

CONFORMED COPY

DATED 20th July, 2005

ÍSLANDBANKI hf. AS ISSUER

AND

DEUTSCHE BANK TRUST COMPANY AMERICAS
AS ISSUING AND PAYING AGENT AND CALCULATION AGENT

ISSUING AND PAYING AGENT AGREEMENT

Concerning Extendible Short-Term Notes

ALLEN & OVERY

ALLEN & OVERY LLP

LONDON

CONTENTS

	Page
1. Definitions and Interpretation	1
2. Appointment.....	1
3. Certificate Agreement	1
4. Letter of Representations; Minutes; Authorized Officers	1
5. Authorized Persons	2
6. Note Certificates.....	2
7. Instructions	2
8. Issuance	3
9. Terms of Issue	4
10. Determinations and Notifications in respect of Notes and Interest Determination.....	4
11. Payments	4
12. United States Dollars.....	5
13. Representations and Warranties of Issuer	5
14. Compensation.....	5
15. Indemnification	5
16. Termination.....	6
17. Addresses and Notices	6
18. Miscellaneous.....	7

Signatories.....	10
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Exhibit

A. DTC Master Note & Universal Note.....	11
B. Sample Officer's Certificate	12
C. Certificate of Incumbency	13
D. Certificate Agreement	14
E. Letter of Representation	15

THIS AGREEMENT (Agreement) dated as of 20th July, 2005 (**Effective Date**) is entered into by and between Íslandsbanki hf. (the **Issuer**) with offices at Kirkjusandur 2, 155 Reykjavik, Iceland and Deutsche Bank Trust Company Americas, acting as Issuing and Paying Agent and Calculation Agent (the **Bank**) with offices at 60 Wall St, 27th Floor, New York, NY 10005.

1. DEFINITIONS AND INTERPRETATION

Terms and expressions defined in the Dealer Agreement dated as of 20th July, 2005 between the Issuer and the dealers named in it and concerning extendible short-term notes (the **Dealer Agreement**) shall have the same meanings in this Agreement, except where the context otherwise requires or unless otherwise stated.

2. APPOINTMENT

The Issuer requests and authorizes the Bank to act as agent for the Issuer in connection with the issuance and payment of unsecured book entry obligations (each an **Obligation** and collectively the **Obligations**) as evidenced by Master Note Certificate(s) (the **Note Certificate(s)**) in the form appended hereto in Exhibit A and the registered short term extendible promissory notes of the Issuer represented thereby (each a **Note** and collectively the **Notes**). The Bank agrees to act as such agent for the Issuer subject to the provisions of this Agreement commencing on the Effective Date shown above.

Insofar as the context requires, all references herein to an Issuer's **Obligation** shall be deemed to include the Issuer's Note, and all references herein to an Issuer's **Obligations** or **Book entry Obligations** shall be deemed to include the Issuer's Notes.

3. CERTIFICATE AGREEMENT

The Issuer acknowledges that the Bank has previously entered into a medium-term note certificate agreement (the **Certificate Agreement**), a copy of which is appended hereto as Exhibit D, with the Depository Trust Company (**DTC**), and the Issuer also acknowledges that the continuation in effect of the Certificate Agreement is a necessary prerequisite to the Bank's providing services related to issuance of the Obligations. The Issuer understands and agrees that the Certificate Agreement shall supplement the provisions of this Agreement and that the Issuer is bound by the provisions of the Certificate Agreement.

4. LETTER OF REPRESENTATIONS; MINUTES; AUTHORIZED OFFICERS

The Issuer will, prior to the Effective Date, deliver to the Bank an executed Letter of Representations (the **Representations**), a copy of which is appended hereto as Exhibit E. Further, the Issuer understands and agrees that such Representations when executed by the Issuer, the Bank and DTC shall supplement the provisions of this Agreement and that the Issuer, the Bank, and DTC shall be bound by the provisions of the Representations. The Bank and the Issuer agree to comply with the relevant portions of DTC's Issuing and Paying Agent Manual, and the DTC Same Day Settlement System Rules (collectively the **DTC Rules**).

