

FINAL TERMS

September 28, 2005

Íslandsbanki hf.

Issue of US\$750,000,000 Floating Rate Senior Notes due October 15, 2008 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.

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|-----|--|---|
| 1. | Issuer: | Íslandsbanki hf. |
| 2. | (i) Series Number: | 250 |
| | (ii) Tranche Number: | 1 |
| 3. | Specified Currency or Currencies: | US dollars (US\$) |
| 4. | Aggregate Nominal Amount: | |
| | – Series: | US\$750,000,000 |
| | – Tranche: | US\$750,000,000 |
| 5. | Issue Price of Tranche: | 100 per cent. of the Aggregate Nominal Amount |
| 6. | Specified Denominations: | US\$2,000 and integral multiples of US\$1,000 in excess thereof |
| 7. | (i) Issue Date: | October 5, 2005 |
| | (ii) Interest Commencement Date: | October 5, 2005 |
| 8. | Maturity Date: | Interest Payment Date falling in or nearest to October 2008 |
| 9. | Interest Basis | 3 month US Dollar LIBOR + 0.16 per cent. Floating Rate |
| 10. | Redemption/Payment Basis: | Redemption at par |
| 11. | Change of Interest Basis or Redemption/Payment Basis: | Not Applicable |
| 12. | Put/Call Options: | Not Applicable |
| 13. | (i) Status of Notes: | Senior |
| | (ii) Date Board approval for issuance of Notes obtained: | Not Applicable |
| 14. | Method of distribution: | Syndicated |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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| 15. | Fixed Rate Note Provisions | Not Applicable |
| 16. | Floating Rate Note Provisions | Applicable |
| | (i) Specified Period(s)/Specified Interest Payment Dates: | Interest Payment Dates are January 15, April 15, July 15 and October 15 in each year, from and including January 15, 2006 to and including the Maturity Date. |
| | (ii) Business Day Convention: | Modified Following Business Day Convention |
| | (iii) Additional Business Centre(s): | Not Applicable |
| | (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: | Screen Rate Determination |
| | (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): | Principal Paying Agent |
| | (vi) Screen Rate Determination: | Yes |
| | – Reference Rate: | The Reference Rate shall be: (i) in respect of the period from and including the Issue Date to but excluding the Interest Payment Date falling in January, 2006 an interpolated rate (using a straight line interpolation basis by reference to the number of days in such period) between 3 month US Dollar LIBOR and 4 month US Dollar LIBOR; and (ii) in respect of the period from and including the Interest Payment Date falling in January, 2006 to but excluding the Maturity Date, 3 month US Dollar LIBOR. |
| | – Interest Determination Date(s): | Second London business day prior to the start of each Interest Period |
| | – Relevant Screen Page: | Reuters Telerate Page 3750 |
| | (vii) ISDA Determination: | No |
| | (viii) Margin(s): | + 0.16 per cent. per annum |
| | (ix) Minimum Rate of Interest: | Not Applicable |
| | (x) Maximum Rate of Interest: | Not Applicable |
| | (xi) Day Count Fraction: | Actual/360 |
| | (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: | 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: US\$2,000 per Note of US\$2,000 Specified Denomination
 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)): Condition 7(e) applies

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:
 - Bearer Notes: Not Applicable
 - Registered Notes: Applicable
 Rule 144A Global Note (U.S.\$750,000,000 nominal amount registered in the name of a nominee for DTC)
 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 final terms: Not Applicable

DISTRIBUTION

31. (i) If syndicated, names and addresses of Managers and underwriting commitments:
J.P. Morgan Securities Inc.
 270 Park Avenue
 New York, New York 10017

Underwriting Commitment: US\$247,500,000

Deutsche Bank Securities Inc.

60 Wall Street
36th Floor
New York, NY 10005

Underwriting Commitment: US\$247,500,000

Nomura Securities International, Inc.

2 World Financial Center, Bldg. B
New York, New York 10281

Underwriting Commitment: US\$247,500,000

Keefe, Bruyette, & Woods, Inc.

The Equitable Building
4th Floor
787 7th Avenue
New York NY 10019

Underwriting Commitment: US\$7,500,000

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| (ii) Date of Subscription Agreement: | September 28, 2005 |
| (iii) Stabilising Manager (if any): | J.P. Morgan Securities Inc. |
| 32. If non-syndicated, name of relevant Dealer: | Not Applicable |
| 33. Total commission and concession: | None |
| 34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA not applicable |
| 35. Additional selling restrictions: | Not Applicable |
| 36. ERISA restrictions: | Each US holder and beneficial owner of the Notes is deemed to represent that (1) it is not an "employee benefit plan" as defined in Section 3(3) of ERISA, subject to Title I of ERISA, a plan subject to Section 4975 of the Internal Revenue Code, an entity whose underlying assets include the assets of any Plan, or a governmental or church plan which is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Internal Revenue Code; or (b) its purchase, holding and disposition of its interest in the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code (or, in the case of a governmental or church plan, any substantially similar federal, state or local law) unless an exemption is available with respect to such transactions and all the conditions of such exemption have been satisfied. |

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

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| (i) Listing: | None |
| (ii) Admission to trading: | Not Applicable |
| (iii) Estimate of total expenses related to admission to trading: | Not Applicable |

2. RATINGS

Ratings: The Notes to be issued have been rated:

Moody's: A1
Fitch: A

An A1 rating by Moody's denotes an obligation which is considered upper-medium grade and is subject to low credit risk. The modifier 1 is the highest of three modifiers applied to each rating category and therefore indicates that the obligation ranks in the higher end of its rating category.

An A rating by Fitch denotes an expectation of low credit risk. It indicates that the capacity for payment of financial commitments is considered strong but may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

3. 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.

4. **YIELD** (*Fixed Rate Notes only*) Not Applicable

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

Details of historic LIBOR rates can be obtained from Bloomberg.

6. OPERATIONAL INFORMATION

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|---|----------------|
| (i) ISIN Code: | US464586AA40 |
| (ii) CUSIP: | 464586 AA 4 |
| (iii) 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 |

- (iv) Delivery: Delivery free of payment
- (v) Names and addresses of additional
Paying Agent(s) and Transfer
Agent(s) (if any): Not Applicable