

4 November 2005

Íslandsbanki hf.
Issue of EUR 10,000,000 Equity Linked Notes linked to a Dynamic Basket of Assets
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: | 252 |
| | (ii) Tranche Number: | 1 |
| 3. | Specified Currency or Currencies: | 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 |
| | | <i>In connection with the offer and sale of the Notes, (i) an introducing fee will be paid to a introducing broker and (ii) a distributor will acquire the Notes from the Dealer at the Issue Price. The Dealer will pay to such distributor a distribution fee. Any such amount received by the distributor may be in addition to the brokerage cost/fee normally applied by such distributor. Further information is available from the relevant distributor or the Issuer on request</i> |
| 6. | Specified Denominations: | EUR 1,000 |

7.	(i) Issue Date:	4 November 2005
	(ii) Interest Commencement Date :	4 November 2005
8.	Maturity Date:	3 Business Days following the Valuation Date, currently expected to be 4 November 2010
9.	Interest Basis:	1 per cent. Fixed Rate
10.	Redemption/Payment Basis:	See Annex 1
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	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:	1 per cent. per annum payable annually in arrears
	(ii) Interest Payment Date(s):	Each 4 th November commencing and including 4 November 2006 to and including the Maturity Date subject to adjustment in accordance with the Modified Following Business Day Convention
	(iii) Fixed Coupon Amount(s):	EUR 10 per EUR 1000 in nominal amount
	(iv) Broken Amount(s):	Not Applicable
	(v) Day Count Fraction:	Not Applicable
	(vi) Determination Date(s):	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	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 Annexes 1, 2 and 3

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| 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)): | In respect of each Note, an amount equal to the fair market value (less than reasonable cost to the Issuer of unwinding any related hedging arrangements) of such Note on such day as is selected by the Calculation Agent in is not more than 15 days before the date fixed the date fixed for redemption of the Note) |
| | For the avoidance doubt, no accrued interest shall be payable upon early redemption of the Notes for taxation reasons or on Event of Default |

GENERAL PROVISIONS APPLICABLE TO THE NOTES

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| 24. Form of Notes: | |
| Bearer Notes: | Applicable |
| | Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes |
| Registered Notes: | Not Applicable |
| 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 <i>form of Temporary Global Note and/or</i> on which each payment is to be made and <i>Permanent Global Note may be required for</i> consequences (if any) of failure to pay, including <i>Partly Paid issues</i> 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: | See Annexes 1, 2 and 3 |

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: Lehman Brothers International (Europe)
25, Bank Street,
London
E14 5LE
United Kingdom
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:
36. ERISA Restrictions: Not Applicable

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: Not Applicable

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

(i) Reasons for the Offer: General corporate purposes.

(ii) Estimated net proceeds: Not Applicable.

(iii) Estimated total expenses: Not Applicable.

6. YIELD

Indication of yield: Not Applicable

7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING

See Annex 1.

Details on historical levels of the Index can be found on <http://www.djindexes.com/mdsidx/?event=showAigHome>

The Issuer does not intend to provide post issuance information regarding the Index

The Notes are not sponsored, endorsed, sold or promoted by Dow Jones & Company, Inc. (“Dow Jones”), American International Group, Inc. (“American International Group”), AIG International Inc. (“AIGI”) or any of their subsidiaries or affiliates. None of Dow Jones, American International Group, AIGI or any of their subsidiaries or affiliates makes any representation or warranty, express or implied, to the owners of or counterparts to the Notes or any member of the public regarding the advisability of investing in securities or commodities generally or in the Notes particularly. The only relationship of Dow Jones, American International Group, AIGI or any of their subsidiaries or affiliates to the Licensee is the licensing of certain trademarks, trade names and service marks and of the DJ-AIGCISM, which is determined, composed and calculated by Dow Jones in conjunction with AIGI without regard to the Issuer or the Notes. Dow Jones and AIGI have no obligation to take the needs of the Issuer or the owners of the Notes into consideration in determining, composing or calculating DJ-AIGCISM. None of Dow Jones, American International Group, AIGI or any of their respective subsidiaries or affiliates is responsible for or has participated in the determination of the timing of, prices at, or quantities of the Notes to be issued or in the determination or calculation of the equation by which the Notes are to be converted into cash. None of Dow Jones, American International Group, AIGI or any of their subsidiaries or affiliates shall have any obligation or liability, including, without limitation, to Notes customers, in connection with the administration, marketing or trading of the Notes. Notwithstanding the