The Issuer has delivered to the Bank (a) a certified copy of an excerpt from minutes of a meeting of the Board of Directors of the Issuer concerning the issuance of Obligations by the Issuer (the **Minutes**), which certificate is appended hereto as Exhibit B, and (b) a list of authorized signatories authorized to take action on behalf of the Issuer with respect to the Obligations (the **Authorized Officers**).

5. **AUTHORIZED PERSONS**

The Issuer authorizes the Bank to accept and to execute Instructions, as defined in and given pursuant to Clause 7 hereof by any one of the employees and/or Agents (defined as sales agents or dealers authorized by a separate agreement between the Issuer and its sales agents or dealers) of the Issuer who are designated in a certified copy of the Issuer's duly signed certificate of incumbency (the **Certificate of Incumbency**). Such designated employees or Agents shall be hereinafter collectively referred to as **Authorized Persons**. The Certificate of Incumbency for Authorized Persons is appended hereto as Exhibit C. The Issuer agrees to provide the Bank with revised certificates of incumbency substantially in the form of Exhibit C when and as required by changes in authorization or personnel.

6. **NOTE CERTIFICATES**

(Y) **Book Entry Obligations**

The Issuer will, prior to the Effective Date, deliver to the Bank a Note Certificate evidencing Obligations issued, such Note Certificate bearing the manual or facsimile signatures of the requisite number of Authorized Officers and specifying the date of issuance, the full legal name of the Issuer and the name of the Bank, acting as paying agent for the Issuer, in each case the Note Certificate being registered in the name of Cede & Co., a nominee of DTC.

(Z) **Book Entry Obligations**

Any Obligation (as evidenced by the Note Certificate or Note bearing the manual or facsimile signature of an Authorized Officer) shall, upon the Bank's issuance of such Obligation on behalf of the Issuer, bind the Issuer notwithstanding that such Authorized Officer shall have died or shall have otherwise ceased to hold office on the date such Obligation is issued by the Bank. Furthermore, the Issuer agrees that the Bank shall have no duty or responsibility to determine the genuineness of the facsimile and/or manual signatures appearing on the Note Certificate(s) or Notes.

7. **INSTRUCTIONS**

The term **Instructions** shall mean a communication in connection with the Obligations, purporting to be from an Authorized Officer or Authorized Person, in the form of a written notice including those transmitted through facsimile transmittal equipment; received by the Bank at the address and/or facsimile number specified in Clause 17 prior to 1.00 p.m. New York time on the third Business Day prior to the Business Day on which the Instructions are to be operative. **Business Day** means a day on which the Bank is open for business.

If the Bank, at its option, acts upon Instructions transmitted after 1.00 p.m. New York time on the third Business Day prior to the Business Day on which the Instructions are to be operative, the Issuer understands and agrees that (a) such Instructions shall be acted upon, on a best efforts basis, by the Bank pursuant to the custom and practice of the commercial paper market, and (b) the Bank makes no representations or warranties that the issuance and delivery of any Note or Obligation pursuant to Clause 8 hereof shall be completed prior to the close of business on the issue date specified in the Instructions.

Notwithstanding anything to the contrary in this Clause 7, the Issuer acknowledges that the Bank may act upon the Instructions without any duty to make any inquiry regarding the genuineness of such Instructions.

8. ISSUANCE

(Y) Book Entry Obligations

The Bank's sole duties in connection with the issuance of the Obligations when the Issuer delivers the Note Certificate(s) to the Bank in the form described in Clause 6(Y) herein, shall be as follows:

- (a) to hold Note Certificates in safekeeping;
- (b) to assign to each Instruction received from the Issuer a CUSIP number as specified in and in accordance with the CUSIP number assignment received by the Bank from the Issuer;
- (c) to cause to deliver an Obligation on behalf of the Issuer upon receipt of Instructions from the Issuer, or their designated agent(s), as to the face or principal amount, net dollar amount, date of issue, initial maturity date, interest rate, and amount of interest due; and
- (d) to arrange for a wire transfer of the net proceeds of all deliveries of the Obligations to an account previously designated by the Issuer under advice to the Issuer at the address specified in Clause 17 hereof.

