

May 27, 2005

Íslandsbanki hf.
Issue of USD 8,000,000
Notes due May 30, 2010 linked to the iShares MSCI Emerging Markets Index Fund
under the €5,000,000,000
Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Offering Circular dated 29th December, 2004. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

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 an offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation ; and no action is being taken to permit an offering of the Notes or the distribution of this Pricing Supplement in any jurisdiction where such action is required.

Investors should have sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of investing in a particular issue of Notes as well as access to, and knowledge of, appropriate analytical tools to evaluate such merits and risks in the context of their financial situation. Certain issues of Notes are not an appropriate investment for investors who are unsophisticated with respect to the applicable interest rate indices, currencies, other indices or formulas, or redemption or other rights or options. Investors should also have sufficient financial resources to bear the risks of an investment in Notes.

As the Fund described herein is underlying the Notes, this Pricing Supplement should be read in conjunction with the Prospectus of the Fund.

The Issuer accepts responsibility for reproducing the Prospectus purposed by the Fund, but they accept no further or other responsibility in respect of such information.

Prospective Investors should recognise that in the event of a negative performance of the Fund, the Final Redemption Amount payable by the Issuer on the Maturity Date in respect of each Note (except if the Notes are previously redeemed, purchased and cancelled) will be 90 per cent of the Nominal Amount of each Note (i.e. USD 9,000); in such event the risk in the amount invested per Note by the Noteholders on the Issue Date is USD 1,000t.

1.	(i)	Series Number:	198
	(ii)	Tranche Number:	1
2.		Specified Currency or Currencies:	United State Dollar ("USD")
3.		Aggregate Nominal Amount:	
	–	Tranche:	USD 8,000,000
	–	Series:	USD 8,000,000
4.	(i)	Issue Price of Tranche:	100 per cent. of the Aggregate Nominal Amount

(ii) Net proceeds:	USD 8,000,000
5. Specified Denominations:	USD 10,000
6. (i) Issue Date:	May 30, 2005
(ii) Interest Commencement Date :	Not Applicable
7. Maturity Date:	May 30, 2010
8. Interest Basis:	Not Applicable
9. Redemption/Payment Basis:	Index Linked Redemption (see Appendix A below)
10. Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
11. Put/Call Options:	Not Applicable
12. (i) Status of Notes:	Senior
(ii) [Date [Board] approval for issuance	Not Applicable
13. Listing:	London
14. Method of distribution:	Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions	Not Applicable
16. Floating Rate Note Provisions	Not Applicable
17. Zero Coupon Note Provisions	Not Applicable
18. Index Linked Interest Note Provisions	Not Applicable
19. Dual Currency Interest Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call	Not Applicable. However, early redemption may occur in certain limited circumstances set out in attached Appendix B.
21. Investor Put	Not Applicable
22. Final Redemption Amount of each Note:	see Appendix A
23. Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)):	

Such amount(s) determined by the Calculation Agent which on the early redemption date of the Notes, shall represent the fair market value of the Notes and which shall have the effect – after taking into account, in the case of redemption for taxation reasons, the cost of unwinding any hedging arrangements entered into in respect of the Notes – of preserving for the Noteholders the economic equivalent of the obligations of the Issuer to make the payments, in respect of the Notes, which would, but for such redemption for taxation reasons or on Event of Default, have fallen due after the relevant early redemption date.

GENERAL PROVISIONS APPLICABLE TO THE NOTES

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| 24. Form of Notes: | Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on 60 days' notice given at any time/only upon an Exchange Event |
| 25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: | Condition 6(e) applies. |
| 26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | No |
| 27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | Not Applicable |
| 28. Details relating to Instalment Notes, including the amount of each instalment (each an "Instalment Amount") and the date on which each payment is to be made (each an "Instalment Date"): | Not Applicable |
| 29. Redenomination applicable: | Redenomination not Applicable |
| 30. Other terms or special conditions: | <p>Société Générale will act as calculation agent (the "Calculation Agent"). The calculations and determinations of the Calculation Agent will be conclusive and binding upon the Issuer, the Agent and the Noteholders, in the absence of manifest error.</p> <p>Pursuant to the attached Appendix B, the Calculation Agent shall notify the Issuer which shall, in its turn, notify the Agent and the Noteholders (i) of any adjustments, substantial in the opinion of the Calculation Agent, and (ii) upon the occurrence of a Termination Event (as defined in Appendix B), of the fair market value of the Notes payable in respect thereof together with the calculations details if necessary.</p> |

