

Final Terms

14 December 2005

Íslandsbanki hf.
Issue of EUR5,000,000 Index Linked Notes due 14 March 2012
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:	242
	(ii) Tranche Number:	Not Applicable
3.	Specified Currency or Currencies:	EURO (EUR)
4.	Aggregate Nominal Amount:	
	– Series:	EUR5,000,000
	– Tranche:	EUR5,000,000
5.	Issue Price of Tranche:	100.00 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	EUR50,000
7.	(i) Issue Date:	14 December 2005
	(ii) Interest Commencement Date :	Not Applicable
8.	Maturity Date:	14 March 2012
9.	Interest Basis:	Not Applicable
10.	Redemption/Payment Basis:	Indexed Linked Interest - Please see attached Annex

11. Change of Interest Basis or Redemption/Payment	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:	5.00 per cent. per annum payable on 14 th March 2007.
(ii) Interest Payment Date(s):	14 March 2007
(iii) Fixed Coupon Amount(s):	Not Applicable
(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:	None
16. Floating Rate Note Provisions	Not Applicable
17. Zero Coupon Note Provisions	Not Applicable
18. Index Linked Interest Note Provisions	Applicable
(i) Index/Formula:	Please see appendix attached herein
(ii) Calculation Agent responsible for calculating the interest due:	Barclays Bank PLC
(iii) Provisions for determining interest where calculation by reference to Index and/or Formula is impossible or impracticable:	Please see appendix attached herein
(iv) Specified Period(s)/Specified Interest Payment Dates:	Annually, on every 14 March, commencing from and including 14 March 2008 up to and including the Maturity Date
(v) Business Day Convention:	Modified Following Business Day Convention
(vi) Additional Business Centre(s):	TARGET
(vii) Minimum Rate of Interest:	Not Applicable

- | | |
|----------------------------------|----------------|
| (viii) Maximum Rate of Interest: | Not Applicable |
| (ix) Day Count Fraction: | 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: | EUR 50,000 per EUR50,000 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 in Condition 7(e) |

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 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): | 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: Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB

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

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 14 December 2005.
- (iii) Estimate of total expenses related to admission to trading: GBP 100.-

2. RATINGS

Ratings:

Moody's A1
Fitch A

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: EUR5,000,000
- (iii) Estimated total expenses: Not Applicable

6. YIELD (*Fixed Rate Notes only*) Not Applicable

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 RATES OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (*Dual Currency Notes only*) – Not Applicable

10. OPERATIONAL INFORMATION

- | | | |
|-------|---|--------------------------|
| (i) | ISIN Code: | XS0229850515 |
| (ii) | Common Code: | 022985051 |
| (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 |

APPENDIX

(This Appendix forms part of the Final Terms to which it is attached)

1. Interest Amount

The Interest Amount payable for the interest period commencing from and including 14 March 2007 up to and including the Maturity Date, for each Note of the specified Denomination will be an amount determined by the Calculation Agent acting in good faith and in its sole and absolute discretion in accordance with the following formula:

$$\text{Max (0\%, (8\% + X))}$$

X shall be determined in accordance with the following formula:

$$\sum_{v=1}^6 (\text{Monthperformance}_v)$$

Where:

MonthPerformance_v is equal to the product of the following equation:

$$(\text{Index}_i - \text{Index}_{i-1}) / \text{Index}_{i-1}$$

Index means the Dow Jones Eurostoxx 50 Index

Index_i means, in respect of an Observation Date as determined by the Calculation Agent, the official closing price of the Index on such Observation Date, as quoted on the relevant Exchange on such day PROVIDED THAT if no official closing price for the relevant Index is quoted on the relevant Exchange on the Strike Date and the Calculation Agent decides that no Market Disruption Event in respect of such Index has occurred on such date, then the **Index_i** for Index shall be determined by the Calculation Agent as its good faith estimate of the fair market value of such Index as at or about the close of trading on the relevant Exchange on the Strike Date determined by reference to such source(s) as it may consider appropriate ;

