

**EXECUTION VERSION**

**Dated 20 January 2012**

**KAUPTHING HF.**

**formerly KAUPTHING BANK HF.**

**AS THE ISSUER, THE CASH MANAGER, THE GIC PROVIDER, THE ACCOUNT BANK,  
THE SELLER, THE SERVICER, THE PAYING AGENT, INITIAL DEALER AND A HOLDER**

**ARION BANK HF.**

**AS THE SUBSTITUTED ENTITY**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

**formerly KAUPTHING MORTGAGES INSTITUTIONAL INVESTOR FUND**

**AS THE FUND**

**DEUTSCHE BANK AG, LONDON BRANCH**

**AS THE PRINCIPAL PAYING AGENT**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

**AS THE REPRESENTATIVE**

**STEFNIR HF.**

**formerly KAUPTHING ASSET MANAGEMENT COMPANY HF.**

**AS THE MANAGEMENT COMPANY**

**VERDIS HF.**

**formerly ARION CUSTODY SERVICES HF.**

**AS THE CUSTODY AGENT**

**- and -**

**KPMG EHF.**

**AS THE ASSET MONITOR**

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**DEED OF WAIVER, SUBSTITUTION,  
AMENDMENT AND RESTATEMENT  
IN RELATION TO THE  
ISK200,000,000,000 COVERED BOND PROGRAMME  
ESTABLISHED ON 29 MARCH 2006**

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**THIS DEED** is made on 20 January 2012

**BETWEEN:**

- (1) **KAUPTHING HF. formerly KAUPTHING BANK HF.**, a public limited company incorporated under the laws of Iceland with ID number 560882-0419 currently in winding-up proceedings and represented by the Winding-Up Committee of Kaupthing hf., whose registered office is at Borgartun 26, 105 Reykjavik, Iceland ("**Kaupthing**" and also, prior to the Effective Date, in its capacity as the "**Issuer**", the "**Cash Manager**", the "**GIC Provider**", the "**Account Bank**", the "**Seller**", the "**Servicer**", the "**Paying Agent**", the "**Initial Dealer**" and a "**Holder**");
- (2) **ARION BANK HF.** a public limited company incorporated under the laws of Iceland with ID number 581008-0150, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland ("**Arion**" or the "**Substituted Entity**");
- (3) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND formerly KAUPTHING MORTGAGES INSTITUTIONAL INVESTOR FUND**, an investment fund established under the laws of Iceland ID number 570106-9610, the day-to-day operations of which are managed by Stefnir hf., formerly Kaupthing Bank Asset Management Company hf., whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (the "**Fund**");
- (4) **DEUTSCHE BANK AG, LONDON BRANCH** acting through its office at Winchester House, 1 Great Winchester Street, London, EC2N 2DB, United Kingdom (the "**Principal Paying Agent**");
- (5) **DEUTSCHE TRUSTEE COMPANY LIMITED** a company incorporated under the laws of England and Wales, whose registered office is at Winchester House, 1 Great Winchester Street, London, EC2N 2DB, United Kingdom in its own capacity and in its capacity as the representative of the Covered Bondholders, the Receiptholders and the Couponholders (the "**Representative**");
- (6) **STEFNIR HF. formerly KAUPTHING BANK ASSET MANAGEMENT COMPANY HF.**, a public limited company incorporated under the laws of Iceland with ID number 700996-2479 and represented by the Winding-Up Committee of Kaupthing hf., whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (the "**Management Company**");
- (7) **VERDIS HF. formerly ARION CUSTODY SERVICES HF.**, a public limited company incorporated under the laws of Iceland with ID number 470502-4520 whose registered office is at Armuli 13, 105 Reykjavik, Iceland (the "**Custody Agent**"); and
- (8) **KPMG ehf.**, a public limited company incorporated under the laws of Iceland, whose registered office is at Borgartun 27, 105 Reykjavik, Iceland (the "**Asset Monitor**").

**WHEREAS**

- (A) On 29 March 2006, Kaupthing established a programme for the issuance of up to ISK200,000,000,000 covered bonds (the "**Programme**") in accordance with the terms of an amended and restated representative and agency agreement dated 29 February 2008 between the Issuer, the Fund, the Principal Paying Agent and the Representative (the "**Representative and Agency Agreement**") and a programme agreement dated 29 March 2006 between the Issuer, the Fund and the Initial Dealer (the "**Programme Agreement**") pursuant to which the Issuer has issued ISK19,000,000,000 91.92% Covered Bonds due 10 July 2033 under final terms (the "**Series 1, Tranche 1 Final Terms**"), ISK2,876,852,908 94.8607% Covered Bonds due 10 July 2033 under final terms (the "**Series 1, Tranche 2 Final Terms**"), ISK29,068,676,100 89.14% Covered Bonds due 10 July 2048 under final terms (the "**Series 2, Tranche 1 Final Terms**"), ISK22,055,872,292 95.1957% Covered Bonds due 10 July 2048 under final terms (the "**Series 2, Tranche 2 Final Terms**"), ISK4,000,000,000 92.103% Covered Bonds due 10 January 2031 (the "**Series 3 Final Terms**") and ISK15,500,000,000 89.85% Covered Bonds due 10 July 2045 (the "**Series 4 Final Terms**" and together with the Series 1, Tranche

1 Final Terms, the Series 1, Tranche 2 Final Terms, the Series 2, Tranche 1 Final Terms, the Series 2, Tranche 2 Final Terms and the Series 3 Final Terms, the "**Final Terms**", and the covered bonds issued thereunder the "**Covered Bonds**", and each a "**Series of Covered Bonds**").

- (B) On 24 November 2008, insolvency proceedings were brought against Kaupthing which triggered a Potential Issuer Event of Default (as defined in an amended and restated master definitions and construction agreement dated 29 February 2008 between the parties hereto (the "**Master Definitions and Construction Agreement**")) as well as triggering related events of default under certain of the Transaction Documents (as defined in the Master Definitions and Construction Agreement, the "**Events of Default**") each of which, on the date hereof, remain unremedied.
- (C) Arion is a solvent Icelandic bank which has agreed to purchase from Kaupthing all outstanding Covered Bonds held by Kaupthing under the Programme, to substitute itself for, and assume all liabilities and obligations (past, present and future, except for the Withholding Tax Obligations (as defined below)) of Kaupthing (in all of its capacities thereunder) under the documents, the Covered Bonds and the Programme as further provided herein and to acquire all of the units in the Fund from Kaupthing pursuant to a unit transfer agreement dated on or around the date hereof between the Issuer and Arion (the "**Unit Transfer Agreement**"). Kaupthing has agreed to indemnify Arion, the Representative and the Principal Paying Agent, on behalf of itself and the Covered Bondholders, with respect to any claims or other losses and liabilities that potentially may arise in connection with the Withholding Tax Obligations.
- (D) In view of the above, the parties hereto have agreed to waive all of the Events of Default, past and present, to substitute Arion for Kaupthing as Issuer under the Programme and in its respective roles under the Representative and Agency Agreement, the Master Definitions and Construction Agreement, the Programme Agreement, a mortgage sale agreement dated 29 March 2006 between the Seller, the Fund and the Representative (the "**Mortgage Sale Agreement**"), a fund deed dated 29 March 2006 between the Seller, the Cash Manager, a Holder, the Fund, the Management Company and the Representative (the "**Fund Deed**"), a servicing and custody agreement dated 29 March 2006 between the Servicer, the Seller, the Fund, the Representative and the Custody Agent (the "**Servicing and Custody Agreement**"), a cash management agreement dated 29 March 2006 between the Cash Manager, the Seller, the Servicer, the Fund and the Representative (the "**Cash Management Agreement**"), a bank account agreement dated 29 March 2006 between the Fund, the Cash Manager, the GIC Provider, the Account Bank and the Representative (the "**Bank Account Agreement**"), an asset monitor agreement dated 29 March 2006 between the Fund, the Issuer, the Cash Manager, the Asset Monitor and the Representative (the "**Asset Monitor Agreement**"), a guaranteed investment contract dated 29 March 2006 between the Fund, the Cash Manager, the GIC Provider and the Representative (the "**Guaranteed Investment Contract**"), an intercompany loan dated 29 March 2006, between the Fund, the Issuer, the Cash Manager and the Representative (the "**Intercompany Loan Agreement**"), an issuer ISCD agreement dated 29 March 2006 and made between the Issuer, Clearstream Banking, société anonyme and Euroclear Bank S.A./N.V. (the "**Issuer ISCD Agreement**") and the Final Terms (the Final Terms, together with the Representative and Agency Agreement, the Master Definitions and Construction Agreement, the Programme Agreement, the Mortgage Sale Agreement, the Fund Deed, the Servicing and Custody Agreement, the Cash Management Agreement, the Bank Account Agreement, the Asset Monitor Agreement, the Guaranteed Investment Contract, the Issuer ISCD Agreement and the Intercompany Loan Agreement, the "**Documents**"), to make certain conforming changes to certain of the Documents (including the terms and conditions of the Covered Bonds (the "**Conditions**") set forth in Schedule 1 (*Terms and Conditions of the Covered Bonds*) of the Representative and Agency Agreement) to reflect such waiver and substitution by amending and restating such documents in the forms set forth in Schedule 1 (*Amended and Restated Documents*) hereto and by amending certain commercial provisions relating to the Programme, the Covered Bonds and certain of the Documents.
- (E) Arion wishes to assume Kaupthing's obligations under the Intercompany Loan Agreement (as amended and restated pursuant to this Deed) and Kaupthing wishes to be released and discharged from the Intercompany Loan Agreement and each of the Fund and the Representative has agreed to release and

discharge Kaupthing from the Intercompany Loan Agreement upon the terms and subject to the conditions of this Deed.

- (F) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders have authorised the Representative, on behalf of the Covered Bondholders, to enter into this Agreement in accordance with the provisions set out below.
- (G) The parties hereto have agreed to enter into this Deed in order to grant the necessary waivers and effect the substitutions, novations, amendments and restatements in respect of the Programme, the Covered Bonds and to the Documents specified herein.

**NOW THIS DEED WITNESSES AND IT IS HEREBY AGREED AND DECLARED** as follows:

1. **DEFINITIONS**

- 1.1 The Amended and Restated Master Definitions and Construction Agreement (as defined in Clause 6.1 (*Amendment and Restatement of the Master Definitions and Construction Agreement*) below) is expressly and specifically incorporated into this Deed for the purposes hereof (and so that for the purposes of this Clause 1.1, the Effective Time (as defined below) shall be deemed to have occurred) and, accordingly, the expressions defined in the Amended and Restated Master Definitions and Construction Agreement shall, except where the context otherwise requires and save where otherwise defined herein, have the same meanings in this Deed and this Deed shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Amended and Restated Master Definitions and Construction Agreement, *mutatis mutandis*. In the event of inconsistency between the Amended and Restated Master Definitions and Construction Agreement and this Deed, this Deed shall prevail. In addition:

**"Amended and Restated Documents"** means the Amended and Restated Master Definitions and Construction Agreement, the Amended and Restated Representative and Agency Agreement, the Amended and Restated Mortgage Sale Agreement, the Amended and Restated Fund Deed, the Amended and Restated Servicing and Custody Agreement, the Amended and Restated Cash Management Agreement, the Amended and Restated Bank Account Agreement, the Amended and Restated Asset Monitor Agreement, the Amended and Restated Guaranteed Investment Contract, the Amended and Restated Intercompany Loan Agreement, and the Amended and Restated Final Terms (each as defined in Clause 6 (*Amendment and Restatement of the Documents*) below);

**"Legal Opinions"** means a validly executed legal opinion issued by ADVEL Attorneys at Law, as Icelandic legal counsel to Arion, and a validly executed legal opinion issued by Reykjavik Law Firm, as Icelandic legal counsel to Kaupthing, each addressed to Arion and the Representative, for itself and the Covered Bondholders;

**"Withholding Tax Obligations"** means any and all obligations, and related liabilities, of Kaupthing that potentially may arise on or prior to the Effective Time, to pay any amount in respect of withholding tax on interest payments in Iceland or any political subdivision or any authority thereof or therein holding power to tax prior to the Effective Time; and

This **"Deed"** means this Deed as the same may be amended, varied, novated or supplemented from time to time.

- 1.2 The recitals to this Deed shall constitute integral parts of this Deed and shall be read with it for all their purposes and intents.

2. **EFFECTIVE TIME**

The waivers, substitutions, novations, amendments and restatements set forth in Clauses 3 (*Waiver*), 4 (*Substitution*), 5 (*Novation*) and 6 (*Amendment and Restatement of the Documents*) of this Deed are

conditional upon and will become effective upon the passing of each of the Bondholders' Resolutions, the execution and completion of the Unit Transfer Agreement and the delivery to Arion and the Representative of the Legal Opinions (the "**Effective Time**").

3. **WAIVER**

3.1 Pursuant to the Bondholders' Resolutions and in accordance with Clause 12.8(b) (*Waiver, Authorisation, Determination and Modification*) of the Representative and Agency Agreement, each of the parties hereto, other than Kaupthing (in any of its capacities hereunder), hereby waives any and all breaches by the Issuer and/or the Fund of any of the covenants and/or the provisions contained in the Transaction Documents, including the Conditions, and any Potential Issuer Event of Default, Issuer Event of Default, Potential Fund Event of Default and/or Fund Event of Default which is continuing at the Effective Time.

3.2 For the avoidance of doubt, the waivers set forth in this Clause 3 are for the benefit of Kaupthing (in each of its capacities) and the Fund only and, in relation to the Fund, only in relation to the period up to, but excluding, the Effective Time.

4. **SUBSTITUTION**

4.1 With effect on and from the Effective Time and in accordance with the terms and conditions of the Transaction Documents and the Bondholders' Resolutions, the parties hereto hereby agree, with respect to each of the Documents to which they are party, that Arion will be substituted for Kaupthing as: (i) the "Issuer" under the Master Definitions and Construction Agreement and under the Final Terms; (ii) the "Issuer" and the "Paying Agent" under the Representative and Agency Agreement; (iii) the "Issuer" and the "Initial Dealer" under the Programme Agreement; (iv) the "Seller" under the Mortgage Sale Agreement; (v) the "Seller", the "Cash Manager" and a "Holder" under the Fund Deed; (vi) the "Servicer" and the "Seller" under the Servicing and Custody Agreement; (vii) the "Cash Manager", the "Seller" and the "Servicer" under the Cash Management Agreement, (viii) the "Cash Manager", the "GIC Provider" and the "Account Bank" under the Bank Account Agreement; (ix) the "Issuer" and the "Cash Manager" under the Asset Monitor Agreement; (x) the "Cash Manager" and the "GIC Provider" under the Guaranteed Investment Contract; (xi) the "Issuer" and the "Cash Manager" under the Intercompany Loan Agreement; and (xii) the "Issuer" under the Issuer ICSD Agreement, such that Arion will be bound by and assume the obligations and benefit from the rights set out in the Amended and Restated Documents as if Arion had been named in the Amended and Restated Documents in the roles specified in this Clause 4.1.

5. **NOVATION**

5.1 With effect from the Effective Time and in consideration of the undertakings given by the Fund and the Representative, as applicable, in Clause 5.2, Arion hereby undertakes to observe, perform, discharge and be bound by the Intercompany Loan Agreement and to assume all obligations and liabilities and benefit from the rights of Kaupthing under the Intercompany Loan Agreement and the Final Terms as if Arion were a party to the Intercompany Loan Agreement and the Final Terms in the place of Kaupthing.

5.2 With effect from the Effective Time and in consideration of the undertakings given by Arion in Clause 5.1:

(a) the Fund and the Representative each hereby:

(i) accepts Arion's undertaking to observe, perform, discharge and be bound by the Intercompany Loan Agreement in place of Kaupthing with effect from the date hereof;

- (ii) agrees to observe, perform, discharge and be bound by the Intercompany Loan Agreement as if Arion were a party to and had been named in the Intercompany Loan Agreement as a party in the place of Kaupthing with effect from the date hereof;
  - (iii) grants to Arion the same rights under the Intercompany Loan Agreement as if Arion were a party to and had been named in the Intercompany Loan Agreement as a party in the place of Kaupthing; and
  - (iv) releases Kaupthing from any and all of its obligations under the Intercompany Loan Agreement.
- (b) the Fund hereby:
- (i) accepts Arion's undertaking to observe, perform, discharge and be bound by the Final Terms in place of Kaupthing with effect from the date hereof;
  - (ii) agrees to observe, perform, discharge and be bound by the Final Terms as if Arion were a party to and had been named in the Final Terms as a party in the place of Kaupthing with effect from the date hereof;
  - (iii) grants to Arion the same rights under the Final Terms as if Arion were a party to and had been named in the Final Terms as a party in the place of Kaupthing; and
  - (iv) releases Kaupthing from any and all of its obligations under the Final Terms.

## 6. AMENDMENT AND RESTATEMENT OF THE DOCUMENTS

### 6.1 Amendment and Restatement of the Master Definitions and Construction Agreement

With effect on and from the Effective Time, each of the parties to the Master Definitions and Construction Agreement hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(A) (*Amended and Restated Master Definitions and Construction Agreement*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Master Definitions and Construction Agreement**").

### 6.2 Amendment and Restatement of the Representative and Agency Agreement and the Conditions

With effect on and from the Effective Time, each of the parties to the Representative and Agency Agreement hereby agrees that such agreement (including the Conditions set out at Schedule 1 (*Terms and Conditions of the Covered Bonds*) thereto) shall be amended and restated in its entirety in the form set forth in Schedule 1(B) (*Amended and Restated Representative and Agency Agreement*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Representative and Agency Agreement**").

### 6.3 Amendment and Restatement of the Mortgage Sale Agreement

With effect on and from the Effective Time, each of the parties to the Mortgage Sale Agreement hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(C) (*Amended and Restated Mortgage Sale Agreement*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Mortgage Sale Agreement**").

### 6.4 Amendment and Restatement of the Fund Deed

With effect on and from the Effective Time, each of the parties to the Fund Deed hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(D)

(*Amended and Restated Fund Deed*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Fund Deed**").

6.5 **Amendment and Restatement of the Servicing and Custody Agreement**

With effect on and from the Effective Time, each of the parties to the Servicing and Custody Agreement hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(E) (*Amended and Restated Servicing and Custody Agreement*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Servicing and Custody Agreement**").

6.6 **Amendment and Restatement of the Cash Management Agreement**

With effect on and from the Effective Time, each of the parties to the Cash Management Agreement hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(F) (*Amended and Restated Cash Management Agreement*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Cash Management Agreement**").

6.7 **Amendment and Restatement of the Bank Account Agreement**

With effect on and from the Effective Time, each of the parties to the Bank Account Agreement hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(G) (*Amended and Restated Cash Management Agreement*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Bank Account Agreement**").

6.8 **Amendment and Restatement of the Asset Monitor Agreement**

With effect on and from the Effective Time, each of the parties to the Asset Monitor Agreement hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(H) (*Amended and Restated Asset Monitor Agreement*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Asset Monitor Agreement**").

6.9 **Amendment and Restatement of the Guaranteed Investment Contract**

With effect on and from the Effective Time, each of the parties to the Guaranteed Investment Contract hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(J) (*Amended and Restated Guaranteed Investment Contract*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Guaranteed Investment Contract**").

6.10 **Amendment and Restatement of the Intercompany Loan Agreement**

With effect on and from the Effective Time, each of the parties to the Intercompany Loan Agreement hereby agrees that such agreement shall be amended and restated in its entirety in the form set forth in Schedule 1(K) (*Amended and Restated Intercompany Loan Agreement*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Intercompany Loan Agreement**").

6.11 **Amendment and Restatement of the Final Terms**

With effect on and from the Effective Time, each of the Issuer, the Fund, the Substituted Entity and the Substituted Fund hereby agrees that:



- (a) the Series 1, Tranche 1 Final Terms shall be amended and restated in their entirety as set forth in Schedule 1(L) Part A (*Amended and Restated Series 1, Tranche 1 Final Terms*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Series 1, Tranche 1 Final Terms**");
- (b) the Series 1, Tranche 2 Final Terms shall be amended and restated in their entirety as set forth in Schedule 1(L) Part B (*Amended and Restated Series 1, Tranche 1 Final Terms*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Series 1, Tranche 2 Final Terms**");
- (c) the Series 2, Tranche 1 Final Terms shall be amended and restated in their entirety as set forth in Schedule 1(L) Part C (*Amended and Restated Series 2, Tranche 1 Final Terms*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Series 2, Tranche 1 Final Terms**");
- (d) the Series 2, Tranche 2 Final Terms shall be amended and restated in their entirety as set forth in Schedule 1(L) Part D (*Amended and Restated Series 2, Tranche 2 Final Terms*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Series 2, Tranche 2 Final Terms**");
- (e) the Series 3 Final Terms shall be amended and restated in their entirety as set forth in Schedule 1(L) Part E (*Amended and Restated Series 3 Final Terms*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Series 3 Final Terms**"); and
- (f) the Series 4 Final Terms shall be amended and restated in their entirety as set forth in Schedule 1(L) Part F (*Amended and Restated Series 4 Final Terms*) hereto, (as may be further amended, restated, supplemented and/or novated from time to time, the "**Amended and Restated Series 4 Final Terms**", and, together with the Amended and Restated Series 1, Tranche 1 Final Terms, the Amended and Restated Series 1, Tranche 2 Final Terms, the Amended and Restated Series 2, Tranche 1 Final Terms, the Amended and Restated Series 2, Tranche 2 Final Terms, the Amended and Restated Series 3 Final Terms and the Amended and Restated Series 4 Final Terms, the "**Amended and Restated Final Terms**").

## 7. **REPLACEMENT GLOBAL COVERED BONDS**

Each of the parties hereto hereby acknowledges that, in accordance with the terms of the Amended and Restated Representative and Agency Agreement, the Issuer and the Fund shall procure that the Covered Bondholders of each Series are provided with replacement Global Covered Bonds with respect to their respective holdings in each Series of Covered Bonds on which the amended and restated Conditions set forth in the Amended and Restated Representative and Agency Agreement will be endorsed.

## 8. **FUTURE LISTING OF COVERED BONDS**

Arion undertakes that it will use its best efforts to procure the listing and admission to trading of the Covered Bonds on the Icelandic Stock Exchange on or prior to the first anniversary of the Effective Time.

## 9. **EFFECT OF EXECUTION**

### 9.1 On and from the Effective Time, by executing this Deed:

- (a) Arion shall have the rights and obligations specified in the Amended and Restated Documents to which it has become party in accordance with this Deed and the other Transaction Documents (to the extent not amended and restated hereunder), except that Arion shall not become liable for the Withholding Tax Obligations and shall be indemnified by Kaupthing in

respect of such potential obligations that may arise in accordance with Clause 11 (*Indemnities*) hereof;

- (b) Kaupthing shall no longer have any rights or obligations under the Documents to which they were party as the Issuer, the Cash Manager, the GIC Provider, the Account Bank, the Seller, the Servicer, the Paying Agent, the Holder (with respect to Kaupthing) in accordance with this Deed, except that Kaupthing shall remain liable for the Withholding Tax Obligations and shall indemnify Arion and the Representative, for itself and on behalf of the Covered Bondholders, in respect of such potential obligations that may arise in accordance with Clause 11 (*Indemnities*) hereof; and
- (c) the parties to the Amended and Restated Documents shall have the rights and obligations under those documents to which they are party and which are scheduled hereto and form part of this Deed, however, a party to this Deed which is not a party to an Amended and Restated Document will have no rights or obligations under such document.

9.2 For the avoidance of doubt, all references to the "Issuer", the "Cash Manager", the "GIC Provider", the "Account Bank", the "Seller", the "Servicer", the "Paying Agent" and a "Holder" in the Transaction Documents shall refer to Arion.

9.3 Subject to the terms of this Deed, the Transaction Documents will remain in full force and effect except that, on and from the Effective Time, the Documents shall be replaced by the Amended and Restated Documents and references to "this Agreement", "this Deed", "hereunder", "herein" and like terms within a Document or to any provision of a Document shall be construed as a reference to such Document or provision of such Document as amended by this Deed.

9.4 For the avoidance of doubt, nothing in this Deed shall cause Arion to assume any liability in respect of the Withholding Tax Obligations.

## 10. **THE REPRESENTATIVE**

10.1 Each of the parties to this Deed hereby agrees and acknowledges that the Representative is only party to this Deed for the purposes of giving its consent to the modifications contemplated in this Deed and that the Representative shall have no additional obligations or liabilities as a result of entering into this Deed.

10.2 The Representative agrees to:

- (a) the waivers set forth in Clause 3 (*Waiver*) hereof;
- (b) the substitutions set forth in Clause 4 (*Substitution*) hereof;
- (c) the novation set forth in Clause 5 (*Novation*); and
- (d) the amendment and restatement of the Documents set forth in Clause 6 (*Amendment and Restatement of the Documents*) hereof,

on the basis of the Bondholders' Resolutions, in each case, instructing and authorising the Representative to execute this Deed.

## 11. **INDEMNITIES**

11.1 Arion and the Representative shall assume no liability in respect of the Withholding Tax Obligations arising on or before the Effective Time. Without prejudice to the other rights or remedies of Arion and the Representative pursuant to this Deed and the Transaction Documents, Kaupthing undertakes to each of Arion and the Representative, for itself and on behalf of the Covered Bondholders, (each, an "**Indemnified Party**"), that it shall indemnify and hold harmless each of the Indemnified Parties on

demand and on an after Tax basis against all and any claims (whether or not successful, comprised or settled), actions, proceedings, investigations, demands, judgments and awards (each a "**Claim**") which may be instituted, made, asserted, threatened, alleged against or otherwise involve the Indemnified Parties liabilities, damages, costs, losses and/or expenses (including, without limitation, legal fees, taxation, costs and expenses on a full indemnity basis) (together "**Losses**") arising directly or indirectly out of, in connection with, any potential Withholding Tax Obligations which may be suffered or incurred by the Indemnified Parties (including, but not limited to, all expenses suffered or incurred in investigating, preparing for or disputing or defending or providing evidence in connection with any Claim (whether or not the relevant Indemnified Party is an actual or potential party to such claim or action) and/or in establishing its right to be indemnified pursuant to this Clause 11.1 and/or in seeking advice regarding any Claim or in any way related to or in connection with the indemnity in this Clause 11.1, (provided that the indemnity provided in this Clause 11.1 shall not apply to any Claims or Losses if and to the extent arising, as determined in a final judgment by a court of competent jurisdiction, out of the fraud, wilful default or gross negligence of an Indemnified Party). The Principal Paying Agent and the Representative shall have no duty or obligation, whether as agent, fiduciary or trustee for a Covered Bondholder or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 11.1.

- 11.2 If any action shall be brought against Arion, the Representative or a Covered Bondholder in respect of which recovery may be sought from Kaupthing under Clause 11.1 above, the relevant Indemnified Party shall promptly notify Kaupthing in writing but failure to do so will not relieve Kaupthing from any liability under this Deed.
- 11.3 Kaupthing shall not, without the prior written consent of the relevant Indemnified Party, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim or action in respect of which recovery may be sought hereunder (whether or not the relevant Indemnified Party is an actual or potential party to such claim or action) unless such settlement, compromise or consent includes an unconditional release of the relevant Indemnified Party from all liability that may arise out of such claim or action and does not include a statement as to or an admission of fault, culpability or failure to act by or on behalf of the relevant Indemnified Party.
- 11.4 Arion will be responsible for indemnifying the Representative in respect of all costs, charges, liabilities and expenses (including without limitation, all legal fees and expenses and any applicable stamp, registration or other taxes or duties, including without limitation any value added tax) incurred by it in connection with entering into this Deed and the transactions contemplated hereunder including any financial loss, liability, cost, claim, action, demand or expenses (including, but not limited to, all costs, charges and expenses paid or incurred in disputing or defending any of the foregoing) which it may incur in connection with this Deed and the transactions contemplated hereunder or which may be made against it arising out of or in relation to or in connection with the exercise of its functions under the agreements as amended and/or restated hereby, other than pursuant to Clause 11.1 above.

## 12. **NOTICES**

- 12.1 Any notices to be given pursuant to this Deed to any of the parties hereto shall be in writing and shall be sufficiently served if sent by prepaid first class post, by hand or by facsimile transmission and shall be deemed to be given (in the case of facsimile transmission) when despatched or (in the case of first class post) when it would be received in the ordinary course of the post and shall be sent:
- (a) in the case of the Kaupthing, to Kaupthing hf. at Borgartun 26, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7119 and email: info@kaupthing.com), for the attention of Kaupthing hf.;
  - (b) in the case of the Substituted Entity, to Arion hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 6229 and email: mtndesk@arionbanki.is), for the attention of Funding Department;

- (c) in the case of the Fund, to Arion Mortgages Institutional Investor Fund at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7489 and email: info@stefnir.is) for the attention of Stefnir hf. – Arion Mortgages Institutional Investor Fund;
- (d) In the case of the Principal Paying Agent, to Deutsche Bank AG, London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number: +(44) 20 7547 6149 and email: TSS-GDS.EUR@db.com) for the attention of Debt & Agency Services;
- (e) in the case of the Representative, to Deutsche Trustee Company Limited at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number: +(44) 20 7547 6149 and email: TSS-GDS.EUR@db.com) for the attention of the Managing Director,
- (f) in the case of the Management Company, to Stefnir hf. formerly Kaupthing Asset Management Company hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7489 and email: info@stefnir.is) for the attention of Þorkell Magnússon/Heiðar Ingi Ólafsson;
- (g) in the case of the Custody Agent, to Verdis hf. at Armuli 13, 105 Reykjavik, Iceland (facsimile number: +(354) 528-2909 and email: rm@verdis.is) for the attention of Security Custody; and
- (h) in the case of the Asset Monitor, to KPMG ehf. at Borgartun 27, 105 Reykjavik, Iceland (facsimile number: +(354) 545 6003 and email: hhardardottir@kpmg.is) for the attention of Helga Hardardottir,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 12.

- 12.2 Notwithstanding Clause 12.1 above and provided that each give their prior consent to such delivery, any party to this Deed may send notice to or otherwise communicate with any of the other parties to this Deed by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Deed shall be deemed: (i) to have received any electronic mail sent by the any other party to this Deed pursuant to the terms of this Clause 12.2 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Deed shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Deed (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

### 13. MISCELLANEOUS

- 13.1 Clauses 3 (*Amendments*), 4.1 (*Governing Law*) and 4.2 (*Submission to Jurisdiction*) of the Amended and Restated Master Definitions and Construction Agreement are deemed to be incorporated into this Deed, *mutatis mutandis*, as if set out herein.

13.2 Where any provision or obligation under this Deed is invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations under this Deed, or of such provision or obligation in any other jurisdiction, shall not be affected or impaired thereby.

13.3 This Deed may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

**IN WITNESS** whereof this Deed has been executed as a deed by the parties hereto and is intended to be and is hereby delivered on the day and year first above written.

**SCHEDULE 1**

**AMENDED AND RESTATED DOCUMENTS**

**SCHEDULE 1A**

**AMENDED AND RESTATED MASTER DEFINITIONS AND CONSTRUCTION AGREEMENT**

**AMENDED AND RESTATED**

**MASTER DEFINITIONS AND  
CONSTRUCTION AGREEMENT**

**ARION BANK HF.**  
as Issuer

and

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**  
as the Fund

and

**DEUTSCHE BANK AG, LONDON BRANCH**  
as the Principal Paying Agent

and

**DEUTSCHE TRUSTEE COMPANY LIMITED**  
as the Representative

and

**KPMG EHF.**  
as the Asset Monitor

and

**VERDIS HF.**  
formerly **ARION CUSTODY SERVICES HF.**  
as the Custody Agent

and

**STEFNIR HF.**  
formerly **KAUPTHING ASSET MANAGEMENT COMPANY HF.**  
as the Management Company

\_\_\_\_\_ January 2012

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**THIS AGREEMENT** dated on \_\_\_\_\_ January, 2012

- (1) **ARION BANK HF.**, a public limited company incorporated in Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as **Issuer, Cash Manager, GIC Provider, Account Bank, Dealer, Seller, Servicer, Arranger, Holdings**);
- (2) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID number 570106-9610, an investment fund established under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Fund**);
- (3) **DEUTSCHE BANK AG, LONDON BRANCH**, acting through its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB (in its capacity as **Principal Paying Agent**);
- (4) **DEUTSCHE TRUSTEE COMPANY LIMITED**, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB (in its capacity as **Representative**);
- (5) **KPMG EHF.**, whose registered office is at Borgartun 27, 105 Reykjavik, Iceland (in its capacity as **Asset Monitor**);
- (6) **VERDIS HF. formerly ARION CUSTODY SERVICES HF.**, ID number 470502-4520, a company incorporated under the laws of Iceland, whose registered office is at Armuli 13, 105 Reykjavik, Iceland (in its capacity as **Custody Agent**); and
- (7) **STEFNIR HF. formerly KAUPTHING ASSET MANAGEMENT COMPANY HF.**, ID number 700996-2479, a public limited company incorporated under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as **Management Company**).

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- (B) This Agreement replaces the Amended and Restated Master Definitions and Construction Agreement dated 29 February, 2008.

**1. DEFINITIONS**

**24 hours** (where referred to in Schedule 6 to the Representative and Agency Agreement) has the meaning given to it in Schedule 6 to the Representative and Agency Agreement;

**48 hours** (where referred to in Schedule 6 to the Representative and Agency Agreement) has the meaning given to it in Schedule 6 to the Representative and Agency Agreement;

**€ Euro or euro** means the lawful currency for the time being of the Member States of the European Union that have adopted or may adopt the single currency introduced at the start of the third stage of European Economic Monetary Union pursuant to the Treaty of Rome of 25 March 1957, as amended by, *inter alia*, the Single European Act of 1986 and the Treaty of European Union of 7 February 1992 and the Treaty of Amsterdam of 2 October, 1997 establishing the European Community;

**£, Sterling, sterling or pounds sterling** means the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

**\$, U.S.\$, U.S. Dollars or US Dollars** means the lawful currency for the time being of the United States of America;



**¥, Yen or JPY** means the lawful currency for the time being of Japan;

**30/360, 360/360 or Bond Basis** has the meaning given in Condition 5.8(c)(vi) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**30E/360 or Eurobond Basis** has the meaning given in Condition 5.8(c)(vii) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Account Banks** means Arion Bank hf. acting through its office at Borgartun 19, 105 Reykjavik, Iceland and any other financial institution which accedes to the Bank Account Agreement as an Account Bank;

**Accrual Period** means, in accordance with Condition 5.8(c)(i)(A) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions, the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date;

**Accrual Yield** means, in relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms;

**Accrued Interest** means, in relation to a Loan as at any date, interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Day immediately preceding the relevant date to (but excluding) the relevant date;

**Act** means Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011;

**Actual/360** has the meaning given to it in Condition 5.8(c)(v) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Actual/365 or Actual/Actual ISDA** has the meaning given to it in Condition 5.8(c)(ii) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Actual/365 (Fixed)** has the meaning given to it in Condition 5.8(c)(iii) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Actual/365 (Sterling)** has the meaning given to it in Condition 5.8(c)(iv) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Actual/Actual (ISMA)** has the meaning given to it in Condition 5.8(c)(i) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Additional Business Centre** has the meaning (if any) given in the applicable Final Terms;

**Adjusted Aggregate Loan Amount** has the meaning given to it in Clause 10.2 of the Fund Deed;

**Adjusted Outstanding Principal Balance** has the meaning given to it in Clause 10.2 of the Fund Deed;

**Administration Fee** has the meaning given to it in Clause 11 of the Servicing and Custody Agreement;

**Advance** has the meaning given in Clause 13.4 of the Representative and Agency Agreement;

**Agents** means the Paying Agents and any Calculation Agent;

**Agreement Date** means, in respect of any Covered Bond, the date on which agreement is reached for the issue of such Covered Bond as contemplated in Clause 2 of the Programme Agreement which, in the case of the Covered Bonds issued on a syndicated basis or otherwise in relation to which a Subscription Agreement is entered into, shall be the date on which the relevant Subscription Agreement is signed by or on behalf of all the parties to it;

**Amortised Face Amount** has the meaning given to it in Condition 7.6(b) (*Redemption and Purchase – Early Redemption Amounts*) of the Terms and Conditions;

**Annual Accounting Date** means 31 December in each year or such other date as the Board of Directors of the Management Company may determine by Majority Decision;

**Annuity Amount** has the meaning given to it in Condition 6.1 (*Payments - Payment in respect of Inflation Linked Annuity Covered Bonds*) of the Terms and Conditions;

**Annuity Covered Bonds** means the Covered Bonds which will be redeemed in Annuity Amounts (subject to adjustment for indexation in accordance with the provisions specified in the applicable Final Terms) on one or more Interest Payment Dates as specified in the applicable Final Terms;

**Appointee** means any attorney, manager, agent, delegate, nominee, custodian or other person appointed by the Representative under the Representative and Agency Agreement;

**Arranger** means Arion Bank hf. and any other entity appointed as an arranger for the Programme or in respect of any particular issue of Covered Bonds under the Programme and references in this Agreement to the **Arranger** shall be references to the relevant Arranger;

**in Arrears** or **in arrears** means, in respect of a Mortgage Account, that one or more Monthly Payments in respect of such Mortgage Account have become due and remain unpaid by a Borrower;

**Arrears of Interest** means, in relation to a Loan as at any date, the aggregate of all interest and expenses which are due and payable and unpaid on that date;

**Asset Coverage Test** means the test as to whether the Adjusted Aggregate Loan Amount is at least equal to the ISK Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date;

**Asset Coverage Test Breach Notice** means the notice required to be served by the Representative if the Adjusted Aggregate Loan Amount is less than the ISK Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds on two consecutive Calculation Dates;

**Asset Monitor** means a reputable institution appointed pursuant to the Asset Monitor Agreement;

**Asset Monitor Agreement** means the amended and restated asset monitor agreement entered into on or around the date hereof between the Asset Monitor, the Fund, the Cash Manager, the Issuer and the Representative (as amended and/or supplemented and/or restated from time to time);

**Asset Monitor Fee** means the fee paid by the fund to the Asset Monitor for the performance of its services under the Asset Monitor Agreement, pursuant to Clause 6 of the Asset Monitor Agreement;

**Asset Monitor Report** means a report substantially in the form contained in Schedule 2 to the Asset Monitor Agreement and prepared by the Asset Monitor on the basis of and in accordance with the calculations and procedures set out in Schedule 3 to the Asset Monitor Agreement;

**Asset Percentage** has the meaning given to it in Clause 10.3 of the Fund Deed;

**Assignment Date** means each of the First Assignment Date and each other date on which a New Portfolio is assigned to the Fund in accordance with the terms of the Mortgage Sale Agreement;

**Audited Accounts** means the balance sheet and profit and loss account of the Fund prepared and audited in accordance with Clause 19 of the Fund Deed together with the notes to such accounts;

**Auditors** means Ernst & Young ehf. of Borgartun 30, 105 Reykjavik, Iceland or its Successors;

**Authorised Investments** means ISK deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a maturity date falling no later than the next following Fund Payment Date and, if such investments are available in the Icelandic banking markets, having the highest possible short-term unsecured, unguaranteed and unsubordinated debt obligation ratings of the issuing or guaranteeing entity or the entity with which the deposits are made (being an authorised Financial Institution under the Act 161/2002) by one or more internationally recognised rating agency;

**Authorised Signatory** means in relation to the Bank Account Agreement, any authorised signatory referred to in the GIC Account Mandate, as applicable;

**Available Receipts** means, on a relevant Calculation Date, an amount equal to the aggregate of (without double counting):

- (a) **the amount** of Revenue Receipts received during the immediately preceding Calculation Period and credited to the Revenue Ledger on the GIC Account;
- (b) any other amount standing to the credit of the Revenue Ledger including: (i) the proceeds of any Term Advance (where such proceeds have not been applied to acquire New Portfolios, refinance an existing Term Advance or invest in Substitution Assets); (ii) any Cash Equity Contributions received from a Holder (other than those Cash Equity Contributions credited to the Reserve Ledger on the GIC Account); and (iii) the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the Fund Deed or the Mortgage Sale Agreement to the extent that such proceeds represent principal;
- (c) other net income of the Fund including all amounts of interest received on the Fund Accounts, the Substitution Assets and any Authorised Investments in the preceding Calculation Period and the proceeds from any sale of Loans (including, but not limited to, Selected Loans) pursuant to the terms of the Fund Deed or the Mortgage Sale Agreement to the extent that such proceeds comprise Accrued Interest and Arrears of Interest or other interest amounts;
- (d) amounts standing to the credit of the Reserve Fund in excess of the Reserve Fund Required Amount;
- (e) any other revenue receipts not referred to in paragraphs (a) to (d) (inclusive) above received during the previous Calculation Period and standing to the credit of the Revenue Ledger on the GIC Account; and
- (f) following service of a Notice to Pay or an Asset Coverage Test Breach Notice (if not revoked), amounts standing to the credit of the Reserve Fund;

**Bank Account Agreement** means the amended and restated bank account agreement entered into on or around the date hereof between the Fund, the Account Banks, the Cash Manager and the Representative (as amended and/or supplemented and/or restated from time to time);

**Block Voting Instruction** has the meaning given to it in Schedule 6 to the Representative and Agency Agreement;

**Borrower** means, in relation to a Loan, each individual specified as such in the relevant Mortgage Terms together with each individual (if any) from time to time assuming an obligation to repay such Loan or any part of it;

**Broken Amount** means in respect of the Fixed Rate Covered Bonds, the meaning (if any) given in the applicable Final Terms;

**Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Reykjavik and any Additional Business Centre specified in the applicable Final Terms Document; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London, Reykjavik and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Real-Time Gross Settlement Express Transfer (TARGET) System (the **Target System**) is open;

**Business Day Convention** means, in respect of a Tranche of Covered Bonds and either the Specified Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms and determined in accordance with Condition 5.8(b) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Calculation Agency Agreement** in relation to any Series of Covered Bonds means an agreement in or substantially in the form of Schedule 2 to the Representative and Agency Agreement;

**Calculation Agent** means, in relation to one or more Series of Variable Interest Covered Bonds and Inflation Linked Annuity Covered Bonds, the person initially appointed as calculation agent in relation to such Covered Bonds by the Issuer and the Fund pursuant to the Representative and Agency Agreement or, if applicable, any successor calculation agent in relation to such Covered Bonds;

**Calculation Date** means the third Business Day prior to each Fund Payment Date;

**Calculation Period** means the period from (and including) one Calculation Date to (but excluding) the next following Calculation Date, except that the first Calculation Period shall commence on (and include) the first Issue Date under the Programme and end on (but exclude) the next following Calculation Date;

**Cash** means cash and/or amounts standing to the credit of a bank account, as the context shall require;

**Cash Equity Contribution** means an equity contribution to the Fund made in cash whether by way of loan or otherwise funded by the Seller as a Holder;

**Cash Management Agreement** means the amended and restated cash management agreement entered into on or around the date hereof between the Fund, the Cash Manager and the Representative (as amended and/or supplemented and/or restated from time to time);

**Cash Management Services** means the services to be provided to the Fund and the Representative pursuant to the Cash Management Agreement;

**Cash Manager** means Arion Bank hf. in its capacity as cash manager or any successor cash manager appointed from time to time;

**Cash Manager Termination Event** has the meaning given to it in Clause 11 of the Cash Management Agreement;

**CGN** means a Temporary Global Covered Bond in the form set out in Part 1 of Schedule 4 of the Representative and Agency Agreement or a Permanent Global Covered Bond in the form set out in Part 2 of Schedule 4 of the Representative and Agency Agreement, in either case where the applicable Final Terms specify that the Covered Bonds are in CGN form;

**Clearing Systems** means Euroclear and/or Clearstream, Luxembourg;

**Clearstream, Luxembourg** means Clearstream Banking, société anonyme or its successors;

**Common Depositary** means Deutsche Bank AG, London Branch in its capacity as the common depositary for Euroclear and Clearstream, Luxembourg;

**Confirmation Letter** means:

- (a) in respect of the appointment of a third party as a Dealer for the duration of the Programme, the Confirmation Letter substantially in the form set out in Part 2 of Appendix 3 of the Programme Agreement; and
- (b) in respect of the appointment of a third party as a Dealer for one or more particular issue(s) of Covered Bonds under the Programme, the Confirmation Letter substantially in the form set out in Part 4 of Appendix 3 of the Programme Agreement;

**Contractual Currency** has the meaning given in Clause 17.1 of the Representative and Agency Agreement

**Coupon** means an interest coupon in respect of Definitive Covered Bonds;

**Couponholders** means the holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons);

**Covered Bond** means each covered bond issued or to be issued pursuant to the Programme Agreement and which is or is to be constituted under the Representative and Agency Agreement, which covered bond may be represented by a Global Covered Bond or any Definitive Covered Bond and includes any replacements for a Covered Bond issued pursuant to Condition 11 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*) of the Terms and Conditions;

**Covered Bond Guarantee** means an unconditional and irrevocable guarantee by the Fund in the Representative and Agency Agreement for the payment (following service of a Notice to Pay or Fund Acceleration Notice) of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment;

**Covered Bondholders** means the holders for the time being of the Covered Bonds and the expressions **Covered Bondholder**, **Holder of Covered Bonds** and **holder of Covered Bonds** and related expressions shall be construed accordingly;

**Credit Linked Interest Covered Bonds** means Covered Bonds in respect of which payments of interest will be calculated by reference to the creditworthiness of, performance of obligations by or some other factor relating to one or more Reference Entities, as set out in the applicable Final Terms;

**Custody Agent** means Verdis hf. (formerly Arion Custody Services hf.) of Armuli 13, 105 Reykjavik, Iceland, or such custody agent appointed by the Fund pursuant to its Articles of Association;

**Custody Agent Services** means the services detailed in Article 20 of the Act to be provided by the Custody Agent pursuant to the Servicing and Custody Agreement;

**Customer Files** means the file or files relating to each Loan and its Related Security containing, *inter alia*:

- (a) all material correspondence relating to that Loan; and
- (b) the completed mortgage documentation applicable to the Loan including the Mortgage Document and, if applicable, the Valuation Report,

whether original documentation, in electronic form or otherwise;

**Day Count Fraction** has the applicable meaning given to it in Condition 5.8(c) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**D.D. Date** means the date of delivery to the Account Bank of such instructions as may be necessary from time to time for the debit of a Borrower's account in respect of which there is a direct debit mandate;

**Dealer** means each dealer appointed from time to time in accordance with the Programme Agreement, which appointment may be for a specific issue or on an ongoing basis. References to the **relevant Dealer(s)** shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds;

**Dealer Accession Letter** means:

- (a) in respect of the appointment of a third party as a Dealer for the duration of the Programme or until terminated by the Issuer, the Dealer Accession Letter substantially in the form set out in Part 1 of Appendix 3 of the Programme Agreement; and
- (b) in respect of the appointment of a third party as a Dealer for one or more particular issue(s) of Covered Bonds under the Programme, the Dealer Accession Letter substantially in the form set out in Part 3 of Appendix 3 of the Programme Agreement;

**Deed of Amendment, Restatement and Substitution** means the deed entered into on the date hereof between, *inter alios*, the parties hereto providing for, *inter alia*, the substitution of the Issuer for Kaupthing in its various roles under the Transaction Documents and the amendment and restatement of certain of the Transaction Documents;

**Defaulted Covered Bond** has the meaning given in Clause 13.4 of the Representative and Agency Agreement;

**Defaulted Loan** means any Loan in the Portfolio which is three months or more in arrears;

**Definitive Covered Bond** means a Covered Bond in definitive form issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer and the Representative and Agency Agreement in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms), such Covered Bond in definitive form being in the form or substantially in the form set out in Part 3 of Schedule 4 to the Representative and Agency Agreement with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Representative and the relevant Dealer or Lead Manager (in the case of syndicated issues) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Terms and Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue;

**Determination Date** has the meaning given to it in the applicable Final Terms;

**Determination Period** has the meaning given to it in Condition 5.8(d) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Direct Debiting Scheme** means the direct debiting scheme operated in Iceland by Reiknistofa Bankanna;

**Directors** means the directors for the time being of the Issuer or the Management Company, as the case may be;

**Distribution Compliance Period** means the period that ends 40 days after the later of the commencement of the offering and the Issue Date;

**Drawdown Date** means, in respect of any Term Advance, the date on which that Term Advance is made by the Issuer to the Fund as specified in the Request relating to that Term Advance;

**Dual Currency Interest Covered Bond** means a Covered Bond in respect of which payments of interest will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer(s) may agree, such currencies and rates of exchange to be specified in the applicable Final Terms;

**Due for Payment** means the requirement by the Fund to pay any Guaranteed Amount:

- (a) following service of a Notice to Pay but prior to service of a Fund Acceleration Notice: on the date on which the Scheduled Payment Date in respect of such Guaranteed Amount is reached or such other Interest Payment Date(s) specified in the applicable Final Terms Document (the **Due for Payment Date**).

For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the guaranteed obligations, by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise; or

- (b) following service of a Fund Acceleration Notice, on the date on which the Fund Acceleration Notice is served on the Issuer and the Fund;

**Due for Payment Date** has the meaning given in paragraph (a) of the definition of Due for Payment;

**Earliest Maturing Covered Bonds** means, at any time, the Series of the Covered Bonds (other than any Series which is fully collateralised by amounts standing to the credit of the GIC Account) that has or have the earliest Final Maturity Date as specified in the applicable Final Terms (ignoring any acceleration of amounts due under the Covered Bonds prior to service of a Fund Acceleration Notice);

**Early Redemption Amount** means the amount calculated in accordance with Condition 7.6 (*Redemption and Purchase - Early Redemption Amounts*) of the Terms and Conditions;

**Early Repayment Fee** means any fee which a Borrower is required to pay in the event that he or she is in default or his or her Loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant Loan before a specified date;

**EEA** means European Economic Area;

**Eligible Person** has the meaning given in Schedule 6 of the Representative and Agency Agreement;

**Eligibility Criteria** means the conditions set forth in Clause 4.4 of the Mortgage Sale Agreement (or in the equivalent clause of any New Mortgage Sale Agreement);

**EMU** means the European Monetary Union;

**Enforcement Procedures** means the procedures for the enforcement of Mortgages undertaken by the Servicer from time to time in accordance with the Seller's Policy;

**Equity Contribution** means, in relation to each Holder, the aggregate of the capital contributed by that Holder to the Fund from time to time by way of Cash Equity Contributions and Equity Contributions in Kind as determined on each Calculation Date in accordance with the formula set out in Clause 9 of the Fund Deed;

**Equity Contribution Balance** means the balance of each Holder's Equity Contributions as recorded from time to time in the relevant Holder's Unit Account Ledger;

**Equity Contribution in Kind** means a contribution of Loans and their Related Security to the Fund in an amount equal to: (a) the Outstanding Principal Balance of those Loans as at the relevant Assignment Date; minus (b) any cash payment paid by the Fund for the Loans and their Related Security on that Assignment Date;

**Equity Linked Interest Covered Bonds** means Covered Bonds in respect of which payments of interest will be calculated by reference to the price, value, performance or some other factor relating to one or more Reference Assets, as set out in the applicable Final Terms;

**Established Rate** has the meaning given to it in Condition 4 (*Redenomination*) of the Terms and Conditions;

**EU** means the European Union;

**EURIBOR** means the Euro-zone inter-bank offered rate;

**Euroclear** means Euroclear Bank S.A./N.V., as operator of the Euroclear System or its successors;

**Eurosystem-eligible NGN** means an NGN which is intended to be held in a manner which would allow Eurosystem eligibility, as stated in the applicable Final Terms;

**Event of Default** means a Fund Event of Default and/or an Issuer Event of Default;

**Excess Proceeds** means moneys received (following service of an Issuer Acceleration Notice) by the Representative from the Issuer or any administrator, administrative or other receiver, manager or other similar officer appointed in relation to the Issuer in accordance with Condition 10.1 (*Issuer Events of Default*) of the Terms and Conditions;

**Exchange Act** means the U.S. Securities Exchange Act of 1934;

**Exchange Agent** means Deutsche Bank Trust Company Americas in its capacity as exchange agent (which expression shall include any Successor exchange agent);

**Exchange Date** means on or after the date which is 40 days after a Temporary Global Covered Bond is issued;

**Exchange Event** means (a) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, whether statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (b) the Issuer has or will become subject to adverse Tax consequences which would not be suffered were the Global Covered Bond (and any interests therein) exchanged for Definitive Covered Bonds;



**Exchange Notice** means a notice given by the Issuer that replacement euro-denominated Covered Bonds, Receipts and Coupons are available for exchange;

**Excluded Indebtedness** means any Relevant Indebtedness in respect of which the person or persons to whom any such Relevant Indebtedness is or may be owed by the relevant borrower has or have no recourse whatsoever to the Issuer or any Subsidiary (whether or not also the relevant borrower) for the repayment thereof other than:

- (a) recourse to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from a Specified Asset; and/or
- (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Relevant Indebtedness in an enforcement of any encumbrance given by such borrower over a Specified Asset or the income, cash flow or other proceeds deriving therefrom (or given by a shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such Relevant Indebtedness, provided that: (i) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement; and (ii) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such Relevant Indebtedness, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
- (c) recourse of such borrower generally, or directly or indirectly to the Issuer or any Subsidiary, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against which such recourse is available;

**Excluded Scheduled Interest Amounts** has the meaning given in the definition of Scheduled Interest;

**Excluded Scheduled Principal Amounts** has the meaning given to it in the definition of Scheduled Principal;

**Exhibit** means the exhibit 1 to the Mortgage Sale Agreement which sets out details of the Standard Documentation;

**Existing Covered Bonds** means, in accordance with Condition 7.12, the Covered Bonds of all Series then outstanding;

**Extraordinary Resolution** has the meaning given to it in Schedule 6 to the Representative and Agency Agreement;

**Facility** means the loan facility made available by the Issuer to the Fund under the Intercompany Loan Agreement in an aggregate amount equal to the Total Credit Commitment;

**Final Maturity Date** means the Interest Payment Date on which a Series of Covered Bonds will be redeemed at their Final Redemption Amount in accordance with the Terms and Conditions;

**Final Redemption Amount** means, in respect of a Series of Covered Bonds, the amount as specified in the applicable Final Terms;

**Final Terms** means the final terms supplement to be prepared with respect to each Tranche of Covered Bonds;

**Financial Year** means the 12 month period ending on the last day of the calendar year;

**First Assignment Date** means the date on which the Initial Portfolio is assigned to the Fund pursuant to the terms of the Mortgage Sale Agreement;

**First Issue** means the issuance by the Issuer of a Series of Covered Bonds for the first time pursuant to the Programme;

**First Issue Date** means the date on which the Issuer issues a Series of Covered Bonds for the first time pursuant to the Programme;

**Fixed Coupon Amount** has the meaning given in the applicable Final Terms, in respect of the Fixed Rate Covered Bonds;

**Fixed Fund Payment Period** means the period from (and including) a Fund Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Fund Payment Date;

**Fixed Rate Covered Bonds** means Covered Bonds paying a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer(s) and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s);

**Floating Rate** has the meaning given to it in the ISDA Definitions;

**Floating Rate Convention** has the meaning given to it in Condition 5.8(b)(i) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Floating Rate Covered Bonds** means Covered Bonds which bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer(s),

as set out in the applicable Final Terms;

**Floating Rate Option** has the meaning given to it in the ISDA Definitions;

**Following Business Day Convention** has the meaning given to it in Condition 5.8(b)(ii) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**FSA** means the Financial Services Authority;

**FSMA** means the Financial Services and Markets Act 2000, as amended;

**Fund** means Arion Bank Mortgages Institutional Investor Fund;

**Fund Acceleration Notice** means a notice in writing given by the Representative to the Issuer and the Fund, that each Covered Bond of each Series then outstanding is, and each Covered Bond of each Series then outstanding shall, as against the Issuer (if not already due and repayable against the Issued following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest and all amounts payable by the Fund under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each

Series together with accrued interest (and, if this is an Inflation Linked Annuity Covered Bond, adjusted for indexation in accordance with the provisions set out in the Final Terms) in each case as provided in the Representative and Agency Agreement if any of the Fund Events of Default shall occur and be continuing;

**Fund Accounts** means the GIC Account and any additional or replacement accounts opened in the name of the Fund;

**Fund Agreements** means the Transaction Documents to which the Fund is a party;

**Fund Business** means the business of the Fund to be conducted under the Fund Deed and as described in Clause 2.3 thereof or as otherwise determined by the Management Company with the prior written consent of the Representative whilst any Covered Bonds are outstanding;

**Fund Deed** means the amended and restated fund deed entered into on or around the date hereof between the Fund, the Management Company, the Seller and the Representative;

**Fund Event of Default** has the meaning given to it in Condition 10.2 (*Events of Default and Enforcement – Fund Events of Default*) of the Terms and Conditions;

**Fund Payment Date** means the 15th day of each month or if not a Business Day the next following Business Day;

**Fund Payment Period** means the period from (and including) a Fund Payment Date to (but excluding) the next following Fund Payment Date;

**GIC Account** means the account in the name of the Fund held with Arion Bank hf. and maintained subject to the terms of the Guaranteed Investment Contract and the Bank Account Agreement or such additional or replacement account as may be for the time being in place with the prior consent of the Representative and designated as such;

**GIC Account Mandate** means the bank account mandate between the Fund and the Account Bank relating to the operation of the GIC Account in or substantially in the form set out in Schedule 1 to the Bank Account Agreement;

**GIC Balance** means, on any day, the amount standing to the credit of the GIC Account as at the opening of business on such day;

**GIC Provider** means Arion Bank hf. in its capacity as GIC provider or any successor GIC provider appointed from time to time;

**GIC Rate** means the rate of interest accruing on the balance standing to the credit of the GIC Account which 0.5 per cent. for one month ISK deposits or such greater amount as the Fund and the GIC Provider may agree from time to time;

**Global Covered Bond** means a Temporary Global Covered Bond and/or a Permanent Global Covered Bond, as the context may require;

**Government Entities** has the meaning given in Condition 3 (*Negative Pledge*) of the Terms and Conditions;

**Group** means the Issuer and its Subsidiaries;

**Guarantee** means the Covered Bond Guarantee;

**Guarantee Priority of Payments** has the meaning given to it in Clause 13.4 of the Fund Deed;

**Guaranteed Amounts** means, prior to the service of a Fund Acceleration Notice, with respect to any Due for Payment Date, the sum of Scheduled Interest and Scheduled Principal, in each case, payable on that Due for Payment Date, or after service of a Fund Acceleration Notice, an amount equal to the relevant Early Redemption Amount as specified in the Terms and Conditions plus all accrued and unpaid interest and all other amounts due and payable in respect of the Covered Bonds, including all Excluded Scheduled Interest Amounts, all Excluded Scheduled Principal Amounts (whenever the same arose) and all amounts payable by the Fund under the Representative and Agency Agreement;

**Guaranteed Amounts Due Date** means the later of: (a) the date which is two Business Days following service of a Notice to Pay on the Fund; and (b) the date on which the Guaranteed Amounts are otherwise Due for Payment;

**Guaranteed Investment Contract** or **GIC** means the amended and restated guaranteed investment contract between the Fund, the GIC Provider, the Representative and the Cash Manager dated on or around the date hereof;

**Holder** means a holder of unit shares issued by the Fund;

**Icelandic GAAP** means the generally acceptable accounting principles in Iceland;

**Identified Person** has the meaning given in Schedule 6 of the Representative and Agency Agreement;

**IFRS** means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (**IASB**) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

**Index Linked Interest Covered Bonds** means Covered Bonds in respect of which payments of interest will be calculated by reference to such index and/or formula or to changes in the prices of such securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree;

**Inflation Linked Annuity Covered Bonds** means the Covered Bonds that pay an Annuity Amount or such date or dates as agreed between the Issuer and the relevant Dealer;

**Initial Cash Consideration** means a cash payment to be made by the Fund to the Seller out of the ISK Equivalent of the proceeds of the Initial Term Advance(s) on the First Assignment Date in consideration of the sale by the Seller of the Initial Portfolio to the Fund;

