Offering Circular

ÍSLANDSBANKI hf.

(incorporated in Iceland as a public limited company)

€150,000,000 8.00 per cent. Fixed to CMS-Linked Non-cumulative Undated Subordinated Capital Notes

Issue Price: 100 per cent.

Interest on the €150,000,000 8.00 per cent. Fixed to CMS-Linked Non-cumulative Undated Subordinated Capital Notes (the "Notes") of Íslandsbanki hf. (the "Issuer" or the "Bank") will, subject to Condition 4, be payable annually in arrear on each Interest Payment Date (as defined in Condition 16) from and including 16 June 2006 to and including 16 June 2010 at the Fixed Interest Rate (as defined in Condition 4). Thereafter, interest on the Notes will, subject to Condition 4, be payable annually in arrear on each Interest Payment Date from and including 16 June 2011 at the Floating Interest Rate (as defined in Condition 4), all as more particularly described in Condition 4. The Floating Interest Rate will be capped at 10 per cent. per annum.

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the Notes and carefully review the Terms and Conditions of the Notes. In particular, they should be aware that:

(i) the Notes are undated and deeply subordinated;

(ii) principal in respect of the Notes may be converted into conditional capital contributions as described in Condition 3;

(iii) conditional capital contributions may only be reconverted and reinstated as provided in Condition 3;

(iv) the Issuer shall not pay accrued interest in certain circumstances as provided in Condition 4; and

(v) the Notes may be redeemed at the option of the Issuer, in whole but not in part (a) on 16 June 2015 or on any Interest Payment Date thereafter or (b) (subject as provided herein) at any time on or prior to 16 June 2010 and, thereafter, on any Interest Payment date, in each case in the event of certain tax or regulatory changes affecting the Issuer, and in each case subject to prior approval of the Financial Supervisory Authority of Iceland and provided that any conditional capital contributions have been reconverted and reinstated as provided in Condition 3, all as further described in Condition 6.

Application has been made for the Notes to be listed on Eurolist by Euronext Amsterdam ("Euronext Amsterdam"). This Offering Circular constitutes a prospectus for the purposes of the application for listing on Euronext Amsterdam.

The Notes will initially be represented by a temporary global Note (the "Temporary Global Note"), without interest Coupons ("Coupons"), to be deposited with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on or about 16 June 2005 (the "Closing Date"). The Temporary Global Note will be exchangeable for interests in a permanent global Note (the "Permanent Global Note"), without Coupons, on and after 26 July 2005 upon certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes in bearer form, with Coupons attached, only in certain limited circumstances as described in Condition 1.

Morgan Stanley

The date of this Offering Circular is 13 June 2005

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Incorporation by Reference" below). This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.

The Managers (as defined under "Subscription and Sale") have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular. The Managers do not accept any liability in relation to the information contained or incorporated by reference in this Offering Circular.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers. Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances create any implication or constitute a representation that there has been no change in the affairs of the Issuer since the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers to subscribe for or purchase, any of the Notes.

This Offering Circular (i) is not intended to provide the basis of any credit or other evaluation or (ii) should not be considered as a recommendation by the Issuer or the Managers that any recipient of this Offering Circular or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of the Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which would permit a public offering of the Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom and Iceland, see "Subscription and Sale".

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and are subject to U.S. tax law requirements. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined

in regulation S under the Securities Act ("Regulation S")) except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. This Offering Circular has been prepared by the Issuer solely for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons pursuant to Regulation S. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see "Subscription and Sale".

Unless otherwise specified or the context requires, references to "ISK", "Krona" or "Krónur" are to Icelandic krona, to "NOK" are to Norwegian Kroner and to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

INCORPORATION BY REFERENCE

The audited consolidated annual financial statements of the Issuer and the notes thereto for the years ended 31 December 2002, 31 December 2003 and 31 December 2004 and the Issuer's articles of association (with an English translation thereof) shall be deemed to be incorporated in, and form part of, this Offering Circular.

Copies of the above financial statements may be obtained free of charge at the specified office of the Issuer, each of the Paying Agents and the Amsterdam Listing Agent.

FINANCIAL INFORMATION

As of 1 January 2005, the Bank reports its financial statements in accordance with International Financial Reporting Standards ("IFRS"). Prior to that date, the Bank's audited financial statements were prepared in accordance with generally accepted accounting principles in Iceland.

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In connection with the issue and distribution of the Notes, Morgan Stanley & Co. International Limited or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on Morgan Stanley & Co. International Limited or any agent of it to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules, including article 32 and Annex 6 of the Further Regulation on the Supervision of the Securities Trade 2002 (*Nadere regeling gedragstoezicht effectenverkeer 2002*) and will in any event be discontinued within 30 days after the Closing Date.

TERMS AND CONDITIONS OF THE NOTES

The following are (other than the paragraphs in italics) the terms and conditions of the Notes which, subject to completion and amendment, will be incorporated by reference into the Global Notes (as defined below) and which will be endorsed on each Note in definitive form (if issued).

The issue of the €150,000,000 8.00 per cent. Fixed to CMS-Linked Non-cumulative Undated Subordinated Capital Notes (the "Notes") of Íslandsbanki hf. (the "Issuer") was authorised by a resolution of the Board of Directors of the Issuer dated 8 February 2005. A Fiscal Agency Agreement dated 16 June 2005 (the "Agency Agreement") made between the Issuer, JPMorgan Chase Bank, N.A. (the "Calculation Agent" and the "Fiscal Agent") and ABN AMRO Bank N.V. (together with the Fiscal Agent, the "Paying Agents") has been entered into in relation to the Notes. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes and the holders of the interest Coupons appertaining to the Notes (the "Couponholders" and the "Coupons", respectively) at the specified office of each of the Paying Agents. Any reference to "Noteholders" or, in relation to any Notes, "holders" shall mean the holders of the Notes. The Noteholders and the Couponholders are deemed to have notice of all the provisions of the Agency Agreement applicable to them. References in these Terms and Conditions to the Fiscal Agent, the Calculation Agent and the Paying Agents shall include any successor appointed under the Agency Agreement. Unless the context otherwise requires, capitalised terms used in these Terms and Conditions shall have the respective meanings ascribed thereto in Condition 16.

1 Form, Denomination and Title

(1) Form

The Notes are in bearer form, serially numbered, in the denomination of €1,000 each. Notes will have Coupons and one Talon (as defined below) attached on issue. Any reference herein to "Coupons" shall, where the context so permits, be deemed to include a reference to talons for further Coupons (the "Talons").

(2) Principal Amount

Whenever there is any adjustment to the principal amount of any Note pursuant to these Terms and Conditions, upon presentation of such Note to the Fiscal Agent at its specified office, a record of such adjustment shall be endorsed by it on such Note provided that any failure to so present or record shall not in any way affect the decrease or increase pursuant to Condition 3.

(3) Title

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer, the Calculation Agent and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Note and the holder of any Coupon as the absolute owner thereof for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2 Status and Subordination

(1) Status

The Notes and the Coupons constitute and will constitute unsecured, subordinated debt obligations of the Issuer.

(2) Subordination

In the event of the voluntary or involuntary liquidation or bankruptcy of the Issuer, the rights of:

(a) the Noteholders and Couponholders to payments of the principal amount of the Notes and any other amounts including interest due in respect of the Notes; and

(b) where the whole or any part of the principal amount of the Notes has been converted into conditional capital contributions as described in Condition 3 below and such conditional capital contributions have not been reconverted and reinstated as provided in Condition 3 below, the providers of such conditional capital contributions, in respect of such conditional capital contributions,

shall rank:

(i) *pari passu* without any preference among the Noteholders, the Couponholders and such providers;

(ii) at least *pari passu* with the rights of the holders of the Existing Tier 1 Securities and any other outstanding Capital Securities from time to time, whether or not such Existing Tier 1 Securities or Capital Securities have been converted in the manner described below and at least *pari passu* with the rights of the holders of, or persons otherwise entitled to the benefit of, any other obligations of the Issuer constituting or eligible (''eligible'' to be construed, *mutatis mutandis*, as provided in the definition of Capital Event) as constituting Tier I Capital of the Issuer, in each case in relation to their rights as such holders and to payments in respect thereof and at least *pari passu* with the rights of the beneficiaries of any Tier 1 Guarantee;

(iii) in priority to the rights of holders of all classes of Junior Securities; and

(iv) junior in right of payment to the present or future claims of (a) depositors of the Issuer, (b) other unsubordinated creditors of the Issuer and (c) subordinated creditors of the Issuer in respect of Subordinated Indebtedness.

(3) No Set-Off

No Noteholder or Couponholder or provider of any conditional capital contribution who shall in the event of the liquidation or bankruptcy of the Issuer be indebted to the Issuer shall be entitled to exercise any right of set-off or counterclaim against moneys owed by the Issuer in respect of the Notes, Coupons or conditional capital contributions held or provided by such Noteholder, Couponholder or provider, as the case may be.

(4) Further Issues

The Issuer reserves the right to issue other Capital Securities in the future or other obligations constituting or eligible as constituting Tier I Capital of the Issuer, provided, however, that any such obligations may not in the event of voluntary or involuntary liquidation or bankruptcy of the Issuer rank in priority to the Notes.

3 Utilisation and Conversion

(1) Conversion

To the extent that at any time either (a) the Issuer is not meeting the requirements with respect to minimum own funds (''Minimum Own Funds'') applicable to it as set out in the Act or (b) it is required to avoid the Issuer no longer meeting such requirements, the Board of Directors of the Issuer, by resolution passed at a board meeting, may decide that the principal amount (or part thereof, as the case may be) of each Note will be utilised by writing down the principal amount of such Note outstanding at such time by an amount up to that which is required, after taking into account compliance with Condition 3(2), to achieve or maintain compliance by the Issuer with the required Minimum Own Funds and converting such aggregate amount (the ''Converted Amount'') into a conditional capital contribution. The rights of the Noteholders and the Couponholders in respect of the Converted Amount will thereupon be converted into rights of providers of conditional capital contributions as set out herein

If the Board of Directors of the Issuer resolve to write down the principal amount of the Notes as contemplated by Condition 3(1), the Issuer shall prior thereto give 5 days' notice of such writing down to Euronext Amsterdam and LCH Clearnet. Following the giving of such notice, clearing of the Notes in LCH Clearnet will, for a period of five days, be effected on a manual and non-guaranteed basis. The Issuer will apply for a new ISIN number for the Notes and following the expiry of such five day period, normal trading of the Notes in LCH Clearnet will be resumed.

(2) Utilisation

Forthwith, upon utilisation of the Converted Amount as provided above, the Issuer shall give notice thereof to the Noteholders in accordance with Condition 11, which notice shall specify the relevant Converted Amount and the relevant Conversion Date. Utilisation of the Converted Amount for the purpose of achieving or maintaining compliance with the required Minimum Own Funds applicable to the Issuer shall be made prior to the utilisation for the same purpose of outstanding perpetual/undated subordinated debt issued by the Issuer (other than other Capital Securities) and shall be made following the utilisation for the same purpose of the aggregate principal amount of Capital Securities and any other securities ranking junior to the Notes and outstanding at the time of such utilisation and *pro rata* to the principal amount (in the case of Capital Securities not denominated in euro, converted into euros at the relevant rate of exchange prevailing at the time of such utilisation) of Capital Securities ranking *pari passu* with the Notes and outstanding at the time of such utilisation. Utilisation as described above of some or all of the principal amount of the Notes shall not constitute an Event of Default under Condition 9. For the purposes hereof, the date of any conversion and utilisation shall be deemed to be the date upon which the Conditions set out in Condition 3(4) are first satisfied (the "Conversion Date").

(3) Writing Down in Part

Where, pursuant to this Condition 3, writing down and conversion applies to part only of the principal amount of the Notes, the part of the principal amount of each Note to be subject to such writing down and conversion shall bear the same proportion to the total amount of the principal amount in respect of such Note as the aggregate amount of the principal amount of all the Notes to be subject to such writing down and conversion bears to the aggregate outstanding principal amount of all the Notes respectively. Any reconversion and reinstatement as provided below will be made on the same basis. For the avoidance of doubt, the principal amount of the Notes may be subject to conversion, utilisation, reconversion and reinstatement in whole or in part in accordance with this Condition 3 on either one or more occasions.

(4) Conditions to Utilisation

Utilisation of the Converted Amount as aforesaid may only be made provided that the Fiscal Agent has received prior to such utilisation a certificate signed by two Directors of the Issuer confirming that a resolution of the Board of Directors of the Issuer of the type referred to in Condition 3(1) approving such conversion and utilisation has been duly passed and that, following such conversion to a Converted Amount, (i) the rights of the providers thereof in respect of such amounts will rank as provided in Condition 2 (copies of such certificate will be available for inspection at the specified office of the Fiscal Agent) and (ii) such amount will be a conditional capital contribution and will be accounted for as such in the balance sheet of the Issuer.

(5) Junior Payments

The Issuer covenants that until an amount equal to the aggregate Converted Amount in respect of all Notes outstanding has been reinstated as an obligation evidenced by the Notes (as opposed to a conditional capital contribution) in full in the balance sheet of the Issuer, or such amount has been redeemed (such redemption having been approved by the FSA):

(i) the Board of Directors of the Issuer shall not propose to its general meeting of shareholders to declare, pay or distribute, a dividend or any other amount on, or in respect of, any of its ordinary share capital;

(ii) it shall not declare, pay or distribute interest, a dividend or any other amount on, or in respect of, any of its preference share capital, any Other Tier I Securities, any Junior Securities or make any payment on a Tier I Guarantee (except, in the case of Capital Securities ranking *pari passu* with the Notes, any payments made on a *pro rata* basis as contemplated above);

(iii) it shall not redeem, purchase or otherwise acquire any of its ordinary shares, its preference shares, any Other Tier I Securities or Junior Securities or purchase or otherwise acquire any security or obligation (however named or designated) benefiting from a Tier I Guarantee (save where those shares, securities or obligations being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares, securities or obligations of the same aggregate principal amount and the same ranking in a voluntary or involuntary liquidation or bankruptcy of the Issuer to those shares, securities or obligations being redeemed, purchased or acquired); and

(iv) it will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any Subsidiary on any security or obligation (however named or designated) benefiting from a Tier I Guarantee.

Condition 3(5)(i) prohibits, in certain specified circumstances, the Board of Directors of the Issuer from proposing to its general meeting of shareholders the declaration, payment or distribution of a dividend or any other amount on, or in respect of, any of its ordinary share capital. However, under Icelandic company laws, shareholders may in certain circumstances require the payment of a dividend on such shares. Condition 3(5)(i) does not in any way limit or circumvent such powers of shareholders under Icelandic company laws.

(6) Reinstatement

If at any time the Issuer's own funds exceed the Minimum Own Funds required at such time allowing for reconversion and reinstatement (in whole or in part) as an obligation evidenced by the Notes (as opposed to a conditional capital contribution) of amounts converted in respect of subordinated indebtedness in the form of Capital Securities and/or perpetual/undated subordinated securities and/or any other securities, the Board of Directors of the Issuer shall subsequently decide that such reconversion and reinstatement shall be made with due observance taken to the ranking prescribed in Condition 3(2) between the relevant instruments to the extent such replenishment does not result in the Issuer's own funds falling below the required Minimum Own Funds. Accordingly, reconversion and reinstatement shall first be made in respect of perpetual/undated subordinated debt (other than Capital Securities) issued by the Issuer that may have been converted into conditional capital contributions.

Reconversion and reinstatement as an obligation evidenced by the Notes (as opposed to a conditional capital contribution) of the Converted Amount shall be made *pro rata* with any amounts converted in respect of other Capital Securities of the Issuer ranking *pari passu* with the Notes (in the case of Capital Securities not denominated in euro, converted into euro at the relevant rate of exchange prevailing at the time of such reinstatement). For the avoidance of doubt, amounts converted in respect of Capital Securities and any other securities expressed to rank junior to the Notes shall be reconverted and reinstated as an obligation evidenced by the Notes (as opposed to a conditional capital contribution) only after the Converted Amount (and any other amounts converted in respect of other Capital Securities of the Issuer expressed to rank *pari passu* with the Notes) has (or have) been so reconverted and reinstated.

If and to the extent that any Converted Amount has been reconverted and reinstated as an obligation evidenced by the Notes (as opposed to a conditional capital contribution) in the balance sheet of the Issuer, such amount shall be reinstated as principal and shall be added to the principal amount of such Note for all purposes thereafter (and references to "principal" and "principal amount" shall be construed accordingly) and interest shall start to accrue on such amount and become payable in accordance with the terms of the Notes as from the date of such reinstatement, being the date referred to as such in the notice referred to below (the "Reinstatement Date").

Reconversion and reinstatement (in whole or in part) as debt of the Converted Amount may only be made out of Unallocated Distributable Profits of the Issuer and subject to a resolution of the Board of Directors of the Issuer.

Upon reconversion and reinstatement as debt of the Converted Amount as described above the Issuer shall give notice thereof to Noteholders in accordance with Condition 11 which notice shall specify the amount so reinstated and the relevant Reinstatement Date.

4 Interest

(1) Interest Rate

The Notes bear interest from the Interest Commencement Date in accordance with the provisions of this Condition 4.

