

Final Terms

09 January 2006

Íslandsbanki hf.
Issue of EUR17,000,000 Index Linked Notes due January 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:	259
	(ii) Tranche Number:	Not Applicable
3.	Specified Currency or Currencies:	EURO (EUR)
4.	Aggregate Nominal Amount:	
	– Series:	EUR17,000,000
	– Tranche:	EUR17,000,000
5.	Issue Price of Tranche:	100.00 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	EUR10,000
7.	(i) Issue Date:	09 January 2006
	(ii) Interest Commencement Date :	Not Applicable
8.	Maturity Date:	09 January 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:	4.50 per cent. per annum payable annually.
(ii) Interest Payment Date(s):	09 January 2007 and 09 January 2008
(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 09 January, commencing from and including 09 January 2009 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

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|----------------------------------|----------------|
| (viii) Maximum Rate of Interest: | Not Applicable |
| (ix) Day Count Fraction: | Not Applicable |

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| 19. Dual Currency Interest Note Provisions | Not Applicable |
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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 10,000 per EUR10,000 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

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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: | 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 09 January 2006.
- (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: EUR17,000,000
- (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

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|-------|---|--------------------------|
| (i) | ISIN Code: | XS0235423828 |
| (ii) | Common Code: | 023542382 |
| (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 09 January 2009 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:

$$\mathbf{Max [(10.00\%+W_6), 0.00\%] * Notional Amount}$$

W_6 shall be determined in accordance with the following formula:

$$\sum_{v=1}^6 (MP_v)$$

Where:

MonthPerformance (MP) is equal to the product of the following equation:

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

Index means the Dow Jones Eurostoxx 50 Index;

Index_i means, in respect of an Observation Date as determined by the Calculation Agent, the level of the Index at the Valuation Time on such Observation Date, as quoted by the Index Sponsor on such day PROVIDED THAT if there is no level for the Index is quoted by the Index Sponsor at the Valuation Time on the Observation 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 the 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 Valuation Time on the Observation 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, **Index_i** on the immediately preceding Observation Date, as quoted by the Index Sponsor on such day PROVIDED THAT if there is no level for the Index is quoted by the Index Sponsor at the Valuation Time on the Observation 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 the 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 Valuation Time on the Observation Date determined by reference to such source(s) as it may consider appropriate;

Index Sponsor means the Dow Jones Stoxx Limited;

Disrupted Day means any Scheduled Trading Day on which: (i) the Index Sponsor fails to publish the level of the Index; (ii) the Related Exchange fails to open for trading during its regular trading session; or (iii) a Market Disruption Event has occurred. The Calculation

Agent shall as soon as reasonably practicable under the circumstances notify the parties or other party, as the case may be, of the occurrence of a Disrupted Day on any day that, but for the occurrence of a Disrupted Day, would have been an Averaging Date, a Valuation Date, a Potential Exercise Date, a Knock-in Determination Day, a Knock-out Determination Day or an Expiration Date. Without limiting the obligation of the Calculation Agent to notify the parties as set forth in the preceding sentence, failure by the Calculation Agent to notify the parties of the occurrence of a Disrupted Day shall not affect the validity of the occurrence and effect of such Disrupted Day on this Transaction;

Early Closure means the closure on any Exchange Business Day of the Exchange in respect of any Component Security or the Related Exchange prior to its Scheduled Closing Time unless such earlier closing is announced by such Exchange or Related Exchange (as the case may be) at least one hour prior to the earlier of: (i) the actual closing time for the regular trading session on such Exchange or Related Exchange (as the case may be) on such Exchange Business Day; and (ii) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the relevant Valuation Time on such Exchange Business Day;

Exchange means, In respect of each component security of the Index (each, a "**Component Security**"), the principal stock exchange on which such Component Security is principally traded, as determined by the Calculation Agent

Exchange Business Day means, any Scheduled Trading Day on which: (i) the Index Sponsor publishes the level of the Index; and (ii) the Related Exchange is open for trading during its regular trading session, notwithstanding any Exchange or the Related Exchange closing prior to its Scheduled Closing Time;

Exchange Disruption means any event (other than an Early Closure) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (i) to effect transactions in, or obtain market values for: (i) any Component Security on the Exchange in respect of such Component Security; or (ii) futures or options contracts relating to the Index on the Related Exchange;

i means months 1 to 12 in each Observation Period;

Market Disruption Event means either:

- (i) (a) the occurrence or existence, in respect of any Component Security, of:
 - (1) a Trading Disruption in respect of such Component Security, which the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange on which such Component Security is principally traded;
 - (2) an Exchange Disruption in respect of such Component Security, which the Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange on which such Component Security is principally traded; OR
 - (3) an Early Closure in respect of such Component Security; AND
- (b) the aggregate of all Component Securities in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists comprises 20 per cent. or more of the level of the Index; OR
- (ii) the occurrence or existence, in respect of futures or options contracts relating to the Index, of: (a) a Trading Disruption Event; (b) an Exchange Disruption, which in either case the Calculation Agent determines is material, at any time during the one hour period that ends at the Valuation Time in respect of the Related Exchange; or (c) an Early Closure, in each case in respect of such futures or options contracts.