**Initial Documentation List** means the lists of documents set out in Appendix 1 of the Programme Agreement;

**Initial Portfolio** means the Portfolio of Loans and their Related Security assigned to the Fund on the First Assignment Date pursuant to the terms of the Mortgage Sale Agreement;

**Initial Term Advance** means each term advance made on the First Assignment Date by the Issuer to the Fund from the proceeds of the first issue of Covered Bonds pursuant to the Intercompany Loan Agreement;

**Insolvency Event** means in respect of the Seller, the Servicer, the Custody Agent or the Cash Manager:

- (a) an order is made by any competent court or an effective resolution passed for the liquidation or winding up or dissolution of the relevant entity except for the purposes of a reconstruction, amalgamation or merger or following the transfer of all or substantially all of the assets of the relevant entity, the terms of which have been approved by an Extraordinary Resolution of the Covered Bondholders; or

- (b) the relevant entity 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 Covered Bondholders or for the purposes of a reconstruction, amalgamation or merger between the Issuer and the relevant entity or following the transfer of all or substantially all of the assets of the Issuer to the relevant entity or of the relevant entity to the Issuer or the relevant entity 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
- (c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part of the undertaking, property or assets of the relevant entity, or a distress, diligence or execution or other process is levied, enforced upon, sued out or put in force against the whole or any material part of the chattels or property of the relevant entity and, in the case of the foregoing events, is not discharged within 30 days;

**Instalment Amounts** means, in respect of Instalment Covered Bonds, each amount specified as such in the Final Terms;

**Instalment Covered Bonds** means Covered Bonds which will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms;

**Instalment Dates** means, in respect of the Instalment Covered Bonds, each date specified as such in the applicable Final Terms;

**Intercompany Loan** means the ISK Equivalent of all Term Advances made by the Issuer to the Fund under the Intercompany Loan Agreement;

**Intercompany Loan Agreement** means the amended and restated term loan agreement dated on or around the date hereof between the Issuer, the Fund, the Cash Manager and the Representative;

**Intercompany Loan Event of Default** means the circumstances described in Clause 11.1 of the Intercompany Loan Agreement;

**Intercompany Loan Ledger** means the ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record all payments of interest and repayments of principal on each of the Term Advances;

**Interest Amount** means the amount of interest payable on the Floating Rate Covered Bonds or Variable Interest Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 5.3(d) (*Interest - Determination of Rate of Interest and calculation of Interest Amounts*) of the Terms and Conditions;

**Interest Commencement Date** means, in the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds start accruing interest;

**Interest Determination Date**, in respect of Floating Rate Covered Bonds to which Screen Rate Determination is applicable, has the meaning given to it in the applicable Final Terms;

**Interest Payment Date**, in respect of Fixed Rate Covered Bonds, has the meaning given to it in the applicable Final Terms and, in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds, has the meaning given to it in Condition 5.3(a) (*Interest - Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds - Interest Payment Dates*) of the Terms and Conditions;

**Interest Period** means, in accordance with Condition 5.8(e) the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date;

**Investor** has the meaning given to it in Clause 10.3(e) of the Servicing Agreement;

**Investor Report** means the monthly report made available to the Covered Bondholders and the Representative detailing, *inter alia*, compliance with the Asset Coverage Test;

**Investor's Currency** means the currency or currency unit that an investor's financial activities are denominated in, other than the Specified Currency;

**ISDA** means the International Swaps and Derivatives Association, Inc;

**ISDA Definitions** has the meaning given in Condition 5.3(b)(i) (*Interest – Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds – Rate of Interest*) of the Terms and Conditions;

**ISDA Determination** means, if specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 5.3(b)(i);

**ISDA Master Agreement** means the 1992 ISDA Master Agreement (Multicurrency – Cross Border), as published by ISDA;

**ISDA Rate** has the meaning given to it in Condition 5.3(b)(i) (*Interest – Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds – Rate of Interest*) of the Terms and Conditions;

**ISK** or **Krona** or **krónur** means the lawful currency of Iceland;

**ISK Equivalent** means, in relation to a Term Advance or a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of Covered Bonds) which is denominated in: (a) a currency other than ISK, the ISK equivalent of such amount ascertained using the exchange rate specified in the swap agreement entered into in respect of the relevant Covered Bonds, or the applicable spot rate; and (b) ISK, the applicable amount in ISK;

**Issue Date** means each date on which the Issuer issues a Tranche of Covered Bonds under the Programme, as specified in the applicable Final Terms;

**Issue Price** means the price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Tranche of Covered Bonds will be issued;

**Issuer** means Arion Bank hf., ID number 581008-0150, a public limited company incorporated under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland;

**Issuer-ICSD Agreement** means the amended and restated Issuer – ICSD Agreement entered into on or around the date hereof between the Issuer, Clearstream, Luxembourg and Euroclear;

**Issuer Acceleration Notice** has the meaning given to it in Condition 10.1 (*Events of Default, Acceleration and Enforcement – Issuer Events of Default*) of the Terms and Conditions;

**Issuer Call** means, if specified as applicable in the applicable Final Terms, the provision by which the Issuer may redeem a Series of Covered Bonds in accordance with Condition 7.3 (*Redemption and Purchase – Redemption at the option of the Issuer (Issuer Call)*) of the Terms and Conditions;

**Issuer Event of Default** means any of the conditions, events or acts provided in Condition 10.1 (*Events of Default, Acceleration and Enforcement – Issuer Events of Default*) of the Terms and Conditions upon the happening of which the Covered Bonds of each Series would, subject only to

notice by the Representative as therein provided, become immediately due and payable as against the Issuer;

**Judgment Currency** has the meaning given in Clause 17.1 of the Representative and Agency Agreement;

**Kaupthing** means Kaupthing Bank hf.;

**Latest Valuation** means, in relation to any Property, the value given to that Property by the most recent Valuation Report addressed to the Seller;

**Law** includes common or customary law and any constitution, decree, judgment, legislation, order, ordinance, regulation, statute, treaty or other legislative measure in any jurisdiction and any present or future directive, regulation, guideline, practice, concession, request or requirement whether or not having the force of law issued by any governmental body, agency or department or any central bank or other fiscal, monetary, Taxation, regulatory, self regulatory or other authority or agency;

**Lead Manager** means, in relation to any Tranche of Covered Bonds, the person named as the Lead Manager in the applicable Subscription Agreement or, when only one Dealer signs such Subscription Agreement, such Dealer;

**Ledger** means each of the Revenue Ledger, the Reserve Ledger, the Unit Account Ledger and the Payment Ledger;

**Legislative Exchange** has the meaning given to it in Condition 7.12 (*Redemption and Purchase – Legislative Exchange*) of the Terms and Conditions;

**Lending Criteria** means the lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender;

**Liability** means any loss, damage, cost, charge, claim, demand, expense, judgment, decree, action, proceeding or other liability whatsoever (including, without limitation in respect of Taxes, duties, levies, imposts and other charges) and including any amounts in respect of Tax charged or chargeable in respect thereof and legal fees and expenses on a full indemnity basis;

**LIBOR** means the London inter-bank offered rate;

**Loan** means each mortgage loan referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies due or owing with respect to that mortgage loan under the relevant Mortgage Terms by a borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same;

**Loan Interest Payment Date** means, in respect of any Term Advance, each Interest Payment Date in respect of the corresponding Series or Tranche of Covered Bonds that funded such Term Advance;

**Loan Interest Period** means, in respect of any Term Advance, each period from and including a Loan Interest Payment Date (or, in the case of the first Loan Interest Period, the Drawdown Date of the Term Advance) to, but excluding the next Loan Interest Payment Date (or, in the case of the first Loan Interest Period, the first Loan Interest Payment Date in respect of that Term Advance);

**Loan Repurchase Notice** means a notice in substantially the form set out in Schedule 4 to the Mortgage Sale Agreement served by the Fund on the Seller in relation to the repurchase of Loans in the Portfolio by the Seller in accordance with the terms of the Mortgage Sale Agreement;

**Long Maturity Covered Bond** means a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate

interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond;

**Losses** means all losses on the Loans;

**LTV ratio** or **loan-to-value ratio** or **LTV** means the ratio of the outstanding balance of a Loan to the value of the Property securing that Loan;

**Management Company** means Stefair hf. (formerly Kaupthing Asset Management Company hf.) or such other management company appointed pursuant to the Fund's its Articles of Association;

**Mandate** means the GIC Account Mandate and/or the mandates in relation to each other Fund Account, as the case may be;

**Margin** means, in respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms;

**Markets in Financial Instruments Directive** means Directive 2004/39/EC;

**Master Definitions and Construction Agreement** means this amended and restated master definitions and construction agreement made between the parties hereto on the date hereof;

**Maximum Rate of Interest** means, in respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms;

**Maximum Redemption Amount** means the amount specified as such in the applicable Final Terms;

**Minimum Rate of Interest** means, in respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms;

**Minimum Redemption Amount** means the amount specified as such in the applicable Final Terms;

**Modified Following Business Day Convention** has the meaning given to it in Condition 5.8(b)(iii) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Month** means calendar month;

**Monthly Asset Coverage Report** means the report substantially in the form set out in Schedule 3 to the Cash Management Agreement;

**Monthly Payment** means the amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Loan;

**Monthly Payment Day** means the date on which the Monthly Payment is due to be paid by a Borrower on a Loan or, if any such day is not a Business Day, the next following Business Day;

**Monthly Reports** has the meaning given to it in Clause 10.3(e) of the Servicing Agreement;

**Mortgage** means the legal charge, standard security, mortgage or charge securing a Loan;

**Mortgage Conditions** means the terms and conditions applicable to the Loans as contained in the Seller's Standard Documentation;

**Mortgage Document** means the document evidencing the Mortgage;



**Mortgage Pool** means the mortgages owned from time to time by the Fund;

**Mortgage Sale Agreement** means the amended and restated mortgage sale agreement entered into on or around the date hereof made between the Seller, the Fund and the Representative (as amended and/or supplemented and/or restated from time to time) and, where the context so requires, including any New Mortgage Sale Agreement entered into from time to time between any New Seller, the Fund and the Representative;

**Mortgage Terms** means all the terms and conditions applicable to a Loan, including, without limitation, the applicable Mortgage Conditions;

**MSA** means the Mortgage Sale Agreement;

**Negative Carry Factor** means a percentage (which will never be less than 0.50 per cent.) calculated by reference to the weighted average margin of the Covered Bonds;

**New Covered Bonds** has the meaning given to it in Condition 7.12 (*Redemption and Purchase – Legislative Exchange*) of the Terms and Conditions;

**New Dealer** means any entity appointed as an additional Dealer in accordance with Clause 11 of the Programme Agreement;

**New Loan** means Loans, which the Seller may assign or transfer to the Fund pursuant to the Mortgage Sale Agreement;

**New Mortgage Sale Agreement** means any new mortgage sale agreement entered into between any New Seller, the Fund and the Representative (as amended and/or supplemented and/or restated from time to time), which shall be substantially in the same form and contain substantially the same provisions as the Mortgage Sale Agreement;

**New Portfolio** means each portfolio of Loans and their Related Security (other than any Loans and their Related Security which have been redeemed in full prior to the relevant Assignment Date or which do not otherwise comply with the terms of the Mortgage Sale Agreement as at the relevant Assignment Date), particulars of which are set out in the relevant New Portfolio Notice or in a document stored upon electronic media (including, but not limited to, a CD-ROM);

**New Portfolio Notice** means a notice in the form set out in Schedule 5 to the Mortgage Sale Agreement served in accordance with the terms of the Mortgage Sale Agreement;

**New Seller** means any entity that accedes to the relevant Transaction Documents and sells New Seller Loans and their Related Security to the Fund in the future pursuant to a New Mortgage Sale Agreement;

**New Seller Loans** means Loans originated by a New Seller;

**New Servicer** means any entity appointed as a substitute servicer in accordance with the Servicing Agreement;

**NGN** means a Temporary Global Covered Bond in the form set out in Part 1 of Schedule 4 of the Representative and Agency Agreement or a Permanent Global Covered Bond in the form set out in Part 2 of Schedule 4 of the Representative and Agency Agreement, in either case where the applicable Final Terms specify that the Covered Bonds are in NGN form;

**Nominee** has the meaning given to it in Clause 17.1 of the Programme Agreement;

**notice** means, in respect of a notice to be given to Covered Bondholders, a notice validly given pursuant to Condition 14 (Notices) of the Terms and Conditions;

**Notice to Pay** has the meaning given to it in Condition 10.1 (*Events of Default, Acceleration and Enforcement – Issuer Events of Default*) of the Terms and Conditions;

**offer conditions** means the terms and conditions applicable to a specified Loan as set out in the relevant offer letter to the Borrower;

**OMX ICE** means the OMX Nordic Exchange Iceland hf.;

**Optional Redemption Amount** has the meaning (if any) given in the applicable Final Terms;

**Optional Redemption Date** has the meaning (if any) given in the applicable Final Terms;

**Ordinary Resolution** has the meaning given in Schedule 6 of the Representative and Agency Agreement;

**outstanding** means, in relation to the Covered Bonds of all or any Series, all the Covered Bonds of such Series issued other than:

- (a) those Covered Bonds which have been redeemed pursuant to the Terms and Conditions;
- (b) those Covered Bonds in respect of which the date (including, where applicable, any deferred date) for redemption in accordance with the Terms and Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to or to the order of the Principal Paying Agent in the manner provided in the Representative and Agency Agreement (and where appropriate notice to that effect has been given to the relative Covered Bondholders in accordance with Condition 14 (*Notices*) of the Terms and Conditions) and remain available for payment against presentation of the relevant Covered Bonds and/or Receipts and/or Coupons;
- (c) those Covered Bonds which have been purchased and cancelled in accordance with Conditions 7.9 (*Redemption and Purchase – Purchases*) and 7.10 (*Redemption and Purchase – Cancellation*) of the Terms and Conditions;
- (d) those Covered Bonds which have become void or in respect of which claims have become prescribed, in each case under Condition 9 (*Prescription*) of the Terms and Conditions;
- (e) those mutilated or defaced Covered Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 11 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*) of the Terms and Conditions;
- (f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Covered Bonds outstanding and without prejudice to the status for any other purpose of the relevant Covered Bonds) those Covered Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 11 (*Replacement of Covered Bonds, Receipts, Coupons and Talons*) of the Terms and Conditions; and
- (g) any Global Covered Bond to the extent that it shall have been exchanged for Definitive Covered Bonds or another Global Covered Bond pursuant to its provisions, the Terms and Conditions and the Representative and Agency Agreement,

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the holders of the Covered Bonds of any Series, to give instruction or direction to the Representative and for the purposes of a resolution in writing as envisaged by paragraph 19 of Schedule 6 to the Representative and Agency Agreement;

- (ii) the determination of how many and which Covered Bonds of any Series are for the time being outstanding for the purposes of Condition 10 (*Events of Default, Acceleration and Enforcement*) and Condition 15 (*Meetings of Covered Bondholders, Modification and Waiver*) of the Terms and Conditions and paragraphs 4, 7, 8 and 13 of Schedule 6 to the Representative and Agency Agreement;
- (iii) any discretion, power or authority which the Representative is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Covered Bonds of any Series; and
- (iv) the determination by the Representative whether any event, circumstance, matter or thing is, in the opinion, materially prejudicial to the interests of the holders of the Covered Bonds of any Series;

those Covered Bonds of the relevant Series (if any) which are for the time being held by or on behalf of the Issuer or any Subsidiary of the Issuer shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

**Outstanding Principal Balance** means, in relation to a Loan at any date, the aggregate of any amounts advanced to a Borrower and any interest or expenses owed by a Borrower less any prepayment, repayment or payment of the foregoing made on or prior to the determination date;

**Partial Portfolio** means part of any portfolio of Selected Loans;

**Participants** means Direct Participants and Indirect Participants;

**Partly-Paid Covered Bonds** means Covered Bonds which are only partly paid up on issue, in respect of which interest will accrue in accordance with Condition 5.5 on the paid-up amount of such Covered Bonds or on such other basis as may be agreed between the Issuer and the relevant Dealer(s) and indicated in the applicable Final Terms;

**Paying Agents** means the Principal Paying Agent and any other paying agent appointed pursuant to the terms of the Representative and Agency Agreement;

**Payment** has the meaning given in Clause 13.4 of the Representative and Agency Agreement;

**Payment Day** has the meaning given to it in Condition 6.6 (*Payments – Payment Day*) of the Terms and Conditions;

**Payment Instruction Date** means the Issue Date unless there is to be a pre-closing for the issue in which case it means the Business Day prior to the Issue Date;

**Payment Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the credits and debits of the Available Receipts for application in accordance with the relevant Priority of Payments;

**Permanent Global Covered Bond** means a global covered bond substantially in the form set out in Part 2 of Schedule 4 to the Representative and Agency Agreement with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Representative and the relevant Dealer or Lead Manager (in the case of syndicated issues), together with the copy of the applicable Final Terms annexed thereto, comprising some or all of the Covered Bonds of the same Series, issued by the Issuer pursuant to the Programme Agreement or any other agreement between the Issuer and the relevant Dealer(s) relating to the Programme, the Representative and Agency Agreement and the Terms and Conditions in exchange for the whole or part of any Temporary Global Covered Bond issued in respect of such Covered Bonds;

**Permitted Security Interest** has the meaning given in Condition 3 (*Negative Pledge*) of the Terms and Conditions;

**Person** means a reference to any person, individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, governmental entity or other entity of similar nature (whether or not having separate legal personality);

**Portfolio** means the Initial Portfolio and each New Portfolio acquired by the Fund but excluding Loans which have been redeemed in full or repurchased by the Seller or a New Seller or otherwise sold by the Fund;

**Post-Enforcement Priority of Payments** has the meaning given to it in Clause 16.2 of the Fund Deed;

**Potential Fund Event of Default** has the meaning given to it in Condition 15 (*Meetings of Covered Bondholders, Modification and Waiver*) of the Terms and Conditions;

**Potential Issuer Event of Default** has the meaning given to it in Condition 15 (*Meetings of Covered Bondholders, Modification and Waiver*) of the Terms and Conditions;

**Pre-Acceleration Priority of Payments** has the meaning given to it in Clause 11.4 of the Fund Deed;

**Preceding Business Day Convention** has the meaning given to it in Condition 5.8(b)(iv) (*Interest – Business Day, Business Day Convention, Day Count Fractions and other adjustments*) of the Terms and Conditions;

**Principal Amount Outstanding** means, in accordance with Condition 5.8(f) (*Interest - Business Day, Business Day Convention, Day Count Fractions and other adjustments*), in respect of a Covered Bond on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day;

**Principal Paying Agent** means, in relation to all or any Series of the Covered Bonds, Deutsche Bank AG, London Branch at its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB or, if applicable, any successor principal paying agent in relation to all or any Series of the Covered Bonds;

**Principal Subsidiary** has the meaning given to it in Condition 10.1 (*Events of Default, Acceleration and Enforcement – Issuer Events of Default*) of the Terms and Conditions;

**Priorities of Payments** means the orders of priority for the allocation and distribution of amounts standing to the credit of the Fund Accounts in different circumstances;

**Programme** means the ISK 200,000,000 covered bond programme originally established by Kaupthing on the Programme Date as amended, restated and substituted pursuant to the Deed of Amendment, Restatement and Substitution;

**Programme Agreement** means the programme agreement dated the Programme Date between the Issuer, the Fund and the Dealers named therein (or deemed named therein) concerning the purchase of Covered Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto;

**Programme Date** means 29 March, 2006;

**Programme Limit** has the meaning given to it in the Representative and Agency Agreement;

**Programme Resolution** means any Extraordinary Resolution to direct the Representative to accelerate the Covered Bonds pursuant to Condition 10 (*Events of Default, Acceleration and Enforcement*) of the

Terms and Conditions or to direct the Representative to take any enforcement action pursuant to Condition 10 (*Events of Default, Acceleration and Enforcement*);

**Property** means a residential property in Iceland which is subject to a Mortgage;

**Prospectus Directive** means Directive 2003/71/EC;

**Prospectus Regulation** means Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive;

**Purchase Price** means the purchase price to be paid by the Fund to the Seller in consideration of the Seller's sale of the Initial Portfolio and/or the relevant New Portfolio to the Fund;

**Purchaser** means any third party or the Seller or a New Seller to whom the Fund offers to sell Selected Loans;

**Put Notice** means the put notice in the form of Schedule 3 to the Representative and Agency Agreement;

**Rate of Interest**, in respect of a Series of interest bearing Covered Bonds, means the rate of interest payable from time to time in respect of such Covered Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms;

**Reasonable, Prudent Mortgage Lender** means a lender acting within the policy applied by the Seller and/or the Servicer, as applicable, from time to time to the originating, underwriting and servicing of mortgage loans beneficially owned by the Seller outside the Mortgage Pool;

**Receiptholders** means the holders of the Receipts;

**Receipts** means receipts for the payment of instalments of principal and indexation amounts (other than the final instalment) attached on issue to Definitive Covered Bonds repayable in instalments;

**Redeemed Covered Bonds** has the meaning given to it in Condition 7.3 (*Redemption and Purchase -- Redemption at the option of the Issuer (Issuer Call)*) of the Terms and Conditions;

**Redenomination Date** has the meaning given in Condition 4 (*Redenomination*) of the Terms and Conditions;

**Reference Assets** means, in respect of the Equity Linked Interest Covered Bonds, shares or other securities, as indicated in the applicable Final Terms,

**Reference Entities** means, in respect of Credit Linked Interest Covered Bonds, entities as indicated in the applicable Final Terms;

**Reference Price** means, in respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms;

**Reference Rate**, in respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, has the meaning given to it in the applicable Final Terms;

**Regulation S** means Regulation S under the Securities Act;

**Related Security** means, in relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the Fund pursuant to Clause 2.1 or Clause 4.1 of the Mortgage Sale Agreement;

**Relevant Covered Bond** has the meaning given to it in Clause 7.3 of the Intercompany Loan Agreement;

**Relevant Date** has the meaning given to it in Condition 9 (*Prescription*) of the Terms and Conditions;

**Relevant Implementation Date** has the meaning given to it in Appendix 2 of the Programme Agreement;

**Relevant Indebtedness** has the meaning given in Condition 3 (*Negative Pledge*) of the Terms and Conditions;

**Relevant Member State** has the meaning given to it in Appendix 2 of the Programme Agreement;

**Relevant Party** means each Dealer, each of their respective affiliates and each person who controls them (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and each of their respective directors, officers, employees and agents;

**Relevant Provisions** has the meaning given in Clause 12.1 of the Representative and Agency Agreement;

**Relevant Screen Page**, in respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, has the meaning given to it in the applicable Final Terms;

**repay, redeem and pay** shall each include both of the others and cognate expressions shall be construed accordingly;

**Replacement Issuer** means any entity that assumes the obligations of the Issuer under the Covered Bonds;

**Representations and Warranties** means the representations and warranties set out in Schedule 1 to the Mortgage Sale Agreement;

**Representative** means Deutsche Trustee Company Limited, in its capacity as representative of the Covered Bondholders together with any successor appointed from time to time under the Representative and Agency Agreement;

**Representative and Agency Agreement** means the amended and restated representative and agency agreement dated on or around the date hereof and made between the Issuer, the Fund, the Representative, the Principal Paying Agent and the other Paying Agents (as amended and/or supplemented and/or restated from time to time);

**Request** means a written request from the Fund to the Issuer for a Term Advance or Term Advances to be made in the form of Schedule 2 to the Intercompany Loan Agreement;

**Required Outstanding Principal Balance Amount** has the meaning given to it in Clause 15.2 of the Fund Deed;

**Required Redemption Amount** has the meaning given in Clause 15.2 of the Fund Deed;

**Reserve Fund** means the reserve fund that the Fund will be required to establish on the GIC Account which will be credited with Available Receipts up to an amount equal to the Reserve Fund Required Amount, and any Cash Equity Contributions made to the Fund by the Seller which the Seller directs the Fund to credit thereto;

**Reserve Amount Required Amount** means an amount equal to the ISK Equivalent of the interest due on each Series of Covered Bonds for X months together with an amount equal to one-twelfth of the anticipated aggregate annual amount payable in respect of the items specified in paragraphs (a) to (b) of

the Pre-Acceleration Priority of Payments plus ISK 10,000,000 or such higher amount as Arion Bank hf. shall direct the Fund from time to time

where,

X = the number of months between the Interest Payment Dates in relation to the Series of Covered Bonds;

**Reserve Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of Revenue Receipts and (if so directed by the Seller) Cash Equity Contributions to the Reserve Fund and the debiting of such Reserve Fund in accordance with the terms of the Fund Deed;

**Reserved Matter** means, in relation to Covered Bonds of a Series:

- (a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof;
- (b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;
- (c) alteration of the majority required to pass an Extraordinary Resolution;
- (d) any amendment to the Covered Bond Guarantee (except in a manner determined by the Representative not to be materially prejudicial to the interests of the Covered Bondholders of any Series or an amendment which is in the sole opinion of the Representative of a formal, minor or technical nature or to correct a manifest error or an error which is, in the sole opinion of the Representative proven or is to comply with mandatory provisions of law);
- (e) the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash; and
- (f) alteration of the proviso to paragraph 7 or paragraph 8 of Schedule 6 to the Representative and Agency Agreement;

**Reset Date** has the meaning given to it in the ISDA Definitions;

**Responsible Persons** means the Issuer and the Fund;

**Revenue Ledger** means the ledger on the GIC Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record credits and debits of Revenue Receipts and certain other amounts in accordance with the terms of the Fund Deed;

**Revenue Receipts** means any payment received in respect of any Loan (otherwise than in respect of a Loan that has been repurchased by the Seller), whether as all or part of a Monthly Payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise;

**Rules to the Direct Debiting Scheme** means the rules in respect of the Direct Debiting Scheme as published by Reiknistofa Bankanna;

**Scheduled Interest** means, in relation to a Series of Covered Bonds, an amount equal to the amount in respect of interest which is or would have been due and payable under such Covered Bonds on each Interest Payment Date as specified in Condition 5 (*Interest*) of the Terms and Conditions, together in the case of Inflation Linked Annuity Covered Bonds, any indexation amount payable in respect of such interest in accordance with the provisions of the applicable Final Terms (but excluding any additional amounts relating to premiums, default interest or interest upon interest (**Excluded Scheduled Interest Amounts**) payable by the Issuer following service of an Issuer Acceleration Notice but including such amounts (whenever the same arose) following service of a Fund Acceleration Notice), as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date or, where applicable, after the Final Maturity Date, such other amount of interest as may be specified in the applicable Final Terms Document;

**Scheduled Payment Date** means, in relation to payments under the Covered Bond Guarantee in respect of a Series of Covered Bonds, each Interest Payment Date or the Final Maturity Date as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date;

**Scheduled Principal** means, in relation to a Series of Covered Bonds, an amount equal to the amount in respect of principal or other amount which is or would have been due and repayable under such Covered Bonds on each Interest Payment Date or the Final Maturity Date (as the case may be) as specified in Condition 7.1 or 7.2, as the case may be, (*Redemption and Purchase – Redemption of Inflation Linked Annuity Covered Bonds/Final Redemption*) and Condition 7.7 (*Redemption and Purchase – Instalments*) of the Terms and Conditions (but excluding any additional amounts relating to prepayments, early redemption, broken funding indemnities, penalties, premiums or default interest (**Excluded Scheduled Principal Amounts**) payable by the Issuer following service of an Issuer Acceleration Notice but including such amounts (whenever the same arose) following service of a Fund Acceleration Notice) as if such Covered Bonds had not become due and repayable prior to their Final Maturity Date;

**Screen Rate Determination** means, if specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 5.3(b)(ii) (*Interest – Rate of Interest*) of the Terms and Conditions;

**SEC** means the U.S. Securities and Exchange Commission;

**Securities Act** means the United States Securities Act of 1933 (as amended);

**Securities and Exchange Law** means the Securities and Exchange Law of Japan;

**Security Interest** means any mortgage, charge, pledge, lien or other security interest;

**Selected Loan Offer Notice** means a notice from the Fund served on the Seller offering to sell Selected Loans and their Related Security for an offer price equal to the greater of the then Outstanding Principal Balance of the Selected Loans and the Adjusted Required Redemption Amount;

**Selected Loan Repurchase Notice** means a notice from the Seller served on the Fund accepting an offer set out in a Selected Loan Offer Notice;

**Selected Loans** means Loans and their Related Security to be sold by the Fund pursuant to the terms of the Fund Deed or the Mortgage Sale Agreement and having in aggregate the Required Outstanding Principal Balance Amount;

**Selection Date** has the meaning given to it in Condition 7.3 (*Redemption and Purchase – Redemption at the option of the Issuer (Issuer Call)*) of the Terms and Conditions;



**Seller** means Arion Bank hf. in its capacity as Seller under the Mortgage Sale Agreement, and **Sellers** means, together, the Seller and any New Sellers;

**Seller Accession Letter** means the Seller Accession Letter substantially in the form set out in Part 1 of Appendix 4 of the Programme Agreement;

**Seller Bank Accounts** means the bank account(s) of the Seller into which monies may be paid from time to time pursuant to the terms of the Fund Deed, details of which will be given to the Fund;

**Seller Confirmation Letter** means the Seller Confirmation Letter substantially in the form set out in Part 2 of Appendix 4 of the Programme Agreement;

**Seller Power of Attorney** means a power of attorney to be provided by the Seller substantially in the form set out in Schedule 3 to the Mortgage Sale Agreement;

**Seller's Policy** means the originating, underwriting, administration, arrears and enforcement policy applied by the Seller from time to time to Loans and their related security for their repayment which are owned by the Seller;

**Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions **Covered Bonds of the relevant Series, holders of Covered Bonds of the relevant Series** and related expressions shall be construed accordingly;

**Series 1 Covered Bonds** means the first Series of Covered Bonds issued initially on the First Issue Date;

**Servicer** means Arion Bank hf. in its capacity as servicer under the Servicing and Custody Agreement together with any successor servicer appointed from time to time;

**Servicer Event of Default** has the meaning given to it in Clause 17.1 of the Servicing and Custody Agreement;

**Servicer Termination Event** has the meaning given to it in Clause 17.1 of the Servicing and Custody Agreement;

**Services** means the services listed in Schedule 1 to the Servicing and Custody Agreement to be provided by the Servicer pursuant to that Servicing and Custody Agreement;

**Servicing and Custody Agreement** or **Servicing Agreement** means the amended and restated servicing and custody agreement entered into on or around the date hereof between the Fund, the Servicer, the Custody Agent and the Representative;

**Shortfall** has the meaning given to it in Clause 13.5 of the Representative and Agency Agreement;

**Specified Asset** has the meaning given in Condition 3 (*Negative Pledge*) of the Terms and Conditions;

**Specified Currency** means, subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer, the Principal Paying Agent and the Representative and specified in the applicable Final Terms;

**Specified Denomination** means, in respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds specified in the applicable Final Terms;

**Specified Interest Payment Date**, in respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, has the meaning (if any) given to it in the applicable Final Terms;

**Specified Period**, in respect of Floating Rate Covered Bonds or Variable Interest Covered Bonds, has the meaning (if any) given to it in the applicable Final Terms;

**Specified Time** means 11.00 am (London time, in the case of determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR);

**Stabilising Manager** means a Dealer designated as such in the applicable Final Terms in accordance with Clause 18 of the Programme Agreement;

**Standard Documentation** means the standard documentation annexed as an exhibit to the Mortgage Sale Agreement or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;

**Stand-by Account Bank** means a bank appointed as stand-by account bank, pursuant to Clause 4.1 of the Cash Management Agreement;

**Stand-by Accounts** means the Stand by GIC Account and the Stand-by Transaction Account;

**Stand-by GIC Account** means the account in the name of the Fund opened and maintained with the Stand-by Account Bank pursuant to Clause 4.1 of the Cash Management Agreement;

**Stand-by Transaction Account** means the account in the name of the Fund to be opened and maintained with the Stand-by Account Bank pursuant to Clause 4.1 of the Cash Management Agreement;

**Stock Exchange** means the Icelandic Stock Exchange or any other or further stock exchange(s) on which any Covered Bonds may from time to time be listed or admitted to trading and references to the **relevant Stock Exchange** shall, in relation to any Covered Bonds, be references to the Stock Exchange on which such Covered Bonds are, from time to time, or are intended to be, listed or admitted to trading;

**Subscription Agreement** means an agreement supplemental to the Programme Agreement (by whatever name called) in or substantially in the form set out in Appendix 6 of the Programme Agreement or in such other form as may be agreed between the Issuer and the Lead Manager or one or more Dealers (as the case may be);

**Subsidiary** means any entity whose affairs are required by law, or in accordance with generally accepted accounting principles applicable to Iceland, to be consolidated in the consolidated accounts of the Issuer;

**Substitution Assets** means each of:

- (a) ISK deposits, certificates of deposit, long-term debt obligations and short term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one year or less and, if such investments are available in the Icelandic banking markets, having the highest possible short-term unsecured, unguaranteed and unsubordinated debt obligation ratings of the issuing or guaranteeing entity or the entity with which the deposits are made (being an authorised Financial Institution under the Act 161/2002) by one or more internationally recognised rating agency;
- (b) ISK deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of one to three months, if such investments are available in the Icelandic banking markets, having the highest possible short-term unsecured, unguaranteed

and unsubordinated debt obligation ratings of the issuing or guaranteeing entity or the entity with which the deposits are made (being an authorised Financial Institution under the Act 161/2002) by one or more internationally recognised rating agency; and

- (c) ISK deposits, certificates of deposit, long-term debt obligations and short-term debt obligations (including commercial paper) provided that in all cases such investments have a remaining period to maturity of longer than six months and, if such investments are available in the Icelandic banking markets, having the highest possible short-term unsecured, unguaranteed and unsubordinated debt obligation ratings of the issuing or guaranteeing entity or the entity with which the deposits are made (being an authorised Financial Institution under the Act 161/2002) by one or more internationally recognised rating agency;

**sub-unit** means, in accordance with Condition 5.8(g) (*Interest - Business Day, Business Day Convention, Day Count Fractions and other adjustments*), with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01;

**Successor** means, in relation to an Agent and the Calculation Agent, any successor to any one or more of them in relation to the Covered Bonds which shall become such pursuant to the Terms and Conditions and/or the Representative and Agency Agreement (as the case may be) and/or such other or further principal paying agent, paying agents, registrar, transfer agent, exchange agent and calculation agent (as the case may be) in relation to the Covered Bonds as may (with the prior approval of, and on terms previously approved by, the Agent in writing (such approval not to be unreasonably withheld or delayed)) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the case of the Principal Paying Agent being within the same city as those for which they are substituted) as may from time to time be nominated, in each case by the Issuer and the Fund, and (except in the case of the initial appointments and specified offices made under and specified in the Terms and Conditions and/or the Representative and Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Covered Bondholders;

**Talonholders** means the several persons who are for the time being holders of the Talons;

**Talons** means the talons for further Coupons in respect of interest-bearing Definitive Covered Bonds;

**TARGET System** means, in accordance with Condition 5.8(a)(ii) (*Interest - Business Day, Business Day Convention, Day Count Fractions and other adjustments*), the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System;

**Tax Jurisdiction** means Iceland or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax;

**Taxes** means all present and future taxes, levies, imposts, duties, fees, assessments or charges of any nature whatsoever and wheresoever imposed by Iceland or by any other department, agency or other political sub-division or taxing authority thereof or therein, and all interest, penalties or similar liabilities with respect thereto and **Tax** and **Taxation** shall be construed accordingly;

**Temporary Global Covered Bond** means a temporary global covered bond without receipts and interest coupons attached initially representing each Tranche of Covered Bonds, unless otherwise specified in the applicable Final Terms;

**Term Advance** means each term advance made by the Issuer to the Fund from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;

**Term Advance Notice** means the notice to be delivered to the Fund by the Issuer prior to each Issue Date in accordance with the Intercompany Loan Agreement in the form set out in Schedule 1 to the Intercompany Loan Agreement;

**Terms and Conditions** or **Conditions** means the terms and conditions of the Covered Bonds (as set out in Schedule 1 to the Representative and Agency Agreement);

**Third Party Amounts** means amounts under a direct debit which are repaid to the bank making the payment if such a bank is unable to recoup that amount itself from the customer's account or payments by Borrowers of any fee due to the Seller which amounts shall be payable on receipt by the Fund to the Seller from moneys on deposit in the GIC Account;

**Total Credit Commitment** means an amount equal to the Programme Limit from time to time;

**Tranche** means an issue of Covered Bonds which are identical in all respects (including as to listing and admission to trading);

**Transaction Documents** means the following documents (and each a **Transaction Document**):

- (a) the Mortgage Sale Agreement;
- (b) the Servicing Agreement;
- (c) the Asset Monitor Agreement;
- (d) the Intercompany Loan Agreement;
- (e) the Fund Deed;
- (f) the Cash Management Agreement;
- (g) the Guaranteed Investment Contract;
- (h) the Bank Account Agreement;
- (i) the Representative and Agency Agreement;
- (j) the Programme Agreement;
- (k) each of the Final Terms (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement);
- (l) each Subscription Agreement (as applicable in the case of each issue of listed Covered Bonds subscribed for pursuant to a subscription agreement);
- (m) the Master Definitions and Construction Agreement;
- (n) the Issuer-ICSD Agreement; and
- (o) the Deed of Amendment, Restatement and Substitution;

**Transfer Certificate** means the transfer certificate substantially in the form set out in Schedule 4 to the Representative and Agency Agreement;

**Treaty** means the Treaty establishing the European Community, as amended;

**UCITS** means Undertaking for Collective Investment in Transferable Securities;

**Unit Account Ledger** means the ledger maintained by the Cash Manager on behalf of the Fund in respect of each Holder to record the balance of each Holder's Equity Contributions from time to time;

**Unit Distribution** means any return on a Holder's Equity Contribution in accordance with the terms of the Fund Deed;

**Valuation Report** means the valuation report or reports for mortgage purposes, in the form of the pro-forma report contained in the Standard Documentation, obtained by the Seller from a Valuer in respect of each Property or a valuation report in respect of a valuation of a Property made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender;

**Valuer** means an entity registered as a real estate broker in accordance with Icelandic laws and regulations and having the relevant insurance policy in place;

**Variable Interest Covered Bonds** means Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds, Dual Currency Interest Covered Bonds and other Covered Bonds (excluding Floating Rate Covered Bonds and Inflation Linked Annuity Covered Bonds) where the rate of interest is variable;

**Voting Certificate** has the meaning given to it in Schedule 6 to the Representative and Agency Agreement; and

**Zero Coupon Covered Bonds** means Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.

## 2. INTERPRETATION AND CONSTRUCTION

2.1 Any reference in this Master Definitions and Construction Agreement, or in any Transaction Document or any document to which this Master Definitions and Construction Agreement is expressed to be incorporated or as to which this Master Definitions and Construction Agreement is expressed to apply (unless expressly stated otherwise in such Transaction Document or other document), to:

**affiliate** of any person shall be construed as a reference to the ultimate holding company of that person or an entity of which that person or its ultimate holding company (a) has direct or indirect control or (b) owns directly or indirectly more than fifty per cent. (50 per cent.) of the share capital or similar rights of ownership;

the **assets** of any person shall be construed as a reference to the whole or any part of its business, undertakings, property, intellectual property, shares, securities, debts, accounts, revenues (including any right to receive revenues), goodwill, shareholdings and uncalled capital including premium whether now or hereafter acquired and any other assets whatsoever;

an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing or registration;

**disposal** shall be construed as any sale, lease, transfer, conveyance, assignment, assignation, licence, sub-licence or other disposal and **dispose** shall be construed accordingly;

a **guarantee** means any guarantee, bond, indemnity, letter of credit, third party security or other legally binding assurance against financial loss granted by one person in respect of any indebtedness of another person, or any agreement to assume any indebtedness of any other person or to supply funds or to invest in any manner whatsoever in such other person by reason of, or otherwise in relation to, indebtedness of such other person;

**indebtedness** shall be construed so as to include any obligation (whether incurred as principal or as surety or guarantor) for the payment or repayment of money, whether present or future, actual or contingent;

a **month** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next Business Day, unless that day falls in the calendar month succeeding that in which it would otherwise have ended, in which case it shall end on the preceding business day provided that, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to **months** shall be construed accordingly);

a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;

**set off** shall be construed so as to include any equivalent or analogous rights under the laws of any jurisdiction other than Iceland;

a **wholly-owned subsidiary** of a company or corporation shall be construed as a reference to any company or corporation which has no other members except that other company or corporation and that other company's or corporation's wholly-owned subsidiaries or persons acting on behalf of that other company or corporation or its wholly-owned subsidiaries; and

the **winding-up, dissolution or administration** of a company or corporation shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, bankruptcy, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

2.2 In this Master Definitions and Construction Agreement and in any of the Transaction Documents in which this Master Definitions and Construction Agreement is expressed to be incorporated or to which this Master Definitions and Construction Agreement is expressed to apply:

- (a) words denoting the singular number only shall include the plural number also and vice versa;
- (b) words denoting one gender only shall include the other genders;
- (c) words denoting persons only shall include firms and corporations and vice versa;
- (d) references to any statutory provision shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such re-enactment;
- (e) references to any agreement or other document (including any of the Transaction Documents) shall be deemed also to refer to such agreement or document as amended, varied, supplemented or novated from time to time;
- (f) clause, paragraph and schedule headings are for ease of reference only;
- (g) reference to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted to the extent such amendment or re-enactment is substantially to the same effect as such statute on the date hereof;
- (h) reference to a time of day shall be construed as a reference to Icelandic time; and
- (i) references to any person shall include references to his successors, transferees and assigns and any person deriving title under or through him.

3. **AMENDMENTS**

Any amendments to this Master Definitions and Construction Agreement will be made only with the prior written consent of each party to this Master Definitions and Construction Agreement.

4. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

4.1 **Governing Law**

This Master Definitions and Construction Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

4.2 **Submission to Jurisdiction**

Each of the parties to this Agreement irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

**SIGNATORIES**

**SIGNED by** )  
 )  
duly authorised )  
for and on behalf of )  
**ARION BANK HF.** ) \_\_\_\_\_  
 ) Name:  
 ) Title:  
 )  
 )  
 ) \_\_\_\_\_  
 ) Name:  
 ) Title:

**SIGNED by** )  
 )  
duly authorised )  
for and on behalf of )  
**ARION BANK MORTGAGES** ) \_\_\_\_\_  
**INSTITUTIONAL INVESTOR FUND** ) Name:  
 ) Title:  
 )  
 )  
 ) \_\_\_\_\_  
 ) Name:  
 ) Title:

**SIGNED by** )  
 )  
duly authorised )  
for and on behalf of )  
**VERDIS HF.** ) \_\_\_\_\_  
**formerly ARION CUSTODY SERVICES HF.** ) Name:  
 ) Title:  
 )  
 )  
 ) \_\_\_\_\_  
 ) Name:  
 ) Title:

**SIGNED by** )  
 )  
duly authorised )  
for and on behalf of )  
**STEFNIR HF.** ) \_\_\_\_\_  
**formerly KAUPTHING BANK ASSET** ) Name:  
**MANAGEMENT COMPANY HF.** ) Title:  
 )  
 )  
 ) \_\_\_\_\_  
 ) Name:  
 ) Title:



**SIGNED** by )  
 )  
duly authorised )  
for and on behalf of )  
**KPMG EHF.** )  
 )  
Name: Helga Harðardóttir  
Title: Partner

**SIGNED** by )  
 )  
duly authorised )  
for and on behalf of )  
**DEUTSCHE BANK AG, LONDON BRANCH** )  
 )  
Name: )  
Title: )  
 )  
 )  
Name: )  
Title: )

**SIGNED** by )  
 )  
duly authorised )  
for and on behalf of )  
**DEUTSCHE TRUSTEE COMPANY LIMITED** )  
 )  
Name: )  
Title: Associate Director )  
 )  
 )  
Name: )  
Title: Associate Director )

**SCHEDULE 1B**

**AMENDED AND RESTATED REPRESENTATIVE AND AGENCY AGREEMENT**

**AMENDED AND RESTATED**

**REPRESENTATIVE AND AGENCY  
AGREEMENT**

**ARION BANK HF.**  
as Issuer

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**  
as the Fund

**DEUTSCHE TRUSTEE COMPANY LIMITED**  
as Representative

**DEUTSCHE BANK AG, LONDON BRANCH**  
as Principal Paying Agent

and

**ARION BANK HF.**  
as Paying Agent

in respect of a

**ISK 200,000,000,000 Covered Bond Programme**

\_\_\_\_\_ January 2012

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**THIS AGREEMENT** is made on \_\_\_\_\_ January, 2012 **BETWEEN**:

- (1) **ARION BANK HF.**, a public limited company incorporated under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (the **Issuer**);
- (2) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, an investment fund established under the laws of Iceland pursuant to Act No. 33/2003, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (the **Fund**);
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED**, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB in its capacity as the Representative for the Covered Bondholders, the Receiptholders and the Couponholders (the **Representative**, which expression shall, wherever the context so admits, include such company and all other persons or companies for the time being the representative or representatives of this Agreement);
- (4) **DEUTSCHE BANK AG, LONDON BRANCH** acting through its office at Winchester House, 1 Great Winchester Street, London, EC2N 2DB (the **Principal Paying Agent**, which expression shall include any successor principal paying agent appointed under Clause 14); and
- (5) **ARION BANK HF.**, a public limited company incorporated under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (together with the Principal Paying Agent, the **Paying Agents** and each a **Paying Agent**, which expression shall include any additional successor paying agent appointed under Clause 14).

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- (B) As authorised by the Bondholders' Resolutions and by a resolution of the board of directors of the Issuer dated on or around the date hereof, Kaupthing hf., formerly Kaupthing Bank hf. (the **Original Issuer**), which originally established the Programme as issuer on 28 October, 2005, has been substituted as issuer of the Covered Bonds by the Issuer. As such, the Issuer may from time to time issue Covered Bonds as set out herein. Covered Bonds up to a maximum aggregate nominal amount (calculated in accordance with the Programme Agreement) from time to time outstanding of ISK 200,000,000,000 (subject to increase as provided in the Programme Agreement) (the **Programme Limit**) may be issued pursuant to the Programme.
- (C) By resolutions of the board of directors of Kaupthing Bank Asset Management Company hf., which originally acted as the Management Company (as defined below), passed on 10 March 2006 and 21 February 2008 and pursuant to a power of attorney dated 27 October 2011 and granted by the Management Company (as defined below), the Fund has resolved to unconditionally and irrevocably guarantee the payments of all amounts due in respect of the Covered Bonds and all other amounts payable by the Issuer under this Agreement on the terms set out herein.
- (D) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day-to-day operations of the Fund are managed by Stefnir hf. formerly Kaupthing Bank Asset Management Company hf. (the **Management Company**). The Management Company shall execute this Agreement on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Agreement.

- (E) This Agreement replaces the Amended and Restated Representative and Agency Agreement dated 29 February 2008. Any Covered Bonds issued under the Programme on or after the date hereof shall be issued pursuant to this Agreement.

## 1. DEFINITIONS AND INTERPRETATION

- 1.1 (a) All references in this Agreement to principal and/or principal amount in respect of the Covered Bonds or to any moneys payable by the Issuer or the Fund under this Agreement shall, unless the context otherwise requires, be construed in accordance with Condition 6.7 (*Interpretation of principal*).
- (b) All references in this Agreement to any action, remedy or method of proceeding for the enforcement of the rights of creditors shall be deemed to include, in respect of any jurisdiction other than Iceland, references to such action, remedy or method of proceeding for the enforcement of the rights of creditors available and reasonably appropriate in such jurisdiction as shall most nearly approximate to such action, remedy or method of proceeding described or referred to in this Agreement.
- (c) All references in this Agreement to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include references to any additional or alternative clearing system as is approved by the Issuer, the Principal Paying Agent and the Representative or as may otherwise be specified in the applicable Final Terms.
- (d) In this Agreement references to Schedules, Clauses, paragraphs and sub-paragraphs shall be construed as references to the Schedules to this Agreement and to the Clauses, paragraphs and sub-paragraphs of this Agreement.
- 1.2 The amended and restated master definitions and construction agreement made between, *inter alios*, the parties to this Agreement on \_\_\_\_\_ January, 2012 (as the same may be amended, varied and/or supplemented from time to time, the **Master Definitions and Construction Agreement**) is expressly and specifically incorporated into this Agreement and, accordingly, the expressions defined in the Master Definitions and Construction 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 this Agreement, including the recitals hereto and this Agreement shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions and Construction Agreement. In the event of inconsistency between the Master Definitions and Construction Agreement and this Agreement, this Agreement shall prevail.
- 1.3 All references in this Agreement to the **relevant currency** shall be construed as references to the currency in which payments in respect of the Covered Bonds, Receipts and/or Coupons of the relevant Series are to be made as indicated in the applicable Final Terms.
- 1.4 All references in this Agreement to Covered Bonds having a **listing** or being **listed** (i) on the OMX Nordic Exchange Iceland hf. (**OMX ICE**), **listing** or **listed** shall be construed to mean that such Covered Bonds have been admitted to trading on OMX ICE's regulated market and have been listed on OMX ICE's and (ii) on any other Stock Exchange in a jurisdiction within the European Economic Area, **listing** or **listed** shall be construed to mean that the Covered Bonds have been admitted to trading on a market within that jurisdiction which is a regulated market for the purposes of Directive 2004/39/EC.
- 1.5 The Recitals to this Agreement shall constitute integral parts of this Agreement and shall be read with it for all their purposes and intents.

## 2. APPOINTMENT

### 2.1 Representative

Simultaneously with the issue and delivery of the first Tranche of each Series of Cover Bonds under the Programme, each of the relevant Bondholders shall be deemed to have acknowledged and agreed to the appointment of Deutsche Trustee Company Limited as Representative of the holders of the Covered Bonds of such Series subject to and in accordance with this Agreement and the other Transaction Documents. Any successor Representative in respect of a particular Series of Covered Bonds must be approved in accordance with Clause 14.

### 2.2 Agents

- (a) The Principal Paying Agent is appointed, and the Principal Paying Agent agrees to act, as principal paying agent of the Issuer (and, for the purposes only of Clause 3.3 below, the Representative), upon the terms and subject to the conditions set out in this Agreement, for the following purposes:
- (i) completing, authenticating and delivering Temporary Global Covered Bonds and Permanent Global Covered Bonds and (if required) authenticating and delivering Definitive Covered Bonds;
  - (ii) giving effectuation instructions in respect of each Global Covered Bond which is a Eurosystem-eligible NGN;
  - (iii) exchanging Temporary Global Covered Bonds for Permanent Global Covered Bonds or Definitive Covered Bonds, as the case may be, in accordance with the terms of Temporary Global Covered Bonds and, in respect of any such exchange, (A) making all notations on Global Covered Bonds which are CGNs as required by their terms and (B) instructing Euroclear and Clearstream, Luxembourg to make appropriate entries in their records in respect of all Global Covered Bonds which are NGNs;
  - (iv) exchanging Permanent Global Covered Bonds for Definitive Covered Bonds in accordance with the terms of Permanent Global Covered Bonds and, in respect of any such exchange, (A) making all notations on Global Covered Bonds which are CGNs as required by their terms and (B) instructing Euroclear and Clearstream, Luxembourg to make appropriate entries in their records in respect of all Global Covered Bonds which are NGNs;
  - (v) paying sums due on Global Covered Bonds, Definitive Covered Bonds, Receipts and Coupons and instructing Euroclear and Clearstream, Luxembourg to make appropriate entries in their records in respect of all Global Covered Bonds which are NGNs;
  - (vi) exchanging Talons for Coupons in accordance with the Conditions;
  - (vii) determining the end of the Distribution Compliance Period applicable to each Tranche in accordance with Clause 13.3;
  - (viii) unless otherwise specified in the applicable Final Terms, determining the interest and/or other amounts payable in respect of the Covered Bonds in accordance with the Conditions;
  - (ix) arranging on behalf of and at the expense of the Issuer for notices to be communicated to the Covered Bondholders in accordance with the Conditions;

- (x) ensuring that, as directed by the Issuer, all necessary action is taken to comply with any reporting requirements of any competent authority in respect of any relevant currency as may be in force from time to time with respect to the Covered Bonds to be issued under the Programme;
  - (xi) submitting to the relevant authority or authorities such number of copies of each Final Terms which relates to Covered Bonds which are to be listed as the relevant authority or authorities may require;
  - (xii) acting as Calculation Agent in respect of Covered Bonds where named as such in the applicable Final Terms;
  - (xiii) performing all other obligations and duties imposed upon it by the Conditions and this Agreement.
- (b) Each Paying Agent is appointed, and each Paying Agent agrees to act, as paying agent of the Issuer, upon the terms and subject to the conditions set out in this Agreement, for the purposes of paying sums due on any Covered Bonds, Receipts and Coupons and performing all other obligations and duties imposed upon it by the Conditions and this Agreement.
- (c) In relation to each issue of Eurosystem-eligible NGNs, the Issuer hereby authorises and instructs the Principal Paying Agent to elect Euroclear or Clearstream, Luxembourg as common safekeeper. From time to time, the Issuer and the Principal Paying Agent may agree to vary this election. The Issuer acknowledges that any such election is subject to the right of Euroclear and Clearstream, Luxembourg to jointly determine that the other shall act as common safekeeper in relation to any such issue and agrees that no liability shall attach to the Principal Paying Agent in respect of any such election made by it.
- (d) The obligations of the Paying Agents under this Agreement are several and not joint.

### 3. AMOUNT AND ISSUE OF THE COVERED BONDS

#### 3.1 Amount of the Covered Bonds, Final Terms and Legal Opinions

The Covered Bonds will be issued in Series in an aggregate nominal amount from time to time outstanding not exceeding the Programme Limit from time to time and, for the purpose of determining such aggregate nominal amount, the Programme Agreement shall apply. The Issuer has assumed all obligations and benefits from all rights with respect to those Covered Bonds that have already been issued prior to the date hereof.

By not later than the second Business Day preceding each proposed Issue Date, the Issuer shall deliver or cause to be delivered to the Representative a copy of the applicable Final Terms and drafts of all (if any) legal opinions to be given in relation to the relevant issue and shall notify the Representative in writing without delay of the relevant Issue Date and the nominal amount of the Covered Bonds to be issued. Upon the issue of the relevant Covered Bonds, such Covered Bonds shall become constituted by this Agreement without further formality.

Before the first issue of Covered Bonds occurring after each anniversary of this Agreement and on such other occasions as the Representative so requests (on the basis that the Representative considers it necessary in view of a change (or proposed change) in Icelandic law materially affecting the Issuer or the Fund (as the case may be), this Agreement or the Programme Agreement or the Representative has other reasonable grounds which shall not include the mere lapse of time), the Issuer or, as the case may be, the Fund, will procure that further legal opinion(s) (relating, if applicable, to any such change or proposed change) in such form and with such content as the Representative may reasonably require from the legal advisers specified in the Programme Agreement or such other legal advisers as the Representative shall approve is/are delivered to the Representative. Whenever such a request is made

with respect to any Covered Bonds to be issued, the receipt of such opinion(s) in a form satisfactory to the Representative shall be a further condition precedent to the issue of those Covered Bonds.

### 3.2 **Covenant to repay principal and to pay interest**

The Issuer covenants with the Representative that it shall, as and when the Covered Bonds of any Series or any of them or any instalment of principal in respect thereof becomes due to be redeemed, or on such earlier date as the same or any part thereof may become due and repayable thereunder, in accordance with the Conditions, unconditionally pay or procure to be paid to or to the order of the Representative in the relevant currency in immediately available funds the Principal Amount Outstanding in respect of the Covered Bonds of such Series or the amount of such instalment becoming due for redemption on that date and (except in the case of Zero Coupon Covered Bonds) shall in the meantime and until redemption in full of the Covered Bonds of such Series (both before and after any decree, judgment or other order of a court of competent jurisdiction) unconditionally pay or procure to be paid to or to the order of the Representative as aforesaid interest (which shall accrue from day to day) on the Principal Amount Outstanding of the Covered Bonds outstanding of such Series at rates and/or in amounts calculated from time to time in accordance with, or specified in, and on the dates provided for in, the Conditions (subject to Clause 3.4) PROVIDED THAT:

- (a) except for Excess Proceeds, every payment (whether by the Issuer or the Fund) of principal or interest or other sum due in respect of the Covered Bonds made to or to the order of the Principal Paying Agent in the manner provided in this Agreement shall be in satisfaction *pro tanto* of the relative covenant by the Issuer contained in this Clause 3 and (as the case may be) by the Fund under the Covered Bond Guarantee in relation to the Covered Bonds of such Series except to the extent that there is a default in the subsequent payment thereof in accordance with the Conditions to the relevant Covered Bondholders, Receiptholders or Couponholders (as the case may be) and (in the case of the Fund only) where such payment by the Fund has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Representative or the Covered Bondholders;
- (b) every payment of Excess Proceeds in accordance with Condition 10.1 to or to the order of the Representative shall be in satisfaction *pro tanto* of the relative covenant by the Issuer contained in this Clause 3 in respect of the Excess Proceeds which are due and payable in relation to the Covered Bonds, Receipts and Coupons of such Series (but shall not do so for the purposes of the subrogation rights of the Fund contemplated by Clause 7.7 and shall not reduce or discharge any obligations of the Fund);
- (c) in the case of any payment of principal which is not made to the Representative or the Principal Paying Agent on or before the due date or which is made on or after accelerated maturity following an Issuer Event of Default or Fund Event of Default, interest shall continue to accrue on the Principal Amount Outstanding of the relevant Covered Bonds in accordance with Condition 5.7 (*Accrual of interest*); and
- (d) in any case where payment of the whole or any part of the principal amount of any Covered Bond is improperly withheld or refused upon due presentation thereof (other than in circumstances contemplated by 3.2(c) above interest shall accrue on the Principal Amount Outstanding of such Covered Bond payment of which has been so withheld or refused in accordance with Condition 5.7 (*Accrual of interest*).

### 3.3 **Representative's requirements regarding Paying Agents etc**

- (a) At any time after an Issuer Event of Default or Potential Issuer Event of Default shall have occurred or the Representative shall have received any money from the Issuer or the Fund which it proposes to pay under Clause 10 to the relevant Covered Bondholders, Receiptholders and/or Couponholders, the Representative may:



- (i) by notice in writing to the Issuer, the Fund, the Principal Paying Agent and any other Paying Agent, require the Principal Paying Agent and any other Paying Agent pursuant to this Agreement:
    - (A) to act thereafter as Principal Paying Agent and Paying Agent respectively of the Representative in relation to payments of such moneys to be made by or on behalf of the Representative under the terms of this Agreement (save that the Representative's liability under any provisions hereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Principal Paying Agent and any other Paying Agent shall be limited to the amounts for the time being held by the Representative on the terms of this Agreement relating to the Covered Bonds of the relevant Series and the relative Receipts and Coupons and available for such purpose) and thereafter to hold all Covered Bonds, Receipts, Coupons and Talons and all sums, documents and records held by them in respect of Covered Bonds, Receipts, Coupons and Talons on behalf of the Representative; or
    - (B) to deliver up all Covered Bonds, Receipts and Coupons and all sums, documents and records held by them in respect of the Covered Bonds, Receipts and Coupons to the Representative or as the Representative shall direct in such notice provided that such notice shall be deemed not to apply to any documents or records which the Principal Paying Agent and/or the relevant Paying Agent is obliged not to release by any law or regulation; and/or
  - (ii) by notice in writing to the Issuer and the Fund, require each of them to make all subsequent payments in respect of the Covered Bonds, Receipts and Coupons to or to the order of the Representative and not to the Principal Paying Agent and with effect from the issue of any such notice to the Issuer and the Fund and until such notice is withdrawn proviso (a) to Clause 3.2 relating to the Covered Bonds shall cease to have effect in respect of the Issuer and the Fund.
- (b) At any time after a Fund Event of Default or Potential Fund Event of Default shall have occurred or the Representative shall have received any money from the Fund which it proposes to pay under Clause 10 to the relevant Covered Bondholders, Receiptholders and/or Couponholders, the Representative may:
- (i) by notice in writing to the Issuer, the Fund, the Principal Paying Agent and any other Paying Agent require the Principal Paying Agent and any other Paying Agent pursuant to this Agreement to:
    - (A) act thereafter as Principal Paying Agent and Paying Agent respectively of the Representative in relation to payments of such moneys to be made by or on behalf of the Representative under the terms of this Agreement (save that the Representative's liability under any provisions hereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Principal Paying Agent and any other Paying Agent shall be limited to the amounts for the time being held by the Representative on the terms of this Agreement relating to the Covered Bonds of the relevant Series and available for such purpose) and thereafter to hold all Covered Bonds, Receipts and Coupons and all sums, documents and records held by them in respect of Covered Bonds, Receipts and Coupons on behalf of the Representative; or
    - (B) to deliver up all Covered Bonds, Receipts and Coupons and all sums, documents and records held by them in respect of the Covered Bonds,

Receipts and Coupons to the Representative or as the Representative shall direct in such notice provided that such notice shall be deemed not to apply to any documents or records which the Principal Paying Agent and/or the relevant Paying Agent is obliged not to release by any law or regulation; and/or

- (ii) by notice in writing to the Fund require it to make all subsequent payments in respect of the Covered Bonds, Receipts and Coupons to or to the order of the Representative and not to the Principal Paying Agent and with effect from the issue of any such notice to the Fund and until such notice is withdrawn proviso (a) to Clause 3.2 relating to the Covered Bonds shall cease to have effect.

