



Íslandsbanki hf.

(incorporated with limited liability in Iceland)

U.S.\$750,000,000

Global Medium Term Note Programme

This Supplement (the **Supplement**) to the Base Prospectus (the **Base Prospectus**) dated 8 May 2015, which comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (the **Prospectus Directive**), constitutes a supplement for the purposes of Article 16 of the Prospectus Directive and is prepared in connection with the U.S.\$750,000,000 Global Medium Term Note Programme under which Íslandsbanki hf. (the **Issuer**) may from time to time issue notes (the **Notes**). Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

The purpose of this Supplement is to (i) incorporate by reference into the Base Prospectus the unaudited reviewed consolidated financial statements of the Issuer for the six months ended 30 June 2015, (ii) update the “Significant or Material Change” statement, (iii) to update the composition of the Board of Directors of the Issuer, as set out in the Base Prospectus and (iv) to incorporate certain information regarding recent updates concerning re-capitalization of the Issuer. This Supplement has been approved by the Central Bank of Ireland as competent authority under the Prospectus Directive. The Central Bank of Ireland approves this Supplement as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive.

This Supplement is supplemental to, and shall be read in conjunction with, the Base Prospectus. To the extent that there is any inconsistency between any statement in, or incorporated by reference in, this Supplement and any other statement in, or incorporated by reference in, the Base Prospectus, the statements in, or incorporated by reference in, this Supplement will prevail.

The Issuer accepts responsibility for the information contained in this Supplement. To the Issuer's best knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Incorporation by Reference

The following documents which have previously been published or are published simultaneously with this Supplement and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Supplement:

- (i) the unaudited reviewed consolidated financial statements of the Issuer for the six months ended 30 June 2015 contained in the Interim Report – Half Year 2015 which can be viewed online at <https://www.islandsbanki.is/library/Skrar/IR/Afkoma/Condensed%20Consolidated%20Interim%20Financial%20Statements%20Islandsbanki%20hf.%2030.6.2015.pdf>.

Significant or Material Change

The paragraph under the heading “Significant or Material Change” on page 146 of the Base Prospectus shall be deemed deleted and replaced with the following:

“There has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2015 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2014.”

Board of Directors

On pages 97-99 of the Base Prospectus, the subsection “Board of Directors” in the section “Description of the Issuer” shall be updated by insertion of the below information at the end of the section on page 99:

“On 28 September 2015, Dr. Þórunn Jónsdóttir resigned from the board of directors of the Issuer. Alternate board member Gunnar Fjalar Helgason will take a seat on the board in her place.”

Recent Developments

On page 123 of the Base Prospectus in the section “Description of the Issuer”, the following information shall be inserted as a new “Recent Developments” section:

“Recent Developments

Heads of Agreement Regarding the Re-Capitalization of Issuer

On 16 July 2015, the Issuer, Glitnir hf. (**Glitnir**), ISB Holding ehf. and GLB Holding ehf. entered into Heads of Agreement under which they agreed to co-operate in order to facilitate the composition of Glitnir.

On 8 June 2015, the Icelandic Ministry of Finance and Economic Affairs announced the terms of a proposal made by certain of Glitnir’s creditors (the **Creditors’ Proposal**) which the Task Force on the Liberalization of Capital Controls in Iceland has confirmed is consistent with the framework for analysing and addressing the balance of payments implications of domestic assets held in winding-up estates and recommends that the Central Bank of Iceland grant the necessary exemptions from the Act on Foreign Exchange no. 87/1992 to enable Glitnir to proceed with a composition on the basis of the Creditors Proposal (the **Composition**).

