



*Base Prospectus*

*April 2021*





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## **Kvika banki hf.**

### **ISK 30,000,000,000 Debt Issuance Programme**

Under this ISK 30,000,000,000 Debt Issuance Programme (the “Programme”) Kvika banki hf., reg. no. 540502-2930, Katrínartún 2, 105 Reykjavík, Iceland (“Kvika”, the “Issuer” or the “Bank”) may issue in a continuous and repeated manner bonds and/or bills (the “Securities”) denominated in any Specified Currency as described in this Base Prospectus (the “Base Prospectus”). The maximum aggregate nominal amount of all Securities from time to time outstanding under the Programme will not exceed ISK 30,000,000,000 (or its equivalence in other currencies), subject to increase as described herein.

Securities issued under the Programme will be issued in uncertificated and dematerialised book entry form issued electronically in a Central Securities Depository, Nasdaq CSD SE, útibú á Íslandi (the “Nasdaq CSD”), or any other as decided by the Issuer. An application will generally be submitted to Nasdaq Iceland hf. reg. no. 681298-2829, Laugavegur 182, 105 Reykjavík, Iceland (the “Nasdaq Iceland”) for Securities issued under the Programme to be admitted to trading on Nasdaq Iceland Main Market, the regulated market of the Nasdaq Iceland. References in this Base Prospectus to Securities being listed (and all related references) shall mean that such Securities have been admitted to trading on the regulated market of the Nasdaq Iceland, a regulated market for the purposes of Directive 2004/39/EC implemented in Iceland through the Act on Securities Transactions and Act on Stock Exchanges no. 110/2007. The Issuer may list the Securities on additional regulated markets. Additionally, the Issuer is permitted to issue Securities under the Programme which are not to be listed on a Regulated Market.

The Issuer will determine the terms of each series of Securities in accordance with the terms specified in the chapter *Terms and Conditions of the Securities*. The Issuer may decide that Securities may be issued in a form not contemplated by the terms described herein, in which event, a supplement to the Base Prospectus if appropriate, will be made available. The final terms of each tranche of Securities (the “Final Terms”) will then be specified in the relevant Final Terms document which will be sent to the Financial Supervisory Authority of the Central Bank of Iceland (the “FSA”) for review and subsequently published on the website of the FSA and the Issuer, [www.kvika.is](http://www.kvika.is). The Base Prospectus and applicable Final Terms will remain available for at least 10 years after their publication.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and are subject to U.S. tax law requirements. Subject to certain exceptions, the Securities may not be offered, sold or delivered within the United States or to a U.S. person.

**Kvika banki hf.**

The date of this Base Prospectus is 16 April 2021.

This Base Prospectus has been prepared in accordance with the Prospectus Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (the “Prospectus Regulation”) as implemented in Iceland by Act no. 14/2020, the Commission Delegated Regulation (EU) 2019/980 as implemented in Iceland and Act no. 108/2007 on Securities Transactions (the “Act on Securities Transactions”). This Base Prospectus has been approved by the FSA, as competent authority under Regulation (EU) 2017/1129. The FSA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or of the quality of the Securities issued under this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Securities.

Following transposition of Directive 2014/65/EU on Markets in Financial Instruments (“MiFID II”) into Icelandic law, the Final Terms applicable to any Security may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Securities and which channels for distribution of the Securities is appropriate. Any person subsequently offering, selling or recommending the Securities (a “Distributor”) should take into consideration the Issuer’s target market assessment. However, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the Issuer’s target market assessment) and adopting and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID II Product Governance rules under Commission Delegated Directive (EU) 2017/593 (the “MiFID II Product Governance Rules”), any dealer purchasing any Securities is a manufacturer in respect of such Securities, but otherwise neither the dealers nor any of their affiliates will be a manufacturer for the purpose of the MiFID II Product Governance Rules.

Should certain Securities constitute ‘packaged retail investment products’ under Regulation (EU) 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products as amended (the “PRIIPs Regulation”) such Securities may not be offered, sold or otherwise made available to any retail investor in the EEA or the United Kingdom or in Iceland (following transposition of the PRIIPs Regulation), unless a key information document required under the PRIIPs Regulation has been prepared for the Security in question.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The Base Prospectus nor any advertisement or other offering material may not be distributed or published in any jurisdiction where such distribution would require any additional prospectus, registration or measures other than those required under Icelandic law and regulations, or otherwise conflict with regulations in such jurisdiction. Likewise, no Securities may be offered or sold, directly or indirectly in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Securities may come, must inform themselves about and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Securities. The Issuer does not accept any legal responsibility for any violation by any person, whether or not a prospective purchaser of the Securities is aware of such restrictions. In particular, this Base Prospectus may not be sent to any person in the United States, Australia, Canada, Japan, Hong Kong, South Africa, Singapore or any other jurisdiction in which it would not be permissible to deliver the Securities and the Securities may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any of these countries (see chapter *Selling Restrictions*).

This Base Prospectus has been prepared to provide clear and thorough information on the Issuer. Investors are encouraged to acquaint themselves thoroughly with this Base Prospectus. They are advised to pay

particular attention to the section entitled Risk Factors. This Base Prospectus should by no means be viewed or construed as a promise by the Issuer or other parties of future success either in operations or return on investments. Investors are reminded that investing in securities entails risk, as the decision to invest is based on expectations and not promises. Investors must rely primarily on their own judgement regarding any decision to invest in the Issuer's Securities, bearing in mind, inter alia, the business environment in which it operates in, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts, such as licensed financial institutions, to assist them in their assessment of the Securities as an investment option. Investors are advised to consider their legal status, including taxation issues that may concern the purchase or sale of the Securities and seek external and independent advice in that respect.

The information contained in this Base Prospectus is based on information currently available. The Issuer will, as deemed necessary, supplement this Base Prospectus with updated information pursuant to Article 23 of the Prospectus Regulation. Otherwise, neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Securities 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. Forward-looking statements made in this Base Prospectus involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by such forward looking statements.

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

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

The Securities are governed by Icelandic law and any disputes arising in relation to the Securities shall be settled exclusively by Icelandic courts in accordance with Icelandic law.

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

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## OVERVIEW OF THE PROGRAMME

The following is a brief overview only and should be read in conjunction with the rest of this Base Prospectus, any supplements thereto, including any information incorporated by reference, and read together with the applicable Final Terms and, to the extent applicable, the Terms and Conditions of the Securities set out herein. This Overview constitutes a general description of the Programme for the purposes of Art. 25 (1) of Commission Delegated Regulation (EU) no. 219/980.

Words and expressions defined in “*Terms and Conditions of the Securities*” shall have the same meanings in this overview.

**Description:** ISK 30,000,000,000 Debt Issuance Programme.

### 1. THE PARTIES

**Issuer:** Kvika banki hf., Reg. no. 540502-2930, registered office at Katrínartún 2, 105 Reykjavík, Iceland

Kvika is a specialized bank which offers its customers a wide range of services in all major areas of financial and insurance services through the Group’s operations. The Bank is a financial undertaking in accordance with the Act on Financial Undertakings, as amended, and is supervised by the Financial Supervisory Authority of the Central Bank of Iceland. Kvika holds a license to operate as a commercial bank, and to carry out specific authorised activities.

**Legal Entity Identifier (“LEI”):** 254900WR3I1Z9NPC7D84

**Website** [www.kvika.is](http://www.kvika.is)<sup>1</sup>

**CSD Agent:** Kvika banki hf., or any successor agent appointed as such.

**Calculation Agent:** Kvika banki hf., or any successor agent appointed as such.

### 2. KEY FEATURES

**Status of the Securities:** The Securities may be issued on an unsubordinated or a subordinated basis, as described in Conditions 3.1 (Unsubordinated Securities) and 3.2 (Subordinated Bonds), respectively, and as specified in the applicable Final Terms.

**Programme Size:** The maximum aggregate nominal amount of all Securities from time to time outstanding under the Programme will not

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<sup>1</sup> Information on the website does not form part of the Base Prospectus unless that information is incorporated by reference into this Base Prospectus .

exceed ISK 30,000,000,000 (or its equivalent in other currencies) outstanding at any time. The Issuer may increase the size of the Programme. Such an increase is subject to an authorisation by the Issuer's Board of Directors.

<b>Distribution:</b>	The Securities may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions including the rules on foreign exchange issued by the Central Bank of Iceland, Securities may be issued in any currency decided by the Issuer
<b>Form of the Securities:</b>	<p>Securities issued by Kviká under the Programme are in uncertificated and dematerialised book entry form issued electronically in a Central Securities Depository, Nasdaq CSD Iceland hf., or any other clearing system as may be specified in the relevant Final Terms.</p> <p>Securities issued under the Programme may be Bonds or Bills, issued in the currency specified in the applicable Final Terms. The Securities may be derivative linked, inflation linked or non-inflation linked, they can be in the form of an Annuity or have Equal Principal Payments (including a Bond with one payment of principal on Maturity Date (a zero-coupon bond)), Securities can have a Fixed Rate or Floating Rate or a combination of any of the foregoing, depending upon the interest basis and redemption/payment basis shown in the applicable Final Terms.</p>
<b>Terms of the Securities:</b>	The terms of the Securities will be set out in the Terms and Conditions of the Securities, as completed by the applicable Final Terms.
<b>Maturities</b>	The Securities will have such maturities as decided by the Issuer, 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.
<b>Issue Price:</b>	Securities may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
<b>Redemption:</b>	The applicable Final Terms will indicate either that the relevant Securities cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default, or in the case of Subordinated Bonds, upon the occurrence of a Capital Event) or that such Securities will

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

**Denomination of Securities:** The Securities will be issued in such denominations as decided by the Issuer and stated in the applicable Final Terms, save that the minimum denomination of each Security will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency

**Redenomination:** Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may redenominate the Securities in any Specified Currency. The relevant provisions applicable to such redenomination are in Condition 4 (Redenomination).

**Taxation:** All payments in respect of the Securities will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 9 (Taxation). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9 (Taxation), be required to pay additional amounts to cover the amounts so deducted.

**Use of Proceeds:** The net proceeds from each issue of Securities will be applied by the Issuer for its general corporate purposes, which include making a profit. If, in respect of any particular issue of Securities there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

**Listing:** Series of Securities issued under the Programme have been admitted to trading on the regulated market of the Nasdaq Iceland. The Issuer may list the Securities on additional regulated markets, further, the Issuer may choose to forego listing.

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

**Passporting:** Once a prospectus has been approved by the FSA in Iceland, it may be passported into any member state of the European Economic Area and thereafter used to offer securities to the

public and/or for an admission to trading in the relevant jurisdiction.

**Governing Law:**

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

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Securities. In particular, this Base Prospectus may not be sent to any person in the United States, Australia, Canada, Japan, Hong Kong, South Africa, Singapore or any other jurisdiction in which it would not be permissible to deliver the Securities and the Securities may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any of these countries. Further, some restrictions may apply to the European Economic Area and the United Kingdom.

**Risk Factors:**

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

## RISK FACTORS

The following overview of risk factors is based on what the Issuer, at its own discretion, considers to be of importance in relation to the Issuer's ability to fulfil its obligations under the Securities. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. While the Issuer believes that the factors described below represent the principal risks inherent in investing in the Securities, this overview is not a substitute for the rest of the Base Prospectus and should not be perceived as such. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and draw their own conclusions prior to making any investment decision. The Issuer has assessed the materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact and has organised the following risk factors accordingly, beginning with those estimated to be most significant to the Issuer.

Additional risks and uncertainties not presently known to the Issuer, the Board of Directors or the CEO or that they currently deem immaterial, may also impair the Issuer's business operations and therefore its ability to pay interest, principal or other amounts on or in connection with the Securities. The business, financial condition or result of operations of the Issuer could be materially and adversely affected by any of these risks.

The Issuer's Board of Directors has overall responsibility for the establishment and oversight of the Issuer's risk management framework and risk appetite setting. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The CEO is responsible for the effective implementation of the risk management framework through the corporate governance structure and committees. The Issuer operates three committees, established by the CEO, that are involved in risk management, namely, the Asset and Liability Committee (hereafter also referred to as "ALCO"), Credit Committee and Operations Committee, which are responsible for developing and monitoring risk management policies in their specified areas. For further information on these committees a reference is made to the subchapter *Committees established by the CEO* in the chapter *Management and Corporate Governance*. The implementation and execution of the Issuer's internal control rests with the Issuer's managing directors along with its internal control units, i.e. Risk Management, Compliance and Internal Auditor. For further information on internal control and risk management reference is again made to the chapter *Management and Corporate Governance*.

### **Economic and financial market risk**

#### ***The Issuer's business is affected by local and global economic developments***

The Issuer's business is directly affected by changes in the economic environment in Iceland as demand for banking services and the nature of that demand tends to fluctuate with economic sentiment. In turn, the domestic environment is highly dependent on global dynamics given the country's heavy reliance on trade in goods and services. Growth in Iceland had already stalled in the beginning of 2020 after years of robust economic activity, in large part due to a decline in tourist arrivals. Recent economic developments associated with the COVID-19 virus have led to a significant deterioration in growth prospects in the coming months. Current economic headwinds should however be supported by low public debt and the economy's net positive and

historically high international investment position. Consumer purchasing power has been increasing in recent years due to wage hikes and low inflation, underpinning the strong position of the general consumer in Iceland going into the current crisis. Increased employee costs have however weighed on businesses and made them more vulnerable to stalling top line growth associated with the COVID-19 health crisis. Investment growth is expected to be negative this year as heavy focus has been on the tourist industry in recent years and business sentiment remains negative. Loan growth among deposit institutions had slowed rapidly going into the current crisis due to a refocus within the industry on increased returns, fewer attractive investment projects and increased risk aversion. This risk aversion has now heightened substantially as default risk among businesses has risen due to a severe slowdown in the tourist industry and wide-ranging restructuring is expected among businesses related to industry. Although these are natural consequences associated with the current economic outlook risks remain if unemployment continues to increase and international border openings are unsuccessful. International economic developments and local politics remain a risk factor going forward, as a lot hinges on the economic policy response of governments.

The United Kingdom's withdrawal from the European Union at the end of the year 2020 is an added risk factor. Along with the COVID-19 crisis, the Brexit negotiations could have an adverse effect on the Icelandic economy and therefore the Issuer, given close trade relations between Iceland and the UK.

The Issuer's business is affected by the level of banking, investment and financial services required by its customers. The level of borrowing by customers depends on customer confidence, current employment status, the status of the economy and current market interest rates. A lower demand by customers for financial services may have an effect on the Issuer's business.

### **Financial Risks**

***Should one or more of the Issuer's counterparties fail to meet obligations it could result in an adverse effect on the Issuer's business, operations and stability***

As granting of credit is one of the Issuer's main sources of income, consequently, one of the Issuer's primary sources of risk is counterparty credit risk, which can significantly affect the financial stability of the Issuer. Credit risk is defined as the risk that the Issuer will incur losses due to a counterparty defaulting on debt, or debt equivalent instruments, granted by the Issuer. Credit risk includes loans to customers, guarantees, loan commitments and derivative transactions. Additional assets such as deposits in bank accounts and accounts receivable qualify, among others, as credit risk. However, the largest part of the Issuer's credit risk involves lending to individuals and legal entities. Information on the Issuer's loan portfolio and counterparties can be found in subchapter *Banking* under the chapter *Principal Activities*.

***A sectorial, single-name and/or geographical concentration of the loan portfolio could affect the Issuer. The Issuer's loan portfolio is concentrated in key sectors***

These sectors include, real estate, construction, financial entities and holding companies. See further in subchapter *Banking* under the chapter *Principal Activities*. Downturns in these sectors that would influence customers' ability to meet their obligations may ultimately have an adverse effect on the Issuer's business, financial condition and results of operations.

***Economic downturns could affect the Issuer's loan portfolio such as increased loan impairments granted by the Issuer***

The Issuer's loan portfolio is mainly composed of loans to Icelandic businesses. Increased corporate insolvency and reduced disposable income may reduce the customers' ability to repay loans granted by the Issuer. This may lead to a higher impairment of loans in the Issuer's loan portfolio.

The Issuer maintains a loan portfolio with emphasis on the general quality of lending rather than quantity. Emphasis is placed on a robust and efficient lending process that contributes to the quality of the loan portfolio regarding customer risk categorisation and pledged collateral quality classification. Emphasis is placed on providing first-class specialised banking services utilising a flexible infrastructure.

The loan portfolio is unique with respect to composition and duration. As at 31 December 2019, the duration of the loan portfolio was relatively short or approximately one year.

The Group applies the same valuation methods to collateral held as other comparable assets held by the Group. For other types of assets, the Group uses third party valuation where possible. Haircuts are applied to account for liquidity and other factors which may affect the collateral value of the asset or other credit enhancement.

The loan-to-value ratio (hereafter "LTV") is the ratio of the gross amount of the loan to the value of the collateral, if any. The general creditworthiness of a customer is viewed as the most reliable indicator of the credit quality of a loan. Valuation of collateral held against loans is updated as deemed necessary based on price volatility and liquidity. Wrong assessment on the valuation of collateral can have an effect on the Issuer's financial position.

In accordance with the FSA's regulation no. 233/2017 on prudential requirements for financial undertakings, total exposure towards a customer can be classified as a large exposure if it exceeds 10% of the Issuer's capital base. According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base. Single large exposures net of risk adjusted mitigation take into account the effects of collateral held by the Issuer, and other credit enhancements, in accordance with the FSA's regulation, no. 625/2013.

The extent of single large exposures net of risk adjusted mitigation is in accordance with the FSA's regulation no. 625/2013.

The Issuer's lending rules as defined by the Issuer's Board of Directors and the related lending policy is intended to organise and ensure an overview of the lending operations of the Issuer. The policy is a guideline for the Credit Committee, and the committee may deviate from the provisions of the policy as deemed appropriate. Any deviations from the lending policy shall be approved by the Credit Committee, and the reasons for the deviation shall be recorded in the relevant meeting minutes of the Credit Committee. Employees with lending authorisation are authorised to approve lending within their respective authorisation and within the limits of the lending policy. If a loan request falls outside of the lending policy, the loan request must be submitted to the Credit Committee regardless of the loan amount. The vast majority of loan requests are subject to Credit Committee approval. The lending policy does set certain criteria

with respect to the purpose, loan to value ratios and quality of the collateral, form of contracts, maturity and payment schedules for different loan types.

***The Issuer is exposed to the risk of counterparties repaying loans earlier than expected***

Prepayment risk is the risk that the Issuer can incur a financial loss because its counterparties request repayment of loans earlier than expected. Changes in interest rates could influence the customer's willingness and ability to make unscheduled early payments on loans granted by the Issuer. This could lead to decreased interest income for the Issuer and therefore have an effect on the Issuer's financial position. Prepayment risk is mitigated by prepayment fees and the Issuer's own prepayment options on its borrowings. Information regarding the Issuer's borrowings is further described in chapter *Funding*.

***The Issuer is exposed to a wide range of market risks. The most significant risk factors include interest rate, equity, foreign exchange and inflation risks***

Market risk constitutes risk due to changes in the market prices of financial instruments and comprises interest rate risk, currency risk and other price risk. The Issuer has a strict policy on controlling market risk and keeping its exposure within set limits. Risk Management monitors market risk limits daily and reports regularly to the Asset and Liability Committee and to the CEO.

The Issuer is mainly exposed to market risk due to changes in stock prices, bond yields and currency exchange rates that can adversely affect the Issuer's financial position. The Issuer is directly exposed to market risk through its activities in the following departments: Corporate Banking, Treasury, Proprietary Trading and Capital Markets, as well as indirectly exposed through the activities in Asset Management and, to some extent, Corporate Finance. Market risk arises both due to the activities of the individual departments and through common risk, i.e. risk to the Issuer as a whole.

Changes in market variables directly impact the assets of the Issuer's trading portfolios, which are marked-to-market on a daily basis, recognising gains and losses immediately in the income statement. The Issuer's trading portfolios consist of market making portfolios for both stocks and bonds, as well as a trading portfolio for proprietary trading. There is furthermore market risk exposure in the treasury portfolio and the investment portfolio. The treasury portfolio contains securities positions, which are considered part of the Issuer's active financial management, e.g. liquid assets. Investment securities that are not actively traded are valued either at amortised cost or at fair value. Further market risk due to assets and liabilities on- and off-balance sheet can arise, due to currency mismatches, interest rate imbalances and indexation.

The Asset and Liability Committee addresses the Issuer's market risk in accordance with the defined rules of the committee and may, in cooperation with Risk Management, set more detailed criteria for positions and define limits and targets. Violations of limits are immediately reported to the Asset and Liability Committee and the CEO and a decision on appropriate actions is taken in accordance with the severity of the violation.

Risk Management measures the direct risk of trading portfolios daily, using statistical value at risk (hereafter "VaR") methods. VaR is a measure of the financial risk in the investment portfolio

using a 99% confidence level and 1 day holding period. Limits are set by Risk Management for risk arising from both equity and debt securities in market making portfolios, and the limits are monitored by Risk Management daily.

### ***Interest Rate Risk***

Interest rate risk refers to the risk of loss due to general interest rate changes. The Issuer's interest rate risk is twofold. On the one hand, the Issuer has a proprietary portfolio of bonds, where market rates affect prices and any fluctuations are recognised through the income statement. On the other hand, the Issuer has a mismatch in assets and liabilities with fixed interest terms. These include loans and swap contracts for securities on the asset side and borrowings and deposits on the liability side. The impact of interest rate changes on the Issuer's performance is determined by the characteristics of the Issuer's assets and liabilities, particularly interest rate revision provisions. Thus, interest rate hikes can reduce the value of loans with fixed interest rates, while raising the cost of funding. The interest rate change has a lasting effect if interest rates are fixed over the contract period, while the effect is limited to the next interest rate revision date, if the interest rates are variable.

The Issuer takes measures to minimise interest rate risk by matching the interest rate profile and duration of assets with the Issuer's liabilities as well as using derivative and non-derivative financial instruments to effectively manage the risk of an adverse impact on the Issuer's earnings.

The Group performs monthly sensitivity analysis on financial assets and liabilities in trading and non-trading portfolios that are subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies.

### ***Currency Risk***

Currency risk arises from fluctuations in the currency rate of financial instruments that are not denominated in the functional currency of the respective entity of the Issuer, the Icelandic króna. A part of the Issuer's financial assets and financial liabilities is denominated in foreign currencies.

Treasury manages the Issuer's position in foreign currencies by buying and selling currency and derivatives. Currency positions are monitored daily by Risk Management and Treasury and reported monthly to the Asset and Liability Committee and the Central Bank of Iceland. Any mismatch between assets and liabilities in each currency is monitored closely and maintained within limits.

The Issuer is subject to restrictions set by the Central Bank of Iceland, cf. Rules no. 784/2018 on Foreign Exchange Balance, regarding the maximum size of open currency position, which shall not exceed 15% of the capital base.

There is uncertainty regarding the remaining restrictions relating to the capital controls. There is also no guarantee that the Central Bank will not reimpose some elements of the capital controls that have already been lifted. Direct foreign investment in Iceland may be affected by the potential scenario that capital restrictions could be re-imposed in the future. This would limit the growth of the Icelandic economy and potentially the Issuer.

### ***CPI/Inflation Risk***

Exposure to changes in the Icelandic Consumer Price Index (hereafter referred to as “CPI”) is the risk that fluctuations in the CPI will affect the balance and cash flow of indexed financial instruments. The Issuer is exposed to Icelandic inflation due to the imbalance of CPI indexed assets and CPI indexed liabilities. Indexed assets and liabilities of the Issuer consist of securities and interest rate swap agreements, as well as indexed deposits and loans to customers.

The Issuer controls its indexation risk through derivatives contracts and sales and purchase of indexed bonds, mostly government bonds, and thus keeps its inflationary position within the limits of the maximum 100% of the capital base as defined by the Asset and Liability Committee.

The Issuer's total CPI imbalance at year-end 2019 amounted to ISK 1,34 billion (year-end 2018: 1,62 billion).

### ***Equity Risk***

Increased uncertainty in the financial markets contributes towards increased volatility in equity markets which affect the Issuer's business. Equity risk arises from the change in value of individual stocks. The Issuer has equity risk exposure towards positions held in the trading book as well as positions in the non-trading portfolio.

The Issuer's market risk increased significantly during the first quarter of 2020 due to volatility in the equity, fixed income and foreign exchange markets as a consequence of the COVID-19 pandemic. Losses due to market risk exposure could have an effect on the Issuer's financial position and its ability to make payments in respect of the debt securities.

***The Issuer is exposed to liquidity risk. Unexpected changes in the underlying mechanisms of funding sources could have an adverse effect on the Issuer's ability to meet its obligations when they reach maturity***

Liquidity risk is the risk that the Issuer will encounter difficulty in meeting contractual payment obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. This risk mainly arises from mismatches in the timing of maturing cash flows from assets and liabilities. The Issuer's largest funding source is deposits from individuals, corporations and financial institutions. A sudden outflow of deposits from customers might have an adverse effect on the liquidity position of the Issuer and therefore its financial position.

Liquidity management is carried out by Treasury and monitored by Risk Management. The liquidity position is reported to the Asset and Liability Committee.

The Issuer continuously maintains liquidity and funding ratios in accordance with the Central Bank of Iceland's rules of credit institutions' liquidity ratios no. 266/2017. The rules include requirements for the coverage ratio between cash flows of assets and liabilities (hereafter referred to as “LCR”) as well as the required stable funding in foreign currencies (hereafter referred to as “NSFR”).

The minimum 30-day LCR was 100% in 2018 as well as in 2019 (100% for non-ISK assets). The minimum NSFR in foreign currencies was 100% in 2018 as well as in 2019. The Group was

in compliance with internal and external liquidity requirements throughout the years 2019 and 2018. At end of December 2019 the LCR was 246% and at year end 2018 it was 277%.

