

Pricing Supplement dated 2nd March, 2005

ÍSLANDBANKI hf.

**Issue of USD 75,000,000 Step Up Floating Rate Callable Notes
due 2nd March, 2015
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. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

1. (i) Series Number: 186
(ii) Tranche Number: Not Applicable
2. Specified Currency or Currencies: United States Dollars ("USD")
3. Aggregate Nominal Amount:
 - Tranche: Not Applicable
 - Series: USD 75,000,000
4. (i) Issue Price of Tranche: 100 per cent. of the Aggregate Nominal Amount
(ii) Net proceeds: USD 74,925,000
5. Specified Denominations: USD 1,000
6. (i) Issue Date: 2nd March, 2005
(ii) Interest Commencement Date
(if different from the Issue Date): Issue Date
7. Maturity Date: 2nd March, 2015, subject to adjustment for payment only in accordance with the Modified Following Business Day Convention
8. Interest Basis: Floating Rate
(further particulars specified below)
9. Redemption/Payment Basis: Redemption at par

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| 10. | Change of Interest Basis or Redemption/Payment Basis: | Not Applicable |
| 11. | Put/Call Options: | Call
(further particulars specified below) |
| 12. | Status of the Notes: | Subordinated |
| 13. | Listing: | London |
| 14. | Method of distribution: | Non-syndicated |

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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| 15. | Fixed Rate Note Provisions | Not Applicable |
| 16. | Floating Rate Note Provisions | Applicable |
| | (i) Specified Period(s)/Specified Interest Payment Dates: | 2nd March, 2nd June, 2nd September and 2nd December in each year, commencing 2nd June, 2005 (each being a "Specified Interest Payment Date"), subject to adjustment in accordance with the Business Day Convention specified below |
| | (ii) Business Day Convention: | Modified Following Business Day Convention |
| | (iii) Additional Business Centre(s): | London and New York |
| | (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: | ISDA Determination |
| | (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): | Not Applicable |
| | (vi) Screen Rate Determination: | Not Applicable |
| | (vii) ISDA Determination: | Applicable |
| | – Floating Rate Option: | USD-LIBOR-BBA |
| | – Designated Maturity: | 3 months |

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- Reset Date: Issue Date and thereafter on each Specified Interest Payment Date (excluding final Specified Interest Payment Date)
- For the avoidance of doubt, the rate shall be determined two London Banking Days prior to each Reset Date
- (viii) Margin(s): Plus 0.40 per cent. per annum in respect of the period from and including the Issue Date to but excluding 2nd March, 2010
- Plus 1.40 per cent. per annum in respect of the period from and including 2nd March, 2010 to but excluding the Maturity Date
- (ix) Minimum Rate of Interest: Zero per cent. per annum
- (x) Maximum Rate of Interest: Not Applicable
- (xi) Day Count Fraction: Actual/360
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: Not Applicable
17. **Zero Coupon Note Provisions** Not Applicable
18. **Index Linked Interest Note Provisions** Not Applicable
19. **Dual Currency Interest Note Provisions** Not Applicable

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: Applicable
- (i) Optional Redemption Date(s): On the Specified Interest Payment Date falling in March, 2010 and thereafter on each Specified Interest Payment Date to but excluding the Maturity Date, subject to adjustment in accordance with the Modified Following Business Day Convention

- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): 100 per cent. of the Aggregate Nominal Amount
- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: Not Applicable
 - (b) Higher Redemption Amount: Not Applicable
- (vi) Notice period (if other than as set out in the Conditions): Notice to be given to the holders of the Notes not later than 30 Business Days prior to the relevant Optional Redemption Date
- 21. Investor Put: Not Applicable
- 22. Final Redemption Amount of each Note: Nominal Amount
- 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 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: London and New York

Payment Dates shall be adjusted in accordance with the Modified Following Business Day Convention

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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: 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: Daiwa Securities SMBC Europe Limited
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

