4.3	4.5	4.4
Public administration.....	5.5	5.5	5.2	5.4	5.5	5.4
Education.....	6.2	6.2	6.2	6.3	6.2	6.3
Human health and social work activities.....	8.1	8.0	8.0	8.3	8.5	8.8
Arts, entertainment and recreation .....	1.4	1.4	1.4	1.4	1.4	1.5
Other service activities .....	0.4	0.4	0.4	0.4	0.4	0.4
<b>Total.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Statistics Iceland

## Marine sector

Throughout most of the 20th century, the marine sector was of key importance to the Icelandic economy. The marine sector accounted for 6.1% of GDP in 2019 (2018: 5.6%) and remains an important source of export



revenues, although its relative size in total export revenues has declined in recent years from 26% in 2013 to 19% in 2019, as the share of export revenues of tourism-related services increased rapidly.

In order to maintain long-term sustainable use of the fish stocks and good treatment of the marine ecosystem, Icelandic fisheries are managed through a catch limitation system. The foundation of the Icelandic fishery management system is focused on sustainable and responsible fisheries while facilitating profitability in the industry. Profitable fisheries benefit both the private stakeholders and the general public as a whole through taxes and quota fees. With limits in place on the total allowable catch ("TAC"), the fishery industry sector has to focus on growth through advancement in productivity, improved utilization, value-added and increased quality of the final products. This approach has also been a catalyst for innovations in other domestic industries, mainly production of high-tech machinery and equipment for the food industry but also in cosmetics and pharmaceuticals.

### **Controls, enforcement and annual TAC**

The essential feature of the fisheries management system in Iceland is the annual allotment of TAC for each stock. While the TAC defines the overall catch quantity over one year, the catch quotas are primarily distributed through the fixed share of the TAC to the individual operators. Over 98% (by value) of species from Icelandic waters are subject to the quota system.

The decision on the annual TAC for each stock is by law anchored in the scientific research and formal advice presented by the Marine and Freshwater Research Institute ("MFRI") in June each year. The recommendation given by the MFRI for the main commercial species is peer reviewed by the Advisory Committee of The International Council for the Exploration of the Sea every year. While the scientific advice has been closely followed by the Minister of Fisheries and Agriculture in recent years, the purely scientific advice is nonetheless subject to a wide formal and informal consultative process.

Effective controls and enforcement is a pivotal element of a responsible fisheries management system. The Directorate of Fisheries closely monitors fisheries to ensure that all rules are being followed. Discards are prohibited by law and subject to heavy fines. Real-time catch figures are delivered to a live database through a synchronised weight control system at all registered landing ports. In addition to the individual transferable quota system, Icelandic fisheries management includes many other management measures such as area restrictions, fishing gear restrictions, and the use of closed areas to conserve important vulnerable habitats such as the major spawning grounds of cod which are closed during the main spawning season.

### **International cooperation**

Iceland promotes national, regional and international efforts to regulate the use of living marine resources and to protect and improve the health of the marine environment. Iceland actively participated in establishing the UN Convention on the Law of the Sea ("UNCLOS") (as well as the follow up agreements to the UNCLOS), the Straddling Fish Stocks Agreement (which came into force in 2001) and the UN Compliance Agreement (which came into force in 2003). Iceland was also active in establishing the 2009 FAO Agreement on Port State Measures and the 2014 FAO Voluntary Guidelines on Flag State Performance.

Regional fisheries management organisations play a key role in securing the conservation and effectively managing the use of straddling and highly migratory fish stocks. Therefore, Iceland cooperates actively with neighbouring countries through these organisations, such as the Northwest Atlantic Fisheries Organization, the North East Atlantic Fisheries Commission, the International Whaling Commission, the International Convention on Conservation of Atlantic Tunas and the North Atlantic Marine Mammal Commission. Furthermore, the International Council for the Exploration of the Sea is an important partner in marine research, the basis for responsible fisheries management.

### **Manufacturing and energy-intensive industries**

The manufacturing sector is dominated by two sub-sectors, food processing, mainly seafood production for export and aluminium production. Together, these sub-sectors account for roughly 70% of total manufacturing. Production of machinery and other investment goods is relatively limited.

The three aluminium plants in Iceland generated around 16% of export revenues in 2019. Iceland's aluminium industry is based primarily on competitive energy costs, a strategic location, and a skilled labour force. Production rose sharply in 2008 and 2009 but has remained relatively stable in recent years, averaging around 870,000 metric tonnes per year since 2015, or around 1.5% of global aluminium production. Production is estimated to remain relatively stable or to slightly increase in the coming years.

A number of export-oriented manufacturing companies have emerged in the last two decades. Most of these companies are founded on product innovation, research and development, information and communications technology, and strategic marketing. Some of these companies have grown from small or medium-sized companies to key international players in their field, holding a relatively large market share worldwide, and in some cases a world-leading position, such as in the production of medical equipment, food processing equipment (meat and fish), and fishery gear.

### **Energy sector**

Iceland is at the forefront in the use of renewable energy resources. Of the total primary energy supply in Iceland, nearly 84% was from renewable resources in 2019, an increase from 72% in 2000. Iceland has large potential sources of renewable energy; the country is located on the volcanically active Mid-Atlantic Ridge, a potent source of geothermal energy, and one-tenth of the landmass is covered by glaciers – a major source of hydroelectric power. Iceland's hydropower and geothermal resources have been only partly harnessed.

Iceland is the only country in Europe that still has a considerable amount of large-scale, competitively priced power from these sources. Electricity production per capita is the highest in the world, at 55 megawatt hours per capita. At year-end 2018, total installed hydropower was 1,990 megawatts ("MW") in 57 power plants with a combined capacity of 12,812 gigawatt hours ("GWh"), or over 70% of generated electricity. Combined installed geo-power for electricity generation (in 2019) was over 754 MW from seven plants with a total capacity of 6,020 GWh.

Iceland has been in the lead globally in the use of geothermal energy for purposes other than generating electricity. Geothermal energy accounts for 65% of primary energy used in Iceland. The total primary energy supply per unit of GDP is the highest in the world, nearly four times above the OECD average. Over 90% of all homes are heated by geothermal energy in the form of hot water at only a fraction of the heating cost in other Nordic countries. For the general public, the price of electricity is one of the lowest in the world, at about half of the price to consumers in the European Union.

### **Real estate sector**

House prices in the Reykjavik area rose considerably in real terms from the start of 2010 to May 2017 when the year-on-year increase peaked at 21.5%. During that period, house prices deviated from developments in underlying determinants, due primarily to strong growth in short-term rentals to tourists and rapid population growth at a time of inelastic supply. The rise in house prices slowed down in 2019, as residential investment and supply of new housing had picked up even though demand (measured as turnover in real terms) was robust. Since the COVID-19 pandemic struck Iceland, house prices have been buoyant and turnover has been strong, with Central Bank rate cuts stimulating demand and partly offsetting the adverse economic impact of the pandemic. The year-on-year rise of real house prices in the capital area was 2.4% in October 2020 but somewhat higher in regional Iceland, at 5.6%. The ratio of house prices in the capital area to wages was down 1% year-on-year in October 2020.

Household debt as a share of GDP has risen somewhat in 2020 and measured 82.3% at mid-year after being stable in the last four years at about 74% on average. However, the share has declined by almost 38 percentage points since autumn 2008. By mid-year 2020, households' mortgage debt increased by 4.6% year-on-year in real terms, but other household debt contracted by almost 2%.

### **Service and tourism sectors**

Other industries include the financial sector, which comprises four commercial banks and four savings banks. The State is the major owner of two of Iceland's commercial banks. The technological sector of the services industry (the software industry in particular) has also diversified and grown significantly in recent years, and most software technology businesses engage in export activities, owing to the small size of the local market.

Tourism has been among the fastest-growing industries in Iceland in recent years and has established itself as the third main pillar of the Icelandic economy alongside fisheries and aluminium production. Since 2010, total tourist spending has risen from ISK 157 billion to ISK 521 billion in 2019, with the share in GDP rising from 3.4% to 8.0%, and its share of export revenues increasing from 19% in 2010, to 26% in 2013, and 35% in 2019.

Over the past decade, the number of foreign tourists increased from 489,000 in 2010 to 2.3 million in 2018 when tourist arrivals reached their peak. In 2019, the tourism industry suffered an adverse shock when the low-cost carrier airline, WOW Air ceased operations at the end of March 2019. The number of tourists visiting Iceland

decreased in 2019 to roughly 2 million. In 2019, a total of 13 airlines flew to and from Keflavík Airport year-round, a substantial increase compared to 2011, when only three airlines offered year-round service.

Since the onset of the COVID-19 pandemic, the virtual halt in international air travel to and from Iceland resulted in a 91% year-on-year contraction in tourism-related exports in the second quarter of 2020. Services exports shrank by over 64%, to the level seen in 2003. There has been a slight improvement in tourism in the third quarter of 2020, as the pandemic appeared to be receding, and a further increase is expected in other services exports, i.e., pharmaceuticals companies' intellectual property exports, high-tech research, and services from various computer and software firms. Overall, goods and services exports are expected to contract by 30% in 2020. The outlook for tourism is highly uncertain and depends in part on when intercontinental travel restrictions are lifted, particularly on travel between Europe and North America. Before the COVID-19 pandemic struck, approximately a fifth of all tourists who visited Iceland came from the US. Travel is not projected to resume in earnest until the second quarter of 2021, when tourism is expected to start recovering as the pandemic subsides and international travel restrictions are eased. It is assumed that capacity in the tourism sector will be largely preserved and that the recovery could be a swift one when overseas travel resumes.

## Inflation

According to the Act on the Central Bank of Iceland, the Central Bank's principal objective is to promote price stability. This objective was further described in the joint declaration issued by the Central Bank and the Icelandic Government on 27 March 2001 as an inflation target of 2.5%.

	<b>Changes in the consumer price index</b>
	<i>Annual inflation (%)</i>
2010.....	5.4
2011.....	4.0
2012.....	5.2
2013.....	3.9
2014.....	2.0
2015.....	1.6
2016.....	1.7
2017.....	1.8
2018.....	2.7
2019.....	3.0

## Developments in inflation, the exchange rate and interest rates

Inflation measured 3% in 2019, as compared with 2.7% in 2018. It fell rapidly in late 2019 and measured 2% in December. Inflation excluding housing measured 2.6% in 2019, and the spread between inflation including and excluding housing narrowed over the course of the year. Underlying inflation also fell during the year, measuring 2.4% in December 2019, according to the median of various measures, as compared with 3.7% a year earlier.

Inflation has risen rapidly over the course of 2020, following the depreciation of the króna due to the COVID-19 pandemic. Annual inflation was close to the Central Bank's inflation target last June, but had risen to 3.6% in October 2020. Inflation excluding housing was somewhat higher, at 4.1%. Underlying inflation in terms of the average of various measures was also 4.1% in October, an increase of roughly 1.5 percentage points from the turn of the year.<sup>2</sup> All key subcomponents of imported goods have risen in price since then, apart from petrol, as global oil prices fell steeply in the first half of 2020. Price hikes on various imported goods such as furniture, housewares, and electronic equipment have weighed heaviest in the recent rise in the consumer price index ("CPI"). In fact, this subcomponent of the index has risen by 10% in the past twelve months. Prices of domestic goods have also risen by 5.7% year-on-year in October 2020, which is driven by food prices and imported input prices. Further, demand for various goods increased after public health measures were relaxed in the spring, which may have

<sup>2</sup> The Central Bank follow closely various measures of underlying inflation, e.g. core inflation measures that exclude certain components from the CPI (such as volatile items like petrol), but also various statistical measures such as trimmed mean measures. When discussing inflation, the Central Bank normally refers to the average of these measures and discuss how underlying inflation by that measure has developed. This could be an indicator of future inflationary pressures, in addition to giving an insight into inflation excluding various volatile items or for example items not affected directly by monetary policy measures.

pushed prices upwards. Given that spending on travel, recreation, and cultural activities has been limited, individuals have to some extent shifted their consumption spending to other categories instead.

The Central Bank's Monetary Policy Committee ("MPC") has lowered the Central Bank's policy rate by 2.25 percentage points since the turn of the year. The policy rate was lowered by 2 percentage points in the first half of 2020 and at the MPC meeting in November 2020 it was decided to cut interest rates further, by 0.25 percentage points. The Central Bank's key interest rate – the rate on seven-day term deposits – is now 0.75%. The Central Bank has also adopted other measures to increase market liquidity, with the aim of improving access to credit and stimulating demand. The Central Bank's real rate has fallen in line with the decline in the key rate. In terms of the average of various measures of inflation and one-year inflation expectations, the real rate was -2.1% at mid-November 2020. It had fallen by 0.7 percentage points since the end of May 2020 and by 2.5 percentage points since November 2019.

The exchange rate of the króna fell markedly after the pandemic reached Iceland and its effects on the economy grew clearer. However, the króna began appreciating again over the course of May, as optimism about increased tourist numbers took hold and efforts to control the first wave of the pandemic proved successful. That appreciation quickly reversed. Since June, there has been downward pressure on the króna, with non-residents increasingly selling Treasury bonds and exporting the proceeds and, from August onwards, pension funds have stepped up their foreign asset purchases. Foreign currency inflows have also been limited, although the current account is in surplus. The pressure on the króna eased temporarily in early September when the Central Bank announced plans to begin regular foreign currency sales so as to deepen the foreign exchange market and improve price formation. The average exchange rate is currently about 2.7% higher than it was before that announcement, but almost 12% lower than at the time of the first domestic COVID-19 case in late February.

In addition to its regular currency sales, the Central Bank has intervened more in the foreign exchange market in 2020 than in the previous two years. The objective of the intervention is to reduce exchange rate volatility. It also reflects the fact that the real exchange rate is probably below its equilibrium at a time when inflation is above the target.

