

ANNEX TO THE PERMANENT GLOBAL NOTE**FINAL TERMS**

17 February 2006

Íslandsbanki hf.

**Issue of CHF 250,000,000 Floating rate Notes due 2009
under the €15,00,000,000
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 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 Reykjavík, Iceland and copies may be obtained from the office of the Exclusive Swiss Paying Agent at Bahnhofstrasse 45, 8001 Zurich, Switzerland.

1.	Issuer:	Íslandsbanki hf.
2.	(i) Series Number:	277
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	Swiss Francs (CHF)
4.	Aggregate Nominal Amount:	
	– Series:	CHF 250,000,000
	– Tranche:	CHF 250,000,000
5.	Issue Price of Tranche:	100.05 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	CHF 5,000
7.	(i) Issue Date:	21 February 2006
	(ii) Interest Commencement Date:	21 February 2006
8.	Maturity Date:	Interest Payment Date falling in or nearest to February 2009
9.	Interest Basis	6 month CHF LIBOR + 0.10 per cent. Floating 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	Not Applicable

Notes obtained:

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	Applicable
(i)	Specified Period(s)/Specified Interest Payment Dates:	20 February and 20 August in each year up and including the Maturity Date, commencing on the Interest Payment Date falling on 20 August 2006 (short first coupon).
(ii)	Business Day Convention:	Following Business Day Convention (save in respect of the first Interest Period)
(iii)	Additional Business Centre(s):	Not Applicable
(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	Screen Rate Determination
(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	Agent
(vi)	Screen Rate Determination:	Yes
	– Reference Rate:	6 month CHF LIBOR
	– Interest Determination Date(s):	Second London business day prior to the start of each Interest Period
	– Relevant Screen Page:	Telerate page 3740
(vii)	ISDA Determination:	No
(viii)	Margin(s):	+ 0.10 per cent. per annum
(ix)	Minimum Rate of Interest:	Not Applicable
(x)	Maximum Rate of Interest:	Not Applicable
(xi)	Day Count Fraction:	Actual/360
(xii)	Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	As per conditions
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:	CHF 5,000 per Note of CHF 5,000 Specified Denomination
23.	Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the	The provisions of Condition 7(e) apply.

method of calculating the same (if required or if different from that set out in Condition 7(e)):

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 17 February 2006.

The Permanent Global Note will be deposited with SIS SegalInterSettle 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 4(vi) of "Part B - Other Information" of these Final Terms).

3. In Condition 14, the third and fourth paragraphs shall be deemed deleted and the first sentence of the first paragraph shall be deemed to be deleted and replaced with the following:

"So long as the Notes are listed on the

SWX Swiss Exchange and the rules of the SWX Swiss Exchange so require, notices in respect of the Notes will be validly given through the Exclusive Swiss Paying Agent by means of publication on the internet website of the SWX Swiss Exchange (www.swx.com). In addition, the Exclusive Swiss Paying Agent may also publish any such notices in accordance with the rules of the SWX Swiss Exchange.

Notices to be given by any Noteholder shall be in writing and given by lodging the same with the Exclusive Swiss Paying Agent."

4. 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."

5. 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

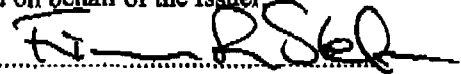
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| 31. | (i) If syndicated, names and addresses underwriting commitments: | Not Applicable |
| | (ii) Date of Subscription Agreement: | Not Applicable |
| | (iii) Stabilising Manager (if any): | Not Applicable |
| 32. | If non-syndicated, name of relevant 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 Finnur R Stefansson
Managing Director


ISLANDSBANKI Einar Tamimi
General Counsel

PART B – OTHER INFORMATION**1. LISTING**

- (i) Listing: SWX Swiss Exchange
- (ii) Admission to trading: Application has been made for the Notes to be provisionally admitted to trading on the SWX Swiss Exchange with effect from 16 February 2006 on a "when and if issued" basis. Application for definitive listing on the SWX Swiss Exchange will be made as soon as practicable thereafter and (if granted) will only be granted after the Issue Date.

2. RATINGS

Ratings: The Notes to be issued have been rated:

Moody's: A1

Fitch: A

A rating is not a recommendation to buy, sell or hold securities and may be subject to change, suspension or withdrawal at any time by the assigning rating agency.

3. ESTIMATED NET PROCEEDS

Estimated net proceeds: CHF 249,700,000

4. OPERATIONAL INFORMATION

- (i) ISIN Code: CH0024331339
- (ii) Common Code: 024365263
- (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 SegalInterSettle AG, the Swiss Securities Services Corporation in Olten, Switzerland
Security No: 2.433.133
- (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