

## Final Terms

22 August, 2005

### Íslandsbanki hf.

#### Issue of CZK 100,000,000 Callable Snowball Notes due August, 2010 (the "Notes") under the €7,500,000,000 Global Medium Term Note Programme

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions set forth in the Offering Circular dated 28th July, 2005 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Offering Circular. The Offering Circular is available for viewing at the office of the Issuer at Kirkjusandur 2, 155 Reykjavík, Iceland and copies may be obtained from the Principal Paying Agent at Trinity Tower, 9 Thomas More Street, London E1W 1YT.

- |     |   |   |
|-----|---|---|
| 1.  | Issuer:   | Íslandsbanki hf.  |
| 2.  | (i) Series Number:                                    | 227   |
|     | (ii) Tranche Number:                                  | 1   |
| 3.  | Specified Currency or Currencies:                     | Czech Crowns ("CZK")  |
| 4.  | Aggregate Nominal Amount:                             | CZK 100,000,000   |
|     | – Series:   | CZK 100,000,000   |
|     | – Tranche:  | CZK 100,000,000   |
| 5.  | Issue Price of Tranche:                               | 100.00 per cent. of the Aggregate Nominal Amount                                  |
| 6.  | Specified Denominations:                              | CZK 1,000   |
| 7.  | (i) Issue Date:                                       | 22 August, 2005   |
|     | (ii) Interest Commencement Date :                     | Issue Date  |
| 8.  | Maturity Date:  | Interest Payment Date falling in or nearest to August, 2010                       |
| 9.  | Interest Basis:                                       | Fixed Rate/Floating Rate (further particulars specified below in items 15 and 16) |
| 10. | Redemption/Payment Basis:                             | Redemption at par   |
| 11. | Change of Interest Basis or Redemption/Payment Basis: | Applicable to Interest Basis only   |
- a) For the Fixed Interest Period from (and including) the Issue Date to (but excluding) 22 August, 2006 (the "Fixed Rate Period") the Notes shall bear interest on a Fixed Rate Interest Basis; and

b) For each Interest Period in the period from (and including) 22 August, 2006 to (but excluding) 22 August, 2010 (the “**Floating Rate Period**”) the Notes shall bear interest on a Floating Rate Interest Basis.

12. Put/Call Options: Issuer Call (further particulars specified below in item 20)
13. (i) Status of Notes: Senior
- (ii) Date Board approval for issuance of Notes obtained: Not applicable
14. Method of distribution: Syndicated/Non-syndicated

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

15. **Fixed Rate Note Provisions:** Applicable to the Fixed Rate Period
- (i) Rate(s) of Interest: 3.45 per cent. per annum payable annually in arrear
- (ii) Interest Payment Date(s): 22 August, 2006
- (iii) Fixed Coupon Amount(s): CZK 3,450 per CZK 100,000 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: None
16. **Floating Rate Note Provisions** Applicable to the Floating Rate Period
- (i) Specified Period(s)/Specified Interest Payment Dates: 22<sup>nd</sup> August in each year from and including 22 August, 2007 up to and including 22 August, 2010
- (ii) Business Day Convention: Not applicable
- (iii) Additional Business Centre(s): A day where the TARGET System is open
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: The Rate of Interest for each Interest Period shall be determined by the Calculation Agent in accordance with the following formula:
- (Previous Coupon + Fixed Rate – 12 month PRIBOR)
- subject to item 16(ix)
- Where:
- “**Previous Coupon**” means the Rate of Interest in respect of the previous Interest Period.
- For avoidance of doubt for the Previous Coupon for the initial Interest Period shall be 3.45 per cent. per annum.

“**Fixed Rate**” means the rate as specified in the below table opposite the relevant Interest Period:

<b>Interest Period</b>	<b>Fixed Rate</b>
For the Interest Period from (and including) 22 August, 2006 to (but excluding) 22 August, 2007	2.00 per cent. per annum
For the Interest Period from (and including) 22 August, 2007 to (but excluding) 22 August, 2008	2.20 per cent. per annum
For the Interest Period from (and including) 22 August, 2008 to (but excluding) 22 August, 2009	2.40 per cent. per annum
For the Interest Period from (and including) 22 August, 2009 to (but excluding) 22 August, 2010	2.60 per cent. per annum

- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):

Merrill Lynch Capital Services, Inc., (the “**Calculation Agent**”) or such successor calculation agent as may from time to time be appointed by the Issuer.

The Calculation Agent shall act as an independent expert and not as an agent for the Issuer or the holder of the Notes.

All determinations and calculations shall be made by the Calculation Agent at its sole discretion, in good faith, acting on a reasonably and arms-length basis. All such calculations shall be final and binding (save in the case of a manifest error) on the Issuer and the Noteholders. The Calculation Agent shall promptly notify the Principal Paying Agent and the Issuer upon any determination or calculation, which shall be final and conclusive, and the Calculation Agent shall have no liability in relation to the determinations or calculations provided herein, except in the case of willful default or bad faith.

- (vi) Screen Rate Determination:

Yes

– Reference Rate:

12 month PRIBOR

“**12 month PRIBOR**” means the offered rate for deposits in CZK for a period of 12 months which appears on the Reuters Screen PRBO as of 11.00 a.m., Prague time, on the Interest Determination Date.

– Interest Determination Date(s):

The second Prague Business Day prior to the end of each Interest Period.

