

Pricing Supplement dated 16 September 2004

Íslandsbanki hf.
Issue of Euro 10,000,000 Fixed Step-up to Index Linked Notes due 2010
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.

- | | | |
|-----|---|---|
| 1. | (i) Series Number: | 150 |
| | (ii) Tranche Number: | 1 |
| 2. | Specified Currency or Currencies: | Euro |
| 3. | Aggregate Nominal Amount: | |
| | – Tranche: | Euro 10,000,000 |
| | – Series: | Euro 10,000,000 |
| 4. | (i) Issue Price of Tranche: | 100 per cent. of the Aggregate Nominal Amount |
| | (ii) Net proceeds: | Not Applicable |
| 5. | Specified Denominations: | Euro 1,000 |
| 6. | (i) Issue Date: | 20 September 2004 |
| | (ii) Interest Commencement Date : | Not Applicable |
| 7. | Maturity Date: | 20 September 2010 |
| 8. | Interest Basis: | Fixed rate at the rates described in Appendix 1 hereto for the period starting from the Issue Date (including) up to 20 September 2009 (excluding), further particulars set out in item 15 below.

Index Linked Interest thereafter (further particulars set out in item 18 below and the Appendix 2) |
| 9. | Redemption/Payment Basis: | Redemption at par |
| 10. | Change of Interest Basis or Redemption/Payment Basis: | See item 8 |
| 11. | Put/Call Options: | Not Applicable |
| 12. | (i) Status of Notes: | Senior |

- | | |
|---|----------------|
| (ii) [Date [Board] approval for issuance of Notes obtained: | n.a. |
| 13. Listing: | None |
| 14. Method of distribution: | Non-syndicated |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- | | |
|--|---|
| 15. Fixed Rate Note Provisions | Applicable |
| (i) Rate(s) of Interest: | See Appendix 1 hereto for details of Fixed Coupons |
| (ii) Interest Payment Date(s): | 20 September in each year starting from the Issue Date (including) up to 20 September 2009 (excluding), in accordance with Modified Business Day Convention |
| (iii) Fixed Coupon Amount(s): | See Appendix 1 hereto for details of Fixed Coupons Amounts |
| (iv) Broken Amount(s): | Not Applicable |
| (v) Day Count Fraction: | Actual/Actual (ISMA) |
| (vi) Determination Date(s): | 20 September in each year |
| (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | No adjustment |
| 16. Floating Rate Note Provisions | Not Applicable |
| 17. Zero Coupon Note Provisions | Not Applicable |
| 18. Index Linked Interest Note Provisions | Applicable |
| (i) Index/Formula: | See Appendix 2 |
| (ii) Calculation Agent responsible for calculating the interest due: | UniCredit Banca Mobiliare S.p.A. ("UBM") |
| (iii) Provisions for determining interest where calculation by reference to Index and/or Formula is impossible or impracticable: | See Appendix 2 |
| (iv) Specified Period(s)/Specified Interest Payment Dates: | Maturity Date |
| (v) Business Day Convention: | Following Business Day Convention |
| (vi) Additional Business Centre(s): | Not Applicable |
| (vii) Minimum Rate of Interest: | See Appendix 2 |
| (viii) Maximum Rate of Interest: | Not Applicable |
| (ix) Day Count Fraction: | ACT/ACT, unadjusted |
| 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: | Euro 1,000 per Note of Euro 1,000 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)): | Condition 7 (e) applied |

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: | 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 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: | UBM |
| 33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D |
| 34. Additional selling restrictions: | |

Italy

The offering of Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and accordingly, no Notes may be offered, sold or delivered, nor may copies of this Pricing Supplement or of any other document relating to the Notes be distributed in The Republic of Italy, except: (i) to professional investors ("*operatori qualificati*"), as defined in Article 31, paragraph 2, of CONSOB Regulation No. 11522 of 1 July 1998 as amended; (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 33, paragraph 1, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of this Pricing Supplement or any other document relating to the Notes in The Republic of Italy under (i) or (ii) above must be: (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in The Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**") and the Financial Services Act, as subsequently amended; and (ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of The Bank of Italy, pursuant to which the sales or offer of securities in The Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with The Bank of Italy depending, *inter alia*, on the aggregate value of the securities offered in The Republic of Italy and their characteristics; and (iii) in compliance with any other securities, exchange control and other applicable laws and regulations and any other applicable requirement or limitation that may be imposed by CONSOB or The Bank of Italy.

