

Final Terms

September 29, 2005

Íslandsbanki hf.
Issue of EUR 5,000,000 Callable Fixed to Floating Rate Notes due 2011
under the €7,500,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Offering Circular dated 28th July, 2005 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Offering Circular. The Offering Circular is available for viewing at the office of the Issuer at Kirkjusandur 2, 155 Reykjavík, Iceland and copies may be obtained from the Principal Paying Agent at Trinity Tower, 9 Thomas More Street, London E1W 1YT.

1.	Issuer:	Íslandsbanki hf.
2.	(i) Series Number:	240
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	Euro ("EUR")
4.	Aggregate Nominal Amount:	
	– Series:	EUR 5,000,000
	– Tranche:	EUR 5,000,000
5.	Issue Price of Tranche:	100 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	EUR 1,000
7.	(i) Issue Date:	October 4, 2005
	(ii) Interest Commencement Date :	October 4, 2005
8.	Maturity Date:	October 4, 2011
9.	Interest Basis:	- 3.00 per cent. per annum. Fixed Rate from and including the Issue Date to but excluding October 4, 2007; and thereafter - Floating Rate Notes (further particulars specified below)

10. Redemption/Payment Basis:	Redemption at par
11. Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12. Put/Call Options:	Issuer Call (further particulars specified below)
13. (i) Status of Notes:	Senior
(ii) Date Board approval for issuance of Notes obtained:	Not Applicable
14. Method of distribution:	Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions	Applicable
(i) Rate(s) of Interest:	3.00 per cent. per annum payable annually in arrear.
(ii) Interest Payment Date(s):	October 4, 2006 and October 4, 2007
(iii) Fixed Coupon Amount(s):	EUR 30 per Note of EUR 1,000 in nominal amount.
(iv) Broken Amount(s):	Not Applicable
(v) Day Count Fraction:	30/360
(vi) Determination Date(s):	Not Applicable
(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
16. Floating Rate Note Provisions	Applicable
(i) Specified Period(s)/Specified Interest Payment Dates:	October 4 in each year, from and including October 4, 2008 to and including October 4, 2011.
(ii) Business Day Convention:	Not Applicable
(iii) Additional Business Centre(s):	Not Applicable

(iv) Manner in which the Rate of Interest and Interest Amount is to be determined:

The Rate of Interest (expressed as a rate per annum) shall be determined by the Calculation Agent and shall be based on the following formula:

$$2 \times (\text{CMS10y} - \text{CMS2y})$$

The Interest Amount payable in respect of each Note on the relevant Interest Payment Date will be obtained by multiplying the relevant Rate of Interest by the Specified Denomination and the Day Count Fraction.

CMS10y means, in respect of a given Interest Period, the Floating Rate Option set out below under subparagraph (vii) ISDA Determination.

CMS2y means, in respect of a given Interest Period, the Floating Rate Option set out below under subparagraph (vii) ISDA Determination.

(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):

Société Générale

(vi) Screen Rate Determination:

No

(vii) ISDA Determination:

Yes

– Floating Rate Option:

EUR-ISDA-EURIBOR Swap Rate-11:00

– Designated Maturity:

CMS10y: 10 years

CMS2y: 2 years

– Reset Date:

In respect of any Interest Period, the eighth TARGET Business Day prior to the Interest Payment Date of such Interest Period.

“TARGET Business Day” means a day other than a Saturday or a Sunday on which the TARGET System is open.

(viii) Margin(s):

None

(ix) Minimum Rate of Interest:

1.00 per cent.

(x) Maximum Rate of Interest:

Not Applicable

(xi) Day Count Fraction:

30/360, unadjusted

(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating

<p>interest on Floating Rate Notes, if different from those set out in the Conditions:</p>	<p>Not Applicable</p>
<p>17. Zero Coupon Note Provisions</p>	<p>Not Applicable</p>
<p>18. Index Linked Interest Note Provisions</p>	<p>Not Applicable</p>
<p>19. Dual Currency Interest Note Provisions</p>	<p>Not Applicable</p>
<p>PROVISIONS RELATING TO REDEMPTION</p>	
<p>20. Issuer Call</p>	<p>Applicable</p>
<p>(i) Optional Redemption Date(s):</p>	<p>Each Interest Payment Date from and including October 4, 2007 to and including October 4, 2010.</p>
<p>(ii) Optional Redemption Amounts(s) of each Note and method, if any, of calculation of such amount(s):</p>	<p>EUR 1,000 per Note of EUR 1,000 Specified Denomination.</p>
<p>(iii) If redeemable in part:</p>	<p>Not Applicable</p>
<p>(iv) Notice period (if other than as set out in the Conditions):</p>	<p>5 TARGET Business Days</p>
<p>21. Investor Put</p>	<p>Not Applicable</p>
<p>22. Final Redemption Amount of each Note</p>	<p>EUR 1,000 per Note of EUR 1,000 Specified Denomination.</p>
<p>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)):</p>	<p>Condition 7(e) applies</p>
<p>GENERAL PROVISIONS APPLICABLE TO THE NOTES</p>	
<p>24. Form of Notes</p>	<p>Applicable</p>
<p>Bearer Notes:</p>	<p>Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event.</p>
<p>Registered Notes:</p>	<p>Not Applicable</p>
<p>25. Additional Financial Centre(s) or other special provisions relating to Payment Dates:</p>	<p>Not Applicable</p>

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| 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 final terms: | Not Applicable |

DISTRIBUTION

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| 31. (i) If syndicated, names and addresses of Managers and underwriting commitments: | Not Applicable |
| (ii) Date of Subscription Agreement | Not Applicable |
| (iii) Stabilising Manager (if any): | Not Applicable |
| 32. If non-syndicated, name and address of relevant Dealer: | Société Générale
Tour Société Générale
17, cours Valmy
92987 Paris La Défense Cedex |
| 33. Total commission and concession: | Not Applicable |
| 34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D |
| 35. Additional selling restrictions: | Not Applicable |
| 36. ERISA Restrictions: | Not Applicable |

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list the issue of Notes described herein pursuant to the €7,500,000,000 Global Medium Term Note Programme of Íslandsbanki hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING None

2. RATINGS

Ratings: The Notes to be issued have been rated :
Moody's A1

3. NOTIFICATION Not Applicable

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the notes has an interest material to the offer.

5. REASONS FOR THE OFFER; ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

Not Applicable

6. YIELD (*Fixed Rate Notes only*)

Indication of yield: Not Applicable

7. HISTORIC INTEREST RATES (*Floating Rate Notes only*)

Not Applicable

8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)

Not Applicable

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (*Dual Currency Notes only*)

Not Applicable

10. OPERATIONAL INFORMATION

(i) ISIN Code: XS0229753826

(ii) Common Code: 022975382

(iii) CUSIP: Not Applicable

(iv) Any clearing system(s) other than

DTC, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): Not Applicable

(v) Delivery: Delivery against payment

(vi) Names and addresses of additional Paying Agent(s) and Transfer Agent(s) (if any): Not Applicable