

FINAL TERMS

17 March 2006

Íslandsbanki hf.

**Issue of U.S.\$35,700,000 Zero Coupon Indonesian Rupiah Linked Notes due 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 18 January 2006, constituting a supplementary prospectus for the purposes of section 87G of 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.

Prospective purchasers of the Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risk and that they consider the suitability of the Notes as an investment in the light of their own circumstances and financial condition. Prospective purchasers should conduct their own investigations and, in deciding whether or not to purchase Notes, prospective purchasers should form their own views of the merits of an investment related to IDR/USD exchange rates based upon such investigations and not in reliance upon any information given in this document.

The Final Redemption Amount of the Notes is linked to the IDR/USD rate of exchange and investors should note that the Notes differ from ordinary debt securities issued by the Issuer under the Programme in that the amount payable by the Issuer is dependent on such rate of exchange. In certain circumstances the amounts paid to Noteholders on redemption may be less than their original investment and could be zero.

No person has been authorised to give any information or make any representation not contained in or not consistent with these Final Terms or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Dealer.

By investing in the Notes each investor represents that:

- (a) **Non-Reliance.** It is acting for its own account and it has made its own independent decision to invest in the Notes and as to whether the investment in the Notes is appropriate or proper for it based upon its own judgement and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the Issuer or the Dealer as investment advice or as a recommendation to invest in the Notes, it being understood that information and explanations related to the terms and conditions of the Notes shall not be considered to be investment advice or a recommendation to invest in the Notes. No communication (written or oral) received from the Issuer or the Dealer shall be deemed to be an assurance or guarantee as to the expected results of the investment in the Notes.
- (b) **Assessment and Understanding.** It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms and

conditions and the risks of its investment in the Notes. It is also capable of assuming, and assumes, the risks of its investment in the Notes.

- (c) **Status of Parties.** Neither the Issuer nor the Dealer is acting as a fiduciary for or adviser to it in respect of its investment in the Notes

1.	Issuer:	Íslandsbanki hf.
2.	(i) Series Number:	287
	(ii) Tranche Number:	1
3.	Specified Currency or Currencies:	United States dollars (USD)
4.	Aggregate Nominal Amount:	USD
	– Series:	USD 35,700,000
	– Tranche:	USD 35,700,000
5.	Issue Price of Tranche:	28.06264578 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	USD 100,000
7.	Issue Date:	17 March 2006
8.	Maturity Date:	As specified in the Appendix, either:
	(a)	17 March 2016 (the Scheduled Maturity Date); or
	(b)	the second Business Day (as defined in the Appendix) immediately following the day on which the Calculation Agent (as defined in the Appendix) determines the IDR Final Rate (as defined in the Appendix).
9.	Interest Basis	Zero Coupon (further particulars specified below)
10.	Redemption/Payment Basis:	Index Linked Redemption, with the Index being the IDR/USD exchange rate, all as more particularly described in the Appendix
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
Applicable

17. **Zero Coupon Note Provisions**

- (i) Accrual Yield: Not Applicable
- (ii) Reference Price: Not Applicable
- (iii) Any other formula/basis of determining amount payable: See paragraph 23 below
- (iv) Day Count Fraction in relation to Early Redemption Amount and late payment: 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

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)): For the purpose of Condition 7(b) and Condition 10, each Note will be redeemed in USD at an Early Redemption Amount determined by the Calculation Agent to be the fair market value of the Note on (a) in respect of a redemption pursuant to Condition 7(b), the day that is the second Business Day immediately preceding the date fixed for redemption or (b) in respect of a redemption pursuant to Condition 10, the date fixed for redemption. For the purposes of determining the fair market value of the Notes pursuant to this paragraph, no account shall be taken of the financial condition of the Issuer which shall be presumed to be able to perform fully its obligations in respect of the Notes..

