

## Final Terms

December 14, 2005

**Íslandsbanki hf.**  
**Issue of EUR 15,155,000 Notes due 16<sup>th</sup> December 2010**  
**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:                                    | 224  |
|     | (ii) Tranche Number:                                  | 1  |
| 3.  | Specified Currency or Currencies:                     | Euro ("EUR") the lawful currency of the European Union |
| 4.  | Aggregate Nominal Amount:                             |  |
|     | – Series:   | EUR 15,155,000   |
|     | – Tranche:  | EUR 15,155,000   |
| 5.  | Issue Price of Tranche:                               | 100 per cent. of the Aggregate Nominal Amount          |
| 6.  | Specified Denominations:                              | EUR 1,000  |
| 7.  | (i) Issue Date:                                       | December 16, 2005                                      |
|     | (ii) Interest Commencement Date :                     | Not Applicable   |
| 8.  | Maturity Date:  | December 16, 2010                                      |
| 9.  | Interest Basis:                                       | Not Applicable   |
| 10. | Redemption/Payment Basis:                             | Index Linked Redemption                                |
| 11. | Change of Interest Basis or Redemption/Payment Basis: | Not Applicable   |
| 12. | Put/Call Options:                                     | Not Applicable   |
| 13. | (i) Status of Notes:                                  | Senior   |

- (ii) Date Board approval for issuance of Notes obtained: Not Applicable
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** Not Applicable
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: See Appendix
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)):

Such amount(s) determined by the Calculation Agent (as defined below), in its reasonable discretion, to be the amount representing the fair market value of the Notes which, on the due date for the redemption of the Note, shall have the effect - after taking into account in the case of redemption for taxation reasons the costs of unwinding any hedging arrangements entered into in respect of the Notes - of preserving for the Noteholders the economic equivalent of the obligation of the Issuer to make the payments in respect of the Notes which would, but for such redemption for taxation reasons or on event of default, have fallen due after the relevant early redemption date.

**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:   | 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 final terms:  | Not Applicable                |

**DISTRIBUTION**

- |  |  |
|--|--|
| 31. (i) If syndicated, names and addresses 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:                          | Société Générale<br>Tour Société Générale<br>17, cours Valmy<br>92987 Paris La Défense 7 Cedex |
| 33. Total commission and concession:   | Not Applicable   |
| 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   |

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list the issue of Notes described herein pursuant to the €7,500,000,000 Global Medium Term Note Programme of Íslandsbanki hf.

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By: .....

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Listing: London
- (ii) Admission to trading: Application has been made for the Notes to be admitted to trading on the London Stock Exchange with effect from or as soon as practicable after December 16, 2005
- (iii) Estimate of total expenses related to admission to trading: GBP 100

### 2. RATINGS

- Ratings: The Notes to be issued have been rated:  
Moody's A1  
Fitch A

### 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: See "Use of Proceeds" wording in the Offering Circular
- (ii) Estimated net proceeds: EUR 15,155,000
- (iii) Estimated total expenses: Not Applicable

### 6. YIELD (*Fixed Rate Notes only*)

Indication of yield: Not Applicable.

### 7. HISTORIC INTEREST RATES (*Floating Rate Notes only*)

Not Applicable

### 8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)

Under these Notes, the Noteholders will not receive any coupons during the term of the Notes. At maturity, the Noteholders are entitled to receive, in addition to the amount initially invested (the « Minimum Redemption Amount »), an amount totally linked to the performance of the Underlying(s). The return under these Notes is totally linked to the performance the Underlying(s) : the higher the performance, the higher the return. The return of these Notes is linked to the performances of the Underlying(s) as calculated on pre-determined Valuation Dates, and regardless of the level such Underlying(s) between these dates. As a result, the Closing Price of the Underlying(s) on these dates will affect the value of the Notes more than any other single factor. Under these Notes, at maturity, the Noteholders will receive at least 100 % of the amount initially invested. The Notes are different from conventional debt securities in that there will be no periodic payment of interest on the Notes, and the effective yield to maturity of the Notes based on the Minimum Redemption Amount may be less than that which would be payable on such a conventional debt security. Noteholders should realize that the return of only the Minimum Redemption Amount at maturity will not compensate for any opportunity cost implied by inflation and other factors relating to the time value of money.