Subject as provided in these Terms and Conditions, interest shall be payable annually in arrear on each Interest Payment Date, interest shall be payable as provided in this Condition 4.

(2) Interest Accrual

The Notes will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 unless, upon due presentation, payment and performance of all amounts and obligations due in respect of the Notes is not properly and duly made, in which event interest shall continue to accrue, and shall be payable, as provided in these Terms and Conditions up to (but excluding) the Relevant Date.

The amount of interest payable on a Note in respect of an Interest Period shall be calculated by reference to the principal amount of such Note (after taking into account any adjustment in respect of any Converted Amount attributable to such Note and taking into account any adjustment to such amount during such Interest Period, in each case by reference to the relevant Conversion Date and Reinstatement Date).

(3) Fixed Interest Rate

For the Fixed Rate Interest Period, the Notes bear interest at the rate of 8.00 per cent. per annum (the ''Fixed Interest Rate'').

Where it is necessary to compute an amount of interest in respect of any Note during the Fixed Rate Interest period for a period which is not a complete Interest Period, such interest shall be calculated on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360) and, if necessary, rounding the resultant figure to the nearest €0.01 (€0.005 being rounded upwards).

(4) Floating Interest Rate

From (and including) the Reset Date, the Notes will bear interest at a floating rate of interest (the ''Floating Interest Rate''). The Floating Interest Rate in respect of each Interest Period commencing on or after the Reset Date will be determined by the Calculation Agent on the relevant Interest Determination Date and shall be the aggregate of the relevant Reference Rate as determined by the Calculation Agent plus 0.20 per cent. per annum, provided that if such aggregate amount is greater than 10.0 per cent., the Floating Interest Rate shall for such Interest Period be deemed to be 10.0 per cent.

(5) Determination of Floating Interest Rate and Calculation of Floating Interest Amounts

The Calculation Agent will, as soon as practicable after 11.00 a.m. (Frankfurt time) on each Interest Determination Date, determine the Floating Interest Rate in respect of the relevant Interest Period and calculate the amount of interest payable in respect of a Note on the Interest Payment Date for the relevant Interest Period (the ''Floating Interest Amounts''). For each Interest Period commencing on or after the Reset Date, Floating Interest Amounts will be calculated on the basis set out in Condition 4(2) above and on the basis of a 360 day year of 12 months of 30 days each divided by 360 (30/360) and, if necessary, rounding the resultant figure to the nearest €0.01 (€0.005 being rounded upwards).

(6) Publication of Floating Interest Rate and Floating Interest Amounts

The Issuer shall cause notice of the Floating Interest Rate determined in accordance with this Condition 4 in respect of each relevant Interest Period and of the Floating Interest Amounts and the relevant Interest Payment Date to be given to the Fiscal Agent, the other Paying Agents and, in accordance with Condition 11, the Noteholders, in each case as soon as practicable after their determination but in any event not later than the fourth business day thereafter. The Issuer shall cause notice of the same to be given to any stock exchange or other relevant authority on which the Notes are for the time being listed or admitted to trading as soon as practicable after their determination but in any event not later than the first day of the relevant Interest Period. As used in this Condition 4(6), ''business day'' means a day (not being a Saturday, Sunday or public holiday) on which banks are open for business in London.

(7) Calculation Agent

So long as any Notes remain outstanding, the Issuer will maintain a Calculation Agent. The name of the initial Calculation Agent is set out at the end of these Terms and Conditions.

The Issuer may from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or fails duly to determine the Floating Interest Rate in respect of any Interest Period as provided in Condition 4(4), the Issuer shall forthwith appoint another leading investment, merchant or commercial bank in London to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(8) Determinations of Calculation Agent Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Issuer, the Calculation Agent, the Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Noteholder, the Couponholders or the Issuer shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions in relation to the Notes or the Agency Agreement.

(9) Sufficiency of Available Distributable Funds

(i) Payments of interest on any Interest Payment Date may not, when aggregated with all payments previously made in that fiscal year in respect of the Notes, other Capital Securities ranking *pari passu* with the Notes, Other Tier I Securities and Tier I Guarantees, exceed the Available Distributable Funds. Accordingly, to the extent that, on any Interest Payment Date, Available Distributable Funds (taking into account all payments previously made in that fiscal year as aforesaid) are insufficient to pay, or provide for payment in full of, all accrued but unpaid interest under the Notes, other Capital Securities ranking *pari passu* with the Notes, Other Tier I Securities and Tier I Guarantees (in each case falling due on that Interest Payment Date), the Issuer will make partial payment of all accrued but unpaid interest under the Notes, such other Capital Securities ranking *pari passu* with the Notes, Other Tier I Securities and Tier I Guarantees *pro rata* to the extent of such Available Distributable Funds. If, and to the extent that Available Distributable Funds are insufficient or non-existent and the Issuer makes partial payment of, or does not pay, accrued but unpaid interest, the right of the Noteholders to receive accrued but unpaid interest in respect of the relevant Interest Period will be deferred until the Deferral End Date. At the Deferral End Date, the Issuer will, subject as provided in the next paragraph, make full or partial payment of all deferred but unpaid interest under the Notes, such other Capital Securities, Other Tier I Securities and Tier I Guarantees *pro rata* to the extent the Issuer has accrued any Unallocated Distributable Profits, as determined by the Board of Directors of the Issuer after consultation with the Issuer's auditors, in such fiscal year. If, and to the extent that, any deferred payments remain unpaid after the applicable Deferral End Date, the right of the Noteholders to receive such deferred payments will be lost. The Issuer will have no obligation to make such payments of unpaid deferred interest or to pay interest thereon, whether or not payments of interest in respect of subsequent Interest Periods are made, and such unpaid deferred interest will not be deemed to have ''accrued'' or been earned for any purpose.

Notwithstanding anything to the contrary herein, the Issuer will not make any payments of interest otherwise due (including on a Deferral End Date in accordance with these Terms and Conditions) if the Issuer does not, or to the extent that the Issuer, following payment of such interest, would no longer, meet the requirements with respect to Minimum Own

Funds applicable to it, in which case the right of the Noteholders to receive to such extent such payment of interest will be lost. The Issuer will have no obligation to make such payments of unpaid interest or to pay interest thereon, whether or not payments of interest in respect of subsequent Interest Periods are made, and such unpaid interest will not be deemed to have ''accrued'' or been earned for any purpose.

(ii) The Issuer covenants that, so long as any Note is outstanding, if the most recent scheduled payments on the Notes have not been made in full:

(a) the Board of Directors of the Issuer shall not propose to its general meeting of shareholders to declare, pay or distribute, a dividend or any other amount on, or in respect of, any of its ordinary share capital;

(b) it shall not declare, pay or distribute interest, a dividend or any other amount on, or in respect of, any of its preference share capital, any Other Tier I Securities, any Junior Securities or make any payment on a Tier I Guarantee (except, in the case of Capital Securities ranking *pari passu* with the Notes, any payments made on a *pro rata* basis as contemplated above);

(c) it shall not redeem, purchase or otherwise acquire any of its ordinary shares (except in connection with transactions effected by or for the account of customers of the Issuer or in connection with the distribution, trading or market-making in respect of such shares), its preference shares, any Other Tier I Securities or Junior Securities or purchase or otherwise acquire any security or obligation (however named or designated) benefiting from a Tier I Guarantee (save where those shares, securities or obligations being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares, securities or obligations of the same aggregate principal amount and the same ranking in a voluntary or involuntary liquidation or bankruptcy of the Issuer to those shares, securities or obligations being redeemed, purchased or acquired); and

(d) it will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any Subsidiary on any security or obligation (however named or designated) benefiting from a Tier I Guarantee,

in each case until, if all such scheduled payments are paid on the Deferral End Date applicable to such payment, such Deferral End Date or otherwise for a period of 12 months following the applicable Interest Payment Date.

Condition 4(9)(ii)(a) prohibits, in certain specified circumstances, the Board of Directors of the Issuer from proposing to its general meeting of shareholders the declaration, payment or distribution of a dividend or any other amount on, or in respect of, any of its ordinary share capital. However, under Icelandic company laws, shareholders may in certain circumstances require the payment of a dividend on such shares. Condition 4(9)(ii)(a) does not in any way limit or circumvent such powers of shareholders under Icelandic company laws.

If the Issuer deems that it does not have sufficient Available Distributable Funds to pay accrued interest on the Notes on the next Interest Payment Date, the Issuer shall, if reasonably practicable and if so permitted by the applicable regulations of any stock exchange upon which the Issuer's equity or debt is then listed, give not more than 14 nor less than five days' prior notice thereof to the Noteholders in accordance with Condition 11.

The Issuer shall also give not more than 14 nor less than five days' prior notice to the Noteholders in accordance with Condition 11 in case of a deferred payment of interest out of Unallocated Distributable Profits.

The Issuer is responsible for determining whether it has Available Distributable Funds or Unallocated Distributable Profits and, on any occasion when it determines it has insufficient Available Distributable Funds to pay accrued interest on the next Interest Payment Date or Unallocated Distributable Profits to make a full or partial payment of accrued interest on any deferred Interest Payment Date prior to the Deferral End Date, it will procure that its auditors certify this to be the case and a copy of such certificate will be available for inspection at the specified office of each Paying Agent.

5 Payments

(1) Method of payment

(i) Payments of principal and interest will be made by or on behalf of the Issuer against presentation and surrender of the Notes or the appropriate Coupons at the specified office of any of the Paying Agents, except that payments of interest in respect of any period not ending on an Interest Payment Date will only be made upon surrender of the relevant Notes. Such payments will be made (subject to Condition 5(1)(ii) below), at the option of the payee, by euro cheque drawn on, or by transfer to a euro account maintained by the payee with, a bank in a city in which banks have access to the TARGET System.

(ii) Upon the due date for redemption of any Notes, any unexchanged Talon relating to such Notes (whether or not attached) shall become void and no Coupons shall be delivered in respect of such Talon and unmatured Coupons relating to such Notes (whether or not attached) shall also become void and no payment shall be made in respect of them. If any Note is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.

(iii) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Notes, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 8).

(2) Payments subject to Fiscal Laws

Without prejudice to the terms of Condition 7, all payments made in accordance with these Terms and Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(3) Payments on Business Days

If the date for payment of any amount in respect of any Note or Coupon, or any later date on which any Note or Coupon is presented for payment, is not a business day, then the holder thereof shall not be entitled to payment at the place of payment of the amount payable until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 5(3), "business day" means any day (not being a Saturday, Sunday or a public holiday) on which banks are open for business in the relevant place of payment and which is a TARGET Settlement Day.

(4) Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(i) there will at all times be a Fiscal Agent;

(ii) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority); and

(iii) the Issuer will maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 11.

6 Redemption and Purchase

(1) Issuer Call Option

Subject to Condition 6(6) below, on the Call Date or on any Interest Payment Date thereafter the Issuer may, subject to prior approval of the FSA and having given not less than ten TARGET Settlement Days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all (but not some only) of the Notes at an amount equal to the principal amount thereof.

(2) Redemption due to Taxation

Subject to Condition 6(6) below, if:

(i) as a result of any change in, or amendment to, the laws or regulations of Iceland or any political subdivision of, or any authority in, or of, Iceland having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 16 June 2005, on the occasion of the next payment due in respect of the Notes the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and

(ii) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may, subject to the prior approval of the FSA (provided that such approval is at such time required to be given in accordance with applicable rules, regulations and policies of the FSA), and after having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all (but not some only) of the Notes at an amount equal to the principal amount thereof together with any interest accrued to the date of redemption, such redemption to occur at any time prior to the Reset Date or, thereafter, only on an Interest Payment Date, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the occasion of the next payment due in respect of the Notes and cannot be avoided by the Issuer taking reasonable measures available to it and (b) an opinion of an independent Icelandic law firm of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

(3) Redemption due to Capital Event

Subject as provided in Condition 6(6) below, upon the occurrence of a Capital Event, the Issuer may, subject to the prior approval of the FSA (provided that such approval is at such time required to be given in accordance with applicable rules, regulations and policies of the FSA), at its option, having given not less than 30 days' nor more than 60 days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all (but not some only) of the Notes at any time prior to the Reset Date or, thereafter, only on any Interest Payment Date at an amount equal to the principal amount thereof together with any interest accrued to the date of redemption.

(4) Purchases

The Issuer or any of its Subsidiaries may (subject to the prior approval of the FSA) at any time purchase Notes (provided that all unmatured Coupons and Talons appertaining to the Notes are purchased with the Notes) in any manner and at any price. Notes purchased by the Issuer or any of its Subsidiaries shall be cancelled.

(5) Cancellation

All Notes which are redeemed will forthwith be cancelled, together, with all relative unmatured Coupons and Talons and accordingly may not be reissued or resold.

(6) No Redemption until Reconversion of Converted Amounts

Save as provided in Condition 9, where any principal amount has been converted into a conditional capital contribution as described in Condition 3, the Issuer shall not redeem the Notes until (a) all Converted Amounts have been reconverted and reinstated as debt in full in accordance with Condition 3(6) and (b) after the Reinstatement Date.

7 Taxation

All payments of principal and interest in respect of the Notes and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or government charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders and Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

(i) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon;

(ii) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Presentation Date;

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

8 Prescription

Claims against the Issuer in respect of Notes and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years (in the case of principal) and four years (in the case of interest) after the Relevant Date therefor. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition or Condition 5(1)(ii) or any Talon which would be void pursuant to Condition 5(1)(ii).

9 Events of Default

(1) Events of Default

The following events or circumstances (each an "Event of Default") shall be an event of default in relation to the Notes:

(i) the Issuer shall default in the payment of principal for a period of 3 days in respect of any Note which has become due and payable in accordance with these Terms and Conditions; or

(ii) the Issuer shall, to the extent that it is obliged to pay interest under Condition 4(9), default for a period of 7 days in the payment of interest due on any Note in accordance with these Terms and Conditions; or

(iii) a court or agency or supervisory authority in Iceland (having jurisdiction in respect of the same) shall have instituted a proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or all or substantially all of its property and such proceedings, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 20 days; or

(iv) the Issuer shall file a petition to take advantage of any insolvency statute or shall voluntarily suspend payment of its obligations.

(2) Notes due and payable

If any Event of Default shall have occurred and shall be continuing, any Noteholder may give notice to the Issuer that the Note is, and it shall accordingly, subject to this Condition 9, forthwith become, immediately due and repayable, whether or not the whole or any part of any Converted Amount has been reconverted and reinstated as an obligation evidenced by the Notes (as opposed to a conditional capital contribution), at an amount equal to the principal amount (construed as aforesaid) of the Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make such payment of interest in accordance with Condition 4(9) or would be so obliged were the due date for repayment an Interest Payment Date).

(3) Remedies

If a Note has been declared due and payable under this Condition 9, the Noteholder may claim payment in respect of the Notes only in the bankruptcy or liquidation of the Issuer and may therefore institute such steps, including the obtaining of a judgment against the Issuer for any amount due in respect of the Notes, as it thinks desirable with a view to having the Issuer declared bankrupt or put into liquidation.

(4) Other Remedies

A Noteholder may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to Conditions 9(2) and (3) above, any obligation for the payment of any principal or interest in respect of the Notes) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

(5) Providers of Converted Amounts

A provider of any Converted Amount may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under Condition 2 or 3 provided that the Issuer shall not by virtue of the institution of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it under these Conditions.

(6) Remedies Limited

No remedy against the Issuer, other than as provided in sub-paragraphs (2), (3), (4) and (5) above, or proving or claiming in the liquidation or bankruptcy of the Issuer in Iceland or elsewhere, shall be available to the Noteholders, whether for the recovery of amounts owing in respect of the Notes or in respect of any breach by the Issuer of any of its obligations or undertakings with respect to the Notes.

10 Replacement of Notes, Coupons and Talons

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

11 Notices

(1) Publication

All notices regarding the Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London (expected to be the *Financial Times*) and (ii) if and for so long as the Notes are listed on Euronext Amsterdam and the rules of Euronext Amsterdam N.V. so require, in the Euronext Amsterdam Daily Official List (*Officiële Prijscourant*) and in a newspaper having general circulation in The Netherlands (which is expected to be *Het Financieele Dagblad*). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

(2) Notices given by Noteholders

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Fiscal Agent.

12 Meetings of Noteholders and Modification

(1) Procedure

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Agency Agreement although any modification cannot be made without the prior approval of the FSA. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 5 per cent. in principal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modifications of certain provisions of the Notes or the Coupons (including modifying the ranking of the Notes or modifying any date for payment of interest on the Notes, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

(2) Modifications

The Fiscal Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders but with the prior approval of the FSA, to:

(i) any modification (except as mentioned in the parenthesis in Condition 12(1)) of the Notes, the Coupons or the Agency Agreement which could not reasonably be expected to be prejudicial to the interests of the Noteholders; or

(ii) any modification of the Notes, the Coupons or the Agency Agreement for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained therein or which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 11 as soon as practicable thereafter.

13 Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding Notes.

14 Third Party Rights

Except as provided herein in relation to providers of any Converted Amount, no person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

15 Governing Law and Submission to Jurisdiction

(1) Governing Law

The Agency Agreement, the Notes, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law except that the provisions of Conditions 2, 3, 4(9) and 9(5) shall be governed by, and shall be construed in accordance with, Icelandic law.

