

APPLICABLE FINAL TERMS

18 March 2020

ÍSLANDBANKI HF.
Issue of ISK 480,000,000 Fixed Rate Inflation Linked Covered Bonds
under the ISK 170,000,000,000
Covered Bond 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 Covered Bonds (the **Terms and Conditions**) set forth in the Base Prospectus dated 9 April 2019. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5(4) of the Prospectus Directive and Article 45 of Act on Securities Transactions 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 Directive. Full information on the Issuer, and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms, the Base Prospectus and any supplements, if applicable. Copies of said Base Prospectus and any supplements, if applicable, are available for viewing on the Issuer's webpage, <http://www.islandsbanki.is/english/investor-relations/funding/covered-bonds/> and at the office of the Issuer at Hagasmári 3, 201 Kópavogur, Iceland.

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| 1. Issuer: | Íslandsbanki hf. |
| 2. | |
| i. Series Number: | 12 |
| ii. Tranche Number: | 9 |
| iii. Ticker: | ISLA CBI 28 |
| 3. Specified Currency or Currencies: | ISK |
| 4. Aggregate Nominal Amount: | |
| i. Series: | 18,300,000,000 |
| ii. Tranche: | 480,000,000 |
| 5. Issue Price: | 104.8474 per cent. of the Aggregate Nominal Amount |
| 6. Specified Denominations: | 20,000,000 |
| 7. | |
| i. Issue Date: | 23 March 2020 |
| ii. Interest Commencement Date: | Issue Date |

- 8.**
- i. **Maturity Date:** 11 August 2028
 - ii. **Extended Maturity Date:** Applicable
The Extended Maturity Date is 11 August 2031
- 9.**
- i. **Interest Basis to Maturity Date:** Inflation Linked Interest
 - ii. **Interest Basis from Maturity Date to Extended Maturity Date:** Inflation Linked Interest
- If any partial redemption after the Maturity Date is not sufficient to redeem all outstanding Interest Payments, then the remainder of any Interest Payment shall be added to the principal amount of the Covered Bonds. See Condition 8.11
- 10. Redemption/Payment Basis:** Equal principal payments
- i. **Payment Basis:** Equal principal payments
 - ii. **Instalment Amounts:** Equal principal instalment amounts
 - iii. **Instalment Dates:** The 11th day in the months of February and August each year up to and including the Maturity Date. First Instalment Date being 11 August 2019.
- 11. Change of Interest Basis or Redemption/Payment Basis:** Not Applicable
- 12. Call Option:** Not Applicable
- 13. Status of the Covered Bonds:** Senior
- 14. Approval for issuance of the Covered Bonds:**
- Date of Board approval for issuance of Covered Bonds obtained: 23 March 2010 and 1 December 2010, respectively
- 15. Method of distribution:** Non-syndicated

PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS

- 16. Inflation Linked Annuity Covered Bonds:** Not Applicable

PROVISIONS RELATING TO INFLATION LINKED EQUAL PRINCIPAL PAYMENT COVERED BONDS INCLUDING COVERED BONDS WITH ONE PAYMENT OF PRINCIPAL ON MATURITY DATE

17. Inflation Linked Equal Principal Payment Covered Bonds:

Applicable

- i. Rate(s) of Interest to Maturity Date: 2.20 per cent. per annum payable semi-annually in arrear
- ii. Rate(s) of Interest from Maturity Date to Extended Maturity Date: 2.70 per cent. per annum payable semi-annually in arrear
- iii. Number of Interest Payment Dates: 19
- iv. Interest Payment Date(s): The 11th day in the months of February and August in each year up to and including the Maturity Date. First Interest Payment Date being 11 August 2019.
- v. Number of Principal Payment Dates: 19
- vi. Principal Payment Date(s): The 11th day in the months of February and August in each year up to and including the Maturity Date. First Principal Payment Date being 11 August 2019.
- vii. Day Count Fraction: 30E/360
- viii. Principal Repayment(s): An amount calculated by the Issuer 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.
- ix. Interest Payment(s): Interest is calculated on each Interest Payment date as the Principal Amount Outstanding on each Interest Payment Date multiplied with the Rate of Interest and, the appropriate Day Count Fraction.
- x. Payments(s): On each Interest Payment Date the sum of the relevant Principal Repayment and the Interest Payment.
- xi. Calculation Agent: Issuer

xii. Principal Amount Outstanding:

On the relevant Interest Payment Date, the Principal Amount Outstanding is calculated based on the following formula:

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

where:

PAO_t means the Principal Amount Outstanding on the relevant Interest Payment Date.