3.4 If the Floating Rate Covered Bonds or Variable Interest Covered Bonds of any Series become immediately due and repayable following an Issuer Event of Default or a Fund Event of Default the rate and/or amount of interest payable in respect of them will be calculated by the Principal Paying Agent and/or the Calculation Agent (as the case may be), in each case, at the same intervals as if such Covered Bonds had not become due and repayable, the first of such period which will commence on the expiry of the Interest Period during which the Covered Bonds of the relevant Series become so due and repayable *mutatis mutandis* in accordance with the provisions of Condition 5 (Interest) except that the rates of interest need not be published.

### 3.5 **Currency of payments**

All payments of any amounts due in respect of, under and in connection with this Agreement and the Covered Bonds of any Series to the relevant Covered Bondholders, Receiptholders and Couponholders shall be made in the Specified Currency all in accordance with the Conditions.

### 3.6 **Further Covered Bonds**

The Issuer shall be at liberty from time to time (but subject always to the provisions of this Agreement and the Conditions) without the consent of the Covered Bondholders, Receiptholders or Couponholders to create and issue further Covered Bonds (whether in bearer or registered form) having terms and conditions the same as the Covered Bonds of any Series or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single series with the outstanding Covered Bonds of such Series.

### 3.7 **Separate Series**

Subject to the provisions of the next sentence, the Covered Bonds of each Series shall form a separate Series of Covered Bonds and accordingly, unless for any purpose the Representative in its absolute discretion shall otherwise determine, the provisions of this sentence and of Clauses 4 to 12 (both inclusive), 15 to 17 (both inclusive) and Schedule 6 shall apply *mutatis mutandis* separately and independently to the Covered Bonds of each Series. However, for the purposes of Condition 10 (*Events of Default, Acceleration and Enforcement*) (insofar as it relates to a Programme Resolution), Condition 15 (*Representative's Remuneration, Costs and Indemnification*), Clauses 12.4(a), 12.5, 14.1(a) and 14.1(b) and (insofar as it relates to Condition 10 (*Events of Default, Acceleration and Enforcement*) or to a Programme Resolution or Clauses 12.4(a), 14.1(a) or 14.1(b)) Schedule 6, the Covered Bonds of all Series shall be deemed to constitute a single Series and the provisions of such Conditions and Clauses shall apply to all the Covered Bonds together as if they constituted a single Series. In such Clauses and Schedule the expressions **Covered Bonds**, **Covered Bondholders**, **Receipts**, **Receiptholders**, **Coupons**, **Couponholders**, **Talons** and **Talonholders** shall be construed accordingly.

#### 4. FORMS OF THE COVERED BONDS

##### 4.1 Bearer Global Covered Bonds

- (a) The Bearer Covered Bonds of each Tranche will initially be represented by a single Temporary Global Covered Bond or a single Permanent Global Covered Bond, as indicated in the applicable Final Terms. Each Temporary Global Covered Bond shall be exchangeable, upon a request as described therein, for either Definitive Covered Bonds together with, where applicable, Receipts and (except in the case of Zero Coupon Covered Bonds) Coupons and, where applicable, Talons attached, or a Permanent Global Covered Bond, in each case in accordance with the provisions of such Temporary Global Covered Bond. Each Permanent Global Covered Bond shall be exchangeable for Definitive Covered Bonds together with, where applicable, Receipts and (except in the case of Zero Coupon Covered Bonds) Coupons and, where applicable, Talons attached, in accordance with the provisions of such Permanent Global Covered Bond. All Bearer Global Covered Bonds shall be prepared, completed and delivered to a common depository for Euroclear and Clearstream, Luxembourg in accordance with the provisions of the Programme Agreement or to another appropriate depository as may be approved by the Representative in accordance with any other agreement between the Issuer and the relevant Dealer(s) and, in each case, this Agreement.
- (b) Each Temporary Global Covered Bond shall be printed or typed in the form or substantially in the form set out in Part 1 of Schedule 4 and may be a facsimile. Each Temporary Global Covered Bond shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Issuer on behalf of the Issuer and shall be authenticated by or on behalf of the Principal Paying Agent. Each Temporary Global Covered Bond so executed and authenticated shall be binding and valid obligations of the Issuer and the Covered Bond Guarantee in respect thereof shall be binding and valid obligations of the Fund and title to such Temporary Global Covered Bond shall pass by delivery.
- (c) Each Permanent Global Covered Bond shall be printed or typed in the form or substantially in the form set out in Part 2 of Schedule 4 and may be a facsimile. Each Permanent Global Covered Bond shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Issuer on behalf of the Issuer and shall be authenticated by or on behalf of the Principal Paying Agent. Each Permanent Global Covered Bond so executed and authenticated shall be binding and valid obligations of the Covered Bond Guarantee in respect thereof shall be binding and valid obligations of the Fund and title to such Permanent Global Covered Bond shall pass by delivery.

##### 4.2 Definitive Covered Bonds

- (a) The Definitive Covered Bonds issued or, as the case may require, to be issued by the Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the Issuer and the relevant Dealer and this Agreement in exchange for either a Temporary Global Covered Bond or part thereof or a Permanent Global Covered Bond (all as indicated in the applicable Final Terms), shall be serially numbered and in the form or substantially in the form set out in Part 3 of Schedule 4 to this Agreement with such modifications (if any) as may be agreed between the Issuer, the Principal Paying Agent, the Representative and the relevant Dealer or Lead Manager (in the case of syndicated issues) and having the Terms and Conditions endorsed thereon or, if permitted by the relevant stock exchange, incorporating the Terms and Conditions by reference as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Terms and Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Covered Bond in bearer form) having Coupons and, where appropriate, Receipts and/or Talons attached thereto on issue.

- (b) The Definitive Covered Bonds shall be signed manually or in facsimile by a person duly authorised by the Issuer on behalf of the Issuer and shall be authenticated by or on behalf of the Principal Paying Agent. The Definitive Covered Bonds so executed and authenticated, and Receipts, Coupons and Talons, upon execution and authentication of the relevant Definitive Covered Bonds, shall be binding and valid obligations of the Issuer and the Covered Bond Guarantee in respect thereof shall be binding and valid obligations of the Fund. The Receipts, Coupons and Talons shall not be signed. No Definitive Covered Bond and none of the Receipts, Coupons or Talons appertaining to a Definitive Covered Bond shall be binding or valid until the relevant Definitive Covered Bond shall have been executed and authenticated as aforesaid.

#### 4.3 **Facsimile signatures**

The Issuer may use the facsimile signature of any person who, at the date such signature is affixed to a Covered Bond is duly authorised by the Issuer, notwithstanding that at the time of issue of any of the Covered Bonds he may have ceased for any reason to be the holder of such office or be so authorised.

#### 4.4 **Persons to be treated as Covered Bondholders**

- (a) Except as ordered by a court of competent jurisdiction or as required by law, the Issuer, the Fund, the Representative, the Principal Paying Agent and any Paying Agents (notwithstanding any notice to the contrary and whether or not it is overdue and notwithstanding any notation of ownership or writing thereon or notice of any previous loss or theft thereof) may:
  - (b) for the purpose of making payment thereon or on account thereof deem and treat the bearer of any Global Covered Bond and Definitive Covered Bond, Receipt, Coupon or Talon as the absolute owner thereof and of all rights thereunder free from all encumbrances, and shall not be required to obtain proof of such ownership or as to the identity of the bearer; and
  - (c) for all other purposes deem and treat:
    - (i) the holder of any Definitive Covered Bond, Receipt, Coupon or Talon; and
    - (ii) each person for the time being shown in the records of Euroclear or Clearstream, Luxembourg, or such other additional or alternative clearing system approved by the Issuer, the Representative and the Principal Paying Agent, as having a particular nominal amount of Covered Bonds credited to his securities account,

as the absolute owner thereof free from all encumbrances and shall not be required to obtain either (i) proof of such ownership, other than, in the case of any person for the time being so shown in such records, a certificate or letter of confirmation signed on behalf of Euroclear or Clearstream, Luxembourg or any other form of record (including any certificate or other document which may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified together with the amount of such holding) made by any of them or (ii) proof of the identity of the holder of any Global Covered Bond, Definitive Covered Bond, Receipt, Coupon or Talon.

#### 4.5 **Certificates of Euroclear and Clearstream, Luxembourg**

The Issuer, the Fund and the Representative may call for and, except in the case of manifest error, shall be at liberty to accept and place full reliance on as sufficient evidence thereof a certificate or letter of confirmation issued on behalf of Euroclear, Clearstream, Luxembourg or any form of record (including any certificate or other document which may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream,

Luxembourg's Cedcom system) in accordance with its usual procedures and in which the holder of a particular nominal amount of the Covered Bonds is clearly identified together with the amount of such holding) made by any of them or such other form of evidence and/or information and/or certification as it shall, in its absolute discretion, think fit to the effect that at any particular time or throughout any particular period any particular person is, was, or will be, shown in its records as the holder of a particular nominal amount of Covered Bonds represented by a Global Covered Bond and, if it does so rely, such letter of confirmation, form of record, evidence, information or certification shall be conclusive and binding on all concerned.

**5. FEES, DUTIES AND TAXES**

The Issuer shall pay any stamp, issue, registration, documentary and other fees, duties or taxes, including interest and penalties, payable on or in connection with (i) the execution and delivery of this Agreement and the Covered Bonds and (ii) the constitution and original issue of the Covered Bonds, the Receipts and the Coupons and (iii) in any jurisdiction on or in connection with any action taken by or on behalf of the Representative or (where permitted under this Agreement so to do) any Covered Bondholder, Receiptholder or Couponholder to enforce, or to resolve any doubt concerning, or for any other purpose in relation to, this Agreement.

**6. COVENANT OF COMPLIANCE**

Each of the Issuer and the Fund covenants with the Representative that it will comply with and perform and observe all the provisions of this Agreement which are expressed to be binding on it. The Conditions shall be binding on the Issuer, the Fund, the Covered Bondholders, the Receiptholders and the Couponholders. The Representative shall be entitled to enforce the obligations of the Issuer and the Fund under the Covered Bonds, the Receipts, the Coupons and the Conditions in the manner therein provided as if the same were set out and contained in this Agreement, which shall be read and construed as one document with the Covered Bonds, the Receipts and the Coupons.

**7. COVERED BOND GUARANTEE**

7.1 (a) In consideration of the Term Advances to be made by the Issuer to the Fund pursuant to the Intercompany Loan Agreement and the payment of any Excess Proceeds to the Fund pursuant to Clause 10.2, the Fund, as principal obligor, irrevocably and unconditionally guarantees to Representative, for the benefit of the Covered Bondholders, the prompt performance by the Issuer of its obligations to pay Guaranteed Amounts as and when the same become Due for Payment.

(b) The Fund shall, as principal obligor:

(i) following the occurrence of an Issuer Event of Default and the service by the Representative of an Issuer Acceleration Notice on the Issuer and the service of a Notice to Pay on the Fund, pay or procure to be paid (in the manner described in Clause 8.1) to or to the order of the Representative (for the benefit of the Covered Bondholders), an amount equal to those Guaranteed Amounts or that portion of the Guaranteed Amounts which shall have become Due for Payment in accordance with the terms of this Agreement and the Conditions, but which have not been paid by the Issuer to the relevant Covered Bondholders, Receiptholders and/or Couponholders on any Due for Payment Date; and

(ii) following the occurrence of a Fund Event of Default and the service by the Representative of a Fund Acceleration Notice on the Issuer and the Fund, in respect of the Covered Bonds of each outstanding Series, pay or procure to be paid to or to the order of the Representative (for the benefit of the Covered Bondholders) in the manner described in Clause 8.1, the Guaranteed Amount in respect of each Covered Bond corresponding to the Early Redemption Amount for that Covered Bond plus (to

the extent not included in the Early Redemption Amount) all accrued and unpaid interest and all other amounts payable in respect of that Covered Bond as referred to in the definition of Guaranteed Amount.

- 7.2 In relation to the Covered Bonds of each Series, the Covered Bond Guarantee:
- (a) extends to the ultimate balance of the Guaranteed Amounts due to be paid or which would have been due to be paid by the Issuer on the relevant Due for Payment Dates in accordance with the terms of this Agreement, the Covered Bonds, the Receipts or the Coupons, regardless of any intermediate payment or discharge in whole or in part of any Guaranteed Amounts due to be paid on the relevant Scheduled Payment Date;
  - (b) is additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person (whether from the Fund or otherwise); and
  - (c) shall remain in force until all moneys payable by the Fund pursuant to the terms of the Covered Bond Guarantee shall have been paid.
- 7.3 The Fund hereby covenants that the Covered Bond Guarantee shall be a continuing guarantee, which shall not be discharged except by complete performance of the obligations contained in this Agreement and the Conditions in relation to the Covered Bonds, Receipts and Coupons PROVIDED THAT (a) except in the case of Excess Proceeds, every payment of principal or interest in respect of the Covered Bonds, Receipts and/or Coupons made to the Principal Paying Agent in the manner provided in this Agreement shall be in satisfaction *pro tanto* of the liability of the Issuer and the Fund under this Agreement and the Conditions and shall be deemed for the purpose of this Clause to have been paid to the order of the Representative, except to the extent that the subsequent payment thereof to the Covered Bondholders, the Receiptholders or the Couponholders in accordance with the Conditions is not made; and (b) every payment of Excess Proceeds in accordance with Condition 10.1 and Clause 10.2 to or to the order of the Representative shall be in satisfaction (for the benefit of the Issuer only and not the Fund) *pro tanto* of the relative covenant by the Issuer contained in Clause 2.
- 7.4 If any payment received by the Representative or any Covered Bondholder, Receiptholder or Couponholder pursuant to the provisions of this Agreement and the Conditions in relation to the Covered Bonds, the Receipts or the Coupons shall, on the subsequent bankruptcy, sequestration, liquidation, insolvency, corporate reorganisation of the Issuer or other such similar event, be set aside or avoided for any reason, such payment shall not be considered as having discharged or diminished the liability of the Fund and the Covered Bond Guarantee shall continue to apply in accordance with its terms as if such payment had at all times remained owing by the Issuer and the Fund shall indemnify the Representative and the Covered Bondholders, Receiptholders and/or Couponholders (as the case may be) in respect thereof PROVIDED THAT the obligations of the Fund under this subclause shall, as regards each payment made to the Representative or any Covered Bondholder, Receiptholder or Couponholder which is avoided or set aside, be contingent upon such payment being reimbursed to the Issuer or other persons entitled through the Issuer.
- 7.5 Without prejudice to the generality of the foregoing provisions of this Clause 7, the Fund agrees that its obligations under this Agreement and the Conditions shall be as if it were principal debtor and shall be absolute and (following the service of a Notice to Pay on the Fund (which the Representative will be required to serve following the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice) or, if earlier, following the occurrence of a Fund Event of Default and the service of a Fund Acceleration Notice) unconditional and that the Fund shall be fully liable irrespective of whether or not any action has been taken to enforce the same or any judgment obtained against the Issuer, whether or not any of the other provisions of this Agreement, the Conditions or any of the Transaction Documents have been modified, whether or not any time, indulgence, waiver, authorisation or consent has been granted to the Issuer by or on behalf of the Covered Bondholders or the Receiptholders or Couponholders or the Representative, whether or not any determination has been made by the Representative pursuant to Clause 12.8, whether or not there have been any dealings or

transactions between the Issuer, any of the Covered Bondholders, Receiptholders or Couponholders or the Representative, whether or not the Issuer has been dissolved, liquidated, merged, consolidated, bankrupted or has changed its status, functions, control or ownership, whether or not the Issuer has been prevented from making payment by foreign exchange provisions applicable at its place of registration or incorporation and whether or not any other circumstances have occurred which might otherwise constitute a legal or equitable discharge of or defence to a guarantor. Accordingly, the validity of the Covered Bond Guarantee shall not be affected by any irregularity of all or any of the obligations of the Issuer under this Agreement, the Conditions or any other Transaction Document and the Covered Bond Guarantee shall not be discharged nor shall the liability of the Fund under this Agreement and the Conditions be affected by any act, thing or omission or means whatsoever whereby its liability would not have been discharged if it had been the principal debtor.

7.6 Subject to its obligation to deliver a Notice to Pay on the Fund (which the Representative shall be required to deliver following the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice), the Representative may determine from time to time whether it will enforce the Covered Bond Guarantee which it may do without making any demand of or taking any proceedings against the Issuer (as appropriate) and may from time to time make any arrangement or compromise with the Fund in relation to the Covered Bond Guarantee which the Representative may consider expedient in the interests of the Covered Bondholders, Receiptholders or Couponholders.

7.7 If any moneys shall become payable by the Fund under the Covered Bond Guarantee, the Fund shall not, so long as the same remain unpaid, without the prior written consent of the Representative:

- (a) in respect of any amounts paid by it under the Covered Bond Guarantee, exercise any rights of subrogation against the Issuer or any other right or remedy which may accrue to it in respect of or as a result of any such payment; or
- (b) in respect of any other moneys for the time being due to the Fund by the Issuer, claim payment thereof or exercise any other right or remedy,

including in either case claiming the benefit of any security or right of set-off or, on the liquidation of the Issuer, proving in competition with the Representative subject always to the rights of the Fund to set-off amounts owing by the Issuer to the Fund in respect of amounts paid by the Fund under the Covered Bond Guarantee against any amounts repayable by the Fund under the terms of the Intercompany Loan Agreement, which shall remain unaffected.

If notwithstanding the foregoing, upon the bankruptcy, insolvency or liquidation of the Issuer, any payment or distribution of assets of the Issuer of any kind or character, whether in cash, property or securities, shall be received by the Fund before payment in full of all principal of, and interest on, the Covered Bonds, Receipts and Coupons shall have been made to the Covered Bondholders, the Receiptholders and the Couponholders, such payment or distribution shall be received by the Fund to pay the same over immediately to the Representative for application in or towards the payment of all sums due and remaining unpaid under this Agreement and the Conditions in accordance with Clause 10 on the basis that Clause 10 does not apply separately and independently to each Series of the Covered Bonds.

7.8 Any amounts from time to time received by the Representative under the Covered Bond Guarantee shall be applied by the Representative in accordance with the provisions of Clause 10.1 PROVIDED THAT any Excess Proceeds received by the Representative shall be applied by the Representative in accordance with the provisions of Clause 10.2

## 8. PAYMENTS UNDER THE COVERED BOND GUARANTEE

8.1 Following the occurrence of an Issuer Event of Default and the service by the Representative of an Issuer Acceleration Notice on the Issuer pursuant to Condition 10.1 (*Events of Default, Acceleration and Enforcement - Issuer Events of Default*), the Representative shall promptly deliver a Notice to Pay

to the Fund with a copy to the Principal Paying Agent requiring the Fund to pay the Guaranteed Amounts as and when the same are Due for Payment in accordance with the terms of the Covered Bond Guarantee and this Agreement.

- (a) Following the service by the Representative of an Issuer Acceleration Notice on the Issuer and the service by the Representative of a Notice to Pay on the Fund but prior to a Fund Event of Default and service by the Representative of a Fund Acceleration Notice, payment by the Fund of the Guaranteed Amounts pursuant to the Covered Bond Guarantee shall be made in accordance with the Guarantee Priority of Payments set out in Clause 13.4 of the Fund Deed by 10.00 a.m. (local time in the relevant financial centre of the payment or, in the case of a payment in euro, London time) on the Due for Payment Date. Where the Fund is required to make a payment of a Guaranteed Amount in respect of a Final Redemption Amount payable on the Final Maturity Date of the Covered Bond, to the extent that the Fund has insufficient moneys available after payment of higher ranking amounts and taking into account amounts ranking *pari passu* therewith in the Guarantee Priority of Payments to pay such Guaranteed Amounts, it shall make partial payment of such Guaranteed Amounts in accordance with the Guarantee Priority of Payments.
- (b) Following the occurrence of a Fund Event of Default and service by the Representative of a Fund Acceleration Notice, all amounts payable by the Fund under Clause 7.1(b)(ii) shall thereupon become due and payable. All moneys received or recovered by the Representative will be applied in accordance with the Post-Enforcement Priority of Payments. The Representative shall direct the Fund to pay (or to procure the payment of) all sums payable under the Covered Bond Guarantee to the Principal Paying Agent subject always to the provisions of Clause 3.3. For avoidance of doubt, any discharge of the Issuer as a result of the payment of Excess Proceeds to the Representative shall be disregarded for the purposes of determining the amounts to be paid by the Fund under the Covered Bond Guarantee.

8.2 At least two Business Days before the date on which the Fund is obliged to make a payment under the Covered Bond Guarantee, it shall notify or procure the notification of the Principal Paying Agent of the irrevocable instructions to the Account Bank through which payment to the Principal Paying Agent is to be made.

8.3 All payments of Guaranteed Amounts by or on behalf of the Fund shall be made without withholding or deduction for, or on account of, any present or future tax, duties, assessment or other governmental charges of whatever nature, unless the withholding or deduction is required by law or regulation or administrative practice of any jurisdiction. If any such withholding or deduction is required, the Fund shall pay the Guaranteed Amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The Fund shall not be obliged to pay any additional amount to the Representative or any holder of Covered Bonds, Receipts and/or Coupons in respect of the amount of such withholding or deduction.

8.4 The Issuer shall not be discharged from its obligations under the Covered Bonds, Receipts or Coupons and this Agreement by any payment made by the Fund under the Covered Bond Guarantee PROVIDED THAT this Clause shall operate only for the purpose of the subrogation rights of the Fund contemplated by Clause 7.7.

## 9. **NON-PAYMENT**

Proof that as regards any specified Covered Bond, Receipt or Coupon the Issuer or, as the case may be, the Fund has made default in paying any amount due in respect of such Covered Bond, Receipt or Coupon shall (unless the contrary be proved) be sufficient evidence that the same default has been made as regards all other Covered Bonds, Receipts or Coupons (as the case may be) in respect of which the relevant amount is due and payable.



10. **APPLICATION OF MONEYS**

10.1 All moneys (other than Excess Proceeds which shall be applied in the manner set out in Clause 10.2 below) received by the Representative under this Agreement and the Conditions from the Issuer or, as the case may be, the Fund or any administrator, administrative receiver, receiver, liquidator, trustee in sequestration or other similar official appointed in relation to the Issuer or the Fund (including any moneys which represent principal or interest in respect of Covered Bonds, Receipts or Coupons which have become void or in respect of which claims have become prescribed under Condition 9 (*Prescription*)) shall, unless and to the extent attributable, in the opinion of the Representative, to a particular Series of the Covered Bonds, be apportioned *pari passu* and rateably between each Series of the Covered Bonds, and all moneys received by the Representative under this Agreement and the Conditions from the Issuer or, as the case may be, the Fund, to the extent attributable in the opinion of the Representative to a particular Series of the Covered Bonds or which are apportioned to such Series as aforesaid, be held by the Representative to apply them:

FIRST (except in relation to any such moneys received by the Representative following the occurrence of an Issuer Event of Default and the service by the Representative of an Issuer Acceleration Notice and a Notice to Pay) in payment or satisfaction of all amounts then due and unpaid under Clause 15 to the Representative and/or any Appointee;

SECONDLY in or towards payment *pari passu* and rateably of all principal and interest then due and unpaid in respect of the Covered Bonds of that Series;

THIRDLY in or towards payment *pari passu* and rateably of all principal and interest then due and unpaid in respect of the Covered Bonds of each other Series; and

FOURTHLY in payment of the balance (if any) to the Issuer (to the extent received from the Issuer) or the Fund (if received from the Fund).

Without prejudice to this Clause 10.1, if the Representative holds any moneys (other than Excess Proceeds) which represent principal or interest in respect of Covered Bonds which have become void or in respect of which claims have been prescribed under Condition 9 (*Prescription*), the Representative shall (subject to no sums being then overdue to the Representative or to the Covered Bondholders, Receiptholders or Couponholders in respect of any other Covered Bonds, Receipts or Coupons which have been presented for payment and to paying or providing for the payment or satisfaction of the said costs, charges, expenses and liabilities, including the remuneration of the Representative) hold such moneys to be applied as provided above.

10.2 (a) Following the occurrence of an Issuer Event of Default and the delivery of an Issuer Acceleration Notice, any Excess Proceeds received by the Representative shall be paid by the Representative on behalf of the Covered Bondholders of the relevant Series to the Fund for its own account, as soon as practicable, and shall be held by the Fund in the GIC Account and the Excess Proceeds shall be used by the Fund in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Cash Management Agreement and any other relevant Transaction Document. Any Excess Proceeds received by the Representative shall discharge *pro tanto* the obligations of the Issuer in respect of the Covered Bonds, Receipts and Coupons (to the extent of the amount so received) (but shall be deemed not to have done so for the purposes of subrogation rights of the Fund contemplated by Clause 7.7). However, the obligations of the Fund under the Covered Bond Guarantee are (following service of an Issuer Acceleration Notice and a Notice to Pay or, if earlier, following the service of a Fund Acceleration Notice) unconditional and irrevocable and the receipt by the Representative of any Excess Proceeds shall not reduce or discharge any such obligations.

- (b) By subscribing for Covered Bond(s), each Covered Bondholder shall be deemed to have irrevocably directed the Representative to pay the Excess Proceeds to the Fund in the manner as described above.
- (c) For the avoidance of doubt, any payments by the Fund to the Covered Bondholders out of the Excess Proceeds, shall reduce the Guaranteed Amounts *pro tanto*.

## 11. COVENANTS BY THE ISSUER AND THE FUND

### 11.1 Covenants by the Issuer

The Issuer hereby covenants with the Representative that, so long as any of the Covered Bonds remain outstanding, it will:

- (a) at all times carry on and conduct its affairs and procure its Subsidiaries to carry on and conduct their respective affairs in a proper and efficient manner;
- (b) at all times keep and (if applicable) procure its Subsidiaries to keep proper books of account and, following an Event of Default or a Potential Event of Default allow the Representative and any person appointed by the Representative to whom the Issuer shall have no reasonable objection free access to such books of account at all reasonable times during normal business hours provided that the Issuer shall not be required to make any disclosure that would breach any law, regulation or duty of confidentiality binding on it;
- (c) send to the Representative (in addition to any copies to which it may be entitled as a holder of any securities of the Issuer) two copies in English of every balance sheet, income and expenditure account, profit and loss account, report, circular and notice of general meeting and every other document issued or sent to its shareholders (in their capacity as such) together with any of the foregoing, and every document issued or sent to holders of securities of the Issuer (in their capacity as such) other than its shareholders but including the Covered Bondholders, in each case as soon as practicable after the issue or publication thereof;
- (d) procure that each of the Paying Agents makes available for inspection by Covered Bondholders, Receiptholders and Couponholders at its specified office copies of this Agreement (including any agreement supplemental thereto) and the latest audited balance sheet and profit and loss accounts (consolidated if applicable) of the Issuer and the Fund;
- (e) give to the Representative, as soon as reasonably practicable after the acquisition or disposal of any company which thereby becomes or ceases to be a Principal Subsidiary or after any transfer is made to any Subsidiary of the Issuer which thereby becomes a Principal Subsidiary, a certificate by the Auditors of the Issuer to such effect;
- (f) give to the Representative at the same time as sending to it the certificates referred to in paragraph (1) below and in any event not later than 180 days after the last day of each financial period of the Issuer, a certificate by the Auditors of the Issuer listing those Subsidiaries of the Issuer which as at such last day were Principal Subsidiaries for the purposes of Condition 10.1;
- (g) promptly provide the Representative with copies of all supplements and/or amendments and/or restatements of the Programme Agreement;
- (h) at all times maintain a Principal Paying Agent and Paying Agents with specified offices in accordance with the Conditions and at all times maintain any other agents required to be maintained by it by the Conditions;

- (i) give notice in writing to the Representative of the occurrence of any Issuer Event of Default or Potential Issuer Event of Default without waiting for the Representative to take any further action;
- (j) cause to be prepared and certified by its Auditors in respect of each financial period, accounts in such form as will comply with all relevant legal and accounting requirements of the country in which the Issuer is incorporated and, if applicable, the requirements for the time being of the relevant Stock Exchange;
- (k) give to the Representative at all times such opinions, certificates, information and evidence as it shall require (including without limitation the procurement by the Issuer of all such certificates called for by the Representative pursuant to Clause 12.5(c)) for the purpose of the discharge of the duties, powers, authorities and discretions vested in it under this Agreement and Conditions or by operation of law;
- (l) give to the Representative (a) within seven days after demand by the Representative therefor and (b) (without the necessity for any such demand) promptly after the publication of its audited accounts in respect of each financial year commencing with the financial year ending 31st December, 2007 and in any event not later than 180 days after the end of each such financial year a certificate (substantially in the form set out in Schedule 7 to this Agreement) of the Issuer to the effect that as at a date not more than seven days before delivering such certificate (the **relevant certification date**) there did not exist and has not existed since the relevant certification date of the previous certificate (or in the case of the first such certificate the date hereof) any Issuer Event of Default or Potential Issuer Event of Default (or if such exists or existed specifying the same) and that during the period from and including the relevant certification date of the last such certificate (or in the case of the first such certificate the date hereof) to and including the relevant certification date of such certificate the Issuer has complied with all its obligations contained in this Agreement and the Conditions or (if such is not the case) specifying the respects in which it has not complied;
- (m) at all times execute all such further documents and do all such further acts and things as may be necessary at any time or times in the opinion of the Representative to give effect to this Agreement and the Conditions;
- (n) procure that the Principal Paying Agent notifies the Representative forthwith in the event that it does not, on or before the due date for payment in respect of the Covered Bonds or any of them or in respect of the Receipts (if any) and/or the Coupons (if any), receive unconditionally in the manner provided by this Agreement the full amount of the moneys payable in the requisite currency on such due date on all such Covered Bonds, Receipts or, as the case may be, all such Coupons;
- (o) if the applicable Final Terms of a Series indicates that the Covered Bonds of that Series are to be listed on a Stock Exchange, use its best endeavours to maintain the listing of the Securities on the Stock Exchange or, if it is unable to do so having used its best endeavours or if the Representative considers that the maintenance of such listing is unduly onerous and the Representative is of the opinion that to do so would not be materially prejudicial to the interests of the Holders, use its best endeavours to obtain and maintain a quotation or listing of the Covered Bonds on such other stock exchange or exchanges or securities market or markets as the Issuer may (with the prior written approval of the Representative) decide and shall also upon obtaining a quotation or listing of the Covered Bonds on such other stock exchange or exchanges or securities market or markets enter into an agreement supplemental to this Agreement to effect such consequential amendments to this Agreement and the Conditions as the Representative may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market, provided that this covenant shall not apply to any Series of Covered Bonds issued prior to the date hereof unless and until such Covered Bonds are listed on a Stock Exchange;

- (p) observe and comply with its obligations, and procure that the Principal Paying Agent and any other Paying Agents observe and comply with all their respective obligations under this Agreement and not modify or amend the same without the previous consent in writing of the Representative;
- (q) send to the Representative a copy of the form of any notice to be given to the Covered Bondholders in accordance with Condition 14 (*Notices*) and, upon publication, two copies of such notice, such notice being in the form approved by the Representative (such approval, unless so expressed, not to constitute approval for the purposes of Section 21 of the FSMA of a communication within the meaning of Section 21);
- (r) in the event of the unconditional payment to the Principal Paying Agent or the Representative (in any case) of any sum due in respect of principal, redemption amount, premium (if any) and/or interest on the Covered Bonds of such Series or any of them being made after the due date for payment thereof, forthwith give or procure the Principal Paying Agent to give notice to the Covered Bondholders of such Series in accordance with Condition 14 (*Notices*) that such payment has been made;
- (s) give or procure that there be given notice to the Covered Bondholders in accordance with the Conditions of any appointment (other than the initial appointment), resignation or removal of any Principal Paying Agent, Calculation Agent, or other Paying Agent as shown on the Covered Bonds or so published in accordance with the Conditions as soon as practicable after having obtained (except in the case of resignation) the written approval of the Representative thereto (such approval not to be unreasonably withheld or delayed) and in any event within 14 days after such event taking effect and within 30 days of notice received from a Principal Paying Agent or other Paying Agent of a change in its specified office, give notice to the Representative and to the Covered Bondholders of such change PROVIDED ALWAYS THAT so long as any of the Covered Bonds, Receipts or Coupons remains liable to prescription in the case of the termination of the appointment of the Principal Paying Agent or the Calculation Agent no such termination shall take effect until a new Principal Paying Agent or Calculation Agent, (as the case may be) has been appointed on terms previously approved in writing by the Representative;
- (t) in order to enable the Representative to ascertain the Principal Amount Outstanding of Covered Bonds of each Series for the time being outstanding (other than for the purpose of ascertaining the amount of Covered Bonds of each Series for the time being outstanding for the purpose of the Programme Limit), deliver to the Representative forthwith after being so requested in writing by the Representative a certificate in writing signed by two Directors of the Issuer setting out the total numbers and Principal Amount Outstanding of the Covered Bonds of each Series which up to and including the date of such certificate have been purchased by or for the account of the Issuer or any of its respective Subsidiaries, the Principal Amount Outstanding of the Covered Bonds of each Series which are held beneficially at such date by the Issuer or any of its respective Subsidiaries and the Principal Amount Outstanding of the Covered Bonds of each Series so purchased which have been cancelled; and
- (u) not make any change to the Articles of Association of the Fund without the prior written consent of the Representative.

## 11.2 Covenants of the Fund

The Fund hereby covenants with the Representative that, so long as any of the Covered Bonds remain outstanding, it will:

- (a) at all times carry on and conduct its affairs and procure its Subsidiaries to carry on and conduct their respective affairs in a proper and efficient manner;

- (b) at all times keep and (if applicable) procure its Subsidiaries to keep proper books of account and, following an Event of Default or a Potential Event of Default allow the Representative and any person appointed by the Representative to whom the Fund shall have no reasonable objection free access to such books of account at all reasonable times during normal business hours provided that the Fund shall not be required to make any disclosure that would breach any law, regulation or duty of confidentiality binding on it;
- (c) send to the Representative (in addition to any copies to which it may be entitled as a holder of any securities of the Issuer) two copies in English of every balance sheet, income and expenditure account, profit and loss account, report, circular and notice of general meeting and every other document issued or sent to its shareholders (in their capacity as such) together with any of the foregoing, and every document issued or sent to holders of securities the Fund (in their capacity as such) other than its shareholders but including the Covered Bondholders, in each case as soon as practicable after the issue or publication thereof;
- (d) procure that each of the Paying Agents makes available for inspection by Covered Bondholders, Receiptholders and Couponholders at its specified office copies of this Agreement (including any agreement supplemental thereto) and the latest audited balance sheet and profit and loss accounts (consolidated if applicable) of the Fund;
- (e) promptly provide the Representative with copies of all supplements and/or amendments and/or restatements of the Programme Agreement;
- (f) give notice in writing to the Representative of the occurrence of any Fund Event of Default or Potential Fund Event of Default (as applicable) without waiting for the Representative to take any further action;
- (g) cause to be prepared and certified by its Auditors in respect of each financial period, accounts in such form as will comply with all relevant legal and accounting requirements of the country in which the Fund is incorporated and, if applicable, the requirements for the time being of the relevant Stock Exchange;
- (h) give to the Representative at all times such opinions, certificates, information and evidence as it shall require (including without limitation the procurement by the Fund of all such certificates called for by the Representative pursuant to Clause 12.5(c)) for the purpose of the discharge of the duties, powers, authorities and discretions vested in it under this Agreement and Conditions or by operation of law;
- (i) give to the Representative (i) within seven days after demand by the Representative therefor and (ii) (without the necessity for any such demand) promptly after the publication of its audited accounts in respect of each financial year commencing with the financial year ending 31st December, 2007 and in any event not later than 180 days after the end of each such financial year a certificate (substantially in the form set out in Schedule 7 to this Agreement) of the Fund to the effect that as at a date not more than seven days before delivering such certificate (the **relevant certification date**) there did not exist and has not existed since the relevant certification date of the previous certificate (or in the case of the first such certificate the date hereof) any Fund Event of Default or Potential Fund Event of Default (or if such exists or existed specifying the same) and that during the period from and including the relevant certification date of the last such certificate (or in the case of the first such certificate the date hereof) to and including the relevant certification date of such certificate the Fund has complied with all its obligations contained in this Agreement and the Conditions or (if such is not the case) specifying the respects in which it has not complied;
- (j) at all times execute all such further documents and do all such further acts and things as may be necessary at any time or times in the opinion of the Representative to give effect to this Agreement and the Conditions;

- (k) if the applicable Final Terms of a Series indicates that the Covered Bonds of that Series are to be listed on a Stock Exchange, use its best endeavours to maintain the listing of the Securities on the Stock Exchange or, if it is unable to do so having used its best endeavours or if the Representative considers that the maintenance of such listing is unduly onerous and the Representative is of the opinion that to do so would not be materially prejudicial to the interests of the Holders, use its best endeavours to obtain and maintain a quotation or listing of the Covered Bonds on such other stock exchange or exchanges or securities market or markets as the Issuer may (with the prior written approval of the Representative) decide and shall also upon obtaining a quotation or listing of the Covered Bonds on such other stock exchange or exchanges or securities market or markets enter into an agreement supplemental to this Agreement to effect such consequential amendments to this Agreement and the Conditions as the Representative may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market provided that this covenant shall not apply to any Covered Bonds issued prior to the date hereof unless and until such Covered Bonds are listed on a Stock Exchange;
- (l) observe and comply with its obligations, and procure that the Principal Paying Agent and any other Paying Agents observe and comply with all their respective obligations under this Agreement and not modify or amend the same without the previous consent in writing of the Representative;
- (m) send to the Representative a copy of the form of any notice to be given to the Covered Bondholders in accordance with Condition 14 (Notices) and, upon publication, two copies of such notice, such notice being in the form approved by the Representative (such approval, unless so expressed, not to constitute approval for the purposes of Section 21 of the FSMA of a communication within the meaning of Section 21);
- (n) in the event of the unconditional payment to the Principal Paying Agent or the Representative (in any case) of any sum due in respect of principal, redemption amount, premium (if any) and/or interest on the Covered Bonds of such Series or any of them being made after the due date for payment thereof, forthwith give or procure the Principal Paying Agent to give notice to the Covered Bondholders of such Series in accordance with Condition 14 (Notices) that such payment has been made;
- (o) in order to enable the Representative to ascertain the Principal Amount Outstanding of Covered Bonds of each Series for the time being outstanding (other than for the purpose of ascertaining the amount of Covered Bonds of each Series for the time being outstanding for the purpose of the Programme Limit), deliver to the Representative forthwith after being so requested in writing by the Representative a certificate in writing signed by two Directors of the Management Company on behalf of the Fund setting out the total numbers and Principal Amount Outstanding of the Covered Bonds of each Series which up to and including the date of such certificate have been purchased by or for the account of the Fund, the Principal Amount Outstanding of the Covered Bonds of each Series which are held beneficially at such date by the Fund and the Principal Amount Outstanding of the Covered Bonds of each Series so purchased which have been cancelled; and
- (p) not make any change to the Articles of Association of the Fund without the prior written consent of the Representative.

## 12. RIGHTS, DUTIES AND POWERS OF THE REPRESENTATIVE

- 12.1 The Representative is the legal representative of the Covered Bondholders subject to and in accordance with this Agreement, the Conditions and the other Transaction Documents to which it is a party (together, the “**Relevant Provisions**”).

12.2 Subject to the Relevant Provisions, the Representative is responsible for implementing the directions of any Meeting of Covered Bondholders of any one or more Series and for representing the interests of the Covered Bondholders as one class vis-à-vis the Issuer. The Representative has the right to attend Meetings of Covered Bondholders. The Representative may convene a Meeting of Covered Bondholders of any one or more Series in order to obtain the authorisation or directions of such Meeting in respect of any action proposed to be taken by the Representative.

12.3 All actions taken by the Representative in the execution and exercise of its powers and authorities and of the discretions vested in it shall be taken by duly authorised officer(s) for the time being of the Representative. The Representative shall be authorised to represent the Covered Bondholders in judicial proceedings under any applicable liquidation, insolvency, composition, reorganisation or other similar laws.

12.4 **Proceedings, Action and Indemnification**

(a) Save as provided in subclause 12.4(b), the Representative may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against, or in relation to the Issuer and the Fund to enforce the provisions of this Agreement, the Conditions and any other Transaction Document to which they are a party.

(b) The Representative may at any time, after the service of a Notice to Pay (following the occurrence of an Issuer Event of Default and the service of an Issuer Acceleration Notice) or, if earlier, following the occurrence of a Fund Event of Default and the service of a Fund Acceleration Notice, at its discretion and without further notice, take such proceedings as it may think fit against or in relation to the Fund to enforce the provisions of the Covered Bond Guarantee.

(c) The Representative shall not be bound to take any such enforcement proceedings in relation to this Agreement, the Covered Bonds, the Receipts, the Coupons or any other Transaction Document (as referred to in Clauses 12.4(a) and 12.4(b)) or give any notice pursuant to Conditions 10.1 and 10.2 unless (i) directed to do so by an Extraordinary Resolution (with the Covered Bonds of all Series taken together as a single Series as provided in Clause 3.7) or (ii) requested to do so in writing by the holders of not less than one-fifth of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding and in either case then only if it shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

(d) Subject as provided above, the Representative shall not be bound to take any other action under this Agreement or any other Transaction Document unless (i) directed to do so by an Extraordinary Resolution of the Covered Bondholders of the relevant one or more Series (with the Covered Bonds of each such Series (if more than one) taken together as a single Series) or (ii) requested to do so in writing by the holders of not less than one-fifth of the aggregate Principal Amount Outstanding of the Covered Bonds of the relevant one or more Series and in either case then only if it shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.

(e) Only the Representative may enforce the provisions of this Agreement. No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Fund to enforce the performance of any of the provisions of this Agreement or any other Transaction Document unless the Representative having become bound as aforesaid to take proceedings fails to do so within a reasonable period and such failure is continuing (in which case each such Covered Bondholder, Receiptholder or Couponholder shall be entitled to take any such steps and proceedings as it shall deem necessary other than the presentation of a petition for the winding up of, or for an administration order in respect of, the Issuer or the Fund).

## 12.5 Powers of the Representative

The Representative shall not assume any other obligations in addition to those expressly provided in this Agreement, the Conditions and in the other Transaction Documents to which it is a party. Without limiting the generality of the foregoing and by way of supplement to the powers conferred on it pursuant to this Agreement, it is expressly declared as follows:

- (a) The Representative may in relation to this Agreement and the other Transaction Documents rely and/or act on the advice or report or opinion of or any information obtained from any auditor, lawyer, valuer, accountant, surveyor, banker, professional adviser, broker, financial adviser, auctioneer or other expert whether obtained by the Issuer, the Fund, the Principal Paying Agent, the Representative or otherwise and whether or not addressed to the Representative notwithstanding that such advice, report, opinion, information, or any engagement letter or any other document entered into by the Representative and the relevant person in connection therewith, contains any monetary or other limit on the liability of the relevant person and the Representative shall not be responsible for any Liability occasioned by so acting or relying.
- (b) Any such advice, opinion or information may be sent or obtained by letter, telex, telegram, facsimile transmission or cable and the Representative shall not be liable for acting on any advice, opinion or information purporting to be conveyed by any such letter, telex, telegram, e-mail, facsimile transmission or cable although the same shall contain some error or shall not be authentic.
- (c) The Representative may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing a certificate signed by two Directors of the Issuer or, as the case may be, the Management Company on behalf of the Fund and the Representative shall not be bound in any such case to call for further evidence or be responsible for any Liability that may be occasioned by it or any other person acting on such certificate.
- (d) The Representative shall be at liberty to hold this Agreement and any other documents relating thereto or to deposit them in any part of the world with any banker or banking company or company whose business includes undertaking the safe custody of documents or lawyer or firm of lawyers considered by the Representative to be of good repute and the Representative shall not be responsible for or required to insure against any Liability incurred in connection with any such holding or deposit and may pay all sums required to be paid on account of or in respect of any such deposit.
- (e) The Representative shall not be responsible for the receipt or application of the proceeds of the issue of any of the Covered Bonds by the Issuer, the exchange of any Global Covered Bond for another Global Covered Bond or Definitive Covered Bonds or the delivery of any Global Covered Bond or Definitive Covered Bonds to the person(s) entitled to it or them.
- (f) The Representative shall not be bound to give notice to any person of the execution of any documents comprised or referred to in this Agreement or the Conditions or to take any steps to ascertain whether any Issuer Event of Default, Potential Issuer Event of Default, Fund Event of Default or Potential Fund Event of Default has occurred and, until it shall have actual knowledge or express notice pursuant to this Agreement to the contrary, the Representative shall be entitled to assume that no Issuer Event of Default, Potential Issuer Event of Default, Fund Event of Default or Potential Fund Event of Default has occurred and that each of the Issuer and the Fund is observing and performing all of their respective obligations under this Agreement, the Conditions and any other Transaction Document to which they are a party.
- (g) Save as expressly otherwise provided in this Agreement, the Representative shall have absolute and uncontrolled discretion as to the exercise or non-exercise of its powers,



authorities and discretions under this Agreement (the exercise or non-exercise of which as between the Representative and the Covered Bondholders, the Receiptholders and the Couponholders shall be conclusive and binding on the Covered Bondholders, the Receiptholders and the Couponholders) and shall not be responsible for any Liability which may result from their exercise or non-exercise and in particular the Representative shall not be bound to act at the request or direction of the Covered Bondholders or otherwise under any provision of this Agreement or to take at such request or direction or otherwise any other action under any provision of this Agreement, the Conditions or any other Transaction Document, without prejudice to the generality of Clause 12.4(a), unless it shall first be indemnified and/or secured to its satisfaction against all Liabilities to which it may render itself liable or which it may incur by so doing.

- (h) The Representative shall not be liable to any person by reason of having acted upon any Extraordinary Resolution in writing or any Extraordinary Resolution or other resolution purporting to have been passed at any meeting of the holders of Covered Bonds of all or any Series in respect whereof minutes have been made and signed or any direction or request of the holders of the Covered Bonds of all or any Series even though subsequent to its acting it may be found that there was some defect in the constitution of the meeting or the passing of the resolution, (in the case of an Extraordinary Resolution, a direction or request) it was not signed by the requisite number of holders or that for any reason the resolution, direction or request was not valid or binding upon such holders and the relative Receiptholders and Couponholders.
- (i) The Representative shall not be liable to any person by reason of having accepted as valid or not having rejected any Covered Bond, Receipt or Coupon purporting to be such and subsequently found to be forged or not authentic.
- (j) Any consent or approval given by the Representative for the purposes of this Agreement, the Conditions or any other Transaction Document may be given on such terms and subject to such conditions (if any) as the Representative thinks fit and notwithstanding anything to the contrary in this Agreement, the Conditions or any other Transaction Document may be given retrospectively. The Representative may give any consent or approval, exercise any power, authority or discretion or take any similar action (whether or not such consent, approval, power, authority, discretion or action is specifically referred to in this Agreement, the Conditions or any other Transaction Document) if it is satisfied that the interests of the Covered Bondholders will not be materially prejudiced thereby. For the avoidance of doubt, the Representative shall not have any duty to the Covered Bondholders in relation to such matters other than that which is contained in the preceding sentence.
- (k) The Representative shall not (unless and to the extent ordered so to do by a court of competent jurisdiction) be required to disclose to any Covered Bondholder, Receiptholder or Couponholder any information (including, without limitation, information of a confidential, financial or price sensitive nature) made available to the Representative by the Issuer, the Fund or any other person in connection with this Agreement, the Conditions or any other Transaction Document and no Covered Bondholder, Receiptholder or Couponholder shall be entitled to take any action to obtain from the Representative any such information.
- (l) Where it is necessary or desirable for any purpose in connection with this Agreement, the Conditions or any other Transaction Document, the Conditions or any other Transaction Document to convert any sum from one currency to another it shall (unless otherwise provided by this Agreement, the Conditions or any other Transaction Document or required by law) be converted at such rate or rates, in accordance with such method and as at such date for the determination of such rate of exchange, as may be agreed by the Representative in consultation with the Issuer and any rate, method and date so agreed shall be binding on the Issuer, the Fund, the Covered Bondholders, the Receiptholders and the Couponholders.

- (m) The Representative may certify whether or not any of the conditions, events and acts set out in subparagraphs 10.1(b), (c), (e), (f) and (g) of Condition 10.1 (*Events of Default, Acceleration and Enforcement - Issuer Events of Default*) and subparagraphs (b) and (d) to (f) (inclusive) of Condition 10.2 (*Events of Default, Acceleration and Enforcement - Fund Events of Default*) (each of which conditions, events and acts shall, unless in any case the Representative in its absolute discretion shall otherwise determine, for all the purposes of this Agreement and the Conditions be deemed to include the circumstances resulting therein and the consequences resulting therefrom) is in its opinion materially prejudicial to the interests of the Covered Bondholders of any Series and any such certificate shall be conclusive and binding upon the Issuer, the Fund, the Covered Bondholders, the Receiptholders and the Couponholders.
- (n) The Representative as between itself and the Covered Bondholders, the Receiptholders and the Couponholders may determine all questions and doubts arising in relation to any of the provisions of this Agreement and the Conditions. Every such determination, whether or not relating in whole or in part to the acts or proceedings of the Representative, shall be conclusive and shall bind the Representative and the Covered Bondholders, the Receiptholders and the Couponholders.
- (o) In connection with the exercise by it of any of its powers, authorities or discretions under this Agreement, the Conditions and any other Transaction Document (including, without limitation, any modification, waiver, authorisation or determination), the Representative shall have regard to the general interests of the Covered Bondholders of each Series as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Covered Bondholders, Receiptholders and Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Representative shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Fund, the Representative or any other person any indemnification or payment in respect of any Tax or stamp duty consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders.
- (p) The Representative may whenever it thinks fit delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons (whether being a joint representative of this Agreement or not) all or any of its powers, authorities and discretions under this Agreement and the Conditions. Such delegation may be made upon such terms (including power to sub-delegate) and subject to such conditions and regulations as the Representative may in the interests of the Covered Bondholders think fit. The Representative shall not be under any obligation to supervise the proceedings or acts of any such delegate or subdelegate or, provided that the Representative has exercised reasonable care in the selection of such delegate, be in any way responsible for any loss incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate.
- (q) The Representative may in the conduct of the provisions of this Agreement instead of acting personally employ and pay an agent (whether being a lawyer or other professional person) to transact or conduct, or concur in transacting or conducting, any business and to do, or concur in doing, all acts required to be done in connection with this Agreement (including the receipt and payment of money). Provided that the Representative has exercised reasonable care in the selection of such agent, the Representative shall not be in any way responsible for any Liability incurred by reason of any misconduct or default on the part of any such agent or be bound to supervise the proceedings or acts of any such agent.
- (r) The Representative shall not be responsible for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of this Agreement,

the Conditions and any other Transaction Document or any other document relating or expressed to be supplemental thereto and shall not be liable for any failure to obtain any licence, consent or other authority for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, performance, enforceability or admissibility in evidence of this Agreement, the Conditions and any other Transaction Document or any other document relating or expressed to be supplemental thereto.

- (s) The Representative shall not be responsible to any person for failing to request, require or receive any legal opinion relating to the Covered Bonds or for checking or commenting upon the content of any such legal opinion and shall not be responsible for any Liability incurred thereby.
- (t) Subject to the requirements, if any, of any relevant Stock Exchange, any corporation into which the Representative shall be merged or with which it shall be consolidated or any company resulting from any such merger or consolidation shall be a party hereto and shall be the Representative under this Agreement and the Conditions without executing or filing any paper or document or any further act being required on the part of the parties thereto.
- (u) The Representative shall not be bound to take any action in connection with this Agreement, the Conditions or any other Transaction Document or any obligations arising pursuant thereto, including, without prejudice to the generality of the foregoing, forming any opinion or employing any financial adviser, where it is not reasonably satisfied that the Issuer or the Fund (as the case may be) will be able to indemnify it against all Liabilities which may be incurred in connection with such action and may demand prior to taking any such action that there be paid to it in advance such sums as it reasonably considers (without prejudice to any further demand) shall be sufficient so to indemnify it and on such demand being made the Issuer (failing which and following service of a Notice to Pay on the Fund or, if earlier, following a Fund Event of Default and the service of a Fund Acceleration Notice, the Fund) shall be obliged to make payment of all such sums in full.
- (v) No provision of this Agreement shall require the Representative to do anything which may (i) be illegal or contrary to applicable law or regulation; or (ii) cause it to expend or risk its own funds or otherwise incur any Liability in the performance of any of its duties or in the exercise of any of its rights, powers or discretions, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or Liability is not assured to it.
- (w) Unless notified to the contrary, the Representative shall be entitled to assume without enquiry (other than requesting a certificate pursuant to Clause 11.2(o) that no Covered Bonds are held by, for the benefit of, or on behalf of, the Issuer, the Fund or their respective Subsidiaries.
- (x) The Representative shall not be responsible for, or for investigating any matter which is the subject of, any recital, statement, representation, warranty or covenant of any person contained in this Agreement, or any other agreement or document relating to the transactions contemplated in this Agreement or under such other agreement or document.
- (y) Subject to Clause 12.6, the Representative shall not be liable or responsible for any Liabilities or inconvenience which may result from anything done or omitted to be done by it in accordance with the provisions of this Agreement.
- (z) If, in connection with the exercise of its powers, authorities or discretions, the Representative is of the opinion that the interest of the holders of the Covered Bonds of any one or more Series would be materially prejudiced thereby, the Representative shall not exercise such power, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of not less

than one-fifth of the aggregate Principal Amount Outstanding of the Covered Bonds of the relevant Series then outstanding.

- (aa) The Representative will not be responsible for (i) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Representative will be entitled to assume, until it has received written notice to the contrary, that all such persons are properly performing their obligations and duties thereunder; (ii) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents; (iii) monitoring the Portfolio, including, without limitation, compliance with the Asset Coverage Test or the Amortisation Test; or (iv) monitoring whether Loans and Related Security satisfy the Eligibility Criteria.
- (bb) Where under this Agreement, the Representative is required to consider whether any event or the exercise by it of any of its powers, authorities or discretions is or will be materially prejudicial to the interests of the Covered Bondholders of one or more Series, the Representative shall be entitled to call for and rely and act upon the advice or opinion of any reputable financial or other adviser (whether or not such financial adviser shall be a party to any Transaction Document) and if relied upon by the Representative it shall be binding on the Covered Bondholders, Couponholders and Receiptholders of all Series and the Representative shall not incur any Liability by reason of so acting or relying.

#### 12.6 **Representative's Liability**

Neither the Representative, its associates, nor any of their directors, officers or employees, shall be liable to the parties to this agreement or to any Covered bondholders, Receiptholders or Couponholders for any expense, loss or damage suffered by or occasioned by reason of any action taken or omitted to be taken by any one or all of the Representative, its associates, or any directors, officers, employees or agents of such persons pursuant to this Agreement, the Conditions or any other Transaction Document or in connection therewith unless directly caused by the fraud, negligence or wilful default of the Representative, or of its associates, or any of their directors, officers or employees and in no circumstances shall the Representative be liable for any special, general or consequential damages, even if the Representative has been advised of the possibility of such damages.

#### 12.7 **Representative Contracting with the Issuer and the Fund**

Neither the Representative nor any director or officer or holding company, Subsidiary or other affiliates of a corporation acting as a representative under this Agreement shall by reason of its or his position be in any way precluded from:

- (a) entering into or being interested in any contract or financial or other transaction or arrangement with the Issuer or the Fund or any of their respective Subsidiaries and affiliates (including without limitation any contract, transaction or arrangement of a banking or insurance nature or any contract, transaction or arrangement in relation to the making of loans or the provision of financial facilities or financial advice to, or the purchase, placing or underwriting of or the subscribing or procuring subscriptions for or otherwise acquiring, holding or dealing with, or acting as paying agent in respect of, the Covered Bonds or any other covered bonds, bonds, stocks, shares, debenture stock, debentures or other securities of, the Issuer, the Fund or any of their respective Subsidiaries or affiliates); or
- (b) accepting or holding the role of representative or of trustee of any other agreement or deed constituting or securing any securities issued by or guaranteed by, or relating to the Issuer or the Fund or any of their respective Subsidiaries or affiliates, or any other office of profit under the Issuer or the Fund or any of their respective Subsidiaries or affiliates,

and shall be entitled to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such contract, transaction or arrangement as is referred to in (a) above or, as the case may be, any such representative or trustee role or office of profit as is referred to in (b) above without regard to the interests of, or consequences for the Covered Bondholders, Receiptholders or Couponholders and notwithstanding that the same may be contrary or prejudicial to the interests of the Covered Bondholders and shall not be responsible for any Liability occasioned to the Covered Bondholders, Receiptholders or Couponholders thereby and shall be entitled to retain and shall not be in any way liable to account for any profit made or share of brokerage or commission or remuneration or other amount or benefit received thereby or in connection therewith.

Where any holding company, Subsidiary or associated company of the Representative or any director or officer of the Representative acting other than in his capacity as such a director or officer has any information, the Representative shall not thereby be deemed also to have knowledge of such information and, unless it shall have actual knowledge of such information, shall not be responsible for any loss suffered by Covered Bondholders resulting from the Representative's failing to take such information into account in acting or refraining from acting under or in relation to this Agreement.