In March 2020, the Central Bank announced plans to begin buying Treasury bonds in the secondary market so as to ensure that the more accommodative monetary stance would be transmitted to households and businesses. The Central Bank's bond purchases to date are nearly 5 billion króna at market value. However, according to the decision taken by the MPC, bond purchases may range up to 150 billion króna.

### **Labour market**

Over the past ten years, the Icelandic labour market has had a participation rate consistently above 85% and an unemployment rate among the lowest of European countries. The Icelandic labour market is also highly inclusive. In 2019, women accounted for 47% of the labour force and supplied 42% of total hours. In the same year foreign nationals amounted to a fifth of all employees, doubling their share since 2010.

Labour market conditions have deteriorated since the onset of the pandemic. Unemployment has risen considerably and total working hours have fallen. A swift Government response has countered these developments, for example, by introducing a part-time work scheme and various measures limiting income loss. These measures simultaneously prop up demand and maintain employee know-how within firms, and will assist in the recovery.

The Icelandic labour market is quite flexible, with substantial labour mobility, flexible hours, and variable participation and wages. This was clearly manifested in the aftermath of the financial crisis. Companies can easily adjust to changed demand by expanding or reducing staffing levels or by raising or lowering the number of hours worked by those already employed. Furthermore, the number of part-time and full-time employed varies with the business cycle.

There is also some flexibility in labour force supply. In particular, there is a strong connection between net emigration of Icelandic nationals and output growth; moreover, migration of foreign nationals in tandem with the business cycle has increased substantially with the expansion of the pan-European labour market. Moreover, even in the case of significant shifts in sectoral or regional employment, a high degree of labour mobility has prevented large differences in regional unemployment from emerging.

Some 90% of the labour force is unionised. Employers are also coordinated in their bargaining with unions. This has given rise to wage-setting that is characterised by significant centralisation and coordinated bargaining, most frequently by national federations, and it leads to more or less nationwide coverage. In addition, the tailoring of

the national framework of wage agreements in sectoral and firm-level negotiations makes it possible to take specific local conditions into account. The Government has frequently been involved in wage settlements, either through tax concessions and social transfers or through legislative acts aimed at accomplishing moderate settlements.

#### Labour force statistics

	Participation rate <sup>(1)</sup> (%)	Unemployment ( <sup>(2)</sup> (%)	Labour force <sup>(3)</sup>	Employed persons <sup>(4)</sup>	Unemployed persons <sup>(5)</sup>	Working hours <sup>(6)</sup>
2010.....	85.6	7.7	173,800	160,400	13,400	39.3
2011.....	85.2	7.1	173,000	160,600	12,400	39.8
2012.....	85.5	6.2	172,600	162,000	10,600	39.6
2013.....	86.6	5.5	176,800	167,200	9,700	39.7
2014.....	86.7	5.1	178,100	169,100	9,100	39.9
2015.....	87.9	4.2	181,500	173,900	7,600	39.9
2016.....	89.1	3.1	185,700	179,800	5,800	39.6
2017.....	88.3	2.9	188,900	183,400	5,500	39.4
2018.....	87.3	2.8	193,100	187,700	5,400	39.4
2019.....	87.0	3.7	197,900	190,700	7,300	39.4

<sup>(1)</sup> The labour participation rate is the ratio of the labour force to the total population.

<sup>(2)</sup> Unemployment is the ratio of the unemployed to all persons in the labour force.

<sup>(3)</sup> The labour force is considered to consist of employed and unemployed persons.

<sup>(4)</sup> Employed persons are classified as working if they worked one hour or more in the reference week or were absent from the work they usually carry out. Individuals on childbirth leave are considered absent from work if they went on leave from a paid job, even if they have no intention of returning to the same job. A person who usually works 35 or more hours per week is considered to be employed full-time, and a person who usually works 1-34 hours per week is considered to be employed part-time.

<sup>(5)</sup> Unemployed persons are classified as those who have no employment and satisfy one of the following criteria: 1. Have been seeking work for the previous four weeks and are ready to start working within two weeks from the date the survey is conducted. 2. Have found a job that will begin within three months but could start working within two weeks. (Until 2002, the criterion was that it sufficed for the job to start within four weeks without its being investigated whether the person involved could begin within two weeks.) 3. Awaiting being called to work and are able to start working within two weeks. 4. Have given up seeking work but wish to work and could start working within two weeks.

<sup>(6)</sup> Working hours are the total hours respondents worked in their main and second job during the reference week.

## FOREIGN TRADE AND INTERNATIONAL BALANCE OF PAYMENTS

### Balance of payments

The current account balance has remained robust with 2019 as the eleventh consecutive year with a sizeable surplus, the longest uninterrupted surplus period in Iceland's history. The surplus of services trade has narrowed as tourism-related export growth decreased. However, weaker economic activity and the depreciation of the real exchange rate fuelled a steep decline in imports, leading to an overall improvement in the trade balance. Accumulation of external assets, in particular foreign direct investment ("FDI") assets, explains the rise in the 2019 financial account between years. Portfolio assets increased as well, mainly through pension funds, and reserve accumulation was significant in the year 2019, although partially due to an increase in Treasury portfolio liabilities. Large movements in the 2016 financial account are due to the resolution of the old bank estates whereas large movements in the 2017 FDI are due to financial restructuring of international pharmaceutical companies.

Current and financial account (% of GDP)	2016	2017	2018	2019
Current account .....	7.6	3.8	3.2	6.2
— <i>excl. banks in winding-up proceedings</i> .....	...	...	...	...
Trade balance .....	6.2	4.1	3.0	4.9
Balance on goods.....	-4.1	-6.3	-5.8	-3.4
Balance on services .....	10.3	10.4	8.8	8.4
Primary income balance .....	1.8	0.4	1.0	2.0
— <i>excl. banks in winding-up proceedings</i> .....	...	...	...	...
Receipts .....	5.0	3.1	2.8	2.9
— <i>FDI</i> .....	3.5	1.8	1.5	1.5
— <i>interest (excl. FDI / excl. WUP)</i> .....	...	...	...	...
— <i>banks in winding-up proceedings</i> .....	...	...	...	...
Expenditures .....	3.2	2.8	1.8	0.9
— <i>FDI</i> .....	1.2	0.8	-0.1	-0.9
— <i>interest (excl. FDI / excl. WUP)</i> .....	...	...	...	...
— <i>banks in winding-up proceedings</i> .....	...	...	...	...
Secondary income balance .....	-0.5	-0.7	-0.8	-0.7
Financial account.....	8.5	1.6	5.6	7.4
Direct investment .....	-3.5	-0.7	1.8	3.2
Assets .....	-8.5	-29.0	-0.5	1.3
Liabilities.....	-5.0	-28.3	-2.3	-1.9
Portfolio investment .....	9.4	10.0	4.3	3.3
Assets .....	4.6	4.7	3.6	4.7
Liabilities.....	-4.8	-5.3	-0.6	1.5
Other investment .....	-9.2	-4.6	-0.7	-1.5
Assets .....	-26.8	-3.4	0.7	-3.6
Liabilities.....	-17.6	1.2	1.4	-2.2
Derivatives (net).....	0.1	0.3	0.1	0.1
Change in reserves.....	11.6	-3.3	0.2	2.3
Net errors and omissions .....	1.0	-2.1	2.5	1.3

### Net international investment position

Iceland's net international investment position ("IIP") has improved radically in the post-crisis period, through debt repayment facilitated by the current account surplus, debt write-offs due to bankruptcies of private sector entities and other factors, and the composition agreements of the failed financial institutions' estates in late 2015. In 2017, it turned positive for the first time since the second world war and was positive by 22% of GDP at year-end 2019.

Iceland's international balance sheet had expanded rapidly after the capital account liberalisation of the 1990s, and the expansion accelerated further following the privatisation of the banks in 2002-2003. Although the foreign assets of the Icelandic economy grew swiftly during that period, foreign debt grew even more rapidly. From year-end 2002 until the banking crisis in autumn 2008, gross external liabilities expanded from 115% to 901% of GDP and gross external assets from 50% to 710% of GDP, resulting in a negative IIP in the amount of 191% of GDP in the third quarter of 2008. The IIP continued to worsen as a result of the collapse of the banks and the depreciation of the króna, reaching a trough of -694% of GDP in the third quarter of 2009. With the settlements of the failed financial institutions at year-end 2015, the IIP improved to about -5% of GDP, the country's most favourable position in about half a century. Since then, the IIP has continued to improve and turned positive in 2017. Although foreign assets have declined since autumn 2008, foreign liabilities have declined even further,

resulting in a positive IIP of 28.5% of GDP at the end of June 2020. The composition of assets and liabilities is also radically different from the pre-crisis era, and much less bank-driven. Foreign currency reserves weigh much more heavily on the assets side, and the share of debt claims is significantly lower on both the assets and liabilities sides.

During the period from the banks' collapse until end-2015, the official calculation of Iceland's IIP gave a misleading impression of the actual position. In autumn 2008, the estates of Iceland's largest banks were placed in winding-up proceedings and resolution committees were entrusted with their administration. The old banks' assets were transferred to the estates and revalued, whereas the liabilities were entered at nominal value plus accrued interest in official accounts. As it was clear from the outset that payments to creditors would be limited by the estates' assets and recoveries, the Central Bank calculated and published in various reports the so-called underlying IIP, which was based on the estimated settlement of the estates, alongside the official quarterly figures. The underlying IIP was roughly -128% of GDP in 2008 but had improved to roughly -30% of GDP in the third quarter of 2015. With the composition agreements in 2015, the estates' liabilities were written off with reference to their assets, and the officially calculated IIP thereby became the same as the underlying IIP.

External liabilities totalled 78% of GDP at the end of December 2019, its lowest level in 20 years, having contracted by 6 percentage points year-on-year. The external debt of the general government totalled 10% of GDP at year-end 2019, mainly because of non-residents' holdings in króna-denominated Treasury bonds and the Treasury's foreign market bond issues. The composition of Iceland's external debt is rather favourable, with short-term liabilities amounting to only 7% of gross external debt at year-end 2019, which is low both in historical context and in international comparison. Adding long-term debt due in 2020 and government bonds maturing in less than 12 months, short-term debt amounted to 12% of GDP. A large share of foreign debt is owed by the commercial banks, which have ready access to foreign credit markets at present. Significant changes in 2015 were due to the resolution of the failed banks. In December 2015, composition agreements sought by the failed banks' estates and approved by their creditors were confirmed by the District Court of Reykjavik, providing for cash distributions to creditors and establishment of asset management companies for the remainder of the assets. According to the settlements, payments to creditors totalled EUR 13.5 billion (ISK 1,904 billion) and debt write-offs were EUR 50.5 billion (ISK 7,134 billion).

Figures in% of GDP	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Net international investment position</b> .....	-651.5	-586.2	-527.5	-448.2	-387.5	-375.4	-4.6	2.1	2.0	9.9	22.4
<b>Foreign assets</b> .....	293.6	259.1	265.2	277.6	277.4	251.8	214.7	158.4	116.6	121.6	131.4
FDI.....	112.7	88.2	89.1	95.6	110.0	100.0	91.8	64.2	26.1	26.8	27.7
Portfolio instruments.....	54.4	47.0	52.3	58.1	62.3	63.9	40.5	37.6	44.1	47.1	59.3
Derivatives .....	0.1	0.0	0.0	0.1	0.2	0.6	0.5	0.3	0.5	0.5	0.4
Other .....	96.7	84.2	64.2	94.5	79.9	61.7	53.4	23.5	19.7	20.9	16.3
Reserves .....	29.8	39.7	59.6	29.3	24.9	25.6	28.5	32.7	26.2	26.4	27.7
<b>Foreign liabilities</b> .....	945.1	845.3	792.6	725.7	664.9	627.2	219.3	156.3	114.6	111.7	109.0
FDI.....	100.7	90.4	97.0	82.0	97.6	97.0	93.1	81.4	45.5	41.5	39.4
Portfolio instruments.....	407.4	350.8	327.3	324.8	287.6	290.9	42.1	49.4	43.3	43.2	44.9
Derivatives .....	0.0	0.1	0.2	0.1	0.3	0.9	0.6	0.4	0.4	0.2	0.1
Other .....	437.0	404.1	368.1	318.8	279.5	238.4	83.5	25.2	25.4	26.9	24.5
<b>Failed banks' assets</b> .....	128.2	110.5	95.0	116.5	97.7	76.4					
<b>Failed banks' liabilities</b> .....	709.8	633.0	570.3	537.9	475.5	447.5					
<b>Net IIP excluding failed banks</b> .....	-70.0	-63.6	-52.2	-26.8	-9.7	-4.3					

Source: Statistics Iceland, Central Bank of Iceland.



## Public sector foreign assets and liabilities

Iceland's positive current account balance has resulted in financial outflows. Since year-end 2014 these flows have been used, among other things, to build up international reserves and reduce public sector debt. The public sector retired a substantial amount of its debt during the pre-crisis period. The depreciation of the króna in 2008 and the need to strengthen the Central Bank's international reserves increased the external liabilities of the general government and the Central Bank from 18% of GDP at year-end 2007 to the post-crisis peak of 62% of GDP at year-end 2011. Only a portion of the increase in public sector foreign debt had a direct effect on the Net IIP, however, as loans taken to expand the reserves were mostly offset by assets. By year-end 2019, public sector external liabilities had fallen to about 10% of GDP.

