

PRICING SUPPLEMENT

Pricing Supplement dated 23 June 2005

Íslandsbanki hf.

**Issue of EUR 11,000,000 6-year Notes
Linked to a Basket of 20 Shares, due June 2011
under the €7,500,000,000
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 16th June 2005. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

INVESTORS SHOULD HAVE SUFFICIENT KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS TO EVALUATE THE MERITS AND RISKS OF INVESTING IN THIS 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. THESE NOTES ARE NOT AN APPROPRIATE INVESTMENT FOR INVESTORS WHO ARE UNSOPHISTICATED WITH RESPECT TO NOTES LINKED TO SHARES, INCLUDING SHARE LINKED INTEREST FORMULAE AND ADJUSTMENT PROVISIONS. SEE ALSO ANNEX B ("CERTAIN INVESTMENT CONSIDERATIONS") FOR CERTAIN OTHER CONSIDERATIONS WHICH PROSPECTIVE INVESTORS SHOULD READ PRIOR TO INVESTING IN ANY NOTES.

1.	(i)	Series Number:	206
	(ii)	Tranche Number:	1
2.		Specified Currency or Currencies:	Euro ("EUR")
3.		Aggregate Nominal Amount:	
	(i)	Tranche	EUR 11,000,000
	(ii)	Series	EUR 11,000,000
4.	(i)	Issue Price of Tranche:	100 per cent. of the Aggregate Nominal Amount
	(ii)	Net Proceeds:	EUR 11,00,000
5.		Specified Denominations:	EUR 1,000
6.	(i)	Issue Date	29 June 2005
	(ii)	Interest Commencement Date:	29 June 2005
7.		Maturity Date:	29 June 2011

8.	Interest Basis:	Fixed Rate and Index Linked Interest (the Index Linked Interest on the Notes is calculated by reference to the performance of a Share Basket). See Annex A
9.	Redemption/Payment Basis:	Redemption at par
10.	Change of Interest or Redemption/Payment Basis:	Not Applicable
11.	Put/Call Options:	Not Applicable
12.	Status of the Notes:	Senior
13.	Listing:	Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for the Notes to be admitted to the official list maintained by the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for the Notes to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to the London Stock Exchange's market for listed securities constitute official listing on the London Stock Exchange ("Official Listing").
14.	Method of distribution:	Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions	Applicable (in respect of the first Interest Period)
(i)	Rate(s) of Interest:	Not Applicable
(ii)	Interest Payment Date:	Maturity Date
(iii)	Fixed Coupon Amount:	EUR 71.00 per each Note (of the Specified Denomination)
(iv)	Broken Amount:	Not Applicable
(v)	Day Count Fraction:	Not Applicable
(vi)	Determination Date:	Not Applicable
(vii)	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
	(i) Index/Formula:	As set forth in paragraph 38 of Annex A
	(ii) Calculation Agent responsible for calculating the interest due:	J.P. Morgan Securities Ltd.
	(iii) Provisions for determining interest where calculation by reference to Index and/or Formula is impossible or impracticable:	As set forth in paragraph 38 of Annex A
	(iv) Specified Period(s)/Specified Interest Payment Date(s):	Maturity Date
	(v) Business Day Convention:	Following Business Day Convention
	(vi) Additional Business Day Centre(s):	Not Applicable
	(vii) Minimum Rate of Interest:	Not Applicable
	(viii) Maximum Rate of Interest:	Not Applicable
	(ix) Day Count Fraction:	Not Applicable
19.	Dual Currency 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:	Par
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)):	The Early Redemption Amount payable pursuant to Condition 7(e) on redemption for taxation reasons pursuant to Condition 7(b) or an Event of Default pursuant to Condition 10 shall be the Final Redemption Amount. There shall be no amount of accrued interest payable upon redemption of the Notes prior to the Maturity Date (for any reason). Condition 1 and Condition 10 are amended accordingly.