foregoing, AIGI, American International Group and their respective subsidiaries and affiliates may independently issue and/or sponsor financial products unrelated to the Notes currently being issued by Licensee, but which may be similar to and competitive with the Notes. In addition, American International Group, AIGI and their subsidiaries and affiliates actively trade commodities, commodity indexes and commodity futures (including the Dow Jones–AIG Commodity IndexSM and Dow Jones-AIG Commodity Index Total ReturnSM), as well as swaps, options and derivatives which are linked to the performance of such commodities, commodity indexes and commodity futures. It is possible that this trading activity will affect the value of the Dow Jones–AIG Commodity IndexSM, and Notes.

10. OPERATIONAL INFORMATION	
(i) ISIN Code:	XS0232486380
(ii) Common Code:	023248638
(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.

Annex 1

Definitions

Terms not otherwise defined herein shall have the following meanings:

"Adjustment Date"	Means any Scheduled Trading Day during the period from and including the Initial Strike Date to and including the Valuation Date
"Balanced Account"	Means, a notional investment of a number of units that is deemed invested in a dynamic basket of underlying assets which shall comprise of Premium Assets and Riskless Assets
"Business Day"	Means, (i) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London and New York, and (ii) any Target Settlement Day
"Calculation Agent"	Lehman Brothers International (Europe)
"Cash"	Means, an amount in Euros which does not accrue interest
"Disrupted Day"	Means, any Scheduled Trading Day on which (i) the Sponsor fails to calculate and/or announce the level of the Index or (ii) which is not a Target Settlement Day
"Initial Strike Date"	4 November 2005 or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day
"Net Asset Value" or "NAV_t"	Means, on any Adjustment Date during the term of the Notes, the net asset value of the Balanced Account, as determined by the Calculation Agent
"Premium Assets"	Means, a notional investment of a number of units that is deemed invested as outlined herein in the Dow Jones AIG Commodity Euro Index (the "Index") (Bloomberg: DJAIGEU Index)
"Riskless Assets"	Means, a notional investment of a number of units that is deemed invested in Cash
"Scheduled Trading Days"	Means, any day on which: <ul style="list-style-type: none">(i) in respect of Premium Assets, the Sponsor is scheduled to publish the level of the Index; and(ii) in respect of Riskless Assets, any day that is scheduled to be a Target Settlement Day

“Sponsor”	Dow Jones & Company and American International Group Inc.
“Target Settlement Day”	Means, any day on which on which the Trans European automated Real-time Gross settlement Express Transfer system is open
“Valuation Date”	1 November 2010 or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day

Annex 2

1. Final Redemption Amount of each Note

Unless previously redeemed or purchased and cancelled, and subject to the terms herein, each Note shall be redeemed on the Maturity Date at a Final Redemption Amount (“FRA”) in the Specified Currency determined by the Calculation Agent in accordance with the following:

$$SD \times \left[100\% + PF \times \text{Max} \left(0\%; \frac{NAV_{Final}}{NAV_{Initial}} - 105\% \right) \right]$$

Where:

SD = Specific Denomination

$NAV_{Initial}$: NAV t, as defined in Annex 1, on the Initial Strike Date.

NAV_{Final} : NAV t as defined in Annex 1 on the Valuation Date.

PF : Participation Factor of 50%

2. The Balanced Account

The Balanced Account shall comprise of a basket of dynamic assets of Premium Assets and Riskless Assets. The allocation of the Balanced Account’s assets between the Premium Assets and the Riskless Assets will be rebalanced from time to time in accordance with the procedures described in the Investment Allocation Mechanism outlined in Annex 3 as determined by the Calculation Agent during the term of the Notes.

3. Balanced Account Disrupted Days

If the Calculation Agent determines that:

(i) any relevant Adjustment Date during the term of the Notes (other than the Adjustment Date that is scheduled to be the Valuation Date) is a Disrupted Day, then notwithstanding that such Adjustment Date is a Disrupted Day, the Calculation Agent shall determine its good faith estimate of the Net Asset Value of the Balanced Account on such Adjustment Date; and

(ii) the Adjustment Date scheduled to be the Valuation Date (the “Scheduled Valuation Date”) is a Disrupted Day, the Valuation Date shall be the first succeeding Scheduled Trading Day that is not an Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day.