**9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Notes only)**

*Not Applicable*

**10. OPERATIONAL INFORMATION**

- |       |   |                          |
|-------|---|--------------------------|
| (i)   | ISIN Code:  | XS0226642634             |
| (ii)  | Common Code:  | 22664263                 |
| (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           |

## Appendix

*(This Appendix forms part of the Final Terms to which it is attached)*

### I - Final Redemption Amount

Unless the Notes are previously redeemed, purchased and cancelled and subject to the provisions set forth below and to the provisions of paragraph "II - Adjustments and Extraordinary Events Relating to Shares", the final redemption amount (the "Final Redemption Amount") payable, in respect of each Note, on the Maturity Date shall be, as determined by the Calculation Agent in accordance with the following formula:

$$\text{Specified Denomination} \times \left[ 100\% + \sum_{k=1}^5 \text{Annual Performance}_k \right]$$

Where :

**"Annual Performance<sub>k</sub>"**

means in respect of each Valuation Date<sub>k</sub> (k from 2 to 5) the value calculated by the Calculation Agent on Valuation Date<sub>k</sub> in accordance with the following formula :

$$\text{Max} \left[ \text{Annual Performance}_{k-1} ; 9\% \times (\text{MaxBasketPerf}_k - \text{MinBasketPerf}_k) \right]$$

**"Annual Performance<sub>k=1</sub>"**

means the value calculated by the Calculation Agent on Valuation Date<sub>k</sub> (k=1) in accordance with the following formula :

$$\text{Max} \left[ 1\% ; 9\% \times (\text{MaxBasketPerf}_k - \text{MinBasketPerf}_k) \right]$$

with :

**"Annual Performance<sub>k-1</sub>"**

means the Annual Performance calculated on the relevant Valuation Date<sub>k-1</sub>.

**"MaxBasketPerf<sub>k</sub>"**

means in respect of the Monthly Valuation Date<sub>i</sub> of each year k (k from 1 to 5), the highest performance of the Basket as determined by the Calculation Agent, in accordance with the following formula:

$$\text{Max}_{i \text{ from } 1 \text{ to } 12} \left[ \frac{\text{AverageBasket}_{i,k}}{\text{AverageBasket}_0} \right]$$

**"MinBasketPerf<sub>k</sub>"**

means in respect of the Monthly Valuation Date<sub>j</sub> of each year k (k from 1 to 5), the lowest performance of the Basket as determined by the Calculation Agent, in accordance with the following formula:

$$\text{Min}_{i \text{ from } 1 \text{ to } 12} \left[ \frac{\text{AverageBasket}_{i,k}}{\text{AverageBasket}_0} \right]$$

“AverageBasket<sub>i,k</sub>”

means in respect of each Monthly Valuation Date i (i from 1 to 12) for a year k (k from 1 to 5) the value determined by the Calculation Agent in accordance with the following formula :

$$\frac{1}{10} \sum_{n=1}^{10} \frac{\text{Share}_{i,k}^n}{\text{Share}_0^n}$$

“AverageBasket<sub>0</sub>”

means 100%.

**Related definitions :**

**“Underlying(s)”:**

means the following 10 Shares listed below (each a Share<sub>n</sub> and together the “Basket”, Shares shall be construed accordingly) :

| <b>Information relating to the Shares can be obtained from:<br/>- the Website set out below; and/or<br/>Reuters pages.</b> |                                 |                            |                |                                |                         |
|--|---------------------------------|----------------------------|----------------|--------------------------------|-------------------------|
| <b>Share<sub>n</sub></b>   | <b>Companies' name</b>          | <b>Reuter's Code (RIC)</b> | <b>Country</b> | <b>Relevant Stock Exchange</b> | <b>Website</b>          |
| Share <sub>1</sub>   | Tokyo Electric Power Co Inc/The | 9501.T                     | Japan          | Tokyo Stock Exchange           | www.tepco.co.jp         |
| Share <sub>2</sub>   | Tokyo Gas Co Ltd                | 9531.T                     | Japan          | Tokyo Stock Exchange           | www.tokyo-gas.co.jp     |
| Share <sub>3</sub>   | United Utilities PLC            | UU.L                       | United States  | New York Stock Exchange        | www.unitedutilities.com |
| Share <sub>4</sub>   | Enel SpA                        | ENEI.MI                    | Italy          | Milan Stock Exchange           | www.enel.it             |
| Share <sub>5</sub>   | Telefonica SA                   | TEF.MC                     | Spain          | SIBE Stock Exchange            | www.telefonica.es       |
| Share <sub>6</sub>   | Banco Commerciale Portuguese    | BCP.LS                     | Portugal       | Lisbon Stock Exchange          | www.millenniumbcp.pt    |
| Share <sub>7</sub>   | Portugal Telecom SA             | PTC.LS                     | Portugal       | Lisbon Stock Exchange          | www.telecom.pt          |
| Share <sub>8</sub>   | Iberdrola SA                    | IBE.MC                     | Spain          | SIBE Stock Exchange            | www.iberdrola.es        |
| Share <sub>9</sub>   | Consolidated Edison Inc         | ED.N                       | United States  | New York Stock Exchange        | www.conedison.com/      |
| Share <sub>10</sub>  | Unicredito Italiano Spa         | CRDI.MI                    | Italy          | Milan Stock Exchange           | www.unicredit.it        |