Index_{i-1} means, in respect of an Observation Date as determined by the Calculation Agent, the official closing price of the Index on the immediately preceding Observation Date, as quoted on the relevant Exchange on such day PROVIDED THAT if no official closing price for the relevant Index is quoted on the relevant Exchange on the Strike Date and the Calculation Agent decides that no Market Disruption Event in respect of such Index has occurred on such date, then the "**Index_{i-1}**" for Index shall be determined by the Calculation Agent as its good faith estimate of the fair market value of such Index as at or about the close of trading on the relevant Exchange on the Strike Date determined by reference to such source(s) as it may consider appropriate;

Exchange means, in respect of the Index, Eurex and any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the securities comprising Index has temporarily located (provided that the Calculation Agent has determined that there is a comparable liquidity relative to the securities comprising Index on such temporary substitute exchange or quotation system as on the original Index Exchange).

Exchange Business Day means, in respect of the Index, any day that is (or, but for the occurrence of a Market Disruption Event, would have been) a trading day on the relevant Exchange other than a day on which trading on the relevant Exchange is scheduled to close prior to its regular weekday closing time.

Market Disruption Event means the occurrence or existence, as determined by the Calculation Agent, on the Index Day during the one-half hour period that ends at the Valuation Time of any suspension of or limitation imposed on trading (by reason of movements in price exceeding the intra-day price movement limits permitted by the relevant exchange or otherwise) or any other suspension or material limitation of trading in any way of (i) limitation on trading (i) on the Exchange(s) in securities that comprise 20 per cent, or more of the level of the Index or (ii) in futures or options contracts on the Index on any Related Exchange if, in any such case such suspension or limitation is, in the determination of the Calculation Agent, material.

Observation Dates means the following:

1. From and including 14 March 2007 up to and including 7 March 2008
2. From and including 14 March 2008 up to and including 9 March 2009
3. From and including 14 March 2009 up to and including 8 March 2010
4. From and including 14 March 2010 up to and including 7 March 2011
5. From and including 14 March 2011 up to and including the Valuation Date

and subject to adjustment as provided below, if any such day is not an Exchange Business Day for the Index, then the Observation Date shall be the immediately succeeding Exchange Business Day for the Index, PROVIDED THAT if, in the opinion of the Calculation Agent a Market Disruption Event has occurred on a day which would otherwise be an Observation Date, then that Observation Date for each Index not affected by the occurrence of a Market Disruption Event shall be that originally designated Observation Date and that Observation Date for each Index affected by a Market Disruption Event (a "**Disrupted Index**") shall be the first succeeding Exchange Business Day for such Disrupted Index on which there is no Market Disruption Event unless there is a Market Disruption Event on each of the five Exchange Business Days for such Disrupted Index immediately following the original date that, but for the Market Disruption Event, would have been that Observation Date. In that case, (i) that fifth Exchange Business Day shall be deemed to be that Observation Date for the Disrupted Index notwithstanding the Market Disruption Event, and (ii) the Calculation Agent shall determine its good faith estimate of the relevant Exchange traded price for the Disrupted Index that would have prevailed but for that Market Disruption Event as of the Valuation Time on that fifth Exchange Business Day and such good faith estimate shall be deemed to be the "Index Price" for the Disrupted Index for that Observation Date.

Observation Time means, in respect of the Index, the close of trading on the relevant Exchange..

Valuation Date means 7 March 2012.

Notice: The Calculation Agent shall determine the Final Redemption Amount and shall give notice to the Issuer and the Agent promptly after such determination. Notices of such details shall be given by the Agent to the holders of the Notes on the Issuer's behalf in accordance with the Conditions of the Notes.

EVENTS RELATING TO THE INDEX

Change in the sponsor of the Index

If the Index is (i) not calculated and announced by the 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 the Index will be deemed to be the index so calculated and announced by that successor sponsor or that successor index, as the case may be.

