

ANNEX TO THE PERMANENT GLOBAL NOTE

FINAL TERMS

27 January 2006

Íslandsbanki hf.
Issue of CHF 80,000,000 2.00 per cent. Notes due 30 January 2009
under the €15,000,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Offering Circular dated 28 July 2005 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive") as supplemented by a Supplement dated 18 January 2006, constituting a supplementary prospectus for the purposes of section 87G of the Financial Services and Markets Act 2000. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Offering Circular as supplemented by the Supplement. The Offering Circular and the Supplement are available for viewing at the office of the Issuer at Kirkjusandur 2, 155 Reykjavik, Iceland and copies may be obtained from the office of the Exclusive Swiss Principal Paying Agent at Bahnhofstrasse 45, 8001 Zurich, Switzerland.

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| 1. | Issuer: | Íslandsbanki hf. |
| 2. | (i) Series Number: | 272 |
| | (ii) Tranche Number: | 1 |
| 3. | Specified Currency or Currencies: | Swiss Francs (CHF) |
| 4. | Aggregate Nominal Amount: | |
| | – Series: | CHF80,000,000 |
| | – Tranche: | CHF80,000,000 |
| 5. | Issue Price of Tranche: | 100.436 per cent. of the Aggregate Nominal Amount |
| 6. | Specified Denominations: | CHF50,000 and integral multiples thereof |
| 7. | (i) Issue Date: | 30 January 2006 |
| | (ii) Interest Commencement Date: | 30 January 2006 |
| 8. | Maturity Date: | 30 January 2009 |
| 9. | Interest Basis | 2.00 per cent. Fixed Rate (further particulars specified below) |
| 10. | Redemption/Payment Basis: | Redemption at par |
| 11. | Change of Interest Basis or Redemption/Payment Basis: | Not Applicable |
| 12. | Put/Call Options: | Not Applicable |
| 13. | (i) Status of Notes: | Senior |
| | (ii) Date Board approval for issuance of | |

Notes obtained:	Not Applicable
14. Method of distribution:	Non-syndicated
PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE	
15. Fixed Rate Note Provisions	Applicable
(i) Rate(s) of Interest:	2.00 per cent. per annum payable annually in arrear
(ii) Interest Payment Date(s):	30 January in each year up to and including the Maturity Date
(iii) Fixed Coupon Amount(s):	CHF1,000 per CHF50,000 in nominal amount
(iv) Broken Amount(s):	Not Applicable
(v) Day Count Fraction:	30/360
(vi) Determination Date(s):	Not Applicable
(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
16. Floating Rate Note Provisions	Not Applicable
17. Zero Coupon Note Provisions	Not Applicable
18. Index Linked Interest Note Provisions	Not Applicable
19. Dual Currency Interest Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call	Not Applicable
21. Investor Put	Not Applicable
22. Final Redemption Amount of each Note:	CHF50,000 per Note of CHF50,000 Specified Denomination
23. Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)):	The provisions of Condition 7(e) apply.

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:	
- Bearer Notes:	Applicable
	The Notes will be in bearer form and will be represented by a Permanent Global Note (the Permanent Global Note) in substantially the form set forth in the Schedule to the Supplemental Agency Agreement (the Supplemental Agency Agreement) to be entered into between, amongst others, the Issuer and the Exclusive Swiss Paying Agent on 27 January 2006.
	The Permanent Global Note will be deposited with SIS SegalnterSettle AG, the Swiss Securities Services Corporation in Olten, Switzerland (the SIS) and will document the right to receive the principal and interest

thereon and all other rights and obligations in connection therewith.

Without prejudice to the provisions of the Permanent Global Note, so long as the Notes are represented by the Permanent Global Note, each person (other than SIS) who is for the time being shown in the records of SIS as the holder of a particular nominal amount of the Notes (in which regard any certificate or other document issued by SIS as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Exclusive Swiss Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal and interest on such nominal amount of such Notes, the right to which shall be vested, as against the Issuer, solely in the bearer of the Permanent Global Note in accordance with and subject to the terms of the Permanent Global Note.

All payments in respect of the Permanent Global Note will be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it to the Exclusive Swiss Paying Agent and any such payment shall operate as a good discharge against such holder and all previous holders of the Permanent Global Note.