Maturity analysis of financial assets and financial liabilities is based on contractual cash flows or, in the case of held for trading securities, expected cash flows. If an amount receivable or payable is not fixed, e.g. for inflation indexed assets and liabilities, the maturity analysis uses estimates based on current conditions.

Kvika has established guidelines regarding the matching of maturities of assets and liabilities. Furthermore, to ensure the ability to meet liquidity needs, the Issuer maintains a stock of highly liquid unencumbered assets, e.g. cash, treasury bills and bonds.

To manage liquidity risk, the Issuer has established a risk management strategy pertaining to liquidity management. The Issuer's liquidity risk management is consistent with both external regulatory requirements and internal criteria set by the Issuer's risk policy. As per the risk policy, the implementation of liquidity management shall be in compliance with the rules and recommendations of regulators, including the Guidelines of the FSA no. 2/2010, for sound liquidity risk management and supervision. The Asset and Liability Committee may set further criteria within the framework of the Risk Policy Guide and Rules on risk management and should ensure that Treasury has the agency and capacity for the day-to-day management of funding and liquidity risk. Treasury shall:

- Ensure prudence in the daily management of the Issuer's liquidity;
- Distribute and direct funds in a way that promotes a solid liquidity environment;
- Maintain diversity in funding regarding maturity and origin;
- Ensure that liquidity risk limits are respected

Treasury has outlined a contingency plan to be activated in the event of situations that threaten or are likely to threaten the Issuer's liquidity position. The FSA has supervised and given valuable guidance in outlining the contingency plan. The contingency plan has been approved by the Issuer's Board of Directors and outlines responsibilities as well as defining the framework of disclosure requirements to the Asset and Liability Committee, the Board of Directors and regulators. Criteria for activating the liquidity management contingency plan are more detailed and stricter than those required by rules no. 266/2017 on liquidity coverage ratios, issued by the Central Bank of Iceland.

Risk Management has a supervisory role regarding the Issuer's liquidity risk and is responsible for reporting, both internally and to regulatory bodies. The daily implementation of liquidity management is further defined in Liquidity Risk Management Procedures, which prescribes, among other things, regular status meetings of Risk Management and Treasury representatives to review liquidity developments. The procedures also describe the frequency and scope of reporting. For example, Risk Management calculates and publishes internally liquidity and funding ratios as needed, though never less than once a week. Likewise, a comprehensive liquidity report reviewing both internal and external risk indicators should be submitted monthly to the Asset and Liability Committee. Finally, Risk Management is obliged to inform the Board of Directors of liquidity risk as a part of the regular risk reporting presented at least every three months.

## Operational Risk

### *A failure in one of the Issuer's main operating systems could have an adverse effect on the Issuer's business*

Operational risk is the risk of financial losses resulting from the failure or inadequacy of internal processes or systems, due to employee error, fraud or external events.

Operational risk is multifarious and often categorised into more specific risk types, such as, for example, legal risk, business risk, product risk, systems risk, human error and fraud. Following is a description of the operational risk factors that are considered relevant for the Issuer.

Operational risk factors are inherent in all areas of business activities and public awareness of these factors can add to the Issuers' reputational risk.

Operational risk can be reduced through staff training, process re-design and enhancement of the overall control environment. The Issuer's Risk Management Department monitors operational risk by tracking loss events, quality deficiencies, potential risk indicators and other early-warning signals. Risk Management plays an active role in internal controls and quality management.

Operational risk is relevant to all the Issuer's activities. The Management Team is responsible for enforcing the Issuer's risk management policy in relation to operational risk while Risk Management is responsible for evaluating, measuring and communicating operational risk to the relevant parties. This includes supporting the Compliance Unit in ensuring that all adequate rules and procedures are in place, regularly reviewed and followed. The Issuer, through training and management standards and procedures, continuously aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations in minimising those risks.

The Issuer emphasises that each department should perform its own risk assessment, supervised by Risk Management, to assess the internal operational risk in its activities. This includes identifying need for improvements and implementing an action plan for important projects in that regard, in order to develop operations and strengthen infrastructure; thereby reducing operational risk. The Issuer's Operations Committee regularly initiates improvement projects, with the goal of minimising the Issuer's operational risk.

The Issuer's contingency plan details how to maintain its main activities and minimise damage caused by a serious disturbance to operations, such as due to a critical incident, systemic problems, facility issues and human resource shortages. The Issuer's IT department regularly tests security and access control systems, data validity, new systems and system backups.

The technological advances in the financial sector have been rapid during recent years. To keep up with the rapid developments the Issuer will be implementing a new core deposit and payment system, Sopra Banking system. The Sopra banking system opens the way to increased integration of software solutions in the financial system.

***The Issuer is exposed to the risk of security breaches and unauthorized access of confidential information. The failure in functionality of the Issuer's information systems could have an adverse effect on the Issuer's business***

The rapid development of technology has led to a greater attention and importance of acknowledging information and communication technology risk, as most of the Issuer's operations rely entirely on information, information processing and automated information systems. Therefore, any incidents that compromises the information and communication solutions used by the Bank can have a serious impact on the Issuer's business processes. These incidents can be various and either random, malicious or accidental, such as, for example, destruction of data or data theft (e.g. from cyber-attacks), errors and omissions, system disruptions etc. The aforementioned incidents could have a material effect on the Issuer's operations and business.

The Issuer's IT department is continuously working thoroughly on minimising IT risk through various ways as well as increasing general operational security. For example, by increasing the employees' security awareness through more extensive and organised security education since the majority of cyber-attacks stem from human activity. Moreover, all important data is backed up and stored at an offsite data centre where backups are kept encrypted but available on disk arrays for the fastest possible recovery, e.g. in case of a critical data loss or system failure. To ensure data integrity, restorations of the backups are tested on a weekly basis. The IT department has also implemented real-time monitoring that monitors all network connection and services, has an operation desk that is manned 24/7 and prioritises alerts and takes actions when necessary. Furthermore, the Issuer's data centre is ISO 27001 certified which confirms that strict safety rules are being followed in all processing and management of information systems and data as ISO 27001 is a security management standard that specifies security management best practices and comprehensive security controls following the ISO 27002 best practice guidance. Management and incidents are also logged and handled according to ISO 27001, to minimise errors and operational incidents.

Due to the nature of banking, the safe handling and processing of customer's personal data and other confidential information, is an important part of the Issuer's daily operations. The same applies to the Issuer's subsidiaries including, but not exclusive to, Kvika eignastýring hf. (hereafter “KES”), GAMMA Capital Management hf (hereafter “GAMMA”), Kvika Securities Ltd (hereafter “Kvika Securities” or “KSL”), TM tryggingar hf. (hereafter “TMT”) Aur app ehf. (“Aur”) and Netgíró hf. (hereafter “Netgíró”). The Issuer and the subsidiaries are legally responsible for safeguarding personal data and confidential information and must comply with strict data protection and privacy laws, including rules on bank secrecy, when handling and processing such data.

Pursuant to Act no. 161/2002 on Financial Undertakings (hereafter referred to as “Act on Financial Undertakings”), the Issuer's Board of Directors, managing directors, auditors, employees and any persons undertaking tasks on behalf of the Issuer are bound by an obligation of confidentiality concerning any information of which they may become aware in the course of their duties regarding business or private concerns of the Issuer's customers, unless obliged by law to provide such information. This obligation is commonly referred to as bank secrecy.

To protect confidential information, and to ensure compliance with rules on bank secrecy, the Issuer has implemented appropriate security measures, such as internal rules on information concerning the Issuer's customers, which apply to the work of all of the Issuer's employees, board members, auditors, contractors and any other parties who undertake work on behalf of the Issuer. Further, all data access is controlled through dedicated access control systems to ensure data security and an overview of who is permitted to access which data. Access reviews are performed annually to maintain the quality of access control. Moreover, contracts with third-party service providers, working for the Issuer, generally include confidentiality obligations, restricting them from using or disclosing any confidential information they receive from the Issuer. A performance failure or operational errors by third-party service providers could have a material effect on the Issuer's business and operations.

However, security measures, such as confidentiality agreements, may not fully prevent the unauthorised use or disclosure of confidential information or allow the Issuer to seek reimbursement from a third-party in case of a breach of confidentiality obligation towards the Issuer.

Violating rules on Bank secrecy, by loss of control of confidential information, due to e.g. cyber security breaches or human error, can result in significant reputational damage, additional costs or other charges, fines, legal proceedings or regulatory actions against the Issuer by governmental authorities, customers or other third parties.

Act no. 90/2018, on Data Protection and the Processing of Personal Data (hereafter referred to as the "Data Protection Act"), implementing the European General Data Protection Regulation (hereafter referred to as "GDPR"), came into force in July 2018. The Data Protection Act included significant changes to the previous data protection legislation. To protect personal data, the Issuer has implemented appropriate security measures in accordance with the requirements of the new legal regime, including a data protection policy. The Issuer's data protection policy specifies the personal data that the Issuer processes, for what purpose, how long the data will be stored, third parties that may obtain access to the personal data and how the security of personal data is guaranteed. The Board of Directors has appointed a data protection officer in accordance with the Data Protection Act, who shall be appointed based on professional competence. The task of the data protection officer is primarily to supervise compliance and assist the Issuer in complying with the provisions of the Data Protection Act. Penalties for non-compliance with the Data Protection Act can be monetary fines, damages and, in severe cases, criminal liability.

***Reputational risk is the risk of financial losses due to the Issuer's negative impression towards stakeholders, such as customers, shareholders, employees, and investors. Consequences of a negative impression can lead to a lack of trustworthiness in the market, leading to a loss of customers and opportunities and, consequently, income***

The Issuer has a well-established image and positive reputation that has contributed to attracting new customers, as well as strengthening its business relations with core customers. If the Issuer's reputation suffered significant damage, there is a risk that a substantial number of customers will terminate their business relationship and other counterparties will be reluctant to engage in further transactions with the Issuer. This could negatively impact and limit the Issuer's potential of obtaining funding, creating new business relationships and maintaining existing ones.

The Issuer has a policy on reputational risk which aim is to minimise the risk of reputational damage in the Issuer's operations.

The Issuer emphasises that customers are kept well informed and regularly provides information about new services provided, changes to existing services and other information that customers may benefit from. The Issuer has implemented communication procedures, detailing how communications and information flows to customers, employees, the public, regulatory bodies and shareholders are to be conducted and who is authorised to publicly discuss matters relating to the Issuer and its operations.

The Issuer regularly assesses these risk factors in accordance with the procedures and identifies the ones that are considered the most important.

### ***Changes in legislation could affect the Issuer's business structure***

In assessing legal risk, the Issuer takes into consideration risk due to disputes of contracts that the Issuer is party to, risk due to ongoing and potential court disputes as well as risk due to administrative and/or private claims. Furthermore, the Issuer continuously assesses the risk of possible fines or other punitive decisions by regulatory bodies. The Issuer also monitors compliance with applicable laws and regulations, as well as monitoring court rulings that may have a precedent for the Issuer's activities as well as legislative changes. ***The Issuer has assessed the risks of current and imminent disputes due to contracts which the Issuer is a party to***

Furthermore, the possibility of disputes rising in the future due to these contracts has been assessed. It is the Issuer's assessment that no dispute of a significance, that would give rise to a special capital allocation exists.

In order to minimise the risk of disputes due to contracts to which the Issuer is a party to, the Issuer has reviewed and structured all internal rules and procedures. Furthermore, the Issuer continuously reviews the relevant regulatory framework and procedures regarding the Issuer's lending process. The Credit Committee's operational rules are reviewed annually in accordance with other internal rules. Additionally, the Credit Committee's scope has been expanded in concurrence with other continuous efforts to improve procedures and administration around the Issuer's lending activities. For information on material contracts of the Issuer, reference is made to chapter *Warrants*.

Regulatory changes could mean increased compliance cost for the Issuer and adversely affect the Issuer's business. Changes in current regulatory capital requirements could mean that the Issuer's business is less profitable and result in adverse effect on the Issuer's business.

### ***Frequent changes in tax legislation pose a general risk to entities operating in Iceland and any changes in tax legislation can affect the financial results of the Issuer***

In addition to the general risk, there is an additional tax risk regarding financial institutions as there are taxes levied specifically on financial undertakings in Iceland in accordance with Act no. 90/2003, on Income Tax and Act no. 155/2010 on Special Tax on Financial Institutions.

Pursuant to the Value Added Tax Act no. 50/1988, with subsequent amendments (hereafter referred to as the “Value Added Tax Act”), the services of banks, saving banks and other credit institutions, as well as stock-brokerage, are exempt from value added tax (hereafter referred to as “VAT”). However, the VAT environment of financial undertakings has in general been subject to some uncertainty regarding the handling of VAT on the sale of goods and services as it is the interpretation of Icelandic tax authorities that the exemption only applies to services banks or credit institutions provide according to the Act on Financial Undertakings. Services that could be deemed by the tax authorities not to fall within the services provided under the Act on Financial Undertakings but are provided by banks and credit institutions can, to some extent, be subject to interpretation.

Although the Issuer believes its collection and handling of VAT for services provided by the Issuer is in accordance with the Value Added Tax Act, there is no guarantee that the Icelandic tax authorities will not conclude otherwise. Were that to happen, the Issuer could be retroactively liable for six years' unpaid tax, plus penalties and interest.

There is an additional risk regarding competitive affects were any of the banks or credit institutions to start claiming value added tax on any services provided, resulting in a competitive advantage or disadvantage with different treatment of VAT and possible material adverse effects for those claiming such VAT.

***Failure to meet the governing authority compliance regulations could result in the business closure of the Issuer and adversely affect the Issuer's business and reputation***

The Issuer's Compliance Unit is responsible for the supervision of securities transactions. This supervision involves, among other things, a regular check on whether customers have been correctly categorised, both at the beginning of a new business relationship as well as when customers request to be re-categorised once a business relationship has been established. The Issuer also monitors whether individual transactions are in accordance with the customer's suitability at the time, the Issuer's categorisation of the customer and the specific transaction instructions. Additionally, the Compliance Unit supervises changes in the Issuer's securities portfolio, specifically whether acquisition/disposal of voting rights in listed companies must be reported in accordance with Icelandic law.

The Compliance Unit is responsible for the Issuer's anti-money laundering and terrorist financing measures. This involves structuring a regulatory framework and procedures to minimise the risk of the Issuer being used for these activities. The Compliance Unit's supervision is twofold. On one hand, conducting due diligence on new customers and, when appropriate, existing customers in accordance with the Issuer's risk assessment and, on the other hand, monitoring the Issuer's customers, their transfers, withdrawals etc. with the aim of detecting any such activities. If a suspicion of money laundering and/or terrorist financing arises, the Compliance Unit informs the relevant authorities.

The Compliance Unit also oversees and supervises the Issuer's fulfilment of its obligations under chapter XIII of the Icelandic Act on Securities Transactions, no. 108/2007 (hereafter referred to as “Act on Securities Transactions”), regarding the handling of insider information and insider trading. This includes supervision of the Issuer's obligations under article 122 of the act, pertaining to disclosure, suspension of disclosure and legitimate disclosure of insider

information. Additionally, the Compliance Unit oversees and supervises the Issuer's fulfilment of its obligations under other articles of the same chapter such as the disclosure of Executive Management trading and the preparation of insider lists as well as supervision of the handling of any insider information and insider trading pursuant to article 130 of the act.

Further, the Compliance Unit makes sure that the Issuer has in place rules and procedures to identify and prevent conflicts of interests, has an overview of possible predefined conflicts of interests and ensures that measures are taken if conflicts of interests that have not been predefined arise or are likely to arise.

***The Issuer future business growth relies on retaining qualified and experienced employees and management***

The Issuer's operations are based on the knowledge, experience and future vision of the Issuer's essential employees. There is no guarantee that these individuals will continue to work for the Issuer. The loss of any such essential employee may significantly delay the attainment of the Issuer's business objectives and could negatively affect the Issuer's business, financial condition and results of operations.

To minimise risk relating to attrition or absenteeism of essential employees, a substitute for each member of the Executive Management has been designated by each relevant member of the Executive Management. The Head of Risk Management and Head of Treasury have also designated their substitutes. The Board of Directors has been informed of the names and titles of the substitutes. Further, the Issuer's remuneration policy may, to some extent, limit the risk of loss of essential employees, but its main goal is to make the Company a desirable place of work for qualified and ambitious individuals and be able to build long-term relationship with employees. However, when the labour market is experiencing wage inflation the Issuer may come under pressure to increase the salaries of its employees. Salary increases can lead to increases in the Issuer's expenditure which could have adverse effect on the Issuer's business, financial condition and ability to make payments in respect of the Securities.

***The Issuer's consolidated financial statements are partly based on future estimates and assumptions. Large deviations from those measures could result in future losses and affect the Issuer's business adversely***

The Consolidated Financial Statements of the Issuer have been prepared in accordance with International Financial Reporting Standards (hereafter referred to as "IFRS"), as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act. Any changes to the aforementioned accounting principles could have an effect on the statement of comprehensive income or the statement of financial position in the Issuer's Consolidated Financial Statements.

***Poor decisions and executions of projects have a negative impact on the Issuer's business and financial position***

Business risk is defined as the risk of financial loss due to changes in the Issuer's economic environment or due to certain events that may reduce the expected earnings of the Issuer. Strategy risk is defined as the risk of the Issuer's expected earnings and capital ratio deteriorating

due to changes in the Issuer's business environment or due to unfavourable business decisions, late and unwise decision making or lack of response time due to changes in the environment.

***Political decisions that lead to changes in regulatory obligations and requirements for the Issuer might have an adverse impact on the Issuer***

The Issuer has established procedures for the handling of regulatory and political risk, both regarding roles and responsibilities within the Issuer as well as procedures for estimating additional capital requirements due to such risks. In assessing the political and regulatory risk, the Issuer emphasises two factors. The Issuer assesses the risk of laws and regulations being amended in a way that could have a significant impact on the Issuer's operating profit, competitive position, etc. Furthermore, the Issuer assesses the political risk as it relates to government economic, fiscal and monetary policy and policies regarding individual political decisions that may affect individual industries, communities or businesses. The risk of terrorism, riots, civil wars, etc. can furthermore be mentioned as examples of political risk.

Based on the Issuer's assessment, the Issuer currently does not hold a specific capital requirement due to political risk in excess of what is already in place due to overall business and policy risk. The main current uncertainty is the processing of the strategy presented in a white paper on the financial system and whether the two domestic banks, currently owned by the Icelandic government, will be sold, either being in part or full.<sup>2</sup>

The Issuer emphasises on maintaining a comprehensive assessment of the status of these risk factors, their likely development and ways of improvements. Analysis to identify and manage political and regulatory risks is continuously ongoing.

***The Issuer's insurance coverage might not cover all losses***

The Issuer has insurance policies in place which are considered appropriate and relevant with respect to the Issuer's operations. More specifically, the Issuer has a Combined Comprehensive Crime and Professional Indemnity Insurance Policy as well as Directors' and Officers' Liability Insurance Policy. Despite these insurance policies which the Issuer has in place, there is no guarantee that all claims that might be lodged against the Issuer at any time would be covered.

## **Capital Management Risk**

***Changes regarding required capital may have an adverse effect on the Issuer***

The Issuer's capital ratios are calculated in accordance with the Act on Financial Undertakings and regulation no. 233/2017 on prudential requirements for financial undertakings. In accordance with the FSA's regulation no. 233/2017, the Issuer uses the standardised approach to calculate capital requirements for credit risk, market risk and operational risk. Failure by the Issuer to meet the regulatory capital requirements could result in the intervention of regulators.

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<sup>2</sup> The White Paper on a Future Vision for the Financial System was published on 10 December 2018  
[https://www.government.is/library/01-Ministries/Main%20Emphases%20and%20Conclusions%20\(002\).pdf](https://www.government.is/library/01-Ministries/Main%20Emphases%20and%20Conclusions%20(002).pdf)

The regulators could impose sanctions on the Issuer and therefore affect the financial position and reputation of the Issuer severely.

The Issuer maintains and performs an Internal Capital Adequacy Assessment Process (hereafter referred to as “ICAAP”) and Internal Liquidity management processes (hereafter referred to as “ILAAP”). These processes assure that the Issuer has in place systems that manage and identify risk factors and ensure sufficient capital and liquidity.

The aim of the ICAAP process is to identify, calculate and document the additional capital requirement the Issuer must hold in accordance with its current planned risk profile as well as stressed scenarios.

The Issuer's ILAAP process ensures a sound and effective overall architecture of liquidity management and the required documentation.

### **Risks related to the merger of Kvika and TM hf.**

In November 2020 the Boards of Directors of Kvika banki hf., TM hf. and Lykill fjármögnun hf. approved the merger of the three companies and on 30 March 2021 all conditions of the merger agreement were satisfied and the companies merged under the name, LEI and ID no. of Kvika.

#### ***Operational Risk due to the merger***

The operational risk factors specific to the merger involve the integration of IT systems and settlement functions. The risk relates to the preparation, process chosen and the implementation of the integration itself and its governance. The risk further involves information flow related to operations, risk management and the premises of the merged company.

To mitigate the operational risk, the Issuer has set up various steering committees responsible for ensuring the successful integration of specific systems. Additionally, the Group's risk management department has conducted a risk assessment specific to the planned integration of IT systems containing a plan of how each risk factor can be mitigated. Should any operational risks materialise, the Issuer might face additional costs and cost synergies due to the merger might not materialize as soon as anticipated or will fail to fully materialize.

#### ***Risk related to the takeover of Lykill's loan portfolio***

The transfer of Lykill's loan book involves the risk of possible delays in data transfer due to complications in systematic execution or other unforeseen problems causing increased complexity as well of the risk of reduced services towards borrowers in the transition period. To mitigate this risk, the Issuer has prepared and planned the acquisition in great detail. Further, Lykill was once a part of MP banki hf., a forerunner of the Issuer, before being purchased in 2014. The Bank therefore knows the operation well and the knowledge necessary to manage its loan portfolio is already in place. Additionally, the employees of Lykill will remain with Kvika after the merger which should ensure that valuable information regarding the loan portfolio as well as customer relations will stay within the company.

## ***Financial Risk***

There is a risk that the cost synergies estimated by the board of directors to be achievable through the merger will not materialize as soon as anticipated or that it will fail to fully materialize. To mitigate this risk, the Issuer has prepared and planned the acquisition thoroughly.

## **Risks related to the Securities issued under the Programme**

### ***Risks related to the structure of a particular issue of Securities***

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

*Securities issued under the Programme can be linked to derivatives which could adversely affect the value of the Securities*

Under the Programme the Issuer can issue Derivative linked Securities where redemption amounts are calculated by reference to the prices of an underlier such as indexes or foreign exchange rates. Investment in Derivative linked Securities involves the risk that subsequent changes in the underlier may adversely affect the value of the Derivative linked Securities to the point of investors in certain cases not recouping their principal investment in full.

The policies of the sponsor of an underlier as regards additions, deletions and substitutions of the underlier or components of the underlier and the manner in which the index sponsor takes account of certain changes affecting the underlier or underlier components may affect the value of the underlier and therefore the Securities. The policies of an index sponsor with respect to the calculation of an underlier could also affect the value of the underlier. Further, a sponsor of an underlier may discontinue or suspend calculation or dissemination of information relating to the underlier. As a consequence, investors in Derivative linked Securities are exposed to the risk of discontinuance of the operational capacity and expertise of the Underlier Sponsor to ensure the calculation and maintenance of the underlier according to the methodology in force throughout the life of the Securities. Any such actions could affect the value of the Securities and could cause adjustments or substitution of the Underlier.

Additionally, underliers based on exchange traded products are subject to market trading risks, including but not limited to the potential lack of an active market, periods of high volatility and limited liquidity which may lead to the underlier trading at a premium or discount to its fair market value.

Further, underliers based on the performance of foreign exchange rates or currency are dependent upon the supply and demand for currencies in the international foreign exchange markets, which are subject to economic factors, including inflation rates in the countries concerned, interest rate differences between the respective countries, economic forecasts, international political factors, fiscal and monetary policy, government debt, currency convertibility and safety of making financial investments in the currency concerned, speculation and intervening measures taken by governments and central banks, any of which could have a negative impact on the performance of a Foreign Exchange Rate and consequently the value of the Securities.

The historical experience of an underlier should not be viewed as an indicator of the future performance of the underlier.

*Securities which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor, are likely to be more volatile than standard securities*

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

*Securities issued under the Programme can be linked to the Consumer Price Index which could adversely affect the value of the Securities*

Under the Programme the Issuer can issue Inflation linked Securities which are indexed to the Consumer Price Index (“CPI”). Investment in indexed linked Securities involves the risk that subsequent changes in the CPI may adversely affect the value of the index linked Securities. The historical experience of the CPI should not be viewed as an indicator of the future performance of the CPI.

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

An optional redemption or prepayment feature of Securities including in the case of a Tax Event or (in respect of Subordinated Bonds only) a Capital Event is likely to limit their market value. During any period when the Issuer may elect to redeem the relevant Securities, or during any period when Security Holders perceive that the Issuer may elect to redeem Securities, the market value of those Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

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

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

*The regulation and reform of “benchmarks” may adversely affect the value of Securities linked to or referencing such “benchmarks”*

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

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

The Benchmarks Regulation could have a material impact on any Securities linked to or referencing a “benchmark”, in particular, if the methodology or other terms of the “benchmark” are changed in order to comply with the requirements of the Benchmarks Regulation. 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 national or international reforms, or the general increased regulatory scrutiny of “benchmarks”, could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have the following effects on certain “benchmarks”: (i) discourage market participants from continuing to administer or contribute to the “benchmark”; (ii) trigger changes in the rules or methodologies used in the “benchmark” or (iii) lead to the disappearance of the “benchmark”. Any of the above changes or any other consequential changes as a result of national or international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Securities linked to, referencing, or otherwise dependent, in whole or in part, upon a “benchmark”.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Securities linked to or referencing a “benchmark”.