“Share<sub>i,k</sub><sup>n</sup>”:

means the Closing Price of Share<sub>n</sub> (n from 1 to 10) on the Valuation Date (i) (i from 1 to 12) of each Year (k) (k from 1 to 5).

"Share<sub>0</sub><sup>n</sup>":

means the Closing Price of Share<sub>n</sub> (n from 1 to 10) on the Valuation Date (0).

**"Valuation Date(s)<sub>k</sub>" and "Valuation Date(s)<sub>k-1</sub>":**

means any of the following dates:

|     | <b>" Valuation Date(s)<sub>k</sub></b> | <b>Valuation Date(s)<sub>k-1</sub>"</b> |
|-----|--|---|
| k=1 | December 7, 2006                       | December 7, 2005                        |
| k=2 | December 7, 2007                       | December 7, 2006                        |
| k=3 | December 8, 2008                       | December 7, 2007                        |
| k=4 | December 7, 2009                       | December 8, 2008                        |
| k=5 | December 1, 2010                       | December 7, 2009                        |

**"Valuation Date<sub>0</sub>"**

means December 7, 2005.

**"Monthly Valuation Date(s)<sub>i</sub>":**

means the following dates :

| <b>"Year k"</b> | <b>"i"</b> | <b>"Monthly Valuation Dates"</b> |
|-----------------|------------|----------------------------------|
| Year k=1        | i =1       | January 9, 2006                  |
|                 | i =2       | February 7, 2006                 |
|                 | i =3       | March 7, 2006                    |
|                 | i =4       | April 7, 2006                    |
|                 | i =5       | May 8, 2006                      |
|                 | i =6       | June 7, 2006                     |
|                 | i =7       | July 7, 2006                     |
|                 | i =8       | August 7, 2006                   |
|                 | i =9       | September 7, 2006                |
|                 | i =10      | October 9, 2006                  |
|                 | i =11      | November 7, 2006                 |
|                 | i =12      | December 7, 2006                 |
| Year k=2        | i =1       | January 8, 2007                  |
|                 | i =2       | February 7, 2007                 |
|                 | i =3       | March 7, 2007                    |
|                 | i =4       | April 9, 2007                    |
|                 | i =5       | May 7, 2007                      |
|                 | i =6       | June 7, 2007                     |
|                 | i =7       | July 9, 2007                     |
|                 | i =8       | August 7, 2007                   |
|                 | i =9       | September 7, 2007                |
|                 | i =10      | October 8, 2007                  |
|                 | i =11      | November 7, 2007                 |
|                 | i =12      | December 7, 2007                 |
| Year k=3        | i =1       | January 7, 2008                  |
|                 | i =2       | February 7, 2008                 |
|                 | i =3       | March 7, 2008                    |
|                 | i =4       | April 7, 2008                    |
|                 | i =5       | May 7, 2008                      |
|                 | i =6       | June 9, 2008                     |
|                 | i =7       | July 7, 2008                     |
|                 | i =8       | August 7, 2008                   |
|                 | i =9       | September 8, 2008                |
|                 | i =10      | October 7, 2008                  |



