

FORM OF FINAL TERMS

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes 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**). 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 (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 Regulation (EU) 2017/1129 (the **Prospectus Regulation**). Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended) (the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes 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 United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act, 2000 (as amended) (**FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No. 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No. 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MiFID II product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [MiFID II/Directive 2014/65/EU (as amended) (**MiFID II**)]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Details of any negative target market to be included if applicable*]. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.

7 October 2022

ÍSLANDBANKI HF.

(incorporated with limited liability in Iceland)

Legal entity identifier (LEI): 549300PZMFIQR79Q0T97

**Issue of ISK 9,020,000,000 Fixed Rate Inflation Linked Tier 2 Notes due April 2033
under the U.S.\$2,500,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 29 April 2022 (the **Base Prospectus**) as supplemented by the supplement to it dated 7 September 2022 which together constitute a base prospectus for the purposes of Regulation (EU) 2017/1129 (for the purposes of these Final Terms, the **Prospectus Regulation**). This document constitutes the Final Terms of the Notes described herein for the purpose of the Prospectus Regulation and must be read in conjunction with the Base Prospectus as so supplemented in order to obtain all the relevant information. The Base Prospectus and the supplement have been published on the website of the Issuer at <https://www.islandsbanki.is/en/product/about/funding> and on the website of Euronext Dublin at <https://live.euronext.com/en/markets/dublin> and copies may be obtained during normal business hours from the registered office of the Issuer at Hagasmári 3, 201 Kópavogur, Iceland and from the offices of the Principal Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England.

1. Issuer: Íslandsbanki hf.
2. (a) Series Number: 38
- (b) Tranche Number: 1
- (c) Date on which the Notes will be consolidated and form a single Series: Not Applicable
3. Specified Currency or Currencies: ISK
4. Aggregate Nominal Amount:
 - (a) Series: ISK 9,020,000,000
 - (b) Tranche: ISK 9,020,000,000
5. Issue Price: 100.00 per cent. of the Aggregate Nominal Amount
6. (a) Specified Denominations: ISK 20,000,000
- (b) Calculation Amount: ISK 20,000,000
7. (a) Issue Date: 17 October 2022
- (b) Interest Commencement Date: Issue Date

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| 8. | Maturity Date: | 17 April 2033 |
| 9. | Interest Basis: | 4.86 per cent. Inflation Linked Fixed Rate (see paragraph 14 below) |
| 10. | Redemption/Payment Basis: | Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount |
| 11. | Change of Interest Basis: | Not Applicable |
| 12. | Put/Call Options: | Issuer Call (see paragraph 18 below) |
| 13. | (a) Status of the Notes: | Subordinated |
| | (i) Redemption upon occurrence of Capital Event: | Applicable – Condition 6.3 applies |
| | (ii) Substitution or variation: | Applicable – Condition 6.11 applies |
| | (b) Date Board approval for issuance of Notes obtained: | 1 December 2021 |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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| 14. | Fixed Rate Note Provisions | Applicable |
| | (a) Rate(s) of Interest: | 4.86 per cent. per annum payable in arrear on each Interest Payment Date |
| | (b) Interest Payment Date(s): | 17 January, 17 April, 17 July and 17 October in each year up to and including the Maturity Date |
| | (c) Fixed Coupon Amount(s): <i>(Applicable to Notes in definitive form)</i> | Not Applicable |
| | (d) Broken Amount(s): <i>(Applicable to Notes in definitive form)</i> | Not Applicable |
| | (e) Day Count Fraction: | 30E/360 |
| | (f) Determination Date(s): | Not Applicable |
| | (g) Inflation Linked: | Applicable |
| | (h) Interest Payments: | 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. |

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| 15. | Floating Rate Note Provisions | Not Applicable |
| 16. | Reset Note Provisions: | Not Applicable |
| 17. | Zero Coupon Note Provisions | Not Applicable |