OPERATIONAL INFORMATION

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

ISIN:

XS 0198303736

Common Code:

019830373

(insert here any other relevant codes)

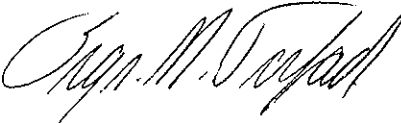
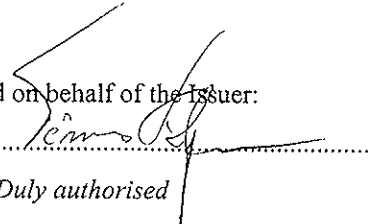
RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised



APPENDIX 1

Fixed Rate Interest Note Provisions

Each Note of the Specified Denomination shall bear interest at the following Rates of Interest for the following periods and shall have the following Fixed Coupon Amounts:

From and including	-	To but excluding	Rate of Interest, per cent. per annum	Fixed Coupon Amount
20.09.04	-	20.09.05	2.80	€28.00
20.09.05	-	20.09.06	2.90	€29.00
20.09.06	-	20.09.07	3.00	€30.00
20.09.07	-	20.09.08	3.10	€31.00
20.09.08	-	20.09.09	3.20	€32.00

8
SMT

APPENDIX 2

Information Concerning Investment Risk

Potential purchasers of the Notes should understand that amounts payable in respect of Index Linked Interest (but not the nominal amount) on the Notes are dependent upon the performance of the Index (as defined herein), as more fully set out herein.

Index Linked Interest Note Provisions

1. Calculation of Index Linked Interest

Where the Calculation Agent is described herein as making or being able to make a decision or determination, it may do so acting in its sole, absolute and unfettered discretion.

The Interest Amount payable on the Maturity Date in respect of Interest Period commencing on 20 September 2009 will be an amount determined by the Calculation Agent on 15 September 2010 in accordance with the following formula:

$$\text{InterestAmount} = \text{Euro}1000 * (100\% * \text{Min}(|\text{Perf}(t)|))$$

Where:

$|\text{Perf}(t)|$ means the monthly performance (in absolute value) of the Index calculated for any interest determination period t in accordance with the following formula:

$$\text{Perf}(t) = \frac{\text{Index}_{t,i} - \text{Index}_{t,i-1}}{\text{Index}_{t,i-1}}$$

Where:

$\text{Index}_{t,i}$ means the Index Closing Price for each period t and month i on each Valuation Date;

$\text{Index}_{t,i-1}$ means the Index Closing Price for each period t and month $i-1$ on each Valuation Date provided that the first Valuation Date for the month $i-1$ falls on 20 September 2009;

Valuation Date means the 20 day of each month starting from October 2009 up to September 2010, provided that the last Valuation Date falls on 15 September 2010 and if any such Valuation Date is not an Index Business Day, the relevant Valuation Date or Determination Date shall be adjusted in accordance with the Modified Following Business Day Convention.

“ i ” means each month in each of the interest determination period t .

“ t ” means the interest determination period starting from 20 September 2009 up to 15 September 2010.

2. General Definitions

Terms used in this Pricing Supplement shall have the following meaning:

“**Index**” means the index Eurostoxx50 as calculated and announced by its relevant Sponsor (more details below);

"Index Business Day" means a day that is a trading day (or would have been a trading day but for the occurrence of a Market Disruption Event on the relevant Stock Exchange or a Related Exchange) on the relevant Stock Exchange and the Related Exchanges other than a day on which trading on any such exchange is scheduled to close prior to its regular weekday closing time and in relation to any Valuation Date, a day on which the calculation and publication of the Index Closing Price is available;

"Index Closing Price" means the official closing price of the Index on the relevant Index Business Day, as observed on the Reuters Page .STOXX50E.

If there is in determination of the Calculation Agent a **Market Disruption Event** (as defined above) on a Valuation Date, such Valuation Date shall be the first following Index Business Day, in case of the last Valuation Date being no event later than 16 September 2010, on which there is no Market Disruption Event in accordance with the Modified Following Business Day Convention.