|          |       |                   |
|----------|-------|-------------------|
|          | i =11 | November 7, 2008  |
|          | i =12 | December 8, 2008  |
| Year k=4 | i =1  | January 7, 2009   |
|          | i =2  | February 9, 2009  |
|          | i =3  | March 9, 2009     |
|          | i =4  | April 7, 2009     |
|          | i =5  | May 7, 2009       |
|          | i =6  | June 8, 2009      |
|          | i =7  | July 7, 2009      |
|          | i =8  | August 7, 2009    |
|          | i =9  | September 7, 2009 |
|          | i =10 | October 7, 2009   |
|          | i =11 | November 9, 2009  |
|          | i =12 | December 7, 2009  |
| Year k=5 | i =1  | January 7, 2010   |
|          | i =2  | February 8, 2010  |
|          | i =3  | March 8, 2010     |
|          | i =4  | April 7, 2010     |
|          | i =5  | May 7, 2010       |
|          | i =6  | June 7, 2010      |
|          | i =7  | July 7, 2010      |
|          | i =8  | August 9, 2010    |
|          | i =9  | September 7, 2010 |
|          | i =10 | October 7, 2010   |
|          | i =11 | November 8, 2010  |
|          | i =12 | December 8, 2010  |

## **GENERAL DEFINITIONS**

**Closing Price** means :

- (A) if such Share is traded on the Tokyo Stock Exchange or the Osaka Securities Exchange, the closing price of such Share or, if such closing price is unavailable on the relevant date, the last traded price quoted on the Exchange provided however that such last traded price occurs at the end of a regular afternoon trading session; notwithstanding anything contained in the Market Disruption Event definition, if no closing price is published, a Market Disruption Event will be deemed to occur if the last traded price is not quoted during the one-half hour period preceding the end of the regular afternoon trading session;
- (B) if such Share is traded on the Italian Stock Exchange, the Prezzo di Riferimento, which means the price as published by the Italian Stock Exchange at the close of trading and having the meaning ascribed thereto in the Rules of the Markets Organised and Managed by the Italian Exchange, as such Rules may be amended by Borsa Italiana S.p.a. from time to time;
- (C) in any other case, the official closing price of such Share on the relevant Exchange.

in either case as adjusted (if applicable) pursuant to the provisions of Part 2 "Adjustments and Extraordinary Events relating to Shares" below.

**Company** means, in respect of a Share, the issuer of such Share.

**Consequences of Market Disruption Event for a Share**

In the case of a Market Disruption Event occurring on an Exchange Business Day scheduled to be a Valuation Date, and affecting a Share (the Affected Share), the Valuation Date for each Share not affected by a Market Disruption Event shall be the scheduled Valuation Date, and the Valuation Date for each Affected Share shall be the first succeeding Exchange Business Day on which there is no Market Disruption Event relating to that Affected Share, unless there is a Market Disruption Event relating to that Affected Share on each of the five Exchange Business Days immediately following the scheduled Valuation Date. In that case:

- (i) that fifth Exchange Business Day shall be deemed to be the Valuation Date, for the Affected Share notwithstanding the Market Disruption Event, and
- (ii) the Calculation Agent shall determine its good faith estimate of the Exchange traded price for that Affected Share that would have prevailed but for that Market Disruption Event as of the Valuation Time on that fifth Exchange Business Day and the Closing Price shall be deemed to be such good faith estimate of the Calculation Agent;

provided however that, notwithstanding the foregoing, a Valuation Date shall occur not later than four Business Days before the date of any payment to be made on the basis of determinations made on such Valuation Date; in such case the Calculation Agent shall determine its good faith estimate of the Exchange traded price for that Affected Share that would have prevailed but for that Market Disruption Event at the latest as of the Valuation Time on such fourth Business Day and the Closing Price shall be deemed to be such good faith estimate of the Calculation Agent.

**Exchange(s)** means, in respect of a Share, the corresponding exchange or quotation system specified in the table under the definition of Basket above, or any successor exchange or quotation system.

**Exchange Business Day** means in respect of a Share (or, if applicable, each Share comprised in the Basket and observed separately (in the case of a Basket of Shares)), any day that is (or, but for the occurrence of a Market Disruption Event, would have been) a trading day on the relevant Exchange and Related Exchange corresponding to the relevant Share notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

**Market Disruption Event** means in respect of a Share, the occurrence or existence on any Exchange Business Day during the one-half hour period that ends at the relevant Valuation Time of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the relevant Exchange or otherwise) in (a) the Share on the Exchange or (b) any options contracts or futures contracts relating to the Share on any Related Exchange if, in any such case, that suspension or limitation is, in the determination of the Calculation Agent, material.