(Z) Book Entry Obligations

The Issuer acknowledges that pursuant to the custom and practice of the market, the delivery or mailing of an Obligation against payment of the net amount of the Obligation (i.e., the principal amount of the Obligation less the discount specified in the Instructions or the principal amount of an interest bearing Obligation) and the actual receipt of payment thereof are not simultaneous transactions.

Therefore, whenever the Instructions direct the Bank to deliver any Obligation against payment, the Bank is authorized to and will deliver such Obligation to the party specified in the Instructions and hold as receipt a confirmation copy generated by same-day funds settlement (in the case of Book Entry transactions), or the receipt of the party specified in the Instructions in lieu of immediate payment by the purchaser of the Obligation (the **Purchaser**). The Issuer also acknowledges that pursuant to the custom and practice of the market, the Purchaser is obligated to settle in immediately available funds at or before the close of business on the Issue Date specified on the Obligation. The Issuer understands and agrees that whenever the Bank delivers an Obligation against receipt of funds as set forth above, the Issuer and not the Bank shall bear the risk of the Purchaser's failure to remit the net amount of the Obligation purchased.

The Bank shall have no duty or responsibility to make any transfer of the proceeds of the sale of the Issuer's Obligations, or to advance any monies or effect any credit with respect to such proceeds or transfers unless and until (i) the Bank has actually received the proceeds of the sale of the Obligations, and (ii) such receipt of the proceeds is not subject to reversal or cancellation. If the Bank, at its sole option, effects any such transfer that results in an overdraft in any account of the Issuer, the amount of such overdraft shall be considered as a loan to the Issuer, and the Issuer agrees to pay the Bank on demand the amount of such loan together with interest thereon at the rate customarily charged by the Bank on similar loans.

9. TERMS OF ISSUE

The Bank will perform all obligations and duties imposed upon it by this Agreement and the Terms of Extendible Short-Term Notes, as set out in the Offering Circular (the **Terms**), including but not limited to:

- (a) receiving any notices of election from the holders of the Notes in connection with any extension of maturity and taking appropriate action to (i) extend the maturity of such Notes and (ii) redeem any Notes not so extended (including issuing new Notes in respect thereof); and
- (b) selecting by lot, pro rata or by another method considered fair and appropriate by the Issuer, the Notes to be redeemed upon any exercise of the Issuer's option to redeem any Notes.

The Bank will confirm to the Issuer the amount of Notes in respect of which the maturity has been extended and the amount to be redeemed as soon as possible after each Election Date.

The Bank will ensure that Holders are informed of the Election Date and of the procedures that must be followed to make an election, not less than 15 nor more than 20 calendar days prior to each Election Date.

10. DETERMINATIONS AND NOTIFICATIONS IN RESPECT OF NOTES AND INTEREST DETERMINATION

The Bank shall, unless another entity is specified in the applicable Offering Circular as calculation agent in respect of any Notes, make all the determinations and calculations which it is required to make under the Terms, all subject to and in accordance with the Terms.

The Bank shall not be responsible to the Issuer or to any third party as a result of the Bank having acted on any quotation given by any reference bank which subsequently may be found to be incorrect.

The Bank shall promptly notify (and confirm in writing to) the Issuer, each amount of Interest and Interest Payment Date and all other amounts, rates and dates which it is obliged to determine or calculate under the Terms as soon as practicable after their determination and of any subsequent amendments to them under the Terms.

If the Bank does not at any time for any reason determine and/or calculate the amount of Interest and/or Interest Payment Date in respect of any Interest Reset Period or any other amount, rate or date as provided in this clause, it shall immediately notify the Issuer of that fact.

11. PAYMENTS

The Bank's duties in connection with payment of interest under the Obligations shall be to pay on each Interest Payment Date the amount of Interest due to the party appearing to be entitled thereto in the Register.

The Bank's duties in connection with payment of the Obligations shall be, upon presentment at maturity of an issued Obligation, to pay the principal plus any unpaid interest to the party appearing to be entitled thereto in the Register, and to arrange for a wire transfer of such amount from an account previously designated by the Issuer under advice to the Issuer at the address specified in Clause 17 hereof.

