

Form of Final Terms

14th November 2005

Íslandsbanki hf.
Issue of ISK 410,000,000 Index Linked Notes
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:	261
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	ISK
4.	Aggregate Nominal Amount:	
	– Series:	ISK 410,000,000
	– Tranche:	ISK 410,000,000
5.	Issue Price of Tranche:	100 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	ISK 10,000,000
7.	(i) Issue Date:	14 th November 2005
	(ii) Interest Commencement Date :	16 th November 2005
8.	Maturity Date:	16 th November 2010
9.	Interest Basis:	Not Applicable
10.	Redemption/Payment Basis:	Index Linked Redemption (further particulars specified in Appendix 1 hereto)
11.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable

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| 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

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|---|----------------|
| 15. Fixed Rate Note Provisions: | 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

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| 20. Issuer Call | Not Applicable |
| 21. Investor Put | Not Applicable |
| 22. Final Redemption Amount of each Note: | See Appendix 1 |
| 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)): | Not Applicable |

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 only upon an Exchange Event |
| Registered Notes: | Not Applicable |
| 25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: | Reykjavik |
| 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 | Not Applicable |

consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:

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|---|-------------------------------|
| 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

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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: | Íslandsbanki hf., Kirkjusandi, 155 Reykjavik |
| 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 with effect from 17th November, 2005
- (iii) Estimate of total expenses related to admission to trading: GBP 100.-

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**

- [(i) Reasons for the Offer: General Funding
- [(ii)] Estimated net proceeds: ISK 410,000,000
- [(iii)] Estimated total expenses: Not Applicable

6. YIELD (*Fixed Rate Notes only*)

Indication of yield: Not Applicable

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

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|---------|---|--------------------------|
| (i) | ISIN Code: | XS0236007067 |
| (ii) | Common Code: | 023600706 |
| [(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 free of payment |
| [(vi)] | Names and addresses of additional Paying Agent(s) and Transfer Agent(s) (if any): | Not Applicable |

APPENDIX 1

FINAL REDEMPTION AMOUNT

Settlement Currency: ISK
 Cash Settlement Payment Date Two Currency Business Days after the Valuation Date
 Redemption amount An amount in ISK on the Cash Settlement Payment Date, as determined by the Calculation Agent as of the Valuation Date, in accordance with the following formula:

J	Index	Weighting ω_j
1	Dow Jones STOXX Select Dividend 30 Index EUR (Bloomberg: SD3P)	100%

Exchange For each component security of the Index, the stock exchange on which that component security is principally traded as determined by the Determination Agent.
 Related Exchange Such exchange, quotation system or trading market which the Determination Agent from time to time determines to be the most relevant exchange, quotation system or market on which options or futures on the securities comprised in the underlying are traded.

Start Date: 11 November 2005

Expiration Date: 11 November 2010

EUR/ISK₀ 73,03

Participation: 1,65

Payment at Expiration:
$$NA \cdot \left[1 + \frac{EUR / ISK_T}{EUR / ISK_0} \cdot Participation \cdot \max(0, consolidated_call, IndexPerformance) \right]$$

Whereas

NA = Notional Amount

IndexPerformance is the performance calculated with the closing value of the SD3P Index as published by the index sponsor on the Determination Date:

$$IndexPerformance = \frac{Index_f - Index_0}{Index_0}$$

Definition:

Consolidated call:

If from Issue Date (included) until Determination Date (included) for any 63 consecutive open Scheduled Trading days, using the daily official closing values, the performance since inception, as published by the Index Sponsor of the Index are all, without exception, equal to or greater than $(100% + Profit\ Lock-in\ Levels_j) * Index_0$, then Consolidation = $Profit\ Lock-in\ Levels_j$; for all $j=10%$ to $j=500%$

$Index_0$, then Consolidation = $Profit\ Lock-in\ Levels_j$; for all $j=10%$ to $j=500%$

Otherwise Consolidation = 0%.

Profit Lock-in Levels j = Steps of 10% without a limit, i.e. starting at +10%, 20%, 30%, 40%,...500%

Or in Formula:

If $L \geq 100% + i * 10%$, then Consolidated_Call = $i * 10%$, for $i=1$ to $i=50$

Where:

Best of rolling window = $L = Max_t W_t$ for $t=0$ to T , and

Rolling minimum of 63 day Window = $W_t = Min_k \left(\frac{Index_k}{Index_0} \right)$ for $t - 63 \leq k \leq t$

and for $t \geq 63$

$W_t = 0$ for $t < 63$

T = Number of calendar days from Strike Date until maturity Date

Observation Dates:

$Index_0$ = Closing Price of Index on Start Date

$Index_t$ = the arithmetic average of the closing price of Index j on the averaging dates

$Index_k$ = the closing price of index on any date k

Averaging Dates

May 11,2010, June 11,2010, July 12,2010, August 11,2010
Sep 13,2010, Oct 11,2010, Nov 11,2010 Last 6 months (7 points)