

**Íslandsbanki hf. (the “Issuer”)**  
**Supplement to the Issuer’s base prospectus dated 4 November 2011  
regarding the issue of covered bonds (the “Base Prospectus”).**

*This supplement must be read as a part of and in conjunction with the Issuer’s Base Prospectus dated 4 November 2011, and supplement to the Base Prospectus dated 6 December 2011, and any decision to invest in any Covered Bonds should be based on a consideration of the relevant Final Terms this and any subsequent supplement to the Base Prospectus and the Base Prospectus as a whole.*

*Words and expressions defined in Condition 1 in the “Definitions” of the Terms and Conditions in the Base Prospectus have the same meanings in this supplement to the Base Prospectus.*

**Contents**

1 NOTICE TO INVESTORS .....	1
2 SUPPLEMENT TO THE BASE PROSPECTUS.....	2
2.1 Changes to the initial limit on the aggregate nominal amount outstanding.....	3
2.2 Documents incorporated by reference .....	3
2.3 Issuer’s Statement .....	3

**1 NOTICE TO INVESTORS**

This supplement to the base prospectus dated 4 November 2011 (the “Prospectus Supplement”), which has been prepared in relation to the Issuer’s Base Prospectus, is compiled in accordance with Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (“the Prospectus Directive”). The Prospectus Directive has been implemented into Icelandic law. This Prospectus Supplement is being prepared in accordance with Article 46 of the Securities Transactions Act No. 108/2007 (“Act on Securities Transaction”) and Article 16 of the Prospectus Directive (Directive 2003/71/EC, as amended) which states that every significant new factor, material mistake or inaccuracy relating to the information included in the prospectus, which is capable of affecting the assessment of the securities and which arises or is noted between the time when the prospectus is approved and the time when trading on a regulated market begins, shall be mentioned in a supplement to the prospectus which will be published with the same arrangements as were applied to the original prospectus. Only the Issuer is entitled to procure information about conditions described in this Prospectus Supplement. Information procured by any other person is of no relevance in relation to the Prospectus Supplement and cannot be relied on.

This Prospectus Supplement does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus Supplement and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer does not represent that this Prospectus Supplement may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer which would permit a public offering of any Covered Bonds or distribution of this Prospectus Supplement in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Prospectus Supplement, the Base Prospectus nor any

advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus Supplement or any Covered Bonds may come must inform themselves about, and observe any such restrictions on the distribution of this Prospectus Supplement and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Prospectus Supplement, the Base Prospectus and the offer or sale of Covered Bonds in the United States, the European Economic Area and Japan.

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 the Base Prospectus. If any such information is given or made, it must not be relied upon as having been authorised by the Issuer or any of the Issuer's respective affiliates or advisers. Neither the delivery of this Prospectus Supplement, nor any sale made hereunder shall under any circumstances imply that there has been no change in the Issuer's affairs or that the information set forth in this Prospectus Supplement is correct as of any date subsequent to 4 November 2011.

This Prospectus Supplement 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 securities, bearing in mind inter alia the business environment in which the Issuer 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. This Prospectus Supplement does not constitute legal, financial or tax advice. Investors are furthermore 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 Base Prospectus has been prepared to provide clear and thorough information on the Issuer. Investors are encouraged to acquaint themselves thoroughly with the Base Prospectus. They are advised to pay particular attention to the Chapter- *Risk Factors* of the Base Prospectus. The Base Prospectus, supplement to the Base Prospectus dated 6 December 2011, and this Prospectus Supplement are available for viewing for 12 months from the date of the Base Prospectus and may be obtained at the Issuer's registered office at Kirkjusandur 2, 155 Reykjavík, Iceland and at the Issuer's website [www.islandsbanki.is](http://www.islandsbanki.is) (<http://www.islandsbanki.is/um-islandsbanka/fjarfestatengsl/sertryggd-skuldabref/>). Notwithstanding a special statement to the contrary, references to any laws, acts or regulations are references to acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

The Financial Supervisory Authority – Iceland (the “FSA”) in its capacity as competent authority under The Act on Securities Transaction has scrutinized and approved this Prospectus Supplement, which is published in English only.

