

Form of Final Terms

10th February 2006

Íslandsbanki hf.
Issue of ISK 610,000,000 Index Linked Notes
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:	281
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	ISK
4.	Aggregate Nominal Amount:	
	– Series:	ISK 610,000,000
	– Tranche:	ISK 610,000,000
5.	Issue Price of Tranche:	100 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	ISK 10,000,000
7.	(i) Issue Date:	10 th February 2006
	(ii) Interest Commencement Date :	10 th February 2006
8.	Maturity Date:	10 th February 2011
9.	Interest Basis:	Not Applicable
10.	Redemption/Payment Basis:	Index Linked Redemption (further particulars specified in Appendix 1 hereto)

11. Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12. Put/Call Options:	Not Applicable
13. (i) Status of Notes:	Senior
(ii) Date Board approval for issuance of Notes obtained:	Not Applicable
14. Method of distribution:	Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions:	Not Applicable
16. Floating Rate Note Provisions	Not Applicable
17. Zero Coupon Note Provisions	Not Applicable
18. Index Linked Interest Note Provisions	Not Applicable
19. Dual Currency Interest Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call	Not Applicable
21. Investor Put	Not Applicable
22. Final Redemption Amount of each Note:	See Appendix 1
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 provisions relating to Payment Dates:	Reykjavik
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No.

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| 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: | Not Applicable |

DISTRIBUTION

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| 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: | Íslandsbanki hf., Kirkjusandi, 155 Reykjavik |
| 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 €1,500,000,000 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 The London Stock Exchange with effect from 15^h 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: General Funding
- [(ii)] Estimated net proceeds: ISK 610,000,000
- [(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*)

Not Applicable

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

Not Applicable

10. OPERATIONAL INFORMATION

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| (i) ISIN Code: | XS0244896717 |
| (ii) Common Code: | 024489671 |
| [(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 free of payment |
| [(vi)] Names and addresses of additional Paying Agent(s) and Transfer Agent(s) (if any): | Not Applicable |

APPENDIX 1

FINAL REDEMPTION AMOUNT

Settlement Currency: Cash Settlement Payment Date Redemption amount	ISK Two Currency Business Days after the Valuation Date An amount in ISK on the Cash Settlement Payment Date, as determined by the Calculation Agent as of the Valuation Date, in accordance with the following formula:
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$$Notional \cdot \left[1 + Participation \cdot \left[\frac{USD}{ISK} \right]_{final} / 62.90 \cdot \right. \\ \left. \cdot \left[\text{Max} \left[\sum_{i=1}^5 Weight_i \times \frac{(FP_i - IP_i)}{IP_i}; 0; Lock - In \right] \right] \right]$$

“ $\left[\frac{USD}{ISK} \right]_{final}$ ” means the final price of the currency cross determined by the calculation agent

Initial Price (IP i)	The level of relevant Index i (where i = 1 to 5) at the Valuation Time on the Strike Price Date on the Exchange as determined by the Calculation Agent (which is set out in Appendix 2).
Final Price (FP i)	The arithmetic average of the levels of the relevant Index i (where i = 1 to 5) on each Averaging Date as determined by the Calculation Agent.
Weight i	As set out in Appendix 2 for each Index i
Participation	170%
Averaging Dates:	The following calendar days Aug 9 2010, Sep 8 2010, Oct 8 2010, Nov 8 2010, Dec 8 2010, Jan 10 2011, Feb 8 2011. There are 7 Observation Dates for each Underlying Index (j=1,2,3,4,5) (subject to disruption and following business day convention)
Averaging Date Disruption: “Lock-in” equals,	Modified Postponement, provided that if any one Index is affected by the occurrence of a Disrupted Day, then all the Indices comprised in the Basket shall be similarly affected. <ul style="list-style-type: none"> (i) 0%, provided that Maximum Basket Value is less than 150% (ii) 50%, provided that Maximum Basket Value is greater than or equal to 150% <p>“Maximum Basket Value” means, the highest numerical value for the Basket Value at the last occurring Scheduled Closing Time on each Scheduled Trading Day from and including the Strike date up to and including the Expiration Date, provided that if any such date is not a Scheduled Trading Day, the next following Scheduled Trading Day for all Indices comprised in the Basket.</p>
Index Adjustment Event:	
Index Cancellation:	Calculation Agent Adjustment
Index Cancellation:	Calculation Agent Adjustment
Index Cancellation:	Calculation Agent Adjustment
Other Terms.	

Calculation Islandsbanki
Agent::

APPENDIX 2

Index comprised in the Basket

The Basket is composed of the following Indices in the relative weightings set out in relation to each Index below.

<i>i</i>	<i>Index i</i>	<i>Exchange(s)</i>	<i>Related Exchange(s)</i>	<i>Weighting</i>	<i>IPi levels</i>
1	The S&P 500 Composite Stock Price Index, a market index of 500 U.S. securities, which is currently sponsored by Standard & Poor's Corporation, a division of McGraw-Hill, Inc. (the "S&P 500")	New York Stock Exchange; American Stock Exchange LLC ("AMEX"); and Nasdaq Stock Market, Inc. ("NYSE");	Chicago Board Options Exchange ("CBOE"); and Chicago Mercantile Exchange.	50%	
2	The Dow Jones EURO STOXX 50SM Index, a Euro blue chip index derived from the Dow Jones EURO STOXX, as calculated and published by STOXX Limited (the "Index Sponsor").	The stock exchanges on which securities comprising the Index are traded, as determined by the Sponsor from time to time.	EUREX	25%	
3	The TOPIX, also known as the Tokyo Stock Price Index, is a capitalization weighted index of all companies listed on the First Section of the Tokyo Stock Exchange.	Tokyo Stock Exchange		12,5%	
4	The FTSE 100 index, a market index based on a selection of 100 securities listed on the Exchange, which is currently sponsored by FTSE International Limited (the "FTSE 100")	London Stock Exchange plc	LIFFE	10%	
5	The S&P ASX 200 Index is a capitalization-weighted index of the top 200 companies ranked by market size on the Australian Stock Exchange.	Australian Stock Exchange.		2,5%	