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- | | |
|---|--|
| 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): | Not Applicable |
| 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: | See the provisions set out in Annex A |

DISTRIBUTION

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

OPERATIONAL INFORMATION

- | | |
|--|--------------------------|
| 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 Agents (if any): | Not Applicable |

ISIN: XS0221463861

Common Code: 022146386

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the €7,500,000,000 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

ANNEX A

ADDITIONAL SUPPLEMENTAL AND AMENDING CONDITIONS

38. Interest Amount

Unless previously redeemed or purchased and cancelled in accordance with the Terms and Conditions of the Notes (as supplemented and amended herein), the Interest Amount payable by the Issuer on the Maturity Date shall be an amount per Note (of the Specified Denomination) in EUR calculated by the Calculation Agent in accordance with the following formula:

$$\text{Specified Denomination} \times \text{Aggregate Periodic Coupon}$$

Where:

"Aggregate Periodic Coupon" means the aggregate of each Periodic Coupon_t determined by aggregating the Periodic Coupon_t for each of the five Observation Periods, as calculated by the Calculation Agent.

"Periodic Coupon_t" shall be determined by the Calculation Agent in respect of each of the five Observation Periods and means, in respect of each Observation Period "t", an amount (expressed as a decimal) determined by the Calculation Agent after the final Monitoring Date during Observation Period "t" in accordance with the provisions of paragraphs (a) and (b) below (as applicable):

- (a) if the Calculation Agent determines that the Share Price of each of the Shares in the Share Basket at all times on each of the Monitoring Dates during Observation Period "t" (for such purpose, in the event that, pursuant to the definition of "Monitoring Date", a Monitoring Date in respect of a Share falls after the end of Observation Period "t" after the extension of the Scheduled Monitoring Date which fell prior to the end of Observation Period "t", such Monitoring Date shall be deemed to fall within Observation Period "t" (and may not be double counted for the next Observation Period)) is never at or below the Barrier Price of such Share, then Periodic Coupon_t for such Observation Period "t" will be calculated by the Calculation Agent in accordance with the following formula:

$$(0.060 \times i) - \text{Cumulative Periodic Coupon}_t$$

Where:

"i" means, in respect of the first Observation Period, 1; in respect of the second Observation Period, 2; in respect of the third Observation Period, 3; in respect of the fourth Observation Period, 4; and in respect of the fifth Observation Period, 5.

"Cumulative Periodic Coupon_t" means, in respect of Observation Period "t", the aggregate of Periodic Coupon_t for each of the Observation Periods preceding Observation Period_t provided that where Observation Period_t is the first Observation Period, then Cumulative Periodic Coupon_t shall be deemed to be zero.

or

- (b) if the Calculation Agent determines that the Share Price of any of the Shares in the Share Basket on any of the Monitoring Dates during Observation Period "t" is at or below the Barrier Price of such Share, then the Periodic Coupon_t for such Observation Period "t" will be 0.

For the avoidance of doubt, the Interest Amount calculated above (if any) shall be in addition to the Fixed Coupon Amount pursuant to paragraph 15 above.

There shall be no amount of accrued interest on the Notes upon redemption thereof prior to the Maturity Date (for any reason).

Condition 5(b) is amended accordingly.

39. **Definitions**

The following terms used herein shall have the following meanings (and, to the true extent applicable, the Conditions are amended accordingly):

"Barrier Price" means, in respect of a Share, an amount equal to 75 per cent. of the Reference Price of such Share;

"Exchange" means, in respect of a Share of a Share Issuer, the Exchange as specified in the column headed "Exchange" in the Share Basket Table corresponding to such Share Issuer or, in each case, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in such Share has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to such Share on such temporary substitute exchange or quotation system as on the original Exchange);

"Initial Valuation Date" means 29 June 2005 (the **"Scheduled Initial Valuation Date"**) and the Initial Valuation Date for each Share in the Share Basket which is a Scheduled Trading Day and which is not affected by the occurrence of a Disrupted Day shall be the Scheduled Initial Valuation Date, and the Initial Valuation Date for each Share in the Share Basket, if not a Scheduled Trading Day or if affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to that Share, unless the Calculation Agent determines that each of the eight Scheduled Trading Days immediately following the Scheduled Initial Valuation Date is a Disrupted Day relating to that Share. In that case:

- (x) that eighth Scheduled Trading Day shall be deemed to be the Initial Valuation Date for the relevant Share notwithstanding the fact that such day is a Disrupted Day; and
- (y) the Calculation Agent shall determine its good faith estimate of the value for that Share as of the Valuation Time on the eighth Scheduled Trading Day;

"Monitoring Dates" means, in respect of Observation Period "t", the 13th day of each month during such Observation Period (each a **"Scheduled Monitoring Date"**) and the Monitoring Date for each Share in the Share Basket which is a Scheduled Trading Day and which is not affected by the occurrence of a Disrupted Day shall be the Scheduled Monitoring Date, and the Monitoring Date for each Share in the Share Basket, if not a Scheduled Trading Day or if affected by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to that Share, unless the Calculation Agent determines that each of the eight Scheduled Trading Days immediately following the Scheduled Monitoring Date is a Disrupted Day relating to that Share. In that case:

- (x) that eighth Scheduled Trading Day shall be deemed to be the Monitoring Date for the relevant Share notwithstanding the fact that such day is a Disrupted Day; and
- (y) the Calculation Agent shall determine its good faith estimate of the value for that Share as of the Valuation Time on the eighth Scheduled Trading Day;

"Observation Periods" means each of the periods set forth in the table in paragraph 41 below specified in the column headed "Observation Periods" (and **"Observation Period"** means any of them, as applicable);

"Reference Price" means, in respect of a Share, the official closing price of such Share on the Exchange as of the Valuation Time on the Initial Valuation Date, or if there is no official closing price, the mid-market price per such Share on the Exchange at the Valuation Time on the Initial Valuation Date, all as determined by the Calculation Agent, provided that in the event that any price published on the Exchange and which is utilised for any calculation or determination in respect of the Notes is subsequently corrected and the correction is published by the Exchange on or before the day which is two Business Days prior to the Maturity Date, such corrected price;

"Related Exchange" means, in respect of a Share, the principal options or futures exchange, if any, where any options or futures contracts relating to such Share are traded, as determined by the Calculation Agent in its sole and absolute discretion;

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

"Scheduled Trading Day" means, in respect of a Share, any day on which each Exchange and each Related Exchange in relation to such Share are scheduled to be open for trading for their respective regular trading sessions;

"Shares" means, at any date, the common stock of each of the Share Issuers, subject to the substitution(s) of any Affected Share(s) by any Successor Share(s) and/or Substitute Share(s) up to such date;

"Share Basket" means, as at any Monitoring Date, each of the Shares of the Share Issuers as at such date;

"Share Basket Table" means the table set forth in paragraph 40 below;

"Share Issuers" means each of the Share Issuers as specified in the column headed "Share Issuer" in the Share Basket Table, and collectively, the "Share Issuers" (subject to substitution thereof as provided in paragraph 42 below);

"Share Price" means, in respect of a Share and any Monitoring Date "t", the official closing price such Share on the Exchange as of the Valuation Time on such Monitoring Date "t", or if there is no official closing price, the mid-market price per such Share on the Exchange at the Valuation Time on such Monitoring Date "t", all as determined by the Calculation Agent, provided that in the event that any price published on the Exchange and which is utilised for any calculation or determination in respect of the Notes is subsequently corrected and the correction is published by the Exchange on or before the day which is two Business Days prior to the Maturity Date, such corrected price;

"Valuation Time" means, in respect of a Share on the Initial Valuation Date or on a Monitoring Date (as applicable), the Scheduled Closing Time on the relevant Exchange on the Initial Valuation Date or such Monitoring Date (or, if earlier, the actual closing time) or such other time as the Calculation Agent may determine.