## Foreign assets and liabilities

The table below shows the assets and liabilities for the periods shown:

	2007	2016	2018	2019	2004-2007 (average change per year in ISK) (%)	2016 (y-o- y change in ISK) (%)	2018 (y-o- y change in ISK) (%)	2019 (y-o- y change in ISK) (%)
EUR billions ( <i>b kr.</i> )								
	20.0	13.4	5.1	5.5				
Outward (FDI) .....	(1,826)	(1,600)	(682)	(747)	91.2	-24.1	9.5	10.1
	14.0	7.3	8.0	8.5				
Foreign equities .....	(1,276)	(875)	(1,060)	(1,153)	55	7	9	37
Foreign debt securities .....	7.2	0.5	0.7	1.2				
	(652)	(63)	(94)	(159)	170	-44	69	14
	23.1	2.0	1.1	1.1				
Foreign lending .....	(2,104)	(240)	(151)	(148)	98	-21	-2	-32
	78.5	33.1	22.9	25.0				
Total assets .....	(7,159)	(3,946)	(3,050)	(3,389)	79	-20	11	15
Total assets (% of GDP) ....	519.5	158.4	116.6	121.6				
	14.1	17.0	8.9	8.5				
Inward FDI .....	(1,288)	(2,027)	(1,190)	(1,156)	89	-5	-3	1
	94.4	32.7	22.5	22.9				
Total liabilities .....	(8,610)	(3,894)	(2,998)	(3,114)	63	-23	4	4
Total liabilities (% of GDP)...	625	156	115	112				

Sources: Statistics Iceland, Central Bank of Iceland.

## Government balance sheets

The sudden economic downturn in 2020 due to the COVID-19 pandemic will have a significant impact on the Treasury, in addition to the effects of Government measures designed to soften the economic blow caused by the pandemic. The Government measures are large in scale and scope. Therefore, a sizeable fiscal deficit is all but assured for 2020 and for about 3 - 5 years to come. 2020 is the second year in a row that the Government has put broad-based economic response measures in place. In 2019, the Treasury outcome was negative by 0.7% of GDP, mostly due to Government measures to mitigate the impact of WOW Air's insolvency. The deficit in 2020 is expected to total about 10% of GDP. The final Treasury outcome for the year is highly uncertain, as it will depend not only on economic developments but also on whether additional measures must be adopted to support the economy during the COVID-19 pandemic. In this regard, the Government benefits from the considerable fiscal space available to the Treasury, given its low debt level to begin with.

The central government has by far the largest balance sheet, with assets and liabilities constituting almost 89% of the general government balance sheet, while the local government's share is about 11%. Social security accounts constitute only a marginal share of general government accounts in comparison with central and local government. As a result, general government financial assets and liabilities are almost exclusively those of the central and local governments.

## Government sector indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<i>General government revenues and expenditures, % of GDP</i>										
Revenue.....	37.9	38.3	38.8	40.2	40.6	43.7	40.6	56.9	43.3	42.6
Taxes.....	31.3	32.4	33.3	34.0	34.5	37.3	35.4	50.8	37.6	37.2
on income and wealth.....	17.7	18.5	19.4	19.6	20.3	21.6	20.3	36.3	22.2	22.1
on production/imports/ consumption...	13.5	13.8	13.9	14.5	14.2	15.7	15.1	14.5	15.4	15.1
Social contributions.....	2.8	3.8	3.8	3.5	3.6	3.5	3.5	3.4	3.4	3.5
Property Income.....	3.3	2.4	2.0	2.6	2.6	3.0	1.8	2.9	2.4	2.3
Of which interest.....	2.9	1.9	1.4	1.4	1.1	1.0	0.8	0.9	0.8	0.7
Sales of goods and services.....	2.9	2.9	2.8	3.1	2.9	2.9	2.9	2.8	2.8	2.6
Other revenues.....	0.5	0.6	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Expenditure.....	47.4	47.8	44.2	43.8	42.4	43.8	41.4	44.5	42.7	41.8
Wages.....	13.3	13.1	13.0	13.1	13.1	13.3	13.4	13.3	14.0	14.2
Purchases of goods and services.....	11.8	11.7	11.7	11.6	11.3	11.1	10.5	10.2	10.2	10.4
Interest.....	5.9	4.6	4.0	4.6	4.4	4.6	4.4	3.9	3.9	2.9
Subsidies.....	1.7	1.7	1.7	1.7	1.6	1.4	1.3	1.4	1.3	1.3
Social benefits.....	7.5	7.2	7.9	7.3	6.8	6.7	6.2	5.9	6.6	6.8
Fixed investment.....	4.0	3.3	2.6	2.6	2.8	3.0	2.8	2.7	3.3	4.4
Other expenses.....	3.2	6.1	3.3	2.9	2.3	3.7	2.7	7.1	3.4	1.9
<i>General government, % of GDP</i>										
Expenditure.....	47.4	47.8	44.2	43.8	42.4	43.8	41.4	44.5	42.7	41.8
Administration, safety, defence <sup>(1)</sup> .....	4.7	4.8	5.2	5.1	4.8	4.7	4.4	8.4	5.6	4.5
Education.....	8.0	7.7	7.5	7.4	7.3	7.4	7.2	7.1	7.3	7.3
Health services.....	7.7	7.3	7.1	7.1	7.1	7.3	7.2	7.4	7.6	7.8
Social security.....	10.5	10.3	10.8	10.2	9.8	9.8	9.1	9.0	9.8	10.0
Other social affairs <sup>(2)</sup> .....	4.5	6.3	3.9	4.6	4.2	4.0	4.1	4.0	4.1	4.4
Economic affairs.....	5.9	6.5	5.5	4.6	4.6	6.1	4.8	4.8	4.5	5.3
Interest expenditure.....	6.2	4.8	4.2	4.7	4.5	4.7	4.5	4.0	4.0	3.0
<i>Central government, % of GDP</i>										
Expenditure.....	35.5	37.1	33.8	32.8	31.5	32.3	30.4	34.0	30.2	30.2
Administration, safety, defence <sup>(1)</sup> .....	4.7	4.9	5.2	5.0	4.8	4.6	4.3	8.4	4.1	4.3
Education.....	3.3	3.2	3.0	3.1	3.0	2.9	2.9	2.8	2.9	2.7
Health services.....	7.9	7.4	7.2	7.2	7.3	7.4	7.3	7.6	7.8	8.2
Social protection.....	7.5	8.1	8.6	7.5	7.1	6.6	6.3	6.3	7.1	7.3
Other social affairs <sup>(2)</sup> .....	1.7	1.2	1.1	1.1	1.1	1.0	1.1	1.0	1.0	1.1
Economic affairs.....	4.9	5.8	4.7	3.7	3.6	5.2	4.1	4.0	3.5	4.1
Interest expenditure.....	5.6	4.3	3.6	4.1	4.1	4.2	4.0	3.5	3.4	2.4
<i>Local government, % of GDP</i>										
Expenditure.....	12.5	12.3	12.1	12.5	12.7	12.9	12.4	12.2	13.8	13.2
Administration and safety <sup>(1)</sup> .....	0.9	1.1	1.1	1.2	1.1	1.2	1.1	1.0	2.4	1.2
Education.....	4.7	4.5	4.5	4.4	4.3	4.5	4.3	4.2	4.5	4.6
Health services.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Social protection.....	2.4	2.5	2.9	2.9	3.0	3.2	3.0	2.8	2.7	2.8
Other social affairs <sup>(2)</sup> .....	2.9	2.9	2.5	2.5	2.6	2.6	2.7	2.5	2.7	2.8
Economic affairs.....	1.1	0.9	0.9	1.1	1.3	1.1	0.9	1.0	1.1	1.4
Interest expenditure.....	0.6	0.5	0.6	0.6	0.5	0.5	0.5	0.6	0.5	0.5

<sup>(1)</sup> Excluding interest expense.

<sup>(2)</sup> Culture, religion, recreation, housing and community affairs, environment protection.

Source: *Statistics Iceland*.

## MONETARY POLICY AND INTERNATIONAL RESERVES

### Monetary policy

A five-member MPC takes decisions on the application of the Central Bank's monetary policy instruments. These monetary policy instruments are its interest rates, transactions with credit institutions other than loans of last resort, decisions on reserve requirements, and foreign exchange market transactions aimed at affecting the exchange rate of the króna. The MPC has adopted rules of procedure that have been approved by the Central Bank's Supervisory Board. The appointment of the MPC is provided for in the Act on the Central Bank of Iceland. The Governor is the chair of the MPC, which also includes the Deputy Governor of Monetary Policy, the Deputy Governor of Financial Stability, and two outside experts in the fields of economy and monetary policy who are appointed by the Minister.

A new Act on the Central Bank of Iceland no. 92/2019 was signed on 1 July 2019 and entered into force on 1 January 2020. The main change implemented with the new Act is that the Central Bank became responsible for the tasks entrusted by law and Governmental directives to the Financial Supervisory Authority.

### International reserves

The Central Bank manages the country's international reserves. The reserves are one of the tools enabling the Central Bank to achieve its objectives and carry out its role as a central bank. The Central Bank's reserves have four main roles: first, to mitigate fluctuations in Iceland's balance of payments, with reference to the Central Bank's monetary and exchange rate policies; second, to reduce the likelihood that capital flows to and from the country will jeopardise financial stability; third, as a part of the Treasury and Central Bank's management of assets and liabilities, so that the Icelandic Government can service its foreign debt, pay foreign expenses, and honour other international obligations; fourth, as a reserve fund that can be tapped in the event of large, unexpected shocks that undermine foreign currency generation. The size of the reserves is determined with reference to the scope of external trade, the exchange rate and monetary regime, rules on capital movements and foreign exchange transactions, and Iceland's external liabilities.

The foreign exchange reserves grew significantly as a result of preparation for capital account liberalisation in 2016, the Central Bank's intervention policy, and more recently due to the depreciation of the króna exchange rate. The Central Bank's international reserves amounted to 822 billion króna at year-end 2019 (U.S.\$ 6.8 billion). At that time, the reserves totalled 28% of GDP and 42% of broad money holdings (M3)<sup>3</sup>, and they covered eight months' worth of goods and services imports. Short-term external debt (original maturity) amounted to 19.5% of reserves at year-end 2019. However, after adding long-term debt due in 2020 and government bonds maturing in less than 12 months, short-term debt amounted to 45% of reserves. The ratio of reserves to the IMF's reserve adequacy metric ("RAM") was 156% at year-end 2019, well above the IMF recommendation of 100-150%.

### Central Bank reserve adequacy

The following table shows the Central Bank reserve adequacy position at year-end 2019:

Position in Q4/2019	Percent of GDP	Ratio of reserves to reserve metric	Reserves financed domestically% of GDP
Reserves .....	28		21
RAM <sup>(1)</sup> .....	18	156	

<sup>(1)</sup> IMF Reserve Adequacy Metric.

Sources: *Financial Stability Report 2020/2*, Central Bank of Iceland.

### Merger of the Central Bank and the Financial Supervisory Authority

The merger of the Central Bank and the Financial Supervisory Authority was passed into law on 1 January 2020, whereupon all of the functions of the Financial Supervisory Authority were transferred to the Central Bank. The merger was not intended to change the tasks entrusted to the institutions but instead provide for changes pertaining to the merger of projects in and to the decision-making structure. Following the merger, the Central Bank's key objectives are to promote price stability, financial stability, and sound and secure financial operations. One of the key differences following the merger is the addition of three Deputy Governors alongside the Governor of the

<sup>3</sup> M3 consists of coins, notes and other money equivalents that are easily convertible into cash, short-term and longer-term deposits and money market funds.

Central Bank. The three Deputy Governors assist the Governor by administering the Central Bank's activities in the areas they are appointed to lead: monetary policy, financial stability, and financial supervision. Decisions on the exercise of the Central Bank's authorisations in each of these areas are taken by three committees — the Monetary Policy Committee, the Financial Stability Committee, and the Financial Supervision Committee — whose members comprise the Governor (who chairs all of the committees), the relevant Deputy Governors, and outside experts in the areas concerned. According to the new law, all decisions formerly entrusted to the Financial Supervisory Authority are now, under current legislation, taken by the Financial Supervision Committee. In other respects, the Central Bank's direction is in the hands of the Governor. This new structure, in which decisions are taken by multi-member committees, is intended to distribute power and formalise the decision-making process. The inclusion of external committee members provides restraint and ensures that decisions are based on a wider range of views.

The structure of the Monetary Policy Committee and the framework and implementation of monetary policy are virtually unchanged. The tasks of the Financial Supervision Committee are comparable to those of the former Financial Supervisory Authority Board of Directors. The biggest structural change was in the field of financial stability, which was previously in the hands of the Systemic Risk Committee and the Financial Stability Council but is now in the hands of a single body, the Financial Stability Committee. The Financial Stability Committee has more external members than its predecessors, and it takes decisions, in addition to issuing recommendations and opinions as the Financial Stability Council has done hitherto. Among other things, the Committee takes decisions on capital buffers, foreign denominated lending to unhedged borrowers, and ceilings on mortgage lending, and wields powers of resolution. The Financial Stability Council will continue to operate, but now it should ensure regular consultation and exchange of information between the Minister of Finance and Economic Affairs and the Central Bank.

### **Financial stability**

One of the Central Bank's main tasks is to promote a safe, stable, and effective financial system. Financial stability means that the financial system is equipped to withstand shocks to the economy and financial markets, ensure the availability of capital, mediate credit and payments, and redistribute risks appropriately. A healthy financial system is essential to stability, growth, and effective monetary policy. The Central Bank attempts to maintain a constant, clear overview of the position of credit institutions, financial markets, households, and businesses, and in its Financial Stability report it publishes a detailed analysis of factors relating to financial stability. In addition, the Central Bank promotes an efficient and secure financial system by operating systemically important financial infrastructure, identifying external imbalances and by ensuring that systemically important Icelandic payment and settlement systems operate in line with internationally recognised standards. These systems are also discussed in depth in the Central Bank's Financial Stability report. The Central Bank conducts transactions with credit institutions and, under extraordinary circumstances and when the Central Bank deems it necessary in order to preserve confidence in the domestic financial system, is authorised by the Central Bank Act to issue guarantees or loans to credit institutions experiencing liquidity difficulties.