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

The Bank of England and the UK Financial Conduct Authority (the “FCA”) have made it clear over a number of years that the lack of an active underlying market makes LIBOR unsustainable, and unsuitable for the widespread reliance that had been placed upon it. Accordingly, both have worked closely with market participants and regulatory authorities around the world to ensure

that robust alternatives to LIBOR are available and that existing contracts can be transitioned onto these alternatives to safeguard financial stability and market integrity.

On 5 March 2021 the FCA confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative immediately after 31 December 2021 and publication of most of the LIBOR settings will cease immediately at that time.

Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Securities which are linked to or which reference such benchmark rate will be determined for the relevant period by the fallback provisions applicable to such Securities specified in the applicable Final Terms.

*If the Issuer has the right to convert the interest rate from a fixed rate to a floating rate or vice versa, this may affect the secondary market and the market value of the Securities concerned*

Securities that pay a fixed rate of interest on such date or dates as specified in the applicable Final Terms or Securities which bear interest at a floating rate as set out in Condition 5.4 (Interest on Floating Rate Securities) may bear interest at a rate that converts from a fixed rate to a floating rate or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Securities since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Securities may be less favourable than then prevailing spreads on comparable Floating Rate Securities tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Securities. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

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

The value of securities may change due to market conditions. Thus, the value of the Securities may decrease if the general market yield rises and the value may rise if the yield decreases. Investment in Fixed Rate Securities involves the risk that subsequent increases in market interest rates above the rate paid on the relevant Fixed Rate Securities will adversely affect the value of the Fixed Rate Securities.

### ***Risks related to Subordinated Bonds***

The Issuer's obligations under Subordinated Bonds are subordinated. An investor in Subordinated Bonds assumes an enhanced risk of loss in the event of the Issuer's insolvency. Set out below is a description of the main risks of Subordinated Bonds:

*The Issuer's obligations under Subordinated Bonds will be unsecured and subordinated*

On a liquidation, dissolution or winding-up of, or analogous proceedings over the Issuer by way of exercise of public authority (a "winding-up of the Issuer"), all claims in respect of the Subordinated Bonds will rank pari passu without any preference among themselves, at least pari passu with present or future claims in respect of any other Tier 2 Instruments and claims, in priority to any present or future claims in respect of Junior Securities and junior to any present

or future claims in respect of Senior Creditors as defined and described in Condition 3.2 (Subordinated Bonds). If, on a winding-up of the Issuer, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of the Senior Creditors in full, the Security Holders will lose their entire investment in the Subordinated Bonds. If there are sufficient assets to enable the Issuer to pay the claims of Senior Creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Subordinated Bonds and all other claims of other Tier 2 Instruments and claims, Security Holders will lose some (which may be substantially all) of their investment in the Subordinated Bonds.

There is no restriction on the amount of securities or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or pari passu with, the Subordinated Bonds. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Security Holder during a winding-up of the Issuer and may limit the Issuer's ability to meet its obligations under the Subordinated Bonds.

Although Subordinated Bonds may pay a higher rate of interest than comparable Securities which are not subordinated, there is a significant risk that an investor in such Securities will lose all or some of his or her investment should a winding-up of the Issuer occur.

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

In addition to the application of the general bail-in tool to Subordinated Bonds (see section “The exercise of any power under the BRRD, as implemented in Iceland, could materially adversely affect the rights of holders of Securities”), Directive 2014/59/EU (the “Bank Recovery and Resolution Directive” or “BRRD”) and the terms of the Subordinated Bonds contemplate that Subordinated Bonds may be subject to non-viability loss absorption. As a result, resolution authorities may require the permanent write-down of capital instruments such as Subordinated Bonds (which write-down may be in full) or the conversion of them into equity capital at the point of non-viability and before any other resolution action is taken. Prior to the implementation of the BRRD in Iceland, such non-viability loss absorption is provided for in Condition 8 (Point of Non-Viability Loss Absorption) of the Securities.

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

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution (or the group, as the case may be) meets the conditions for resolution or will no longer be viable unless the relevant capital instruments (such as the Subordinated Bonds) are written down or converted into equity or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution or the group as the case may be) would no longer be viable. With respect to the Issuer this is further reflected in the definition of: “Non-Viability Event” under Condition 8 (Point of Non-Viability Loss Absorption).

The occurrence of a Non-Viability Event or the application of the general bail-in tool or any non-viability loss absorption measure pursuant to any Applicable Statutory Loss Absorption Regime (including the BRRD) or Condition 8 (Point of Non-Viability Loss Absorption) of the Subordinated Bonds may result in Security Holders losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the rights of Security Holders, the price or value of Subordinated Bonds issued under the Programme and/or the ability of the Issuer to satisfy its obligations under Subordinated Bonds.

*There are limited enforcement events in relation to Subordinated Bonds*

Each Series of Subordinated Bonds will contain limited enforcement events relating to i) non-payment by the Issuer of any amounts due under the relevant Series of Subordinated Bonds. In such circumstances, as described in more detail in Condition 11.2 (Enforcement events Subordinated Bonds), a Security Holder may institute proceedings in Iceland in order to recover the amounts due from the Issuer to such Security Holder; and ii) the liquidation or bankruptcy of the Issuer. In such circumstances, as described in more detail in Condition 11.2 (Enforcement Event- Subordinated Bonds), the relevant Series of Subordinated Bonds will become due and payable at their outstanding principal amount, together with accrued interest thereon.

A Security Holder may not itself file for the liquidation or bankruptcy of the Issuer. As such, the remedies available to holders of Subordinated Bonds are more limited than those typically available to holders of senior ranking securities (such as the Unsubordinated Securities), which may make it more difficult for Subordinated Debt Security Holders to take enforcement action against the Issuer.

*Subordinated Bonds: Call options are subject to the prior consent of the FSA*

Subordinated Bonds may also contain provisions allowing the Issuer to call them, in certain instances, only after a minimum period of five years. To exercise such a call option, the Issuer must obtain prior written consent of the FSA as provided in Condition 7.14 (FSA Approval).

Holders of Subordinated Bonds have no rights to call for the redemption of Subordinated Bonds and should not invest in such Securities in the expectation that such a call will be exercised by the Issuer. The FSA must agree to permit such a call, based upon its evaluation of the regulatory capital position of the Issuer and certain other facts at the relevant time. There can be no assurance that the FSA will permit such a call. Holders of Subordinated Bonds should be aware that they may be required to bear the financial risks of an investment in Subordinated Bonds for a period of time in excess of the minimum period.

*In certain circumstances, the Issuer can substitute or vary the terms of Subordinated Bonds*

Where the applicable Final Terms specify that Condition 7.13 (Substitution or Variation-Subordinated Bonds) applies, if at any time a Capital Event or a Tax Event occurs, the Issuer may, subject to obtaining the prior written consent of the FSA, either substitute all, but not some only, of the relevant Subordinated Bonds for, or vary the terms of the relevant Subordinated Bonds, as the case may be, so that they remain or, as appropriate, become, Qualifying Securities as further provided in Condition 7.13 (Substitution or Variation- Subordinated Bonds). The terms and conditions of such substituted or varied Subordinated Bonds may have terms and

conditions that contain one or more provisions that are substantially different from the terms and conditions of the original Subordinated Bonds, provided that the relevant Subordinated Bonds remain or, as appropriate, become, Qualifying Securities in accordance with the Terms and Conditions of the Securities. While the Issuer cannot make changes to the terms of Subordinated Bonds that, in its reasonable opinion, are materially less favourable to the holders of the relevant Subordinated Bonds as a class, no assurance can be given as to whether any of these changes will negatively affect any particular holder. In addition, the tax and stamp duty consequences of holding or disposing of such substituted or varied Subordinated Bonds could be different for some categories of Security Holders from the tax and stamp duty consequences for them of holding or disposing of the Subordinated Bonds prior to such substitution or variation.

*The obligation of the Issuer to pay additional amounts in respect of any withholding or deduction of taxes is limited to payments of interest under the Subordinated Bonds*

The obligation of the Issuer to pay additional amounts in respect of any withholding or deduction of taxes imposed under the laws of Iceland under the Conditions apply only to payments of interest and not to payments of principal due under the Subordinated Bonds. As such, the Issuer is not required to pay any additional amounts under Condition 9 (Taxation) of the Terms and Conditions of the Securities to the extent any withholding or deduction applies to payments of principal under the Subordinated Bonds. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Subordinated Bonds, the holders of such Subordinated Bonds may receive less than the full amount due thereunder. There is some risk under Icelandic law that withholding or deduction in respect of principal could apply on account of any currency gains deemed to have arisen when such principal is measured in ISK.

### ***Risks related to the Securities generally***

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

*The Securities are obligations of the Issuer only*

The Securities will constitute obligations of the Issuer only. An investment in the Securities involves a reliance on the creditworthiness of the Issuer. The Securities are not guaranteed by any other natural or legal person.

In addition, an investment in the Securities involves risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Securities. There can be no assurance that the Securities will be sufficient to pay in full the amounts payable under the Programme.

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

The Securities will be unsecured and do not have the benefit of a negative pledge provision. If the Issuer defaults on the Securities, or in the event of a bankruptcy, liquidation, reorganisation or winding-up, then, to the extent that the Issuer has granted security over its assets, the assets that secure those obligations will be used to satisfy the obligations thereunder before the Issuer could sell or otherwise dispose of those assets in order to make payment on the Securities. As a result of the granting of such security, there may only be limited assets available to make payments on the Securities in the event of an acceleration of the Securities. In addition, there is

no restriction on the issue by the Issuer of other similar securities that do have the benefit of security, which may impact on the market price of its securities, such as the Securities, that are unsecured. In the case of Subordinated Bonds, the claims of the Subordinated Bonds are subordinated to the claims of the depositors of the Issuer in accordance with Condition 3.2 (Status of the Subordinated Bonds) and will therefore also rank behind the depositors of the Issuer upon the occurrence of a winding up or insolvency of the Issuer.

*The claims of Security Holders will be subordinated to the claims of certain of the Issuer's depositors in the event of a winding-up*

Typically, the claims of holders of senior ranking unsecured debt instruments, such as some of the Securities, issued by a financial institution holding bank deposits would not be subordinated to the claims of depositors. However, as a result of the enactment of Act no. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., which is usually referred to as the Emergency Act, should the Issuer enter into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, Article 102 of the Act on Financial Undertaking now states that the claims of Security Holders would be subordinated to the claims of certain of the Issuer's depositors. If this were to occur, there may not be sufficient assets in the resulting estate to pay the claims of the Security Holders after the claims of depositors have been paid.

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

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

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

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

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

Although Securities issued under this Base Prospectus will generally be admitted to trading on the Regulated Market of Nasdaq Iceland or other markets, the Issuer cannot guarantee that the Securities will be actively traded nor that all Securities under the Programme will be admitted to trading. No obligation rests on the Issuer to maintain an active market with the Securities and no market making with them has been envisaged unless otherwise specified. Therefore, investors

may not be able to sell their Securities 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 Securities 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 Securities generally would have a more limited secondary market and more price volatility than conventional debt securities.

*The exercise of any power under the BRRD, as implemented in Iceland, could materially adversely affect the rights of holders of Securities*

BRRD, which has been fully implemented into Icelandic law, is designed to provide the respective authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing relevant entity. This set of tools includes in particular the “bail-in tool” which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing relevant entity and to convert certain unsecured debt claims to equity.

If BRRD conditions for resolution in respect of the Issue are fulfilled, holders of Securities may be subject to any application of the resolution tools (such as the general bail-in tool) or on any application of the non-viability loss absorption measure, which may result in such holders losing some or all of their investment in the Securities, or their rights in respect of the Securities and/or the value of their investment may otherwise be materially adversely affected. The exercise of any power under the BRRD, as implemented in Iceland, or any suggestion of such exercise could, therefore, materially adversely affect the rights of holders of Securities, the price of value of their investment in any Securities and/or the ability of the Issuer to satisfy its obligations under the relevant Securities. Furthermore, the resolution authorities will have the power to amend or alter the maturity of debt instruments (including the Securities) and other eligible liabilities or amend the amount of interest payable under such instruments (including the Securities) and other eligible liabilities, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

*The Issuer may Issue Securities -with a specific use of net proceeds, such as “Sustainability Instruments”, such use of net proceeds may not be suitable for the investment criteria of an investor*

As described in Condition 17. Sustainable Financing. applicable Final Terms in relation to a particular Tranche of Securities may provide that it will be the Issuer’s intention to apply an amount equal to the net proceeds of the issue of the Securities to finance or refinance, in whole or in part, the Issuer’s investments in Eligible Assets. Such securities are deemed to be Sustainability Instruments and are issued on the basis of a Sustainable Financing Framework.

The use of such proceeds may not satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates (in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, the relevant Eligible Assets).

Furthermore, it should be noted that there is currently no clear definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a “green”, “blue” or “social” or equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as “green”, “blue” or “social” or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time.

While the Sustainable Financing Framework is expected to be in alignment with the relevant objectives for the EU Sustainable Finance Taxonomy and/or other generally accepted market practices, until the technical screening criteria for such objectives have been developed it is not known whether the Sustainable Financing Framework will satisfy those criteria. Accordingly, alignment with the EU Sustainable Finance Taxonomy, once the technical screening criteria are established, is not certain. In addition, the requirements of any such definition may evolve from time to time, and, as such, the use of the proceeds of Sustainability Instruments may not meet any or all Securityholders expectations regarding such “green”, “blue” or “social” or other equivalently-labelled performance objectives.

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

Further, whilst it is the intention of the Issuer to apply an amount equal to the net proceeds of the Sustainability Instruments in, or substantially in, the manner described in the Sustainable Financing Framework, the related projects may not be capable of being implemented in or substantially in such manner and/or in accordance with any timing schedule and accordingly such proceeds may not be totally or partially disbursed for such projects. Such projects may not be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer.

### ***Changes of law***

The terms and conditions of the Securities are based on Icelandic law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Base Prospectus.

## IMPORTANT INFORMATION

### Authorisation

On 28 September 2020 the board of directors of the Issuer approved an ISK 30,000,000,000 Debt Issuance Programme (the “Programme”) for securities issued under the Programme as described in this Base Prospectus (the “Base Prospectus”).

### The size of the Programme

The maximum aggregate nominal amount of all Securities from time to time outstanding under the Programme will not exceed ISK 30,000,000,000 (or its equivalence in other currencies as calculated below), subject to increase. An increase in the size of the Programme is subject to an authorisation of the Issuer's Board of Directors.

For the purpose of calculating the ISK equivalent of the aggregate nominal amount of Securities issued under the programme from time to time:

- a) the ISK equivalent Securities denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Securities) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Securities or on the preceding day on which commercial banks and foreign exchange markets are open for general business in Iceland, in each case on the basis of the spot rate for the sale of the ISK against purchase of such Specified Currency in the foreign exchange market quoted by any bank selected by the Issuer on the relevant day of calculation;
- b) Subject to any existing legal or regulatory restrictions in Iceland, the ISK equivalent of Securities adjusted for inflation shall be calculated in the manner specified above by reference to the original nominal amount issued of such Securities.
- c) the ISK equivalent of Securities with one payment on the Maturity Date (Zero coupon bonds) and Bills (as specified in the applicable Final Terms in relation to the relevant Securities) and other Securities issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## Company Statement

The CEO and Deputy CEO of Kvika hereby declare, on behalf of the Issuer, that, to the best of their knowledge, having taken all reasonable care to ensure that such is the case, that the information in this Base Prospectus is, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 16 April 2021

For and on behalf of Kvika

For and on behalf of Kvika

Marínó Örn Tryggvason  
CEO of Kvika

Ármann H. Þorvaldsson  
Deputy CEO

## Statutory Auditor

The Company's audit firm is Deloitte ehf., reg. no. 521098-2449, Smáratorgi 3, 201 Kópavogi, Iceland. Kvika's auditors are Pálína Árnadóttir, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland and Guðmundur Ingólfsson, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland. Deloitte ehf. has been the Company's audit firm since it was elected its audit firm, at the Company's Annual General Meeting in March 2016.

Deloitte has audited the consolidated financial statements of Kvika for the years ended 31 December 2020 and 2019 and reviewed the consolidated financial statements of Kvika for the six months ended 30 June 2020 and 2019. The auditor's report in the Consolidated Financial Statements of the Issuer for 2020 and 2019 and the review reports for the six months ended 30 June 2020 and 2019 were signed with an unmodified opinion.

## Information incorporated by reference

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference. This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus. The following information shall be incorporated by reference in, and form a part of this Base Prospectus and will remain available for at least 10 years after the publication of the Prospectus.:

The Bank's merger balance sheet, prepared in relation to the merger of Kvika, TM hf. and Lykill, together with the auditors endorsement hereon:

<https://www.kvika.is/asset/4153/samrunagogn-fullundirritad-23.02.2021-en-uppfaert.pdf>

The Bank's audited consolidated financial statements for the year ended 31.12.2020, together with the audit report thereon:

<https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=840761>

TM hf.'s audited consolidated financial statements for the year ended 31.12.2020, together with the audit report thereon:

<https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=840743>

Lykill's audited consolidated financial statements for the year ended 31.12.2020, together with the audit report thereon:

<https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=840769>

The Bank's audited consolidated financial statements for the year ended 31.12.2019, together with the audit report thereon:

<https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=759340>

TM hf's audited consolidated financial statements for the year ended 31.12.2019, together with the audit report thereon:

<https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=756597>

Lykill's audited consolidated financial statements for the year ended 31.12.2019, together with the audit report thereon:

<https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=758658>

A report prepared by Ernst&Young ehf. with reference to Article 122 of the Act on Public Limited Companies No. 2/1995 at the request of the Board of Directors of Kvika:

<https://www.kvika.is/asset/4153/samrunagogn-fullundirritad-23.02.2021-en-uppfaert.pdf>

A report prepared by KPMG ehf. with reference to Article 122 of the Act on Public Limited Companies No. 2/1995 at the request of the Board of Directors of TM and Lykill:

<https://www.kvika.is/asset/4153/samrunagogn-fullundirritad-23.02.2021-en-uppfaert.pdf>

## Documents on Display

For 12 months from the date of the publication of the Base Prospectus, the following documents are available for viewing at the registered office of the Company, and/or electronically on the Company's website, <https://www.kvika.is/en/investor-relations/prospectuses/base-prospectus/>

- The Base Prospectus, dated 16 April 2021, and any supplements thereto as applicable
- The Company's Articles of Association
- The Company's Constitutional Documents
- The Company's Audited consolidated financial statements for the years ended 31 December 2020 and 31 December 2019, together with the audit report thereon
- TM hf.'s consolidated financial statements for the years ended 31 December 2020 and 31 December 2019, together with the audit report thereon
- Lykill's consolidated financial statements for the years ended 31 December 2020 and 31 December 2019, together with the audit report thereon
- The Bank's merger balance sheet, prepared in relation to the merger of Kvika, TM hf. and Lykill, together with the auditors endorsement thereon
- A report prepared by Ernst&Young ehf. with reference to Article 122 of the Act on Public Limited Companies No. 2/1995 at the request of the Board of Directors of Kvika:
- A report prepared by KPMG ehf. with reference to Article 122 of the Act on Public Limited Companies No. 2/1995 at the request of the Board of Directors of TM and Lykill:
- All issued Final Terms and any future Final Terms, supplements to this Base Prospectus and any other documents incorporated into this Base Prospectus by reference.

## Third Party Information

Where third party information has been used in the Base Prospectus, the information has been accurately reproduced and the source of such information has been identified. As far as the Company is aware and able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. When third party information has been used in the Base Prospectus, it has been on the basis of publicly available information which is cited in footnotes where applicable.

### Expert's statement or report

The Issuer has, with Ernst & Young ehf.'s, an accounting advisory service, located at Borgartún 30, 105 Reykjavík (hereafter referred to as "**Ernst&Young**") consent, published a report prepared by Ernst&Young at Kvika's request in relation to the proposed merger of Kvika, TM hf. and Lykill, with reference to article 122 of the Act on Public Limited Companies No. 2/1995 at the request of the Board of Directors of Kvika.

The report was signed, on behalf of Ernst&Young, by Jóhann Unnsteinsson, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland.

The Issuer has, with KPMG ehf.'s, an accounting advisory service, located at Borgartún 27, 105 Reykjavík (hereafter referred to as "**KPMG**") consent, published a report prepared by KPMG at TM hf.'s and Lykill's Board of Directors request in relation to the proposed merger of Kvika, TM hf. and Lykill, with reference to article 122 of the Act on Public Limited Companies No. 2/1995 at the request of the Board of Directors of TM hf. and Lykill.

The report was signed, on behalf of KPMG, by Sæmundur Valdimarsson, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland.

The Issuer has, with Deloitte ehf.'s, an accounting advisory service, located at Smáratorg 3, 201 Kópavogur (hereafter referred to as "**Deloitte**") consent, published a auditors endorsement prepared by Deloitte at Kvika's request in relation to merger balance sheet of Kvika, TM hf. and Lykill, at the request of the Board of Directors of Kvika.

The endorsement was signed, on behalf of Deloitte, by Pálína Árnadóttir, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland and Guðmundur Ingólfsson, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland. Deloitte ehf. has been the Bank's audit firm since it was elected its audit firm, at the Bank's Annual General Meeting in March 2016.

The Issuer has, with PwC ehf.'s, an accounting advisory service, located at Skógarhlíð 12, 105 Reykjavík (hereafter referred to as "**PwC**") consent, published a auditors endorsement prepared by Deloitte at TM hf.'s and Lykill's request in relation to merger balance sheet of Kvika, TM hf. and Lykill, at the request of the Board of Directors of TM hf. and Lykill

The endorsement was signed, on behalf of PwC, by Arna G. Tryggvadóttir, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland and Bryndís Björk Guðjónsdóttir, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland. PwC were TM hf.'s and Lykill's audit firm prior to TM hf.'s merger with Kvika.

## **Listing, Validity and Access to Information**

The Base Prospectus is dated 16 April 2021 and is valid for 12 months from the date of the publication.

Series of Securities issued under the Programme have been admitted to trading on the Regulated Market of the Nasdaq Iceland. Generally, an application will be submitted to Nasdaq Iceland for Securities issued under the Programme to be admitted to trading on the aforementioned market and references in this Base Prospectus to Securities being listed (and all related references) shall mean that such Securities have been admitted to trading on the regulated market of the Nasdaq Iceland unless otherwise specified. The Issuer may list the Securities on additional regulated markets, further, the Issuer may choose to forego listing. A statement on whether an application has been made to have the Securities listed on a regulated market will be included in the applicable Final Terms.

This Base Prospectus and copies of Final Terms relating to the Securities which are admitted to trading on a regulated market will be available on the website of the Issuer, [www.kvika.is](http://www.kvika.is). Investors can request printed copies of the Base Prospectus, free of charge, at the Issuer's registered office at Katrínartún 2, 105 Reykjavík, Iceland.

## **Supplements to the Base Prospectus**

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

In the event of any significant factor arising or any material mistake or accuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of any Securities or any change in the condition of the Issuer which is material in the context of the Programme or the issue of Securities, the Issuer will prepare and publish a supplement to this Base Prospectus or publish a new prospectus for use in connection with any subsequent issue of Securities.

## Abbreviations and Definitions

<b>“Kvika”, the “Issuer” or the “Bank”</b>	Kvika banki hf., reg. no. 540502-2930, Katrínartúni 2, 105 Reykjavík, Iceland
<b>“Act on Financial Undertakings”</b>	Act no. 161/2002 on Financial Undertakings
<b>“Act on Prospectuses”</b>	Act no. 14/2020 on Prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market
<b>“Act on Securities Transactions”</b>	Act on Securities Transactions, no. 108/2007
<b>“ALCO”</b>	The Bank’s Asset and Liability Committee
<b>“Aur”</b>	Aur app ehf.
<b>“Data Protection Act”</b>	Act no. 90/2018, on Data Protection and the Processing of Personal Data
<b>“Distributor”</b>	Any person subsequently offering, selling or recommending the Securities
<b>“GAMMA”</b>	GAMMA Capital Management hf.
<b>“ICAAP”</b>	Internal Capital Adequacy Assessment Process
<b>“IFRS”</b>	International Financial Reporting Standards
<b>“ILAAP”</b>	Internal Liquidity Management Processes
<b>“ISK”</b>	Icelandic Króna
<b>“Júpítér”</b>	Júpítér Rekstrarfélag hf.
<b>“KES”</b>	Kvika eignastýring hf.
<b>“KKV”</b>	KKV Investment Management Ltd.
<b>“KSL”</b>	Kvika Securities Ltd.
<b>“Kvika Securities” or “KSL”</b>	Kvika Securities Ltd.
<b>“LTV”</b>	The loan-to-value ratio
<b>“Lykill”</b>	Lykill fjármögnun hf.
<b>“MiFID II Product Governance Rules”</b>	the MiFID II Product Governance rules under Commission Delegated Directive (EU) 2017/593
<b>“MiFID II”</b>	Directive 2014/65/EU on Markets in Financial Instruments
<b>“Nasdaq CSD”</b>	Nasdaq CSD SE, útibú á Íslandi, reg. no. 5101190370, Laugavegi 182, 105 Reykjavík
<b>“Netgíró”</b>	Netgíró hf.
<b>“PRIIPs Regulation”</b>	Regulation (EU) 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information

	documents for packaged retail and insurance-based investment products as amended
<b>“Prospectus Regulation”</b>	the Prospectus Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017
<b>“Regulated Market of Nasdaq Iceland”</b>	The regulated market of Nasdaq Iceland hf.
<b>“TMT”</b>	TM Tryggingar hf.
<b>“UCITS funds”</b>	Undertakings for the Collective Investment in Transferable Securities
<b>“Value Added Tax Act”</b>	Value Added Tax Act no. 50/1988
<b>“VaR”</b>	Statistical Value at Risk methods
<b>“VAT”</b>	Value Added Tax
<b>“Base Prospectus”</b>	This Base Prospectus dated 16 April 2021
<b>The “FCA”</b>	The UK Financial Conduct Authority
<b>The “FSA”</b>	the Financial Supervisory Authority of the Central Bank of Iceland
<b>The “Group”</b>	Kvika along with its subsidiaries as at 31 March 2021
<b>The “Securities” and the “Series of Securities”</b>	Securities issued under the Programme
<b>The “Programme”</b>	The Group’s ISK 30,000,000,000 Debt Issuance Programme

## APPLICABLE FINAL TERMS

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

[Date]

### **[PROHIBITION OF SALES TO RETAIL INVESTORS IN THE EUROPEAN ECONOMIC AREA AND THE UNITED KINGDOM –**

The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”) or in the United Kingdom. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended) (the “PRIIPs Regulation”) for offering or selling the Securities or otherwise making them available to retail investors in the EEA or in the United Kingdom has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA or in the United Kingdom may be unlawful under the PRIIPs Regulation. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended) (“MiFID II”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.]