DISTRIBUTION

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| 31. (i) If syndicated, names of Managers: | Not Applicable |
| (ii) Stabilising Manager (if any): | Not Applicable |
| 32. If non-syndicated, name of relevant Dealer: | Société Générale |
| 33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D |
| 34. Additional selling restrictions: | Not Applicable |

OPERATIONAL INFORMATION

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| 35. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): | Not Applicable |
| 36. Delivery: | Delivery against payment |

37. Additional Paying Agent(s) (if any):

Not Applicable

ISIN:	XS0219212544
Common Code:	21921254

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the €5,000,000,000 Euro Medium Term Note Programme of Íslandsbanki hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:

Duly authorised

APPENDIX A

(this Appendix forms part of the Pricing Supplement to which it is attached)

1/ Formula and related definitions:

Unless the Notes are previously redeemed and subject to the provisions of Appendix B, the Final Redemption Amount payable in respect of each Note on the Maturity Date shall be determined by the Calculation Agent in accordance with the following formula:

$$\text{NominalAmount}_k \left(100\% + \text{Max} \left(-10\%; 68\% \times \frac{\text{NAV}_F^{\text{adj}} - \text{NAV}_0}{\text{NAV}_0} \right) \right)$$

Where:

"NAV₀":
means 200.27.

"NAV_F^{adj}":
means NAV_F x RD_F

"Nominal Amount":
means, in respect of each Note, USD 10,000.

2/ additional definitions:

"Business Day":
means a day, other than a Saturday or a Sunday, on which subscription and redemption orders can be given pursuant to the Prospectus of the Fund.

"D_k":
means, in respect of a Dividend Date_k, the net dividend paid by the Fund on such date.

"Dividend Date_k":
means any day, from April 29, 2005 (included) to the Final Valuation Date (excluded), on which a dividend is paid by the fund.

"Final Valuation Date":
means the day on which NAV_F is determined, i.e.: the earlier of (i) the date on which the redemption order is executed by the Fund (refer to the definition of NAV_F) or (ii) the Latest Determination Time.

"Fund":
means the iShares MSCI Emerging Markets Index Fund, a separate investment portfolio of iShare, Inc. which is a registered investment company incorporated under the laws of the United States. The shares of iShare, Inc. are listed, but not exclusively, on the American Stock Exchange.
Information on the Fund is set out in the Prospectus.

"Latest Determination Time":
means the day and the time (on such day) on which the Agent has at the latest to instruct a payment to the clearing institutions (Clearstream, Luxembourg and Euroclear) so that the Noteholders receive such payment on the Maturity Date. The Latest Determination Time is expected to be 5:00 p.m. (London time) on May 25, 2010.

"N":
means the number of ex-dividend dates relating to the Fund fallen from April 29, 2005 (included) to the Final Valuation Date (excluded).

"NAV_f":

means the Net Asset Value per Share (as defined in the Prospectus) actually calculated on April 29, 2010 and settled by the Fund for a redemption order sent by the Calculation Agent and executed by the Fund, after deduction of any redemption fees or other costs otherwise payable to the Fund, all in accordance with the provisions of the Prospectus and subject to the provisions of Appendix B; provided that, if such redemption order is not effectively executed on or before the Latest Determination Time, "NAV_f" shall mean a fair market value determined by the Calculation Agent in its sole discretion representing its good faith estimate of the total net assets of the Fund per Share on such date.

"NAV_k":

means the Net Asset Value per Share (as defined in the Prospectus) actually published by the Fund immediately after each Dividend Date_k.

"Prospectus":

means, in relation to the Fund, the Supplement dated April 26, 2005 and the Prospectus dated January 1, 2005, as revised on April 1, 2005, as may be supplemented and amended from time to time. The Noteholders are deemed to have notice of the content thereof. The Prospectus is attached hereto in Appendix C.