PROVISIONS RELATING TO REDEMPTION

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| 18. | Issuer Call: | Applicable |
| | (a) Optional Redemption Date(s): | Interest Payment Date falling on 17 April 2028 and on every Interest Payment Date thereafter |
| | (b) Optional Redemption Amount: | ISK 20,000,000 per Calculation Amount |
| | (c) If redeemable in part: | |
| | (i) Minimum Redemption Amount: | Not Applicable |
| | (ii) Maximum Redemption Amount: | Not Applicable |
| | (d) Notice period (if other than as set out in the Conditions): | Not Applicable |
| 19. | Final Redemption Amount: | Each Note will be redeemed at its principal amount |
| | (a) Inflation Linked: | Applicable |
| | (b) Base Index: | 555.3667, being the value of the CPI on Issue date |
| | (c) Calculation Agent: | Issuer |
| | (d) Calculation of Principal Repayment if Inflation Linked: | <p>On the relevant Interest Payment Date, the Principal Amount Outstanding is calculated based on the following formula:</p> $\mathbf{PAO}_t = \mathbf{N} \times \mathbf{IR}_t$ <p>where:</p> <p>PAO_t means the Principal Amount Outstanding on the relevant Interest Payment Date.</p> <p>N means the Nominal Amount Outstanding on the relevant Interest Payment Date.</p> <p>IR_t means the Index Ratio on the relevant Interest Payment Date.</p> |
| | (e) Index Ratio: | 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:

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

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; and

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.

Base Index means 555.3667, being the value of the CPI on 17 October 2022.

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.

20. Early Redemption Amount payable on redemption for taxation reasons or upon the occurrence of a Capital Event or an MREL Disqualification Event (as applicable): ISK 20,000,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes:
- (a) Form: CSD Notes
 - (b) New Global Note: No

22. Additional Financial Centre(s): Not Applicable
23. Talons for future Coupons to be attached to Definitive Bearer Notes: No

Signed on behalf of Íslandsbanki hf.:

By:
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: Nasdaq Iceland
- (ii) Admission to trading: Application has been made for the Notes to be admitted to trading on Nasdaq Iceland with effect from the issue date
- (iii) Estimate of total expenses related to admission to trading: ISK 135,000

2. LISTING AND ADMISSION TO TRADING

Ratings: Not Applicable

3. NOTIFICATION

The Central Bank of Ireland has the Financial Supervisory Authority of the Central Bank of Iceland (Fjármálaeftirlitið) 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 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 Notes has an interest material to the offer. The Dealer and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

5. REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

- (i) Reasons for the offer: General corporate purposes
- (ii) Estimated net proceeds: ISK 9,019,885,000

6. YIELD (*Fixed Rate Notes and Reset Notes only*)

Indication of yield: 4,95%

7. BENCHMARKS REGULATION (*Floating Rate Notes and Reset Notes calculated by reference to benchmarks only*)

Not Applicable

8. OPERATIONAL INFORMATION

- (i) ISIN: IS0000034502
- (ii) Common Code: 0000034502
- (iii) CFI: DBFUGR
- (iv) FISN: ISLANDSBANKI/4.95 BD 20330417

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| (v) | Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): | Nasdaq CSD Iceland, CSD identification number: 451015-2140 |
| (vi) | Delivery: | Delivery against payment |
| (vii) | Names and addresses of additional Paying Agent(s) and/or Transfer Agent(s) (if any) or alternative Dematerialised Account Manager (if applicable): | Not Applicable |
| (viii) | VPS Calculation Agent | Not Applicable |
| (ix) | CSD Calculation Agent: | Íslandsbanki hf. |
| (x) | Intended to be held in a manner which would allow Eurosystem eligibility: | Not Applicable |

9. DISTRIBUTION

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| (i) | Method of distribution: | Non-syndicated |
| (ii) | If syndicated, names of Managers: | Not Applicable |
| (iii) | Date of Subscription Agreement: | Not Applicable |
| (iv) | Stabilising Manager(s) (if any): | Not Applicable |
| (v) | If non-syndicated, name of Dealer: | Íslandsbanki hf. |
| (vi) | TEFRA applicability: | TEFRA not applicable |
| (vii) | Prohibition of Sales to EEA Retail Investors: | Applicable |
| (viii) | Prohibition of Sales to UK Retail Investors: | Applicable |

10. THIRD PARTY INFORMATION

Not Applicable