The Financial Stability Department of the Central Bank conducts analysis and functions as a regulator. The department issues reports including analysis on key risks, macroeconomic environment, financial markets, external position, private sector analysis, operating results and key statistics of systemically important banks, stress tests, and international comparisons. Decisions on the application of macroprudential tools are either taken by the Financial Stability Committee or directly by the Central Bank. The Financial Stability Committee takes decisions on the use of capital buffers and borrower-based measures. Decisions are based on a thorough assessment of the current situation and outlook for the financial system. The Central Bank sets rules on credit institutions' minimum liquid assets (their respective liquidity cover ratio ("**LCR**")). The aim of the liquidity rules is to mitigate credit institutions' liquidity risk by ensuring that they always have sufficient liquid assets to fulfil their obligations under stressed conditions over a specified time period. Credit institutions must fulfil requirements for both liquidity in foreign currency and overall liquidity. The Central Bank also sets rules on credit institutions' funding ratios in foreign currency (their respective net stable funding ratio ("**NSFR**")). The funding ratio is intended to ensure a minimum level of stable one-year funding in foreign currencies, thereby restricting the degree to which the commercial banks can rely on unstable short-term funding to finance long-term foreign-currency denominated lending. In addition, the Central Bank sets rules on credit institutions' foreign exchange balance so as to limit foreign exchange risk by preventing credit institutions' foreign exchange balances from exceeding defined limits. Finally, decisions on the use of capital flow management measures ("**CFM**") are taken by the Central Bank Governor and the three Deputy Governors. The CFM is intended to reduce the risk that could accompany excessive capital inflows, thereby supporting domestic economic policy and contributing to macroeconomic and financial stability.

The macroprudential tools at the Central Bank's disposal include:

- Capital buffers (all of which have been activated):
  - Systemic risk buffer: 3%;
  - O-SII buffer: 2%; and
  - Countercyclical capital buffer: 0% (the countercyclical capital buffer was decreased from 2% to 0% in March 2020 as a policy response to the COVID-19 pandemic).
- Borrower-based measures:
  - Loan-to-value ("**LTV**"): 85% for mortgage loans (90% for first-time buyers);
  - Loan-to-income ("**LTi**") and/or debt service-to-income; and
  - Restrictions on lending in foreign currencies.
- Other tools:
  - LCR: 100% for all currency, 100% for foreign currency and 30% for Icelandic króna (increasing to 40% in 2021 and 50% in 2022);
  - NSFR: 100% for foreign currency;
  - Foreign exchange balance; and
  - CFM.

### Capital account liberalisation and remaining restrictions

Following the successful liberalisation of capital controls on households and businesses in late 2016 and early 2017, and the subsequent economic adjustment, a bill was passed in March 2019 by the Icelandic Parliament, in which offshore króna holders would be able to close their positions in full by exchanging them for foreign currency in the onshore market.

Restrictions concerning the use of Icelandic krónur in derivative contracts remain in effect, although an exemption is granted for hedging instruments. In addition, foreign exchange transactions between residents and non-residents must be intermediated by a financial undertaking.

The Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016, remains in place. However, as noted above, the amendments of March 2019 have rendered its restrictions largely ineffective, as offshore króna holders are able to exchange their offshore krónur into foreign currency in the onshore market.

Furthermore, a new comprehensive Act on Foreign Exchange is currently on the parliamentary register of the 151 legislative assembly 2020-2021 and is expected to be submitted in January 2021. If passed in its current form, as published in the government consultation portal, the Act on the Treatment of ISK Assets Subject to Special Restrictions, no. 37/2016, will be repealed, leaving no restrictions on offshore ISK assets or their disposal, merging the offshore and onshore markets into one market.

### Foreign exchange markets

The Central Bank is at the centre of the Icelandic króna interbank foreign exchange market with the three main systemically important banks. The turnover of foreign exchange in 2015 to 2020 is set out in the table below, with daily average volume totalling around 10 million euros in the first ten months of 2020.

	<b>Total turnover</b>	<b>CBI Turnover</b>	<b>CBI % turnover</b>
	<i>EUR millions</i>		
2015.....	3,383	1,872	55,3%
2016.....	5,271	2,891	54,8%
2017.....	3,411	711	20,8%
2018.....	1,445	27	1,9%
2019 .....	1,373	105	7,6%
2020 (first ten months) .....	2,202	719	32,6%

Sources: *Central Bank of Iceland*.

From 2013 to early 2017, the Central Bank bought foreign currency in order to build up foreign exchange reserves to the desired size during the prelude to general capital account liberalisation and to mitigate fluctuations in the exchange rate. The large scale purchases in recent years led to a sizeable increase in the reserves. In 2020, the domestic foreign exchange market has been greatly affected by the effects of the COVID-19 pandemic. Turnover declined markedly and price formation weakened. The Central Bank began selling currency to market makers on

a regular basis on 14 September 2020, with the objective of deepening the market and improving price formation. The Central Bank is prepared to sell up to 240 million euros in regular transaction with market makers through year-end 2020. Regular currency sales do not affect the Central Bank's declared policy of intervening in the foreign exchange market as it deems necessary to mitigate volatility.

## **Financial institutions and markets**

At the end of September 2020, the Icelandic financial sector comprised three large, domestic systemically important banks: Landsbankinn, Íslandsbanki, and Arion Bank, ("**D-SIBs**"). In all, thirteen credit institutions are in operation in Iceland: four commercial banks; four savings banks; and four credit institutions, in addition to the State-owned Housing and Construction Authority. Total credit institution assets amounted to ISK 5,605 billion at the end of September 2020, including ISK 4,251 billion held by the commercial banks. The assets of the D-SIBs constitute a little less than 97% of total deposit money banks' assets. There are no foreign banks operating in Iceland.

Of the three large commercial banks Icelandic Treasury wholly owns Íslandsbanki and holds 98.2% of the shares in Landsbankinn which itself holds 1.6% of the shares in the bank. The ownership of Arion Bank changed a lot in 2018 as the bank was listed on the Nasdaq stock exchanges in Iceland and Stockholm following an initial public offering. The Icelandic Government had previously sold its 13% stake in the bank. After the public offering, Kaupskil, a holding company owned by the failed Kaupthing Bank, was the largest owner of Arion Bank with a 32.67% share. In April and July 2019, Kaupskil sold the rest of its stake in the bank. Today, Taconic Capital Advisors UK LLP is the largest shareholder in Arion Bank, with a 23.22% stake. The second and third largest owners are Sculptor Capital Management and Gildi Pension Fund, each with 9.92% of the shares. Gildi Pension Fund is the largest Icelandic shareholder in Arion Bank. Other shareholders with more than a 5% stake in the bank are Live Pension Fund (6.12%) and LSR Pension Fund (5.03%).

The government has announced in its policy statement that it is not desirable for the State to hold a majority interest in the commercial banks for the long term. According to the 2019 Treasury fiscal strategy plan, the State planned to sell its 30% stake in Íslandsbanki between 2020 and 2024. Those plans were however, postponed because of the COVID-19 pandemic and it has not been announced when this plan will resume.

Securities market activity is concentrated with a single exchange operated as a subsidiary of Nasdaq and as part of the Nasdaq Nordic group. Nasdaq CSD is currently the sole securities depository in Iceland. The all-share index comprises 19 Icelandic companies. Stock market turnover declined slightly in year 2018, after a few years of continuous growth, when equity in listed companies changed hands for ISK 491 billion. However, the turnover increased by 24% in 2019 when the annual turnover totalled ISK 610 billion. In the first three quarters of 2020 the turnover in the stock market was ISK 408 billion and decreased by 10% year-on-year. The bond market consists largely of government issues and covered bonds issued by financial institutions.

## **Systemically important banks**

### ***Operating results***

At the end of the third quarter of 2020, the capital adequacy ratios of the D-SIBs was 24.5% (Q4 2019: 24.2%), including 21.5% in CET1 capital (Q4 2019: 21.8%), 5-9 percentage points above the Central Bank's required minimum.

In the first nine months of 2020, the profit of the D-SIBs amounted to almost ISK 10.6 billion, compared with ISK 25 billion for the same period in year 2019. The decrease is mainly due to the impact of the pandemic as impairment was ISK 25.7 billion for the first nine months of 2020 compared to ISK 7 billion for the same period in 2019, and income from financial activities were negative by ISK 1.5 billion for the first nine months of 2020 compared to ISK 8.4 billion profit in 2019. The return on equity after tax was 2.3% for the first nine months of 2020, compared with 5.4% in the first nine months of 2019. There is though a big difference in return when looking at the individual quarters as return on equity was -4.6% in the first quarter of 2020, +4.3% the second quarter of 2020 and +7.5% the third quarter of 2020.

The volume of the D-SIBs' regular income has increased in recent years, and the volume of irregular items such as valuation adjustments and capital gains on equity securities has declined accordingly. In first nine months of 2020, net interest income and net fees and commissions accounted for 98% of total income, compared to 88% the first nine months of 2019. Return on regular income has likewise been improving in recent years. For the first nine months of 2020, return on regular income was 8% compared to 7.3% over the same period in 2019.

The D-SIBs' net interest income was ISK 76.6 billion in the first nine months of 2020, a decrease of 1% compared to the same period in 2019. Net commission income was ISK 25.6 billion in the first nine months of 2020, which is roughly a 2% increase between years. The interest rate margin on total assets was 2.6% the first nine months of 2020, compared with 2.7% the first nine months the year before, and 2.9% for the whole year 2018. The interest rate margin of the D-SIBs' has been declining following rapid fall in the Central Bank's key interest rate. However, the banks are seeing the interest rate margin stabilise around 2.5%-2.6%.

The D-SIBs' combined operating expenses for the first nine months of 2020 totalled ISK 52.4 billion, a decline of 11% year-on-year in real terms. The salary cost and related expenses were down 12.5% in real terms and other operating expenses were down almost 9%. The D-SIBs' cost cutting and streamlining measures have been successful. Operating expenses as a percentage of regular income were roughly 53% in the first nine months of 2020, compared with close to 58% the same period in 2019. Operating expenses as a percentage of total assets were 1.8% the first nine months of 2020 compared with 2.0% for the same period in 2019.

### ***Equity position***

At the end of the third quarter of 2020, total equity of the D-SIBs amounted to ISK 623 billion, an increase of ISK 6 billion compared to year-end 2019. There have been no dividend payments in 2020 as all of the banks shelved their plans to pay dividends because of the pandemic. The dividend payments in 2019 were ISK 25 billion. At the end of the third quarter of 2020, the capital base was ISK 681 billion, compared with ISK 649 billion at year-end 2019. The main reason for the increased capital base is that in the first quarter of 2020 Arion Bank issued a U.S.\$100 million (ISK 13.9 billion) bond classified as additional Tier 1 capital and subordinated Tier 2 capital, mainly denominated in foreign currencies, which increased by barely ISK 10 billion because of the depreciation of the Icelandic Króna in the year.

The capital adequacy ratio of the D-SIBs was 24.5% at the end of the third quarter of 2020, as compared to 24.7% at year-end 2019 and 23.2% at year-end 2018. The factors that led to the change in the capital ratio during the first nine months of 2020 were profits +0.4%, subordinated bonds +0.9% and increased risk-weighted assets -1.5%. Approximately 88% of the capital base of the D-SIBs' is Common Equity Tier 1. At the end of the third quarter of 2020 the weighted ratio of Tier 1 capital was 22% and their leverage ratio ranged between 13.4% and 14.4.

### ***Funding and liquidity***

At 30 September 2020, the D-SIBs' funding comprised ISK 2,115 billion in customer deposits (51%), ISK 1,157 billion in market funding (28%), ISK 623 billion in capital (15%), and ISK 279 billion in other items (7%). The D-SIBs' funding composition has changed since 2019: the percentage of customer deposits rose by 2% while market funding fell by 1% and capital fell by 2%. Debts to credit institutions and central banks did not change between years. Market funding is mostly in foreign currencies, with 71% denominated in euros and 19% in Swedish króna, with the remainder in other currencies. The D-SIBs issued foreign-denominated bonds for ISK 63 billion in the first nine months of 2020. In the first half of 2020, the capital markets were turbulent due to COVID-19 and the D-SIBs risk premia rose steeply. The premia began to fall again in June. In April 2020, rating agency Standard & Poor's lowered the D-SIBs credit ratings to BBB, with a stable outlook.

Issues of covered bonds have also been increasing in recent years to ISK 499 billion at the end of the third quarter of 2020, compared to ISK 436 billion at year-end 2019. Foreign-denominated funding maturing in 2020 and 2021 amounts to ISK 169 billion, or approximately 28% of outstanding foreign-denominated market funding. The weighted average residual maturity of foreign funding has been stable in the past year. According to Central Bank rules, the foreign-denominated NSFR shall be in excess of 100%. The D-SIBs ratios averaged 132% at the end of the third quarter of 2020, compared to 141% at year-end 2019. 38% of the Icelandic D-SIBs listed securities are due in the next two years. For the period up to the third quarter of 2025, 77% of the Icelandic D-SIBs issues will become due.

The D-SIBs liquidity position is strong, and they have approximately ISK 245 billion in excess of the applicable minimum liquidity requirements. The D-SIBs aggregate ratio at the end of the third quarter of 2020 was 170%, compared to 156% at year-end 2019. The regulatory minimum liquidity ratio in total and foreign currencies is 100%, but for Icelandic krónur the regulatory minimum is 50%. The D-SIBs all had high foreign currency liquidity ratios at the end of the third quarter of 2020, with their ratios averaging 408%, compared to 514% at year-end 2019. The LCR for Icelandic krónur was 116% at the end of the third quarter of 2020, compared to 99% at year-end 2019. The ratio of encumbered assets has remained unchanged in 2020, with an average of 15.9% in the third quarter of 2020.

