

22 July 2005

Íslandsbanki hf.
Issue of EUR 53,000,000 Equity Basket Linked Notes due 26 July 2012
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.

1. Series Number:	209
2. Specified Currency or Currencies:	Euro ("EUR")
3. Aggregate Nominal Amount:	
– Tranche:	EUR 53,000,000
– Series:	EUR 53,000,000
4. Issue Price of Tranche:	94.15 per cent. of the Aggregate Nominal Amount
5. Specified Denominations:	EUR 10,000
6. Issue Date:	26 July 2005
7. Maturity Date:	26 July 2012
8. Interest Basis:	Not Applicable
9. Redemption/Payment Basis:	Index Linked Redemption
10. Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
11. Put/Call Options:	Not Applicable
12. Status of Notes:	Senior
13. Listing:	None
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 |
| 21. Investor Put | Not Applicable |
| 22. Final Redemption Amount of each Note: | see Appendix |
| 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)): | Not Applicable |

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 | 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

- | | |
|--|--------------------------------|
| 31. (i) If syndicated, names of Managers: | Not Applicable |
| (ii) Stabilising Manager (if any): | Not Applicable |
| 32. If non-syndicated, name of relevant Dealer: | Dresdner Bank AG London Branch |
| 33. Whether TEFRA D or TEFRA C 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 Agent(s) (if any): | Not Applicable |

ISIN:	XS022 223 968 2
Common Code:	22 223 968
<i>(insert here any other relevant codes)</i>	

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised

Annex 1

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

Details relating to Redemption and to the calculation of the Final Redemption Amount

The Final Redemption Amount payable in respect of the Notes on the Maturity Date shall be an amount in Euro, determined by the Calculation Agent in accordance with the following formula:

$$\text{Payoff } f = \max(7.00\%, 80.00\% \times \text{Perf Max})$$

where:

$$\text{Perf Max} = \max_{t=1}^7 (\text{BasketLevel}(t))$$

$$\text{BasketLevel}(t) = \frac{1}{14} \sum_{i=1}^{14} \text{StockLevel}(i)(t)$$

$\text{StockLevel}(i)(t) = \text{Stock}(i)(t)/\text{Stock}(i)(0) - 100.00\%$ if $\text{Stock}(i)$ has not locked-in following the provisions relating to $\text{MaxStock}(t)$ below, in which case $\text{StockLevel}(i)(t)$ shall be equal to $\text{LockInLevel}(i)$.

$\text{LockInLevel}(i) = \text{Stock}(i)(t)/\text{Stock}(i)(0) - 100.00\%$.

$\text{Stock}(i)(t)$ = closing price of the $\text{Stock}(i)$ on the Observation Date t .

$\text{Stock}(i)(0)$ = closing price of the $\text{Stock}(i)$ on the Start Date

For every Observation Date the best performing stock of the Basket will be determined as $\text{MaxStock}(t)$ and contribute to the future calculation of $\text{BasketLevel}(t)$ as $\text{LockInLevel}(i)$ as per the following formula:

$$\text{MaxStock}(t) = \max_{i=1}^{14-(t-1)} \left(\frac{\text{Stock}(i)(t)}{\text{Stock}(i)(0)} - 100.00\% \right), \text{ for } t = 1, \dots, 7$$

For all future observations (i.e. for all times $k > t$) $\text{Stock}(i)$ will be considered to have "locked-in" and will, therefore, contribute as $\text{LockInLevel}(i)$ to the future performances of the basket.

The performance of $\text{Stock}(i)$ will not be taken into account for the future determination of $\text{MaxStock}(k)$. For the avoidance of doubt, for all times $k > t$, $\text{Stock}(i)$ will be removed from the number of stocks comprising the basket on the basis of which the $\text{MaxStock}(k)$ is to be calculated.

Observation Dates:

t = 1: 19 July 2006
t = 2: 19 July 2007
t = 3: 21 July 2008
t = 4: 20 July 2009
t = 5: 19 July 2010
t = 6: 19 July 2011
t = 7: 19 July 2012

The Basket comprises the shares of the following companies:

Share	RIC Code
United Utilities Plc- water	(UU.L)
Deutsche Tel Ag- telecom	(DTEGn.DE)
Yamanouchi Pharm Co Ltd- Pharm	(4503.T)
Ntt DoCoMo Inc – Telecom	(9437.T)
Telecom Italia Spa – Telecom	(TLIT.MI)
Eni Spa – energy	(ENI.MI)
Aegon Nv – Insurance	(AEGN.AS)
Mitsubishi Tokio Fin. Group Inc-banks	(8306.T)
Royal Dutch Petroleum Co- energy	(RD.AS)
Telefonica Sa-telecom	(TEF.MC)
Sony Corp – Home furn.	(6758.T)
Stora Enso Oyj - paper	(STERV.HE)
Nintendo Co Ltd – toys games	(7974.OS)
Wolters Kluwer NV- media	(WLSNc.AS)

Potential Adjustment Events, Merger Event, Nationalisation, Insolvency and Tender Offer

Potential Adjustment Event

(a) Following the declaration by the Share Company, as the case may be, of the terms of any Potential Adjustment Event, the Calculation Agent will, in its sole and absolute discretion, determine whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the Shares and, if so, will (i) make the corresponding adjustment, if any, to any one or more of any Share and/or any of the other terms of the Pricing Supplement as the Calculation Agent in its sole and absolute discretion determines appropriate to account for that diluting or concentrative effect and (ii) determine the effective date of that adjustment. The Calculation Agent may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an options exchange to options on the Shares traded on that options exchange.