Owners of beneficial interests in the Permanent Global Note do not have the right to request the printing and delivery of Definitive Notes. The Permanent Global Note will be exchangeable for Definitive Notes in whole but not in part at the option of the Exclusive Swiss Paying Agent or the Issuer. The Issuer has irrevocably agreed and undertaken to the Exclusive Swiss Paying Agent to arrange for the printing and delivery to it of the Definitive Notes with Coupons attached in the name and at the expense of the Issuer, should the Exclusive Swiss Paying Agent deem such printing to be necessary or useful, after consultation with the Issuer, or if the presentation of Definitive Notes and Coupons is required by Swiss or other applicable laws and regulations in connection with the enforcement of rights of the Noteholders. Should the Definitive Notes and Coupons be printed, the Exclusive Swiss Paying Agent will then exchange the Permanent Global Note against delivery of the Definitive Notes and Coupons and thereupon cancel and return the Permanent Global Note

- to the Issuer.
- Registered Notes: Not Applicable
 - 25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: Zürich
 - 26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): No
 - 27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable
 - 28. Details relating to Instalment Notes, including the amount of each instalment (each an “Instalment Amount”) and the date on which each payment is to be made (each an “Instalment Date”): Not Applicable
 - 29. Redenomination applicable: Redenomination not Applicable
 - 30. Other final terms:
 - For the purposes of the Notes described in these Final Terms only, the following shall apply:
 1. The following provisions shall be inserted immediately following Condition 6(g) as Condition 6(h):
 - "(h) *Discharge of the Issuer*
 - The receipt by UBS AG, as Exclusive Swiss Paying Agent, of the due and punctual payment of the funds in Swiss Francs in Zurich shall release the Issuer from its obligations under the Notes and Coupons for the payment of principal and interest due on the respective payment dates to the extent of such payments and except to the extent that there is default in the subsequent payment thereof to the Noteholders or Couponholders (as the case may be).
 - Except to the extent required by law, payment of principal and interest in respect of the Notes shall be made in freely disposable Swiss Francs without collection costs and whatever the circumstances may be, irrespective of the nationality, domicile or residence of the holder of the Notes and without requiring any certification, affidavit or the fulfilment of any other formality. Payment on the Notes will, except to the extent required by law, be made

irrespective of any transfer restrictions and regardless of any bilateral or multilateral payment or clearing agreements which may be applicable, at any time, to such payment. Nothing in this Condition 6(h) shall prejudice the provisions of Condition 8."

2. The following shall be inserted at the end of Condition 12:

"In respect of any Notes denominated in Swiss Francs, the Issuer will at all times maintain a Paying Agent having a specified office in Switzerland and (for the purposes of payments on the Notes only) will at no time maintain a Paying Agent having a specified office outside Switzerland."

In addition, all references in the Terms and Conditions of the Notes to the "Agents", "Principal Paying Agent" and to the "Paying Agents" shall, so far as the context permits, be construed as references only to the "Exclusive Swiss Paying Agent" (as set out under paragraph 3(vi) of "Part B - Other Information" of these Final Terms).

3. The following provision shall be inserted as a final paragraph of Condition 18:

"The Issuer agrees to the additional jurisdiction of the Courts of the Canton of Zurich, the place of jurisdiction being Zurich 1, with the right of appeal to the Swiss Federal Court of Justice in Lausanne where the law permits. In connection with the Notes, the Issuer elects legal and special domicile at UBS AG, Bahnhofstrasse 45, 8001 Zurich, Switzerland. The holders of all Notes shall have equal status irrespective of their domicile."

4. Pursuant to the Supplemental Agency Agreement, the Issuer appoints UBS AG as exclusive Swiss paying agent (the **Exclusive Swiss Paying Agent**) at the following address in respect of the Notes:

Bahnhofstrasse 45, 8001 Zurich, Switzerland

Accordingly, UBS AG will act as the Exclusive Swiss Paying Agent in respect of the Notes.

DISTRIBUTION

31. (i) If syndicated, names and addresses Not Applicable

underwriting commitments:

- (ii) Date of Subscription Agreement: Not Applicable
- (iii) Stabilising Manager (if any): Not Applicable
- 32. If non-syndicated, name of relevant Dealer: UBS AG
- 33. Total commission and concession: Not Applicable
- 34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: TEFRA D rules are applicable in accordance with usual Swiss practice
- 35. Additional selling restrictions: Not Applicable
- 36. ERISA restrictions: Not Applicable

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: None
- (ii) Admission to trading: Not Applicable.

2. RATINGS

- Ratings: The Notes to be issued have been rated:
- Moody's: A1
- Fitch: A

3. OPERATIONAL INFORMATION

- (i) ISIN Code: CH0024023068
- (ii) Common Code: Not Applicable
- (iii) CUSIP: Not Applicable
- (iv) Any clearing system(s) other than DTC, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): SIS SegInterSettle AG, the Swiss Securities Services Corporation in Olten, Switzerland
Swiss Security Code: 2.402.306
- (v) Delivery: Delivery against payment
- (vi) Names and addresses of additional Paying Agent(s) and Transfer Agent(s) (if any): The only Paying Agent appointed in respect of the Notes is appointed pursuant to the Supplemental Agency Agreement and is as follows:

Exclusive Swiss Paying Agent:

UBS AG
Bahnhofstrasse 45
8001 Zurich
Switzerland