#### 12.8 **Waiver, Authorisation, Determination and Modification**

- (a) The Representative may without the consent of any of the Covered Bondholders of any Series, the related Receiptholders and/or Couponholders and without prejudice to its rights in respect of any subsequent breach, Issuer Event of Default, Potential Issuer Event of Default, Fund Event of Default or Potential Fund Event of Default from time to time and at any time but only if in so far as in its opinion the interests of the Covered Bondholders of any Series shall not be materially prejudiced thereby, waive or authorise any breach or proposed breach by the Issuer or the Fund of any of the covenants or provisions contained in this Agreement, the Conditions or the other Transaction Documents or determine that any Issuer Event of Default, Potential Issuer Event of Default, Fund Event of Default or Potential Fund Event of Default shall not be treated as such for the purposes of this Agreement and the Conditions PROVIDED ALWAYS THAT the Representative shall not exercise any powers conferred on it by this Clause 12.8 in contravention of any express direction given by Extraordinary Resolution or by a request under Condition 10 (*Events of Default, Acceleration and Enforcement*) but so that no such direction or request shall affect any waiver, authorisation or determination previously given or made. Any such waiver, authorisation or determination may be given or made on such terms and subject to such conditions (if any) as the Representative may determine, shall be binding on the Covered Bondholders, the related Receiptholders and/or the Couponholders and, if, but only if, the Representative shall so require, shall be notified by the Issuer to the Covered Bondholders in accordance with Condition 14 (Notices) as soon as practicable thereafter.
- (b) The Representative shall be bound to waive or authorise any breach or proposed breach by the Issuer or the Fund of any of the covenants or provisions contained in this Agreement, the Conditions or the other Transaction Documents or determine that any Issuer Event of Default, Potential Issuer Event of Default, Fund Event of Default or Potential Fund Event of Default shall not be treated as such for the purposes of this Agreement and the Conditions if it is (i) so directed by an Extraordinary Resolution (in the case of any such determination, with the Covered Bonds of all Series taken together as a single Series as provided in Clause 3.7) or (ii) or requested to do so in writing by the holders of not less than one-fifth of the aggregate Principal Amount Outstanding of the Covered Bonds then outstanding (in the case of any such determination, with the Covered Bonds of all Series taken together as a single Series), and at all times then only if it shall first be indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.
- (c) Subject to subclauses (a) and (b) above, the Representative may without the consent or sanction of any of the Covered Bondholders of any Series, the related Receiptholders and/or the Couponholders at any time and from time to time concur with the Issuer and the Fund and

any other party in making any modification (and for this purpose the Representative may disregard whether any such modification relates to a Reserved Matter) (i) to this Agreement, the Covered Bonds, the Receipts, the Coupons, the Conditions and/or the other Transaction Documents which in the opinion of the Representative may be expedient to make PROVIDED THAT the Representative is of the sole opinion that such modification will not be materially prejudicial to the interests of any of the Covered Bondholders of any Series or (ii) to this Agreement the Covered Bonds, the Receipts, the Coupons, the Conditions or the other Transaction Documents which is in the sole opinion of the Representative of a formal, minor or technical nature or, which in the sole opinion of the Representative is to correct a manifest error or an error which in the opinion of the Representative is proven or to comply with mandatory provisions of law. Any such modification may be made on such terms and subject to such conditions (if any) as the Representative may determine, shall be binding upon the Covered Bondholders, the related Receiptholders and/or the Couponholders and, unless the Representative otherwise agrees, shall be notified by the Issuer to the Covered Bondholders in accordance with Condition 14 (Notices) as soon as practicable thereafter.

In establishing whether an error is established as such, the Representative may have regard to any evidence on which the Representative considers reasonable to rely, and may, but shall not be obliged to, have regard to a certificate from the Arrangers:

- (i) stating the intention of the parties to the relevant Transaction Document;
  - (ii) confirming nothing has been said to (or by investors) or any other parties which is in any way inconsistent with the stated intention; and
  - (iii) stating the modification to the relevant Transaction Document is required to reflect such intention.
- (d) The Representative shall be bound to concur with the Issuer and the Fund and any other party in making any of the above-mentioned modifications if it is (i) so directed by an Extraordinary Resolution or (ii) requested to do so in writing by the holders of not less than one-fifth of the aggregate Principal Amount Outstanding of the Covered Bonds (with the Covered Bonds of all Series taken together as a single Series as provided in Clause 3.7) then outstanding and at all times then only if it shall first be indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby render itself liable or which it may incur by so doing.
- (e) The prior consent of the Representative will not be required and will not be obtained in relation to the accession of any New Seller to the Programme PROVIDED THAT the relevant conditions precedent in the Transaction Documents are satisfied at the time of the intended accession.
- (f) Any breach of or failure to comply by the Issuer or the Fund with any such terms and conditions as are referred to in this Clause 12.8 shall constitute a default by the Issuer or the Fund in the performance or observance of a covenant or provision binding on it under or pursuant to this Agreement, the Covered Bonds, the Receipts, the Coupons and the Conditions.

#### 12.9 **Representative's Powers to be Additional**

The powers conferred upon the Representative by this Agreement shall be in addition to any powers which may from time to time be vested in the Representative by any contractual obligation, regulations, the general law or as a holder of any of the Covered Bonds, Receipts or Coupons.

**12.10 Holder of Definitive Covered Bond assumed to be Receiptholder and Couponholder**

Wherever in this Agreement and the Conditions the Representative is required or entitled to exercise a power, authority or discretion, except as ordered by a court of competent jurisdiction or as required by applicable law, the Representative shall, notwithstanding that it may have express notice to the contrary, assume that each holder of a Definitive Covered Bond is the holder of all Receipts and Coupons appertaining to such Definitive Covered Bond.

**12.11 No Notice to Receiptholders or Couponholders**

Neither the Representative nor the Issuer, nor the Fund shall be required to give any notice to the Receiptholders or Couponholders for any purpose under this Agreement, the Covered Bonds, the Receipts, the Coupons and the Conditions and the Receiptholders or Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Covered Bonds in accordance with Condition 14 (Notices).

**12.12 Removal of Management Company**

- (a) Following an Event of Default, the Representative shall have the power to instruct the Management Company to sell the Fund's assets in order to pay its obligations or to resort to specific measures in order to protect the interests of the Covered Bondholders.
- (b) At any time after an Event of Default has occurred and is continuing the Representative shall have the power (but not the obligation) to remove the Management Company if any of the following conditions are met:
  - (i) if the Management Company does not follow the instructions of the Representative pursuant to paragraph (a) above within the time period specified in the instructions;
  - (ii) if the Management Company has not, in the opinion of the Representative, protected Covered Bondholders interests in accordance with the agreements which the Fund has made; or
  - (iii) if a Fund Event of Default occurs,

PROVIDED THAT the removal of a Management Company pursuant to this clause shall not become effective until a successor Management Company is appointed by the Representative pursuant to Clause 12.12(c) below.

- (c) If the Representative exercises its power to remove the Management Company pursuant to Clause 12.12(b) above, the Representative shall use its best endeavours to select and appoint a successor Management Company. The appointment of any successor Management Company shall not take effect unless such successor Management Company has:
  - (i) agreed to be bound by the regulations of the Fund and the provisions of the Transaction Documents;
  - (ii) been approved by a Programme Resolution; and
  - (iii) an operating licence as a management company of a UCITS, pursuant to Act no. 161/2002 on financial undertakings.
- (d) For the avoidance of doubt, at no time shall the Representative perform any of the duties of the Management Company.

### 13. RIGHTS, DUTIES AND POWERS OF THE AGENTS

#### 13.1 Issue of Global Covered Bonds

- (a) Subject to subclause (d), following receipt of a faxed copy of a Final Terms signed by the Issuer, the Issuer authorises the Principal Paying Agent and the Principal Paying Agent agrees to take the steps required of the Principal Paying Agent in this Clause 13.1.
- (b) For the purpose of subclause (a), the Principal Paying Agent will on behalf of the Issuer if specified in the applicable Final Terms that a Temporary Global Covered Bond will initially represent the relevant Tranche (if there is more than one Tranche issued in relation to any particular Series) or, as applicable, Series (if there is only one Tranche applicable thereto) of Covered Bonds:
  - (i) prepare a Temporary Global Covered Bond by attaching a copy of the applicable Final Terms to a copy of the signed master Temporary Global Covered Bond;
  - (ii) authenticate the Temporary Global Covered Bond;
  - (iii) deliver the Temporary Global Covered Bond to the specified common depositary (if the Temporary Global Covered Bond is a CGN) or specified common safekeeper (if the Temporary Global Covered Bond is a NGN) for Euroclear and Clearstream, Luxembourg and, in the case of a Temporary Global Covered Bond which is a Eurosystem-eligible NGN, to instruct the common safekeeper to effectuate the same;
  - (iv) ensure that the Covered Bonds of each Tranche are assigned, as applicable, security numbers (including, but not limited to, common codes and ISINs) which are different from the security numbers assigned to Covered Bonds of any other Tranche of the same Series until at least expiry of the Distribution Compliance Period in respect of the Tranche; and
  - (v) if the Temporary Global Covered Bond is a NGN, instruct Euroclear and Clearstream, Luxembourg to make the appropriate entries in their records to reflect the initial outstanding aggregate principal amount of the relevant Tranche of Covered Bonds.
- (c) For the purpose of subclause (a), the Principal Paying Agent will on behalf of the Issuer if specified in the applicable Final Terms that a Permanent Global Covered Bond will represent the Covered Bonds on issue:
  - (i) in the case of the first Tranche of any Series of Covered Bonds, prepare a Permanent Global Covered Bond by attaching a copy of the applicable Final Terms to a copy of the master Permanent Global Covered Bond;
  - (ii) in the case of the first Tranche of any Series of Covered Bonds, authenticate the Permanent Global Covered Bond;
  - (iii) in the case of the first Tranche of any Series of Covered Bonds, deliver the Permanent Global Covered Bond to the specified common depositary (if the Permanent Global Covered Bond is a CGN) or specified common safekeeper (if the Permanent Global Covered Bond is a NGN) for Euroclear and/or Clearstream, Luxembourg and, in the case of a Permanent Global Covered Bond which is a Eurosystem-eligible NGN, to instruct the common safekeeper to effectuate the same;
  - (iv) if the Permanent Global Covered Bond is a NGN, instruct Euroclear and Clearstream, Luxembourg to make the appropriate entries in their records to reflect the initial outstanding aggregate principal amount of the relevant Tranche of Covered Bonds;



- (v) in the case of a subsequent Tranche of any Series of Covered Bonds deliver the applicable Final Terms to the specified common depository or common safekeeper, as the case may be, for attachment to the Permanent Global Covered Bond and, in the case where the Permanent Global Covered Bond is a CGN, make all appropriate entries on the relevant Schedule to the Permanent Global Covered Bond to reflect the increase in its nominal amount or, in the case where the Permanent Global Covered Bond is a NGN, instruct Euroclear and Clearstream, Luxembourg to make the appropriate entries in their records to reflect the increased outstanding aggregate principal amount of the relevant Series; and
  - (vi) ensure that the Covered Bonds of each Tranche are assigned, as applicable, security numbers (including, but not limited to, common codes and ISINs) which are different from the security numbers assigned to the Covered Bonds of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period in respect of the Tranche.
- (d) The Principal Paying Agent shall only be required to perform its obligations under subclause (a) if it holds:
- (i) a master Temporary Global Covered Bond duly executed by a person or persons duly authorised to execute the same on behalf of the Issuer, which may be used by the Principal Paying Agent for the purpose of preparing Temporary Global Covered Bonds in accordance with subclause (b); and
  - (ii) a master Permanent Global Covered Bond duly executed by a person or persons duly authorised to execute the same on behalf of the Issuer, which may be used by the Principal Paying Agent for the purpose of preparing Permanent Global Covered Bonds in accordance with subclause (c) and Clause 13.2.
- (e) The Issuer undertakes to ensure that the Principal Paying Agent receives copies of each document specified in subclause (d) in a timely manner.
- (f) Where the Principal Paying Agent delivers any authenticated Global Covered Bond to a common safekeeper for effectuation using electronic means, it is authorised and instructed to destroy the Global Covered Bond retained by it following its receipt of confirmation from the common safekeeper that the relevant Global Covered Bond has been effectuated.

### 13.2 Exchange of Global Covered Bonds

- (a) The Principal Paying Agent shall determine the Exchange Date for each Temporary Global Covered Bond in accordance with its terms. Immediately after determining any Exchange Date, the Principal Paying Agent shall notify its determination to the Issuer, the other Paying Agents, the relevant Dealer, Euroclear and Clearstream, Luxembourg.
- (b) Where a Temporary Global Covered Bond is to be exchanged for a Permanent Global Covered Bond, the Principal Paying Agent is authorised by the Issuer and instructed:
  - (i) in the case of the first Tranche of any Series of Covered Bonds, to prepare and complete a Permanent Global Covered Bond in accordance with the terms of the Temporary Global Covered Bond applicable to that Tranche by attaching a copy of the applicable Final Terms to a copy of the master Permanent Global Covered Bond;
  - (ii) in the case of the first Tranche of any Series of Covered Bonds, to authenticate the Permanent Global Covered Bond;
  - (iii) in the case of the first Tranche of any Series of Covered Bonds (if the Permanent Global Covered Bond is a CGN), to deliver the Permanent Global Covered Bond to

the common depositary which is holding the Temporary Global Covered Bond representing that Tranche for the time being on behalf of Euroclear and/or Clearstream, Luxembourg either in exchange for the Temporary Global Covered Bond or, in the case of a partial exchange, on entering details of the partial exchange of the Temporary Global Covered Bond in the relevant spaces in Schedule 2 of both the Temporary Global Covered Bond and the Permanent Global Covered Bond;

- (iv) in the case of the first Tranche of any Series of Covered Bonds if the Permanent Global Covered Bond is a NGN, to deliver the Permanent Global Covered Bond to the common safekeeper which is holding the Temporary Global Covered Bond representing that Tranche for the time being on behalf of Euroclear and/or Clearstream, Luxembourg to effectuate (in the case of a Permanent Global Covered Bond which is a Eurosystem-eligible NGN) and to hold on behalf of the Issuer pending its exchange for the Temporary Global Covered Bond;
  - (v) in any other case, to attach a copy of the applicable Final Terms to the Permanent Global Covered Bond applicable to the relevant Series and to enter details of any exchange in whole or part as stated above.
- (c) Where a Global Covered Bond is to be exchanged for Definitive Covered Bonds in accordance with its terms, the Principal Paying Agent is authorised by the Issuer and instructed:
- (i) to authenticate the Definitive Covered Bonds in accordance with the provisions of this Agreement; and
  - (ii) to deliver the Definitive Covered Bonds to or to the order of Euroclear and/or Clearstream, Luxembourg.
- (d) Upon any exchange of all or a part of an interest in a Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond or upon any exchange of all or a part of an interest in a Global Covered Bond for Definitive Covered Bonds, the relevant Global Covered Bond shall (i) (if it is a CGN), be endorsed by or on behalf of the Principal Paying Agent to reflect the reduction of its nominal amount by the aggregate nominal amount so exchanged and, where applicable, the Permanent Global Covered Bond shall be endorsed by or on behalf of the Principal Paying Agent to reflect the increase in its nominal amount as a result of any exchange for an interest in the Temporary Global Covered Bond or (ii) in the case of any Global Covered Bond which is a NGN, instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such exchange. Until exchanged in full, the holder of an interest in any Global Covered Bond shall in all respects be entitled to the same benefits under this Agreement as the holder of Definitive Covered Bonds, Receipts and Coupons authenticated and delivered under this Agreement, subject as set out in the Conditions. The Principal Paying Agent is authorised on behalf of the Issuer and instructed (a) in the case of any Global Covered Bond which is a CGN, to endorse or to arrange for the endorsement of the relevant Global Covered Bond to reflect the reduction in the nominal amount represented by it by the amount so exchanged and, if appropriate, to endorse the Permanent Global Covered Bond to reflect any increase in the nominal amount represented by it and, in either case, to sign in the relevant space on the relevant Global Covered Bond recording the exchange and reduction or increase and (b) in the case of any Global Covered Bond which is a NGN, to instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such exchange and (c) in the case of a total exchange, to cancel or arrange for the cancellation of the relevant Global Covered Bond.
- (e) The Principal Paying Agent shall notify the Issuer immediately after it receives a request for the issue of Definitive Covered Bonds in accordance with the provisions of a Global Covered Bond and the aggregate nominal amount of the Global Covered Bond to be exchanged.

- (f) The Issuer undertakes to deliver to the Principal Paying Agent sufficient numbers of executed Definitive Covered Bonds with, if applicable, Receipts, Coupons and Talons attached, to enable the Principal Paying Agent to comply with its obligations under this Agreement.

### 13.3 **Determination of end of Distribution Compliance Period**

- (a) In the case of a Tranche in respect of which there is only one Dealer, the Principal Paying Agent will determine the end of the Distribution Compliance Period in respect of the Tranche as being the fortieth day following the date certified by the relevant Dealer to the Principal Paying Agent as being the date on which distribution of the Covered Bonds of that Tranche was completed.
- (b) In the case of a Tranche in respect of which there is more than one Dealer but which is not issued on a syndicated basis, the Principal Paying Agent will determine the end of the Distribution Compliance Period in respect of the Tranche as being the fortieth day following the last of the dates certified by all the relevant Dealers to the Principal Paying Agent as being the respective dates on which distribution of the Covered Bonds of that Tranche purchased by each Dealer was completed.
- (c) In the case of a Tranche issued on a syndicated basis, the Principal Paying Agent will determine the end of the Distribution Compliance Period in respect of the Tranche as being the fortieth day following the date certified by the Lead Manager to the Principal Paying Agent as being the date on which distribution of the Covered Bonds of that Tranche was completed.
- (d) Immediately after it determines the end of the Distribution Compliance Period in respect of any Tranche, the Principal Paying Agent shall notify the determination to the Issuer, Euroclear, Clearstream, Luxembourg and the relevant Dealer or Lead Manager, as the case may be.

### 13.4 **Terms of Issue**

- (a) The Principal Paying Agent shall cause all Covered Bonds delivered to and held by it under this Agreement to be maintained in safe custody and shall ensure that Covered Bonds are issued only in accordance with the provisions of this Agreement, the Conditions and, where applicable, the relevant Global Covered Bonds.
- (b) For the purposes of Clause 13.13, the Principal Paying Agent is entitled to treat a telephone, telex or facsimile communication from a person purporting to be (and whom the Principal Paying Agent believes in good faith to be) the authorised representative of the Issuer named in the list referred to in, or notified pursuant to, subclause (g), or any other list duly provided for the purpose by the Issuer to the Principal Paying Agent, as sufficient instructions and authority of the Issuer for the Principal Paying Agent to act in accordance with Clause 13.1.
- (c) In the event that a person who has signed a master Global Covered Bond held by the Principal Paying Agent on behalf of the Issuer ceases to be authorised as described in subclause (g), the Principal Paying Agent shall (unless the Issuer gives notice to the Principal Paying Agent that Covered Bonds signed by that person do not constitute valid and binding obligations of the Issuer or otherwise until replacements have been provided to the Principal Paying Agent) continue to have authority to issue Covered Bonds signed by that person, and the Issuer warrants to the Principal Paying Agent that those Covered Bonds shall be valid and binding obligations of the Issuer. Promptly upon any person ceasing to be authorised, the Issuer shall provide the Principal Paying Agent with replacement master Global Covered Bonds and the Principal Paying Agent shall, upon receipt of such replacements, cancel and destroy the master Global Covered Bonds held by it which are signed by that person and shall provide the

Issuer with a certificate of destruction, specifying the master Global Covered Bonds so cancelled and destroyed.

- (d) The Principal Paying Agent shall provide Euroclear and/or Clearstream, Luxembourg with the notifications, instructions or information to be given by the Principal Paying Agent to Euroclear and/or Clearstream, Luxembourg.
- (e) If the Principal Paying Agent pays an amount (the **Advance**) to the Issuer on the basis that a payment (the **Payment**) has been or will be received from a Dealer and if the Payment is not received by the Principal Paying Agent on the date the Principal Paying Agent pays the Issuer, the Issuer shall repay to the Principal Paying Agent the Advance and shall pay interest on the Advance (or the unreimbursed portion thereof) from (and including) the date the Advance is made to (but excluding) the earlier of repayment of the Advance or receipt by the Principal Paying Agent of the Payment at a rate quoted at that time by the Principal Paying Agent as its cost of funding the Advance provided that evidence of the basis of such rate is given to the Issuer. For the avoidance of doubt, the Principal Paying Agent shall not be obliged to pay any amount to the Issuer if it has not received satisfactory confirmation that it is to receive the amount from a Dealer.
- (f) Except in the case of issues where the Principal Paying Agent does not act as receiving bank for the Issuer in respect of the purchase price of the Covered Bonds being issued, if on the Issue Date a Dealer does not pay the full purchase price due from it in respect of any Covered Bond (the **Defaulted Covered Bond**) and, as a result, the Defaulted Covered Bond remains in the Principal Paying Agent's distribution account with Euroclear and/or Clearstream, Luxembourg after the Issue Date, the Principal Paying Agent will continue to hold the Defaulted Covered Bond to the order of the Issuer. The Principal Paying Agent shall notify the Issuer immediately of the failure of the Dealer to pay the full purchase price due from it in respect of any Defaulted Covered Bond and, subsequently, shall
  - (i) notify the Issuer immediately on receipt from the Dealer of the full purchase price in respect of any Defaulted Covered Bond; and
  - (ii) pay to the Issuer the amount so received.

### 13.5 **Payments**

- (a) The Issuer will, before 10.00 a.m. (local time in the relevant financial centre of the payment or, in the case of a payment in euro, London time), on each date on which any payment in respect of any Covered Bond becomes due under the Conditions, transfer to an account specified by the Principal Paying Agent an amount in the relevant currency sufficient for the purposes of the payment in funds settled through such payment system as the Principal Paying Agent and the Issuer may agree.
- (b) Any funds paid by or by arrangement with the Issuer to the Principal Paying Agent under subclause (a) shall be held in the relevant account referred to in subclause (a) for payment to the Covered Bondholders, Receiptholders or Couponholders, as the case may be, until any Covered Bonds or matured Receipts and Coupons become void under Condition 9 (**Non-Payment**). In that event the Principal Paying Agent shall repay to the Issuer sums equivalent to the amounts which would otherwise have been repayable on the relevant Covered Bonds, Receipts or Coupons.
- (c) The Issuer will ensure that no later than 11.00 a.m. (London time) on the second Business Day (as defined below) immediately preceding the date on which any payment is to be made to the Principal Paying Agent under subclause (a), the Principal Paying Agent shall receive a payment confirmation by telex or other form of electronic communication from the paying bank of the Issuer. For the purposes of this subclause, **Business Day** means a day on which

commercial banks and foreign exchange markets settle payments and are open for general business in Iceland and London.

- (d) The Principal Paying Agent shall notify each of the other Paying Agents immediately:
  - (i) if it has not by the relevant date set out in subclause (a) received unconditionally the full amount in the Specified Currency required for the payment; and
  - (ii) if it receives unconditionally the full amount of any sum payable in respect of the Covered Bonds, Receipts or Coupons after that date.

The Principal Paying Agent shall, at the expense of the Issuer, immediately on receiving any amount as described in subparagraph (ii), cause notice of that receipt to be published under Condition 14 (*Notices*).

- (e) The Principal Paying Agent shall ensure that payments of both principal and interest in respect of a Temporary Global Covered Bond will only be made if certification of non-U.S. beneficial ownership as required by U.S. Treasury regulations (in the form set out in the Temporary Global Covered Bond) has been received from Euroclear and/or Clearstream, Luxembourg in accordance with the terms of the Temporary Global Covered Bond.
- (f) Unless it has received notice under subclause 13.5(d)(i), each Paying Agent shall pay or cause to be paid all amounts due in respect of the Covered Bonds on behalf of the Issuer in the manner provided in the Conditions. If any payment provided for in subclause (a) is made late but otherwise in accordance with the provisions of this Agreement, the relevant Paying Agent shall nevertheless make payments in respect of the Covered Bonds as stated above following receipt by it of such payment.
- (g) If for any reason the Principal Paying Agent considers in its sole discretion that the amounts to be received by it under subclause (a) will be, or the amounts actually received by it are, insufficient to satisfy all claims in respect of all payments then falling due in respect of the Covered Bonds, no Paying Agent shall be obliged to pay any such claims until the Principal Paying Agent has received the full amount of all such payments.
- (h) Without prejudice to subclauses (f) and (g), if the Principal Paying Agent pays any amounts to the holders of Covered Bonds, Receipts or Coupons or to any other Paying Agent at a time when it has not received payment in full in respect of the relevant Covered Bonds in accordance with subclause (a) (the excess of the amounts so paid over the amounts so received being the **Shortfall**), the Issuer will, in addition to paying amounts due under subclause (a), pay to the Principal Paying Agent on demand interest (at a rate which represents the Principal Paying Agent's cost of funding the Shortfall) on the Shortfall (or the unreimbursed portion thereof) until the receipt in full by the Principal Paying Agent of the Shortfall.
- (i) The Principal Paying Agent shall on demand promptly reimburse each other Paying Agent for payments in respect of Covered Bonds properly made by each Paying Agent in accordance with this Agreement and the Conditions unless the Principal Paying Agent has notified the relevant Paying Agent, prior to its opening of business on the due date of a payment in respect of the Covered Bonds, that the Principal Paying Agent does not expect to receive sufficient funds to make payment of all amounts falling due in respect of the Covered Bonds.
- (j) Whilst any Covered Bonds are represented by Global Covered Bonds, all payments due in respect of the Covered Bonds shall be made to, or to the order of, the holder of the Global Covered Bonds, subject to and in accordance with the provisions of the Global Covered Bonds. On the occasion of each payment, (i) in the case of a CGN, the Paying Agent to which any Global Covered Bond was presented for the purpose of making the payment shall cause the appropriate Schedule to the relevant Global Covered Bond to be annotated so as to

evidence the amounts and dates of the payments of principal and/or interest as applicable or (ii) in the case of any Global Covered Bond which is a NGN, the Principal Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

- (k) If the amount of principal and/or interest then due for payment is not paid in full (otherwise than by reason of a deduction required by law to be made or a certification required by the terms of a Covered Bond not being received), (i) the Paying Agent to which a Covered Bond, Receipt or Coupon (as the case may be) is presented for the purpose of making the payment shall, unless the Covered Bond is a NGN, make a record of the shortfall on the relevant Covered Bond, Receipt or Coupon and the record shall, in the absence of manifest error, be prima facie evidence that the payment in question has not to that extent been made or (ii) in the case of any Global Covered Bond which is a NGN, the Principal Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such shortfall in payment.

### 13.6 **Determinations and Notifications in Respect of Covered Bonds and Interest Determination**

#### **Determinations and notifications**

- (a) The Principal Paying Agent shall, unless otherwise specified in the applicable Final Terms, make all the determinations and calculations which it is required to make under the Conditions, all subject to and in accordance with the Conditions.
- (b) The Principal Paying Agent shall not be responsible to the Issuer or to any third party as a result of the Principal Paying Agent having acted on any quotation given by any Reference Bank which subsequently may be found to be incorrect.
- (c) The Principal Paying Agent shall promptly notify (and confirm in writing to) the Issuer, the other Paying Agents and (in respect of a Series of Covered Bonds listed on a Stock Exchange) the relevant Stock Exchange of each Rate of Interest, Interest Amount and Interest Payment Date and all other amounts, rates and dates which it is obliged to determine or calculate under the Conditions as soon as practicable after their determination and of any subsequent amendments to them under the Conditions.
- (d) The Principal Paying Agent shall use its best endeavours to cause each Rate of Interest, Interest Amount and Interest Payment Date and all other amounts, rates and dates which it is obliged to determine or calculate under the Conditions to be published as required in accordance with the Conditions as soon as possible after their determination or calculation.
- (e) If the Principal Paying Agent does not at any time for any reason determine and/or calculate and/or publish the Rate of Interest, Interest Amount and/or Interest Payment Date in respect of any Interest Period or any other amount, rate or date as provided in this clause, it shall immediately notify the Issuer and the other Paying Agents of that fact.
- (f) Determinations with regard to Covered Bonds (including, without limitation, Inflation Linked Annuity Cover Bond, Fixed Rate Covered Bond, Floating Rate Covered Bond, Zero Coupon Covered Bond, Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bond, Equity Linked Interest Covered Bond and Dual Currency Covered Bonds) required to be made by a Calculation Agent specified in the applicable Final Terms shall be made in the manner so specified. Unless otherwise agreed between the Issuer and the relevant Dealer or the Lead Manager, as the case may be, or unless the Principal Paying Agent is the Calculation Agent (in which case the provisions of this Agreement shall apply), those determinations shall be made on the basis of a Calculation Agency Agreement substantially in the form of Schedule 2. Covered Bonds of any Series may specify additional duties and obligations of any Paying

Agent, the performance of which will be agreed between the Issuer and the relevant Paying Agent prior to the relevant Issue Date.

**Interest determination, Screen Rate Determination including Fallback Provisions**

(g) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(i) the offered quotation; or

(ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum), for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at the Specified Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one highest quotation, one only of those quotations) and the lowest (or, if there is more than one lowest quotation, one only of those quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of the offered quotations.

(h) If the Relevant Screen Page is not available or if, in the case of subclause 13.6(g)(i), no offered quotation appears or, in the case of subclause 13.6(g)(ii), fewer than three offered quotations appear, in each case as at the Specified Time, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

(i) If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in

accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

- (j) If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of the Covered Bonds will be determined as provided in the applicable Final Terms.

### 13.7 **Notice of any Withholding or Deduction**

- (a) If the Issuer is, in respect of any payment, compelled to withhold or deduct any amount for or on account of taxes, duties, assessments or governmental charges as specifically contemplated under the Conditions, it shall give notice of that fact to the Principal Paying Agent as soon as it becomes aware of the requirement to make the withholding or deduction and shall give to the Principal Paying Agent such information as it shall require to enable it to comply with the requirement.
- (b) If any Paying Agent is, in respect of any payment of principal or interest in respect of the Covered Bonds, compelled to withhold or deduct any amount for or on account of any taxes, duties, assessments or governmental charges as specifically contemplated under the Conditions, other than arising under subclause (a) or by virtue of the relevant holder failing to satisfy any certification or other requirement in respect of its Covered Bonds, it shall give notice of that fact to the Issuer and the Principal Paying Agent as soon as it becomes aware of the compulsion to withhold or deduct.

### 13.8 **Duties of the Paying Agents in Connection with Early Redemption**

- (a) If the Issuer decides to redeem any Covered Bonds for the time being outstanding before their Maturity Date (if any) in accordance with the Conditions, the Issuer shall give notice of the decision to the Principal Paying Agent stating the date on which the Covered Bonds are to be redeemed and the nominal amount of Covered Bonds to be redeemed not less than 15 days before the date on which the Issuer will give notice to the Covered Bondholders in accordance with the Conditions of the redemption in order to enable the Principal Paying Agent to carry out its duties in this Agreement and in the Conditions.
- (b) If some only of the Covered Bonds are to be redeemed on any date, the Principal Paying Agent shall, in the case of Definitive Covered Bonds, make the required drawing in accordance with the Conditions but shall give the Issuer reasonable notice of the time and place proposed for the drawing and the Issuer shall be entitled to send representatives to attend the drawing and shall, in the case of Covered Bonds in global form, co-ordinate the selection of Covered Bonds to be redeemed with Euroclear and/or Clearstream, Luxembourg, all in accordance with the Conditions.
- (c) The Principal Paying Agent, at the expense of the Issuer, shall publish the notice required in connection with any redemption and shall, if applicable, at the same time also publish a separate list of the serial numbers of any Covered Bonds in definitive form previously drawn and not presented for redemption. The redemption notice shall specify the date fixed for redemption, the redemption amount, the manner in which redemption will be effected and, in the case of a partial redemption of Definitive Covered Bonds, the serial numbers of the Covered Bonds to be redeemed. The notice will be published in accordance with the Conditions. The Principal Paying Agent will also notify the other Paying Agents of any date fixed for redemption of any Covered Bonds.



- (d) Each Paying Agent will keep a stock of Put Notices and will make them available on demand to holders of Definitive Covered Bonds, the Conditions of which provide for redemption at the option of Covered Bondholders. Upon receipt of any Covered Bond deposited in the exercise of a put option in accordance with the Conditions, the Paying Agent with which the Covered Bond is deposited shall hold the Covered Bond (together with any Receipts, Coupons and Talons relating to it deposited with it) on behalf of the depositing Covered Bondholder (but shall not, save as provided below, release it) until the due date for redemption of the relevant Covered Bond consequent upon the exercise of the option, when, subject as provided below, it shall present the Covered Bond (and any such unmatured Receipts, Coupons and Talons) to itself for payment of the amount due together with any interest due on the date of redemption in accordance with the Conditions and shall pay those moneys in accordance with the directions of the Covered Bondholder contained in the relevant Put Notice. If, prior to the due date for its redemption, an Event of Default has occurred and is continuing or the Covered Bond becomes immediately due and repayable or if upon due presentation payment of the redemption moneys is improperly withheld or refused, the Paying Agent concerned shall post the Covered Bond (together with any such Receipts, Coupons and Talons) by uninsured post to, and at the risk of, the relevant Covered Bondholder (unless the Covered Bondholder has otherwise requested and paid the costs of insurance to the relevant Paying Agent at the time of depositing the Covered Bonds) at the address given by the Covered Bondholder in the relevant Put Notice. At the end of each period for the exercise of any put option, each Paying Agent shall promptly notify the Principal Paying Agent of the principal amount of the Covered Bonds in respect of which the option has been exercised with it together with their serial numbers and the Principal Paying Agent shall promptly notify those details to the Issuer.

### 13.9 Cancellation of Covered Bonds, Receipts, Coupons and Talons

- (a) All Covered Bonds which are redeemed, all Global Covered Bonds which are exchanged in full, all Receipts or Coupons which are paid and all Talons which are exchanged shall be cancelled by the Paying Agent by which they are redeemed, exchanged or paid. In addition, all Covered Bonds which are purchased on behalf of the Issuer or any of its Subsidiaries or the Fund and are surrendered to a Paying Agent for cancellation, together (in the case of Definitive Covered Bonds) with all unmatured Receipts, Coupons or Talons (if any) attached to them or surrendered with them, shall be cancelled by the Paying Agent to which they are surrendered. Each of the Paying Agents shall give to the Principal Paying Agent details of all payments made by it and shall deliver all cancelled Covered Bonds, Receipts, Coupons and Talons to the Principal Paying Agent or as the Principal Paying Agent may specify.
- (b) The Principal Paying Agent shall deliver to the Issuer as soon as reasonably practicable and in any event within three months after the date of each repayment, payment, cancellation or replacement, as the case may be, a certificate stating:
- (i) the aggregate nominal amount of Covered Bonds which have been redeemed and the aggregate amount paid in respect of them;
  - (ii) the number of Covered Bonds cancelled together (in the case of Covered Bonds in definitive form) with details of all unmatured Receipts, Coupons or Talons attached to them or delivered with them;
  - (iii) the aggregate amount paid in respect of interest on the Covered Bonds;
  - (iv) the total number by maturity date of Receipts, Coupons and Talons cancelled; and
  - (v) (in the case of Definitive Covered Bonds) the serial numbers of the Covered Bonds.
- (c) The Principal Paying Agent shall destroy all cancelled Covered Bonds, Receipts, Coupons and Talons and, immediately following their destruction, send to the Issuer, upon written request,

a certificate stating the serial numbers of the Covered Bonds (in the case of Covered Bonds in definitive form) and the number by maturity date of Receipts, Coupons and Talons destroyed.

- (d) Without prejudice to the obligations of the Principal Paying Agent under subclause (b), the Principal Paying Agent shall keep a full and complete record of all Covered Bonds, Receipts, Coupons and Talons (other than serial numbers of Coupons) and of their redemption, purchase on behalf of the Issuer or any of its Subsidiaries or the Fund and cancellation, payment or replacement (as the case may be) and of all replacement Covered Bonds, Receipts, Coupons or Talons issued in substitution for mutilated, defaced, destroyed, lost or stolen Covered Bonds, Receipts, Coupons or Talons. The Principal Paying Agent shall in respect of the Coupons of each maturity retain (in the case of Coupons other than Talons) until the expiry of ten years from the Relevant Date in respect of such Coupons and (in the case of Talons) indefinitely either all paid or exchanged Coupons of that maturity or a list of the serial numbers of Coupons of that maturity still remaining unpaid or unexchanged. The Principal Paying Agent shall at all reasonable times make the record available to the Issuer and any persons authorised by it for inspection and for the taking of copies of it or extracts from it.
- (e) The Principal Paying Agent is authorised by the Issuer and instructed to (i) in the case of any Global Covered Bond which is a CGN, to endorse or to arrange for the endorsement of the relevant Global Covered Bond to reflect the reduction in the nominal amount represented by it by the amount so redeemed or purchased and cancelled and (ii) in the case of any Global Covered Bond which is a NGN, to instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such redemption or purchase and cancellation, as the case may be; provided, that, in the case of a purchase or cancellation, the Issuer has notified the Principal Paying Agent of the same in accordance with subclause (a).

#### 13.10 Issue of Replacement Covered Bonds, Receipts, Coupons and Talons

- (a) The Issuer will cause a sufficient quantity of additional forms of Covered Bonds, Receipts, Coupons and Talons to be available, upon request, to the Principal Paying Agent at its specified office for the purpose of issuing replacement Covered Bonds, Receipts, Coupons and Talons as provided below.
- (b) The Principal Paying Agent will, subject to and in accordance with the Conditions and this clause, cause to be delivered any replacement Covered Bonds, Receipts, Coupons and Talons which the Issuer may determine to issue in place of Covered Bonds, Receipts, Coupons and Talons which have been lost, stolen, mutilated, defaced or destroyed.
- (c) In the case of a mutilated or defaced Covered Bond, the Principal Paying Agent shall ensure that (unless otherwise covered by such indemnity as the Issuer may reasonably require) any replacement Covered Bond will only have attached to it Receipts, Coupons and Talons corresponding to those (if any) attached to the mutilated or defaced Covered Bond which is presented for replacement.
- (d) The Principal Paying Agent shall obtain verification in the case of an allegedly lost, stolen or destroyed Covered Bond, Receipt, Coupon or Talon in respect of which the serial number is known, that the Covered Bond, Receipt, Coupon or Talon has not previously been redeemed, paid or exchanged, as the case may be. The Principal Paying Agent shall not issue any replacement Covered Bond, Receipt, Coupon or Talon unless and until the claimant shall have:
  - (i) paid the costs and expenses incurred in connection with the issue;
  - (ii) provided it with such evidence and indemnity as the Issuer may reasonably require; and

- (iii) in the case of any mutilated or defaced Covered Bond, Receipt, Coupon or Talon, surrendered it to the Principal Paying Agent.
- (e) The Principal Paying Agent shall cancel any mutilated or defaced Covered Bonds, Receipts, Coupons and Talons in respect of which replacement Covered Bonds, Receipts, Coupons and Talons have been issued under this clause and shall furnish the Issuer with a certificate stating the serial numbers of the Covered Bonds, Receipts, Coupons and Talons cancelled and, unless otherwise instructed by the Issuer in writing, shall destroy the cancelled Covered Bonds, Receipts, Coupons and Talons and give to the Issuer a destruction certificate containing the information specified in subclause (c).
- (f) The Principal Paying Agent shall, on issuing any replacement Covered Bond, Receipt, Coupon or Talon, immediately inform the Issuer and the other Paying Agents of the serial number of the replacement Covered Bond, Receipt, Coupon or Talon issued and (if known) of the serial number of the Covered Bond, Receipt, Coupon or Talon in place of which the replacement Covered Bond, Receipt, Coupon or Talon has been issued. Whenever replacement Receipts, Coupons or Talons are issued, the Principal Paying Agent shall also notify the other Paying Agents of the maturity dates of the lost, stolen, mutilated, defaced or destroyed Receipts, Coupons or Talons and of the replacement Receipts, Coupons or Talons issued.
- (g) The Principal Paying Agent shall keep a full and complete record of all replacement Covered Bonds, Receipts, Coupons and Talons issued and shall make the record available at all reasonable times to the Issuer and any persons authorised by it for inspection and for the taking of copies of it or extracts from it.
- (h) Whenever any Covered Bond, Receipt, Coupon or Talon for which a replacement Covered Bond, Receipt, Coupon or Talon has been issued and in respect of which the serial number is known is presented to a Paying Agent for payment, the relevant Paying Agent shall immediately send notice of that fact to the Issuer and the other Paying Agents.
- (i) The Principal Paying Agent shall issue further Coupon sheets against surrender of Talons. A Talon so surrendered shall be cancelled by the relevant Paying Agent who (except where the Paying Agent is the Principal Paying Agent) shall inform the Principal Paying Agent of its serial number and shall send the Principal Paying Agent the Talon which has been surrendered. Further Coupon sheets issued by the Principal Paying Agent on surrender of Talons shall carry the same serial number as the surrendered Talon.

#### 13.11 **Copies of Documents Available for Inspection**

Each Paying Agent shall hold available for inspection at its specified office during normal business hours copies of all documents required to be so available by the Conditions of any Covered Bonds or the rules of any relevant Stock Exchange (or any other relevant authority) if any Covered Bonds are listed on any Stock Exchange. For these purposes, the Issuer shall provide the Paying Agents with sufficient copies of each of the relevant documents.

#### 13.12 **Responsibility of the Paying Agents**

- (a) No Paying Agent shall be responsible to anyone with respect to the validity of this Agreement or the Covered Bonds, Receipts or Coupons or for any act or omission by it in connection with this Agreement or any Covered Bond, Receipt or Coupon except for its own negligence, default or bad faith, including that of its officers and employees.
- (b) No Paying Agent shall have any duty or responsibility in the case of any default by the Issuer in the performance of its obligations under the Conditions or, in the case of receipt of a written demand from a Covered Bondholder or Couponholder, with respect to such default, provided

however that immediately on receiving any notice given by a Covered Bondholder in accordance with Condition 10, the Principal Paying Agent notifies the Issuer of the fact and furnishes it with a copy of the notice.

- (c) Whenever in the performance of its duties under this Agreement a Paying Agent shall deem it desirable that any matter be established by the Issuer prior to taking or suffering any action under this Agreement, the matter may be deemed to be conclusively established by a certificate signed by the Issuer and delivered to the Paying Agent and the certificate shall be a full authorisation to the Paying Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon the certificate.

### 13.13 Conditions of Appointment

- (a) Each Paying Agent shall be entitled to deal with money paid to it by the Issuer for the purpose of this Agreement in the same manner as other money paid to a banker by its customers except:
  - (i) that it shall not exercise any right of set-off, lien or similar claim in respect of the money;
  - (ii) that it shall not be liable to account to the Issuer for any interest on the money; and
  - (iii) money held by it need not be segregated except as required by law.
- (b) In acting under this Agreement and in connection with the Covered Bonds, each Paying Agent shall act solely as an agent of the Issuer and will not assume any obligations towards or relationship of agency for or with any of the owners or holders of the Covered Bonds, Receipts, Coupons or Talons.
- (c) Each Paying Agent undertakes to the Issuer to perform its duties, and shall be obliged to perform the duties and only the duties, specifically stated in this Agreement (including Schedule 8 in the case of the Principal Paying Agent) and the Conditions, and no implied duties or obligations shall be read into any of those documents against any Paying Agent, other than the duty to act honestly and in good faith and to exercise the diligence of a reasonably prudent agent in comparable circumstances. Each of the Paying Agents (other than the Principal Paying Agent) agrees that if any information that is required by the Principal Paying Agent to perform the duties set out in Schedule 8 becomes known to it, it will promptly provide such information to the Principal Paying Agent.
- (d) The Principal Paying Agent may consult with legal and other professional advisers and the opinion of the advisers shall be full and complete protection in respect of any action taken, omitted or suffered under this Agreement in good faith and in accordance with the opinion of the advisers.
- (e) Each Paying Agent shall be protected and shall incur no liability in respect of any action taken, omitted or suffered in reliance on any instruction from the Issuer or any document which it reasonably believes to be genuine and to have been delivered by the proper party or on written instructions from the Issuer.
- (f) Any Paying Agent and its officers, directors and employees may become the owner of, and/or acquire any interest in, any Covered Bonds, Receipts, Coupons or Talons with the same rights that it or he would have had if the Paying Agent concerned were not appointed under this Agreement, and may engage or be interested in any financial or other transaction with the Issuer and may act on, or as depositary, trustee or agent for, any committee or body of holders of Covered Bonds or Coupons or in connection with any other obligations of the Issuer as freely as if the Paying Agent were not appointed under this Agreement.

- (g) The Issuer shall provide the Principal Paying Agent with a certified copy of the list of persons authorised to execute documents and take action on its behalf in connection with this Agreement and shall notify the Principal Paying Agent immediately in writing if any of those persons ceases to be authorised or if any additional person becomes authorised together, in the case of an additional authorised person, with evidence satisfactory to the Principal Paying Agent that the person has been authorised.
- (h) Except as otherwise permitted in the Conditions or as ordered by a court of competent jurisdiction or as required by law or applicable regulations, the Issuer and each of the Paying Agents shall be entitled to treat the bearer of any Covered Bond, Receipt or Coupon as the absolute owner of it (whether or not it is overdue and notwithstanding any notice of ownership or writing on it or notice of any previous loss or theft of it).
- (i) The amount of the Programme may be increased by the Issuer in accordance with the procedure set out in the Programme Agreement. Upon any increase being effected, all references in this Agreement to the amount of the Programme shall be deemed to be references to the increased amount.

#### **13.14 Notification of Changes to Paying Agents**

Following receipt of notice of resignation from a Paying Agent and immediately after appointing a successor or new Paying Agent or on giving notice to terminate the appointment of any Paying Agent, the Principal Paying Agent (on behalf of and at the expense of the Issuer) shall give or cause to be given not more than 45 days' nor less than 30 days' notice of the fact to the Covered Bondholders in accordance with the Conditions.

#### **13.15 Merger and Consolidation**

Any corporation into which any Paying Agent may be merged or converted, or any corporation with which a Paying Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which a Paying Agent shall be a party, or any corporation to which a Paying Agent shall sell or otherwise transfer all or substantially all of its assets shall, on the date when the merger, conversion, consolidation or transfer becomes effective and to the extent permitted by any applicable laws, become the successor Paying Agent under this Agreement without the execution or filing of any paper or any further act on the part of the parties to this Agreement, unless otherwise required by the Issuer and after the said effective date all references in this Agreement to the relevant Paying Agent shall be deemed to be references to such successor corporation. Written notice of any such merger, conversion, consolidation or transfer shall immediately be given to the Issuer by the relevant Paying Agent.

#### **13.16 Change of Specified Office**

If any Paying Agent determines to change its specified office it shall give to the Issuer and the Principal Paying Agent written notice of that fact giving the address of the new specified office which shall be in the same city and stating the date on which the change is to take effect, which shall not be less than 45 days after the notice. The Principal Paying Agent (on behalf and at the expense of the Issuer) shall within 15 days of receipt of the notice (unless the appointment of the relevant Paying Agent is to terminate pursuant to Clause 14 on or prior to the date of the change) give or cause to be given not more than 45 days' nor less than 30 days' notice of the change to the Covered Bondholders in accordance with the Conditions.

#### **13.17 Meetings of Covered Bondholders**

- (a) The provisions of Schedule 6 shall apply to meetings of the Covered Bondholders and shall have effect in the same manner as if set out in this Agreement.

- (b) Without prejudice to Clause 13.17(a), each of the Paying Agents on the request of any holder of Covered Bonds shall issue voting certificates and block voting instructions in accordance with Schedule 6 and shall immediately give notice to the Issuer in writing of any revocation or amendment of a block voting instruction. Each of the Paying Agents will keep a full and complete record of all voting certificates and block voting instructions issued by it and will, not less than 24 hours before the time appointed for holding a meeting or adjourned meeting, deposit at such place as the Principal Paying Agent shall approve, full particulars of all voting certificates and block voting instructions issued by it in respect of the meeting or adjourned meeting.

#### 14. **CHANGES IN REPRESENTATIVE AND IN PAYING AGENTS**

##### 14.1 **Appointment, Retirement and Removal of the Representative**

- (a) The power to appoint a new representative of this Agreement shall be vested solely in the Covered Bondholders, but no person shall be appointed who shall not previously have been approved by the Issuer. One or more persons may hold office as representative or representatives of this Agreement. Whenever there shall be more than two representatives of this Agreement the majority of such representatives shall be competent to execute and exercise all the duties, powers, authorities and discretions vested in the Representative by this Agreement. Any appointment of a new representative of the Covered Bondholders shall as soon as practicable thereafter be notified by the Issuer to the Principal Paying Agent and the Covered Bondholders.
- (b) A representative of this Agreement may retire at any time on giving not less than three months' prior written notice to the Issuer and the Fund without giving any reason and without being responsible for any Liabilities incurred by reason of such retirement. The Covered Bondholders may by Extraordinary Resolution of all the Covered Bondholders remove their representative. The retirement or removal of any such representative shall not become effective until a successor representative is appointed. If, in such circumstances, no appointment of such new representative has become effective within 60 days of the date of such notice or Extraordinary Resolution, the Representation shall be entitled to appoint a new representative, but no such appointment shall take effect unless previously approved by an Extraordinary Resolution.

##### 14.2 **Appointment, Resignation and Removal of Paying Agents**

- (a) The Issuer agrees that, for so long as any Covered Bond is outstanding, or until moneys for the payment of all amounts in respect of all outstanding Covered Bonds have been made available to the Principal Paying Agent and have been returned to the Issuer, as provided in this Agreement:
  - (i) so long as any Covered Bonds are listed on any Stock Exchange, there will at all times be a Paying Agent, which may be the Principal Paying Agent, with a specified office in the place required by the rules and regulations of the relevant Stock Exchange or any other relevant authority;
  - (ii) any Paying Agent shall have a short-term, unsecured, unsubordinated and unguaranteed debt obligation rating of at least P-1 (Prime-1) by Moody's;
  - (iii) there will at all times be a Principal Paying Agent; and
  - (iv) it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

- (b) In addition, the Issuer shall immediately appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6 (*Covenant of Compliance*). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency (as provided in subclause (f)), when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice shall have been given to the Covered Bondholders in accordance with Condition 14 (*Notices*).
- (c) The Principal Paying Agent may (subject as provided in subclause (e)) at any time resign by giving at least 90 days' written notice to the Issuer specifying the date on which its resignation shall become effective.
- (d) The Principal Paying Agent may (subject as provided in subclause (e)) be removed at any time by the Issuer on at least 45 days' notice in writing from the Issuer specifying the date when the removal shall become effective.
- (e) Any resignation under subclause (c) or removal of the Principal Paying Agent under subclauses (d) or (f) shall only take effect upon the appointment by the Issuer of a successor Principal Paying Agent and (other than in cases of insolvency of the Principal Paying Agent) on the expiry of the notice to be given under Clause 13.14. The Issuer agrees with the Principal Paying Agent that if, by the day falling 10 days before the expiry of any notice under subclause (c), the Issuer has not appointed a successor Principal Paying Agent then the Principal Paying Agent shall be entitled, on behalf of the Issuer, to appoint in its place as a successor Principal Paying Agent a reputable financial institution of good standing which the Issuer shall approve (such approval not to be unreasonably withheld or delayed).
- (f) In case at any time any Paying Agent resigns, or is removed, or becomes incapable of acting or is adjudged bankrupt or insolvent, or files a voluntary petition in bankruptcy or makes an assignment for the benefit of its creditors or consents to the appointment of an administrator, liquidator or administrative or other receiver of all or a substantial part of its property, or admits in writing its inability to pay or meet its debts as they mature or suspends payment of its debts, or if any order of any court is entered approving any petition filed by or against it under the provisions of any applicable bankruptcy or insolvency law/ or if a receiver of it or of all or a substantial part of its property is appointed or if any officer takes charge or control of it or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, a successor Paying Agent which shall be a reputable financial institution of good standing may be appointed by the Issuer. Upon the appointment of a successor Paying Agent and acceptance by it of its appointment and (other than in case of insolvency of the Paying Agent when it shall be of immediate effect) upon expiry of the notice to be given under Clause 13.14, the Paying Agent so superseded shall cease to be a Paying Agent under this Agreement.
- (g) Subject to subclause (a), the Issuer may, after prior consultation with the Principal Paying Agent, terminate the appointment of any of the other Paying Agents at any time and/or appoint one or more further or other Paying Agents by giving to the Principal Paying Agent and to the relevant other Paying Agent at least 45 days' notice in writing to that effect (other than in the case of insolvency).
- (h) Subject to subclause (a), all or any of the Paying Agents (other than the Principal Paying Agent) may resign their respective appointments under this Agreement at any time by giving the Issuer and the Principal Paying Agent at least 45 days' written notice to that effect.
- (i) Upon its resignation or removal becoming effective, a Paying Agent shall:
  - (i) in the case of the Principal Paying Agent, immediately transfer all moneys and records held by it under this Agreement to the successor Agent; and

- (ii) be entitled to the payment by the Issuer of the commissions, fees and expenses payable in respect of its services under this Agreement before termination in accordance with the terms of Clause 16.
- (iii) Upon its appointment becoming effective, a successor or new Paying Agent shall, without any further action, become vested with all the authority, rights, powers, duties and obligations of its predecessor or, as the case may be, a Paying Agent with the same effect as if originally named as a Paying Agent under this Agreement.

15. **REPRESENTATIVE'S REMUNERATION, COSTS AND INDEMNIFICATION**

15.1 The Issuer (failing which and following service of a Notice to Pay or, if earlier, following a Fund Event of Default and the service of a Fund Acceleration Notice, the Fund) shall pay to the Representative, by way of remuneration for its services as Representative under this Agreement, such amount as shall be agreed from time to time by exchange of letters between the Issuer and the Representative. Such remuneration shall accrue from day to day and be payable (in priority to payments to Covered Bondholders, Receiptholders and Couponholders) up to and including the date when, all the Covered Bonds having become due for redemption, the redemption moneys and interest thereon to the date of redemption have been paid to the Representative PROVIDED THAT if upon due presentation of any Covered Bond, Receipt or Coupon or any cheque payment of the moneys due in respect thereof is improperly withheld or refused, remuneration will be deemed not to have ceased to accrue and will continue to accrue until payment to such Covered Bondholder, Receiptholder or Couponholder is duly made.

15.2 In the event of the occurrence of an Issuer Event of Default, Fund Event of Default, Potential Issuer Event of Default or Potential Fund Event of Default or the Representative considering it necessary or being requested by the Issuer or the Fund (as the case may be) to undertake duties which the Representative and the Issuer or the Fund agree to be of an exceptional nature or otherwise outside the scope of the normal duties of the Representative under this Agreement the Issuer or the Fund shall pay to the Representative such additional remuneration as shall be agreed between them and the provisions of this Clause 15 shall apply *mutatis mutandis* in respect of such additional remuneration.

15.3 The Issuer (failing which and following service of a Notice to Pay or, if earlier, following a Fund Event of Default and the service of a Fund Acceleration Notice, the Fund) shall in addition pay to the Representative an amount equal to the amount of any vat or similar tax that the Representative is liable to account for to any tax authority in respect of any supply of services made by the Representative pursuant to this Agreement.

15.4 In the event of the Representative and Issuer (failing which and following service of a Notice to Pay or, if earlier, following a Fund Event of Default and the service of a Fund Acceleration Notice, the Fund) failing to agree:

- (a) (in a case to which Clause 15.1 above applies) upon the amount of the remuneration; or
- (b) (in a case to which Clause 15.2 above applies) upon whether such duties shall be of an exceptional nature or otherwise outside the scope of the normal duties of the Representative under this Agreement, or upon such additional remuneration,

such matters shall be determined by a merchant or investment bank (acting as an expert and not as an arbitrator) selected by the Representative approved by the Issuer or the Fund and the determination of any such merchant or investment bank shall be final and binding upon the Representative and the Issuer or the Fund.

15.5 The Issuer (failing which and following service of a Notice to Pay or, if earlier, following a Fund Event of Default and the service of a Fund Acceleration Notice, the Fund) shall also pay or discharge all Liabilities incurred by the Representative in relation to the preparation and execution of, the exercise of



its powers and the performance of its duties under, and in any other manner in relation to, this Agreement and the Conditions, including but not limited to travelling expenses and any stamp, issue, registration, documentary and other taxes or duties paid or payable by the Representative in connection with any action taken or contemplated by or on behalf of the Representative for enforcing, or resolving any doubt concerning, or for any other purpose in relation to, this Agreement and the Conditions.

- 15.6 The Issuer (failing which and following service of a Notice to Pay or, if earlier, following a Fund Event of Default and the service of a Fund Acceleration Notice, the Fund) shall indemnify the Representative in full in respect of all proceedings, claims and demands and all costs, charges, expenses, and liabilities for which it (or any person appointed by it to whom any power, authority or discretion may be delegated by it in the execution or purported execution of the powers, authorities or discretions vested in it by this Agreement or any other Transaction Document to which the Representative is party to or its functions under any such appointment) may be or become liable or which may be incurred by it (or any such person as aforesaid) in respect of any matter or thing done or omitted in any way relating to this Agreement or any other Transaction Document to which the Representative is party save to the extent that the same arises as a result of negligence, wilful default, wilful misconduct or fraud on the part of the Representative.
- 15.7 The Representative shall be entitled in its absolute discretion to determine in respect of which Series of Covered Bonds any Liabilities incurred under this Agreement have been incurred or to allocate any such Liabilities between the Covered Bonds of any Series.
- 15.8 All amounts payable pursuant to Clauses 15.5 and 15.6 above shall be payable by the Issuer (failing which and following service of a Notice to Pay or, if earlier, following a Fund Event of Default and the service of a Fund Acceleration Notice, the Fund) on the date specified in a demand by the Representative and in the case of payments actually made by the Representative prior to such demand shall carry interest at the rate of three per cent, per annum above the Base Rate (on the date on which payment was made by the Representative) of National Westminster Bank Plc from the date such demand is made, and in all other cases shall (if not paid within 30 days after the date of such demand or, if such demand specifies that payment is to be made on an earlier date, on such earlier date) carry interest at such rate from such thirtieth day of such other date specified in such demand. All remuneration payable to the Representative and the Paying Agents shall carry interest at such rate from the due date therefor.
- 15.9 The indemnity set out above shall survive any termination of this Agreement.
- 15.10 Under no circumstances will the Representative be liable to the Issuer or any other party to this Agreement for any consequential loss (being loss of business, goodwill, opportunity or profit) even if advised of the possibility of such loss or damage.

16. **PAYING AGENT'S COMMISSIONS, EXPENSES AND INDEMNITY**

- 16.1 The Issuer agrees to pay to the Principal Paying Agent such fees and commissions as the Issuer and the Principal Paying Agent shall separately agree in respect of the services of the Paying Agents under this Agreement together with any out-of-pocket expenses (including legal, printing, postage, fax, cable and advertising expenses) incurred by the Paying Agents in connection with their services.
- 16.2 The Principal Paying Agent will make payment of the fees and commissions due under this Agreement to the other Paying Agents and will reimburse their expenses promptly after the receipt of the relevant moneys from the Issuer. The Issuer shall not be responsible for any payment or reimbursement by the Principal Paying Agent to the other Paying Agents.
- 16.3 The Issuer shall indemnify each of the Paying Agents against any losses, liabilities, costs, claims, actions, demands or expenses (together, **Losses**) (including, but not limited to, all reasonable costs, legal fees, charges and expenses (together, **Expenses**) paid or incurred in disputing or defending any Losses) which it may incur or which may be made against it as a result of or in connection with its

appointment or the exercise of its powers and duties under this Agreement except for any Losses or Expenses resulting from such Paying Agent's own default, negligence or bad faith or that of its officers, directors or employees or the breach by it of the terms of this Agreement. Each Paying Agent shall severally indemnify the Issuer against any Losses which it incurs as a result of the negligence or wilful misconduct of such Paying Agent or of its officers, directors and employees.

- 16.4 The indemnity set out above shall survive any termination of this Agreement.
- 16.5 Under no circumstances will the Paying Agents be liable to the Issuer or any other party to this Agreement for any consequential loss (being loss of business, goodwill, opportunity or profit) even if advised of the possibility of such loss or damage.