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

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| 25. | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | Jakarta and Singapore |
| 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: | Not Applicable |

DISTRIBUTION

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|-----|--|-----------------------------|
| 31. | (i) If syndicated, names and 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: | J.P. Morgan Securities Ltd. |
| 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 €15,000,000,000 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 plc's Gilt-Edged and Fixed Interest Market with effect from 17 March 2006.
- (iii) Estimate of total expenses related to admission to trading: #£185.00

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 Dealer, 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: Not Applicable
- (ii) Estimated net proceeds: Not Applicable
- (iii) Estimated total expenses: Not Applicable

6. YIELD

Indication of yield: Not Applicable

7. HISTORIC INTEREST RATES

Not Applicable

8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING

Information on the past and future performance and the volatility of the relevant rates of exchange can be obtained from various internationally recognised published or electronically displayed news

sources, including, for example, Reuters. Investors should note that historical performance in respect of the relevant rates of exchange should not be taken as an indication of future performance. The Final Redemption Amount of the Notes is linked to the IDR/USD rate of exchange and investors should note that the Notes differ from ordinary debt securities issued by the Issuer under the Programme in that the amount payable by the Issuer is dependent on such rate of exchange. In certain circumstances the amounts paid to Noteholders on redemption may be less than their original investment and could be zero.

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT

Not Applicable

10. OPERATIONAL INFORMATION

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|-------|---|--------------------------|
| (i) | ISIN Code: | XS0245973937 |
| (ii) | Common Code: | 024597393 |
| (iii) | 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 |
| (iv) | Delivery: | Delivery against payment |
| (v) | Names and addresses of additional Paying Agent(s) and Transfer Agent(s) (if any): | Not Applicable |

APPENDIX

1. Final Redemption Amount

Condition 7(a) shall not apply. Unless previously redeemed or purchased and cancelled as specified in Condition 7, each Note will be redeemed by the Issuer at its Final Redemption Amount, determined in the manner set out in this Appendix, on the Maturity Date. For the purposes of the Notes, the **Final Redemption Amount** shall be:

- (a) if an FX Trigger Event has not occurred during the FX Trigger Observation Period, an amount in USD equal to the IDR Principal Amount divided by the IDR Final Rate; or
- (b) if an FX Trigger Event has occurred, an amount in USD calculated in accordance with the following formula:

$$(A \times B) / C$$

where:

A means the IDR Accreted Principal Amount for the period in which the FX Trigger Event Date occurs;

B means 20 per cent.; and

C means the IDR Final Rate.

The **IDR Accreted Principal Amount** with respect to any date will be an amount in IDR equal to the IDR Accreted Principal Amount corresponding to the Relevant Period in which such date falls as determined by reference to the following table:

Relevant Period	IDR Accreted Principal Amount (in IDR)
From (and including) the Issue Date to (but excluding) 17 March 2007.....	92,469,504,739
From (and including) 17 March 2007 to (but excluding) 17 March 2008.....	104,999,122,631
From (and including) 17 March 2008 to (but excluding) 17 March 2009.....	119,226,503,748
From (and including) 17 March 2009 to (but excluding) 17 March 2010.....	135,381,695,006
From (and including) 17 March 2010 to (but excluding) 17 March 2011.....	153,725,914,679
From (and including) 17 March 2011 to (but excluding) 17 March 2012.....	174,555,776,118
From (and including) 17 March 2012 to (but excluding) 17 March 2013.....	198,208,083,782
From (and including) 17 March 2013 to (but excluding) 17 March 2014.....	225,065,279,134
From (and including) 17 March 2014 to (but excluding) 17 March 2015.....	255,561,624,457
From (and including) 17 March 2015 to (but excluding) 17 March 2016.....	290,190,224,571

The Scheduled Maturity Date..... 329,511,000,000

If any 17 March in the above table is not a Business Day, such date shall be postponed to the next succeeding Business Day and each Relevant Period in which such date falls shall be adjusted accordingly although, for the avoidance of doubt, the IDR Accreted Principal Amount relating to that period will not be adjusted.

An **FX Trigger Event** shall occur if, at any time during the FX Trigger Observation Period, the IDR ABS (IDR01) Rate as determined by the Calculation Agent by reference to the Spot Market, is greater than or equal to the FX Trigger Level.