(2) Jurisdiction

The Issuer agrees, for the exclusive benefit of the Noteholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Notes and the Coupons may be brought in such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(3) Appointment of Process Agent

The Issuer appoints its London branch at 2 Royal Exchange Buildings, London EC3V 3LF as its agent for service of process, and undertakes that, in the event of it ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

(4) Agency Agreement

The Issuer has in the Agency Agreement submitted to the jurisdiction of the English courts, appointed an agent for service of process in terms substantially similar to those set out above.

16 Definitions

For the purposes of these Terms and Conditions:

"Act" means the Icelandic Act on Financial Undertakings No. 161/2002, as amended from time to time.

"Available Distributable Funds" means, in respect of each fiscal year of the Issuer, the aggregate amount, as calculated as at the end of the immediately preceding fiscal year in the individual financial statements of the Issuer, of accumulated retained earnings and any other reserves and surpluses capable under Icelandic law of being available for distribution to holders of Bank Share Capital, but before deduction of the amount of any dividend or other distribution declared in respect of such prior fiscal year on Bank Share Capital.

"Bank Share Capital" means the ordinary shares of the Issuer, together with all other securities of the Issuer, ranking *pari passu* with the ordinary shares of the Issuer as to participation in a liquidation surplus.

"Capital Event" means the determination by the Issuer (such determination to be evidenced by a certificate signed by two Directors of the Issuer and to be binding on the Noteholders without further investigation (copies of such certificate to be available for inspection at the specified office of the Fiscal Agent)), having received confirmation or similar proof thereof from the FSA, that the Notes are no longer eligible for inclusion in Tier I Capital (*Eiginfjárþáttur A*) of the Issuer and for these purposes the Notes shall be deemed to be so "eligible" notwithstanding that any limits in respect of obligations which can be included in determining such eligibility would be exceeded by including in such determination all or any part of the Notes and accordingly for these purposes any such limits shall be disregarded.

"Calculation Agent" means JPMorgan Chase Bank, N.A. or any successor appointed under the Agency Agreement.

"Call Date" means 16 June 2015.

"Capital Securities" means any subordinated and undated debt instruments of the Issuer including Existing Tier 1 Securities which are recognised as "*Eiginfjárþáttur A*" from time to time by the FSA and including, where the context so requires, the Notes.

"Conversion Date" has the meaning given in Condition 3(2).

"Converted Amount" has the meaning given in Condition 3(1).

"Deferral End Date" means, in respect of an interest payment, the earlier of (i) the date on which the Issuer accrues enough Unallocated Distributable Profits during the fiscal year of the Issuer in which such interest payment was otherwise due, as determined by the Board of Directors of the Issuer after consultation with the Issuer's auditors, to pay the entire deferred payment due under the Notes and under other Capital Securities ranking *pari passu* with the Notes and Other Tier I Securities, and makes such payments or (ii) 31 December of the fiscal year of the Issuer in which such interest payment was otherwise due.

"Euronext Amsterdam" means Eurolist by Euronext Amsterdam.

"Existing Tier 1 Securities" means the Issuer's ¥5,000,000,000 Non-cumulative Undated Step-up Capital Notes, issued 25 June 2001 and ISK 1,000,000,000 Non-cumulative Undated Step-up Capital Notes, issued in December 2000.

"Fiscal Agent" means JPMorgan Chase Bank, N.A. or any successor appointed under the Agency Agreement.

"Fixed Interest Rate" has the meaning given in Condition 4(3).

"Fixed Rate Interest Period" means the period from (and including) the Interest Commencement Date to (but excluding) the Reset Date.

"Floating Interest Amounts" has the meaning given in Condition 4(5).

"Floating Interest Rate" has the meaning given in Condition 4(4).

"FSA" means Financial Supervisory Authority of Iceland (*Fjármálaeftirlitid*) or any successor.

"Interest Commencement Date" means 16 June 2005.

"Interest Determination Date" means, with respect to any Interest Period commencing on or after the Reset Date, the second TARGET Settlement Day prior to the first day of such Interest Period.

"Interest Payment Date" means 16 June in each year commencing on 16 June 2006 provided that if any Interest Payment Date after the Reset Date would otherwise fall on a day which is not a TARGET Settlement Day, it shall be postponed to the next day which is a TARGET Settlement Day.

"Interest Period" means the period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date.

"Junior Securities" means (i) Bank Share Capital, (ii) each class of preference shares of the Issuer ranking junior to the Notes, if any, and any other instrument of the Issuer ranking junior to the Notes, and (iii) preference shares or any other instrument of any Subsidiary of the Issuer subject to any guarantee or support agreement of the Issuer ranking junior to the obligations of the Issuer under the Notes.

"Minimum Own Funds" has the meaning given in Condition 3(1).

"Other Tier I Securities" means any securities or obligations (however named or designated) which are eligible (as such term is construed in the definition of "Capital Event" above) to count as Tier I Capital of the Issuer and which rank on a voluntary or involuntary liquidation or bankruptcy of the Issuer *pari passu* with the Notes and which will thus currently include the Existing Tier 1 Securities.

"Paying Agent" means JPMorgan Chase Bank, N.A. and ABN AMRO Bank N.V. or any successor appointed under the Agency Agreement.

"Presentation Date" means a day which (subject to Condition 8):

(a) is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation and London; and

(b) is a TARGET Settlement Day.

"Reference Rate" means in respect of any Interest Period commencing on or after the Reset Date, the "EUR-ISDA-EURIBOR Swap Rate – 11:00" (the annual Euro swap rate expressed as a percentage for Euro swap transactions with a 10-year maturity, the "Designated Maturity"), which appears on the Reuters screen "ISDAFIX2" under the heading "EURIBOR BASIS – FRF" and above the caption – "11:00 AM Frankfurt" (as such headings and captions may appear from time to time) as at 11:00 a.m., Frankfurt time (or such other page or service as may replace it for the purposes of such rate) (the "Relevant Screen page") on the relevant Interest Determination Date.

In the event that the foregoing rate does not appear on the Relevant Screen Page on any Interest Determination Date, the Reference Rate for the relevant Interest Period commencing on or after the Reset Date will be the "Reference Banks' Swap Rate" on such Interest Determination Date. The "Reference Banks' Swap Rate" means the percentage rate determined on the basis of the quotations of the "mid-market annual swap rate" provided by five leading swap dealers in the interbank market (the "Reference Banks") to the Calculation Agent at approximately 11:00 a.m., Frankfurt time, on the Interest Determination Date. If at least three quotations are provided, the Reference Rate for that Interest Period will be the arithmetic of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotations (or, in the event of equality, one of the lowest).

The "mid-market annual swap rate" means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 days count basis) of a fixed-for-floating Euro interest rate swap transaction which transaction (a) has a term equal to six months and commencing on the first day of such Interest Period, (b) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (c) the floating leg of which is based on the 6-months EURIBOR rate (calculated on an Actual/360 day count basis).

"Reinstatement Date" has the meaning given in Condition 3(6).

"Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Fiscal Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 11.

"Reset Date" means 16 June 2010.

"Subordinated Indebtedness" means any obligation, whether dated or undated, of the Issuer which by its terms is, or is expressed to be, subordinated in the event of liquidation or bankruptcy of the Issuer to the claims of depositors and all other unsubordinated creditors of the Issuer other than obligations which rank *pari passu* with the Notes, the Existing Tier I Securities and Other Tier I Securities and, for the avoidance of doubt, shall include obligations of the Issuer which are subordinated in accordance with, and for the purposes of, Chapter X; Liquid Assets and Own Funds; Article 84 of the Act (or any other legislative provisions which modifies or replaces those positions.

"Subsidiary" means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

"Talon" has the meaning given to it in Condition 1(1).

"TARGET Settlement Day" means a day on which the TARGET System is open.

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (or any successor thereto).

"Tax Jurisdiction" means Iceland or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes.

"Tier I Capital" means capital which is eligible (construed as aforesaid) to be treated as issued tier I capital by the FSA either on a solo or on a consolidated basis.

"Tier I Guarantee" means any guarantee, indemnity or other contractual support arrangement entered into by the Issuer in respect of securities or obligations (however named or designated) issued by a Subsidiary which constitutes Tier I Capital of the Issuer.

"Unallocated Distributable Profits" means, in respect of each fiscal year of the Issuer, the aggregate amount, as calculated during the course of such fiscal year in the individual financial statements of the Issuer, of accumulated retained earnings and any other reserves, surpluses, including current operating profits, capable under Icelandic law of being available for distribution as cash dividends to holders of Bank Share Capital in the following fiscal year.

Reference in these Terms and Conditions to statutory or other legislative or regulatory provisions, shall be to such provisions as amended or replaced from time to time.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Temporary Global Note and the Permanent Global Note contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

1 Exchange

The Temporary Global Note is exchangeable in whole or in part for interests in the Permanent Global Note on or after a date which is expected to be 26 July 2005 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Permanent Global Note is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Notes described below (i) if the Permanent Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or (ii) if principal in respect of any Notes is not paid when due and payable or (iii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 which would not be suffered were the Notes in definitive form, and a certificate to such effect signed by two Directors of the Issuer is delivered to the Fiscal Agent for display to Noteholders. Thereupon (in the case of (i) and (ii) above) the holder may give notice to the Fiscal Agent, and (in the case of (iii) above) the Issuer may give notice to the Fiscal Agent and the Noteholders, of its intention to exchange the Permanent Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

If principal in respect of any Notes is not paid when due and payable the holder of the Permanent Global Note may by notice to the Fiscal Agent (which may but need not be the default notice referred to in "Default" below) require the exchange of a specified principal amount of the Permanent Global Note (which may be equal to or (provided that, if the Permanent Global Note is held by or on behalf of a clearing system, that clearing system agrees) less than the outstanding principal amount of Notes represented thereby) for Definitive Notes on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date (as defined below) the holder of the Permanent Global Note may surrender the Permanent Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note, or the part thereof to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement. On exchange in full of the Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Notes.

"Exchange Date" means a day falling not less than 60 days, or in the case of exchange pursuant to (ii) above 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

2 Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Permanent Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Permanent Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 5(4)(iii) and Condition 7(iv) will apply to the Definitive Notes only.

3 Notices

So long as the Notes are represented by the Permanent Global Note and the Permanent Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that so long as the Notes are listed on Euronext Amsterdam and the rules of Euronext Amsterdam N.V. so require, notices shall also be published in the Euronext Amsterdam Daily Official List (*Officiële Prijscourant*) and in a newspaper having general circulation in The Netherlands (which is expected to be *Het Financieele Dagblad*).

4 Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 16).

5 Meetings

The holder of the Permanent Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of Notes for which the Permanent Global Note may be exchanged.

6 Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Permanent Global Note.

7 Conversion of Principal into Conditional Capital Contribution; Reconversion

In the event that the Issuer converts and utilises the principal amount of the Notes pursuant to Condition 3 in whole or in part, a record of each such conversion and utilisation will be endorsed on the appropriate schedule to the Permanent Global Note, which endorsement will be *prima facie* evidence that such conversion and utilisation has occurred. In the event that any reconversion and reinstatement of such written-down amount occurs, a similar record of each such reconversion and reinstatement shall be endorsed on the appropriate schedule to the Permanent Global Note.

8 Default

The Permanent Global Note provides that the holder may cause the Permanent Global Note or a portion of it to become due and payable in the circumstances described in Condition 9 by stating in the notice to the Fiscal Agent the principal amount of Notes which is being declared due and payable. If principal in respect of any Note is not paid when due and payable, the holder of the Permanent Global Note may elect that the Permanent Global Note becomes void as to a specified portion and that the persons entitled to such portion as accountholders with a clearing system acquire direct enforcement rights against the Issuer under further provisions of the Permanent Global Note executed by the Issuer as a deed poll.

USE OF PROCEEDS

The net proceeds from the issue of the Notes will amount to €150,000,000 and will be applied by the Issuer for its general corporate purposes.

CAPITALISATION

The following table sets forth the capitalisation and indebtedness of the Issuer and its consolidated subsidiaries (the "Group") and the *pro forma* combined capitalisation and indebtedness of the Group and Bolig-og Næringsbanken ASA ("BNbank"), in each case as at 31 December 2004:

	Issuer and Group	*Pro Forma*
	31 December 2004	
	(ISK million)	
Equity		
Share capital	11,200	13,000
Other	39,113	56,483
Borrowings		
Issued bonds	329,419	564,446
Loans from credit institutions	1,883	4,786
Other borrowings	2,903	50,397
Amounts owed to credit institutions	74,787	82,267
Deposits	155,602	286,607
Subordinated	19,961	29,589
Total capitalisation	634,868	1,087,575

1. After the Issuer's Annual General Meeting, held on 22 February 2005, the Issuer's authorised and issued share capital was ISK 13,000 million, divided into an equal number of shares of ISK 1 each. In addition, the Board of Directors of the Issuer was authorised to increase the share capital of the Issuer by up to ISK 1,000,000,000 subscriptions to new shares and by up to ISK 213,000,000 new shares to satisfy dividend payments for the financial year 2004 in shares. On 15 March 2005 it was announced that 3,669 shareholders accepted the offer to receive 134,816,315 shares as dividends. The share capital was increased accordingly and from that date amounts to ISK 13,134,816,315.
2. None of the Group's borrowings were guaranteed or otherwise secured as at 31 December 2004.
3. The total amount of contingent liabilities (including guarantees) of the Group as at 31 December 2004 was approximately ISK 545,000 million. The *pro forma* amount including BNbank was approximately ISK 880,000 million as at the same date.
4. As at 31 December 2004, ISK 100,154 million of the Group's borrowings were due to mature within one year. The *pro forma* amount including BNbank was ISK 189,474 million.
5. As at 31 December 2004, the closing rate of the euro against the krona was €1:ISK 83.51 and the closing rate of the U.S. dollar against the krona was U.S.$1:ISK 61.19.
6. The Norwegian Ministry of Finance approved the Issuer's acquisition of BNbank on 15 March 2005. The consolidation of BNbank's accounts into the Issuer's accounts will be effected as of 1 April 2005.
7. Figures for BNbank are converted into ISK according to the currency exchange rate on 31 December 2004, being NOK1:ISK10.135.
8. Save as disclosed above, there has been no material change in the capitalisation and indebtedness and no material change in the contingent liabilities (including guarantees) of the Issuer or of the Group since 31 December 2004.

SUMMARY FINANCIAL STATEMENTS

The balance sheets and profit and loss accounts of the Issuer set out below have been extracted from the audited 2004 annual financial statements of the Issuer and, in the case of the *pro forma* information, have been derived from the audited 2004 annual financial statements of the Issuer and BNbank.

The financial statements of the Issuer appearing on pages 25 to 30 should be read in conjunction with such audited consolidated annual financial statements of the Issuer and the notes thereto which are incorporated by reference in this Offering Circular and copies of which may be obtained at the specified office of each of the Paying Agents, the registered office of the Issuer and the Amsterdam Listing Agent, as set out in "General Information" below. In addition, readers should refer to the Issuer's financial results for the first quarter of 2005 which are set out in "Results of the Issuer for the First Quarter of 2005" below. Such results include a restatement of figures for 2004 in accordance with IFRS.

The Norwegian Ministry of Finance approved the Issuer's acquisition of BNbank on 15 March 2005. The consolidation of BNbank's accounts into the Issuer's accounts was effected as of 1 April 2005.

