

28 October 2004

Íslandsbanki hf.
Issue of ISK 1,300,000,000 Index linked Notes due 2009.
under the €3,500,000,000
Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Offering Circular dated 27th February, 2004. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

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|---|---|---|
| 1. | (i) Series Number: | 159 |
| | (ii) Tranche Number: | 1 |
| 2. | Specified Currency or Currencies: | ISK |
| 3. | Aggregate Nominal Amount: | |
| | – Tranche: | ISK 1,300,000,000 |
| | – Series: | ISK 1,300,000,000 |
| 4. | (i) Issue Price of Tranche: | 100 per cent. of the Aggregate Nominal Amount |
| | (ii) Net proceeds: | ISK 1,300,000,000 |
| 5. | Specified Denominations: | ISK 10,000,000
<i>(The minimum denomination of a Note shall not be less than €1,000 or its equivalent)</i> |
| 6. | (i) Issue Date: | 13 September 2004 |
| | (ii) Interest Commencement Date : | 13 September 2004 |
| 7. | Maturity Date: | 13 September 2009 |
| 8. | Interest Basis: | Index linked interest |
| 9. | Redemption/Payment Basis: | Redemption at par |
| 10. | Change of Interest Basis or Redemption/Payment Basis: | N.a. |
| 11. | Put/Call Options: | N.a. |
| 12. | (i) Status of Notes: | Senior |
| | (ii) [Date [Board] approval for issuance of Notes obtained: | N.a. |
| 13. | Listing: | London |
| 14. | Method of distribution: | Non-syndicated |
| PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE | | |
| 15. | Fixed Rate Note Provisions | N.a. |

16. Floating Rate Note Provisions	N.a.
17. Zero Coupon Note Provisions	N.a.
18. Index Linked Interest Note Provisions	N.a.
(i) Index/Formula:	See Annex 1
(ii) Calculation Agent responsible for calculating the interest due:	Íslandsbanki hf.
(iii) Provisions for determining interest where calculation by reference to Index and/or Formula is impossible or impracticable:	As specified in Annex 1
(iv) Specified Period(s)/Specified Interest Payment Dates:	13 September 2009
(v) Business Day Convention:	Modified Following Business Day Convention
(vi) Additional Business Centre(s):	N.a.
(vii) Minimum Rate of Interest:	0%
(viii) Maximum Rate of Interest:	N.a.
(ix) Day Count Fraction:	N.a.
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:	Redemption at par
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)):	Condition 7(e) applies

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:	Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event
25. Additional Financial Centre(s) or other special provisions relating to Payment Dates:	Reykjavik

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| 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 terms or special conditions: | Not applicable |

DISTRIBUTION

- | | |
|---|------------------|
| 31. (i) If syndicated, names of Managers: | Not applicable |
| (ii) Stabilising Manager (if any): | Not applicable |
| 32. If non-syndicated, name of relevant Dealer: | Islandsbanki hf. |
| 33. Whether TEFRA D or TEFRA C rules applicable | TEFRA D |
| 34. Additional selling restrictions: | Not applicable |

OPERATIONAL INFORMATION

- | | |
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| 35. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): | Not applicable |
| 36. Delivery: | Delivery free of payment |
| 37. Additional Paying Agent(s) (if any): | N.a. |

ISIN:	XS0204876402
Common Code:	20487640
<i>(insert here any other relevant codes)</i>	

LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the €3,500,000,000 Euro Medium Term Note Programme of Íslandsbanki hf.

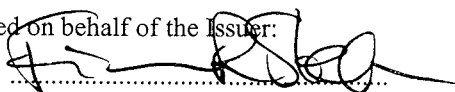
RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:

Duly authorised




Annex 1

I - Valuation

Valuation Time:	In relation to any Share, the Scheduled Closing Time of the relevant Exchange
Valuation Date:	The last Averaging Date
Averaging Dates:	In respect of any Share, 10 September 2008, 10 October 2008, 10 November 2008, 10 December 2008, 10 January 2009, 10 February 2009, 10 March 2009, 10 April 2009, 10 May 2009, 10 June 2009, 10 July 2009, 10 August 2009, 10 September 2009
Averaging Date Disruption:	Postponement
Relevant Price:	Means, in respect of any Share and any Averaging Date, the price of such Share as determined by the Calculation Agent as of the relevant Valuation Time on such Averaging Date

II - Interest amount

Means, an amount in the Settlement Currency as determined by the Calculation Agent in accordance with the following formula:

$$NA \times \max \left(0; \sum_{i=1}^{20} w_i \min \left(20\%; \frac{\text{Settlement Price } i}{\text{Strike Price } i} - 1 \right) \right)$$

Where,

“NA” means the Aggregate Nominal Amount,

“Settlement Price *i*” means, in respect of any share “*i*” comprised within the Basket, the relevant Settlement Price,

“Strike Price *i*” means, in respect of any Share “*i*” comprised within the Basket, the relevant Strike Price;