Change in the calculation method or replacement of the Index

If on or prior to any Observation Date or the Final Valuation Date the Sponsor or any New Sponsor, as the case may be, makes a material change in the formula or in the method of calculating the Index or in any other way materially modifies the Index (other than (a) a modification prescribed in that formula or method to maintain such Index in the event of changes in the constituent stocks, capitalisation and other routine events, (b) changes determined by the Calculation Agent to be necessary or desirable to take account of changes in relevant stock market practices or trading methods or changes to any index other than that Index and/or (c) modifications, which the Calculation Agent considers not materially prejudicial to the interests of the Holders to cure any ambiguity or correct any mistake in the formula for or method of calculating the application of the applicable Index) or replaces the Index with another index, then the Calculation Agent shall have the right:-

- (i) subject to the prior obtaining of a favourable opinion of an independent expert, to replace the relevant Index by the Index as so modified or by the substitute index, as the case may be, multiplied, if necessary, by a linking coefficient
- (ii) to apply the provisions applicable in case of disappearance of the Index described below.

Failure to calculate

If on any Observation Date or the Final Valuation Date, the Sponsor fails to calculate and announce such Index, then the Calculation Agent shall calculate the relevant Closing Level using, in lieu of a published level for the Index, the level for that Index as at that date, as determined by the Calculation Agent in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities that comprised that Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the Exchange).

Disappearance of the Index

If, at any time from the Issue Date to the Final Valuation Date the Sponsor, or any New Sponsor, as the case may be, should cease permanently the calculation and the dissemination of the Index, and should not replace the Index by another index, which is acceptable in the opinion of the Calculation Agent, and should not provide for any other person to publish the Index or the successor sponsor to calculate and disseminate the Index is unacceptable to the Calculation Agent, then the Calculation Agent will continue the calculation of the Index on the same basis as that upon which the Index was calculated prior to such cessation.

Correction to Index

With the exception of any corrections published after the day which is three Target Business Days prior to the due date for redemption of the Notes, if the level of the Index published on a given day and used or to be used by the Calculation Agent to determine the Final Redemption Amount is subsequently corrected, the official closing price shall be the level of the relevant Index as so corrected. Corrections published after the day which is three TARGET Business Days prior to the due date for redemption of the Notes will be disregarded by the Calculation Agent for the purposes of determining such Final Redemption Amount.

Adjustments to the Index

Adjustments to the Index

If an Index is (i) not calculated and announced by the relevant 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 that Index, then in each case that index (the “**Successor Index**”) will be deemed to be the Index.

Modification and Cessation of Calculation of the Index

If (i) on or prior to the Final Valuation Date in respect of the Index, the relevant Index Sponsor makes or announces that it will make a material change in the formula for or the method of calculating that 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 capitalisation, futures contracts or commodities and other routine events) (an “**Index Modification**”) or permanently cancels that Index and no Successor Index exists (an “**Index Cancellation**”), or (ii) on an Observation Date and Final Valuation Date in respect of the Index, the Index Sponsor or (if applicable) the successor Index Sponsor fails to calculate and announce that Index (an “**Index Disruption**” and, together with an Index Modification and an Index Cancellation, each an “**Index Adjustment Event**”), then:

- (x) the Calculation Agent shall determine if such Index Adjustment Event has a material effect on the Notes and if so shall calculate the Index Level for such Observation Date and Final Valuation Date using, in lieu of a published level for the Index, the level for such Index as at the Valuation and Observation Time on the Final Valuation Date and Observation Date, as determined by the Calculation Agent in accordance

with the formula for and method of calculating the Index last in effect prior to that change, modification, cancellation or failure, using, the securities that comprised the Index immediately prior to that Index Adjustment Event or

- (y) the Issuer shall, on giving fourteen days' notice to the Noteholders in accordance with Condition 14, on expiry of such notice redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the Specified Denomination being redeemed at the Early Redemption Amount.

Notice

The Calculation Agent shall, as soon as practicable after receipt of any written request to do so, advise a Noteholder of any determination made by it pursuant to paragraph (b) above, as at the date of receipt of such request. The Calculation Agent shall make available for inspection by Noteholders copies of any such determinations.