BALANCE SHEETS AT 31 DECEMBER 2004

Consolidated Balance Sheet 31 December 2004

Assets	2004	2003
	(ISK millions)	
Cash and demand deposits with the Central Bank	5,150	897
Treasury bills eligible for refinancing with the Central Bank	797	4,829
Required reserves with the Central Bank	295	4,048
Amounts due from other credit institutions	57,670	34,593
Cash, Treasury Bills and Amounts due from Credit Institutions	63,912	44,367
Loans to customers	451,159	297,755
Lease contracts	18,745	16,529
Mortgages foreclosed	593	882
Loans	470,497	315,166
Bonds and other fixed-income securities	74,945	35,319
Shares and other variable-income securities	33,647	15,372
Shares in affiliated companies	2,605	7,960
Market Securities and Shares in Other Companies	111,197	58,651
Goodwill	10,875	11,588
Property and equipment	4,326	3,283
Reinsurers' share in insurance fund	1,308	1,607
Tax asset	493	0
Sundry receivables and assets	12,725	9,281
Other Receivables and Assets	29,727	25,759
Total Assets	675,333	443,943

Liabilities and Equity	2004	2003
	(ISK millions)	
Amounts owed to credit institutions	74,787	27,776
Savings deposits	155,602	107,672
Borrowings	334,205	231,944
Insurance technical provisions	20,069	19,413
Sundry liabilities	17,752	10,649
Deferred liabilities	2,644	1,357
Subordinated loans	19,961	15,709
Liabilities	625,020	414,520
Share capital	11,200	10,080
Share premium	14,176	3,629
Revaluation reserves	319	275
Retained earnings	24,618	15,439
Equity	50,313	29,423
Total Liabilities and Equity	675,333	443,943

Consolidated Balance Sheet 31 December 2004
Banking and Insurance Operations

Assets	*Banking Operations* 2004	*Banking Operations* 2003	*Insurance Operations* 2004	*Insurance Operations* 2003
	(ISK millions)		*(ISK millions)*	
Cash and demand deposits with the Central Bank	5,137	884	13	13
Treasury bills eligible for refinancing with the Central Bank	797	4,829	0	0
Required reserves with the Central Bank	295	4,048	0	0
Amounts due from other credit institutions	57,401	34,252	5,669	3,753
Cash, Treasury Bills and Amounts due from Credit Institutions	63,630	44,013	5,682	3,766
Loans to customers	444,999	291,986	6,160	5,928
Lease contracts	18,745	16,529	0	0
Mortgages foreclosed	531	720	62	162
Loans	464,275	309,235	6,222	6,090
Bonds and other fixed income securities	72,165	34,379	4,830	940
Shares and other variable-income securities	24,782	7,058	8,865	8,314
Shares in affiliated companies	1,509	2,878	1,096	5,082
Shares in related companies	18,966	19,436	0	0
Market Securities and Shares in Other Companies	117,422	63,751	14,791	14,336
Goodwill	6	111	371	419
Property and equipment	3,097	1,214	1,229	2,069
Reinsurers' share in insurance fund	0	0	1,308	1,607
Tax asset	493	0	0	0
Sundry receivables and assets	10,564	7,348	2,161	1,947
Other Receivables and Assets	14,160	8,673	5,069	6,042
Total Assets	659,487	425,672	31,764	30,234

Liabilities and Equity	*Banking Operations* 2004	*Banking Operations* 2003	*Insurance Operations* 2004	*Insurance Operations* 2003
	(ISK millions)		*(ISK millions)*	
Amounts owed to credit institutions	74,787	27,776	0	0
Savings deposits	161,002	111,084	0	0
Borrowings	336,039	231,516	216	587
Insurance technical provisions	0	0	20,069	19,413
Sundry liabilities	16,436	9,992	1,316	671
Deferred liabilities	949	172	1,695	1,185
Subordinated loans	19,961	15,709	0	0
Liabilities	609,174	396,249	23,296	21,856
Share capital	11,200	10,080	525	525
Share premium	14,176	3,629	229	229
Revaluation reserves	319	275	0	0
Retained earnings	24,618	15,439	7,714	7,624
Equity	50,313	29,423	8,468	8,378
Total Liabilities and Equity	659,487	425,672	31,764	30,234

Note

1 Intercompany transactions are not eliminated in the Balance Sheet.

PRO FORMA BALANCE SHEET AT 31 DECEMBER 2004

Assets	*ISB-consolidation 31 December 2004*	*BNbank 31 December 2004*	*Changes because of added capital stock and purchase 31 December 2004*	*Total 31 December 2004*
	(ISK Millions)		*(ISK Millions)*	
Cash, treasury bills and amounts due from credit institutions..	63,912	101		64,013
Loans	470,497	382,069		852,566
Market sec. and shares in other companies ..	111,197	16,418	(3,119)	124,496
Goodwill	10,875	0	12,709	23,584
Other receivables and assets	18,852	4,064		22,916
Total assets	675,333	402,652	9,590	1,087,575
Liabilities and equity				
Amounts owed to credit institutions	74,787	7,480		82,267
Saving deposits	155,602	131,005		286,607
Borrowings	334,205	223,871	11,156	569,232
Sundry liabilities	40,465	9,932		50,397
Subordinated loans..	19,961	9,628		29,589
Total liabilities	625,020	381,916	11,156	1,018,092
Equity	50,313	20,736	(1,566)	69,483
Total liabilities and equity	675,333	402,652	9,590	1,087,575

Notes

1. Figures for BNbank are converted into ISK according to the currency exchange rate on 31 December 2004, being NOK1:ISK10.135.
2. An increase in nominal value ISK 1,800 million in the Bank's capital that was paid in January 2005 has been added to the calculation.

SUMMARY PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004

Consolidated Profit and Loss Account for the Year 2004

	2004	*2003*
	(ISK millions)	
Financial Income	33,293	24,144
Financial Expenses	(18,854)	(13,105)
Net Interest Income	14,439	11,039
Insurance premiums, net of reinsurance	7,708	1,906
Income from shares and other holdings	148	770
Fees and commissions	6,359	4,672
Commission expenses	(1,412)	(920)
Trading, net	7,726	2,905
Sundry operating income	3,492	229
Other Operating Income	24,021	9,562
Net Operating Income	38,460	20,601
Salaries and related expenses	8,299	5,422
Other operating expenses	5,304	3,651
Depreciation	1,209	696
Other Operating Expenses	14,812	9,769
Insurance claims, net of reinsurance	(6,822)	(1,540)
Provision for losses on the loan portfolio	(3,137)	(2,864)
Pre-tax Profits	13,689	6,428
Income Tax	(2,244)	(593)
Net Profit for the Year	11,445	5,835

Earnings per Share:

Earnings per share	1.13	0.63

Consolidated Profit and Loss Account for the Year 2004

Banking and Insurance Operations

	Banking Operations 2004	*Banking Operations* 2003	*Insurance Operations* 2004	*Insurance Operations* 2003
	(ISK millions)		*(ISK millions)*	
Financial Income	32,199	23,724	1,387	433
Financial Expenses	(19,094)	(13,086)	(53)	(31)
Net Interest Income	13,105	10,638	1,334	402
Insurance premiums, net of reinsurance	0	0	7,750	1,913
Income from shares and other holdings	110	766	38	4
Fees and commissions	6,267	4,669	104	3
Commission expenses	(1,348)	(920)	(76)	0
Trading, net	4,360	2,627	3,366	278
Sundry opoerating income	1,379	232	2,123	0
Other Operating Income	10,768	7,374	13,305	2,198
Net Operating Income	23,873	18,012	14,639	2,600
Salaries and related expenses	6,789	5,042	1,510	380
Other operating expenses	3,698	3,373	1,658	289
Depreciation	1,112	593	97	103
Other Operating Expenses	11,599	9,008	3,265	772
Insurance claims, net of reinsurance	0	0	(6,822)	(1,540)
Provision for losses on the loan portfolio	(2,917)	(2,764)	(220)	(100)
Pre-tax Profits	9,357	6,240	4,332	188
Income Tax	(1,502)	(556)	(742)	(37)
Net Profit for the Year	7,855	5,684	3,590	151

Note
1. Intercompany transactions are not eliminated in the Profit and Loss Account.

PRO FORMA SUMMARY PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	ISB-consolidation 31 December 2004 (ISK millions)	*BNbank 31 December 2004 (ISK millions)*	*Total 31 December 2004 (ISK millions)*
Net interest income	14,439	4,338	18,777
Other operating income	24,021	101	24,122
Net operating income	38,460	4,439	42,899
Salaries and related expenses	8,299	1,125	9,424
Other operating expenses & depreciation	6,513	334	6,847
Other operating expenses	14,812	1,459	16,271
Insurance claims, net of reinsurance	(6,822)	0	(6,822)
Provisions for losses on the loan portfolio	(3,137)	(41)	(3,178)
Pre-tax profits	13,689	2,939	16,628
Income taxes	(2,244)	(821)	(3,065)
Net Profit for the year	11,445	2,118	13,563

Notes

1. Figures for BNbank are converted into ISK according to the currency exchange rate on 31 December 2004, being NOK1:ISK10.135.
2. An increase in nominal value ISK 1,800 million in the Bank's capital that was paid in January 2005 has been added to the calculation.

THE ISSUER

Introduction

The Bank and its subsidiaries and affiliates (together, the "Group") comprise a leading financial group in Iceland and the Bank is the second largest company listed on the Iceland Stock Exchange by market capitalisation. The Bank provides universal banking services in its home market (Iceland and Norway), offering a broad range of financial services to individuals, institutional investors and corporations. In addition, the Bank provides specialised financial services outside its home market. The Bank operates seven business units: Retail Banking, Corporate Banking, Investment Banking, Asset-based Financing, Capital Markets, Asset Management and Insurance. The Bank operates 29 branches in Iceland along with a branch in London. The Bank currently has 8 wholly-owned subsidiaries, including KredittBanken ASA, Bolig- og Næringsbanken ASA (BNbank) and ISB Luxembourg SA. The Bank divested 66.6 per cent. of the insurance company, Sjóvá-Almennar tryggingar hf. ("Sjóvá"), in April 2005 subject to the approval of the Icelandic financial and competition authorities (for further details, see "—Recent Developments" below). KredittBanken was acquired in late 2004, BNbank in the first quarter of 2005, and ISB Luxembourg SA was established in April 2005 on the basis of the Bank's Luxembourg branch. Other subsidiaries consist of holding companies for investments of the Bank, a real estate management company, and projects sponsored by the Bank. In addition, the Bank has substantial shareholdings in other financial services companies, including a 35.0 per cent. shareholding in Europay Iceland, which is the Mastercard franchise in Iceland, and an 18.5 per cent. shareholding in Iceland's Visa licensee, Greiðslumiðlun.

History

The Bank can trace its history back to 1904 when the first privately-owned bank in Iceland, Íslandsbanki, was established. Since then, the Bank has gone through a number of mergers and acquisitions of banks and investment credit funds. Many of the Bank's predecessors played a key role in the remarkable economic progress that Iceland achieved in the 20th century.

In May 2000, the Bank and FBA – The Icelandic Investment Bank merged to create a leading financial group in Iceland. The Bank entered the merger as the second largest commercial bank in Iceland and the only one in private ownership. It was formed in January 1990 as a result of the merger of four commercial banks. FBA entered the merger as the leading investment bank in Iceland, established in 1998 through a merger of four state-owned investment credit funds which were the main providers of long-term credit to Icelandic industry for most of the 20th century.

Recent Developments

Sjóvá

On 19 April 2005, it was announced that Tháttur eignarhaldsfélag ehf. ("Tháttur") had acquired 66.6 per cent. of Sjóvá from the Bank for ISK 17.5 billion, which values Sjóvá at ISK 26.2 billion. Tháttur is owned by Milestone ehf. The Bank will continue to hold 33.4 per cent. of Sjóvá. The sale is subject to approval by the Icelandic financial and competition authorities.

Through the sale, the Bank realised a gain of ISK 3.4 billion before tax. The Bank acquired Sjóvá eighteen months ago for ISK 19.4 billion, and has since received ISK 3.5 billion in dividends from Sjóvá.

The Bank and Sjóvá will continue to offer banking and insurance services to customers based on a contract between the two companies. Customers benefit from access to a full range of financial services. The Bank believes the relationship between it and Sjóvá has been beneficial to growth of the business of both companies.

In addition to the sale, the Bank, Tháttur and Sjóvá have decided to establish an investment company. Its goal will be to create value for its owners through investment in listed and unlisted equity, both in own projects and with other investors.

The sale of Sjóvá strengthens the Bank's Tier 1 capital by more than ISK 15 billion. Together with the Bank's other capitalisation goals, this strengthening is expected to permit approximately ISK

200 billion in loan growth. This is important for the Bank's ability to execute its plans for growth outside Iceland with an emphasis on Norway.

As the Sjóvá related goodwill in the Bank's books is eliminated by the sale, Tier 1 capital is significantly strengthened. The goodwill was ISK 10.8 billion by the end of the first quarter of 2005. In addition, the minimum solvency requirements of the Bank are reduced proportionately for the purposes of calculating the Bank's capital adequacy ratio.

By making the sale, the Bank achieves two objectives. First, two-thirds of the substantial capital requirement of full ownership is freed up. Secondly, through its one-third ownership and the co-operation contract between the two companies, further co-operation in banking and insurance services is assured.

Ratings Downgrade

On 10 May 2005, Moody's Investors Service Limited downgraded the Bank's "Financial Strength" rating from B- (negative outlook) to C+ (stable outlook). All other ratings from Moody's have been confirmed and are stable.

First Quarter Results

On 3 May 2005, the Bank announced its results for the three months ended 31 March 2005 (see "Results of the Issuer for the First Quarter of 2005" below).

Outlook

Economic prospects are generally good in the markets in which Íslandsbanki operates, and it is therefore the opinion of the Bank's management that the results of its core activities and its subsidiaries will be acceptable in 2005. It is expected that the scope of activities will expand as a result of the acquisition of BNbank and the Bank's continued organic growth. The increased growth will result in increased costs, but cost containment measures, in line with the financial targets of the Bank, will be established. Gains on the equity holdings of the Bank were unusually high in 2004. It is not envisaged that comparable gains will occur in 2005, and the Bank's management therefore anticipates a lower return on equity in 2005 than in 2004. Attention is drawn to the fact that plans are based on premises and conditions which are not certain, such as domestic and overseas economic trends, actions taken by authorities and regulatory bodies, the competitive environment and other factors over which the Bank has no control. For this reason, the future performance of the Bank could deviate considerably from the prospects outlined here.

Legal Status and Legislative Background

The Bank is a public limited company incorporated in Iceland on 15 May 2000 and operating under Icelandic law. The Bank's Articles of Association were last amended on 14 March 2005. The Bank is registered with the Registrar of Companies in Iceland and its registration number is 550500-3530. The registered office and place of business of the Bank is Kirkjusandur 2, IS-155 Reykjavík, Iceland.

The operations of the Bank are subject to the provisions of Act no. 2/1995 on Public Limited Companies and Act on Financial Undertakings No. 161/2002. The Bank is authorised to provide all financial services stipulated in the latter Act as further specified in the Articles of Association of the Bank, which means that it is subject to all EU directives on commercial banks and savings banks and its activities are under the supervision of the Icelandic Financial Supervisory Authority.

Financial Information

The financial information relating to the Bank set out in the tables on pages 23 – 30 inclusive of this Offering Circular for the twelve month periods ended 31 December 2003 and 31 December 2004 has been extracted from the audited consolidated financial statements of the Group.

Sources of Funds

The Bank's main funding sources are customer deposits, the domestic bond market and the international loan and bond markets.

In the domestic market, the Bank has registered a number of issues on the Iceland Stock Exchange, including issues of commercial paper, non-indexed notes and indexed bonds.

The table below sets out a breakdown of the Group's sources of funds as at 31 December 2003 and 31 December 2004:

	As at 31 December 2003		*As at 31 December 2004*	
	(ISK millions)	*(per cent.)*	*(ISK millions)*	*(per cent.)*
Equity	29,423	7.1	50,313	7.9
Subordinated Loans	15,709	3.8	19,961	3.2
Deposits	107,672	26.1	155,602	24.5
Core funding	152,804	37.0	225,876	35.6
Market issues and borrowings	231,944	56.2	334,205	52.6
Interbank short-term funding (credit institutions)	27,776	6.8	74,787	11.8
Finance in the market	259,720	63.0	408,992	64.4
Total funds	412,524	100.0	634,868	100.0

Equity

As at 31 December 2004, the equity of the Group was ISK 50,313 million.

As at 13 May 2005 the ten largest shareholders in the Bank were:

	Percentage Ownership
Straumur Fjárfestingarbanki hf. (investment bank)	19.8
Milestone ehf. (investment company)	12.5
Burdaras hf. (investment company)	4.7
Arkur ehf. (investment company)	4.1
Norvest ehf. (investment company)	3.0
Hrómundur ehf (investment company)	1.9
Landsbanki Íslands hf.	1.8
Rauðatorg ehf. (investment company)	1.7
Íslandsbanki hf.	1.5
Lífeyrissjóðurinn Framsýn (pension fund)	1.4
Total	52.4

Subordinated Loans

The Bank has borrowed funds by issuing bonds on subordinated terms. The bonds have certain characteristics of equity in that they are subordinated to other liabilities of the Bank. In the calculation of the Bank's capital ratio, the bonds are included with equity. Total subordinated loans amounted to ISK 19,961 million as at 31 December 2004 (ISK 15,709 million as at 31 December 2003) comprising ISK 4,039 million in subordinated loans with no maturity date, which the Bank may not repay until 2010 having received the approval of the Financial Supervisory Authority (these loans qualify as Tier I capital in the calculation of the Bank's capital ratio) and subordinated loans amounting to ISK 15,922 million, with dates of maturity until 2021 which qualify as Tier II capital in the calculation of the Bank's capital ratio.

Capital Adequacy

Under the Act on Financial Undertakings, No. 161/2002, as amended, the capital adequacy ratio may not be less than 8.0 per cent. In the case of the Group, this ratio as at 31 December 2004 was 12.6 per cent. (as at 31 December 2003: 11.4 per cent.). The ratio was calculated as follows:

	As at 31 December 2003		*As at 31 December 2004*	
	Book Value	*Weighted Value*	*Book Value*	*Weighted Value*
	(All figures in ISK millions)		*(All figures in ISK millions)*	
Assets recorded in the balance sheet	443,943	292,281	675,333	447,215
Minimum solvency margin of the insurance company		(1,345)		(1,400)
Assets subtracted from equity		(10,464)		(12,831)
Guarantees and other off balance sheet items		6,952		15,707
Risk base, total		287,424		448,691
Tier I Capital		22,993		42,147
Tier II Capital		9,901		14,422
		32,894		56,569
Capital adequacy ratio		11.4%		12.6%

The capital adequacy ratio of the Group as at 31 March 2005 was 15.5 per cent.

Deposits

As at 31 December 2004, the Bank had approximately 390,000 customer deposit accounts (including current accounts, savings accounts and currency accounts). As at 31 December 2004, the Bank's total deposits amounted to 27 per cent. of the total deposits in all of Iceland's commercial banks and savings banks.