17. **EXCHANGE RATE INDEMNITY**

- 17.1 If a judgment or order is rendered by a court of any particular jurisdiction for the payment of any amounts owing to the Representative, a Paying Agent or the Covered Bondholders, Receiptholders or Couponholders under this Agreement, the Covered Bonds, the Receipts or the Coupons, or under a judgment or order of a court of any other jurisdiction in respect thereof or for the payment of damages in respect of either thereof, and any such judgment or order is expressed in a currency (the **Judgment Currency**) other than the currency of the relevant Covered Bonds (the **Contractual Currency**), the Issuer and the Fund shall indemnify and hold the Representative, the relevant Paying Agent and the Covered Bondholders and Couponholders harmless against any deficiency arising or resulting from any variation in rates of exchange between the Judgment Currency and the Contractual Currency occurring between (i) the date on which any amount expressed in the Contractual Currency is converted, for the purposes of making or filing any claim resulting in any such judgment or order, into an equivalent amount in the Judgment Currency, and (ii) the date or dates of payment of such amount (or part thereof, or of discharge of such first-mentioned judgment or order (or part thereof, as appropriate).
- 17.2 The above indemnities shall constitute separate and independent obligations of the Issuer and the Fund from their other obligations under this Agreement, shall give rise to separate and independent causes of action, shall apply irrespective of any indulgence granted by the Representative, the relevant Paying Agent or the Covered Bondholders, Receiptholders or Couponholders from time to time and shall continue in full force and effect notwithstanding any judgment. Any such deficiency as aforesaid shall be deemed to constitute a loss suffered by the Representative, the relevant Paying Agent and the Covered Bondholders, Receiptholders and Couponholders, and no proof or evidence of any actual loss shall be required by the Issuer, the Fund or its or their liquidator(s).
- 17.3 In the case of Clause 17.1 above, if (upon such payment or discharge as is therein referred to) the Covered Bondholders, Receiptholders or Couponholders would on conversion to the Contractual Currency receive an amount in excess of the sum due in the Contractual Currency, the Covered Bondholders or, as the case may be, the Receiptholders or Couponholders shall hold such excess to the order of the Issuer or as the case may be, the Fund.

18. **NOTICES**

- 18.1 Immediately after it receives a demand or notice from any Covered Bondholder in accordance with the Conditions, the Principal Paying Agent shall forward a copy to the Issuer.
- 18.2 On behalf of and at the request and expense of the Issuer, the Principal Paying Agent shall cause to be published all notices required to be given by the Issuer to the Covered Bondholders in accordance with the Conditions.
- 18.3 Any notice or demand to the Issuer, the Fund, the Representative, the Principal Paying Agent or the other Paying Agent to be given, made or served for any purposes under this Agreement shall be given, made or served by sending the same by pre-paid post (first class if inland, first class airmail if overseas) or facsimile transmission or by delivering it by hand as follows:

to the Issuer: Borgartun 19  
105 Reykjavik  
Iceland  
  
(Attention: Funding Department)  
Facsimile No.: +(354) 444 6229  
(with a copy to the Fund)  
Email: mtndesk@arionbanki.is

to the Fund: Borgartun 19  
105 Reykjavik  
Iceland  
  
(Attention: Stefmir hf. – Arion Bank Mortgages  
Institutional Investor Fund)  
Facsimile No.: +(354) 444 7489  
Email: info@stefmir.is

to the Representative: Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
England  
  
(Attention: the Managing Director)  
Facsimile No.: +(44) 20 7547 6149  
Email: TSS-GDS.EUR@db.com

to the Principal Paying Agent: Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
England  
  
(Attention: Debt & Agency Services)  
Facsimile No.: +(44) 20 7547 6149  
Email: TSS-GDS.EUR@db.com

to the other Paying Agent: Borgartun 19  
105 Reykjavik  
Iceland  
  
(Attention: Funding Desk)  
Facsimile No: +354 444 6229  
Email: mtndesk@arionbanki.is

or to such other address or facsimile number as shall have been notified (in accordance with this Clause 18) to the other parties hereto and any notice or demand sent by post as aforesaid shall be deemed to have been given, made or served three days in the case of inland post or seven days in the case of overseas post after despatch and any notice or demand sent by facsimile transmission as aforesaid shall be deemed to have been given, made or served 24 hours after the time of despatch PROVIDED THAT (i) in the case of a notice or demand given by facsimile transmission such notice or demand shall forthwith be confirmed by post; and (ii) if a communication is received after business hours on any business day or on a day which is not a business day in the place of receipt it shall be deemed to be received and become effective at the opening of business on the next business day in the place of receipt. Every communication shall be irrevocable save in respect of any manifest error in it. The failure of the addressee to receive such confirmation shall not invalidate the relevant notice or demand given by facsimile transmission.

- 18.4 Notwithstanding Clause 18.3 above and provided that each give their prior consent to such delivery, any party to this Agreement may send notice to or otherwise communicate with any of the other parties to this Agreement by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Agreement shall be deemed: (i) to have received any electronic mail sent by the any other party to this Agreement pursuant to the terms of this Clause 18.4 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Agreement shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Agreement (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.
- 18.5 Any notice given under or in connection with this Agreement shall be in English. All other documents provided under or in connection with this Agreement shall be:
- (a) in English; or
  - (b) if not in English, accompanied by a certified English translation and, in this case, the English translation shall prevail unless the document is a statutory or other official document.
- 18.6 A copy of all communications relating to the subject matter of this Agreement between the Issuer and any Paying Agent (other than the Principal Paying Agent) shall be sent to the Principal Paying Agent.

## 19. **GOVERNING LAW AND JURISDICTION**

### 19.1 **Governing Law**

This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

### 19.2 **Jurisdiction**

Each of the parties hereto irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

## 20. **COUNTERPARTS**

This Representative and Agency Agreement and any agreement supplemental hereto may be executed and delivered in any number of counterparts, all of which, taken together, shall constitute one and the same agreement and any party to this Agreement or any agreement supplemental hereto may enter into the same by executing and delivering a counterpart.

This Agreement has been entered into by the Issuer, the Fund, the Representative and the Paying Agents on the date first stated on page 1.

## SCHEDULE 1

### TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond (as defined below), in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such Definitive Covered Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds. The applicable Final Terms (or the relevant provisions thereof) will be endorsed on, or attached to, each Global Covered Bond and Definitive Covered Bond. Reference should be made to "Form of the Covered Bonds" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Arion Bank hf. (the **Issuer**) pursuant to the Representative and Agency Agreement (as defined below).

Save as provided for in Conditions 10 and 15, references herein to the **Covered Bonds** shall be references to the Covered Bonds of this Series and shall mean:

- (a) in relation to any Covered Bonds represented by a global Covered Bond (a **Global Covered Bond**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Covered Bond; and
- (c) any definitive Covered Bonds (**Definitive Covered Bonds**) issued in exchange for a Global Covered Bond.

The Covered Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Representative and Agency Agreement (such representative and agency agreement as amended and/or supplemented and/or restated from time to time, the **Representative and Agency Agreement**) dated \_\_\_\_\_ January, 2012 and made between the Issuer, Arion Bank Mortgages Institutional Investor Fund as guarantor (the **Fund**), Deutsche Trustee Company Limited as the representative of the Covered Bondholders (as defined below) (the **Representative**, which expression shall include any successor as Representative), Deutsche Bank AG, London Branch, as issuing and principal paying agent and agent bank (in such capacity, the **Principal Paying Agent**, which expression shall include any successor principal paying agent and, together with Arion Bank hf., the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest-bearing Definitive Covered Bonds have interest coupons (Coupons) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Covered Bonds repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue, Global Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Covered Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Covered Bond which supplement these Terms and Conditions (the **Terms and Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify the Terms and Conditions for the purposes of this Covered Bond. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Covered Bond.

The Fund has, in the Representative and Agency Agreement, irrevocably and unconditionally guaranteed the due and punctual payment of Guaranteed Amounts in respect of the Covered Bonds as and when the same shall

become Due for Payment, but only after service of a Notice to Pay on the Fund following, service of an Issuer Acceleration Notice on the Issuer (after the occurrence of an Issuer Event of Default) or service of a Fund Acceleration Notice on the Fund (after the occurrence of a Fund Event of Default).

The Representative acts for the benefit of the holders for the time being of the Covered Bonds (the **Covered Bondholders**, which expression shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below), the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), and for the holders of each other Series of Covered Bonds in accordance with the provisions of the Representative and Agency Agreement.

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, initial Principal Amounts Outstanding, first Interest Payment Dates, first Interest Amounts, Interest Commencement Dates and/or Issue Prices.

Copies of the Master Definitions and Construction Agreement (as defined below), the Representative and Agency Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the office for the time being of the Representative being at \_\_\_ January, 2012 at Winchester House, 1 Great Winchester Street, London EC2N 2DB, and at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB. The Covered Bondholders, the Receiptholders and the Couponholders are deemed to have notice of, are bound by, and are entitled to the benefit of, all the provisions of, and definitions contained in, the Master Definitions and Construction Agreement, the Representative and Agency Agreement, each of the other Transaction Documents and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Representative and Agency Agreement.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Terms and Conditions (including the preceding paragraphs) shall bear the meanings given to them in the applicable Final Terms and/or the amended and restated master definitions and construction agreement made between the parties to the Transaction Documents on or about \_\_\_ January, 2012 (as amended and/or supplemented and/or restated from time to time, the **Master Definitions and Construction Agreement**), provided that, in the event of inconsistency between the Master Definitions and Construction Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

#### 1. **Form, Denomination and Title**

The Covered Bonds are in bearer form and, in the case of Definitive Covered Bonds, serially numbered, in the Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

This Covered Bond may be an Inflation Linked Annuity Covered Bond, a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond, an Index Linked Interest Covered Bond, a Credit Linked Interest Covered Bond, an Equity Linked Interest Covered Bond, a Dual Currency Interest Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Covered Bond may be an Inflation Linked Annuity Covered Bond, an Instalment Covered Bond, a Partly Paid Covered Bond or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Definitive Covered Bonds are issued with Receipts, unless they are not Inflation Linked Annuity Covered Bonds or Instalment Covered Bonds in which case references to Receipts and Receiptholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Covered Bonds, Receipts and Coupons will pass by delivery. The Issuer, the Fund, the Paying Agents and the Representative will (except as otherwise required by law) deem and treat the bearer of any Covered Bond, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of or, as the case may be, registered in the name of a common depository for, Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer, the Fund, the Paying Agents and the Representative as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Covered Bonds as aforesaid, the Representative may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error or proven error, be conclusive and binding on all concerned.

Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, except in relation to Covered Bonds in NGN form, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Fund, the Principal Paying Agent and the Representative.

## 2. **Status of the Covered Bonds and the Covered Bond Guarantee**

### 2.1 *Status of the Covered Bonds*

The Covered Bonds and any relative Receipts and Coupons constitute direct, unconditional, unsubordinated and (subject to provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

### 2.2 *Status of the Covered Bond Guarantee*

The payment of Guaranteed Amounts in respect of the Covered Bonds when the same shall become Due for Payment has been unconditionally and irrevocably guaranteed by the Fund pursuant to the Representative and Agency Agreement (the **Covered Bond Guarantee**). However, the Fund shall have no obligation under the Covered Bond Guarantee to pay any Guaranteed Amounts when the same shall become Due for Payment under the Covered Bonds until service of a Notice to Pay by the Representative on the Fund (which the Representative will be required to serve following the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice by the Representative on the Issuer) or, if earlier, the occurrence of a Fund Event of Default and service of a Fund Acceleration Notice by the Representative on the Fund. The obligations of the Fund under the

Covered Bond Guarantee are, subject as aforesaid, direct, unconditional, unsubordinated and unsecured obligations of the Fund (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Fund, from time to time outstanding.

Any payment made by the Fund under the Covered Bond Guarantee shall (unless such obligation shall have been discharged as a result of the payment of Excess Proceeds to the Representative pursuant to Condition 10) discharge *pro tanto* the obligations of the Issuer in respect of such payment under the Covered Bonds, Receipts and Coupons, except where such payment by the Fund has been declared void, voidable or otherwise recoverable in whole or in part and recovered from the Representative or the Covered Bondholders.

### 3. **Negative Pledge**

So long as any of the Covered Bonds, Receipts or Coupons remains outstanding the Issuer undertakes that it will not and that it will procure that none of its Subsidiaries will create or have outstanding any mortgage, charge, pledge, lien or other security interest (each a **Security Interest**) (other than a Permitted Security Interest) upon the whole or any part of its undertaking, assets or revenues (including any uncalled capital), present or future, in order to secure any Relevant Indebtedness (as defined below) or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness unless (a) all amounts payable by it under the Covered Bonds, Receipts and Coupons are equally and rateably secured therewith by such Security Interest or (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as shall be approved by an Extraordinary Resolution (as defined in the Representative and Agency Agreement) of the Covered Bondholders.

For the purposes of these Terms and Conditions:

**Excluded Indebtedness** means any Relevant Indebtedness in respect of which the person or persons to whom any such Relevant Indebtedness is or may be owed by the relevant borrower has or have no recourse whatsoever to the Issuer or any Subsidiary (whether or not also the relevant borrower) for the repayment thereof other than:

- (a) recourse to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from a Specified Asset; and/or
- (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Relevant Indebtedness in an enforcement of any encumbrance given by such borrower over a Specified Asset or the income, cash flow or other proceeds deriving therefrom (or given by a shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such Relevant Indebtedness, provided that (i) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (ii) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such Relevant Indebtedness, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in; respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
- (c) recourse of such borrower generally, or directly or indirectly to the Issuer or any Subsidiary, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against which such recourse is available;



**Government Entities** means any body, agency, ministry, department, authority, statutory corporation or other entity of or pertaining to a member state of the European Economic Area or the government thereof or any political subdivision, municipality or local government thereof (whether autonomous or not);

**Permitted Security Interest** means any security interest created by the Issuer or its Subsidiaries over the whole or any part of their present or future assets or revenues where such assets or revenues are comprised of the following (or are otherwise qualifying collateral for issues of covered bonds pursuant to any relevant contractual arrangements and/or specific provisions of the laws of Iceland relating to covered bonds): (a) mortgage receivables; or (b) receivables against Government Entities; or (c) asset-backed securities backed by any of the assets under paragraph (a) or (b); or (d) a prior Security Interest granted over an asset existing before such asset is acquired by the Issuer or one of its Subsidiaries, provided that that Security Interest was not created in contemplation of the acquisition of such asset by the Issuer or its Subsidiary; or (e) any other assets permitted by any applicable governing law to collateralise the covered bonds issued by the Issuer or any of its Subsidiaries, in each case provided that the creation of such security interest is pursuant to the relevant contractual arrangements or, as the case may be, specific provisions of the relevant laws relating to such covered bonds applicable at the time of creation of such security interest;

**Relevant Indebtedness** means any present or future indebtedness (which term shall be construed so as to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent) in the form of, or represented or evidenced by, bonds, debentures, notes or other securities which are, or are intended to be, with the agreement of the issuer thereof, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market other than such indebtedness which by its terms will mature within a period of one year from its date of issue and other than Excluded Indebtedness;

**Specified Asset** means an asset of the Issuer or any Subsidiary over which security is given in connection with any limited recourse securitisation or other asset-backed financing; and

**Subsidiary** means any entity whose affairs are required by law or in accordance with generally accepted accounting principles applicable to Iceland to be consolidated in the consolidated accounts of the Issuer.

#### 4. **Redenomination**

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders, the Receiptholders and the Couponholders, but after prior consultation with the Representative on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds shall be redenominated in euro.

The election will have effect as follows:

- (a) the Covered Bonds and the Receipts shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Covered Bond and Receipt equal to the principal amount of that Covered Bond or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent and the Representative, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the stock exchange (if any) on which the Covered Bonds may be listed and/or admitted to trading and the Paying Agents of such deemed amendments;

- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate principal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if Definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent and the Representative may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Covered Bondholders;
- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds and Receipts so issued will also become void on that date although those Covered Bonds and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro denominated Covered Bonds, Receipts and Coupons will be issued in exchange for Covered Bonds, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;
- (e) after the Redenomination Date, all payments in respect of the Covered Bonds, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
  - (i) in the case of the Covered Bonds represented by a Global Covered Bond, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Covered Bonds represented by such Global Covered Bond; and
  - (ii) in the case of definitive Covered Bonds, by applying the Rate of Interest to the Calculation Amount,and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding; and
- (g) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

For the purposes of these Terms and Conditions:

**Established Rate** means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

**Redenomination Date** means (in the case of interest bearing Covered Bonds) any date for payment of interest under the Covered Bonds or (in the case of Zero Coupon Covered Bonds) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to this Condition 4 and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

**Treaty** means the Treaty establishing the European Community, as amended.

## 5. Interest

### 5.1 *Interest on Inflation Linked Annuity Covered Bonds*

Each Inflation Linked Annuity Covered Bond bears interest from (and including) the Interest Commencement Date at the rate per annum equal to the Rate of Interest payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date.

If interest is required to be calculated for a period other than an Interest Period (as defined in Condition 5.8) such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 5.8), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 5.8) of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

### 5.2 *Interest on Fixed Rate Covered Bonds*

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable, subject as provided in these Terms and Conditions, in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date.

If the Covered Bonds are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Covered Bonds in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by such Global Covered Bond (or, if they are Partly Paid Rate Covered Bonds, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

### 5.3 *Interest on Floating Rate Covered Bonds and Variable Interest Covered Bonds*

#### (a) *Interest Payment Dates*

Each Floating Rate Covered Bond and Variable Interest Covered Bond bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period.

#### (b) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds and Variable Interest Covered Bonds will be determined in the manner specified in the applicable Final Terms.

##### (i) ISDA Determination for Floating Rate Covered Bonds

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**), and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is the period specified in the applicable Final Terms; and
- (C) unless otherwise stated in the applicable Final Terms, the relevant Reset Date is the first day of that Interest Period.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Covered Bonds

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Representative and Agency Agreement contains provisions for determining the Rate of Interest pursuant to this subparagraph (ii) in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms.

(c) *Minimum Rate of Interest and/or Maximum Rate-of Interest*

If the applicable Final Terms for a Floating Rate Covered Bond or a Variable Interest Covered Bond specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms for a Floating Rate Covered Bond or a Variable Interest Covered Bond specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Covered Bonds, and the Calculation Agent, in the case of Variable Interest Covered Bonds, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Variable Interest Covered Bonds, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Covered Bonds or Index Linked Interest Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Covered Bonds or Variable Interest Covered Bonds which are represented by a Global Covered Bond, the aggregate outstanding; nominal amount of the Covered Bonds represented by such Global Covered Bond (or, if they are Partly Paid Covered Bonds, the aggregate amount paid up); or
- (B) in the case of Floating Rate Covered Bonds or Variable Interest Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Covered Bond or an Variable Interest Covered Bond in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

(e) *Notification of Rate of Interest and Interest Amounts*

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Fund, the Representative and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Covered Bonds or Variable Interest Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth Business Day (as defined in Condition 5.8) thereafter. Each Interest Amount and Interest Payment Date so notified 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. Any such amendment or alternative arrangements will be promptly notified to the Representative and each stock exchange or other relevant authority on which the relevant Floating Rate Covered Bonds or Variable Interest Covered Bonds are for the time being listed, quoted and/or traded or by which they have been admitted to listing or trading and to Covered Bondholders in accordance with Condition 14.

(f) *Determination or Calculation by Representative*

If for any reason at any relevant time, the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or (ii) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above, the Representative shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Representative shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances. In making any such determination or calculation, the Representative may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). Each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as the case may be.

(g) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.3, whether by the Principal Paying Agent, the Calculation Agent or the Representative shall (in the absence of wilful default, bad faith or manifest error as aforesaid) be binding on the Issuer, the Fund, the Principal Paying Agent, the Calculation Agent, the other Paying Agents, the Representative and all Covered Bondholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Fund, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent, the Calculation Agent or the Representative in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.4 *Interest on Dual Currency Interest Covered Bonds*

The rate or amount of interest payable in respect of Dual Currency Interest Covered Bonds shall be determined in the manner specified in the applicable Final Terms.

5.5 *Interest on Partly-Paid Covered Bonds*

In the case of Partly-Paid Covered Bonds (other than Partly-Paid Covered Bonds which are Zero Coupon Covered Bonds), interest will accrue as aforesaid on the paid up nominal amount of such Covered Bonds or as otherwise specified in the applicable Final Terms.

5.6 *Interest following a Notice to Pay*

If a Notice to Pay is served on the Fund, the Fund shall, in accordance with the terms of the Covered Bond Guarantee, pay Guaranteed Amounts corresponding to the amounts of interest described under Conditions 5.1, 5.2, 5.3, 5.4 or 5.5 (as the case may be) under the Covered Bond Guarantee in respect of the Covered Bonds on the Due for Payment Dates.

5.7 *Accrual of interest*

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue in accordance with Sections 5 and 6 of the Act on Interest and Price Indexation no. 38/2001 (*lög urn vexti og verðtryggingu*). If this is a Zero Coupon Covered Bond, interest will accrue as provided in Condition 7.11.

5.8 *Business Day, Business Day Convention, Day Count Fractions and other adjustments*

(a) In these Terms and Conditions, **Business Day** means:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Reykjavik and any Additional Business Centre specified in the applicable Final Terms; and
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London, Reykjavik and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open.

- (b) If a **Business Day Convention** is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:
- (i) in any case where Specified Periods are specified in accordance with Condition 5.3(a)(ii), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (II) below shall apply *mutatis mutandis*, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
  - (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
  - (iii) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
  - (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:
- (i) if **Actual/Actual (ISMA)** is specified in the applicable Final Terms:
    - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined in Condition 5.8(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
    - (B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
  - (ii) if **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual



number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

- (iii) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iv) if **Actual/365 (Sterling)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (v) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (vi) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y2 - Y1)] + [30x(M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>2</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vii) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y2 - Y1)] + [30x(M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

(viii) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D<sub>2</sub> will be 30; or

(ix) such other Day Count Fraction as may be specified in the applicable Final Terms.

- (d) **Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).
- (e) **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
- (f) **Principal Amount Outstanding** means, in respect of a Covered Bond, on any day the principal amount of that Covered Bond on the Issue Date less principal amounts (if any) received by the holder of such Covered Bond in respect thereof on or prior to that day.
- (g) **sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

6. **Payments**

6.1 *Payments in respect of Inflation Linked Annuity Covered Bonds*

If this is an Inflation Linked Annuity Covered Bond, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal due under Condition 7.1, interest due under Condition 5.1 and any indexation amount (together, the **Annuity Amount**) as calculated by the Calculation Agent in accordance with the formula specified in the applicable Final Terms.

6.2 *Method of payment*

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 8.

6.3 *Presentation of Definitive Covered Bonds, Receipts and Coupons*

Payments of principal in respect of Definitive Covered Bonds will (subject as provided below) be made in the manner provided in Condition 6.2 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Covered Bonds, and payments of interest in respect of Definitive Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.2 above only against presentation and surrender (or, in the case of part of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.2 above only against presentation or surrender (or, in the case of part of any sum due, endorsement) of the relevant Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Covered Bond to which it appertains. Receipts presented without the Definitive Covered Bond to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Covered Bond becomes due and payable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect of them.

Inflation Linked Annuity Covered Bonds and Fixed Rate Covered Bonds in definitive form (other than Long Maturity Covered Bonds (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount of principal so deducted will be paid in the

manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, four years from the date on which such Coupon would otherwise have become due but in no event thereafter.

Upon any Inflation Linked Annuity Covered Bond or Fixed Rate Covered Bond in definitive form becoming due and repayable by the Issuer (in the absence of a Notice to Pay or a Fund Acceleration Notice) or by the Fund under the Covered Bond Guarantee (if a Notice to Pay or a Fund Acceleration Notice has been served) prior to its Final Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Covered Bond, Variable Interest Covered Bond or Long Maturity Covered Bond in definitive form becomes due and repayable, all unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Covered Bond** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the Principal Amount Outstanding of such Covered Bond.

If the due date for redemption of any Definitive Covered, (Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Covered Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against presentation and surrender of the relevant Definitive Covered Bond.

#### 6.4 *Payments in respect of Global Covered Bonds*

Payments of principal, interest (if any) and other amounts (if any) in respect of Covered Bonds represented by any Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to Definitive Covered Bonds and otherwise in the manner specified in the relevant Global Covered Bond against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Covered Bond, distinguishing between any payment of principal and any payment of interest, will be made on such Global Covered Bond by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

No payments of principal, interest or other amounts due in respect of a Global Covered Bond will be made by mail to an address in the United States or by transfer to an account maintained in the United States.

#### 6.5 *General provisions applicable to payments*

The holder of a Global Covered Bond shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the obligations of the Issuer or, as the case may be, the Fund will be discharged by payment to, or to the order of, the holder of such Global Covered Bond in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Fund to, or to the order of, the holder of such Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest and/or any other amount in respect of Covered Bonds is payable in U.S. Dollars, such U.S. Dollar

payments of principal and/or interest in respect of such Covered Bonds will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. Dollars at such specified offices outside the United States of the full amount of principal and/or interest and/or any other amount on the Covered Bonds in the manner provided above when due;
- (b) payment of the full amount of such principal and/or interest and/or any other amount at such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and/or interest and/or any other amount in U.S. Dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Fund, adverse tax consequences to the Issuer or the Fund.

#### 6.6 *Payment Day*

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) the relevant place of presentation;
  - (ii) London; and
  - (iii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the TARGET System is open.

#### 6.7 *Interpretation of principal*

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) the Final Redemption Amount of the Covered Bonds;
- (b) the Early Redemption Amount of the Covered Bonds;
- (c) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (d) in relation to Covered Bonds (other than Inflation Linked Annuity Covered Bonds) redeemable in instalments, the Instalment Amounts;

- (e) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 7.6);
- (f) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds; and
- (g) any Excess Proceeds attributable to principal which may be payable by the Representative to the Fund in respect of the Covered Bonds.

## 7. **Redemption and Purchase**

### 7.1 *Redemption of Inflation Linked Annuity Covered Bonds*

Unless previously redeemed or purchased and cancelled, each Inflation Linked Annuity Covered Bond will, subject to Condition 6.1, be redeemed in one or more amounts, calculated in accordance with the formula specified in the applicable Final Terms, in the relevant Specified Currency on the relevant Interest Payment Dates.

### 7.2 *Final Redemption*

Unless previously redeemed or purchased and cancelled, each Covered Bond (other than an Inflation Linked Annuity Covered Bond) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Final Maturity Date.

### 7.3 *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Covered Bondholders in accordance with Condition 14; and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Representative and to the Principal Paying Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (**Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Covered Bonds represented by Definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 14 at least five days prior to the Selection Date.

#### 7.4 *Redemption due to illegality or invalidity*

The Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Representative and the Principal Paying Agent and, in accordance with Condition 14, all Covered Bondholders (which notice shall be irrevocable), if the Issuer satisfies the Representative immediately before the giving of such notice that it has, or will, before the next Interest Payment Date of any Covered Bond of any Series, become unlawful for the Issuer to make, fund or allow to remain outstanding any Term Advance made by it to the Fund under the Intercompany Loan Agreement, as a result of any change in, or amendment to, the applicable laws or regulations or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or will become effective before the next such Interest Payment Date. ' .

Covered Bonds redeemed pursuant to this Condition 7.4 will be redeemed at their Early Redemption Amount referred to in Condition 7.6 together (if appropriate) with interest accrued (and, if this is an Inflation Linked Annuity Covered Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms) to (but excluding) the date of redemption.

#### 7.5 *Certification*

Prior to the publication of any notice of redemption pursuant to Condition 7.4, the Issuer shall deliver to the Representative a certificate signed by two Directors of the Issuer stating that the Issuer is entitled or required to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the Representative shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all Covered Bondholders, Receiptholders and Couponholders.

#### 7.6 *Early Redemption Amounts*

For the purpose of Conditions 7.4 and Condition 10, each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Covered Bond (other than a Zero Coupon Covered Bond but including an Instalment Covered Bond and a Partly Paid Covered Bond), at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its Principal Amount Outstanding (and, in the case of an Inflation Linked Annuity Covered Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms); or
- (b) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

<sup>y</sup> is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days, each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

7.7 *Instalments*

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.6.

7.8 *Partly Paid Covered Bonds*

Partly Paid Covered Bonds will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

7.9 *Purchases*

The Issuer, any of its Subsidiaries or the Fund may at any time purchase Covered Bonds (provided that, in the case of Definitive Covered Bonds, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Subject to the proviso below, such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation, provided that any Covered Bonds purchased by the Fund must be immediately surrendered to any Paying Agent for cancellation.

7.10 *Cancellation*

All Covered Bonds which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 7.9 and cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

7.11 *Late Payment on Zero Coupon Covered Bonds*

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 7.6(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Representative or the Principal Paying Agent and notice to that effect has been given to the Covered Bondholders in accordance with Condition 14.

7.12 *Legislative Exchange*

Following the coming into force in Iceland, at any time after the Programme Date, of (i) any legislation similar to covered bond legislation in force in any European Union, country, or (ii) any rules, regulations or guidelines published by any governmental authority that provides for bonds issued by Icelandic issuers to qualify for the same benefits available to covered bonds issued under covered bond legislation in force in any European Union country, the Issuer may, at its option and without the consent of the Representative, the Covered Bondholders, the Receiptholders or the Couponholders, exchange all (but not some only) of the Covered Bonds of all Series then outstanding (the **Existing**



**Covered Bonds**) for new Covered Bonds which qualify as covered bonds under such new legislation, rules, regulations or guidelines (the **New Covered Bonds**) in identical form, amount and denomination as the Existing Covered Bonds and on the same economic terms and conditions as the Existing Covered Bonds (the **Legislative Exchange**) if not more than 60 nor less than 30 days' notice to the Covered Bondholders (in accordance with Condition 14), the Representative and the Principal Paying Agent is given by the Issuer and provided that:

- (a) on the date on which such notice expires the Issuer delivers to the Representative a certificate signed by two Directors of the Issuer and a certificate signed by two Directors of the Management Company on behalf of the Fund confirming that, in the case of the Issuer, no Issuer Event of Default (as defined in Condition 10.1) or Potential Issuer Event of Default (as defined in Condition 15) and, in the case of the Fund, no Fund Event of Default (as defined in Condition 10.2) or Potential Fund Event of Default (as defined in Condition 15), shall have occurred and be continuing (disregarding for the purposes of this certificate any such event which occurs or which has occurred due to the implementation of such legislation, rules, regulations or guidelines); and
- (b) if the Existing Covered Bonds are listed, quoted and/or traded on or by a competent and/ or relevant listing authority, stock exchange and/or quotation system on or before the date on which such notice expires the Issuer delivers to the Representative a certificate signed by two Directors of the Issuer confirming that all applicable rules of such competent and/or relevant listing authority, stock exchange and/or quotation system have been or will be complied with (or compliance with such rules has been waived by the relevant listing authority, stock exchange and/or quotation system).

The Existing Covered Bonds will be cancelled concurrently with the issue of the New Covered Bonds and with effect on and from the date of issue thereof all references herein to Covered Bonds shall be deemed to be references to the New Covered Bonds and the Representative may, pursuant to the provisions described in Condition 15, agree with the Issuer and the Fund such modifications to the Transaction Documents as may be necessary for the issue of the New Covered Bonds under the new legislation, rules, regulations or guidelines.

## 8. **Taxation**

All payments of principal and interest in respect of the Covered Bonds, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or government charges of whatever nature imposed or levied by or on behalf of the Tax Jurisdiction unless such withholding or deduction is required by law. The Issuer will not be required to pay such additional amounts with respect to any Covered Bond, Receipt or Coupon:

- (a) presented for payment in Iceland;
- (b) the holder of which is liable for such taxes or duties in respect of such Covered Bond, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.6); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (f) where such withholding or deduction is required to be made based on provisions of the Act on Withholding of Public Levies at Source No 45/1987, as amended, the Act on Withholding of Tax on Financial Income No 91/1996, as amended, and Article 3 of the Income Tax Act no. 90/2003 (**ITA**).

If any payments made by the Fund under the Covered Bond Guarantee are or become subject to any withholding or deduction on account of any taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction, the Fund will not be obliged to pay any additional amount as a consequence.

As used herein:

**Tax Jurisdiction** means Iceland or any political subdivision or any authority thereof or therein having power to tax; and

**Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Paying Agent, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 14.

## 9. Prescription

The Covered Bonds, Receipts and Coupons will become void in accordance with Act 150/2007 unless presented for payment within 10 years (in the case of principal) and four years (in the case of interest or any other amount) after the Relevant Date (as defined below).

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.3 or any Talon which would be void pursuant to Condition 6.3.

For the purposes of these Terms and Conditions, **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Representative or the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 14.

## 10. Events of Default, Acceleration and Enforcement

### 10.1 *Issuer Events of Default*

The Representative at its discretion may, and if so requested in writing by the holders of at least one-fifth of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose or the purpose of any Extraordinary Resolution referred to in this Condition 10.1 means the Covered Bonds of this Series together with the Covered Bonds of any other Series then outstanding) then outstanding as if they were a single Series or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice (an **Issuer Acceleration Notice**) in writing to the Issuer that as against the Issuer (but not, for the avoidance of doubt, against the Fund under the Covered Bond Guarantee) each Covered Bond of each Series then outstanding is, and each such Covered Bond shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest (and, if this is an Inflation Linked Annuity Covered Bond, adjusted for indexation in accordance with the provisions specified in the applicable Final Terms) as provided in the Representative and Agency Agreement if any of the following events (each an **Issuer Event of Default**) shall occur and be continuing:

- (a) if default is made in the payment of any principal, premium (if any), interest or any other amount due in respect of the Covered Bonds or any of them and the default continues for a period of five days in the case of principal or premium (if any) and five days in the case of interest or any other amount; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Terms and Conditions, the Conditions of any other Series of Covered Bonds or any other Transaction Document (other than the Programme Agreement and each Subscription Agreement) (but excluding any obligation of the Issuer to comply with the Asset Coverage Test) and (except in any case where, in the opinion of the Representative, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Representative on the Issuer of notice requiring the same to be remedied; or
- (c) if any borrowed money of the Issuer or any of its, Principal Subsidiaries is not paid when due or becomes (whether by declaration or automatically in accordance with the relevant agreement or instrument constituting the same) due and payable by reason of any default (however described) prior to the date when it would otherwise have become due or any creditor of the Issuer or any of its Principal Subsidiaries becomes entitled to declare any such borrowed money due and payable by reason of any default (however described) or any facility or commitment available to the Issuer or any of its Principal Subsidiaries relating to borrowed money is withdrawn, suspended or cancelled by reason of any default (however described) of the company concerned, provided that, for the purposes of this subparagraph (c), the borrowed money must, when aggregated with all other borrowed money to which any part of this Condition 10.1(c) applies, exceed U.S.\$25,000,000 (or its equivalent in any other currency); or
- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Covered Bondholders; or
- (e) if the Issuer or any of its Principal Subsidiaries 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 Covered Bondholders, or the Issuer or any of its Principal 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
- (f) if (A) proceedings are initiated against the, Issuer or any of its Principal 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 Issuer or any of its Principal Subsidiaries 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, attachment, 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 or any of its Principal 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

- (h) if an Asset Coverage Test Breach Notice has been served and not revoked (in accordance with the terms of the Transaction Documents) on or before the second Calculation Date after service of such Asset Coverage Test Breach Notice,

provided that any condition, event or act described in subparagraphs (b), (c), (e), (f) and (g) above shall only constitute an Issuer Event of Default if the Representative shall have certified in writing to the Issuer and the Fund that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series.

For the purposes of these Terms and Conditions:

**Principal Subsidiary** at any time shall mean a Subsidiary of the Issuer:

- (i) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than five per cent, of the consolidated gross revenues, or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries; or .
- (ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately before the transfer is a Principal Subsidiary,

all as more particularly defined in the Representative and Agency Agreement.

A report by the auditors of the Issuer (whether or not addressed to the Representative) that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

Upon the Covered Bonds becoming immediately due and payable against the Issuer pursuant to this Condition 10.1, the Representative shall forthwith serve a notice to pay (the **Notice to Pay**) on the Fund pursuant to the Covered Bond Guarantee. If a Notice to Pay has been served, the Fund shall be required to make payments of Guaranteed Amounts when the same shall become Due for Payment in accordance with the terms of the Covered Bond Guarantee.

Following service of an Issuer Acceleration Notice, the Representative may or shall take such proceedings against the Issuer in accordance with the first paragraph of Condition 10.3.

The Representative and Agency Agreement provides that all moneys received by the Representative from the Issuer or any administrator, administrative or other receiver, manager or other similar official appointed in relation to the Issuer following service of an Issuer Acceleration Notice (the **Excess Proceeds**), shall be paid by the Representative on behalf of the Covered Bondholders of the relevant Series to the Fund for its own account, as soon as practicable, and shall be held by the Fund in the GIC Account and shall be used by the Fund in the same manner as all other moneys from time to time standing to the credit of the GIC Account pursuant to the Fund Deed. Any Excess Proceeds received by the Representative shall discharge *pro tanto* the obligations of the Issuer in respect of the payment of the amount of such Excess Proceeds under the Covered Bonds, Receipts and Coupons. However, the obligations of the Fund under the Covered Bond Guarantee are (following service of a Notice to Pay) unconditional and irrevocable and the receipt by the Representative of any Excess Proceeds shall not

reduce or discharge any of such obligations. By subscribing for this Covered Bond, each Covered Bondholder shall be deemed to have irrevocably directed the Representative to pay the Excess Proceeds to the Fund in the manner as described above.

#### 10.2 *Fund Events of Default*

The Representative at its discretion may, and if so requested in writing by the holders of at least one-fifth of the aggregate Principal Amount Outstanding of the Covered Bonds (which for this purpose and the purpose of any Extraordinary Resolution referred to in this Condition 10.2 means the Covered Bonds of this Series together with the Covered Bonds of any other Series then outstanding) then outstanding as if they were a single Series or if so directed by an Extraordinary Resolution of all the Covered Bondholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice (a **Fund Acceleration Notice**) in writing to the Issuer and the Fund, that (i) each Covered Bond of each Series then outstanding is, and each Covered Bond of each Series then outstanding shall as against the Issuer (if not already due and repayable against the Issuer following service of an Issuer Acceleration Notice), thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest (and, if this is an Inflation Linked Annuity Covered Bond, such accrued interest to be adjusted for indexation in accordance with the provisions set out in the applicable Final Terms), and (ii) all amounts payable by the Fund under the Covered Bond Guarantee shall thereupon immediately become due and payable at the Guaranteed Amount corresponding to the Early Redemption Amount for each Covered Bond of each Series then outstanding together with accrued interest (and, if this is an Inflation Linked Annuity Covered Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms), in each case as provided in the Representative and Agency Agreement if any of the following events (each a **Fund Event of Default**) shall occur and be continuing:

- (a) if default is made in the payment of any Guaranteed Amounts which are Due for Payment on the relevant Guaranteed Amounts Due Date in respect of the Covered Bonds of any Series then outstanding and the default continues for a period of five days except in the case of the payments of a Guaranteed Amount which is Due for Payment under Condition 10.1 when the Fund shall be required to make payments of Guaranteed Amounts which are Due for Payment on the dates specified therein; or
- (b) if the Fund fails to perform or observe any of its other obligations under the Covered Bond Guarantee, the Representative and Agency Agreement or any other Transaction Document (other than the obligation to satisfy the Asset Coverage Test in accordance with Clause 10 of the Fund Deed) to which the Fund is a party and (except in any case where, in the opinion of the Representative, is incapable of remedy when no such continuation and notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Representative on the Fund of notice requiring the same to be remedied; or
- (c) if an order is made by any competent court or resolution passed for the winding up or dissolution of the Fund; or
- (d) if the Fund ceases or threatens to cease to carry on the whole or a substantial part of its business or the Fund 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
- (e) if (A) proceedings are initiated against the Fund 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 Fund 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, attachment, 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

- (f) if the Fund 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 any condition, event or act described in subparagraphs (b) and (d) to (f) (inclusive) above shall only constitute a Fund Event of Default if the Representative shall have certified in writing to the Issuer and the Fund that such condition, event or act is, in its opinion, materially prejudicial to the interests of the Covered Bondholders of any Series then outstanding.

Following service of a Fund Acceleration Notice, the Representative may or shall take such proceedings or steps in accordance with the first and second paragraphs, respectively, of Condition 10.3.

Upon service of a Fund Acceleration Notice, the Covered Bondholders shall have a claim against the Fund, under the Covered Bond Guarantee, for an amount equal to the Early Redemption Amount in respect of each Covered Bond together with accrued interest and any other amount due under such Covered Bonds as provided in the Representative and Agency Agreement.

### 10.3 *Enforcement*

The Representative may at any time, at its discretion and without further notice, take such proceedings against the Issuer and or the Fund, as the case may be, and/or any other person as it may think fit to enforce the provisions of the Representative and Agency Agreement, the Covered Bonds, the Receipts, the Coupons or any other Transaction Document, but it shall not be bound to take any such enforcement proceedings in relation to the Representative and Agency Agreement, the Covered Bonds, the Receipts, the Coupons or any other Transaction Document unless (i) it shall have been so directed by an Extraordinary Resolution of all the Covered Bondholders of all Series then outstanding (with the Covered Bonds of all Series taken together as a single Series as aforesaid) or so requested in writing by the holders of not less than one-fifth of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series then outstanding and (ii) it shall have been indemnified and/or secured to its satisfaction.

In exercising any of its powers, authorities and discretions the Representative shall only have regard to the interests of the Covered Bondholders of all Series then outstanding.

No Covered Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Fund or to take any action with respect to the Representative and Agency Agreement, any other Transaction Document, the Covered Bonds, the Receipts or the Coupons unless the Representative, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

## 11. **Replacement of Covered Bonds, Receipts, Coupons and Talons**

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the

Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## 12. **Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Representative, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at times be a Paying Agent having short-term, unsecured, unsubordinated and unguaranteed debt obligation rating of at least P-1 by Moody's (which may be the Principal Paying Agent) in a jurisdiction within Europe, other than Iceland;
- (c) so long as the Covered Bonds are listed on any stock exchange or admitted to listing or trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (d) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in the United States in the circumstances described in Condition 6.5. Notice of any such variation, termination, appointment or change will be given by the Issuer to the Covered Bondholders as soon as reasonably practicable in accordance with Condition 14.

In acting under the Representative and Agency Agreement, the Paying Agents act solely as agents of the Issuer and the Fund and, in certain circumstances specified therein, of the Representative and do not assume any obligation to, or relationship of agency with, any Covered Bondholders, Receiptholders or Couponholders. The Representative and Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## 13. **Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 9.

## 14. **Notices**

All notices regarding the Covered Bonds will be valid if published (a) in a leading English language daily newspaper of general circulation in London; and (b) if and for so long as the Covered Bonds are admitted to trading on, and listed on the OMX Nordic Exchange Iceland hf., in a daily newspaper of general circulation in Iceland. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and any daily newspaper in Iceland. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided

above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Representative shall approve.

Until such time as any Definitive Covered Bonds are issued, so long as any Global Covered Bonds representing the Covered Bonds are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, there shall be substituted for such publication in such newspapers) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed on a stock exchange or admitted to listing or trading by any other relevant authority and the rules of the stock exchange, or other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Covered Bonds on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relevant Covered Bond or Covered Bonds, with the Principal Paying Agent. Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream Luxembourg, as the case may be, may approve for this purpose.

#### 15. Meetings of Covered Bondholders, Modification and Waiver

**Covered Bondholders, Receiptholders and Couponholders should note that the Issuer, the Fund and the Principal Paying Agent may without their consent or the consent of the Representative agree to modify any provision of any applicable Final Terms which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.**

The Representative and Agency Agreement contains provisions for convening meetings of the Covered Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification to the Covered Bonds, the Receipts, the Coupons or any of the provisions of the Representative and Agency Agreement. Such a meeting may be convened by the Issuer, the Fund or the Representative and shall be convened by the Issuer at the request in writing of Covered Bondholders holding not less than five per cent, of the Principal Amount Outstanding of the Covered Bonds for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent, of the aggregate Principal Amount Outstanding of the Covered Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders whatever the Principal Amount Outstanding of the Covered Bonds so held or represented, except that at any meeting the business of which includes the modification of any Reserved Matter (as defined in the Representative and Agency Agreement), the quorum shall be one or more persons holding or representing not less than two-thirds of the aggregate Principal Amount Outstanding of the Covered Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Covered Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders shall, subject as provided below, be binding on all the Covered Bondholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders. Pursuant to the Representative and Agency Agreement, the Representative may convene a single meeting of the holders of Covered Bonds of more than one Series if in the opinion of the Representative there is no conflict between the holders of such Covered Bonds, in which event the provisions of this paragraph shall apply thereto *mutatis mutandis*.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Representative to accelerate the Covered Bonds pursuant to Condition 10 or to direct the Representative to take any enforcement action pursuant to Condition 10 (each a **Programme Resolution**) shall only be capable of being passed at a single meeting of the holders of the Covered Bonds of all Series then outstanding. Any such meeting to consider a Programme Resolution may be convened by the Issuer, the Fund or the Representative or by Covered Bondholders, in the case of a direction to accelerate the Covered Bonds pursuant to Conditions 10.1 and 10.2 or to take enforcement action pursuant to Condition 10.3, holding at least one-fifth of the Principal



Amount Outstanding of the Covered Bonds of all Series then outstanding. The quorum at any such meeting for passing a Programme Resolution is one or more persons holding or representing at least 50 per cent, of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Covered Bonds whatever the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding. A Programme Resolution passed at any meeting of the Covered Bondholders of all Series shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting, and on all related Receiptholders and Couponholders.

In connection with any meeting of the holders of Covered Bonds of more than one Series where such Covered Bonds are not denominated in ISK, the nominal amount of the Covered Bonds of any Series not denominated in ISK shall be converted into ISK at the spot rate of exchange determined by the Representative.

The Representative, the Fund and the Issuer may also agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders (and for this purpose the Representative may disregard whether any such modification relates to a Reserved Matter), to:

- (a) any modification of the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document provided that, in the sole opinion of the Representative, such modification is not materially prejudicial to the interests of any of the Covered Bondholders of any Series then outstanding; or
- (b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including these Terms and Conditions), the related Receipts and/or Coupons or any Transaction Document which is, in the sole opinion of the Representative, of a formal, minor or technical nature or is to correct a manifest error or an error which is, in the sole opinion of the Representative, proven, or is to comply with mandatory provisions of law.

Notwithstanding the above, the Issuer, the Fund and the Principal Paying Agent may agree, without the consent of the Representative, the Covered Bondholders, Receiptholders or Couponholders, to any modification of any of the provisions of any Final Terms which is of a formal, minor or technical nature or is made to correct a proven or manifest error or to comply with any mandatory provisions of law.

The Representative may also agree, without the consent of the Covered Bondholders of any Series then outstanding, the related Receiptholders and/or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Covered Bonds of any Series, or determine, without any such consent as aforesaid, that any Issuer Event of Default or Fund Event of Default or Potential Issuer Event of Default or Potential Fund Event of Default shall not be treated as such, provided that, in any such case, it is not, in the sole opinion of the Representative, materially prejudicial to the interests of any of the Covered Bondholders of any Series then outstanding.

In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Representative shall have regard to the general interests of the Covered Bondholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Covered Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Covered Bondholders, the related Receiptholders, Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Representative shall not be entitled to require, nor shall any Covered Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Fund, the Representative or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, Receiptholders and/or Couponholders.

For the purposes of these Terms and Conditions:

**Potential Fund Event of Default** means any condition, event or act which, with the lapse of time and/ or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute a Fund Event of Default; and

**Potential Issuer Event of Default** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Issuer Event of Default.

16. **Indemnification of the Representative and Representative Contracting with the Issuer and/or the Fund**

If, in connection with the exercise of its powers, authorities or discretions the Representative is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series then outstanding would be materially prejudiced thereby, the Representative shall not exercise such power, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution or by a direction in writing of such Covered Bondholders of at least one-fifth of the Principal Amount Outstanding of Covered Bonds then outstanding.

The Representative and Agency Agreement contain provisions for the indemnification of the Representative and for its relief from responsibility, including provisions relieving it from taking any action unless indemnified and/or secured to its satisfaction.

The Representative and Agency Agreement also contain provisions pursuant to which the Representative is entitled, *inter alia*, (i) to enter into business transactions with the Issuer, any of its Subsidiaries and affiliates and/or the Fund and to act as representative or trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, any of its Subsidiaries and affiliates and/or the Fund, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Covered Bondholders, Receiptholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Representative will not be responsible for any loss, expense or liability, which may be suffered as a result of any Loans or Related Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Representative. The Representative will not be responsible for (i) supervising the performance by the Issuer, the Fund or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and the Representative will be entitled to assume, until it has written notice to the contrary, that all such persons are properly performing their duties, (ii) considering the basis on which approvals or consents are granted by the Issuer, the Fund or any other party to the Transaction Documents under the Transaction Documents, (iii) monitoring the Portfolio, including, without limitation, whether the Portfolio is in compliance with the Asset Coverage Test, or (iv) monitoring whether Loans and Related Security satisfy the Eligibility Criteria. The Representative will have no responsibility in relation to the legality, validity, sufficiency and enforceability of the Transaction Documents.

The Representative will not be liable for any expense, loss or damage suffered by or occasioned by reason of any action taken or omitted to be taken by the Representative pursuant to the Representative and Agency Agreement, these Terms and Conditions or any other Transaction Document or in connection therewith unless directly caused by the fraud, gross negligence or wilful default of the Representative and, in no circumstances shall the Representative be liable for any special, general or consequential damages even if the Representative has been advised of the possibility of such damages.

**17. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders to create and issue further covered bonds in one or more Tranches or Series having terms and conditions the same as the Covered Bonds of any one or more Tranche or, as the case may be, Series or the same in all respects save for the first Interest Amount, first Interest Payment Date, the Interest Commencement Date thereon, the Issue Date, the initial Principal Amount Outstanding and/or the Issue Price and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds.

**18. Appointment of the Representative**

By subscribing for or purchasing this Covered Bond, the holder of this Covered Bond shall be deemed to have acknowledged and agreed to the appointment of the Representative as its representative to act for the benefit of the holders for the time being of the Covered Bonds in accordance with the terms of the Representative and Agency Agreement.

**19. Governing Law and Jurisdiction**

The Representative and Agency Agreement, the Covered Bonds, the Receipts, the Coupons and the other Transaction Documents are governed by, and shall be construed in accordance with, Icelandic law.

The Issuer irrevocably agrees that any dispute arising out of the Representative and Agency Agreement, the Covered Bonds, the Coupons, the Receipts and/or any other Transaction Document shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

Legal action taken under this Condition 19 may be proceeded with in accordance with the Act on Civil Procedure No. 91/1991 (*Lög urn meðferð einkamála*), Chapter 17.

**SCHEDULE 2**  
**FORM OF CALCULATION AGENCY AGREEMENT**

**CALCULATION AGENCY AGREEMENT**

**DATED [       ]**

**ARION BANK HF.**

**ISK 200,000,000,000**  
**COVERED BOND PROGRAMME**

## CALCULATION AGENCY AGREEMENT

in respect of a

ISK 200,000,000,000

### COVERED BOND PROGRAMME

THIS AGREEMENT is dated [                      ]

#### BETWEEN:

- (1) **ARION BANK HF.** (the **Issuer**);
- (2) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND** (the **Fund**);
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED** (the **Representative**); and
- (4) [                      ] of [                      ] (the **Calculation Agent**, which expression shall include any successor calculation agent appointed under this Agreement).

#### IT IS AGREED:

##### 1. APPOINTMENT OF THE CALCULATION AGENT

The Calculation Agent is appointed, and the Calculation Agent agrees to act, as Calculation Agent in respect of each Series of Covered Bonds described in the Schedule (the **Relevant Covered Bonds**) for the purposes set out in Clause 2 and on the terms of this Agreement. The agreement of the parties that this Agreement is to apply to each Series of Relevant Covered Bonds shall be evidenced by the manuscript annotation and signature in counterpart of the Schedule.

##### 2. DUTIES OF CALCULATION AGENT

The Calculation Agent shall in relation to each series of Relevant Covered Bonds (each a **Series**) perform all the functions and duties imposed on the Calculation Agent by the terms and conditions of the Relevant Covered Bonds (the **Conditions**) including endorsing the Schedule appropriately in relation to each Series of Relevant Covered Bonds. In addition, the Calculation Agent agrees that it will provide a copy of all calculations made by it which affect the nominal amount outstanding of any Relevant Covered Bonds which are identified on the Schedule as being NGNs to [PRINCIPAL PAYING AGENT] to the contact details set out on the signature page hereof.

##### 3. EXPENSES

The arrangements in relation to expenses will be separately agreed in relation to each issue of Relevant Covered Bonds.

##### 4. INDEMNITY

- 4.1 The Issuer shall indemnify the Calculation Agent against any losses, liabilities, costs, claims, actions, demands or expenses (together, **Losses**) (including, but not limited, to, all reasonable costs, legal fees, charges and expenses (together, **Expenses**) paid or incurred in disputing or defending any Losses) which it may incur or which may be made against it as a result of or in connection with its appointment or the exercise of its powers and duties under this Agreement except for any Losses or Expenses resulting from its own default, negligence or bad faith or that of its officers, directors or employees or the breach by it of the terms of this Agreement.

- 4.2 The Calculation Agent shall indemnify the Issuer against any Losses, (including, but not limited to, all reasonable Expenses paid or incurred in disputing or defending any Losses) which the Issuer may incur or which may be made against the Issuer as a result of the breach by the Calculation Agent of the terms of this Agreement or its default, negligence or bad faith or that of its officers, directors or employees.

## 5. CONDITIONS OF APPOINTMENT

- 5.1 In acting under this Agreement and in connection with the Relevant Covered Bonds, the Calculation Agent shall act solely as an agent of the Issuer and, in the circumstances described in Clauses 5.2 and 5.3, the Representative and will not assume any obligations towards or relationship of agency for or with any of the owners or holders of the Relevant Covered Bonds or the receipts or coupons (if any) appertaining to the Relevant Covered Bonds (the **Receipts** and the **Coupons**, respectively).

- 5.2 At any time after an Issuer Event of Default or Potential Issuer Event of Default shall have occurred or the Representative shall have received any money from the Issuer or the Fund which it proposes to pay under Clause 10 of the Representative and Agency Agreement dated \_\_\_\_\_ January, 2012 (the **Representative and Agency Agreement**) between, *inter alios*, the Issuer, the Fund and the Representative to the relevant Covered Bondholders, Receiptholders and/or Couponholders, the Representative may: by notice in writing to the Issuer, the Fund and the Calculation Agent, require the Calculation Agent pursuant to this Agreement:

- (a) to act thereafter as Calculation Agent of the Representative *mutatis mutandis* on the terms of this Agreement (save that the Representative's liability under any provisions hereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Calculation Agent shall be limited to the amounts for the time being held by the Representative on the terms of this Agreement relating to the Covered Bonds of the relevant Series and the relative Receipts and Coupons and available for such purpose) and thereafter to hold all Covered Bonds, Receipts, Coupons and Talons and all sums, documents and records held by them in respect of Covered Bonds, Receipts, Coupons and Talons on behalf of the Representative; or
- (b) deliver up all Covered Bonds, Receipts and Coupons and all sums, documents and records held by them in respect of the Covered Bonds, Receipts and Coupons to the Representative or as the Representative shall direct in such notice provided that such notice shall be deemed not to apply to any documents or records which the Principal Paying Agent and/or the relevant Paying Agent is obliged not to release by any law or regulation.

- 5.3 At any time after a Fund Event of Default or Potential Fund Event of Default shall have occurred or the Representative shall have received any money from the Fund which it proposes to pay under Clause 10 of the Representative and Agency Agreement to the relevant Covered Bondholders, Receiptholders and/or Couponholders, the Representative may by notice in writing to the Issuer, the Fund and the Calculation Agent require the Calculation Agent pursuant to this Agreement to:

- (a) to act thereafter as Calculation Agent of the Representative *mutatis mutandis* on the terms of this Agreement (save that the Representative's liability under any provisions hereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Calculation Agent shall be limited to the amounts for the time being held by the Representative on the terms of this Agreement relating to the Covered Bonds of the relevant Series and available for such purpose) and thereafter to hold all Covered Bonds, Receipts and Coupons and all sums, documents and records held by them in respect of Covered Bonds, Receipts and Coupons on behalf of the Representative; or
- (b) to deliver up all Covered Bonds, Receipts and Coupons and all sums, documents and records held by them in respect of the Covered Bonds, Receipts and Coupons to the Representative or as the Representative shall direct in such notice provided that such notice shall be deemed not to apply to any documents or records which the Calculation Agent is obliged not to release by any law or regulation.

- 5.4 In relation to each issue of Relevant Covered Bonds, the Calculation Agent shall be obliged to perform the duties and only the duties specifically stated in this Agreement and the Conditions and no implied duties or obligations shall be read into this Agreement or the Conditions against the Calculation Agent, other than the duty to act honestly and in good faith and to exercise the diligence of a reasonably prudent expert in comparable circumstances.
- 5.5 The Calculation Agent may consult with legal and other professional advisers and the opinion of the advisers shall be full and complete protection in respect of any action taken, omitted or suffered under this Agreement in good faith and in accordance with the opinion of the advisers.
- 5.6 The Calculation Agent shall be protected and shall incur no liability in respect of any action taken, omitted or suffered in reliance on any instruction from the Issuer, the Fund or the Representative or any document which it reasonably believes to be genuine and to have been delivered by the proper party or on written instructions from the Issuer, the Fund or the Representative.
- 5.7 The Calculation Agent and any of its officers, directors and employees may become the owner of, or acquire any interest in, any Covered Bonds, Receipts or Coupons (if any) with the same rights that it or he would have had if the Calculation Agent were not appointed under this Agreement, and may engage or be interested in any financial or other transaction with the Issuer and may act on, or as depository, trustee or agent for, any committee or body of holders of Covered Bonds or Coupons or in connection with any other obligations of the Issuer as freely as if the Calculation Agent were not appointed under this Agreement.

## 6. TERMINATION OF APPOINTMENT

- 6.1 The Issuer and the Fund may, with the prior written approval of the Representative, terminate the appointment of the Calculation Agent at any time by giving to the Calculation Agent at least 45 days' prior written notice to that effect, provided that, so long as any of the Relevant Covered Bonds is outstanding:
- (a) the notice shall not expire less than 45 days before any date on which any calculation is due to be made in respect of any Relevant Covered Bonds; and
  - (b) notice shall be given in accordance with the Conditions to the holders of the Relevant Covered Bonds at least 30 days before any removal of the Calculation Agent.
- 6.2 Notwithstanding the provisions of subclause 6.1, if at any time:
- (a) the Calculation Agent becomes incapable of acting, or is adjudged bankrupt or insolvent, or files a voluntary petition in bankruptcy or makes an assignment for the benefit of its creditors or consents to the appointment of an administrator, liquidator or administrative or other receiver of all or any substantial part of its property, or admits in writing its inability to pay or meet its debts as they may mature or suspends payment of its debts, or if any order of any court is entered approving any petition filed by or against it under the provisions of any applicable bankruptcy or insolvency law or if a receiver of it or of all or a substantial part of its property is appointed or if any officer takes charge or control of the Calculation Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation; or
  - (b) the Calculation Agent fails duly to perform any function or duty imposed on it by the Conditions and this Agreement,

the Issuer may, with the prior written approval of the Representative, immediately without notice terminate the appointment of the Calculation Agent, in which event notice of the termination shall be given to the holders of the Relevant Covered Bonds in accordance with the Conditions as soon as practicable.