## **2 SUPPLEMENT TO THE BASE PROSPECTUS**

This Prospectus Supplement must be read in conjunction with the Issuer's Base Prospectus in all respects and the definitions used in the Base Prospectus shall apply to this Prospectus Supplement. This Prospectus Supplement has been prepared in order to update and correct the following information contained in the Base Prospectus dated 4 November 2011:

- Chapter on The Issuer's License to Issue Covered Bonds, page 87, whereas the Issuer has now been granted a confirmation from the FSA, dated 8 October 2012, increasing the

aggregate nominal amount not to be exceeded of all Covered Bonds from time to time outstanding under the Programme from 10,000,000,000 to 15,000,000,000.

## **2.1 Changes to the initial limit on the aggregate nominal amount outstanding**

On pages 1, 7, 9, 60 and 87 of the Base Prospectus where references are made to the ISK 10.000.000.000 limit as set forth in the FSA's license, all such references shall now be deemed to refer to the new limit of ISK 15.000.000.000. Therefore the following shall apply to the Programme and the following sentence shall form a part of the Base Prospectus and the Base Prospectus shall be read in conjunction with the following:

*"Pursuant to the existing license issued 8 October 2012 by the FSA, the aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme shall not exceed ISK 15.000.000.000".*

## **2.2 Documents incorporated by reference**

The Consolidated Financial Statements of the Issuer for the year 2011 and the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2012 are hereby incorporated into this Supplement, by reference. The Financial Statements are available for viewing at the Issuer premises at Kirkjusandur 2, 155 Reykjavík, Iceland and at the Issuer's website [www.islandsbanki.is/um-islandsbanka/fjarfestatengsl/](http://www.islandsbanki.is/um-islandsbanka/fjarfestatengsl/) or [www.islandsbanki.is/english/investor-relations/](http://www.islandsbanki.is/english/investor-relations/).

The following is list of items that the Issuer considers to be significant new factors, shall be incorporated into this Supplement, by reference. The news items are available for viewing at the Issuer premises at Kirkjusandur 2, 155 Reykjavík, Iceland and at the Nasdaq OMX Iceland website [www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com), direct links to each news item below.

Treatment of goodwill relating from the merger with BYR, 20 December 2011:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=483214&lang=en>

Iceland chosen as Íslandsbanki's Home Member State, 20 April 2012:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=501962&lang=en>

Restructuring of Íslandsbanki approved by the EFTA Surveillance Authority, 27 June 2012 :

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=512323&lang=en>

EFTA Surveillance Authority concludes that Íslandsbanki's measures regarding money market funds were compatible with EEA agreement, 11 July 2012:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=514168&lang=en>

New member on the Íslandsbanki board of directors, 3 October 2012 :

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=523959&lang=en>

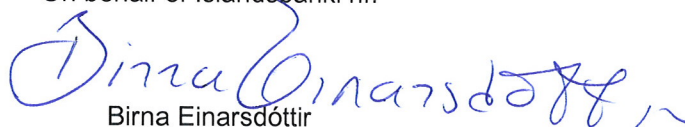
## **2.3 Issuer's Statement**

There have been no significant changes in the future prospects of the Issuer or the Issuer's financial conditions that could have a negative impact on the Issuer, since the last audited financial statements of the Issuer, published 27 March 2012.

The Chief Executive Officer and the Board of Directors of Íslandsbanki hf. ID-number 491008-0160, registered office being Kirkjusandur 2, 155 Reykjavík, Iceland, on behalf of the Issuer, hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus Supplement is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, Iceland, 24 October 2012

On behalf of Íslandsbanki hf.



Birna Einarsdóttir

Chief Executive Officer

Icelandic ID No. 130761-3729



Friðrik Sophusson

Chairman of the Board of Directors

Icelandic ID No. 181043-4669