Most of the Bank's deposits bear interest at floating rates.

The following table sets out a breakdown of the Group's deposits as at 31 December 2003 and 31 December 2004:

	As at 31 December 2003	*As at 31 December 2004*
	(ISK millions)	*(ISK millions)*
Demand deposits	37,067	71,558
Time deposits	70,605	84,044
Total	107,672	155,602
Time deposits mature as follows:		
Up to 3 months	40,829	49,597
Over 3 months and up to 1 year	7,374	9,289
Over 1 year and up to 5 years	18,852	21,014
Over 5 years	3,550	4,144
Total	70,605	84,044

Finance in the market

The domestic funding of the Bank consists of deposits from commercial customers as well as the issuance of ISK-denominated commercial paper and bonds. The international funding of the Bank is a mixture of bilateral and syndicated loans as well as the issuance of commercial paper and bonds under the Bank's ECP and EMTN Programmes. Also, the Bank has access to money market lines from relationship banks. The international bonds and loans generally have maturities up to 5 years to match assets.

The following table sets out a breakdown of the Group's borrowings from bonds and notes issued, as well as borrowings from other credit institutions as at 31 December 2003 and 31 December 2004:

	As at 31 December 2003	*As at 31 December 2004*
	(ISK millions)	*(ISK millions)*
Issued bonds	217,205	329,419
Loans from credit institutions..	11,660	1,883
Other borrowings	3,079	2,903
Total	231,944	334,205

Use of Funds

The major part of the Group's assets comprises loans. The table below sets out a breakdown of the Group's assets as at 31 December 2003 and 31 December 2004:

	As at 31 December 2003	*As at 31 December 2004*
	(ISK millions)	*(ISK millions)*
Loans:		
General loans to customers	297,755	451,159
Leasing contracts	16,529	18,745
Foreclosed assets	882	593
Total loans	315,166	470,497
Deposits at the Central Bank/credit institutions	38,641	57,965
Cash and marketable short-term instruments	5,726	5,947
Bonds and other fixed-rate securities	35,319	74,945
Shares in affiliates and other companies	23,332	36,252
Other assets	25,759	29,727
Total other assets	128,777	204,836
Total assets	443,943	675,333

Loan portfolio

The principal lending activity of the Group consists of loans to corporate customers and private individuals. The Group has endeavoured to diversify its loan portfolio to minimise the risk in lending and the Group generally requires its customers to provide collateral. The collateral taken by the Group will depend on the circumstances, the main types of collateral comprising pledged deposits and securities, real estate and fishing vessels (including the related fishing quota). Decisions regarding the adequacy of collateral are made as part of the process by which the relevant loan is authorised.

The following table lists the Group's lending (including leasing) by customer categories as a percentage of total lending as at 31 December 2003 and 31 December 2004, respectively:

	As at 31 December 2003	*As at 31 December 2004*
	(per cent.)	*(per cent.)*
Agriculture	0.7	0.5
Fishing industry	20.2	15.7
Commerce	14.5	9.1
Industry and contractors	14.8	14.2
Services	28.9	36.1
Total business enterprises	79.1	75.6
Individuals	17.8	22.8
State owned enterprises	0.5	0.3
Municipalities	2.6	1.3
Total assets	100.0	100.0

The following table sets out a maturity breakdown by remaining maturity of loans to customers (including leasing contracts) as at 31 December 2003 and 31 December 2004:

	As at 31 December 2003	*As at 31 December 2004*
	(ISK millions)	*(ISK millions)*
On demand	7,292	8,830
Up to 3 months	56,022	62,680
Over 3 months and up to 1 year	38,389	45,565
Over 1 year and up to 5 years	138,277	194,288
Over 5 years	74,304	158,541
***Total**	314,284	469,904

Note:
* Excludes foreclosed assets.

Provisions and Non-Performing Loans

In evaluating its non-performing loans, the Bank, following directives from the Icelandic Financial Supervisory Authority (FME), has introduced the EU Directive regarding rules on the annual accounts of commercial banks. Iceland fully complies with the Directive.

The following table provides a breakdown of the Group's non-performing loans and provisions for non-performing loans as at 31 December 2003 and 31 December 2004. Loans are classified as non-performing whenever a payment is 90 days past due.

	As at 31 December 2003	*As at 31 December 2004*
	(ISK millions)	*(ISK millions)*
Loans with specific provisions	7,625	6,382
Specific provision account	(5,757)	(5,001)
Other non-performing loans	2,947	2,877
Non-performing loans total	4,815	4,258
Provisional account:		
Specific provisions..	6,000	5,417
General provisions	2,931	4,862
Total	8,931	10,279

In calculating the necessary provisions to be made for non-performing loans, the Group makes both specific provisions and a general provision to meet the general risk of lending operations. A specific provision is made for credits that have been assessed at risk on the day of settlement. The general provision is intended to meet losses which are deemed likely in terms of circumstances for credits other than those at particular risk on the day of settlement.

The following table sets out details of the changes in the Group's provisions for the year ended 31 December 2004:

	Period ended 31 December 2004
	(ISK millions, except where otherwise stated)
Provisions at 1 January 2005	8,931
Transferred to the Group ..	1,302
Provision for losses over the year	3,137
Losses during the year	(3,099)
Exchange difference due to foreign subsidiaries	(62)
Payments of loans previously written off	70
Provisions at 31 December 2004..	10,279
Provision for losses on loan portfolio as a percentage of loans and guarantees issued	2.1%

Specific provisions are established on an individual facility basis to recognise the expected credit losses on all types of exposure. The branches prepare lists twice a year for suggested specific provisions, which the credit department then evaluates and reports to the Risk Committee. The Risk Committee makes suggestions to the Board of Directors, which makes the final decision after the certified accountant of the Bank has given an independent evaluation of the loan portfolio.

General provisions are established to absorb credit losses that are not met by specific provisions. General provisions are determined by an evaluation of the quality of the loan portfolio. As at 31 December 2004, general provisions amounted to 1.0 per cent. of loans and guarantees as at that date.

Credit approval policy

Credit evaluation

The Board of Directors decides on loan policies for the Bank. Authority to approve loans is delegated to the Risk Committee and Credit Committee, which can approve loans within certain limits. Those limits, set by the Board of Directors, are based on a maximum exposure to individual customers based on their credit rating class.

Risk Committee

The Risk Committee approves the credit rating system, as well as approving maximum exposure limits for individual customers. The Board delegates its authority to the Bank's Risk Committee to determine specific transactions within those limits and authority to approve exposure limits up to certain amounts per credit class. Each member has a veto.

Credit Committee

The Credit Committee has limited authority to approve maximum exposure limits for individual customers and refers any credit decision exceeding those limits to the Risk Committee for its approval. Each member has a veto.

Collateral

For short-term loans to customers within the highest credit rating categories the Bank does not generally require any security if they are within limits. For some short and medium-term loans the Bank demands financial covenants and negative pledges rather than collateral. However, for most medium and long-term loans the Bank requires collateral.

Collateral is valued when loans are granted and when loans have defaulted and/or have been identified as problem loans.

Risk management

Overview

The Board of Directors formally approves the maximum exposure limits per credit rating class. Within these limits, the Risk Committee and the Credit Committee set limits per customer. The main objective of risk management is to control the following risk factors with rules, controls and constant monitoring.

(i) The interest rate risk in the trading book

(ii) The equity risk in the trading book

(iii) The Bank's asset and liability management

(iv) The Bank's liquidity risk

(v) The Bank's currency risk both through proprietary trading and the asset and liability management

(vi) The Bank's inflation exposure through proprietary trading and the asset and liability management

(vii) The Bank's credit and liquidity risks in its short term lending and borrowing activities

The Credit Control Department is responsible for limit management, monitoring the loan portfolio, the management of problem loans and for advising on provisions for losses.

Credit risk

The Bank addresses credit risk through monitoring closely sector weightings and concentration within the whole portfolio, within particular sectors and among the biggest borrowers.

Market risk

The Bank classifies market risk as interest rate risk (price risk of interest-sensitive assets), currency risk and equity risk.

The Bank sets a number of limits on positions within the trading book, including, for example, the overall duration of the fixed income book and the duration of individual fixed income categories within the book. The trading book consists mainly of domestic securities.

Net currency exposure is monitored on an inter and intra-day basis and is subject to conservative limits.

Equity risk is measured by the market value of the Bank's holdings, subject to limits with regard to weightings in the trading book.

Liquidity Risk

The Bank's target is to reflect the long-term loan portfolio with long-term funding. Mismatches are monitored, measured and hedged as deemed necessary. The Bank's Funding and Risk Management group is responsible for the asset and liability management activities of the Bank but subject to policies set by, and monitoring of, the Bank's Asset and Liability Management Committee ("ALCO").

The Bank is required to comply with the Icelandic Central Bank's Required Reserve and has access to the Central Bank's overnight and repurchase facilities that are aimed at keeping liquidity in the Icelandic monetary system.

The Bank is subject to the liquidity rules of the Central Bank, which stipulate that liquid assets and loans maturing within 3 months must exceed debt maturing within the same period. In this respect, assets and loans are given a conservative weighting but maturing debt is given a 100 per cent. weighting.

Operating Risk

The internal auditing function and Risk Management are jointly responsible for the Bank's operational risk. The operational risk has been recognised at two levels, the technical level and the organisational level.

Rules concerning employees trading on their own account have been drawn up which every employee is required to comply with.

Inflation Risk

Index-linking financial obligations has been a tradition in the Icelandic financial market since 1980. To protect the lender from inflation, the loan rate works as a real yield and interest rate plus loan balance are adjusted for changes in the Consumer Price Index. Due to possible mismatching of index-linked assets and liabilities, the Bank can be exposed to inflation risk.

Competition

The principal competitors to the Bank are Landsbanki Íslands hf., Kaupþing-Búnaðarbanki hf. and the savings banks. The Bank monitors market developments closely and continues to take advantage of any potential opportunities as and when they arise. Both domestic and foreign competitors provide financial services that have affected the Banks net interest margin and require the Bank to be internationally competitive.

Board of Directors

The Annual Shareholders' Meeting elects the Board of Directors which consists of 7 members and 7 deputies. The Board of Directors appoints the Bank's chief executive officer ("CEO") and internal auditor. The CEO appoints the managing directors.

Members of the Board of Directors are as follows:

Einar Sveinsson (Chairman)

Mr. Sveinsson is Chairman of Hrómundur ehf. (investment company).

Jón Snorrason (Vice Chairman)

Mr. Snorrason is Chairman of Taxus ehf. (investment company).

Karl Wernersson

Mr. Wernersson is Chairman of Milestone ehf. (investment company).

Róbert Melax

Mr. Melax is Chairman of Isthar Holding S.a.r.l. (investment company).

Steinunn Jónsdóttir

Mrs. Jónsdóttir is Chairman of Arkur ehf. (investment company).

Úlfar Steindórsson

Mr. Steinsdórsson is Managing Director of P.Samúelsson hf. (a car importer and retail company).

Þórarinn V. Þórarinsson

Mr Þórarinsson is a practicing lawyer.

The business address of these directors is Íslandsbanki, Kirkjusandur 2, 155 Reykjavík, Iceland. All members of the Board of Directors are domiciled in Iceland.

Senior Management

The Executive Board of the Issuer consists of the following 7 members:

Bjarni Ármannsson – Chief Executive Officer. Prior to his appointment as CEO of the Bank, Mr. Ármannsson was the CEO of FBA – The Icelandic Investment Bank from its inception in 1997. He was the CEO of Kaupthing, an investment bank in Iceland (1996-1997). Prior to this he was the Deputy Managing Director of Kaupthing (1994-1996). Mr. Ármannsson holds a BSc degree in Computer Science from the University of Iceland and an MBA degree from IMD in Switzerland.

Jón Diðrik Jónsson – Managing Director, Investment Banking. Prior to his appointment to the Executive Board of the Bank, Mr. Jónsson was CEO of Egils from 2001-2004 (a Beverage Business in Iceland), General Manager of CCHBC Slovenia 2000-2001, Commercial Director/Marketing Director CCHB Poland 1997-2000, Marketing Manager Coca-Cola Singapore/Malasaya 1995-1997, TCCC Nordic Region Business Development Manager 1994-1995, Operational Marketing Manager for Nordic & Northern European Division of TCCC 1992-1993. Mr. Jónsson holds MIM (Management) degree from Thunderbird, Arizona and a BSc degree in Management from the Florida Institute of Technology.

Tómas Kristjánsson – Managing Director, Finance Division. Prior to his appointment to the Executive Board of the Bank, Mr. Kristjánsson was Managing Director, Risk Management and Funding at FBA – The Icelandic Investment Bank from 1997 and Director of Credit Control at the Industrial Loan Fund from 1992 to 1996, responsible for credit control, real estate supervision and the legal department. Prior to that (from 1990), he was responsible for the management of problem loans at the Industrial Loan Fund. Mr. Kristjánsson holds an MBA degree from the University of Edinburgh and a degree in Business Administration from the University of Iceland.

Þorgils Óttar Mathiesen – Managing Director, Sjóvá-Almennar Insurance. General Manager Accounting at Íslandsbanki hf. from 1993 and General Manager Administration at Íslandsbanki hf. from 1991-1993. Mr. Mathiesen holds a degree in Business Administration from the University of Iceland.

Haukur Oddsson – Managing Director, Commercial Banking and Operations. Prior to his appointment to the Executive Board of the Bank, Mr. Oddsson was Managing Director, IT at Íslandsbanki hf. from 1998 and General Manager Information Systems in Iðnaðarbanki Íslands hf. from 1988 and in Íslandsbanki hf. from 1990 to 1998. Mr. Oddsson holds a bachelor degree in Electrical Engineering and Computer Science from the University of Iceland and a masters degree in Computer Engineering from the Technical University of Denmark in Copenhagen.

Finnur Reyr Stefánsson – Managing Director, Capital Markets. Prior to his appointment to the Executive Board of the Bank, Mr. Stefánsson was Deputy Managing Director of Wealth Management of Íslandsbanki hf. from January 2000 and Deputy Managing Director of Risk Management and Funding at FBA – The Icelandic Investment Bank from 1997. Prior to that (from 1994) he was director and fund manager at Landsbanki Securities. Mr. Stefánsson holds an MBA (Finance) degree from Virginia Tech University, Virginia, and a BSc degree in Economics from the University of Iceland.

Frank O. Reite – Managing Director, ISB Norway. Mr. Reite has been the CEO of Kredittbanken since April 2004. He served on the Executive Management Group of Aker from 2000 to 2004 and represented that company on the board of directors of numerous enterprises, including Norway Seafoods and Aker Yards. He held various managerial positions for Norway Seafoods between 1996 and 2000 and in 1995 he was involved in the structuring of Resources Group International, Inc's seafoods activities in Seattle and Oslo. Prior to that, he worked as a credit analyst for CBK in Seattle in 1993 to 1994. He completed a degree in business at the Oslo Business School in 1993.

THE REPUBLIC OF ICELAND

About Iceland

Iceland is one of the Nordic countries, located in the North Atlantic between Norway, Scotland and Greenland. Iceland is the second largest island in Europe and the third largest in the Atlantic Ocean with a land area of some 103,000 square kilometres and an exclusive 200 nautical mile economic zone of 758,000 square kilometres in the surrounding waters. Because of the Gulf Stream, Iceland enjoys a warmer climate than its northerly location would indicate.

The population of Iceland is about 293,000. Iceland was first settled late in the 9th century. The majority of the settlers were undoubtedly of Norse origin, but it is generally assumed that a certain element of the early settlers were of Celtic origin. In 930, a general legislative and judicial assembly, the Althing, was established, and a uniform code of laws for the country was adopted. In 1262, Iceland entered a treaty, which established a union with the Norwegian monarchy. When Norway came under the rule of Denmark in 1380, Iceland became a Danish dominion. Iceland was granted limited home rule in 1874, which was extended in 1904. With the act of Union in 1918, Iceland became an autonomous state in monarchical union with Denmark. In 1944 Iceland terminated its union with Denmark and became an independent republic.

Iceland is a member of the United Nations and its affiliates, the International Monetary Fund (IMF) and the World Bank. Iceland is also a member of the Organisation for Economic Co-operation and Development (OECD) and a number of other multinational organisations, including the Nordic Council and the Council of Europe. Iceland joined the European Free Trade Association (EFTA) in 1970 and is a member of the European Economic Area (EEA), a 28-nation free-trade zone of the European Union (EU) and EFTA countries. Iceland is a contracting party to the General Agreement on Tariffs and Trade (GATT) and ratified the agreement establishing the World Trade Organisation (WTO) in December 1994, thus becoming a founding member of the WTO.

Economy

Modern economic history spans about one century. In the early years of industrialisation the economy was based mainly on fisheries and agriculture. Rapid developments in these areas formed the basis for improved living standards and a fundamental change in the economic structure. In recent decades the economy has diversified into the export of manufactured goods, process industries and a range of services for export and domestic use. At the same time the marine sector has diversified significantly. Hence, the Icelandic economy has taken the shape of a modern industrial state.

With GDP (gross domestic product) of approximately US$10.6 billion in 2003, the size of the economy is relatively small. However, the per capita GDP is very high by international standards, being approximately US$36,400 in 2003. The economy relies on foreign trade and services in maintaining the high standard of living.

