

Íslandsbanki hf. (the “Issuer”)
Supplement to the Issuer’s base prospectus dated 7 February 2013 regarding the issue of bonds (the “Base Prospectus”).

This supplement must be read as a part of and in conjunction with the Issuer’s Base Prospectus dated 7 February 2013, and supplement to the Base Prospectus dated 3 April 2013, and any decision to invest in any 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 Documents incorporated by reference 3

3 ISSUER’S STATEMENT 4

1 NOTICE TO INVESTORS

This supplement to the base prospectus dated 7 February 2013 (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 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 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 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 Bonds or distribution of this Prospectus Supplement in any jurisdiction where action for that purpose is required. Accordingly, no 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 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 Bonds. In particular, there are restrictions on the distribution of this Prospectus Supplement, the Base Prospectus and the offer or sale of 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 7 February 2013.

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 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 <http://www.islandsbanki.is/english/investor-relations/funding/bonds/>. 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.

Financial Supervisory Authority, Iceland (the "FME") 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 7 February 2013 and supplement to the Base Prospectus dated 3 April 2013:

- Documents incorporated by reference

2.1 Documents incorporated by reference

The Condensed Consolidated Interim Financial Statements of the Issuer for the period 1 January to 30 June 2013 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/ or www.islandsbanki.is/english/investor-relations/.

The following extract from the Financial Statements for the period 1 January to 30 June 2013 displays the Endorsement and Statement by the Board of Directors and the CEO.

"The Condensed Consolidated Interim Financial Statements of Íslandsbanki hf. for the period 1 January to 30 June 2013 comprise the Condensed Interim Financial Statements of Íslandsbanki hf. and its subsidiaries, together referred to as "the Bank".

Accounting convention

The Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2013 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Financial Statements are presented in accordance with the International Accounting Standard (IAS) 34 Interim Financial Reporting.

Profit from the Bank's operations for the period 1 January to 30 June 2013 amounted to ISK 11,208 million, which corresponds to a 14.8% return on equity. Bank equity, according to the Consolidated Financial Position, amounted to ISK 155,537 million at 30 June 2013. The Bank's capital ratio, calculated according to the Act on Financial Undertakings, was 27.4% and the Tier 1 ratio was 24.0%. The Board of Directors refers to Note 59 for further understanding of the capital requirements of the Bank. The Bank's total assets amounted to ISK 822,929 million at the end of the period.

The Annual General Meeting for the operating year 2012 was held on 18 April 2013 where shareholders approved the Board's proposal to pay dividend to shareholders for the financial year 2012 of ISK 0,3 per share. The dividend was paid on 30 April 2013. The dividend payment amounts to ISK 3,000 million.

The Board of Directors draws special attention to the risks relating to the political and legal environment in Iceland where capital controls are still in place. The Bank has made appropriate provisions to reflect the risk associated with court rulings. The Board also notes that the Bank maintains a strong capital base and is therefore well positioned to meet future risks and challenges. The Board refers to Notes 2 and 41 for the principal risks and uncertainties currently faced by the Bank.

To the best of our knowledge the Condensed Consolidated Interim Financial Statements provide a true and fair view of the Bank's operating profits and its financial position as at 30 June 2013.

The Board of Directors and the CEO of Íslandsbanki hf. hereby confirm the Bank's Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2013 by means of their signatures".

The Issuer considers the following to be a significant new factor and should 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, direct links to the news below:

Change in Board of Directors, 4 September 2013:

<https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=571861&lang=en>

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 28 February 2013.

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, 18 September 2013

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