40. **Share Basket Table**

Share Issuer	ISIN	Par Value of Share	Exchange	Bloomberg Code	Source of Pricing Information of Share
BT GROUP PLC	GB0030913577	GBp5	London Stock Exchange	BT/A LN	Bloomberg® DES pages 1 and 2
CREDIT SUISSE GROUP	CH0012138530	CHF 0.5	Virt-x	CSGN VX	Bloomberg® DES pages 1 and 2
ACCOR SA	FR0000120404	EUR 3	Euronext Paris Stock Exchange	AC FP	Bloomberg® DES pages 1 and 2
LAFARGE SA	FR0000120537	EUR 4	Euronext Paris Stock Exchange	LF FP	Bloomberg® DES pages 1 and 2
ALACATEL SA	FR0000130007	EUR 2	Euronext Paris Stock Exchange	CGE FP	Bloomberg® DES pages 1 and 2
NOMURA HOLDINGS INC	JP3762600009	NO PAR	Tokyo Stock Exchange	8604 JP	Bloomberg® DES pages 1 and 2
INFINEON TECHNOLOGIES AG	DE0006231004	NO PAR	XETRA	IFX GY	Bloomberg® DES pages 1 and 2
DAIMLER CHRYSLER AG	DE0007100000	NO PAR	XETRA	DCX GY	Bloomberg® DES pages 1 and 2
PFIZER INC	US7170811035	USD 0.05	New York Stock Exchange	PFE UN	Bloomberg® DES pages 1 and 2
NTT DOCOMO INC	JP3165650007	NO PAR	Tokyo Stock Exchange	9437 JP	Bloomberg® DES pages 1 and 2
AMAZON.COM	US0231351067	USD 0.01	NASDAQ Stock Exchange	AMZN UQ	Bloomberg® DES pages 1 and 2

HONDA MOTOR CO LTD	JP3854600008	NO PAR	Tokyo Stock Exchange	7267 JP	Bloomberg® DES pages 1 and 2
AEGON NV	NL0000301760	EUR 0.12	Euronext Paris Stock Exchange	AGN NA	Bloomberg® DES pages 1 and 2
TAKEDA PHARMACEUTICAL CO LTD	JP3463000004	NO PAR	Tokyo Stock Exchange	4502 JP	Bloomberg® DES pages 1 and 2
ING GROEP NV	NL0000303600	NO PAR	Euronext Paris Stock Exchange	INGA NA	Bloomberg® DES pages 1 and 2
MERCK & CO. INC.	US5893311077	USD 0.01	New York Stock Exchange	MRK UN	Bloomberg® DES pages 1 and 2
TELEFONAKTIE BOLAGET LM ERICSSON	SE0000108656	SEK 1	Stockholm Stock Exchange	ERICB SS	Bloomberg® DES pages 1 and 2
APPLE COMPUTERS INC	US0378331005	NO PAR	NASDAQ Stock Exchange	AAPL UQ	Bloomberg® DES pages 1 and 2
SUN MICROSYSTEMS INC	US8668101046	USD 0.00067	NASDAQ Stock Exchange	SUNW UQ	Bloomberg® DES pages 1 and 2
SCHERING AG	DE0007172009	NO PAR	XETRA	SCH GY	Bloomberg® DES pages 1 and 2

As used herein, references to "GBP" are to the lawful currency of the United Kingdom, references to "CHF" are to the lawful currency of Switzerland, references to "EUR" are to the currency introduced on 1 January 1999 pursuant to the Treaty establishing the European Community, references to "USD" are to the lawful currency of the United States of America and references to "SEK" are to the lawful currency of Sweden.

41. **Observation Periods**

Semester	Observation Periods
1	29 June 2006 – 15 June 2007
2	29 June 2007 – 15 June 2008
3	29 June 2008 – 15 June 2009
4	29 June 2009 – 15 June 2010
5	29 June 2010 – 15 June 2011