Iceland is endowed with rich fishing grounds in its exclusive 200 nautical mile economic zone. The marine sector, including fishing and fish processing, is of fundamental importance to the Icelandic economy. Iceland has developed a comprehensive fisheries management policy in order to manage the fish stocks, based on biological estimates of the status of the fish stocks and forecasts for their development in the near future. The fish processing industry employs modern technology and management techniques. The production systems are flexible and the processing methods are to a large extent interchangeable. The fishing fleet is technologically advanced and includes vessels designed to perform high-quality processing at sea. The diversification in the marine sector extends not only to the species and methods of processing, but also to marketing. Icelandic marine products have developed established brand names in the United States, Europe and Japan.

Iceland is also richly endowed with energy resources consisting of hydro and geothermal energy. Almost all of the electricity consumed in Iceland is produced from indigenous energy resources. Hot water from geothermal sources and natural steam are extensively used for residential heating. Only a small fraction of the country's vast hydro and geothermal resources has been exploited so far. Hence, the potential for large-scale development of power-intensive industry is substantial.

Industrial expansion in Iceland is to a considerable extent based on the abundant energy resources and their attractiveness for power-intensive industries, aided by tariff-free access to the European market. Among the largest manufacturing enterprises in Iceland are two aluminium smelters and a ferro-silicon plant. Large projects in power-intensive industries are planned for the future including the construction of a new aluminium smelter and the possible enlargement of existing plants. Smaller-scale manufacturing is also important and growing. This includes production of high technology and heavy equipment for fishing and fish processing, largely for exports. With the development of the economy, the share of services in GDP has grown rapidly. The tourism sector has been one of the fastest growing industries in recent years, due to a rapid increase in the number of foreign visitors to Iceland.

The following table shows certain economic indicators relating to Iceland in the years 1998-2004:

	2004 (provisional)	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*
Volume changes on previous year, per cent.							
Real GDP	5.8	4.3	(0.5)	2.2	5.7	4.2	5.5
Real exports of goods and services	8.4	0.3	3.6	7.7	5.0	4.0	2.0
Real imports of goods and services	14.8	9.7	(2.5)	(9.0)	8.0	4.2	23.4
Percentage changes on previous year							
Consumer price index (Y/Y) change).	3.2	2.1	4.8	6.7	5.0	3.4	1.7
Effective price of foreign currency	(1.9)	(6.0)	(3.0)	20.1	0.1	(0.2)	(1.6)
Real exchange rate	3.6	6.3	5.7	(13.0)	2.9	1.9	1.6
Unemployment rate	3.1	3.3	2.5	1.4	1.3	1.9	2.9
Percentage of GDP							
Current account balance	(7.1)	(3.9)	(0.1)	(4.3)	(10.1)	(6.9)	(6.0)
Treasury revenue balance ..	0.8	(1.6)	(0.4)	0.2	2.5	2.4	0.5

Sources: National Economic Institute, Ministry of Finance, Central Bank of Iceland and Íslandsbanki.

FINANCIAL MARKETS IN ICELAND

The Icelandic financial system has been substantially reformed over the last decade. In particular, as a result of Iceland's membership of the EEA, legislation and regulations regarding credit institutions and other financial institutions have been conformed to the various regulations and directives of the European Union.

The Icelandic banking system consists of the Bank, two other commercial banks and twenty-four savings banks. In addition, the savings banks mutually run a clearing bank (Icebank). The commercial and savings banks' funding is to a large extent based on retail deposits and domestic bond issues. The commercial banks are also frequent borrowers in international markets. The total loans and market securities of the banking system amounted to around ISK 1,007 billion at the end of 2003.

The State Housing Fund was established at the beginning of 1999 with the aim of rationalising the existing state housing fund system. The bulk of mortgage lending to households is still provided by the State Housing Fund, although the market share of banks has risen sharply in the last quarter of 2004.

There are three main players in the Icelandic insurance market. Insurance companies are active in the financial market, mainly through their investment activities.

Pension funds represent the largest part of the financial system in Iceland. The pension fund system is fully funded and at the end of 2004 the total assets amounted to 106 per cent. of GDP in that year. The pension funds receive payments from employers and employees and are the single most important source of long term finance in the country. Membership in a pension fund is obligatory for wage earners and the self-employed. The pension funds are independent non-governmental entities. They invest mainly in domestic bond issues, equity capital and foreign securities.

The Financial Supervisory Authority (the "FME") supervises the whole range of financial institutions, insurance companies and pension funds in Iceland.

The Central Bank is responsible for implementing monetary policy consistent with the goal of maintaining price stability. The Central Bank imposes a reserve requirement on all the commercial banks and savings banks, at present 2 per cent. of total disposable funds with maturity less than 2 years.

The Iceland Stock Exchange (ICEX) operates under legislation adopted in 1998, which converted ICEX into a limited liability company. At the same time its monopoly on exchange activities was abolished. Currently there are 20 members of ICEX. Shares of 31 companies are listed on ICEX, as well as government securities and corporate bonds.

The Iceland Stock Exchange joined the NOREX Alliance of Nordic exchanges in 2000, which included the adoption of the SAXESS trading system.

TAXATION

Icelandic Taxation

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of the Notes and/or Coupons. They may not apply to certain classes of person such as dealers. Prospective holders of the Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

1. There are no taxes or other governmental charges payable under the laws of Iceland or any authority of, or in, Iceland by a holder who is not a resident of Iceland in respect of the principal or interest on the Notes.
2. There are no estate or inheritance taxes, capital gains taxes, succession duties or gift taxes imposed by Iceland or any authority of, or in, Iceland in respect of the Notes if, at the time of the death of the holder or the transferor of the Notes, such holder or transferor is not a tax resident of Iceland.
3. The Issuer is required by the current laws of Iceland to withhold a 10 per cent. tax on any payment of interest paid to a Noteholder that is a tax resident of Iceland. If the Noteholder is a non-resident the Issuer is not according to Icelandic tax practice obligated to withhold any tax on the payment of interest. It is the sole responsibility of the Issuer to provide to the relevant Icelandic authorities proof that the relevant payments under the Notes are to persons who are non-residents of Iceland and to obtain from the Icelandic tax authorities any exemptions with respect to any withholding requirement.

Dutch Taxation

General

The following summary describes the principal Netherlands tax consequences of the acquisition, holding, redemption and disposal of the Notes for residents of the Netherlands. This summary does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant to a decision to acquire, to hold, and to dispose of the Notes. This summary does not address the Netherlands tax consequences of a holder of Notes who holds, alone or together with his or her partner or certain other related persons, directly or indirectly, 5 per cent. or more of the Notes of the Issuer or the rights to acquire, directly or indirectly, such interest. Each prospective holder of Notes should consult a professional adviser with respect to the tax consequences of an investment in the Notes. The discussion of certain Netherlands taxes set forth below is included for general information purposes only.

This summary is based on the Netherlands tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Offering Circular, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

For the purpose of the principal Netherlands tax consequences described herein, it is assumed that the Issuer is neither a resident nor deemed to be a resident of the Netherlands for Netherlands tax purposes.

Netherlands Withholding Tax

No Netherlands withholding tax is due upon payments on the Notes.

Netherlands Corporate Income Tax and Individual Income Tax

If the holder of Notes is subject to Netherlands corporate income tax and the Notes are attributable to its (deemed) business assets, income derived from the Notes and gains realised upon the redemption and disposal of the Notes are generally taxable in the Netherlands.

If the holder of Notes is an individual, resident or deemed to be resident of the Netherlands for Netherlands tax purposes (including the individual holder of Notes who has opted to be taxed as a resident of the Netherlands), the income derived from the Notes and the gains realised upon the redemption and disposal of the Notes are taxable at the progressive rates of the Income Tax Act 2001, if:

(i) the holder of Notes has an enterprise or an interest in an enterprise, to which enterprise the Notes are attributable; or

(ii) such income or gains qualify as ''income from miscellaneous activities'' (*resultaat uit overige werkzaamheden*) within the meaning of Section 3.4 of the Income Tax Act 2001, which include the performance of activities with respect to the Notes that exceed ''regular, active portfolio management'' (*normaal, actief vermogensbeheer*).

If neither condition (i) nor condition (ii) applies to the individual holder of Notes, the actual income derived from the Notes and the actual gains realised with respect to the Notes will not be taxable. Instead, such holder of Notes will be taxed at a flat rate of 30 per cent. on deemed income from ''savings and investments'' (*sparen en beleggen*) within the meaning of Section 5.1 of the Income Tax Act 2001. This deemed income amounts to 4 per cent. of the average of the individual's ''yield basis'' (*rendementsgrondslag*) within the meaning of article 5.3 of the Income Tax Act 2001 at the beginning of the calendar year and the individual's yield basis at the end of the calendar year, insofar the average exceeds a certain threshold. The fair market value of the Notes will be included in the individual's yield basis.

Netherlands Gift and Inheritance Taxes

Generally, gift and inheritance taxes will be due in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or on the death of, a holder of Notes who is a resident or deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death.

An individual of the Netherlands nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax, if he or she has been resident in the Netherlands during the ten years preceding the gift or his or her death. An individual of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax only if he or she has been residing in the Netherlands at any time during the twelve months preceding the time of the gift.

Treaties may limit the Dutch sovereignty to levy gift and inheritance tax.

EU Savings Directive

On 3 June 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income. Under the Directive, Member States will (if equivalent measures have been introduced by certain non-EU countries) be required, from 1 July 2005, to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

SUBSCRIPTION AND SALE

Morgan Stanley & Co. International Limited (the "Lead Manager"), in a subscription agreement dated 13 June 2005 (the "Subscription Agreement"), has agreed to subscribe for the Notes at 100 per cent. of their principal amount. The Lead Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment being made to the Issuer. The Lead Manager will separately receive a fee of 3.00 per cent. of the principal amount of the Notes through a related swap transaction.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

The Lead Manager has represented and agreed that it will not offer, sell or deliver Notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the Lead Manager of all Notes, within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by the Lead Manager (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

The Lead Manager has represented and agreed that:

(i) it has not offered or sold and, prior to the expiry of the period of six months from the issue date of the Notes, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Iceland

The Lead Manager has agreed that it will not offer Notes to the public in Iceland, except in compliance with the Icelandic Securities Transaction Law and any applicable laws or regulations of Iceland.

Italy

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 this Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy (''Italy''), except:

(i) to professional investors (''*operatori qualificati*''), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998 (the ''CONSOB Regulation No. 11522''), as amended; or

(ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the ''Financial Services Act'') and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

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

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, the CONSOB Regulation No. 11522 and Legislative Decree No. 385 of 1 September 1993 (the ''Banking Act'') , as amended;

(b) made in compliance with Article 11 of the Banking Act, pursuant to which the deposit taking activity can be carried out only by duly passported/authorized banks, unless an exemption applies;

(c) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, pursuant to which the issue or the offer of securities in 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 Italy and their characteristics;

(d) made in compliance with Article 115 of the Banking Act, as implemented by Bank of Italy Regulation of 30 July 1999, as amended by the resolution of *Comitato Interministeriale per il Credito e il Risparmio* (CICR) of 4 March 2003 and by Bank of Italy Regulation of 25 July 2003; and

(e) in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations and in compliance with any other applicable requirement or limitation which may be imposed from time to time by CONSOB or the Bank of Italy.

General

The Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and the Issuer shall not have any responsibility therefor.

Neither the Issuer nor the Lead Manager represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

1 Authorisation

The issue of the Notes has been duly authorised by a resolution of the Board of Directors of the Issuer dated 8 February 2005.

2 Admission of Notes to Eurolist by Euronext Amsterdam

For so long as the Notes are listed on Eurolist by Euronext Amsterdam, the Issuer will comply with the provisions set forth in article 2.1.20 of Schedule B of the Listing and Issuing Rules (*Fondsenreglement*) of Euronext Amsterdam N.V. (to the extent applicable) as amended from time to time.

3 Documents Available

So long as any Notes remain outstanding, copies of the following documents will, when published, be available from the registered office of the Issuer, the specified office of the Amsterdam Listing Agent and from the specified office of the Paying Agents:

(i) the articles of association (with an English translation thereof) of the Issuer;

(ii) the audited financial statements of the Issuer in respect of the financial years ended 31 December 2004, 31 December 2003 and 31 December 2002;

(iii) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer (with an English translation thereof);

(iv) the Subscription Agreement and the Agency Agreement;

(v) a copy of this Offering Circular; and

(vi) any Certificate referred to in Condition 3(a).

4 Clearing Systems and Security Code

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 022164007. The ISIN is XS0221640070. The Euronext Amsterdam Security Code (*fondscode*) is 15253.

5 Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer and its subsidiaries, taken as a whole, and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries, taken as a whole, since 31 December 2004.

6 Litigation

Neither the Issuer nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer or the Group.

7 Auditors

The auditors of the Issuer are KPMG Endurskodun hf., State Authorised Public Accountants, who have audited the financial statements of the Issuer for the years ended 31 December 2004, 2003 and 2002, without qualification, in accordance with generally accepted accounting principles in Iceland.

8 Consents

All consents and authorisations required by Icelandic law have been given for the issue of the Notes and for the Issuer to perform its obligations thereunder, under the Subscription Agreement and under the Agency Agreement.

9 Additional Information

The website address of the Bank is www.isb.is. From time to time the Bank provides information as to recent developments relating to the Bank and its subsidiaries on this website. The information contained therein does not form part of this Offering Circular and should not be used for the purposes of making any investment decision with regard to the offering of the Notes.

RESULTS OF THE ISSUER FOR THE FIRST QUARTER OF 2005

The following is an extract from the Issuer's "Q1 Results 2005" issued on 3 May 2005 relating to the results (unaudited) of the Issuer for the period 1 January 2005 to 31 March 2005.

" 3 May 2005

Íslandsbanki Q1 Results 2005

ISK 3,038 Million in Earnings after Taxes
21.7% Return on Equity

The highlights of the financial statements of Íslandsbanki hf. for the first quarter of 2005 are as follows:

- First quarter earnings were ISK 3,038 million after taxes, compared with ISK 4,888 million in the first quarter of 2004, of which ISK 3.5 billion pre-tax was related to the sale of the Bank's shares in Straumur Investment Bank. Comparison figures for 2004 have been restated with International Financial Reporting Standards.
- Pre-tax earnings were ISK 3,608 million. In the first quarter of 2004 pre-tax earnings were ISK 5,776 million.
- First quarter EPS was ISK 0.25, Q1 2004 EPS was 0.49.
- First quarter ROE after taxes was 21.7%, compared with 84.8% in Q1 2004.
- Net interest income was ISK 4,465 million, an increase of 63.3% from Q1 2004.
- Net interest margin was 2.5%, a slight increase from the 2.4% for the same period in 2004.
- Premiums net of reinsurance and rebates on reinsurance were ISK 1,892 million; claims net of reinsurance ISK 1,663 million, so net premiums were ISK 229 million.
- The cost/income ratio was 52.5% in banking and 30.6% in insurance.
- Total assets amounted to ISK 767 billion on 31 March 2005, an increase of 13.3% from Q4 2004. BNbank's total assets, ISK 381 billion at the end of 2004, are included in the consolidated figures from April 1.
- Total lending grew by 14.7% in Q1 to ISK 594 billion.
- Deposits grew by 2% in Q1 to ISK 182 billion.
- Assets under management Q1 growth was 8.6%, bringing AUM to ISK 276 billion.
- Book equity was ISK 68 billion at the end of Q1. The CAD ratio was 15.5% and Tier 1 ratio was 12%.

Bjarni Ármannsson, CEO:

"Results of the quarter clearly indicate the strength of the bank's operation and growth in our activities. BNbank became a part of Íslandsbanki on 1 April this year, and the bank's bottom-line will be strengthened by BNbank's profit. It will also transform the consolidated balance sheet, as more than half of lending is now to Norway. In the domestic market, the emphasis will be on further rationalisation and providing total financial services. The proceeds and profit from the sale of the Sjóvá shares will be used to strengthen the bank outside Iceland."

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The accounts of the Bank are available on its website: www.isb.is

1. The Effect of Adoption of International Financial Reporting Standards

Íslandsbanki reports its financial statements in accordance with International Financial Reporting Standards (IFRS) as of 1 January 2005. The Bank is publishing its First Quarter Results according to IFRS, and figures for 2004 have been restated in accordance with the new standards.

