

PRICING SUPPLEMENT

4 January, 2005

Íslandsbanki hf.
Issue of USD 10,500,000 Inflation Linked Notes
due 4 January 2012
under the € 5,000,000,000
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 29th December 2004. The Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

- | | | | |
|-----|------|---|----------------------|
| 1. | (i) | Series Number: | 172 |
| | (ii) | Tranche Number: | 1 |
| 2. | | Specified Currency or Currencies: | U.S. dollars ("USD") |
| 3. | | Aggregate Nominal Amount: | |
| | – | Tranche: | USD 10,500,000 |
| | – | Series: | USD 10,500,000 |
| 4. | (i) | Issue Price of Tranche: | 100 per cent. |
| | (ii) | Net proceeds: | Not Applicable |
| 5. | | Specified Denominations: | USD 10,000 |
| 6. | (i) | Issue Date: | 4 January 2005 |
| | (ii) | Interest Commencement Date: | 4 January 2005 |
| 7. | | Maturity Date: | 4 January 2012 |
| 8. | | Interest Basis: | Index Linked |
| 9. | | Redemption/Payment Basis: | Par |
| 10. | | Change of Interest Basis or Redemption/
Payment Basis: | Not Applicable |
| 11. | | Put/Call Options: | Not Applicable |
| 12. | (i) | Status of the Notes: | Senior |
| | (ii) | Date Board approval for issuance
of Notes obtained: | Not Applicable |

13. Listing: Unlisted
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
17. **Zero Coupon Note Provisions** Not Applicable
18. **Index Linked Interest Note Provisions** Applicable

- (i) Index/Formula: The Interest Amount will be determined by the Calculation Agent as follows:

USD 10,000 x (1.39 x Inflation Adjustment)

Where:

“Inflation Adjustment” means:

$[(LCPI_{.3} - LCPI_{.15}) / LCPI_{.15}]$

Where:

”LCPI_{.3}” means the CPI Index three months prior to the last day of the applicable Interest Period

“LCPI_{.15}” means the CPI Index fifteen months prior to the last day of the applicable Interest Period.

“CPI Index” means the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor. The index is reported by the Treasury Department on their Web site (<http://www.publicdebt.treas>).

The Bloomberg ticker symbol is CPURNSA <Index>

Example: the initial payment due on 4 February 2004 will be calculated as following:

$1.39 \times [(CPI_{Nov '04} / CPI_{Nov '03}) - 1]$

For a date that is the 1st calendar day of a given month, CPI Index for that date is the published rate for that month. (e.g. the CPI Index for 1 September 2004 is 189.9 which is the published

level for September '04)

If the required date is not the 1st calendar day of the month then CPI Index is interpolated using the following formula:

$$\text{CPI Index}(\text{Day}_M) = \text{CPI}_M + (\text{CPI}_{M+1} - \text{CPI}_M) \times \frac{\text{Day}}{D_M}$$

Where:

CPI Index(Day) is CPI Index for the Dayth calendar day of the month M.

CPI_M is the published index for month M.

CPI_{M+1} is the published index for month M+1.

D_M is the number of calendar days in month M.

Example: CPI Index for the 12th of March 2004 is calculated as follows

$$\begin{aligned} \text{CPI Index} &= \text{CPI}_{\text{March '04}} + (\text{CPI}_{\text{April '04}} - \text{CPI}_{\text{March '04}}) \times 12/31 \\ &= 187.4 + (188.0 - 187.4) \times 12/31 \\ &= 187.63 \end{aligned}$$

- | | | |
|------------|---|--|
| (ii) | Calculation Agent responsible for calculating the interest and/or principal due: | Deutsche Bank AG London |
| (iii) | Provisions for determining coupon or redemption amount where calculation by reference to Index and/or Formula is impossible or impracticable: | See above |
| (iv) | Specified Period(s)/ Specified Interest Payment Dates: | 4 th day of each month, commencing 4 th February 2004 to, and including, the Maturity Date |
| (v) | Business Day Convention: | Following Business Day Convention |
| (vi) | Additional Business Centre(s): | New York and London |
| (vii) | Minimum Rate of Interest: | 0.00 per cent |
| (viii) | Maximum Rate of Interest: | Not Applicable |
| (ix) | Day Count Fraction: | 30 /360 |
| 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: | 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)): | As per Condition 7(e) |

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: Deutsche Bank AG London
33. Whether TEFRA D or TEFRA C rules 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: XS0208141019
Common Code: 020814101

RESPONSIBILITY

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

Signed on behalf of the Issuer:

By:

Duly authorised