

ÍSLANDBANKI hf. A\$1,500,000,000 Debt Issuance Programme
19 April 2005

Principal Paying agent and Transfer Agent:
Austraclear Services Limited

15 Events of Default

15.1 Event of Default

An Event of Default occurs in relation to a Series of MTNs:

- (a) if default is made in the payment of any principal, premium (if any) or interest due in respect of the MTNs or any of them and the default continues for a period of three days in the case of principal or premium (if any) and seven days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by an MTN Holder on the Issuer of notice requiring the same to be remedied; or
- (c) if any borrowed money of the Issuer or any of its Principal Subsidiaries is not paid when due or becomes (whether by declaration or automatically in accordance with the relevant agreement or instrument constituting the same) due and payable prior to the date when it would otherwise have become due or any creditor of the Issuer or any of its Principal Subsidiaries becomes entitled to declare any such borrowed money due and payable or any facility or commitment available to the Issuer or any of its Principal Subsidiaries relating to borrowed money is withdrawn, suspended or cancelled by reason of any default (however described) of the company concerned, provided that, for the purposes of this paragraph (c), the borrowed money must, when aggregated with all other borrowed money to which any part of this Condition 15.1(c) applies, exceed U.S.\$5,000,000 (or its equivalent in any other currency); or
- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the MTN Holders; or
- (e) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the MTN Holders, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if:
 - (i) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or assets of any of them; and
 - (ii) in any case (other than the appointment of an administrator) the same is not discharged within 14 days; or
- (g) if the Issuer or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or

other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

For the purposes of this Condition:

“Principal Subsidiary” of the Issuer means at any time a Subsidiary of the Issuer:

- (a) whose gross revenues attributable to the Issuer (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 5 per cent. of the consolidated gross revenues attributable to the shareholders of the Issuer, or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that:
 - (i) in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Auditors of the Issuer; and
 - (ii) if, in the case of a Subsidiary which itself has Subsidiaries, no consolidated accounts are prepared and audited, its consolidated gross revenues attributable to the Issuer and consolidated total assets shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared and audited for this purpose by the Auditors of the Issuer or the auditors for the time being of the relevant Subsidiary; or
- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary of the Issuer, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary of the Issuer and the transferee Subsidiary shall cease to be a Principal Subsidiary of the Issuer pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Issuer on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or before, on or at any time after such date by virtue of the provisions of this subparagraph (b) or subparagraph (c) below; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest relevant audited consolidated accounts of the Issuer and its Subsidiaries relate, generate gross revenues attributable to the Issuer equal to) not less than 5 per cent. of the consolidated gross revenues attributable to the shareholders of the Issuer, or represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary of the Issuer) shall upon such transfer forthwith cease to be a Principal Subsidiary of the Issuer unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate gross revenues attributable to the Issuer equal to) not less than 5 per cent. of the consolidated gross revenues attributable to the shareholders of the Issuer, or its assets represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary of the Issuer pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Issuer on or at any time after the date on which such consolidated

accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or before, on or at any time after such date by virtue of the provisions of this subparagraph (c) or subparagraph (b) above.

For the purposes of this definition if there shall at any time not be any relevant audited consolidated accounts of the Issuer and its Subsidiaries, references thereto herein shall be deemed to refer to a consolidation by the Auditors of the Issuer of the relevant audited accounts of the Issuer and its Subsidiaries.

A report by the Auditors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

“**Subsidiary**” means an entity from time to time of which the Issuer:

- (a) has direct or indirect control; or
- (b) owns directly or indirectly more than 50 per cent. of the share capital or similar ownership, and

“control” for this purpose means the power to direct the management and the policies of the entity, whether through the ownership of voting capital, by contract or otherwise.

15.2 Consequences of an Event of Default

If an Event of Default occurs and continues unremedied in relation to the MTNs, then an MTN Holder may, by written notice to the Issuer, effective upon the date of receipt thereof, declare any MTNs held by the MTN Holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

15.3 Notification

If an Event of Default occurs, the Issuer must promptly after becoming aware of it notify the Registrar of the occurrence of the Event of Default (specifying details of it) and use its reasonable endeavours to ensure that the Registrar promptly notifies MTN Holders, each other Agent and any stock exchange or other relevant authority on which the MTNs are listed of the occurrence of the Event of Default.

21 Governing law

21.1 Governing law

MTNs are governed by the law in force in New South Wales, except as stated in Condition 3.3.

21.2 Jurisdiction

The Issuer submits, and each MTN Holder is taken to have submitted, to the non-exclusive jurisdiction of the courts of New South Wales and courts of appeal from them. The Issuer waives any right it has to object to an action being brought in those courts including by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

21.3 Serving documents

Without preventing any other method of service, any document in any action may be served on the Issuer or an MTN Holder by being delivered or left at their registered office or principal place of business.

21.4 Agent for service of process

The Issuer appoints Dabserv Corporate Services Pty Limited (ABN 73 001 824 111) of Level 53, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, as its agent to receive any document referred to in Condition 21.3. If for any reason that person ceases to be able to act as such, the Issuer will immediately appoint another person with an office located in New South Wales to receive any such document and promptly notify the Registrar and the Holders of such appointment.

Series No.: 2

Tranche No.: 1



Íslandsbanki hf.

