

APPLICABLE FINAL TERMS

20 October 2014

ÍSLANDBANKI HF.
Issue of 860,000,000 Fixed rate Covered Bonds
under the ISK 100,000,000,000

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 2 October, 2013. 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 Kirkjusandur 2, 155 Reykjavík, Iceland.

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| 1. Issuer: | Íslandsbanki hf. |
| 2. | |
| i. Series Number: | 6 |
| ii. Tranche Number: | 2 |
| 3. Specified Currency or Currencies: | ISK |
| 4. Aggregate Nominal Amount: | |
| i. Series: | 1,400,000,000 |
| ii. Tranche: | 860,000,000 |
| 5. Issue Price: | 100.3626 per cent. of the Aggregate Nominal Amount |
| 6. Specified Denominations: | 20,000,000 |
| 7. | |
| i. Issue Date: | 24 October 2014 |
| ii. Interest Commencement Date: | 24 October 2014 |
| 8. | |
| i. Maturity Date: | 11 April 2019 |

ii.	Extended Maturity Date:	Applicable
		The Extended Maturity Date is 11 April 2022
9.		
i.	Interest Basis to Maturity Date:	6.9299 per cent. Fixed Rate.
ii.	Interest Basis from Maturity Date to Extended Maturity Date:	7.4299 per cent. Fixed Rate
10. Redemption/Payment Basis:		One principal payment on maturity
i.	Payment Basis:	Not Applicable
ii.	Instalment Amounts:	Not Applicable
iii.	Instalment Dates:	Not Applicable
11. Change of Interest Basis or Redemption/Payment Basis:		Not Applicable
12. Call Option:		Not Applicable
		If an Extended Maturity Date is specified and the Final Redemption Amount is not paid in full on the Maturity Date, payment of the unpaid amount will be automatically deferred until the Extended Maturity Date, provided that any amount representing the principal amount outstanding due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the relevant Extended Maturity Date. See Condition 8.11
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: Not Applicable

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18. Fixed Rate Covered Bond Provisions: Applicable

i. Rate(s) of Interest to Maturity Date: 6.9299 per cent. per annum payable semi-annually in arrear

ii. Rate(s) of Interest from Maturity Date to Extended Maturity Date: 7.4299 per cent. per annum payable semi-annually in arrear

iii. Interest Payment Date(s): 11 April and 11 October in each year up to and including the Maturity Date

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

iv. Day Count Fraction: 30/360

v. Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: None

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 100,000,000,000 Covered Bond Programme of Íslandsbanki hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By:



Duly authorised



PART B – OTHER INFORMATION

1. LISTING

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|-----|-----------------------|---|
| i. | Listing: | NASDAQ OMX Iceland |
| ii. | Admission to trading: | Application has been made for the Covered Bonds to be admitted to trading on Nasdaq OMX Iceland with effect from 24 October 2014. |

2. RATING

Not Applicable

3. NOTIFICATION

The Financial Supervisory Authority, Iceland has provided the Nasdaq OMX Iceland with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.

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: | 862,768,360 |
| iii. | Estimated total expenses: | 350,000 |

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

Indication of yield:	6.95%
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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*)

Not Applicable

9. OPERATIONAL INFORMATION

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|------|---|---------------------------------|
| i. | ISIN Code: | IS0000024727 |
| ii. | Common Code: | 000002472 |
| iii. | Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification number(s): | Icelandic Securities Depository |
| 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 |