

14th October, 2005

ÍSLANDBANKI hf.

**Issue of NZD 50,000,000 Floating Rate Notes
due 14th October, 2008
under the €7,500,000,000
Global Medium Term Note Programme**

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. | (i) Series Number: | 254 |
| | (ii) Tranche Number: | Not Applicable |
| 2. | Specified Currency or Currencies: | New Zealand Dollars ("NZD") |
| 3. | Aggregate Nominal Amount: | |
| | – Tranche: | Not Applicable |
| | – Series: | NZD 50,000,000 |
| 4. | (i) Issue Price of Tranche: | 100 per cent. of the Aggregate Nominal Amount |
| | (ii) Net proceeds: | NZD 50,000,000 |
| 5. | Specified Denominations: | NZD 100,000 |
| 6. | (i) Issue Date: | 14th October, 2005 |
| | (ii) Interest Commencement Date
(if different from the Issue Date): | 14th October, 2005 |

7.	Maturity Date:	14th October, 2008, subject to adjustment in accordance with the Modified Following Business Day Convention
8.	Interest Basis:	Floating Rate (further particulars specified below)
9.	Redemption/Payment Basis:	Redemption at par
10.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
11.	Put/Call Options:	Not Applicable
12.	Status of the Notes:	Senior
13.	Listing:	Not Applicable
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	Applicable

The Interest Rate per Specified Denomination payable quarterly in arrear on each Specified Interest Payment Date shall be determined by the Calculation Agent by application of the formula shown below:

3 MONTH NZD-BBR-FRA PLUS the margin

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|-------|---|---|
| (i) | Specified Period(s)/Specified Interest Payment Dates: | 14th January, 14th April, 14th July and 14th October in each year, commencing 14th January, 2006 (each being a “Specified Interest Payment Date”), subject to adjustment in accordance with the Business Day Convention specified below |
| (ii) | Business Day Convention: | Modified Following Business Day Convention |
| (iii) | Additional Business Centre(s): | London, New York, TARGET and |

Wellington

- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: ISDA Determination
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): JPMorgan Chase Bank, N.A.
- (vi) Screen Rate Determination: Not Applicable
- (vii) ISDA Determination: Applicable
 - Floating Rate Option: NZD-BBR-FRA

“NZD-BBR-FRA” means that the rate for a Reset Date (as defined below) will be the rate for New Zealand Dollar bills of exchange for a period of the Designated Maturity (as defined below) which appears on the Reuters Screen BKBM Page opposite the caption “FRA” as of 11:00 a.m., Wellington time, on that Reset Date. If such rate does not appear on the Reuters Screen BKBM Page, the rate for that Reset Date will be determined as if the parties had specified “NZD-BBR-Reference Banks” as the applicable Floating Rate Option.
 - Designated Maturity: 3 months
 - Reset Date: Issue Date and thereafter on each Specified Interest Payment Date (excluding final Specified Interest Payment Date)

For the avoidance of doubt, the rate shall be determined on each Reset Date
- (viii) Margin(s): Plus 0.12 per cent. per annum in respect of the period from and including the Issue Date to but excluding the Maturity Date
- (ix) Minimum Rate of Interest: Not Applicable
- (x) Maximum Rate of Interest: Not Applicable

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| | (xi) Day Count Fraction: | Actual/365 |
| | (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

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| 20. | Issuer Call: | Not Applicable |
| 21. | Investor Put: | Not Applicable |
| 22. | Final Redemption Amount of each Note: | NZD 100,000 per Note of NZD 100,000 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)): | As set out in Condition 7(e) |

GENERAL PROVISIONS APPLICABLE TO THE NOTES

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| 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 provisions relating to Payment Dates: | London, New York, TARGET and Wellington

Payment Dates shall be adjusted in accordance with the Modified Following Business Day Convention |

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: Not Applicable
30. Other terms or special conditions: Not Applicable

DISTRIBUTION

31. (i) If syndicated, names of Managers: Not Applicable
- (ii) Date of Subscription Agreement: Not Applicable
- (iii) Stabilising Manager (if any): Not Applicable
32. If non-syndicated, name of relevant Dealer: Daiwa Securities SMBC Europe Limited
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: New Zealand

The Dealer represents and agrees that it will not, directly or indirectly, offer, sell or deliver any Notes in New Zealand or distribute the Offering Circular, Final Terms or any other offering material or advertisement in relation to any offer of Notes in New Zealand other than:

- (i) to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money or who in all the circumstances can properly be regarded as having been selected other than as a member of the public; or
- (ii) in other circumstances where there is no contravention of the Securities Act 1978 of New Zealand.

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: Not Applicable

(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

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*)

Not Applicable

7. HISTORIC INTEREST RATES

Not Applicable

8. ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING

Not Applicable

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT

Not Applicable

10. OPERATIONAL INFORMATION

- (i) ISIN Code: XS0232521475
- (ii) Common Code: 023252147
- (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