### *Credit risk and asset quality*

The book value of the D-SIBs' customer lending amounted to ISK 3,034 billion at the end of the third quarter of 2020, a 7.8% increase from year-end 2019 when lending amounted to ISK 2,814 billion. The CPI index increased 2.9% the first nine months of 2020 so the D-SIBs loan portfolios increased by roughly 4.8% in real terms. As the GDP contracted by 5.7% year-on-year in the first half of 2020 and is expected, according to the Central Bank's forecast in Monetary Bulletin 2020/4, to contract by 8.5% in 2020 as a whole, the D-SIBs lending to GDP will increase considerably in 2020. The D-SIBs credit growth in year 2020 is mainly driven by increased mortgage lending to households as mortgage interest rates have never been as favourable following sharp decline in the Central Bank's key interest rate. In particular, there is a strong demand for non-indexed mortgage loans with floating interest rates. At the end of the third quarter of 2020, D-SIBs' household's lending amounted to ISK 1,352 billion, a 14% increase from year-end 2019. Some 84% of the D-SIBs' lending to households are mortgage loans. Increased lending to households has not affected loan quality to households as LTV and LTI has improved with new mortgage loans in the year 2020. In general, the households should be relatively well prepared to weather the storm following the pandemic.

Considering the fall in the Icelandic króna in 2020, there has been a change in the real lending to corporates during 2020. The pandemic has affected lending to corporates as many corporates have been hit hard by the pandemic, especially corporates in the tourism and the service sectors. Moratoria and loan freezing are the most common measures the D-SIBs have offered to help customers in financial distress because of the pandemic. At the end of September 2020, 3.5% of loans to households and 8.2% of corporate loans were frozen or in moratorium. The share of loans to corporates in the tourism sector in moratoria was 22% and the service sector 11% at the same time.

A large share of loans to tourism corporates were moved from IFRS 9 Stage 1 to Stage 2, and the claim value of Stage 2 loans totalled 444 billion króna at the end of the third quarter of 2020, an increase of 107% from the beginning of the year. Some 14.4% of D-SIBs' customer lending are defined as Stage 2 loans. The share of loans in Stage 3 was 3.1% at the end of the third quarter of 2020, an increase of 0.2 percentage points during the year. The limited increase in Stage 3 loans suggests that the **D-SIBs** pandemic response measures are still general in nature for the most part, and are not as yet focused on individual borrowers. At the end of the third quarter of 2020 the D-SIBs non-performing loans ("**NPL**") ratio based on European Banking Authority definition was 3.2%.

### **BRRD**

The EU Bank Recovery and Resolution Directive ("**BRRD**") has been implemented into Icelandic legislation. The first part of the implementation was made in 2018 when provisions regarding recovery plans, early intervention, and intra-group financial support were implemented in the Act on Financial Undertakings, No. 161/2002. The second part of the BRRD implementation entered into force on 1 September 2020 with the Act on Recovery and Resolution of Credit Institutions and Investment Firms, No. 70/2020. The Resolution Act establishes the resolution authority as a unit within the Central Bank. Among other things, the Resolution Act provides for minimum requirements for own funds and eligible liabilities ("**MREL**"). The MREL is designed to enhance financial institutions' loss absorbency and ensure that a portion of financial institutions' liabilities will be eligible for bail-in. The resolution authority will determine the MREL, with reference to resolution plans made for each credit institution.

### **Domestic systemically important banks (D-SIBs): Key ratios**

	2016	2017	2018	2019	9M 2020
Return on equity .....	8.9	7.4	6.1	4.5	2.3
Return on assets .....	1.8	1.4	1.1	0.7	0.4
Expenses as a share of net interest and commission income .....	62.4	58.6	59.5	59.1	53.3
Expenses as a share of total assets .....	2.6	2.5	2.3	2.2	1.8
Net interest and commission income as a share of total income .....	85.0	89.4	92.4	88.5	97.6
Net interest as a share of total assets .....	3.0	2.8	2.9	2.7	2.6
Capital ratio .....	27.8	25.1	23.2	24.7	24.5
Foreign exchange balance .....	-0.5	0.5	-0.2	-1.1	-0.5
Liquidity coverage ratio (LCR) total .....	163.0	165.9	166.0	163	170
Liquidity coverage ratio (LCR) FX .....	403.8	412.8	509.6	508	402
Net stable funding (NSFR) total .....	123.0	122.2	117.9	117	116
Net stable funding (NSFR) FX .....	161.8	161.5	159.8	142	131

Sources: Financial Stability Report 2019/1, *Central Bank of Iceland*.



## Pension funds

The Icelandic pension system is composed of three pillars: a tax-financed public pension scheme, mandatory funded occupational pension schemes, and voluntary pension with tax-deferred savings.

Public pensions are fully financed by taxes. The public pension system provides an old-age pension, a disability pension, and a survivors' pension. The right to receive an old-age pension starts from the age of 67, but it is possible to receive reduced payments from the age of 65. The Icelandic mandatory pension system is the dominant feature of the Icelandic pension system and virtually fully funded, with net assets measuring 178% of GDP in the year-end 2019, compared with 160% in the year-end 2018. Contributions to mandatory pension funds are paid monthly along with wages. The employee pays 4% and the employer 11.5%, according to most collective agreements. In the third pillar of pension savings, employees are allowed to deduct from their taxable income a contribution to authorised individual pension schemes ranging up to 4% of wages. Employers must match the supplementary contribution up to a limit of 2%.

At year-end of 2019 there were 21 fully operational pension funds in Iceland, including four with employer guarantees from the State government and the municipalities. Some of these funds have more than one division. In total two funds and two other divisions are not accepting new members and will gradually wind down their operations. There are sixteen pension funds accepting optional savings for private pensions. At year-end, five non-pension fund custodians offered private pension savings, whereof two are headquartered in Germany. The weighted average real return of the pension funds mutual insurance divisions was 11.5% in year 2019 compared to 2.0% in the preceding year. The pension funds are by their nature long-term investors, and this needs to be taken into account when assessing investment returns. The average return of the mutual insurance divisions, based on the real return for the preceding twenty-five years, was 4.5%, which is above the 3.5% target long-term real return.

Occupational pension savings amounted to ISK 4,459 billion at year-end 2019, 144% of GDP, which is an almost 17% increase from the preceding year. The pension funds had at the same time ISK 510 billion in private pension savings, 17% of GDP, a 20% increase from the preceding year. Non-pension funds custodians had ISK 314 billion, 10% of GDP, a 16% increase from the preceding year.

Pension funds hold around 50% of all securities registered at the Nasdaq Iceland Central Securities Depository, above 40% of all equities, around 35% of all government bonds and around 70% of all corporate bonds.

Premiums including additional contributions totalled approximately 265 billion ISK in 2019. Paid-out pensions for the same period were ISK 163 billion giving a difference of 101 billion. This difference is expected to decrease in the coming years. Instalments and interest payments are an increasing part of the cash flow of pension funds. They amounted to ISK 304 billion in 2019. Dividend payments were ISK 29 billion. Therefore, the total investment demand of the pension funds was around ISK 428 billion. In 2019 they bought bonds for ISK 390 billion and equities for ISK 440 billion.

Loans to fund members totalled ISK 519 billion as of end-2019, or 11.6% of occupational funds total assets, after increasing by 22.3% year-on-year in nominal term. Before COVID-19, the pension funds offered the most favourable mortgage lending terms in the market, thereby stimulating competition. After the Central Bank decreased interest rates in March and May, the D-SIBs have become more competitive in the mortgage lending market. As of end of September 2020, the growth in loans in 2020 to fund members has only been 2.7%, which is around 0.0% in real terms.

Structural reform was undertaken regarding the A division<sup>4</sup> of the State Pension Fund ("**LSR**") late 2016. Up until then the Treasury bore limited warranty of the division's liabilities. By Act no. 127/2016 the overall structure of the A division was changed and assets and liabilities were balanced. It entailed a one-off contribution from the Treasury that amounted to ISK 125.6 billion. The contribution was funded by assignment of assets, issuance of new bonds, a cash payment in Icelandic króna, and a cash payment in foreign currency. The liabilities of the A

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<sup>4</sup> In 1997, the A division of the LSR was founded where members accrue benefit rights. Benefit rights are based on the amount of contributions collected. All employees that are being paid in accordance with salary agreements for public employees of the state or state entities as well as certain municipal employees are entitled to become members of the LSR. Amongst fund members, there are large groups of teachers, healthcare staff, policemen and others. Both parties, i.e. the employee and the employer, pay their part of the premium as long as the employee is employed in a post that qualifies him/her for membership in the Fund. A contribution ceases to be paid to the Fund at the end of the month when the member reaches 70 years of age. All new fund members pay into division A.

division is no longer subject to a state guarantee. Fiscal risk to the Treasury in relation to LSR is therefore greatly reduced.

The unfunded pension liabilities of the Treasury amounted to ISK 721 billion in the year-end 2019 compared to ISK 691 billion in the year-end 2018. In the last three years the Treasury has paid in total ISK 36 billion into the B division<sup>5</sup> of LSR, thereof ISK 7 billion in 2019. The B division is only servicing current beneficiaries, closed to new members since 1996. Without further contribution from the Treasury, the B division would have used all its assets in 2029. 2020, an annual contribution of ISK 7 billion is included in the government budget with an estimate of an ISK 8 million contribution for 2021.

### ***Risk-based supervision***

Pension funds are subject to similar risk-based supervisory processes as exercised for banks and insurance companies. The Supervisory Authority applies the principle of proportionality in its supervisory activities, that is, categorises institutions based on their size, structure and complexity, with the aim of prioritising its supervisory oversight and engagement. For this purpose, the Authority divides institutions into four impact categories. Pension funds are subject to quantitative limits and are required to comply with the prudent person principle, have safe and sound risk management and have qualified board members. The aim of conducting an efficient and regular assessment of the principal risk factors in the activities of pension funds is to ensure sensible prioritisation of supervisory engagement. A comprehensive risk assessment, with the aim of revealing adverse incentives or excessive accumulation of risk, is furthermore the basis for discussions and comments on what practices the funds can improve.

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<sup>5</sup> In 1997, at the same time the A division of the LSR was founded, the older B division was closed. The older B division of the LSR is a mixed system that is partially based on funding from accumulated contributions and in part from supplemental contributions from public sources. The rights of fund members in division B is based on their working life and the relative proportion of full-time work. These divisions were closed to new fund members at the end of 1996. Those members that possess rights in these divisions still preserve them in division B according to the rules of the funds.

## **PUBLIC DEBT**

### **Agreement on Treasury debt management**

A department within the Central Bank, the Government Debt Management department, oversees the foreign borrowing of the Treasury and conducts domestic auctions, buybacks and Treasury bond redemptions. It also executes primary dealer agreements and oversees repurchase contracts with primary dealers, in accordance with an agreement made with the Ministry of Finance and Economic Affairs on 29 January 2019. The Central Bank undertakes risk management and credit management according to Ministry criteria on the management of the Treasury debt portfolio and discloses information on Treasury debt management to the Ministry and the market. The above-mentioned agreement entrusts the Central Bank with tasks related to Government guarantees and relending, such as administration of Government guarantees and the assessment of the Treasury's risk due to such guarantees.

### **Treasury foreign debt**

The Republic of Iceland has been a modest borrower in the international markets since 2014, as it was before the financial crisis. At the end of October 2020, four foreign bonds were outstanding, leaving the Treasury's foreign debt at EUR 1,578.7 million (ISK 259.4 billion).

The Republic of Iceland has never failed to honour its financial obligations and has always paid when due the full amount of principal, interest, and sinking fund instalments for all internal and external obligations.

### **Long-term debt issue plans**

Every year the Ministry of Finance and Economic Affairs publishes a medium-term debt management strategy in which it outlines its debt financing and debt management plans for the next five years. The principal objective of the strategy is to ensure that the Treasury's financing needs and financial obligations are met at the lowest possible cost that is consistent with a prudent risk policy. A sustainable debt service profile, consistent with the government's medium-term payment capacity, must also be ensured.

As regards the composition of the debt portfolio, the greatest emphasis is placed on issuance of nominal Treasury bonds. The target is for 50-70% of the total debt portfolio to be in domestic nominal bonds. The Treasury also issues inflation-indexed bonds, but their issuance is irregular and based on circumstances in each case. The target is for 20-30% of the debt portfolio to be in inflation-indexed bonds. Treasury loans taken in foreign currencies have primarily been used to expand the Central Bank's foreign exchange reserves or to refinance outstanding market issues. The target is for foreign loan issuances to comprise 10-20% of the debt portfolio.

The Ministry of Finance and Economic Affairs sets forth the guidelines to be observed in the management of borrowing as part of the medium term strategy. The main guidelines concern the redemption profile, benchmark series and average time to maturity. The redemption profile of Government securities should be as smooth as possible over time, and individual issuances should be of similar final size. The average time to maturity of the debt portfolio must be at least five years and no longer than seven years.

The structure of the benchmark series is designed so that each series is large enough to ensure effective price formation in the secondary market. The Treasury's debt must be taken into account when determining the number of issues and their size. The aim is to issue a relatively stable amount of Treasury bonds throughout the year, with varying maturities. To fulfil these objectives, the benchmark Treasury bond series are likely to be issued each year with maturities of two, five, and ten years. The issuance of inflation-linked and longer nominal Treasury bonds will be irregular and take into account the borrowing requirements of the Treasury and market conditions. The objective is for the final size of each series to be in the range of ISK 40-70 billion. In the case of the two-year series the final size of the series shall be no less than ISK 15 billion. In addition to this, Treasury bills will be issued on a monthly basis, for an amount that will be determined by the Treasury's financing requirements at any given time.