For the purposes of determining the Final Redemption Amount:

Business Day means 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 each of London, New York City, Jakarta and Singapore;

Calculation Agent means JPMorgan Chase Bank, N.A. or any successor who becomes responsible for making all determinations hereunder;

Disruption Event means Price Source Disruption;

Disruption Fallbacks mean the disruption fallback provisions set out in paragraph 2(a)(i) through (iv) of this Appendix;

FX Trigger Event Date means the first date during the FX Trigger Observation Period on which a FX Trigger Event occurs, as determined by the Calculation Agent in its sole and absolute discretion;

FX Trigger Level means IDR 18,000/USD1;

FX Trigger Observation Period means the period from (and including) 21 February 2006 to (and including) the third Business Day prior to the Scheduled Maturity Date;

IDR means Indonesian Rupiah;

IDR ABS (IDR01) Rate means the IDR/USD spot rate at 11.00 a.m. (Singapore time) expressed as the amount of IDR per one USD reported by the Association of Banks in Singapore which appears on the Relevant Screen Page to the right of the caption “Spot” under the column “IDR” at approximately 11.30 am, Singapore time, on the IDR Valuation Date;

IDR Final Rate means, in respect of an IDR Valuation Date, the IDR/USD exchange rate applicable to the IDR Valuation Date, expressed as a number of IDR per one USD, determined by the Calculation Agent by reference to the IDR ABS (IDR01) Rate provided that, if a Disruption Event has occurred and is continuing on the relevant IDR Valuation Date, then the IDR Final Rate will be the IDR/USD exchange rate applicable to that IDR Valuation Date, expressed as a number of IDR per one USD, determined in accordance with the first applicable Disruption Fallback that produces an IDR/USD exchange rate;

IDR Principal Amount means IDR 329,511,000,000;

IDR Valuation Date means, subject as set out in paragraph 2 to this Appendix, the Scheduled IDR Valuation Date or, if the Scheduled IDR Valuation Date is not a Business Day, the immediately preceding Business Day provided that, if any day in the period between the preceding Business Day to and including the Scheduled IDR Valuation Date would, but for the occurrence of an Unscheduled

Holiday, have been a Business Day, the IDR Valuation Date shall be the first Business Day immediately succeeding the Scheduled IDR Valuation Date and provided further that:

- (i) if the Scheduled IDR Valuation Date is postponed to the immediately succeeding Business Day as a result of the occurrence of an Unscheduled Holiday, and if an IDR Valuation Date has not occurred on or before the 14th consecutive day after the Scheduled IDR Valuation Date (any such period being a **Deferral Period**), then the next day after the Deferral Period that would have been a Business Day but for the Unscheduled Holiday shall be deemed to be the IDR Valuation Date; and
- (ii) notwithstanding anything herein to the contrary, in no event shall the total number of consecutive calendar days during which either (i) the IDR Valuation Date is deferred due to an Unscheduled Holiday or (ii) the provisions of Disruption Fallback 1 or 2 (as described in paragraph 2 to this Appendix below) become applicable (or any combination of (i) and (ii)), exceed 14 consecutive calendar days in the aggregate. Accordingly, (x) if, upon the lapse of any such 14 day period, an Unscheduled Holiday shall have occurred or be continuing on the day following such period, then such day shall be deemed to be the IDR Valuation Date, and (y) if, upon the lapse of any such 14 day period, a Price Source Disruption shall have occurred or be continuing on the day following such period, then Disruption Fallback 1 or 2 shall not apply and the IDR Final Rate shall be determined in accordance with the next applicable Disruption Fallback;

Relevant Screen Page means page 50157 on the Dow Jones Telerate Monitor or such replacement page on that service or any replacement service which displays the same information;

Scheduled IDR Valuation Date means the date which is two Business Days prior to the Scheduled Maturity Date;

Spot Market means the global spot foreign exchange market which, for these purposes, shall be deemed to be open continuously from 5.00 a.m. (Sydney time) on a Monday in any week to 5.00 p.m. (New York City time) on the Friday of that week; and

Unscheduled Holiday means, in the sole and absolute determination of the Calculation Agent, a day that is not a Business Day in circumstances in which the market was not aware of such fact (by means of a public announcement or by reference to other publicly available information) at or before 9:00 a.m. (Singapore time) two Business Days prior to the date that, but for the Unscheduled Holiday, would have been the Scheduled IDR Valuation Date.