"RD_f":

means the value of a correcting factor corresponding to all the dividends paid by the Fund until the Final Valuation Date and determined by the Calculation Agent in accordance with the following formula:

$$\prod_{k=1}^N \left(1 + \frac{D_k}{NAV_k} \right)$$

"Share":

means a Share (as defined in the Prospectus) of the Fund, the price of which is denominated in USD.

APPENDIX B

(This Appendix forms part of the Pricing Supplement to which it is attached)

In making any adjustments and taking any decision in respect of the events listed below, the Calculation Agent shall act in good faith.

(1) Adjustments

In the case of the occurrence at any time on or prior to the Final Valuation Date (as defined in Appendix A) of any event affecting the Fund or the value of the Share such as:

- (i) split, consolidation or reclassification of the Shares, or
- (ii) distribution in the form of dividends which does not constitute the usual dividend policy of the Fund, or
- (iii) any other event that is similar to the events described in (i) and (ii) above insofar as, in the opinion of the Calculation Agent, such events may result in a mechanical adjustment,

then the Calculation Agent shall make adjustments to NAV_k and/or NAV_f as it shall deem necessary so that the value of the Shares to which each Note relates after giving effect to such circumstances shall, as nearly as practicable, be the same as the value of the Shares to which each Note relates before giving effect to such circumstances.

(2) Events relating to the Fund and/or the Share, other than those specified under the paragraph "Adjustments" above, and Termination Event :

In the case of the occurrence of:

- (a) the modification of the conditions of the Fund (such as but not limited to modification of the Prospectus of the Fund) or any event or any change affecting the Fund and/or the Share (such as but not limited to interruption, breakdown, suspension or deferral of the calculation of the Net Asset Value per Share (as defined in the prospectus), or the disappearance of the Net Asset Value per Share (as defined in the prospectus) resulting more particularly from, but not limited to, the winding-up or the termination of the Fund or the cancellation of the registration or of the approval by any relevant authority of the Fund) and that, in the reasonable opinion of the Calculation Agent, is likely to have a significant effect on the value of the Share, or
- (b) the reduction of the number of Shares held or likely to be held by Société Générale as Shareholder of the Fund for any reason beyond Société Générale's control, or the non-execution or partial execution by the Fund for any reason of a subscription or redemption order given by Société Générale or any adverse change in taxation affecting payment made by the Fund in respect of the Shares to Société Générale, or the breach by a counterparty of any of its obligations under any agreement entered into between it and Société Générale in respect of the purchase, the sale or the holding of Shares by Société Générale, or the termination of such agreement for any reason beyond Société Générale's control, or if it becomes unlawful for any party to such agreement to perform its obligations thereunder or to comply with any material provision of such agreement due to the adoption of, or any change in, any applicable law after the date hereof or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction, of any applicable law hereafter, or
- (c) the conversion of the Share into another class of Shares or securities, or the split of the Fund, its consolidation or its merger with, or its sale or its conveyance of all or substantially all its assets to, a third party, or
- (d) a substantial modification in the proportion of the type of assets in which the Fund invests, as determined in good faith by the Calculation Agent, which would not necessarily lead to a modification of the Prospectus of the Fund, and that, in the reasonable opinion of the Calculation Agent, has or is likely

to have a significant effect on the conditions of the hedging arrangements (i.e. the holding by Société Générale of Shares of the Fund) entered into by Société Générale in respect of the Notes to enable their offering by the Issuer, or

(e) a reduction of the Fund's total net asset value below USD 20 million;

then the Calculation Agent may either :

(i) make any adjustments to NAV_k and/or NAV_f , as the Calculation Agent considers appropriate ; or

(ii) consider such event as an event triggering the termination of the Notes (hereafter, a “Termination Event”). In the case where a Termination Event occurs, the Issuer shall terminate its obligations under the Notes and shall pay or cause to be paid in respect of each Note an amount determined by the Calculation Agent, as representing the fair market value of such Note; or

(iii) in the case of subparagraph (2)(c) only and in respect of each Note, replace the Share by the kind and number of Shares or other securities and property receivable on such conversion, split, consolidation, merger, sale or conveyance by a holder of Shares prior to such conversion, split, consolidation, merger, sale or conveyance for the purposes of determining the value of the Share and make any adjustment (if necessary) to the value of such Share.

APPENDIX C