- 6.3 The termination of the appointment of the Calculation Agent under subclause 6.1 or 6.2 shall not entitle the Calculation Agent to any amount by way of compensation but shall be without prejudice to any amount then accrued due.
- 6.4 The Calculation Agent may resign its appointment under this Agreement at any time by giving to the Issuer, the Fund and the Representative at least 90 days' prior written notice to that effect. Following receipt of a notice of resignation from the Calculation Agent, the Issuer shall promptly give notice of the resignation to the holders of the Relevant Covered Bonds in accordance with the Conditions.
- 6.5 Notwithstanding the provisions of subclauses 6.1, 6.2 and 6.4, so long as any of the Relevant Covered Bonds is outstanding, the termination of the appointment of the Calculation Agent (whether by the Issuer or the Fund or by the resignation of the Calculation Agent) shall not be effective unless upon the expiry of the relevant notice a successor Calculation Agent approved in writing by the Representative has been appointed. The Issuer agrees with the Calculation Agent that if, by the day falling 10 days before the expiry of any notice under subclause 6.4, the Issuer and the Fund have not appointed a replacement Calculation Agent approved in writing by the Representative, the Calculation Agent shall be entitled, on behalf of the Issuer, to appoint as a successor Calculation Agent in its place a reputable financial institution of good standing which the Issuer, the Fund and the Representative shall approve.
- 6.6 Upon its appointment becoming effective, a successor Calculation Agent shall without any further action become vested with all the authority, rights, powers, duties and obligations of its predecessor with the same effect as if originally named as the Calculation Agent under this Agreement.
- 6.7 If the appointment of the Calculation Agent under this Agreement is terminated (whether by the Issuer or by the resignation of the Calculation Agent), the Calculation Agent shall on the date on which the termination takes effect deliver to the successor Calculation Agent any records concerning the Relevant Covered Bonds maintained by it (except those documents and records which it is obliged by law or regulation to retain or not to release), but shall have no other duties or responsibilities under this Agreement.
- 6.8 Any corporation into which the Calculation Agent may be merged or converted, or any corporation with which the Calculation Agent may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Calculation Agent shall be a party, or any corporation to which the Calculation Agent shall sell or otherwise transfer all or substantially all of its assets shall, on the date when the merger, consolidation or transfer becomes effective and to the extent permitted by any applicable laws, become the successor Calculation Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties to this Agreement, unless otherwise required by the Issuer, and after the said effective date all references in this Agreement to the Calculation Agent shall be deemed to be references to such successor corporation. Written notice of any such merger, conversion, consolidation or transfer shall immediately be given to the Issuer, the Fund, the Representative and the Principal Paying Agent by the Calculation Agent.

## 7. **COMMUNICATIONS**

- 7.1 All communications shall be by fax or letter delivered by hand. Each communication shall be made to the relevant party at the fax number or address and marked for the attention of the person or department from time to time specified in writing by that party to the other for the purpose. The initial fax number and person or department so specified by each party are set out in the Representative and Agency Agreement or, in the case of the Calculation Agent, on the signature page of this Agreement.
- 7.2 A communication shall be deemed received (if by fax) when an acknowledgement of receipt is received or (if by letter) when delivered, in each case in the manner required by this Clause. However, if a communication is received after business hours on any business day or on a day which is not a business day in the place of receipt it shall be deemed to be received and become effective at the opening of business on the next business day in the place of receipt. Every communication shall be irrevocable save in respect of any manifest error in it.



7.3 Any notice given under or in connection with this Agreement shall be in English. All other documents provided under or in connection with this Agreement shall be:

- (a) in English; or
- (b) if not in English, accompanied by a certified English translation and, in this case, the English translation shall prevail unless the document is a statutory or other official document.

## 8. CHANGE OF REPRESENTATIVE

8.1 If there is any change in the identity of the Representative in accordance with the Representative and Agency Agreement, the parties of this Agreement shall execute such documents and take such action as the successor Representative and the outgoing Representative may reasonably require for the purpose of vesting in the successor Representative the rights of the outgoing Representative under this Agreement.

8.2 It is hereby acknowledged and agreed that by its execution of this Agreement the Representative shall not assume or have any obligations or liabilities to any of the other parties hereto under this Agreement and that the Representative has agreed to become a party to this Agreement for the purpose only of taking the benefit of this Agreement and agreeing to amendments thereto. Any liberty or right which may be exercised or any determination which may be made under this Agreement by the Representative may be exercised or made in the Representative's absolute discretion without any obligation to give reasons therefor, and the Representative shall not be responsible for any Liability occasioned by so acting but subject always to the provisions of Clause 12 of the Representative and Agency Agreement.

## 9. DESCRIPTIVE HEADINGS AND COUNTERPARTS

9.1 The descriptive headings in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

9.2 This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Agreement.

## 10. GOVERNING LAW AND JURISDICTION

### 10.1 Governing Law

This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

### 10.2 Jurisdiction

Each of the Issuer, the Fund, the Representative and the Calculation Agent irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

This Agreement has been entered into on the date stated at the beginning of this Agreement.

## ARION BANK HF.

By:

## ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND

By:

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By:

By:

[CALCULATION AGENT]  
[Address of Calculation Agent]

Telex No:       •  
Telefax No:     •  
Attention:       •

By:

**SCHEDULE TO THE CALCULATION AGENCY AGREEMENT**

Series number	Issue Date	Maturity Date (if any)	Title and Nominal Amount	NGN [Yes/No]	Annotation by Calculation Agent/Issuer
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**SCHEDULE 3**

**FORM OF PUT NOTICE**

**ARION BANK HF.**

**[title of relevant Series of Covered Bonds]**

By depositing this duly completed Notice with any Paying Agent for the above Series of Covered Bonds (the **Covered Bonds**) the undersigned holder of the Covered Bonds surrendered with this Notice and referred to below irrevocably exercises its option to have [the full/.....]<sup>(1)</sup> nominal amount of the Covered Bonds redeemed in accordance with Condition on [redemption date].

This Notice relates to Covered Bonds in the aggregate nominal amount of ..... bearing the following serial numbers:

.....

If the Covered Bonds referred to above are to be returned<sup>(2)</sup> to the undersigned under Clause 13.8(d) of the Representative and Agency Agreement, they should be returned by post to:

.....

**Payment Instructions**

Please make payment in respect of the above-mentioned Covered Bonds by [cheque posted to the above address/transfer to the following bank account]<sup>(1)</sup>:

Bank: .....  
.....

Branch Address:

Branch Code: .....  
.....

Account Number:

Signature of holder:

*[To be completed by recipient Paying Agent]*

Details of missing unmatured Coupons .....<sup>(3)</sup>

Received by: .....

*[Signature and stamp of Paying Agent]*

At its office at: .....  
.....

On:

**COVERED BONDS:**

- (1) Complete as appropriate.
- (2) The Representative and Agency Agreement provides that Covered Bonds so returned will be sent by post, uninsured and at the risk of the Covered Bondholder, unless the Covered Bondholder otherwise requests and pays the costs of such insurance to the relevant Paying Agent at the time of depositing the Covered Bond referred to above.
- (3) Only relevant for Fixed Rate Covered Bonds (which are not also Index Linked Redemption Covered Bonds, Dual Currency Redemption Covered Bonds, Long Maturity Covered Bonds, Range Accrual Covered Bonds or Target Redemption Covered Bonds) in definitive form.

**N.B. The Paying Agent with whom the above-mentioned Covered Bonds are deposited will not in any circumstances be liable to the depositing Covered Bondholder or any other person for any loss or damage arising from any act, default or omission of such Paying Agent in relation to the said Covered Bonds or any of them unless such loss or**

**damage was caused by the fraud or negligence of such Paying Agent or its directors, officers or employees.**

This Put Notice is not valid unless all of the paragraphs requiring completion are duly completed. Once validly given this Put Notice is irrevocable except in the circumstances set out in Clause 13.8(d) of the Representative and Agency Agreement.

## SCHEDULE 4

### FORMS OF GLOBAL AND DEFINITIVE COVERED BONDS, RECEIPTS, COUPONS AND TALONS

#### PART 1

##### FORM OF TEMPORARY GLOBAL COVERED BOND

[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 SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.]<sup>1</sup>

ARION BANK HF.

##### TEMPORARY GLOBAL COVERED BOND

This Global Covered Bond is a Temporary Global Covered Bond in respect of a duly authorised issue of Covered Bonds (the **Covered Bonds**) of Arion Bank hf. (the **Issuer**) described, and having the provisions specified, in the attached Final Terms (the **Final Terms**). References in this Global Covered Bond to the Conditions shall be to the Terms and Conditions of the Covered Bonds as set out in Schedule 1 to the Agreement (as defined below) as modified and supplemented by the information set out in the Final Terms, but in the event of any conflict between the provisions of (a) that Schedule or (b) this Global Covered Bond and the information set out in the Final Terms, the Final Terms will prevail.

Words and expressions defined or set out in the Conditions and/or the Final Terms shall have the same meaning when used in this Global Covered Bond.

This Global Covered Bond is issued subject to, and with the benefit of, the Conditions and a Representative and Agency Agreement (the **Agreement**, which expression shall be construed as a reference to that agreement as the same may be amended, supplemented, novated and/or restated from time to time) dated \_\_\_\_\_ January, 2012 and made between, *inter alios*, the Issuer, the Fund, Deutsche Trustee Company Limited (the **Representative**), Deutsche Bank AG, London Branch (the **Principal Paying Agent**) and the other agents named in it.

For value received the Issuer, subject to and in accordance with the Conditions, promises to pay to the bearer of this Global Covered Bond on each Instalment Date (if the Covered Bonds are repayable in instalments) and on the Maturity Date (if any) and/or on such earlier date(s) as all or any of the Covered Bonds represented by this Global Covered Bond may become due and repayable in accordance with the Conditions, the amount payable under the Conditions in respect of the Covered Bonds on each such date and to pay interest (if any) on the nominal amount of the Covered Bonds from time to time represented by this Global Covered Bond calculated and payable as provided in the Conditions together with any other sums payable under the Conditions, upon presentation and, at maturity, surrender of this Global Covered Bond at the office of the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB or at the specified office of any of the other paying agents located outside the United States (except as provided in the Conditions) from time to time appointed by the Issuer in respect of the Covered Bonds, but in each case subject to the requirements as to certification provided below.

If the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note, the nominal amount of Covered Bonds represented by this Global Covered Bond shall be the aggregate amount from time to time entered in the records of both Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together, the **relevant Clearing Systems**). The records of the relevant Clearing Systems (which expression in this Global Covered Bond means the records that each relevant Clearing System holds for its customers which reflect the amount of such customer's interest in the Covered Bonds) shall be conclusive

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<sup>1</sup> This legend can be deleted if the Covered Bonds have an initial maturity of 365 days or less.

evidence of the nominal amount of Covered Bonds represented by this Global Covered Bond and, for these purposes, a statement issued by a relevant Clearing System stating the nominal amount of Covered Bonds represented by this Global Covered Bond at any time (which statement shall be made available to the bearer upon request) shall be conclusive evidence of the records of the relevant Clearing System at that time.

If the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Note, the nominal amount of the Covered Bonds represented by this Global Covered Bond shall be the amount stated in the applicable Final Terms or, if lower, the nominal amount most recently entered by or on behalf of the Issuer in the relevant column in Part 2, 3 or 4 of Schedule One or in Schedule Two.

On any redemption or payment of an instalment or interest being made in respect of, or purchase and cancellation of, any of the Covered Bonds represented by this Global Covered Bond the Issuer shall procure that:

- (a) if the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note, details of such redemption, payment or purchase and cancellation (as the case may be) shall be entered pro rata in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Covered Bonds recorded in the records of the relevant Clearing Systems and represented by this Global Covered Bond shall be reduced by the aggregate nominal amount of the Covered Bonds so redeemed or purchased and cancelled or by the aggregate amount of such instalment so paid; or
- (b) if the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Covered Bond, details of such redemption, payment or purchase and cancellation (as the case may be) shall be entered by or on behalf of the Issuer in Schedule One and the relevant space in Schedule One recording any such redemption, payment or purchase and cancellation (as the case may be) shall be signed by or on behalf of the Issuer. Upon any such redemption, payment of an instalment or purchase and cancellation, the nominal amount of the Covered Bonds represented by this Global Covered Bond shall be reduced by the nominal amount of the Covered Bonds so redeemed or purchased and cancelled or by the amount of such instalment so paid.

Payments due in respect of Covered Bonds for the time being represented by this Global Covered Bond shall be made to the bearer of this Global Covered Bond and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries referred to above shall not affect such discharge.

Prior to the Exchange Date (as defined below), all payments (if any) on this Global Covered Bond will only be made to the bearer hereof to the extent that there is presented to the Principal Paying Agent by a relevant Clearing System a certificate, substantially in the form set out in Schedule 3, to the effect that it has received from or in respect of a person entitled to a particular nominal amount of the Covered Bonds (as shown by its records) a certificate in or substantially in the form of Certificate "A" as set out in Schedule 3. The bearer of this Global Covered Bond will not be entitled to receive any payment of interest due on or after the Exchange Date unless upon due certification exchange of this Global Covered Bond is improperly withheld or refused.

On or after the date (the **Exchange Date**) which is 40 days after the Issue Date this Global Covered Bond may be exchanged in whole or in part (free of charge) for, as specified in the Final Terms, either (a) security printed Definitive Covered Bonds and (if applicable) Coupons, Receipts and Talons in the form set out in Parts 3, 4, 5 and 6 respectively of Schedule 4 to the Agreement (on the basis that all the appropriate details have been included on the face of such Definitive Covered Bonds and (if applicable) Coupons, Receipts and Talons and the Final Terms (or the relevant provisions of the Final Terms) have been endorsed on or attached to such Definitive Covered Bonds) or (b) either, if the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note, interests recorded in the records of the relevant Clearing Systems in a Permanent Global Covered Bond or, if the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Note, a Permanent Global Covered Bond, which, in either case, is in or substantially in the form set out in Part 2 of Schedule 4 to the Agreement (together with the Final Terms attached to it), in each case upon notice being given by a relevant Clearing System acting on the instructions of any holder of an interest in this Global Covered Bond.

If Definitive Covered Bonds and (if applicable) Coupons, Receipts and/or Talons have already been issued in exchange for all the Covered Bonds represented for the time being by the Permanent Global Covered Bond, then this Global Covered Bond may only thereafter be exchanged for Definitive Covered Bonds and (if applicable) Coupons, Receipts and/or Talons in accordance with the terms of this Global Covered Bond.

Presentation of this Global Covered Bond for exchange shall be made by the bearer hereof on any day (other than a Saturday or Sunday) on which banks are open for general business in London at the office of the Principal Paying Agent specified above. The Issuer shall procure that the Definitive Covered Bonds or (as the case may be) the Permanent Global Covered Bond shall be so issued and delivered (in the case of Definitive Covered Bonds) and (in the case of the Permanent Global Covered Bond where the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note) recorded in the records of the relevant Clearing System in exchange for only that portion of this Global Covered Bond in respect of which there shall have been presented to the Principal Paying Agent by a relevant Clearing System a certificate, substantially in the form set out in Schedule 3, to the effect that it has received from or in respect of a person entitled to a beneficial interest in a particular nominal amount of the Covered Bonds (as shown by its records) a certificate from such person in or substantially in the form of Certificate "A" as set out in Schedule 3. The aggregate nominal amount of Definitive Covered Bonds issued upon an exchange of this Global Covered Bond will, subject to the terms hereof, be equal to the aggregate nominal amount of this Global Covered Bond submitted by the bearer for exchange (to the extent that such nominal amount does not exceed the aggregate nominal amount of this Global Covered Bond).

On an exchange of the whole of this Global Covered Bond, this Global Covered Bond shall be surrendered to, or to the order of, the Principal Paying Agent. On an exchange of part only of this Global Covered Bond, the Issuer shall procure that:

- (a) if the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note, details of such exchange shall be entered pro rata in the records of the relevant Clearing Systems; or
- (b) if the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Note, details of such exchange shall be entered by or on behalf of the Issuer in Schedule Two and the relevant space in Schedule Two recording such exchange shall be signed by or on behalf of the Issuer, whereupon the nominal amount of this Global Covered Bond and the Covered Bonds represented by this Global Covered Bond shall be reduced by the nominal amount so exchanged. On any exchange of this Global Covered Bond for a Permanent Global Covered Bond, details of such exchange shall also be entered by or on behalf of the Issuer in Schedule Two to the Permanent Global Covered Bond and the relevant space in Schedule Two to the Permanent Global Covered Bond recording such exchange shall be signed by or on behalf of the Issuer.

Until the exchange of the whole of this Global Covered Bond, the bearer of this Global Covered Bond shall in all respects (except as otherwise provided in this Global Covered Bond) be entitled to the same benefits as if he were the bearer of Definitive Covered Bonds and the relative Coupons, Receipts and/or Talons (if any) represented by this Global Covered Bond. Accordingly, except as ordered by a court of competent jurisdiction or as required by law or applicable regulation, the Issuer, the Representative and any Paying Agent may deem and treat the holder of this Global Covered Bond as the absolute owner of this Global Covered Bond for all purposes. All payments of any amounts payable and paid to such holder shall, to the extent of the sums so paid, discharge the liability for the moneys payable on this Global Covered Bond and on the relevant Definitive Covered Bonds and/or Receipts and/or Coupons.

This Global Covered Bond is governed by, and shall be construed in accordance with, Icelandic law.

The Issuer irrevocably agrees that any dispute arising out of this Global Covered Bond shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

Legal action taken under this Global Covered Bond may be proceeded with in accordance with the Act on Civil Procedure No: 91/1991 (*Lög um meðferð einkamála*), Chapter 17.



This Global Covered Bond shall not be valid unless authenticated by the Principal Paying Agent and, if the applicable Final Terms indicates that this Global Covered Bond is intended to be held in a manner which would allow Eurosystem eligibility, effectuated by the entity appointed as common safe-keeper by the relevant Clearing Systems.

**IN WITNESS** whereof the Issuer has caused this Global Covered Bond to be duly executed on its behalf.

**ARION BANK HF.**

By:

<p>Authenticated without recourse, warranty or liability by</p> <p><b>Deutsche Bank AG, London Branch</b></p> <p>By:</p> <p>Effectuated without recourse, warranty or liability by</p> <p>..... as common safekeeper</p> <p>By:</p>
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### Schedule 3 to the Temporary Global Covered Bond

#### FORM OF CERTIFICATE TO BE PRESENTED BY EUROCLEAR OR CLEARSTREAM, LUXEMBOURG

ARION BANK HF.

[*Title of Securities*]

(the **Securities**)

This is to certify that, based solely on certifications we have received in writing, by tested telex or by electronic transmission from member organisations appearing in our records as persons being entitled to a beneficial interest in a portion of the principal amount set forth below (our **Member Organisations**) substantially to the effect set forth in this Agreement, on the date hereof, [ ] principal amount of the above-captioned Securities (a) is owned by persons that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source (**United States persons**), (b) is owned by United States persons that (i) are foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Sections 1.165-12(c)(1)(iv)) (**financial institutions**) purchasing for their own account or for resale, or (ii) acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (i) or (ii), each such United States financial institution has agreed, on its own behalf or through its agent, that we may advise the Issuer or the Issuer's agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (c) is owned by United States or foreign financial institutions for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and to the further effect that United States or foreign financial institutions described in clause (c) above (whether or not also described in clause (a) or (b)) have certified that they have not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, **United States** means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its **possessions** include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

If the Securities are of the category contemplated in Section 230.903(c)(3) of Regulation S under the Securities Act of 1933, as amended (the **Act**) then this is also to certify with respect to such principal amount of Securities set forth above that, except as set forth below, we have received in writing, by tested telex or by electronic transmission, from our Member Organisations entitled to a portion of such principal amount, certifications with respect to such portion, substantially to the effect set forth in this Agreement.

We further certify (A) that we are not making available herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) any portion of the temporary global Security excepted in such certifications and (B) that as at the date hereof we have not received any notification from any of our Member Organisations to the effect that the statements made by such Member Organisations with respect to any portion of the part submitted herewith for exchange (or, if relevant, exercise of any rights or collection of any interest) are no longer true and cannot be relied upon as at the date hereof.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorise you to produce this certification to any interested party in such proceedings.

Dated: [ ]<sup>8</sup>

Yours faithfully,

[Euroclear Bank S.A./N.V. as operator of the Euroclear System]/[Clearstream Banking, société anonyme]

By:

<sup>8</sup> To be dated no earlier than the Exchange Date.

**CERTIFICATE “A”**

ARION BANK HF.  
[Title of Securities]

(the **Securities**)

This is to certify that on the date hereof, and except as set forth below, the above-captioned Securities held by you for our account (a) are owned by person(s) that are not citizens or residents of the United States, domestic partnerships, domestic corporations or any estate or trust the income of which is subject to United States Federal income taxation regardless of its source (**United States person(s)**), (b) are owned by United States person(s) that (i) are foreign branches of United States financial institutions (as defined in U.S. Treasury Regulations Section 1.165-12(c)(1)(iv)) (**financial institutions**) purchasing for their own account or for resale, or (ii) acquired the Securities through foreign branches of United States financial institutions and who hold the Securities through such United States financial institutions on the date hereof (and in either case (i) or (ii), each such United States financial institution hereby agrees, on its own behalf or through its agent, that you may advise the Issuer or the Issuer’s agent that it will comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder), or (c) are owned by United States or foreign financial institution(s) for purposes of resale during the restricted period (as defined in U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and in addition if the owner of the Securities is a United States or foreign financial institution described in clause (c) above (whether or not also described in clause (a) or (b)) this is to further certify that such financial institution has not acquired the Securities for purposes of resale directly or indirectly to a United States person or to a person within the United States or its possessions.

As used herein, **United States** means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its **possessions** include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands.

We undertake to advise you promptly by tested telex or by electronic transmission on or prior to the date on which you intend to submit your certification relating to the Securities held by you for our account in accordance with your documented procedures if any applicable statement herein is not correct on such date, and in the absence of any such notification it may be assumed that this certification applies on such date.

This certification excepts and does not relate to [ ] of such interest in the above Securities in respect of which we are not able to certify and as to which we understand exchange and delivery of definitive Securities (or, if relevant, exercise of any right or collection of any interest) cannot be made until we do so certify.

We understand that this certification is required in connection with certain tax laws and, if applicable, certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certification is or would be relevant, we irrevocably authorize you to produce this certification to any interested party in such proceedings.

Dated: [ ]<sup>9</sup>

[Name of Person Making Certification]

By:

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<sup>9</sup> To be dated no earlier than the fifteenth day prior to the Exchange Date.



**Schedule 4 to the Temporary Global Covered Bond**

**Terms and Conditions**

*[Terms and Conditions to be as set out in Schedule 1 to this Agreement]*

## PART 2

### FORM OF PERMANENT GLOBAL COVERED BOND

[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 SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.]<sup>10</sup>

ARION BANK HF.

### PERMANENT GLOBAL COVERED BOND

This Global Covered Bond is a Permanent Global Covered Bond in respect of a duly authorised issue of Covered Bonds (the **Covered Bonds**) of Arion Bank hf. (the **Issuer**) described, and having the provisions specified, in the attached Final Terms (the **Final Terms**). References in this Global Covered Bond to the Conditions shall be to the Terms and Conditions of the Covered Bonds as set out in Schedule 1 to the Agreement (as defined below) as modified and supplemented by the information set out in the Final Terms, but in the event of any conflict between the provisions of (a) that Schedule or (b) this Global Covered Bond and the information set out in the Final Terms, the Final Terms will prevail.

Words and expressions defined or set out in the Conditions and/or the Final Terms shall have the same meaning when used in this Global Covered Bond.

This Global Covered Bond is issued subject to, and with the benefit of, the Conditions and a Representative and Agency Agreement (the **Agreement**, which expression shall be construed as a reference to that agreement as the same may be amended, supplemented, novated or restated from time to time) dated \_\_\_\_ January, 2012 and made between, *inter alios*, the Issuer, the Fund, Deutsche Trustee Company Limited (the **Representative**), Deutsche Bank AG, London Branch (the **Principal Paying Agent**) and the other agents named in it.

For value received the Issuer, subject to and in accordance with the Conditions, promises to pay to the bearer of this Global Covered Bond on each Instalment Date (if the Covered Bonds are repayable in instalments) and on the Maturity Date (if any) and/or on such earlier date(s) as all or any of the Covered Bonds represented by this Global Covered Bond may become due and repayable in accordance with the Conditions, the amount payable under the Conditions in respect of the Covered Bonds on each such date and to pay interest (if any) on the nominal amount of the Covered Bonds from time to time represented by this Global Covered Bond calculated and payable as provided in the Conditions together with any other sums payable under the Conditions, upon presentation and, at maturity, surrender of this Global Covered Bond at the office of the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB or at the specified office of any of the other paying agents located outside the United States (except as provided in the Conditions) from time to time appointed by the Issuer in respect of the Covered Bonds.

If the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note, the nominal amount of Covered Bonds represented by this Global Covered Bond shall be the aggregate amount from time to time entered in the records of both Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together, the **relevant Clearing Systems**). The records of the relevant Clearing Systems (which expression in this Global Covered Bond means the records that each relevant Clearing System holds for its customers which reflect the amount of such customer's interest in the Covered Bonds) shall be conclusive evidence of the nominal amount of Covered Bonds represented by this Global Covered Bond and, for these purposes, a statement issued by a relevant Clearing System stating the nominal amount of Covered Bonds represented by this Global Covered Bond at any time (which statement shall be made available to the bearer upon request) shall be conclusive evidence of the records of the relevant Clearing System at that time.

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<sup>10</sup> This legend can be deleted if the Covered Bonds have an initial maturity of 365 days or less.

If the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Note, the nominal amount of the Covered Bonds represented by this Global Covered Bond shall be the amount stated in the applicable Final Terms or, if lower, the nominal amount most recently entered by or on behalf of the Issuer in the relevant column in Part 2, 3 or 4 of Schedule One or in Schedule Two.

On any redemption or payment of an instalment or interest being made in respect of, or purchase and cancellation of, any of the Covered Bonds represented by this Global Covered Bond the Issuer shall procure that:

- (a) if the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note, details of such redemption, payment or purchase and cancellation (as the case may be) shall be entered pro rata in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Covered Bonds recorded in the records of the relevant Clearing Systems and represented by this Global Covered Bond shall be reduced by the aggregate nominal amount of the Covered Bonds so redeemed or purchased and cancelled or by the aggregate amount of such instalment so paid; or
- (b) if the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Covered Bond, details of such redemption, payment or purchase and cancellation (as the case may be) shall be entered by or on behalf of the Issuer in Schedule One and the relevant space in Schedule One recording any such redemption, payment or purchase and cancellation (as the case may be) shall be signed by or on behalf of the Issuer. Upon any such redemption, payment of an instalment or purchase and cancellation, the nominal amount of the Covered Bonds represented by this Global Covered Bond shall be reduced by the nominal amount of the Covered Bonds so redeemed or purchased and cancelled or by the amount of such instalment so paid.

Payments due in respect of Covered Bonds for the time being represented by this Global Covered Bond shall be made to the bearer of this Global Covered Bond and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries referred to above shall not affect such discharge.

Where TEFRA D is specified in the applicable Final Terms, the Covered Bonds will initially have been represented by a Temporary Global Covered Bond. Where the Covered Bonds have initially been represented by one or more Temporary Global Covered Bonds, on any exchange of any such Temporary Global Covered Bond for this Global Covered Bond or any part of it, the Issuer shall procure that:

- (a) if the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note, details of such exchange shall be entered in the records of the relevant Clearing Systems; or
- (b) if the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Covered Bond, details of such exchange shall be entered by or on behalf of the Issuer in Schedule Two and the relevant space in Schedule Two recording any such exchange shall be signed by or on behalf of the Issuer. Upon any such exchange, the nominal amount of the Covered Bonds represented by this Global Covered Bond shall be increased by the nominal amount of the Covered Bonds so exchanged.

In certain circumstances further covered bonds may be issued which are intended on issue to be consolidated and form a single Series with the Covered Bonds. In such circumstances the Issuer shall procure that:

- (a) if the applicable Final Terms indicates that this Global Covered Bond is intended to be a New Global Note, details of such further covered bonds may be entered in the records of the relevant Clearing Systems such that the nominal amount of Covered Bonds represented by this Global Covered Bond may be increased by the amount of such further covered bonds so issued; or
- (b) if the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Note, shall be entered by or on behalf of the Issuer in Schedule Two and the relevant space in Schedule Two recording such exchange shall be signed by or on behalf of the Issuer, whereupon the

nominal amount of the Covered Bonds represented by this Global Covered Bond shall be increased by the nominal amount of any such Temporary Global Covered Bond so exchanged.

This Global Covered Bond may be exchanged in whole but not in part (free of charge) for Definitive Covered Bonds and (if applicable) Coupons, Receipts and/or Talons in the form set out in Parts 3, 4, 5 and 6 respectively of Schedule 4 to the Agreement (on the basis that all the appropriate details have been included on the face of such Definitive Covered Bonds and (if applicable) Coupons, Receipts and Talons and the Final Terms (or the relevant provisions of the Final Terms) have been endorsed on or attached to such Definitive Covered Bonds) either, as specified in the applicable Final Terms:

- (a) upon not less than 60 days' written notice being given to the Principal Paying Agent by Euroclear and/or Clearstream, Luxembourg acting on the instructions of any holder of an interest in this Global Covered Bond; or
- (b) only upon the occurrence of an Exchange Event.

An **Exchange Event** means:

- (i) an Event of Default (as defined in Condition 10) has occurred and is continuing;
- (ii) the Issuer has been notified that both the relevant Clearing Systems have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or
- (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by this Global Covered Bond in definitive form.

If this Global Covered Bond is only exchangeable following the occurrence of an Exchange Event:

- (A) the Issuer will promptly give notice to Covered Bondholders in accordance with Condition 14 upon the occurrence of an Exchange Event; and
- (B) in the event of the occurrence of any Exchange Event, one or more of the relevant Clearing Systems acting on the instructions of any holder of an interest in this Global Covered Bond may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur no later than 60 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Any such exchange will be made upon presentation of this Global Covered Bond at the office of the Principal Paying Agent specified above by the bearer of this Global Covered Bond on any day (other than a Saturday or Sunday) on which banks are open for general business in London. The aggregate nominal amount of Definitive Covered Bonds issued upon an exchange of this Global Covered Bond will be equal to the aggregate nominal amount of this Global Covered Bond.

On an exchange of this Global Covered Bond, this Global Covered Bond shall be surrendered to, or to the order of, the Principal Paying Agent.

Until the exchange of this Global Covered Bond, the bearer of this Global Covered Bond shall in all respects (except as otherwise provided in this Global Covered Bond) be entitled to the same benefits as if he were the bearer of Definitive Covered Bonds and the relative Coupons, Receipts and/or Talons (if any) represented by this Global Covered Bond. Accordingly, except as ordered by a court of competent jurisdiction or as required by law or applicable regulation, the Issuer and any Paying Agent may deem and treat the holder of this Global Covered Bond as the absolute owner of this Global Covered Bond for all purposes. All payments of any amounts payable and paid to such holder shall, to the extent of the sums so paid, discharge the liability for the

moneys payable on this Global Covered Bond and on the relevant definitive Covered Bonds and/or Receipts and/or Coupons.

This Global Covered Bond is governed by, and shall be construed in accordance with, Icelandic law.

The Issuer irrevocable agrees that any dispute arising out of this Global Covered Bond shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

Legal action taken under this Global Covered Bond may be proceeded with in accordance with the Act on Civil Procedure No: 91/1991 (*Lög um meðferð einkamála*), Chapter 17.

This Global Covered Bond shall not be valid unless authenticated by the Principal Paying Agent and, if the applicable Final Terms indicates that this Global Covered Bond is intended to be held in a manner which would allow Eurosystem eligibility, effectuated by the entity appointed as common safe-keeper by the relevant Clearing Systems.

**IN WITNESS** whereof the Issuer has caused this Global Covered Bond to be duly executed on its behalf.

**ARION BANK HF.**

By:

<p>Authenticated without recourse, warranty or liability by</p> <p><b>Deutsche Bank AG, London Branch</b></p> <p>By:</p> <p>Effectuated without recourse, warranty or liability by</p> <p>..... as common safekeeper</p> <p>By:</p>
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**Schedule 3 to the Permanent Global Covered Bond**

**Terms and Conditions**

*[Terms and Conditions to be as set out in Schedule 1 to this Agreement]*

PART 3

FORM OF DEFINITIVE COVERED BOND

[Face of Covered Bond]

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[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 SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.]<sup>17</sup>

ARION BANK HF.

[Specified Currency and Nominal Amount of Tranche] Covered Bonds [Due [Year of Maturity]]

This Covered Bond is one of a duly authorised issue of Covered Bonds denominated in the Specified Currency and maturing on the Maturity Date (if any) (the **Covered Bonds**) of Arion Bank hf. (the **Issuer**). References in this Covered Bond to the Conditions shall be to the Terms and Conditions [endorsed on this Covered Bond/attached to this Covered Bond/set out in Schedule 1 to the Agreement (as defined below) which shall be incorporated by reference in this Covered Bond and have effect as if set out in it] as modified and supplemented by the Final Terms (the **Final Terms**) (or the relevant provisions of the **Final Terms**) endorsed on this Covered Bond but, in the event of any conflict between the provisions of the Conditions and the information in the Final Terms, the Final Terms will prevail.

This Covered Bond is issued subject to, and with the benefit of, the Conditions and a Representative and Agency Agreement (the **Agreement**, which expression shall be construed as a reference to that agreement as the same may be amended, supplemented, novated or restated from time to time) dated \_\_\_\_ January, 2012 and made between, *inter alios*, the Issuer, the Fund, Deutsche Trustee Company Limited (the **Representative**), Deutsche Bank AG, London Branch (the **Principal Paying Agent**) and the other agents named in it.

The Issuer, subject to and in accordance with the Conditions, promises to pay to the bearer of this Covered Bond [on each Instalment Date and] on the Maturity Date (if any) and/or on such earlier date(s) as this Covered Bond may become due and repayable in accordance with the Conditions, the amount payable under the Conditions in respect of this Covered Bond on each such date and to pay interest (if any) on this Covered Bond calculated and payable as provided in the Conditions together with any other sums payable under the Conditions.

This Covered Bond shall not be validly issued unless authenticated by the Principal Paying Agent.

This Covered Bond is governed by, and shall be construed in accordance with, Icelandic law.

The Issuer irrevocably agrees that any dispute arising out of this Covered Bond shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

Legal action taken under this Covered Bond may be proceeded with in accordance with the Act on Civil Procedure No: 91/1991 (*Lög um meðferð einkamála*), Chapter 17.

**IN WITNESS** whereof the Issuer has caused this Covered Bond to be duly executed on its behalf.

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<sup>17</sup> This legend can be deleted if the Covered Bonds have an initial maturity of 365 days or less.

**ARION BANK HF.**

By:

Authenticated without recourse,  
warranty or liability by

**Deutsche Bank AG, London Branch**

By:

**[Reverse of Covered Bond]**

**Terms and Conditions**

*[Terms and Conditions to be as set out in Schedule 1 to this Agreement]*

## **Final Terms**

*[Here may be set out text of Final Terms relating to the Covered Bonds]*

**PART 4**  
**FORM OF COUPON**

[Face of Coupon]

**ARION BANK HF.**

[Specified Currency and Nominal Amount of Tranche]

**Covered Bonds [Due [Year of Maturity]]**

**Part A**

***For Fixed Rate Covered Bonds:***

This Coupon is payable to bearer, separately negotiable and subject to the Terms and Conditions of the Covered Bonds to which it appertains.

Coupon  
for [ ]  
due on  
[ ]

**Part B**

***For Inflation Linked Annuity Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds, Index Linked Interest Covered Bonds, Credit Linked Interest Covered Bonds, Equity Linked Interest Covered Bonds or Dual Currency Interest Covered Bonds:***

Coupon for the amount due in accordance with the Terms and Conditions of the Covered Bonds to which it appertains on the Interest Payment Date falling in [ ]:

Coupon  
due in  
[ ]

This Coupon is payable to bearer, separately negotiable and subject to such Terms and Conditions, under which it may become void before its due date.

**[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 SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.]<sup>18</sup>**

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<sup>18</sup> This legend can be deleted if the Covered Bonds have an initial maturity of 365 days or less.



**PART 5**  
**FORM OF RECEIPT**

*[Face of Receipt]*

**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 SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.**

**ARION BANK HF.**

*[Specified Currency and Nominal Amount of Tranche] Covered Bonds Due [Year of Final Maturity]*

Series No. [ ]

Receipt for the sum of [ ] being the instalment of principal payable in accordance with the Terms and Conditions endorsed on the Covered Bond to which this Receipt appertains (the **Conditions**) on [ ]].

This Receipt is issued subject to and in accordance with the Conditions which shall be binding upon the holder of this Receipt (whether or not it is for the time being attached to the Covered Bond) and is payable at the specified office of any of the Paying Agents set out on the reverse of the Covered Bond to which this Receipt appertains (and/or any other or further Paying Agents and/or specified offices as may from time to time be duly appointed and notified to the Covered Bondholders).

This Receipt must be presented for payment together with the Covered Bond to which it appertains. The Issuer shall have no obligation in respect of any Receipt presented without the Covered Bond to which it appertains or any unmaturred Receipts.

**ARION BANK HF.**

By:



*[Reverse of Coupon, Receipt and Talon]*

**PRINCIPAL PAYING AGENT**

Deutsche Bank AG, London Branch  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**OTHER PAYING AGENT**

Arion Bank hf.  
Borgartun 19  
105 Reykjavik  
Iceland

and/or such other or further Principal Paying Agent or other Paying Agents and/or specified offices as may from time to time be duly appointed by the Issuer and notice of which has been given to the Covered Bondholders.

**SCHEDULE 5**

**FORM OF NOTICE TO PAY**

*[On the letterhead of the Representative]*

To: **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND** (the **Fund**)  
c/o Stefnir hf.  
Borgartun 19  
105 Reykjavik  
Iceland

*[insert date]*

Dear Sirs,

**Notice to Pay under Covered Bond Guarantee**

We refer to the ISK 200,000,000,000 Global Covered Bond Programme of the Issuer and the representative and agency agreement dated \_\_\_\_\_ January, 2012 made between, *inter alios*, the Issuer, the Fund and Deutsche Trustee Company Limited as Representative (the **Representative and Agency Agreement**).

We hereby confirm that an Issuer Event of Default has occurred and an Issuer Acceleration Notice has been served on the Issuer. Accordingly, this notice shall constitute a Notice to Pay which is served upon the Fund pursuant to Clause 7 of the Representative and Agency Agreement.

Unless the context otherwise requires, capitalised terms used in this Notice to Pay and not defined herein shall have the meanings provided in the Master Definitions and Construction Agreement.

Yours faithfully,

.....

for and on behalf of  
**DEUTSCHE TRUSTEE COMPANY LIMITED**

## SCHEDULE 6

### PROVISIONS FOR MEETINGS OF COVERED BONDHOLDERS

#### DEFINITIONS

1. As used in this Schedule the following expressions shall have the following meanings unless the context otherwise requires:

**Block Voting Instruction** means an English language document issued by a Paying Agent in which:

- (a) it is certified that on the date thereof Covered Bonds (whether in definitive form or represented by a Global Covered Bond) which are held in an account with any Clearing System (in each case not being Covered Bonds in respect of which a Voting Certificate has been issued and is outstanding in respect of the meeting specified in such Block Voting Instruction) have been deposited with such Paying Agent or (to the satisfaction of such Paying Agent) are held to its order or under its control or are blocked in an account with a Clearing System and that no such Covered Bonds will cease to be so deposited or held or blocked until the first to occur of:
  - (a) the conclusion of the meeting specified in such Block Voting Instruction; and
  - (b) the surrender to the Paying Agent, not less than 48 Hours before the time for which such meeting is convened, of the receipt issued by such Paying Agent in respect of each such deposited Covered Bond which is to be released or (as the case may require) the Covered Bonds ceasing with the agreement of the Paying Agent to be held to its order or under its control or so blocked and the giving of notice by the Paying Agent to the Issuer in accordance with paragraph 3(f) of the necessary amendment to the Block Voting Instruction;
- (b) it is certified that each holder of such Covered Bonds has instructed such Paying Agent that the vote(s) attributable to the Covered Bonds so deposited or held or blocked should be cast in a particular way in relation to the resolution(s) to be put to such meeting and that all such instructions are, during the period commencing 48 Hours prior to the time for which such meeting is convened and ending at the conclusion or adjournment thereof, neither revocable nor capable of amendment;
- (c) the aggregate principal amount of the Covered Bonds so deposited or held or blocked is listed distinguishing with regard to each such resolution between those in respect of which instructions have been given that the votes attributable thereto should be cast in favour of the resolution and those in respect of which instructions have been so given that the votes attributable thereto should be cast against the resolution; and
- (d) one or more persons named in such Block Voting Instruction (each hereinafter called a **proxy**) is or are authorised and instructed by such Paying Agent to cast the votes attributable to the Covered Bonds so listed in accordance with the instructions referred to in (c) above as set out in such Block Voting Instruction;

**Clearing System** means Euroclear and/or Clearstream, Luxembourg and includes in respect of any Covered Bond any clearing system on behalf of which such Covered Bond is held or which is the bearer or holder of a Covered Bond, in either case whether alone or jointly with any other Clearing System(s);

**Eligible Person** means any one of the following persons who shall be entitled to attend and vote at a meeting:

- (a) a holder of a Covered Bond in definitive form;

- (b) a bearer of any Voting Certificate; and
- (c) a proxy specified in any Block Voting Instruction;

**Extraordinary Resolution** means:

- (a) a resolution passed at a meeting duly convened and held in accordance with this Agreement by a majority consisting of not less than three-fourths of the Eligible Persons voting thereat upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than three-fourths of the votes cast on such poll; or
- (b) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Covered Bonds which resolution may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the holders;

**Ordinary Resolution** means:

- (a) a resolution passed at a meeting duly convened and held in accordance with this Agreement by a clear majority of the Eligible Persons voting thereat on a show of hands or, if a poll is duly demanded, by a simple majority of the votes cast on such poll; or
- (b) a resolution in writing signed by or on behalf of the holders of not less than a clear majority in principal amount of the Covered Bonds, which resolution may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the holders;

**Voting Certificate** means an English language certificate issued by a Paying Agent in which it is stated:

- (a) that on the date thereof Covered Bonds (whether in definitive form or represented by a Global Covered Bond) which are held in an account with any Clearing System (in each case not being Covered Bonds in respect of which a Block Voting Instruction has been issued and is outstanding in respect of the meeting specified in such Voting Certificate) were deposited with such Paying Agent or (to the satisfaction of such Paying Agent) are held to its order or under its control or are blocked in an account with a Clearing System and that no such Covered Bonds will cease to be so deposited or held or blocked until the first to occur of:
  - (i) the conclusion of the meeting specified in such Voting Certificate; and
  - (ii) the surrender of the Voting Certificate to the Paying Agent who issued the same; and
- (b) that the bearer thereof is entitled to attend and vote at such meeting in respect of the Covered Bonds represented by such Voting Certificate;

**24 Hours** means a period of 24 hours including all or part of a day upon which banks are open for business in both the place where the relevant meeting is to be held and in each of the places where the Paying Agents have their specified offices (disregarding for this purpose the day upon which such meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business in all of the places as aforesaid; and

**48 Hours** means a period of 48 hours including all or part of two days upon which banks are open for business both in the place where the relevant meeting is to be held and in each of the places where the Paying Agents have their specified offices (disregarding for this purpose the day upon which such meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more

periods of 24 hours until there is included as aforesaid all or part of two days upon which banks are open for business in all of the places as aforesaid.

For the purposes of calculating a period of **Clear Days** in relation to a meeting, no account shall be taken of the day on which the notice of such meeting is given (or, in the case of an adjourned meeting, the day on which the meeting to be adjourned is held) or the day on which such meeting is held.

All references in this Schedule to a “meeting” shall, where the context so permits, include any relevant adjourned meeting.

## **EVIDENCE OF ENTITLEMENT TO ATTEND AND VOTE**

2. A holder of a Covered Bond (whether in definitive form or represented by a Global Covered Bond) which is held in an account with any Clearing System may require the issue by a Paying Agent of Voting Certificates and Block Voting Instructions in accordance with the terms of paragraph 3.

For the purposes of paragraph 3, the Principal Paying Agent and each Paying Agent shall be entitled to rely, without further enquiry, on any information or instructions received from a Clearing System and shall have no liability to any Covered Bondholder or other person for any loss, damage, cost, claim or other liability occasioned by its acting in reliance thereon, nor for any failure by a Clearing System to deliver information or instructions to the Principal Paying Agent or any Paying Agent.

The holder of any Voting Certificate or the proxies named in any Block Voting Instruction shall for all purposes in connection with the relevant meeting be deemed to be the holder of the Covered Bonds to which such Voting Certificate or Block Voting Instruction relates and the Paying Agent with which such Covered Bonds have been deposited or the person holding Covered Bonds to the order or under the control of such Paying Agent or the Clearing System in which such Covered Bonds have been blocked shall be deemed for such purposes not to be the holder of those Covered Bonds.

## **PROCEDURE FOR ISSUE OF VOTING CERTIFICATES, BLOCK VOTING INSTRUCTIONS AND PROXIES**

3. (a) *Definitive Covered Bonds not held in a Clearing System - Voting Certificate*

A holder of a Covered Bond in definitive form which is not held in an account with any Clearing System (not being a Covered Bond in respect of which a Block Voting Instruction has been issued and is outstanding in respect of the meeting specified in such Voting Certificate) may obtain a Voting Certificate in respect of such Covered Bond from a Paying Agent subject to such holder having procured that such Covered Bond is deposited with such Paying Agent or (to the satisfaction of such Paying Agent) is held to its order or under its control upon terms that no such Covered Bond will cease to be so deposited or held until the first to occur of:

- (i) the conclusion of the meeting specified in such Voting Certificate; and
- (ii) the surrender of the Voting Certificate to the Paying Agent who issued the same.

- (b) *Global Covered Bonds and definitive Covered Bonds held in a Clearing System - Voting Certificate*

A holder of a Covered Bond (not being a Covered Bond in respect of which instructions have been given to the Principal Paying Agent in accordance with paragraph 3(d)) represented by a Global Covered Bond or which is in definitive form and is held in an account with any Clearing System may procure the delivery of a Voting Certificate in respect of such Covered Bond by giving notice to the Clearing System through which such holder's interest in the Covered Bond is held specifying by name a person (an **Identified Person**) (which need not be the holder himself) to collect the Voting Certificate and attend and vote at the meeting. The

relevant Voting Certificate will be made available at or shortly prior to the commencement of the meeting by the Principal Paying Agent against presentation by such Identified Person of the form of identification previously notified by such holder to the Clearing System. The Clearing System may prescribe forms of identification (including, without limitation, a passport or driving licence) which it deems appropriate for these purposes. Subject to receipt by the Principal Paying Agent from the Clearing System, no later than 24 Hours prior to the time for which such meeting is convened, of notification of the principal amount of the Covered Bonds to be represented by any such Voting Certificate and the form of identification against presentation of which such Voting Certificate should be released, the Principal Paying Agent shall, without any obligation to make further enquiry, make available Voting Certificates against presentation of the form of identification corresponding to that notified.

(c) *Definitive Covered Bonds not held in a Clearing System - Block Voting Instruction*

A holder of a Covered Bond in definitive form which is not held in an account with any Clearing System (not being a Covered Bond in respect of which a Voting Certificate has been issued and is outstanding in respect of the meeting specified in such Block Voting Instruction) may require a Paying Agent to issue a Block Voting Instruction in respect of such Covered Bond by depositing such Covered Bond with such Paying Agent or (to the satisfaction of such Paying Agent) by procuring that, not less than 48 Hours before the time fixed for the relevant meeting, such Covered Bond is held to the Paying Agent's order or under its control, in each case on terms that no such Covered Bond will cease to be so deposited or held until the first to occur of:

- (i) the conclusion of the meeting specified in such Block Voting Instruction; and
- (ii) the surrender to the Paying Agent, not less than 48 Hours before the time for which such meeting is convened, of the receipt issued by such Paying Agent in respect of each such deposited or held Covered Bond which is to be released or (as the case may require) the Covered Bond or Covered Bonds ceasing with the agreement of the Paying Agent to be held to its order or under its control and the giving of notice by the Paying Agent to the Issuer in accordance with paragraph 3(f) hereof of the necessary amendment to the Block Voting Instruction;

and instructing the Paying Agent that the vote(s) attributable to the Covered Bond or Covered Bonds so deposited or held should be cast in a particular way in relation to the resolution or resolutions to be put to such meeting and that all such instructions are, during the period commencing 48 Hours prior to the time for which such meeting is convened and ending at the conclusion or adjournment thereof, neither revocable nor capable of amendment.

(d) *Global Covered Bonds and definitive Covered Bonds held in a Clearing System - Block Voting Instruction*

A holder of a Covered Bond (not being a Covered Bond in respect of which a Voting Certificate has been issued) represented by a Global Covered Bond or which is in definitive form and is held in an account with any Clearing System may require the Principal Paying Agent to issue a Block Voting Instruction in respect of such Covered Bond by first instructing the Clearing System through which such holder's interest in the Covered Bond is held to procure that the votes attributable to such Covered Bond should be cast at the meeting in a particular way in relation to the resolution or resolutions to be put to the meeting. Any such instruction shall be given in accordance with the rules of the Clearing System then in effect. Subject to receipt by the Principal Paying Agent of instructions from the Clearing System, no later than 24 Hours prior to the time for which such meeting is convened, of notification of the principal amount of the Covered Bonds in respect of which instructions have been given and the manner in which the votes attributable to such Covered Bonds should be cast, the Principal



Paying Agent shall, without any obligation to make further enquiry, appoint a proxy to attend the meeting and cast votes in accordance with such instructions.

- (e) Each Block Voting Instruction, together (if so requested by the Representative) with proof satisfactory to the Representative of its due execution on behalf of the relevant Paying Agent shall be deposited by the relevant Paying Agent at such place as the Representative shall approve not less than 24 Hours before the time appointed for holding the meeting at which the proxy or proxies named in the Block Voting Instruction proposes to vote, and in default the Block Voting Instruction shall not be treated as valid unless the Chairman of the meeting decides otherwise before such meeting proceeds to business. A copy of each Block Voting Instruction shall be deposited with the Representative before the commencement of the meeting but the Representative shall not thereby be obliged to investigate or be concerned with the validity of or the authority of the proxy or proxies named in any such Block Voting Instruction.
- (f) Any vote given in accordance with the terms of a Block Voting Instruction shall be valid notwithstanding the previous revocation or amendment of the Block Voting Instruction or of any of the instructions of the relevant holder or the relevant Clearing System (as the case may be) pursuant to which it was executed provided that no intimation in writing of such revocation or amendment has been received from the relevant Paying Agent by the Issuer at its registered office (or such other place as may have been required or approved by the Representative for the purpose) by the time being 24 Hours (in the case of a Block Voting Instruction) or 48 Hours (in the case of a proxy) before the time appointed for holding the meeting at which the Block Voting Instruction is to be used.

#### **CONVENING OF MEETINGS, QUORUM AND ADJOURNED MEETINGS**

- 4. The Issuer, the Fund or the Representative or, in the case of a Programme Resolution, the Covered Bondholders holding at least one-fifth of the Principal Amount Outstanding of the Covered Bonds of all Series then outstanding, may at any time and the Issuer shall upon a requisition in writing in the English language signed by the holders of not less than five per cent, of the Principal Amount Outstanding of the Covered Bonds for the time being outstanding, convene a meeting and if the Issuer makes default for a period of seven days in convening such a meeting the same may be convened by the Representative or the requisitionists. Whenever the Issuer or the Fund proposes to convene any such meeting the Issuer or the Fund, as the case may be, shall forthwith give notice in writing to the Representative of the day, time and place thereof and of the nature of the business to be transacted thereat. Every such meeting shall be held at such time and place as the Representative may appoint or approve in writing.
- 5. At least 21 Clear Days' notice specifying the place, day and hour of meeting shall be given to the Covered Bondholders prior to any meeting in the manner provided by Condition 14 (*Notices*). Such notice, which shall be in the English language, shall state generally the nature of the business to be transacted at the meeting thereby convened and, in the case of an Extraordinary Resolution, shall either specify in such notice the terms of such resolution or state fully the effect on the Covered Bondholders of such resolution, if passed. Such notice shall include statements as to the manner in which Covered Bondholders may arrange for Voting Certificates or Block Voting Instructions to be issued and, if applicable, appoint proxies. A copy of the notice shall be sent by post to the Representative (unless the meeting is convened by the Representative), to the Issuer (unless the meeting is convened by the Issuer) and to the Fund (unless the meeting is convened by the Fund).
- 6. A person (who may but need not be a Covered Bondholder) nominated in writing by the Representative shall be entitled to take the chair at the relevant meeting, but if no such nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting the Covered Bondholders present shall choose one of their number to be Chairman, failing which the Issuer may appoint a Chairman. The Chairman of an adjourned meeting need not be the same person as was Chairman of the meeting from which the adjournment took place.

7. At any such meeting one or more persons present holding Definitive Covered Bonds or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than five per cent, of the Principal Amount Outstanding of the Covered Bonds of the relevant Series for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution or a Programme Resolution) form a quorum for the transaction of business and no business (other than the choosing of a Chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of the relevant business. The quorum at any such meeting for passing an Extraordinary Resolution (subject as provided below) or a Programme Resolution shall be one or more persons present holding Definitive Covered Bonds or voting certificates or being proxies or representatives and holding or representing more than 50 per cent, of the Principal Amount Outstanding of the Covered Bonds of the relevant Series for the time being outstanding PROVIDED THAT at any meeting the business of which includes any of the following matters (other than in relation to a Programme Resolution) (each of which shall, subject only to Clause 12.8(d), only be capable of being effected after having been approved by Extraordinary Resolution) namely:
- (a) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds;
  - (b) alteration of the currency in which payments under the Covered Bonds, Receipts and Coupons are to be made;
  - (c) alteration of the majority required to pass an Extraordinary Resolution;
  - (d) any amendment to the Covered Bond Guarantee (except in a manner determined by the Representative not to be materially prejudicial to the interests of the Covered Bondholders of any Series);
  - (e) the sanctioning of any such scheme or proposal as is described in paragraph 19(i) below; and
  - (f) alteration of this proviso or the proviso to paragraph 9 below;

(each a **Reserved Matter**), the quorum shall be one or more persons present holding Definitive Covered Bonds or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than two-thirds of the Principal Amount Outstanding of the Covered Bonds of all Series for the time being outstanding.

8. If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any such meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the meeting shall if convened upon the requisition of Covered Bondholders be dissolved. In any other case it shall stand adjourned to the same day in the next week (or if such day is a public holiday the next succeeding business day) at the same time and place (except in the case of a meeting at which an Extraordinary Resolution is to be proposed in which case it shall stand adjourned for such period, being not less than 10 Clear Days nor more than 42 Clear Days, and to such place as may be appointed by the Chairman either at or subsequent to such meeting and approved by the Representative). If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman may decide) after the time appointed for any adjourned meeting a quorum is not present for the transaction of any particular business, then, subject and without prejudice to the transaction of the business (if any) for which a quorum is present, the Chairman may either (with the approval of the Representative) dissolve such meeting or adjourn the same for such period, being not less than 13 Clear Days (but without any maximum number of Clear Days), and to such place as may be appointed by the Chairman either at or subsequent to such adjourned meeting and approved by the Representative, and the provisions of this sentence shall apply to all further adjourned such meetings.

9. At any adjourned meeting one or more Eligible Persons present (whatever the Principal Amount Outstanding of the Covered Bonds so held or represented by them) shall (subject as provided below) form a quorum and shall have power to pass any resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had the requisite quorum been present PROVIDED THAT at any adjourned meeting the quorum for the transaction of business comprising any of the matters specified in the proviso to paragraph 7 shall be one or more Eligible Persons present and holding or representing in the aggregate not less than one third of the principal amount of the Covered Bonds for the time being outstanding.
10. Notice of any adjourned meeting at which an Extraordinary Resolution is to be submitted shall be given in the same manner as notice of an original meeting but as if 10 were substituted for 21 in paragraph 5 and such notice shall state the required quorum. Subject as aforesaid it shall not be necessary to give any notice of an adjourned meeting.

#### **CONDUCT OF BUSINESS AT MEETINGS**

11. Every resolution submitted to a meeting shall be decided in the first instance by a show of hands. A poll may be demanded (before or on the declaration of the result of the show of hands) by the Chairman, the Issuer, the Fund, the Representative or any Eligible Person (whatever the amount of the Covered Bonds so held or represented by him).
12. At any meeting, unless a poll is duly demanded, a declaration by the Chairman that a resolution has been carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
13. Subject to paragraph 15, if at any such meeting a poll is so demanded it shall be taken in such manner and, subject as hereinafter provided, either at once or after an adjournment as the Chairman directs and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the motion on which the poll has been demanded.
14. The Chairman may, with the consent of (and shall if directed by) any such meeting, adjourn the same from time to time and from place to place; but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.
15. Any poll demanded at any such meeting on the election of a Chairman or on any question of adjournment shall be taken at the meeting without adjournment.
16. Any director or officer of the Representative, its lawyers and financial advisors, any director or officer of the Issuer or, as the case may be, the Fund, their lawyers and financial advisors, any director or officer of any of the Paying Agents and any other person authorised so to do by the Representative may attend and speak at any meeting. Save as aforesaid, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any meeting unless he is an Eligible Person. No person shall be entitled to vote at any meeting in respect of Covered Bonds which are deemed to be not outstanding by virtue of the proviso to the definition of "outstanding" in Clause 1 of the Master Definitions and Construction Agreement.
17. At any meeting:
  - (a) on a show of hands every Eligible Person present shall have one vote; and

- (b) on a poll every Eligible Person present shall have one vote in respect of each ISK 1 or such other amount as the Representative may in its absolute discretion stipulate, in principal amount of the Covered Bonds held or represented by such Eligible Person.

Without prejudice to the obligations of the proxies named in any Block Voting Instruction, any Eligible Person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

- 18. The proxies named in any Block Voting Instruction need not be Covered Bondholders. Nothing herein shall prevent any of the proxies named in any Block Voting Instruction from being a director, officer or representative of or otherwise connected with the Issuer or the Fund.
- 19. A meeting of the Covered Bondholders shall in addition to the powers hereinbefore given have the following powers exercisable only by Extraordinary Resolution (subject to the provisions relating to quorum contained in paragraphs 7 and 9 above) namely:
  - (a) Power to sanction any compromise or arrangement proposed to be made between the Issuer, the Fund, the Representative, any Appointee and the Covered Bondholders, Receiptholders and Couponholders or any of them.
  - (b) Power to sanction any abrogation, modification, compromise or arrangement in respect of the rights of the Representative, any Appointee, the Covered Bondholders, the Receiptholders, Couponholders, or the Issuer or the Fund or against any other or others of them or against any of their property whether such rights shall arise under this Agreement or the other Transaction Documents or otherwise.
  - (c) Power to assent to any modification of the provisions of this Agreement or the other Transaction Documents which shall be proposed by the Issuer, the Fund, the Representative or any Covered Bondholder.
  - (d) Power to give any authority or sanction which under the provisions of this Agreement is required to be given by Extraordinary Resolution.
  - (e) Power to appoint any persons (whether Covered Bondholders or not) as a committee or committees to represent the interests of the Covered Bondholders and to confer upon such committee or committees any powers or discretions which the Covered Bondholders could themselves exercise by Extraordinary Resolution.
  - (f) Power to approve of a person to be appointed a representative and power to remove any representative or representative for the time being of this Agreement.
  - (g) Power to discharge or exonerate the Representative and/or any Appointee from all liability in respect of any act or omission for which the Representative and/or such Appointee may have become responsible under this Agreement.
  - (h) Power to authorise the Representative and/or any Appointee to concur in and execute and do all such deeds, instruments, acts and things as may be necessary to carry out and give effect to any Extraordinary Resolution.
  - (i) Power to sanction any scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into or the cancellation of the Covered Bonds in consideration of shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash and for the appointment of some person with power on behalf of the Covered Bondholders to execute an

instrument of transfer of the Covered Bonds held by them in favour of the persons with or to whom the Covered Bonds are to be exchanged or sold respectively.

20. Any resolution passed at a meeting of the Covered Bondholders duly convened and held in accordance with this Agreement shall be binding upon all the Covered Bondholders whether or not present or whether or not represented at such meeting and whether or not voting and upon all Couponholders and each of them shall be bound to give effect thereto accordingly and the passing of any such resolution shall be conclusive evidence that the circumstances justify the passing thereof. Notice of the result of the voting on any resolution duly considered by the Covered Bondholders shall be published in accordance with Condition 14 (*Notices*) by the Issuer within 14 days of such result being known, PROVIDED THAT the non-publication of such notice shall not invalidate such result.
21. Minutes of all resolutions and proceedings at every meeting shall be made and entered in books to be from time to time provided for that purpose by the Issuer and any such minutes as aforesaid, if purporting to be signed by the Chairman of the meeting at which such resolutions were passed or proceedings transacted, shall be conclusive evidence of the matters therein contained and, until the contrary is proved, every such meeting in respect of the proceedings of which minutes have been made shall be deemed to have been duly held and convened and all resolutions passed or proceedings transacted thereat to have been duly passed or transacted.
22. (a) If and whenever the Issuer has issued and has outstanding Covered Bonds of more than one Series the foregoing provisions of this Schedule shall have effect subject to the following modifications:
  - (i) a resolution which in the opinion of the Representative affects the Covered Bonds of only one Series shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Covered Bonds of that Series;
  - (ii) a resolution which in the opinion of the Representative affects the Covered Bonds of more than one Series but does not give rise to a conflict of interest between the holders of Covered Bonds of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Covered Bonds of all of the Series so affected;
  - (iii) a resolution which in the opinion of the Representative affects the Covered Bonds of more than one Series and gives or may give rise to a conflict of interest between the holders of the Covered Bonds of one Series or group of Series so affected and the holders of the Covered Bonds of another Series or group of Series so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of the Covered Bonds of each Series or group of Series so affected; and
  - (iv) to all such meetings all the preceding provisions of this Schedule shall *mutatis mutandis* apply as though references therein to Covered Bonds and holders were references to the Covered Bonds of the Series or group of Series in question or to the holders of such Covered Bonds, as the case may be.
- (b) If the Issuer has issued and has outstanding Covered Bonds which are not denominated in Icelandic Krona, or in the case of any meeting of Covered Bonds of more than one currency, the principal amount of such Covered Bonds shall:
  - (i) for the purposes of paragraph 4, be the equivalent in Icelandic Krona at the spot rate of a bank nominated by the Representative for the conversion of the relevant currency or currencies into Icelandic Krona on the seventh dealing day prior to the day on which the requisition in writing is received by the Issuer; and

- (ii) for the purposes of paragraphs 7, 9 and 17 (whether in respect of the meeting or any adjourned such meeting or any poll resulting therefrom), be the equivalent at such spot rate on the seventh dealing day prior to the day of such meeting.

In such circumstances, on any poll each person present shall have one vote for each ISK 1 (or such other Icelandic Krona amount as the Representative may in its absolute discretion stipulate) in principal amount of the Covered Bonds (converted as above) which he holds or represents.

- 23. Subject to all other provisions of this Agreement the Representative may (after consultation with the Issuer and the Fund where the Representative considers such consultation to be practicable but without the consent of the Issuer, the Fund, the Covered Bondholders or the Couponholders) prescribe such further or alternative regulations regarding the requisitioning and/or the holding of meetings and attendance and voting thereat as the Representative may in its sole discretion reasonably think fit (including, without limitation, the substitution for periods of 24 Hours and 48 Hours referred to in this Schedule of shorter periods). Such regulations may, without prejudice to the generality of the foregoing, reflect the practices and facilities of any relevant Clearing System. Notice of any such further or alternative regulations may, at the sole discretion of the Representative, be given to Covered Bondholders in accordance with Condition 14 (*Notices*) at the time of service of any notice convening a meeting or at such other time as the Representative may decide.

## SCHEDULE 7

### FORM OF DIRECTORS' CERTIFICATE

[ON THE HEADED PAPER OF THE ISSUER [/FUND]]

To: Deutsche Trustee Company Limited  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
For the attention of [ ]

[Date]

Dear Sirs,

#### [Description of Covered Bonds]

This certificate is given to you in your capacity as Representative under the Representative and Agency Agreement (as defined below) in accordance with Clause 11(m) of the Representative and Agency Agreement dated \_\_\_\_\_ January 2012 (the **Representative and Agency Agreement**) and made between, *inter alios*, Arion Bank hf. (the **Issuer**), Arion Bank Mortgages Institutional Investor Fund (the **Fund**) and Deutsche Trustee Company Limited (the **Representative**). All words and expressions defined in the Representative and Agency Agreement shall (save as otherwise provided herein or unless the context otherwise requires) have the same meanings herein.

We hereby certify to you in your capacity as aforesaid that:

- (a) [as at [ ]<sup>19</sup>, no Issuer Event of Default or Potential Issuer Event of Default existed [other than [ ]]<sup>20</sup> and no Issuer Event of Default or Potential Issuer Event of Default had existed at any time since [ ]<sup>21</sup> [the certification date of the previous certificate delivered under Clause 11(1)<sup>22</sup> [other than [ ]]<sup>23</sup>; and]
- (b) as at [ ]<sup>19</sup> no Fund Event of Default or Potential Fund Event of Default existed [other than [ ]]<sup>20</sup> and No Fund Event of Default or Potential Fund Event of Default had existed at any time since [ ]<sup>21</sup> [the certification date of the previous certificate delivered under Clause 11(1)<sup>22</sup> [other than [ ]]<sup>20</sup>; and]
- (c) [from and including [ ]<sup>21</sup> [the certification date of the previous certificate delivered under Clause 11(m)]<sup>4</sup> to and including [ ]<sup>19</sup>, [the Issuer] [the Fund]<sup>24</sup> has complied with all its obligations under this Agreement [other than [ ]]<sup>25</sup>.]

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<sup>19</sup> Specify a date not more than 7 days before the date of delivery of the certificate.

<sup>20</sup> If any event of default or potential event of default did exist, give details; otherwise delete.

<sup>21</sup> Insert date of Agency and Representative Agreement in respect of the first certificate delivered under Clause 14(1), otherwise delete.

<sup>22</sup> Include unless the certificate is the first certificate delivered under Clause 14(1), in which case delete.

<sup>23</sup> If any event of default of potential event of default did exist, give details, otherwise delete.

<sup>24</sup> Delete as appropriate.

<sup>25</sup> If the Issuer [and/or Fund] has failed to comply with any such obligation(s), give details; otherwise delete.

.....  
Director

.....  
Director



## SCHEDULE 8

### ADDITIONAL DUTIES OF THE PRINCIPAL PAYING AGENT

In relation to each Series of Covered Bonds that are NGNs, the Principal Paying Agent will comply with the following provisions:

1. The Principal Paying Agent will inform each of Euroclear and Clearstream, Luxembourg (the **ICSDs**), through the common service provider appointed by the ICSDs to service the Covered Bonds (the **CSP**), of the initial issue outstanding amount (**IOA**) for each Tranche on or prior to the relevant Issue Date.
2. If any event occurs that requires a mark up or mark down of the records which an ICSD holds for its customers to reflect such customers' interest in the Covered Bonds, the Principal Paying Agent will  
  
(to the extent known to it) promptly provide details of the amount of such mark up or mark down, together with a description of the event that requires it, to the ICSDs (through the CSP) to ensure that the IOA of the Covered Bonds remains at all times accurate.
3. The Principal Paying Agent will at least once every month reconcile its record of the IOA of the Covered Bonds with information received from the ICSDs (through the CSP) with respect to the IOA maintained by the ICSDs for the Covered Bonds and will promptly inform the ICSDs (through the CSP) of any discrepancies.
4. The Principal Paying Agent will promptly assist the ICSDs (through the CSP) in resolving any discrepancy identified in the IOA of the Covered Bonds.
5. The Principal Paying Agent will promptly provide to the ICSDs (through the CSP) details of all amounts paid by it under the Covered Bonds (or, where the Covered Bonds provide for delivery of assets other than cash, of the assets so delivered).
6. The Principal Paying Agent will (to the extent known to it) promptly provide to the ICSDs (through the CSP) notice of any changes to the Covered Bonds that will affect the amount of, or date for, any payment due under the Covered Bonds.
7. The Principal Paying Agent will (to the extent known to it) promptly provide to the ICSDs (through the CSP) copies of all information that is given to the holders of the Covered Bonds.
8. The Principal Paying Agent will promptly pass on to the Issuer all communications it receives from the ICSDs directly or through the CSP relating to the Covered Bonds.
9. The Principal Paying Agent will (to the extent known to it) promptly notify the ICSDs (through the CSP) of any failure by the Issuer to make any payment or delivery due under the Covered Bonds when due.

**SIGNATORIES**

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**The Issuer**

**ARION BANK HF.**

By: \_\_\_\_\_

**Name:**

**Title:**

\_\_\_\_\_  
**Name:**

**Title:**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_

**Name:**

**Title:**

\_\_\_\_\_  
**Name:**

**Title:**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_

**Name:**

**Title: Associate Director**

\_\_\_\_\_  
**Name:**

**Title: Associate Director**

**The Principal Paying Agent**

**DEUTSCHE BANK AG, LONDON BRANCH**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The other Paying Agent**

**ARION BANK HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**SCHEDULE 1C**

**AMENDED AND RESTATED MORTGAGE SALE AGREEMENT**

**AMENDED AND RESTATED**

**MORTGAGE SALE AGREEMENT**

**ARION BANK HF.**  
as the Seller

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**  
as the Fund

**DEUTSCHE TRUSTEE COMPANY LIMITED**  
as the Representative

\_\_\_\_\_ **January 2012**

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**THIS AGREEMENT** is dated \_\_\_\_\_ January, 2012:

- (1) **ARION BANK HF.**, ID No. 581008-0150, a public limited company incorporated under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (acting in its capacity as the **Seller**);
- (2) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID No. 570106-9610, an institutional fund established under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Fund**); and
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a company incorporated under the laws of England and Wales whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (acting in its capacity as the **Representative**);

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- (B) Kaupthing Bank hf. (the **Original Seller**) entered into a mortgage sale agreement dated 29 March, 2006 (the **Original Mortgage Sale Agreement**) with the Fund and the Representative. In furtherance of the Bondholders' Resolutions, the Seller is to be substituted for the Original Seller for all purposes in relation to this agreement as if it had been named as an original party hereto in place of the Original Seller.
- (C) The Seller carries on the business of, *inter alia*, originating mortgage loans to individual Borrowers secured on residential properties in Iceland.
- (D) The Seller has agreed to sell and the Fund has agreed to purchase certain of the mortgage loans together with benefit of the related security for the same on the terms and subject to the conditions set out in this Agreement.
- (E) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day-to-day operations of the Fund are managed by Stefnir hf. formerly Kaupthing Asset Management Company hf. (the **Management Company**). The Management Company shall execute this Agreement on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Agreement.
- (F) This Agreement amends and restates the Original Mortgage Sale Agreement.

**IT IS HEREBY AGREED** as follows:

1. **DEFINITIONS AND CONSTRUCTION**

- 1.1 The master definitions and construction agreement made between, *inter alios*, the parties to this Agreement on \_\_\_\_\_ January, 2012 (as the same may be amended, varied or supplemented from time to time, to the **Master Definitions and Construction Agreement**) is expressly and specifically incorporated into this Agreement and, accordingly, the expressions defined in the Master Definitions and Construction Agreement (as so amended, varied or supplemented) shall, except where the context otherwise requires and save where otherwise defined herein, have the same meanings in this

Agreement, including the recitals hereto and this Agreement shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master and Construction Definitions Agreement.

- 1.2 Any schedule of New Loans attached to any New Portfolio Notice may be provided in a document stored upon electronic media (including, but not limited to, a CD-ROM) in a form acceptable to the Fund and the Representative (each acting reasonably).
- 1.3 The recitals to this Agreement shall constitute integral parts of this Agreement and shall be read with it for all their purposes and intents.

## 2. **SALE AND PURCHASE OF INITIAL PORTFOLIO**

- 2.1 Subject to fulfilment of the conditions referred to in Clauses 3.1 and 4.4, if the Seller shall serve a properly completed New Portfolio Notice in duplicate on the Fund with a copy to the Representative, the Seller agrees that on the date for completion of the sale specified in such New Portfolio Notice, the Seller shall sell, with full title guarantee, to the Fund the Loans and their Related Security which, in the case of the Initial Portfolio occurred on the First Assignment Date. The Fund countersigned such New Portfolio Notice relating to the Initial Portfolio pursuant to Clause 4.2 and on or before the First Assignment Date the relevant Purchase Price provided to the Seller for the sale of the Loans and their Related Security comprised in the Initial Portfolio to the Fund was paid by a combination of;

- (a) Initial Cash Consideration (which was paid in accordance with Clause 3.3); and/or
- (b) the Seller being treated as having made an Equity Contribution in Kind in an amount equal to the difference between the aggregate Outstanding Principal Balance of the Loans in the Initial Portfolio as at the relevant Assignment Date and the Initial Cash Consideration (if any) paid pursuant to Clause 2.1(a).

## 3. **EXECUTION**

- 3.1 On or before 11.00 a.m. on the date hereof or such other time as the parties may agree, the Seller shall deliver to the Fund and the Representative, or a party nominated by the Representative, the following documents:

- (a) two originals of the power of attorney substantially in the form set out in Schedule 3, duly executed by the Seller;
- (b) a certified copy of the board minutes of the Seller authorising its duly appointed representatives to agree to the sale of the Loans and their Related Security and authorising execution and performance of this Agreement, the Servicing Agreement and the other Transaction Documents to which the Seller is a party (in any capacity) and all of the documentation to be entered into pursuant to this Agreement; and
- (c) a solvency certificate signed by at least one authorised signatory of the Seller dated as at the date hereof in a form acceptable to the Fund and the Representative (each acting reasonably).

- 3.2 The Seller undertakes that from the First Assignment Date, the Seller has held and on and from the date hereof shall hold the Customer Files relating to each Loan in the Portfolio that are in its possession or under its control or held to its order or to the order of the Representative or as the Representative shall otherwise direct whilst such Loan remains in the Portfolio.

- 3.3 Subject to fulfilment of the conditions referred to in Clause 3.1, the Seller shall be paid the Initial Cash Consideration, by bank account transfer, by the Fund on the First Assignment Date.

#### 4. SALE AND PURCHASE OF NEW PORTFOLIOS

- 4.1 Subject to fulfilment of the conditions and undertakings set out in Clauses 4.4 to 4.8 if the Seller, at any time and from time to time serves a properly completed New Portfolio Notice in duplicate on the Fund with a copy to the Representative (such service to be in the Seller's sole discretion), the Seller agrees that on the date for completion of the sale specified in such New Portfolio Notice the Seller shall sell, with full title guarantee, to the Fund the New Loans and their Related Security in the relevant New Portfolio.
- 4.2 Within three Business Days of receipt of a New Portfolio Notice in duplicate the Fund shall countersign that New Portfolio Notice in duplicate and return one original copy to the Seller with a copy to the Representative and the Fund agrees subject to the provisions of the Fund Deed to purchase, with full title guarantee, the relevant Loans and their Related Security which will be New Loans and their Related Security comprised in the relevant New Portfolio on the date for completion specified in the relevant New Portfolio Notice.
- 4.3 If at any time prior to the earlier to occur of:
- (a) an Issuer Event of Default; and
  - (b) a Fund Event of Default,

the Fund receives written notification from the Cash Manager that the Adjusted Aggregate Loan Amount is less than the aggregate ISK Equivalent of the Principal Amount Outstanding of all Covered Bonds, as determined by the Cash Manager on any Calculation Date, then the Fund shall, at its sole discretion, within three Business Days of receiving such written notice notify the Seller requesting that the Seller offer to sell, in accordance with the provisions of this Clause 4, to the Fund sufficient New Loans and their Related Security on or before the next Calculation Date to ensure that, taking into account the other assets and resources available to the Fund, the Asset Coverage Test is met on the next Calculation Date and the Seller undertakes to use all reasonable endeavours to offer to sell to the Fund and the Fund undertakes to use all reasonable endeavours to acquire from the Seller sufficient New Loans and their Related Security so that, taking into account the other assets and resources available to the Fund, the Asset Coverage Test is met on the next Calculation Date provided that the Seller shall not be obliged to sell to the Fund, and the Fund shall not be obliged to buy, New Loans and their Related Security if in the reasonable opinion of the Seller the sale to the Fund of such New Loans and their Related Security would adversely affect the business of the Seller.

- 4.4 The conditions to be met on each Assignment Date are:
- (a) there shall have been neither an Issuer Event of Default and service of an Issuer Acceleration Notice nor a Fund Event of Default and service of a Fund Acceleration Notice as at the relevant Assignment Date;
  - (b) no Loan that is proposed to be sold to the Fund on the relevant Assignment Date has a loan-to-value ratio of more than 80 per cent;
  - (c) no Loan that is proposed to be sold to the Fund on the relevant Assignment Date has, on such Assignment Date, an Outstanding Principal Balance of more than ISK 100,000,000;
  - (d) no Loan that is proposed to be sold to the Fund on the relevant Assignment Date relates to a Property which is not a residential Property and each Property is the primary residence of each Borrower and is owner-occupied;
  - (e) no Loan that is proposed to be sold to the Fund on the relevant Assignment Date is currently in default for 90 days or more; and



- (f) 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.

Notwithstanding the foregoing, the Representative may waive or amend the above conditions.

- 4.5 The obligations of the Seller and the Fund under Clauses 4.1 and 4.2 shall be subject to and conditional upon no Insolvency Event having occurred in relation to the Seller or the Fund which is continuing as at the relevant Assignment Date provided that if any part of the consideration for a sale is satisfied pursuant to Clause 4.6, such condition shall be deemed to be satisfied or waived and, if the sale was in fact made at a time when an Insolvency Event had occurred and was continuing in relation to the Seller, Clause 7.5 shall be applicable on the same basis as if Schedule 1 had contained a Representation and Warranty that no Insolvency Event in relation to the Seller had occurred at such time and that there is a material breach of such Representation and Warranty.
- 4.6 Subject to fulfilment of the conditions referred to in Clauses 4.4 and 4.5, the relevant Purchase Price to be provided to the Seller for the sale of a New Portfolio to the Fund on an Assignment Date shall be satisfied by a combination of:
  - (a) a cash payment to be made by the Fund in the ISK Equivalent of the proceeds of the relevant Term Advance made on such Assignment Date and/or, subject to Clause 4.7, from Available Receipts; and/or
  - (b) the Seller being treated as having made an Equity Contribution in Kind in an amount equal to the difference between the Outstanding Principal Balance of the New Loans sold by the Seller as at the relevant Assignment Date and the cash payment (if any) made by the Fund in accordance with Clause 4.6(a).

The Seller shall be paid that part of the relevant Purchase Price constituting the cash payment referred to in Clause 4.6(a) by bank account transfer by the Fund on the relevant Assignment Date.

- 4.7 Subject to Clause 11 of the Fund Deed, on each Fund Payment Date the Fund may apply Available Receipts towards the purchase of New Loans and their Related Security offered to the Fund by the Seller in accordance with Clauses 4.1 and 4.2 and/or Substitution Assets (in respect of any Substitution Assets up to the prescribed limit) in an amount sufficient to ensure that taking into account the other assets and resources available to the Fund, the Fund is in compliance with the Asset Coverage Test.
- 4.8 On the date of the assignment of any New Portfolio, the Seller shall deliver to the Representative, or any party nominated by the Representative, the following documents:
  - (a) in respect of the first New Portfolio assigned on or after the date of this Agreement only, two originals of the power of attorney substantially in the form set out in Schedule 3, duly executed by the Seller or its properly appointed attorney;
  - (b) a certified copy of the board minutes of the Seller authorising its duly appointed representatives authorising execution and performance of this Agreement and the other Transaction Documents to which the Seller is a party (in any capacity) and all of the documentation to be entered into pursuant to this Agreement;
  - (c) a solvency certificate signed by at least one authorised signatory of the Seller dated as at the relevant Assignment Date, but only in the event that: (i) the relevant Assignment Date is also an Issue Date; and/or (ii) a solvency certificate has not been delivered by the Seller in the three months prior to the relevant Assignment Date; and/or (iii) if an Issuer Event of Default has occurred but no liquidator or administrator has been appointed.

Within three Business Days of the relevant Assignment Date the Seller undertakes to provide the Fund and the Representative with an updated, complete and accurate list of the New Loans and their Related Security that comprise the relevant New Portfolio.

- 4.9 The Seller undertakes that from the relevant Assignment Date until the perfection of the sale and purchase in accordance with Clause 6, the Seller shall hold the Customer Files relating to each New Loan in a New Portfolio assigned by it on the relevant Assignment Date that are in its possession or under its control or held to its order to the order of the Representative, or as the Representative shall otherwise direct, whilst such New Loan remains in the Portfolio.

## 5. **HOLDING OF MONEYS**

- 5.1 Notwithstanding the sales effected by this Agreement, if at, or at any other time after, the First Assignment Date (but prior to any repurchase in accordance with Clause 7) the Seller holds, or there is held to its order, or it receives, or there is received to its order any property, interests, rights or benefits and/or the proceeds thereof hereby agreed to be sold, the Seller undertakes to each of the Fund and the Representative that, subject to Clause 6, it will promptly remit, assign and/or transfer the same to the Fund or, if appropriate, the Representative or as either of them shall direct and until it does so or to the extent that the Seller is unable to effect such remittance, assignment, assignation or transfer, it will hold such property, interests, rights or benefits and/or the proceeds thereof as agent for the Fund.

- 5.2 If at, or at any other time after, the First Assignment Date the Fund holds, or there is held to its order, or it receives, or there is received to its order, any property, interests, rights or benefits relating to any Loan and its Related Security repurchased by the Seller pursuant to Clause 7 and/or the proceeds thereof, or relating to (without prejudice to Clause 8) any amounts payable by a Borrower to the Seller in respect of any Loan in the Portfolio which the Seller has not agreed to sell to the Fund, the Fund undertakes to the Seller that it will remit, assign, re-assign, retrocede or transfer the same to the Seller, as the case may require, and until it does so or to the extent that the Fund is unable to effect such remittance, assignment, assignation, re-assignment, retrocession or transfer, the Fund undertakes to hold such property, interests, rights or benefits and/or the proceeds thereof as agent for the Seller or as the Seller may direct provided that the Fund shall not be in breach of its obligations under this Clause 5 if, having received any such moneys and paid them to third parties in error, it pays an amount equal to the moneys so paid in error to the Seller in accordance with the relevant Servicing Agreement.

## 6. **PERFECTION OF THE SALE**

- 6.1 The assignment, assignation or transfer (as appropriate) of the Loans and their Related Security in the Portfolio (or, where specified below, the Selected Loans and their Related Security) contemplated by this Agreement shall be perfected by the Seller on the relevant Assignment Date. Such perfection shall be effected by annotation by the Seller of the Mortgage Document. Notice of such assignment, assignation or transfer (as appropriate) will be given to the Borrower on or before the fifth Business Day after the earliest to occur of:
- (a) service of a Fund Acceleration Notice or service of a Notice to Pay (unless the Seller has notified the Fund that it will accept the offer set out in the Selected Loan Offer Notice within the prescribed time); or
  - (b) in respect of Selected Loans only, at the request of the Fund following the acceptance of any offer to sell Selected Loans and their Related Security to any person who is not the Seller; or
  - (c) the Seller and/or the Fund being required to procure any or all of the acts referred to in this Clause 6 by an order of a court of competent jurisdiction or by any regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders and with whose instructions it is customary for the Seller to comply; or

- (d) if the Fund and/or the Seller is obliged to notify the borrower on the basis of legislation which governs the agreements in question; or
- (e) unless otherwise agreed in writing by the Representative, the termination of the Seller's role as Servicer under the Servicing Agreement unless the New Servicer, if any, is a member of the Group; or
- (f) the occurrence of an Insolvency Event in relation to the Seller,

and, following any notification in accordance with this Clause 6.1, the Seller shall promptly give notice to the Fund and the Representative of the same.

- 6.2 The Seller shall indemnify each of the Fund and the Representative from and against any and all reasonable costs, fees and expenses which may be incurred by the Fund and/or the Representative by reason of the doing of any act, matter or thing referred to in this Clause 6.
- 6.3 If the Seller has not notified the Borrower in accordance with Clause 6.1 on or before the tenth Business Day after the earliest of any of the events set out in Clause 6.1, the Fund or the Representative shall notify the Borrower at the Seller's expense.

## 7. REPRESENTATIONS AND WARRANTIES AND REPURCHASE BY THE SELLER

7.1 The Seller hereby makes the Representations and Warranties:

- (a) in respect of each Loan or its Related Security in the Initial Portfolio on the First Assignment Date in favour of the Fund and the Representative; and
- (b) in relation to each New Loan or its Related Security in a New Portfolio sold by the Seller pursuant to Clause 4 of this Agreement, on the relevant Assignment Date.

7.2 Each statement comprised in the Representations and Warranties shall be construed as a separate statement and (save as expressly provided to the contrary) shall not be limited or restricted by reference to or inference from the terms of any other such statement.

7.3 The Seller acknowledges:

- (a) that the Representations and Warranties are made with a view to inducing the Fund and the Representative (as the case may be) either to enter into this Agreement and the other Transaction Documents to which it is a party or to agree to purchase the New Loans and their Related Security comprised in the Initial Portfolio and each New Portfolio;
- (b) that each of the Fund and the Representative has entered into this Agreement and the other Transaction Documents to which it is a party in reliance upon the Representations and Warranties notwithstanding any information in fact possessed or discoverable by the Fund and/or the Representative or otherwise disclosed to any of them; and
- (c) that prior to entering into this Agreement and the other Transaction Documents to which each is a party, neither the Fund nor the Representative has made any enquiries of any matter.

7.4 The Fund's and the Representative's sole remedy in respect of a breach of any of the Representations and Warranties shall be to take action under this Clause 7.

7.5 In the event of a material breach of any of the Representations or Warranties in respect of any Loan and/or its Related Security made under Clause 7.1 or if any of those Representations or Warranties proves to be materially untrue in the case of the Initial Portfolio, as at the First Assignment Date or, in the case of a New Portfolio as at the relevant Assignment Date and provided that:

- (a) the Fund has given the Seller not less than 10 Business Days' notice in writing;
- (b) the Fund has obtained the prior written consent of the Representative; and
- (c) such breach or untruth, where capable of remedy, is not remedied to the reasonable satisfaction of the Representative within the 10 Business Day period referred to in Clause 7.5(a) (or such longer period as the Representative may in its absolute discretion direct the Fund in writing),

then the Fund shall serve upon the Seller a Loan Repurchase Notice in duplicate substantially in the form set out in Schedule 4 requiring the Seller to repurchase the relevant Loan and its Related Security (and any other Loan secured or intended to be secured by that Related Security or any part of it) in accordance with Clause 7.7.

7.6 Prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or a Fund Event of Default and service of a Fund Acceleration Notice, the Seller may at any time offer to repurchase any Loan in the Portfolio and its Related Security (including, without limitation, any Defaulted Loan and its Related Security) from the Fund for a purchase price of not less than the aggregate Outstanding Principal Balance of the relevant Mortgage and all Arrears of Interest and Accrued Interest relating thereto. The Fund may at its absolute discretion accept such offer by delivering a Loan Repurchase Notice duly signed on behalf of the Fund and the provisions of Clause 7.7 shall apply, provided that if an Issuer Event of Default has occurred and no liquidator or administrator has been appointed, any such repurchase shall be conditional upon the delivery by the Seller to the Fund and the Representative of a solvency certificate (in such form as the Fund and the Representative may reasonably require).

7.7 Upon receipt of a Loan Repurchase Notice duly signed on behalf of the Fund the Seller shall sign and return a duplicate copy and shall thereby repurchase from the Fund, and the Fund shall re-assign or re-transfer to the Seller, the relevant Loan and its Related Security. Completion of such repurchase shall take place on the Calculation Date after receipt of such notice by the Seller or such other date as the Fund may direct in the Loan Repurchase Notice (provided that the date so specified by the Fund shall not be later than 30 days after receipt by the Seller of such notice) when the Seller shall pay to the GIC Account (or as the Fund shall direct) an amount equal to the aggregate of the Outstanding Principal Balance of such Loan or Loans and all Arrears of Interest and Accrued Interest relating thereto and, in the case of a repurchase of a Loan or Loans pursuant to Clause 7.5, any amounts which have been deducted from the amounts outstanding under such Loan or Loans as a result of any breach of the Representations and Warranties as at the date of such repurchase, and the provisions of Clause 7.8 shall apply.

Notwithstanding the foregoing, in respect of Loans which are the subject of a Loan Repurchase Notice delivered pursuant to the provisions of Clause 7.7 above, the Seller shall not be obliged to sign the duplicate copy of the Loan Repurchase Notice and the affected Loans shall not be repurchased by the Seller hereunder, if the Seller has not agreed to do so pursuant to Clause 7.7 above.

7.8 On the date of completion of any repurchase of a Loan and its Related Security in accordance with Clause 7.7 above, the Representative and the Fund shall at the cost of the Seller execute and deliver, or cause their respective duly authorised attorneys to execute and deliver, to the Seller:

- (a) a transfer of ownership of such Mortgage to the Seller by annotation by the Fund of the Mortgage Document; and
- (b) a notification to the Servicer that all further sums due in respect of such repurchased Loan are for the Seller's account.

7.9 Upon such completion of any purchase, transfer, repurchase or re-transfer of any Loan and its Related Security in accordance with this Clause 7, the Seller shall cease to be under any further obligation to

hold any Customer Files or other documents relating to such Loan or Loans and its or their Related Security to the order of the Fund and the Representative and if the Fund or the Representative then holds the Customer Files, the Fund or, as the case may be, the Representative shall forthwith return them to the Seller. Any such repurchase or retransfer by the Seller of a Loan or Loans and its or their Related Security shall constitute a discharge and release of the Seller from any claims which the Fund or the Representative may have against the Seller arising from the relevant Representation or Warranty in relation to that Loan or Loans and its or their Related Security only, but shall not affect any rights arising from a breach of any other express provision of this Agreement or any Representation or Warranty in relation to any other Loan and other Related Security.

- 7.10 Forthwith after the Seller becomes aware of any event which may reasonably give rise to an obligation under Clause 7.7 to repurchase any Loan it shall notify the Fund and the Representative in writing thereof as soon as reasonably practicable.
- 7.11 The terms of this Clause 7 shall not prejudice the rights of the Fund.
- 7.12 The parties to this Agreement may waive or amend the Representations and Warranties, with the prior written consent of the Representative in accordance with the terms and conditions of the Representative and Agency Agreement.

## 8. **FURTHER ASSURANCE**

- 8.1 The parties hereto agree that they will co-operate fully to do all such further acts and things and execute any further documents that may be necessary or desirable to give full effect to the transactions contemplated by this Agreement.
- 8.2 The Seller shall provide all reasonable co-operation to the Fund and the Representative to enable them to carry out their respective duties and enforce their rights under the Transaction Documents. Without prejudice to the generality of the foregoing, the Seller shall:
  - (a) upon reasonable prior notice and during normal office hours, permit the Fund, the Representative and their authorised employees and agents and other persons nominated by the Representative and approved by the Seller (such approval not to be unreasonably withheld or delayed), to review the Customer Files in relation to the Portfolio (subject to such person(s) agreeing to keep the same confidential provided that disclosure shall be permitted to the professional advisors and auditors of the party to whom such disclosure is made and/or to the extent that such disclosure is required by law or for the purpose of any judicial or other proceedings); and/or
  - (b) give promptly all such information and explanations relating to the Loans and their Related Security as the Fund and/or the Representative may reasonably request (including a list of the Loans and Related Security in the Portfolio along with details of the location of the Customer Files relating thereto),

provided that prior to giving notice to a Borrower in accordance with Clause 6, the Seller shall be under no obligation to provide any information or documentation to any person other than the Fund and/or the Representative or their respective employees and/or professional advisors or allow such person access to the Customer Files if to do so would result in a breach of the applicable Mortgage Conditions or applicable Icelandic data protection rules and regulations.

## 9. **CONSEQUENCES OF BREACH**

Without prejudice to Clause 7, the Fund and the Representative severally acknowledge to and agree with the Seller, and the Representative acknowledges to and agrees with the Fund, that the Seller shall have no liability or responsibility (whether, in either case, contractual, delictual or tortious, express or implied) for any loss or damage for or in respect of any breach of, or any act or omission in respect of,

any of its obligations hereunder other than loss or damage directly (and not indirectly or consequentially) suffered by the Fund by reason of such breach, act or omission. For this purpose (and without limiting the scope of the above exclusion in respect of indirect or consequential loss or damage) any loss or damage suffered by the Fund as a result of the breach, act or omission in question also having been or having given rise to a Fund Event of Default shall be treated as indirect or consequential loss or damage.

## 10. SALE OF SELECTED LOANS

10.1 If following service of an Asset Coverage Test Breach Notice (which has not been revoked) or service of a Notice to Pay, and prior to the Fund making any offer to sell Selected Loans and their Related Security to Purchasers, the Fund is required to sell the Selected Loans and their Related Security in accordance with Clause 12 of the Fund Deed, the Fund shall offer immediately to sell to the Seller those Selected Loans and their Related Security which the Seller has previously sold to the Fund for an offer price in aggregate equal to:

- (a) where the Selected Loans and their Related Security are offered for sale following service of an Asset Coverage Test Breach Notice but prior to service of a Notice to Pay, the then Outstanding Principal Balance of the Selected Loans and their Related Security, together with all Accrued Interest and Arrears of Interest relating thereto; or
- (b) where the Selected Loans and their Related Security are offered for sale following service of a Notice to Pay, the greater of the then Outstanding Principal Balance of the Selected Loans and all Arrears of Interest and Accrued Interest relating thereto and the Required Redemption Amount,

by serving on the Seller a Selected Loan Offer Notice in duplicate substantially in the form set out in Schedule 6.

10.2 If the Seller accepts the Fund offer to sell the relevant Selected Loans and their Related Security by signing the duplicate Selected Loan Offer Notice in a manner indicating acceptance and delivering it to the Fund with a copy to the Representative within ten Business Days from and including the date of the Selected Loan Offer Notice and provided that (if an Issuer Event of Default has occurred and no liquidator or administrator has been appointed) the Seller has provided a solvency certificate in a form acceptable to the Fund and the Representative (each acting reasonably), the Fund shall within three Business Days of receipt of such acceptance serve a Selected Loan Repurchase Notice substantially in the form set out in Schedule 7 on the Seller.

10.3 Those Selected Loans and their Related Security in respect of which the Seller rejects or fails within the requisite time limit to accept the Fund's offer to sell shall be offered for sale by the Fund to other Purchasers in the manner and on the terms set out in Clause 14 of the Fund Deed.

10.4 Upon receipt of the Selected Loan Repurchase Notice duly signed on behalf of the Fund, the Seller shall promptly sign and return a duplicate copy of the Selected Loan Repurchase Notice and shall repurchase from the Fund the Selected Loans and their Related Security (and any Loan secured or intended to be secured by that Related Security or any part of it) referred to in the relevant Selected Loan Repurchase Notice. Completion of such repurchase shall take place on the Fund Payment Date next occurring after receipt by the Seller of such Selected Loan Repurchase Notice or such date as the Fund may direct in the Selected Loan Repurchase Notice (provided that such date shall not be later than the earlier to occur of the date which is: (a) ten Business Days after receipt by the Fund of the returned Selected Loan Repurchase Notice; or (b) the Final Maturity Date of the Earliest Maturing Covered Bonds) when the Seller shall pay to the GIC Account (or as the Fund shall direct) an amount in cash equal to the offer price specified in the relevant Selected Loan Repurchase Notice provided that the offer price is not less than the Required Redemption Amount and the provisions of Clauses 10.5 and 10.6 shall apply.

- 10.5 On the date of completion of the repurchase of the Selected Loans and their Related Security in accordance with Clauses 10.3 and 10.4, the Representative and the Fund shall at the cost of the Seller execute and deliver, or cause their respective duly authorised attorneys to execute and deliver, to the Seller:
- (a) where notice has previously been given to the relevant Borrowers of the sale of those Borrowers' Loans to the Fund in accordance with Clause 6, a further notice to those Borrowers of the repurchase of those Borrowers' Loans by the Seller;
  - (b) a transfer of ownership of such Mortgage to the Seller by annotation by the Fund of the Mortgage Document; and
  - (c) a notification to the Servicer that all further sums due in respect of the Selected Loan are for the Seller's account.
- 10.6 Upon such completion of the repurchase of the Selected Loans and their Related Security in accordance with Clause 10.4 above or the sale of Selected Loans and their Related Security to a Purchaser or Purchasers pursuant to Clause 15 of the Fund Deed, the Seller shall cease to be under any further obligation to hold any Customer Files or other documents relating to the Selected Loans and their Related Security to the order of the Representative and if the Representative holds such documents it will send them to the Seller. Any repurchase by the Seller of or in respect of the Selected Loans and their Related Security or any sale of Selected Loans and their Related Security by the Fund to a Purchaser or Purchasers pursuant to Clause 15 of the Fund Deed, shall constitute a discharge and release of the Seller from any claims which the Fund or the Representative may have against the Seller arising from any Representation or Warranty in relation to the Selected Loans and their Related Security previously sold by the Seller to the Fund only but shall not affect any rights arising from a breach of any other express provision of this Agreement or any Representation and Warranty in relation to any other Loan and other Related Security.

## 11. **SUBORDINATION**

The Seller agrees with the Fund and the Representative that on the enforcement of any Mortgage any sums owed to the Seller by a Borrower and which are secured under such Mortgage and the rights and remedies of the Seller in respect of the sums owed to the Seller shall at all times be subject and subordinated to any sums owed to the Fund by the Borrower and which are secured under such Mortgage and to the rights and remedies of the Fund in respect of such sums owed to the Fund by the Borrower.

## 12. **NON-MERGER**

Any terms of this Agreement to which effect is not given on the First Assignment Date or on any Assignment Date (including in particular, but without limitation, the liability of the Seller under the Representations and Warranties and the indemnity in Clause 6.2) shall not merge and shall remain in full force and effect notwithstanding the sale and purchase contemplated by this Agreement.

## 13. **PAYMENTS**

Except as otherwise specifically provided, all payments to be made pursuant to this Agreement shall be made in ISK in immediately available funds without exercising or seeking to exercise any right of set-off as may otherwise exist and shall be deemed to be made when they are received by the payee and shall be accounted for accordingly unless failure to receive any payment is due to an error by the payee's bank.

## 14. **WAIVERS AND VARIATION**

- 14.1 Exercise or failure to exercise any right under this Agreement shall not, unless otherwise herein provided, constitute a waiver of that or any other right.

14.2 No variation of this Agreement shall be effective unless it is in writing and signed by (or by some person duly authorised by) each of the parties hereto.

## 15. NOTICES

15.1 Any notices to be given pursuant to this Agreement to any of the parties hereto shall be in writing and shall be sufficiently served if sent by prepaid first class post, by hand or by facsimile transmission and shall be deemed to be given (in the case of facsimile transmission) when despatched or (in the case of first class post) when it would be received in the ordinary course of the post and shall be sent:

- (a) in the case of the Seller, to Arion Bank hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number +(354) 444 6229 and email [mtndesk@arionbanki.is](mailto:mtndesk@arionbanki.is)) for the attention of the Funding Department;
- (b) in the case of the Fund, to Arion Bank Mortgages Institutional Investor Fund at Borgartun 19, 105 Reykjavik, Iceland (facsimile number +(354) 444 7489 and email [info@stefnir.is](mailto:info@stefnir.is)) for the attention of Stefnir hf. – Arion Bank Mortgages Institutional Investor Fund; and
- (c) in the case of the Representative, to Deutsche Trustee Company Limited at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number +(44) 20 7547 6149 and email [TSS-GDS.EUR@db.com](mailto:TSS-GDS.EUR@db.com)) for the attention of the Managing Director,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 15.

15.2 Notwithstanding Clause 15.1 above and provided that each give their prior consent to such delivery, any party to this Agreement may send notice to or otherwise communicate with any of the other parties to this Agreement by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Agreement shall be deemed: (i) to have received any electronic mail sent by the any other party to this Agreement pursuant to the terms of this Clause 15.2 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Agreement shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Agreement (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

## 16. ASSIGNMENT

Subject always to the provisions of Clause 17, no party hereto shall be entitled to assign all or any part of its rights or obligations hereunder to any other party without the prior written consent of each of the other parties hereto (which shall not, if requested, be unreasonably withheld) save that the Representative may at its sole discretion assign all or any of its rights under or in respect of this Agreement without such consent to any successor Representative.



17. **CHANGE OF REPRESENTATIVE**

17.1 If there is any change in the identity of the Representative in accordance with the Representative and Agency Agreement, the Seller and the Fund shall execute such documents and take such action as the successor Representative and the outgoing Representative may reasonably require for the purpose of vesting in the successor Representative the rights and powers of the outgoing Representative hereunder.

17.2 Notwithstanding any provision herein, it is hereby acknowledged and agreed that by its execution of this Agreement the Representative shall not assume or have any obligations or liabilities to the Seller or the Fund hereunder and that the Representative has agreed to become a party to this Agreement for the purpose only of taking the benefit of this Agreement. It is further acknowledged and agreed that the Representative shall not at any time assume any obligations of the Management Company under this Agreement or under the Articles of Association of the Fund. For the avoidance of doubt, the parties to this Agreement acknowledge that the rights and powers of the Representative are governed by the Representative and Agency Agreement. Any liberty or right which may be exercised, or determination which may be made, under this Agreement by the Representative may be exercised or made in the Representative's absolute discretion without any obligation to give reasons therefor and the Representative shall not be responsible for any liability occasioned by so acting but subject always to the provisions of Clause 12.6 of the Representative and Agency Agreement.

18. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

18.1 This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

18.2 Each party to this Agreement irrevocably agrees that any dispute arising out of this Deed shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

19. **COUNTERPARTS; SEVERABILITY**

19.1 This Agreement may be executed (manually or by facsimile) in any number of counterparts each of which when so executed and delivered (manually or by facsimile) is an original, but all the counterparts together constitute the same document.

19.2 Where any provision or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations under this Agreement, or of such provision or obligation in any other jurisdiction, shall not be affected or impaired thereby.

**THIS AGREEMENT** has been entered into on the date stated at the beginning of this Agreement.

## SCHEDULE 1

### REPRESENTATIONS AND WARRANTIES

1. **Loans**
- 1.1 The particulars of each Loan set out in the Exhibit (or, as the case may be, the relevant New Portfolio Notice) are true, complete and accurate in all material respects.
- 1.2 Each Loan was originated by either Kaupthing hf. or the Seller and was originated and is denominated in ISK.
- 1.3 Each Loan was originated not earlier than 20 August, 2004, and each Loan matures for repayment not later than 1 January, 2060.
- 1.4 No Loan has an Outstanding Principal Balance of more than ISK 100,000,000.
- 1.5 Each Loan and its Related Security was originated in accordance with the Lending Criteria in force at the time of its origination.
- 1.6 Prior to the making of each advance under a Loan the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender.
- 1.7
  - (a) Each Loan was made and its Related Security taken substantially on the terms of the Standard Documentation without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect.
  - (b) The brochures, application forms, offers, offer conditions and marketing material distributed by the Seller to the Borrower when offering a Loan to a Borrower:
    - (i) do not conflict in any material respect with the terms of the relevant Standard Documentation agreed to by the relevant Borrower at the time that the Loan was entered into;
    - (ii) do not conflict with and would not prohibit or otherwise limit the terms of, the Transaction Documents or the matters contemplated thereby, including for the avoidance of doubt and without limitation:
      - (A) the assignment of the Loan and its Related Security to the Fund;
      - (B) the administration of the Loan and its Related Security by the Servicer or a delegate of the Servicer or the appointment of a New Servicer following the occurrence of an Insolvency Event in relation to the Servicer; and
- 1.8 Each Borrower has made at least one Monthly Payment.
- 1.9 Other than with respect to monthly payments, no Borrower is in material breach of any obligation owed in respect of the relevant Loan or under the Related Security and currently no steps have been taken by the Seller to enforce any Related Security.
- 1.10 The total amount of Arrears of Interest or principal, together with any fees, commissions and premiums payable at the same time as such interest payment or principal repayment, on any Loan is not on the relevant Assignment Date in respect of such Loan three or more times the Monthly Payment payable in respect of such Loan in respect of the month in which that Assignment Date falls.

- 1.11 The Outstanding Principal Balance, all Accrued Interest and all Arrears of Interest on each Loan constitute a valid debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower.
- 1.12 Interest on each Loan is charged in accordance with the Standard Documentation.
- 1.13 Interest on each Loan is payable monthly in arrears.
- 1.14 In respect of each Loan it is in compliance with the Consumer Credit Act No. 121 from 1994.
- 1.15 All of the Borrowers are individuals and were aged 18 or over at the date of entering into the relevant Loan and its Related Security.

## 2. **Mortgages**

- 2.1 The whole of the Outstanding Principal Balance on each Loan and any Arrears of Interest and all Accrued Interest is secured by a Mortgage.
- 2.2 Each Mortgage is in the form of the pro forma contained in the Standard Documentation.
- 2.3 Each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage over the relevant Property and may also constitute a valid and subsisting second charge by way of legal mortgage over a Property in the Portfolio over which a first charge is also taken.
- 2.4 Each Mortgage has first priority for the whole of the Outstanding Principal Balance on the Loan and all Arrears of Interest and Accrued Interest thereon and all future interest, fees, costs and expenses payable under or in respect of such Mortgage.
- 2.5 Each Loan and its Related Security is valid and binding and enforceable in accordance with its terms.

## 3. **The Properties**

- 3.1 All of the Properties are residential properties situated in Iceland.
- 3.2 Each Property constitutes a separate dwelling unit.

## 4. **Valuers' Reports**

- 4.1 Except in the case of certain Loans which have a low loan-to-value ratio (being about 50 per cent.) and the valuation of the relevant Property can be easily determined by using publicly available services, not more than six months (or such longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the grant of each Mortgage the Seller received a Valuation Report on the relevant Property (or such other form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender.
- 4.2 The benefit of all Valuation Reports, any other valuation report referred to above (if any), can be validly assigned to the Fund without obtaining the consent of the relevant valuer.

## 5. **Buildings Insurance**

Insurance cover for each Property is or will at all times be available under a policy arranged by the Borrower in accordance with the relevant Mortgage Conditions.

6. **The Seller's Title**

- 6.1 The Seller has good title to, and is the absolute unencumbered legal owner of, all property interests, rights and benefits agreed to be sold by the Seller to the Fund pursuant to this Agreement free and clear of all mortgages, securities, charges, liens, encumbrances, claims and equities.
- 6.2 All steps necessary to perfect the Seller's title to each Loan and its Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay.
- 6.3 The Customer Files relating to each Loan and its Related Security are held by, or are under the control of:
- (a) the Seller; or
  - (b) the Seller's lawyers or licensed or qualified conveyancers to the order of the Seller.
- 6.4 Neither the entry by the Seller into this Agreement nor any transfer or assignment contemplated by this Agreement affects or will adversely affect any of the Loans and their Related Security and the Seller may freely assign its interest therein without breaching any term or condition applying to any of them.
- 6.5 The Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Mortgage, other than waivers and acquiescence such as a Reasonable, Prudent Mortgage Lender might make.

7. **General**

- 7.1 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.
- 7.2 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, Property or Mortgage which might have a material adverse effect on a Loan or its Related Security.
- 7.3 The Seller has received from each Borrower (save in the case of Borrowers who will make monthly payments by way of a direct payment at a bank or using an internet banking service) a variable direct debit instruction in favour of the Seller signed by the relevant Borrower and addressed to its bank, variable as to the amount payable by such Borrower by unilateral notice given from time to time by the Seller to such Borrower's bank without further instruction or consent from such Borrower or such other method of payment as may be acceptable to a Reasonable, Prudent Mortgage Lender.
- 7.4 There are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform the obligations under this Agreement or to render this Agreement legal, valid, binding, enforceable and admissible in evidence.

**SCHEDULE 2**  
**LENDING CRITERIA**

**Lending Criteria**

The Loans in the Initial Portfolio or, as the case may be, the relevant New Portfolio were originated according to the Seller's lending policy at the relevant time, which in the case of the Initial Portfolio included the criteria set out below. However, the Seller retains the right to revise its lending policy from time to time, and so the criteria applicable to the New Loans may not be the same as those set out below.

1. **Types of Property**

Properties shall be residential real estate. All properties have been valued by a valuer approved by the Seller except in the case of certain Loans which have a low loan-to-value ratio and the valuation of the relevant Properties can be easily determined by using publicly available services.

2. **Term of Loan**

There is a minimum term on the Loans of 25 years. The maximum term is 42 years.

3. **Age of Applicant**

All Borrowers must be aged 18 or over. There is no maximum age limit.

4. **Loan to Value Ratio**

The maximum original loan-to-value ratio of Loans in the Initial Portfolio is 80 per cent. Value is determined, in the case of a remortgage, on the basis of the valuation of the valuer or, in the case of certain Loans which have a low loan-to-value ratio, the valuation determined by using publicly available services and, in the case of a Property which is being purchased, on the lower of such valuation and the purchase price and, in the case of a further advance, on the basis of such valuation or, where appropriate, according to a methodology which would meet the standards of a Reasonable, Prudent Mortgage Lender.

5. **Credit History**

5.1 Credit Search

A credit search is carried out in respect of all applicants. Applications may be declined where an adverse credit history (e.g. court judgment, default, bankruptcy notice) is revealed.

5.2 Existing Lender's Reference

The Seller may also seek a reference from any existing and/or previous lender. Any reference must satisfy the Seller that the account has been properly conducted and that no history of material arrears exists.

5.3 Bank Reference

A bank reference may be sought or the applicants may be required to provide bank statements in support of their application.

6. **Scorecard**

The Seller uses some of the above criteria and various other criteria to provide an overall score for the application which reflects a statistical analysis of the risk of advancing the Loan.

### SCHEDULE 3

#### SELLER POWER OF ATTORNEY

**THIS DEED OF POWER OF ATTORNEY** is made on • by **ARION BANK HF.** whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (the **Seller**)

**IN FAVOUR OF** each of:

- (1) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND** whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (the **Fund**); and
- (2) **DEUTSCHE TRUSTEE COMPANY LIMITED**, acting through its offices at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (the **Representative**);

**WHEREAS:**

- (A) By virtue of a mortgage sale agreement dated 29 March, 2006 and made between Kaupthing Bank hf. (the "**Original Seller**"), the Fund and the Representative (the **Mortgage Sale Agreement**) provision was made for the execution by the Seller of the Power of Attorney appended as Schedule 3 thereto. The Mortgage Sale Agreement was amended and restated on \_\_\_\_\_ January, 2012 with the Seller being substituted for the Original Seller for all purposes thereunder.
- (B) Words and phrases in this Power of Attorney shall (save where expressed to the contrary) have the same meanings respectively as the words and phrases in the Master Definitions and Construction Agreement made between, *inter alios*, the parties to the Mortgage Sale Agreement on \_\_\_\_\_ January, 2012 (as the same may be amended, varied or supplemented from time to time with the consent of the parties to the Master Definitions and Construction Agreement) and this Power of Attorney shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions and Construction Agreement.

**NOW THIS DEED WITNESSETH** as follows:

1. The Seller irrevocably and by way of security for the performance of the covenants, conditions and undertakings on the part of the Seller contained in the Mortgage Sale Agreement and the Servicing Agreement **HEREBY APPOINTS** each of the Fund and the Representative and any receiver and/or administrator appointed from time to time in respect of the Fund or its assets (each an **Attorney**) severally to be its true and lawful attorney for the Seller and in the Seller's name or otherwise to do any act matter or thing which any Attorney considers necessary or desirable for the protection, preservation or enjoyment of that Attorney's (and at the request of any other Attorney, such other Attorney's) interest in the Mortgages and/or which ought to be done under the covenants, undertakings and provisions contained in the Mortgage Sale Agreement including (without limitation) any or all of the following:
  - (a) to execute, sign, seal and deliver (using the company seal of the Seller where appropriate) a conveyance, assignment, assignation or transfer of such Loans and their Related Security or any of them to the Fund and its successors in title or other person or persons entitled to the benefit thereof;
  - (b) to do every other act or thing which the Seller is obliged to do under the Mortgage Sale Agreement or which that Attorney may otherwise consider to be necessary proper or expedient for fully and effectually vesting or transferring the interests now or at any time hereafter sold thereunder in such Loans and their Related Security or any or each of them and/or the Seller's estate right and title therein or thereto in the Fund or other person or persons entitled to the benefit thereof (as the case may be) in the same manner and as fully and effectually in all respects as the Seller could have done;

- (c) to exercise its rights, powers and discretions under the Loans including the right to fix the rate or rates of interest payable under the Loans in accordance with the terms thereof;
  - (d) to discharge the Mortgages or any of them and to sign, seal, deliver and execute such discharges, receipts, releases, surrenders, instruments, retrocessions and deeds as may be requisite or advisable in order to discharge the relevant Property or Properties from the Mortgages or any of them; and
  - (e) to exercise all the powers of the Seller in relation to such Loans and their Related Security.
2. Each Attorney shall have the power by writing under its hand by an officer of the Attorney from time to time to appoint a substitute who shall have power to act on behalf of the Seller as if that substitute shall have been originally appointed Attorney by this Power of Attorney (including, without limitation, the power of further substitution) and/or to revoke any such appointment at any time without assigning any reason therefor.
  3. The Seller hereby agrees at all times hereafter to ratify and confirm whatsoever the said Attorney or its attorneys shall lawfully do or cause to be done in and concerning the Loans or their Related Security by virtue of this Power of Attorney.
  4. The laws of Iceland shall apply to this Power of Attorney and the interpretation thereof.
  5. A person who is not a party to this Power of Attorney may not enforce any of its terms.

**IN WITNESS WHEREOF** the Seller has executed and delivered this document as a deed the day and year first before written.

**EXECUTED** as a **DEED** by                    )  
**ARION BANK HF.**                                )  
acting by its attorney                         )  
in the presence of:                                )

Witness:

Name:

Address:

**SCHEDULE 4**

**LOAN REPURCHASE NOTICE**

To: Arion Bank hf. (the **Seller**)

From: Arion Bank Mortgages Institutional Investor Fund (the **Fund**)

1. It is hereby agreed that for the purpose of this notice the **Principal Agreement** shall mean the Mortgage Sale Agreement dated 29 March, 2006 made between the Seller, the Fund and Deutsche Trustee Company Limited (the **Representative**) as amended and restated on \_\_\_\_\_ January, 2012 (as the same may be or have been amended, varied or supplemented from time to time with the consent of those parties).
2. Save where the context otherwise requires, words and expressions in this notice shall have the same meanings respectively as when used in the Principal Agreement.
3. In accordance with Clause 7.7 of the Principal Agreement, upon receipt of this Mortgage Repurchase Notice by the Seller there shall exist between the Seller and the Fund an agreement (the **Agreement for Sale**) for the sale by the Fund to the Seller of the Mortgages more particularly described in the Schedule hereto. Completion of such sale shall take place on [ ].
4. The Agreement for Sale shall incorporate, *mutatis mutandis*, the relevant provisions of the Principal Agreement.

Dated [            ]

-----  
For and on behalf of

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

[On duplicate

We hereby acknowledge receipt of and confirm the contents of the Mortgage Repurchase Notice dated [ ].

-----  
**SIGNED** for and on behalf of

**ARION BANK HF.**

in its capacity as the Seller]



SCHEDULE

1. Title No./Recording Date	2. Borrower	3. Account No.	4. Property Postcode	5. Date of Mortgage
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## SCHEDULE 5

### NEW PORTFOLIO NOTICE

To: Arion Bank Mortgages Institutional Investor Fund (the **Fund**)

From: Arion Bank hf. (the **Seller**)

1. It is hereby agreed for the purpose of this notice the **Principal Agreement** shall mean the Mortgage Sale Agreement dated 29 March, 2006 made between the Seller, the Fund and Deutsche Trustee Company Limited (the **Representative**) as amended and restated on \_\_\_\_\_ January, 2012 (as the same may be or have been amended, varied or supplemented from time to time with the consent of those parties).
2. Save where the context otherwise requires, words and expressions in this notice shall have the same meanings respectively as when used in the Principal Agreement.
3. In accordance with and subject to Clause 4.1 of the Principal Agreement, upon receipt by the Seller of the duplicate of this notice signed by the Fund, there shall exist between the Seller and the Fund an agreement (the **Agreement for Sale**) for the sale by the Seller to the Fund of the New Mortgages more particularly described in the Schedule hereto (other than any New Loans which have been redeemed in full prior to the next following Assignment Date). Completion of such sale shall take place on [ ].
4. The Agreement for Sale shall incorporate, *mutatis mutandis*, the relevant provisions of the Principal Agreement subject to any amendment as may be agreed between the parties to Agreement for Sale provided the parties to such agreement have substantially the same rights and obligations as under the Principal Agreement.

Dated [ ]

-----  
**SIGNED** for and on behalf of  
**ARION BANK HF.**  
in its capacity as the Seller

On duplicate:

We hereby acknowledge receipt of the New Portfolio Notice dated [ ], and confirm that we are prepared to purchase New Loans as set out in that notice.

-----  
**SIGNED** for and on behalf of  
**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

SCHEDULE

1. Title No.	2. Borrower	3. Property Postcode	4. Account No.	5. Date of Mortgage
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## SCHEDULE 6

### SELECTED LOAN OFFER NOTICE

To: Arion Bank hf. (the **Seller**)

From: Arion Bank Mortgages Institutional Investor Fund (the **Fund**)

It is hereby agreed for the purpose of this Selected Loan Offer Notice the **Principal Agreement** shall mean the mortgage sale agreement dated 29 March, 2006, made between the Seller, the Fund and Deutsche Trustee Company Limited (the **Representative**) as amended and restated on \_\_\_\_\_ January, 2012 (as the same may be or have been amended, varied or supplemented from time to time with the consent of those parties).

Save where the context otherwise requires, words and expressions in this Selected Loan Offer Notice shall have the same meanings respectively as when used in the Principal Agreement.

In accordance with and subject to Clause 10 of the Principal Agreement we make an offer to you on the following terms:

1. This Selected Loan Offer Notice constitutes an offer to sell the Selected Loans and their Related Security more particularly described in the Schedule hereto to you at the offer price of ISK[] payable in cash on the earlier to occur of the date which is: (a) ten Business Days after receipt by the Fund of the returned Selected Loan Repurchase Notice; or (b) the Final Maturity Date of the Earliest Maturing Covered Bonds on the terms set out in Clause 10 of the Principal Agreement.
2. This offer is capable of acceptance by you within ten Business Days from and including the date of this Selected Loan Offer Notice. If you do not accept this offer, we intend to sell the Selected Loans and their Related Security to a third party or third parties.
3. This Selected Loan Offer Notice shall incorporate, *mutatis mutandis*, the relevant provisions of the Principal Agreement.

You may accept this offer to you by signing the duplicate of this Selected Loan Offer Notice in a manner indicating acceptance and delivering it to the Fund with a copy to the Representative.

We refer you to the Principal Agreement as to your rights, and the consequences of failure to accept this offer in time or at all or of doing so in a manner other than that specified in the Principal Agreement.

Dated [            ]

-----  
for and on behalf of

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

We accept the offer contained in this Selected Loan Offer Notice.

Dated [            ]

-----  
for and on behalf of

**ARION BANK HF.**

SCHEDULE

1. Title No.	2. Borrower	3. Account No.	4. Property Postcode	5. Date of Mortgage
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**SCHEDULE 7**

**SELECTED LOAN REPURCHASE NOTICE**

To: Arion Bank hf. (the **Seller**)

From: Arion Bank Mortgages Institutional Investor Fund (the **Fund**)

1. It is hereby agreed that for the purpose of this notice the **Principal Agreement** shall mean the Mortgage Sale Agreement dated 29 March, 2006 made between the Seller, the Fund and Deutsche Trustee Company Limited (the **Representative**) as amended and restated on \_\_\_\_\_ January, 2012 (as the same may be or have been amended, varied or supplemented from time to time with the consent of those parties).
2. Save where the context otherwise requires, words and expressions in this notice shall have the same meanings respectively as when used in the Principal Agreement.
3. In accordance with Clause 10 of the Principal Agreement, upon receipt of this Selected Mortgage Repurchase Notice by the Seller there shall exist between the Seller and the Fund an agreement (the **Agreement for Sale**) for the sale by the Fund to the Seller of the Selected Loans and their Related Security more particularly described in the Schedule hereto. Completion of such sale shall take place on [] and the price payable by the Seller for the Selected Loans and their Related Security more particularly described in the Schedule hereto shall be ISK[[]].
4. The Agreement for Sale shall incorporate, *mutatis mutandis*, the relevant provisions of the Principal Agreement.