The Bank shall have no obligation to pay any amount referred to in this Clause 11 unless sufficient funds have been received by the Bank in collected funds. If the Bank, at its sole option, makes any such payment that results in an overdraft in any account of the Issuer, the amount of such overdraft shall be considered a loan to the Issuer, and the Issuer agrees to pay the Bank on demand the amount of such loan together with interest thereon at the rate customarily charged by the Bank on similar loans.

12. UNITED STATES DOLLARS

The Issuer agrees that the Obligations issued or presented hereunder shall be denominated in United States dollars. The Issuer further agrees that payment of any and all amounts due pursuant to the provisions of this Agreement shall be made solely in United States dollars.

13. REPRESENTATIONS AND WARRANTIES OF ISSUER

The Issuer represents and warrants as follows:

- (a) this Agreement and the Obligations have been duly authorized and this Agreement when executed and the Obligations when issued in accordance with Instructions, will be valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws of general applicability relating to or affecting creditors' rights and to general equity principles;
- (b) no consent, approval, authorization, order, registration or qualification of or with any Icelandic court or governmental agency or body having jurisdiction over the Issuer or any of its properties is required for the issue and sale of the Obligations, except such as have been, or will have been obtained prior to the issue and sale of the Obligations; and
- (c) each Obligation issued under this Agreement will be exempt from registration under the Securities Act of 1933, as amended and the Issuer will not be required to register as an Investment Company under the Investment Company Act.

Each Instruction by the Issuer to issue Obligations under this Agreement shall be deemed a representation and warranty by the Issuer as of the date thereof that the representations and warranties herein are true and correct as if made on and as of such date.

14. COMPENSATION

The Issuer agrees to pay such compensation for the Bank's issuing, paying agent and calculation agent services pursuant to this Agreement in accordance with the arrangements separately agreed between the Issuer and the Bank.

15. INDEMNIFICATION

The Issuer agrees that the Bank shall not be liable for any losses, damages, liabilities or costs suffered or incurred by the Issuer as a result of (a) the Bank's having executed Instructions, (b) the Bank's improperly executing or failing to execute any Instructions because of unclear Instructions, failure of communications media or any other circumstances beyond the Bank's control, (c) the actions or inactions of DTC, any Agent or any broker, dealer, consignee or agent not selected by the Bank, or (d) any other acts or omissions of the Bank (or of any of its agents or correspondents) relating to this Agreement or the transactions or activities contemplated hereby except to the extent, if any, that such other acts or omissions constitute, fraud, negligence, or wilful misconduct by the Bank. The Issuer, in the absence of fraud,

negligence, or wilful misconduct by the Bank, agrees to indemnify the Bank and hold it harmless from and against (a) any and all actions, claims (groundless or otherwise), suits, losses, fines and penalties arising out of the Bank's having executed any Instructions or otherwise having performed any of its obligations hereunder and (b) any damages, costs, expenses (including reasonable legal fees and disbursements), losses or liabilities relating to any such actions, claims, suits, losses fines or penalties or to any breach of this Agreement by the Issuer. In no event shall the Bank be liable for special, indirect or consequential damages. This Clause 15, Indemnification, shall survive any termination of this Agreement and the issuance and payment of any Note(s).

16. TERMINATION

Either the Bank or the Issuer may terminate this Agreement at any time by not less than ten (10) days' prior written notice to the other. No such termination shall affect the rights and obligations of the Issuer and the Bank which have accrued under this Agreement prior to termination.

17. ADDRESSES AND NOTICES

Instructions hereunder shall be transmitted by facsimile device to the Bank at the facsimile number specified below and shall be deemed delivered upon telephone confirmation of actual receipt by the Bank being sought and received by the Issuer from the Bank at the telephone number specified below.

Deutsche Bank Trust Company Americas
Trust and Securities Services
60 Wall St – 27th Floor
New York, NY 10005

Attention: Trust & Securities Services
Telephone: (212) 250-2157
Facsimile: (732) 578-4635

All notices, requests, demands and other communications hereunder (excluding Instructions) shall be in writing and shall be deemed to have been duly given (a) upon delivery by hand (against receipt), or (b) by registered mail (against receipt) or by regular mail (upon receipt), or (c) by facsimile transmission to the party and at the address and/or facsimile number set forth below or at such other address and/or facsimile number as either party may designate by written notice, or (d) where specifically agreed by the parties, by e-mail:

(a) Islandsbanki hf.
Kirkjusandur 2
155 Reykjavik
Iceland

Attention: Funding
Telephone: +354 400 4664
Facsimile: +354 400 4660

(b) Deutsche Bank Trust Company Americas
Trust and Securities Services
60 Wall St. – 27th Floor
New York, NY 10005

Attention: Trust & Securities Services
Telephone: (212) 250-2157
Facsimile: (732) 578-4635

18. MISCELLANEOUS

(a) This Agreement shall be governed by and interpreted in accordance with the laws of the State of New York.