« w_i » means, in respect of any Share “*i*” comprised within the Basket, the relevant Weighting

“Basket” as specified in Annex 2

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III – Share Adjustments

Method of Adjustment: Calculation Agent Adjustment

IV - Extraordinary Events

Consequences of Merger Events:

(a) Share-for-Share:

Alternative Obligation,

PROVIDED that, if the Calculation Agent determines in its absolute discretion that the relevant New Shares do not satisfy the New Shares Conditions (as defined in the Particular Provisions below), then: (i) the relevant Replacement Share (as defined in the Particular Provisions below) and their issuer will be deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

(b) Share-for-Other:

Alternative Obligation,

PROVIDED that the Calculation Agent may in its absolute discretion replace the Other Consideration by a Replacement Share and then: (i) the relevant Replacement Share and their issuer will be deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

(c) Share-for-Combined:

Alternative Obligation,

PROVIDED that, if the Calculation Agent determines in its absolute discretion that the relevant New Shares do not satisfy the New Shares Conditions, then: (i) the relevant Replacement Share and their issuer will be deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

Tender Offers:

Applicable

Consequences of Tender Offers:

(a) Share-for-Share:

Calculation Agent Adjustment

PROVIDED that, if the Calculation Agent determines in its absolute discretion that no adjustment that it could

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make under Section 12.3 (c) (i) of the Equity Definitions will produce a commercially reasonable result, then the Affected Share shall be replaced by a Replacement Share and then: (i) the relevant Replacement Share and their issuer will be deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

(b) Share-for-Other:

Calculation Agent Adjustment

PROVIDED that, if the Calculation Agent determines in its absolute discretion that no adjustment that it could make under Section 12.3 (c) (i) of the Equity Definitions will produce a commercially reasonable result, then the Affected Share shall be replaced by a Replacement Share and then: (i) the relevant Replacement Share and their issuer will be deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

(c) Share-for-Combined:

Calculation Agent Adjustment

PROVIDED that, if the Calculation Agent determines in its absolute discretion that no adjustment that it could make under Section 12.3 (c) (i) of the Equity Definitions will produce a commercially reasonable result, then the Affected Share shall be replaced by a Replacement Share and then: (i) the relevant Replacement Share and their issuer will be deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

Composition of Combined Consideration: Not Applicable

Nationalisation, Insolvency or De-listing: Upon the occurrence of a Nationalization, Insolvency or De-listing in respect of any Share, the relevant Replacement Share and their issuer will be deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

Liquidity Event: Upon the occurrence of a Liquidity Event (as defined in the Particular Provisions below) in respect of any Share, the relevant Replacement Share and their issuer will be

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deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

V – Additional Disruption Events

Change in Law:

Applicable,

PROVIDED that paragraph (Y) of Section 12.9 (a)(ii) of the Equity Definitions shall not apply for the purposes of this Transaction and

PROVIDED FURTHER that notwithstanding anything to the contrary contained in the Equity Definitions, the Calculation Agent may in its absolute discretion replace the Affected Share by a Replacement Share and then: (i) the relevant Replacement Share and their issuer will be deemed the “Share” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

Insolvency Filing:

Applicable

PROVIDED that notwithstanding anything to the contrary contained in the Equity Definitions, the Calculation Agent (i) may replace the Affected Share by a Replacement Share and then: (i) the relevant Replacement Share and their issuer will be deemed the “Shares” and the “Issuer” respectively, (ii) the Strike Price of the Replacement Share shall be determined by the Calculation Agent and (iii) the Calculation Agent will adjust any other relevant terms of the Transaction.

VI – Particular Provisions

Additional Definitions:

“Affected Share”: means the Shares of any Issuer in respect of which a Share Event or an Additional Disruption Event has occurred.

“Liquidity Event”: means, in respect of any Share, any event which, in the opinion of the Calculation Agent, materially reduces the liquidity of such Share on the Exchange or of options contracts and/or futures contracts relating to such Share on the Related Exchange.

“New Shares

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Conditions”: means, in respect of any New Share, that such share:

(i) is not a Share already comprised in the Basket,

(ii) is, or will be, listed on an exchange and that options contracts or futures contracts relating to it are, or will be, dealt on at least one exchange, and

(iii) is, or will be, traded on an exchange, quotation system or market that the Calculation Agent determines is of comparative size and liquidity relative to the relevant Affected Share as the original Exchange in respect of such Affected Share.

For the avoidance of doubt, if there is more than one company issuing New Shares in respect of the relevant Merger Event, such conditions shall be applied separately to the shares of each such company.

“Number of Shares”

means, at any time during the term of the Transaction, the number of Shares comprised in the Basket which is equal to 20.

