

FINAL TERMS

9 January 2006

Íslandsbanki hf.

**Issue of GBP 7,100,000 Japanese Supertracker Notes linked to the Nikkei 225 Index, 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 Reykjavik, 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	265
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	Pounds Sterling (" GBP ")
4.	Aggregate Nominal Amount:	
	(i) Series:	GBP 7,100,000
	(ii) Tranche:	GBP 7,100,000
5.	Issue Price of Tranche:	100.00 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	GBP 50,000 per Note
7.	(i) Issue Date:	11 January 2006
	(ii) Interest Commencement Date	Not Applicable
8.	Maturity Date:	11 January 2012
9.	Interest Basis:	Not Applicable. There shall be no amount of interest payable under the Notes
10.	Redemption/Payment Basis:	Index Linked Redemption – the provisions of Part C apply
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: | 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

- | | | |
|-----|--|--|
| 20. | Issuer Call: | Not Applicable |
| 21. | Investor Put: | Not Applicable |
| 22. | Final Redemption Amount of each Note: | Applicable. The provisions of Part C apply |
| 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. The provisions of Part C apply |

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 | Not Applicable |

Notes and interest due on late payment:

- | | |
|---|-------------------------------|
| 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: | See Part C |

DISTRIBUTION

- | | |
|--|----------------------------|
| 31. (i) If syndicated, names of Managers: | Not Applicable |
| (ii) Stabilising Manager (if any): | Not Applicable |
| 32. If non-syndicated, name of relevant Dealer: | J.P.Morgan Securities Ltd. |
| 33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D |
| 34. Additional selling restrictions: | Not Applicable |
| 35. ERISA Restrictions: | Not Applicable |

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. The information on the Nikkei 225 Index appearing in Annex A has been extracted from publicly available information. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by each of the sources specified in Annex A, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- | | | |
|-------|---|----------------|
| (i) | Listing: | None |
| (ii) | Admission to trading: | Not Applicable |
| (iii) | Estimate of total expenses related to admission to trading: | Not Applicable |

2. RATINGS

The Notes are not rated.

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

Save for any fees payable to the Dealer, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- | | | |
|-------|---------------------------|----------------|
| (i) | Reasons for the Offer: | Not Applicable |
| (ii) | Estimated net proceeds: | Not Applicable |
| (iii) | Estimated total expenses: | Not Applicable |

5. YIELD

Indication of yield: Not Applicable

6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING

Details of past and future performance and volatility of the Nikkei 225 Index (the "**Index**") may be obtained from the web-site www.nni.nikkei.co.jp.

Further information on the Index is also set forth in Part C hereof and Annex A hereto. Investors should also take particular note of Annex B hereto (*Certain Investment Considerations*).

The Final Redemption Amount of the Notes and the value of the Notes will depend on the level of the Index at the Valuation Time on the Final Valuation Date as against the level of the Index at the Valuation Time on Strike Date. In the event that the level of the Index at the Valuation Time on the Final Valuation Date is equal to or less than the level of the Index at the Valuation Time on Strike Date, then the investor will receive on the maturity of the Notes only its originally invested amount with no additional return. Otherwise, an investor's return on the maturity of the Notes may be a positive amount, subject to a maximum of 80 per cent.

7. **OPERATIONAL INFORMATION**

- | | | |
|-------|---|--------------------------|
| (i) | ISIN Code: | XS0239154304 |
| (ii) | Common Code: | 023915430 |
| (iii) | 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 |
| (iv) | Delivery: | Delivery against payment |
| (v) | Names and addresses of additional Paying Agent(s) and Transfer Agent(s) (if any): | Not Applicable |

PART C

1. **Final Redemption Amount upon Maturity**

If the Notes have not previously been redeemed or purchased and cancelled in accordance with the Conditions (as supplemented and amended herein), the Final Redemption Amount payable by the Issuer on the Maturity Date shall be an amount in GBP calculated by the Calculation Agent in accordance with the following formula:

$$SD \times \left\{ 1 + 5 \times \text{Min} \left[0.16; \text{Max} \left(0; \frac{\text{Index}_f}{\text{Index}_i} - 1 \right) \right] \right\}$$