(i) The Issuer agrees that any suit, action or proceeding brought by the Issuer against the Bank in connection with or arising out of this Agreement or the Notes or the offer and sale of the Notes shall be brought in the United States federal courts located in the Borough of Manhattan or the courts of the State of New York located in the Borough of Manhattan. Each of the Bank and the Issuer waives its right to trial by jury in any suit, action or proceeding with respect to this Agreement or the transactions contemplated hereby.

(ii) The Issuer hereby irrevocably accepts and submits to the non-exclusive jurisdiction of each of the aforesaid courts in personam, generally and unconditionally, for itself and in respect of its properties, assets and revenues, with respect to any suit, action or proceeding in connection with or arising out of this Agreement or the Notes or the offer and sale of the Notes.

(iii) Subject to the second sentence in this subparagraph, the Issuer hereby irrevocably designates, appoints and empowers CT Corporation System, with offices at 111 Eighth Avenue, New York, New York 1001, as its designee, appointee and agent (the **Authorised Agent**) to receive, accept and acknowledge for and on its behalf, and its properties, assets and revenues, service for any and all legal process, summons, notices and documents which may be served in any such action, suit or proceeding brought in the courts listed in subparagraph (i) above which may be made on such Authorised Agent in accordance with legal procedures prescribed for such courts. If for any reason such Authorised Agent shall cease to be available to act as such, the Issuer agrees to designate a new designee, appointee and agent in The City of New York on the terms and for the purposes of this Clause satisfactory to the Bank and, failing such appointment within 15 days, the Bank shall be entitled to appoint such a person by written notice to the Issuer. The Issuer further hereby irrevocably consents and agrees to the service of any and all legal process, summons, notices and documents out of any of the aforesaid courts in any such action, suit or proceeding by serving a copy thereof upon the Authorised Agent for service of process referred to in this Clause (whether or not the appointment of such Authorised Agent shall for any reason prove to be ineffective or such Authorised Agent shall accept or acknowledge such service) or by mailing copies thereof by registered or certified airmail, postage prepaid, to it at its address specified in or designated pursuant to this Agreement. The Issuer agrees that the failure of any such Authorised Agent to give any notice of such service to it shall not impair or affect in any way the validity of such service or any judgment rendered in any action or proceeding based thereon. Nothing herein shall in

any way be deemed to limit the ability of the holders of any Notes or the Bank to serve any such legal process, summons, notices and documents in any other manner permitted by applicable law or to obtain jurisdiction over the undersigned or bring actions, suits or proceedings against the undersigned in such other jurisdictions, and in manner, as may be permitted by applicable law; nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not, if and to the extent permitted by law. The Issuer hereby irrevocably and unconditionally waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions, suits or proceedings arising out of or in connection with this Agreement brought in the courts listed in subparagraph (i) above and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