### **[MiFID II Product Governance / Eligible Counterparties and Professional Clients Only Target Market**

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. [specify further target market criteria] [specify negative target market, if applicable.] Any person subsequently offering, selling or recommending the Securities (a “Distributor”) should take into consideration the manufacturer's target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.]

### **[MiFID II Product Governance / Eligible Counterparties, Professional Clients and Retail Clients Target Market**

Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that (i) the target market for the Securities is eligible counterparties, professional clients and retail clients, each as defined in Directive 2014/65/EU (as amended, “MiFID II”), and [(ii) all channels for distribution of the

[Securities] are appropriate[, including investment advice, portfolio management, non-advised services and execution-only]] [(ii) the following channels for distribution of the Securities are appropriate: investment advice [,] [and] portfolio management [,] [and] [non-advised services] [and execution-only]] [(ii) all channels for distribution to eligible counterparties and professional clients are appropriate; and (iii) the following channels for distribution of the Securities to retail clients are appropriate: investment advice [,] [and] portfolio management [,] [and] [nonadvised services] [and execution-only] [, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable]. [specify further target market criteria] [specify negative target market, if applicable]] Any person subsequently offering, selling or recommending the Securities (a “Distributor”) should take into consideration the manufacturer's target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.]

[Date]

**Kvika Banki hf.**

**Issue of [Aggregate nominal amount of tranche] [Title of Securities]**

**under the ISK 30,000,000,000 Debt Issuance Programme**

**PART A: CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Securities set forth in the Base Prospectus dated 16 April 2021 and any supplements if applicable. This document constitutes the Final Terms of the Securities described herein for the purposes of Article 8 (2) of the Prospectus Regulation, as amended (which includes the amendments made by Regulation 2017/1129/EU) and must be read in conjunction with the Base Prospectus and any supplements, if applicable, which constitute a base prospectus for the purposes of the Prospectus Regulation. Full information on the Issuer and the offer of the Securities is only available on the basis of the combination of these Final Terms, the Base Prospectus and any supplements, if applicable. The Base Prospectus, any supplements and the Final Terms are available for viewing at the Issuer's website, [www.kvika.is](http://www.kvika.is) and at the office of the Issuer at Katrínartún 2, 105 Reykjavík, Iceland.

- |                                     |  |
|-------------------------------------|--|
| <b>1. Issuer</b>                    | Kvika banki hf.  |
| <b>2.</b>                           |  |
| i. Series Number:                   | [ ]  |
| ii. Tranche Number:                 | [ ]  |
| iii. Ticker:                        | [ ]  |
| <b>3. Specified Currency</b>        | [ ]  |
| <b>4. Aggregate Nominal Amount:</b> |  |
| i. Tranche:                         | [ ]  |
| ii. Series:                         | [ ]  |
| <b>5. Issue Price:</b>              | [ ]% of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> (if applicable)] |
| <b>6. Specified Denominations:</b>  | [ ]  |

- 7.
- i. Issue Date [ ]
- ii. Interest Commencement Date: [*Specify/Not Applicable*]
8. **Maturity Date:** [ ]
9. **Interest Basis:** [[ ] % Fixed Rate]  
 [[LIBOR/EURIBOR/REIBOR/*specify other*] +/- [ ] % Floating Rate]  
 [Zero Coupon]  
 [Not Applicable/*specify other*]  
 [see paragraph [22]/[23]/[24]/ below]
10. **Redemption/Payment basis:** [Annuity Bonds/Equal Principal Payments/Subject to any purchase or cancellation or early redemption, the Securities will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount/*Specify other*]  
 [see paragraph [18]/[19]/[20]/[21] below]
11. **Change of interest basis or redemption/Payment basis:** [Not Applicable]  
 [*Specify details of any provision for change of Securities into another Interest Basis or Redemption/Payment basis*]
12. **Investor Put/Issuer Call** [Investor Put]  
 [Issuer Call]  
 [Not Applicable]  
 (*If applicable further particulars specified in paragraphs 26 and 27*)
13. **Prepayment** [Not Applicable] [*Specify details of any provision for prepayment of the Securities*]
14. **Status of the Securities** [Unsubordinated/Subordinated]  
 (*If Subordinated, include:*)
- (i) *Redemption upon occurrence of Capital Event:* [Applicable-Condition 7.12 applies/Not Applicable]
- (ii) *Substitution or variation:* [Applicable-Condition 7.13 applies/Not Applicable]

- 15. Approval for the Issuance of the Securities:** [Specify details of approval for the issuance of the Securities]  
[Date/ Not Applicable]
- 16. Calculation Agent:** [Issuer/(specify other)]
- 17. Clearing Agent:** The Securities are electronically registered with the [Nasdaq CSD/specify other]

#### PROVISIONS RELATING TO INFLATION LINKED SECURITIES

- 18. Inflation Linked Securities** [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraph of this paragraph)
- i. Base Index Means [to be inserted], being the value of the CPI on [to be inserted]

#### PROVISIONS RELATING TO ANNUITY BONDS

- 19. Annuity Bonds** [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- i. Rate(s) of Interest [[ ] % Fixed Rate per annum]  
[[LIBOR/EURIBOR/REIBOR/specify other] +/- [ ] % Floating Rate]  
[Specify other]  
[Payable [annually/semi-annually/quarterly/monthly/Specify other] in arrear]
- ii. Number of Interest Payment Dates: [ ]
- iii. Interest Payment Dates: [The [ ] day(s) in [each month/the month(s) of [ ] ] in each year up to and including the Maturity Date].  
First Interest Payment Date being [ ].  
(Amend appropriately in the case of irregular coupons)
- iv. Number of Principal Payment Dates: [ ]

- v. Principal Payment Date(s): [The [ ] day(s) in [each month/the month(s) of [ ] ] in each year up to and including the Maturity Date / *Specify other*]  
First Principal Payment Date being [ ].
- vi. Day Count Fraction: [Actual/Actual (ICMA)] [Actual/365] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [/360/360] [Bond Basis] [30E/360] [Eurobond Basis] [*Specify other*]
- vii. Other Terms and Conditions applicable to Annuity Bonds: [None/*Specify*]

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

- 20. Equal Principal Payment Bonds** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- i. Rate(s) of Interest [[ ] % Fixed Rate per annum] [[LIBOR/EURIBOR/REIBOR/*specify other*] +/- [ ] % Floating Rate] [*Specify other*]  
[Payable [annually/semi-annually/quarterly/monthly/*Specify other*] in arrear]
- ii. Number of Interest Payment Dates: [ ]
- iii. Interest Payment Dates: [The [ ] day(s) in [each month/the month(s) of [ ] ] in each year up to and including the Maturity Date].  
First Interest Payment Date being [ ].  
*(Amend appropriately in the case of irregular coupons)*
- iv. Number of Principal Payment Dates: [ ]
- v. Principal Payment Date(s): [The [ ] day(s) in [each month/the month(s) of [ ] ] in each year up to and including the Maturity Date / On each Interest Payment Date / Maturity Date / *Specify other*]  
First Principal Payment Date being [ ].

- vi. Day Count Fraction: [Actual/Actual (ICMA)] [Actual/365] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [/360/360] [Bond Basis] [30E/360] [Eurobond Basis] [*Specify other*]
- vii. Other Terms and Conditions applicable to Equal Principal Payment Bonds: [None/*Specify*]

## PROVISIONS RELATING TO DERIVATIVE LINKED SECURITIES

- 21. Derivative Linked Securities** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- [The provisions of Condition 6.4 Payments in respect of Derivative Linked Securities shall apply.]
- i. Underlier/Basket of underliers [*specify*]
- ii. Underlier Sponsor [*specify*]
- iii. Weighting [The weighting to be applied to each item comprising the Basket to ascertain the Underlying Performance is [ ]/Not Applicable]
- (N.B. Only applicable in relation to Derivative linked Securities relating to a Basket)*
- iv. Final Redemption Amount [Aggregate Nominal Amount [1 + Underlier Performance]/specify]
- v. Formula for calculating the Underlier Performance [ ]  
*(specify details)*
- vi. Principal Payment Date(s): [Maturity Date / *Specify other*]

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 22. Fixed Rate Bond Provisions:** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- i. Rate(s) of Interest [ ]% per annum [payable [annually/semi-annually/quarterly/monthly/*Specify other*] in arrears]

- ii. Interest Payment Dates: [The [ ] day(s) in [each month/the month(s) of [ ] ] in each year up to and including the Maturity Date]. First Interest Payment Date being [ ].
- (Amend appropriately in the case of irregular coupons)*
- iii. Day Count Fraction [Actual/Actual (ICMA)] [Actual/365] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [Specify other]
- iv. 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*
- v. Other terms relating to the method of calculating interest for Fixed Rate Bonds [None/give details]

**23. Floating Rate Bond Provisions:** [Applicable/Not Applicable]

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

- i. Specified Period(s)/Specified Interest Payment Dates: [The [ ] day(s) in [each month/the month(s) of [ ] ] in each year up to and including the Maturity Date/Specify other].
- First Interest Payment Date being [ ].
- ii. Business Day Convention: [Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / specify other]
- iii. Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination / specify other]
- iv. Party responsible for calculating the Rate of Interest and Interest Amount: [Issuer / specify other]

- v. Screen Rate Determination [Applicable / Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- Reference Rate: [ ] [year / month / week / overnight]  
 [LIBOR / EURIBOR / REIBOR / ARR/ specify other]
  - Interest Determination Date(s) [Two business days prior to the start of each Interest Period/Specify other]
  - Relevant Screen Page [[ ]/Not applicable]  
*(Give details)*
- vi. Margin(s) to Maturity Date: [[+/-]% per annum/Not Applicable]
- vii. Minimum Rate of Interest: [[ ] % per annum/Not Applicable]
- viii. Maximum Rate of Interest: [[ ] % per annum/Not Applicable]
- ix. Day Count Fraction: [Actual/Actual (ICMA)] [Actual/365]  
 [Actual/365 (Fixed)] [Actual/365 (Sterling)]  
 [Actual/360] [30/360] [/360/360] [Bond Basis]  
 [30E/360] [Eurobond Basis] [Specify other]
- x. Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Terms and Conditions: [Applicable/Not Applicable]

#### 24. Zero Coupon Bond Provisions

[Applicable/Not Applicable]

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

- i. Accrual Yield: [ ]% per annum
- ii. Reference Price: Issue Price
- iii. Any other formula/basis of determining amount payable: [ ]

- iv. Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.8 b) and 7.11 apply/specify other]

**25. Bill Provisions**

[Applicable/Not Applicable]

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

- i. Discount Yield: [ ]% per annum equivalent to [ ]% simple interest
- ii. Reference Price: [Issue Price/specify other]
- iii. Any other formula/basis of determining amount payable: [Not Applicable/specify other]
- iv. Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.8 b) and 7.11 apply/specify other]

**PROVISIONS RELATING TO REDEMPTION**

**26. Issuer Call:**

[Applicable/Not Applicable]

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

- i. Optional Redemption Date(s): [ ]
- ii. Optional Redemption Amount of each Security and method, if any, of calculation of such amount(s): [[ ] per Security of [ ] Specified Denomination]  
[Condition 7.8 applies]
- iii. If redeemable in part: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- iv. Minimum Redemption Amount: [ ]
- v. Maximum Redemption Amount: [ ]
- vi. Notice Period (if other than as set out in the Terms and Conditions): [ ]

27. **Investor Put:** [Applicable/Not Applicable]  
*(Only applicable to Unsubordinated Securities. If applicable specify details)*
28. **Final Redemption Amount of each Security:** [[ ] per Security of [ ] Specified Denomination/Specify other]
29. **Early Redemption Amount of each Security payable on redemption and/or the method of calculating the same (if required or if different from that set out in Condition 7.8):** [ ]

#### GENERAL PROVISIONS APPLICABLE TO THE SECURITIES

30. **Additional Financial Centre(s) or other special provisions relating to Payment Days:** [Not Applicable/give details]  
*(Note that this item relates to the place of payment and not Interest Period end dates)*
31. **Redenomination applicable** Redenomination [not] applicable  
*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*
32. **Other Final Terms:** [Not Applicable/ Specify other]  
*(When adding any other final terms consideration should be given as to whether such terms constitute significant new factors and consequently trigger the need for supplements to the Base Prospectus under Article 23 of the Prospectus Regulation)*
33. **Representation of Security Holders** [Not Applicable/give details, including the website where the public may have free access to the contracts relating to the representation.]

#### DISTRIBUTION

34. **Method of Distribution:** [Syndicated/Non-syndicated]
- i. If syndicated, names of Managers: [Not Applicable/give names]

ii. Stabilizing Manager (if any): [Not Applicable/*give names*]

35. If non-syndicated, name of relevant Dealer: [ ]

36. Additional selling restrictions:

## PART B: OTHER INFORMATION

### 1. Listing and admission to trading

- i. Admission to trading [Application has been made for the Securities to be admitted to trading on [Nasdaq Iceland/*specify other*] with effect from [ ]/ [Not Applicable]]
- ii. Estimate of total expenses related to admission to trading: [ ]
- iii. Markets where securities of the same class are already admitted to trading [Nasdaq Iceland/*specify other*/None]
- iv. Liquidity Provider(s) [Not applicable/name and address of Liquidity Provider(s) and description of the main terms of the arrangement]

### 2. Rating [Not Applicable/*Specify*] (*Insert details*)

### 3. Notification

[Applicable/Not Applicable]

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

The [FSA/*specify other*] has [been requested to provide/has provided] the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Regulation.

### 4. Interests of natural and legal persons involved with the Issue

[Save for any fees payable to the [Managers/Dealer/Advisor], so far as the Issuer is aware, no person involved in the issue of the Securities has an interest material to the issue./*Specify Other*]

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

## 5. Use of Proceeds, Estimated net proceeds and total expenses

Use of proceeds:	[For general funding purposes of the Issuer]  [The Securities constitute Sustainability Instruments and an amount equal to the net proceeds of the issue of the Securities will be used to finance or refinance, in whole or in part, the Issuer's investments in Eligible Assets as further described in the Issuer's Sustainable Financing Framework dated [ ] (as amended or supplemented from time to time) available on the Issuer's website] [ <i>For Sustainability Instruments only, include weblink for relevant framework and any other relevant information</i> ]  [Specify other]
Estimated net proceeds:	[ ]
Estimated total expenses:	[ ]

## 6. Yield (*Fixed Rate Bonds only*)

Indication of yield:	[ ]% per annum  <i>(Note: The yield is calculated as on the Issue Date on the basis of the Issue Price. It is not an indication of future yield.)</i>
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## 7. Historic Interest Rates (*Floating Rate Bonds only*)

[Not Applicable/Details of historic [LIBOR/EURIBOR/REIBOR/other] rates can be obtained from [Give details].]

## 8. Performance of CPI, Explanation of effect on value of investment and associated risks and other information concerning the underlying (*Inflation Linked Securities only*)

[Not Applicable/The general cash flow of the Securities is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formulas in Conditions 6.2(b) and 6.3(b) in the Terms and Conditions.

The Icelandic Consumer Price Index (CPI) is produced based on data from Statistics Iceland. Information about the CPI can be obtained from the website of Statistics of Iceland being <https://statice.is/publications/indices-overview/>.

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

## 9. Operational Information

- |      |   |   |
|------|---|---|
| i.   | ISIN Code   | [ ]   |
| ii.  | Common Code   | [ ]   |
| iii. | CFI   | [ ]   |
| iv.  | FISN  | [ ]   |
| v.   | Delivery  | Delivery [against/free of] payment  |
| vi.  | Names and addresses of additional<br>Paying Agent(s) (if any):                  | [Applicable/Not Applicable/give details]  |
| vii. | Intended to be held in a manner<br>which would allow Eurosystem<br>eligibility: | [Yes/No]<br><br><i>[Note that the designation “yes” simply means that the Securities are intended upon issue to be deposited with one of the international CSD’s as common safekeeper and does not necessarily mean that the Securities will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]</i><br><br>[include this text if “yes” selected in which case the Bonds must be issued in NGN form.] |

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

Signed on behalf of the Issuer:

By: .....

*Duly authorized*

## TERMS AND CONDITIONS OF THE SECURITIES

The Securities are debt securities, either bonds or bills, issued by Kvika, and will be issued in compliance with applicable Icelandic laws and regulations. The following are the Terms and Conditions of the Securities which will be incorporated by reference into any Securities issued under the Programme (the “Terms and Conditions” or “Condition(s)”). The applicable Final Terms in relation to any tranche of Securities specify which Terms and Conditions apply in each case, as different Terms and Conditions may apply for different Securities issued under the Programme.

Relevant Final Terms included in the Base Prospectus include options, as well as brackets, which are to include information that is not known at the time of publication of the Base Prospectus. Under the applicable Final Terms for each tranche of Securities issued under the Programme the Terms and Conditions have been finalized and will be thus published on the Issuer's website [www.kvika.is](http://www.kvika.is). In the applicable Final Terms of Securities issued under the Programme, any reference to Terms and Conditions is a reference to the Terms and Conditions set out in this chapter *Terms and Conditions of the Securities* included in this Base Prospectus.

References herein to “**Securities**”, “**Bonds**” or “**Bills**” shall be references to all such Securities of a particular Series (as defined below) unless context indicates otherwise and shall mean the units of the lowest denomination specified in the relevant Final Terms in the currency specified in the relevant Final Terms.

References herein to “**Security Holder(s)**” or to “**Holder(s)**” or to “**Investor(s)**” shall mean the registered owners the Securities issued under the Programme, in accordance with Act no.131/1997 on electronic registration of securities, unless context indicates otherwise.

As used herein, “**Tranche**”, means Securities which are identical in all respects (including as to listing and admission to trading on a Regulated Market) and a “**Series**” or “**Series of Securities**” means a Tranche of Securities together with any further Tranche or Tranches of Securities 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 issue dates, issue amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Copies of the applicable Final Terms are available for viewing on the Issuer's website, [www.kvika.is](http://www.kvika.is). Further, copies of the applicable Final Terms can be obtained at the registered offices of the Issuer.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Terms and Conditions (including the preceding paragraphs) shall bear the meanings given to them in the applicable Final Terms.

## 1. Definitions

In these Terms and Conditions:

- any reference to principal shall be deemed to include indexation if the Securities are indexed and any premiums which are payable with respect to Securities and any amount which is inherently principal;
- if an expression, explanation, definition or statement is provided in the Terms and Conditions to have a specific meaning in the Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the relevant Securities;
- where the word “including” appears in these Terms and Conditions the words “without limitation” shall be deemed to be inserted immediately afterwards;
- Any use of terminology or other words, in the singular or plural shall be deemed to be interchangeable unless the context otherwise requires;
- any reference to timing in the Terms and Conditions shall be taken to mean Icelandic local time, unless otherwise stated; and
- when reference is made to laws and regulations it shall be construed as a reference to Icelandic law and regulations, as amended, unless otherwise stated.

<b>Accrual Period</b>	In accordance with Condition 5.7(c)(i), 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.
<b>Accrual Yield</b>	In relation to Zero Coupon Bonds, the meaning given in the applicable Final Terms.
<b>Agency Agreement</b>	Shall mean the agency agreement (if any) to be entered into between the Issuer and applicable agents.
<b>Amortised Face Amount</b>	The meaning given in Condition 7.8(b)(c).
<b>Annuity Amount</b>	The meaning given in Condition 6.2(a).
<b>Annuity Securities</b>	Securities which will be redeemed in Annuity Amounts (subject to adjustment for indexation in accordance with the provisions specified in the applicable Final Terms) on one or more Interest Payment Dates as specified in the applicable Final Terms.
<b>Applicable Final Terms</b>	The form of Final Terms (Part A of the Final Terms or the relevant provisions thereof) which will be completed for each Tranche of Securities issued under the Programme.
<b>Base Index</b>	Means the index value defined in the applicable Final Terms, being the value of the CPI on the date defined in the applicable Final Terms.

<b>Bonds</b>	Securities bearing interest, but not excluding Zero Coupon Bonds, issued or to be issued by the Issuer under the Programme. May be Subordinated Bonds or Unsubordinated Bonds
<b>Business Day</b>	The meaning in Condition 5.7(a).
<b>Business Day Convention</b>	In respect of a Tranche of Securities, either the Specified Periods or the Interest Payments Dates, the business day convention specified in the applicable Final Terms and determined in accordance with Conditions 5.7(b).
<b>Calculation Agent</b>	The meaning (if any) given in the applicable Final Terms.
<b>Bills</b>	Securities that are offered and sold at a discount to their nominal amount and will not bear interest. Bills will have a maximum final maturity of 13 months when issued.
<b>CPI</b>	The consumer price indexation, as calculated by Statistics Iceland in accordance with Act on Price Indexation no. 12/1995 and published monthly in the Legal Gazette in Iceland (Ice. “Lögbirtingablaðið”) or its successors.
<b>Day Count Fraction</b>	The meaning given in Condition 5.7(c).
<b>Dealer</b>	Any dealer appointed by the Issuer (if any).
<b>Derivative linked Securities</b>	Securities whose principal payments and/or Final Redemption Amount are adjusted for Underlier performance on such date or dates as decided by the Issuer and set out in the Final Terms.
<b>Determination Date</b>	The meaning given in the applicable Final Terms.
<b>Determination Period</b>	The meaning given in Condition 5.7(d).
<b>Discount Yield</b>	In relation to Bills, the meaning given in the applicable Final Terms.
<b>Early Redemption Amount</b>	The amount calculated in accordance with Condition 7.8.
<b>Equal Payment Amount</b>	The meaning given in Condition 6.3(a).
<b>EU</b>	The European Union.
<b>EURIBOR</b>	Euro-zone inter-bank offered rate.
<b>Final Redemption Amount</b>	The meaning given in the applicable Final Terms.
<b>Financial Indebtedness</b>	As defined in Condition 11 of the Terms and Conditions.

<b>Fixed Rate Bonds</b>	Bonds that pay a fixed rate of interest on such date or dates as may be decided by the Issuer and specified in the applicable Final Terms and on redemption calculated on the basis of such Day Count Fraction as may be decided by the Issuer.
<b>Floating Rate Convention</b>	The meaning given in Condition 5.7(b)(i).
<b>Floating Rate Bonds</b>	Bonds which bear interest at a rate determined: <ul style="list-style-type: none"> <li>(i) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(ii) on such basis as may be set out in the applicable Final Terms.</li> </ul>
<b>FSA</b>	The Financial Supervisory Authority of the Central Bank of Iceland
<b>Following Business Day Convention</b>	The meaning given in Condition 5.7(b)(ii).
<b>Index Ratio</b>	The value of the Index Ratio ( <b>IR</b> ) on the relevant Interest Payment Date shall be the value of the Reference Index ( <b>RI</b> ) applicable to the relevant Interest Payment Date divided by the value of the Base Index ( <b>BI</b> ) as calculated by the Issuer.
<b>Inflation Linked Annuity Bonds</b>	Bonds that pay an Annuity Amount adjusted for inflation on such date or dates as decided by the Issuer and set out in the Final Terms.
<b>Inflation Linked Equal Principal Payment Bonds</b>	Bonds, including Bonds with one payment of principal on Maturity Date, that pay an Equal Payment Amount adjusted for inflation on such date or dates as decided by the Issuer and set out in the Final Terms.
<b>Interest Amount</b>	The amount of interest payable on the Floating Rate Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 5.4(d) or the amount of interest payable on Inflation Linked Annuity Bonds or Inflation Linked Equal Principal Payment Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Conditions 5.1 and 5.2 respectively.
<b>Interest Commencement Date</b>	In the case of interest-bearing Securities, the date specified in the applicable Final Terms from (and including) which interest will accrue in respect of the relevant Securities.

<b>Interest Determination Date</b>	In respect of Floating Rate Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms.
<b>Interest Payment</b>	The meaning given in Condition 5.1.
<b>Interest Payment Date</b>	In respect of Fixed Rate Bonds, Inflation Linked Annuity Bonds and Inflation Linked Equal Principal Payment Bonds, the meaning given in the applicable Final Terms. In respect of Floating Rate Bonds, the meaning given in Condition 5.4(a).
<b>Interest Period</b>	In accordance with Condition 5.7(e) the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
<b>Investor or Security Holder</b>	The registered owners of the Securities issued under the Programme.
<b>Investor Put</b>	If specified as applicable in the applicable Final Terms, the provision by which the Investor may redeem a Series of Securities in accordance with Condition 7.4.
<b>ISK or Icelandic Krona or krónur</b>	The lawful currency of the Republic of Iceland.
<b>Issue Date</b>	Each date on which the Issuer issues a Tranche of Securities under the Programme, as specified in the applicable Final Terms.
<b>Issue Price</b>	The price, generally expressed as a percentage of the nominal amount of the Securities, at which a Tranche of Securities will be issued.
<b>Issuer Call</b>	If specified as applicable in the applicable Final Terms, the provision by which the Issuer may redeem a Series of Securities in accordance with Condition 7.3.
<b>LIBOR</b>	London inter-bank offered rate.
<b>Margin</b>	As specified in the applicable Final Terms (if any).
<b>Maturity Date</b>	As specified in the applicable Final Terms.
<b>Member State</b>	A state which is a party to the Agreement on the European Economic Area or the European Free Trade Association Treaty, or the Faroe Islands.
<b>Modified Following Business Day Convention</b>	The meaning given in Condition 5.7(b)(iii).