**Related Exchange(s)** means, in respect of a Share, the relevant exchange, quotation system or market, if any, on which options or futures contracts on such Share are traded or quoted or any successor thereto as may be determined from time to time by the Calculation Agent.

**Scheduled Closing Time** means, in respect of an Exchange or Related Exchange, the scheduled weekday closing time of such Exchange or Related Exchange, without regard to after hours or any other trading outside of the regular trading session hours.

**Share** means a share of the Company the name of which appears in the applicable Final Terms, subject to adjustment pursuant to the provisions of "Adjustments and Extraordinary Events relating to Shares" (below).

**Valuation Date** means, in respect of a Share, each date specified as such above (or, if such date is not an Exchange Business Day for such Share, the next following Exchange Business Day), unless there is a Market Disruption Event on that day in respect of such Share in which case it shall be postponed pursuant to the provisions of Consequence of Market Disruption Event for a Share.

**Valuation Time** means, in respect of a Share, the time at which the Closing Price is announced and published.

## **II - ADJUSTMENTS AND EXTRAORDINARY EVENTS RELATING TO SHARES**

### *A. Potential Adjustment Events*

- (i) **Potential Adjustment Event** means, in relation to a Share, any of the following:
- (i) a subdivision, consolidation or reclassification of such Share (unless resulting in a Merger Event) including, for the avoidance of doubt, a stock split or reverse stock split, or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;
  - (ii) a distribution or dividend to existing holders of such Share of (a) such Shares or (b) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Shares or other assets (c) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Calculation Agent;
  - (iii) an extraordinary dividend;
  - (iv) a call by the Company in respect of Shares that are not fully paid;
  - (v) a repurchase by the Company of Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise; or
  - (v) any other event having, in the opinion of the Calculation Agent, a diluting or concentrative effect on the theoretical value of the Shares.

Following the occurrence of any Potential Adjustment Event as defined above, the Calculation Agent will, as soon as reasonably practicable after it becomes aware of such event determine whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the Share and, if so, will (a) calculate the corresponding adjustment, if any, to be made to the elements relating to the relevant Share used to determine any settlement or payment terms under the Notes and/or any other terms of the Notes as it determines appropriate to preserve the economic equivalent of the obligations of the Issuer under the Notes and (b) determine the effective date of that adjustment. The Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by a Related Exchange to options on the Share traded on such Related Exchange.

Upon making any such adjustment, the Calculation Agent shall give notice as soon as practicable to the Noteholders in accordance with Condition 10 setting out the adjustment to the terms of the Notes and giving brief details of the Potential Adjustment Event.

### *B. Extraordinary Events*

- (i) Upon the occurrence, in the determination of the Calculation Agent, on or prior to the last Valuation Date of a Merger Event, a De-listing Event, a De-merger Event, an Insolvency, a Nationalisation or a Participation Event, in respect of a Share (an **Affected Share**), then during the Offering Period, the Calculation Agent may decide in good faith to apply Method of Substitution with respect to the Affected Share.
- (ii) If the Calculation Agent decides not to apply Method of Substitution during the Offering Period with respect to the Affected Share, then:

- (A) in respect of a Merger Event, from the Merger Date, and/or upon consummation of the Merger Event, until the sixtieth Business Day thereafter, the Calculation Agent, acting in good faith, shall apply:
    - (a) Share-for-Share: Alternative Obligation and/or Method of Substitution;
    - (b) Share-for-Other: Alternative Obligation and/or Method of Substitution, or Early Redemption;
    - (c) Share-for-Combined: Alternative Obligation and/or Method of Substitution;
  
  - (B) in the case of a Merger Event affecting two Shares comprised in a Basket, the Calculation Agent will either:
    - (a) continue with the share resulting from the Merger Event and in order to maintain the original number of listed Companies, a Substitute Share will be elected and included in the Basket; or
    - (b) substitute both Shares with two Substitute Shares selected as described in the Method of Substitution;
  
  - (C) in respect of a De-merger Event, from the De-merger Date, and/or upon consummation of the De-merger Event, until the sixtieth Business Day thereafter, the Calculation Agent, acting in good faith, will either:
    - (a) replace the Affected Share with the shares of the successor Companies; or
    - (b) substitute one or more share(s) resulting from such De-merger Event pursuant to the Method of Substitution,

it being understood that, in the case of a Basket, the Calculation Agent shall maintain the initial number of listed Companies and that in the case where the Calculation Agent has elected to substitute the Affected Share with several shares resulting from such De-merger Event, such shares shall be placed in a sub-basket and considered as one component of the Basket;
  
