

Final Terms
30 November 2005

Íslandsbanki hf.
Issue of EUR 10,000,000 Zero Coupon Notes due 30 November 2011
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 28 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:	262
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	Euro ("EUR")
4.	Aggregate Nominal Amount:	
	– Series:	EUR 10,000,000
	– Tranche:	EUR 10,000,000
5.	Issue Price of Tranche:	81.33 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	EUR 1,000; Provided That for so long as the Notes are represented by a Global Note held on behalf of Euroclear and Clearstream, Luxembourg, Notes will only be transferable in minimum lots of EUR 10,000
7.	(i) Issue Date:	30 November 2005
	(ii) Interest Commencement Date :	Not Applicable
8.	Maturity Date:	30 November 2011
9.	Interest Basis:	Zero Coupon (further particulars specified below)
10.	Redemption/Payment Basis:	EUR 1,000 per EUR 1,000 Specified Denomination
11.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12.	Put/Call Options:	Not Applicable
13.	(i) Status of Notes:	Senior

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| (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 | Applicable |
| (i) Accrual Yield: | 3,504255% per cent. per annum |
| (ii) Reference Price: | 81.33 per cent. |
| (iii) Any other formula/basis of determining amount payable: | Not Applicable |
| (iv) Day Count Fraction in relation to Early Redemption Amount and late payment: | Actual /365 |
| 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: | EUR 1,000 per Note of EUR 1,000 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)): | The Calculation Agent will determine and calculate in its sole discretion the redemption amount in good faith and in a commercially reasonable manner as representing the fair economic value of the Note at the date of redemption. |

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: | TARGET |
| 26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | No. |

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| 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

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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: | Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB |
| 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: | <p>The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:</p> <p>(a) to professional investors (<i>operatori qualificati</i>), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended; or</p> <p>(b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the Financial Services Act) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.</p> |

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the **Banking Act**); and
- (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (iii) in compliance with any other applicable laws and regulations."

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 Market with effect from 30 November 2005

(iii) Estimate of total expenses related to GBP 100.-
admission to trading:

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

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: See "Use of Proceeds" in Offering Circular

(ii) Estimated net proceeds: EUR 8,133,000

(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

(i) ISIN Code: XS0236047287

(ii) Common Code: 023604728

(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