Where:

"**SD**" means, in respect of each Note, GBP 50,000 (or, if less, its outstanding nominal amount);

"**Index_f**" means the Index Level on the Final Valuation Date;

"**Index_i**" means 15,957.57 (being the Index Level on the Strike Date);

"**Max**" means maximum (being the greater of); and

"**Min**" means minimum (being the lesser of).

2. **Other Definitions**

The following terms shall have the following definitions (and the Conditions are amended accordingly):

"**Calculation Agent**" means J.P.Morgan Securities Ltd (or any successor thereof).

"**Disrupted Day**" means any Scheduled Trading Day on which the Exchange or the Related Exchange fails to open for trading during its regular trading session or a Market Disruption Event has occurred.

"**Early Closure**" means the closure on any Exchange Business Day of the Exchange relating to securities that comprise 20 per cent. or more of the level of the Index or the Related Exchange prior to its Scheduled Closing Time unless such earlier closing is announced by such Exchange or Related Exchange at least one hour prior to the earlier of (a) the actual closing time for the regular trading session on such Exchange or Related Exchange on such Exchange Business Day and (b) 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 the Tokyo Stock Exchange, any successor to any such exchange or any substitute exchange or quotation system to which trading in shares underlying the Index has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the shares underlying the Index on such temporary substitute exchange or quotation system as on the original Exchange).

"**Exchange Business Day**" means any Scheduled Trading Day on which each Exchange or Related Exchange are open for trading during their regular trading sessions, notwithstanding any such Exchange or 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 (a) to effect transactions in or obtain market values on the relevant Exchange relating to securities that comprise 20

per cent. or more of the level of the Index, or (b) to effect transactions in, or obtain market values for, futures or options contracts relating to the Index on the Related Exchange.

"Final Valuation Date" means 21 December 2011 (the **"Scheduled Final Valuation Date"**), provided that if such day is not a Scheduled Trading Day or is a Disrupted Day, then the Final Valuation Date shall be:

- (a) the first succeeding Scheduled Trading Day that the Calculation Agent determines is not a Disrupted Day, unless the Calculation Agent determines that each of the eight Scheduled Trading Days immediately following the Scheduled Final Valuation Date is a Disrupted Day. In that case:
 - (x) that eighth Scheduled Trading Day shall be deemed to be the Final Valuation Date, notwithstanding the fact that such day is a Disrupted Day; and
 - (y) 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 relevant 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 relevant Valuation Time on that eighth Scheduled Trading Day); or
- (b) if earlier than the date that would be the Final Valuation Date pursuant to paragraph (a) above, the Correction Cut-off Date, provided that if the Correction Cut-off Date is a Disrupted Day, then the Calculation Agent shall determine the level of the Index as of the Valuation Time on the Correction Cut-off Date pursuant to the provisions of (y) above, as if each reference therein to "that eighth Scheduled Trading Day" were a reference to "the Correction Cut-off Date".

"Index" means the Nikkei 225 Index (*Bloomberg*[®] ticker: *NKY Index*) as more fully described in Annex A (*"Information relating to the Nikkei 225 Index"*).

"Index Level" means the level of the Index as determined by the Calculation Agent as at the relevant Valuation Time on the relevant date, as calculated and published by the Index Sponsor or determined as otherwise specified herein.

"Index Sponsor" means Nihon Keizai Shimbun, Inc. or, failing that, the corporation or entity that, in the determination of the Calculation Agent, (a) is responsible for setting and reviewing the rules and procedures and the methods of calculation and adjustments, if any, related to the Index and (b) announces (directly or through an agent) the level of the Index on a regular basis during each Scheduled Trading Day.

"Market Disruption Event" means the occurrence or existence of (a) a Trading Disruption, (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 relevant Valuation Time, or (c) an Early Closure. For the purposes of determining whether a Market Disruption Event in respect of the Index exists at any time, if a Market Disruption Event occurs in respect of a security included in the Index at any time, then the relevant percentage contribution of that 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 security and (y) the overall level of the Index, in each case immediately before the occurrence of such Market Disruption Event.

"Related Exchange" means Osaka Securities Exchange or any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to the Index has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to the

Index on such temporary substitute exchange or quotation system as on the original Related Exchange).

"Scheduled Closing Time" means, in respect of the Index and a Scheduled Trading Day, the scheduled weekday closing time of the 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.

"Scheduled Trading Day" means any day on which the Exchange and the Related Exchange are scheduled to be open for trading for their respective regular trading session hours.

"Strike Date" means 21 December 2005.

"Trading Disruption" means any suspension of or limitation imposed on trading by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Exchange or Relevant Exchange or otherwise (a) relating to securities that comprise 20 per cent. or more of the level of the Index on the Exchange or (b) in futures or options contracts relating to the Index on the Related Exchange.

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

3. **Early Redemption**

The early redemption amount (the **"Early Redemption Amount"**) payable in respect of any Note, upon redemption of such Note pursuant to Condition 7(b) or upon it becoming due and payable as provided in Condition 10 shall be the amount in GBP determined by the Calculation Agent in good faith and in a commercially reasonable manner to be the fair market value of the Notes immediately prior (and ignoring the circumstances leading) to such early redemption, adjusted to account fully for any reasonable expenses and costs of unwinding any underlying and/or related hedging and funding arrangements (including but not limited to with JPMorgan Chase Bank, N.A. (or any related entity) or any other hedging counterparty selling or otherwise realising any units, shares or other instruments of any type whatsoever hedging the Issuer's obligations under the Notes), all as determined by the Calculation Agent in its sole and absolute discretion.

4. **Adjustments to the Index**

(a) **Successor Index Sponsor calculates and announces the Index**

If the Index is (i) not calculated and announced by the Index Sponsor specified hereon but is calculated and announced by a successor Index Sponsor (the **"Successor Index 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 in each case that index (the **"Successor Index"**) will be deemed to be the Index.

(b) **Index Modification, Index Cancellation and Index Disruption**

If, in the determination of the Calculation Agent, in respect of the Index (i) on or before the Final Valuation Date or other relevant date specified hereon, as the case may be, the Index Sponsor or (if applicable) Successor Index Sponsor announces that it will make a material change in the formula for, or the method of calculating, the Index or in any other way

materially modifies that Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock and capitalization and other routine events) (an "**Index Modification**") or permanently cancels the Index and no Successor Index exists (an "**Index Cancellation**"); or (ii) on the Final Valuation Date or other relevant date specified hereon, as the case may be, the Index Sponsor or (if applicable) Successor Index Sponsor fails to calculate and announce the level of the Index (an "**Index Disruption**", and, together with an Index Modification and an Index Cancellation, 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 relevant amount using, in lieu of a published level for such Index, the level for such Index as at the relevant date as determined by the Calculation Agent in accordance with the formula for and method of calculating such Index last in effect prior to that change, failure or cancellation, but using only those securities that comprised such Index immediately prior to that Index Adjustment Event and shall notify the Fiscal Agent and the Noteholders thereof (in accordance with Condition 14). None of the Calculation Agent or the Paying Agents shall have any responsibility in respect of any error or omission or subsequent correction made in the calculation or publication of the Index, whether caused by negligence or otherwise.

(c) **Correction of Index Levels**

In the event that any price or level published by the Index Sponsor and which is utilized for any calculation or determination is subsequently corrected and the correction is published by the Index Sponsor on or before the Correction Cut-off Date, the Calculation Agent will determine the amount that is payable or deliverable as a result of that correction, and, to the extent necessary, will adjust any relevant terms of the Notes to account for such correction and will notify the Fiscal Agent and the Noteholders thereof (in accordance with Condition 14).

"**Correction Cut-off Date**" means the second Scheduled Trading Day prior to the Maturity Date.

5. **Payment Disruption Event**

- (a) If the Calculation Agent shall, at any time and from time to time, determine that an event beyond the control of the Hedging Entity (a "**Payment Disruption Event**") has occurred or will occur as a result of which the Hedging Entity is not able or would not be able to receive the proceeds from the sale or other disposal of all or any part of the financial products held by the Hedging Entity, to hedge the Issuer's obligations in respect of the Notes prior to or on any date on which payments in respect of such Notes shall fall due, then the Calculation Agent shall as soon as practicable notify the holders of the relevant Notes of the occurrence of a Payment Disruption Event in accordance with Condition 14, whereupon the provisions of subparagraph (b) below shall become applicable.

The following terms shall have the following definitions (and the Conditions are amended accordingly):

"**Hedging Entity**" means the Issuer or the Calculation Agent, or any affiliate(s) of the Issuer or the Calculation Agent, or any entity (or entities) acting on behalf of the Issuer engaged in any underlying or hedging transactions in respect of the Issuer's obligations under the Notes.

"**Payment Event Cut-Off Date**" means a date which is one year after the Maturity Date or any other date on which any amount under the Notes shall be due and payable (as the case may be), or as determined by the Calculation Agent acting in good faith and as specified herein.

- (b) Upon the occurrence of a Payment Disruption Event:
 - (i) the Maturity Date or any other date on which principal or any other amount including interest in relation to any of the Notes shall be due and payable (as the case may be) in respect of the Notes shall, subject to sub-paragraph (c) below, be extended to a date falling 14 calendar days (or such other date as may be determined by the Calculation Agent and notified to the Noteholder in accordance with Condition 14) after the date on which the Payment Disruption Event is no longer operating; and
 - (ii) the Issuer's obligation to pay the Final Redemption Amount, or any such other amounts in relation to any of the Notes as may be due and payable (as the case may be) in respect of the Notes, subject to sub-paragraph (c) below, shall be postponed until 14 calendar days (or such other date as may be determined by the Calculation Agent and notified to the Noteholders in accordance with Condition 14) after the date on which the Payment Disruption Event is no longer operating.

For the avoidance of doubt and notwithstanding any provisions to the contrary, (A) any such payments made in accordance with this paragraph (b) shall be made after deduction of any costs, expenses or liabilities incurred or to be incurred by the Calculation Agent or Issuer in connection with or arising from the resolution of the relevant Payment Disruption Event(s) (including, without limitation, any additional custodial fees); (B) no accrued interest shall be paid by the Issuer in respect of any delay which may occur in the payment of any amounts due and payable under the Notes as a result of the operation of this paragraph; and (C) any failure by the Issuer to pay any amounts due and payable under the Notes as a result of the operation of this paragraph shall not constitute an Event of Default (as such term is defined in Condition 10) under Condition 10(a)(i) or (ii).

- (c) In the event that a Payment Disruption Event is still occurring on the Payment Event Cut-off Date, the Maturity Date shall fall on the Payment Event Cut-off Date and the amount payable by the Issuer in respect of the Notes shall be deemed to be zero. Thereafter, the Issuer shall have no obligations whatsoever under the Notes.

6. **Index Disclaimer**

Each of the Issuer and the Noteholders agrees and acknowledges that the Notes are not sponsored, endorsed, sold or promoted by the Index or the Index Sponsor and the Index Sponsor does not make any representation whatsoever, whether express or implied, either as to the results to be obtained from the use of the Index and/or the levels at which the Index stands at any particular time on any particular date or otherwise. Neither the Index nor Index Sponsor shall be liable (whether in negligence or otherwise) to any person for any error in the Index and the Index Sponsor is under no obligation to advise any person of any error therein. The Index Sponsor is not making any representation whatsoever, whether express or implied, as to the advisability or purchasing or assuming any risk in connection with the Notes. The Issuer shall have no liability to the Noteholders for any act or failure to act by the Index Sponsor in connection with the calculation, adjustment or maintenance of the Index. Except as disclosed prior to the Issue Date specified hereon, neither the Issuer nor its affiliates has any affiliation with or control over the Index or Index Sponsor or any control over the computation, composition or dissemination of the Index. Although the Calculation Agent will obtain information concerning the Index from publicly available sources it believes reliable, it will not independently verify this information. Accordingly, no representation, warranty or undertaking (express or implied) is made and no responsibility is accepted by the Issuer, its affiliates or the Calculation Agent as to the accuracy, completeness and timeliness of information concerning the Index.

7. **Calculations and Notifications**

The Calculation Agent shall determine any relevant amounts as soon as reasonably practicable on the relevant date and shall cause such amounts to be notified to the Issuer and the Agent as soon as reasonably practicable and the Agent shall notify the holders thereof in accordance with Condition 14.

8. **Calculations Binding**

The calculations and determinations of the Calculation Agent shall (save in respect of manifest error) be final and binding upon all parties. The Calculation Agent shall have no responsibility for good faith errors or omissions in any calculation in respect of the Notes as provided therein.

9. **Determinations by the Calculation Agent**

Whenever any matter falls to be determined, considered or otherwise decided upon by the Calculation Agent or any other person (including where a matter is to be decided by reference to the Calculation Agent's or such other person's opinion), unless otherwise stated, that matter shall be determined, considered or otherwise decided upon by the Calculation Agent or such other person, as the case may be, in its sole and absolute discretion. Any amounts of less than GBP 0.01 shall be rounded down to zero.

10. **Responsibility**

Neither of the Calculation Agent nor the Issuer shall have responsibility to holders of the Notes for good faith errors or omissions in the Calculation Agent's calculations and determinations as provided in the Conditions, whether caused by negligence or otherwise. The calculations and determinations of the Calculation Agent shall be made in accordance with the Conditions (having regard in each case to the criteria stipulated herein and where relevant on the basis of information provided to or obtained by employees or officers of the Calculation Agent responsible for making the relevant calculation or determination) and shall, in the absence of manifest error, be final, conclusive and binding on the holders of the Notes. Holders of the Notes shall not be entitled to make any claim against the Calculation Agent or the Issuer.

ANNEX A

INFORMATION RELATING TO THE NIKKEI 225 INDEX (for the purposes of this Annex A, the "Index")

The information included herein with respect to the Index consists only of extracts from, or summaries of, publicly available information. Such information has not been prepared in connection with the offering of the Notes. The Issuer accepts responsibility that such information has been accurately extracted or reproduced. No further or other responsibility in respect of such information is accepted by the Issuer and no responsibility whatsoever is accepted by J.P. Morgan Securities Ltd. ("JPMSL"). In particular, neither the Issuer nor JPMSL accepts responsibility in respect of the accuracy or completeness of the information set forth herein concerning the Index or that there has not occurred any event which would affect the accuracy or completeness of such information.

The Index levels shown in the table below under "Historical Performance" show the high and low closing levels of the Index for the periods indicated. While the table below provides some historical data regarding the risks of investing in the Index, past results are not necessarily indicative of future performance. Prospective purchasers of the Notes are advised to consult their own legal, tax, accountancy and other professional advisers to assist them in determining the suitability of the Notes for them as an investment. Each prospective purchaser of the Notes should be fully aware of and understand the complexity and risks inherent in the Notes before it makes its investment decision in accordance with the objectives of its business.

The Index

The Nikkei 225 Stock Average (the "Nikkei 225" or the "Index") is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The Index began to be calculated on 7 September, 1950, retroactively calculated back to 16 May, 1949.