(b) Upon the making of any such adjustment by the Calculation Agent, the Calculation Agent shall give notice as soon as practicable to the Issuer, to the Fiscal Agent (for further delivery to the Clearing Systems and the Paying Agents) and to the Noteholders in accordance with Condition 14, stating the adjustment to any Share and/ or any of the other terms of the Pricing Supplement and giving brief details of the Potential Adjustment Event.

Merger Event, Insolvency, Nationalisation, Delisting and Tender Offer

(c) If a Merger Event, Nationalisation, Insolvency, Delisting or Tender Offer occurs in relation to a Share, the Issuer in its sole and absolute discretion may take the action described in (i), (ii) or (iii) below:

(i) require the Calculation Agent to determine in its sole and absolute discretion the appropriate adjustment, if any, to be made to any one or more of any Shares and/or any of the other terms of the Pricing Supplement to account for the Merger Event, Nationalisation, Insolvency, Delisting or Tender Offer, as the case may be, and determine the effective date of that adjustment. The Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Nationalisation, Insolvency, Delisting or Tender Offer made by any options exchange to options on the Shares traded on that options exchange; or

(ii) following such adjustment to the settlement terms of options on the Shares traded on such exchange(s) or quotation system(s) as the Issuer in its sole discretion shall select (the "**Options Exchange**"), require the Calculation Agent to make a corresponding adjustment to any one or more of any Shares and/or any of the other terms of the Pricing Supplement, which adjustment will be effective as of the date determined by the Calculation Agent to be the effective date of the corresponding adjustment made by the Options Exchange. If options on the Shares are not

traded on the Options Exchange, the Calculation Agent will make such adjustment, if any to any one or more of any Shares and/or any of the other terms of the Pricing Supplement as the Calculation Agent in its sole and absolute discretion determines appropriate, with reference to the rules and precedents (if any) set by the Options Exchange to account for the Merger Event, Nationalisation, Insolvency, Delisting or Tender Offer, as the case may be, that in the determination of the Calculation Agent would have given rise to an adjustment by the Options Exchange if such options were so traded.

(d) Upon the occurrence of a Merger Event, Nationalisation, Insolvency, Delisting or Tender Offer, the Issuer shall give notice as soon as practicable to the Principal Paying Agent, the Calculation Agent and the Noteholders in accordance with Condition 14 stating the occurrence of the Merger Event, Nationalisation, Insolvency, Delisting or Tender Offer, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.

Definitions

"Calculation Agent" means Dresdner Bank AG London Branch;

"Closing Price" means the official closing price per Share of the Underlying quoted by the Exchange at the Valuation Time on the Valuation Date. Provided that there is no official closing price quoted on the Exchange on the Valuation Date, the Closing Price shall be the first executed price of the Share on the Exchange Business Day immediately following the Valuation Date. If there is no executed price on that date or if there is a Market Disruption Event on such date, the Closing Price shall be the good faith estimate of the Exchange traded price that would have prevailed as of the Valuation Time on that following Exchange Business Day determined by the Calculation Agent at such time;

"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 as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union);

"Disrupted Day" means any Scheduled Trading Day on which a relevant 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 give notice to the Noteholders in accordance with Condition 14 of the occurrence of a Disrupted Day on any day that, but for the occurrence of a Disrupted Day, would have been the Valuation Date. Without limiting the obligation of the Calculation Agent to notify the Noteholders as set forth in the preceding sentence, failure by the Calculation Agent to notify the Noteholders of the occurrence of a Disrupted Day shall not affect the validity of the occurrence and effect of such Disrupted Day on any issue of Notes;

"Early Closure" means the closure on any Exchange Business Day of the relevant 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;

"Exchange Business Day" means any Scheduled Trading Day on which the relevant 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;

"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 (i) to effect transactions in, or obtain market values for, the Shares on the Exchange, or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the Share on any relevant Related Exchange;

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

"Market Disruption Event" means in respect of a Share, the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case 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;

"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;

"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 Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Share Company 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 100.00% of the outstanding Shares of the Share Company 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 entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Share Company or its subsidiaries with or into another entity in which the Share Company 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 entity) immediately prior to such event collectively representing less than 50.00% of the outstanding Shares immediately following such event, in each case if the Merger Date is on or before the final Valuation Date;

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

"Potential Adjustment Event" means any of the following:

(a) 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;

(b) 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 Company equally or proportionally 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 Company 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;

(c) an extraordinary dividend, where the Calculation Agent may determine in its sole and absolute discretion whether any dividend or portion thereof is to be characterized as extraordinary dividend;

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

(e) a repurchase by the Share Company 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;

(f) in respect of the Share Company 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 Company 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

(g) 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;

"Scheduled Closing Time" means, 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 any day on which the relevant Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions;

"Share" means the ordinary share of the respective Underlying;

"Share Company" means any of the companies contained in the Basket as defined above;

"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 or having the right to obtain, by conversion or other means, greater than 10.00% and less than 100.00% of the outstanding voting shares of the Share Company 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;

"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 futures or options contracts relating to the Share on any relevant Related Exchange;

"Underlying" means the respective company contained in the Basket as defined above;

"Valuation Date" means any of the Observation Dates as defined above;

"Valuation Time" means the Scheduled Closing Time on the relevant Exchange on the relevant Valuation Date in relation to the Share to be valued. 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.