For the purposes of determining whether a Market Disruption Event exists in respect of a Component Security at any time, if a Market Disruption Event occurs in respect of such Component Security at that time, then the relevant percentage contribution of that Component Security to the level of the Index shall be based on a comparison of (x) the portion of the level of the Index attributable to that Component Security to (y) the overall level of the Index, in each case using the official opening weightings as published by the Sponsor as part of the market "opening data".;

Observation Dates shall mean the following:

- (a) For year 3, the 9th day in each month commencing from and including 9 January 2008 except for the last Observation Date in this period, where the Observation Date shall be 6 January 2009;
- (b) For year 4, the 9th day in each month commencing from and including 9 January 2009 except for the last Observation Date in this period, where the Observation Date shall be 6 January 2010;
- (c) For year 5, the 9th day in each month commencing from and including 11 January 2010 except for the last Observation Date in this period, where Observation Date shall be 5 January 2011; and
- (d) For year 6, the 9th day in each month commencing from and including 10 January 2011 except for the last Observation Date in this period, where the Observation Date shall be 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 shall be the first succeeding Exchange Business Day for the Index

on which there is no Market Disruption Event unless there is a Market Disruption Event on each of the eight Exchange Business Days for the Index immediately following the original date that, but for the Market Disruption Event, would have been that Observation Date. In that case, (i) that eighth Exchange Business Day shall be deemed to be that Observation Date for the Index notwithstanding the Market Disruption Event, and (ii) the Calculation Agent shall determine the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted price as of the Valuation Time on that eighth Scheduled Trading Day of each security comprised in the Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value for the relevant security as of the Valuation Time on that eighth Scheduled Trading Day);

Observation Period means the following

- (a) The period from and including 9th January 2008 up to and including 6th January 2009;
- (b) The period from and including 9th January 2009 up to and including 6th January 2010
- (c) The period from and including 11th January 2010 up to and including 5th January 2011
- (d) The period from and including 10th January 2011 up to and including the final Valuation Date

V means months 1 to 6, being the 6 worst Month Performances in each Observation Period;

Valuation Time means, in respect of the Index: (i) for the purposes of determining whether a Market Disruption Event has occurred: (a) in respect of any Component Security, the Scheduled Closing Time on the Exchange in respect of such Component Security, and (b) in respect of any options contracts or future contracts on the Index, the close of trading on the Related Exchange; and (ii) in all other circumstances, the time at which the official closing level of the Index is calculated and published by the Index Sponsor.

Related Exchange means Eurex.

Scheduled Trading Day means any day on which: (i) the Index Sponsor is scheduled to publish the level of the Index; and (ii) the Related Exchange is scheduled to be open for trading for its regular trading session.

Scheduled Closing Time means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours.

Trading Disruption means any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise: (i) relating to any Component Security on the Exchange in respect of such Component Security; or (ii) in futures or options contracts relating to the Index on the Related Exchange.

Valuation Date means 4 January 2012.

EVENTS RELATING TO THE INDEX

(a) Successor Index or Successor Index Sponsor

If an Index is (i) not calculated and announced by the relevant Index Sponsor but is calculated and announced by a successor sponsor (the “**Successor Index Sponsor**”) acceptable to the Calculation Agent, or (ii) replaced by a successor index (the “**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 the relevant index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or the Successor Index, as the case may be .

(b) Modification, Disruption and Cancellation of Calculation of the Index

If (i) on or prior to any Observation Date in respect of an 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 that Index (other than a modification prescribed in that formula or method to maintain that 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 in respect of such 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 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 using, in lieu of a published level for the Index, the level for such Index as at the Valuation Time on the Observation Date, as determined by the Calculation Agent in accordance with the formula for and method of calculating that Index last in effect prior to that change, modification, cancellation or failure, and using only those securities that comprised the Index immediately prior to that Index Adjustment Event.

The Calculation Agent shall, as soon as practicable, advise a Noteholder of any determination made by it. The Calculation Agent shall make available for inspection by Noteholders copies of any such determinations.

(c) Correction to the level of the Index

With the exception of any corrections published after the day which is three 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 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.

General disclaimer:

All information in these Final Terms relating to the relevant Index including, without limitation, its composition and method of calculation is derived from publicly available information released by the relevant Index Sponsor and other public sources, and the Issuer has not independently verified any such information. The Issuer shall not have any responsibility for any errors or omissions in the calculation and publication of the Index by the relevant Index Sponsor.

None of the Issuer, the Calculation Agent or any Agents accepts responsibility for the calculation, maintenance or publication of the relevant Index or any successor index.