

Final Terms

8 February 2006

Íslandsbanki hf.
Issue of 15,400,000 Callable Range Accrual Notes due 15 August 2016
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 28th 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 18th 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 Reykjavík, Iceland and copies may be obtained from the Principal Paying Agent at Trinity Tower, 9 Thomas More Street, London E1W 1YT.

1.	Issuer:	Íslandsbanki hf.
2.	(i) Series Number:	278
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	Euro ("EUR")
4.	Aggregate Nominal Amount:	
	– Series:	EUR 15,400,000
	– Tranche:	EUR 15,400,000
5.	Issue Price of Tranche:	100.00 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	EUR 50,000
7.	(i) Issue Date:	10 February 2006
	(ii) Interest Commencement Date :	Issue Date
8.	Maturity Date:	15 August 2016

9. Interest Basis: 3.25 per cent. Fixed Rate and Index Linked Interest
(further particulars specified below)
10. Redemption/Payment Basis: Redemption at par
11. Change of Interest Basis or Redemption/Payment Basis:
For the period from (and including) the Issue Date to (but excluding) 15 August 2007: 3.25 per cent. Fixed Rate and

for the period from (and including) 15 August 2007 to (but excluding) the Maturity Date: Index Linked. (further particulars specified below)
12. Put/Call Options: Issuer Call
(further particulars specified below)
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: 3.25 per cent. per annum payable annually in arrear
- (ii) Interest Payment Date(s): 15 August 2006 and 15 August 2007; adjusted in accordance with the Following Business Day Convention for which the Business Days are TARGET.
- (iii) Fixed Coupon Amount(s): For the period from (and including) 15 August 2006 to (but excluding) 15 August 2007:
EUR 1,625.00 per EUR 50,000 in nominal amount
- (iv) Broken Amount(s): For the period from (and including) 10 February 2006 to (but excluding) 15 August 2006 (185 days):
EUR 835.07 per EUR 50,000 in nominal amount
- (v) Day Count Fraction: 30/360 , unadjusted
- (vi) Determination Date(s): Not Applicable
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: None
16. **Floating Rate Note Provisions** Not Applicable
17. **Zero Coupon Note Provisions** Not Applicable
18. **Index Linked Interest Note Provisions** Applicable

(i) Index/Formula:

The Rate of Interest per Specified Denomination for each Interest Period shall be determined by the Calculation Agent on the Interest Determination Date in accordance with the following formula:

$$4.75 \% * n/N$$

where

“**n**” means the number of calendar days in the respective Interest Period where the Spread fixes above the relevant Barrier.

“**N**” means the actual number of calendar days in the respective Interest Period.

“**Barrier**” means for the Period from (and including) 15 August 2007 to (but excluding) 15 August 2013: 0.75 per cent. and

for the Period from (and including) 15 August 2013 to (but excluding) 15 August 2016: 0.50 per cent.

“**Spread**” means the 10-year EUR Swap Rate vs 6 month Euribor minus the 2-year EUR Swap Rate vs 6-month EURIBOR which appears on the relevant Screen Page.

“**EUR Swap Rate**” means that the rate for the purposes of determining the applicable Rate of Interest will be the rate for Euro Swaps with a maturity of ten years and/or two years, expressed as a percentage, which appears on the Relevant Screen Page as of 11:00 a.m. Frankfurt time on the relevant Interest Determination Date.

“**Relevant Screen Page**” means Reuters pages ISDAFIX2.

“**Interest Determination Date**” shall be five (5) TARGET Business Days prior to the end of each relevant Interest Period.

The Spread on the Interest Determination Date shall accordingly apply for the remaining calendar days in the respective Interest Period.

(ii) Calculation Agent responsible for calculating the interest due:

J.P. Morgan Chase Bank, Bournemouth

(iii) Provisions for determining interest where calculation by reference to Index and/or Formula is impossible or impracticable:

If the **EUR Swap Rate** does not appear on the Relevant Screen Page, the rate will be determined as if “**EUR-CMS-Reference Banks**” was specified as the applicable manner of determination.

