

PRICING SUPPLEMENT

15 June, 2005

Íslandsbanki hf.
Issue of EUR 15,000,000 Equity Linked Redemption Notes
due 15 June 2011
under the EUR 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. The Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

The purchase of Notes involves substantial risks and is suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and the merits of an investment in the Notes. Before making an investment decision, prospective purchasers of Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider carefully, in the light of their own financial circumstances, financial condition and investment objective.

1.	(i)	Series Number:	188
	(ii)	Tranche Number:	1
2.		Specified Currency or Currencies:	Euro ("EUR")
3.		Aggregate Nominal Amount:	
	–	Tranche:	EUR 15,000,000
	–	Series:	EUR 15,000,000
4.	(i)	Issue Price of Tranche:	91.30 per cent.
	(ii)	Net proceeds:	EUR 13,695,000
5.		Specified Denominations:	EUR 1,000
6.	(i)	Issue Date:	15 June 2005
	(ii)	Interest Commencement Date:	15 June 2005
7.		Maturity Date:	15 June 2011
8.		Interest Basis:	Fixed Rate then Index Linked
9.		Redemption/Payment Basis:	Index Linked
10.		Change of Interest Basis or Redemption/ Payment Basis:	Interest Basis automatically converts from Fixed Rate to Index Linked on 15 June 2008
11.		Put/Call Options:	Not Applicable

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| 12. | (i) | Status of the Notes: | Senior |
| | (ii) | Date Board approval for issuance of Notes obtained: | Not Applicable |
| 13. | Listing: | | London Stock Exchange and Luxembourg Stock Exchange |
| 14. | Method of distribution: | | Non-syndicated |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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| 15. | Fixed Rate Note Provisions | | Applicable |
| | | | For the period from and including the Interest Commencement date to, but excluding, 15 June 2008 the Notes are Fixed Rate Notes |
| | (i) | Rate(s) of Interest: | 6.00 per cent payable annually in arrears |
| | (ii) | Interest Payment Dates: | 15 June 2006, 15 June 2007 and 15 June 2008 |
| | (iii) | Fixed Coupon Amount(s): | EUR 60.00 per Specified Denomination |
| | (iv) | Broken Amount(s): | Not Applicable |
| | (v) | Day Count Fraction: | 30/360 |
| | (vi) | Determination Date(s): | Not Applicable |
| | (viii) | Other terms relating to the method of calculating interest for Fixed Rate Notes: | Not Applicable |
| 16. | Floating Rate Note Provisions | | Not Applicable |
| 17. | Zero Coupon Note Provisions | | Not Applicable |
| 18. | Index Linked Interest Note Provisions | | Applicable |
| | | | For the period from and including 15 June 2008 to, but excluding the Maturity Date the Notes are Index Linked Notes. |
| | (i) | Index/Formula: | <p>(A) $C_i = NA \times \max\{0\%; [6\% + 10\% \times (BasketPerformance_i)]\}$
 $\forall i = 1 \text{ to } 3$</p> <p>OR</p> <p>(B) If, on a Trigger Date, the following condition (the “Trigger Event”) is fulfilled</p> <p>$1 + BasketPerformance_i \geq 90\% \quad \forall i = 1 \text{ to } 3$</p> <p>the applicable Rate of Interest is 6 per cent per annum</p> |

(EUR 60.00 per EUR 1,000 Specified Denomination)

Where

“C_i” means either C1 or C2 or C3

“C1” means the Interest Payment Date due 15 June 2009 (1).

“C2” means the Interest Payment Date due 15 June 2010 (2).

“C3” means the Interest Payment Date due 15 June 2011 (3).