<b>CSD Agent or CSD System Account Operator</b>	Kvika banki hf., or any successor agent appointed as such, in its capacity as a Nasdaq CSD system account operator or an account operator with any other clearing system as applicable.
<b>Paying Agents</b>	The Issuer, Kvika banki hf. and any other paying agent appointed (if any).
<b>Payment Day</b>	The meaning given in Condition 6.4.
<b>Preceding Business Day Convention</b>	The meaning given in Condition 5.7(b)(iv).
<b>Principal Amount Outstanding Programme</b>	The meaning given in Condition 5.7(f).
<b>Put Notice</b>	Debt Issuance programme established by the Issuer. The maximum aggregate nominal amount of all Securities from time to time outstanding under the Programme will not exceed ISK 30,000,000,000 (or its equivalence in other currencies calculated as described herein), subject to increase as described herein.
<b>Rate of Interest</b>	The meaning given in Condition 7.4.
<b>Redemption</b>	In respect of a Series of interest-bearing Bonds, the rate of interest payable from time to time in respect of such Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms.
<b>Redeemed Securities</b>	The applicable Final Terms will indicate either that the relevant Securities cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Securities will be redeemable at the option of the Issuer and/or the Security Holders. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Final Terms. The applicable Final
<b>Redenomination Date</b>	The meaning given in Condition 7.3.
<b>Reference Price</b>	A date, specified in a notice to Security Holders, when redenomination of Securities will come into effect.
<b>Reference Rate</b>	In respect of a Zero Coupon Bond and Bills, the meaning given in the applicable Final Terms.
<b>Regulated Market</b>	In respect of Floating Rate Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms
	Means a medium for the exchange of goods or services over which a government body exerts a level of control.

<b>REIBOR</b>	Reykjavík Inter Bank Offered Rate
<b>Relevant Date</b>	The meaning given in Condition 9 (Taxation).
<b>Relevant Screen Page</b>	In respect of Floating Rate Bonds or Rest Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms.
<b>Screen Rate Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Bonds is to be determined in accordance with Condition 5.4(b).
<b>Selection Date</b>	The meaning given in Condition 7.3.
<b>Series</b>	A Tranche of Securities together with any further Tranche or Tranches of Securities 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.
<b>Specified Denomination</b>	In respect of a Series of Securities, the denomination or denominations of such Securities as specified in the applicable Final Terms.
<b>Specified Interest Payment Date</b>	In respect of Floating Rate Bonds, the meaning (if any) given in the applicable Final Terms.
<b>Terms and Conditions or Conditions</b>	The terms and conditions of the Securities.
<b>Tranche</b>	Issues of Securities which are identical in all respects (including as to listing and admission to trading on a Regulated Market).
<b>Zero Coupon Bonds</b>	Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.
<b>€, Euro, EUR or euro</b>	The currency of the European economic monetary union.
<b>£ or Sterling</b>	The lawful currency of the United Kingdom of Great Britain and Northern Ireland.
<b>\$, U.S.\$, U.S. Dollars, US Dollars or USD</b>	The lawful currency of the United States of America.

## **2. Form, Denomination and Title**

The Securities issued by Kvika under the Programme are in registered form issued electronically in a Central Securities Depository, Nasdaq CSD Iceland hf., or any other CSD as decided by the Issuer. There are no restrictions on the transfer of Securities issued under the Programme. However, the Securities can only be transferred to named parties, and only account operators, as they are defined in Act no. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments., are permitted to act as intermediaries in the transfer of their ownership. The registration of electronic security certificates in a CSD system grants their owners legal authority to the rights for which they are registered.

The Securities may take the form of Bonds or Bills, issued in the currency specified in the applicable Final Terms. The Securities may be derivative linked, inflation linked or non-inflation linked, they can be in the form of an Annuity or have Equal Principal Payments (including a Bond with one payment of principal on Maturity Date (a zero-coupon bond)), Securities can have a Fixed Rate or Floating Rate or a combination of any of the foregoing, depending upon the interest basis and redemption/payment basis shown in the applicable Final Terms.

Further, the Securities may be Unsubordinated Securities or Subordinated Bonds, depending on the Status shown in the applicable Final Terms.

## **3. Prioritisation**

### ***3.1 Unsubordinated Securities***

This Condition 3.1 is applicable in relation to Securities specified in the applicable Final Terms as being Unsubordinated Securities. The Securities are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank pari passu among themselves and with all other obligations of the Issuer that have been provided the same priority (save for certain obligations required to be preferred by law) (other than subordinated obligations, if any), from time to time outstanding and will rank pari passu with the claims of all other unsubordinated creditors of the Issuer (other than those preferred by law) in all other respects. The costs of bankruptcy administration will rank ahead of claims for payments of the Securities.

### ***3.2 Subordinated Bonds***

This Condition 3.2 is applicable in relation to Securities specified in the applicable Final Terms as being Subordinated Bonds. In such case, the Securities constitute unsecured, subordinated obligations of the Issuer.

In the event of the liquidation or insolvency (in Icelandic: slit eða gjaldþrot) of the Issuer, the rights of the Security Holders to payments on or in respect of the Subordinated Bonds shall rank:

- a) pari passu without any preference among themselves;
- b) at least pari passu with payments to holders of any other Tier 2 Instruments and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, pari passu with the Subordinated Bonds;

- c) in priority to payments to holders of any Additional Tier 1 Instruments and all classes of share capital of the Issuer in their capacity as such holders, and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, junior to the Subordinated Bonds; and
- d) junior in right of payment to the payment of any present or future claims of i) depositors of the Issuer, ii) other unsubordinated creditors of the Issuer and iii) claims of any other subordinated creditors the claims of which rank, or are expressed to rank, in priority to the Subordinated Bonds.

In the Terms and Conditions, the following expressions shall have the following meanings:

**Additional Tier 1 capital** means Additional Tier 1 capital, as defined in article 84. b. in Act on Financial Undertakings no. 161/2002, and as defined in Applicable Banking Regulations

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

**Applicable Banking Regulations** means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy or resolution then in effect in Iceland and applicable to the Issuer, including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy or resolution of the FSA or the Relevant Resolution Authority (as defined in Condition 8 (Point of non-viability loss absorption)), respectively, in each case to the extent then in effect in Iceland (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer);

**Tier 2 capital** means Tier 2 capital, as defined in article 84. c in Act on Financial Undertakings No 161/2002, and as defined in Applicable Banking Regulations; and

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

### ***3.3 Set-Off***

No claims in respect of any Subordinated Bonds held by a Security Holder may be set-off, or be the subject of a counterclaim, by the relevant Security Holder against or in respect of any of its obligations to the Issuer or any other person and each Security Holder waives, and shall be treated for all purposes as if it had waived, any right that it might otherwise have to set-off, or to raise by way of counterclaim, any of its claims in respect of any Subordinated Bonds, against or in respect of any of its obligations to the Issuer or any other person. If, notwithstanding the preceding sentence, any holder of a Subordinated Bonds receives or recovers any sum or the benefit of any sum in respect of such Subordinated Bonds by virtue of such set-off or counterclaim, it shall hold the same on trust for the Issuer and shall pay the amount thereof to the Issuer or, in the event of the liquidation or insolvency (in Icelandic: slit eða gjaldþrot) of the Issuer, to the liquidator of the Issuer, to be held on trust for the Senior Creditors.

#### 4. Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Security Holders, but after at least 30 days' prior notice to the Security Holders in accordance with Condition 12 (Notices), elect that, with effect from the Redenomination Date specified in the notice, the Securities shall be redenominated in any Specified Currency.

The election will have effect as follows:

- a) the Securities shall be deemed to be redenominated into a Specified Currency in the denomination of euro 0.01 (or equivalent in the Specified Currency) or as applicable to other Specified Currency with a principal amount for each Security equal to the principal amount of that Security in the Specified Currency, converted into euro or other Specified Currency at the spot rate for such conversion on the day that the relevant redenomination occurs, provided that, if the Issuer determines, that the market practice in respect of the redenomination into euro or other Specified Currency of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Security Holders, the Regulated Market (if any) on which the Securities may be listed of such deemed amendments;
- b) save to the extent that a Regulated Market Notice has been given in accordance with Condition 4(e) below, the amount of interest due in respect of the Securities will be calculated by reference to the aggregate principal amount of Securities presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01 (or equivalent in the Specified Currency) or as applicable in the relevant Specified Currency;
- c) if the Securities are Fixed Rate Bonds, Inflation Linked Annuity Bonds or Inflation Linked Equal Principal Payment Bonds, and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest Sub-Unit of the relevant Specified Currency, half of any such Sub-Unit being rounded upwards or otherwise in accordance with applicable market convention;
- d) if the Bonds are Floating Rate Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and
- e) such other changes shall be made to this Condition as the Issuer may decide, as may be specified in the Regulated Market Notice, to confirm it to conventions then applicable to instruments denominated in euro.

## 5. Interest

### 5.1 Interest on Annuity Securities

Annuity Securities can be inflation linked and non-inflation linked and bear interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest as specified in the applicable Final Terms.

Interest is calculated on each Interest Payment Date according to the formula:

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

where,

$I_k$  = Interest Repayment Factor for period k

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

c = the Rate of Interest of the relevant bond

f = the number of interest payments per year

n = the number of Interest Payment Dates

k = the number of payments that have already been made

(k=0 on the Issue Date, k=1 on the first Interest Payment Date, k=n on the last Interest Payment Date, etc.)

The resultant figure shall be rounded to the nearest whole number which is also the smallest unit of the Security's issue currency. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

### 5.2 Interest on Equal Principal Payment Securities

Equal Principal Payment Securities can be inflation linked and non-inflation linked and bear interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest as specified in the applicable Final Terms.

Interest is calculated on each Interest Payment date as the Principal Amount Outstanding as defined in Condition 6.3 a) or Condition 6.3 b) on each Interest Payment Date multiplied with the Rate of Interest and, the appropriate Day Count Fraction and rounding the resultant figure to the nearest whole number which is also the smallest unit of the Security's Specified Currency. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by using the same methodology.

### 5.3 Interest on Fixed Rate Securities

Fixed Rate Securities bear interest on their Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest as specified in the applicable Final Terms. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

The **Fixed Interest Period** is defined in these Conditions as the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date. Interest shall be calculated in respect of the relevant Interest Period by applying the applicable Rate of Interest to the Principal Amount Outstanding, multiplying such sum by the applicable Day Count Fraction as specified in the applicable Final Terms and rounding the resultant figure to the nearest whole number which is also the smallest unit of the Security's Specified Currency.

#### **5.4 Interest on Floating Rate Securities**

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

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

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

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

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

- (A) The Rate of Interest payable from time to time in respect of Floating Rate Securities will be determined in the manner specified in the applicable Final Terms. Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:
  - (i) the offered quotation (if there is only one quotation on the Relevant Screen Page);  
or
  - (ii) 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. (Iceland time, in the case of REIBOR or Iceland based successors, London time, in the case of LIBOR or UK based successors, or Brussels time, in the case of EURIBOR or its successor rate) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent.

If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such

quotations) shall be disregarded by the Issuer for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the reference Rate from time to time in respect of Floating Rate Securities is specified in the applicable Final Terms as being other than REIBOR, LIBOR or EURIBOR, the Rate of Interest in respect of such Securities will be determined as provided in the applicable Final Terms.

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

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

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

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

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

The Issuer will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Securities, for the relevant Interest Period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Securities, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**e) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.4, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer and all Security Holders.

**5.5 Accrual of interest**

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

- a) the date on which all amounts due in respect of such Securities have been paid; and
- b) five days after the date on which the full amount of the moneys payable in respect of such Bond has been received by the Paying Agent or the CSD Agent and notice to that effect has been given to the Security Holders in accordance with Condition 12 (Notices).
- c) In the case of Securities which are Equal Principal Payment Securities with one payment of principal on Maturity Date (also Zero Coupon Bonds), for the purposes of this condition 5.5 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Terms and conditions.

In the event of non-payment of a Zero Coupon Bond, interest will accrue as provided in Condition 7.11 (Late Payment on Zero Coupon Bonds and Bills).

### ***5.6 Interest on any Write Down of Subordinated Bonds***

In the case of any Write-Down (as defined in Condition 8 (Point of Non-Viability Loss Absorption)) of Subordinated Bonds in part, interest will be paid on the Subordinated Bonds:

- a) if the Subordinated Bonds are Written-Down in full, on the date of the Write-Down (the “Write-Down Date”) and in respect of: i) the period from (and including) the Interest Payment Date immediately preceding the Write-Down Date (or, if none, the Issue Date) to (but excluding) the Write-Down Date and ii) the Prevailing Principal Amount(s) of the outstanding Notes during that period; and
- b) if the Notes are not Written-Down in full, on the Interest Payment Date immediately following such Write-Down (the “Partial Write-Down Interest Payment Date”) and calculated as the sum of the amount of interest payable in respect of:
  - i. the period from (and including) the Interest Payment Date immediately preceding the Write-Down Date (or, if none, the Issue Date) to (but excluding) the Write-Down Date; and
  - ii. the period from (and including) the Write-Down Date to (but excluding) the Partial Write-Down Interest Payment Date,

and, in each case, the Prevailing Principal Amount(s) of the outstanding Notes during those respective periods.

In these Conditions, “**Prevailing Principal Amount**” means, in respect of a Subordinated Bond at any time, the principal or nominal amount of that Subordinated Bond as of the Issue Date as reduced (on one or more occasions) by any Write-Down at or prior to such time and references in these Conditions to any principal or nominal amount of a Subordinated Bond shall be construed accordingly as a reference to the Prevailing Principal Amount of that Subordinated Bond.

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

- a) In these Terms and Conditions, **Business Day** means:
- i. a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Iceland; and
  - ii. either (A) in relation to any sum payable in a Specified Currency other than ISK, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (the “TARGET2”) System (the “TARGET2 System”) is open.
  - iii. If a **Business Day Convention** is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:
    - i. in any case where Specified Periods are specified in accordance with Condition 5.4 (a), the Floating Rate Convention, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply mutatis mutandis, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls within the Specified Period after the preceding applicable Interest Payment Date occurred; or
    - ii. the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
    - iii. the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
    - iv. the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

If *Actual/Actual (ICMA)* is specified in the applicable Final Terms:

- (iii) in the case of Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period (as defined in Condition 5.7 d) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming that interest was to be payable in respect of the whole year; or
- (iv) in the case of Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

if *Actual/365* (also *Act/365*) is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

if *Actual/365 (Fixed)* is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

if *Actual/365 (Sterling)* is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

if *Actual/360* is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

if *30/360*, *360/360* or *Bond Basis* is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless, in the case of Floating Rate Bonds only, (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

if *30E/360* or *Eurobond Basis* is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); or such other Day Count Fraction as may be specified in the applicable Final Terms.

- v. **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).
- vi. **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.
- vii. **Principal Amount Outstanding** means, in respect of Securities except an Inflation Linked Annuity Bond and an Inflation Linked Equal Principal Payment Bond, on any day the principal amount of that Security on the Issue Date less principal amounts (if any) received by the holder of such Security in respect thereof on or prior to that day. In respect of an Inflation Linked Annuity Bond and an Inflation Linked Equal Principal Payment Bond, the meaning given in the applicable Final Terms.
- viii. **Sub-Unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

## 6. Payments

### *6.1 General provisions applicable to payments*

The Calculation Agent, as specified in the applicable Final Terms, will carry out all calculation of payments in relation to the Securities. On each Payment Day payments of principal and interest and any applicable additional payments as defined in the Final Terms will be made by the Issuer to the Security Holders shown in the relevant records of the Nasdaq CSD or any other CSD as decided by the Issuer and specified in the applicable Final Terms. The Issuer will act as sole Paying Agent unless otherwise specified in the applicable Final Terms with payments generally processed through Nasdaq CSD's system unless otherwise decided and disclosed in the relevant Final Terms.

### *6.2 Payments in respect of Annuity Securities*

#### a) Payments in respect of non-inflation linked Annuity Bonds

In case of a non-inflation linked Annuity Bond, the Issuer shall, on each relevant Interest Payment Date, make a payment that is the sum of the relevant Principal Repayment as defined in this Condition and the Interest Payment as defined in Condition 5.1 (Interest on Annuity Securities) (together, the “Annuity Amount”) as calculated by the Calculation Agent.

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

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

where,

A = Principal Repayment Factor

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

c = the Rate of Interest of the relevant bond

f = the number of interest payments per year

n = number of Interest Payment Dates

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

#### **b) Payments in respect of Inflation Linked Annuity Bonds**

In case of an Inflation Linked Annuity Bond, the Issuer shall, on each relevant Interest Payment Date, make a payment that is the sum of the relevant Principal Repayment as defined in this Condition and the Interest Payment as defined in Condition 5.1 (together, the “Annuity Amount”) as calculated by the Calculation Agent.

Principal Repayment(s) is the amount calculated by the Issuer on each Interest Payment Date by multiplying the nominal amount on the Issue Date with the Index Ratio and with the factor A, which is calculated according to the formula in Condition 6.2 a).

The value of the Index Ratio (the “IR”) on the relevant Interest Payment Date shall be the value of the Reference Index (the “RI”) applicable to the relevant Interest Payment Date divided by the value of the Base Index (the “BI”) as calculated by the Calculation Agent:

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

where,

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

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

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

where,

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

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

**d** = the relevant calendar date

**D** = number of calendar days in the relevant calendar month Provided that if the Reference Index in i) or ii) below is lower than the Base Index, the Reference Index shall equal the Base Index.

And

**Base Index** means the index value defined in the applicable Final Terms, being the value of the CPI on the date defined in the applicable Final Terms.

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

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

### ***6.3 Payments in respect of Equal Principal Payment Securities including Bonds with one payment of Principal on Maturity Date***

#### **a) Payments in respect of non-inflation linked Equal Principal Payment Bonds, including Bonds with one payment of Principal on Maturity Date**

In case of a non-inflation linked Equal Payment Bond, including Bonds with one payment of Principal on Maturity Date, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal, as defined in this condition and interest due as defined in Condition 5.2 (Interest on Equal Principal Payment Securities) (together, the “Equal Payment Amount”) as calculated by the Calculation Agent.

Principal Repayment(s) is an amount calculated by the Calculation Agent on each Principal Payment Date by dividing the Principal Amount Outstanding on the Issue Date with the Number of Principal Payment Dates.

The Principal Amount Outstanding is calculated based on the following formula:

$$PAO_t = (PAO_t - PR_{t-1})$$

Where,

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

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

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

**b) Payments in respect of an Inflation Linked Equal Principal Payment Bonds, including Bonds with one payment of Principal on Maturity Date**

In case of an Inflation Linked Equal Payment Bond, including Bond with one payment of Principal on Maturity Date, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal, as defined in this condition and interest due as defined in Condition 5.2 (together, the “Equal Payment Amount”) as calculated by the Calculation Agent.

Principal Repayment(s) is an amount calculated by the Calculation Agent on each Principal Payment Date by multiplying the Principal Amount Outstanding on the Issue Date with the Index Ratio and dividing with the Number of Principal payment Dates.

The Principal Amount Outstanding is calculated based on the following formula:

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

Where,

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

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

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

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

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

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

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

where,

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

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

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

where,

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

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

**d** = the relevant calendar date

**D** = number of calendar days in the relevant calendar month Provided that if the Reference Index in i) or ii) below is lower than the Base Index, the Reference Index shall equal the Base Index.

And

**Base Index** means the index value defined in the applicable Final Terms, being the value of the CPI on the date defined in the applicable Final Terms.

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

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

#### ***6.4 Payments in respect of Derivative linked Securities***

If the applicable Final Terms specify that the clause 22. *Derivative Linked Securities* is applicable, this Condition 6.4 applies.

For the purpose of calculating principal payments and/or the Final Redemption Amount, as defined in the applicable Final Terms;

An **Underlier** or **Basket of Underliers** means the underlying financial instrument or basket of instruments used for calculation of the Principal Repayment or Final Redemption Amount, as specified in the relevant Final Terms.

**Successor underlier:** any substitute underlier appointed by the calculation agent as a successor Underlier

**Underlier Sponsor** means the corporation or other entity specified as such in the relevant Final Terms and any successor corporation or other entity that (i) is responsible for setting and reviewing the rules and procedures and the methods of calculation and adjustments, if any, related to the relevant Underlier or Basket of Underliers and (ii) announces (directly or through an agent) the level of such Underlier on a regular basis during or at the end of each Scheduled Trading Day;

**Closing level:** for any given trading day, the official closing level of the Underlier or any successor Underlier published by the Underlier sponsor on such trading day

**Trading day:** a day on which the underlier is calculated and published by the underlier sponsor

**Spot exchange rate:** the spot rate of exchange, as given by the applicable FX price source specified in the Final Terms, for the exchange of an applicable currency into a base currency

(expressed as the number of units (or part units) of the base currency for which one unit of the applicable subject currency can be exchanged).

### **6.5 Payment Day**

If the date for payment of any amount in respect of any Security is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to any interest or other payment in respect of any such delay. For these purposes, **Payment Day** means any day which (subject to Condition 10 (Prescription)) is:

- a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Reykjavík and any Additional Financial Centre specified in the applicable Final Terms
- b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, Reykjavík and any Additional Financial Centre) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

### **6.6 Interpretation of principal**

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

- a) any additional amounts which may be payable with respect to principal under Condition 9 (Taxation);
- b) the Final Redemption Amount of the Securities;
- c) the Early Redemption Amount of the Securities;
- d) the Optional Redemption Amount(s) (if any) of the Securities;
- e) in relation to Zero Coupon Bonds and Bills, the Amortised Face Amount (as defined in Conditions 7.8 b) and 7.8 c); and
- f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Securities.

Any reference in the Conditions to interest in respect of the Securities shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 (Point of Non-Viability Loss Absorption).

### **6.7 Prepayment**

If prepayment is specified as being applicable in the applicable Final Terms, the Issuer may advance amortisation of the Securities then outstanding as specified in the applicable Final Terms. Notice to that effect shall be given by the Issuer to the Security Holders in accordance with Condition 12 (Notices) unless otherwise specified in the applicable Final Terms.

## **7. Redemption and Purchase**

### ***7.1 Redemption of Inflation Linked Securities***

Unless previously redeemed or purchased and cancelled as specified below, each Inflation Linked Annuity Bond and each Inflation Linked Equal Payment Bond, including Bonds with one payment of Principal on Maturity Date, will, subject to Conditions 6.2(b) or 6.3(b) (as applicable), be redeemed in one or more amounts, calculated in accordance with the formula specified in the applicable Final Terms, in the relevant Specified Currency on the relevant Interest Payment Dates.

### ***7.2 Final Redemption***

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

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

Subject, in the case of Subordinated Bonds, to the provisions of Condition 7.14 (FSA Approval), if Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than 15 nor more than 30 days' notice to the Security Holders in accordance with Condition 12 (Notices) (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Securities then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Securities, the Securities to be redeemed ("Redeemed Securities") will be selected in accordance with the rules of the Nasdaq CSD or any other relevant clearing systems (as the case may be), in each case not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). No exchange of the relevant Securities will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.4 (Redemption at the option of the Issuer (Issuer Call)) and notice to that effect shall be given by the Issuer to the Security Holders in accordance with Condition 12 (Notices) at least five days prior to the Selection Date.

### ***7.4 Redemption at the option of the Security Holders (Investor Put)***

If the Securities are Unsubordinated Securities and Investor Put is specified in the applicable Final Terms, upon the holder of any Security giving the Issuer in accordance with Condition 12 (Notices) not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Security 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 Final Terms.

To exercise the right to require redemption of this Security the holder of this Security must, within the notice period, give notice to the Central Securities Depository Agent of such exercise in accordance with the standard procedures of the Nasdaq or any other clearing system as decided by the Issuer (as the case may be) from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of the Nasdaq CSD, or any other clearing system as decided by the Issuer, given by a holder of any Security pursuant to this paragraph shall be irrevocable.

### ***7.5 Redemption for Tax Reasons***

Subject to Condition 7.8 (Early Redemption Amounts) and (in the case of Subordinated Bonds only) 7.14 (FSA Approval) the Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Security is neither a Floating Rate Bond nor an Inflation Linked Bond) or on any Interest Payment Date (if this Security is either a Floating Rate Bond or Inflation Linked Bond), giving not less than 30 and not more than 60 days' notice to the Nasdaq CSD or other CSD as applicable and, in accordance with Condition 12 (Notices), the Security Holders (which notice shall be irrevocable), if:

- a) on the occasion of the next payment due under the Securities,
  - i. the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (Point of non-viability loss absorption)
  - ii. in the case of Subordinated Bonds only, the Issuer would not be entitled to claim a deduction in computing its taxation liabilities in any Tax Jurisdiction as defined in Condition 9 (Taxation) in respect of such payment of interest to be made on the Securities on the occasion of the next payment due under the Subordinated Bonds (or the amount of such deduction would be materially reduced),

in each case, as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 9 (Taxation)) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after (A) (in the case of Unsubordinated Debt Securities) the date on which agreement is reached to issue the first Tranche of the Debt Securities; or (B) (in the case of Subordinated Bond) the Issue Date and

- b) such obligation can not be avoided by the Issuer taking reasonable measures available to it.

(each a “**Tax Event**”) provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (i) the Issuer would be obliged to pay such additional amounts; or (ii) the Issuer would not be entitled to claim such a deduction (or the amount of such deduction would be materially reduced) in respect of such payment (as applicable), in each case, were a payment in respect of the Securities then be due.

