

FINAL TERMS

September 28, 2005

Íslandsbanki hf.
Issue of US\$300,000,000 4.75% Senior Notes due October 15, 2010
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:	251
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	US dollars (US\$)
4.	Aggregate Nominal Amount:	
	– Series:	US\$300,000,000
	– Tranche:	US\$300,000,000
5.	Issue Price of Tranche:	99.57 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:	October 15, 2010
9.	Interest Basis	4.75 per cent. Fixed 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

15.	Fixed Rate Note Provisions	Applicable
	(i) Rate(s) of Interest:	4.75 per cent. per annum payable semi-annually in arrear
	(ii) Interest Payment Date(s):	April 15 and October 15 in each year up to and including the Maturity Date. There will be a long first coupon from and including the Issue Date to but excluding April 15, 2006.
	(iii) Fixed Coupon Amount(s):	US\$47.50 per US\$2,000 in nominal amount
	(iv) Broken Amount(s):	In respect of the period from (and including) the Issue Date to (but excluding) April 15, 2006, the Broken Amount shall be US\$50.14 per US\$2,000 in nominal amount.
	(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	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.\$300,000,000 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\$99,000,000
- Deutsche Bank Securities Inc.**
60 Wall Street
36th Floor
New York, NY 10005
- Underwriting Commitment: US\$99,000,000
- Nomura Securities International, Inc.**
2 World Financial Center, Bldg. B
New York, New York 10281
- Underwriting Commitment: US\$99,000,000
- Keefe, Bruyette, & Woods, Inc.**
The Equitable Building
4th Floor
787 7th Avenue
New York NY 10019
- Underwriting Commitment: US\$3,000,000
- (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: 0.20 per cent. of the Aggregate Nominal Amount
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

- | | |
|---|----------------|
| (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*)

Indication of yield: 4.847%

Calculated as the treasury yield plus the re-offer spread of 72.8 basis points on the Issue Date.

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5. OPERATIONAL INFORMATION

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|---|--------------|
| (i) ISIN Code: | US464586AB23 |
| (ii) CUSIP: | 464586 AB 2 |
| (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