- (iv) To the extent that the Issuer or any of its properties, assets or revenues may have or may hereafter become entitled to, or have attributed to it, any right of immunity, on the grounds of sovereignty or otherwise, from any legal action, suit or proceeding in connection with or arising out of this Agreement or the Notes or the offer and sale of the Notes, from the giving of any relief in any thereof, from setoff or counterclaim, from the jurisdiction of any court, from service of process, from attachment upon or prior to judgment, from attachment in aid of execution of judgment, or from execution of judgment, or other legal process or proceeding for the giving of any relief or for the enforcement of any judgment, in any jurisdiction in which proceeding may at any time be commenced, with respect to its obligations, liabilities or any other matter under or arising out of or in connection with this Agreement, the Dealer Agreement or the Notes, the Issuer hereby irrevocably and unconditionally waives, and agrees for the benefit of the Bank and any holder from time to time of the Notes not to plead or claim, any such immunity, and consents to such relief and enforcement.
- (b) This Agreement may not be assigned by either party and may not be modified, or amended or supplemented except by a writing or writings duly executed by the duly authorized representatives of the Issuer and the Bank.
- (c) This Agreement contains the entire understanding and agreement between the parties with respect to the subject matter hereof. All prior agreements, understandings, representations, statements, promises, inducements, negotiations, and undertakings and all existing contracts previously executed between said parties with respect to said subject matter are superseded hereby.
- (d) With respect to all references herein to nouns, insofar as the context requires, the singular form shall be deemed to include the plural, and the plural form shall be deemed to include the singular.
- (e) In no event shall the Bank be liable for any failure or delay in the performance of its obligations hereunder because of circumstances beyond the Bank control, including, but not limited to, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, embargo, government action, including any laws, ordinances, regulations or the like which restrict or prohibit the providing of the services contemplated by this Agreement.

- (f) The Bank shall incur no liability in acting upon telephonic, facsimile or other electronic instructions which the Bank believes in good faith to have been given by an authorized person, including but not limited to Instructions received in connection with the issuance of Obligations. In addition, in the event that the Issuer or an Agent currently or in the future utilizes a trading system that produces issuance instructions that do not include signatures or initials, the Bank may conclusively rely upon such instructions absent such signatures or initials.

SIGNATORIES

Agreed to and Accepted by:

DEUTSCHE BANK TRUST COMPANY AMERICAS

Authorized Officer's Signature

Name: **RODNEY GAUGHAN**

Title: **ASSISTANT VICE PRESIDENT**

Date: **20th July, 2005**

ÍSLANDBANKI HF.

Authorized Officer's Signature

Name: **EINAR P TAMIMI**

Title: **GENERAL COUNSEL**

Date: **20th July 2005**

Authorized Officer's Signature

Name: **TOMAS KRISTJANSSON**

Title: **MANAGING DIRECTOR & CFO, FINANCE DIVISION**

Date: **20th July, 2005**

EXHIBIT A
DTC MASTER NOTE

EXHIBIT B

Sample Officer's Certificate

Íslandsbanki hf.

Officer's Certificate

I, Einar Páll Tamimi, General Counsel of Íslandsbanki hf. and Secretary to the Board of Directors do hereby certify that attached hereto is a true and correct translation of an extract from the minutes of the 116th meeting of the Board of Directors of Íslandsbanki hf. on 23rd June, 2005 and that said extract has not been amended, modified or revoked, and is in full force and effect on the date hereof; and furthermore that such minutes are the only minutes recorded by the Board of Directors or any sub-committee thereof governing the subject matter described there in.

IN WITNESS WHEREOF, I have hereunto signed my name.

Date: 20th July, 2005

EXHIBIT C

CERTIFICATE OF INCUMBENCY

[on Islandsbanki's headed paper]

Deutsche Bank Trust Company Americas

20th July, 2005

Dear Sirs,

Íslandsbanki hf.

Extendible Short-Term Notes to be Issued under an Issuing and Payment Agent Agreement dated 20th July, 2005

In satisfaction of Clause 3 of the Dealer Agreement (as defined below) and Clause 5 of the Issuing and Paying Agent Agreement (as defined below), we set out below a list of names and specimen signatures of the persons authorized:

- (a) to sign on behalf of Íslandsbanki hf. (the **Issuer**) all notices, certificates and other documents to be delivered in connection with the Dealer Agreement (the **Dealer Agreement**) between the Issuer and the Dealer(s) named therein dated 20th July, 2005 and the Issuing and Paying Agent Agreement (the **Agency Agreement**) between the Issuer and Deutsche Bank Trust Company Americas, dated 20th July, 2005 relating to any Extendible Short-Term Notes issued; and
- (b) to take any other action on behalf of the Issuer in relation to the Extendible Short-Term Notes.

Name

Signature

Íslandsbanki hf.

[_____]
Signature of an Officer

DATE: 20TH JULY, 2005

EXHIBIT D
CERTIFICATE AGREEMENT

EXHIBIT E
LETTER OF REPRESENTATION