  - (D) in respect of a De-listing Event or a Nationalisation, from the effective date of such event, until the sixtieth Business Day thereafter, the Calculation Agent, acting in good faith, may, but is not obliged to, apply the Method of Substitution;
  
  - (E) in respect of an Insolvency, the Calculation Agent will decide, either that:
    - (a) the Affected Share will be substituted pursuant to the Method of Substitution; or
    - (b) the value of the relevant component in the formula used to determine the amount to be paid as described in the Appendix above, representing the Affected Share will be accounted by the Calculation Agent for its fair market value determined at any time as from the date of occurrence of such Insolvency until the last Valuation Date. The determination of the fair market value shall depend upon the liquidity of the market and the trading conditions relating to the Share affected at the time of calculation; and
  
  - (F) in respect of a Participation Event, the Calculation Agent may, but is not obliged to, select a Substitute Share for the Affected Share pursuant to the Method of Substitution.
- (iii) Notwithstanding anything herein to the contrary, the Calculation Agent shall use its best at all times to maintain the original number of listed companies as Companies hereunder.

## **Definitions applicable to this section B - Extraordinary Events**

**Alternative Obligation** means:

- (i) if, in respect of a Share-for-Share Merger Event, the Calculation Agent decides to apply Alternative Obligation, then on or after the relevant Merger Date the New Shares and the issuer of such New Shares will be deemed the Shares and the Company, respectively, and, if necessary, the Calculation Agent will adjust any relevant terms of the Notes on the basis of the number of New Shares to which a holder of the relevant number of Shares immediately prior to the occurrence of the Merger Event would be entitled upon consummation of the Merger Event;
- (ii) if, in respect of a Share-for-Other Merger Event, the Calculation Agent decides to apply Alternative Obligation, then on or after the relevant Merger Date, the Calculation Agent will adjust the amount of Other Consideration (as subsequently modified in accordance with any relevant terms and including the proceeds of any redemption, if applicable) to which a holder of the relevant number of Shares would be entitled upon consummation of the Merger Event and, if necessary, any relevant terms of the Notes; and
- (iii) if, in respect of a Share-for-Combined Merger Event, the Calculation Agent decides to apply Alternative Obligation, then on or after the Merger Date the New Shares and the Other Consideration (as subsequently modified in accordance with any relevant terms and including the proceeds of any redemption, if applicable) will be deemed the Shares and the issuer of the New Shares will be deemed the Company respectively, and, if necessary, the Calculation Agent will adjust any relevant terms of the Notes on the basis of the number of New Shares and the amount of Other Consideration to which a holder of the relevant number of Shares would be entitled upon consummation of the Merger Event.

**Combined Consideration** means New Shares in combination with Other Consideration.

**De-listing Event** means, in respect of a Share, that, such Share: (a) is de-listed from the relevant Exchange or (b) is de-listed from the relevant listing compartment of the relevant Exchange or (c) ceases to be quoted on any other recognised exchange or (d) has its listing maintained in inappropriate conditions in the opinion of the Calculation Agent (such conditions to include, without limitation, a lack of liquidity or the disappearance of the relevant future and/or option contract of the relevant Share).

**De-merger Event** means, in respect of any Share, that the Company relevant to such Share is affected by a de-merger including, without limitation, a spin off, scission or any operation of a similar nature.

**De-merger Date** means the date on which a De-merger Event becomes effective.

**Early Redemption** means that there will be an Early Redemption of the Notes as if it were a redemption for taxation reasons or an Event of Default on the basis of provision set out above in paragraph 23 of the Part A – Contractual Terms of the Final Terms.

**Fixing Period** means the period subject to a maximum of ten Exchange Business Days, which shall expire no later than 90 Business Days following the Merger Date, the De-merger Date or the effective date of the De-listing Event, Nationalisation, Insolvency or Participation Event) during which:

- (i) the Calculation Agent sells the Affected Shares, the New Shares and/or the Other Consideration, (as the case may be), on the basis of the arithmetic mean of the closing prices of the relevant assets, as observed during such Fixing Period; and
- (ii) the proceeds of such sale are re-invested in the Substitute Shares and/or New Shares accordingly during the said Fixing Period on the basis of the arithmetic mean of the closing prices of such Substitute Shares and/or New Shares, as observed during such Fixing Period.

