

Prospectus dated 15 July 2008

Geysir 2008-I Institutional Investor Fund

(established in Iceland as an institutional investment fund pursuant to Act No. 30/2003 on UCITS and Investment Funds)

Euro 124,800,000 floating rate Senior Class A Mortgage-Backed Notes 2008 due 2053, issue price 100 per cent.

Euro 34,200,000 floating rate Mezzanine Class B Mortgage-Backed Notes 2008 due 2053, issue price 100 per cent.

Euro 1,600,000 floating rate Junior Class C Notes 2008 due 2053, issue price 100 per cent.

Application has been made to the OMX Nordic Exchange Iceland hf. ('**OMX ICE**') for the euro 124,800,000 floating rate Senior Class A Mortgage-Backed Notes 2008 due 2053 (the '**Senior Class A Notes**') to be issued by Geysir 2008-I Institutional Investor Fund (the '**Issuer**') to be admitted to trading on the regulated market of the OMX ICE. In addition, the Senior Class A Notes will be admitted to trading on Euronext Amsterdam by NYSE Euronext ('**Euronext Amsterdam**'). References in this Prospectus to the Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the regulated market of the OMX ICE and on Euronext Amsterdam. The regulated market of the OMX ICE is a regulated market for the purposes of Directive 93/22/EC (the Investment Services Directive). The Issuer will also issue the euro 34,200,000 floating rate Mezzanine Class B Mortgage-Backed Notes 2008 due 2053 (the '**Mezzanine Class B Notes**') and the euro 1,600,000 floating rate Junior Class C Notes 2008 due 2053 (the '**Junior Class C Notes**') and together with the Senior Class A Notes and the Mezzanine Class B Notes, the '**Notes**' which will not be listed. The Issuer has requested the Financial Supervisory Authority of Iceland ("**Fjármálaeftirlitið**") to provide the competent authority in the Netherlands with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Act on Securities Transactions 108/2007 and related regulations which implement Directive 2003/71/EC (the '**Prospectus Directive**') in Icelandic law. The Notes are expected to be issued on or about 25 July 2008 and the Senior Class A Notes are expected to be admitted to trading on the regulated market of the OMX ICE and on Euronext Amsterdam on or about 25 July 2008.

The Senior Class A Notes are intended to be held in a manner which will allow Eurosystem eligibility. This means that the Senior Class A Notes are intended upon issue to be deposited with a common safekeeper and does not necessarily mean that the Senior Class A Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. The Mezzanine Class B Notes and the Junior Class C Notes are not intended to be held in a manner which will allow Eurosystem eligibility.

The Notes will carry floating rates of interest, payable in arrear on each Quarterly Payment Date (as defined herein). The rate of interest will be three months Euribor plus, up to the first Optional Redemption Date, a margin per annum which is for the Senior Class A Notes 0.20 per cent., for the Mezzanine Class B Notes 0.30 per cent. and for the Junior Class C Notes 0.50 per cent. On the Step Up Date the margin of the Senior Class A Notes will be reset, subject to and in accordance with the Terms and Conditions of the Notes (the '**Conditions**').

The Notes will mature on the Quarterly Payment Date falling in November 2053. On the earlier of (i) the Quarterly Payment Date falling in November 2011 (the '**Step Up Date**') and (ii) the Quarterly Payment Date immediately succeeding the date on which an Assignment Notification Event has occurred, and each Quarterly Payment Date thereafter (each an '**Optional Redemption Date**') the Issuer will have the option to redeem all of the Notes, other than the Junior Class C Notes, in whole but not in part, at their Principal Amount Outstanding, subject to and in accordance with the Conditions. On each Optional Redemption Date the Notes will be subject to mandatory partial redemption in the circumstances set out in, and subject to and in accordance with, the Conditions. The Issuer will exercise this option to redeem the Notes, other than the Junior Class C Notes, on an Optional Redemption Date if so instructed by the Swap Counterparty.

It is a condition precedent to issuance that the Senior Class A Notes, on issue, be assigned an 'Aaa' rating by Moody's Investors Service Limited ('**Moody's**'). The Mezzanine Class B Notes and the Junior Class C Notes will not be rated.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. For a discussion of some of the risks associated with an investment in the Notes, see *Risk Factors* herein.

The Notes of each Class will be initially represented by a temporary global note in bearer form (each a '**Temporary Global Note**'), without coupons, which is expected to be deposited (A) in respect of the Senior Class A Notes, with a common safekeeper for Euroclear Bank S.A./N.V., as operator of the Euroclear System ('**Euroclear**') and Clearstream Banking, société anonyme ('**Clearstream, Luxembourg**'), and (B) with respect to the Mezzanine Class B Notes and the Junior Class C Notes, with Fortis Bank Luxembourg S.A. as common safekeeper for Euroclear and Clearstream Luxembourg, on or about the issue date thereof. Interests in each Temporary Global Note will be exchangeable for interests in a permanent global note of the relevant class (each a '**Permanent Global Note**'), without coupons (the expression '**Global Note**' means the Temporary Global Note of each class and the Permanent Global Note of each class and the expression '**Global Note**' means each Temporary Global Note or each Permanent Global Note, as the context may require) not earlier than forty (40) days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interests in each Permanent Global Note will, in certain limited circumstances, be exchangeable for interests in Notes in definitive form in bearer form as described in the Conditions.

The Notes will solely be the obligations of the Issuer. The Notes will not be obligations or responsibilities of, or guaranteed by, any other entity or person, in whatever capacity acting, including, without limitation, the Seller, the Manager, the Pool Servicer, the Asset Management Company, the Calculation Agent, the Liquidity Facility Provider, the GIC Provider, the Swap Counterparty, the Swap Guarantor, the Paying Agents, the Reference Agent and the Representative (each as defined herein). Furthermore, none of the Seller, the Manager, the Pool Servicer, the Asset Management Company, the Calculation Agent, the Liquidity Facility Provider, the GIC Provider, the Swap Counterparty, the Paying Agents, the Reference Agent, the Representative nor any other person in whatever capacity acting will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amounts due under the Notes. None of the Seller, the Manager, the Pool Servicer, the Asset Management Company, the Calculation Agent, the Liquidity Facility Provider, the GIC Provider, the Swap Counterparty, the Swap Guarantor, the Paying Agents, the Reference Agent or the Representative will be under any obligation whatsoever to provide additional funds to the Issuer (save in the limited circumstances described herein).

For the page reference of the definitions of capitalised terms used herein see *Index of Defined Terms*.

Bookrunner and Manager
Fortis Bank

Arranger
SPRON Verðbréf hf.

STATEMENTS

Issuer's statement

The Board of Directors of Rekstrarfélag SPRON hf. in its capacity as the Board of Directors of the Issuer, Geysir 2008-I Institutional Investors Fund, ID-number 440308-9880 registered office being Vegmúli 2, 108 Reykjavík, Iceland, hereby declares that, having taken all reasonable care to ensure that such is the case, the information given in this Prospectus is, to the best of their knowledge, in accordance with the facts and does not omit anything likely to affect its import.

Reykjavík, Iceland 15 July 2008

On behalf of the Issuer

Guðmundur Hauksson
Chairman of the Board of Directors

Ólafur Haraldsson
Member of the Board of Directors

Arranger's statement

SPRON Verðbréf hf. ID 670505-1970 registered office being Vegmúli 2 108 Reykjavík, Iceland, in its capacity as Arranger hereby declares that, having taken all reasonable care to ensure that such is the case, the information given in this Prospectus is, to the best of their knowledge, in accordance with the facts and does not omit anything likely to affect its import.

Reykjavík, Iceland, 15 July 2008

On the board of directors of SPRON Verðbréf hf.

Guðmundur Hauksson
Chairman of the Board of Directors

Ólafur Haraldsson
Member of the Board of Directors

Ósvaldur Knudsen
Member of the Board of Directors

Seller's statement

Sparisjóður Reykjavíkur og nágrennis hf. (SPRON), ID-number 540502-2770, registered office being Ármúla 13a, 108 Reykjavík, Iceland as Seller hereby declares that, having taken all reasonable care to ensure that such is the case, the information given in this Prospectus is, to the best of their knowledge, in accordance with the facts and does not omit anything likely to affect its import.

Reykjavík, Iceland, 15 July 2008

On behalf of SPRON hf.

Guðmundur Hauksson
Managing Director / CEO

Ósvaldur Knudsen
Managing Director - Head of Treasury

Auditor's statement

KPMG hf., kt. 590975-0449, registered office being Borgartun 27, 105 Reykjavík, Iceland, KPMG hf. hereby declares that it has audited and expressed an opinion on the Opening Balance of the Financial Statement of Geysir for the financial year beginning 15 July 2008 and declares that the Financial Statement for the Financial year beginning 15 July 2008 give a true and fair view of the Financial position of Geysir as at 15 July 2008. Furthermore we confirm that any information in this Prospectus regarding such Financial Statement is consistent with the said Financial Statement.

Reykjavík, Iceland, 15 July 2008

On behalf of KPMG hf.
Reynir Stefan Gylfason.

IMPORTANT INFORMATION

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Seller or the Manager (as defined herein).

Neither this Prospectus nor any part hereof constitutes an offer or an invitation to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this document and the offering of the Notes in certain jurisdictions may be restricted by law.

Persons into whose possession this Prospectus (or any part thereof) comes are required to inform themselves about, and to observe, any such restrictions. A fuller description of the restrictions on offers, sales and deliveries of the Notes and on the distribution of this Prospectus is set out in the section titled *Purchase and Sale* below. No one is authorised by the Seller or the Issuer to give any information or to make any representation concerning the issue of the Notes other than those contained in this Prospectus in accordance with applicable laws and regulations.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus at any time nor any sale made in connection with the offering of the Notes shall imply that the information contained herein is correct at any time after the date of this Prospectus. The Issuer and the Seller have no obligation to update this Prospectus after the date on which the Notes are issued.

The Manager expressly does not undertake to review the financial conditions or affairs of the Issuer during the life of the Notes. Investors should review, *inter alia*, the most recent financial statements of the Issuer when deciding whether or not to purchase, hold or sell any Notes during the life of the Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the '**Securities Act**') and include Notes in bearer form that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to United States persons as defined in Regulation S under the Securities Act except in certain transactions permitted by US tax regulations and the Securities Act (see *Purchase and Sale* below).

All references in this Prospectus to '**EUR**' and '**euro**' refer to the single currency which was introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community (as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam) and all references to '**ISK**', '**krona**' or '**kronur**' refer to the currency of Iceland.

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SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including any amendment and supplement thereto and the documents incorporated by reference. Civil liability will only attach to the Issuer, if the summary is misleading, inaccurate or inconsistent when read together with other parts of the Prospectus. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Capitalised terms used, but not defined, in this section can be found elsewhere in this Prospectus. For the page reference of the definitions of the capitalised terms used herein see Index of Defined Terms.

The transaction

The Issuer will purchase and, on the Closing Date, accept the assignment from the Seller of the Mortgage Loans and their Related Security which assignment shall be perfected by endorsement by the Seller of the Mortgage Document as a result of which legal title to the Mortgage Loans and their Related Security is transferred to the Issuer. Furthermore, the Issuer will on the Closing Date issue the Notes and use the net proceeds thereof, other than the Junior Class C Notes, to pay to the Seller the Initial Purchase Price for the Mortgage Loans and their Related Security, pursuant to the Mortgage Sale Agreement (see further *Mortgage Sale Agreement* below). The proceeds of the issue of the Junior Class C Notes will be credited to the Reserve Account.

Furthermore, on each Quarterly Payment Date up to the Quarterly Payment Date falling in November 2011, the Issuer will purchase from the Seller Substitute Mortgage Loans and their Related Security subject to the fulfillment of certain conditions and to the extent offered by the Seller. Broadly, for such purchases the Issuer shall up to the Quarterly Payment Date falling in November 2011 apply amounts of principal received on the Mortgage Loans (including in connection with repurchase or sale of Mortgage Loans and their Related Security).

The Issuer will use receipts of principal and interest in respect of the Mortgage Loans together with amounts it receives under the Liquidity Facility Agreement, drawings made under the Reserve Account, the Master Collection Account and the Swap Agreement to make payments of, *inter alia*, principal and interest due in respect of the Notes. The obligations of the Issuer in respect of the Notes will rank below the obligations of the Issuer in respect of certain items set forth in the applicable priority of payments (see *Credit Structure* below) and (i) the right to payment of interest and principal on the Mezzanine Class B Notes and the Junior Class C Notes will be subordinated to, *inter alia*, the Senior Class A Notes and (ii) the right to payment of interest and principal on the Junior Class C Notes will be subordinated to, *inter alia*, the Senior Class A Notes and the Mezzanine Class B Notes and limited as more fully described herein under *Credit Structure* and *Terms and Conditions of the Notes*.

Pursuant to the Liquidity Facility Agreement the Issuer will be entitled to make drawings in case a Convertibility Moratorium has been declared and is continuing, to meet certain items of the EUR Interest Priority of Payments in full (see *Credit Structure* below).

Pursuant to the GIC, the GIC Provider will agree to pay a guaranteed rate of interest on the balance standing from time to time to the credit of the Transaction Accounts (see *Credit Structure* below).

Pursuant to the Servicing and Custody Agreement, (a) the Pool Servicer will - *inter alia* - (i) provide administration and management services to the Issuer on a day-to-day basis in relation to the Mortgage Loans and their Related Security, including, without limitation, the collection and recording of payments of principal, interest and other amounts in respect of the Mortgage Loans and their Related Security and the implementation of arrears procedures including the enforcement of mortgage rights, (ii) communicate with the Borrowers and (iii) investigate payment delinquencies, (b) the Asset Management Company will provide certain administration services to the Issuer, (c) the Calculation Agent will provide certain calculation and cash management services to the Issuer, and (d) the Custody Agent will provide certain custody services to the Issuer (see further *Servicing and Custody Agreement* below).

To hedge (i) the risk between the rate of interest to be received by the Issuer on the Mortgage Loans and the rate of interest payable by the Issuer on the Notes, (ii) the deflation exposure due to a negative change in the Icelandic consumer price index and (iii) the currency risk resulting from variations in the exchange rate of the krona vis-à-vis the euro, the Issuer will enter into a Swap Agreement with the Swap Counterparty (see *Credit Structure* below).

Security

The Notes will be secured by (i) a first ranking pledge granted by the Issuer to the Representative acting as agent of the Noteholders over the Mortgage Loans and the Related Security and (ii) a first ranking pledge by the Issuer to the Representative acting as agent of the Noteholders over the Issuer's rights to the balances standing to the credit of the Transaction Accounts and Issuer Collection Account of the Issuer from time to time.

The Fund Deed sets out the priority of the claims of the Secured Parties. See for a more detailed description *Credit Structure and Description of Security* below.

Interest on the Notes

The Notes will carry a floating rate of interest, payable quarterly in arrear on each Quarterly Payment Date. The rate of interest for the Notes will be three months Euribor plus a margin. On the first Optional Redemption Date, the margin of the Notes, other than the Junior Class C Notes, will be reset subject to and in accordance with the Terms and Conditions of the Notes.

Redemption of the Notes

Unless previously redeemed in full, the Issuer will, subject to Condition 9(b), redeem all of the Notes at their respective Principal Amount Outstanding on the Quarterly Payment Date falling in November 2053.

On the earlier of (i) the Quarterly Payment Date falling in November 2011 and (ii) the Quarterly Payment Date immediately succeeding the date on which an Assignment Notification Event has occurred, and each Quarterly Payment Date thereafter the Issuer will be obliged to apply the Notes Redemption Available Amount, which consists of the amounts received from the Swap Counterparty under the Swap Agreement as EUR Swap Principal Amount to redeem the Notes (other than the Junior Class C Notes).

The Issuer will have the option to redeem all of the Notes, other than the Junior Class C Notes, but not some only, on each Optional Redemption Date at their Principal Amount Outstanding subject, in the case of the Mezzanine Class B Notes, to Condition 9(b). The Issuer will be obliged to exercise this option to redeem the Notes, other than the Junior Class C Notes, on an Optional Redemption Date if so instructed by the Swap Counterparty. The Swap Counterparty may only decide not to instruct the Issuer to exercise the option to redeem the Notes, other than the Junior Class C Notes, on an Optional Redemption Date, after having obtained prior written approval of the Swap Guarantor. Also, the Issuer will have the option to redeem the Notes for tax reasons and upon the occurrence of a Regulatory Change.

Listing

Application has been made to list the Senior Class A Notes on OMX ICE and on Euronext Amsterdam. The Mezzanine Class B Notes and the Junior Class C Notes will not be listed.

Rating

It is a condition precedent that the Senior Class A Notes, on issue, be assigned an "Aaa" rating by Moody's. The Mezzanine Class B Notes and the Junior Class C Notes will not be rated.

Risk factors

There are certain factors which prospective Noteholders should take into account. These risk factors relate to, *inter alia*, the Notes such as (but not limited to) the fact that the liabilities of the Issuer under the Notes are limited recourse obligations whereby the ability of the Issuer to meet such obligations will be dependent on the receipt by it of funds under the Mortgage Loans, the proceeds of the sale of any Mortgage Loans and the receipt by it of other funds. Despite certain facilities, there remains a credit risk, liquidity risk, prepayment risk, maturity risk, interest rate risk and exchange risk relating to the Notes. Moreover, there are certain structural and legal risks relating to the Mortgage Loans (see *Risk Factors* below).

Governing Law

The Notes will be governed by and construed in accordance with the laws of Iceland.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfill its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risk associated with the Notes are also described below. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

The Notes will be solely the obligations of the Issuer

The Notes will solely be the obligations of the Issuer. The Notes will not be obligations or responsibilities of, or guaranteed by, any other entity or person, in whatever capacity acting, including, without limitation, the Seller, the Pool Servicer, the Calculation Agent, the Asset Management Company, the Manager, the Liquidity Facility Provider, the GIC Provider, the Swap Counterparty, the Swap Guarantor, the Paying Agents, the Reference Agent and the Representative in whatever capacity acting. Furthermore, none of the Seller, the Pool Servicer, the Calculation Agent, the Asset Management Company, the Manager, the Liquidity Facility Provider, the GIC Provider, the Swap Counterparty, the Swap Guarantor, the Paying Agents, the Reference Agent and the Representative nor any other person in whatever capacity acting will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amounts due under the Notes. None of the Seller, the Pool Servicer, the Calculation Agent, the Asset Management Company, the Manager, the Liquidity Facility Provider, the GIC Provider, the Swap Counterparty, the Swap Guarantor, the Paying Agents, the Reference Agent and the Representative will be under any obligation whatsoever to provide additional funds to the Issuer (save in the limited circumstances pursuant to the Relevant Documents)

The Issuer has limited resources available to meet its obligations

The ability of the Issuer to meet its obligations to pay in full principal of and interest on the Notes will be dependent on the receipt by it of funds under the Mortgage Loans, the proceeds of the sale of any Mortgage Loans and their Related Security, the receipt by it of payments under the Swap Agreement and the receipt by it of interest in respect of the balances standing to the credit of the Master Collection Account, the Issuer Collection Account and the Reserve Account. See further *Credit Structure*. In addition, the Issuer will have available to it the balances standing to the credit of the Reserve Account and the amount available to be drawn under the Liquidity Facility Agreement for certain of its payment obligations. The Issuer does not have any other resources available to meet its obligations under the Notes.

The Issuer has counterparty risk exposure

Counterparties to the Issuer may not perform their obligations under the Relevant Documents (as defined in the Conditions), which may result in the Issuer not being able to meet its obligations. It should be noted that there is a risk that (a) SPRON in its capacity of Seller, Pool Servicer, Swap Counterparty will not meet its obligations vis-à-vis the Issuer under, respectively, the Mortgage Sale Agreement, the Servicing and Custody Agreement and the Swap Agreement, (b) the Asset Management Company will not perform its obligations under the Servicing and Custody Agreement, (c) Fortis Bank NV/SA, as Swap Guarantor, Liquidity Facility Provider and Reference Agent, will not perform its obligations under, respectively, the Liquidity Facility Agreement, the Swap Agreement and the Paying Agency Agreement, (d) Kaupthing Bank, as GIC Provider will not perform its obligations under the GIC, (e) SPRON as Icelandic Paying Agent and Fortis Bank Nederland as Dutch Paying Agent will not perform their obligations under the Paying Agency Agreement, (f) Fortis Banque Luxembourg as Principal Paying Agent will not perform its obligations under the Paying Agency Agreement (g) Fortis Intertrust as Calculation Agent will not perform its obligations under the Servicing and Custody Agreement and (h) the Director will not perform its obligations under the Management Agreement.

Risk that the rights of pledge to the Representative will not be effective

Under or pursuant to the Pledge Agreements, various rights of pledge will be granted by the Issuer to the Representative. On the basis of these pledges the Representative can exercise the rights afforded by Icelandic law to pledgees notwithstanding bankruptcy ("*gjaldprotaskipti*") or suspension of payments ("*greiðslustöðvun*") of the Issuer. The Issuer is an institutional investors fund and is therefore unlikely to become insolvent. However, any bankruptcy or suspension of payments involving the Issuer would affect the position of the Representative as

pledgee in some respects, the most important of which are: (i) payments made by the Borrowers to the Issuer prior to notification of the assignment to the Issuer and the pledge to the Representative but after bankruptcy or suspension of payments will be part of the bankruptcy estate of the Issuer, although the Representative will be a creditor of the estate and will receive payment prior to the other creditors of the estate and (ii) the Representative may be obliged to enforce its right of pledge within a reasonable period by a receiver in bankruptcy proceedings of the Issuer, failing which the receiver may demand the surrender of and sell the assets himself. In the latter case, the Representative may only realise its claim by submission hereof in the bankruptcy and will receive payment, if any, only through the distribution of the proceeds of that sale after deduction of a share in the bankruptcy costs and subject to satisfaction of higher ranking claims of creditors.

To the extent the receivables pledged by the Issuer to the Representative are future receivables, the right of pledge on such future receivable cannot be invoked against the estate of the Issuer, if such future receivable comes into existence after the Issuer has been declared bankrupt or has been granted a suspension of payments. The Issuer has been advised that the assets pledged to the Representative under the Representative Accounts Pledge Agreement should probably be regarded as future receivables. Deposits paid into the pledged accounts after declaration of bankruptcy of the Issuer will not fall under the pledge envisaged in the Representative Accounts Pledge Agreement.

Risk related to payments received by the Seller prior to notification of the assignment to the Issuer

Under Icelandic law, assignment of the legal title of secured promissory notes, such as the Mortgage Loans and their Related Security, can be effectuated by means of endorsement by the Seller of the document evidencing the mortgage, without notification of the assignment to the debtors being required. The legal title of the Mortgage Loans and their Related Security will be assigned on the Closing Date by endorsement of the Mortgage Document, and in respect of Substitute Mortgage Loans and their Related Security on each Quarterly Payment Date up to the earlier of (i) the Quarterly Payment Date falling in November 2011 and (ii) the Quarterly Payment Date immediately succeeding the date on which an Assignment Notification Event has occurred, by the Seller to the Issuer through a deed of sale and the subsequent endorsement of the relevant Mortgage Documents. The Mortgage Sale Agreement will provide that the assignment of the Mortgage Loans and their Related Security by the Seller to the Issuer will not be notified by the Seller or, as the case may be, the Issuer to the Borrowers except if certain events occur. For a description of these notification events reference is made to *Mortgage Sale Agreement* below.

Until notification of the assignment to the Issuer of the Mortgage Loans and their Related Security has been made to the Borrowers, the Borrowers can pay to the Seller. Payments made by Borrowers to the Seller prior to notification but after bankruptcy or emergency regulations in respect of the Seller having been declared will be part of the Seller's estate. In respect of these payments, the Issuer will be a creditor of the estate.

Risk that the Mortgage Loans will not qualify as secured promissory notes

When the Icelandic Act No. 121/1994 on Consumer Credit was enacted, mortgage loans were exempt from its provisions. However, following an amendment to the Act in year 2000, such loans became subject to its provisions. When the original Bill on Consumer Credit was presented in parliament, it prohibited the use of negotiable documents in consumer setting. Under discussion in parliament, the Bill was altered to allow for negotiable documents to be used in such setting. However, for such documents to maintain their status in this setting as negotiable documents, lenders were required to purchase an insurance policy described in the Bill. The purpose of this insurance was said to be to strengthen the position of the consumer, e.g. in case of defects of sold objects. When the Bill was so enacted, as the Act on Consumer Credit, Icelandic insurance companies began to offer policies according to the aforementioned provisions. The Seller has recently purchased such a policy from its insurer, and is therefore compliant with the described provisions of the Act. The occasion for this purchase was the Seller's decision to transfer the Mortgage Loans and their Related Security to the Issuer. The insurance was not in force when the secured promissory notes were issued. The Issuer has been advised that despite this, the existence of the insurance policy, when the transfer will take place from Seller to the Issuer, is sufficient to maintain the status of the secured promissory notes as negotiable documents, but that there is no case law nor are any legal commentators supporting this advice. In case the Mortgage Loans and their Related Security would not be regarded as negotiable documents, the risk of set-off would increase, as the general principle with regard to general claim is that a creditor is restricted in reducing debtors entitlement to set-off rights by transferring such claim.

Risk that Borrowers demand inscription on Mortgage Loan

Legislation in Iceland and unwritten rules and rulings of the Supreme Court of Iceland relating to bonds more or less reflect the arguments that led to the directive set by the King of Denmark (and Iceland) on the 9 February

1798 on inscription of instalments on bonds to be passed. Borrowers can demand that their installments are written on the document evidencing the bond and the borrower can trust that the creditor under the bond is the one which the bond states is the legal owner. By inserting a text on each Mortgage Document regarding the transfer of ownership the arguments on which the directive is based, are met and the Issuer has been advised that the Issuer's rights against the Borrower will not be affected and the transfer of the Mortgage Loans and their Related Security to the Issuer is perfected by the endorsement. Possession or notification to Borrowers do not have any bearing on the transfer of ownership. Even though Borrowers have the right, under the directive, to demand that the promissory note be presented at the time of each payment of an installment and quittance for the payment be inscribed on the note itself, the Issuer has been advised that this right is not exercised in practice.

Set-off by Borrowers may affect the proceeds under the Mortgage Loans

Under Icelandic law a debtor has a right of set-off if it has a claim against the creditor that is of the same nature. The general conditions for set-off rights are, in addition to that the claims are of the same nature, that they are between the same parties, are valid and, with respect to time, competent to meet each other. This last condition refers to maturity. Under bankruptcy the set-off right is extended as with regard to the condition of maturity. With respect to validity, an exemption is admitted with regard to prescription if the claims root to the same event, and one or both have expired for reasons of prescription. Subject to these requirements being met, each Borrower will, prior to transfer of the Mortgage Loans and their Related Security to the Issuer, be entitled to set off amounts due by the Seller to it – such as, for example, set-off rights associated with Borrowers holding deposits with the Seller – against amounts it owes in respect of the Mortgage Loans.

After assignment of the Mortgage Loans and their Related Security by the Seller to the Issuer, a Borrower will only have limited set-off rights vis-à-vis the Issuer, due to their nature as negotiable instruments. According to the principles of negotiable documents, after assignment of the Mortgage Loans and their Related Security by the Seller to the Issuer, Borrowers will only have set-off rights vis-à-vis the Issuer if both of the following two conditions are met at the time of the assignment: (i) the Issuer knew that the Borrower had a claim fit for set-off; and (ii) the Issuer also knew that the Borrower would suffer loss in case this set-off right would be eliminated. There is no reason to believe that the persons representing the Issuer will have any knowledge of actual deposit holdings by the Borrowers. The Issuer has been advised that it would not suffice, in this regard, that the persons representing the Issuer may make the general assumption that Borrowers possibly own deposits with the Seller. According to Article 58 of the Act on Financial Undertakings, the Seller is not allowed to disseminate such information to the Issuer, or to any other party, without the Borrowers' consent. It would therefore constitute a breach of this Article, if the persons representing the Issuer at any time were to receive such information from the Seller without the Borrowers' consent.

Furthermore, the Issuer has been advised that the possibilities for the relevant Borrowers to prove that condition (ii) (i.e. that the Issuer knew that the Borrower would suffer a loss in case his set-off right would be eliminated) were met at time of the assignment, are remote. This is based upon the assumption that at the time of transfer, Seller is in good standing and that, therefore, there is no legitimate reason for the Issuer to presume that Borrowers would suffer loss in case their set-off rights against Seller were eliminated by the transfer.

The Mortgage Sale Agreement provides that if a Borrower sets off amounts due to it by the Seller against the relevant Mortgage Loan and, as a consequence thereof, the Issuer does not receive the amount which it is entitled to receive in respect of such Mortgage Loan, the Seller will pay to the Issuer an amount equal to the difference between the amount which the Issuer would have received in respect of the relevant Mortgage Loan if no set-off had taken place and the amount actually received by the Issuer in respect of such Mortgage Loan.

Risks related to termination of the Swap Agreement

The Swap Counterparty will be obliged to make payments under the Swap Agreement without any withholding or deduction of taxes unless required by law. If in the future any such withholding or deduction is required by law, the Swap Counterparty will be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Issuer will equal the full amount that the Issuer would have received had no such withholding or deduction been required. The Swap Agreement will provide, however, that if due to (i) action taken by a relevant taxing authority or brought in a court of competent jurisdiction, or (ii) any change in tax law, in both cases after the date of the Swap Agreement, the Swap Counterparty will, or there is a substantial likelihood that it will be required to pay to the Issuer additional amounts for or on account of tax (a 'Tax Event'), the Swap Counterparty may (with the consent of the Issuer and the Moody's) transfer its rights and obligations to another of its offices, branches or affiliates to avoid the relevant Tax Event. If the Swap Counterparty is unable to transfer its rights and obligations under the Swap Agreement to another office, branch or affiliate, it will have the right to

terminate the Swap Agreement. Upon such termination, the Issuer or the Swap Counterparty may be liable to make a termination payment to the other party.

The Swap Agreement will be terminable by one party if - *inter alia* - (i) an event of default occurs (not including a Convertibility Moratorium) in relation to the other party, (ii) it becomes unlawful (except in case of a Convertibility Moratorium) for either party to perform its obligations under the Swap Agreement or (iii) an Enforcement Notice is served. Events of default in relation to the Issuer will be limited to (i) non-payment under the Swap Agreement and (ii) insolvency events. If the Swap Agreement terminates the Issuer will be exposed to changes in the relevant rates of interest. Furthermore the Issuer will be exposed to variations in the exchange rate of the krona vis-à-vis the euro. Finally, the Issuer will in such event have an inflation exposure. As a result, unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments under the Notes.

Regulatory Call Option

In case the Seller exercises its Regulatory Call Option, the Issuer has the option to redeem the Notes by applying the proceeds of the sale of the Mortgage Loans and their Related Security towards redemption of the Notes in accordance with Condition 6(h).

Risk related to prepayment on the Mortgage Loans

The maturity of the Notes of each Class will depend on, *inter alia*, the amount and timing of payment of principal (including full and partial prepayments, sale of the Mortgage Loans by the Issuer and the purchase of any Substitute Mortgage Loans by the Issuer) on the Mortgage Loans. The average maturity of the Notes may be adversely affected by a higher or lower than anticipated rate of prepayment on the Mortgage Loans. The rate of prepayment of Mortgage Loans is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates, changes in tax laws (including but not limited to amendments to mortgage interest tax deductibility), local and regional economic conditions and changes in Borrowers' behaviour (including but not limited to home-owner mobility). No guarantee can be given as to the level of prepayment that the Mortgage Loans may experience, and variation in the rate of prepayments of principal on the Mortgage Loans may affect each Class of Notes differently.

Payments on the Mortgage Loans are subject to credit, liquidity, interest rate and indexation risks

Payments on the Mortgage Loans are subject to credit, liquidity, interest rate and indexation risks. This may be due to, among other things, market interest rates, general economic conditions, the financial standing of Borrowers and other similar factors. Other factors such as loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy filings by Borrowers and could ultimately have an adverse impact on the ability of Borrowers to repay their Mortgage Loans.

Risks of Losses associated with declining values of Mortgaged Assets

The security for the Notes created under the Representative Loans Pledge Agreement may be affected by, among other things, a decline in the value of the Mortgaged Assets. No assurance can be given that values of the Mortgaged Assets have remained or will remain at the level at which they were on the date of origination of the related Mortgage Loans. A decline in value may result in losses to the Noteholders if the relevant security rights on the Mortgaged Assets are required to be enforced.

Subordination of the Mezzanine Class B Notes and the Junior Class C Notes

To the extent set forth in Condition 9, (a) the Mezzanine Class B Notes are subordinated in right of payment to the Senior Class A Notes and (b) the Junior Class C Notes are subordinated in right of payment to the Senior Class A Notes and the Mezzanine Class B Notes. With respect to any Class of Notes, such subordination is designed to provide credit enhancement to any Class of Notes with a higher payment priority than such Class of Notes.

If, upon default by Borrowers and after exercise by the Pool Servicer of all available remedies in respect of the applicable Mortgage Loans, the Issuer does not receive the full amount due from such Borrowers, Noteholders may receive by way of principal repayment on the Notes an amount less than the face amount of their Notes and the Issuer may be unable to pay in full interest due on the Notes, to the extent set forth in Condition 9. On any Quarterly Payment Date, any such losses on the Mortgage Loans will be allocated as described in *Credit Structure* below.

Maturity Risk

The ability of the Issuer to redeem all the Notes on each Optional Redemption Date or, as the case may be, on the Final Maturity Date in full and to pay all amounts due to the Noteholders, including after the occurrence of an Event

of Default (as defined in Condition 10) may depend upon whether the value of the Mortgage Loans is sufficient to redeem the Notes.

Risk that the Issuer will not exercise its right to redeem the Notes at the Optional Redemption Dates

Although as a result of the increase in the margin payable in respect of the floating rate of interest on the Notes the Issuer may have an incentive to exercise its right to redeem the Notes, other than the Junior Class C Notes, on the first Optional Redemption Date or on any later Optional Redemption Date, no guarantee can be given that the Issuer will actually exercise such right. The exercise of such right will, *inter alia*, depend on the ability of the Issuer to have sufficient funds available to redeem the Notes, for example through a sale of Mortgage Loans and their Related Security still outstanding at that time or the fact that a Convertibility Moratorium has been declared and is continuing.

Risk related to the limited liquidity of the Notes

There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide Noteholders with liquidity of investment or that it will continue for the life of the Notes. To date, no underwriter has indicated that they intend to establish and/or maintain a secondary market in the Notes.

No Gross-up for Taxes

As provided in Condition 7, if withholding of, or deduction for, or an account of any present or future taxes, duties, assessments or charges of whatever nature are imposed by or on behalf of Iceland, any authority therein or thereof having power to tax, the Issuer will make the required withholding or deduction of such taxes, duties, assessments or charges for the account of the Noteholders, as the case may be, and shall not be obliged to pay any additional amounts to the Noteholders.

Forecasts and Estimates

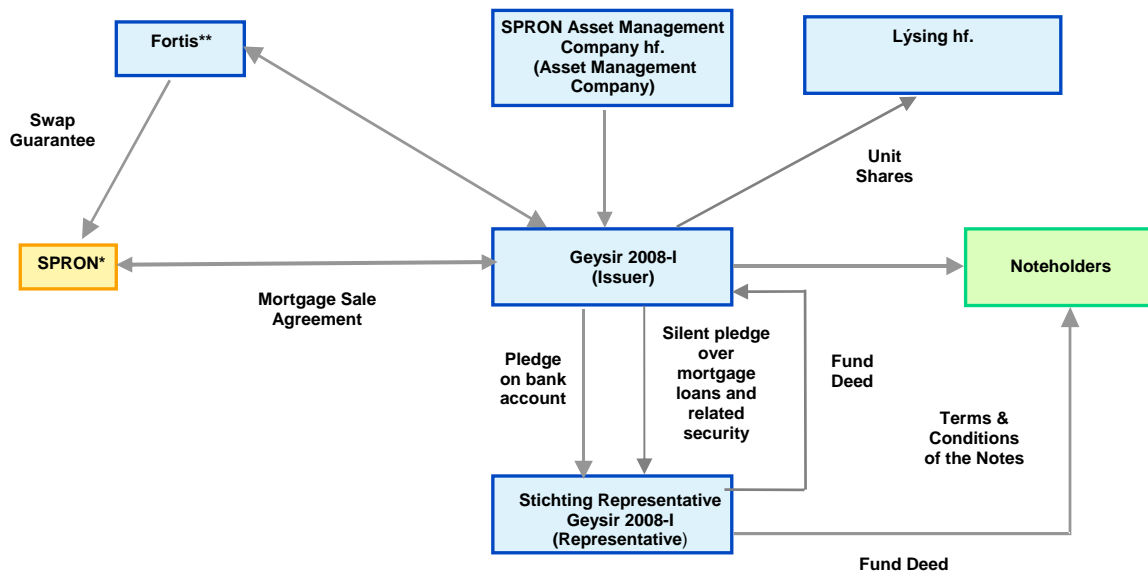
Forecasts and estimates in this Prospectus are forward looking statements. Such projections are speculative in nature and it can be expected that some or all of the assumptions underlying the projections will not prove to be correct or will vary from actual results. Consequently, the actual result might differ from the projections and such differences might be significant.

Convertibility Moratorium

In the event that a Convertibility Moratorium has been declared and is continuing, the amounts payable by the Issuer to the Swap Counterparty and by the Swap Counterparty to the Issuer under the Swap Agreement will not be paid until the Convertibility Moratorium has ended. In order to meet certain payment obligations of the Issuer in such event, the Issuer will make a drawing under the Liquidity Facility Agreement. However, the Issuer is only entitled to make drawings under the Liquidity Facility Agreement up to the Liquidity Facility Maximum Amount. To the extent that the Issuer's payment obligations for which it is allowed to draw under the Liquidity Facility Agreement during a Convertibility Moratorium exceed the Liquidity Facility Maximum Amount and to the extent relating to payments for which the Issuer is not allowed to make drawings under the Liquidity Facility, there is risk that the Issuer will not be able to meet such payment obligations.

STRUCTURE DIAGRAM

The following structure diagram provides an indicative summary of the principal features of the transaction. The diagram must be read in conjunction with and is qualified in its entirety by the detailed information presented elsewhere in this Prospectus.



* In its capacity as Seller, Pool Servicer, Swap Counterparty, Seller Collection Account Provider
 ** In its capacity as Liquidity Facility Provider, Manager and Swap Guarantor

OVERVIEW OF THE PARTIES AND PRINCIPAL FEATURES OF THE TRANSACTION

The following provides an overview of the parties and the principal features of the transaction. The overview must be read in conjunction with and is qualified in its entirety by the detailed information presented elsewhere in this Prospectus.

PARTIES:

Issuer:	Geysir 2008-I Institutional Investor Fund, ID no. 440308-9880, an institutional investor fund established under the laws of Iceland pursuant to Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities (UCITS) and Investment Funds (the ' Issuer '). All unit shares issued by the Issuer are owned by Lýsing hf. Lýsing hf. is leasing company and daughter company of Exista hf. The managing director of Exista hf. is Mr. Erlendur Hjaltason. Mr. Erlendur Hjaltason is also the chairman of the board of managing directors of SPRON.
Seller:	Sparisjóður Reykjavíkur og nágrennis hf., ID no. 540502-2770, a bank established under the laws of Iceland (' SPRON ').
Representative:	Stichting Representative Geysir 2008-I, a foundation incorporated under the laws of the Netherlands and established in Amsterdam, the Netherlands (the ' Representative ').
Asset Management Company:	Rekstrarfélag SPRON hf., ID no. 470904-2160 a company established under the laws of Iceland (the ' Asset Management Company '). The Asset Management Company belongs to the same group of companies as SPRON.
Director:	Fortis Intertrust (Netherlands) B.V., a private company with limited liability organised under the laws of the Netherlands and established in Amsterdam, the Netherlands (' Fortis Intertrust ') as the sole director of the Representative. Fortis Intertrust belongs to the same group of companies as Fortis.
Pool Servicer:	SPRON, acting in its capacity as pool servicer under the Servicing and Custody Agreement (the ' Pool Servicer ').
Calculation Agent:	Fortis Intertrust, acting in its capacity as calculation agent under the Servicing and Custody Agreement (the ' Calculation Agent ').
Liquidity Facility Provider:	Fortis Bank NV/SA, a company organised under the laws of Belgium and established in Brussels, Belgium (' Fortis '), acting in its capacity as liquidity facility provider under the Liquidity Facility Agreement (the ' Liquidity Facility Provider ').
Swap Counterparty:	SPRON, acting in its capacity as swap counterparty under the Swap Agreement (the ' Swap Counterparty ').
Swap Guarantor:	Fortis, acting in its capacity as swap guarantor under the Swap Agreement (the ' Swap Guarantor ').
GIC Provider:	Kaupping Banki hf., ID no. 560882-0419 a bank established under the laws of Iceland (Borgartuni 27, 105 Reykjavik, Iceland) and acting in its capacity as gic provider under the GIC (' Kaupthing Bank ' or the ' GIC Provider ').
Principal Paying Agent:	Fortis Banque Luxembourg S.A., a public company established under the laws of Luxembourg (' Fortis Banque Luxembourg '), acting in its capacity as principal paying agent under the Paying Agency Agreement (the ' Principal Paying Agent '). The Principal Paying Agent belongs to the same group of companies as Fortis.

Dutch Paying Agent:	Fortis Bank (Nederland) N.V., a public company organised under the laws of the Netherlands and established in Rotterdam, the Netherlands (' Fortis Bank Nederland ') acting in its capacity as Dutch paying agent under the Paying Agency Agreement (the ' Dutch Paying Agent '). The Dutch Paying Agent belongs to the same group of companies as Fortis.
Icelandic Paying Agent:	SPRON, acting in its capacity as Icelandic paying agent under the Paying Agency Agreement (the ' Icelandic Paying Agent ' and together with the Principal Paying Agent and the Dutch Paying Agent, the ' Paying Agents ').
Reference Agent:	Fortis, acting in its capacity as reference agent under the Paying Agency Agreement (the ' Reference Agent ').
Custody Agent:	Arion verðbréfavarsla hf., ID no. 470502-4520, a company established under the laws of Iceland (Ármúla 13, 105 Reykjavík.), acting in its capacity as custody agent under the Servicing and Custody Agreement (the ' Custody Agent ').
Manager:	Fortis.
Icelandic Listing Agent:	SPRON, acting in its capacity as Icelandic listing agent.
Dutch Listing Agent:	Fortis Bank Nederland, acting in its capacity as Dutch listing agent.

THE NOTES:

Notes:	The euro 124,800,000 floating rate Senior Class A Mortgage-Backed Notes 2008 due 2053 (the ' Senior Class A Notes '), the euro 34,200,000.00 floating rate Mezzanine Class B Mortgage-Backed Notes 2008 due 2053 (the ' Mezzanine Class B Notes ') and the euro 1,600,000.00 floating rate Junior Class C Notes 2008 due 2053 (the ' Junior Class C Notes '), and together with the Senior Class A Notes and the Mezzanine Class B Notes, the ' Notes ') will be issued by the Issuer on or about 25 July 2008 (the ' Closing Date ') or such later date as may be agreed between the Issuer and the Manager.
Issue Price:	The issue prices of the Notes will be as follows: (i) the Senior Class A Notes 100 per cent.; (ii) the Mezzanine Class B Notes 100 per cent.; and (iii) the Junior Class C Notes 100 per cent.
Form of the Notes:	<p>The Notes are in bearer form and in the case of Definitive Notes, serially numbered with coupons attached.</p> <p>The Notes of each Class will initially be represented by a Temporary Global Note which is expected to be deposited on the issue date thereof either (a) in respect of the Senior Class A Notes, with a common safekeeper for Euroclear and Clearstream Banking, or (b) in respect of the Mezzanine Class B Notes and the Junior Class C Notes with Fortis Banque Luxembourg as common safekeeper for Euroclear and Clearstream, Luxembourg.</p>
Denomination:	The Notes will be issued in denominations of euro 50,000.

Status and Ranking:	<p>The Notes of each Class rank <i>pari passu</i> and rateably without any preference or priority among Notes of the same Class. In accordance with the Conditions, a Fund Deed dated on or about 25 July 2008 (the 'Fund Deed') (i) payments of principal and interest on the Mezzanine Class B Notes are subordinated to, <i>inter alia</i>, payments of principal and interest on the Senior Class A Notes and (ii) payments of principal and interest on the Junior Class C Notes are subordinated to, <i>inter alia</i>, payments of principal and interest on the Senior Class A Notes and the Mezzanine Class B Notes. See further <i>Terms and Conditions of the Notes</i> below.</p>
Interest:	<p>Interest on the Notes is payable by reference to successive interest periods. Each successive interest period will commence on (and include) a Quarterly Payment Date (as defined below) and end on (but exclude) the succeeding Quarterly Payment Date (each an 'Interest Period'), except for the first Interest Period which will commence on (and include) the Closing Date and end on (but exclude) the Quarterly Payment Date falling in November 2008. The interest will be calculated on the basis of the actual days elapsed in the Interest Period divided by a year of 360 days.</p> <p>Interest on the Notes will be payable quarterly in arrear in euro in respect of the Principal Amount Outstanding (as defined in the Conditions) on the 20th day of February, May, August and November, (or, if such day is not a Business Day (as defined below), the next succeeding Business Day, unless such Business Day falls in the next succeeding calendar month in which event the Business Day immediately preceding such day) in each year (each such day being a 'Quarterly Payment Date'). A 'Business Day' means a day on which banks are open for business in Reykjavik, Brussels and Luxembourg, provided that such day is also a day on which the Trans-European Automated Real-Time Gross Settlement European Transfer System ('TARGET System') or any successor thereto is operating credit or transfer instructions in respect of payments in euro.</p> <p>Interest on the Notes for each Interest Period from the Closing Date will accrue at an annual rate equal to the sum of the Euro Interbank Offered Rate ('Euribor') for three months deposits in euro (determined in accordance with Condition 4(e)) (or, in respect of the first Interest Period, the rate which represents the linear interpolation of Euribor for 4 and 5 months deposits in euro) plus, up to the Step-Up Date, and in respect of the Mezzanine Class B Notes and the Junior Class C Notes up to the Final Maturity Date:</p> <ul style="list-style-type: none">(i) for the Senior Class A Notes a margin of 0.20 per cent. per annum;(ii) for the Mezzanine Class B Notes a margin of 0.30 per cent. per annum; and(iii) for the Junior Class C Notes a margin of 0.50 per cent. per annum.
Interest Step up:	<p>If on Step Up Date the Senior Class A Notes have not been redeemed in full, the rate of interest applicable to the then Principal Amount Outstanding on the Senior Class A Notes will be equal to the sum of Euribor for three months deposits in euros, plus a margin of 0.60 per cent.</p> <p>If the Issuer has notified the Representative and the Noteholders in accordance with Condition 13, that it wishes to exercise its right to redeem the Notes, other than the Junior Class C Notes, in accordance with Condition 6(e) on any Optional Redemption Date, but on such date a Convertibility Moratorium (as defined in Condition 6(c)) has been declared and is continuing as a result of which the Issuer is not able to redeem the Notes in full, the increase of the rate of interest applicable to the then Principal Amount Outstanding on the Senior Class A Notes as described above as from the Step Up Date is not applicable until the earliest Optional Redemption Date on or after the Step Up Date on which no Convertibility Moratorium is in force.</p>
Final Maturity	<p>Unless previously redeemed in full as provided below, the Issuer will, subject to the Conditions, redeem the Notes at their respective Principal Amount Outstanding on the Quarterly Payment Date falling in November 2053.</p>
Mandatory	<p>The Issuer will be obliged to apply the Notes Redemption Available Amount (as</p>

Redemption of the Notes:	defined in Condition 6(c)), to redeem (or partially redeem) on a <i>pro rata</i> basis on the earlier of (i) the Quarterly Payment Date falling in November 2011 and (ii) the Quarterly Payment Date immediately succeeding the date on which an Assignment Notification Event has occurred and on each Quarterly Payment Date thereafter (each an ' Optional Redemption Date '), except if on such date a Convertibility Moratorium (as defined in Condition 6(c)) has been declared and is continuing as a result of which the Issuer is not able to fully redeem the Notes, the Senior Class A Notes and the Mezzanine Class B Notes at their Principal Amount Outstanding in the following order, (a) firstly, the Senior Class A Notes, until fully redeemed, and, thereafter, (b) the Mezzanine Class B Notes until fully redeemed. The Junior Class C Notes will be subject to mandatory partial redemption on each Optional Redemption Date in the limited circumstances as described in the Conditions.
Optional Redemption of the Notes:	Unless previously redeemed in full, the Issuer will have the option to redeem all of the Notes, other than the Junior Class C Notes, in whole but not in part, on each Optional Redemption Date at their Principal Amount Outstanding (as defined in Condition 6(c)) or, in case of a Mezzanine Class B Principal Shortfall (as defined in Condition 9(b)), partially redeem the Mezzanine Class B Notes, at their Principal Amount Outstanding less such Mezzanine Class B Principal Shortfall as provided in Condition 6(e), on such date. The Issuer will exercise this option to redeem the Notes, other than the Junior Class C Notes, on an Optional Redemption Date if so instructed by the Swap Counterparty. The Swap Counterparty may only decide not to instruct the Issuer to exercise the option to redeem the Notes, other than the Junior Class C Notes, on an Optional Redemption Date, after having obtained prior written approval of the Swap Guarantor.
Redemption for tax reasons:	If the Issuer is or will be obliged to make any withholding or deduction for, or on account of, any taxes, duties or charges of whatsoever nature from payments in respect of any Class of Notes as a result of any change in, or amendment to, the laws or regulations of Iceland (including any guidelines issued by the tax authorities) or any other jurisdiction or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which becomes effective on or after the Closing Date and such obligation cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer has the option to redeem the Notes, in whole but not in part, on any Quarterly Payment Date at their Principal Amount Outstanding, together with interest accrued up to and including the date of redemption or, in case of a Mezzanine Class B Principal Shortfall (as defined in Condition 9(b)), partially redeem the Mezzanine Class B Notes, at their Principal Amount Outstanding less such Mezzanine Class B Principal Shortfall. No Class of Notes may be redeemed under such circumstances unless the other Classes of Notes (or such of them as are then outstanding) are also redeemed in full at the same time.
Regulatory Call Option:	<p>On each Quarterly Payment Date the Seller has the option to repurchase the Mortgage Loans and their Related Security upon the occurrence of a Regulatory Change (the 'Regulatory Call Option').</p> <p>The Issuer has undertaken in the Mortgage Sale Agreement to sell and assign the Mortgage Loans and their Related Security to the Seller, or any third party appointed by the Seller at its sole discretion, in case the Seller exercises the Regulatory Call Option. The purchase price will be calculated as described in the paragraph <i>Sale of Mortgage Loans and their Related Security in Credit Structure</i> below. If the Seller exercises its Regulatory Call Option, then the Issuer has the option to redeem the Notes by applying the proceeds of the sale of the Mortgage Loans and their Related Security towards redemption of the Notes subject to and in accordance with Condition 6(h) and 9 (b). In the Fund Deed, the Issuer undertakes to exercise the option to redeem the Notes if the Seller exercises its Regulatory Call Option.</p>
Method of Payment:	For so long as the Notes are represented by a Global Note, payments of principal and interest will be made in euro (i) in respect of the Senior Class A Notes to a common

service provider for Euroclear and Clearstream, Luxembourg, for the credit of the respective accounts of the Senior Class A Noteholders and (ii) in respect of the Mezzanine Class B Notes and the Junior Class C Notes to another common service provider for Euroclear and Clearstream, Luxembourg, for the credit of the respective accounts of the Mezzanine Class B Noteholders and the Junior Class C Noteholders.

Withholding tax:

All payments by the Issuer in respect of the Notes will be made without withholding of or deduction for, or on account of any present or future taxes, duties, assessments or charges of whatsoever nature imposed or levied by or on behalf of Iceland, any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or charges are required by law. In that event, the Issuer will make the required withholding or deduction of such taxes, duties, assessments or charges for the account of the Noteholders, as the case may be, and shall not pay any additional amounts to such Noteholders. In particular, but without limitation, no additional amounts shall be payable in respect of any Note presented for payment, where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on the taxation of savings that was adopted on 3 June 2003 or any law implementing or complying with, or introduced in order to conform to, such Directive. See further paragraphs *European Union Directive on the taxation of savings* above and *Taxation in Iceland* below.

Use of proceeds:

The Issuer will use the net proceeds from the issue of the Notes, other than the Junior Class C Notes, to pay to the Seller the Initial Purchase Price for the Mortgage Loans and their Related Security (as described below), pursuant to the provisions of an agreement dated on or about 22 July 2008 (the '**Mortgage Sale Agreement**') and made between the Seller, the Issuer and the Representative. See further *Mortgage Sale Agreement* below. The net proceeds from the issue of the Junior Class C Notes, after being converted into ISK at the Swap Exchange Rate, will be credited to the Reserve Account.

Listing:

Application has been made for the Senior Class A Notes to be listed on OMX ICE and on Euronext Amsterdam. The Mezzanine Class B Notes and the Junior Class C Notes will not be listed.

Rating:

It is a condition precedent to issuance that the Senior Class A Notes, on issue, be assigned a rating of 'Aaa' by Moody's. The Mezzanine Class B Notes and the Junior Class C Notes will not be rated.

Governing Law:

The Notes will be governed by and construed in accordance with the laws of Iceland.

THE MORTGAGE LOANS:

Mortgage Loans:

Under the Mortgage Sale Agreement, the Issuer will on the Closing Date purchase and accept the assignment of certain loans secured by a mortgage right and referenced by their mortgage loans identification number and comprising of all principal sums, interest, costs, charges, expenses and other monies due or owing with respect to that loan under the relevant mortgage conditions (the 'Mortgage Loans', (which will include any Substitute Mortgage Loans as defined below) including their Related Security (as defined below) of the Seller against certain borrowers (the 'Borrowers').

The Mortgage Loans to be sold by the Seller pursuant to the Mortgage Sale Agreement will relate to loans secured by a first-ranking mortgage right or in case of Mortgage Loans secured on the same Mortgaged Asset, first and sequentially lower ranking mortgage rights (the 'Related Security'), over a real property, (the 'Mortgaged Asset') situated in Iceland which meet criteria set forth in the Mortgage Sale

Agreement and which will be selected prior to or on the Closing Date. The Mortgage Loans have been originated by the Seller or any of its subsidiaries. The Mortgage Loans may consist of the following types:

- (i) Annuity Mortgage Loans; and
- (ii) Linear Mortgage Loans.

The Mortgage Loans have the characteristics that demonstrate the capacity to produce funds to service payments under the Notes.

Substitution:

The Mortgage Sale Agreement will provide that the Issuer will on each Quarterly Payment Date up to the Quarterly Payment Date falling in November 2011 purchase from the Seller mortgage loans (the '**Substitute Mortgage Loans**') and their Related Security to the extent offered by the Seller and subject to the fulfilment of certain conditions, including the condition that on such Quarterly Payment Date the sum of (i) the Outstanding Principal Amount of the Mortgage Loans on the last day of the immediately preceding Quarterly Collection Period and (ii) after substitution, the balance standing to the credit of the Principal Ledger of the Master Collection Account on the last day of the immediately preceding Quarterly Collection Period, is not equal to or higher than the Assets Target Level.

Repurchase of Mortgage Loans:

In the Mortgage Sale Agreement the Seller has undertaken to repurchase and accept re-assignment of a Mortgage Loan and its Related Security:

- (i) within twenty (20) Business Days immediately following the expiration of the relevant remedy period if any of the representations and warranties given by the Seller in respect of the Mortgage Loans and their Related Security, including the representation and warranty that the Mortgage Loans meet certain mortgage loan criteria, are untrue or incorrect or if such matter is not capable of being remedied or is not remedied within the said period of twenty (20) Business Days;
- (ii) within twenty (20) Business Days after the date on which the Seller agrees with a Borrower to amend the terms of the Mortgage Loan and as a result thereof such Mortgage Loan no longer meets the representations and warranties as set forth in the Mortgage Sale Agreement, including the Mortgage Loan Criteria and the Substitution Criteria set forth in the Mortgage Sale Agreement ('**Mortgage Loan Amendment**');
- (iii) within twenty (20) Business Days after the date on which the Seller agrees with a Borrower that the Mortgage Loan and its Related Security will be transferred to another borrower or another property ('**Mortgage Loan Transfer**') and as a result thereof such Mortgage Loan no longer meets the representations and warranties as set forth in the Mortgage Sale Agreement and the Mortgage Loan Criteria and the Substitution Criteria set forth in the Mortgage Sale Agreement.

Sale of Mortgage Loans:

The Issuer will on any Optional Redemption Date have the right to sell and assign the Mortgage Loans and their Related Security to a third party provided that the Issuer shall apply the proceeds of such sale, to the extent relating to principal, to redeem the Notes, other than the Junior Class C Notes, and to Principal Inflation Payments, if any. In addition, the Seller has the right to exercise the Regulatory Call Option. The purchase price of the Mortgage Loans and their Related Security in case of a sale of the Mortgage Loans and their Related Security shall be at least equal to the Principal Amount Outstanding of the Senior Class A Notes.

Security for the Notes:

The Notes will be secured:

- (i) by a first ranking right of pledge by the Issuer to the Representative as agent of the Noteholders over the Mortgage Loans and their Related Security, including all rights ancillary thereto; and
- (ii) by a first ranking right of pledge by the Issuer to the Representative as agent of the Noteholders over the Transaction Accounts and the Issuer Collection Account.

After the Enforcement Date, the amounts payable to the Noteholders and the other

Secured Parties will be limited to the amounts available for such purpose to the Representative which, *inter alia*, will consist of amounts recovered by the Representative in respect of such rights of pledge and will be made in accordance with the Priority of Payments upon Enforcement. See further *Credit Structure* and *Description of Security* below.

**Liquidity
Facility:**

On the Closing Date, the Issuer will enter into a 364 day term Liquidity Facility agreement with the Liquidity Facility Provider (the '**Liquidity Facility Agreement**') whereunder the Issuer will be entitled to make drawings in case a Convertibility Moratorium has been declared and is continuing to meet its obligations to pay items (a) up to and including (g) of the EUR Interest Priority of Payments which includes interest due but unpaid in respect of the Notes. See *Credit Structure* below.

GIC:

The Issuer and the GIC Provider will enter into a guaranteed investment contract (the '**GIC**') on the Closing Date, whereunder the GIC Provider will agree to pay a guaranteed rate of interest on the balance standing from time to time to the credit of the relevant Transaction Account (as defined below).

**Master
Collection
Account:**

The Issuer shall maintain with the GIC Provider an account (the '**Master Collection Account**', together with the Reserve Account and the EUR Collection Account (as defined below), the '**Transaction Accounts**') to which all amounts of interest, prepayment penalties and principal received under the Mortgage Loans, will be paid, either directly by the Borrowers or through the Issuer Collection Account by the Pool Servicer in accordance with the Servicing and Custody Agreement.

**EUR Collection
Account**

The Issuer shall maintain with the GIC Provider an account (the '**EUR Collection Account**') to which all amounts in euro received by the Issuer from (i) the Swap Counterparty under the Swap Agreement, (ii) the Liquidity Facility Provider under the Liquidity Facility Agreement and (iii) the Manager under the Notes Purchase Agreement will be paid.

**Reserve
Account:**

The net proceeds of the Junior Class C Notes, after being converted into krona at the Swap Exchange Rate, will be credited to an account (the '**Reserve Account**') held with the GIC Provider. The purpose of the Reserve Account will be to enable the Issuer to meet the Issuer's payment obligations under (a) to (e) (inclusive) of the ISK Interest Priority of Payments (as defined in *Credit Structure* below) in the event of a shortfall of the ISK Interest Available Amount (as defined in *Credit Structure* below) on a Quarterly Calculation Date. If and to the extent that the ISK Interest Available Amount on any Quarterly Calculation Date (as defined in Condition 6(c)) exceeds the amounts required to meet items (a) to (e) (inclusive) of the ISK Interest Priority of Payments, such excess amount will be used to replenish the Reserve Account by crediting such amount to the Reserve Account up to the Reserve Account Target Level.

**Swap
Agreement:**

On the Closing Date, the Issuer will enter into an interest rate and currency swap agreement with the Swap Counterparty to hedge (i) the risk between the rate of interest to be received by the Issuer on the Mortgage Loans and the rate of interest payable by the Issuer on the Notes, (ii) to hedge the currency risk resulting from variations in the exchange rate of the krona vis-à-vis the euro (see *Credit Structure* below) and (iii) to hedge the deflation risk as a result of a negative change of the Icelandic consumer price index. The Swap Guarantor will undertake to assume all rights and liabilities of the Swap Counterparty under the interest rate and currency swap agreement if the Swap Counterparty fails to perform under the interest rate and currency swap agreement. The conditions of such undertaking are set out in a swap novation agreement (the '**Swap Novation Agreement**') (the swap agreement and the Swap Novation Agreement together referred to as the '**Swap Agreement**'). As soon as the Swap Counterparty obtains ratings which are at least equal to the required ratings by Moody's in respect of the Swap Guarantor, the obligations of the Swap Guarantor will cease to exist and will not revive after a downgrade of the Swap Counterparty below such required ratings. (see paragraph *Interest Rate, Currency and Deflation Hedging* under *Credit Structure* below)

**Servicing and
Custody
Agreement:**

Under the terms of a Servicing and Custody Agreement to be entered into on the Closing Date (the '**Servicing and Custody Agreement**') between the Asset Management Company on behalf of the Issuer, the Asset Management Company, the Calculation Agent, the Pool Servicer, the Custody Agent and the Representative, (i) the Pool Servicer will agree to provide administration and management services in relation to the Mortgage Loans and their Related Security on a day-to-day basis, including, without limitation, the collection of payments of principal, interest and all other amounts in respect of the Mortgage Loans and the implementation of arrear procedures including, if applicable, the enforcement of mortgages (see further Mortgage Loan Underwriting and Servicing below), (ii) the Asset Management Company will agree to provide certain administration services, (iii) the Calculation Agent will agree to provide certain calculation and cash management services for the Issuer on a day-to-day basis, including without limitation, all calculations to be made in respect of the Notes pursuant to the Conditions and (iv) the Custody Agent will agree to provide certain services as detailed in Article 20 of the of Act No 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds.

**Management
Agreement:**

The Representative has entered into a management agreement (the '**Management Agreement**') with the Director, whereunder the Director will undertake to act as director of the Representative and to perform certain services in connection therewith.

CREDIT STRUCTURE

The structure of the credit arrangements for the proposed issue of the Notes may be summarised as follows.

Mortgage Loan Interest Rates

The Mortgage Loans pay interest on a fixed rate basis, subject to a reset from time to time on dates agreed with the Borrower plus the Indexation Adjustment. The **'Indexation Adjustment'** means the adjustment for changes, positive or negative, in the Icelandic consumer price index for financial indexation as indicated by the National Statistical Institute of Iceland (the **'Icelandic CPI'**). On the Portfolio Cut-Off Date the weighted average real interest rate of the Mortgage Loans is expected to be 4.37 per cent. Interest rates vary between individual Mortgage Loans. The range of interest rates is described further in *Description of Mortgage Loans* below. The actual amount of interest received by the Issuer under the Mortgage Sale Agreement will vary during the life of the Notes as a result of the level of delinquencies, defaults, repayments and prepayments, inflation, substitution and the reset of interest rates from time to time in respect of the Mortgage Loans.

Cash Collection Arrangements

Payments by the Borrowers under the Mortgage Loans are mainly due on a monthly basis. All payments made by Borrowers will be paid into a separate collection account in name of the Issuer (the **'Issuer Collection Account'**) maintained with the Seller (in this capacity the **'Collection Account Provider'**).

On each Business Day the Collection Account Provider shall transfer (or procure that the Pool Servicer transfers on its behalf) all amounts of principal, interest (including penalty interest) and prepayment penalties received by the Issuer in respect of the Mortgage Loans and paid from the Issuer Collection Account to the Master Collection Account.

Furthermore, on each Quarterly Payment Date the Seller shall in respect of Substitute Mortgage Loans purchased by the Issuer on such Quarterly Payment Date, transfer all amounts of principal received by it during the period commencing on the Reference Date immediately preceding such Quarterly Payment Date and ending on the (but excluding) the relevant Quarterly Payment Date to the Master Collection Account.

Transaction Accounts

The Issuer will maintain with the GIC Provider the Master Collection Account to which all amounts received in respect of the Mortgage Loans will be paid either directly by the Borrowers or through the Issuer Collection Account.

The Calculation Agent will identify all amounts paid into the Master Collection Account by crediting such amounts to ledgers established for such purpose. Payments received on each Business Day in respect of the Mortgage Loans will be identified as principal or revenue receipts and the amounts identified as principal will be credited to a principal ledger (the **'Principal Ledger'**) and the amounts identified as interest will be credited to a revenue ledger (the **'Revenue Ledger'**), as the case may be.

If during any Quarterly Collection Period, the balance standing to the credit of the Principal Ledger of the Master Collection Account exceeds 5 per cent. of the Principal Amount Outstanding of the Notes (other than the Junior Class C Notes) converted into ISK at the Swap Exchange Rate, the Issuer may at its option, invest such funds into (A) ISK denominated securities, subject to certain conditions, including that such securities may not have a maturity beyond the immediately succeeding Quarterly Payment Date and (i) that such securities have been assigned either (a) a rating of Aaa and Prime-1 by Moody's in case of a remaining tenor longer than six (6) months or (b) Aa3 and Prime-1 by Moody's in case of a remaining tenor less than six (6) months but longer than three (3) months or (c) A1 and Prime-1 by Moody's in case of a remaining tenor less than three (3) months but longer than one (1) month or (d) A2 or Prime-1 by Moody's in case of a remaining tenor less than one (1) month or (B) in other securities provided that Moody's has given prior confirmation that such investment will not adversely affect the then current ratings assigned to the Senior Class A Notes (the **'Eligible Investments'**).

Payments from the Master Collection Account other than on a Quarterly Payment Date may only be made to satisfy amounts due to third parties (other than pursuant to the Relevant Documents) and under obligations incurred in the Issuer's business.

Furthermore, the Issuer will maintain with the GIC Provider the EUR Collection Account to which all amounts in euro received by the Issuer from (i) the Swap Counterparty under the Swap Agreement, (ii) the Liquidity Facility

Provider under the Liquidity Facility Agreement and (iii) the Manager under the Notes Purchase Agreement will be paid.

Finally, the Issuer will also maintain with the GIC Provider the Reserve Account.

If at any time the short-term unsecured, unsubordinated and unguaranteed debt obligations of the GIC Provider are assigned a rating of less than the Prime-1 by Moody's (the "**Short Term Requisite Rating**") or any such rating is withdrawn by Moody's, the Issuer will be required within 30 days of such reduction or withdrawal of such rating to (i) transfer the balance standing to the credit of the Transaction Accounts to an alternative GIC provider with the required minimum rating or (ii) implement any other actions to maintain the then current rating assigned to the Senior Class A Notes. If at any time the Seller is assigned a rating which is at least equal to the Short Term Requisite Rating, the Seller may replace the GIC Provider by means of contract transfer.

Reserve Account

The net proceeds of the Junior Class C Notes, after being converted in krona at the Swap Exchange Rate, will be credited to the Reserve Account on the Closing Date.

Amounts credited to the Reserve Account will be available on any Quarterly Payment Date to meet items (a) to (e) (inclusive) of the ISK Interest Priority of Payments.

If and to the extent that the sum of the ISK Interest Available Amount on any Quarterly Calculation Date exceeds the amounts required to meet items ranking higher than item (e) in the ISK Interest Priority of Payments, the excess amount will be used to replenish the Reserve Account, to the extent required, until the balance standing to the credit of the Reserve Account equals the Reserve Account Target Level.

The '**Reserve Account Target Level**' shall on any Quarterly Calculation Date be equal to 1.00 per cent. of the Principal Amount Outstanding of the Notes, other than the Junior Class C Notes, (converted into ISK at the Swap Exchange Rate) on the Closing Date.

On the Quarterly Payment Date on which all amounts of interest and principal due in respect of the Notes, except in respect of the Junior Class C Notes, have been or will be paid, the Reserve Account Target Level will be reduced to zero and any amount standing to the credit of the Reserve Account will thereafter form part of the ISK Interest Available Amount and will be available for all items in the ISK Interest Priority of Payments which includes the payment to the Swap Counterparty of the Class C Redemption ISK Available Amount.

Priority of Payments in respect of interest

Prior to the delivery of an Enforcement Notice by the Representative, the sum of the following amounts, calculated at each Quarterly Calculation Date (being the 10th business day of February, May, August and November) as being received or held on the Master Collection Account during the Quarterly Collection Period immediately preceding such Quarterly Calculation Date (items (i) up to and including (ix) hereafter referred to as the '**ISK Interest Available Amount**')

- (i) as interest on the Mortgage Loans including any Indexation Adjustment to the extent relating to interest and any late payment penalties under the Mortgage Loans;
- (ii) as interest credited to the Master Collection Account and the Reserve Account and the Issuer Collection Account;
- (iii) as prepayment penalties under the Mortgage Loans;
- (iv) as Net Proceeds on any Mortgage Loans, to the extent such proceeds do not relate to principal;
- (v) as amounts to be drawn from the Reserve Account on the immediately succeeding Quarterly Payment Date;
- (vi) as amounts received in connection with a repurchase of Mortgage Loans and their Related Security pursuant to the Mortgage Sale Agreement or any other amounts received pursuant to the Mortgage Sale Agreement, to the extent such amounts do not relate to principal;

- (vii) as amounts received in connection with a sale of Mortgage Loans and their Related Security pursuant to the Fund Deed to the extent such amounts do not relate to principal;
- (viii) as amounts received as post-foreclosure proceeds on the Mortgage Loans and their Related Security; and
- (ix) after all amounts of interest and principal due in respect of the Notes, other than the Junior Class C Notes, have been paid or will be paid on the immediately succeeding Quarterly Payment Date, any amount standing to the credit of the Reserve Account, the Master Collection Account and the Issuer Collection Account to the extent not included in item (i) up to and including (viii).

Pursuant to the terms of the Fund Deed, the ISK Interest Available Amount will be applied by the Issuer on the immediately succeeding Quarterly Payment Date as follows (in each case only if and to the extent that payments of a higher order of priority have been made in full) (the '**ISK Interest Priority of Payments**')

- (a) *first*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, (i) of the fees or other remuneration due and payable in krona to the Director in connection with the Management Agreement and any costs, charges, liabilities and expenses due and payable in krona incurred by the Representative under or in connection with any of the Relevant Documents (as defined in the Conditions) and (ii) an amount equal to the ISK Swap Interest Amount multiplied by the First EUR Expenses Ratio, or, in case a Convertibility Moratorium has been declared and is continuing on such Quarterly Payment Date, in or towards satisfaction of such amount to be credited to the ISK Convertibility Moratorium Ledger;
- (b) *second*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, (i) of administration fees and expenses due and payable in krona to the Asset Management Company, the Pool Servicer and the Calculation Agent under the Servicing and Custody Agreement, and (ii) an amount equal to the ISK Swap Interest Amount multiplied by the Second EUR Expenses Ratio, or, in case a Convertibility Moratorium has been declared and is continuing on such Quarterly Payment Date, in or towards satisfaction of such amount to be credited to the ISK Convertibility Moratorium Ledger;
- (c) *third*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, (i) of any amounts due and payable in krona to third parties under obligations incurred in the Issuer's business (other than under the Relevant Documents), including, without limitation, in or towards satisfaction of sums due or provisions for any payment of the Issuer's liability, if any, to tax and the fees and expenses of Moody's and any legal advisor, auditor and accountant appointed by the Issuer or the Representative and (ii) fees and expenses due in krona to (a) the Principal Paying Agent, each Paying Agent and the Reference Agent under the Paying Agency Agreement, (b) the Liquidity Facility Provider under the Liquidity Facility Agreement and (c) the Swap Guarantor, and (iii) an amount equal to the ISK Swap Interest Amount multiplied by the Third EUR Expenses Ratio or, in case a Convertibility Moratorium has been declared and is continuing on such Quarterly Payment Date, in or towards satisfaction of such amount to be credited to the ISK Convertibility Moratorium Ledger;
- (d) *fourth*, in or towards satisfaction of an amount equal to the ISK Swap Interest Amount multiplied by the Class A Notes Interest Ratio, or, in case a Convertibility Moratorium has been declared and is continuing on such Quarterly Payment Date, in or towards satisfaction of such amount to be credited to the ISK Convertibility Moratorium Ledger;
- (e) *fifth*, in or towards making good any shortfall reflected in the Class A Principal Deficiency Ledger until the debit balance, if any, on the Class A Principal Deficiency Ledger is reduced to zero;
- (f) *sixth*, in or towards satisfaction of any sums required to replenish the Reserve Account up to the amount of the Reserve Account Target Level;
- (g) *seventh*, in or towards satisfaction of an amount equal to the ISK Swap Interest Amount multiplied by the Class B Notes Interest Ratio, or, in case a Convertibility Moratorium has been declared and is continuing on such Quarterly Payment Date, in or towards satisfaction of such amount to be credited to the ISK Convertibility Moratorium Ledger;

- (h) *eighth*, on each Quarterly Payment Date, in or towards making good any shortfall reflected in the Class B Principal Deficiency Ledger until the debit balance, if any, on the Class B Principal Deficiency Ledger is reduced to zero;
- (i) *ninth*, in or towards satisfaction of an amount equal to the ISK Swap Interest Amount multiplied by the Class C Notes Interest Ratio, or, in case a Convertibility Moratorium has been declared and is continuing on such Quarterly Payment Date, in or towards satisfaction of such amount to be credited to the ISK Convertibility Moratorium Ledger;
- (j) *tenth*, in or towards satisfaction of an amount equal to the Class C Redemption ISK Available Amount due but unpaid under the Swap Agreement;
- (k) *eleventh*, in or towards satisfaction of an amount equal to the ISK Swap Interest Amount multiplied by the Liquidity Facility Additional Amount Ratio or, in case a Convertibility Moratorium has been declared and is continuing on such Quarterly Payment Date, in or towards satisfaction of such amounts to be credited to the ISK Convertibility Moratorium Ledger;
- (l) *twelfth*, in or towards satisfaction, *pro rata*, of any termination payment due or payable under the Swap Agreement as a result of the occurrence of an Event of Default (as defined therein) where the Swap Counterparty is the Defaulting Party (as defined therein) or an Additional Termination Event (as defined therein), including a Settlement Amount (as defined therein) (a '**Swap Counterparty Default Payment**');
- (m) *fifteenth*, in or towards satisfaction of a Deferred Purchase Price Installment to the Seller.

For the purposes of the ISK Interest Priority of Payments the following terms shall have the following meanings:

'Class A Notes Interest Ratio' means, on any Quarterly Payment Date, an amount equal to the amount due by the Issuer under item (d) of the EUR Interest Priority of Payments in respect of the Senior Class A Notes, divided by the sum of the amounts due by the Issuer under items (a) up to and including (h) of the EUR Interest Priority of Payments but excluding item (g) thereof;

'Class B Notes Interest Ratio' means, on any Quarterly Payment Date, an amount equal to the amount due by the Issuer under item (e) of the EUR Interest Priority of Payments in respect of the Mezzanine Class B Notes, divided by the sum of the amounts due by the Issuer under items (a) up to and including (h) of the EUR Interest Priority of Payments but excluding item (g) thereof;

'Class C Notes Interest Ratio' means, on any Quarterly Payment Date, an amount equal to the amount due by the Issuer under item (f) of the EUR Interest Priority of Payments in respect of the Junior Class C Notes, divided by the sum of the amounts due by the Issuer under items (a) up to and including (h) of the EUR Interest Priority of Payments but excluding item (g) thereof.

'First EUR Expenses Ratio' means, on any Quarterly Payment Date, an amount equal to the aggregate amount due by the Issuer under item (a) of the EUR Interest Priority of Payments, divided by the sum of items (a) up to and including (h) of the EUR Interest Priority of Payments but excluding item (g) thereof.

'Second EUR Expenses Ratio' means, on any Quarterly Payment Date, an amount equal to the aggregate amount due by the Issuer under item (b) of the EUR Interest Priority of Payments, divided by the sum of items (a) up to and including (h) of the EUR Interest Priority of Payments but excluding item (g) thereof.

'Third EUR Expenses Ratio' means, on any Quarterly Payment Date, an amount equal to the aggregate amount due by the Issuer under item (c) of the EUR Interest Priority of Payments, divided by the sum of items (a) up to and including (h) of the EUR Interest Priority of Payments but excluding item (g) thereof.

'Liquidity Facility Additional Amount Ratio' means, on any Quarterly Payment Date, an amount equal to the aggregate amount due by the Issuer under item (h) of the EUR Interest Priority of Payments divided by the sum of items (a) up to and including (h) of the EUR Interest Priority of Payments but excluding item (g) thereof;

Prior to the delivery of an Enforcement Notice by the Representative, the sum of the following amounts, calculated on each Quarterly Calculation Date, shall hereafter be referred to as the '**EUR Interest Available Amount**':

- (i) as amounts to be drawn under the Liquidity Facility (other than Liquidity Facility Stand-by Drawings) (as defined below) on the immediately succeeding Quarterly Payment Date;
- (ii) as amounts to be received from the Swap Counterparty under the Swap Agreement on the immediately succeeding Quarterly Payment Date as the EUR Swap Interest Amount;

Pursuant to the terms of the Fund Deed, the EUR Interest Available Amount will be applied by the Issuer on the immediately succeeding Quarterly Payment Date as follows (in each case only if and to the extent that payments of a higher order of priority have been made in full) (the '**EUR Interest Priority of Payments**')

- (a) *first*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of administration fees and expenses due and payable in Euro to the Director in connection with the Management Agreement, the Asset Management Company, the Pool Servicer and the Calculation Agent under the Servicing and Custody Agreement and any costs, charges, liabilities and expenses payable in Euro incurred by the Representative in connection with the Relevant Documents;
- (b) *second*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, (i) of any amounts due and payable in euro to third parties under obligations incurred in the Issuer's business (other than under the Relevant Documents), including, without limitation, in or towards satisfaction of sums due or provisions for any payment of the Issuer's liability, if any, to tax and the fees and expenses of Moody's and any legal advisor, auditor and accountant appointed by the Issuer or the Representative and (ii) fees and expenses due in euro to (a) the Principal Paying Agent, each Paying Agent and the Reference Agent under the Paying Agency Agreement, (b) the Liquidity Facility Provider under the Liquidity Facility Agreement and (c) the Swap Guarantor;
- (c) *third*, in or towards satisfaction of any other amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement (but excluding any gross-up amounts or additional amounts due under the Liquidity Facility and payable under (i) below, or, following a Liquidity Facility Stand-by Drawing in or towards satisfaction of sums to be credited to the Liquidity Facility Stand-by Ledger);
- (d) *fourth*, in or towards satisfaction of all amounts of interest due but unpaid in respect of the Senior Class A Notes;
- (e) *fifth*, in or towards satisfaction of interest due but unpaid on the Mezzanine Class B Notes;
- (f) *sixth*, in or towards satisfaction of interest due but unpaid on the Junior Class C Notes;
- (g) *seventh*, in or towards satisfaction of principal due and payable on the Junior Class C Notes;
- (h) *eight*, in or towards satisfaction of gross-up amounts, additional amounts or indemnity payments due, if any, to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement;

Priority of Payments in respect of principal

The '**ISK Principal Available Amount**' will be the sum of the following amounts, calculated at any Quarterly Calculation Date as being received by the Issuer during the immediately preceding Quarterly Collection Period:

- (i) as repayment and prepayment of principal under the Mortgage Loans, for the avoidance of doubt, excluding prepayment penalties, if any, but including Indexation Adjustments to the extent relating to principal;
- (ii) as Net Proceeds on any Mortgage Loans, to the extent such proceeds relate to principal;
- (iii) as amounts received in connection with a repurchase of Mortgage Loans and their Related Security pursuant to the Mortgage Sale Agreement and any other amounts received pursuant to the Mortgage Sale Agreement to the extent such amounts relate to principal;
- (iv) as Principal Deflation Payment, if any;

- (v) as amount to be credited to the Principal Deficiency Ledger on the immediately succeeding Quarterly Payment Date in accordance with the Servicing and Custody Agreement;
- (vi) as amounts to be received in connection with a sale of Mortgage Loans and their Related Security pursuant to the Fund Deed to the extent such amounts relate to principal;
- (vii) any part of the ISK Principal Available Amount calculated on the immediately preceding Quarterly Calculation Date which has not been applied towards satisfaction of any of the items set out in the ISK Principal Priority of Payments on the immediately preceding Quarterly Payment Date;

The ISK Principal Available Amount will pursuant to the terms of the Fund Deed be applied by the Issuer on the immediately succeeding Quarterly Payment Date as follows (in each case only if and to the extent that payments of a higher order of priority have been made in full) (the '**ISK Principal Priority of Payments**')

- (a) *first*, in or towards satisfaction of any Principal Inflation Payment to the Swap Counterparty;
- (b) *second*, up to the first Optional Redemption Date, in or towards the purchase of Substitute Mortgage Loans, if any; and
- (c) *third*, in or towards satisfaction of the ISK Swap Principal Amount due but unpaid under the Swap Agreement.

Prior to the delivery of an Enforcement Notice by the Representative, the Issuer will apply the amounts received from the Swap Counterparty under the Swap Agreement as the EUR Swap Principal Amount on a Quarterly Payment Date (the '**Notes Redemption Available Amount**') (and in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the '**EUR Principal Priority of Payments**')

- (a) *first*, in or towards satisfaction of principal amounts due under the Senior Class A Notes; and
- (b) *second*, in or towards satisfaction of principal amounts due under the Mezzanine Class B Notes.

Priority of Payments upon Enforcement

Following delivery of an Enforcement Notice any amounts payable by the Representative under the Fund Deed will be paid to the Secured Parties (including the Noteholders) in the following order of priority (and in each case only if and to the extent payments of a higher priority have been made in full) (the '**Priority of Payments upon Enforcement**')

- (a) *first*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of (i) the fees or other remuneration due to the Director (ii) any cost, charge, liability and expenses incurred by the Representative under or in connection with any of the Relevant Documents, which will include, *inter alia*, fees and expenses of Moody's and any legal advisor, auditor or accountant appointed by the Representative, (iii) the fees and expenses of the Principal Paying Agent, each Paying Agent and the Reference Agent incurred under the provisions of the Paying Agency Agreement, (iv) the fees and expenses of the Asset Management Company and the Pool Servicer under the Servicing and Custody Agreement, (v) the fees of the Swap Guarantor under the Swap Agreements and (vi) the fees of the Liquidity Facility Provider under the Liquidity Facility Agreement;
- (b) *second*, in or towards satisfaction of any sums due or accrued due but unpaid under the Liquidity Facility Agreement, but excluding any gross-up amounts or additional amounts due under the Liquidity Facility Agreement payable under subparagraph (k) below;
- (c) *third*, in or towards satisfaction of amounts, if any, due but unpaid to the Swap Counterparty under the Swap Agreement, including Settlement Amounts (as defined therein) to be paid by the Issuer upon early termination of the Swap Agreement (as determined in accordance with its terms), but excluding any other costs to be paid by the Issuer on such early termination payable under subparagraph (j) below;
- (d) *fourth*, in or towards satisfaction of all amounts of interest due but unpaid in respect of the Senior Class A Notes;

- (e) *fifth*, in or towards satisfaction of all amounts of principal and any other amount due but unpaid in respect of the Senior Class A Notes;
- (f) *sixth*, in or towards satisfaction of all amounts of interest due or accrued due but unpaid in respect of the Mezzanine Class B Notes;
- (g) *seventh*, in or towards satisfaction of all amounts of principal and any other amount due but unpaid in respect of the Mezzanine Class B Notes;
- (h) *eighth*, in or towards satisfaction of all amounts of interest due or accrued due but unpaid in respect of the Junior Class C Notes;
- (i) *ninth*, in or towards satisfaction of all amounts of principal and any other amount due but unpaid in respect of the Junior Class C Notes;
- (j) *tenth*, to the Swap Counterparty in or towards payment of any amounts due under the Swap Agreement in connection with the Issuer's obligations in respect of the costs (other than Settlement Amounts) to be paid by the Issuer upon an early termination of the Swap Agreement, as determined in accordance with its terms;
- (k) *eleventh*, in or towards satisfaction of gross-up amounts, additional amounts or indemnity payments due, if any, to the Liquidity Facility Provider pursuant to the Liquidity Facility Agreement; and
- (l) *twelfth*, in or towards satisfaction of the Deferred Purchase Price to the Seller.

Liquidity Facility

On the Closing Date, the Issuer will enter into the Liquidity Facility Agreement with the Liquidity Facility Provider. The Issuer will be entitled on any Quarterly Payment Date (other than (i) a Quarterly Payment Date if and to the extent that on such date the Notes are redeemed in full or (ii) the Final Maturity Date or (ii) after the delivery of an Enforcement Notice) to make drawings under the Liquidity Facility up to the Liquidity Facility Maximum Amount (as defined below). The Liquidity Facility Agreement is for a term of 364 days. The commitment of the Liquidity Facility Provider is extendable at its option.

The Issuer will be entitled to make drawings under the Liquidity Facility Agreement in case a Convertibility Moratorium has been declared and is continuing to meet its obligation to pay items (a) up to and including (d) of the EUR Interest Priority of Payments, provided that the amounts drawn on a Quarterly Payment Date will not be in excess of the EUR Swap Interest Amounts that would be payable by the Swap Counterparty had such Convertibility Moratorium not been declared.

The Liquidity Facility Provider will rank higher in priority of payments and security to - *inter alia* - the Notes.

If at any time (a) the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Liquidity Facility Provider are assigned a rating of less than 'Prime-1' by Moody's or any such rating is withdrawn by Moody's and (b) within thirty (30) days of such downgrading or withdrawal of the rating the Liquidity Facility Provider is not replaced by the Issuer with a suitable alternative Liquidity Facility Provider or another solution acceptable to Moody's is not found, the Issuer will be required forthwith to draw down the entirety of the undrawn portion of the Liquidity Facility (a '**Liquidity Facility Stand-by Drawing**') and credit such amount to the EUR Collection Account with a corresponding credit to a ledger to be known as the '**Liquidity Facility Stand-by Ledger**'. Amounts so credited to the EUR Collection Account may be utilised by the Issuer in the same manner as if the Liquidity Facility had not been so drawn. A Liquidity Facility Stand-by Drawing shall also be made if the Liquidity Facility is not renewed following its commitment termination date.

For these purposes, '**Liquidity Facility Maximum Amount**' means, on each Quarterly Payment Date, an amount equal to 6 per cent. of the Principal Amount Outstanding of the Notes, excluding the Junior Class C Notes, on such date.

Principal Deficiency Ledger

A Principal Deficiency Ledger comprising two sub-ledgers, known as the '**Class A Principal Deficiency Ledger**' and the '**Class B Principal Deficiency Ledger**', respectively, will be established by or on behalf of the Issuer in order to record any Realised Losses (as defined below) on the Mortgage Loans, including Realised Losses on the

sale of Mortgage Loans and their Related Security in connection with the optional redemption of the Notes, other than the Junior Class C Notes (each respectively the '**Class A Principal Deficiency**' and the '**Class B Principal Deficiency**', together a '**Principal Deficiency**').

An amount equal to any Realised Losses will be debited to the Class B Principal Deficiency Ledger (such debit items being re-credited to the extent available for such purpose under item (h) of the ISK Interest Priority of Payments) so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of the Mezzanine Class B Notes (converted into ISK at the Swap Exchange Rate) and thereafter such amounts shall be debited to the Class A Principal Deficiency Ledger (such debit items being re-credited to the extent available for such purpose under item (e) of the ISK Interest Priority of Payments).

'Realised Losses' means, on any Quarterly Payment Date, the sum of (a) with respect to the Mortgage Loans in respect of which the Seller, the Pool Servicer on behalf of the Issuer, the Issuer or the Representative has foreclosed from the Closing Date up to and including such Quarterly Payment Date the amount of the difference between (i) the aggregate Outstanding Principal Amount of all Mortgage Loans and (ii) the amount of the Net Proceeds applied to reduce the Outstanding Principal Amount of such Mortgage Loans and (b), with respect to the Mortgage Loans sold by the Issuer, the amount of the difference, if any, between (i) the aggregate Outstanding Principal Amount of such Mortgage Loans and (ii) the purchase price of the Mortgage Loans sold to the extent relating to principal, and (c) with respect to the Mortgage Loans in respect of which the Borrower has successfully asserted set-off or defence to payments, the amount by which the Mortgage Loans have been extinguished multiplied by, in the case of (a),(b) and (c), the Index Fraction on such Quarterly Payment Date.

The '**Outstanding Principal Amount**' means, at any moment in time, (a) the principal balance of a Mortgage Loan including the Indexation Adjustment to the extent relating to principal and (b) after the occurrence of a Realised Loss of the type (a) and (b) in respect of the relevant Mortgage Loan, zero. The '**Index Fraction**' means, on any Quarterly Payment Date, the ratio of (i) the Icelandic CPI applied in respect of the Mortgage Loans on the Closing Date being 286.2, and (ii) the Icelandic CPI applied in respect of the Mortgage Loans on such Quarterly Payment Date.

Interest Rate, Currency and Deflation Hedging

A. Payments in respect of interest

The Mortgage Loan Criteria require that all Mortgage Loans bear a fixed real rate of interest in krona subject to a reset from time to time. The interest payable under the Notes by the Issuer is in euro, with an interest rate calculated as a margin over Euribor. After the first Optional Redemption Date the margin on the Senior Class A Notes and the Mezzanine Class B Notes will increase. The Issuer will hedge this currency, interest rate and inflation exposure by entering into the Swap Agreement with the Swap Counterparty.

Under the Swap Agreement, the Issuer will agree to pay the Swap Counterparty on each Quarterly Payment Date amounts equal to the ISK Swap Interest Amount subject to the following. The '**ISK Swap Interest Amount**' on each Quarterly Payment Date will be equal to the sum of items (i), (ii), (iii), (iv) (vi), (vii) and (viii) of the ISK Interest Available Amount less (x) an excess margin (the '**Excess Margin**') of 0.30 per cent. per annum applied to the Outstanding Principal Amount of the Mortgage Loans, whereby the Outstanding Principal Amount of each Mortgage Loan will be calculated as of the Reference Date immediately preceding the previous Quarterly Payment Date, except in the case of the first Quarterly Payment Date falling in November 2008 whereby the Outstanding Principal Amount will be calculated as of the Portfolio Cut-Off Date, multiplied by the Index Fraction on such Quarterly Payment Date, and (y) certain expenses in krona as described under (a)(i), (b)(i), (c)(i) and (c)(ii) of the ISK Interest Priority of Payments due on such Quarterly Payment Date. The payment of the ISK Swap Interest Amount by the Issuer will be divided among different items of the ISK Interest Priority of Payments, i.e. items (a)(ii), (b)(ii), (c)(iii), (d), (g), (i) and (k). Consequently, the Issuer will only be obliged to pay to the Swap Counterparty on each Quarterly Payment Date an amount equal to the ISK Swap Interest Amount if and to the extent that such amount can be paid out of items (a)(ii), (b)(ii), (c)(iii), (d), (g), (i) and (k) of the ISK Interest Priority of Payments on such Quarterly Payment Date.

The Swap Counterparty will agree to pay on each Quarterly Payment Date an amount in euro (the '**EUR Swap Interest Amount**') which will be equal to the sum of (i) the aggregate interest due under the Notes, and calculated by reference to the Floating Rate of Interest for each Class of Notes applied to an amount equal to (x) the Principal Amount Outstanding of the relevant Class of Notes on the first day of the relevant Interest Period, (ii) the expenses

in euro as described under (a) and (b) of the EUR Interest Priority of Payments and (iii) any interest due under the Liquidity Facility Agreement less (iv) any interest received by the Issuer on the EUR Collection Account.

The EUR Swap Interest Amount will be subject to an adjustment equal to the EUR Swap Interest Amount multiplied by the difference between (i) the ISK Swap Interest Amount and (ii) the aggregate amount available for application towards payment of items (a)(ii), (b)(ii), (c)(iii), (d), (g), (i) and (k) of the ISK Interest Priority Payments, divided by the ISK Swap Interest Amount (the '**EUR Swap Adjustment**'). Any EUR Swap Adjustment will be deducted from payments to be made by the Swap Counterparty towards the EUR Swap Interest Amount.

B. Payments in respect of principal

On the Closing Date, the Issuer will pay to the Swap Counterparty the net proceeds from the issue of the Notes and the Swap Counterparty will pay the corresponding amounts in ISK to the Issuer, as converted at the Swap Exchange Rate.

On each Quarterly Payment Date the Issuer will pay to the Swap Counterparty the ISK Swap Principal Amount, if any, and the Class C Redemption ISK Available Amount, if any. The '**ISK Swap Principal Amount**' is on any Quarterly Payment Date on which principal is due under the Notes, an amount equal to the ISK Principal Available Amount less item (a) and (b) of the ISK Principal Priority of Payments. The '**Class C Redemption ISK Available Amount**' is, on any Optional Redemption Date, the ISK Interest Available Amount remaining after payment of item (i) of the ISK Interest Priority of Payments.

The Swap Counterparty will pay to the Issuer on each Quarterly Payment Date the '**EUR Swap Principal Amount**' (being the ISK Swap Principal Amount converted into euro at the Swap Exchange Rate) and the '**Class C Redemption Amount**', in respect of each Junior Class C Note (being the Class C Redemption ISK Available Amount converted into euro at the Swap Exchange Rate divided by the number of Junior Class C Notes subject to such redemption, provided always that the Class C Redemption Amount may never exceed the Principal Amount Outstanding of the relevant Junior Class C Note).

The Swap Exchange Rate will be equal to EUR/ISK 131.

C. Payments in respect of the Inflation Adjustment to the extent relating to principal

On each Quarterly Payment Date, the Issuer will pay to the Swap Counterparty the Principal Inflation Payments, if any, and the Swap Counterparty will pay to the Issuer the Principal Deflation Payments, if any.

The '**Principal Inflation Payment**' will, on a Quarterly Payment Date on which the Notes (other than the Junior Class C Notes) are to be repaid in full (subject to Condition 9(b)), be the lower of (x) the balance standing to the credit of the Principal Ledger on the last day of the immediately preceding Quarterly Collection Period, plus the amounts credited on such Quarterly Payment Date to the Principal Deficiency Ledger through items (e) and (h) of the ISK Interest Priority of Payments and any amounts received in connection with a sale of Mortgage Loans and their Related Security pursuant to the Fund Deed to the extent such amounts relate to principal and (y) an amount equal to the positive difference between (A) the sum of (i) the Outstanding Principal Amount of the Mortgage Loans on the last day of the immediately preceding Quarterly Collection Period and (ii) the balance standing to the credit of the Principal Ledger on the last day of the immediately preceding Quarterly Collection Period and (iii) the amounts credited on such Quarterly Payment Date to the Principal Deficiency Ledger through items (e) and (h) of the ISK Interest Priority of Payments; and (B) the Assets Target Level;

The '**Principal Deflation Payment**' will, on a Quarterly Payment Date, be an amount equal to the amount by which (A) the amount of the aggregate Principal Amount Outstanding of the Notes, excluding the Junior Class C Notes (converted into ISK at the Swap Exchange Rate) on the last day of the immediately preceding Interest Period less the balance standing to the Principal Deficiency Ledger on the first day of the immediately succeeding Interest Period exceeds (B) the sum of (a) the Outstanding Principal Amount of the Mortgage Loans on the last day of the immediately preceding Quarterly Collection Period, (b) the balance standing to the credit of the Principal Ledger on the last day of the immediately preceding Quarterly Collection Period, and (c) the amounts credited on such Quarterly Payment Date to the Principal Deficiency Ledger through items (e) and (h) of the ISK Interest Priority of Payments.

'**Assets Target Level**' shall mean on a Quarterly Payment Date on which the Notes (other than the Junior Class C Notes) are to be repaid in full, subject to Condition 9(b), an amount equal to the difference between (x) the

aggregate Principal Amount Outstanding of the Notes, other than the Junior Class C Notes (converted into ISK at the Swap Exchange Rate), on the last day of the immediately preceding Interest Period and (y) the balance debited to the Principal Deficiency Ledger of the Master Collection Account on the Quarterly Payment Date on which the Notes (other than the Junior Class C Notes) are to be repaid in full, subject to Condition 9(b).

D. Convertibility Moratorium

If on a Quarterly Payment Date a Convertibility Moratorium has been declared and is continuing, the amounts payable by the Issuer to the Swap Counterparty and by the Swap Counterparty to the Issuer will not be paid. On such Quarterly Payment Date, the amounts mentioned under items (a)(ii), (b)(ii), (c)(iii), (c)(iv), (d), (g), (i) and (k) of the ISK Interest Priority of Payments Date will be deposited on the Master Collection Account and a corresponding credit to a ledger to be known as the '**ISK Convertibility Moratorium Ledger**' will be made. In order to meet its payment obligations in such event, the Issuer will make a drawing under the Liquidity Facility Agreement. On the Quarterly Payment Date immediately following the date on which the Convertibility Moratorium has ended, the balance standing to the credit of the ISK Convertibility Moratorium Ledger will be paid to the Swap Counterparty outside the ISK Interest Priority of Payments and the Swap Counterparty will make the corresponding payments in euro in a similar manner as if such Convertibility Moratorium had not taken place, in addition to the amounts normally due on such Quarterly Payment Date, in an amount equal to the EUR Swap Interest Amount due in respect of the Quarterly Payment Dates falling within the Convertibility Moratorium.

E. General

The Swap Agreement will be documented under an ISDA Master Agreement. The Swap Agreement may be terminated in accordance with Events of Default and Termination Events (each as defined in the relevant ISDA Master Agreement) commonly found in standard ISDA documentation. The Swap Agreement will be terminable by one party if (i) an applicable Event of Default or Termination Event (as defined therein) occurs in relation to the other party, (ii) it becomes unlawful for either party to perform its obligations under the Swap Agreement or (iii) an Enforcement Notice is served. Events of Default under the Swap Agreement in relation to the Issuer will be limited to (i) non-payment under the Swap Agreement unless in case of a Convertibility Moratorium and (ii) certain insolvency events.

Upon the early termination of the Swap Agreement, the Issuer or the Swap Counterparty may be liable to make a termination payment to the other party. The amount of any termination payment will be based on the market value of the Swap Agreement. The market value will be based on market quotations of the cost of entering into a transaction with the same terms and conditions and that would have the effect of preserving the respective full payment obligations of the parties (or based upon loss in the event that no market quotation can be obtained).

In the event that the Issuer is required to withhold or deduct an amount in respect of tax from payments due from it to the Swap Counterparty, the Issuer will not be required pursuant to the terms of the Swap Agreement to pay the Swap Counterparty such amounts as would otherwise have been required to ensure that the Swap Counterparty received the same amounts that it would have received had such withholding or deduction not been made.

In the event that the Swap Counterparty is required to withhold or deduct an amount in respect of tax from payments due from it to the Issuer, the Swap Counterparty will be required pursuant to the terms of the Swap Agreement to pay to the Issuer such additional amounts as are required to ensure that the Issuer receives the same amounts that it would have received had such withholding or deduction not been made.

In either event, the Swap Counterparty will at its own cost, if it is unable to transfer its rights and obligations under the Swap Agreement to another office, have the right to terminate the Swap Agreement. Upon such termination, the Issuer or the Swap Counterparty may be liable to make a termination payment to the other party.

If the Swap Guarantor or, after having obtained ratings at least equal to the required ratings by Moody's, the Swap Counterparty ceases to have certain required ratings by Moody's, the Swap Counterparty will be required to take certain remedial measures which may include (i) the provision of collateral for its obligations under the Swap Agreement, (ii) arranging for its obligations under the Swap Agreement to be transferred to an entity with the required ratings, (iii) procuring another entity with at least such ratings to become co-obligor in respect of its obligations under the Swap Agreement or (iv) the taking of such other action as it may agree with Moody's. A failure to take such steps, subject to certain conditions, will give the Issuer the right to terminate the Swap Agreement.

On or prior to the Closing Date, the Issuer will be required to open a separate account in which any collateral in the form of cash provided by the Swap Counterparty to the Issuer, if any, will be held. If any collateral in the form of securities is provided, the Issuer will be required to open a custody account in which such securities provided by the Swap Counterparty will be held. No payments or deliveries may be made in respect of such accounts other than in relation to the provision of collateral or the return of Excess Swap Collateral, unless pursuant to the termination of the Swap Agreement, an amount is owed by the Swap Counterparty to the Issuer, in which case, the collateral may be applied in accordance with the Fund Deed. Any Excess Swap Collateral will be returned to such Swap Counterparty outside any Priority of Payments and will not be available for the distribution of any amounts due to the Noteholders or the other Secured Parties. **'Excess Swap Collateral'** means an amount equal to the value of any collateral transferred to the Issuer by the Swap Counterparty under the Swap Agreement that is in excess of the Swap Counterparty's liability to the Issuer thereunder (i) as at the date such Swap Agreement is terminated or (ii) as at any other date of valuation in accordance with the terms of the Swap Agreement.

Any amounts remaining in such accounts upon termination of the Swap Agreement which are not owed to the Issuer by the Swap Counterparty shall be transferred directly to the Swap Counterparty on the termination date under the Swap Agreement.

Sale of Mortgage Loans and their Related Security

Under the terms of the Fund Deed the Issuer will on any Optional Redemption Date have the right to sell and assign all, but not some only, of the Mortgage Loans and their Related Security to a third party or parties provided that the Issuer shall apply the proceeds of such sale, to the extent relating to principal, to redeem the Notes, other than the Junior Class C Notes, and to Principal Inflation Payments, if any. Furthermore, under the terms of the Mortgage Sale Agreement, the Issuer shall be obliged to sell and assign the Mortgage Loans and their Related Security to the Seller if the Seller exercises its Regulatory Call Option. Finally, under the terms of the Fund Deed the Issuer will have the right to sell and assign the Mortgage Loans and their Related Security to a third party if the Issuer exercises its option to redeem the Notes for tax reasons. The aggregate purchase price of the Mortgage Loans and their Related Security shall be at least equal to an amount that is sufficient to fully redeem the Senior Class A Notes.

OVERVIEW OF THE ICELANDIC RESIDENTIAL MORTGAGE MARKET

Overview of the Icelandic Residential Mortgage Market

History around Housing Financing Fund (HFF)

The Housing Financing Fund replaced the Icelandic Housing Authority upon the confirmation of the new Housing Act, no. 44/1998 on the State Building Fund and the Workers' Building Fund were merged. The history of official lending for residential housing dates back to 1955 when the law on housing control, mortgage lending for housing construction and the elimination of unhealthy housing was confirmed. The Housing Authority was founded two years later and then the Housing Financing Fund at the beginning of 1999. The Housing Financing Fund is an independent government institution granting mortgage loans to individuals, municipalities, companies and organizations to finance housing purchase and construction work. The fund is financially independent and funds its lending and operations by its own income.

Prior to 2004, the state Housing Financing Fund (HFF) was the largest provider of mortgage loans in Iceland along with pension funds and deposit institutions. HFF's loans carried 5% interest rate in 2004 and a maximum loan-to-value ratio of 60-65% (relative to official valuations by the Land Registry of Iceland.) A major change took place in housing market arrangements in the second half of 2004 when the three commercial banks and the savings banks began offering long-term mortgage loans in direct competition with the Housing Financing Fund after the government of Iceland decided to increase HFF's maximum loan-to-value ratio to 90% and lowering its interest rate down to 4.15%. Icelandic banks reacted by offering long-term mortgage loans with interest rates of 4.15% and loan-to-value ratio of 80-100%. All lenders have now lowered its maximum loan-to-value ratio to 70-80% and interest rates from 5.20 to 7.80% in June 2008. The government of Iceland decided in June 2008 to change HFF's loan-to-value of 80% relative to market valuations in stead of official valuations by the Land Registry of Iceland and furthermore, increase the maximum loan amount to 20 million ISK from 18 million ISK. This change is partly done to boost the relative slow demand on the Icelandic housing market. (Source: HFF (www.hff.is) and Landsbankinn (www.lais.is), June 2008)

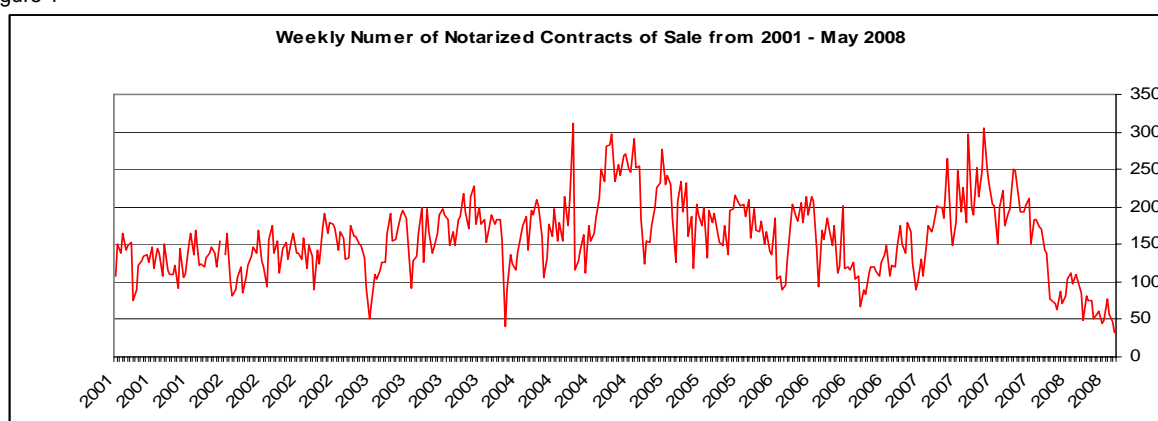
The Icelandic Mortgage Market and House Price Development

The information on the Icelandic housing market can be found at the Land Registry (FMR) which is responsible for collecting, processing, storing and publishing real estate data such as market data, which is used by central and local government institutions, real estate brokers and the financial sector. The Land Registry analyses and publishes data on the real estate market, based on registered property sales data, which have been collected since 1980.

The Land Registry created and maintains the Land Registry Database, which is a centralized data collection system and information source for all land and real estate data and are publicly accessible on line (www.fmr.is). Sale prices and methods of payment from every sale contract are collected into the Land Registry Database and used for the calculation of economic indicators, such as the real estate price index.

The demand for mortgage loans has been strong since the Icelandic banks entered the market in 2004. Figure 1 explains the number of weekly notarized contracts from 2001 to May 2008. The weekly number of notarized contracts has been strong, on average 158 per week. Since January 2008 to June 2008 the average number of new contracts has been 73, which indicates less demand on the Icelandic housing market.

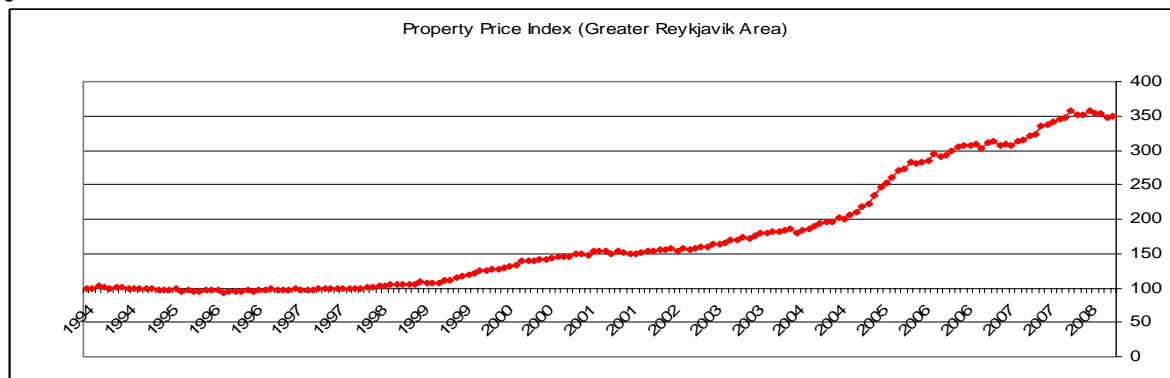
Figure 1



Source: Land Registry (www.fmr.is), June 2008)

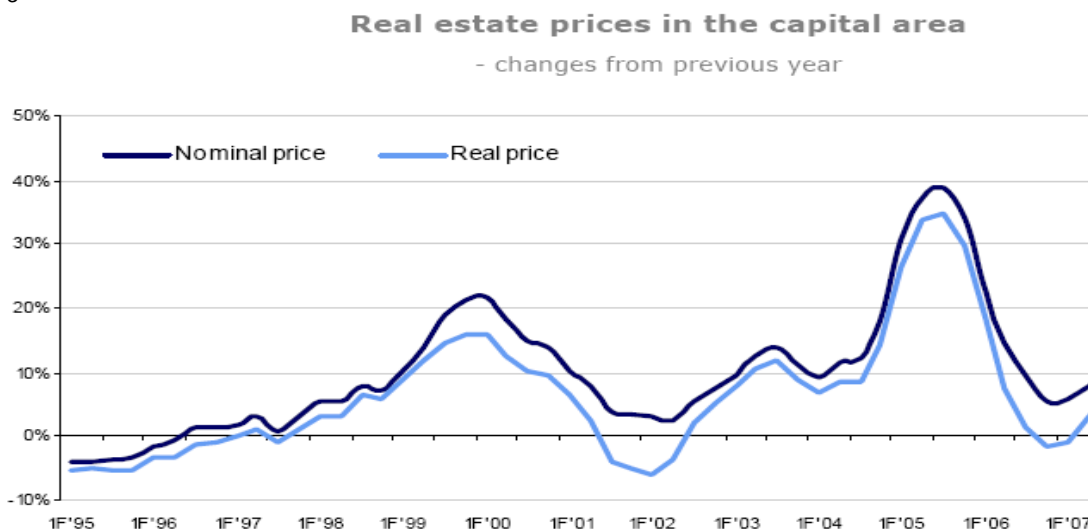
This strong demand since 2004 has had its impact on house prices in Iceland, especially in the Greater Reykjavik Area. For example, property prices increased by 25% during the first six months after banks began to offer mortgage loans in September 2004. Since August 2004 to January 2008 the property price index has increased by 78.7%. However, from January 2008 to June 2008 the house prices decreased by 2.5%. Despite an increase in house prices by 0.52% in May 2008, there are strong indications that the supply has met this rising demand last years and the market is becoming more balanced. As mentioned, the number of weekly notarized contracts has furthermore decreased compared to the strong demand since 2005. Figure 2 shows the development in house prices since 1994 in Greater Reykjavik are (Index = 100 in 1994).

Figure 2



Source: Land Registry of Iceland (www.fmr.is., June 2008)

Figure 3



Source: Kaupthing Research (www.kaupthing.is)

Recent drivers of the demand for housing encompass both demographic and economic factors. Supported by one of the highest natural birth surplus in Europe and positive net immigration to the capital area from abroad and within Iceland and high increase of inhabitants over the last years.

In addition to demographic factors, the previous period of strong economic growth and decreasing income taxes has led to an increase in the average family income, substantial increases in purchasing power and foreign direct investments especially in the aluminium sector. Unemployment rate has been very low in Iceland but has recent months increased somewhat, and is currently around 2.3%. (Source: Directorate of Labor, June 2008)

This favourable economic conditions in Iceland, the participation of the Icelandic banks on the mortgage market led to a rise in household buying power, in turn impacting the demand on the real estate market and a rise in property prices. However, financial market conditions have continued to deteriorate, both in Iceland and in the global markets over the past months. The supply of credit available to households and companies has shrunk, and lending terms have become less favourable. Equity prices have dropped significantly since the beginning of 2008,

which raises the cost of capital and weakens the balance sheets of households alike. Real estate prices are expected to decline somewhat according to the Central Bank of Iceland over the next two years. (Source: Central Bank of Iceland (www.sedlabanki.is), 2008)

Mortgage Loan Products

Iceland's mortgage loan market has several quite different features from those in most other countries with comparable living standards.

Real interest rates in Iceland are higher: In the Euro area, average fixed interest rates for the first 5-10 years of a mortgage were just under 5% in 2004. Annual Euro area inflation has been about 2%, so real interest rates are just under 3%.

Maturities are longer: A common loan term in Iceland is 25-40 compared to 15-30 years in most other OECD countries.

Loans are price-indexed: Uncertainty about price developments decades ahead makes it virtually impossible to negotiate a satisfactory mortgage term for wage-earners which will give the borrower and lender a reasonable idea of the real repayment value, except either with price indexation or with variable interest rates of some kind, which is the norm in OECD countries.

The loan-to-(market) value ratio in Iceland is comparable to the OECD norm.

Nearly all the loans are annuity based; only some are linear. Loans that are ISK denominated are subject to index payments. These are calculated as follows:

Annuity based:

At start of the loan, the initial amortisation schedule is based on standard annuity formula: interest and principal instalments are calculated to ensure that each payment over time is equal. During the life of the loan, the interest and the principal payments for the relevant period are then indexed, based on inflation since origination date.

On any period, the outstanding principal amount of the loan is indexed compared to the outstanding principal amount of the previous period (adjusted for the principal payment in that period). This amount is the book value in SPRON's accounts and also the required amount that needs to be paid in case of prepayment of the loan.

Linear:

On any given period the outstanding principal amount of the loan is indexed according to the newest CPI. The principal payment is recalculated in relation to the new indexed outstanding amount of the loan. The interest payment is re-calculated each period in relation to indexed outstanding amount of the loan.

SPRON

Historical overview

Sparisjóður Reykjavíkur og nágrennis hf. or Reykjavik Savings Bank (SPRON is the Icelandic abbreviation) was established on March 5th 1932 when several members of the Reykjavik trade workers union united to form a savings bank. The savings bank's main purpose was to fund trade workers in their efforts to increase their business. The 63 original founders each vouched for ISK 500 to back the Banks operations. On April 28th 1932, Reykjavik Savings Bank formally opened for business. In 1983 SPRON opened its first branch, apart from its headquarters, on Seltjarnarnes-Reykjavik's westernmost peninsula. Over the next 15 years SPRON opened several branches in Reykjavik in an effort to better serve its customers in the country's capital. Today, SPRON has 9 branches located throughout the greater Reykjavik area where approximately two-third of Iceland's population resides.

SPRON

SPRON operates in accordance with Icelandic laws regarding financial institutions. The Icelandic Financial Supervisory Authority supervises SPRON's activities, as well as other financial institutions in Iceland.

SPRON has seven profit centers including subsidiaries:

The address of SPRON is Ármúli 13a, 108 Reykjavík, Iceland.

SPRON Headquarters/Investments determines SPRON Group's investments and monitors their returns.

SPRON Banking provides an interwoven combination of financial services in its branches and service centers for individuals, companies and other SPRON clients. This wide range of services includes deposits, loans, payment solutions, securities services, insurance services etc. SPRON has nine branches in the Reykjavík area in three districts: West District, Central District and East District. Additionally, SPRON operates 17 ATM machines and comprehensive home banking and company banking facilities. A number of support units exist within SPRON Banking in the fields of internal development and quality issues, retail banking marketing, corporate banking marketing, services, payments and sales. SPRON Factoring hf. is also included with this profit centre.

SPRON Cards issues the e-Card and e²-Card and is, moreover, a support division for other parts of the SPRON Group with regard to the issue of cards and relations with the MasterCard and Visa credit card companies. During 2006, SPRON acquired a majority holding in Smartkort hf., now renamed Curron hf. This company specialises in smart card solutions and the distribution of digital material. The company has been working with Reykjavik City Council on electronic money solutions which will be taken into public use this year. SPRON also acquired over 40% of the shares in Median hf., a software company, transaction agent and processor in the field of electronic payment processing. Over half of the company's business involves international transactions.

SPRON Treasury supervises currency risks, liquidity risks, interest and indexing risks for the SPRON Group and enforces managerial policies in this regard. SPRON Treasury also attends to SPRON's financing, both in Iceland and abroad, in the long- and short-term.

Rekstrarfélag SPRON hf. offers customised asset management services to individuals, companies, organisations and institutions.

Netbankinn is the first and currently the only bank in Iceland that is solely operated on the Internet. Netbankinn provides individuals with all general financial services on the Internet and through other electronic methods of distribution. This arrangement enables Netbankinn to offer accounts and cards with much more advantageous interest terms than other banks offer. Business can be conducted in Netbankinn on the Internet 24 hours a day, every day of the year.

Frjálsi fjárfestingarbankinn hf. has in recent years provided thousands of individuals and homes with loans secured by property and loans to companies and own-account workers secured by mortgages in construction work and commercial buildings. The Bank's balance sheet has grown substantially over recent years and the weight of individual items has changed. Approximately 98% of the Bank's current loan portfolio is secured with a property lien, as the main emphasis has been on providing secured loans.

SPRON has three support divisions:

- Operations is responsible for back office services and management of the aspects relating to the day-to-day operation of SPRON profit centers.
- Finance and Accounting is responsible for accounting, reporting, planning and financial analysis for the SPRON Group.
- Information Technology is responsible for all matters relating to the operation of computer systems and web issues for the SPRON Group. Moreover, the employees of the division provide certain services in the field of software for individual subsidiaries.

SPRON's key figures:

Income statements

Million ISK	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	830	800	746	635	465
Net commission income	335	629	360	230	312
Income from investments	(5.112)	(5.540)	205	4.857	5.081
Share of profit of associates	(4.915)	(5.411)	(1.100)	2.444	808
Other operating income	55	3.440	112	95	48
Net operating income	(8.807)	(7.510)	324	8.260	6.714
Operating expenses	(1.316)	(1.598)	(1.298)	(1.470)	(1.053)
Impairment of loans and advances	(293)	(139)	(75)	(173)	(112)
Profit (loss) before taxes	(10.416)	(7.819)	(1.049)	6.618	5.549
Income tax	1.969	1.826	200	(1.179)	(859)
Loss in the period	(8.447)	(5.993)	(850)	5.439	4.690

SPRON's pre-tax loss for the first quarter of 2008 amounted to ISK 10,415 million compared to a profit of ISK 5,549 million for the same period in 2007. The Group's net loss totalled ISK 8,447 million in the period which is due to losses in investments. Losses from the holding in Exista hf. amounted to ISK 8.2 billion and in the trading book ISK 2.0 billion.

Net interest income amounted to ISK 830 million in the first quarter of 2008 compared with ISK 465 million in the same period last year and increased by 79%. Interest income for the period amounted to ISK 6,910 million compared with 4,538 million in the same period in 2007 and increased by 52%. Interest expenses amounted to ISK 6,080 million in comparison with ISK 4,073 million in the same period in 2007 and increased by 49%.

Profit from calculated core operations

	Q1 2008	2007	2006	2005	2004
Profit before tax	-10.416	3.299	10.879	4.956	1.984
Trading gains deducted	10.027	-4.712	-11.522	-4.963	-1.981
Adjusted net interest income	1.332	5.910	2.584	899	224
Cost adjustments	125	558	426	307	255
Core operations before tax	1.068	5.055	2.366	1.198	482
Pre-tax ROE of core operations	15,4%	17,6%	15,4%	18,1%	9,2%
Profit after tax	876	4.145	1.940	982	395

Profit from core operations in the first quarter of 2008 amounted to ISK 1,068 million and pre-tax ROE was 15.4% on an annual basis. After-tax profit from core operations amounted to ISK 876 million with ROE at 12.6%. In calculating SPRON's profit from core operations, trading gains on equities of all types are deducted. The net interest income is increased accordingly to reflect the funding costs related to the Group's bond and equity positions.

Assets

Million ISK	31.3. 2008	31.12.2007	30.09.2007	30.06.2007	31.03.2007
Credit and balances with the Central Bank	5.412	10.332	3.611	721	4.672
Loans to credit institutions	13.274	3.728	5.349	10.047	2.393
Loans to customers	176.836	161.630	148.583	138.237	134.536
Trading assets	25.733	27.508	29.276	27.200	22.534
Financial assets designated at fair value	26.615	12.666	15.131	14.691	17.147
Investments in associates	1.083	2.575	11.896	12.966	7.740
Property and equipment	2.327	2.060	1.496	1.150	983
Intangible assets	1.649	1.713	1.775	1.811	1.664
Other assets	1.779	1.983	1.637	1.403	2.301
Total assets	254.707	224.195	219.188	208.528	194.151

SPRON's results for the first quarter of 2008 are clearly affected by the challenging market conditions in the beginning of the year with the Group reporting a loss which is primarily due to losses in investments. The worst seems to be behind in the stock market with SPRON's investments increasing in value in the beginning of the second quarter. The core operations are strong and have strengthened considerably during the year with SPRON's interest income increasing by 79% compared with the same period last year. The Group has considerably more indexed linked assets than liabilities which leaves the Group well prepared to meet the current increase in inflation.

Market conditions will remain challenging and the focus will be firmly on securing the bank's access to liquidity and maintaining a strong CAD ratio. Source: www.spron.is

5 Year Overview - Income Statement/Balance Sheet

Million ISK	2007	2006	2005	2004	2003
Income					
Interest income	20.932	14.537	7.884	5.547	4.950
Interest expense	-18.286	-12.123	-5.659	-3.272	-2.964
Net interest income	2.646	2.415	2.225	2.275	1.986
Fee and commission income	1.936	1.307	881	859	820
Fee and commission expense	-405	-331	-297	-243	-214
Net fee and commission income	1.531	975	584	616	606
Net gains on fin. assets and fin. Liabilities	4.603	10.115	4.366	1.757	1.114
Share of profit of associates	-3.259	1.407	597	224	62
Other operating income	3.695	284	576	135	38
Operating income	5.039	11.806	5.538	2.116	1.214
Source:					
Net Operating income	9.216	15.196	8.347	5.007	3.806
Expenses					
Salaries and related expenses	-2.398	-1.926	-1.551	-1.299	-1.072
Administrative expenses	-2.845	-1.974	-1.433	-1.208	-1.007
Depreciation	-175	-109	-81	-45	-48
Operating cost	-5.419	-4.009	-3.065	-2.553	-2.127
Impairment losses on loans and advances	-498	-308	-327	-470	-668
Amortization of goodwill	0	0	0	0	-165
www.spron.is					
Profit (Loss) before income tax	3.299	10.879	4.956	1.984	846
Income tax	-12	-1.869	-863	-355	-42
Net profit (loss)	3.287	9.010	4.092	1.629	804
This results in SPRON's					
Assets	31.12.07	31.12.06	31.12.05	31.12.04	31.12.03
Cash and cash balances with the Central Bank	10.332	2.432	2.068	1.540	416
Loans to credit institutions	3.728	7.223	6.294	5.427	3.283
Loans to customers	161.630	128.296	84.950	49.278	37.199
Trading financial assets	27.508	20.313	8.367	5.953	6.382
Financ. assets design. at fair value thr. profit/loss	12.666	16.749	7.991	3.290	1.438
Investment in associates	2.575	4.580	1.647	1.028	804
Intangible assets	1.713	1.675	1.619	1.536	1.505
Property and equipment	2.060	992	1.016	176	211
Non-current assets and disp. groups held for sale	0	105	103	126	343
Other assets	1.983	2.136	874	400	321
Total Assets	224.196	184.501	114.929	68.754	51.902
Liabilities					
Deposits from credit inst. and the Central Bank	8.513	11.524	11.210	7.211	1.050
Other deposits	85.410	56.592	39.340	35.523	30.180
Trading financial liabilities	725	361	120	111	0
Borrowings	89.097	69.642	44.445	16.425	13.117
Subordinated loans	5.433	5.216	3.918	1.924	1.849
Post-employment obligations	714	646	559	509	356
Tax liabilities	2.905	3.013	1.249	469	160
Other liabilities	3.639	2.731	1.070	763	565
Total Liabilities	196.435	149.726	101.912	62.935	47.277
Primary Capital		19.454	3.961	604	539
Retained earnings		15.292	9.055	5.214	4.059
Share capital	4.877				
Reserves	1.250				
Retained earnings	21.604				
Total Shareh. Equity/Total Prim.Cap. and Ret.Earn.	27.732	34.746	13.016	5.818	4.598
Minority interest	29	29	1	1	27
Total Equity	27.761	34.775	13.017	5.819	4.625
position as the Total Liabilities and Equity	224.196	184.501	114.929	68.754	51.902

fourth largest banking institution in Iceland after the three commercial banks (Glitnir, Kaupthing Bank & Landsbanki).

In recent years SPRON has set the standard for customer service in the Icelandic banking market, ranking no. 1 in customers' satisfaction last year.

Recent Developments

On July 17th 2007 SPRON's board of directors announced that it plans to change SPRON's legal form to a limited liability company. This change was approved by SPRON's capital holders in August and by the Financial Supervisory Authority in September. SPRON was listed on the OMX Nordic Exchange Iceland hf. in October 2007.

The change will further strengthen SPRON's position in the Icelandic banking market. SPRON's conversion to a listed limited-liability company should favorably affect its ability to access the capital markets. With increased competition within the domestic financial market the change should give SPRON better access to funding and capital enabling SPRON to grow further and continue to offer superior service and competitive pricing to its customers.

The boards of directors of Kaupthing Bank hf. and the Reykjavik Savings Bank hf. agreed on 1 July 2008 on a merger schedule, according to which Kaupthing will take over SPRON's assets and liabilities by a merger.

Upon the merger, SPRON shareholders will receive a payment which is equivalent to the market price of shares in SPRON at the close of trading on 30 June 2008 plus a 15% premium. This equates to payment of ISK 3.83 for each share in SPRON. The payment will be structured as follows: 60% will be in the form of shares in Exista hf. and 40% will be in the form of shares in Kaupthing.

In the opinion of the boards of directors of Kaupthing and SPRON, the merger will have a positive impact on the operations of both companies in Iceland. It will improve services and increase the profitability of operations and value for the companies' shareholders. The financial market unrest of the past months has highlighted the need to place greater emphasis on improving operating efficiency and reining in costs of financial companies. The integration of Kaupthing and SPRON is a response to the changing operating environment and will strengthen the operations of both companies in the Icelandic financial market. Upon merging, emphasis will be placed on maintaining the special status and market positions of both companies. The branches of both banks will continue to operate under their own brand names.

The merger is subject to the approval of a shareholders' meeting in SPRON and the Icelandic Financial Supervisory Authority. The merger is also subject to the competition authorities not rejecting it or imposing conditions which the boards of directors of the companies consider unacceptable or which would make it inevitable to resubmit the merger proposal to a SPRON shareholders' meeting. The creditors' approval of the merger has already been obtained. The SPRON shareholders' meeting is scheduled for the beginning of August. The opinion of an external financial company on the payment to be made for the share capital in SPRON in the merger will be submitted at that meeting.

The merged company will not assume the operations, assets and liabilities, or the rights and obligations of SPRON until all the conditions of the merger have been met.

DESCRIPTION OF MORTGAGE PORTFOLIO

Key Characteristics of the pool as of Cut-Off Date	
Outstanding Principal Balance (ISK)	20,822,116,708
Average Borrower Balance (ISK)	14,520,305
Maximum Borrower Balance (ISK)	39,481,686
Number of Borrowers	1,434
Number of Loans	1,649
Weighted Average Seasoning (years)	2.58
Weighted Average Maturity of Loans (years)	33.42
Weighted Average Coupon (%)	4.37%
Weighted Average LTV (%)	56.64%

Loan to Value				
Range of Loan to Value	Number of Borrowers	Proportion of Total (%)	Aggregate Outstanding Principal (ISK)	Proportion of Total (%)
LTV <= 0.30	223	15.55%	1,661,695,648	7.98%
0.30 < LTV <= 0.35	68	4.74%	825,720,858	3.97%
0.35 < LTV <= 0.40	94	6.56%	1,149,795,902	5.52%
0.40 < LTV <= 0.45	95	6.62%	1,311,832,417	6.30%
0.45 < LTV <= 0.50	101	7.04%	1,611,841,569	7.74%
0.50 < LTV <= 0.55	132	9.21%	2,147,576,307	10.31%
0.55 < LTV <= 0.60	111	7.74%	1,834,882,433	8.81%
0.60 < LTV <= 0.65	125	8.72%	2,113,613,383	10.15%
0.65 < LTV <= 0.70	204	14.23%	3,402,541,182	16.34%
0.70 < LTV <= 0.75	168	11.72%	2,822,854,592	13.56%
0.75 < LTV <= 80	79	5.51%	1,326,156,665	6.37%
80 < LTV <= 85	20	1.39%	354,747,203	1.70%
85 < LTV <= 90	12	0.84%	221,602,522	1.06%
90 < LTV <= 95	1	0.07%	13,405,106	0.06%
95 < LTV <= 100	1	0.07%	23,850,921	0.11%
TOTAL	1,434	100.00%	20,822,116,708	100.00%

Seasoning				
Range of Seasoning (Years)	Number of Loans	Proportion of Total (%)	Aggregate Outstanding Principal (ISK)	Proportion of Total (%)
Seasoning <=1	117	7.10%	1,602,069,497	7.69%
1 < Seasoning <=2	149	9.04%	2,115,384,110	10.16%
2 < Seasoning <=3	778	47.18%	9,736,634,646	46.76%
3 < Seasoning <=4	605	36.69%	7,368,028,455	35.39%
TOTAL	1,649	100.00%	20,822,116,708	100.00%

Loan Interest Rate				
Range of Loan Interest Rate	Number of Loans	Proportion of Total (%)	Aggregate Outstanding Principal (ISK)	Proportion of Total (%)
4 < Int Rate <= 4.25	1177	71.38%	14,324,405,610	68.79%
4.25 < Int Rate <= 4.5	143	8.67%	2,121,966,128	10.19%
4.5 < Int Rate <= 4.75	39	2.37%	534,289,651	2.57%
4.75 < Int Rate <= 5	225	13.64%	3,084,877,857	14.82%
5 < Int Rate <= 5.25	20	1.21%	236,249,966	1.13%
5.25 < Int Rate <= 5.5	6	0.36%	59,329,461	0.28%
5.5 < Int Rate <= 5.75	2	0.12%	32,615,725	0.16%
5.75 < Int Rate <= 6	32	1.94%	386,270,130	1.86%
Int Rate > 6	5	0.30%	42,112,180	0.20%
TOTAL	1,649	100.00%	20,822,116,708	100.00%

Loan Maturity Date				
Range of Loan Maturity Date	Number of Loans	Proportion of Total (%)	Aggregate Outstanding Principal (ISK)	Proportion of Total (%)
Maturity Date <= 2020	104	6.31%	422,247,878	2.03%
2020 < Maturity Date <= 2025	36	2.18%	293,096,625	1.41%
2025 < Maturity Date <= 2030	243	14.74%	3,368,585,736	16.18%
2030 < Maturity Date <= 2035	78	4.73%	998,662,136	4.80%
2035 < Maturity Date <= 2040	16	0.97%	269,450,768	1.29%
2040 < Maturity Date <= 2045	838	50.82%	10,409,107,318	49.99%
2045 < Maturity Date <= 2050	334	20.25%	5,060,966,247	24.31%
Maturity Date > 2050	0	0.00%	0	0.00%
TOTAL	1,649	100.00%	20,822,116,708	100.00%

Loan Origination Date				
Range of Loan Origination Date	Number of Loans	Proportion of Total (%)	Aggregate Outstanding Principal (ISK)	Proportion of Total (%)
Origination Date = 2004	318	19.28%	4,398,381,264	21.12%
Origination Date = 2005	942	57.13%	10,867,111,374	52.19%
Origination Date = 2006	245	14.86%	3,520,644,847	16.91%
Origination Date = 2007	144	8.73%	2,035,979,223	9.78%
TOTAL	1,649	100.00%	20,822,116,708	100.00%

Geographical Area				
Area	Number of Loans	Proportion of Total (%)	Aggregate Outstanding Principal (ISK)	Proportion of Total (%)
Reykjavik Capital Area	1,585	96.12%	20,036,158,175	96.23%
Other	64	3.88%	785,958,533	3.77%
TOTAL	1,649	100.00%	20,822,116,708	100.00%

Employee Loans				
Employee	Number of Loans	Proportion of Total (%)	Aggregate Outstanding Principal (ISK)	Proportion of Total (%)
Employee Loan	33	2.00%	454,688,435	2.18%
Non Employee Loans	1,616	98.00%	20,367,428,273	97.82%
TOTAL	1,649	100.00%	20,822,116,708	100.00%

Originator				
Originator	Number of Loans	Proportion of Total (%)	Aggregate Outstanding Principal (ISK)	Proportion of Total (%)
Spron	881	53.43%	11,890,074,421	57.10%
Frjalsi	698	42.33%	7,938,903,095	38.13%
Netbankinn	70	4.24%	993,139,192	4.77%
TOTAL	1,649	100.00%	20,822,116,708	100.00%

MORTGAGE LOAN UNDERWRITING AND SERVICING

Origination

SPRON has three distribution channels for mortgage loans: its own branches, its 100% subsidiary Frjálsi fjárfestingarbankinn hf. ('Frjálsi') and its 100% subsidiary Netbankinn.

Frjálsi is a mortgage bank purchased by SPRON in 2002. As such it can be considered a direct competitor of its own branches, but it has been decided to keep the separate status for marketing purposes, as Frjálsi has a very good marketing position within the market.

Netbankinn has been set up by SPRON as a department to originate mortgage loans through the internet. Later, it was transformed into a subsidiary. It originates especially mortgage loans with that part of the population that has a higher education.

The origination procedures of all three originators are very similar and differ only in minor details. The general procedure is described below and originator exceptions are mentioned.

Underwriting and Appraisals

People who contact one of the originators for a mortgage loan are required to present their salary slips of the last three months, their tax return of the last year and information on outstanding loans that he has.

This last item can easily be checked with a central database that is kept by all banks (the Icelandic Bank's Data Centre, "RB"), provided that the customer gives permission. Without permission and check, no loan will be provided.

RB contains current arrears data, but does not contain data on historical payment behavior. For this, another database can be consulted, called "Lánstraust". This database is fed by all loan providers and contains information on personal bankruptcies, foreclosures, auctions and other financial legal actions that happened over the last 4 years. A mentioning of a loan applicant in this database immediately disqualifies him for loan approval.

When the checks above have been done, the applicant's repayment capabilities are calculated by taking his wage and deduct all loan payments and living costs. The living costs are estimated by taking into account the size of the family, the size of the house (insurance, electricity) and the number of cars and by using government provided averages of cost of living. The remainder can then be used for the repayment of the mortgage loan.

Next to the limit on loan size based on repayment capabilities, it is standard to limit the loan size to 80% (currently 70% for Frjálsi) of the value of the house. Valuation can be done by using the purchase price of the underlying property, as most of the home sales are done through a real estate agent. In case there is no sale (e.g. a loan for renovation) or in case no real estate agents was used (e.g. a sale within a family), every Icelandic mortgage loan provider has the possibility to check a national database, the Land Registry (as mentioned above), which contains government valuations of every property in Iceland. These valuations are used for tax purposes and to estimate rebuilding value for the compulsory fire insurance. This database is online and can be consulted by everybody. This makes the house prices in Iceland very transparent for both lenders and buyers. Also in case of sale, the Land Registry is consulted to detect off-market pricing.

In case there is doubt, SPRON and Frjálsi will send out their own valuers to the property for an in-house valuation.

As only 80% (70% for Frjálsi) of the market value is financed by the originators, the applicant also has to show that he can pay for the remaining 20% (30%), e.g. through the sale of a previous property or cash.

Some exceptions to the 80% LTV rule are possible. Most notably is the possibility of highly educated starters to receive financing up to 90% of the value of the house and then only at SPRON. SPRON introduced this first in November 2006 and the maximum amount is ISK 26 million.

Next to repayment capacity and LTV limits, the third determinant of the loan size is the term of the loan. Icelandic banks can lend up to 40 years, allowing borrowers to increase the size of their loan compared to a shorter term.

Loan approval procedure

The originators have 3 days for approval.

Within SPRON, there is a four-eye principle and people have a delegation limit. So a Service Manager Individuals (specialist within a branch) together with loan advisor can approve up to ISK 30 million if it is within 80% of the market value or the estimated rebuilding value plus the land-value of the property. The Branch Manager can approve loans upto ISK 40 mln. Any amount higher than that, an approval of the central risk committee is required. This committee meets Mondays and Thursdays every week¹.

Within Frjálsi, all loan proposals are approved by a daily loan committee of four people, including Frjálsi's CEO, the loan advisor and a real estate expert. The loan limit is not set at any maximum but can not go above 70% of the market value or the estimated rebuilding value plus the land-value of the property (except if the loan committee decides otherwise). If the LTV is higher than 65%, the loan committee will send one of its own real estate experts to value the property in question.

In Netbankinn's procedure the loan advisor and the manager approve the applications. Amounts here are limited to ISK 26 mln.

All originators recheck all applications through a separate department before releasing the money. This department has a checklist of required documents. If all is checked and approved, the documents are prepared for signing. The signing is done either at the bank (in cases other than a purchase) or at the real estate agent (in case of a purchase). Signatures are checked: it is interesting to note that nearly everybody has its photograph and signature scanned in the RB database. The documents can then be sent to the county magistrate who will check whether the property is registered at the right lien and will certify this by stamping the loan contract. Frjálsi will almost always consult a second county magistrate as an extra check.

After the approval from the county magistrate, the loans can be paid out to the seller. If there are old loans on the property the county magistrate issues conditional permit, i.e. the bank prepays the loans in question and then the remaining amount is paid to the seller.

In general, the whole procedure takes 10 days if all goes according to plan.

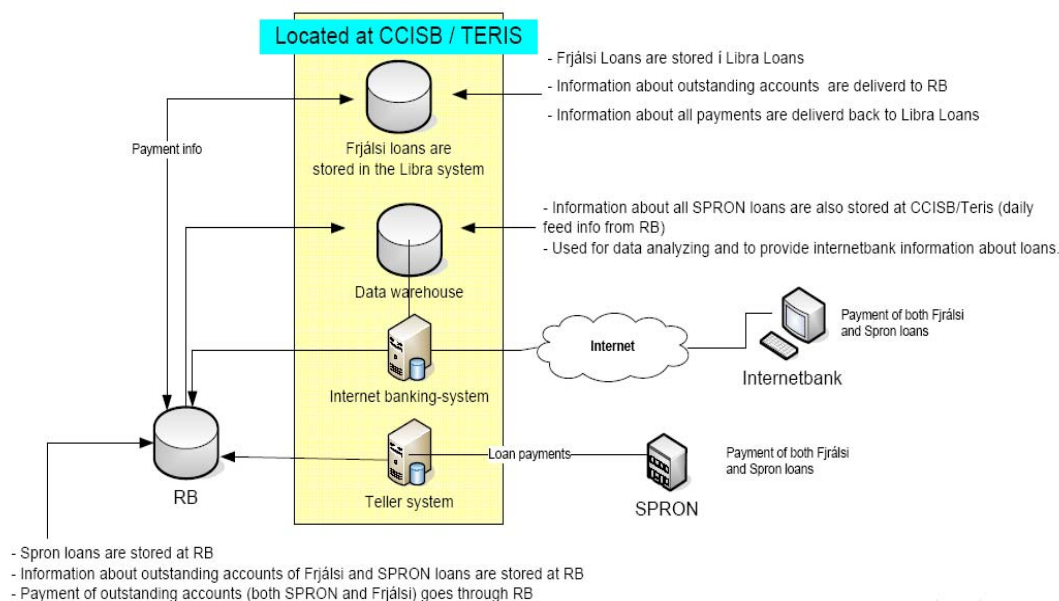
Insurance policies

For all mortgage loans, fire insurance is compulsory. In case the rebuilding value plus land value (as found in the Land Registry) is higher than 95% of the loan amount, additional fire insurance is required.

Servicing the portfolio

Upon origination of a mortgage loan, a claim number is created within the Icelandic banks database (RB). This claim number is used for the collection reconciliation system of RB. This system automatically creates a claim of the originator on each repayment date. Monthly invoices are automatically sent to borrowers.

The data from RB is then further managed by CCISB/Teris according to the schedule below.



¹ In this committee (nine persons) are among others, the risk manager, the managing director and the head of treasury.

Loans from Netbankinn are handled the same way as SPRON's loans in the schedule above.

All loan documentation (mortgage deeds, mortgage certificate, loan approval, application, etc...) is scanned and originals are kept in fireproof safes. SPRON has its own facility, which also stores Netbankinn's files. Frjálsi has a fireproof safe at its own building. Copies of the loan documentation might be available for consultation by staff in a separate room.

Loans in arrears

As for the underwriting procedures, the servicing procedures are very similar for the different originators.

After 7 days past due an automatic first letter is sent to the borrower, reminding him of his payment obligation. If not paid, a second letter is sent automatically after 30 days past due. Both letters are sent from the RB system for both SPRON and Frjálsi.

In case the loan becomes past due for more than 40 days for SPRON and 60 days for Frjálsi, a final notice is sent which gives the borrower a last 15-20 days (10 days for Frjálsi) to pay the amount in arrears or the file is forwarded to a collection agent. Late payment penalties amount to 25% interest on amounts in arrears. When the borrower becomes three payments in arrears, the file is presented to a collection agent. For SPRON and Netbankinn, this is an external law firm. For Frjálsi, this is the internal legal department.

The collection agent will start with registering the legal claim, usually within 5-10 days. The SPRON's external law firm sends out a letter of debt collection before it sends out a claim of payment. In it, debtors are urged to pay the debt within 14 days from the date of the letter. If the claim amount is fully paid within that period, 50% discount is offered on the collection cost.

Instead of a letter of debt collection, Frjálsi immediately sends out a claim of payment, with a subpoena, for the whole amount to both the collateral owner and the borrower. At this stage, the borrower still has the opportunity to pay the amount in arrears plus late payment penalties. Fifteen days from the claim by subpoena, the bank is allowed to send an auction claim to the county magistrate. After the auction claim is sent, the authorities can take 60-90 days in which an advertisement is placed in the official gazette (Lögbirtingarblað) and the case is presented to a second level magistrate. At this level, it can be decided by the bank to postpone the auction in case the borrower is (partially) paying the claim. The postponement can never take longer than 12 months.

The final auction takes place at the property itself. In advance another advertisement is placed to declare when the auction takes place and who is ordering the auction. The highest bidder pays to the county magistrate, who will use this money to settle the loans according a priority of liens, after 1% auction costs, property tax and fire insurance premiums.

Usually, SPRON or Frjálsi participate in the auction, bid up to the outstanding loan amount. In case the auction price is not sufficient to cover the outstanding loan amount plus penalties, the borrower remains responsible for the remaining amount.

Early redemptions

Prepayments are allowed. The loan amount to be repaid is the indexed outstanding amount of the loan, as described earlier. On top of that, a prepayment penalty of 2% has to be paid.

However, prepayments in Iceland are very low. This is due to the fact that mortgage loans can be transferred to another borrower if that new borrower is purchasing the underlying property; in this case, if the new borrower needs to finance more than the current outstanding, it requires a new loan for that additional amount. Also the loan can be collateralized by another property in case the borrower is moving; again, in case the loan amount needs to be increased, this is done through a second loan.

It is important to note that in this case the loan is re-assessed according to the underwriting procedure described above. The loan itself, however, is not registered as a new loan because this could increase the costs.

This being said, the change in the Icelandic mortgage market in 2004 unleashed a wave of refinancing, due to lower interest rates, higher loan-to-value ratio and longer maturities offered by banks than the HFF and other lenders. This spike in early redemptions can however be considered exceptional due to specific market circumstances.

MORTGAGE SALE AGREEMENT

Under the Mortgage Sale Agreement the Issuer will purchase and, on the Closing Date, accept from the Seller the assignment of the Mortgage Loans and their Related Security from the Seller which assignment shall be perfected by endorsement by the Seller of the document evidencing the Mortgage (the '**Mortgage Document**') as a result of which legal title to the Mortgage Loans and their Related Security is transferred to the Issuer. The assignment of the Mortgage Loans and their Related Security from the Seller to the Issuer will not be notified to the Borrowers, except in special events as further described hereunder ('**Assignment Notification Events**'). Until such notification the Borrowers can still validly pay to the Seller. The Issuer will be entitled to all proceeds in respect of the Mortgage Loans and their Related Security (i) to the extent relating to interest, including prepayment penalties as of the Closing Date and (ii) to the extent relating to principal as of 31 March 2008 (the '**Portfolio Cut-Off Date**').

Purchase Price

The purchase price for the Mortgage Loans shall consist of an initial purchase price (the '**Initial Purchase Price**'), payable on the Closing Date and a deferred purchase price (the '**Deferred Purchase Price**'). The Initial Purchase Price will be ISK 20,822,116,708 being the Outstanding Principal Amount of the Mortgage Loans at the Portfolio Cut-Off Date. The Deferred Purchase Price shall be equal to the sum of all Deferred Purchase Price Installments and each '**Deferred Purchase Price Installment**' will be equal to (i) the positive difference, if any, between the ISK Interest Available Amount as calculated on each Quarterly Calculation Date and the sum of all amounts payable by the Issuer as set forth in the ISK Interest Priority of Payments under (a) up to and including (l) as calculated on each Quarterly Calculation Date and (ii), after the Enforcement Date, the amount remaining after payments as set forth in the Priority of Payments upon Enforcement under (a) up to and including (k) have been made (see *Credit Structure* above) on such date.

Representations and warranties

The Seller will represent and warrant on the Closing Date with respect to each of the Mortgage Loans and their Related Security that - *inter alia* -:

- (a) each of the Mortgage Loans and their Related Security is duly and validly existing;
- (b) it has full right and title to the Mortgage Loans and their Related Security and no restrictions on the sale and transfer of the Mortgage Loans and their Related Security are in effect and the Mortgage Loans and their Related Security relating thereto are capable of being assigned;
- (c) it has power to sell and assign the Mortgage Loans and their Related Security;
- (d) the Mortgage Loans and their Related Security are free and clear of any encumbrances and distraints and no option to acquire the Mortgage Loans and their Related Security has been granted in favour of any third party with regard to the Mortgage Loans and their Related Security;
- (e) each Mortgage Loan is secured by a mortgage right on a Mortgaged Asset used for residential purposes in Iceland and is governed by Icelandic law;
- (f) prior to the granting of each Mortgage Loan, the Seller has received a valuation report in the form of (i) a value report, (ii) the purchase price of the Mortgaged Asset as set out in the purchasing agreement and/or (iii) valuation report from a real estate surveyor, on the relevant Mortgaged Asset (or such other form of report concerning the valuation of the relevant Mortgaged Asset as would be acceptable to a reasonably prudent lender of residential mortgage loans in Iceland), the contents of which were such as would be acceptable to a reasonably prudent lender of residential mortgage loans in Iceland;
- (g) each Mortgage Loan and the mortgage right and the right of pledge, if any, securing such loan constitutes legal, valid, binding and enforceable obligations of the relevant Borrower;
- (h) each Mortgage Loan complies with the underwriting criteria of the Seller or any of its subsidiaries;
- (i) all mortgage rights and rights of pledge constitute a valid and subsisting first ranking or first and sequential lower ranking mortgage rights and rights of pledge over the relevant Mortgaged Asset;
- (j) all second and sequential lower ranking mortgage rights on the Mortgage Loans, are subordinated to the first ranking mortgage rights by law and none of the Mortgage Loans are secured by mortgage rights ranking *pari passu* with the mortgage rights securing the Mortgage Loans in favour of the Seller;
- (k) the particulars of each Mortgage Loan, as set forth in the list of Mortgage Loans attached to the Mortgage Sale Agreement to be signed at the Closing Date are correct and complete in all material respects;
- (l) each of the Mortgage Loans meets the Mortgage Loans Criteria;
- (m) each of the Mortgage Loans fully complies with the Consumer Credit Act No. 121 from 1994 and meets in all material respects the Seller's standard underwriting criteria and procedures prevailing at that time and

- such underwriting criteria and procedures are in a form as may expected from a reasonably prudent lender of residential mortgage loans in Iceland;
- (n) the principal sum was in case of each of the Mortgage Loans fully disbursed to the relevant Borrower;
 - (o) it has not been notified and is not aware of anything affecting the Seller's title to the Mortgage Loans and their Related Security;
 - (p) the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loan;
 - (q) to the best knowledge of the Seller, the Borrowers are not in any material breach of any provision of their Mortgage Loans;
 - (r) each of the Mortgaged Assets on which a Mortgage has been vested to secure the Mortgage Loan had, at the time the Mortgage Loan was advanced the benefit of fire insurance for the full reinstatement value;
 - (s) all of the Borrowers are individuals and were aged 18 years or older at the date of entering into the relevant Mortgage Loan and its Related Security;
 - (t) neither the Seller nor any of its agents has received written notice of any litigation or dispute (subsisting, threatened or pending) in respect of any Borrower, Mortgaged Asset or Mortgage which might have a material adverse effect on a Mortgage Loan or its Related Security; and
 - (u) the aggregate Outstanding Principal Amount of all Mortgage Loans on the Portfolio Cut-Off Date is equal to ISK 20,822,116,708.

Mortgage Loans Criteria

Each of the Mortgage Loans will meet the following criteria (the '**Mortgage Loans Criteria**')

- (a) the Mortgage Loans are either:
 - (i) Annuity Mortgage Loans; or
 - (ii) Linear Mortgage Loans;
- (b) the Borrower is a resident of Iceland;
- (c) the Mortgage Loans have been originated by the Seller, Frjálsi or Netbankinn;
- (d) each Mortgaged Asset was not the subject of residential letting at the time of origination of the Mortgage Loan;
- (e) the real interest rate of each Mortgage Loan is fixed, subject to an interest reset from time to time;
- (f) interest payments are scheduled to be made monthly or at least quarterly either by direct debit or bank transfer;
- (g) no Mortgage Loan has a loan-to-value ratio of more than 100 per cent.;
- (h) no Mortgage Loan has a principal sum outstanding of more than 0.25 per cent. of the Outstanding Principal Amount of all Mortgage Loans;
- (i) no Mortgage Loan grants the relevant Borrower the right to request to withhold on deposit part of a Mortgage Loan to be paid out for the building or improvements of the Mortgaged Asset;
- (j) on the Portfolio Cut-Off Date or, in case of substitution, on the relevant Quarterly Payment Date no amounts due under any of the Mortgage Loans were or, in case of substitution will be overdue and unpaid for more than one installment;
- (k) at least one (interest) payment has been made in respect of the Mortgage Loan prior to the Closing Date or, in case of substitution, the relevant Quarterly Payment Date;
- (l) each Mortgage Loan was originated on or after 3 September 2004;
- (m) each Mortgage Loan matures for repayment no later than 40 years after origination; and
- (n) the Borrower has never been in arrears for more than two instalments in respect of the relevant Mortgage Loan.

The same criteria apply to the selection of Substitute Mortgage Loans.

Repurchase

If at any time after the Closing Date any of the representations and warranties relating to the Mortgage Loans and their Related Security is untrue or incorrect, the Seller shall within twenty (20) Business Days of receipt of written notice thereof from the Issuer remedy the matter giving rise thereto or if such matter is not capable of remedy or is not remedied within the said period of twenty (20) Business Days, the Seller shall repurchase and accept re-assignment of the Mortgage Loan and its Related Security.

The Seller shall also repurchase and accept re-assignment of a Mortgage Loan and its Related Security within twenty (20) Business Days after the date immediately following the date on which it agrees with a Borrower to a Mortgage Loan Amendment or a Mortgage Loan Transfer. In this respect it is noted that the Seller has undertaken

not to agree to a Mortgage Loan Amendment nor to a Mortgage Loan Transfer if (i) the Mortgage Loan to which such Mortgage Loan Amendment or Mortgage Loan Transfer relates is in arrears for a period exceeding ninety (90) days or (ii) in respect of the Mortgage Loan to which such Mortgage Loan Amendment or Mortgage Loan Transfer relates foreclosure proceedings have been initiated and (iii) the value of the Mortgaged Asset or, if no valuation report of less than twelve (12) months old is available, the indexed market value is below the Outstanding Principal Amount of the Mortgage Loan to which such Mortgage Loan Amendment or Mortgage Loan Transfer relates. The purchase price in case of a repurchase by the Seller of Mortgage Loans and their Related Security in respect of which it agrees with a Borrower to a Mortgage Loan Amendment or a Mortgage Loan Transfer, will be equal to the Outstanding Principal Amount of the Mortgage Loan together with interest and reasonable costs relating thereto (including any costs incurred by the Issuer in effecting and completing such purchase and assignment) accrued up to but excluding the date of purchase and assignment of the Mortgage Loan and its Related Security.

Regulatory Call Option

On each Quarterly Payment Date, unless a Convertibility Moratorium has been declared and is continuing, the Seller has the option (the "**Regulatory Call Option**") to repurchase the Mortgage Loans upon the occurrence of a Regulatory Change. A '**Regulatory Change**' will be a change published on or after the Closing Date in the Basle Capital Accord promulgated by the Basle Committee on Banking Supervision (the '**Basle Accord**') or in the international, European or Icelandic regulations, rules and instructions (which includes the solvency regulation on securitisation of the Icelandic Central Bank) (the '**Bank Regulations**') applicable to the Seller (including any change in the Bank Regulations enacted for purposes of implementing a change to the Basle Accord) or a change in the manner in which the Basle Accord or such Bank Regulations are interpreted or applied by the Basle Committee on Banking Supervision or by any relevant competent international, European or national body (including any relevant international, European or Icelandic Central Bank or other competent regulatory or supervisory authority) which, in the opinion of the Seller, has the effect of adversely affecting the rate of return on capital of the Seller or increasing the cost or reducing the benefit to the Seller with respect to the transaction contemplated by the Notes (a '**Regulatory Change**'); and

The Issuer will undertake in the Mortgage Sale Agreement to sell and assign the Mortgage Loans and their Related Security to the Seller, or any third party appointed by the Seller at its sole discretion, in case the Seller exercises its Regulatory Call Option.

Assignment Notification Events

If:

- (a) a default is made by the Seller in the payment on the due date of any amount due and payable by it under the Mortgage Sale Agreement or under any Relevant Document (as defined in Condition 3) to which it is a party and such failure is not remedied within ten (10) business days after notice thereof has been given by the Issuer or the Representative to the Seller; or
- (b) the Seller fails duly to perform or comply with any of its obligations under the Mortgage Sale Agreement or under any Relevant Document to which it is a party and, if such failure is capable of being remedied, such failure is not remedied within ten (10) business days after notice thereof has been given by the Issuer or the Representative to the Seller; or
- (c) any representation, warranty or statement made or deemed to be made by the Seller in the Mortgage Sale Agreement, other than the representations and warranties made in respect of the Mortgage Loans (which the Seller consequently repurchased), or under any of the other Relevant Documents to which the Seller is a party or if any notice or other document, certificate or statement delivered by it pursuant thereto proves to have been, and continues to be after the expiration of any applicable grace period provided for in any Relevant Document, untrue or incorrect in any material respect; or
- (d) if the Seller or any of its subsidiaries which has originated a Mortgage Loan which was purchased by the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders, or the Seller or any of its subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (e) if (A) proceedings are initiated against the Seller or any of its subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Seller or any

- of its subsidiaries or, as the case may be, in relation to the whole or a part of the undertaking or its assets, or an encumbrancer takes possession of the whole or a part of the undertaking or its assets, or a distress, execution, distraint, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or its assets and (B) in any case (other than the appointment of an administrator) the same is not discharged within 14 days; or
- (f) if the Seller or any of its subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
 - (g) at any time it becomes unlawful for the Seller to perform all or a material part of its obligations hereunder or under any Relevant Document to which it is a party; or
 - (h) the Seller has given materially incorrect information or not given material information which was essential for the Issuer and the Representative in connection with the entering into the Mortgage Sale Agreement and/or any of the Relevant Documents; or
 - (i) a Representative Notification Event has occurred;

then the Seller shall, unless the Representative instructs it otherwise, forthwith notify or ensure that the relevant Borrowers and any other relevant parties indicated by the Issuer and/or the Representative are forthwith notified of the assignment of the Mortgage Loans and their Related Security and will instruct such Borrowers to pay directly into a the Master Collection Account or, at its option, the Issuer shall be entitled to make such notification itself.

Purchase of Substitute Mortgage Loans and their Related Security

The Mortgage Sale Agreement provides that the Issuer shall on each Quarterly Payment Date up to the Quarterly Payment Date falling in November 2011 use the ISK Principal Available Amount subject to the ISK Principal Priority of Payments to purchase Substitute Mortgage Loans and their Related Security from the Seller if and to the extent offered by the Seller. The initial purchase price payable by the Issuer as consideration for any Substitute Mortgage Loans and their Related Security shall be equal to the aggregate Outstanding Principal Amount in respect of such Substitute Mortgage Loans on the last day of the Quarterly Collection Period immediately preceding the relevant Quarterly Payment Date.

The purchase by the Issuer of Substitute Mortgage Loans and their Related Security will be subject to a number of conditions (the "**Substitution Criteria**"), which include, *inter alia*, the conditions that on the relevant date of completion of the sale and purchase of the Substitute Mortgage Loans and their Related Security:

- (a) the Seller will represent and warrant to the Issuer and the Representative the matters set out in the clauses providing for the representations and warranties relating to the Mortgage Loans and their Related Security and the Seller in the Mortgage Sale Agreement with respect to the Substitute Mortgage Loans and their Related Security sold and relating to the Seller (with certain exceptions to reflect that the Substitute Mortgage Loans and their Related Security are sold and may have been originated after the Closing Date);
- (b) no Assignment Notification Event has occurred and is continuing;
- (c) not more than 4 per cent. of the aggregate outstanding principal amount of the Mortgage Loans is in arrear for an amount of three (3) or more scheduled payments of interest and principal;
- (d) the amount standing to the credit of the Reserve Account is equal to the Reserve Account Target Level;
- (e) the weighted average of the aggregate proportions of the outstanding principal amount of each Mortgage Loan and Substitute Mortgage Loan to the indexed market value of the Mortgaged Assets (the '**LTV-ratio**') does not exceed 80 per cent.;
- (f) the aggregate Outstanding Principal Amount of the Substitute Mortgage Loans and the Mortgage Loans purchased by the Issuer since the immediately preceding Quarterly Payment Date does not exceed 20 per cent. of the aggregate Principal Amount Outstanding of the Notes converted into ISK at the Swap Exchange Rate, excluding the Junior Class C Notes, on such Quarterly Payment Date.;
- (g) there has been no failure by the Seller to repurchase any Mortgage Loan and its Related Security which it is required to repurchase pursuant of the Mortgage Sale Agreement;
- (h) the ISK Principal Available Amount after Principal Inflation Payments is sufficient to pay the purchase price for the relevant Substitute Mortgage Loans and their Related Security;
- (i) up to the Quarterly Payment Date falling in November 2011, the cumulative Realised Losses since the Portfolio Cut-Off Date do not exceed 1 per cent. of the outstanding principal amount of the Mortgage Loans at the Closing Date;
- (j) the aggregate Outstanding Principal Amount of all Mortgage Loans granted to the first twenty (20) Borrowers having the highest aggregate debt under one or more of the Mortgage Loans does not exceed

- 4.00 per cent. of the aggregate Outstanding Principal Amount of all Mortgage Loans, including the Substitute Mortgage Loans;
- (k) the aggregate Outstanding Principal Amount of all Employee Mortgage Loans including the Substitute Mortgage Loans which qualify as an Employee Mortgage Loans, does not exceed 2.10 per cent. of the aggregate Outstanding Principal Amount of all Mortgage Loans, including the Substitute Mortgage Loans;
 - (l) payments of interest and principal under the Mortgage Loans, including the Substitute Mortgage Loans, are scheduled to be made monthly, save that in respect of Mortgage Loans, including the Substitute Mortgage Loans, having an aggregate Outstanding Principal Amount of not more than 4 per cent. of the Outstanding Principal Amount of all Mortgage Loans, including the Substitute Mortgage Loans, payments are allowed to be scheduled on a quarterly basis;
 - (m) not more than 4 per cent. of the Mortgage Loans, including the Substitute Mortgage Loans, has a LTV-ratio of more than 80 per cent and not more than 25 per cent. of the Mortgage Loans including the Substitute Mortgage Loans, has a LTV-ratio of more than 70 per cent.;
 - (n) not more than 70 per cent. of the Mortgage Loans, including the Substitute Mortgage Loans, has a LTV-ratio of more than 50 per cent.;
 - (o) not more than 50 per cent. of the Substitute Mortgage Loans has been originated by Frjálsi;
 - (p) 70 per cent. of the aggregate Outstanding Principal Amount of the Substitute Mortgage Loans relate to Borrowers which are employed;
 - (q) the aggregate Outstanding Principal Amount of the Mortgage Loans including the Substitute Mortgage Loans relating to Borrowers which make their interest payments under the Mortgage Loans quarterly does not exceed 4 per cent. of the aggregate Outstanding Principal Amount of all Mortgage Loans, including the Substitute Mortgage Loans; and
 - (r) unless the Seller has obtained a rating of at least Baa3 by Moody's, the delivery of a Solvency Certificate by the Seller to Moody's;

SERVICING AND CUSTODY AGREEMENT

Services

In the Servicing and Custody Agreement the Pool Servicer will agree to continue to provide administration and management services to the Issuer on a day-to-day basis in relation to the Mortgage Loans and their Related Security, including, without limitation, the collection of payments of principal, interest and other amounts in respect of the Mortgage Loans and the transfer of such amounts (but no other amounts) on a monthly basis to the Master Collection Account (see also paragraph *Cash Collection Arrangements* in *Credit Structure*) and the implementation of arrear procedures including the enforcement of mortgage rights (see further *Mortgage Loan Underwriting and Servicing* above). The Pool Servicer will be obliged to administer the Mortgage Loans and their Related Security at the same level of skill, care and diligence as mortgage loans in its own or, as the case may be, the Seller's portfolio.

The Asset Management Company will in the Servicing and Custody Agreement agree to provide certain administration services to the Issuer. The Calculation Agent will in the Servicing and Custody Agreement agree to provide certain calculation and cash management services to the Issuer, including (a) the direction of amounts received by the Seller to the Master Collection Account and the production of monthly reports in relation thereto, (b) drawings (if any) to be made by the Issuer from the Reserve Account, (c) all payments to be made by the Issuer under the Swap Agreement, (d) all payments to be made by the Issuer under the Notes in accordance with the Paying Agency Agreement and the Conditions, (e) the maintaining of all required ledgers in connection with the above and (f) all calculations to be made pursuant to the Conditions under the Notes. The Custody Agent will in the Servicing and Custody Agreement agree to provide certain services to the Fund as detailed in Article 20 of Act No 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds (the '**Act**'). In providing such services the Custody Agent may, subject to certain requirements being satisfied, use a Central Securities Depository and/or subcontract or delegate the performance of its duties under the Servicing and Custody Agreement, provided that it will nevertheless remain responsible for the performance of those duties to the Issuer and the Representative.

Termination

The Servicing and Custody Agreement may be terminated by the Representative or the Issuer (with the consent of the Representative) in certain circumstances, including (a) a default by the Pool Servicer and/or Asset Management Company and/or Calculation Agent and/or Custody Agent in the payment on the due date of any payment due and payable by it under the Servicing and Custody Agreement, (b) a default by the Pool Servicer and/or Asset Management Company and/or Calculation Agent and/or Custody Agent in the performance or observance of any of its other covenants and obligations under the Servicing and Custody Agreement or (c) the Pool Servicer and/or Asset Management Company and/or Calculation Agent and/or Custody Agent has taken any corporate action or any steps have been taken or legal proceedings have been instituted or threatened against it for its entering into emergency regulations pursuant to Article 9 of Act 161/2002 (or for any analogous insolvency proceedings under any applicable law) or for bankruptcy or for the appointment of a receiver or a similar officer of its or any or all of its assets.

After termination of the Servicing and Custody Agreement, the Representative and the Issuer shall use their best effort to appoint a substitute asset management company and/or substitute pool servicer and/or substitute calculation agent and/or substitute custody agent and such substitute asset management company and/or substitute pool servicer and/or substitute calculation agent and/or substitute custody agent shall enter into an agreement with the Issuer and the Representative substantially on the terms of the Servicing and Custody Agreement, provided that such substitute asset management company and/or substitute pool servicer and/or substitute calculation agent and/or substitute custody agent shall have the benefit of a fee at a level to be then determined. Any such substitute asset management company or substitute pool servicer or substitute calculation agent or substitute custody agent must have experience in performing the relevant services to be provided under the Servicing and Custody Agreement.

The Servicing and Custody Agreement may be terminated by the Pool Servicer and/or Asset Management Company and/or Calculation Agent and/or Custody Agent upon the expiry of not less than 12 months' notice of termination given by the Pool Servicer and/or Asset Management Company and/or Calculation Agent and/or Custody Agent to each of the Issuer and the Representative provided that - *inter alia* - (a) the Representative consents in writing to such termination and (b) a substitute pool servicer and/or substitute asset management company and/or substitute calculation agent and/or substitute custody agent shall be appointed, such appointment to be effective not later than the date of termination of the Servicing and Custody Agreement and the Pool Servicer and/or Asset Management Company and/or Calculation Agent and/or Custody Agent shall not be released from its

obligations under the Servicing and Custody Agreement until such substitute pool servicer has entered into such new agreement.

GEYSIR 2008-I INSTITUTIONAL INVESTOR FUND

The Issuer was established in Iceland on 28 February 2008 as an institutional investment fund pursuant to Article 4 of the Act.

The Issuer's registration number is 440308-9880. The registered office of the Issuer is at Vegmúla 2, 108 Reykjavík, Iceland. The telephone number of the Issuer's registered office is +354 550 1200. The day-to-day operations of the Issuer are managed by Rekstrarfélag SPRON hf. (the '**Asset Management Company**') pursuant to the Issuer's Articles of Association (attached to this prospectus as Appendix 1). The Asset Management Company's registration number is 470904-2160. The registered office of the Asset Management Company is at Vegmúla 2, 108 Reykjavík, Iceland. The telephone number of the Asset Management Company's registered office is +354 550 1200. The Asset Management Company is incorporated under the laws of Iceland. The principal activity of the Asset Management Company consists of the management of the day-to-day operations of funds and other enterprises for mutual investment in transferable securities. The Asset Management Company has notified the Financial Supervisory Authority in Iceland of the establishment of the Issuer. The board of managing directors of the Issuer is composed of the board of managing directors of the Asset Management Company being G. Hauksson and O. Haraldsson.

The Issuer has issued unit shares in an amount of ISK 2, which are fully paid up. All unit shares issued by the Issuer are held by Lýsing hf., ID 621101 2420. Lýsing hf. is leasing company and a daughter company of Exista hf. The managing director of Exista hf. is E. Hjaltason. E. Hjaltason is also the chairman of the board of managing directors of SPRON.

The Asset Management Company has been appointed pursuant to the Issuer's Articles of Association to provide certain administration services to the Issuer the Custody Agent has been appointed pursuant to the Issuer's Articles of Association to provide the services specified in Article 20 of the Act, all in all in accordance with the Servicing and Custody Agreement entered into by, *inter alia*, the Asset Management Company, the Issuer and Arion verðbréfavarsla hf. (the '**Custody Agent**'). The registered office of the Custody Agent is at Ármúla 13, 108 Reykjavík, Iceland. The telephone number of the Custody Agent's registered office is +354 528 2800 (see also *Servicing and Custody Agreement* above).

The Issuer has no subsidiaries or employees. Other than the Asset Management Company and the Custody Agent, the Issuer is dependent on the Pool Servicer and the Calculation Agent to provide certain administrative and calculation services to it, on the terms of the Transaction Documents.

The principal activities of the Issuer are set out in the Fund Deed and its Articles of Association and include, *inter alia*, the ability to carry on the business of acquiring the Mortgage Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement and to acquire monies to finance the acquisition of such Mortgage Loans and their related Security by way of issuing securities or by way of entering into loan agreements and to do all such things as are incidental or conducive to the carrying on of that business.

The Issuer has not traded since the date of its establishment (other than those matters incidental to the establishment of this transaction), nor has it engaged since its establishment, and will not engage whilst the Notes remain outstanding, in any material activities other than activities incidental to its establishment, activities contemplated under the Transaction Documents to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

There are no potential conflicts of interest between, on the one hand, any duties of the directors of the Asset Management Company to the Issuer and, on the other hand, their private interests or other duties.

There has been no material adverse change in the prospects of the Issuer since 28 February 2008, being the date of its establishment.

There has not been any significant change in the financial or trading position of the Issuer since 28 February 2008, being the date of its establishment. No statutory accounts have been prepared or delivered to the Financial Supervisory Authority of Iceland, in accordance with article 46 of the Act, since the date of its establishment. The Issuer's accounting reference date is 31 December with its first statutory accounts being drawn up to 31 December 2008.

The Issuer has not been involved in any legal, arbitration or governmental proceedings or is aware of any such proceedings which may have, or have had, significant effects on the Issuer's financial position or profitability nor, so far as the Issuer is aware, are any such proceedings pending or threatened against the Issuer.

Capitalization

The following table shows the capitalization of the Issuer on or about 25 July 2008 as adjusted to give effect to the Issue of the Notes:

Borrowings

Unit Shares	ISK 2
Senior Class A Notes	Euro 124,800,000
Mezzanine Class B Notes	Euro 34,200,000
Junior Class C Notes	Euro 1,600,000

Auditors' Report

The following is the text in a report received by the Issuer from KPMG hf., the auditor's to the Issuer (also attached hereto as Appendix 2):

"to the unit holders of Geysir 2008-I Institutional Investor Fund

Report on the Financial Statements

We have audited the accompanying Opening Balance Sheet of Geysir at 15 July 2008 and the related Endorsement of the Board of Directors and Balance Sheet.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these opening balance sheet in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of opening balance sheets that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these opening balance sheet based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the opening balance sheet are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the opening balance sheet. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the opening balance sheet, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the opening balance sheet in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the opening balance sheet.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the opening balance sheet gives a true and fair view of the financial position of the fund at 15 July 2008 in accordance to laws and generally accepted accounting principles.

KPMG hf.

Balance Sheet at 15 July 2008

Assets:

Securities:

Mortgage Loans	0
Deposits	<u>2</u>
Total Assets	<u><u>2</u></u>

Liabilities:

Issued bonds.....	<u>0</u>
Total Liabilities	<u>2</u>

Total net assets 2

Equity:

Units	<u><u>2</u></u>
Net assets.....	2
Number of units.....	<u>2</u>
Exchange rate of units at 15 July 2008.....	<u>1"</u>

USE OF PROCEEDS

The net proceeds of the Notes to be issued on the Closing Date amount to EUR 160,600,000.

The net proceeds of the issue of the Notes, excluding the Junior Class C Notes, will be applied on the Closing Date to pay the Initial Purchase Price for the Mortgage Loans purchased under the Mortgage Sale Agreement. The net proceeds of the issue of the Junior Class C Notes, after being converted into krona at the Swap Exchange Rate, will be credited to the Reserve Account.

DESCRIPTION OF SECURITY

On the Closing Date, the Issuer vests a first ranking right of pledge (the "**Representative Loans Pledge Agreement**") in favour of the Representative, acting as agent for the Noteholders/Secured Parties, on the Mortgage Loans and their Related Security. The Issuer also undertakes to vest a first ranking right of pledge in respect of any Substitute Mortgage Loans and their Related Security on the Quarterly Payment Date on which they are acquired. The pledge on the Mortgage Loans and their Related Security will not be notified to the Borrowers except in the event that certain Assignment Notification Events occur.

Furthermore, on the Closing Date, the Issuer vests a first ranking right of pledge (the "**Representative Accounts Pledge Agreement**"), in favour of the Representative, acting as agent for the Noteholders/Secured Parties, over the balances standing to the credit of the Transaction Accounts and the Issuer Collection Account of the Issuer from time to time established under or in connection with the transaction.

The security rights described above will serve as security for the benefit of the Secured Parties, including each of the Senior Class A Noteholders, the Mezzanine Class B Noteholders and the Junior Class C Noteholders, but, *inter alia*, amounts owing to the Mezzanine Class B Noteholders will rank in priority of payment after amounts owing to Senior Class A Noteholders and amounts owing to the Junior Class C Noteholders will rank in priority of payment after amounts owing to the Senior Class A Noteholders and the Mezzanine Class B Noteholders (see chapter *Credit Structure* above).

THE REPRESENTATIVE

Stichting Representative Geysir 2008-I (the "**Representative**") is a foundation ("*stichting*") incorporated under the laws of the Netherlands on 24 June 2008. It has its registered office at Prins Bernhardplein 200, 1097 JB, Amsterdam, the Netherlands.

The objects of the Representative are (a) to act as agent for the benefit of the creditors of the Issuer, including the holders of the Notes to be issued by the Issuer; (b) to acquire, hold and administer security rights in its own name, and if necessary to enforce such security rights, for the benefit of the creditors of the Issuer, including the holders of the Notes issued by the Issuer, and to perform acts and legal acts which is conducive to the holding of the above mentioned security rights; (c) to borrow money; and (d) to perform any and all acts which are related, incidental or which may be conducive to the above.

The sole director of the Representative is Fortis Intertrust (Netherlands) B.V., having its registered office at Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands. Fortis Intertrust (Netherlands) B.V. is a group company of Fortis. The managing directors of Fortis Intertrust (Netherlands) B.V. are O.J.A. van der Nap, P. de Langen, R.W. Bakker and C.P.M. Roelofs.

The Representative has agreed to act as agent for the holders of the Notes and to pay any amounts received from the Issuer or amounts collected by the Representative under the Pledge Agreements to the Noteholders subject to and pursuant to the Fund Deed and subject to and in accordance with the Priority of Payments upon Enforcement.

In addition, the Representative has agreed to act as Representative vis-à-vis the other Secured Parties and to pay to such Secured Parties any amounts received from the Issuer or amounts collected by the Representative under the Pledge Agreements to which the relevant Secured Party is a party subject to and pursuant to the Fund Deed and subject to and in accordance with the Priority of Payments upon Enforcement.

The Representative shall not be liable for any action taken or not taken by it or for any breach of its obligations under or in connection with the Fund Deed or any other Relevant Document to which it is a party, except in the event of its wilful misconduct or negligence, and it shall not be responsible for any act or negligence of persons or institutions selected by it in good faith and with due care.

Without prejudice to the right of indemnity by law given to it, the Representative and every attorney, manager, agent, delegate or other person appointed by it under the Fund Deed shall be indemnified by the Issuer against and shall on first demand be reimbursed in respect of all liabilities and expenses properly incurred by it in the execution or purported execution of the powers of the Fund Deed or of any powers, authorities or discretions vested in it or him pursuant to the Fund Deed and against all actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted in any way relating to the Fund Deed or otherwise.

As set out in the Fund Deed, the Management Agreement and the Representative's articles of incorporation, the Representative shall not retire or be removed from its duties under the Fund Deed until all amounts payable by the Issuer to the Secured Parties have been paid in full.

However, the Noteholders can resolve to dismiss the Director of the Representative as the director of the Representative by an Extraordinary Resolution, on the basis of the Fund Deed and the articles of incorporation of the Representative. The Director of the Representative shall only resign from its position as director of the Representative as soon as a suitable person, trust or administration office, reasonably acceptable to the Issuer, after having consulted the Secured Parties, other than the Noteholders, and subject to the written confirmation of Moody's that there shall be no adverse effect on the then current rating assigned to the Senior Class A Notes, has been contracted to act as director of the Representative.

TERMS AND CONDITIONS OF THE NOTES

If Notes are issued in definitive form, the terms and conditions (the '**Conditions**') will be as set out below. The Conditions will be endorsed on each Note in definitive form if they are issued. While the Notes remain in global form, the same terms and conditions govern the Notes, except to the extent that they are not appropriate for Notes in global form. See 'The Global Notes' below.

The issue of the euro 124,800,000 floating rate Senior Class A Mortgage-Backed Notes 2008 due 2053 (the '**Senior Class A Notes**'), the euro 34,200,000 floating rate Mezzanine Class B Mortgage-Backed Notes 2008 due 2053 (the '**Mezzanine Class B Notes**') and the 1,600,000 euro floating rate Junior Class C Notes 2008 due 2053 (the '**Junior Class C Notes**'), and together with the Senior Class A Notes, the Mezzanine Class B Notes and the Junior Class C Notes, the '**Notes**') was authorised by a resolution of the Asset Management Company acting on behalf of the managing directors of Geysir 2008-I Institutional Investor Fund (the '**Issuer**') passed on 25 June 2008. The Notes are issued under a Fund Deed dated on or about 25 July 2008 (the '**Fund Deed**') between the Issuer and Stichting Representative Geysir 2008-I (the '**Representative**').

The statements in these terms and conditions of the Notes (the '**Conditions**') include summaries of, and are subject to, the detailed provisions of (i) the Fund Deed, which will include the form of the Notes and the interest coupons appertaining to the Notes (the '**Coupons**'), the forms of the Temporary Global Notes and the Permanent Global Notes, (ii) a Paying Agency Agreement (the '**Paying Agency Agreement**') dated on or about 25 July 2008 between the Issuer, the Representative, Fortis Banque Luxembourg S.A. as principal paying agent (the '**Principal Paying Agent**') and Fortis Bank (Nederland) N.V. and Sparisjóður Reykjavíkur og nágrennis hf. as paying agent (each a '**Paying Agent**') and together with the Principal Paying Agent, the '**Paying Agents**') and Fortis Bank NV/SA as reference agent (the '**Reference Agent**'), (iii) a Servicing and Custody Agreement (the '**Servicing and Custody Agreement**') dated on or about 25 July 2008 between - *inter alia* - the Issuer, Rekstrarfélag SPRON hf. as '**Asset Management Company**', Sparisjóður Reykjavíkur og nágrennis hf. as '**Pool Servicer**', Fortis Intertrust (Netherlands) B.V. as '**Calculation Agent**' and the Representative, (iv) a pledge agreement dated on or about 25 July 2008 (the '**Representative Loans Pledge Agreement**') between the Issuer and the Representative, (v) a pledge agreement dated on or about 25 July 2008 (the '**Representative Accounts Pledge Agreement**') between the Issuer, the Representative and others (jointly with the two other pledge agreements referred to under (vi) above, the '**Pledge Agreements**').

Certain words and expressions used below are defined in a master definitions agreement (the '**Master Definitions Agreement**') dated on or about 22 July 2008 and signed by the Issuer, the Representative, the Seller and certain other parties. Such words and expressions shall, except where the context requires otherwise, have the same meanings in these Conditions. As used herein, '**Class**' means either the Senior Class A Notes, the Mezzanine Class B Notes and the Junior Class C Notes, as the case may be.

Copies of the Fund Deed, the Paying Agency Agreement, the Pledge Agreements and the Master Definitions Agreement are available for inspection free of charge by holders of the Notes at the specified office of each Paying Agent and the present office of the Representative, being at the date hereof Prins Bernardplein 200, 1097 JB, Amsterdam, the Netherlands. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Fund Deed, the Paying Agency Agreement, the Pledge Agreements and the Master Definitions Agreement.

1. Form, Denomination and Title

The Notes will be in bearer form serially numbered with Coupons attached on issue in denominations of euro 50,000 each. Under Icelandic law, the valid transfer of Notes requires, *inter alia*, delivery thereof or endorsement. The Issuer, the Representative and the Paying Agents may, to the fullest extent permitted by law, treat the holder of any Note and of the Coupons appertaining thereto as its absolute owner for all purposes (whether or not payment under such Note or Coupon shall be overdue and notwithstanding any notice of previous loss or theft thereof) for any purposes, including payment and no person shall be liable for so treating such holder. The signatures on the Notes will be in facsimile.

2. Status, Relationship between the Notes and Security

- (a) The Notes of each Class, are direct and unconditional obligations of the Issuer and rank *pari passu* and rateably without any preference or priority among Notes of the same Class;

- (b) In accordance with the provisions of Conditions 4, 6 and 9 and the Fund Deed (i) payments of principal and interest on the Mezzanine Class B Notes are subordinated to, *inter alia*, payments of principal and interest on the Senior Class A Notes and (ii) payments of principal and interest on the Junior Class C Notes are subordinated to, *inter alia*, payments of principal and interest on the Senior Class A Notes and the Mezzanine Class B Notes;
- (c) The security for the obligations of the Issuer towards the Noteholders (the '**Security**') will be created pursuant to, and on the terms set out in, the Fund Deed and the Pledge Agreements, which will create the following security rights:
 - (i) a pledge by the Issuer to the Representative over the Mortgage Loans and their Related Security;
 - (ii) a pledge in favour of the Representative, acting as agent for the Noteholders/Secured Parties, over the balances standing to the credit of the Transaction Accounts and the Issuer Collection Account of the Issuer from time to time established under or in connection with the Transaction.
- (d) The Senior Class A Notes, the Mezzanine Class B Notes and the Junior Class C Notes will be secured (directly and/or indirectly) by the Security. The Senior Class A Notes will rank in priority to the Mezzanine Class B Notes and the Junior Class C Notes; and the Mezzanine Class B Notes will rank in priority to the Junior Class C Notes in the event of the Security being enforced. The '**Most Senior Class of Notes**' means the Senior Class A Notes or if there are no Senior Class A Notes outstanding, the Mezzanine Class B Notes, or if there are no Mezzanine Class B Notes outstanding, the Junior Class C Notes. The Fund Deed contains provisions requiring the Representative to have regard to the interests of the holders of the Senior Class A Notes (the '**Senior Class A Noteholders**'), the holders of the Mezzanine Class B Notes (the '**Mezzanine Class B Noteholders**') and the holders of the Junior Class C Notes (the '**Junior Class C Noteholders**'), as regards all powers, trust, authorities, duties and discretions of the Representative (except where expressly provided otherwise) but requiring the Representative in any such case to have regard only to the interests of the holders of the Most Senior Class of Notes, if, in the Representative's opinion, there is a conflict between the interests of the holders of the Most Senior Class of Notes on the one hand and the holders of junior ranking Notes on the other hand.

In addition, the Representative shall have regard to the interests of the other Secured Parties, provided that, in case of a conflict of interest between the Secured Parties, the Priority of Payments upon Enforcement set forth in the Fund Deed, determines which interest of which Secured Party prevails.

3. Covenants of the Issuer

So long as any of the Notes remain outstanding, the Issuer shall carry out its business in accordance with proper and prudent Icelandic business practice and in accordance with the requirements of Icelandic law and accounting practice and shall not, except to the extent permitted by the Mortgage Sale Agreement, the Servicing and Custody Agreement, the Pledge Agreements, the Swap Agreement, the GIC, the Liquidity Facility Agreement, the Notes Purchase Agreement, the Notes, the Paying Agency Agreement and the Fund Deed (together the '**Relevant Documents**') or with the prior written consent of the Representative:

- (a) carry out any business other than as described in the Prospectus dated on or about 15 July 2008 relating to the issue of the Notes and as contemplated in the Relevant Documents;
- (b) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness, except as contemplated in the Relevant Documents;
- (c) create or promise to create any mortgage, charge, pledge, lien or other security interest whatsoever over any of its assets, or use, invest, sell, transfer or otherwise dispose of any part of its assets, except as contemplated in the Relevant Documents;
- (d) consolidate or merge with any other person or convey or transfer its assets substantially or as an entirety to one or more persons;
- (e) permit the validity or effectiveness of the Pledge Agreements, or the priority of the security created thereby or pursuant thereto to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of such security rights to be released from such obligations except as contemplated in the Relevant Documents;
- (f) have any employees or premises or have any subsidiary or subsidiary undertaking; or

- (g) have an interest in any bank account other than the Transaction Accounts and the Issuer Collection Account unless all rights in relation to such account will have been pledged to the Representative as provided in Condition 2(c)(ii).

4. Interest

(a) *Period of Accrual*

The Notes shall bear interest on their Principal Amount Outstanding (as defined in Condition 6) from and including the Closing Date. Each Note (or in the case of the redemption of part only of a Note that part only of such Note) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal or any part thereof is improperly withheld or refused. In such event, interest will continue to accrue thereon (before and after any judgement) at the rate applicable to such Note up to but excluding the date on which, on presentation of such Note, payment in full of the relevant amount of principal is made or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent or each of the Paying Agent to the holder thereof (in accordance with Condition 13) that upon presentation thereof, such payments will be made, provided that upon such presentation payment is in fact made. Whenever it is necessary to compute an amount of interest in respect of any Note for any period, such interest shall be calculated in respect of a floating rate of interest, on the basis of actual days elapsed in the Interest Period divided by 360 days.

(b) *Interest Periods and Quarterly Payment Dates*

Interest on the Notes is payable by reference to successive interest periods. Each successive interest period will commence on (and include) a Quarterly Payment Date and end on (but exclude) the succeeding Quarterly Payment Date (each an '**Interest Period**'), except for the first Interest Period which will commence on (and include) the Closing Date and end on (but exclude) the Quarterly Payment Date falling in November 2008. The interest will be calculated on the basis of the actual days elapsed in the Interest Period divided by a year of 360 days.

Interest on the Notes will be payable quarterly in arrear in euro in respect of the Principal Amount Outstanding (as defined in the Conditions) on the 20th day of February, May, August and November (or, if such day is not a Business Day (as defined below), the next succeeding Business Day, unless such Business Day falls in the next succeeding calendar month, in which event the Business Day immediately preceding such day) in each year (each such day being a '**Quarterly Payment Date**'). A '**Business Day**' means a day on which banks are open for business in Reykjavik, Brussels and Luxembourg provided that such day is also a day on which the Trans-European Automated Real-Time Gross Settlement European Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007 ('**TARGET System**') or any successor thereto is operating credit or transfer instructions in respect of payments in euro.

(c) *Interest up to the Step Up Date*

Up to (and including) the Step Up Date (as defined in Condition 6(e)), and in respect of the Mezzanine Class B Notes and the Junior Class C Notes up to the Final Maturity Date (as defined in Condition 6(a)), interest on the Notes for each Interest Period will accrue at an annual rate equal to the sum of the Euro Interbank Offered Rate ('**Euribor**') for three months deposits in euros (or, in respect of the first Interest Period, the rate which represents the linear interpolation of Euribor for 4 and 5 months deposits in euro), plus:

- (i) for the Senior Class A Notes, a margin of 0.20 per cent. per annum;
- (ii) for the Mezzanine Class B Notes, a margin of 0.30 per cent. per annum; and
- (iii) for the Junior Class C Notes, a margin of 0.50 per cent. per annum

(d) *Interest following the Step Up Date*

If on the Step Up Date the Senior Class A Notes have not been redeemed in full, the interest rate applicable to the Senior Class A Notes will accrue in the Interest Period commencing on the Step Up Date and each Interest Period thereafter at an annual rate equal to the sum of Euribor for three months deposits plus margin of 0.60 per cent. per annum.

If the Issuer has notified the Representative and the Noteholders in accordance with Condition 13, that it wishes to exercise its right to redeem the Notes, other than the Junior Class C Notes, in accordance with Condition 6(e) on the first Optional Redemption Date, but on such date a Convertibility Moratorium has been declared and is continuing as a result of which the Issuer is not able to redeem the Notes in

full, the increase of the rate of interest on the Senior Class A Notes as described in this Condition 4(e) is not applicable until the earliest Optional Redemption Date on or after the Step Up Date on which no Convertibility Moratorium is in force.

(e) *Euribor*

For the purpose of Conditions 4(c) and (d) Euribor will be determined as follows:

- (i) The Reference Agent will obtain for each Interest Period the rate equal to the sum of the Euro Interbank Offered Rate ('**Euribor**') for three months deposits in euro. The Reference Agent shall use the Euribor rate as determined and published jointly by the European Banking Federation and ACI – The Financial Market Association and which appears for information purposes on the Reuters Screen EURIBOR01 (or, if not available, any other display page on any screen service maintained by any registered information vendor (including, without limitation, the Reuter Monitor Money Rate Service, the Dow Jones Telerate Service and the Bloomberg Service) for the display of the Euribor rate selected by the Reference Agent) as at or about 11:00 a.m. (Central European Time) on the day that is two Business Days preceding the first day of each Interest Period (each an '**Interest Determination Date**').
- (ii) If, on the relevant Interest Determination Date, such Euribor rate is not determined and published jointly by the European Banking Association and ACI - The Financial Market Association, or if it is not otherwise reasonably practicable to calculate the rate under (i) above, the Reference Agent will:
 - (A) request the principal euro-zone office of each of four major banks in the euro-zone interbank market (the '**Reference Banks**') to provide a quotation for the rate at which three months euro deposits are offered by it in the euro-zone interbank market at approximately 11.00 a.m. (Central European Time) on the relevant Interest Determination Date to prime banks in the euro-zone interbank market in an amount that is Representative for a single transaction at that time; and
 - (B) determine the arithmetic mean (rounded, if necessary, to the fifth decimal place with 0.000005 being rounded upwards) of such quotation as is provided; and
- (iii) if fewer than two such quotations are provided as requested, the Reference Agent will determine the arithmetic mean (rounded, if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the rates quoted by major banks, of which there shall be at least two in number, in the euro-zone, selected by the Reference Agent, at approximately 11.00 a.m. (Central European time) on the relevant Interest Determination Date for one month deposits to leading euro-zone banks in an amount that is Representative for a single transaction in that market at that time,

and Euribor for such Interest Period shall be the rate per annum equal to the euro interbank offered rate for euro deposits as determined in accordance with this paragraph (e), provided that if the Reference Agent is unable to determine Euribor in accordance with the above provisions in relation to any Interest Period, Euribor applicable to the relevant Class of Notes during such Interest Period will be Euribor last determined in relation thereto.

(f) *Determination of Floating Rate of Interest and Calculation of the Floating Interest Amount*

The Reference Agent will, as soon as practicable after 11.00 a.m. (Central European Time) on each relevant Interest Determination Date, determine the floating rates of interest referred to in paragraphs (c) and (e) above for each relevant Class of Notes (the '**Floating Rate of Interest**') and calculate the amount of interest payable on this Class of Notes for the following Interest Period (the '**Floating Interest Amount**') by applying the relevant Floating Rate of Interest to the Principal Amount Outstanding of the relevant Class of Notes. The determination of the relevant Floating Rate of Interest and the Floating Interest Amount by the Reference Agent shall (in the absence of manifest error) be final and binding on all parties.

(g) *Notification of the Floating Rate of Interest and the Floating Interest Amount*

The Reference Agent will cause the relevant Floating Rate of Interest and the relevant Floating Interest Amount and the Quarterly Payment Date applicable to each relevant Class of Notes to be notified to the Issuer, the Representative, the Paying Agents, the Asset Management Company, the Calculation Agent,

OMX ICE, Euronext Amsterdam and to the holders of such Class of Notes (A) for as long as the Senior Class A Notes are listed on OMX ICE by an advertisement in the English language in a daily newspaper of general circulation in Iceland and (B) for as long as the Senior Class A Notes are listed on Euronext Amsterdam by an advertisement in the English language in the Euronext Daily Official List ('*Officiële Prijscourant*') of Euronext Amsterdam, as soon as possible after the determination. The Floating Interest Amount and Quarterly Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

(h) *Determination or Calculation by Representative*

If the Reference Agent at any time for any reason does not determine the relevant Floating Rate of Interest or fails to calculate the relevant Floating Interest Amount in accordance with paragraph (g) above, the Representative shall determine the relevant Floating Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in paragraph (g) above), it shall deem fair and reasonable under the circumstances, or, as the case may be, the Representative shall calculate the Floating Interest Amount in accordance with paragraph (g) above, and each such determination or calculation shall be final and binding on all parties.

(i) *Reference Banks and Reference Agent*

The Issuer will procure that, as long as any of the Notes remains outstanding, there will at all times be four Reference Banks and a Reference Agent. The Issuer has, subject to prior written consent of the Representative, the right to terminate the appointment of the Reference Agent or of any Reference Bank by giving at least 90 days' notice in writing to that effect. Notice of any such termination will be given to the holders of the relevant Class of Notes in accordance with Condition 13. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be) or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the prior written consent of the Representative, appoint a successor Reference Bank or Reference Agent (as the case may be) to act in its place, provided that neither the resignation nor removal of the Reference Agent shall take effect until a successor approved in writing by the Representative has been appointed.

5. **Payment**

- (a) Payment of principal and interest in respect of Definitive Notes will be made upon presentation of the Definitive Note and against surrender of the relevant Coupon appertaining thereto, at any specified office of the Paying Agents in cash or by transfer to a euro account maintained by the payee with a bank in Iceland, as the holder may specify. All such payments are subject to any fiscal or other laws and regulations applicable in the place of payment.
- (b) At the Final Maturity Date (as defined in Condition 6), or at such earlier date when the Notes have become due and payable, the Definitive Notes should be presented for payment together with all unmatured Coupons appertaining thereto, failing which the full amount of any such missing unmatured Coupons (or, in the case of payment not being made in full, that proportion of the full amount of such missing unmatured Coupons which the sum of principal so paid bears to the total amount of principal due) will be deducted from the sum due for payment. Each amount so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon at any time before the expiry of four(4) years following the due date for payment of such principal (whether or not such Coupons would have become unenforceable pursuant to Condition 8).
- (c) If the relevant Quarterly Payment Date is not a day on which banks are open for business in the place of presentation of the relevant Note or Coupon ('**Local Business Day**'), the holder thereof shall not be entitled to payment until the next following such day, or to any interest or other payment in respect of such delay, provided that in the case of payment by transfer to an euro account as referred to above, the Paying Agents shall not be obliged to credit such account until the Local Business Day immediately following the day on which banks are open for business in Iceland. The names of the Paying Agents and of their offices are set out below.
- (d) The Issuer reserves the right at any time to vary or terminate the appointment of the Paying Agents and to appoint additional or other paying agents provided that no paying agent located in the United States of America will be appointed and that the Issuer will at all times maintain paying agents having a specified office in the European Union which, for as long as the Senior Class A Notes are listed (i) on

OMX ICE shall be located in Iceland and (ii) on Euronext shall be located in The Netherlands. Notice of any termination or appointment of a Principal Paying Agent or a Paying Agent and of any changes in the specified offices of the Paying Agents will be given to the Noteholders in accordance with Condition 13.

6. Redemption and purchase

(a) Final redemption

Unless previously redeemed as provided below, the Issuer will, subject to Condition 9(b), redeem the Notes at their Principal Amount Outstanding on the Quarterly Payment Date falling in November 2053 (the '**Final Maturity Date**').

(b) Mandatory redemption

Provided that no Enforcement Notice has been served in accordance with Condition 10, the Issuer shall be obliged to apply the Notes Redemption Available Amount (as defined below) to redeem (or partially redeem) on a *pro rata* basis on the earlier of (i) the Quarterly Payment Date falling in November 2011 and (ii) the Quarterly Payment Date immediately succeeding the date on which an Assignment Notification Event has occurred, and on each Quarterly Payment Date thereafter the Senior Class A Notes and the Mezzanine Class B Notes at their Principal Amount Outstanding in the following order, (a) firstly, the Senior Class A Notes, until fully redeemed, and, thereafter and (b) the Mezzanine Class B Notes until fully redeemed.

The principal amount so redeemable (each a '**Principal Redemption Amount**'), in respect of each Note, other than the Junior Class C Notes, on the relevant Quarterly Payment Date, shall be the Notes Redemption Available Amount on the Quarterly Calculation Date relating to that Quarterly Payment Date divided by the number of Notes of the relevant Class subject to such redemption (rounded down to the nearest euro), provided always that the Principal Redemption Amount may never exceed the Principal Amount Outstanding of the relevant Note of the relevant Class. Following application of the Principal Redemption Amount to redeem a Note, the Principal Amount Outstanding of such Note shall be reduced accordingly.

(c) Definitions

For the purposes of these Conditions the following terms shall have the following meanings:

'**Class C Redemption ISK Available Amount**' shall mean on any Optional Redemption Date, the ISK Interest Available Amount remaining after payment of item (i) of the ISK Interest Priority of Payments.

'**Convertibility Moratorium**' means any temporary suspension of convertibility of krona to euro imposed by the Central Bank of Iceland or any other governmental body in Iceland;

'**EUR Swap Principal Amount**' means the ISK Swap Principal Amount converted into euro at the Swap Exchange Rate;

'**ISK Interest Available Amount**' shall mean the sum of the following amounts, calculated at each Quarterly Calculation Date as being received or held on the Master Collection Account during the Quarterly Collection Period immediately preceding such Quarterly Calculation Date;

- (i) as interest on the Mortgage Loans including any Indexation Adjustment to the extent relating to interest and any late payment penalties under the Mortgage Loans;
- (ii) as interest credited to the Master Collection Account and the Reserve Account and the Issuer Collection Account;
- (iii) as prepayment penalties under the Mortgage Loans;
- (iv) as Net Proceeds on any Mortgage Loans, to the extent such proceeds do not relate to principal;
- (v) as amounts to be drawn from the Reserve Account on the immediately succeeding Quarterly Payment Date;

- (vi) as amounts received in connection with a repurchase of Mortgage Loans and their Related Security pursuant to the Mortgage Sale Agreement or any other amounts received pursuant to the Mortgage Sale Agreement, to the extent such amounts do not relate to principal;
- (vii) as amounts received in connection with a sale of Mortgage Loans and their Related Security pursuant to the Fund Deed to the extent such amounts do not relate to principal;
- (viii) as amounts received as post-foreclosure proceeds on the Mortgage Loans and their Related Security; and
- (ix) after all amounts of interest and principal due in respect of the Notes, other than the Junior Class C Notes, have been paid or will be paid on the immediately succeeding Quarterly Payment Date, any amount standing to the credit of the Reserve Account, the Master Collection Account and the Issuer Collection Account to the extent not included in item (i) up to and including (viii).

'ISK Principal Available Amount' shall mean the sum of the following amounts, calculated at any Quarterly Calculation Date as being received by the Issuer during the immediately preceding Quarterly Collection Period:

- (i) as repayment and prepayment of principal under the Mortgage Loans, for the avoidance of doubt, excluding prepayment penalties, if any, but including Indexation Adjustments to the extent relating to principal;
- (ii) as Net Proceeds on any Mortgage Loans, to the extent such proceeds relate to principal;
- (iii) as amounts received in connection with a repurchase of Mortgage Loans and their Related Security pursuant to the Mortgage Sale Agreement and any other amounts received pursuant to the Mortgage Sale Agreement to the extent such amounts relate to principal;
- (iv) as Principal Deflation Payment, if any;
- (v) as amount to be credited to the Principal Deficiency Ledger on the immediately succeeding Quarterly Payment Date in accordance with the Servicing and Custody Agreement;
- (vi) as amounts to be received in connection with a sale of Mortgage Loans and their Related Security pursuant to the Fund Deed to the extent such amounts relate to principal;
- (vii) any part of the ISK Principal Available Amount calculated on the immediately preceding Quarterly Calculation Date which has not been applied towards satisfaction of any of the items set out in the ISK Principal Priority of Payments on the immediately preceding Quarterly Payment Date;

'ISK Swap Principal Amount' means on any Quarterly Payment Date on which principal is due under the Notes, an amount equal to the ISK Principal Available Amount less item (a) of the ISK Principal Priority of Payments;

'Monthly Collection Period' means the period starting on (but excluding) a Reference Date up to (but including) the immediately succeeding Reference Date.

'Net Proceeds', shall mean (a) the proceeds of a foreclosure on the mortgage assets, (b) the proceeds of foreclosure on any other collateral securing the Mortgage Loan, (c) the proceeds, if any, of collection of any insurance policies in connection with the Mortgage Loans, including but not limited to building insurance, and (d) the proceeds of foreclosure on any other assets of the relevant debtor, after deduction of foreclosure costs;

'Notes Redemption Available Amount' shall mean the amounts received from the Swap Counterparty under the Swap Agreement as the EUR Swap Principal Amount on a Quarterly Payment Date;

'Principal Amount Outstanding' means, on any Quarterly Calculation Date of any Note the principal amount of that Note upon issue less the aggregate amount of all Principal Redemption Amounts or Class C Redemption Amounts, as applicable, in respect of that Note that have become due and payable prior to such Quarterly Calculation Date or will become due on the immediately succeeding Quarterly Payment Date, provided that for the purpose of Conditions 4, 6, and 10 all Principal Redemption Amounts or Class C Redemption Amounts, as applicable in respect of that Note that have become due and not paid shall not be so deducted;

'Principal Deflation Payment' means, on a Quarterly Payment Date, be an amount equal to the amount by which (A) the amount of the aggregate Principal Amount Outstanding of the Notes, excluding the Junior Class C Notes (converted into ISK at the Swap Exchange Rate) on the last day of the immediately preceding Interest Period less the balance standing to the Principal Deficiency Ledger on the first day of the immediately succeeding Interest Period exceeds (B) the sum of (a) the Outstanding Principal Amount of the Mortgage Loans on the last day of the immediately preceding Quarterly Collection Period, (b) the balance standing to the credit of the Principal Ledger on the last day of the immediately preceding Quarterly Collection Period, and (C) the amounts credited on such Quarterly Payment Date to the Principal Deficiency Ledger through items (e), and (h) of the ISK Interest Priority of Payments;

'Principal Inflation Payment' means, on a Quarterly Payment Date, be the lower of (x) the balance standing to the credit of the Principal Ledger on the last day of the immediately preceding Quarterly Collection Period, plus the amounts credited on such Quarterly Payment Date to the Principal Deficiency Ledger through items (e) and (h) of the ISK Interest Priority of Payments and (y) an amount equal to the positive difference between (A) the sum of (i) the Outstanding Principal Amount of the Mortgage Loans on the last day of the immediately preceding Quarterly Collection Period and (ii) the balance standing to the credit of the Principal Ledger on the last day of the immediately preceding Quarterly Collection Period and (iii) the amounts credited on such Quarterly Payment Date to the Principal Deficiency Ledger through items (e) and (h) of the ISK Interest Priority of Payments; and (B) the Assets Target Level;

'Quarterly Calculation Date' means the 10th business day of February, may, August and November;

'Quarterly Collection Period' means, in relation to a Quarterly Calculation Date, the three successive Monthly Collection Periods immediately preceding such Quarterly Calculation Date;

'Reference Date' means the last day of a calendar month;

'Swap Exchange Rate' means EUR/ISK 131.

(d) *Determination of Principal Redemption Amount, Class C Redemption Amount and Principal Amount Outstanding*

(i) On each Quarterly Calculation Date, the Issuer shall determine (or cause the Calculation Agent to determine) (a) the Principal Redemption Amount and, as the case may be, the Class C Redemption Amount due for the relevant Class of Notes on the Quarterly Payment Date and (b) the Principal Amount Outstanding of the relevant Note on the first day following the Quarterly Payment Date. Each determination by or on behalf of the Issuer of any Principal Redemption Amount and, as the case may be the Class C Redemption Amount or the Principal Amount Outstanding of a Note shall in each case (in the absence of manifest error) be final and binding on all persons.

(ii) The Issuer will cause each determination of a Principal Redemption Amount, Class C Redemption Amount and Principal Amount Outstanding of Notes to be notified forthwith to the Representative, the Paying Agents, the Reference Agent, Euroclear, Clearstream, Luxembourg, OMX ICE, Euronext Amsterdam and to the holders of Notes, (A) for as long as the Senior Class A Notes are listed on OMX ICE, by an advertisement in the English language in a daily newspaper of general circulation in Iceland and (B) for as long as the Senior Class A Notes are listed on Euronext Amsterdam by an advertisement in the English language in the Euronext Daily Official List ('*Officiële Prijscourant*') of Euronext Amsterdam. If no Principal Redemption Amount is due to be made on the Notes on any applicable Quarterly Payment Date, a notice to this effect will be given to the Noteholders in accordance with Condition 13.

- (iii) If the Issuer does not at any time for any reason determine (or cause the Calculation Agent to determine) the Principal Redemption Amount, the Class C Redemption Amount or the Principal Amount Outstanding of a Note, such Principal Redemption Amount, the Class C Redemption Amount or such Principal Amount Outstanding shall be determined by the Representative in accordance with this paragraph (d) and paragraph (c) above (but based upon the information in its possession as to the Principal Redemption Amount and Class C Redemption Amount due for the relevant Class of Notes on the Quarterly Payment Date and each such determination or calculation shall be deemed to have been made by the Issuer.

(e) *Optional redemption*

Unless previously redeemed in full, the Issuer may, at its option, on giving not more than sixty (60) nor less than thirty (30) days written notice to the Representative and the Noteholders in accordance with Condition 13, on the earlier of (i) the Step Up Date and (ii) the Quarterly Payment Date immediately succeeding the date on which an Assignment Notification Event has occurred, and on any Quarterly Payment Date thereafter (each an '**Optional Redemption Date**') redeem all of the Notes, other than the Junior Class C Notes, in whole but not in part, at their Principal Amount Outstanding on such date (A) if the Issuer has sufficient funds available to it for this purpose, less (i) in the case of the Mezzanine Class B Notes, a Mezzanine Class B Principal Shortfall (if any) and (B) no Convertibility Moratorium has been declared and is continuing.

(f) *Mandatory Redemption of Junior Class C Notes*

Provided that no Enforcement Notice has been served in accordance with Condition 10, the Issuer will be obliged to apply the Class C Redemption Available Amount to redeem (or partially redeem) on a pro rata basis the Junior Class C Notes on each Optional Redemption Date until fully redeemed. For the purpose of this Condition, "**Class C Redemption Available Amount**" shall mean on any Optional Redemption Date until the Junior Class C Notes are redeemed in full, the Class C Redemption ISK Available Amount converted into euro at the Swap Exchange Rate.

The principal amount so redeemable in respect of each Junior Class C Note (the "**Class C Redemption Amount**"), on the relevant Quarterly Payment Date shall be the Class C Redemption Available Amount on the Quarterly Calculation Date relating to the Quarterly Payment Date divided by the number of Notes (rounded down to the nearest euro), provided always that the amount so redeemable, may never exceed the Principal Amount Outstanding of the Junior Class C Notes. Following application of the relevant amount redeemable in respect of the Junior Class C Notes, the Principal Amount Outstanding of such Junior Class C Notes shall be reduced accordingly.

(g) *Redemption for tax reasons*

Unless a Convertibility Moratorium has been declared and is continuing, the Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Quarterly Payment Date, on giving not less than thirty (30) nor more than sixty (60) days' notice to the Noteholders and the Representative at their Principal Amount Outstanding, if, immediately prior to giving such notice, the Issuer has satisfied the Representative that:

- (a) the Issuer is or will be obliged to make any withholding or deduction for, or on account of, any taxes, duties, or charges of whatsoever nature from payments in respect of any Class of Notes as a result of any change in, or amendment to, the application of the laws or regulations of Iceland (including any guidelines issued by the tax authorities) or any other jurisdiction or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which becomes effective on or after the Closing Date and such obligation cannot be avoided by the Issuer taking reasonable measures available to it; and
- (b) the Issuer will have sufficient funds available on the Quarterly Calculation Date immediately preceding such Quarterly Payment Date to discharge all amounts of principal and interest due in respect of the Notes and any amounts required to be paid in priority or *pari passu* with each Class of Notes in accordance with the Fund Deed.

No Class of Notes may be redeemed under such circumstances unless all Classes of Notes (or such of them as are then outstanding) are also redeemed in full at the same time.

(h) *Redemption for regulatory reasons*

Unless a Convertibility Moratorium has been declared and is continuing, the Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Quarterly Payment Date, by giving not less than thirty (30) nor more than sixty (60) days' notice to the Noteholders and the Representative at their Principal Amount Outstanding if the Seller exercises its option to repurchase the Mortgage Loans upon the occurrence of:

- (a) a change published on or after the Closing Date in the Basle Capital Accord promulgated by the Basle Committee on Banking Supervision (the '**Basle Accord**') or in the international, European or Icelandic regulations, rules and instructions (which includes the solvency regulation on securitisation of the Icelandic Central Bank) (the '**Bank Regulations**') applicable to the Seller (including any change in the Bank Regulations enacted for purposes of implementing a change to the Basle Accord) or a change in the manner in which the Basle Accord or such Bank Regulations are interpreted or applied by the Basle Committee on Banking Supervision or by any relevant competent international, European or national body (including any relevant international, European or Icelandic Central Bank or other competent regulatory or supervisory authority) which, in the opinion of the Seller, has the effect of adversely affecting the rate of return on capital of the Seller or increasing the cost or reducing the benefit to the Seller with respect to the transaction contemplated by the Notes (a '**Regulatory Change**'); and
- (b) the Issuer will have sufficient funds available on the Quarterly Calculation Date immediately preceding such Quarterly Payment Date to discharge all amounts of principal and interest due in respect of the Notes and any amounts required to be paid in priority or *pari passu* with each Class of Notes in accordance with the Fund Deed.

No Class of Notes may be redeemed under such circumstances unless all Classes of Notes (or such of them as are then outstanding) are also redeemed in full at the same time.

7. Taxation

All payments of, or in respect of principal and interest on the Notes will be made without withholding of, or deduction for, or on account of any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the Principal Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Notes subject to any withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on the taxation of savings that was adopted on 3 June 2003 or any other law implementing or complying with, or introduced in order to conform to such Directive. In that event, the Issuer or the Principal Paying Agent (as the case may be) shall make such payment after the required withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Principal Paying Agent nor the Issuer will be obliged to make any additional payments to the Noteholders in respect of such withholding or deduction.

8. Prescription

Claims against the Issuer for payment in respect of the Notes shall become prescribed unless made within ten (10) years from the date on which such payment first becomes due. Claims against the Issuer for payment in respect of the Coupons shall become prescribed unless made within four (4) years from the date on which such payment first becomes due.

9. Subordination

(a) Interest

Interest on the Mezzanine Class B Notes and the Junior Class C Notes shall be payable in accordance with the provisions of Conditions 4 and 6, subject to the terms of this Condition.

In the event that on any Quarterly Calculation Date the Issuer has insufficient funds available to it to satisfy its obligations in respect of amounts of interest due on the Mezzanine Class B Notes on the next Quarterly Payment Date, the amount available (if any) shall be applied *pro rata* to the amount of the interest due on such Quarterly Payment Date to the holders of the Mezzanine Class B Notes. In the event of a shortfall, the Issuer shall credit the Mezzanine Class B Interest Deficiency Ledger, with an amount equal to the amount by which the aggregate amount of interest paid on the Mezzanine Class B Notes, on any Quarterly Payment Date, in accordance with this Condition falls short of the aggregate amount of interest payable on the Mezzanine Class B Notes on that date pursuant to Condition 4. Such shortfall shall not be treated as due on that date for the purposes of Condition 4, but shall accrue interest as long as it remains outstanding at the rate of interest applicable to the Mezzanine Class B Notes for such period, and a *pro rata* share of such shortfall and accrued interest thereon shall be

aggregated with the amount of, and treated for the purpose of these Conditions as if it were interest due, subject to this Condition, on each Mezzanine Class B Note on the next succeeding Quarterly Payment Date.

In the event that on any Quarterly Calculation Date the Issuer has insufficient funds available to it to satisfy its obligations in respect of amounts of interest due on the Junior Class C Notes on the next Quarterly Payment Date, the amount available (if any) shall be applied *pro rata* to the amount of the interest due on such Quarterly Payment Date to the holders of the Junior Class C Notes. In the event of a shortfall, the Issuer shall credit the Junior Class C Interest Deficiency Ledger, with an amount equal to the amount by which the aggregate amount of interest paid on the Junior Class C Notes, on any Quarterly Payment Date, in accordance with this Condition falls short of the aggregate amount of interest payable on the Junior Class C Notes on that date pursuant to Condition 4. Such shortfall shall not be treated as due on that date for the purposes of Condition 4, but shall accrue interest as long as it remains outstanding at the rate of interest applicable to the Junior Class C Notes for such period, and a *pro rata* share of such shortfall and accrued interest thereon shall be aggregated with the amount of, and treated for the purpose of these Conditions as if it were interest due, subject to this Condition, on each Junior Class C Note on the next succeeding Quarterly Payment Date.

(b) *Principal*

Until the date on which the Principal Amount Outstanding of all Senior Class A Notes is reduced to zero, the Mezzanine Class B Noteholders will not be entitled to any repayment of principal in respect of the Mezzanine Class B Notes. If, on any Quarterly Payment Date, there is a balance on the Class B Principal Deficiency Ledger, then notwithstanding any other provisions of these Conditions the principal amount payable on redemption of each Mezzanine Class B Note on such Quarterly Payment Date shall not exceed its Principal Amount Outstanding less the Mezzanine Class B Principal Shortfall on such Quarterly Payment Date. The '**Mezzanine Class B Principal Shortfall**' shall mean an amount equal to the quotient of the balance on the Class B Principal Deficiency Ledger and the number of Mezzanine Class B Notes outstanding on such Quarterly Payment Date. The Mezzanine Class B Noteholders shall have no further claim against the Issuer for the Principal Amount Outstanding on the Mezzanine Class B Notes after the earlier of (i) the Final Maturity Date or (ii) the date on which the Issuer no longer holds any Mortgage Loans and there are no balances standing to the credit of the Transaction Accounts and Issuer Collection Account.

The Junior Class C Noteholders shall have no further claim against the Issuer for the Principal Amount Outstanding on the Junior Class C Notes after the earlier of (i) the Final Maturity Date or (ii) the date on which the Issuer no longer holds any Mortgage Loans and there are no balances standing to the credit of the Transaction Accounts.

(c) *General*

In the event that the Security in respect of the Notes and the Coupons appertaining thereto has been fully enforced and the proceeds of such enforcement, after payment of all other claims ranking under the Fund Deed in priority to a Class of Notes are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of such Class of Notes, the Noteholders of the relevant Class shall have no further claim against the Issuer or the Representative in respect of any such unpaid amounts.

10. Events of Default

The Representative at its discretion may, and if so directed by an Extraordinary Resolution of the Senior Class A Noteholders or if no Senior Class A Notes are outstanding, by an Extraordinary Resolution of the Mezzanine Class B Noteholders, or if no Senior Class A Notes and Mezzanine Class B Notes are outstanding, by an Extraordinary Resolution of the Junior Class C Noteholders (subject, in each case, to being indemnified to its satisfaction) (in each case, the '**Relevant Class**') shall (but in the case of the occurrence of any of the events mentioned in (b) below, only if the Representative shall have certified in writing to the Issuer that such an event is, in its opinion, materially prejudicial to the Noteholders of the Relevant Class) give notice (an '**Enforcement Notice**') to the Issuer that the Notes are, and each Note shall become, immediately due and payable at their or its Principal Amount Outstanding, together with accrued interest, if any of the following shall occur:

- (a) default is made for a period of fifteen (15) days or more in the payment on the due date of any amount due in respect of the Notes of the Relevant Class; or

- (b) the Issuer fails to perform any of its other obligations binding on it under the Notes of the Relevant Class, the Fund Deed, the Paying Agency Agreement or the Pledge Agreements and, except where such failure, in the reasonable opinion of the Representative, is incapable of remedy, such default continues for a period of thirty (30) days after written notice by the Representative to the Issuer requiring the same to be remedied; or
- (c) if a distraint is levied on any major part of the Issuer's assets and not discharged or released within a period of thirty (30) days; or
- (d) if an order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer; or
- (e) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability, to pay its debts (or any class of its debts) as they fall due, is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (A) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or a part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of any of them, or a distress, execution, distraint, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) the same is not discharged within 14 days; or
- (g) if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors);

provided that, if Senior Class A Notes are outstanding, no Enforcement Notice may or shall be given by the Representative to the Issuer in respect of the Mezzanine Class B Notes or the Junior Class C Notes, irrespective of whether an Extraordinary Resolution is passed by the Mezzanine Class B Noteholders or the Junior Class C Noteholders, unless an Enforcement Notice in respect of the Senior Class A Notes has been given by the Representative. In exercising its discretion as to whether or not to give an Enforcement Notice to the Issuer in respect of the Senior Class A Notes, the Representative shall not be required to have regard to the interests of the Mezzanine Class B Noteholders or the Junior Class C Noteholders.

11. Enforcement

- (a) At any time after the Notes of any Class become due and payable, the Representative may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the terms of the Fund Deed, the Pledge Agreements and the Notes, but it need not take any such proceedings unless (i) it shall have been directed by an Extraordinary Resolution of the Senior Class A Noteholders or, if all amounts due in respect of the Senior Class A Notes have been fully paid, the Mezzanine Class B Noteholders or, if all amounts due in respect of the Senior Class A Notes and the Mezzanine Class B Notes have been fully paid, the Junior Class C Noteholders and (ii) it shall have been indemnified to its satisfaction.
- (b) No Noteholder may proceed directly against the Issuer unless the Representative, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.
- (c) The Noteholders and the Representative may not institute against, or join any person in instituting against, the Issuer any bankruptcy, winding-up, reorganisation, arrangement, insolvency or liquidation proceeding until the expiry of a period of at least one (1) year after the latest maturing Note is paid in full. The Noteholders accept and agree that the only remedy of the Representative against the Issuer after any of the Notes have become due and payable pursuant to Condition 10 above is to enforce the Security.

12. Indemnification of the Representative

The Fund Deed contains provisions for the indemnification of the Representative and for its relief from responsibility. The Representative is entitled to enter into commercial transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transaction.

13. Notices

With the exception of the publications of the Reference Agent in Condition 4 and of the Issuer in Condition 6, all notices to the Noteholders will only be valid if published in at least one daily newspaper of wide circulation in Iceland, or, if all such newspapers shall cease to be published or timely publication therein shall not be practicable, in such newspaper as the Representative shall approve having a general circulation in Europe and (A) as long as the Senior Class A Notes are listed on OMX ICE, by and advertisement in the English language in a daily newspaper of general circulation in Iceland and (B) for as long as the Senior Class A Notes are listed on Euronext Amsterdam by an advertisement in the English language in the Euronext Daily Official List (*'Officiële Prijscourant'*) of Euronext Amsterdam. Any such notice shall be deemed to have been given on the first date of such publication.

14. Meetings of Noteholders; Modification; Consents; Waiver

The Fund Deed contains provisions for convening meetings of the Senior Class A Noteholders, the Mezzanine Class B Noteholders and the Junior Class C Noteholders to consider matters affecting the interests, including the sanctioning by Extraordinary Resolution, of such Noteholders of the relevant Class of a change of any of these Conditions or any provisions of the Relevant Documents.

(a) Meeting of Noteholders

A meeting as referred to above may be convened by the Issuer or by Noteholders of any Class holding not less than ten (10) per cent. in Principal Amount Outstanding of the Notes of such Class.

(b) Basic terms change

No change of certain terms by the Noteholders of any Class including the date of maturity of the Notes of the relevant Class, or a change which would have the effect of postponing any day for payment of interest in respect of such Notes, reducing or cancelling the amount of principal payable in respect of such Notes or altering the majority required to pass an Extraordinary Resolution or any alteration of the date or priority of redemption of such Notes (any such change in respect of any such class of Notes referred to below as a **'Basic Terms Change'**) shall be effective unless it is sanctioned by an Extraordinary Resolution of the Noteholders of the relevant Class of Notes as described below except that, if the Representative is of the opinion that such Basic Terms Change is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, no such Extraordinary Resolution is required.

(c) Extraordinary Resolution

Quorum and majority

The quorum for any meeting convened to consider an Extraordinary Resolution for any Class of Notes will be two-thirds of the Principal Amount Outstanding of the Notes of the relevant Class, as the case may be, and at such a meeting an Extraordinary Resolution is adopted with not less than a two-third majority of the validly cast votes, except that the quorum required for an Extraordinary Resolution including the sanctioning of a Basic Terms Change shall be at least seventy five (75) per cent. of the amount of the Principal Amount Outstanding of the Notes of the relevant Class and the majority required shall be at least seventy five (75) per cent. of the validly cast votes at that Extraordinary Resolution. If at such meeting the aforesaid quorum is not represented, a second meeting of Noteholders will be held within one month, with due observance of the same formalities for convening the meeting which governed the convening of the first meeting; at such second meeting an Extraordinary Resolution is adopted with not less than a two-thirds majority of the validly cast votes, except that for an Extraordinary Resolution including a sanctioning of a Basic Terms Change the majority required shall be 75 per cent. of the validly cast votes, regardless of the Principal Amount Outstanding of the Notes of the relevant Class then represented.

Any Extraordinary Resolution duly passed shall be binding on all Noteholders of the relevant Class (whether or not they were present at the meeting at which such resolution was passed).

Limitations

No Extraordinary Resolution to sanction a change which would have the effect of accelerating or increasing the maturity of a Class of Notes, or any date for payment of interest thereon, increasing the amount of principal or the rate of interest payable in respect of a Class of Notes, shall take effect unless it shall have been sanctioned by an Extraordinary Resolution of the holders of all Notes ranking junior to the Most Senior Class of Notes.

An Extraordinary Resolution of the Mezzanine Class B Noteholders and/or the Junior Class C Noteholders shall only be effective when the Representative is of the opinion that it will not be materially prejudicial to the interests of Senior Class A Noteholders and/or, as the case may be, the Mezzanine Class B Noteholders and/or, as the case may be, the Junior Class C Noteholders or it is sanctioned by an Extraordinary Resolution of the Senior Class A Noteholders or, as the case may be, the Mezzanine Class B Noteholders and/or, as the case may be, the Junior Class C Noteholders. The Fund Deed imposes no such limitations on the powers of the Senior Class A Noteholders, the exercise of which will be binding on the Mezzanine Class B Noteholders and the Junior Class C Noteholders irrespective of the effect on their interests.

(d) Modifications by the Representative

The Representative may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Relevant Documents and the Conditions which is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except if prohibited in the Relevant Documents), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Relevant Documents which is in the opinion of the Representative not materially prejudicial to the interests of the Noteholders, provided that the Representative has notified Moody's. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Representative so requires, such modification shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

(e) Exercise of Representative's functions

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Representative shall have regard to the interests of the Senior Class A Noteholders and the Mezzanine Class B Noteholders and the Junior Class C each as a Class and shall not have regard to the consequences of such exercise for individual Noteholders and the Representative shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

15. Replacements of Notes and Coupons

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the office of the Principal Paying Agent or a Paying Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered, in the case of Notes together with all unmatured Coupons appertaining thereto, in the case of Coupons together with the Note and all unmatured Coupons to which they appertain, before replacements will be issued.

16. Governing Law

The Notes and Coupons are governed by, and will be construed in accordance with, the laws of Iceland. In relation to any legal action or proceedings arising out of or in connection with the Notes and Coupons the Issuer irrevocably submits to the jurisdiction of the District Court of Reykjavik, Iceland. This submission is made for the exclusive benefit of the holders of the Notes and the Representative and shall not affect their right to take such action or bring such proceedings in any other courts of competent jurisdiction.

THE GLOBAL NOTES

Each Class of the Notes shall be initially represented by (i) in the case of the Senior Class A Notes a Temporary Global Note in bearer form, without coupons, in the principal amount of euro 124,800,000 (ii) in the case of the Mezzanine Class B Notes a Temporary Global Note in bearer form, without coupons, in the principal amount of euro 34,200,000 and (iii) in the case of the Junior Class C Notes a Temporary Global Note in bearer form, without coupons, in the principal amount of euro 1,600,000.00. The Temporary Global Notes will be deposited (A) in respect of the Senior Class A Notes with a common safekeeper for Euroclear Bank S.A./N.V., as operator of the Euroclear System ('Euroclear'), and Clearstream Banking, société anonyme ('Clearstream, Luxembourg') and (B) in respect of the Mezzanine Class B Notes and the Junior Class C Notes with Fortis Banque Luxembourg S.A., as common safekeeper for Euroclear and Clearstream, Luxembourg on or about 25 July 2008.

Interests in each Temporary Global Note will be exchangeable (provided certification of non-US beneficial ownership by the Noteholders has been received) not earlier than 40 days after the issue date of the Notes (the 'Exchange Date') for interests in a permanent global note (each a 'Permanent Global Note'), in bearer form, without coupons, in the principal amount of the Notes of the relevant Class (the expression 'Global Notes' meaning the Temporary Global Notes of each Class and the Permanent Global Notes of each Class and the expression 'Global Note' means any of them, as the context may require). On the exchange of a Temporary Global Note for a Permanent Global Note of the relevant Class of Notes, the Permanent Global Note will remain deposited with the relevant common safekeeper.

The Senior Class A Notes are intended to be held in a manner which will allow Eurosystem eligibility. This means that the Senior Class A Notes are intended upon issue to be deposited with a common safekeeper and does not necessarily mean that the Senior Class A Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. The Mezzanine Class B Notes and the Junior Class C Notes are not intended to be held in a manner which will allow Eurosystem eligibility.

The Global Notes will be transferable by delivery. Each Permanent Global Note will be exchangeable for Definitive Notes only in the circumstances described below. Such Definitive Notes shall be issued in denominations of euro 50,000 or, as the case may be, in the then Principal Amount Outstanding of the Notes on such issue date. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note will be entitled to receive any payment made in respect of that Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes, which must be made by the holder of a Global Note, for so long as such Global Note is outstanding. Each person must give a certificate as to non-US beneficial ownership as of the date on which the Issuer is obliged to exchange a Temporary Global Note for a Permanent Global Note, which date shall be no earlier than the Exchange Date, in order to obtain any payment due on the Notes.

For so long as any Notes are represented by a Global Note, such Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

For so long as all of the Notes are represented by the Global Notes and such Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant accountholders rather than by publication as required by Condition 13 (provided that, in the case any publication required by a stock exchange, that stock exchange agrees or, as the case may be, any other publication requirement of such stock exchange will be met). Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

For so long as the Notes of a particular Class are represented by a Global Note, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of that Class of Notes will be treated by the Issuer and the Representative as a holder of such principal amount of that Class of Notes and the expression 'Noteholder' shall be construed accordingly, but without prejudice to the entitlement of the bearer of the relevant Global Note to be paid principal thereon and interest with respect thereto in accordance with and subject to its terms. Any statement in writing issued by Euroclear or Clearstream, Luxembourg as to the persons shown in its records as being entitled to such Notes and the respective principal amount of such Notes held by them shall be conclusive for all purposes.

If after the Exchange Date (i) the Notes become immediately due and payable by reason of accelerated maturity following an Event of Default, or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business and no alternative clearance system satisfactory to the Representative is available, or (iii) as a result of any amendment to, or change in the laws or regulations of Iceland (or of any political subdivision thereof) or of any authority therein or thereof having power to tax, or in the interpretation or administration of such laws or regulations, which becomes effective on or after 25 July 2008, the Issuer or a Paying Agent is or will be required to make any deduction or withholding on account of tax from any payment in respect of the Notes which would not be required were the Notes in definitive form, then the Issuer will, at its sole cost and expense, issue:

- (i) Senior Class A Notes in definitive form in exchange for the whole outstanding interest in the Permanent Global Note in respect of the Senior Class A Notes; and
- (ii) Mezzanine Class B Notes in definitive form in exchange for the whole outstanding interest in the Permanent Global Note in respect of the Mezzanine Class B Notes; and
- (iii) Junior Class C Notes in definitive form in exchange for the whole outstanding interest in the Permanent Global Note in respect of the Junior Class C Notes; and

in each case within 30 days of the occurrence of the relevant event, subject in each case to certification as to non-US beneficial ownership.

TAXATION IN ICELAND

This section provides a general description of the main Icelandic tax issues and consequences of acquiring, holding, redeeming and/or disposing of the Notes. This summary provides general information only and is restricted to the matters of Icelandic taxation stated herein. It is intended neither as tax advice nor as a comprehensive description of all Icelandic tax issues and consequences associated with or resulting from any of the above-mentioned transactions. Prospective acquirers are urged to consult their own tax advisors concerning the detailed and overall tax consequences of acquiring, holding, redeeming and/or disposing of the Notes.

The summary provided below is based on the information provided in this Prospectus and on the Icelandic tax laws, regulations, resolutions and other public rules with legal effect, and the interpretation thereof under published case law, all as in effect on the date of this Prospectus and with the exception of subsequent amendments with retroactive effect.

Income of the holder of the Notes falls under the concept interest income according to Icelandic law and the income shall be taxed in Iceland according to the nature of the income.

Interest income of those that are tax residents in Iceland are fully taxable in Iceland, whether it is an individual or a company that receives the interest income.

Interests arising to individuals outside of their business activity are deemed as income in the period that the interests are paid or become payable. Interests arising to individuals in their business activity and interests arising to legal entities are deemed as income in the period that a claim in relation thereto has been created, i.e. interests are accrued even if they are not, at that point, overdue.

Interest income of persons arising outside of their business activity, are subject to a 10% income tax to the state of Iceland, but not other taxes. Interest income of persons arising in their business activity are taxed as other operating income of individuals, i.e. on net income a 22.75% tax shall be paid to the State and 11.24% - 13.03% in municipality tax to the municipality in which the person lives (the tax ratio varies between municipalities).

Interest income of legal persons is taxed with other income, i.e. net income is subject to payment of income tax to the State. The tax ratio varies depending on the company form. Companies with limited liability of owners shall pay a 18% tax but other legal entities shall pay a 26% tax.

Financial companies and others that operate in trust activities must withhold withholding tax and remit to the State a 10% tax on paid interests. Such tax filing in direct taxation is a temporary tax payment of those who receive the interest income. Tax shall not be withheld on payments between two financial companies. The liability to withhold tax lies with the one that takes care of payments to the owners, unless the owner himself is a financial company, in which case tax payment is the latter's responsibility.

Interest income of a person or a legal entity that is not an Icelandic tax resident is not taxable in Iceland. The receiver of the interests does not have to pay withholding tax on the interests. There is no direct authorisation for the payer of the interests not to hold back the withholding tax unless the standing of Icelandic authorities in relation to the taxable position of the receiver of the income has been previously obtained.

In Iceland no property tax is levied on the ownership of the Notes, independent from whether the owner is taxable in Iceland or not.

PURCHASE AND SALE

Fortis Bank NV/SA, (the '**Manager**') has pursuant to a notes purchase agreement dated on or about 25 July 2008, among the Manager, the Issuer and the Seller (the '**Notes Purchase Agreement**'), agreed with the Issuer, subject to certain conditions, that Fortis Bank NV/SA will purchase the Notes at their issue price. The Issuer and the Seller have agreed to indemnify and reimburse the Manager against certain liabilities and expenses in connection with the issue of the Notes.

European Economic Area

In relation to each Member State of the European Economic Area² which has implemented directive 2003/71/EC (the '**Prospectus Directive**') (each a '**Relevant Member State**'), the Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of the Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes, which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Notes to the public in that Relevant Member State at any time: (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than € 43,000,000 and (iii) an annual net turnover of more than € 50,000,000, as shown in its last annual or consolidated accounts; or (c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of the Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

United Kingdom

The Manager has represented and agreed that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ('**FSMA**')) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

France

The Notes may only be offered or sold to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), provided such investors act for their own account, and/or to persons providing portfolio management financial services (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), in the Republic of France, within the meaning of Article L.411-2 of the French Code Monétaire et Financier (Monetary and Financial Code) and the Decree 98-880 dated 1st October 1998; neither this Prospectus, which has not been submitted to the Autorité des Marchés Financiers, nor any information contained therein or any offering material relating to the Notes, may be distributed or caused to be distributed to the public in France.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to US persons, except in certain transactions exempt from the registration requirements of the US Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act. The Notes are in bearer form and are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code of 1986 and regulations thereunder. The Manager has agreed that it will not offer, sell or deliver the Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days

² The EU plus Iceland, Norway and Liechtenstein

after the later of the commencement of the offering on the Closing Date within the United States or to, or for the account or benefit of, US persons and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Notes during the distribution compliance period (as defined in Regulation S) a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the purchase) may violate the registration requirements of the Securities Act. Terms used in these paragraphs have the meanings given to them by Regulation S and the US Internal Revenue Code and regulations thereunder.

General

The distribution of this Prospectus and the offering and sale of the Notes in certain jurisdictions may be restricted by law; persons into whose possession this Prospectus comes are required by the Issuer and the Manager to inform themselves about and to observe any such restrictions. This Prospectus or any part thereof does not constitute an offer, or an invitation to sell or a solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

Each Manager has undertaken not to offer or sell directly or indirectly any Notes, or to distribute or publish this Prospectus or any other material relating to the Notes in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

GENERAL INFORMATION

1. The issue of the Notes has been authorised by a resolution of the Asset Management Company acting on behalf of the managing director of the Issuer passed on or about 25 June 2008.
2. Application has been made to list the Senior Class A Notes on OMX ICE and on Euronext Amsterdam. The estimated total costs involved with such admission amount to ISK 1,250,000 and EUR 2,125, respectively.
3. The Senior Class A Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and will bear common code 037295345 and ISIN XS0372953454.
4. The addresses of the clearing systems are: Euroclear, 1 Boulevard de Roi Albert II, 1210 Brussels, Belgium and Clearstream Luxembourg, 42 Avenue J.F. Kennedy, L-1855 Luxembourg.
5. KPMG hf. have given and have not withdrawn their written consent to the issue of this Prospectus with their report included herein in the form and context in which it appears.

Documents for display

6. Copies of the following documents may be inspected for the life of this prospectus at the specified offices of the Representative and each Paying Agent during normal business hours:
 - (i) the Deed of Incorporation including the Articles of Association of the Issuer;
 - (ii) the Prospectus;
 - (iii) the Mortgage Sale Agreement;
 - (iv) the Notes Purchase Agreement;
 - (v) the Paying Agency Agreement;
 - (vi) the Fund Deed;
 - (vii) the Representative Loans Pledge Agreement;
 - (viii) the Representative Accounts Pledge Agreement;
 - (ix) the Servicing and Custody Agreement;
 - (x) the GIC;
 - (xi) the Swap Agreement;
 - (xii) the Liquidity Facility Agreement;
 - (xiv) the Master Definitions Agreement; and
 - (xv) the articles of association of the Representative.
7. The audited annual financial statements of the Issuer will be made available free of charge, at the specified offices of the Representative.
8. The articles of association of the Issuer are attached to this Prospectus as Appendix 1.
9. US Taxes:

The Notes will bear a legend to the following effect: *'any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Section 165(j) and 1287(a) of the Internal Revenue Code.'*

The sections referred to in such legend provide that a United States person who holds a Note will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.
10. A quarterly report on the performance, including the arrears and the losses, of the transaction, together with current stratification tables can be obtained at the website of the Asset Management Company (<http://spron.is/StockCategory.aspx?catID=542&subID=3>).

APPENDIX 1

[Articles of Association of Geysir 2008-I Institutional Investor Fund]

Articles of Association of Geysir 2008-I Institutional Investor Fund

1 Name of the Fund and Asset Management Company of the Fund

- 1.1 The name of the fund is Geysir 2008-I Institutional Investor Fund, ID-No. 440308-9880, hereinafter referred to as the **Fund**. The Fund is a closed-end fund and shall be operated in one department.
- 1.2 The management company of the Fund is Rekstrarfélag SPRON hf., ID-No. 470904-2160, of Vegmúla 2, 108 Reykjavik, hereinafter referred to as the **Asset Management Company**. References to "Asset Management Company" in these Articles of Association shall include any successor or replacement management company appointed by the Fund in accordance with the terms of the Relevant Documents. The Asset Management Company is responsible for the Fund's day-to-day operations. The Asset Management Company is authorised to represent the Fund which includes the execution of all Relevant Documents to which the Fund is a party (including such other documents or certificates to be delivered by the Fund pursuant to, in connection with or as contemplated in, any such Relevant Document), on behalf of the Fund but in doing so the Asset Management Company shall not assume any obligations or liabilities to any other party to such Relevant Document or the recipient of any such document or certificate provided that, for the avoidance of doubt, this does not affect any obligations or liabilities expressly stated in any Relevant Document to be performed by the Asset Management Company.
- 1.3 The Financial Supervisory Authority was notified of the establishment of the Fund on 28 February 2008 pursuant to Clause 4 of Act no 33/2003 on UCITS and Investment Funds (the **Act**).

2 The objectives of the Fund

- 2.1 The objectives of the Fund are in the framework of a securitization transaction:
 - a. to acquire, purchase, conduct the management of, dispose of and to encumber the Mortgage Receivables and the Related Security and to exercise any rights connected to such Mortgage Receivables and the Related Security Rights;
 - b. to acquire monies to finance the acquisition of the Mortgage Loans and their related Security mentioned under a., by way of issuing securities or by way of entering into loan agreements;
 - c. to on-lend and invest any funds held by the Fund;
 - d. to hedge interest rate and other financial risks, among others by entering into derivatives agreements such as swaps;
 - e. incidental to the foregoing:
 - i. to borrow funds against the issuance of bonds or through entering into loan agreements inter alia in satisfaction of the obligations under the securities referred to under b. above; and
 - ii. to grant security rights;
 - f. To perform all activities which are, in the widest sense of the word, incidental to or which may be conducive to any of the foregoing.
- 2.2 Any activity of, or action taken by, the Fund other than as specifically described or permitted in these Articles of Association and/or in any Relevant Document or otherwise incidental thereto is strictly prohibited and unauthorised.

Handwritten signatures in black ink, appearing to be initials or names, located in the bottom right corner of the page.

3 Representative

- 3.1 On or about the Closing Date, the Fund shall enter into the Management Agreement and the Fund Deed with Fortis Intertrust (Netherlands) B.V. to inter alia undertake the role of managing director of the Representative.
- 3.2 The Representative will be Stichting Representative Geysir 2008-I, a company incorporated under the laws of the Netherlands whose registered office is at Prins Bernhardplein 200, 1097 JB, Amsterdam, the Netherlands.

4 Definitions

- 4.1 The following definitions shall apply in these Articles of Association:
- 4.1.1 The Fund is operated by a management company of UCITS and Investment Funds, pursuant to Act no. 161/2002 on Financial Undertakings and the Act 30/2003 of UCITS and Investment Funds. The Fund is an institutional investors fund, cf. Clause 4 of the latter Act.
- 4.1.2 The date of establishment of the Fund is considered to be the day on which the Asset Management Company issues the Fund's unit shares for the first time.
- 4.1.3 A unit share is a financial instrument issued on behalf of the Fund which, subject to the terms of the Relevant Documents, evidences an interest in the Fund's income and assets. No material rights are attached to ownership of unit shares other than those stated in these Articles of Association and the Relevant Documents. The Asset Management Company issues unit shares on behalf of the Fund, as described in Clause 9.2.
- 4.1.4 The master definitions agreement made between, inter alia, the Fund and the Asset Management Company (as the same may be amended, varied and/or supplemented from time to time, the **Master Definitions Agreement**) is expressly and specifically incorporated into these Articles of Association and, accordingly, the expressions defined in the Master Definitions Agreement (as so amended, varied and/or supplemented) shall, except where the context otherwise requires and save where otherwise defined herein, have the same meanings in these Articles of Association and these Articles of Association shall be construed in accordance with the rules of usage and interpretation provisions as set forth in the Master Definitions Agreement. In the event of inconsistency between the Master Definitions Agreement and these Articles of Association, the Master Definitions Agreement shall prevail.

5 Investments of the Fund, Limited Recourse and Segregation of Assets

- 5.1 Investments of the Fund are financed by issuing unit shares and the Notes, and entering into loan agreements all in accordance with the terms of the Relevant Documents.
- 5.2 The payment obligations of the Fund under the Notes and the Relevant Documents shall be solely met from the assets of the Fund from time to time.



5.3 Creditors of the Fund shall only have recourse against the Fund and assets belonging to the Fund from time to time in accordance with the restrictions specified in these Articles of Association, including, without limitation, the provisions of the Fund Deed.

5.4 The assets and liabilities of the Fund shall be recorded in the accounts of the Asset Management Company, separately from the assets and liabilities of the Asset Management Company and any other funds managed by the Asset Management Company from time to time.

6 Investment strategy of the Fund

6.1 The investment strategy of the Fund shall be in accordance with the terms of the Relevant Documents.

7 The Fund's custody agent

7.1 The Fund's custody agent is Arion Custody Services hf., ID-No. 470502-4520, of Ármúla 13, 108 Reykjavik, hereinafter referred to as the **Custody Agent**. References to "Custody Agent" in these Articles of Association shall include any successor or replacement custody agent appointed by the Fund in accordance with the terms of the Servicing and Custody Agreement.

7.2 The Custody Agent shall provide services to the Fund as set out in the Servicing and Custody Agreement.

7.3 Subject to the terms of the Relevant Documents, the Custody Agent shall ensure that the capital and financial instruments belonging to the Fund are kept clearly distinguished from all assets that belong to the Asset Management Company and the Custody Agent's own assets.

8 Asset Management Company Fee

8.1 The Fund shall, on each Quarterly Calculation Date (the Relevant Quarterly Calculation Date), pay to the Asset Management Company a fee (the "**Asset Management Company Fee**"). The Asset Management Company Fee shall be calculated by or on behalf of the Fund in ISK on the Relevant Quarterly Calculation Date and shall be equal to the prevailing Asset Management Company Fee (as amended from time to time in accordance with this Clause 8) (for the avoidance of doubt, any such fee percentage shall be a pro rata percentage for the Quarterly Calculation Period). The Asset Management Company Fee Percentage shall not be greater than 0.01% per annum at any time.

8.1.1 The initial Asset Management Company Fee Percentage shall be ISK 1,000,000 per annum (the Initial Asset Management Company Fee Percentage).

8.1.2 The Initial Asset Management Company Fee Percentage can only be changed to follow inflation. In that case, the Asset Management Company, on behalf of the Fund, shall give 30 (thirty) days' prior written notice to the Representative.

8.2 Payment of any Asset Management Company Fee shall comply with, and be subject to, the relevant Priority of Payments.

9 Unit shares

- 9.1 The Fund's unit shares may only be issued or sold to institutional investors, cf. Clause 9, Para 1, Art. 2 of Act no. 108/2007 on Securities Transactions.
- 9.2 On behalf of the Fund, the Asset Management Company shall issue unit shares to those who provide the Fund with funds to invest. The holders are the owners of the Fund. The rights of holders are limited to the rights stipulated in the Relevant Documents and these Articles of Association and, to the extent not in contravention of the terms of the Relevant Documents, in the certificate evidencing the unit share issued by the Asset Management Company on behalf of the Fund.
- 9.3 Subject to the terms of the Relevant Documents, all holders have the same rights to the income and net assets of the Fund in proportion to their holdings, and the unit shares are confirmation of the claim on the Fund's income and assets.
- 9.4 The Fund is a closed-ended fund and, therefore, the Asset Management Company may not issue further unit shares on behalf of the Fund than those that are issued at its origination. Any transfer of unit shares is subject to consent by the Representative.

10 Distributions in connection with unit shares

- 10.1 Unit distributions shall only be made to the holders in accordance with the terms of the Fund Deed.

11 Assessment of the Fund's assets

- 11.1 An assessment of the Fund's assets should at any given time reflect their real value and calculated as follows:
- 11.1.1 The value of any Mortgage Loans and their Related Security owned by the Fund shall consist of the Outstanding Principal Amount.
- 11.1.2 Financial instruments which are listed on an organised securities market, in accordance with Act. 110/2007 on activities of stock exchanges and regulated OTC markets, should be assessed according to the closing price of such financial instruments on the relevant organised securities market.
- 11.1.3 All other financial instruments shall be valued by the Asset Management Company under the supervision of the Custody Agent and the external independent auditors of the Asset Management Company.

12 Financing and priority of claims

- 12.1 The Fund will invest in accordance with the Fund's investment strategy as stipulated in Clause 6. The Fund finances its investments through, inter alia, issue of the Notes.
- 12.2 The Fund will be bound by the relevant Priority of Payments in accordance with the terms of clauses 6, 7 and 8 of the Fund Deed.

Handwritten signatures in black ink, located in the bottom right corner of the page. There are two distinct signatures, one above the other.

12.3 The Fund is not permitted to grant any security over its assets other than set forth in the Relevant Documents.

12.4 The Asset Management Company is not permitted to enter into any agreement on behalf of the Fund other than as permitted by these Articles of Association and the terms of the Relevant Documents. The persons of the Asset Management Company who provide services to the Fund shall be employees of the Asset Management Company and not the Fund.

13 Calculation of the net asset value of unit shares

13.1 The net asset value of each unit share shall be calculated in ISK and shall be equal to the total of all bank deposits held in the name of the Fund in accordance with the terms of the Relevant Documents and the other assets of the Fund, valued in accordance with Clause 11, minus the Fund's total debts calculated in accordance with the terms of the Relevant Documents divided by the total number of unit shares issued by the Fund.

13.2 The nominal value, upon issue, of each unit share shall be ISK 1.0.

14 Covenants of the Asset Management Company

14.1 Without prejudice to the provisions of Clause 8, the Asset Management Company undertakes with the Fund and the Representative with effect from the date of this Agreement and as long as it serves as asset management company of the Fund that:

(a) it shall only resign from its position as asset management company of the Fund as soon as a suitable person, trust or administration office, reasonably acceptable to the Representative, after having consulted the Secured Parties, other than the Noteholders, has been contracted to act as asset management company of the Fund and provided that it has notified Moody's ;

(b) the Fund shall undertake no other business except as provided for in the Relevant Documents until the Fund no longer has any actual or contingent liabilities under any of the Relevant Documents, including, but not limited to, the Notes;

(c) it shall manage the affairs of the Fund in accordance with proper and prudent Icelandic business practice and in accordance with the requirements of Icelandic law and Netherlands accounting practice with the same care that it exercises or would exercise in connection with the administration of similar matters held for its own account or for the account of third parties;

(d) it shall not (i) agree to any alteration of any agreement including, but not limited to, the Relevant Documents, to which the Fund is a party or (ii) enter into any agreement, without the prior written consent of the Representative and provided that it has notified Moody's and in



accordance with any other requirements in any of the Relevant Documents;

- (e) it shall refrain from any action detrimental to any of its obligations under the Relevant Documents;
- (f) it shall exercise all its rights and/or powers by virtue of being the asset management company of the Fund in compliance with the Relevant Documents;
- (g) it shall procure that the Fund shall at all times fulfil and comply with its obligations under each Relevant Document to which it is or will become a party, provided that to the extent that such obligations are contingent or dependent for their performance on the due performance by any other party of its obligations and undertakings under any Relevant Document, such other party duly performs such obligations and undertakings thereunder;
- (h) it shall as asset management company of the Fund not assign, novate or amend any Agreement without the prior written consent of the Representative;
- (i) it shall as asset management company of the Fund take no action (i) to dissolve the Fund; or (ii) to enter into a legal merger or legal demerger involving the Fund; or (iii) to have the Fund request a court to grant a suspension of payments; or (iv) to declare its bankruptcy without the prior written consent of the Representative;
- (j) the Fund shall not engage employees and shall not enter into any agreement with respect to the rendering of services to the Fund, except as provided for in the Relevant Documents; and
- (k) it shall continue to comply with the requirements of Icelandic law regarding services as provided for in this Agreement.

15 Binding terms of business

15.1 To the extent permitted by law, any party having a claim against the Fund is bound by the following terms:

15.1.1 Claims against the Fund are subject to limits resulting from the relevant Priority of Payments as stipulated in the Fund Deed.

15.1.2 Only the Representative may enforce the provisions of any of the Relevant Documents, including the Notes. None of the Secured Parties shall be entitled to proceed directly against the Issuer to

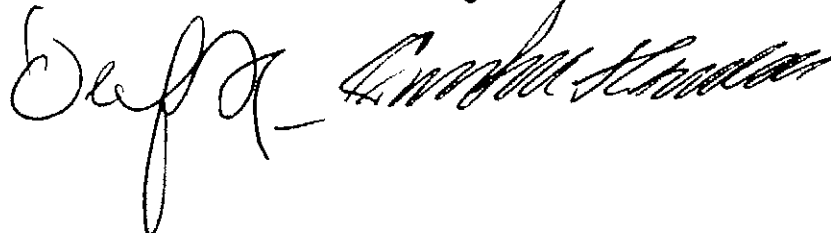
enforce the performance of any of the provisions of any of the Relevant Documents, including the Notes, unless the Representative having become bound as aforesaid to take proceedings as set forth in Clause 5.1 of the Fund Deed fails to do so within a reasonable period and such failure shall be continuing. If the Noteholder(s) and/or any of the Secured Parties proceed directly against the Issuer in accordance with the terms of this Fund Deed, all limitations and restrictions imposed under or by virtue of the Fund Deed, the Notes or any other Relevant Document on the Representative in relation to enforcement of rights and availability of remedies, shall mutatis mutandis also fully apply to such Noteholder(s) and/or such other Secured Parties.

16 Dissolution of the Fund

- 16.1 As stated in 14.1(i)(i), the Asset Management Company is not authorised to dissolve (or any analogous term), or take steps to dissolve, the Fund in any way under any circumstances without the prior written consent of the Representative.
- 16.2 The Asset Management Company shall procure that the Seller, the Representative and Moody's are notified in writing forthwith upon the Asset Management Company becoming aware of any steps being taken by any party for the winding up, liquidation or bankruptcy of the Fund or of any steps or proceedings being taken against the Fund for the enforcement of any debt or obligation and in particular that the Representative is notified in writing within two (2) days of any summons to attend court hearings on a petition for bankruptcy being served on or received by the Fund.
- 16.3 Provided that there are no Notes outstanding and subject to the terms of the Relevant Documents, all unit shares issued on behalf of the Fund shall be redeemed on 31 December 2053. Subject to the terms of the Relevant Documents, each unit share shall be redeemed at its prevailing net asset value.
- 16.4 The Asset Management Company shall announce the dissolution of the Fund by means of an advertisement in a mass medium which has general distribution in Iceland or by such other means permitted under relevant Icelandic legislation.
- 16.5 Subject to the terms of the Relevant Documents, these Articles of Association cannot be changed or amended in any way without the prior written consent of the Representative.

Reykjavik, 10 July 2008

The Board of Directors of Rekstrarfélag SPRON hf.

The image shows two handwritten signatures in black ink. The first signature is on the left and the second is on the right, both appearing to be cursive and somewhat stylized. They are positioned below the text of the Board of Directors.

APPENDIX 2

[Opening Balance Sheet Geysir 2008-I Institutional Investor Fund]

Geysir

Opening Balance Sheet
15. July 2008

Geysir
Vegmula 2
108 Reykjavik

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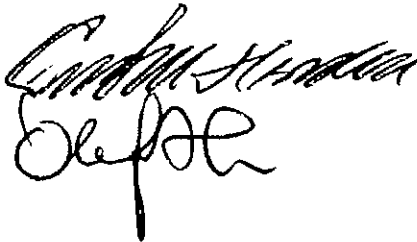
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Endorsement and Signatures of the Board of Directors and the Managing Director

The Opening Balance Sheet of *fagfjárfestisjodur Geysir* is in accordance with the Financial Supervisory Authority's regulations on financial statements of management companies for mutual funds.

The Board of Directors and the Managing Director of *Rekstrafelag SPRON hf.*'s hereby confirm the Opening Balance Sheet of the fund at 15. July 2008 by means of their signatures.

Board of Directors:

Two handwritten signatures in black ink. The top signature is cursive and appears to be 'Einar Steinarsson'. The bottom signature is also cursive and appears to be 'Ólafur'.

Managing Director:

A handwritten signature in black ink that reads 'BRUNNAR KRISTJANSSON'.

Auditor's Report

To the unit holders of Geysir.

Report on the Financial Statements

We have audited the accompanying Opening Balance Sheet of Geysir at 15. July 2008 and the related Endorsement of the Board of Directors and Balance Sheet.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these opening balance sheet in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of opening balance sheets that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these opening balance sheet based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the opening balance sheet are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the opening balance sheet. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the opening balance sheet, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the opening balance sheet in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the opening balance sheet.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the opening balance sheet gives a true and fair view of the financial position of the fund at 15. July 2008 in accordance to laws and generally accepted accounting principles.

KPMG AS



Balance Sheet at 15 July 2008

Notes 15.7.2008

Assets:

Securities:

Mortgage loans		0
Deposit		2
	Total assets	2

Liabilities:

Issued bonds		0
	Total liabilities	0
	Total net assets	2

Equity:

Units		2
Net assets		2
Number of units		2
Exchange rate of units at 15 July 2008		1

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