“NA” means EUR 1,000

“BasketPerformance_i” is the simple arithmetic average of the ten worst share performances with the Basket at each Trigger Date. Each share performance will be determined by the Calculation Agent as follows:

$$Performance_i^j = \left(\frac{Share_i^j - Share_0^j}{Share_0^j} \right)$$

with j = 1 to 30

“Share_i^j” means the closing level of each Share in the Basket at the Valuation Time on the applicable Trigger Date

“Share₀^j” means the closing level of each Share in the Basket at the Valuation Time on the Issue Date.

“Trigger Date” means the day that is eight TARGET Settlement Days prior to each of C1 or C2 or C3.

“Basket” means all of the Shares collectively

“Share” means each of:

j		Reuters code
1	HSBC Holding	0005.HK
2	Nissan Motor Co Ltd	7201.T
3	Tokyo Electric Power Co Inc/The	9501.T
4	Motorola Inc	MOT.N
5	Telefonaktiebolaget LM Ericsson	ERICb.ST
6	Ford Motor Co	F.N

7	Bank of America Corp	BAC.N
8	Enel SpA	ENEL.MI
9	AstraZeneca Plc	AZN.L
10	Alcatel SA	CGEP.PA
11	Biogen Idec Inc	BIIB.OQ
12	Cisco Systems Inc	CSCO.OQ
13	Fuji Photo Film Co Ltd	4901.T
14	Toyota Motor Corp	7203.T
15	HBOS PLC	HBOS.L
16	Iberdrola SA	IBE.MC
17	Scottish Power Plc	SPW.L
18	Amazon.Com Inc	AMZN.OQ
19	Koninklijke Ahold NV	AHLN.AS
20	Sony Corp	6758.T
21	Eli Lilly & Co	LLY.N
22	RWE AG	RWEG.DE
23	Casino Guichard	CASP.PA
24	Banco Santander Central Hispano SA	SAN.MC
25	United Parcel	UPS.N
26	Tesco PLC	TSCO.L
27	Verizon Communications Inc	VZ.N
28	Hewlett-Packard Co	HPQ.N
29	Altria Group Inc	MO.N
30	ING Groep NV	ING.AS

VALUATION

"Exchange Business Day" means any Scheduled Trading Day on which each Exchange and each Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

"Scheduled Closing Time" means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, any scheduled weekday closing time of such Exchange or Related Exchange, without regard to after hours or any other trading outside of the regular trading session hours.

"Scheduled Trading Day" means any day on which each Exchange and each Related Exchange are scheduled to be open for trading.

"Valuation Time" means the Scheduled Closing Time on the relevant Valuation Date or Averaging Date, as the case may be, in relation to each Share to be valued. Subject to the Market Disruption provisions below, if the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

“Valuation Date Provisions”

If any Valuation Date is a Disrupted Day then the Valuation Date for each Share comprised in the Basket shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day for all the Shares comprised in the Basket, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day for all the Shares comprised in the Basket. In that case, (i) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date for each Share comprised in the Basket, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Calculation Agent shall determine its good faith estimate of the value for each Share comprised in the Basket as of the Valuation Time on that eighth Scheduled Trading Day.

"Scheduled Valuation Date" means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been a Valuation Date.

"Disrupted Day" means any Scheduled Trading Day on which any Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred. The Calculation Agent shall as soon as reasonably practicable under the circumstances notify the parties or other party, as the case may be, of the occurrence of a Disrupted Day on any day that, but for the occurrence of a Disrupted Day, would have been a Valuation Date. Without limiting the obligation of the Calculation Agent to notify the parties as set forth in the preceding sentence, failure by the Calculation Agent to notify the parties of the occurrence of a Disrupted Day shall not affect the validity of the occurrence and effect of such Disrupted Day.

MARKET DISRUPTION

(a) **Market Disruption Event.** "Market Disruption Event" means the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case if the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time, or (iii) an Early Closure.

(b) **Trading Disruption.** "Trading Disruption" means any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise, (i) relating to the Share on the Exchange, or (ii) in options contracts or futures contracts relating to the Share on any relevant Related Exchange.