(Incorporated in Iceland as a public limited company)

A\$1,500,000,000 Debt Issuance Programme

Issue of

A\$300,000,000

Floating Rate Medium Term Notes due November 2010 ("MTNs")

The date of this Pricing Supplement is 14 November 2005.

This Pricing Supplement (as referred to in the Information Memorandum dated 19 April 2005 in relation to the above Programme) relates to the Tranche of MTNs referred to above. It is supplementary to, and should be read in conjunction with the MTN Deed Poll executed by the Issuer dated 19 April 2005.

This Pricing Supplement does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the MTNs or the distribution of this Pricing Supplement in any jurisdiction where such action is required.

The MTNs have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). MTNs may not be offered, sold or delivered within the United States or to or for the account of U.S. persons unless registered under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. tax law requirements are satisfied. For a description of certain restrictions on offers and sales of MTNs and on distribution of this Pricing Supplement and the Information Memorandum, see the section headed "Subscription and Sale" in the Information Memorandum.

Íslandsbanki hf. is not a bank which is authorised under the Banking Act 1959 of Australia. The MTNs are not the obligations of any government and, in particular, are not guaranteed by the Commonwealth of Australia.

The particulars to be specified in relation to the Tranche of MTNs referred to above are as follows:

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| 1 | Issuer | : | Íslandsbanki hf. |
| 2 | Type of MTNs | : | Floating Rate |
| 3 | If to form a single Series with an existing Series, specify the existing Series and the date on which all MTNs of the Series become fungible, if not the Issue Date | : | Not Applicable |
| 4 | Method of distribution | : | Syndicated Issue |
| 5 | Lead Managers | : | National Australia Bank Limited
The Toronto-Dominion Bank |

6	Purchasing Dealers	:	National Australia Bank Limited The Toronto-Dominion Bank
7	Principal amount of Tranche	:	A\$300,000,000
8	Issue Date	:	15 November 2005
9	Purchase Price	:	100 per cent.
10	Currency and denomination	:	A\$1,000 and integral multiples of A\$1,000.(subject to restrictions on minimum amounts set out in the Australian Selling Restrictions – please see page 55 of the Information Memorandum as amended by this Pricing Supplement)
11	Maturity Date	:	15 November 2010
11	Status of the MTNs		Unsubordinated
12	If the MTNs are Fixed Rate MTNs	:	Condition 6 applies: No
13	If the MTNs are Floating Rate MTNs	:	Condition 7 applies: Yes
	Interest Commencement Date, if not Issue Date	:	Not applicable
	Interest Rate	:	3 month BBSW mid plus the Margin
	Interest Payment Dates	:	Each 15 November, 15 February, 15 May and 15 August commencing on 15 February 2006 and ending on the Maturity date.
	Business Day Convention	:	Modified Following Business Day Convention
	Margin	:	+0.30%
	Day Count Fraction	:	Actual/365 (fixed)
	Fallback Interest Rate	:	Not applicable
	Interest Rate Determination	:	Bank Bill Rate Determination
	Bank Bill Rate	:	Yes
14	Relevant Financial Centre	:	Not applicable
15	Linear Interpolation	:	Not applicable
16	If MTNs are Structured MTNs	:	Condition 8 applies: No
17	Amortisation Yield	:	Not Applicable
18	If MTNs are Instalment MTNs	:	Not Applicable
19	If MTNs are Partly Paid MTNs	:	Not Applicable
20	Business Day Convention	:	Not Applicable
21	Redemption Amount	:	Not Applicable

22	Early Redemption Amount (Tax)	:	Not Applicable
	If Early Redemption Amount (Tax) is not the Redemption Amount plus interest accrued on each MTN to (but excluding) the redemption date insert amount or full calculation provisions		
23	Early Redemption Amount (Default)	:	Not Applicable
	If Early Redemption Amount (Default) is not the Redemption Amount plus interest accrued on each MTN to (but excluding) the redemption date insert amount or full calculation provisions		
24	Events of Default	:	There are no additional (or modifications to the Events of Default (as set out in the Note Deed Poll dated 19 April 2005)
25	Additional or alternate newspapers	:	Not Applicable
26	Taxation	:	Not Applicable
27	Other relevant terms and conditions	:	Not Applicable
28	Registrar	:	Austraclear Services Limited
29	Calculation Agent	:	Austraclear Services Limited
30	Clearing System(s)	:	Austraclear
			<i>On admission to the Austraclear System, interests in the Notes may be held through Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) or Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). In these circumstances, entitlements in respect of holdings of interests in the Notes in Euroclear would be held in the Austraclear System by Westpac Custodian Nominees Limited as a nominee of Euroclear while entitlements in respect of holdings of interests in the Notes in Clearstream, Luxembourg would be held in the Austraclear System by ANZ Nominees Limited as nominee of Clearstream, Luxembourg.</i>
			<i>The rights of a holder of interests in Notes held through Euroclear or Clearstream, Luxembourg are subject to the respective rules and regulations for accountholders of Euroclear and Clearstream, Luxembourg, the terms and conditions of agreements between Euroclear and Clearstream, Luxembourg and their respective nominee and the rules and regulations of the Austraclear System.</i>
31	ISIN	:	AU300ISLB028
32	Common Code	:	023505444
33	Selling restrictions	:	There are no additional (or modifications to the) selling restrictions (as set out in the Information Memorandum dated 19 April 2005).

CONFIRMED

**For and on behalf of
Íslandsbanki hf.**

By:

Name:

Title:

Date: