

## PRICING SUPPLEMENT

15 February, 2005

**Íslandsbanki hf.**  
**Issue of EUR 7,534,000 Fixed Rate then Equity Linked Redemption Notes**  
**due 15 February 2011**  
**under the EUR 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.

*The purchase of Notes involves substantial risks and is suitable only for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and the merits of an investment in the Notes. Before making an investment decision, prospective purchasers of Notes should ensure that they understand the nature of the Notes and the extent of their exposure to risks and that they consider carefully, in the light of their own financial circumstances, financial condition and investment objectives*

- |     |      |   |  |
|-----|------|---|--|
| 1.  | (i)  | Series Number:                          | 164  |
|     | (ii) | Tranche Number:                         | 1  |
| 2.  |      | Specified Currency or Currencies:       | Euro ("EUR")                                     |
| 3.  |      | Aggregate Nominal Amount:               |  |
|     | –    | Tranche:                                | EUR 7,534,000                                    |
|     | –    | Series:                                 | EUR 7,534,000                                    |
| 4.  | (i)  | Issue Price of Tranche:                 | 100 per cent.                                    |
|     | (ii) | Net proceeds:                           | EUR 7,534,000                                    |
| 5.  |      | Specified Denominations:                | EUR 1,000  |
| 6.  | (i)  | Issue Date:                             | 15 February 2005                                 |
|     | (ii) | Interest Commencement Date:             | 15 February 2005                                 |
| 7.  |      | Maturity Date:                          | 15 February 2011                                 |
| 8.  |      | Interest Basis:                         | Fixed Rate then Index Linked                     |
| 9.  |      | Redemption/Payment Basis:               | Par  |
| 10. |      | Change of Interest Basis or Redemption/ | The Interest Rate will switch automatically from |

Payment Basis:	Fixed Rate to Index Linked on 15 February 2007
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:	London
14. Method of distribution:	Non-syndicated

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. <b>Fixed Rate Note Provisions</b>	Applicable
	For the period from and including the Interest Commencement date to, but excluding, 15 February 2007 the Notes are Fixed Rate Notes
(i) Rate(s) of Interest:	2.25 per cent payable annually in arrears
(ii) Interest Payment Dates:	15 February 2006 and 15 February 2007
(iii) Fixed Coupon Amount(s):	EUR 22.50 per Specified Denomination
(iv) Broken Amount(s):	Not Applicable
(v) Day Count Fraction:	30/360
(vi) Determination Date(s):	Not Applicable
(viii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	Placement Commission: A Placement Commission of 0.68% per annum of the Aggregate Nominal Amount to be paid each quarter 15 February, 15 May, 15 August and 15 November commencing 15 May 2005.
16. <b>Floating Rate Note Provisions</b>	Not Applicable
17. <b>Zero Coupon Note Provisions</b>	Not Applicable
18. <b>Index Linked Interest Note Provisions</b>	Applicable
	For the period from and including 15 February 2007 to, but excluding the Maturity Date the Notes are Index Linked Notes.
(i) Index/Formula:	For the period from and including 15 February 2007 to, but excluding, 15 February 2008 the Calculation will determine the Rate of Interest and Interest Amount as follows:
	EUR 1,000 x Max (0%, Equity Coupon1)

For the period from and including 15 February 2008 to, but excluding, 15 February 2009 the Calculation will determine the Rate of Interest and Interest Amount as follows:

EUR 1,000 x Max (0%, Equity Coupon2)

For the period from and including 15 February 2009 to, but excluding, 15 February 2010 the Calculation will determine the Rate of Interest and Interest Amount as follows:

EUR 1,000 x Max (0%, Equity Coupon3)

For the period from and including 15 February 2010 to, but excluding, 15 February 2011 the Calculation will determine the Rate of Interest and Interest Amount as follows:

EUR 1,000 x Max (0%, Equity Coupon4)

“Equity Coupon1” means:-

(A) If the closing level of each Share in the Basket is equal to, or above, the applicable Barrier Level on the relevant Observation Date the applicable Interest Rate is 10%.

OR

(B) If the closing level of each Share in the Basket is **NOT** equal to, or above, the applicable Barrier Level on the relevant Observation Date the applicable Interest Rate is 0%.

“Equity Coupon2” means:-

(A) If the closing level of each Share in the Basket is equal to, or above, the applicable Barrier Level on the relevant Observation Date the applicable Interest Rate is:-

20% less Equity Coupon1

OR

(B) If the closing level of each Share in the Basket is **NOT** equal to, or above, the applicable Barrier Level on the relevant Observation Date

the applicable Interest Rate is 0%.

“Equity Coupon3” means:-

(A) If the closing level of each Share in the Basket is equal to, or above, the applicable Barrier Level on the relevant Observation Date the applicable Interest Rate is:-

30% less Equity Coupon1 + Equity  
Coupon2

OR

(B) If the closing level of each Share in the Basket is NOT equal to, or above, the applicable Barrier Level on the relevant Observation Date the applicable Interest Rate is 0%.

“Equity Coupon4” means:-

(A) If the closing level of each Share in the Basket is equal to, or above, the applicable Barrier Level on the relevant Observation Date the applicable Interest Rate is:-

40% less Equity Coupon1 + Equity  
Coupon2 + Equity Coupon3

OR

(B) If the closing level of each Share in the Basket is NOT equal to, or above, the applicable Barrier Level on the relevant Observation Date the applicable Interest Rate is 0%.

Where

“Share” means each of:

<b>J</b>	<b>Share</b>	<b>Reuters Code</b>	<b>Bloomberg</b>
1	ALTRIA GROUP	MO.N	MO UN EQUITY
2	NTT DOCOMO	9437.T	9437 JT EQUITY
3	HEWLETT PACKARD	HPQ.N	HPQ UN EQUITY
4	SBC COMMUNICATION	SBC.N	SBC UN EQUITY
5	CANON INC	7751.T	7751 JT EQUITY
6	MERCK & CO INC	MRK.N	MRK UN EQUITY
7	AXA	AXAF. PA	CS FP EQUITY

8	BAYER AG	BAYG. DE	BAY GR EQUITY
9	SOCIETE GENERALE	SOGN. PA	GLE FP EQUITY
10	DAIMLER CHRYSLER	DCXGn .DE	DCX GR EQUITY
11	GILLETTE CO	G.N	G UN EQUITY
12	VOLKSWAGEN AG	VOWG. DE	VOW GR EQUITY
13	NISSAN MOTOR CO	7201.T	7201 JT EQUITY
14	SANOFY–AVENTIS	SASY.P A	SAN FP EQUITY
15	COCA-COLA CO	KO.N	KO UN EQUITY
16	BANCO SANTANDER	SAN.M C	SAN SM EQUITY
17	INTEL CORP	INTC.O Q	INTC UQ EQUITY
18	NOKIA	NOK1V .HE	NOK1VF FH EQUITY
19	ALLIANZ AG	ALVG. DE	ALV GR EQUITY
20	BRITISH AMERICAN TOBACCO	BATS.L	BATS LN EQUITY
21	VERIZON COMMS	VZ.N	VZ UN EQUITY
22	BRIDGESTONE CORP	5108.T	5108 JT EQUITY
23	SCHLUMBERGER LTD	SLB.N	SLB UN EQUITY
24	VIVENDI UNIVERSAL	EAUG. PA	EX FP EQUITY
25	WYETH	WYE.N	WYE UN EQUITY

“Basket” means all of the Shares collectively

“Barrier Level” means Strike x 70%

“Observation Date” means each of 5 February 2008, 4 February 2009, 3 February 2010 and 2 February 2011.

“Strike” means the closing level of each Share on the Issue Date.

***De-Listing, Merger Event, Nationalisation and Insolvency***

If a De-Listing occurs in relation to a Share (such Share being a “**Disrupted Share**”), the Calculation Agent shall substitute the Disrupted Share in the Share Basket with a Replacement

Share (as defined below) on the effective date for such De-Listing (the “**De-Listing Date**”), whereupon:

- (i) The Replacement Share and its issuer will be deemed a "Share" and a "Share Company" respectively,
- (ii) The Calculation Agent will adjust the Strike Price for such Replacement Share so that the ratio of the Spot Price for that Replacement Share to the Strike Price for the Replacement Share equals the ratio of the Spot Price for the Disrupted Share to the Strike Price for the Disrupted Share immediately prior to the De-Listing Date, and
- (ii) if necessary, the Calculation Agent will adjust any other relevant terms accordingly.

If a Share-for-Share Merger Event or a Share-for-Combined Merger Event occurs in relation to a Share (such Share being a “**Disrupted Share**”) and the Issuer of the New Shares is not already a Share Company, then, on or after the relevant Merger Date, the Calculation Agent shall adjust the Share Basket to include the relevant quantity of the New Shares to which a holder of the Share immediately prior to the occurrence of the Merger Event would be entitled upon consummation of the Merger Event. Accordingly:

- (i) the New Share and its issuer will be deemed a "Share" and a "Share Company" respectively the Calculation Agent will adjust the Strike Price for such New Share so that the ratio of the Spot Price for that New Share to the Strike Price for the New Share equals the ratio of the Spot Price for the Disrupted Share to the Strike Price for the Disrupted Share immediately prior to the occurrence of the Merger Event, and
- (ii) if necessary, the Calculation Agent will adjust any other relevant terms accordingly.

If a Share-for-Other Merger Event, or a Share-for-Share Merger Event or a Share-for-Combined Merger Event where the issuer of the New Shares is a Share Company, occurs in relation to a Share (such Share being a “**Disrupted Share**”), then, on or after the relevant Merger Date, the Calculation Agent shall adjust the Share Basket by substituting the Disrupted Share in the Share Basket with a Replacement Share (as defined below) upon consummation of the Merger Event. Accordingly:

(i) the Replacement Share and its issuer will be deemed a "Share" and a "Share Company" respectively,

(ii) the Calculation Agent will adjust the Strike Price for such Replacement Share so that the ratio of the Spot Price for that Replacement Share to the Strike Price for the Replacement Share equals the ratio of the Spot Price for the Disrupted Share to the Strike Price for the Disrupted Share immediately prior to the occurrence of the Merger Event, and

(iii) if necessary, the Calculation Agent will adjust any other relevant terms accordingly;

If a Nationalisation or Insolvency occurs in relation to a Share (such Share being a "**Disrupted Share**"), the Calculation Agent shall substitute the Disrupted Share in the Share Basket with a Replacement Share (as defined below) on the effective date of such event.

Accordingly:

(i) the Replacement Share and its issuer will be deemed a "Share" and a "Share Company" respectively,

(ii) the Calculation Agent will adjust the Strike Price for such Replacement Share so that the ratio of the Spot Price for that Replacement Share to the Strike Price for the Replacement Share equals the ratio of the Spot Price for the Disrupted Share to the Strike Price for the Disrupted Share immediately prior to the occurrence of such event, and, if necessary, the Calculation Agent will adjust any other relevant terms accordingly;

Upon the occurrence of a Merger Event, De-Listing, Nationalisation or Insolvency, the Calculation Agent shall give notice as soon as practicable to the Noteholders stating the occurrence of the Merger Event, De-Listing, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. However, Noteholders should be aware that there may necessarily be some delay between the time at which any of the above events occur and the time at which it is notified to Noteholders.

"**Replacement Share**" means, in the determination of the Calculation Agent in its sole discretion, the share with the highest free-float capitalisation in the same Industry Sector and the same Region as that of the Disrupted Share on the De-Listing Date or the Merger Date or the

relevant effective date, as applicable.

**“Spot “Price”** means: (i) in relation to a Share that is a Disrupted Share, the last official reported price for such share on the relevant Exchange (as determined by or on behalf of the Calculation Agent) immediately prior to the relevant De-Listing, Share-for-Share Merger Event, Share-for-Combined Merger Event, Share-for-Other Merger Event, Nationalisation or Insolvency (each as defined below), and (ii) in relation to a Share that is a Replacement Share or a New Share, the official closing price for such Share on the relevant Exchange (as determined by or on behalf of the Calculation Agent) on the first Trading Day following the relevant De-Listing, Share-for-Share Merger Event, Share-for-Combined Merger Event, Share-for-Other Merger Event, Nationalisation or Insolvency (each as defined below);

**“Industry Sector”** means, in respect of a Share, the industry sector allocated to such share by the Calculation Agent.

**“Region”** means, in respect of a Share, the region (either “USA”, “Asia” or “Europe”) in which the Share is incorporated and as set out for that Share under the definition of IC Share Basket in the column headed “Region” and, in respect of a replacement Share, the region (either “USA”, “Asia” or “Europe”) in which the issuer of such Replacement Share is incorporated.

**“De-Listing”** means, in relation to a Share, that the Share ceases, for any reason, to be listed on the Exchange and, as of the De-Listing Date, is not listed on another recognised stock exchange or quotation system acceptable to the Calculation Agent.

**“Insolvency”** means, in relation to a Share, that, by reason of the voluntary or involuntary liquidation, bankruptcy or insolvency of or any analogous proceeding affecting the Share Company, (A) all holdings of the Share are required to be transferred to a trustee, liquidator or other similar official or (B) holdings of the Share become subject to a legal prohibition on their transfer.

**“Merger Date”** means, in respect of a Merger Event, the date upon which all holders of the relevant Share (other than, in the case of a takeover offer, holdings of the Share owned or controlled by the offeror) have agreed or have irrevocably become obliged to transfer their



holdings of the Shares.

**“Merger Event”** means, in relation to a Share, any (i) reclassification of or change to such Share that results in a transfer of or an irrevocable commitment to transfer all holdings of such Share outstanding, (ii) consolidation, amalgamation or merger of the relevant Share Company with or into another entity (other than a consolidation, amalgamation or merger in which such Share Company is the continuing entity and which does not result in a reclassification of or change to such Share) or (iii) other takeover offer for the relevant Share Company that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than holdings of such Share owned or controlled by the offeror), in each case if the Merger Date is on or before the final Valuation Date

In respect of each Merger Event, the following terms have the meanings given below:

- (i) "Share-for-Share" means, in respect of a Merger Event, that the consideration for the relevant Share consists (or, at the option of the holder of such Shares, may consist) solely of New Shares;
- (ii) "Share-for-Other" means, in respect of a Merger Event, that the consideration for the relevant Share consists solely of Other Consideration;
- (iii) "Share-for-Combined" means, in respect of a Merger Event, that the consideration for the relevant Share consists of Combined Consideration;
- (iv) "New Shares" means shares (whether those of the offeror or of a third party);
- (v) "Other Consideration" means cash and/or any securities (other than New Shares) or assets (whether those of the offeror or of a third party); and
- (vi) "Combined Consideration" means New Shares in combination with Other Consideration.

**“Nationalisation”** means that all holdings of the Share or all the assets or substantially all the assets of a Share Company (other than holdings of such Share owned or controlled by a governmental agency, authority or entity) are nationalised, expropriated or are otherwise required to be transferred to any such governmental agency, authority or entity.

The Strike Level of the replacement Share will be calculated following this formulae:

Strike Level of Replacement Share =  
 $\text{Spot Price}_{RS} \times \text{Ratio}$

Spot Price<sub>RS</sub> = Replacement Share Spot Price = The Official closing price for such Share on the relevant Exchange (as determined by or on behalf of the Calculation Agent) on the following day to the effective Date of the Relevant Event.

Ratio = Strike Level of Disrupted Share / Spot Price<sub>DS</sub>

Spot Price<sub>DS</sub> = Disrupted Share Spot Price = The last official reported trading price for such Share on the relevant Exchange (as determined by or on behalf of the Calculation Agent) immediately prior to the relevant De-Listing, Share-for-Share Merger Event, Share-for-Combined Merger Event, Share-for-Other Merger Event, Nationalisation or Insolvency.

- |        |   |   |
|--------|---|---|
| (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:  | 15 February 2008, 16 February 2009, 15 February 2010 and 15 February 2011 |
| (v)    | Business Day Convention:  | Following Business Day Convention   |
| (vi)   | Additional Business Centre(s):  | TARGET  |
| (vii)  | Minimum Rate of Interest:   | 0.00 per cent   |
| (viii) | Maximum Rate of Interest:   | Not Applicable  |
| (ix)   | Day Count Fraction:   | 30 /360   |
| 19.    | <b>Dual Currency Interest Note Provisions</b>   | 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 | As per Condition 7(e) |

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)):

#### **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:   | The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) and the Bank of Italy pursuant to Italian securities legislation and, accordingly, no |

Notes may be offered, sold or delivered, nor may copies of the Offering Circular 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, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended; or

(ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the "Financial Services Act") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be

(a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the "Banking Act"), as amended; and

(b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the 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 issued or offered in the Republic of Italy and their characteristics; and

(c) in accordance with any other applicable laws and regulations.

## **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           |

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ISIN:	XS0205691826
Common Code:	020569182

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**LISTING APPLICATION**

Application has been made to list the Notes described in this pricing supplement pursuant to the €5,000,000,000 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*