2. Profit and Loss Account and Key Figures

2.1 Profit and Loss Account

ISK m.	Jan-mar 2005	Jan-mar 2004	2004*	2003**
Net interest income	4.465	2.733	12.776	11.039
Net insurance premiums and claims	229	59	886	366
Net fee and commission income	1.660	1.358	6.610	3.752
Dividend income	371	214	242	770
Net trading income	1.248	2.764	7.372	2.905
Net income from other financial assets at fair value	-5	0	0	0
Fair value changes from hedge accounting	-35	0	0	0
Net currency difference	-139	-164	114	0
Other operating income	484	54	525	229
Net operating income	**8.278**	**7.018**	**28.525**	**19.061**
Salaries and salary related expenses	-2.294	-1.796	-8.553	-5.422
Depreciation of fixed assets	-162	-146	-571	-696
Other operating expenses	-1.763	-1.327	-5.233	-3.651
Operating expenses	**-4.219**	**-3.269**	**-14.357**	**-9.769**
Impairment losses	-501	-980	-3.137	-2.864
Share of profit of associates	50	48	146	0
Profit/(loss) from other fixed assets	0	2.959	2.916	0
Earnings before income tax	**3.608**	**5.776**	**14.093**	**6.428**
Income tax	-570	-888	-2.135	-593
Net earnings	**3.038**	**4.888**	**11.958**	**5.835**

* IAS 39 corrections have not been made on 2004 figures ** Comparison figures are not corrected according to IFRS

2.2 Key Figures

	Jan-mar 2005	Jan-mar 2004	2004	2003
Average total assets (ISK million)	706.342	453.118	529.096	365.395
Equity at the end of the period (ISK million)	68.324	29.560	48.474	29.423
CAD ratio (end of period)	15,5%	10,0%	12,4%	11,4%
Tier 1 capital (end of period)	12,0%	7,1%	9,4%	8,0%
Solvency ratio	4,5	4,3	3,9	3,6
Pre-tax profit (ISK million)	3.608	5.776	14.093	6.428
Profit after taxes (ISK million)	3.038	4.888	11.958	5.835
Return on equity after taxes	21,7%	84,8%	43,8%	30,1%
Earnings per share (ISK)	0,25	0,49	1,18	0,63
Average number of full-time employees	1.375	1.083	1.126	948
Net interest margin	2,5%	2,4%	2,4%	3,0%
Cost as a proportion of average total assets	2,4%	2,9%	2,7%	2,7%
Cost/income ratio in banking activities	52,5%	38,3%	47,7%	50,0%
Cost/income ratio in insurance activities	30,6%	36,1%	32,7%	31,9%
Provision for loan losses				
- as a proportion of average total assets	0,3%	0,9%	0,6%	0,8%
- as a proport. of loans and guarantees at end of peri	0,3%	1,1%	0,7%	0,9%
Loss ratio	88,7%	100,6%	88,6%	82,5%
Other operating income:				
- as a proportion of average total assets	2,2%	3,8%	4,5%	2,6%

3. Group Performance

3.1 Highlights from the Profit and Loss Account

Profit

Íslandsbanki's pre-tax earnings were ISK 3,608 million in Q1 2005. Pre-tax earnings were ISK 5,776 million in the same period of 2004 and decreased by 37.5%, but in Q1 2004 the Bank realised a gain of ISK 3.5 billion in the sale of its shares in Straumur Investment Bank. Earnings after taxes in Q1 2005 were ISK 3,038 million, compared to ISK 4,888 million in the same period of 2004.

Earnings per share (EPS) were ISK 0.25 in Q1 2005, a decrease of 49% from ISK 0.49 in Q1 2004.

Performance

Return on equity (ROE) after taxes was 21.7%, as compared to 84.8% in the same period in 2004.

The Group EVA was ISK 1,055 million. EVA (Economic Value Added) represents the adjusted earnings net of taxes and the opportunity cost of invested capital. The Bank estimates the required rate of return to the Bank's shares in the market to be 12.5%. EVA is measured for all the Bank's profit centres and is stated in the sections concerning the respective units.

Income

Net interest income grew by 13% to ISK 4,465 million in Q1 2005. The increase was mostly due to increased lending, stronger capital and domestic inflation. The increase is 63.3% over the same period in 2004.

The net interest rate margin in the first quarter was 2.5%, as compared to 2.4% in the same period in 2004.

Premiums net of reinsurance and rebates on reinsurance for Sjóvá's insurance activities were ISK 1,892 million during Q1, and claims net of reinsurance ISK 1,663 million. Thus, net premiums were ISK 229 million, against ISK 59 million during the same period in 2004.

Net fees and commissions were ISK 1,660 million, an increase of 22.2% over Q1 2004.

Dividend earnings were ISK 371 million, an increase over the ISK 214 million for the same period in 2004.

Net revenue from financial assets held for trading and trading financial liabilities were ISK 1,248 million. Earnings are down by about 50% from Q1 2004. In part this is explained by the effect of the new reporting standard, which causes trading gains in the bank's own shares to be removed from the income statement. In addition, all derivatives are marked-to-market, but previously certain derivatives were booked at cost. The net effect of other derivatives was negative by ISK 87 million. Gains on equity were ISK 1, 424 million, but a loss of bonds of ISK 89 million.

The bank's net equity portfolio decreased by 19% to ISK 12 billion at the end of March 2005.

Net revenue from other financial assets, marked-to-market, was negative by ISK 5 million, and effect of hedge accounting was negative by ISK 35 million. The net result of currency items was negative by ISK 139 million.

Other operational revenues were ISK 484 million, compared to ISK 54 million in Q1 2004. For the most part, the increase is due to the transfer of Securitas revenue from other operational revenue to Sjóvá's figures in the consolidated accounts, as Securitas is now a wholly owned subsidiary of Sjóvá.

Expenses

Salaries and salary-related expenses were ISK 2,294 million in Q1 2005, increasing by 27.7% from the same period in 2004. The rise is due to the fact that KredittBanken is now fully included in the Group's accounts, as is Sjóvá's subsidiary Securitas. The average number of positions was 1,375 in Q1 2005, as compared to 1,124 in the preceding quarter. In Q1 2005 Securitas adds in 212 average positions and KredittBanken adds 26.

Depreciation and write-offs of operational assets amounted to ISK 162 million in the first quarter, an 11.3% increase from Q1 2004. Expenses on fixed assets that are for sale were ISK 9 million, which is a reduction of 18.3% compared with Q1 the previous year. Fixed assets for sale are foreclosed mortgages. Before IFRS they were included in the lending figures.

Other operating expenses in Q1 were ISK 1,754 million, increasing by ISK 438 million or 33.3% from Q1 2004.

In all, operating expenses amounted to ISK 4,219 million in Q1, increasing by 29.1% from Q1 2004.

Impairment losses, i.e. write-offs of lending and outstanding claims, were ISK 501 million in Q1, down from ISK 980 million in Q1 2004. This reduction is caused by the new accounting standard as large part of loan loss provisions last year was general provisioning. IFRS limits such provisioning to actual loan losses in previous years.

Share of profit of associates was ISK 50 million, an increase of 4.3% from Q1 2004.

The cost/income ratio in the first quarter 2005 was 50.7%. The cost/income ratio in banking was 52.5%; the Bank's goal is less than 50%. The cost/income ratio for insurance was 30.6%; Sjóvá's target is to bring this ratio below 20%.

Calculated Income tax was ISK 570 million, which is 35.8% down from ISK 888 million for Q1 2004.

3.2 Highlights from the Balance Sheet

Assets

Total assets were ISK 767 billion at the end of first quarter, growing by 13.3% in Q1. The total assets of KredittBanken in the end of March amounted to ISK 34.7 billion.

Cash and balances with the Central Bank were ISK 6,197 million at the end of Q1, compared to ISK 6,242 million at the beginning of the year.

Total lending grew by 14.7% to ISK 594 billion at the end of Q1. Approximately 23.3% of Íslandsbanki's lending at the end of March was to customers outside Iceland.

Financial assets held for trading were ISK 116 billion, a growth of 6.2% in the quarter. Total bond assets were ISK 79 billion, equities ISK 30 billion, and net derivatives were positive by ISK 7 billion.

Financial assets designated as at a fair value through profit and loss were ISK 4,097 million, an increase of 12.8% from the beginning of 2005. They comprise of ISK 2,975 million in bonds and ISK 1,122 million in equities.

Hedging against the bond portfolio is ISK 59 billion, leaving the net bond position at ISK 23 billion. Hedging abainst the equity portfolio is 19 billion, leaving the net equity position at ISK 12 billion.

Financial assets available for sale were ISK 10,945 million, against ISK 11.065 million at the beginning of the year. Among financial assets available for sale are listed bonds, which previously were included in the figures for lending, as well as the bank's holding in BNbank.

Derivatives used for hedging are booked at ISK 1,963 million, against ISK 1,793 million at the beginning of the year.

Investments in associates were ISK 1,951 million, which was 25.1% lower than at the beginning of the year. Investment property was ISK 2,796 million, 79,2% higher than at the beginning of the year. Investment property is property that is rented to third parties. It is valued at fair value.

Property and equipment was ISK 3,085 million, and had increased by 17.9% during the quarter. Intangible assets grew by 6.8% to ISK 12,668 million.

The bank's tax assets decreased by 11.4% in Q1 to ISK 404 million.

Loan-loss provision was ISK 9,846 million at the end of March, which corresponds to 1.6% of total lending and guarantees.

Non-current assets as held for sale were ISK 582 million at the end of Q1. Reinsurers' share in insurance fund was ISK 1,147 million, down by 12.3% since the beginning of the year.

Other assets at the end of Q1 were ISK 11,561 million. These had risen by 82.1% since the beginning of the year.

Liabilities and Equity

Deposits were ISK 182 billion, including ISK 18 billion in deposits from credit institutions and the Central Bank.

Total borrowings grew 14.4% to ISK 459 billion at the end of Q1, there of subordinated loans were ISK 23 billion.

Insurance liabilities grew 7.4% to ISK 21 billion at the end of Q1.

Trading financial liabilities were ISK 12 billion.

Derivatives used for hedging were ISK 3,133 million, against ISK 3,677 in the end of 2004.

Post-employment obligations were ISK 2,579 million.

Tax liabilities at the end of Q1 amounted to ISK 4,072 million.

Other liabilities grew 69.7% in Q1 to ISK 15,229 million.

Book equity is ISK 68.3 billion at the end of Q1, which is a 41% increase during the quarter. The main reason is the bank's sale of 1,800 million new shares in January. Due to the adoption of IFRS, the bank's own shares which used to belong to the trading book are now deducted from book equity. Hence, these changes do not affect the CAD ratio.

ÍSLANDSBANKI

The Bank’s CAD ratio at the end of March was 15.5% and Tier 1 was 12%. The Bank’s equity ratio is therefore extremely strong. Due to BNbank´s full conclusion in the Bank’s consolidated accounts from April 1, these ratios will go down.

Assets under management amounted to ISK 276 billion in the end of first quarter, increasing by 8.6% from the end of 2004.

4. Operations of Individual Profit Units

ISK m.	Commercial Banking	Investment Banking	Capital markets	Treasury	Sjóvá	Other activities	Total
Net interest income	2.734	891	138	272	361	69	4.465
Net insurance income	0	0	0	0	246	-17	229
Net fees and commissions income	1.116	62	450	-28	8	52	1.660
Fair value changes and dividends	23	3	105	45	1.313	-49	1.440
Other operating income	20	0	0	0	449	15	484
Net operating income	**3.893**	**956**	**693**	**289**	**2.377**	**70**	**8.278**
Operations expenses	-2.180	-432	-211	-74	-1.110	-212	-4.219
Impairment losses	-416	-62	0	0	-21	-2	-501
Other income/(expenses)	0	0	0	0	11	39	50
Earnings before income tax	**1.297**	**462**	**482**	**215**	**1.257**	**-105**	**3.608**
Economic value-added (EVA)	466	149	380	123	790	-853	1.055

All profit units of the Bank were profitable in the first quarter of 2005. Commercial banking's profit before income tax was ISK 1,297 million. Sjóvá's profit before tax was ISK 1,257 million. Capital Markets profit was ISK 482 million before tax. Investment Banking's profit was ISK 462 million before tax. Profit of the Treasury, which is where the Bank's proprietary trading takes place, was ISK 215 million before tax.

Operating expenses of support functions and head office expenses are fully allocated to the profit centers before calculating their profit before tax.

4.1 Commercial Banking

ISK m.	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net interest income	2.734	2.612	2.204	2.129	1.960
Net fees and commissions income	1.116	1.215	940	918	885
Fair value changes and dividends	23	35	2	56	-13
Other operating income	20	14	20	23	16
Net operating income	**3.893**	**3.876**	**3.166**	**3.126**	**2.848**
Operations expenses	-2.180	-2.042	-2.010	-1.773	-1.793
Impairment losses	-416	-642	-510	-512	-631
Earnings before income tax	**1.297**	**1.192**	**646**	**841**	**424**
Economic value-added (EVA)	466	804	292	264	228

Commercial Banking provides banking services to individuals and corporate customers, covering the Bank's branches, corporate services, asset management, asset-based financing (Glitnir). In addition, Kredittbanken belongs to Commercial Banking in the first quarter.

Profit at Commercial Banking was ISK 1,297 million before tax in the first quarter. Profit from Retail Banking was ISK 791 million; Business Banking returned ISK 112 million in profit, Asset-Based Financing ISK 144 million, Asset Management ISK 150 million and KredittBanken ISK 99 million. Total operating income in Commercial Banking was ISK 3,893 million and operating expenses were ISK 2,180 million. Impairment losses were ISK 416 million.

Loans in Commercial Banking in Iceland were ISK 365 billion at the end of Q1. Loans in Retail Banking were with ISK 158 billion, Business Banking ISK 166 billion, Asset Management ISK 17 billion and Asset-Based Financing ISK 24 billion. Domestic deposits in Commercial Banking at the end of the first quarter were ISK 116 billion, increasing by 16.7% compared to the first quarter in 2004. KredittBanken's loans were ISK 28 billion and deposits ISK 28 billion.

The total EVA for Commercial Banking was ISK 466 million. The average number of positions was 549 in the first quarter.

4.2. Investment Banking

ISK m.	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net interest income	891	671	652	453	394
Net fees and commissions income	62	235	364	109	93
Fair value changes and dividends	3	28	-30	76	-7
Net operating income	**956**	**934**	**986**	**638**	**480**
Operations expenses	-432	-428	-323	-220	-165
Impairment losses	-62	36	-219	-96	-220
Earnings before income tax	**462**	**542**	**444**	**322**	**95**
Economic value-added (EVA)	149	143	365	74	64

Investment Banking is responsible for the overseas development of the Bank. It includes foreign lending activities, M&A, the Bank's branch in London and a newly founded bank in Luxembourg. It also represents the Bank's venue for strategic investment in co-operation with other divisions of the Bank or other parties.

Pre-tax profit at Investment Banking was ISK 462 million in the first quarter. The operating income of the division was ISK 956 million and operating expenses were ISK 432 million. Impairment losses were ISK 62 million.

Lending by the division amounted to ISK 144 billion. EVA for first quarter was ISK 149 million. The average number of positions at Investment Banking was 49.

4.3 Capital Markets

ISK m.	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net interest income	138	232	125	168	99
Net fees and commissions income	450	403	294	468	333
Fair value changes and dividends	105	151	297	79	723
Other operating income	0	0	0	0	0
Net operating income	**693**	**786**	**716**	**715**	**1.155**
Operations expenses	-211	-362	-278	-221	-202
Impairment losses	0	2	0	19	-20
Earnings before income tax	**482**	**426**	**438**	**513**	**933**
Economic value-added (EVA)	380	337	341	417	747

Capital Markets provides brokerage and funding for instititutional investors and corporate clients in securities, foreign exchange and derivatives.

Pre-tax profit at Capital Markets was ISK 482 million in the first quarter. Net operating income was ISK 693 million over the period and operating expenses ISK 211 million.

EVA for first quarter was ISK 380 million. There are 19 employees in the unit.

4.4 Treasury

ISK m.	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net interest income	272	294	-54	233	91
Net fees and commissions income	-28	-10	-54	12	-6
Fair value changes and dividends	45	197	1.414	262	1.092
Other operating income	0	2	0	0	0
Net operating income	**289**	**483**	**1.306**	**507**	**1.177**
Operations expenses	-74	-87	-82	-59	-86
Earnings before income tax	**215**	**396**	**1.224**	**448**	**1.091**
Economic value-added (EVA)	123	301	969	335	864

Treasury is a part of the Finance Division and is responsible for the Bank's asset- and liability management (ALM), in addition to proprietary trading in its trading book.

Pre-tax profit of Treasury was ISK 215 million in the first quarter. Of this, profit on proprietary trading amounted to ISK 135 million. The net operating income was ISK 289 million and operating expenses were ISK 74 million. EVA for first quarter was ISK 123 million. The average number of full-time equivalent positions was 5.

4.5 Sjóvá

ISK m.	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net interest income	361	384	249	328	373
Net insurance income	246	-247	546	558	71
Net fees and commissions income	8	6	9	16	-3
Fair value changes and dividends	1.313	-13	1.354	988	1.037
Other operating income	449	84	22	70	23
Net operating income	**2.377**	**214**	**2.180**	**1.960**	**1.501**
Operations expenses	-1.110	-932	-654	-684	-758
Impairment losses	-21	-72	-17	-44	-87
Other income/(expenses)	11	-13	20	-29	1.942
Earnings before income tax	**1.257**	**-803**	**1.529**	**1.203**	**2.598**
Economic value-added (EVA)	790	-861	1.092	808	1.850

Sjóvá-Almennar tryggingar hf. is a subsidiary of Íslandsbanki. Sjóvá and its life insurance subsidiary, Sjóvá-Almennar líftryggingar hf., offer services in all areas of property-, casualty- and life insurance. Sjóvá's consolidated numbers also include the security company Securitas and the real estate management company Klasi.