Source:

Characteristics of the Nikkei Stock Average

http://www.nni.nikkei.co.jp/FR/SERV/nikkei_indexes/nifaq225.html

(accessed on 3 January 2006)

Calculation methodology

The Nikkei Stock Average is the average price of 225 stocks traded on the first section of the Tokyo Stock Exchange, but it is different from a simple average in that the divisor is adjusted to maintain continuity and reduce the effect of external factors not directly related to the market. The Index is calculated in real time.

(1) Equation

Nikkei Average =
$$\frac{\text{Sum of stock prices of 225 constituents}}{\text{Divisor}}$$

- a) Stocks that do not have a par value of 50 yen are converted to 50 yen par value.
- b) Numbers are rounded to two digits after the decimal point, or hundredths, to calculate the average.
- c) Priority in the usage of prices are:
 1. Current special quotation (closing special quotation).
 2. Current price (closing price).
 3. Standard price, which is defined as follows:

The theoretical price of ex-rights, a special quotation from the previous day or the closing price from the previous day, in this order of priority.

(2) Adjustment of Divisors

When components change or when they are affected by changes outside the market, the divisor is adjusted to keep the index level consistent.

a) In the case of ex-rights:

$$\text{New Divisor} = \frac{\text{Old Divisor} \times (\text{sum of stock prices cum rights} - \text{sum of rights prices})}{\text{Sum of stock prices cum rights}}$$

(where rights prices = Last cum stock price – theoretical value of ex-rights).

$$\text{Theoretical value} = \frac{\text{Last cum stock price} + \text{paid-in amount} \times \text{paid-in allotment ratio of ex-rights}}{\text{Paid-in allotment ratio} + \text{split allotment ratio}}$$

When there is no split or a reverse split, the split-allotment ratio shall be one.

b) In case of capital decrease:

$$\text{Theoretical value of ex-rights} = \text{Last cum stock price} \times (1 - \text{ratio of capital decrease})$$

c) In the case of replacement of components in the average:

$$\text{Rights price} = \text{price of replaced components} - \text{price of added components}$$

d) In the case of stock buyback by issuer:

Divisor not adjusted

(3) Magnifications

$$\text{Adjusted magnification} = \frac{225}{\text{divisor}}$$

$$\frac{\text{Adjusted magnification}}{\text{mathematical average}} = \frac{\text{Adjusted average}}{\text{divisor}} = \frac{\text{sum of stock prices}}{\text{divisor}} / \frac{\text{sum of stock prices}}{225} = \frac{225}{\text{divisor}}$$

The index is calculated in real-time during market hours and is published at www.nni.nikkei.co.jp.

Source:

Calculation Methodology

http://www.nni.nikkei.co.jp/FR/SERV/nikkei_indexes/nifaq225.html

(accessed on 3 January 2006)

Major Points of Revision

The Index is subject to Periodic Review each October, or more frequently as required. Periodic Review entails reconsideration of component issues from the standpoint of changes in the industrial and market structures. Extraordinary Review occurs as necessary, and enables the deletion and addition of components in response to extraordinary developments within the markets, such as bankruptcies or mergers.

An active approach to deletions and additions is taken, whereby consideration is made of changes in the industrial structure and market environment, in addition to liquidity.

Source:

Calculation Methodology

http://www.nni.nikkei.co.jp/FR/SERV/nikkei_indexes/nifaq225.html#gen3

(accessed on 3 January 2006)

Historical Performance

The following table sets out the high and low levels for the Index for the periods indicated. The historical performance of the Index should not be taken as an indication of future performance.