42. **Substitution/Replacement of Affected Shares**

- (a) Where the Calculation Agent determines that any Share is deemed to be an Affected Share, following an Extraordinary Event, then such Affected Share shall be removed from the Share Basket and the Calculation Agent shall substitute the Affected Share with a Substitute Share. For the avoidance of doubt, the Calculation Agent shall not substitute a Remaining Company Share or the Purchasing Company Share with a Substitute Share. The Affected Share shall be deemed to be removed from the Share Basket as of (i) in the case of an Affected Share in relation to which a Merger Event has occurred, the Merger Date (ii) in the case of an Affected Share in relation to which a Tender Offer has occurred, the Tender Offer Date and (iii) in the case of an Affected Share in relation to which any other Extraordinary Event has occurred, the date on which the Calculation Agent determines that such Extraordinary Event occurred (such date, the Merger Date or the Tender Offer Date being, a "**Substitution Date**") and replaced with a Substitute Share on such Substitution Date, so that the number of Shares comprised in the Share Basket shall at all times be equal to 20.
- (b) The Calculation Agent shall select a Substitute Share, in respect of any Affected Share, using its reasonable endeavours to ensure that (i) such Substitute Share is primarily listed on an exchange situated in the same geographical location as the exchange on which such Affected Share is listed, (ii) the principal business operations of the Share Issuer of such Substitute Share shall be within the same industry sector as the Share Issuer of such Affected Share, and (iii) the Share Issuer of such Substitute Share shall be of a similar international standing and creditworthiness as the Share Issuer of such Affected Share, PROVIDED that if the Calculation Agent determines that the conditions set out in (i), (ii) and/or (iii) above cannot be met in respect of the shares of any other Share Issuer, then the Calculation Agent shall select a Substitute Share in its sole and absolute discretion.
- (c) Upon the replacement of an Affected Share by a Substitute Share, then (i) such Substitute Share shall be considered a Share in the Share Basket and the Exchange for such Substitute share shall be the principal Exchange on which such Substitute Share is traded and the Related Exchange for such Substitute Share shall be the exchange on which futures and options contracts on such Substitute Share are principally traded, if any, in each case as determined by the Calculation Agent, and (ii) the Calculation Agent shall make such adjustment to the Reference Price, exercise, settlement, payment or other variable terms to the terms of the Notes in respect of the Remaining Company Shares, the Purchasing Company Shares and/or the Substitute Share as the Calculation Agent determines appropriate to account for such Extraordinary Event.
- (d) For the purposes of (a), (b) and (c) above (as applicable):
- "**Affected Share**" means: (i) a Share of a Share Issuer subject to a Nationalisation, Insolvency or Delisting; (ii) a Share of a Share Issuer that is subject to a Merger Event and is not the Remaining Company Share; or (iii) a Share of a Share Issuer that is subject to a Tender Offer, i.e. that is not the Purchasing Company Share.
- "**Substitute Share**" means, in respect of the replacement of an Affected Share following an Extraordinary Event, a share which is not already a Share in the Share Basket, as selected by the Calculation Agent in accordance with paragraph 42(b) above.
- (e) In addition, the following terms shall have the following meanings:

"Delisting" means, in respect of a Share of a Share Issuer, that the relevant Exchange announces that pursuant to the rules of such Exchange, the Share ceases (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 is not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union);

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

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

"Merger Date" means the closing date of a Merger Event (as determined by the Calculation Agent) 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;

"Merger Event" means, in respect of a Share of a Share Issuer, any (i) reclassification or change of such Share that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another Share Issuer comprised in the Share Basket, (ii) consolidation, amalgamation, merger or binding share exchange of the Share Issuer with or into another Share Issuer comprised in the Share Basket (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 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 per cent. 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 such other Share Issuer comprised in the Share Basket), or (iv) consolidation, amalgamation, merger or binding share exchange of the Share Issuer or its subsidiaries with or into another Share Issuer comprised in the Share Basket 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 outstanding Shares (other than Shares owned or controlled by such other Share Issuer comprised in the Share Basket) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event (a **"Reverse Merger"**) in each case if the Merger Date is on or before a Monitoring Date;

"Nationalisation" means, in respect of a Share of a Share Issuer, that all the Shares of the Share Issuer or all the assets or substantially all the assets of such Share Issuer are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof;

"Purchasing Company Share" means a Share of the Share Issuer that makes a Tender Offer, as determined by the Calculation Agent;

"Remaining Company Share" means a Share of the Share Issuer that is the continuing entity following a Merger Event, as determined by the Calculation Agent;

"Tender Offer" means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any Share Issuer comprised in the Share Basket that results in such Share Issuer comprised in the Share Basket purchasing or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of a 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;

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

43 **Potential Adjustment Events**

43.1 **Definitions**

"Potential Adjustment Event" means, with respect to any Share Issuer and/or Share, any of the following as determined by the Calculation Agent:

- (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, capitalisation or similar issue;
- (ii) a distribution, issue or dividend to existing holders of relevant Shares of (1) such Shares or (2) 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 (3) share capital or other securities of another share issuer acquired or owned (directly or indirectly) by the Share Issuer as a result of a spin-off or other similar transaction, or (4) 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 amount per Share which the Calculation Agent determines should be characterised as 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) in respect of the Share Issuer, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of the Share Issuer 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, 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, in the opinion of the Calculation Agent, a diluting or concentrative effect on the theoretical value of the relevant Shares;

43.2 **Consequences of a Potential Adjustment Event**

Following the declaration by any Share Issuer of the terms of any Potential Adjustment Event (as determined by the Calculation Agent), 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 one or more of the Final Redemption Amount and/or the Interest Amount(s) and/or any of the other relevant terms 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 dividends, stock loan rate or liquidity relative to the relevant Share); and
- (ii) determine the effective date(s) of the adjustment(s). In such case, such adjustments shall be deemed to be so made from such date(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 any Related Exchange.

Upon making any such adjustment, the Calculation Agent shall give notice as soon as practicable to the Issuer and the Agent, stating the adjustment to the Final Redemption Amount and/or the Interest Amount(s) and/or any of the other relevant terms and giving brief details of the Potential Adjustment Event, and the Agent shall notify the Noteholders thereof in accordance with Condition 14.

For the avoidance of doubt, in addition to or instead of varying any terms in accordance with the above provisions, the Calculation Agent may (on behalf of the Issuer) distribute to the holders of the outstanding relevant Notes additional Notes and/or a cash amount. Such distribution of additional Notes may be made on a "free" or "delivery versus payment" basis.

44. **Calculations and Notifications**

The Calculation Agent shall determine the Interest Amount as soon as reasonably practicable on the Valuation Date and shall cause the Interest Amount to be notified to the Issuer and the Agent as soon as reasonably practicable and the Agent shall notify the holders thereof in accordance with Condition 14.

45. **Market Disruption**

The Calculation Agent shall as soon as reasonably practicable under the circumstances notify the Issuer and the Agent of the existence of a Market Disruption Event on any day that but for the occurrence or existence of a Market Disruption Event would have been the Initial Valuation Date or a Monitoring Date.

46. **Calculations binding**

The calculations and determinations of the Calculation Agent shall (save in the case of manifest error) be final and binding upon all parties. The Calculation Agent shall have no responsibility for good faith errors or omissions in any calculation in respect of the Notes as provided herein.

47. **Determinations**

Whenever any matter falls to be determined, considered or otherwise decided upon by the Calculation Agent or any other person (including where a matter is to be decided by reference to the Calculation Agent's or such other person's opinion), unless otherwise stated, that matter shall

be determined, considered or otherwise decided upon by the Calculation Agent or such other person, as the case may be, in its sole and absolute discretion. Any amounts of less than EUR 0.01 shall be rounded down to zero.

48. **Responsibility**

Neither the Calculation Agent nor the Issuer shall have responsibility to holders of the Notes for good faith errors or omissions in the Calculation Agent's calculations and determinations as provided in the Conditions, whether caused by negligence or otherwise. The calculations and determinations of the Calculation Agent shall be made in accordance with the Conditions (having regard in each case to the criteria stipulated herein and where relevant on the basis of information provided to or obtained by employees or officers of the Calculation Agent responsible for making the relevant calculation or determination) and shall, in the absence of manifest error, be final, conclusive and binding on the holders of the Notes. Holders shall not be entitled to make any claim against the Calculation Agent or the Issuer.

ANNEX B

CERTAIN INVESTMENT CONSIDERATIONS

Prospective investors who consider purchasing any Notes should reach an investment decision only after carefully considering the suitability of such Notes in light of their particular circumstances.

Suitability

The purchase of Notes may involve substantial risks and is suitable only for sophisticated 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. Prior to making an investment decision, prospective investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information set forth in the Offering Circular dated 29th December 2004 and this Pricing Supplement and, in particular, the considerations set forth below. Prospective purchasers should make such inquiries as they deem necessary without relying on the Issuer or the Dealer.

An investment in the Notes linked to one or more Shares may entail significant risks not associated with investments in a conventional debt security, including the risks set out below. The amount of interest paid by the Issuer on redemption of the Notes may in certain circumstances be zero.