In that case:

(a) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date (such date, the “Long-stop Valuation Date”) shall be deemed to be the Valuation Date notwithstanding the fact that such day is an Disrupted Day; and

(b) the Calculation Agent shall determine its good faith estimate of the Net Asset Value of the Balanced Account as of that eighth Scheduled Trading Day.

Annex 3

The Investment Allocation Mechanism

The Calculation Agent shall be responsible for the notional allocation of the Premium Assets and the Riskless Assets comprising the Balanced Account throughout the term of the Notes.

1. Initial Allocation

Initially, the assets in the Balanced Account will be allocated as follows:

- (i) 80 per cent of the $NAV_{Initial}$ shall be notionally invested in Premium Assets; and
- (ii) 20 per cent of the $NAV_{Initial}$ shall be notionally invested in Cash; and

The allocation of such underlying assets between the Premium Assets and the Riskless Assets will vary from time to time in accordance with the procedures described herein.

2. Premium Asset Allocation

On any Adjustment Date (as defined below) during the term of the Notes, assets comprising the Premium Assets will be notionally bought or sold, subject to the Constraints, so as to ensure that the amount notionally invested in the Premium Assets will be equal (where practicable) to the Premium Asset Allocation Percentage multiplied by the NAV_t on such Adjustment Date (the “**Premium Asset Allocation Amount**”).

Subject to the Constraints as defined below, the Premium Asset Allocation Percentage on any Adjustment Date during the term of the Notes is as determined by the Calculation Agent in accordance with the following formula:

$$\text{Premium Asset Allocation Percentage} = \text{Min}(100\%; \text{Max}(3 * \text{Distance}; 10\%))$$

Where:

“**Distance**” means, in respect of any Adjustment Date during the term of the Notes, a percentage as determined by the Calculation Agent in accordance with the following formula:

$$(\text{NAV}\% - \text{FIC}\%)$$

“**NAV%**” means, in respect of any Adjustment Date during the term of the Notes, the NAV_t divided by the aggregate nominal amount of the Notes outstanding on such Adjustment Date as determined by the Calculation Agent;

“**FIC%**” means, in respect of any Adjustment Date during the term of the Notes, the price (expressed as a percentage) at which the Calculation Agent determines (such determination being on a day that is a Target Settlement Day, (“Determination Date”)) that a hypothetical company would issue a zero coupon EUR denominated bond maturing with a face value equal to 100% of the Aggregate Nominal Amount of the bonds on the Maturity Date, as calculated by the Calculation Agent using interest rates prevailing at or about 10.00am London time on such Determination Date. The price of such bond shall be calculated on the basis that: (i) such hypothetical company would on such Determination Date enter into an on-market swap with a swap dealer of recognised standing as determined to be acceptable by the Calculation Agent, (ii) the swap would have an effective date that is two TARGET Settlement Days following such Determination Date, (iii) the hypothetical company would pay to the swap dealer for a period from and including such Determination Date to and including the Maturity Date, 3 month EUR-EURIBOR-Telorate without a spread per annum on the issue price of such bonds and (iv) the swap dealer would pay the hypothetical company on the Maturity Date the difference between 100% of the bonds' aggregate nominal amount and their issue price; and

“**EUR-EURIBOR-Telerate**” means, in respect of a Determination Date, the rate for deposits in euros which appears on the Telerate Page 248 as of 11.a.m. Brussels Time, on the day that is two Target Settlement Days preceding the relevant Determination Date during the term of the Notes.

3. Re-balancing the Composition of the Balanced Account

(i) Subject to Constraints outlined herein, the composition of the Balanced Account on any Adjustment Date during the term of the Notes, shall be rebalanced where the Calculation Agent determines that:

- (a) the Premium Assets Allocation Amount is less than the notional amount invested in Premium Assets on such Adjustment Date (a “Deleverage Event”); or
- (b) the Premium Assets Allocation Amount is greater than the notional amount invested in Premium Assets on such Adjustment Date (a “Releverage Event”).