(c) **Exchange Disruption.** "Exchange Disruption" means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general to (i) effect transactions in or obtain market values for the Shares on the Exchange, or (ii) to effect transactions in options contracts or futures contracts relating to the Share or the relevant Index on any relevant Related Exchange.

(d) **Early Closure.** "Early Closure" means the closure on any Exchange Business Day of the Exchange or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or Related Exchange(s) at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Exchange(s) or Related Exchange(s) on such Exchange Business Day and (ii) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day.

ADJUSTMENTS

Following the declaration by the Share Issuer of the terms of any Potential Adjustment Event, the Calculation Agent will determine whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the relevant Shares and, if so, will (i) make the corresponding adjustment(s), if any, to any terms

of the Note as the Calculation Agent determines appropriate to account for that diluting or concentrative effect (provided that no adjustments will be made to account solely for changes in volatility, expected dividend, stock loan rate or liquidity) and (ii) determine the effective date(s) of the adjustment(s). The Calculation Agent may (but need not) determine the appropriate adjustment(s) by reference to the adjustment(s) in respect of such Potential Adjustment Event made by an options Exchange to options on the relevant Shares traded on such options exchange.

"Potential Adjustment Event" means any of the following:

(i) a subdivision, consolidation or reclassification of relevant Shares (unless resulting in a Merger Event), or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalization or similar issue;

(ii) a distribution, issue or dividend to existing holders of the relevant Shares of (A) such Shares, or (B) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Share Issuer equally or proportionately with such payments to holders of such Shares, or (C) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the Share Issuer as a result of a spin-off or other similar transaction, or (D) any other type of securities, rights or warrants or other assets, in any case for payment (cash or other consideration) at less than the prevailing market price as determined by the Calculation Agent;

(iii) an Extraordinary Dividend;

(iv) a call by the Share Issuer in respect of relevant Shares that are not fully paid;

(v) a repurchase by the Share Issuer or any of its subsidiaries of relevant Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;

(vi) with respect to the Share Issuer, an event that results in any shareholder rights pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or

stock rights at a price below their market value (as determined by the Calculation Agent) being distributed or becoming separated from shares of common stock or other shares of the capital stock of the Share Issuer (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or

(vii) any other event that may have a diluting or concentrative effect on the theoretical value of the relevant Shares.

EXTRAORDINARY EVENTS

If a Share-for-Share Tender Offer, Share-for-Combined Tender Offer, Share-for-Share Merger Event or a Share-for-Combined Merger Event occurs in relation to a Share (such Share being a “Disrupted Share”) and the Share Issuer of the New Shares is not already an Share Issuer, then, on or after the relevant Merger Date or Tender Offer Date the Calculation Agent shall adjust the Share Basket to include the relevant quantity of the New Shares to which a holder of the Share immediately prior to the occurrence of the Merger Event or Tender Offer would be entitled upon consummation of the Merger Event or Tender Offer. Accordingly:

(i) the New Share and its issuer will be deemed a "Share" and an "Share Issuer" respectively

(ii) the Calculation Agent will adjust the Initial Price for such New Share so that the ratio of the Spot Price for that New Share to the Initial Price for the New Share equals the ratio of the Spot Price for the Disrupted Share to the Initial Price for the Disrupted Share immediately prior to the occurrence of the Merger Event or Tender Offer, and if necessary, the Calculation Agent will adjust any other relevant terms accordingly.

