

7 November 2005

Íslandsbanki hf.
Issue of JPY 900,000,000 0.01% Notes due 6th May, 2009
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: | 257 |
| (ii) Tranche Number: | 1 |
| 3. Specified Currency or Currencies: | Japanese Yen ("JPY") |
| 4. Aggregate Nominal Amount: | |
| – Series: | JPY 900,000,000 |
| – Tranche: | JPY 900,000,000 |
| 5. Issue Price of Tranche: | 100.00 per cent. of the Aggregate Nominal Amount |
| 6. Specified Denominations: | JPY 10,000,000 |
| 7. (i) Issue Date: | 7th November, 2005 |
| (ii) Interest Commencement Date: | 7th November, 2005 |
| 8. Maturity Date: | 6th May, 2009 |
| 9. Interest Basis: | 0.01 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: | Non-syndicated |
| PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE | |
| 15. Fixed Rate Note Provisions: | Applicable |
| (i) Rate(s) of Interest: | 0.01 per cent. per annum payable annually in arrear |

(ii) Interest Payment Date(s):	6th May in each year up to and including the Maturity Date (short first coupon)
(iii) Fixed Coupon Amount(s):	JPY 1,000 per JPY 10,000,000 in nominal amount
(iv) Broken Amount(s):	JPY 493.15 per JPY 10,000,000 in nominal amount
(v) Day Count Fraction:	Actual/365 (Fixed)
(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:	JPY 10,000,000 per Note of JPY 10,000,000 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:	Applicable Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event
Registered Notes:	Not Applicable
25. Additional Financial Centre(s) or other special	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	Not Applicable

Amount”) and the date on which each payment is to be made (each an “Instalment Date”):

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]: 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: Commerzbank Aktiengesellschaft
London Branch
60 Gracechurch Street
London EC3V 0HR
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

- (i) Listing: London
(ii) Admission to trading: Application has been made for the Notes to be admitted to trading on the London Stock Exchange’s Gilt-Edged and Fixed Interest Marked with effect from 7th November, 2005.
(iii) Estimate of total expenses related to admission to trading: GBP 100*

2. RATINGS

Ratings: Not Applicable

3. NOTIFICATION

Not Applicable

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

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

See "Use of Proceeds" wording in Offering Circular

(i) Reasons for the Offer:

(ii) Estimated net proceeds: JPY 900,000,000

(iii) Estimated total expenses: GBP 100

6. YIELD (*Fixed Rate Notes only*)

Indication of yield: 0.01 per cent. per annum

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

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: XS0233548451

(ii) Common Code: 023354845

(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