Upon the occurrence of the Deleverage Event or Releverage Event, as the case maybe, on any Adjustment Date during the term of the Notes, the Calculation Agent shall rebalance the composition of the Balanced Account by investing in or redeeming Premium Assts or Riskless Assets, as the case may be.

(ii) Upon the occurrence of a Deleverage Event on any Adjustment Date during the term of the Notes, the Calculation Agent shall rebalance the composition of the Balanced Account by redeeming sufficient Premium Assets as determined by the Calculation Agent with the resulting proceeds being notionally invested in Riskless Assets such that the exposure to Premium Assets comprising the Balanced Account shall be equal to the relevant Premium Assets Allocation Percentage on such Adjustment Date as determined by the Calculation Agent.

(iii) Upon the occurrence of a Releverage Event on any Adjustment Date during the term of the Notes, the Calculation Agent shall rebalance the composition of the Balanced Account by redeeming sufficient Riskless Assets as determined by the Calculation Agent with the resulting proceeds being notionally invested in Premium Assets such that the exposure to Premium Assets comprising the Balanced Account shall be equal to the relevant Premium Assets Allocation Percentage on such Adjustment Date as determined by the Calculation Agent.

4. Constraints

The rebalancing of the composition of the Balanced Account on any Adjustment Date during the term of the Notes following the occurrence of a Deleverage Event and Releverage Event, as the case may be, shall be subject to the following additional rules, each as determined by the Calculation Agent:

- (a) No additional notional investment of Riskless Assts shall be made until the Distance on such Adjustment Date, first becomes less than 12 per cent (the “First Deleverage Event”) as determined by the Calculation Agent following which the Premium Asset Allocation Percentage shall be reset in accordance with the provisions in this Annex 2 (2) to a percentage less than or equal to 36% as determined by the Calculation Agent. Until such time that a First Deleverage Event occurs or is deemed to occur, the Premium Asset Allocation Percentage shall be a percentage equal to the relevant Initial Allocation.
- (b) No additional notional investments or redemptions in the Premium Assets shall be made unless the absolute value of the rebalanced notional investment or redemption is greater than or equal to 6 per cent of the net asset value of the Premium Assets as determined by the Calculation Agent.
- (c) No additional notional investments in the Riskless Assets shall be made unless the Premium Asset Allocation Percentage is greater than or equal to 10 per cent.

For the avoidance of doubt, the minimum exposure of the Balanced Account to Premium Assets shall be 10% and conversely, no additional purchase of Premium Assets shall be made following the occurrence of a Releverage Event on an Adjustment Date during the term of the Notes, until the Distance first becomes more than 3.3%.

- (d) No additional notional investments in the Premium Assets unless the Distance is greater than or equal to 33.3% per cent as determined by the Calculation Agent.

5. Adjustments to Premium Assets

(i) If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and announced by a successor sponsor acceptable to the Calculation Agent, or (ii) replaced by a successor index using, in the determination of the Calculation Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then in each case that index (the “**Successor Index**”) will be deemed to be the Index.

(ii) If (i) on any Adjustment Date during the term of the Notes, the Sponsor announces that it will make a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock and capitalization and other routine events) (an “**Index Modification**”) or permanently cancels the Index and no Successor Index exists (an “**Index Cancellation**”) or (ii) on any Adjustment Date during the term of the Notes, the Sponsor fails to calculate and announce the Index (an “**Index Disruption**” and together with an Index Modification and an Index Cancellation, each an “**Index Adjustment Event**”), then the Calculation Agent shall determine if such Index Adjustment Event has a material effect on the Notes and, if so, shall make its determination for the purposes of calculating the Final Redemption Amount or NAV_t on any Adjustment Date using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date or Adjustment Date, as the case maybe, as determined by the Calculation Agent in accordance with the formula for and method of calculating the Index last in effect prior to the change, failure or cancellation, but using only those securities that comprised the Index immediately prior to that Index Adjustment Event.

(iii) In the event that any price or level published by the Sponsor which is utilized for any calculation or determination made under the provisions of these Final Terms is subsequently corrected and the correction is published by the Index Sponsor within 3 Business Days after the original publication, the Calculation Agent will determine the amount that is payable as a result of that correction, and, to the extent necessary, will adjust the provisions of this Final Terms to account for such correction, provide