“**Prague Business Day**” means a day on which commercial banks are open for business

– Relevant Screen Page:

- (vii) ISDA Determination:
- (viii) Margin(s):
- (ix) Minimum Rate of Interest:
- (x) Maximum Rate of Interest:
- (xi) Day Count Fraction:
- (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:

(including dealings in foreign exchange and foreign currency deposits) in Prague.

Reuters Screen PRBO page

“**Reuters Screen**” shall mean, when used in connection with any designated page, the display page so designated on the Reuters Monitor Money Rates Service (or any successor service thereof), or such other page as may replace that page on that service in all cases for the purpose of displaying comparable rates in succession thereto.

No

Not applicable

0.00 per cent. per annum

Not applicable

30/360

In the event that the 12 month PRIBOR does not appear on the Reuters Screen PRBO page, the rate for that Interest Determination Date shall be determined on the basis of the rates at which deposits in CZK are offered by the Reference Banks at approximately 11.00 a.m., Prague time, on the Interest Determination Date to prime banks in the Prague interbank market for a period of 12 months commencing on the first day of the relevant Interest Period in a representative amount. The Calculation Agent will request the principal Prague office of each of the Reference Banks to provide a quotation of its rate. If at least two quotations are provided, the rate for that Interest Determination Date will be the arithmetic mean of such quotations.

If fewer than two quotations are provided as requested, the rate for that Interest Determination Date will be the arithmetic mean of the rates quoted by major banks in Prague, selected by Calculation Agent, at approximately 11.00 a.m., Prague time, on that Interest Determination Date for loans in CZK to leading European banks for a period of 12 months commencing on the first day of the relevant Interest Period and in a representative amount.

If the Calculation Agent is unable to obtain any quotes in accordance with the above as requested the 12 month PRIBOR shall be determined by the Calculation Agent taking into consideration all available information that in good faith it deems relevant.

17. <b>Zero Coupon Note Provisions</b>	Not applicable
18. <b>Index Linked Interest Note Provisions</b>	Not applicable
19. <b>Dual Currency Interest Note Provisions</b>	Not applicable

#### **PROVISIONS RELATING TO REDEMPTION**

20. Issuer Call	Applicable
(i) Optional Redemption Date(s):	The Issuer may having given irrevocable notice to the Noteholders in accordance with Condition 14, redeem in whole, but not in part, all of the Notes on 22 <sup>nd</sup> August in each year from and including 22 August, 2006 up to and including 22 August, 2009 (each an “ <b>Optional Redemption Date</b> ”) at the Optional Redemption Amount plus accrued interest (if any)
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	CZK 100,000 per Note of CZK 100,000 Specified Denomination
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	Not applicable
(b) Higher Redemption Amount:	Not applicable
(iv) Notice period (if other than as set out in the Conditions):	Not less than five (5) Business Days notice prior to the relevant Optional Redemption Date
21. Investor Put	Not applicable
22. Final Redemption Amount of each Note:	CZK 100,00 per Note of CZK 100,000 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) applies

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24. Form of Notes:	
Bearer Notes:	Applicable
	Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event.
Registered Notes:	Not applicable
25. Additional Financial Centre(s) or other special provisions relating to Payment Dates:	A day on which the TARGET System is open
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 final terms:	Not Applicable
<b>DISTRIBUTION</b>		
31.	(i) If syndicated, names of Managers and underwriting commitments:	Not applicable
	(ii) Date of Subscription Agreement:	Not applicable
	(iii) Stabilising Manager (if any):	Not applicable
32.	If non-syndicated, name and address of relevant Dealer:	Merrill Lynch International Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ
33.	Total commission and concession:	0.00 per cent. of the Aggregate Nominal Amount
34.	Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable:	TEFRA D
35.	Additional selling restrictions:	Not applicable
36.	ERISA Restrictions:	Not applicable

## **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By: .....

*Duly authorised*

## **PART B – OTHER INFORMATION**

### **1. LISTING**

- |   |                |
|---|----------------|
| (i) Listing:  | None           |
| (ii) Admission to trading:  | Not applicable |
| (iii) Estimate of total expenses related to admission to trading: | Not applicable |

### **2. RATINGS**

Ratings:	Not applicable
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### **3. NOTIFICATION**

Not applicable

### **4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

Save for any fees payable to the Dealers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer

### **5. REASONS FOR THE OFFER; ESTIMATED NET PROCEEDS AND TOTAL EXPENSES\*\***

- |                                 |  |
|---------------------------------|--|
| (i) Reasons for the Offer:      | The net proceeds from the issue of the Notes will be applied by the Issuer for its general corporate purposes (which include making a profit). |
| (ii) Estimated net proceeds:    | CZK 100,000,000  |
| (iii) Estimated total expenses: | None   |

### **6. YIELD**

Indication of yield:	For the Fixed Rate Period the yield shall be 3.45 per cent. per annum.
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The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

### **7. HISTORIC INTEREST RATES**

Details of historic 12month PRIBOR rates can be obtained from Reuters.



**8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**

Not applicable

**9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

Not applicable

**10. OPERATIONAL INFORMATION**

- |       |   |                          |
|-------|---|--------------------------|
| (i)   | ISIN Code:  | XS0226185477             |
| (ii)  | Common Code:  | 22618547                 |
| (iii) | CUSIP:  | Not applicable           |
| (iv)  | Any clearing system(s) other than DTC, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): | Not applicable           |
| (v)   | Delivery:   | Delivery against payment |
| (vi)  | Names and addresses of additional Paying Agent(s) and Transfer Agent(s) (if any):   | Not applicable           |