If Market Disruption Event occurs in relation to a Valuation Date during each of the five Index Business Days following the Valuation Date, and in relation to the last Valuation Date being no event later than 16 September 2010, then the Calculation Agent will determine the Index Closing Price notwithstanding the Market Disruption Event in accordance to the Index methodology and referring to the market fair value of the securities belonging to the Index.

The Calculation Agent shall as soon as reasonably practicable under the circumstances notify the issuer of the existence of a Market Disruption Event on any day that but for the occurrence or existence of a Market Disruption Event would have been a Valuation Date.

"**Market Disruption Event**" means, with respect to the Index, (i) the failure by the Sponsor for whatever reason (including technical problems) either to publish a closing level of the Index at all in respect of any day; or (ii) the occurrence or existence on any Index Business Day during the one-half hour period that ends at the relevant Valuation Time of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the relevant exchange or otherwise), (A) on the relevant Exchange(s) in securities that comprise 20 per cent or more of the level of the relevant Index, or (B) in options contracts or future contracts on the relevant Index on any Related Exchange, if in any such case, such suspension or limitation is, in the determination of the Calculation Agent, material. For the purpose of determining whether a Market Disruption Event exists at any time, if trading in a security included in the Index is materially suspended or materially limited at that time, then the relevant percentage contribution of that security to the level of the Index shall be based on a comparison of (x) the portion of the level of the Index attributable to that security relative to (y) the overall level of the Index, in each case immediately before that suspension or limitation.

"Sponsor" in respect of the Index means Stoxx Limited which expression shall include any successor sponsor provided however that:

If the Index is (i) not calculated and announced by the Sponsor but is calculated and announced by a successor sponsor acceptable to the Calculation Agent (after prior consultation with the Issuer) or (ii) replaced by a successor index using, in the determination of the Calculation Agent (after prior consultation with the Issuer), the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by that successor sponsor or that successor index, as the case may be.

If (i) on or prior to a Valuation Date the Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in such formula or method to maintain the Index in the event of changes in constituent stock and capitalisation and other routine events) or (ii) on the Valuation Date the Sponsor fails to calculate or announce the Index, then the interest amount payable on the Maturity Date shall be calculated at the Calculation Agent's sole discretion, in lieu of a published closing level for the relevant Index using the level for that Index as at the Valuation Date as determined by the Calculation Agent in accordance with the formula for and the method of calculating that Index last in effect prior to that change or failure, but using only those securities that comprised that Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on any relevant Exchange); and

if the level of the Index published on any of the Valuation Date and used or to be used by the Calculation Agent to determine the interest amount payable on the Maturity Date is subsequently corrected and the correction is



published by the Sponsor prior to 16 September 2010, the Index level for the Valuation Date shall be the level of the Index as so corrected.

"**Related Exchange**" in respect of the Index means any exchange on which options or futures contracts on the Index are, in the opinion of the Calculation Agent, principally traded;

"**Exchange**" in respect of the Index means each exchange or quotation system specified as such for such Index or any successor to such exchange or quotation system, being the principal stock exchange upon which the securities, which comprise the Index are traded;

"**Valuation Time**" means the time in respect of which the sponsor calculates and publishes the closing level of the Index, on the Valuation Date.

Disclaimer

None of the Issuer or the Calculation Agent shall have any responsibility in respect of any error or omission or subsequent corrections made in the calculation or publication of the Index, whether caused by negligence or otherwise.

3. Description of the Index

The information included herein with respect to the Index consists only of extracts from, or summaries of, publicly available information. Such information has been summarised for the purposes of the Pricing Supplement, but has not been independently verified by the Issuer or the Calculation Agent. Neither the Calculation Agent nor the Issuer accept responsibility in respect of such information and, in particular do not accept responsibility for the accuracy or completeness of the information concerning the Index.

General

The Index is a blue chip price return index on a selection of 50 European Stocks, calculated and disseminated by STOXX. Securities are selected for Dow Jones EURO STOXX 50SM as to represent the largest and most liquid securities in the market, and to reflect the economic sector breakdown of the market. The Dow Jones EURO STOXXSM is a subset of Dow Jones STOXXSM. Only companies listed on exchanges participating in European Economic and Monetary Union are included in Dow Jones EURO STOXXSM. The European and Euro sector indices are comprised of the same components as the respective broad indices.