If a Share-for-Other Tender Offer, Share-for-Other Merger Event, or a Share-for-Share Tender Offer, Share-for-Combined Tender Offer, Share-for-Share Merger Event or a Share-for-Combined Merger Event where the issuer of the New Shares is a Share Issuer, occurs in relation to a Share (such Share being a “Disrupted Share”), then, on or after the relevant Merger Date or Tender Offer Date, the Calculation Agent shall adjust the Share Basket by substituting the Disrupted Share in the Share Basket with a Replacement Share (as defined below) upon consummation of the Merger Event or Tender Offer. Accordingly:

- (i) the Replacement Share and its issuer will be deemed a "Share" and an "Share Issuer" respectively,
- (ii) the Calculation Agent will adjust the Initial Price for such Replacement Share so that the ratio of the Spot Price for that Replacement Share to the Initial Price for the Replacement Share equals the ratio of the Spot Price for the Disrupted Share to the Initial Price for the Disrupted Share immediately prior to the occurrence of the Merger Event or Tender Offer, and if necessary, the Calculation Agent will adjust any other relevant terms accordingly

If a Nationalisation, Insolvency or De-listing occurs in relation to a Share (such Share being a "Disrupted Share"), the Calculation Agent shall substitute the Disrupted Share in the Share Basket with a Replacement Share (as defined below) on the effective date of such event. Accordingly:

- (i) the Replacement Share and its issuer will be deemed a "Share" and an "Share Issuer" respectively,
- (ii) the Calculation Agent will adjust the Initial Price for such Replacement Share so that the ratio of the Spot Price for that Replacement Share to the Initial Price for the Replacement Share equals the ratio of the Spot Price for the Disrupted Share to the Initial Price for the Disrupted Share immediately prior to the occurrence of such event, and, if necessary, the Calculation Agent will adjust any other relevant terms accordingly

Either party will, upon becoming aware of the occurrence of a Merger Event, Tender Offer, Nationalisation, Insolvency or De-listing notify the other party of the occurrence of the Merger Event, Tender Offer, Nationalisation, Insolvency or De-listing, as the case may be. The Calculation Agent shall give notice as soon as practicable to the security holders stating the occurrence of the Merger Event, Tender Offer, Nationalisation, Insolvency or De-listing, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. However, security

holders should be aware that there may necessarily be some delay between the time at which any of the above events occur and the time at which it is notified to security holders.

“Replacement Share” means, in the determination of the Calculation Agent in its sole discretion, the share with the highest free-float capitalisation in the same Industry Sector and the same Region as that of the Disrupted Share on the Merger Date or Tender Offer Date or the relevant effective date, as applicable, such free-float and capitalisation as announced by the Morgan Stanley Capital Index (“MSCI”).

“Spot Price” means: (i) in relation to a Share that is a Disrupted Share, the last official closing price for such Share on the relevant Exchange (as determined by or on behalf of the Calculation Agent) immediately prior to the relevant Share-for-Share Tender Offer, Share-for-Combined Tender Offer, Share-for-Other Tender Offer, Share-for-Share Merger Event, Share-for-Combined Merger Event, Share-for-Other Merger Event, Nationalisation, Insolvency or De-listing (each as defined above), and (ii) in relation to a Share that is a Replacement Share or a New Share, the last official closing price for such Share on the relevant Exchange (as determined by or on behalf of the Calculation Agent) on the following day to the effective date of the relevant Share-for-Share Tender Offer, Share-for-Combined Tender Offer, Share-for-Other Tender Offer, Share-for-Share Merger Event, Share-for-Combined Merger Event, Share-for-Other Merger Event, Nationalisation, Insolvency or De-listing (each as defined above);

“Industry Sector” means, in respect of a Share, the industry sector allocated to such share by MSCI and in respect of a Replacement Share, the industry sector allocated to such Replacement Share by MSCI.

“Region” means, in respect of a Share, the region (either “USA”, “Asia” or “Europe”) in which the Share Issuer is incorporated and, in respect of a Replacement Share, the region (either “USA”, “Asia” or “Europe”) in which the issuer of such Replacement Share is incorporated.

The Initial Price of the Replacement Share will be calculated following this formulae:

Initial Price of Replacement Share = Spot PriceRS * Ratio

Spot PriceRS = Replacement Share Spot Price = The last official closing price for such Share on the relevant Exchange (as determined by or on behalf of the Calculation Agent) on the following day to the effective date of the relevant Share-for-Share Tender Offer, Share-for-Combined Tender Offer, Share-for-Other Tender Offer, Share-for-Share Merger Event, Share-for-Combined Merger Event, Share-for Other-Event, Nationalisation, Insolvency or De-listing.