2. **Disruption Events**

- (a) In determining the IDR Final Rate after the occurrence of a Disruption Event, the Calculation Agent shall first attempt to obtain the IDR Final Rate by applying the provisions of Disruption Fallback 1. If the application of the provisions of Disruption Fallback 1 fails to produce the IDR Final Rate, then the Calculation Agent shall attempt to determine the IDR Final Rate by applying the provisions of Disruption Fallback 2. If the application of the provisions of Disruption Fallback 2 fails to produce the IDR Final Rate, then the Calculation Agent shall determine the IDR Final Rate by applying the provisions of Disruption Fallback 3. If the application of the provisions of Disruption Fallback 3 fails to produce the IDR Final Rate, then the Calculation Agent shall determine the IDR Final Rate by applying the provisions of Disruption Fallback 4.
 - (i) **Disruption Fallback 1** means that if there is a Price Source Disruption with respect to the IDR ABS (IDR01) Rate, then the IDR Final Rate for the relevant Scheduled IDR Valuation Date will be determined in accordance with the provisions of the

IDR ABS (IDR01) Rate on the Business Day first succeeding the day on which the Price Source Disruption ceases to exist, unless the Price Source Disruption continues to exist (measured from the date that, but for the occurrence of the Price Source Disruption, would have been the Scheduled IDR Valuation Date) for a consecutive number of calendar days equal to the Maximum Days of Postponement.

- (ii) **Disruption Fallback 2** means that if there is a Price Source Disruption with respect to the IDR ABS (IDR01) Rate and such Price Source Disruption continues to exist (measured from the date that, but for the occurrence of the Price Source Disruption, would have been the Scheduled IDR Valuation Date) for a consecutive number of calendar days equal to the Maximum Days of Postponement, then the IDR Final Rate for the relevant Scheduled IDR Valuation Date will be determined in accordance with the SFEMC IDR Indicative Survey Rate applicable in respect of the IDR Valuation Date.
- (iii) **Disruption Fallback 3** means that in the event that the SFEMC IDR Indicative Survey Rate is not available on or before the 3rd Business Day (or the day that would have been a Business Day but for an Unscheduled Holiday) succeeding the end of Disruption Fallback 2, then the IDR Final Rate will be determined in accordance with Disruption Fallback 4.
- (iv) **Disruption Fallback 4** means that if Disruption Fallback 3 fails to produce the IDR Final Rate, then the Calculation Agent will determine the IDR Final Rate for the relevant Scheduled IDR Valuation Date, taking into consideration all available information that in good faith it deems relevant.

- (b) For the purposes of the Disruption Fallbacks:

Price Source Disruption means that it has become impossible to obtain the IDR Final Rate on an IDR Valuation Date;

SFEMC IDR Indicative Survey Rate means that the IDR Final Rate for an IDR Valuation Date will be the Indonesian Rupiah/US Dollar Specified Rate for US Dollars, expressed as the amount of Indonesian Rupiah per one US Dollar, for settlement in two Business Days after such date, as published on SFEMC's website (www.sfemc.org) (or such successor website or publication determined by the Calculation Agent in its sole and absolute discretion) at approximately 3.30 p.m. (Singapore time) or as soon as practicable thereafter on such IDR Valuation Date. The IDR Final Rate will be calculated by SFEMC (or a service provider SFEMC may select in its sole discretion) pursuant to the SFEMC IDR Indicative Survey Methodology (which means a methodology, dated as of 1 December 2004, as amended from time to time, for a centralised industry-wide survey of financial institutions that are active participants in the Indonesian Rupiah/US Dollar markets for the purpose of determining the SFEMC IDR Indicative Survey Rate);

Maximum Days of Postponement means 14 calendar days; and

SFEMC means the Singapore Foreign Exchange Market Committee.

3. Calculation Agent

The determination by the Calculation Agent of any amount or of any state of affairs, circumstance, event or other matter or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Calculation Agent pursuant to the Conditions and/or these Final Terms shall (in the absence of manifest error) be final and binding on the Issuer

and the Noteholders. In performing its duties pursuant to the Notes, the Calculation Agent shall act in its sole and absolute discretion. Any delay, deferral or forbearance by the Calculation Agent in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion and neither the Calculation Agent nor the Issuer shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.