“Replacement Share”

means, in respect of any Affected Share, a share selected by the Calculation Agent to replace that Affected Share:

(i) which is not a Share already comprised in the Basket (except if such Share is a New Share received as a consequence of a de-merger Event in respect of which the New Share Conditions are satisfied),

(ii) which is a share in respect of which no Share Event would occur immediately upon its substitution for the relevant Affected Share,

(iii) which is listed and traded on an exchange, quotation system or market that the Calculation Agent determines is of comparative size and liquidity relative to the relevant Affected Share as the original Exchange in respect of such Affected Share,

(iv) which, to the extent that this is

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possible, is established in the same jurisdiction or geographical area ,

(v) whose primary business , to the extent that this is possible, is the same as that of the relevant Affected Share, and

(vi) which is, to the extent that this is possible, a share for which options contracts and/or futures contracts relating to it are dealt on at least one exchange.

“Share Event” means, in respect of any Share, the occurrence of a Merger Event, a Tender-Offer, a Nationalization, an Insolvency, a De-listing, or a Liquidity Event.

Merger Event between Shares :

In case of Merger Event (other than a Share-for-Other Merger Event) involving two or more Issuers and neither of the Issuers are a surviving entity, then the Share of the Issuer with the lowest Differential or, as the case may be, the Shares of the Issuers with the lowest Differentials (defined, in respect of any Share, as a number equal to the closing price of that Share on the relevant Exchange on the relevant Merger Date (or if such price is not available a price determined by the Calculation Agent in its absolute discretion) divided by the relevant Strike Price for that Share) shall be replaced by a Replacement Share provided that the Share of the Issuer with the highest Differential shall be replaced by a New Share, or as the case may, by a Replacement Share.

De-merger:

In case of a de-merger event with respect of the Issuer of a Share that results in some or all of the Shares of that Issuer being replaced by the shares of one or more entities, whether new or then existing, then (α) the Calculation Agent shall elect among these shares the share to replace the Share affected by such de-merger event, provided that such share shall be deemed to be a Share and the market value as determined by the Calculation Agent of the other(s) share(s) resulting from that de-merger event shall be reinvested in that Share and (β) the Calculation Agent shall adjust accordingly, as the case may be, any relevant terms of the Transaction.

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Annex 2 – Basket

ISSUER	ISIN CODE	BLOOMBERG CODE	EXCHANGE	RELATED EXCHANGE(S)	STRIKE PRICE	WEIGHTING
AMERICAN INTERNATIONAL GROUP	US0268741073	AIG UN	New York Stock Exchange	Chicago Board Options Exchange	USD 71.18	5%
BANK OF AMERICA Corp	US0605051046	BAC UN	New York Stock Exchange	Chicago Board Options Exchange	USD 44.48	5%
BP PLC	GB0007980591	BP/ LN	London Stock Exchange	Euronext-Liffe	GBp 507.5	5%
CISCO SYSTEMS INC	US17275R1023	CSCO UQ	NASDAQ National Market	Chicago Board Options Exchange	USD 20.26	5%
CITIGROUP INC.	US1729671016	C UN	New York Stock Exchange	Chicago Board Options Exchange	USD 47	5%
EXXON	US30231G1022	XOM UN	New York Stock Exchange	Chicago Board Options Exchange	USD 47.5	5%
GENERAL ELECTRIC CORP	US3696041033	GE UN	New York Stock Exchange	Chicago Board Options Exchange	USD 33.75	5%
HSBC HOLDINGS PLC	GB0005405286	HSBA LN	London Stock Exchange	Euronext-Liffe	GBp 883	5%
IBM	US4592001014	IBM UN	New York Stock Exchange	Chicago Board Options Exchange	USD 86.49	5%
INTEL	US4581401001	INTC UQ	NASDAQ National Market	Chicago Board Options Exchange	USD 20.82	5%
JOHNSON & JOHNSON	US4781601046	JNJ UN	New York Stock Exchange	Chicago Board Options Exchange	USD 58.15	5%
JP MORGAN CHASE & CO	US46625H1005	JPM UN	New York Stock Exchange	Chicago Board Options Exchange	USD 39.16	5%
MICROSOFT CORP	US5949181045	MSFT UQ	NASDAQ National Market	Chicago Board Options Exchange	USD 27.35	5%
NOVARTIS	CH0012005267	NOVN VX	Virt-X	Eurex Switzerland	EUR 59.6	5%

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PFIZER	US7170811035	PFE UN	New York Stock Exchange	Chicago Board Options Exchange	USD 32.13	5%
PROCTER & GAMBLE	US7427181091	PG UN	New York Stock Exchange	Chicago Board Options Exchange	GBp 56.27	5%
TOTAL	FR0000120271	FP FP	Euronext Paris S.A	MONEP	EUR 164.3	5%
TOYOTA MOTOR CORP	JP3633400001	7203 JT	Tokyo Stock Exchange	Osaka Securities Exchange	JPY 4250	5%
VODAFONE GROUP PLC	GB0007192106	VOD LN	London Stock Exchange	Euronext-Liffe	GBp 133.25	5%
WAL-MART STORES	US9311421039	WMT UN	New York Stock Exchange	Chicago Board Options Exchange	USD 53.35	5%

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