Ratio = Initial Price of Disrupted Share/ Spot PriceDS

Spot PriceDS = Disrupted Share Spot Price = The last official closing price for such Share on the relevant Exchange (as determined by or on behalf of the Calculation Agent) immediately prior to the relevant Share-for-Share Tender Offer, Share-for-Combined Tender Offer, Share-for-Other Tender Offer, Share-for-Share Merger Event, Share-for-Combined Merger Event, Share-for-Other Merger Event, Nationalisation, Insolvency or De-listing.

"Extraordinary Event" means a Merger Event, Tender Offer, Nationalization, Insolvency or Delisting, as the case may be.

"Merger Event" means, in respect of any relevant Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of the Share Issuer with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Share Issuer is the continuing entity and which does not result in a reclassification or change of all of such Shares outstanding), (iii) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100% of the outstanding Shares of the Share Issuer that results in a transfer of or an irrevocable commitment to transfer all such shares (other than such shares owned or controlled by the offeror), or (iv) consolidation, amalgamation, merger or binding share exchange of the Share Issuer with or into another entity in

which the Share Issuer is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the holders of the outstanding Shares (other than Shares owned or controlled by the offeror) immediately prior to such event collectively owning less than 50% of the outstanding Shares (assuming that all securities are converted into, or exchanged for, Shares) immediately following such event (a "Reverse Merger"), in each case if the Merger Date is on or before the final Valuation Date.

"Tender Offer" means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining, by conversion or other means, greater than 10% and less than 100% of the outstanding voting shares of the Share Issuer, as determined by the Calculation Agent, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Calculation Agent deems relevant.

"Nationalization" means that all the Shares or all or substantially all the assets of an Share Issuer are nationalized, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof;

"Insolvency" means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting an Share Issuer, (A) all the Shares of that Share Issuer are required to be transferred to a trustee, liquidator or other similar official or (B) holders of the Shares of that Share Issuer become legally prohibited from transferring them;

"Delisting" means that the Exchange announces that pursuant to the rules of such Exchange, the Shares cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country (or, where the Shares have been listed on an exchange or quotation system within the European Union, in any member state of the European Union) as the Exchange. For the avoidance of doubt, it will constitute a De-listing if (a) the Exchange is

located in the United States and the Shares are not immediately re-listed, re-traded or re-quoted on any of the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market System (or their respective successors); and (b) the Exchange is within the European Union, and the Shares are not immediately re-listed, re-traded or re-quoted on any of the exchanges or quotation systems located in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland or the United Kingdom.

"Merger Date" means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Calculation Agent.

"Tender Offer Date" means, in respect of a Tender Offer, the date on which shares in the amount of the applicable percentage threshold are actually purchased or otherwise obtained (as determined by the Calculation Agent).

"Share-for-Share" means, in respect of a Merger Event or Tender Offer, that the consideration for the relevant Shares consists (or, at the option of the holder of such Shares, will consist) solely of New Shares.

"Share-for-Other" means, in respect of a Merger Event or Tender Offer, that the consideration for the relevant Shares consists solely of Other Consideration.

"Share-for-Combined" means, in respect of a Merger Event or Tender Offer, that the consideration for the relevant Shares consists of Combined Consideration.

"Other Consideration" means cash and/or any securities (other than New Shares) or assets (whether of the offeror or a third party).