Because of the economic repercussions of the spread of COVID-19 during the year, the Treasury has deviated from certain criteria, including those on maximum series size and loan portfolio composition. These changes, as well as changes to the Treasury bill issuance strategy, have been announced in the quarterly reports of the Government Debt Management.

## Liquidity management

In order to reduce Treasury expenditure, the Government started active liquidity management in 2017. The current guideline is for Treasury deposits in the Central Bank, at any given time, to be approximately ISK 40 billion.

The liquidity management function entails authorising the Treasury to borrow funds in the market for as long a period as necessary if the deposit balance is below the guideline level. If it is above the guideline level however, the Treasury may offer market agents loans against sound collateral for a period of several days; for instance, Treasury issues, certificates of deposit, Housing Financing Fund bonds, or other Government-guaranteed securities. The loans are managed by Government Debt Management.

## Changes in total Treasury debt

Treasury bonds issued in 2019 had a market value of ISK 40 billion, all of them issued in public auctions. At the end of 2019, outstanding Treasury bills amounted to ISK 21.6 billion. Total Government debt increased from 29.7% of GDP at year-end 2018, to 30.2% at year-end 2019.

In the Government Debt Management Prospect for 2020, it was announced that domestic Treasury bonds would be issued in the amount of 40 billion króna market value during the year. The Treasury has been forced to abandon these plans because of COVID-19. Bond issuance in the first ten months of the year totalled 135.3 billion króna market value. Treasury bills issuance increased as well and the outstanding amount was ISK 129.8 billion at the end of October 2020. The gross debt ratio has therefore increased and was 41.1% at the end of October. Treasury bonds amounting to ISK 56.9 billion matured in February 2020.

There are now four outstanding EMTN issues: a U.S.\$ 92 million 5.875% issue maturing in 2022, a EUR 500 million 0.5% issue maturing in 2022, a EUR 500 million 0.1% issue maturing in 2024 and a EUR 500 million 0.625% issue maturing in 2026. There is no short-term foreign marketable debt. Approximately 5% of the Treasury's foreign obligations were denominated in US dollars and 95% in euros. All of the Treasury's foreign debt carries fixed interest rates. The average time to maturity of foreign long-term debt was 3.7 years as of end-October 2020.

## Central Government Debt (as of 31 October 2020 in million kr.)

Issues	Nominal incl. inflation compensation	Years to maturity	Market value (ISK m)	% of domestic debt
<b><i>T - bills</i></b>				
RIKV 20 1116.....	26,752	0.04	26,744	2.9%
RIKV 20 1215.....	20,850	0.12	20,823	2.3%
RIKV 21 0115.....	30,610	0.21	30,533	3.3%
RIKV 21 0215.....	50,350	0.29	50,164	5.4%
RIKV 21 0915.....	1,200	0.87	1,185	0.1%
<b>Total.....</b>	<b>129,762</b>	<b>0.20</b>	<b>129,449</b>	<b>14.0%</b>
<b><i>Nominal T-bonds</i></b>				
RIKB 21 0805.....	60,234	0.76	61,270	6.5%
RIKB 22 1026.....	84,354	1.99	93,414	9.1%
RIKB 23 0515.....	44,893	2.54	44,579	4.9%
RIKB 25 0612.....	99,153	4.61	122,900	10.7%
RIKB 28 1115.....	72,070	8.04	83,118	7.8%
RIKB 31 0124.....	100,416	10.23	131,224	10.9%
<b>Total.....</b>	<b>461,120</b>	<b>5.19</b>	<b>536,504</b>	<b>49.8%</b>
<b><i>Inflation-linked T-bonds</i></b>				
RIKS 21 0414.....	77,359	0.45	79,138	8.4%
RIKS 26 0216.....	28,979	5.30	31,556	3.1%
RIKS 30 0701.....	95,076	9.67	121,269	10.3%
RIKS 33 0321.....	51,327	12.39	66,484	5.5%
<b>Total.....</b>	<b>252,741</b>	<b>6.90</b>	<b>298,446</b>	<b>27.3%</b>
<b><i>Other central government debt*</i></b>				
Inflation-linked debt.....	31,554	6.01		3.4%

Nominal debt.....	50,001	0.04	5.4%
<b>Total domestic debt.....</b>	<b>925,177</b>	<b>4.70</b>	<b>100.0%</b>

\* Mostly borrowing from ÍL-fund, indexed debt due to the National Power Company (Landsvirkjun) and assumed government guarantees.

<i>Foreign bonds</i>	Issued nominal amount	Remaining nominal amount	Nominal amount ISK	Years to maturity
USD 5,875% 11 May 2022.....	1,000	92	12,937	1.52
EUR 0,5% 20 Dec 2022.....	500	500	82,165	2.14
EUR 0,1% 20 Jun 2024.....	500	500	82,165	3.63
EUR 0,625% 3 Jun 2026.....	500	500	82,165	5.59
<b>Total foreign debt.....</b>			<b>259,432</b>	<b>3.67</b>

<i>Central government debt, total</i>	Nominal	Weighted time to maturity
Nominal debt.....	640,882	3.78
Inflation-linked debt.....	284,294	6.80
Foreign currency debt.....	259,432	3.67
<b>Total.....</b>	<b>1,184,608</b>	<b>4.48</b>
<b>Total debt as percentage of GDP **.....</b>	<b>41.1%</b>	

\*\* GDP is from the latest edition of Monetary Bulletin published by the Central bank of Iceland  
Sources: *Government Debt Management report issued 9 November 2020, Central Bank of Iceland.*

## PUBLIC FINANCE

The Ministry of Finance and Economic Affairs is responsible for implementing the Public Finances as a whole on the basis of the Public Finance Act (2015). Among the focal points are working procedures in shaping public financial policy, i.e. the finances of both central and local government, through a fiscal policy statement and a fiscal strategy plan. The strategy plan covers the upcoming five-year period and is updated each spring. The Public Finance Act also includes a framework for the procedure and preparation of the corresponding state budget together with annual budgets of the various ministries.

At the first meeting of the Icelandic Parliament's autumn session the Minister of Finance and Economic Affairs submits the Government's budget for the coming calendar year. The budget seeks parliamentary approval for expenditures in a total of 35 expenditure areas, over 100 expenditure functions and any and all obligations of Group A Treasury entities. In drafting the annual budget the government is restricted to the expenditure framework approved by the *Althingi* in its fiscal strategy for the 35 expenditure areas.

The Central Government's revenues are comprised primarily of taxes and fees charged and collected based on various Acts. Preparing draft legislation amending such Acts to reflect the current Government's policy is another task of the Ministry, which also assesses the underlying assumptions and impact on the economy. No payments can be made from the Treasury which have not been authorised in the budget or supplementary budget.

The *Althingi* debates the budget bill in three readings. Parliamentarians discuss the premises for expenditures in each field, the distribution of budget allocations to individual functions and the emphases which are laid out in the budget for the activities of each function. At the same time, the *Althingi* will debate the premises for the Government's taxation policy and income generation. Between readings the Budget Committee reviews the bill.

Allocations to institutions and projects are shown in a special appendix to the bill which will accompany the budget legislation once adopted.

The tables are generated with data from Statistics Iceland and the Ministry of Finance and Economic Affairs. The data is defined in the Government Finance Statistics Manual 2014 ("**GFSM 2014**"). The tables cover the general government of Iceland which includes the central government, social security and municipalities but excludes state owned enterprises.

### **The fiscal budget proposal for 2021**

The fiscal budget proposal continues the policy laid down in 2020 with the Government's emergency measures, which focus on broad and strong measures to support the economy, save jobs, protect households, and lay the foundation for value creation after the pandemic-induced crisis subsides. The Treasury's strong position at the onset of the pandemic has enabled the Government to respond decisively to its repercussions by supporting distressed households and businesses. The fiscal budget proposal reflects the Government's intention to overcome difficult circumstances and use fiscal policy as a powerful tool in that effort. No further cutbacks will be required of Government functions, and all key transfer systems will be protected. In order to guard against increased expenditures, new spending increases are restricted to pandemic response measures.

The impact of the COVID-19 pandemic on the Treasury is negative in the amount of ISK 192 billion in 2021, of which approximately ISK 134 billion can be attributed to decreased revenue and approximately ISK 58 billion to increased expenditure. The factor weighing heaviest is the ISK 89 billion contraction in tax revenues caused by reduced activity in society. Treasury revenues are also reduced because of measures undertaken in response to the pandemic, including reimbursement of value-added tax on labour, expedited reduction of the bank tax (*Icelandic bankaskattur*) according to the Act on Special Tax on Financial Undertakings no. 155/2010, and cancellation of the bed-night tax (*Icelandic gistináttaskattur*) according to the Act on Bed-Night Tax no. 87/2011, which, combined, cost the Treasury approximately ISK 17 billion. In addition, unemployment benefits are expected to increase by ISK 23 billion. Expenditures for various mitigating measures are estimated at ISK 35 billion, and dividend payments are expected to decline by ISK 27 billion.

### **Fiscal Plan 2021-2025**

The most important challenge facing the Government during the term of the fiscal plan for 2021-2025 will be reversing the public deficit caused by the COVID-19 pandemic and bringing debt accumulation under control. Under circumstances like these, deficit operations do not represent economic losses. The funds are being used to strengthen households' and businesses' financial position and to prevent the permanent loss of jobs and value.

The objective is to support and stimulate the economy so that when the pandemic-induced recession ends, Iceland will emerge as a competitive society whose prosperity is based on strong human capital and a vibrant economy.

The Government's first response to the economic impact of the COVID-19 pandemic entailed using the Treasury's strong position to protect households and businesses against the worst of the shock by implementing a variety of measures. The purpose of the measures was to support households' and businesses' liquidity and solvency to the extent possible, supporting them until the economic situation improved, as it was hoped that the pandemic would be short-lived.

The combined deficit for 2020 and 2021 could come to as much as ISK 600 billion. Public sector debt according to the debt rule in the Act on Public Finances could therefore rise from 28% of GDP at the end of 2019 to 48% of GDP by end-2021.

The Government considers it important to set clear and realistic targets for halting the rise in the public debt-to-GDP ratio no later than in the final year of the fiscal plan, thereby stopping the spiral of deficit operations and debt accumulation, with the aim of returning Iceland to fiscal strength.

In order to achieve this objective, measures must be taken to improve the fiscal performance by ISK 37.5 billion per year in 2023-2025, an amount equivalent to just under 3% of public sector turnover or slightly more than 1% of GDP relative to the baseline fiscal scenario and the current macroeconomic forecast. Measures of this magnitude are essential to ensure continued fiscal sustainability, so that public sector finances will be conducive to economic stability and the Treasury will be able to provide a cushion against economic shocks in the future.

With these performance improvements, gross public debt will be more than ISK 230 billion lower at the end of 2025 than if the measures had not been taken. It is assumed that debt accumulation will halt at about 59% of GDP instead of peaking at 65% of GDP. The debt ratio will then continue to decline on the basis of the potential output growth assumed in the fiscal plan.

Both the Fiscal Budget proposal for 2021 and Fiscal Plan 2021-2025 are subject to approval by the Icelandic Parliament.

#### **Bill of legislation on extended deviation from fiscal rules introduced before Parliament**

The report accompanying the fiscal plan for 2021-2025 states that, in order to prevent too harsh a fiscal response as early as 2023, it is necessary to deviate from numerical fiscal rules for longer than the three years provided for in the Act on Public Finances. Otherwise, it would be necessary to reduce a deficit of 6% of GDP to 2.5% virtually at a single stroke. Therefore, alongside the presentation of the fiscal plan, the Minister of Finance and Economic Affairs is presenting a bill of legislation amending the Act on Public Finances. This entails that the requirements laid down in Article 7 of the Act on Public Finances, no. 123/2015, regarding the overall balance and the public debt ratio, referred to as numerical fiscal rules, will not apply in 2023-2025.

## General government budget and revenues

(November 2020)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total revenue .....</b>	<b>641,1</b>	<b>682,3</b>	<b>740,8</b>	<b>795,7</b>	<b>907,0</b>	<b>931,0</b>	<b>1.418,3</b>	<b>1.138,4</b>	<b>1.200,1</b>	<b>1.210,7</b>
Tax Revenue .....	541,6	585,9	626,4	676,1	774,3	812,0	1.265,6	982,8	1.037,6	1.063,2
Taxes on income and profits .....	239,7	266,8	283,2	315,6	360,5	381,0	429,5	484,0	511,7	530,2
Taxes on payroll and workforce ..	2,8	2,9	5,4	6,5	7,0	6,6	7,4	7,9	8,5	9,1
Taxes on property .....	38,1	39,3	44,3	46,5	49,6	43,5	432,6	54,0	56,8	63,6
Taxes on goods and services .....	185,5	195,2	210,9	220,8	233,9	257,8	290,8	326,9	341,2	340,9
Taxes on international trade .....	6,0	7,3	7,7	5,8	6,1	5,0	5,1	3,9	4,1	3,4
Other taxes .....	6,0	7,7	10,0	11,0	43,8	38,4	14,9	16,4	17,0	18,6
Social contributions .....	63,6	66,8	64,9	69,9	73,4	79,7	85,4	89,6	98,2	97,4
Grants .....	2,4	2,9	3,7	2,9	2,5	2,7	3,0	2,8	3,3	3,8
Other revenue .....	97,2	93,4	110,6	116,7	130,2	116,3	149,7	152,8	159,2	143,7
<b>Total expenditure .....</b>	<b>799,3</b>	<b>777,3</b>	<b>807,2</b>	<b>830,5</b>	<b>908,5</b>	<b>949,1</b>	<b>1.108,7</b>	<b>1.123,0</b>	<b>1.178,0</b>	<b>1.256,0</b>
Compensation of employees .....	219,4	229,0	242,0	256,2	275,6	307,1	331,8	366,8	396,0	426,1
Use of goods and services .....	195,3	206,1	213,9	222,2	230,4	241,6	253,9	267,9	289,8	312,0
Interest .....	77,2	70,5	84,1	86,5	94,4	101,7	98,3	101,4	79,8	76,7
Subsidies .....	27,8	29,2	30,5	31,1	29,5	29,9	34,6	35,1	37,5	39,6
Grants .....	4,9	4,5	3,8	4,3	5,2	5,1	4,9	4,9	5,6	6,8
Social benefits .....	121,0	138,4	135,0	133,6	139,4	141,7	147,7	171,4	188,5	222,3
Other expense .....	98,1	53,3	50,3	41,7	72,2	57,9	171,2	88,2	58,0	62,5
Non-financial assets, acquisition .....	55,6	46,4	47,7	54,9	61,7	64,0	66,3	87,3	122,8	110,1
<b>Net lending / net borrowing .....</b>	<b>-158,2</b>	<b>-95,0</b>	<b>-66,5</b>	<b>-34,8</b>	<b>-1,5</b>	<b>-18,2</b>	<b>309,6</b>	<b>15,4</b>	<b>22,1</b>	<b>-45,4</b>
Primary Balance, % of Total Revenue	-17,6%	-7,2%	-1,1%	3,8%	7,9%	7,0%	27,2%	8,5%	7,0%	1,2%
Primary Balance, % of GDP	-6,8%	-2,8%	-0,4%	1,6%	3,5%	2,8%	15,5%	3,7%	3,0%	0,5%
Total Revenue, % of GDP	38,3%	38,8%	40,2%	40,6%	43,7%	40,6%	56,9%	43,5%	43,1%	40,8%
Total Expenditures, % of GDP	47,8%	44,2%	43,8%	42,4%	43,8%	41,4%	44,5%	42,9%	42,3%	42,3%