Prior to the publication of any notice of redemption pursuant to Condition 7.8 (Early Redemption Amounts), the Issuer shall deliver to the Fiscal Agent (if Fiscal Agent is other than the Issuer) to make available at its specified office to the Debt Security Holders (i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that a Tax Event has occurred.

Securities redeemed pursuant to this Condition 7.5 (Redemption for Tax Reasons) will be redeemed at their Early Redemption Amount referred to in Condition 7.8 (Early Redemption Amounts) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### ***7.6 Redemption due to illegality or invalidity***

If the Securities become illegal and/or invalid, all Securities of a Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 or more than 60 days' notice to all Security Holders (which notice shall be irrevocable).

Securities redeemed pursuant to this Condition 7.6 will be redeemed at their Early Redemption Amount referred to in Condition 7.8 (Early Redemption Amounts) together (if appropriate) with interest accrued (and, if this is an Inflation Linked Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms) to (but excluding) the date of redemption.

### ***7.7 Certification***

The publication of any notice of redemption pursuant to Condition 7.8 (Early Redemption Amounts) shall include a certificate signed by authorised personnel of the Issuer stating that the Issuer is entitled or required to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the certificate shall be sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all Security Holders.

### ***7.8 Early Redemption Amounts***

For the purpose of Condition 7.5 (Redemption for Tax Reasons) and Condition 11 (Events of Default), each Security will be redeemed at an amount (the "Early Redemption Amount") calculated as follows:

- a) in the case of a Bond (other than a Zero Coupon Bonds), at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its Principal Amount Outstanding (and, in the case of an Inflation Linked Annuity Bond or an Inflation Linked Equal Principal Payment Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms); or
- b) in the case of a Zero Coupon Bond, at an amount (the "Amortised Face Amount") calculated in accordance with the following formula:

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

where,

RP = Reference Price;

AY= 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 Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Securities becomes due and repayable and the denominator of which is 360), or on such other calculation basis as may be specified in the applicable Final Terms.

- c) in the case of Bills, at the Amortised Face Amount calculated in accordance with the following formula:

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

where,

RP = Reference Price;

DY= the Discount 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 Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Securities becomes due and repayable and the denominator of which is 360), or on such other calculation basis as may be specified in the applicable Final Terms.

## ***7.9 Purchases***

The Issuer or any of its subsidiaries may at any time purchase Securities at any price in the open market or otherwise. Such Securities may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or CSD Agent for cancellation.

## ***7.10 Cancellation***

All Securities which are redeemed or surrendered for cancellation pursuant to Condition 7.9 (Purchases) will forthwith be cancelled. All Securities so cancelled shall be deleted from the records of the Nasdaq CSD or any other relevant clearing system (as the case may be) and cannot be reissued or resold.

## ***7.11 Late Payment on Zero Coupon Bonds and Bills***

If the amount payable in respect of any Zero Coupon Bonds or Bills upon redemption of such Zero Coupon Bonds or Bills pursuant to Conditions 7.2, 7.3, 7.4, or 7.5 above or upon its becoming due and repayable as provided in Condition 11 (Events of Default) is improperly

withheld or refused, the amount due and repayable in respect of such Zero Coupon Bonds or Bills shall be the amount calculated as provided in Condition 7.8 b) and 7.8 c) respectively as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Bonds or Bills become due and payable were replaced by references to the date which is the earlier of:

- a) the date on which all amounts due in respect of such Zero Coupon Bonds or Bills have been paid; and
- b) five days after the date on which the full amount of the monies payable in respect of such Zero Coupon Bonds or Bills have been received by the Paying Agent and notice to that effect has been given to the Debt Security Holders in accordance with Condition 12 (Notices).

### ***7.12 Redemption upon a Capital Event – Subordinated Bonds***

This Condition 7.13. applies only to Subordinated Bonds in relation to which this Condition 7.12 is specified as being applicable in the applicable Final Terms, and references to “Securities”, “Bond” and “Security Holders” in this Condition shall be construed accordingly.

Subject to the provisions of Condition 7.14 (FSA Approval) of, the Security may, save as provided below, be redeemed at the option of the Issuer, in whole, but not in part, at any time (if this Security is not a Floating Rate Bond) or on any Interest Payment Date (if this Security is a Floating Rate Bond, an Inflation Linked Bond or an Inflation Linked Annuity Bond), on giving not less than 30 nor more than 60 days’ notice (which notice shall be irrevocable) to the Fiscal Agent and, in accordance with Condition 12 (Notices), the Debt Security Holders, if a Capital Event occurs.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent (if Fiscal Agent is other than the Issuer), or the CSD agent, as applicable, a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

Securities redeemed pursuant to this Condition 7.12 will be redeemed at their Early Redemption Amount referred to in Condition 7.8 (Early Redemption Amounts) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

For this purpose, a **Capital Event** means the determination by the Issuer after consultation with the FSA that, as a result of a change in Icelandic law or Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date, the aggregate outstanding nominal amount of the Subordinated Bonds is fully excluded from inclusion in the Tier 2 capital of the Bank.

**Applicable Banking Regulations** means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Iceland and applicable to the Issuer and/or the Group including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FSA (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer and/or the Group);

**Group** means the Issuer and its Subsidiaries taken as a whole; and

**Subsidiaries** means any entity whose affairs are required by law or in accordance with generally accepted accounting principles applicable in Iceland to be consolidated in the Issuer's consolidated accounts.

### ***7.13 Substitution or Variation-Subordinated Bonds***

This Condition 7.13 applies only to Subordinated Bonds and “Bonds” and “Security Holders” in this Condition shall be construed accordingly

If Condition 7.13 is specified as being applicable in the applicable Final Terms, and at any time a Capital Event occurs, subject to the provisions of Condition 7.14 (FSA Approval) the Issuer may, having given not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent (if Fiscal Agent is other than the Issuer), in accordance with Condition 12 (Notices), the Security Holders, either substitute all, but not some only, of the Bonds for, or vary the terms of the Bonds so that they remain, or, as appropriate, become, Qualifying Securities, provided that such substitution or variation does not itself give rise to any right of the Issuer to redeem the substituted or varied securities that are inconsistent with the redemption provisions of the Bonds.

Prior to the publication of any notice of substitution or variation pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent (if Fiscal Agent is other than the Issuer), a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such substitution or variation and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to substitute or, as the case may be, vary the terms of the Issuer, have occurred.

In the Conditions **Qualifying Securities** means securities issued directly or indirectly by the Issuer that:

- a) have terms not materially less favourable to the Security Holders as a class than the terms of the Securities (as reasonably determined by the Issuer) and, subject thereto, they shall (i) have a ranking at least equal to that of the Securities prior to the relevant substitution or variation, as the case may be; (ii) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Securities prior to the relevant substitution or variation, as the case may be; (iii) have the same redemption rights as the Securities prior to the relevant substitution or variation, as the case may be; (iv) comply with the then current requirements of the FSA in relation to Tier 2 Capital; and (v) preserve any existing rights under the Securities to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date.
- b) are listed on a recognised stock exchange, if the Securities were listed immediately prior to such substitution or variation, as selected by the Issuer.

#### **7.14 FSA approval**

In the case of Subordinated Bonds, no early redemption in any circumstances, purchase under Condition 7.9 (Purchases) or substitution or variation under Condition 7.13 (Substitution or Variation- Subordinated Bonds), shall take place without the prior written consent of the FSA (if, and to the extent then required, by the FSA). For the avoidance of doubt, redemption of Subordinated Bonds under Condition 7.2 (Final Redemption) shall not require the consent of the FSA.

#### **8. Point of non-viability loss absorption**

This Condition 8 applies only to Subordinated Bonds and prior to the date on which any Applicable Statutory Loss Absorption Regime becomes effective in respect of the Securities.

If a Non-Viability Event occurs at any time on or after the Issue Date and prior to the date on which any Applicable Statutory Loss Absorption Regime becomes effective in respect of the Securities, the Issuer will:

- a) promptly notify Security holders thereof in accordance with Condition 12 (a Non-Viability Event Notice); and
- b) irrevocably and mandatorily (and without any requirement for the consent or approval of Security Holders) write-down the Prevailing Principal Amount of the Subordinated Bonds in full or to the extent required in order for the Issuer no longer to be considered Non-Viable by the Relevant Resolution Authority and in order that such Non-Viability Event is no longer continuing, whichever is lower (a **Write-Down** and **Written-Down** shall be construed accordingly), which Non-Viability Write-Down shall take place as directed by the Relevant Resolution Authority in accordance with the priority of claims under normal insolvency proceedings and may be effected before any public provision of capital to the Issuer or any other equivalent measure of extraordinary financial support without which, in the determination of the Relevant Resolution Authority, the Issuer would be Non-Viable.

With effect on and from the date on which an Applicable Statutory Loss Absorption Regime becomes effective in respect of the Securities, the foregoing provisions of this Condition 8 will lapse and cease to have any effect (and without any requirement for the consent or approval of Security Holders or any notice to be given to Security holders), except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime. If a Non-Viability Event occurs on or after such date, the Relevant Resolution Authority (or the Issuer following instructions from the Relevant Resolution Authority) may (without any requirement for the consent or approval of Security holders or any notice to be given to Security Holders) take such action in respect of the Securities as is required or permitted by such Applicable Statutory Loss Absorption Regime.

Security Holders shall have no claim against the Issuer in respect of any Prevailing Principal Amount of the Subordinated Bonds that is Written-Down in accordance with the provisions of this Condition 8 or otherwise pursuant to any Applicable Statutory Loss Absorption Regime.

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

**Applicable Statutory Loss Absorption Regime** means a Statutory Loss Absorption Regime that is applicable to the Securities;

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

- i) the Relevant Resolution Authority determines that the Issuer is or will be Non-Viable without a Non-Viability Write-Down
- ii) the Relevant Resolution Authority decides to inject capital into the Issuer or provide any other equivalent extraordinary measure of financial support without which, the Issuer would become Non-Viable; or
- iii) any other event or circumstance specified in Applicable Banking Regulations or any Applicable Statutory Loss Absorption Regime that leads to a determination by the Relevant Resolution Authority that the Issuer is Non-Viable;

**Non-Viable** means the insolvency of the Issuer or if the Issuer is, unable to pay a material part of its debts as they fall due or unable to carry on its business or is subject to restructuring or resolution under Act on Financial undertaking, no. 161/2002 and Act on Bankruptcy, etc. no. 21/1991 or any other event or circumstance specified as such in Applicable Banking Regulations or any Applicable Statutory Loss Absorption Regime;

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

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

## 9. Taxation

All payments of principal and interest in respect of the Securities by or on behalf of the Issuer will be made without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Securities after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Securities, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Security:

- a) In respect of any demand made for payment in Iceland; or
- b) in respect of any demand made for payment by or on behalf of a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Security by reason of it

having some connection with a Tax Jurisdiction other than the mere holding of such Security or;  
or

c) in respect of any demand made for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on making such demand for payment on or before the expiry of such period of thirty days: or

d) where such withholding or deduction is required to be made based on provisions of the Act on Withholding of Public Levies at Source no. 45/1987, as amended, the Act on Withholding of Tax on Financial Income no. 94/1996, as amended, and Article 3 of the ITA, and any other legislation, laws or regulations, replacing or supplementing the same. Notwithstanding any other provision of these Conditions, in no event will the Issuer be required to pay any additional amounts in respect of the Securities and Coupons for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed 107 pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

Prospective investors should note that the tax legislation of the investor's Member State and of the Issuer's country of incorporation may have an impact on the income received from the Securities

As used herein: "Tax Jurisdiction" means Iceland or any political subdivision or any authority thereof or therein having power to tax; and the "Relevant Date" means the date on which such payment first becomes due.

## **10. Prescription**

The Securities will become void in accordance with the Act on Expiration of Debt and other Obligations no.150/2007 (Ice. Lög um fyrningu kröfuréttinda nr. 150/2007) unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and 4 years (in the case of interest) after the Relevant Date (as defined in Condition 8 (Taxation)).

For the purposes of these Terms and Conditions the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is due given to Security Holders in accordance with Condition 12 (Notices).

## **11. Events of Default**

### ***11.1 Events of default– Unsubordinated Bonds***

This Condition 11.1 is applicable in relation to Securities specified in the applicable Final Terms as being Unsubordinated Bonds. If any one or more of the following events (each an "Event of Default") shall occur with respect to any Bond:

- a) if default is made in the payment of any principal or interest due in respect of the Securities or any of them and the default continues for a period of five days in the case of principal and 10 days in the case of interest; or
- b) if the Issuer fails to perform or observe any of its other obligations under the Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Security Holder on the Issuer of notice requiring the same to be remedied; or
- c) if (i) any Financial Indebtedness (as defined below) of the Issuer becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer fails to make any payment in respect of any Financial Indebtedness on the due date for payment as extended by any originally applicable grace period; (iii) any security given by the Issuer for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Issuer in making any payment due under any guarantee and/or indemnity given by it in relation to any Financial Indebtedness of any other person, provided that the aggregate nominal amount of any such Financial Indebtedness of the Issuer in the case of (i), (ii) and/or (iii) above, and/or amount of Financial Indebtedness in relation to which such guarantee and/or indemnity of the Issuer has been given in the case of (iv) above, is at least €25,000,000 (or its equivalent in any other currency); or
- d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution; or
- e) if the Issuer ceases or threatens to cease to carry on the whole or substantially all of its business (save in each case for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution) or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- f) if (A) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to all or substantially all of the undertaking or assets of the Issuer, or an encumbrance takes possession of all or substantially all of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or substantially all of the undertaking or assets of the Issuer and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or

- g) if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- h) if any event occurs which, under the laws of any relevant jurisdiction, has or may have an analogous effect to any of the events referred to in paragraphs d) to g) above,

then any Security Holder may, by written notice to the Issuer, effective upon the date of receipt thereof by the Issuer, declare any Security held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

In respect of this Condition 10 (Events of Default) **Financial Indebtedness** means any indebtedness for or in respect of:

- a) borrowed money;
- b) any amount raised by acceptance under any acceptance credit facility or any dematerialised equivalent;
- c) any amount raised pursuant to any note purchase facility or the issue of any debenture, bond, note or loan stock or other similar instrument (with the exception of any loan stock issued by a member of the Issuer and its consolidated subsidiaries, taken as a whole which is cash collateralised);
- d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with International Financial Reporting Standards (“IFRS”), be treated as a finance or capital lease;
- e) receivables sold or discounted (otherwise than on a non-recourse basis);
- f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial or economic effect of a borrowing and which, for the avoidance of doubt, includes any transaction that is required to be classified and accounted for as borrowings, for financial reporting purposes in accordance with IFRS;
- g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account); or
- h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; or
- i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs a) to h) above.

all as more particularly defined in the Agency Agreement (if any).

### ***11.2 Enforcement Events – Subordinated Bonds***

This Condition 11.2 is applicable in relation to Securities specified in the applicable Final Terms as being Subordinated Bonds and references to “Bonds” and “Security Holders” in this Condition shall be construed accordingly.

The following events or circumstances (each an “Enforcement Event”) shall constitute enforcement events in relation to the Bonds:

- A) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of five days in the case of principal and ten days in the case of interest, any Security Holder may, at its own discretion and without further notice, institute proceedings in Iceland in order to recover the amounts due from the Issuer to such Security Holder, provided that a Security Holder may not at any time file for liquidation or bankruptcy of the Issuer. Any Security Holder may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Bonds, provided that the Issuer shall not by virtue of the institution of any proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it; and
  
- B) an order is made or an effective resolution is passed for the liquidation or winding up or dissolution of the Issuer (except for the purposes of a merger, reconstruction or amalgamation or other reorganisation on terms previously approved by an Extraordinary Resolution, under which the continuing entity effectively assumes the entire obligations of the Issuer under the Subordinated Bonds) or the Issuer is otherwise declared insolvent or put into liquidation, in each case by a court or agency or supervisory authority in Iceland having jurisdiction in respect of the same Act on Financial undertaking, no. 161/2002 and Act on Bankruptcy, etc. no. 21/1991, then the Bonds shall become due and payable at their outstanding principal amount together with interest (if any) accrued to such date.

### **12. Notices**

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

Notices given by Security Holders shall be in writing and given by lodging the same, together with the relevant Security or Securities.

## **13. Meetings of Security Holders and Modification**

### ***13.1 Meetings of Security Holders***

The Issuer may, in its capacity as CSD Agent, convene meetings of the holders of Securities to consider any matter affecting their interests, including sanctioning by a majority of votes a modification of the Securities. Such a meeting may be convened by the Issuer or by the holders of not less than 10% of the Voting Securities. For the purpose of this Condition, Voting Securities means the aggregate nominal amount of the total number of Securities not redeemed or otherwise deregistered in the applicable CSD less the Securities owned by the Issuer, any party who has decisive influence over the Issuer or any party over whom the Issuer has decisive influence.

The quorum at a meeting for passing a resolution is one or more persons holding 75% of the Voting Securities or at any adjourned meeting one or more persons being or representing holders of Voting Securities whatever the nominal amount of the Securities so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Securities (including modifying the date of maturity of the Securities or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Securities or altering the currency of payment of the Securities), the quorum shall be one or more persons holding or representing not less than 75% in aggregate nominal amount of the Voting Securities for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in aggregate nominal amount of the Voting Securities. A resolution passed at any meeting of the holders of the applicable Securities shall be binding on all the holders, whether or not they are present at such meeting. If and whenever the Issuer has issued and has outstanding Securities of more than one Series, (i) a resolution which affects the Securities of only one Series shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Securities of that Series; (ii) a resolution which affects the Securities of more than one Series but does not give rise to a conflict of interest between the holders of Securities of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Securities of all the Series so affected; and (iii) a resolution which affects the Securities of more than one Series and gives or may give rise to a conflict of interest between the holders of the Securities of one Series or group of Series so affected and the holders of the Securities of another Series or group of Series so affected shall be deemed to have been duly passed only if it is duly passed at separate meetings of the holders of the Securities of each Series or group of Series so affected.

The Issuer, in its capacity as CSD Agent, may in certain circumstances, without the consent of the holders of the Securities, make decisions binding on all holders relating to the Conditions which are not in its opinion, materially prejudicial to the interests of the holders of the Securities. The Issuer shall consider the interest of the holders of Securities while making such decisions.

### ***13.2 Representation of Security Holders***

Where the applicable Final Terms specify that Representation of Security Holders applies, the Issuer shall in the Final Terms specify a party responsible for representing Security Holders (the “Security Holder Representative”) of the applicable Securities. If applicable, further information and a website to access to the contracts relating to the representation will be indicated in the applicable Final Terms.

The Security Holder Representative convenes meetings of all applicable Security Holders, following a request from a Security Holder(s) and shall always convene meetings with a minimum notice of 7 days. Security Holder Representative sends out a notification to the Issuer, who on the same day must pass it onto Nasdaq Iceland hf. to be posted on the stock exchange's newsfeed. While trading has not started on the Securities, this information shall be sent to Security Holders through the intermediary of account operators.

The voting rights of Security Holders are determined by the amounts held by each Security Holder as a percentage of the Series of Securities. Calculations shall be based on the position of claims on the day on which the meeting is convened. The Issuer reserves itself the right to speak at these meetings. Calls to meetings, meeting documents and the results of meetings shall be posted on the Nasdaq Iceland hf. news network and The Security Holder Representative shall ensure the Issuer posts this information. If the acceleration clause is no longer in place on the day of the meeting, The Security Holder Representative shall cancel the meeting.

The applicable Final Terms shall identify the organisation representing the investors and all contact information and means of contacting the Security Holder Representative.

#### **14. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Security Holders, to create and issue further Securities having the same terms and conditions as the Securities or terms and conditions which are the same in all respects save for the amount and date of 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 Securities.

#### **15. Laws governing the issuance of the Securities**

The Securities are issued in accordance with Act no. 93/1993 on Bills (the "Act on Bills") and/or Act no. 108/2007 on Securities Transactions. Additionally, Act no. 131/1997 on Electronic Registration of Rights of Title to Securities (the "Act on Electronic Registration of Rights of Title to Securities") and Act no. 38/2001 on interest and price indexation may apply to the Bonds. Further, Act no.150/2007 on the limitation periods for claims may be applicable on a case by case basis. - The Bonds are otherwise subject to Icelandic laws.

Regulation no. 837/2013 regarding the public offering of securities equivalent to EUR 5 million or more in Icelandic króna and admission to trading on a regulated market, regulation no. 243/2006 on the entry into force of the Commission Regulation no. 809/2004 on the implementation of the Prospectus Directive, concerning information in prospectuses, their presentation, information incorporated by reference, publication of prospectuses as well as distributions of advertisements, all as amended, apply to the issuance.

In addition, rules no. 1050/2012 of the FSA on the Treatment of Insider Information and Insider Transactions, as well as regulation no. 630/2005 on Insider Information and Market Abuse, regulation no. 707/2008 on the provision of information and notification requirements in accordance with Act no. 108/2007 on Securities Transactions and the Nasdaq Iceland Rules, apply to the Bonds and the Issuer from the time when the Issuer has applied for admission of the Bonds to trading on the Regulated Market of Nasdaq Iceland. Changes to the legislation related to the issuance may affect the value of the Bonds.

The Issuer must comply with the abovementioned laws and regulations, which, among other things, include disclosure requirements.

## **16. Rights attached to the Securities**

No rights are attached to the Securities

## **17. Sustainable Financing**

If the applicable Final Terms in relation to a particular Tranche of Securities state in the section 5. *Use of Proceeds, Estimated net proceeds and total expenses* that an amount equal to the net proceeds of the issue of Securities is intended to be used to finance or refinance, in whole or in part, the Issuer's investments in Eligible Assets, the Securities shall be deemed to be Sustainability Instruments.

The basis for issuing such Sustainability Instruments is a Sustainable Financing Framework. The Issuer will develop a third party certified Sustainable Financing Framework which will be, as amended or supplemented from time to time, available on the Issuer's website once Sustainability Instruments have been issued by the Bank.

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 Base Prospectus. 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 Sustainability Instruments. Any such opinion or certification is only current as of the date that opinion was issued. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

Whilst it is the intention of the Issuer to apply an amount equal to the net proceeds of the Sustainability Instruments in, or substantially in, a manner described in the Sustainable Financing Framework, the related projects may not be capable of being implemented in or substantially in such manner and/or in accordance with any timing schedule and accordingly such proceeds may not be totally or partially disbursed for such projects.

Any such event or failure by the Issuer to apply an amount equal to the net proceeds of any issue of Sustainability Instruments will not

- (i) give rise to any claim of a Securityholder against the Issuer;
- (ii) constitute an Event of Default under the Securities or a default of the Issuer for any purpose; or
- (iii) lead to an obligation of the Issuer to redeem such Sustainability Instruments or be a relevant factor for the Issuer in determining whether or not to exercise any optional redemption rights in respect of any Sustainability Instruments.

Any such event or failure and/or withdrawal of any opinion or certification as described above or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Securities no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value and marketability of the Sustainability Instruments and/or result in adverse consequences for Securityholders with

portfolio mandates to invest in securities to be used for a particular purpose. For the avoidance of doubt, it is however specified that payments of principal and interest (as the case may be) on the Sustainability Instruments shall not depend on the performance of the relevant project.

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

**Eligible Assets** means Assets which the Issuer is permitted to finance or refinance with proceeds from its Sustainability Instruments as further described in the Issuer's Sustainable Financing Framework

**Sustainability Instruments** means Securities whose applicable Final Terms provide that it will be the Issuer's intention to apply an amount equal to the net proceeds of the issue of such Sustainability Instruments to finance or refinance, in whole or in part, the Issuer's investments in Eligible Assets as further described in the Issuer's Sustainable Financing Framework

**Sustainable Financing Framework** means a third-party certified framework developed by the Issuer which will be, as amended or supplemented from time to time, available on the Issuer's website once Sustainability Instruments have been issued by the Bank.

## Selling Restrictions

Should certain Securities constitute ‘packaged retail investment products’ under the PRIIPs Regulation such Securities may not be offered, sold or otherwise made available to any retail investor in the EEA or the United Kingdom or in Iceland (following transposition of the PRIIPs Regulation), unless a key information document required under the PRIIPs Regulation has been prepared for the Security in question.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The Base Prospectus nor any advertisement or other offering material may not be distributed or published in any jurisdiction where such distribution would require any additional prospectus, registration or measures other than those required under Icelandic law and regulations, or otherwise conflict with regulations in such jurisdiction. Likewise, no Securities may be offered or sold, directly or indirectly in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Securities may come must inform themselves about and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Securities. The Issuer does not accept any legal responsibility for any violation by any person, whether or not a prospective purchaser of the Securities is aware of such restrictions. In particular, this Base Prospectus may not be sent to any person in the United States, Australia, Canada, Japan, Hong Kong, South Africa, Singapore or any other jurisdiction in which it would not be permissible to deliver the Securities and the Securities may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any of these countries

### *United States*

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and are subject to U.S. tax law requirements. Subject to certain exceptions, the Securities may not be offered, sold or delivered within the United States or to a U.S. person.

The Issuer and any applicable Dealers reserve the right to reject any offer to purchase the Securities, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

### *EEA and United Kingdom*

#### *Prohibition of Sales to EEA and United Kingdom Retail Investors*

The Issuer and any Dealers appointed under the Programme will be required to represent and agree, that they have not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

- a. the expression **retail investor** means a person who is one (or more) of the following:
  - i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or
  - ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - iii) not a qualified investor as defined in the Prospectus Regulation; and
- b. the expression **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Securities.

Further, in relation to the United Kingdom, the Issuer and any Dealers appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Securities 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 Securities 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 Securities would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Securities in, from or otherwise involving the United Kingdom

### ***General***

These selling restrictions may be modified by the agreement of the Issuer and any Dealers appointed under the Programme following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Securities to which it relates or in a supplement to this Base Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of Securities, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

The Issuer and any Dealers appointed under the Programme have and will agree that they shall, to the best of their knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which they purchases, offer, sell or deliver Securities or have in their possession or distribute the Base Prospectus, any other offering material or any Final Terms therefore in all cases at their own expense.