Sjóvá's pre-tax profit was ISK 1,257 in the first quarter. Profit after taxes was ISK 1,035 million. Net operating income was ISK 2,377 million. Operating cost was ISK 1,110 million and impairment losses ISK 21 million during the period. Other income was ISK 11 million. EVA was ISK 790 million in Q1 and average number of employees of the Sjóvá group was 396.

	Group	
	jan-mar ´05	jan-mar ´04
Insurance Revenue, non-life and life operations:		
Net premiums	1.875	1.686
Allocated Investment Income	454	404
Unrealised income from life insurance where the insured bears the investment risk	64	89
Net claims	-1.663	-1.697
Bonuses and premium rebates	-57	-50
Net operating expenses	-574	-637
Profit from Insurance Operations	**99**	**-205**
Investment Operations:		
Investment Income	1.738	3.410
Investment expenses	-228	-240
Allocated investment income transferred to insurance operations	-454	-404
Results from investment operations	1.056	2.766
Other income and expenses	103	-26
Income tax	-222	-450
Minority interest	-1	0
Profit for the period	**1.035**	**2.085**

Profit from insurance operations was ISK 99 million, up from a loss of ISK 205 million in 2004. Profit from investment operations amounted to ISK 1,056 million, but was ISK 2,766 million in Q1 2004. This strong performance in insurance operations is due largely to capital gains on equity, particularly from the sale of the company's holding in the FL Group.

The loss ratio for the period was 88.7%, down from 100.6% in the corresponding period last year. The cost ratio was 30.6%, compared with 37.8% in the year before. Net operating expenses dropped from ISK 637 million to ISK 573 million, or by ISK 63 million, from Q1 2004.

Gross insurance premiums were ISK 3,809 million for the period, barely changing from the corresponding period of last year. Premiums net of reinsurance, on the other hand, came to ISK 1,875 million, rising by 11.2% from Q1 2004. This change is explained largely by the company's restructuring of its re-insurance coverage. Gross claims paid were ISK 1,642 million, comparable to the previous year. Claims net of re-insurance, on the other hand, were ISK 1,663 million, falling by 2% from the preceding year.

Sjóvá's total assets stood at ISK 38,9 billion on 31 March, up by 11% during the first quarter.

Insurance liabilities were ISK 19.7 billion at the end of the quarter. Equity stood at ISK 10.2 billion on 31 March, up by 20% from the beginning of the year. The parent company's solvency ratio grew significantly, or from 3.9 at the beginning of the year to 4.5.

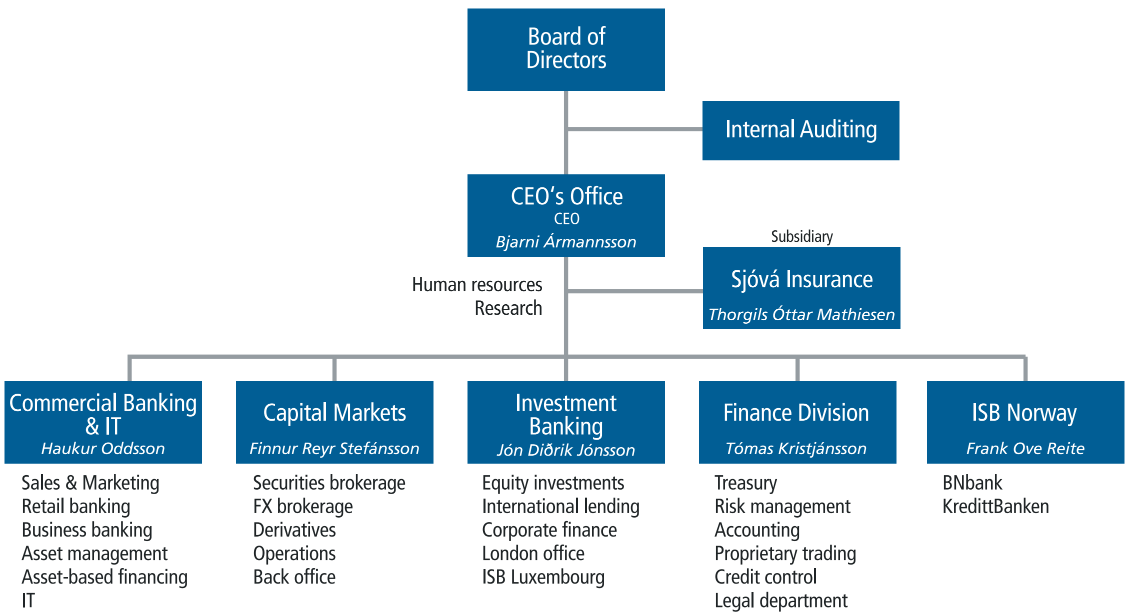
4.6 Other Operations

Losses on other operations were ISK 105 million. Other operations include extraordinary income and expenses which are not allocated to profit units.

5. Highlights of operations

5.1 Íslandsbanki sharpens its focus in Norway

In April Íslandsbanki made organisational changes to emphasise the importance of Norway as its home market, along with Iceland. Íslandsbanki's Norwegian operations will constitute a separate business unit in the Íslandsbanki.



The objective of the changes is to sharpen the focus of Íslandsbanki's strategy and take advantage of the growth opportunities created by the Bank's expansion in Norway.

5.2 Íslandsbanki sells 66.66% share in Sjóvá

Íslandsbanki sold 66.66% of Sjóvá to Þáttur eignarhaldsfélag hf. in April. Íslandsbanki will continue to hold 33.34% of Sjóvá. Íslandsbanki and Sjóvá will continue to offer banking and insurance services to customers based on a contract between the two companies.

Íslandsbanki acquired Sjóvá eighteen months ago for ISK 19.4 billion; the selling price to Þáttur was based on a valuation of Sjóvá at ISK 26.6 billion. By the sale the bank has realised a gain of ISK 3.3 billion before tax, in addition to which the bank has received ISK 3.5 billion in dividend from Sjóvá. The sale strengthens Íslandsbanki's Tier 1 capital by more than ISK 15 billion.

The sale is subject to the approval of the Icelandic FSA and Competition Authorities. Assuming the sale goes through, Sjóvá will become an associated company of Íslandsbanki. Sjóvá's financial results will have an effect on the Bank's income statement under the item "Share in profits at associated companies" and not as part of the consolidated accounts of the group as has been the case in the recent past.

5.3 BNbank part of Íslandsbank as of 1 April

The Norwegian bank BNbank became part of the Íslandsbanki on 1 April 2005. The Norwegian Financial Ministry approved the acquisition in mid-March. Íslandsbanki has thus acquired a 99.54% stake in BNbank, and may, under the Norwegian

Public Limited Companies Act, redeem the remaining shares in BNbank. Íslandsbanki has made a final bid for these shares. The bid period started on 8 April and expires on 6 May 2005 at 16:00 hrs Norwegian time.

BNbank's profit after tax was ISK 2 billion in 2004, up by ISK 145 million from 2003. EPS was NOK 21.45 in 2004 and NOK 19.89 in 2003. After-tax ROE was 10%. BNbank's Annual General Meeting decided last week to pay a dividend on May 12 of NOK 15 per share, or 70% of the Bank's profit in 2004. BNbank will publish Q1 results on May 13.

Here are the effects of the sale of Sjóvá and acquisition of BNbank on Íslandsbanki's balance sheet:

	Sjóvá	**BNbank**	**Total**
Cash and cash balances with central banks	(14)	72	58
Loans and receivables	(18.804)	363.777	344.973
Financial assets held for trading	(8.271)		(8.271)
Financial assets designated at fair value through P/L	(3.892)	15.283	11.391
Financial assets available-for-sale		322	322
Investment in associates	(516)	6	(510)
Investment property	(2.796)	147	(2.649)
Property and equipment	(1.901)	589	(1.312)
Intangible assets	(1.244)	53	(1.191)
Non-Current assets and disposal groups classif. as HFS	(80)	452	372
Reinsurers´ share in insurance fund	(1.147)		(1.147)
Other assets	(221)	138	(83)
Assets total	**(38.886)**	**380.839**	**341.953**
Deposits from credit institutions and central banks		7.078	7.078
Other deposits		123.953	123.953
Borrowings	(3.001)	213.379	210.378
Subordinated loans		9.107	9.107
Insurance liabilities	(20.901)		(20.901)
Trading financial liabilities		2.345	2.345
Post-employment obligations	(457)	134	(323)
Tax liabilities	(2.211)	907	(1.304)
Other liabilities	(2.116)	4.328	2.212
Liabilities total	**(28.686)**	**361.231**	**332.545**
Net estimated value	(10.200)	19.608	9.408
Shares in Sjóvá	7.100		7.100
Goodwill	(11.058)	12.556	1.498
Gain on disposal	(3.342)		(3.342)
Total acquisition price	**(17.500)**	**32.164**	**14.664**

Sjóva figures are from 31.3.2005

BNbank figures are from 31.12.2004 and adjusted with currency exchange rate from 31.3.2005

5.4 KredittBanken

KredittBanken's first quarter profit was ISK 72 million after taxes, twice the profit in Q1 2004. Book equity was ISK 3.7 billion at the end of March, which corresponds to a price-to-book of NOK 8.16 per share. Íslandsbanki acquired KredittBanken at NOK 7.25 per share.

EVA was negative by ISK 7 million. The average number of positions was 29.

KredittBanken made a bid for all shares in the Norwegian factoring house FactoNor in April. At the end of the offer period on April 29, shareholders owning 89.1% of FactoNor's shares had accepted the offer. FactoNor specialises in accounts receivable financing and factoring for small and medium-sized companies in northwestern Norway. FactoNor's factoring turnover in 2004 was ISK 28 billion.

5.5 Bank in Luxembourg

ISB Luxembourg S.A. has formally started operations and launched its Private Banking and Asset Management services operating out of Luxembourg. The current lending activity of the ISB branch in Luxembourg will be transferred to the new bank.

Since June 2003 Íslandsbanki has been operating a branch in Luxembourg. It has successfully created a solid platform for further growth by focusing on building strong relationships with banks within Scandinavia and providing corporate credits and advisory services to Nordic borrowers within specific industry segments.

5.6 The Annual General Meeting of Íslandsbanki hf.

The AGM decided to pay a dividend totalling ISK 4,550 million to shareholders the equivalent of 39.76% of profit for the year 2004 and ISK 0.35 per share. The remainder of the profit for the year, ISK 6,895 million, is to be allocated to increase the equity of Íslandsbanki hf.

Shareholders owning 80% of shares in Íslandsbanki accepted an offer to receive half the dividend in shares

The AGM resolved that shareholders could have the option to receive up to one half of their dividend in shares in Íslandsbanki hf. at the price of ISK 10.65 per share. 3,669 shareholders in Íslandsbanki accepted the offer to receive 134,816,315 shares in the Bank as dividend. The number of outstanding shares after the issue is 13,134,816,315.

Increased contribution to the Cultural Fund of Íslandsbanki

The AGM of Íslandsbanki hf. agreed that the contribution to the Cultural Fund of Íslandsbanki and Sjóvá is to be ISK 100 million in 2005.

Board of Directors

A new board of directors was elected at the Annual General Meeting, consisting of: Einar Sveinsson, Chairman, Jón Snorrason, Karl E. Wernersson, Róbert Melax, Steinunn Jónsdóttir, Úlfar Steindórsson and Þórarinn V. Þórarinsson.

6. Publication of financial reports for 2005

The proposed publication dates for ISB financial reports in 2005 are as follows:

2nd quarter, 26 July 2005
3rd quarter, 25 October 2005
Annual Results, 31 January 2006

ÍSLANDSBANKI

7. Presentation of First Quarter Results 2004 on 3 May

Íslandsbanki's first quarter results for 2005 will be presented for shareholders and market participants on Tuesday, 3 May at 2 pm at Íslandsbanki's headquarters at Kirkjusandur in Reykjavík. Bjarni Ármannsson, CEO, will present the accounts and answer questions.

8. Group Profit and Loss Account by Quarter

ISK m.	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net interest income	4.465	3.953	2.945	3.145	2.733
Net insurance premium	229	-256	526	557	59
Net fee and commission income	1.660	1.960	1.684	1.608	1.358
Dividend income	371	3	9	15	214
Net trading income	1.248	209	3.016	1.383	2.764
Net income from other financial assets at fair value	-5	0	0	0	0
Fair value changes from hedge accounting	-35	0	0	0	0
Net currency difference	-139	209	7	62	-164
Other operating income	484	301	58	112	54
Operating expenses	-4.219	-4.585	-3.194	-3.309	-3.269
Impairment losses	-501	-764	-745	-648	-980
Share of profit of associates	50	-49	82	64	48
Profit/(loss) from subsidiaries and affiliated companies	0	0	-8	-35	2.959
Earnings before income tax	**3.608**	**980**	**4.380**	**2.954**	**5.776**
Income tax	-570	-32	-730	-485	-888
Net earnings	**3.038**	**948**	**3.650**	**2.469**	**4.888**

9. Consolidated Balance Sheet

ISK m.	31.3. 2005	1.1. 2005	Change (ISK m)	Change (%)
Cash equivalents and balances with central banks	6.197	6.242	-45	-0,7%
Loans and receivables	594.173	518.184	75.989	14,7%
Financial assets held for trading	115.791	109.046	6.745	6,2%
Financial assets designated at fair value through P/L	4.097	3.632	465	12,8%
Financial assets available for sale	10.945	11.065	-120	-1,1%
Derivatives used for hedging	1.963	1.793	170	9,5%
Investment in associates	1.951	2.605	-654	-25,1%
Investment property	2.796	1.560	1.236	79,2%
Property and equipment	3.085	2.617	468	17,9%
Intangible assets	12.668	11.866	802	6,8%
Tax assets	404	456	-52	-11,4%
Non-Current assets and disposal groups classif. as HFS	582	593	-11	-1,8%
Reinsurers´ share in insurance fund	1.147	1.308	-161	-12,3%
Other assets	11.561	6.349	5.212	82,1%
Assets	**767.360**	**677.316**	**90.044**	**13,3%**
Deposits from credit institutions and Central bank	17.504	22.676	-5.172	-22,8%
Other deposits	164.385	155.601	8.783	5,6%
Borrowings	435.792	382.020	53.772	14,1%
Subordinated loans	23.383	19.366	4.017	20,7%
Insurance liabilities	20.901	19.454	1.447	7,4%
Trading financial liabilities	12.058	12.548	-490	-3,9%
Derivatives used for hedging	3.133	3.677	-544	-14,8%
Post employment obligations	2.579	2.607	-28	-1,1%
Tax liabilities	4.072	1.918	2.154	112,2%
Other liabilities	15.229	8.975	6.254	69,7%
Equity	68.324	48.474	19.850	41,0%
Liabilities and Equity	**767.360**	**677.316**	**90.044**	**13,3%**
Off-balance sheet items:				
Assets in custody	275.957	254.163	21.794	8,6%
Guarantees	12.631	9.471	3.160	33,4%
Derivatives against bond assets	59.420	64.793	-5.373	-8,3%
Derivatives against equity assets	19.440	14.329	5.111	35,7%

10. Key Figures

	jan-mar 2005	jan-mar 2004	*Change*	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Key figures from the Balance Sheet (ISK millions)								
Average total assets	706.342	453.118	*253.224*	706.342	624.117	537.937	501.214	453.118
Total assets at end of period	767.360	488.370	*278.990*	767.360	677.316	565.253	521.730	488.370
Equity at end of period	68.324	29.560	*38.764*	68.324	48.474	37.613	31.803	29.560
Capital stock	13.081	10.000	*3.081*	13.081	11.081	10.200	10.000	10.000
Key ratios:								
Return on equity before tax	26,2%	104,7%						
Return on equity after tax	21,7%	84,8%						
Earnings per share, ISK	0,25	0,49	-49,7%	0,25	0,08	0,37	0,24	0,49
CAD ratio end of period	15,5%	10,0%		15,5%	12,4%	11,2%	10,7%	10,0%
Tier 1 capital at end of period	12,0%	7,1%		12,0%	9,4%	8,8%	7,8%	7,1%
Solvency ratio at end of period	4,5	4,3	4,7%	4,5	3,9	4,8	4,4	4,3
Cost/income ratio for banking activities	52,5%	38,3%		51,9%	59,7%	41,7%	52,8%	38,3%
Cost/income ratio for insurance activities	30,6%	36,1%		30,6%	42,5%	27,2%	27,1%	36,1%
Provision for loan losses/loans & guarantess a	0,3%	1,1%		0,3%	0,6%	0,7%	0,8%	1,1%
Loss ratio	88,7%	100,6%		88,7%	107,8%	74,5%	76,2%	100,6%
Average number of full-time employees	1.375	1.083	26,9%	1.375	1.124	1.167	1.133	1.083
Percentage of average total assets:								
Net interest margin	2,5%	2,4%		2,5%	2,5%	2,2%	2,5%	2,4%
Other operating income	2,2%	3,8%		2,2%	1,6%	3,9%	3,0%	3,8%
Other operating expenses	2,4%	2,9%		2,4%	2,9%	2,4%	2,6%	2,9%
Impairment losses	0,3%	0,9%		0,3%	0,5%	0,6%	0,5%	0,9%
Net profit	1,7%	4,3%		1,7%	0,6%	2,7%	2,0%	4,3%

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