No Security

The obligations of the Issuer in respect of Notes are not secured. Investors in the Notes do not have or receive any rights in respect of any underlying Shares and have no right to call for underlying Shares to be delivered to them. The Issuer is not obliged by the terms of any Notes to hold any underlying Shares.

Equity Linked Interest-bearing Notes

The Notes are redeemable by the Issuer by payment of an amount equal to the Specified Denomination but the payment of interest is determined by reference to the value of the Shares, as provided above. Accordingly, an investment in Notes may bear similar market risks to a direct equity investment in the Shares and investors should take advice accordingly.

Hedging

In the ordinary course of their business, whether or not there will be any secondary market making activities, the Issuer, the Dealer and any hedge counterparty to the Issuer (and any party related to any of the foregoing) may effect transactions for their own account or for the account of their customers and hold long or short positions in the Share(s) or related derivatives. In addition, in connection with the offering of the Notes, the Issuer may enter into one or more hedging transactions with respect to the Share(s) or related derivatives. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer, the Dealer and any hedge counterparty to the Issuer (and any party related to any of the foregoing) may enter into transactions in the Share(s) or related derivatives which may affect the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the Noteholders.

Secondary Market

There can be no assurance as to how any Notes will trade in the secondary market, whether there will be a secondary market or whether such market will be liquid or illiquid. Application has not been made to list the Notes on a stock exchange. As a result, pricing information for the Notes may be more difficult to obtain, and the liquidity and market prices of such Notes may be adversely affected.

Market Value of Notes

The market value of Notes will be affected by a number of factors independent of the creditworthiness of the Issuer, including, but not limited to:

- (i) the value and volatility of the Shares;
- (ii) the dividend rate on the Shares and the financial results and prospects of the Share Issuer of each Share;
- (iii) market interest and yield rates; and
- (iv) the time remaining to any redemption date or the maturity date.

In addition, the value of any Share and/or obligation of a Share Issuer may depend on a number of interrelated factors, including economic, financial and political events in one or more jurisdictions, including factors affecting capital markets generally and the Exchange(s) on which any Share of a Share Issuer may be traded. The price at which a Noteholder will be able to sell Notes prior to maturity may be at a discount, which could be substantial, to the market value of such Notes on the issue date, if, at such time, the market price of the Shares of a Share Issuer is below, equal to or not sufficiently above the market price of the Shares of a Share Issuer on the issue date. The historical market prices of any Share and/or obligation of a Share Issuer should not be taken as an indication of such Share's future performance during the term of the Notes.

Issue Price

The Issue Price specified at item 4 above may be more than the market value of the Notes as at the date of this Pricing Supplement, and the price, if any, at which the Dealer or any other person willing to purchase the Notes in secondary market transactions is likely to be lower than the Issue Price. In particular, the Issue Price takes into account amounts with respect to commissions relating to the issue and sale of the Notes as well as amounts relating to the hedging to the Issuer's obligations under the Notes, and secondary market prices are likely to exclude such amounts. In addition, pricing models of relevant market participants may differ or produce a different result.

Conflicts of Interest

The Issuer or its affiliates (each such entity, together with all entities within the Íslandsbanki hf. group ("**Íhf**") and/or the Dealer or its affiliates (each such entity, together with all entities within the JPMorgan group ("**JPMorgan**") may engage in transactions involving the Shares in the Share Basket for hedging purposes in respect of the Notes. Such transactions may have a positive or negative effect on the value of the Shares in the Share Basket and consequently upon the value of the Notes.

Íhf and JPMorgan entities may also hold a position in or otherwise engage in transactions involving the Shares in the Share Basket for their proprietary accounts and for accounts under their management. Íhf and JPMorgan entities may also issue other securities or derivative instruments in respect of the Shares in the Share Basket. Íhf and JPMorgan entities may also act as underwriter in connection with future offerings of the issuers (if any) of the Shares in the Share Basket or may act as financial advisor to such issuers, or sponsor, as the case may be, or in a commercial banking capacity for the issuer (if any) of the Shares in the Share Basket. Such activities could present certain conflicts of interest and may have a positive or negative effect on the Shares in the Share Basket and consequently the value of the Notes.