## The Issuer

### About the Issuer

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Legal name:	Kvika banki hf.
Commercial name:	Kvika
Address:	Katrínartún 2, 105 Rvk, Iceland
Reg. No.:	540502-2930
Legal form:	A public limited company established under the Act on Public Limited Companies no.2/1995
Domicile:	Iceland
Date of incorporation:	7 May 2002
Ticker symbol with Nasdaq Iceland:	KVIKA
ISIN-number:	IS0000020469
LEI:	254900WR3I1Z9NPC7D84
Website:	<a href="http://www.kvika.is">www.kvika.is</a> <sup>3</sup>
E-mail:	<a href="mailto:kvika@kvika.is">kvika@kvika.is</a>
Phone number:	+ 354 540 3200

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### The Issuer's Purpose

According to Article 1.4. of the current Articles of Association of Kvika at the date of this Base Prospectus, dated 16 April 2021, the purpose of the Company is to provide financial services. The Company is authorised to engage in those operations which financial undertakings are permitted to carry out in accordance with the law and the Company's operating license as well as normal operations in relation thereto. The Company is authorised to achieve its objectives through establishment and operation of subsidiaries as well as other participation and ownership of companies, compatible to its operations.

### History and Development

Kvika traces its roots back to 1999 when MP Verðbréf hf. was established. MP Verðbréf hf. was granted an investment banking license in Iceland in 2003, following which the name was changed to MP Fjárfestingarbanki hf. In 2008 MP Fjárfestingarbanki hf. was granted a commercial banking license in Iceland.

In April 2011, a group of private investors purchased the Icelandic operations of MP Fjárfestingarbanki hf., which later got the name MP banki hf. In 2011, MP banki hf. acquired

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<sup>3</sup> Information on the website does not form part of the Base Prospectus unless that information is incorporated by reference into the document.

Alfa verðbréf hf., a licensed securities company. The merger of the two companies, under the name and registration number of the former, was approved by the FSA in March 2012. In 2015 MP banki hf. and Straumur fjárfestingabanki hf. merged, and the merged bank was renamed Kvika. Straumur fjárfestingabanki hf. was the only specialised investment bank in Iceland, focusing on capital markets, asset servicing, advisory and corporate finance.

In September 2017, Kvika acquired all shares in Virðing hf., a licensed securities company focusing on asset and fund management with ISK 100 billion of assets under management. Work began on merging the two companies immediately following the acquisition and was concluded on 17 November 2017.

In October 2017, Kvika acquired all shares in Alda sjóðir hf., a fund management company with ISK 44 billion of assets under management. At the end of May 2018, Alda sjóðir hf. and Kvika's subsidiary Júpíter merged under the name and registration number of the latter. In March 2019 the Group acquired all shares in GAMMA, a fund management company with ISK 135 billion of assets under management at year-end 2018. GAMMA is held as a subsidiary.

In June 2020 Kvika announced the expansion of its asset management operations in the UK as KKV Investment Management Ltd. (Hereafter "KKV"), a subsidiary of Kvika Securities, Kvika's UK subsidiary, reached an agreement to provide investment management services to British secured loan fund SQN Asset Finance Income Fund. The fund has net assets of £390 million, equivalent to ca. ISK 70 billion and is listed on the London Stock Exchange. KKV is a newly established investment manager specialising in direct lending and alternative credit, which operates as an independent subsidiary of KSL.

On August 31 2020 the Bank announced that its request to merge Kvika's asset and fund management operations in a single subsidiary, i.e. the fund management company Júpíter, had been approved by supervisory authorities. In tandem with these changes, the company's name was changed from Júpíter rekstrarfélag hf. to Kvika eignastýring hf. (e.Kvika Asset Management) and those employees who worked in asset management at Kvika were transferred to KES together with the projects which comprised KES's operations. Following these changes, KES became one of the largest asset and fund management companies in Iceland.

In January 2021 Kvika completed the acquisition of subsidiary Netgíró, which has developed an advanced credit rating system and offered its customers "buy now pay later" services. Further, in March 2021 Kvika completed the acquisition of subsidiary Aur, which has been a leading fintech player in Iceland with its mobile payments and innovative approach to consumer lending. The acquisitions are in line with Kvika's policy of utilising technological solutions to modernize financial services.

In November 2020 the Boards of Directors of Kvika banki hf., TM hf. and Lykill fjármögnun hf. approved the merger of the three companies and on 30 March 2021 all conditions of the merger agreement were satisfied and the companies merged under the name, LEI and ID no. of Kvika.

## **Merger with TM hf. and Lykill**

### ***The transaction***

In November 2020 the Boards of Directors of Kvika banki hf., TM hf. and Lykill fjármögnun hf. signed a merger agreement and on 30 March 2021 all conditions of the merger agreement were satisfied and the companies merged under the name, LEI and ID no. of Kvika. The merger is with effect from 1 January 2021, which is the first day of operation of the merged company. Therefore, the rights and obligations of TM hf. and Lykill shall be deemed to have expired as of 1 January 2021, from which time Kvika took over all the rights and obligations of TM hf. and Lykill.

Upon the merger, TM hf's shareholders received shares in Kvika in exchange for their shares in TM hf., payment of which was made by issuing new share capital. TM hf. and Lykill were dissolved without settlement of debts and completely merged with Kvika (merger with takeover) in accordance with Article 119 of Act no 2/1995 on Public Limited Companies. Prior to the merger, TM hf. transferred its insurance operations to its subsidiary, TM tryggingar hf. (also referred to as TMT). TMT subsequently became a subsidiary of the merged company and Lykill's operations were incorporated into Kvika's banking segment. TMT owns TM líftryggingar hf. and Íslensk endurtrygging hf., which will all become subsidiaries of Kvika following the merger. LÝS-2 ehf., LÝS-3 ehf., Lýsing ehf. and Kvakkur ehf. will also become subsidiaries of Kvika following the merger.

The board of directors will remain unchanged immediately after the merger. The next election to the board of directors will take place at the Issuer's Annual General Meeting, to be held on 21 April 2021.

### ***The merged company***

The merged company is a well capitalized entity with a broad revenue base, able to offer its customers a wide range of services in all major areas of financial and insurance services. As a result of the merger, the Issuer's balance sheet has expanded, with the Issuer taking over Lykill's operations and acquiring the subsidiaries of TM hf., including TMT which continues to operate as an insurance company post-merger.

Kvika continues to serve as a specialized bank, however the Bank's loan book and customer base has expanded through the acquisition of Lykill's loan portfolio and its authorisation for financial leasing, strengthening Kvika's position in the retail market and diversifying its risks. Additionally, Lykill's services are similar to those currently provided by Kvika and will therefore not alter the Bank's business significantly.

The purpose of the merger of the three companies was to increase their strength in the Icelandic financial market while at the same time increasing the profitability of the merging parties' operations. The merged company stands on solid foundation and is able to provide its customers a wide range of products and has strengthened its infrastructure in terms of human resources, expertise, experience, etc.

### ***Merger documents***

In preparation for the merger, Kviká, TM hf., Lykill and their respective boards of directors prepared and issued a merger document containing, among other, a merger balance sheet and auditor reports thereon. The merger balance sheet and auditor reports thereon have been incorporated in the Base Prospectus by reference and may be accessed on the Issuer's website, under the following link:

*<https://www.kvika.is/asset/4153/samrunagogn-fullundirritad-23.02.2021-en-uppfaert.pdf>*

The merger balance sheet, showing the joint balance sheet of the three entities as at 31.12.2020, was prepared on the basis of Kviká, TM hf. and Lykill's audited financial statements for the year 2020 for illustrative purposes only and the hypothetical financial position included in the merger balance sheet may differ from Kviká's actual financial position or results.

Further, two reports were prepared with reference to article 122 of the Act on Public Limited Companies No. 2/1995 in relation to the proposed merger of Kviká, TM hf. and Lykill. One report was prepared by Ernst&Young at the request of the Board of Directors of Kviká and the other by KPMG at the request of the Boards of Directors of TM and Lykill.

The report by Ernst&Young states, among other, that Ernst&Young confirm as provided for in the fifth paragraph of Article 122 of Act No 2/1995, on Public Limited Companies, that the proposed merger of Kviká, TM hf. and Lykill will not reduce the possibilities of Kviká's creditors to obtain fulfilment of their claims.

Similarly, the report by KPMG states, that with reference to paragraph 122 of Act No. 2/1995, it is their assessment that the merger of the companies will not prejudice the creditors' possibilities of enforcing claims which they hold on the companies. The assets of the merged company must be considered fully sufficient to cover its debts on the date of the merger.

Both reports have been incorporated into the Exemption Document by reference, and may be accessed on the Issuer's website, under the following link:

*<https://www.kvika.is/asset/4153/samrunagogn-fullundirritad-23.02.2021-en-uppfaert.pdf>*

All aforementioned reports are included in the Base Prospectus with the consent, for the purpose of the prospectus, of the applicable expert. See chapter Important information, Expert's statement or report.

On 31 March 2021 Kviká published a prospectus exemption document in connection with a takeover by means of merger, which describes the merging entities and the transaction. The document, which can be accessed on the Issuer's website, does not form a part of this Base Prospectus.

## Business Overview

### Competitive Environment

The Icelandic banking sector is highly concentrated with three large banks Arion banki hf., Íslandsbanki hf. and Landsbankinn hf., all of which are defined as domestic systemically important banks.

The structure of the financial system has changed in recent years as the Icelandic banking sector has seen increasing competition from less regulated financial institutions i.e. shadow banking system. This includes and is not limited to, pension funds (not as defined by the Central Bank of Iceland), management companies of Undertakings for the Collective Investment in Transferable Securities (“UCITS funds”) and other unregulated entities. For example, specialised fund vehicles are often able to offer better terms for loans and other unregulated entities are offering unsecured loans for the retail market in competition to overdraft facilities. Icelandic pension funds have expanded their share in the retail mortgage lending market, and with the recent increase in employer contributions, this trend is likely to continue.

While the Icelandic investment banking market is small in comparison to European and other international markets, several local competitors actively participate in various corporate banking, corporate finance, capital markets and asset management activities. Main participants include the investment banking divisions of the three large banks as well as Kvika and several boutique firms such as Arctica Finance, Fossar Markets, Íslensk Verðbréf hf. and others.

Similarly, the Bank's subsidiary TMT operates in the Icelandic insurance market in which four local competitors, including TMT, actively participate in retail and corporate insurance activities. Additionally, some foreign insurance companies operate branches in Iceland, mainly promoting health-, accident- and life insurance.

### General Overview

Kvika is a specialised bank which offers its customers a wide range of services in all major areas of financial and insurance services through the Group's operations. The Group places emphasis on developing long-term partnerships with customers through responsive and versatile services. Kvika is licensed to operate as a commercial bank under the Act on Financial Undertakings.

#### *Targeted range of services*

The Group focuses on specific groups and customers, emphasising exceptional, tailor-made services. The Group's size enables it to adapt to its environment with the aim of maintaining profitability and customer service. The Group is prepared to make use of its infrastructure and balance sheet to generate income, e.g. by utilising its loan processes to loan in tandem with other lenders.

- Banking finances enterprises and the investments of the Bank's customers. Banking also makes use of the Bank's expertise and network to broker loans to other institutional investors.
- Capital Markets offers customers comprehensive securities brokerage and foreign exchange market services.

- Corporate Finance provides various types of advisory services in connection with investments and financing. The principal focus is on corporate acquisitions and divestments, as well as initial public offerings.

Further, the Issuer's asset management subsidiary KES emphasises offering the Group's customers a broad range of services for investing in Iceland as well as in global markets, aiming to provide the best asset and fund management services, guided by customers' long-term interests. Subsidiary TMT provides a range of insurance services to individuals and companies in Iceland with a focus on providing excellent service, with a focus on digital solutions and subsidiary Kvika Securities Ltd. provides services in the UK.

The Group employs a tight-knit team of experts who achieve success on the basis of their diverse educational backgrounds, in-depth knowledge, extensive experience, and dedication to meeting customers' needs. Kvika's CEO is Marinó Örn Tryggvason and the chairman of the Board is Sigurður Hannesson.

The Bank is currently listed on the Regulated Market of Nasdaq Iceland. The Bank has also issued several bills and bonds that have been admitted to trading on the Regulated Market of Nasdaq Iceland.

### Organisational structure

The Issuer's organisational chart can be seen below in Figure 1.

The Issuer's organisational chart can be seen below in Figure 1. The Bank defines three reportable segments, based on the same principles and structure as internal reporting to executive management and the board of directors.

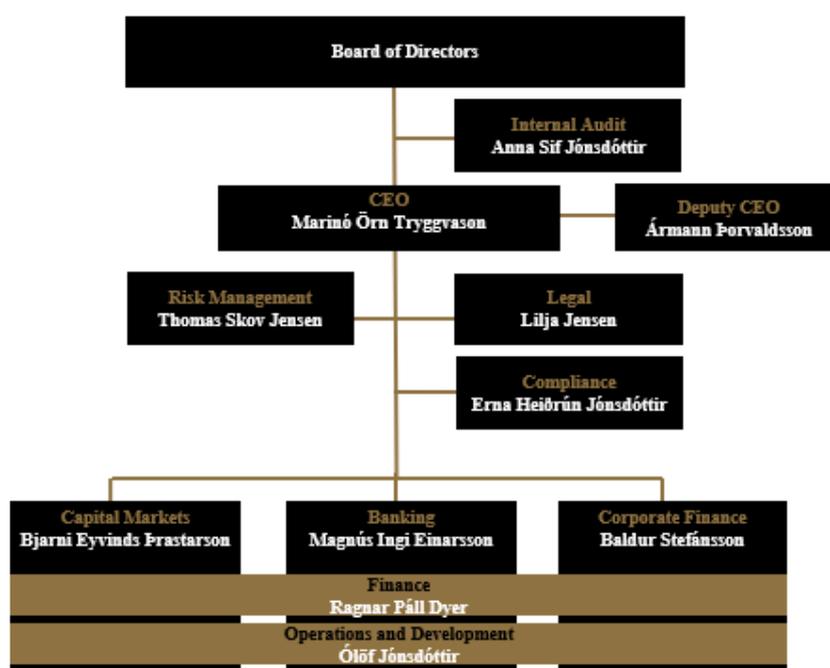


Figure 1: Kvika's organisational chart

Further, the Group's organisational chart can be seen below. On 31 March 2021, the Group employed 301 full-time employees.

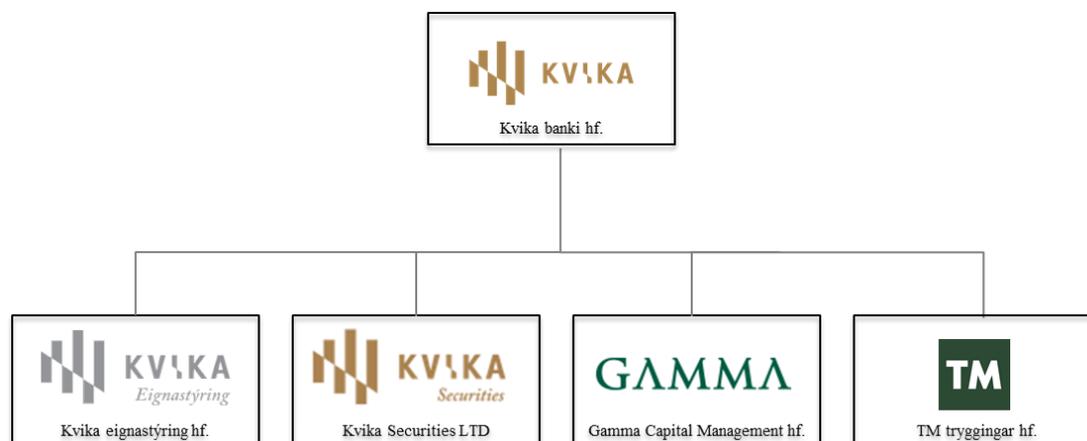


Figure 2: The Group's organisational chart

The Issuer is the parent company of the Group and owns several subsidiaries. Subsidiaries held directly or indirectly by the Group are listed in the table below:

Entity	Nature of operations	Domicile	Share 31.12.2020	Share 31.3.2021
FÍ Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf.	Fund management	Iceland	100%	100%
Kvika eignastýring hf.	Fund management	Iceland	100%	100%
M-Investments ehf.	Holding company	Iceland	100%	100%
Netgíró reikningar ehf.	Holding company	Iceland	100%	100%
Netgíró lán ehf.	Holding company	Iceland	100%	100%
Netgíró lán II ehf.	Holding company	Iceland	100%	100%
Rafklettur ehf.	Holding company	Iceland	100%	100%
AC GP 3 ehf.	Fund management	Iceland	80%	80%
Kvika Securities ltd.	Business consultancy services	UK	100%	100%
Netgíró hf.	Financial services	Iceland	20%	100%
Aur app ehf.	Financial services	Iceland		100%
Íslensk endurtrygging hf.	Insurance operations	Iceland		100%
TM líftryggingar hf.	Insurance operations	Iceland		100%
TM tryggingar hf.	Insurance operations	Iceland		100%
LÝS 2 ehf.	No operations	Iceland		100%
LÝS 3 ehf.	No operations	Iceland		100%
Lýsing ehf.	No operations	Iceland		100%
Kvakkur ehf.	No operations	Iceland		100%

Table 1: Group Subsidiaries

The following subsidiaries have been classified by the Issuer as significant subsidiaries. Though varying in their financial contribution to the Issuer, any reputational or other difficulties in their operations can also negatively affect the Issuer. The Issuer is therefore partially dependent on the successful operations of these subsidiaries.

### ***GAMMA Capital Management hf.***

GAMMA is a UCITS management company, licensed under the Act on Financial Undertakings and the Act on UCITS, Investment Funds and Professional Investment Funds which operates funds mainly focused on real estate and alternative investments.

### ***Kvika Securities Ltd.***

Kvika Securities Ltd. is a UK subsidiary. KSL is regulated in the United Kingdom by the Financial Conduct Authority and is authorised to manage alternative investment funds and provide asset management and corporate finance services. Kvika Advisory Ltd. is a subsidiary of KSL, acquired through the Bank's acquisition of GAMMA in 2019. Kvika Advisory Ltd. is regulated in the United Kingdom by the Financial Conduct Authority and is authorised to provide corporate finance services. Further, KKV Investment Management Ltd. is a subsidiary and appointed representative of KSL, founded in 2020. KKV is an alternative credit investment manager focusing on collateralised, non-correlated, income-producing investments.

### ***Kvika eignastýring hf.***

Kvika eignastýring hf., also referred to as KES, is an asset and fund management company. KES is a UCITS management company, licensed under the Act on Financial Undertakings and the Act on UCITS and holds a license to operate as manager of alternative investment funds in accordance with the provisions of Act No. 45/2020, on Alternative Investment Fund Managers. Additionally, KES has an operating license under Act No. 161/2002, on Financial Undertakings, which also covers asset management, investment advice, custody and administration of unit shares of funds for collective investment, as well as the receipt and brokering of orders regarding financial instruments.

### ***TM tryggingar hf.***

Subsidiary TM tryggingar hf. is an Icelandic insurance company that offers comprehensive insurance services in Iceland as well as offering limited insurance services abroad in the field of marine and property insurance. TMT operates according to Act No. 100/2016 on Insurance services. The company operates in accordance with Act no. 100/2016 on insurance activities and is licensed in the European Economic Area and in the Faroe Islands.

## **Principal Activities**

### ***Capital Markets***

Kvika Capital Markets offer full-service brokerage in the Icelandic equity, fixed income and foreign exchange markets. It offers professional advice and personal service designed to meet the needs of both retail and institutional customers and seeks to deliver leading market insight and execution.

Kvika Capital Markets trades in equities, bonds and currency on all principal international markets. Moreover, capital markets trade in options and total return swaps, forward contracts on securities and foreign exchange contracts with its customers.

### ***Corporate Finance***

The Corporate Finance team offers a wide range of value-adding investment banking services focused on acquisitions, divestments and mergers, financing and financial restructuring, listings

and delisting of equities and bonds, as well as various other balance sheet related advisory such as strategic reviews of securities and businesses.

Corporate Finance also offers diverse services to listed companies and companies seeking to list on a regulated stock exchange, such as managing initial public offerings, share capital increases and floating. Detailed preparation and grooming, as well as thorough planning, are essential for a successful listing. The approach of Kvika's Corporate Finance includes independent advice with the aim of ensuring the best possible strategy for its customers.

## ***Banking***

The Banking division finances enterprises and the investments of the Bank's customers. The division also makes use of the Bank's expertise and network to sell or syndicate loans to other institutional investors.

The Banking division can be divided into three main areas of operations: deposit and banking services, financing operations and vehicle and equipment lending under the brand Lykill. In addition, the division also manages the Bank's unlisted assets. The focus is on creating returns on the Bank's capital and fees and commissions from servicing its customers, many of who are also customers of other business units.

### *Deposit and banking services*

Banking's deposit and banking service arm offers a range of private banking services to high net worth individuals, businesses and market participants. The Bank accepts deposits and offers competitive interest rates. The Bank's ambition is to create a long-lasting and personal relationship with its customers. Kvika's deposits from customers have been steadily growing for the last two years, largely due to new deposit product offerings such as the online deposit platform Auður. Deposits from customers amounted to 59.9 billion at year end 2020 (2019:51.5 billion). The vast majority of deposits are in ISK as FX deposits account for less than 15% of total deposits with USD and EUR accounts historically making up the majority of that.

### *Financing operations*

Banking's financing arm provides financing to the Bank's customers. The Bank prides itself in offering bespoke financing solutions, including project financing, portfolio financing, bridge lending, mezzanine lending and wholesale funding for fintech solution providers. Further, Kvika acts as lead lender in syndicated loans to satisfy the need of larger corporates. Emphasis is placed on short-term financing, where the maturity of loans generally does not exceed 24 months.

The Banking division has diversified its loan book over the last few years. This has mainly been done by providing wholesale funding to fintech service providers that supply individuals with short-term consumer credit. The end-borrowers that have been reached through these channels now exceed 12 thousand and represent the bulk of the Bank's unsecured loans.

At the same time, the loan book duration has been gradually decreased to better match the Bank's funding profile and mitigate risk. In addition, shorter maturity has resulted in a higher proportion of fees from the lending activity.

The Bank's loan book has remained relatively stable in size over the last two years, with total loans amounting to approximately ISK 30 billion. The composition of the book has been fairly static, over the last few years it has consisted of mainly non-CPI-linked ISK loans (80-83%), with CPI-linked loans hovering around 10% and FX loans between 5-11%. EUR loans have accounted for a majority portion of the Bank's FX loans, though GBP was the leading currency at year-end 2020.

### ***Lykill***

At 30 March 2021 Lykill fjármögnun hf. merged with Kvika banki and became a part of Kvika's banking operations. Lykill offers mainly lease contracts and loans to individuals and companies to finance cars, heavy machinery and other equipment. Main products are car loans, hire purchase agreements and operating lease agreements. Lykill's loan portfolio amounted to approximately ISK 40 billion as at year end 2020.

### ***Innovation***

Auður is the Bank's online financial service offering savings accounts platform which offers competitive deposit rates. By automating processes and offering limited services it is possible to keep costs at a minimum and thus provide customers with better rates than are currently available in the market. Auður's online platform is based on self-service, thus no contact with staff or physical offices is required. In 2020 Auður launched new term deposits, offering higher interest than the on demand deposits, that have been well received by Auður's clients. Similarly, Kvika operates the online platform Framtíðin, which offers bridge- and additional lending to individuals purchasing real estate. The latest addition to Banking's product offering are vehicle and equipment loans under the Lykill brand.

## **Management and Corporate Governance**

### ***Compliance with Corporate Governance***

Kvika is obliged to implement recognised guidelines on Corporate Governance under Article 54 of the Act on Financial Undertakings no. 161/2002. Kvika complies with the Guidelines on Corporate Governance, 5th edition, published in May 2015 by the Chamber of Commerce, Nasdaq Iceland and the SA Confederation of Icelandic Enterprise in most respects. Kvika has not appointed a nomination committee. This is the Bank's only deviation from the aforementioned guidelines. The Bank's annual general meeting, held on 14 March 2019, accepted to trust the board of directors with the task to assess the benefits and disadvantages of appointing a nomination committee, consult with shareholders on the matter and form a proposal if deemed appropriate. At the Bank's annual general meeting, held on 26 March 2020 the chairman of the board informed the meeting of the board's findings, which concluded that a nomination committee would not be beneficial for the Issuer at this time.

In 2018 the Bank completed a corporate governance assessment process resulting in an award from the Centre for Corporate Governance in Iceland for exemplary corporate governance in 2018-2019. The award is valid for three years as long as there are no material changes in ownership or the board of directors of the Bank. The board of directors intends to have such an assessment carried out on a regular basis and maintain the aforementioned award.

A statement on the corporate governance practices of Kvika is reviewed and agreed upon annually by the board of directors and is accessible on the Issuer's website.

### ***Internal control, risk management and accounting***

Kvika's risk policy and risk appetite are regularly reviewed and approved by the board of directors. The board is also responsible for ensuring that an active system of internal controls is in place. The board defines the risk factors that the Bank has to address, including their nature and extent. Furthermore, the board also defines remedial actions for the risks in question. The implementation and execution of the internal control rests with the Bank's managing directors along with control units, i.e. Risk management, Compliance and Internal Auditor. The board hires an internal auditor. The board further agrees to an audit plan for each year. The CEO hires a compliance officer, with the approval of the board. The reports and findings of the Internal Auditor and of the Compliance Officer are presented directly to the board.