Calculation of the Dow Jones EURO STOXX 50SM Index

The Dow Jones EURO STOXX 50SM Index is capitalisation-weighted and is calculated on both a price and total-return basis. It is calculated in Euro with the relevant stock prices converted into Euros where necessary, in real-time. The frequency of calculation of the Dow Jones EURO STOXX 50SM Index is on a daily basis.

The Index is calculated with the following Laspeyres' formula, which measures price changes against a fixed base quantity weight. The Index has an index divisor which is adjusted to maintain the continuity of the index value across changes due to corporate actions.

$$\text{Index}_t = \frac{\sum_{i=1}^n (P_{it} \cdot q_{it} \cdot X_{it}^{\text{EURO}} \cdot f_{it})}{C_t \cdot \sum_{i=1}^n (P_{i0} \cdot q_{i0} \cdot X_{i0}^{\text{EURO}})} \cdot \text{base value} = \frac{M_t}{B_t} \cdot \text{base value}$$

n = Number of stocks in the index

P_{i0} = Closing price of stock [i] at the base date

q_{i0} = Number of shares of company [i] at the base date

P_{it} = Price of stock [i] at time [t]

q_{it} = Number of shares of company [i] at time [t]

f_{it} = Free float factor of company [i] at time [t]

C_t = Adjustment factor for the base date market capitalisation

t = Time the index is computed

M_t = Market capitalisation of the index at time [t]

B_t = Adjusted base date market capitalisation of the index at time [t]
 X_{it}^{EURO} = Cross rate: domestic currency in euros of company [i] at time [t]
 Base value = 1,000 for the blue chip indexes and 100 for all other indexes on the base date

The Dow Jones EURO STOXX 50SM Index is calculated as soon as all the relevant opening stock prices and the respective currency rates are received at that time, or at the latest, 10:30 CET and computed on the basis of last prices and latest available currency rates.

In the event of a suspension of the quotation during the trade session, the latest traded price is used for all subsequent computations. If a quotation is suspended before the trading begins, the adjusted closing price from the previous day is taken for the calculation of the Dow Jones EURO STOXX 50SM Index. If there is a stock exchange holiday in one or more countries, the latest available stock prices from this exchange and the last available currency rate will be used for the Dow Jones EURO STOXX 50SM Index calculation.

The Dow Jones EURO STOXX 50SM Index is based on 31 December 1991. The base value of the Dow Jones EURO STOXX 50SM Index is set at 1,000.

The Dow Jones EURO STOXX 50SM Index will be disseminated when the first major trading system opens for trading. The actual dissemination is triggered when the first opening stock price for the index is received, calculated each day when at least one of the exchanges is open from the time the first exchange starts trading until the last exchange closes. The dissemination period ends when the last major trading system closes.

Source: www.stoxx.com/index

Disclaimer on behalf of the Sponsor

These Notes are not in any way sponsored, endorsed or promoted by the Sponsor. The Sponsor has no obligation to take the needs of either party into consideration in composing, determining or calculating the EURO STOXX 50SM (or causing the EURO STOXX 50SM to be calculated). In addition, the Sponsor makes no warranty or representation whatsoever, express or implied, as to the results to be obtained from the use of the Index and/or the level at which the EURO STOXX 50SM stands at any particular time on any particular day or otherwise, and shall not be liable, whether in negligence or otherwise, to either party for any error in the index or under any obligation to advise any person, including, without limitation, the Issuer or of any error therein.

	<u>High</u>	<u>Low</u>
1998	3,670.82	2,419.23
1999	4807.01	3,325.56
2000	5,464.43	4,500.69
2001	4,787.45	2877.68
2002	3833.09	2150.27
2003	2660.37	1909.05
Jan 2004	2746.40	2687.39
Feb 2004	2775.08	2678.48
Mach 2004	2804.06	2608.38
April 2004	2795.53	2694.18
May 2004	2753.15	2626.96
June 2004	2750.05	2659.66
July 2004	2680.72	2573.39
August 2004	2657.31	2541.84

Source Reuters Data Base.