The Creditors’ Proposal requires the following steps to be taken by, or in relation to, the Issuer:

- Reduction of the Issuer’s current equity from 28.4 per cent. to 23 per cent.
 - o The Issuer issuing approximately ISK 16 billion in foreign currency subordinated Tier 2 capital and/or additional Tier 1 capital to Glitnir, at market terms with a minimum tenor of 10 years.
 - o The Issuer issuing a bond to Glitnir of approximately ISK 36 billion principal amount, at market terms with a tenor of 10 years.
 - o The Issuer paying a dividend of approximately ISK 3 billion to the shareholder, Icelandic State Financial Investments.
- The Issuer issuing a new Tier 2 note to Glitnir replacing the existing Tier 2 note denominated in EUR at market terms with a minimum tenor of 10 years.
- The Issuer issuing ISK denominated bonds to Glitnir in an aggregate principal amount equal to deposits held by Glitnir in ISK with the Issuer, at market terms with a tenor of 10 years.
- The Issuer issuing notes equivalent to approximately ISK 37 billion under the Issuer’s Global Medium Term Note Programme to replace deposits held by Glitnir in foreign currency with Icelandic banks and approximately a further ISK 3 billion under the same programme upon subscription and payment for such notes with the proceeds of realisation of Glitnir’s remaining assets situated in Iceland which are received in foreign currency. The notes will be issued in tranches with a minimum tenor of seven years at market terms.
- The amounts issued will be adjusted to reflect the deposits held by Glitnir in foreign currency with Icelandic banks at the time of the Composition.
- The Issuer’s shares will be subject to certain transfer restrictions, whereby a sale of the shares to Icelandic investors will be restricted.

The Heads of Agreement is conditional upon all necessary consents and exemptions from the relevant parties, including the Icelandic Financial Supervisory Authority and the Central Bank of Iceland.

The Ministry of Finance and Economic Affairs’ announcement regarding Capital Control Liberalisation (Glitnir) can be found at: <http://www.ministryoffinance.is/news/nr/19598>.

The Ministry of Finance and Economic Affairs’ announcement in relation to the adoption of Legislation on Stability Levy can be found at: <http://www.ministryoffinance.is/news/nr/19712>.

Creditor Group Submits Amended Proposal for Stability Contribution

On 20 October 2015, the Ministry of Finance and Economic Affairs announced that a group of creditors of Glitnir submitted amendments to its previous proposal concerning Glitnir’s stability contributions to the Iceland government announced on 8 June 2015, in relations to the Icelandic government’s plan of lifting of capital controls.

The main changes from the already proposed stability contribution is that Glitnir will relinquish to the Icelandic authorities all of its shares in ISB Holding ehf., which owns 95 per cent. of shares in the Issuer. The Issuer’s equity totaled approximately ISK 185 billion at 30 June 2015.

On 16 July 2015, Glitnir and the Issuer entered into Heads of Agreement regarding certain measures to facilitate the composition of Glitnir. The main change from the existing agreement is that the total equity ratio will not be reduced, as the current proposal does not entail a special dividend from the Issuer. Glitnir will purchase from the Icelandic

government the existing Tier 2 notes issued by the Issuer. Deposits in foreign exchange are to be termed out, while the repayment of ISK deposits is subject to an agreement with the Central Bank of Iceland.

The above described measures are subject to the same assumptions as were specified in the proposals of 8 June 2015, including an exemption from the Foreign Exchange Act, no. 87/1992, which will authorise Glitnir to conclude its composition agreements. Glitnir's composition agreement is not expected to be concluded before year end 2015.

The Issuer believes that these changes will not impact the Issuer's daily operations and will leave the Issuer with sufficient capital ratios.

The terms and measures of the Creditor's Proposal, the Composition and the stability contribution described above are subject to change by the Icelandic government and the other relevant parties."

Statements contained in this Supplement (or contained in any document incorporated by reference herein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in the Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of the Base Prospectus or this Supplement. Except as specifically incorporated by reference in this Supplement, information on any website referenced in this Supplement is not part of the Base Prospectus or this Supplement.

Copies of documents incorporated by reference in this Supplement can also be obtained from the registered office of the Issuer at Kirkjusandur 2, 155 Reykjavik, Iceland and from the office of the Principal Paying Agent, Citibank, N.A., London Branch, at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Supplement shall not form part of the Base Prospectus or this Supplement.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in the Base Prospectus or this Supplement.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus or this Supplement which is capable of affecting the assessment of any Notes, prepare a new supplement to the Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Notes.