The Bank's internal control is built on risk assessment and control measures, which are intended to minimise the risk that exceeds the approved risk appetite of the Bank. A part of internal control entails formal working procedures, which the internal supervisory units verify compliance to.

The board has implemented a risk policy for the Bank, for a focused and effective risk management and in order to enhance transparency in the Bank's risk taking at management level, from the board to the operational units and individuals that directly participate in the daily operations and decisions involving any risk taking.

The Bank's Finance & Operations division is responsible for preparing the Bank's annual account in accordance with International Financial Reporting Standards. The account is audited by the Bank's external auditors, Deloitte.

The CEO reports directly to the board when verifying the effectiveness of internal control and risk management regarding the annual account. Internal Audit and Risk Management are meant to prevent any deficiencies in the accounting process.

The board regularly verifies the effectiveness of internal control and risk management in the Bank.

### ***The Board of Directors***

The Issuer's Board of Directors consists of five main members and two alternate members, who are elected annually, at the annual general meeting. The election term of members of the Board is therefore until the next annual general meeting. The eligibility of members of the Board shall be subject to statutory law. In accordance with the Bank's Equality Policy, when electing the Board of Directors, care is taken to ensure at least 40% representation of each gender among board members and alternates.

The Board of Directors constitutes the supreme authority in the affairs of the Company between shareholders' meetings. The main duties of the Board entail supervising the operations of the Bank and ensuring that they are continuously in good order. The Board shall also ensure that the Bank's financial matters, including the financial reporting practices are diligently supervised. The Board shall make operational plans according to the Bank's purpose as set out in its articles

of association and form a policy to achieve set goals. The Board hires the CEO of the Bank and supervises his work.

The Board of Directors consists of the following members:

**Sigurður Hannesson, Chairman of the Board of Directors**

Borgartún 36, 105 Reykjavík, Iceland

Sigurður Hannesson was born in 1980 and is currently the Director General of the Federation of Icelandic Industries. Sigurdur holds a DPhil degree in mathematics from the University of Oxford, a BS degree in mathematics from the University of Iceland and is a certified securities broker. From 2013-2017, Sigurdur worked as a managing director of Kvika asset management (previously MP Bank). In 2015, Sigurdur was the Vice-Chairman of the Government Task Force on lifting of capital controls and in 2013 the Chairman of the Expert Group on household debt relief. From 2010-2013, Sigurdur worked as CEO of Jupiter fund management company, now a subsidiary of Kvika, and in Capital Markets at Straumur Investment Bank in 2007-2010. Sigurður holds shares in the Bank, either personally or through a holding company or other third party, but does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

**Guðmundur Þórðarson, Deputy Chairman of the Board of Directors**

Carrer dels Cavallers 41, 08034 Barcelona, Spain

Guðmundur Þórðarson was elected to the Board in March 2017. He graduated from the University of Iceland with a business degree, cand. oecon., in 1997. Guðmundur has focused on managing his own investments since 2007. A party, financially connected to Guðmundur holds shares in the Bank.

**Inga Björg Hjaltadóttir, Board member**

Suðurlandsbraut 4, 108 Reykjavík, Iceland and Borgartún 25, 105 Reykjavík, Iceland.

Inga Björg Hjaltadóttir was elected to the Board in April 2013. She is a member of Kvika's audit and remuneration committees. She graduated from the University of Iceland in 1995 with a law degree and is a licensed attorney. Inga is one of the founders of the consulting firm Attentus Human Resources where she is a partner, CEO and has worked there since 2007, while also working as an attorney and partner at Reykjavik Law Firm from 2016. Inga does not own shares in the bank and she does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

**Guðjón Karl Reynisson, Board member**

94 Rusthall Avenue, W41BS, London, United Kingdom

Guðjón was elected to the board of directors of the Bank in March 2018. He was born in 1963. He is currently an independent active investor and non-executive board member. Guðjón holds shares in the Bank, either personally or through a holding company or other third party, but does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

**Hrönn Sveinsdóttir, Board member**

Hrauntunga 20, 200 Kópavogur, Iceland

Hrönn Sveinsdóttir was elected to the Board in March 2017. She graduated from the University of Iceland with a business degree, cand. oecon in accounting and finance in 1992. Hrönn is currently self-employed. Hrönn worked for Sýn hf. 2005-2019 as Chief financial and operating officer. Hrönn holds shares in the Bank, either personally or through a holding company or other third party, but does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

**Albert Þór Jónsson, Alternate Board member**

Hlíðarhvamur 8, 200 Kópavogur, Iceland

Albert Þór Jónsson was elected to the Board in March 2019. Albert Þór graduated with a business degree, cand. oecon from the University of Iceland in 1986 and MCF (Master of Corporate Finance) from the University of Reykjavík in 2014. Albert is a Certified Stock Broker and Certified Real Estate Broker. Albert Þór has worked independently in finance from 2008. Albert does not own shares in the bank and she does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

***Sub-Committees of the Board of Directors***

According to the Issuer's Articles of Association at the date of this Prospectus, dated 28 May 2020, the Board shall appoint a Risk Committee, an Audit Committee and a Remuneration Committee for the Company no later than one month after the Company's annual general meeting. The Board shall appoint at least three individuals for membership of each committee, thereof at least two Board members. It is not permitted to appoint employees of the Company to any committee. Members shall have the necessary experience and knowledge for each committee's tasks according to applicable laws and rules. All sub-committees have incorporated procedural rules that shall be confirmed by the Board.

**Risk Committee**

The Risk Committee of the Bank is intended to perform a consultative and supervisory role for the Bank's Board of Directors, including for the formation of the Bank's risk policy and risk appetite. The Risk Committee supervises the arrangement and activity of risk management, credit risk, market risk, liquidity risk, operational risk, reputational risk and other risk as applicable.

The purpose of the Risk Committee is to serve in accordance with Icelandic law and rules and good corporate governance. The Risk Committee is appointed by the Board of Directors in accordance with article 78 of the Act on Financial Undertakings. The Board shall appoint at least three individuals for membership, thereof at least two Board members. The committee is composed of Guðmundur Þórðarson, who is the chairman of the committee, Sigurður Hannesson and Sigríður Mogensen.

**Audit Committee**

The Audit Committee of the Bank is intended to perform a consultative and supervisory role for the Bank's Board of Directors, including to ensure the quality of the annual accounts and other financial information of the Bank and the independence of the Bank's audit. The Audit

Committee monitors the work process for the preparation of financial statements, the functioning of internal controls as well as internal and external auditing.

The purpose of the Audit Committee is to operate according to Icelandic law and rules and good corporate governance. The Audit Committee is appointed by the Board of Directors in accordance with chapter IX. A of the Act no. 3/2006 on Annual Accounts. The Board shall appoint at least three individuals for membership, thereof at least two Board members. The committee is composed of Hrönn Sveinsdóttir, who is the chairman of the committee, Inga Björg Hjaltadóttir and Hafdís Böðvarsdóttir.

#### **Remuneration Committee**

The Remuneration Committee of the Bank is intended to perform a consultative and supervisory role for the Bank's Board of Directors in connection with the Bank's remuneration and to ensure they support the objectives and interests of the Bank.

The purpose of the Remuneration Committee is to operate in accordance with Icelandic law and rules and good corporate governance. The Remuneration Committee is appointed by the Board of Directors in accordance with the Guidelines on Corporate Governance, cf. also Paragraph 7 Article 54 of the Act on Financial Undertakings. The Board shall appoint at least three individuals for membership, thereof at least two Board members. The committee is composed of Guðjón Reynisson, who is the chairman of the committee, Sigurður Hannesson and Inga Björg Hjaltadóttir.

#### ***Executive Management***

The Executive Management comprises the CEO, deputy CEO and five managing directors.

#### **Marinó Örn Tryggvason, CEO**

Borgartúni 25, 105 Reykjavík, Iceland

Marinó Örn Tryggvason joined Kvika as Deputy CEO in August 2017 and became CEO on May 27 2019. Prior to joining Kvika, Marinó worked at Kaupthing Banki from 2002 to 2008. At Kaupthing Marino was Head of Institutional Asset Management from 2007. From 2008 to 2017 Marino worked at Arion banki hf. Marinó served as Deputy Managing Director of Asset Management at Arion banki hf. from 2014 until 2017 and as Head of Asset Management of Institutional Asset Management from 2008 until 2017. Marinó sat on the Board of Vörður Tryggingar from 2016 to 2017. Marinó holds a B.Sc. business degree from the University of Iceland and is a certified securities broker. Marinó holds shares in the Bank as well as warrants issued by the Bank.

#### **Ármann Þorvaldsson, Deputy CEO**

Borgartúni 25, 105 Reykjavík, Iceland

Ármann Þorvaldsson joined Kvika as CEO in June 2017 and became Deputy CEO on 27 May 2019. He has worked in the financial markets for over twenty years. From 1997 until 2005, he was Head of Corporate Finance at Kaupthing and, from 2005 to 2008, he was CEO of Kaupthing Singer & Friedlander in London. He then went on to work at Ortus Secured Finance in London until 2015 when he joined Virðing. He was the head of Virðing's Corporate Finance division before joining Kvika. Ármann has an MBA degree from Boston University and a BA degree in history from the University of Iceland. Ármann holds shares in the Bank as well as warrants issued by the Bank.

**Ragnar Páll Dyer, Managing Director of Finance**

Borgartúni 25, 105 Reykjavík, Iceland

Ragnar Páll Dyer joined the Kvika Group in 2010 and was appointed Managing Director of Jupiter Capital Management in 2013. He was then appointed Managing Director of Finance and Operations at Kvika in 2019. Mr. Dyer started his career in the financial sector in 2007. Before he joined Kvika he served as a fund manager and a partner of Teton Investments and at Straumur Investment bank as a broker and specialist in interest rates and derivatives. Mr. Dyer has completed the Stanford Executive Program from Stanford University, holds a B.Sc. degree in Engineering Management from the University of Reykjavík and is a licensed securities broker. Ragnar holds shares in the Bank as well as warrants issued by the Bank.

**Ólöf Jónsdóttir, Managing Director of Operations and Development**

Borgartúni 25, 105 Reykjavík, Iceland

Ólöf joined Kvika in March 2021 as managing director of operations and development. She was previously CEO of Lykill fjármögnun hf., before which she was Director of Business Operations and Strategic Management and later Director of Financial Technology for Kvika bank, Ólöf has over 15 years of experience in financial markets, she has a B.Sc. degree in mechanical engineering from the University of Iceland and an M.Sc. degree in Operations Research from the London School of Economics. Ólöf holds warrants issued by the Bank.

**Lilja Jensen, General Counsel**

Borgartúni 25, 105 Reykjavík, Iceland

Lilja Jensen has worked for Kvika and its predecessor since 2012 and as General Counsel since 2015. Prior to that, Lilja worked for LOGOS legal services, intermittently from 2008 to 2012 along with law studies and following graduation. Prior to legal work, Lilja worked as a nurse at the National University Hospital of Iceland and Eir nursing home. Lilja holds a BSc degree in nursing from the University of Iceland, BA and ML degree in law from Reykjavik University and is licensed to plead cases before the district courts of Iceland. Lilja holds shares in the Bank as well as warrants issued by the Bank.

**Bjarni Eyvinds Prastarson, Managing Director of Capital Markets**

Borgartúni 25, 105 Reykjavík, Iceland

Bjarni Eyvinds joined Kvika (formerly MP banki) in July 2009, after serving as Senior Vice President of Equity sales in Straumur Investment Bank from 2007 to 2009. Prior to joining Kvika, he worked for Reykjavik Savings Bank, MP banki, Islandsbanki, and Straumur Investment Bank. He graduated from the George Washington University with a BBA degree in 2002 and is a certified securities broker. Bjarni holds shares in the Bank as well as warrants issued by the Bank.

**Magnús Ingi Einarsson, Managing Director of Banking**

Borgartúni 25, 105 Reykjavík, Iceland

Magnús Ingi Einarsson has over thirteen years' experience in the financial markets. He joined Risk Management at Kvika (then Straumur-Burdaras) in July 2006 and headed the Bank's credit risk division from 2009. He was Head of Risk Management and later Head of Treasury at Straumur Investment Bank from the bank's establishment until the end of 2014. He has served

as Managing Director of Finance and Operations from 2014-2019. In 2019 he was appointed the Managing Director of Corporate Banking (now Banking). He holds a B.Sc. degree in Mechanical Engineering from the University of Iceland and an M.Sc. degree in Mechanical Engineering from Virginia Tech. Magnús holds shares in the Bank as well as warrants issued by the Bank.

**Baldur Stefánsson, Managing Director of Corporate Finance**

Borgartúni 25, 105 Reykjavík, Iceland

Baldur Stefánsson joined Kvika in September 2017. He has over 20 years of experience in private equity and investment banking both in Iceland and internationally. Baldur joined Kvika through the acquisition of the Scandinavian investment bank Beringer Finance's Icelandic operations where Baldur was the Managing Director. Before joining Beringer Finance, Baldur was cofounder and Managing Partner at the financial service firm Arctica Finance for eight years and, prior to that, Senior Director at Landsbanki's International Investment Banking arm for five years. Baldur has led many complex cross-border and local Corporate Finance equity- and debt capital markets transactions in various sectors. Baldur studied economics and political science at the University of Iceland between 1992 and 1994 and graduated with an MBA degree from IESE in Barcelona in 2004. Baldur holds shares in the Bank as well as warrants issued by the Bank.

***Committees established by the CEO***

The CEO of the Issuer is responsible for the effective implementation of the risk policy through the corporate governance structure and committees. In that respect, the CEO has established three committees which are responsible for developing and monitoring risk management policies in their specified areas.

**Asset and Liability Committee (ALCO)**

ALCO supervises the management of the Bank's balance sheet, assets and liabilities, and strives to achieve the goals of profitability. This involves determining the most efficient division between returns and risk and allocating funds to the Bank's business units. The committee sets measurable profitability goals and strives to achieve them. The committee is composed of the CEO, the Director of Finance and Operations, the Head of Treasury and the Head of Risk Management. The deputy Head of Treasury attends committee meetings as an impartial observer and does not participate in the decision-making on individual decisions. However, the deputy Head of Treasury has the right to speak at committee meetings and has right to put forward motions.

**Credit Committee**

The Credit Committee addresses matters regarding the Bank's loan activities and is responsible for and makes decisions on the investments and sale of unlisted securities, and as regards other divisions than Treasury and Proprietary Trading, the investment and sale of unit share certificates in funds for collective investment. The committee is responsible for the approval of larger loans and is the primary forum for the discussion of the Bank's credit rules, including credit limits for relevant divisions of the Bank. The committee is composed of the CEO, the Managing Director of Corporate Banking, Managing Director of Finance and Operations and the General Counsel. The Head of Risk Management attends committee meetings as an impartial person and does not

participate in decision-making on individual lending or investments. The Head of Risk Management is authorised to speak at meetings and has a power to veto.

### **Operations Committee**

The Operations Committee is responsible for supervision and implementation of the Bank's security and quality policies. The security policy mainly addresses data security and operational security in IT systems, physical security for the personnel and proper access controls and monitoring the Bank's premises. The quality policy is aimed at upholding proper quality in work processes, IT systems and services to support performance and profitability, lower operational risk and increase the customer experience. The committee is composed of the Head of Business operations and strategic management, the Managing Director of Finance and Operations, the Head of Risk Management, the Head of Back Office and the Head of the IT department. The internal auditor, the Compliance Officer and the Office Manager attend committee meetings as observers.

### ***Potential Conflicts of Interest***

It should be noted that the Issuer itself will manage the admission of its Securities to trading on the Regulated Market of Nasdaq Iceland and has prepared the Base Prospectus. It could be argued that conflicts of interest may arise in such situations, but, in accordance with the statements made by Kvika in the chapter *Company's Statement*, the information in this Prospectus is, to the best of Kvika's and the CEO's and Deputy CEO's knowledge, factual and contains no omission likely to affect its import.

Many employees, who were originally employees of Kvika before the merger with TM hf. and Lykill, own shares in the Bank as well as warrants issued by the Bank. Similarly, members of the Issuer's Executive Management and members of the Board of Directors own shares in the Bank as well as warrants issued by the Bank as previously described. A number of these individuals have contributed to the preparation of this Base Prospectus and the admission of Kvika's Securities to trading. Aside from the aforementioned, neither the Board of Directors nor members of the executive management are aware of any other potential conflicts of interest between the duties of the members of the Board of Directors or members of the Executive Management to the Bank and their private interests or other duties.

The Bank has in place rules on measures against conflicts of interests, which are considered to include the Banks' policy on conflicts of interests which may be accessed on the Issuer's website.

## Financial information

The consolidated financial statements of Kvika, TM hf. and Lykill for the years 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and additional requirements in the Act on Annual Accounts. The consolidated financial statements comprise Kvika, TM hf. and Lykill respectively, as well as their subsidiaries as at 31.12.2020. The latest consolidated financial statements of Kvika, TM hf. and Lykill were all approved by the respective boards of directors on 17 February 2021 and cover the financial period of 1.1.2020-31.12.2020.

Consolidated financial statements of Kvika, TM hf. and Lykill for the last two financial years prior to the date of this Prospectus have been incorporated in the Base Prospectus by reference and may be accessed on the Issuer's website, under the following link:

<https://www.kvika.is/en/investor-relations/annual-reports/>

Consolidated financial statements incorporated by reference are also available on Nasdaq Iceland's website, see chapter *Important Information, Information incorporated by reference* above.

It should be noted that the Issuer's consolidated financial statements for the financial period of 1.1.2019-31.12.2020 do not reflect Kvika's merger with TM hf. and Lykill, which was completed on 30 March 2021. For a complete overview of the Issuer's financial position, it is recommended that investors review the complete consolidated financial statements of each merged entity, Kvika, TM hf. and Lykill, for the years 2020 and 2019 as well as the merger balance sheet, along with the audit reports thereto.

Deloitte has audited the Group's consolidated financial statements for the years ended 31.12.2020 and 2019 and reviewed the Group's condensed interim consolidated financial statements for the six months ended 30.6.2020 and 2019. Further, Deloitte and PwC have issued an auditor's endorsement of the Issuer's merger balance sheet. No other information in this Prospectus has been audited.

## Material changes since the Issuer's last published audited financial statements

### *Acquisition of Netgíró*

On 22 January 2021, the Bank announced that it has completed the acquisition of close to 80% of all shares in Netgíró hf. ("Netgíró") from Alva Capital ehf., following the signing of a Letter of Intent for the acquisition, which was announced on 16 July 2020. The Bank, which previously owned a stake close to 20% in Netgíró, is now the sole owner of the company. The acquisition of Netgíró is in line with the Bank's policy of utilising technological solutions to modernize financial services.

### *Acquisition of Aur*

On 19 March 2021, Kvika completed the acquisition of 100% share in Aur. Aur was established in 2015, offering simple and swift payment services and has in a short period of time built an extensive client base. At the end of February 2021, Aur had 90 thousand active users. The

company has been leading fintech player in Iceland with its mobile payments and innovative approach to consumer lending. The Bank expects that Aur, together with Netgíró and the fintech service Auður, will play a key role in the Bank's fintech services going forward.

### ***Merger with TM hf. and Lykill***

On 30 March 2021 Kvika completed a tripartite merger with insurance company TM hf. and TM hf's subsidiary Lykill, following approval from shareholders and supervisory bodies, a process that began in September 2020. Shareholders in TM hf. received shares in Kvika in return for their shares in TM hf. For further information on the merger with TM hf. and Lykill, see chapter *The Issuer, Merger with TM hf. and Lykill*.

### ***Material changes in the Issuer's borrowing and funding structure***

Kvika's funding largely consists of deposits from customers, borrowings, debt issuance and equity. Deposits from customers have proven to be stable and resilient and are expected to remain Kvika's primary funding source. For the past year Kvika has emphasized diversifying and increasing retail deposits by improved product offering and pricing to retail customers.

Borrowings consist mostly of money market deposits from professional investors with terms varying from one day up to one year as committed liquidity facilities. In the debt market Kvika has been issuing short term bills every 3 months in addition to issuing longer term debt, both subordinated and senior unsecured, for tenors up to 10 years.

As a result of the merger with TM hf. and Lykill, the Issuer's balance sheet has expanded, with the Issuer taking over Lykill's operations and acquiring TM hf's subsidiaries, including TMT. Following the merger, the Issuer expects that a larger portion of its funding will be longer term debt, both senior secured as well as senior unsecured.

Aside from the aforementioned, the Issuer's board of directors and executive management is not aware of any governmental, legal or arbitration proceedings, during the twelve months preceding the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on the Issuer's and/or the Group's financial position or profitability. Further, the Issuer confirms that aside from the aforementioned, no other significant change in the financial or trading position of the Group nor any material adverse change in the prospects of the Group has occurred since the end of the last financial period for which financial information has been published to the date of the Base Prospectus.

### **Financial position at year-end 2020**

Profit for the year amounted to ISK 2,273 million (2019: ISK 2,660 million), corresponding to an annualised 14.2% return on equity based on the equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. The Group's net operating income during the year was ISK 8,666 million (2019: ISK 7,426 million). Net interest income amounted to ISK 1,800 million (2019: ISK 1,776 million). Net fee income amounted to ISK 5,956 million (2019: ISK 4,804 million). Other operating income amounted to ISK 910 million (2019: ISK 846 million). Administrative expenses during the period amounted to ISK 5,724 million (2019: ISK 5,059 million).

The COVID-19 pandemic, and the uncertainty related to it, had a considerable impact on the Bank's operations and the global economy in general during 2020. The impact of the pandemic on the Bank falls into various categories, the most significant being increased operational complexity, lost opportunities and increased impairment of loans to customers. The pandemic caused operational complications, inconveniences and expenses as a result of restrictions on the number of employees that can share facilities at the same time. One positive effect of this is that the implementation of planned operational improvements was accelerated, especially in information technology. It is likely that the pandemic has caused some lost opportunities in lending and derivative contracts in particular. This effect has not been quantified and is possibly offset by opportunities that have arisen as a result of the pandemic, for example in asset management.

The expected economic impact of the pandemic is reflected in the economic scenarios that are used in the Expected Credit Loss calculation. Accumulated impairment due to expected credit losses in the loan portfolio has increased by approximately 40% since end of 2019. It is difficult to quantify exactly how much of this increase can be attributed only to the pandemic but in the Bank's opinion it is the greater portion of the increase. Economic measures by the Icelandic government have softened and delayed the impact of the pandemic. This means that borrower defaults which would otherwise have occurred already, have been delayed and possibly avoided. This is accounted for in the expected credit loss approach mandated in IFRS 9, meaning that while the Bank still expects to have to write off losses as the pandemic unwinds, these losses have already been reported in this year's income statement. Asset value has not been impacted to any large extent and consequently collateral quality is in general considered to have remained strong.

The Group's total capital ratio at 31.12.2020 is 28.3% (31.12.2019: 24.1%). The Bank's minimum regulatory capital requirement based on Financial Supervisory Authority's Supervisory Review and Evaluation Process (SREP) is 15.1%. In March 2020, the Central Bank of Iceland lowered the countercyclical capital buffer to zero. The minimum regulatory capital requirement including the additional capital requirements imposed following the implementation of CRD IV is 20.6% as at 31 December 2020.

The Bank maintains a strong liquidity position. The Bank's assets are liquid and its access to funding is good, reflected in ample liquidity position. At the end of December 2020 the Group's 30 day liquidity coverage ratio (LCR) was 266%, well above the minimum level of 100%.

### **Significant changes in the period**

On 19 November 2018, the Bank and the shareholders of GAMMA signed a sales and purchase agreement regarding the Bank's acquisition of all the share capital in GAMMA. The transaction was subject to approval from regulatory authorities and approval from Kvika's shareholders. In early March 2019 the final conditions were fulfilled and is GAMMA and its subsidiaries a part of the Group and the Consolidated Financial Statements from 1 March 2019.

## Share Capital and Shareholders

The Bank's issued share capital amounted to ISK 4,696,651,571 at the date of this Base Prospectus. Additionally, a share increase of ISK 10,066,666 has been approved due to an exercise of warrants. Once completed, the Bank's issued share capital will amount to ISK 4,706,718,237. The nominal value of shares issued by the Bank is ISK 1 per share or a multiple thereof. All currently issued shares have a nominal value of ISK 1 per share and are fully paid. The Company's share capital consists of one class of shares and each issued share carries equal rights according to the Company's Articles of Association. The ISIN number of the Shares is IS0000020469. The Shares' ticker symbol in the trading system of Nasdaq Iceland is KVIKA.

The Bank had 1,707 shareholders at 15 April 2021, none of which hold more than 10% of shares in the Bank. Pursuant to the Act on Financial Undertakings, the Bank is obliged to specify on its website the names and proportional holdings of all parties, and beneficial owners, owning more than 1% of share capital or guarantee capital in the Bank at any given time.

To the extent known to the Issuer, Kvika is not directly or indirectly owned or controlled by parties other than listed shareholders.

Apart from the issued warrants described in the chapter *Warrants* below, no other arrangements are known to the Issuer, the operation of which may at a subsequent date result in a change in control of the Issuer.

## Warrants

The Bank has issued warrants for shares in the total nominal amount of ISK 675,500,000. The number of owners of these warrants is 114 as of the date of the Base Prospectus and they purchased the warrants for a total consideration of ISK 234,157,500. The purchase price of the warrants was determined using market standard methodology and a valuation from an independent appraiser as applicable. Should the owners of the warrants exercise their warrants, the Bank is obliged to issue new shares and sell to the warrant owners at a predefined price, usually referred to as strike price. If all the warrants would be exercised, the Bank's share capital would increase to 5,046,153,255 and the newly issued shares would represent 6.73% of the Bank's total issued capital, post dilution. The maximum nominal amount of warrants issued to a single counterparty is ISK 14,666,667 which reflects 0.29% of total issued capital, post dilution.

# Undirritunarsíða

Marínó Örn Tryggvason

Ármann Harri Þorvaldsson