“**EUR-CMS-Reference Banks**” means that the rate for the purposes of determining the applicable Rate of Interest will be a percentage determined on the basis of the mid-market

annual swap rate quotations provided by the Reference Banks at approximately 11:00 a.m. Frankfurt time, on the relevant Interest Determination Date, and, for this purpose, the annual swap rate means the mean of the bid and offered rates for the annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating Euro interest rate swap transaction with a term equal to a maturity of ten years and/or two years commencing on that Interest Determination Date and in an amount equal to the Aggregate Nominal Amount with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to EURIBOR with a designated maturity of six months. The Calculation Agent will request the principal Frankfurt office of each of the Reference Banks to provide a quotation of its rate. If at least three quotations are provided, the rate for that Interest Determination Date will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

“**Reference Banks**” means five leading swap dealers in the interbank market.

(iv) Specified Period(s)/Specified Interest Payment Dates:

Interest will be paid on 15 August in each year, commencing on 15 August 2008 and ending on Maturity Date.

(v) Business Day Convention:

Following Business Day Convention

(vi) Additional Business Centre(s):

TARGET

(vii) Minimum Rate of Interest:

Not Applicable

(viii) Maximum Rate of Interest:

Not Applicable

(ix) Day Count Fraction:

30/360, unadjusted

19. Dual Currency Interest Note Provisions

Not Applicable

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call

Applicable

(i) Optional Redemption Date(s):

15 August 2010 and 15 August 2013

(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):

EUR 50,000 per Note of EUR 50,000 Note Specified Denomination

(iii) If redeemable in part:

(a) Minimum Redemption Amount:

Not Applicable

(b) Higher Redemption Amount:

Not Applicable

- | | |
|--|--|
| (iv) Notice period (if other than as set out in the Conditions): | Five (5) TARGET Business Days prior notice |
| 21. Investor Put | Not Applicable |
| 22. Final Redemption Amount of each Note: | EUR 50,000 per Note of EUR 50,000 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)): | Not Applicable |

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- | | |
|--|---|
| 24. Form of Notes: | |
| Bearer Notes: | Applicable

Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event |
| Registered Notes: | Not Applicable |
| 25. Additional Financial Centre(s) or other special | Not Applicable |
| 26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | No. |
| 27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and 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: | Not Applicable |

DISTRIBUTION

- | | |
|---|--|
| 31. (i) If syndicated, names [and addresses] of Managers [and underwriting commitments] : | Not Applicable |
| (ii) Date of Subscription Agreement: | Not Applicable |
| (iii) Stabilising Manager (if any): | Not Applicable |
| 32. If non-syndicated, name [and address] of relevant Dealer: | Dresdner Bank AG London Branch
Riverbank House, 2 Swan Lane |

- | | |
|--|-----------------|
| | EC4 R3UX London |
| 33. Total commission and concession: | Not Applicable |
| 34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D |
| 35. Additional selling restrictions: | Not Applicable |
| 36. ERISA Restrictions: | Not Applicable |

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list the issue of Notes described herein pursuant to the €7,500,000,000 Global Medium Term Note Programme of Íslandsbanki hf.

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- | | |
|---|--|
| (i) Listing: | London |
| (ii) Admission to trading: | Application has been made for the Notes to be admitted to trading on 10 February 2006. |
| (iii) Estimate of total expenses related to admission to trading: | GBP 100,- |

2. RATINGS

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

3. NOTIFICATION

Not Applicable.

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

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

5. REASONS FOR THE OFFER; ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the Offer: See “Use of Proceeds” wording in Offering Circular
- (ii) Estimated net proceeds: EUR 15,400,000
- (iii) Estimated total expenses: Not Applicable

6. YIELD (*Fixed Rate Notes only*)

Indication of yield: Not Applicable

7. HISTORIC INTEREST RATES (*Floating Rate Notes only*)

Not Applicable

8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)

Details of historic ISDAFIX2 rates can be obtained from Reuters.

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (*Dual Currency Notes only*)

Not Applicable

10. OPERATIONAL INFORMATION

- (i) ISIN Code: XS0243838496
- (ii) Common Code: 024383849
- (iii) CUSIP: Not Applicable
- (iv) Any clearing system(s) other than DTC, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): Not Applicable
- (v) Delivery: Delivery against payment
- (vi) Names and addresses of additional Paying Agent(s) and Transfer Agent(s) (if any): Not Applicable