PAO_{t-1} means the Principal Amount Outstanding on the preceding Interest Payment Date.

PR_{t-1} means the Principal Repayment on the preceding Interest Payment Date.

IR_t means the Index Ratio on the relevant Interest Payment Date.

IR_{t-1} 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:

xiii. Index Ratio:

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

where:

Reference Index or **RI_t** 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_{M-1} = 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 is lower than the Base Index, the Reference Index shall equal the Base Index.

And

Base Index means 463.26667 being the value of the CPI on 11 February 2019.

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.

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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|---|----------------|
| 18. Fixed Rate Covered Bond Provisions: | Not Applicable |
| 19. Floating Rate Covered Bond Provisions: | Not Applicable |
| 20. Zero Coupon Covered Bond Provisions: | Not Applicable |

PROVISIONS RELATING TO REDEMPTION

- | | |
|--|----------------|
| 21. Issuer Call: | Not Applicable |
| 22. Final Redemption Amount of each Covered Bond: | Not Applicable |

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

23. **New Global Covered Bond:** No
24. **Form of Covered Bonds:** VS System Covered Bonds
25. **Additional Financial Centre(s) or other special provisions relating to Payment Days:** Not Applicable
26. **Talons for future Coupons or Receipts to be attached to definitive Covered Bonds (and dates on which such Talons mature):** No
27. **Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment:** Not Applicable
28. **Details relating to Instalment Covered Bonds:**
- i. **Instalment Amount(s):** Not Applicable
 - ii. **Instalment Date(s):** Not Applicable
29. **Redenomination applicable:** Redenomination not applicable
30. **Other final terms:** Not Applicable

DISTRIBUTION

- 31.
- i. **If syndicated, names of Managers:** Not Applicable
 - ii. **Stabilising Manager (if any):** Not applicable
32. **If non-syndicated, name of relevant Dealer:** Íslandsbanki hf.
33. **Additional selling restrictions:** Not Applicable

LISTING AND ADMISSION TO TRADING APPLICATION



These Final Terms comprise the final terms required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the ISK 170,000,000,000 Covered Bond Programme of Íslandsbanki hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. The information contained in paragraph 8 of Part B of these Final Terms has been extracted from the website of Iceland Statistics www.hagstofa.is. 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 Iceland Statistics, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- | | | |
|-----|-----------------------|---|
| i. | Listing: | NASDAQ Iceland |
| ii. | Admission to trading: | Application has been made for the Covered Bonds to be admitted to trading on Nasdaq Iceland with effect from 23 March 2020. |

2. RATING

Not Applicable

3. NOTIFICATION

Not Applicable

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save for any fees payable to the Dealer, so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the issue.

5. USE OF PROCEEDS, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

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|------|---------------------------|--|
| i. | Use of proceeds: | For general funding purposes of the Issuer |
| ii. | Estimated net proceeds: | ISK 460,483,005 |
| iii. | Estimated total expenses: | ISK 350,000 |

6. YIELD (*Fixed Rate Covered Bonds only*)

Indication of yield:	1.06%
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7. HISTORIC INTEREST RATES (*Floating Rate Covered Bonds Only*)

Not Applicable

8. PERFORMANCE OF CPI, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds Only*)

The general cash-flow of the Covered Bonds 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 formula in paragraph 16 and 17 of Part A of this Final Terms.

Information about the CPI can be obtained from the website of Statistics of Iceland, <http://www.statice.is/statistics/prices-and-consumption/consumer-price-index>.

9. OPERATIONAL INFORMATION

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|------|---|--------------------------|
| i. | ISIN Code: | IS0000030948 |
| ii. | Common Code: | 000003094 |
| iii. | Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification number(s): | Nasdaq CSD Iceland hf. |
| iv. | Delivery: | Delivery against payment |
| v. | Names and addresses of additional Paying Agent(s) (if any): | Not Applicable |
| vi. | Intended to be held in a manner which would allow Eurosystem eligibility: | i. No |