**Insolvency** means, in respect of a Company, voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of, or any analogous proceeding affecting, such Company, as determined in good faith by the Calculation Agent.

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

**Merger Event** means in respect of any Share:

- (i) any reclassification or change of such Share (including the change of currency reference of the Share) that results in a transfer of or an irrevocable commitment to transfer all or part of such Share outstanding to another entity or person; or
- (ii) any consolidation, amalgamation, merger or binding share exchange of the relevant Company with or into another entity (other than a consolidation, amalgamation or merger in which such Company is the continuing entity and which does not result in a reclassification or change of all of such Shares outstanding);
- (iii) other take-over offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain between 10 per cent. and 100 per cent. of the outstanding Shares that results in a transfer of or an irrevocable commitment to transfer all or part of such Shares (other than any of such Shares owned or controlled by the offeror); or
- (iv) any consolidation, amalgamation, merger or binding share exchange of the relevant Company or its subsidiaries with or into another entity in which such Company is the continuing entity and which does not result in a reclassification or change of all of such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Shares immediately following such event.

**Method of Substitution** means that in the case of a Merger Event, De-listing Event, De-merger Event, Nationalisation, Insolvency or Participation Event (regardless of the consideration to be received), in respect of an Affected Share, the Calculation Agent may consider that the Affected Share, the New Shares and/or, all or part of the Other Consideration (as the case may be) is/are converted into cash and that the proceeds will be reinvested either (a) into a new share of the same economic sector or into a share issued by a company of a similar international standing or creditworthiness as the Company related to the Affected Share (a Substitute Share) or (b) in the case of Combined Consideration into New Shares. In the event of Other Consideration to be received in cash, in the future, the Calculation Agent may consider that the cash to be received in the future is discounted in order to immediately re-invest the proceeds then procured in accordance with paragraphs (i) and (ii) above.

The sale of the Affected Share, the New Shares and/or the Other Consideration shall be deemed to take place during the Fixing Period. The Substitute Share and the company issuing such Substituted Share will be deemed a Share and the Company respectively, and the Calculation Agent will adjust any relevant terms of the Notes.

For information purposes, it is understood that in all cases described herein where a Share is substituted, on any date "t", with a Substitute Share, the value of the relevant component in the formula used to determine the amount to be paid as described in the Appendix above, shall not be affected by the substitution on such date "t" in respect of the Substitute Share and would mean the closing price of such Substitute Share on the relevant Exchange on the date "t" is weighted by an appropriate linking coefficient so that it is equal to the closing price of the Affected Share on such date "t".

**Nationalisation** means that all the Shares or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority or entity.

**New Shares** means shares (whether of the offeror or a third party) that are listed or quoted on a recognised exchange as determined by the Calculation Agent.

**Offering Period** means the period from and including the date on which the Merger Event, the De-listing Event, De-merger Event, Insolvency, Nationalisation or Participation Event is publicly and officially announced to but excluding the Merger Date or De-merger Date or the effective date of the De-listing Event, Insolvency or Nationalisation.

**Other Consideration** means cash and/or any securities (other than New Shares) or assets (whether of the offeror or a third party).

**Participation Event** means that a Company (whose Shares form part of a Basket) takes a stake exceeding 20 per cent. of another Company whose Shares form part of the Basket.

**Share-for-Combined** means, in respect of a Merger Event, that the consideration for the relevant Shares consists of Combined Consideration.

**Share-for-Other** means, in respect of a Merger Event, that the consideration for the relevant Shares consists solely of Other Consideration.

**Share-for-Share** means, in respect of a Merger Event, that the consideration for the relevant Shares consists (or, at the option of the holder of such Shares, may consist) solely of New Shares.

*C. Correction of the Closing Price of a Share*

In the event that any price or level published on the Exchange and which is utilised for any calculation or determination made under the Notes is subsequently corrected and the correction is published and made available to the public by the Exchange after the original publication but no later than four Business Days prior to the Maturity Date (or any payment date(s) determined in the Annex I above), the Calculation Agent will determine the amount that is payable as a result of that correction, and, to the extent necessary, will adjust the terms of the Notes to account for such correction.