## General government assets and liabilities

(November 2020)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>32 Financial assets .....</b>	<b>1.173.052</b>	<b>1.269.435</b>	<b>1.237.169</b>	<b>1.187.685</b>	<b>1.280.531</b>	<b>1.127.989</b>	<b>1.269.539</b>	<b>1.476.527</b>	<b>1.531.241</b>	<b>1.612.558</b>
Currency and deposits .....	352.193	566.271	509.818	425.942	531.657	414.379	297.920	212.274	244.937	300.743
Securities other than shares ..	200	207	0	0	0	0	0	0	0	0
Loans .....	271.808	177.211	192.792	196.556	196.940	151.713	188.905	134.455	113.231	113.932
Shares and other equity .....	378.708	367.357	361.606	400.939	385.223	384.506	536.749	891.481	944.146	1.014.960
Other accounts receivable .....	170.144	158.388	172.953	164.247	166.710	177.391	245.964	238.318	228.927	182.922
<b>Liabilities .....</b>	<b>1.917.581</b>	<b>2.153.834</b>	<b>2.200.367</b>	<b>2.177.263</b>	<b>2.277.198</b>	<b>2.202.430</b>	<b>2.121.345</b>	<b>2.005.932</b>	<b>1.957.130</b>	<b>2.309.182</b>
Securities other than shares ..	722.456	788.758	839.575	842.604	877.939	891.976	848.088	753.495	679.316	671.333
Loans .....	705.769	828.872	806.364	759.610	755.410	599.791	428.489	377.659	362.566	642.348
Domestic loans .....	324.945	350.148	350.166	357.120	336.716	291.493	224.907	260.078	236.829	450.957
Foreign loans .....	380.824	478.724	456.198	402.490	418.694	308.297	203.582	117.581	125.737	191.391
Insurance technical reserves .	383.089	416.894	438.557	457.269	490.080	580.199	693.702	709.963	744.554	820.042
Other accounts payable .....	106.267	119.309	115.870	117.781	153.768	130.464	151.065	164.815	170.694	175.459

The tables are generated with data from Statistics Iceland and the Ministry of Finance and Economic Affairs. The data is defined in the GFSM 2014. The tables cover the general government of Iceland which includes the central government, social security and municipalities but excludes state owned enterprises

## Central government - Contingent Liabilities

The Treasury may not undertake a guarantee unless authorised by law, as is provided for in Act no. 121/1997. To minimise risk to the Treasury, the guarantee recipient must provide collateral against the guarantee, the collateral provided must be deemed satisfactory by the State Guarantee Fund, which is authorised by law to supervise Government guarantees, keep track of the operations of entities that have received Government guarantees, and maintain a register of obligations backed by Government guarantees. The bulk of Government guarantees are due to the Housing Financing Fund/IL-Fund and Landsvirkjun. Parties that enjoy Government guarantees due to Government ownership are required to obtain the Central Bank's approval of the terms and conditions for loans they intend to take abroad. Treasury guarantees totalled ISK 894 billion at the end of the third quarter of 2020, as opposed to ISK 920 billion at year-end 2019.

Year	State guarantees	Government debt	As % of Gov. debt	State guarantees as% of GDP
2010.....	1,184,644	1,293,601	91.6	77.2
2011.....	1,217,250	1,495,853	81.4	74.8
2012.....	1,319,619	1,494,857	88.3	77.3
2013.....	1,264,249	1,451,583	87.1	70.8
2014.....	1,212,585	1,487,213	81.5	62.5
2015.....	1,128,831	1,333,689	84.6	51.3
2016.....	1,039,177	1,122,878	92.5	43.2
2017.....	1,031,825	911,053	113.3	40.9
2018.....	956,809	837,231	114.3	34.0
2019.....	919,987	885,114	103.9	31.4
2020 (Q3) .....	894,018	1,145,519	78.0	31.0

### Currency (Q3 2020)

	Ratio
ISK .....	91.8%
EUR.....	4.7%
USD.....	3.5%

### Type of Lenders (Q3 2020)

	Ratio
Domestic marketable securities .....	84.7%
Foreign banks .....	6.7%
Domestic banks .....	1.1%
Other domestic entities .....	7.5%

### Interest (Q3 2020)

	Ratio
Fixed.....	92.2%
Floating.....	7.8%

### State guarantee - Maturity profile (Q3 2020):

2020.....	28.599.494.962
2021.....	74.969.735.476
2022.....	56.271.976.777
2023.....	54.182.617.123
2024.....	55.963.531.191
2025.....	32.267.063.814
2026.....	64.406.842.393
2027.....	34.267.699.827
2028.....	35.427.502.202
2029.....	36.630.829.180
2030.....	37.684.123.044
2031.....	38.774.862.668
2032.....	39.919.243.958
2033.....	41.119.868.635
2034.....	32.494.383.557
2035.....	23.055.980.367
2036.....	23.501.583.408

**State guarantee - Maturity profile (Q3 2020):**

2037.....	23.865.484.552
2038.....	24.115.840.144
2039.....	23.314.010.396
2040.....	23.669.557.906
2041.....	24.130.198.501
2042.....	24.809.619.018
2043.....	25.748.482.609
2044 and later .....	14.827.140.053

**State owned enterprises*****Íbúðarlánasjóður (e. The Housing Financing Fund)***

The activities of the Housing Financing Fund ("HFF") were divided up between the Housing and Construction Authority ("HMS") and IL-Fund according to law nr. 137/2019 and 151/2019. The first law, 137/2019, puts into effect the separation of the HFF activities and the transfer of its main activities to the Housing and Construction Authority. The Parliament also passed law nr. 151/2019 regarding the processing of assets and liabilities of the HFF be transferred to a special fund, IL-Fund that will be administered and managed by the Ministry of Finance and Economic Affairs. This means that the HFF activities that relate to financial management for the Fund's older loan portfolio and financial assets will be separated from the Fund's main activities as it was at year-end 2019. This change in the HFF did not entail any changes to the HFF market bonds or their owners.

HMS main roles will be:

- To provide mortgage loans to individuals, municipalities, companies and organisations to finance housing construction and purchase, with regard to the fund's social purpose.
- To support housing policy making and cooperate with local authorities in creating regional housing policy planning. To monitor housing needs and local planning.
- To analyse and raise awareness of the housing market, to support decision making of individuals, local authorities and government in the housing market, to promote stability and support government housing policy making.
- To carry out payment of rent subsidy to low income households and monitor the development of the leasing market in cooperation with local authorities.

The purpose of the HMS is to ensure housing security and non-discrimination through lending and organisation of housing affairs with regard to social goals in order to increase people's opportunities in obtaining and leasing housing on affordable terms.

The processing of assets and liabilities of the HFF as well as all general mortgage loans issued before 1 January 2013 will be the responsibility of the IL-Fund. The IL-Fund will fall under the Ministry of Finance and Economic Affairs.

**Summary of financials for the first six months of 2019**

The Housing Financing Fund annual financial statements for 2019 are not available. According to HFF interim financial statements for the first half of 2019 the net loss amounted to ISK 2,016 million compared to net income of ISK 1,502 million for the same period in 2018. Equity at 30 June 2019 amounted to ISK 20,068 million and the HFF's equity ratio was 8.64% compared to 9.11% at 30 June 2018. The HFF had not generated net loss since 2013.

Net interest loss amounted to ISK 1,456 million. The net interest loss is the difference between the interest on the loan portfolio and the yield on liquid funds during the period. Operating expenses amounted to ISK 1,180 million. Operating expenses of the HFF increased from the previous year by 23% due primarily to increases in staff and labour cost. On average the HFF had 80 full time employees in the first half of 2019 compared to 78 for the same period 2018.

Loans in arrears were less than 1% of total outstanding loans at 30 June 2020 compared to 6.9% in the year 2015. Improved economic conditions and effective collective procedures have reduced the risk of the loan portfolio. Arrears have decreased considerably and collateral status improved significantly due to rising housing prices in excess of inflation. IL-Fund faces considerable prepayment risk of its loan portfolio as interest rates on mortgage

loans have decreased significantly in recent years. IL-Fund is however unable to prepay its HFF bonds to the same extent as such prepayments are not permitted under the terms of the bonds.

### **Landsvirkjun**

Landsvirkjun (the National Power Company of Iceland, "LV") is a partnership company owned by the State. It was founded in 1965 and operates according to law nr 42/1983. LV is a very large company compared to other companies in Iceland, its total assets according to the LV interim balance sheet for the second quarter of 2020 amounting to U.S.\$ 4.3 billion or ISK 600 billion. LV is by far the largest energy producer in Iceland, with over 70% of total energy production in the country. Around 92% of that energy generation comes from hydropower, while about 8% is generated by geothermal steam.

LV's operations have improved over the past few years. Net profit decreased in 2019, amounting to U.S.\$ 113 million against U.S.\$ 121 million in 2018. Earnings after income tax have varied in LV's history although it has stabilised over the past few years. LV's equity ratio was 51% at the end of 2019 but was 48.6% by the end of 2018. The equity ratio has been steadily rising over the years (for example, it was 40% in 2014).

LV's total long term debt amounted to U.S.\$ 1.54 billion by year-end 2019, a reduction of U.S.\$ 265 million from 2018. LV has steadily reduced the total amount of its long term debt in recent years (for example, it was U.S.\$ 2.1 billion at year-end 2014).

The main risk factor in LV's operations is how few and large its main customers are in relation to total revenue. Almost 85% of electricity sold by LV is purchased by 7 customers, of which 2 purchase 55% of the total energy generation of the company. Furthermore, these 2 customers are also in the same industry, aluminium production. To categorise LV's revenue by industry shows that 67% is from aluminium smelters, 14% from public utilities and 19% from other industries. A further risk factor is LV's exposure to price fluctuations in aluminium as almost 20% of its income is linked to aluminium prices. LV has managed to considerably reduce this link to aluminium prices in its revenue by entering into derivative contracts and more importantly by renegotiating electricity sales contracts with its customers.

The US dollar is the predominant currency in LV's revenue, around 70% of LV revenue is in U.S.\$. Approximately 15% of LV's revenue is in Icelandic króna with the remainder mostly in euros.

LV's return on equity was 5.2% in 2019, compared to 5.9% in 2018. The average return on LV's equity from 2015 to 2019 is 5.0%. LV return on equity is comparable to similar energy production companies in the Nordic countries.

LV's credit rating without taking into account the state guarantee on the company's debts is BBB from Standard & Poor's and Baa1 from Moody's. The credit rating companies raised their rating on LV from 2015 to 2019, but before 2015 the rating had been virtually unchanged from 2009.

Sale of electricity has increased from 13,082 GWh in 2014 to 14,028 GWh in 2019, an increase of 7.2%. At the same time installed power in MW has increased from 1,957 MW in 2014 to 2,146 MW in 2019, an increase of 9.7%.

LV operates 15 hydropower stations, three geothermal power stations and two wind turbines. These stations are distributed all over Iceland.

### **Icelandic State Financial Investments (ISFI)**

Icelandic State Financial Investments ("ISFI") is a state body with an independent Board of Directors which reports to the Minister of Finance. ISFI was established with Act no. 88/2009, which came into effect in August 2009. The Board of Directors of ISFI was appointed in September 2009 and the institution commenced work in January 2010. ISFI manages state holdings in financial undertakings, in accordance with the law, good governance and business practices and the state's ownership policy at any given time. It also allots funds to them on the state's behalf, in accordance with Treasury budget allocations.

The main emphasis of ISFI's activities is on the restoration and reconstruction of a dynamic domestic financial market and to promote natural and effective competition in that market, to guarantee transparency in all decisions regarding the state's participation in financial activities and ensure an effective dissemination of information to the public. In the wake of the restructuring of the Icelandic banking system, Icelandic State Financial Investments

(ISFI) has, in accordance with Act no. 88/2009, been entrusted with the task of managing the state's holdings in financial undertakings.

#### ***State owned A-shares year-end 2019***

	<b>Book Value ISK b.</b>
Íslandsbanki.....	142.1
Landsbankinn.....	197.7
Sparisjóður Austurlands.....	0.5
<b>Total ownership in financial institutions.....</b>	<b>340.3</b>

At present the government holding in financial undertakings is 100.0% of shares in Íslandsbanki hf., 98.2% in Landsbankinn hf., and 49.5% in Sparisjóður Austurlands hf.

