

26 November, 2004

Íslandsbanki hf.

**Issue of EUR 10,000,000 Fixed Rate EURIBOR Range linked Redemption Notes due 26
November, 2009 (the "Notes")
under the €750,000,000
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 is supplemental to and must be read in conjunction with such Offering Circular.

1. (i) Series Number: 163
- (ii) Tranche Number: 1
2. Specified Currency or Currencies: Euro ("EUR")
3. Aggregate Nominal Amount: EUR 10,000,000
- Tranche: EUR 10,000,000
- Series: EUR 10,000,000
4. Issue Price of Tranche: 100.00 per cent.
5. Specified Denominations: EUR10,000
- (i) Issue Date: 26 November, 2004
- (ii) Interest Commencement Date (if different from the Issue Date): Not Applicable
6. Maturity Date: 26 November, 2009
7. Interest Basis: 0.50 per cent. Fixed Rate (further particulars specified below in item 15)
9. Redemption/Payment Basis: Other (further particulars specified in Appendix 1 hereto)

10.	Change of Interest Basis or Redemption/ Payment Basis:	Not Applicable
11.	Put/Call Options:	Not Applicable
12.	(i) Status of Notes	Senior
	(ii) Board approval for issuance of Notes obtained	Not Applicable
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:	0.50 per cent. per annum payable annually in arrear
	(ii) Interest Payment Date(s):	26 th November in each year from (and including) 26 November, 2005 up to (and including) 26 November, 2009
	(iii) Fixed Coupon Amount(s):	EUR 50 per EUR 10,000 in nominal amount
	(iv) Broken Amount(s):	Not Applicable
	(v) Day Count Fraction:	30/360
	(vi) Determination Date(s):	Not Applicable
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
16.	Floating Rate Note Provisions	Not Applicable
17.	Zero Coupon Note Provisions	Not Applicable
18.	Index Linked Interest Note Provisions	Not Applicable

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19. **Dual Currency Note Provisions** Not Applicable

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: Not Applicable
21. Investor Put: Not Applicable
22. Final Redemption Amount The Final Redemption Amount for each Note of a Specified Denomination will be calculated in accordance with the provisions of paragraph 1 (*Final Redemption Amount*) as specified in Appendix 1 hereto.
23. Early Redemption Amount(s) 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 6(e)): If the Notes are redeemed at the option of the Issuer for or as a result of or following taxation reasons (pursuant to Condition 7(b) and Condition 10), the Early Redemption Amount payable in respect of each Note of a Specified Denomination will, in each case, equal the Calculation Agent's determination of the market value of each Note taking into account factors including but not limited to: interest rates, index levels, implied volatilities in the option markets and exchange rates, less the Associated Costs (as defined below).
- "Associated Costs"** means an amount per Note of a Specified Denomination equal to the pro rata share (on the basis of the principal amount of the Note and the aggregate principal amount of all Notes which have not been redeemed or cancelled as at the Early Redemption Date) of the total amount of any and all costs associated or incurred by the Issuer or any company affiliated with it in connection with such early redemption, including, without limitation, any costs associated with unwinding the funding relating to the Notes and any costs associated with unwinding any hedge positions relating to the Notes, all as determined by the Calculation Agent in its sole discretion.
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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 on 60 days' notice given at any time
25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: For the avoidance of doubt a Payment Day for the purpose of Condition 6(e) shall mean a day on which the TARGET System is open only.
- The first sentence of Condition 6(e) shall be deemed deleted and replaced with the following:
- “If the date for payment of any amount in respect of any Note is to a Payment Date, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place unless it would thereby fall into the next calendar month, in which event such date for payment shall be brought forward to the immediately preceding Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such early or delayed purpose.”
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 of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable
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28. Details relating to Instalment Notes:
- Instalment Amount(s): Not Applicable
- Instalment Date(s): Not Applicable
29. Redenomination applicable: Redenomination not applicable
30. Other terms or special conditions: **“Business Day”** means a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the “TARGET System”) is open.

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: Merrill Lynch International
33. Whether TEFRA D applicable or TEFRA rules not applicable: TEFRA D
34. Additional selling restrictions: Not Applicable

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: XS0205609596

Common Code: 20560959

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised

APPENDIX 1

1) FINAL REDEMPTION AMOUNT

The Final Redemption Amount as determined by the Calculation Agent, payable in EUR in respect of each Note of a Specified Denomination on the Maturity Date, will be equal to:

100.00 per cent. of the Aggregate Nominal Amount of each Note of a Specified Denomination *plus* an amount determined by the Calculation Agent on the basis of the following formula:

3.21 per cent. x N/12 x EUR 10,000 Specified Denomination

all subject to and as provided below.

2) DEFINITIONS

“Final Observation Date” means the seventh Business Day prior to the Maturity Date

“N” means the total number of Observation Dates on which the Reference Rate is quoted at a level equal to or less than the Strike Level.

“Observation Date” means the 26th of each calendar month from and including 26 December, 2004 (the **“Initial Observation Date”**) up to and including 26 October, 2009 and then the Final Observation Date, or if any such date is not a Business Day, the immediately preceding Business Day.

“Reference Rate” means the 6 month EURIBOR, the rate for deposits in euro for a period of six months which appears on Reuters Screen EURIBOR01 Page as of 11.00 a.m., Central European Time (“C.E.T”) on the relevant Observation Date.

In the event that Reuters Screen EURIBOR01 Page (or such successor page) is not available at such time, or no such rate appears at such time on any such pages, on the Observation Date, then the Calculation Agent shall determine the value of the Reference Rate (or a method for determining the Reference Rate) in its sole and absolute discretion, taking into consideration all available information that in good faith it deems relevant.

“Reuters Screen” shall mean, when used in connection with any designated page, the display page so designated on the Reuters Money Market Rate Services or such other services as may be nominated as the information vendor for the purpose of displaying the specific page on that service or such other page as may replace that page on that service or other such services, in all cases for the purposes of displaying comparable rates in succession thereto.

“Reuters Screen EURIBOR01 Page” means the display page EURIBOR01 on the Reuters Screen (or such other page as may replace that service for the purpose of displaying the EURIBOR01 rate).

“Strike Level” means 6.00 per cent.