Year ended 31 December	High	Low
2003	11,238.63	7,603.76
2004	12,195.66	10,299.43
2005	16,445.56	10,770.58
Twelve Months to December 2005		
	High	Low
January 2005	11,580.69	11,212.63
February 2005	11,754.90	11,271.04
March 2005	11,975.46	11,506.85
April 2005	11,911.90	10,770.58
May 2005	11,302.52	10,788.59
June 2005	11,594.57	11,148.36
July 2005	11,913.50	11,540.93
August 2005	12,612.16	11,614.71
September 2005	13,678.44	12,498.40
October 2005	13,783.60	12,996.29
November 2005	15,013.24	13,706.33
December 2005	16,445.56	14,880.18

Source: Bloomberg® (3 January 2006)

The Index Level of the Index on 4 January 2006 was 16,361.54.

Source: Bloomberg® (5 January 2006)

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ANNEX B

CERTAIN INVESTMENT CONSIDERATIONS

Prospective investors who consider purchasing any Notes should reach an investment decision only after carefully considering the suitability of such Notes in light of their particular circumstances.

No Security

The obligations of the Issuer in respect of Notes are not secured. Investors in the Notes do not have or receive any rights in respect of any underlying shares or indices and have no right to call for underlying shares to be delivered to them. The Issuer is not obliged by the terms of the Notes to hold any underlying shares.

Hedging

In the ordinary course of their business, whether or not there will be any secondary market making activities, the Issuer, the Dealer and any hedge counterparty to the Issuer (and any party related to any of the foregoing) may effect transactions for their own account or for the account of their customers and hold long or short positions in futures and options contracts relating to the Index. In addition, in connection with the offering of the Notes, the Issuer may enter into one or more hedging transactions with respect to the futures and options contracts relating to the Index or related derivatives. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer, the Dealer and any hedge counterparty to the Issuer (and any party related to any of the foregoing) may enter into transactions in futures and options contracts relating to the Index or related derivatives which may affect the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the Noteholders.

Market Value of Notes

The market value of Notes will be affected by a number of factors independent of the creditworthiness of the Issuer, including, but not limited to:

- (i) the value and volatility of the Index;
- (ii) market interest and yield rates; and
- (iii) the time remaining to any redemption date or the Maturity Date.

In addition, the levels of the Index may depend on a number of interrelated factors, including economic, financial and political events in one or more jurisdictions, including factors affecting capital markets generally and the Exchange(s) on which the shares underlying the Index may be traded. The price at which a Noteholder will be able to sell Notes prior to maturity may be at a discount, which could be substantial, to the market value of such Notes on the Issue Date, if, at such time, the level of the Index is below, equal to or not sufficiently above the market price of the Index on the Issue Date. The historical level of the Index should not be taken as an indication of the Index's future performance during the term of the Notes.

Issue Price

The Issue Price specified at provision 6 above may be more than the market value of the Notes as at the date of this Pricing Supplement, and the price, if any, at which the Dealer or any other person willing to purchase the Notes in secondary market transactions is likely to be lower than the Issue Price. In particular, the Issue Price takes into account amounts with respect to commissions relating to the issue and sale of the Notes as well as amounts relating to the hedging to the Issuer's obligations under the Notes, and secondary market prices are likely to exclude such amounts. In addition, pricing models of relevant market participants may differ or produce a different result.

Illegality

If the relevant Issuer determines, by giving notice to the Noteholders, the Fiscal Agent and the Registrar, that its performance under any Note has become unlawful or impractical in whole or in part for any reason, such Issuer may redeem such Note and, if permitted by applicable law, pay the holder of each such Note an amount determined by such Issuer in its sole and absolute discretion as representing the fair market value of such Note notwithstanding such illegality or impracticality less the cost to such Issuer of unwinding any underlying related hedging arrangements plus all other expenses related thereto as determined by such Issuer in its sole and absolute discretion or an amount otherwise determined by such Issuer in its sole and absolute discretion as specified in the relevant Conditions.

Disruption Event

If the Calculation Agent determines that a Payment Disruption Event or Market Disruption Event has occurred, any consequential postponement of or any alternative provisions for valuation provided in any Note may have an adverse effect on the value of such Note.