#### **Republic of Iceland's sovereign credit rating**

Three international credit rating agencies issue ratings for the Republic of Iceland on a regular basis: Fitch, Moody's, and Standard & Poor's. On behalf of the Government, the Ministry of Finance and Economic Affairs is responsible for the relationship management and regular communications with these agencies. Credit ratings affect borrowing terms in global credit markets and provide an indication of the terms that will be offered to the borrower concerned.

##### *Standard & Poor's*

On November 13, 2020, Standard & Poor's affirmed Iceland's sovereign ratings at A/A-1. The rating agency projects 8% contraction of the economy in the year 2020, before starting a long recovery process in 2021. The Icelandic government has backloaded fiscal consolidation and introduced extraordinary fiscal measures of about 5% of GDP in 2020 to support private companies and households affected by the global pandemic. Therefore, Standard & Poor's projects gross general government debt, having declined to about 30% of GDP in 2019 from almost 80% in 2011, will rise to nearly 60% of GDP by 2023, also owing to the uncertain timing of economic recovery. However, Standard & Poor's expects Iceland's other credit strengths – its strong external balance sheet, resilient institutions, and economic flexibility – to outlast the temporary, albeit considerable, fallout from the global health emergency. According to Standard & Poor's, the agency could raise the ratings if the economy's recovery from the pandemic exceeds their expectations and leads to a diversification of the Icelandic economy and export categories, in the process reducing the volatility in Iceland's terms of trade. On the other hand, the rating agency could lower the ratings if the pandemic causes more permanent damage to the productive capacity of Iceland's economy than they expect, while pushing net general government debt to GDP to levels materially beyond expectations.

##### *Fitch*

On October 23, 2020, Fitch published a new rating action commentary on Iceland's sovereign ratings. Iceland's Short-Term foreign- and local currency ratings are affirmed at F1+. Iceland's Long-Term ratings are affirmed at A. Iceland's country ceiling was affirmed at A+. The coronavirus pandemic has resulted in sharp deterioration in Iceland's near-term growth and public finance outlook. Government debt is forecast to rise by around 30 percentage points of GDP between end-2019 and end-2025 as a result of automatic stabilisers and fiscal stimulus measures to support households and businesses. Under their medium-term projections, government debt/GDP stabilises at close to 64% in 2023. However, Iceland has high flexibility to finance large fiscal deficits arising from its response to the pandemic shock over the next few years. Fitch forecasts growth to rebound to 4% in 2021, before easing to 2% by 2024 as the output gap closes. The main factors that could lead to a positive rating action are a greater confidence in general government debt/GDP stabilising in the medium term, and if the economy will avoid a prolonged crisis, for example supported by diminishing downside risks in the export sectors. The main factors that could lead to a negative rating action are (i) a larger than expected contraction in the export sectors or sustained correction in the real estate market, (ii) a material adverse impact on bank asset quality, (iii) capital outflows at a scale that precipitates macroeconomic instability, or (iv) the erosion of external buffers. Materially higher than forecast general government debt/GDP, for example due to lack of fiscal consolidation after the initial COVID-19 related support measures, weaken growth prospects or the materialisation of contingent liabilities.

##### *Moody's*

On 6 October 2020, Moody's published an updated credit opinion. The opinion does not entail a rating revision and Iceland's sovereign rating remains at A2. The credit profile of Iceland is supported by its wealthy, flexible economy as well as its favourable demographics which support its long-term growth prospects. Fiscal strength has been bolstered by the substantial decline in its government debt burden since 2011, while consistent current-account surpluses contribute to Iceland's net external creditor position. The credit profile is constrained by the economy's small size, high economic concentration and openness and small currency area. These factors increase Iceland's vulnerability to shocks and can cause volatility in growth.

While unlikely in light of the COVID-19 pandemic, Iceland's rating would be upgraded if economic or institutional reforms help to significantly further insulate the credit profile from the risks posed by its small size and concentrated economy, including through a marked improvement in its external position and the build-up of financial buffers which materially further reduce its vulnerability to domestic and external shocks. On the other hand, a sharp and sustained increase in government debt would weigh on the credit profile given the economy's structural vulnerability to shifts in the global economy and the risks posed by its concentrated economic model. A disruptive slowdown or other economic shock which leads to substantial capital outflows, weakening Iceland's external position and threatening financial stability, would also be negative.

#### **Icelandic Sovereign Credit Ratings (as of November 2020)**

	Foreign Currency			Domestic Currency	
	Affirmed	Long-term	Short-term	Long-term	Short-term
Moody's.....	October '20	A2	P-1	A2	P-1
Standard & Poor's.....	November '20	A	A-1	A	A-1
Fitch.....	October '20	A	F1+	A	F1+

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Information in this section has been derived from the Clearing Systems.*

### BOOK-ENTRY SYSTEMS

#### DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**"). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org) but such information is not incorporated by reference in and does not form part of this Information Memorandum.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts

such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Notes purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Notes by causing the Direct Participant to transfer the Participant's interest in the DTC Notes, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Notes to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Notes at any time by giving reasonable notice to the Issuer or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Note certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Note certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

#### **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established



depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

## **BOOK-ENTRY OWNERSHIP OF AND PAYMENTS IN RESPECT OF DTC NOTES**

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

## **TRANSFERS OF NOTES REPRESENTED BY REGISTERED GLOBAL NOTES**

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant Clearing System in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("*Custodian*") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their direct or indirect participants or accountholders of their obligations under the rules and procedures governing their operations nor will the Issuer, any Agent or any Dealer have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## **TAXATION**

### **Taxation in Iceland**

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland as in effect at the date of this Information Memorandum. 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 or custodians. 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 the appointment by 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 Iceland 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.

he summary below 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 the date of this Information Memorandum.

### ***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 according to the Notes, by any person or entity residing outside of Iceland is taxable income in Iceland. According to Article 70 (8) of the ITA, the current tax rate on taxable income under Article 3 (8) is (a) 10 12 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 125150,000.00); and (b) 10 12 per cent. for legal entities.

There are certain exemptions from the general rule described above. One such exemption states that any interest payments by the Central Bank to a foreign individual or a foreign legal entity, either for its own account or on behalf of the Icelandic Treasury, are not subject to taxation in Iceland. Therefore, interest payments to non-Icelandic tax residents by the Issuer will not be subject to tax under the current legislation.

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 or the transferor 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, capital gains on the sale of the Notes should not be subject to income tax in Iceland for so long as the tax exemption referred to above is in place.

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.

Payments made by the Issuer through a paying agent located outside of Iceland will not be subject to Icelandic withholding tax.

In the unlikely event that payments to holders would be made directly by the Issuer (or by a paying agent located in Iceland), the Issuer may be required (subject to certain exemptions) 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). Any such withholding would be considered a preliminary tax payment but not necessarily constitute the final tax liability of such holder.

### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "*Commission's Proposal*") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "*participating Member States*"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the 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 the 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 the Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated Dealer Agreement dated 6 January 2021 (such Dealer Agreement, as amended and/or supplemented and/or restated from time to time, (the "**Dealer Agreement**")), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

## SELLING RESTRICTIONS

### United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States except in certain transactions exempt from, or not subject to the registration requirements of the Securities Act.

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

In respect of Bearer Notes where TEFRA D is specified in the applicable Pricing Supplement each Dealer will be required to represent, undertake and agree (and each additional Dealer appointed under the Programme will be required to represent, undertake and agree) that:

- (a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (or any substantially identical successor U.S. Treasury regulation section) (the "**D Rules**"), (i) that it has not offered or sold, and during the restricted period it will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person, and (ii) that it has not delivered and it will not deliver within the United States or its possessions Definitive Bearer Notes that are sold during the restricted period;
- (b) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (c) if it is a United States person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6) (or any substantially identical successor U.S. Treasury regulation section);
- (d) with respect to each affiliate that acquires Bearer Notes from a Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer repeats and confirms the representations and agreements contained in subparagraphs (a), (b) and (c) on such affiliate's behalf; and
- (e) it will obtain from any distributor (within the meaning of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(4)(ii)) (or any substantially identical successor U.S. Treasury regulation section) that purchases any Bearer Notes from it pursuant to a written contract with such Dealer (except a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of subparagraphs (a), (b), (c) and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the Code and Treasury regulations thereunder, including the D Rules.

In respect of Bearer Notes where TEFRA C is specified in the applicable Pricing Supplement, such Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer shall represent and agree that it has not offered, sold or delivered, and will not offer, sell or deliver,

directly or indirectly, such Bearer Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer shall represent and agree in connection with the original issuance of such Bearer Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve a U.S. office in the offer or sale of such Bearer Notes.

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

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$200,000 (or the approximate equivalent thereof in any other currency).

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

### **United Kingdom**

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

- (a) *No deposit-taking*: in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Iceland**

The investment described in this 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 the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market No. 14/2020 (the "**Icelandic Prospectus Act**"), which implements the EU Prospectus Regulation into Icelandic law.

Each Dealer has acknowledged and agreed, and each further Dealer appointed under the Programme will be required to acknowledge and agree, 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 1 (4) Item (a) of the EU Prospectus Regulation or (ii) other persons to whom this Information Memorandum may be communicated lawfully in accordance with the Icelandic Prospectus Act and/or the EU Prospectus Regulation (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.

## **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, accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, "**resident of Japan**" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge that it understands, that this Information Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused any Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause any Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Information Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA and in accordance with the conditions specified in Section 275 of the SFA or (iii) 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 Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) 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.

## **Switzerland**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that this Information Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes and the Notes may not be publicly offered, directly or indirectly, in Switzerland

within the meaning of the Swiss Financial Services Act ("**FinSA**") and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Information Memorandum nor any other offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, and neither this Information Memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

### **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Information Memorandum 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 Issuer nor any of the other Dealers shall have any responsibility therefor.

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

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the Subscription Agreement or Dealer Accession Letter as relevant, or in the applicable Pricing Supplement.



## TRANSFER RESTRICTIONS

*As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.*

Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is outside the United States;
- (ii) that it, and each account for which it is purchasing, will hold and transfer at last the minimum denomination of the Notes;
- (iii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and may not be offered or sold within the United States except as set forth below;
- (iv) that, unless it holds an interest in a Regulation S Global Note and is a person located outside the United States, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the expiration of the applicable required holding period determined pursuant to Rule 144 of the Securities Act from the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (v) it will, and will require each subsequent holder to, notify any purchaser or transferee, as applicable, of the Notes from it of the resale and transfer restrictions referred to in paragraph (viii) above, if then applicable;
- (vi) that Notes initially offered to QIBs will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vii) that the Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) ("**QIB**") PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs IN A MINIMUM PRINCIPAL AMOUNT OF U.S.\$200,000 (OR THE EQUIVALENT AMOUNT IN A FOREIGN CURRENCY); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT PURSUANT TO RULE 144 OF THE SECURITIES ACT FROM THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION

PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A FOR REALES OF THE SECURITY.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

- (xiv) that the Notes in registered form which are registered in the name of a nominee of DTC will bear an additional legend to the following effect unless otherwise agreed to by the Issuer:

"UNLESS THIS GLOBAL NOTE IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION, ("**DTC**"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY REGISTERED NOTE ISSUED IN EXCHANGE FOR THIS GLOBAL NOTE OR ANY PORTION HEREOF IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUIRED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS GLOBAL SECURITY MAY NOT BE EXCHANGED, IN WHOLE OR IN PART, FOR A SECURITY REGISTERED IN THE NAME OF ANY PERSON OTHER THAN THE DEPOSITORY TRUST COMPANY OR A NOMINEE THEREOF EXCEPT IN THE LIMITED CIRCUMSTANCES SET FORTH IN THIS GLOBAL SECURITY, AND MAY NOT BE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THIS LEGEND. BENEFICIAL INTERESTS IN THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT IN ACCORDANCE WITH THIS LEGEND."; and

- (xvi) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$200,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$200,000 (or its foreign currency equivalent) of Registered Notes.

## **GENERAL INFORMATION**

### **Authorisation**

The establishment, increase and update of the Programme was authorised by Act No. 43 of 16th May, 1990 and resolutions of the Icelandic Parliament (*Althingi*).

### **Listing of Notes**

Application may be made to admit to the Official List and admit to trading on the Market Notes issued under the Programme. However, Notes may be issued pursuant to the Programme which will not be admitted to the Official List or admitted to trading on the Market or admitted to listing, trading and/or quotation on any other listing authorities, stock exchanges, regulated markets and/or quotation systems or which will be admitted to listing, trading and/or quotation on any other listing authorities, stock exchanges, regulated markets and/or quotation systems as the Issuer and the relevant Dealer may agree.

### **Documents Available**

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be freely available from the principal office of the Issuer and from the specified office of the Paying Agent(s) (including, for the avoidance of doubt, the Principal Paying Agent) (as set forth on the last page of this Information Memorandum):

- (i) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (ii) a copy of this Information Memorandum;
- (iii) any future information memoranda, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of Notes and identity) to this Information Memorandum and any other documents incorporated herein or therein by reference; and
- (iv) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code, International Securities Identification Number ("**ISIN**"), Financial Instrument Short Name ("**FISN**") and Classification of Financial Instruments ("**CFI**") code (as applicable) in relation to the Notes of each Series will be specified in the applicable Pricing Supplement. The applicable Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The Committee on Uniform Security Identification Procedures ("**CUSIP**") number and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) common code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

### **Litigation**

The Issuer is not involved in any litigation or governmental proceedings which might result in a material adverse change in the Issuer's condition (financial or otherwise) or which might impair the ability of the Issuer to perform its obligations under the Notes, the Dealer Agreement or the Agency Agreement.

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