"New Shares" means (A) if the Exchange mentioned therein is located the United States, ordinary or common shares, whether of the entity or person (other than the issuer) involved in the Merger Event or the making of the Tender Offer or a third party, that are , or that as of the Merger Date are scheduled to be, (i) publicly quoted, traded or listed on any of the New York Stock Exchange, the American Stock Exchange or the

NASDAQ National Market System (or their respective successors) and (ii) not subject to any currency exchange controls, trading restrictions or other trading limitations; and (B) if the Exchange mentioned therein is within the European Union, ordinary or common shares, whether of the entity or person (other than the issuer) involved in the Merger Event or the making of the Tender Offer or a third party, that are , or that as of the Merger Date are scheduled to be, (i) in United Kingdom, France, Germany, Italy, the Netherlands, Spain, Denmark, Finland, Sweden, Luxembourg, Austria, Ireland, Belgium, Portugal, Norway or Switzerland and (ii) not subject to any currency exchange controls, trading restrictions or other trading limitations.

"Combined Consideration" means New Shares in combination with Other Consideration.

"Announcement Date" means, (i) in the case of a Merger Event, the date of the first public announcement of a firm intention to engage in a transaction (whether or not subsequently amended) that leads to the Merger Event, (ii) in the case of a Tender Offer, the date of the first public announcement of a firm intention to purchase the requisite number of Shares (whether or not subsequently amended), that leads to the Tender Offer, (iii) in the case of a Nationalization, the date of the first public announcement to nationalize (whether or not subsequently amended) that leads to the Nationalization, (iv) in the case of an Insolvency, the date of the first public announcement of the institution of a proceeding or presentation of a petition or passing of a resolution (or other analogous procedure in any jurisdiction) that leads to the Insolvency, and (v) in the case of a Delisting, the date of the first public announcement by the Exchange that the Shares will cease to be listed. If the announcement of such Extraordinary Event is made prior to the actual closing time for regular trading session of such Exchange, without regard to any after hours or any other trading outside of such regular trading session hours, and if such announcement is made after such actual closing time, the next following Scheduled Trading Day, in each case as determined by the Calculation Agent.

- (ii) Calculation Agent responsible for calculating the interest and/or principal due:

Deutsche Bank AG, London Branch

- (iii) Provisions for determining coupon or redemption amount where calculation by reference to Index and/or Formula is impossible or impracticable: See above
- (iv) Specified Period(s)/ Specified Interest Payment Dates: 15 June 2009, 15 June 2010, 15 June 2011
- (v) Business Day Convention: Following Business Day Convention
- (vi) Additional Business Centre(s): TARGET
- (vii) Minimum Rate of Interest: 0.00 per cent
- (viii) Maximum Rate of Interest: Not Applicable
- (ix) Day Count Fraction: 30 /360

19. **Dual Currency Interest Note Provisions** Not Applicable

PROVISIONS RELATING TO REDEMPTION

- 20. Issuer Call Not Applicable
- 21. Investor Put Not Applicable
- 22. Final Redemption Amount of each Note: The Final Redemption Amount of each Note shall be determined by the Calculation Agent as follows:

If the Trigger Event has occurred (as defined herein) the Final redemption Amount is EUR 1,000 per Specified Denomination.

OR

If the Trigger Event has not occurred the Calculation Agent will determine the Final Redemption Amount as follows:

$$NA \times \text{Max}(65\%; 1 + \text{BasketPerformance}_3)$$

“NA” means EUR 1,000

“BasketPerformance₃” is defined in paragraph 18 (above)

- 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 As per Condition 7(e)

7(e):

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 only upon an Exchange Event |
| 25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: | Not Applicable |
| 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: | Not Applicable |

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: | Deutsche Bank AG London |
| 33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D |
| 34. Additional selling restrictions: | The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) and the Bank of Italy pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in |

the Republic of Italy, except:

(i) to professional investors ("operatori qualificati"), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended; or

(ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the "Financial Services Act") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the "Banking Act"), as amended; and

(b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, inter alia, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and

(c) in accordance with any other applicable laws and regulations.

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:	XS0215070243
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Common Code:	021507024
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LISTING APPLICATION

Application has been made to list the Notes described in this pricing supplement 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