Dated [            ]

-----  
**SIGNED** for and on behalf of  
**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

[On duplicate

We hereby acknowledge receipt of and confirm the contents of the Selected Loan Repurchase Notice dated [            ].

-----  
**SIGNED** for and on behalf of  
**ARION BANK HF.**  
in its capacity as the Seller]

SCHEDULE

1. Title No.	2. Borrower	3. Account No.	4. Property Postcode	5. Date of Mortgage
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## **EXHIBIT 1**

### **STANDARD DOCUMENTATION**

- (1) KB íbúðalán - 25 year loan.
- (2) 60-1455A KB íbúðalán - 25 year loan pledged parallel on the first charge.
- (3) 60-1456 KB íbúðalán - 40 year loan.
- (4) 60-1456A KB íbúðalán - 40 year loan pledged parallel on the first charge.
- (5) Payment valuation document.
- (6) 60-1199 Contract on repayment on other loans pledge on the property.



**SIGNATORIES**

**The Seller**

**ARION BANK HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_  
**Name:**  
**Title: Associate Director**

\_\_\_\_\_  
**Name:**  
**Title: Associate Director**

**SCHEDULE 1D**

**AMENDED AND RESTATED FUND DEED**

**AMENDED AND RESTATED**

**FUND DEED**

**ARION BANK HF.**  
as the Seller, the Cash Manager and a Holder  
and

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**  
as the Fund

and

**STEFNIR HF.**  
formerly **KAUPTHING ASSET MANAGEMENT COMPANY HF.**  
as the Management Company

and

**DEUTSCHE TRUSTEE COMPANY LIMITED**  
as the Representative

\_\_\_\_\_ January 2012

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**THIS FUND DEED** is made on \_\_\_\_\_ January, 2012 between:

- (1) **ARION BANK HF.**, ID number 581008-0150, a public limited company incorporated under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the Seller, the Cash Manager and a Holder and referred to as **Arion**, the **Seller**, the **Cash Manager** and a **Holder**, respectively);
- (2) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID number 570106-9610, an institutional investment fund established under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Fund**);
- (3) **STEFNIR HF., formerly KAUPTHING ASSET MANAGEMENT COMPANY HF.**, ID number 700996-2479, a public limited company incorporated under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Management Company**); and
- (4) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a company incorporated under the laws of England and Wales whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (in its capacity as the **Representative**).

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Deed in accordance with the provisions set out below.
- (B) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day-to-day operations of the Fund are managed by the Management Company. The Management Company shall execute this Deed on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Deed other than the obligations or liabilities expressly stated herein to be performed or incurred by the Management Company.
- (C) The parties have agreed to comply with the terms and subject to the conditions set out in this fund deed (this **Deed**) in relation to their duties, powers and rights *inter se*.
- (D) This Deed replaces the Fund Deed dated 29 March, 2006.

**NOW THIS DEED WITNESSES:**

**1. DEFINITIONS AND CONSTRUCTION**

- 1.1 The master definitions and construction agreement made between, *inter alios*, the parties to this Deed on \_\_\_\_ January, 2012 (as the same may be amended, varied and/or supplemented from time to time, the **Master Definitions and Construction Agreement**) is expressly and specifically incorporated into this Deed and, accordingly, the expressions defined in the Master Definitions and Construction 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 this Deed, including the recitals hereto and this Deed shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions and Construction Agreement.
- 1.2 The recitals to this Deed shall constitute integral parts of this Deed and shall be read with it for all their purposes and intents.

2. **COMMENCEMENT OF DEED AND ESTABLISHMENT AND BUSINESS OF THE FUND**

2.1 This Deed shall have effect from and including the Programme Date.

2.2 The Fund is an institutional investment fund and has been established and notified to the Financial Supervisory Authority in Iceland pursuant to Act No. 30/2003 (the **Act**) and any change which may occur in the particulars to be furnished thereunder (by reason of this Deed or otherwise) shall forthwith be notified by the Management Company to the Financial Supervisory Authority in Iceland.

2.3 Arion and the Management Company have agreed with effect from the Programme Date that the business of the Fund shall be the acquisition, management and sale of Loans and their Related Security, the borrowing of monies to fund the acquisition of such assets, the acquisition, management and sale of Substitution Assets and Authorised Investments, the giving of guarantees and any other business as Arion and the Management Company shall decide (with the prior written consent of the Representative whilst any Covered Bonds are outstanding).

3. **REGISTERED OFFICE**

The Fund shall at all times have a registered office in Iceland. The location of such registered office in Iceland may be determined from time to time by the Management Company and shall be registered with the Financial Supervisory Authority in Iceland in accordance with Act 30/2003.

4. **REGISTRATION**

The Management Company shall ensure that the Fund complies with the notification and registration requirements under Act 30/2003 as required from time to time.

5. **MANAGEMENT COMPANY**

5.1 At all times there shall be a management company.

5.2 The Management Company shall have such duties as are specified in the Articles of Association of the Fund, the Act or otherwise at law and in this Deed.

5.3 The appointment of the Management Company may be terminated and a successor management company appointed pursuant to Clause 12.12 of the Representative and Agency Agreement.

6. **FUND PROPERTY**

6.1 From time to time the Issuer shall make Term Advances to the Fund pursuant to and in accordance with the terms of the Intercompany Loan Agreement. A Term Advance to the Fund shall not constitute an Equity Contribution to the Fund.

6.2 From time to time the Seller shall sell Loans and their Related Security to the Fund pursuant to the terms of the Mortgage Sale Agreement. An Equity Contribution in Kind may constitute the whole or a part of the consideration for the sale of such Loans and Related Security to the Fund, as set out in Clause 8 below.

7. **CASH EQUITY CONTRIBUTIONS**

7.1 Arion may from time to time make Cash Equity Contributions to the Fund.

7.2 Prior to making any Cash Equity Contribution to the Fund, Arion shall deliver to the Fund and the Representative a solvency certificate signed by an authorised signatory of Arion dated the date of the making of the Cash Equity Contribution in a form which is acceptable to the Fund and the Representative, such acceptance to not be unreasonably withheld.

7.3 Cash Equity Contributions will be credited to the Revenue Ledger of the GIC Account and be applied as Available Receipts.

8. **EQUITY CONTRIBUTIONS IN KIND**

Each sale of Loans and their Related Security by the Seller to the Fund in accordance with the terms of the Mortgage Sale Agreement shall constitute an Equity Contribution in Kind by the Seller (in its capacity as a Holder) of those Loans and their Related Security in an amount equal to: (a) the Outstanding Principal Balance of those Loans as at the relevant Assignment Date; minus (b) any cash payment made by the Fund for the Loans and their Related Security on that Assignment Date. Any such Equity Contribution in Kind shall be reduced in an amount equal to any Unit Distribution made to the Seller on any Issue Date where the proceeds of a Term Advance are applied by the Fund to make a Unit Distribution to the Seller (in its capacity as a Holder) pursuant to Clause 3.1(b) (Application of Term Advances by Fund) of the Intercompany Loan Agreement.

9. **CALCULATION OF EQUITY CONTRIBUTIONS**

9.1 There shall be no limit on the amount of Equity Contributions the Seller (in its capacity as a Holder) may make to the Fund from time to time (whether Cash Equity Contributions or Equity Contributions in Kind).

9.2 The Equity Contributions made or deemed to be made by each Holder from time to time shall be credited to its separate Unit Account Ledger and Unit Distributions made to each Holder will be debited to its Unit Account Ledger. The Equity Contribution Balance of each Holder shall represent its interest in the Fund. The Fund (or the Cash Manager on its behalf) shall maintain the Unit Account Ledgers. Any increase or decrease in the Equity Contribution Balance of a Holder shall be credited or debited to its Unit Account Ledger on each Calculation Date.

9.3 On each Calculation Date or on the date that the Fund is wound up, the Equity Contribution Balance of the Seller (in its capacity as a Holder) in respect of the immediately preceding Calculation Period will be recalculated. The Equity Contribution Balance of the Seller will be an amount calculated in ISK (to the extent that there is any amount denominated in a currency other than ISK, converted into ISK at the then prevailing spot rate of exchange) as follows:

$$A + B - C$$

where:

A = the Outstanding Principal Balance of the Loans in the Portfolio as at the last day of the preceding Calculation Period;

B = the Revenue Receipts standing to the credit of the Revenue Ledger of the GIC Account and the principal amount of Substitution Assets and Authorised Investments as at the last day of the preceding Calculation Period; and

C = the ISK Equivalent of the aggregate Principal Amount Outstanding under the Covered Bonds as at the last day of the preceding Calculation Period.

9.4 Any Equity Contributions credited to the Unit Account Ledger of the Seller under this Clause 9 shall not be a debt owed by the Fund to the Seller but shall increase the Seller's equity interest in the Fund.

9.5 The Seller agrees that it will amend the calculation in Clause 9.3 if Equity Contributions are made or deemed made by Holders other than the Seller.

10. **ASSET COVERAGE TEST**

10.1 For so long as the Covered Bonds remain outstanding, the Fund shall procure that on each Calculation Date, the Adjusted Aggregate Loan Amount (as defined below) shall be in an amount at least equal to the ISK Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date (the **Asset Coverage Test**).

10.2 The **Adjusted Aggregate Loan Amount** means the amount calculated on each Calculation Date as follows:

$$\alpha A + B + C + D - W$$

where:

A = the sum of the **Adjusted Outstanding Principal Balance** of each Loan in the Portfolio as at the relevant Calculation Date, which shall be the lower of:

- (a) the actual Outstanding Principal Balance of the relevant Loan in the Portfolio (but, for this purpose, not including any principal payment relating to any such Loan which is scheduled for repayment at any time after the date on which there are no outstanding Covered Bonds), as adjusted for changes in the Icelandic consumer price index, as calculated on the relevant Calculation Date; and
- (b) the Collateral Valuation relating to that Loan multiplied by M (where for all Loans that are not in default, M = 0.80, for all Loans that have been in default for less than 30 days and have a Outstanding Principal Balance to Collateral Valuation ratio of less than or equal to 80 per cent., M = 0.60, for all Loans that have been in default for more than 30 days but less than 90 days and have an Outstanding Principal Balance to Collateral Valuation ratio of less than or equal to 80 per cent., M = 0.35) and for all other Loans, M = 0,

***minus***

the aggregate sum of the following deemed reductions to the aggregate Adjusted Outstanding Principal Balance of the Loans in the Portfolio if any of the following occurred during the previous Calculation Period:

- (i) a Loan or its Related Security was, in the immediately preceding Calculation Period, in breach of the Representations and Warranties contained in the Mortgage Sale Agreement or subject to any other obligation of the Seller to repurchase the relevant Loan and its Related Security, and in each case the Seller has not repurchased the Loan or Loans of the relevant Borrower and its or their Related Security to the extent required by the terms of the Mortgage Sale Agreement. In this event, the aggregate Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the Adjusted Outstanding Principal Balance of the relevant Loan or Loans (as calculated on the relevant Calculation Date) of the relevant Borrower; and/or
- (ii) the Seller, in the preceding Calculation Period, was in breach of any other material warranty under the Mortgage Sale Agreement and/or the Servicer was, in the preceding Calculation Period, in breach of a material term of the Servicing Agreement. In this event, the aggregate Adjusted Outstanding Principal Balance of the Loans in the Portfolio (as calculated on the relevant Calculation Date) will be deemed to be reduced by an amount equal to the resulting financial loss incurred by the Fund in the immediately preceding Calculation Period (such financial loss to be calculated by the Cash Manager without double counting and to be reduced by any amount paid (in cash or in kind) to the Fund by the Seller to indemnify the Fund for such financial loss);

- B = the aggregate amount of any Revenue Receipts on the Loans in the Portfolio up to the end of the immediately preceding Calculation Period (as recorded in the Revenue Ledger) which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with this Deed and/or the other Transaction Documents (including, for the avoidance of doubt, any amount then standing to the credit of the GIC Account and any Authorised Investments (but without double counting));
- C = the aggregate amount of any Cash Equity Contributions made by the Holders (as recorded in the Unit Account Ledger of each Holder) or proceeds of Term Advances which have not been applied as at the relevant Calculation Date to acquire further Loans and their Related Security or otherwise applied in accordance with this Deed and/or the other Transaction Documents;
- D = the aggregate principal amount of any Substitution Assets as at the relevant Calculation Date;
- W = 100 per cent. of an amount equal to the aggregate cash deposits held in the name of any Borrower with the Issuer. Such amount shall be calculated by reference to the aggregate cash deposits held in the name of any Borrower with the Issuer on the 15th calendar day in the month preceding the relevant Calculation Date; and
- $\alpha$  = the Asset Percentage as determined pursuant to Clause 10.3 below.

- 10.3 On each Calculation Date, the Fund (or the Cash Manager on its behalf) shall calculate the over-collateralisation asset percentage (the **Asset Percentage**). The Asset Percentage may not, at any time, exceed 95 per cent.
- 10.4 If on any Calculation Date the Adjusted Aggregate Loan Amount is less than the ISK Equivalent of the aggregate Principal Amount Outstanding of the Covered Bonds as calculated on the relevant Calculation Date, then the Fund (or the Cash Manager on its behalf) shall immediately notify in writing the Seller, the Holders and the Representative and the Seller shall use all reasonable endeavours to sell sufficient further Loans and their Related Security to the Fund in accordance with the Mortgage Sale Agreement and/or the Holders shall use all reasonable endeavours to make Equity Contributions to the Fund in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Calculation Date.
- 10.5 If on the next following Calculation Date, the Adjusted Aggregate Loan Amount is less than the aggregate Principal Amount Outstanding of all Covered Bonds, the Asset Coverage Test will be breached and the Fund (or the Cash Manager on its behalf) must notify the Representative. Following receipt of such notification, the Representative must serve an Asset Coverage Test Breach Notice on the Fund.
- 10.6 Provided that neither a Notice to Pay nor a Fund Acceleration Notice has been served, the Representative shall revoke an Asset Coverage Test Breach Notice if, on any Calculation Date falling on or prior to the second Calculation Date after an Asset Coverage Test Breach Notice has been served, the Fund gives notice to the Representative that the Asset Coverage Test is subsequently satisfied.
- 10.7 Following service by the Representative of an Asset Coverage Test Breach Notice (which has not been revoked):
- (a) the Fund will be required to sell Selected Loans in accordance with Clause 14.1 and in the manner set out in Clause 15;
  - (b) prior to the occurrence of an Issuer Event of Default and service of an Issuer Acceleration Notice or, if earlier, the occurrence of a Fund Event of Default and service of a Fund Acceleration Notice, Clause 12 shall apply; and
  - (c) the Issuer will not be permitted to make to the Fund, and the Fund will not be permitted to borrow from the Issuer, any new Term Advances under the Intercompany Loan Agreement.



11. **ALLOCATION AND DISTRIBUTION OF AVAILABLE RECEIPTS PRIOR TO SERVICE ON THE FUND OF AN ASSET COVERAGE TEST BREACH NOTICE (WHICH HAS NOT BEEN REVOKED), A NOTICE TO PAY OR A FUND ACCELERATION NOTICE**

11.1 Subject to Clause 17 below, prior to service on the Fund of an Asset Coverage Test Breach Notice (which has not been revoked), a Notice to Pay or a Fund Acceleration Notice and whilst amounts are outstanding in respect of the Covered Bonds, Available Receipts shall be applied in accordance with this Clause 11.

11.2 On the Calculation Date immediately prior to each Fund Payment Date, the Fund (or the Cash Manager on its behalf) shall calculate the amount of Available Receipts available for distribution or the amount of any provision required to be made on the immediately following Fund Payment Date and the Reserve Fund Required Amount (if applicable).

11.3 On each Fund Payment Date, the Fund (or the Cash Manager on its behalf) will transfer Available Receipts from the Revenue Ledger and the Reserve Ledger, as applicable, to the Payment Ledger on the GIC Account, in an amount equal to the lower of: (a) the amount required to make the payments set out in Clause 11.4 below; and (b) the amount of Available Receipts standing to the credit of the GIC Account.

11.4 On each Fund Payment Date (except for the amounts for which provision is made, which shall be paid when due), the Fund (or the Cash Manager on its behalf) will apply Available Receipts to make the following payments and provisions in the following order of priority (the **Pre-Acceleration Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been paid in full):

(a) *first*, in or towards payment of any amounts due and payable by the Fund to the Representative, each Agent, the Management Company, the Custody Agent and to other third parties and incurred without breach by the Fund of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in this Pre-Acceleration Priority of Payments) and to provide for any such amounts expected to become due and payable by the Fund in the immediately succeeding Fund Payment Period and to discharge any liability of the Fund for taxes and/or other official levies;

(b) *second*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement in the immediately succeeding Fund Payment Period, together with applicable amounts in respect of taxes thereon as provided therein;

(ii) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement, together with applicable amounts in respect of taxes thereon as provided therein;

(iii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement in the immediately succeeding Fund Payment Period, together with applicable amounts in respect of taxes thereon as provided therein; and

(iv) amounts (if any) due and payable to the Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement, together with applicable amounts in respect of taxes thereon as provided therein;

- (c) *third*, in or towards payment of any amounts due or to become due and payable on such Fund Payment Date (whether in respect of principal, interest or any other amount due) under the Intercompany Loan Agreement, *pro rata* and *pari passu* in respect of each relevant Term Advance;
- (d) *fourth*, if a Servicer Event of Default has occurred, all remaining Available Receipts to be credited to the GIC Account (with a corresponding credit to the Revenue Ledger) until such Servicer Event of Default is either remedied or waived by the Representative or a new servicer is appointed to service the Portfolio (or the relevant part thereof);
- (e) *fifth*, in or towards a credit to the Reserve Ledger on the GIC Account of an amount required to ensure that the Reserve Fund is funded to the Reserve Fund Required Amount as calculated on the immediately preceding Calculation Date; and
- (f) *sixth*, towards payment *pro rata* and *pari passu* to the Holders of any remaining sums which are to be allocated and paid to each Holder in proportion to their respective Equity Contribution Balances as at the relevant Calculation Date, as a Unit Distribution for their respective interests as Holders.

11.5 If the Fund requires any Available Receipts to be exchanged into a currency other than ISK, then the Fund (or the Cash Manager on its behalf) shall perform all necessary currency conversions at the then prevailing spot rate of exchange.

12. **ALLOCATION AND DISTRIBUTION OF AVAILABLE RECEIPTS AFTER SERVICE ON THE FUND OF AN ASSET COVERAGE TEST BREACH NOTICE (WHICH HAS NOT BEEN REVOKED)**

At any time after the service on the Fund of an Asset Coverage Test Breach Notice (which has not been revoked) but prior to the service on the Fund of a Notice to Pay or a Fund Acceleration Notice and for so long as any Covered Bonds remain outstanding, the Fund (or the Cash Manager on its behalf) will apply Available Receipts in accordance with Clause 11.4 above save that no monies will be applied under subparagraph (f) of Clause 11.4.

13. **ALLOCATION AND DISTRIBUTION OF MONIES FOLLOWING SERVICE OF A NOTICE TO PAY**

13.1 On and from the service of a Notice to Pay on the Fund, but prior to the service of a Fund Acceleration Notice, all Available Receipts shall be applied in accordance with this Clause 13.

13.2 On each Fund Payment Date, the Fund or the Cash Manager on its behalf shall transfer Available Receipts from the Revenue Ledger, the Reserve Ledger or the Unit Account Ledger, as the case may be, to the Payment Ledger on the GIC Account, in an amount equal to the lower of: (a) the amount required to make the payments set out in the Guarantee Priority of Payments; and (b) the amount of all Available Receipts standing to the credit of such ledgers of the GIC Account.

13.3 The Fund shall create and maintain ledgers for each Series of Covered Bonds and record amounts allocated to such Series of Covered Bonds in accordance with paragraphs (d) and (e) of Clause 13.4, and such amounts, once allocated, will only be available to pay amounts due under the Covered Bond Guarantee on the scheduled payment dates therefor.

13.4 On each Fund Payment Date on and from the date that a Notice to Pay is served on the Fund, but prior to the occurrence of a Fund Event of Default and service of a Fund Acceleration Notice, the Fund (or the Cash Manager on its behalf) will apply moneys standing to the credit of the Payment Ledger on the GIC Account to make the following payments and provisions in the following order of priority (the **Guarantee Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been paid in full):

- (a) *first*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of all amounts due and payable or to become due and payable to the Representative in the immediately succeeding Fund Payment Period under the provisions of the Representative and Agency Agreement together with interest and applicable amounts in respect of taxes thereon as provided therein;
- (b) *second*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agents under or pursuant to the Representative and Agency Agreement together with applicable amounts in respect of taxes thereon as provided therein; and
  - (ii) any amounts then due and payable by the Fund to third parties (including, for the avoidance of doubt, amounts due and payable to the Management Company and the Custody Agent) and incurred without breach by the Fund of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere in this Guarantee Priority of Payments) and to provide for any such amounts expected to become due and payable by the Fund in the immediately succeeding Fund Payment Period and to pay or discharge any liability of the Fund for taxes and other official levies;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Fund Payment Period under the provisions of the Servicing Agreement together with applicable amounts in respect of taxes thereon as provided therein;
  - (ii) amounts due and payable to the Asset Monitor pursuant to the terms of the Asset Monitor Agreement, together with applicable amounts in respect of taxes thereon as provided therein;
  - (iii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Fund Payment Period under the provisions of the Cash Management Agreement, together with applicable amounts in respect of taxes thereon as provided therein; and
  - (iv) amounts (if any) due and payable to the Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement as the case may be, together with applicable amounts in respect of taxes thereon as provided therein;
- (d) *fourth*, in or towards payment on the Fund Payment Date or to provide for payment on such date in the future of such proportion of the relevant payment falling due in the future as the Cash Manager may reasonably determine, of Scheduled Interest that is Due for Payment (or that will become Due for Payment) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Representative or (if so directed by the Representative) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of each Series of Covered Bonds;
- (e) *fifth*, in or towards payment on the Fund Payment Date or to provide for payment prior to the next Fund Payment Date, of Scheduled Principal that is Due for Payment (or that will become

Due for Payment in the immediately succeeding Fund Payment Period) under the Covered Bond Guarantee in respect of each Series of Covered Bonds to the Representative Trustee or (if so directed by the Representative) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of each Series of Covered Bonds;

- (f) *sixth*, to deposit the remaining moneys in the GIC Account for application on the next following Fund Payment Date in accordance with the priority of payments described in paragraphs (a) to (e) (inclusive) above, until the Covered Bonds have been fully repaid or repayment in full of the Covered Bonds has been provided for (such that the Required Redemption Amount has been accumulated in respect of each outstanding Series of Covered Bonds);
- (g) *seventh*, in or towards payment of any amounts due or to become due and payable in the immediately succeeding Fund Payment Period (whether in respect of principal, interest or any other amount) under the Intercompany Loan Agreement, *pro rata* and *pari passu* in respect of each relevant Term Advance; and
- (h) *eighth*, thereafter any remaining moneys will be applied in accordance with Clause 17 of this Deed.

13.5 If the Fund requires any available funds to be exchanged into a currency other than ISK, then the Fund (or the Cash Manager on its behalf) shall perform all necessary currency conversions at the then prevailing spot rate of exchange.

#### 14. **SALE OF SELECTED LOANS**

14.1 After service of an Asset Coverage Test Breach Notice (which has not been revoked) on the Fund but prior to service of a Notice to Pay, the Fund shall sell Selected Loans in the Portfolio and their Related Security in accordance with Clause 15 below, subject to any right of pre-emption in favour of the Seller pursuant to Clause 10 of the Mortgage Sale Agreement and subject to any Cash Equity Contributions made by the Holders. The proceeds from any such sale shall be credited to the GIC Account and applied in accordance with Clause 12 above.

14.2 After service of a Notice to Pay on the Fund but prior to service of a Fund Acceleration Notice, the Fund shall sell Selected Loans in the Portfolio and their Related Security in accordance with Clause 15 below, subject to any right of pre-emption in favour of the Seller pursuant to Clause 10 of the Mortgage Sale Agreement. The proceeds from any such sale shall be credited to the GIC Account and applied in accordance with Clause 13 above.

#### 15. **METHOD OF SALE OF SELECTED LOANS**

15.1 This Clause 15 shall apply if the Fund is required to sell Selected Loans in the Portfolio and their Related Security in accordance with Clause 14 above.

15.2 Before offering Selected Loans and their Related Security for sale in accordance with this Clause 15, the Fund shall ensure that:

- (a) the Selected Loans have been selected from the Portfolio on a Random Basis; and
- (b) the Selected Loans have an aggregate Outstanding Principal Balance in an amount (the **Required Outstanding Principal Balance Amount**) which is as close as possible to the amount calculated as follows:
  - (i) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), such amount that would ensure that, if the Selected Loans were sold at their Outstanding Principal Balance plus the Arrears of Interest and Accrued Interest thereon, the Asset Coverage Test would be satisfied on the next Calculation

Date taking into account the payment obligations of the Fund on the Payment Date following that Calculation Date (assuming for this purpose that the Asset Coverage Breach Test Notice is not revoked on the next Calculation Date); or

(ii) following service of a Notice to Pay:

$$N \quad x \quad \frac{\text{Outstanding Principal Balance of all the Loans in the Portfolio}}{\text{the ISK Equivalent of the Required Redemption Amount in respect of each Series of Covered Bonds then outstanding}}$$

where N is an amount equal to the ISK Equivalent of the Required Redemption Amount of the Earliest Maturing Covered Bonds less amounts standing to the credit of the GIC Account and the principal amount of any Substitution Assets or Authorised Investments (excluding all amounts to be applied on the next following Fund Payment Date to repay higher ranking amounts in the Guarantee Priority of Payments and those amounts that are required to repay any Series of Covered Bonds which mature prior to or on the same date as the relevant Series of Covered Bonds).

For the purposes hereof:

**Required Redemption Amount** means, in respect of a Series of Covered Bonds, the amount calculated as follows:

$$\text{the Principal Amount Outstanding of the relevant Series of Covered Bonds} \quad x \quad 1 + \text{Negative Carry Factor} \times (\text{days to maturity of the relevant Series of Covered Bonds} / 365)$$

15.3 The Fund will offer the Selected Loans and their Related Security for sale to Purchasers for the best price reasonably available but in any event:

- (a) following the service of an Asset Coverage Test Breach Notice (but prior to service of a Notice to Pay), for an amount not less than the Outstanding Principal Balance of the Selected Loans plus the Arrears of Interest and Accrued Interest thereon; and
- (b) following service of a Notice to Pay, for an amount not less than the Required Redemption Amount.

15.4 Following service of a Notice to Pay, if Selected Loans have not been sold (in whole or in part) in an amount equal to the Required Redemption Amount within six months following the date of the service of a Notice to Pay but not later than the date which is six months prior to the Final Maturity Date of the Earliest Maturing Covered Bonds, then the Fund will offer the Selected Loans for sale for the best price reasonably available notwithstanding that such amount may be less than the Required Redemption Amount.

15.5 Following service of a Notice to Pay, in addition to offering Selected Loans for sale to Purchasers in respect of the Earliest Maturing Covered Bonds, the Fund (subject to the right of pre-emption in favour of the Seller pursuant to Clause 10 of the Mortgage Sale Agreement) is permitted to offer for sale a portfolio of Selected Loans, in accordance with this Clause 15, in respect of other Series of Covered Bonds.

15.6 The Fund is permitted to offer for sale to Purchasers part of any portfolio of Selected Loans (a **Partial Portfolio**). Where a Notice to Pay has been served, except in circumstances where the portfolio of Selected Loans is being sold within six months of the Final Maturity Date of the Earliest Maturing Covered Bonds, the sale price of the Partial Portfolio (as a proportion of the Required Redemption Amount) shall be at least equal to the proportion that the Partial Portfolio bears to the relevant portfolio of Selected Loans.

- 15.7 The Management Company on behalf of the Fund will appoint a portfolio manager of recognised standing on a basis intended to incentivise the portfolio manager to achieve the best price for the sale of the Selected Loans (if such terms are commercially available in the market) to advise it in relation to the sale of the Selected Loans to Purchasers (except where the Seller is buying the Selected Loans in accordance with its right of pre-emption in the Mortgage Sale Agreement). The terms of the agreement giving effect to the appointment in accordance with such tender shall be approved by the Representative.
- 15.8 In respect of any sale of Selected Loans and their Related Security following service on the Fund of an Asset Coverage Test Breach Notice (which has not been revoked) or a Notice to Pay, the Fund will instruct the portfolio manager to use all reasonable endeavours to procure that Selected Loans are sold as quickly as reasonably practicable (in accordance with the recommendations of the portfolio manager) taking into account the market conditions at that time and, where relevant, the scheduled repayment dates of the Covered Bonds and the terms of this Deed.
- 15.9 The terms of any sale and purchase agreement with respect to the sale of Selected Loans and their Related Security (which shall give effect to the recommendations of the portfolio manager) will be subject to the prior written approval of the Representative.
- 15.10 Following service of a Notice to Pay, if Purchasers accept the offer or offers from the Fund so that some or all of the Selected Loans and their Related Security shall be sold prior to the Final Maturity Date of the Earliest Maturing Covered Bonds, then the Fund will, subject to Clause 15.9, enter into a sale and purchase agreement with the relevant Purchasers which will require *inter alia* a cash payment from the relevant Purchasers. Any such sale will not include any representations and warranties from the Fund or the Seller (or the applicable New Seller) in respect of the Loans and the Related Security unless expressly agreed by the Representative or otherwise agreed with the Fund and the Seller (or the applicable New Seller). The Seller (or the applicable New Seller) and the Fund will enter into such documentation as is required under such sale and purchase agreement to enable the Purchaser to obtain valid title to the Selected Loans and their Related Security to be sold thereunder.
16. **ALLOCATION AND DISTRIBUTION OF MONIES RECEIVED BY THE REPRESENTATIVE FOLLOWING SERVICE OF A FUND ACCELERATION NOTICE**
- 16.1 From and including the time when the Representative serves a Fund Acceleration Notice on the Fund no amount may be withdrawn from the Fund Accounts without the prior written consent of the Representative.
- 16.2 All moneys received or recovered by the Representative or any receiver after the service of a Fund Acceleration Notice shall be held by it in the Fund Accounts to be applied (save to the extent required otherwise by law) in the following order of priority (the **Post-Enforcement Priority of Payments**) (in each case only if and to the extent that payments or provisions of a higher priority have been made in full):
- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof all amounts due and payable or to become due and payable to the Representative under the provisions of the Representative and Agency Agreement together with interest and applicable amounts in respect of taxes thereon as provided therein;
  - (b) *second*, in or towards satisfaction of any remuneration then due and payable to the Agents under or pursuant to the Representative and Agency Agreement, the Management Company and the Custody Agent together with applicable taxes thereon as provided therein;
  - (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

- (i) any remuneration then due and payable to the Servicer and any costs, charges, liabilities and expenses then due or to become due and payable to the Servicer under the provisions of the Servicing Agreement, together with applicable amounts in respect of taxes thereon as provided therein;
  - (ii) any remuneration then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with applicable amounts in respect of taxes thereon as provided therein; and
  - (iii) amounts due to the Account Bank (including any costs, charges, liabilities and expenses) pursuant to the terms of the Bank Account Agreement, together with applicable amounts in respect of taxes thereon as provided therein;
- (d) *fourth*, in or towards satisfaction of the amounts due and payable under the Covered Bond Guarantee, to the Representative or (if so directed by the Representative) the Principal Paying Agent on behalf of the Covered Bondholders *pro rata* and *pari passu* in respect of interest and principal due and payable on each Series of Covered Bonds, provided that if the amount available for distribution under this paragraph (d) would be insufficient to pay the ISK Equivalent of the amounts due and payable under the Covered Bond Guarantee in respect of each Series of Covered Bonds, the shortfall shall be divided amongst all such Series of Covered Bonds on a *pro rata* basis;
  - (e) *fifth*, in or towards payment of all amounts outstanding under the Intercompany Loan Agreement *pro rata* and *pari passu* in respect of each relevant Term Advance; and
  - (f) *sixth*, in or towards payment to the Holders (as specified in the Fund Deed).

**17. APPLICATION AND DISTRIBUTION OF MONIES WHEN COVERED BONDS REPAID**

From the date when either: (a) the Covered Bonds have been fully repaid; or (b) the Representative is satisfied that the Fund has an amount in cash standing to the credit of the GIC Account equal to the Required Redemption Amount in respect of each Series of Covered Bonds outstanding, all remaining monies standing to the credit of the GIC Account (excluding all amounts required to repay higher ranking amounts in the relevant Priority of Payments) shall be allocated and paid:

- (a) *first*, to apply any such monies which constitute Receipts towards payment *pro rata* and *pari passu* to each Holder by way of a Unit Distribution in an amount equal to any remaining Available Receipts; and
- (b) *second*, to pay all remaining monies to the Holders by way of Unit Distributions (being a distribution of that Holder's equity interest in the Fund) *pro rata* and *pari passu* to their respective Equity Contribution Balances as calculated on the immediately preceding Calculation Date.

**18. WITHDRAWAL OF EQUITY CONTRIBUTIONS**

Until such time as the Fund's obligations under the Covered Bond Guarantee are satisfied (or provided for) in full and except as expressly set out in this Deed and the other Transaction Documents, the Holder may not draw out or receive back any part of its Capital Contributions.

**19. LIMIT ON INVESTING IN SUBSTITUTION ASSETS AND AUTHORISED INVESTMENTS**

- 19.1 Prior to the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the Fund, the Fund shall be permitted to invest Available Receipts and the proceeds of Term Advances in Substitution Assets, provided that the aggregate amount so invested shall not exceed 10 per cent. of the

total assets of the Fund at any one time and provided that such investments are made in accordance with the terms of the Cash Management Agreement.

- 19.2 Following the service of an Asset Coverage Test Breach Notice (if not revoked) or a Notice to Pay on the Fund, all Substitution Assets shall be sold by the Fund (or the Cash Manager on its behalf) as quickly as reasonably practicable and the proceeds credited to the GIC Account.
- 19.3 The Fund shall at any time (prior to and following service of a Notice to Pay) be permitted to invest all available moneys in Authorised Investments without limitation, provided that such investments are made in accordance with the terms of the Cash Management Agreement.
- 19.4 Nothing in this Clause 19 shall limit the amount that the Fund (or the Cash Manager on its behalf) may credit to the GIC Account from time to time.

20. **GIC ACCOUNT**

The Fund shall open the GIC Account with the Account Bank prior to the Programme Date, subject to and in accordance with the terms of the Bank Account Agreement.

21. **STATUTORY ACCOUNTS**

- 21.1 The Management Company shall ensure that the accounts of the Fund are, unless otherwise required by law, prepared in accordance with generally accepted accounting principles in Iceland. The accounts of the Fund shall be made up with the accounts of the Management Company.
- 21.2 A profit and loss account shall be taken in every year on the annual accounting date and a balance sheet as at the same date shall be prepared.
- 21.3 The Management Company shall, in compliance with the Act, appoint the auditors as the auditors for each fiscal period of the Fund and shall have the power to fix their remuneration.
- 21.4 The Management Company shall ensure that the accounts of the Fund are drawn up in the format and giving the information required in the Act and are audited by external independent auditors.
- 21.5 The Management Company shall ensure that all the necessary and proper financial records of accounts shall be kept to enable the accounts of the Fund to be made up as required under the Act and retained for such periods of time as required by law at the registered office of the Fund in compliance with the Act and such records shall be available for inspection by each Holder and by the auditors for the time being at all times. The Management Company shall be responsible for ensuring that full and proper entries of all transactions entered into by it on account of the Fund are made.

22. **LEDGERS**

The Fund shall maintain, or shall procure that there are maintained, the following Ledgers:

- (a) the Revenue Ledger, which shall record all receipts of Revenue Receipts and distribution of Revenue Receipts in accordance with the terms of this Deed;
- (b) the Unit Account Ledger for each Holder, which shall record the balance of each Holder's Equity Contributions and distribution of those Equity Contributions;
- (c) the Reserve Ledger, which shall record the crediting of Revenue Receipts and (if so directed by the Seller) Cash Equity Contributions to the Reserve Fund and the debiting of such Reserve Fund; and
- (d) the Payment Ledger, which shall record the credits and debits of Available Receipts for application in accordance with the relevant Priority of Payments.



23. **TRANSFERS**

Subject to the terms of the Transaction Documents, Arion covenants with and undertakes to the Fund and the Representative that it shall not, and shall not purport to, sell, transfer, convey, create or permit to arise any security interest on, declare a trust over, create any beneficial interest in, or otherwise dispose of its interest in the Fund and/or its rights under this Deed without the prior written consent of the Fund and, whilst the Covered Bonds are outstanding, the Representative.

24. **DUTIES AND COVENANTS OF THE FUND**

24.1 The Fund shall comply with all statutory duties imposed on it from time to time and do all such things as may be reasonably necessary to maintain the status of any legal or regulatory approvals granted to it from time to time.

24.2 Subject to the terms of the relevant Priorities of Payments, the Fund shall indemnify the Management Company (or their agents, directors, officers, employees and other delegates) in respect of payments made and liabilities incurred by them (save for liabilities in respect of taxes and/or official levies):

- (a) in the ordinary and proper conduct of the Fund Business; or
- (b) in or about anything necessarily done for the preservation of the Fund Business,

within the scope of the authority conferred by this Deed, save where such payments and/or personal liabilities are incurred through fraud, wilful default, gross negligence or breach of the terms of this Deed by the Management Company.

24.3 Save with the prior written consent of the Representative, for so long as the Covered Bonds are outstanding, or as provided in or envisaged by or pursuant to this Deed and/or the other Transaction Documents and/or its Articles of Association, the Fund shall not:

- (a) create or permit to subsist any mortgage, standard security, assignation, pledge, lien, charge or other security interest whatsoever (unless arising by operation of law), upon the whole or any part of its assets (including any uncalled capital) or its undertakings, present or future;
- (b) dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do so;
- (c) have an interest in any bank account;
- (d) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any such indebtedness;
- (e) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (f) have any employees or premises or subsidiaries;
- (g) acquire any assets;
- (h) engage in any activities in the United States (directly or through agents) or derive any income from United States sources as determined under United States income tax principles or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under United States tax principles;
- (i) enter into any contracts, agreements or other undertakings;

- (j) compromise, compound or release any debt due to it; or
- (k) commence, defend, settle or compromise any litigation or other claims relating to it or any of its assets.

25. **SUBORDINATION AND NON-PETITION**

25.1 Whilst any amounts are outstanding in respect of the Covered Bonds or the Covered Bond Guarantee, each of the Management Company and each Holder agrees that it shall not:

- (a) dissolve or purport to dissolve the Fund; or
- (b) institute any winding-up, administration, insolvency or other similar proceedings against the Fund.

25.2 Each of the Management Company and each Holder hereby agrees to be bound by the terms of the Priorities of Payment set out in this Deed. Without prejudice to Clause 25.1, each of the Management Company and each Holder further agrees with each other party to this Deed that, notwithstanding any other provision contained herein or in any other Transaction Document:

- (a) it will not demand or receive payment of, or any distribution in respect of or on account of, any amounts payable by the Fund (or the Cash Manager on its behalf) or the Representative, as applicable, to it under the Transaction Documents, in cash or in kind, and will not apply any money or assets in discharge of any such amounts payable to it (whether by set off or by any other method), unless all amounts then due and payable by the Fund to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full or appropriate provisions have been made for their payment;
- (b) without prejudice to the foregoing, whether in the liquidation of the Fund or any other party to the Transaction Documents or otherwise, if any payment or distribution is received by it in respect of any amount payable by the Fund (or the Cash Manager on its behalf) or the Representative, as applicable, to it under the relevant Transaction Document at a time when, by virtue of the provisions of the relevant Transaction Document and this Deed, no payment or distribution should have been made, the amount so received shall be held by it for the entity from which such payment was received and shall be paid over to such entity forthwith upon receipt (whereupon the relevant payment or distribution shall be deemed not to have been made or received); and
- (c) it shall not claim, rank, prove or vote as creditor of the Fund or its estate in competition with any prior ranking creditors in the relevant Priorities of Payments, the Representative, as applicable, or claim a right of set-off until all amounts then due and payable to creditors who rank higher in the relevant Priorities of Payments have been paid in full.

25.3 Neither the Fund nor the Representative shall pay or repay, or make any distribution in respect of, any amount owing to a creditor under the relevant Transaction Documents (in cash or in kind) unless and until all amounts then due and payable by the Fund or the Representative to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full or appropriate provisions have been made for their payment.

26. **FURTHER ASSURANCES**

The parties agree that they will co-operate fully to do all such further acts and things and execute any further documents as may be necessary or desirable to give full effect to the arrangements contemplated by this Deed.

27. **AMENDMENTS**

27.1 No amendment or waiver of any provision of this Deed nor consent to any departure by any of the parties therefrom shall in any event be effective unless the same shall be in writing and signed by each of the parties to this Deed. In the case of a waiver or consent, such waiver or consent shall be effective only in the specific instance and as against the party or parties giving it for the specific purpose for which it is given.

27.2 This Deed contains a final and complete integration of all prior expressions by the parties with respect to the subject matter of this Deed and constitutes the entire agreement among the parties with respect to the subject matter of this Deed, superseding all prior oral or written understandings other than the other Transaction Documents.

28. **CALCULATIONS**

In the absence of manifest error, any determination or calculation made by or on behalf of the Fund in connection with the provisions of this Deed shall be deemed to be conclusive.

29. **NO WAIVER; REMEDIES**

No failure on the part of any party to this Deed to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The remedies in this Deed are cumulative and not exclusive of any remedies provided by law.

30. **EXECUTION IN COUNTERPARTS; SEVERABILITY**

30.1 This Deed may be executed in any number of counterparts each of which when so executed and delivered (manually or by facsimile) is an original, but all the counterparts together constitute the same document.

30.2 Where any provision in or obligation under this Deed shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations under this Deed, or of such provision or obligation in any other jurisdiction, shall not be affected or impaired thereby.

31. **CONFIDENTIALITY**

31.1 Unless otherwise required by applicable law, and subject to Clause 31.2 below, each of the parties agrees not to disclose to any person any information relating to the business, finances or other matters of a confidential nature of or relating to any other party to this Deed or any of the Transaction Documents which it may have obtained as a result of having entered into this Deed or otherwise.

31.2 The provisions of Clause 31.1 above shall not apply:

- (a) to the disclosure of any information to any person who is a party to any of the Transaction Documents as expressly permitted by the Transaction Documents;
- (b) to the disclosure of any information which is or becomes public knowledge otherwise than as a result of the wrongful conduct of the recipient;
- (c) to the extent that the recipient is required to disclose the same pursuant to any law or order of any court or pursuant to any direction or requirement (whether or not having the force of law) of any central bank or any governmental or other regulatory or taxation authority;
- (d) to the disclosure of any information to professional advisers who receive the same under a duty of confidentiality;

- (e) to the disclosure of any information with the consent of the parties to this Deed; or
- (f) to any disclosure for the purposes of collecting in or enforcing any claims against the Fund's property or any of it.

## 32. ADDRESSES FOR NOTICES

32.1 Any notices to be given pursuant to this Deed will be sufficiently served if sent by prepaid first class post, by hand or facsimile transmission and will be deemed to be given (in the case of facsimile transmission) when despatched (if delivered by hand) on the day of delivery if delivered before 5.00 p.m. on a Business Day or on the next Business Day if delivered thereafter or (if by first class post) when it would be received in the ordinary course of the post and shall be sent:

- (a) in the case of Arion, to Arion Bank hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number +(354) 444 6229 and email [mtndesk@arionbanki.is](mailto:mtndesk@arionbanki.is)) for the attention of the Funding Department;
- (b) in the case of the Fund, to Arion Bank Mortgages Institutional Investor Fund at Borgartun 19, 105 Reykjavik, Iceland (facsimile number +(354) 444 7489 and email [info@stefnir.is](mailto:info@stefnir.is)) for the attention of Stefnir hf. – Arion Bank Mortgages Institutional Investor Fund;
- (c) in the case of the Management Company, to Stefnir hf. formerly Kaupthing Asset Management Company hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number +(354) 444 7489 and email [info@stefnir.is](mailto:info@stefnir.is)) for the attention of Þorkell Magnússon and Heiðar Ingi Ólafsson; and
- (d) in the case of the Representative, to Deutsche Trustee Company Limited at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number +(44) 20 7547 6149 and email [TSS-GDS.EUR@db.com](mailto:TSS-GDS.EUR@db.com)) for the attention of the Managing Director,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 32.1.

32.2 Notwithstanding Clause 32.1 above and provided that each give their prior consent to such delivery, any party to this Deed may send notice to or otherwise communicate with any of the other parties to this Deed by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Deed shall be deemed: (i) to have received any electronic mail sent by the any other party to this Deed pursuant to the terms of this Clause 32.2 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Deed shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Deed (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

## 33. GOVERNING LAW AND SUBMISSION TO JURISDICTION

33.1 This Deed is governed by, and shall be construed in accordance with, the laws of Iceland.

33.2 Each of the parties to the Deed irrevocably agrees that any dispute arising out of this Deed shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

34. **CHANGE OF REPRESENTATIVE**

34.1 If there is any change in the identity of the Representative in accordance with the Representative and Agency Agreement, Arion, the Fund and the Management Company shall execute such documents and take such action as the successor Representative and the outgoing Representative may reasonably require for the purpose of vesting in the successor Representative the rights of the outgoing Representative under this Deed.

34.2 It is hereby acknowledged and agreed that by its execution of this Deed the Representative shall not assume or have any obligations or liabilities under this Deed to any other party to this Deed notwithstanding any provision herein and that the Representative has agreed to become a party to this Deed for the purpose only of taking the benefit of this Deed and agreeing to amendments to this Deed pursuant to Clause 27. It is further acknowledged and agreed that the Representative shall not at any time assume any obligations of the Management Company under this Deed or under the Articles of Association of the Fund. For the avoidance of doubt, the parties to this Deed acknowledge that the rights and powers of the Representative are governed by the Representative and Agency Agreement. Any liberty or right which may be exercised or determination which may be made under this Deed by the Representative may be exercised or made in the Representative's absolute discretion without any obligation to give reasons therefor and the Representative shall not be responsible for any liability occasioned by so acting but subject always to the provisions of Clause 12.6 of the Representative and Agency Agreement.

35. **Survival of Certain Clauses**

Clauses 25, 31 and 33 of this Deed shall survive any termination of this Deed.

**THIS DEED** has been entered into on the date stated at the beginning of this Deed.

**SIGNATORIES**

**The Seller, the Cash Manager and a Holder**

**ARION BANK HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Management Company**

**STEFNIR HF. formerly KAUPTHING BANK ASSET MANAGEMENT COMPANY HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_  
**Name:**  
**Title: Associate Director**

\_\_\_\_\_  
**Name:**  
**Title: Associate Director**

**SCHEDULE 1E**

**AMENDED AND RESTATED SERVICING AND CUSTODY AGREEMENT**

**AMENDED AND RESTATED**

**SERVICING AND CUSTODY AGREEMENT**

**ARION BANK HF.**

as the Servicer and the Seller

and

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

as the Fund

and

**DEUTSCHE TRUSTEE COMPANY LIMITED**

as the Representative

and

**VERDIS HF.**

**formerly ARION CUSTODY SERVICES HF.**

as the Custody Agent

\_\_\_\_\_ **January 2012**

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**THIS SERVICING AND CUSTODY AGREEMENT** is made as a deed on \_\_\_\_\_ January, 2012

**BETWEEN:**

- (1) **ARION BANK HF.**, ID number 581008-0150, a public limited company incorporated under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavík, Iceland (in its capacity as **Servicer** and in its capacity as **Seller**);
- (2) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID number 570106-9610, an institutional investment fund established under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (referred to herein as the **Fund**);
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a company incorporated under the laws of England and Wales whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (in its capacity as the **Representative**); and
- (4) **VERDIS HF. formerly ARION CUSTODY SERVICES HF.**, ID number 470502-4520, a company incorporated under the laws of Iceland whose registered office is at Armuli 13, 105 Reykjavik, Iceland (referred to herein as the **Custody Agent**).

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- (B) The Servicer carries on the business of, *inter alia*, administering mortgage secured on residential properties in Iceland.
- (C) By the Mortgage Sale Agreement, the Seller has agreed to sell the Loans and their Related Security to the Fund. The Fund shall hold those Loans and their Related Security in accordance with the Fund Deed.
- (D) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day-to-day operations of the Fund are managed by Stefnir hf. formerly Kaupthing Asset Management Company hf. (the **Management Company**). The Management Company shall execute this Agreement on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Agreement.
- (E) The Servicer has agreed to provide administration and management services to the Fund on the terms and subject to the conditions contained in this Agreement (as the same may be amended and/or restated from time to time) in relation to, *inter alia*, the Loans and their Related Security comprised in the Portfolio from time to time.
- (F) The Custody Agent has agreed to provide the services specified in Article 20 of Act No. 30/2003 on UCITS and Investment Funds.
- (G) The Servicer has agreed with the parties hereto to make available to Investors the Monthly Reports (as defined below) in an electronic format.
- (H) This Agreement replaces the Servicing and Custody Agreement dated 29 March, 2006.

**IT IS HEREBY AGREED** as follows:

**1. DEFINITIONS AND INTERPRETATION**

- 1.1 The Master Definitions Agreement made between, *inter alios*, the parties to this Agreement on \_\_\_\_\_ January, 2012, (as the same may be amended, varied and/or supplemented from time to time, the **Master Definitions and Construction Agreement**) is expressly and specifically incorporated into this Agreement and, accordingly, the expressions defined in the Master Definitions and Construction 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 this Agreement, including the recitals hereto and this Agreement shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions and Construction Agreement.
- 1.2 For the purposes of this Agreement, **this Agreement** has the same meaning as Servicing Agreement in the Master Definitions Agreement.
- 1.3 Save as expressly provided herein, any warranties or undertakings provided under this Agreement are made to each other party to this Agreement.
- 1.4 The recitals to this Agreement shall constitute integral parts of this Agreement and shall be read with it for all purposes and intents.

**2. APPOINTMENT OF SERVICER AND CUSTODY AGENT**

- 2.1 Subject to Clause 4.4, and until termination pursuant to Clause 17, the Fund hereby appoints the Servicer as its lawful agent on its behalf to exercise its rights, powers and discretions, and to perform its duties, under and in relation to the Loans in the Portfolio and their Related Security. The Servicer hereby accepts such appointment on the terms and subject to the conditions of this Agreement. The Representative consents to the appointment of the Servicer on the terms of and subject to the conditions of this Agreement.
- 2.2 For the avoidance of doubt and in connection with the rights, powers and discretions conferred under Clause 2.1, during the continuance of its appointment hereunder, the Servicer shall, subject to the terms and conditions of this Agreement, the Mortgage Conditions, the Mortgage Sale Agreement and the Fund Deed, have the full power, authority and right to do or cause to be done any and all things which it reasonably considers necessary, convenient or incidental to the administration of the Loans and their Related Security comprised in the Portfolio or the exercise of such rights, powers and discretions, provided however that none of the Seller, its directors or the Fund shall be required or obliged at any time to enter into any transaction or to comply with any directions which the Servicer may give with respect to the operating and financial policies of the Fund and the Servicer hereby acknowledges that all powers to determine such policies (including the determination of whether or not any particular policy is for the benefit of the Seller or the Fund) are, and shall at all times remain vested, as the case may be, in the Seller (and its directors) and/or in the Fund and none of the provisions of this Agreement shall be construed in a manner inconsistent with this proviso.
- 2.3 In addition, the Fund hereby appoints the Custody Agent to provide certain services to the Fund as detailed in Article 20 of Act No. 30/2003 on UCITS and Investment Funds (the **Custody Agent Services**). The Custody Agent hereby accepts such appointment on the terms and subject to the conditions of this Agreement. The Representative consents to the appointment of the Custody Agent on the terms and subject to the conditions of this Agreement.

**3. THE ADMINISTRATION SERVICES**

**3.1 General**

- (a) The duty of the Servicer shall be to provide the services set out in this Agreement including Schedule 1 hereto (the **Services**) provided that, for the avoidance of doubt, the Servicer shall

not provide any Custody Agent Services or any services which the Management Company is obliged to provide to the Fund as a matter of Icelandic law (including, without limitation, pursuant to Act No. 30/2003 on UCITS and Investment Funds) and/or pursuant to the terms of the Articles of Association of the Fund.

- (b) If and when the Servicer is requested to confirm or state the capacity in which it is administering and servicing the Loans and their Related Security comprised in the Portfolio and related matters pursuant to this Agreement by any Borrower or any third party not being a party to this Agreement and to whom the Servicer is obliged by law to disclose such information, the Servicer shall confirm or state that it is acting in its capacity as servicer of the Mortgages comprised in the Portfolio and related matters as agent for and on behalf of the Fund and not on its own behalf.
- (c) The Servicer shall, as soon as reasonably practicable, provide to the Custody Agent all such information relating to any services provided by it under this Agreement which the Custody Agent requires to perform the Custody Agent Services.
- (d) The obligation of the Custody Agent to provide the Custody Agent Services is dependent on receipt of Instructions from the Fund. In providing the Custody Agent Services the Custody Agent, or any subcontractor appointed pursuant to Clause 3.3, may use a Central Securities Depository, provided that such Central Securities Depository is:
  - (i) regulated by a financial regulatory authority;
  - (ii) holds any unit shares issued by the Fund under safekeeping conditions no less favourable than the conditions that apply to other participants of the Central Securities Depository;
  - (iii) maintains records that identify the unit shares of each participant and segregates such unit shares from the unit shares of other participants;
  - (iv) provides periodic reports to the Custody Agent with respect to the safekeeping of the unit shares including transfers to or from the Custody Agent's account with the Central Securities Depository; and
  - (v) is subject to periodic examination by regulatory authorities or independent accountants.
- (e) The Custody Agent shall also ensure that the custody arrangements with the Central Securities Depository will provide reasonable safeguards against the custody risk associated with maintaining the unit shares issued by the Fund with the Central Securities Depository. The Custody Agent shall promptly notify the Fund of any change in the risks associated with maintaining the unit shares issued by the Fund with the Central Securities Depository that it becomes acquainted with.

### 3.2 Subcontracts of Servicer

- (a) The Servicer may subcontract or delegate the performance of all or any of its powers and obligations under this Agreement, provided that (but subject to Clause 3.2(b)):
  - (i) the prior written consent of the Fund and the Representative to the proposed arrangement (including, if the Fund and the Representative consider it necessary, approving any contract which sets out the terms on which such arrangements are to be made) has been obtained;
  - (ii) where the arrangements involve the custody or control of any Customer Files relating to the Portfolio for the purpose of performing any delegated Services the

subcontractor or delegate has executed an acknowledgement in form and substance acceptable to the Fund and the Representative to the effect that any such Customer Files are and will be held to the order of the Representative or as the Representative shall direct;

- (iii) where the arrangements involve or may involve the receipt by the subcontractor or delegate of monies belonging to the Fund which, in accordance with this Agreement, are to be paid into the GIC Account, the subcontractor or delegate has executed a declaration in form and substance acceptable to the Fund that any such monies held by it or to its order are held by it as agent for the Fund and will be paid forthwith into the GIC Account in accordance with the terms of the Fund Deed;
  - (iv) any such subcontractor or delegate has executed a written waiver of any Security Interest arising in connection with such delegated Services (to the extent that such Security Interest relates to the Portfolio or any amount referred to in (iii) above); and
  - (v) neither the Representative nor the Fund shall have any liability for any costs, fees, charges or expenses payable to or incurred by such subcontractor or delegate or arising from the entering into, the continuance, amendment or the termination of any such arrangement.
- (b) The provisos in Clause 3.2(a)(i), (ii) and (iii) shall not apply:
- (i) to the engagement by the Servicer of:
    - (A) any receiver, lawyer, insurance broker, valuer, surveyor, accountant, estate agent, insolvency practitioner, auctioneer, bailiff, sheriff officer, debt counsellor, tracing agent, property management agent, licensed conveyancer, qualified conveyancer or other professional adviser acting as such; or
    - (B) any locksmith, builder or other contractor acting as such in relation to a Property,

in any such case being a person or persons whom the Servicer would be willing to appoint in respect of its own mortgages in connection with the performance by the Servicer of any of its obligations or functions or in connection with the exercise of its powers under this Agreement; or
  - (ii) to any delegation to any wholly-owned subsidiary of the Seller from time to time.
- (c) The Fund and the Representative may require the Servicer to assign to the Fund any rights which the Servicer may have against any subcontractor or delegate arising from the performance of services by such person relating to any matter contemplated by this Agreement and the Servicer acknowledges that such rights assigned to the Fund will be exercised by the Fund subject to the terms of the Fund Deed.
- (d) Notwithstanding any subcontracting or delegation of the performance of its obligations under this Agreement, the Servicer shall not thereby be released or discharged from any liability hereunder and shall remain responsible for the performance of all of the obligations of the Servicer under this Agreement, and the performance or non-performance or the manner of performance of any subcontractor or delegate of any of the Services shall not affect the Servicer's obligations under this Agreement and any breach in the performance of the Services by such subcontractor or delegate shall, subject to the Servicer being entitled for a period of 10 Business Days from receipt of any notice of the breach to remedy such breach by any subcontractor or delegate, be treated as a breach of this Agreement by the Servicer.

### 3.3 Subcontracts of Custody Agent

- (a) The Custody Agent may subcontract or delegate the performance of all or any of its powers and obligations under this Agreement, provided that:
  - (i) the prior written consent of the Fund, the Representative and the Servicer to the proposed arrangement (including, if the Fund, the Representative and the Servicer consider it necessary, approving any contract which sets out the terms on which such arrangements are to be made) has been obtained (such prior written consent not being required in respect of the subcontractors or delegates which are presently employed by the Custody Agent, a list of which has been provided to the Fund, the Representative and the Servicer); and
  - (ii) neither the Representative, the Fund nor the Servicer shall have any liability for any costs, fees, charges or expenses payable to or incurred by such subcontractor or delegate or arising from the entering into, the continuance, amendment or the termination of any such arrangement.
- (b) The Fund, the Representative and the Servicer may require the Custody Agent to assign to the Fund any rights which the Custody Agent may have against any subcontractor or delegate arising from the performance of services by such person relating to any matter contemplated by this Agreement and the Custody Agent acknowledges that such rights assigned to the Fund will be exercised by the Fund subject to the terms of the Fund Deed.
- (c) Notwithstanding any subcontracting or delegation of the performance of its obligations under this Agreement, the Custody Agent shall not thereby be released or discharged from any liability hereunder and shall remain responsible for the performance of all of the obligations of the Custody Agent under this Agreement, and the performance or non-performance or the manner of performance of any subcontractor or delegate of any of the Custody Agent's services shall not affect the Custody Agent's obligations under this Agreement and any breach in the performance of the Custody Agent's services by such subcontractor or delegate shall, subject to the Custody Agent being entitled for a period of 10 Business Days from receipt of any notice of the breach to remedy such breach by any subcontractor or delegate, be treated as a breach of this Agreement by the Custody Agent.

### 3.4 Notices etc.

Promptly upon request by the Fund and the Representative, the Servicer shall procure that any notices which the Fund or the Representative may require the Seller to give pursuant to Clause 6.1 of the Mortgage Sale Agreement are so given by the Servicer on the Seller's behalf.

### 3.5 Liability of Servicer

- (a) The Servicer shall indemnify the Fund on demand on an after-tax basis for any loss, liability, claim, expense or damage suffered or incurred by the Fund in respect of the negligence, wilful misconduct or default of the Servicer in carrying out its functions as Servicer under this Agreement or the other Transaction Documents or as a result of a breach by the Servicer of the terms and provisions of this Agreement or the other Transaction Documents in relation to such functions.
- (b) For the avoidance of doubt, the Servicer shall not be liable in respect of any loss, liability, claim, expense or damage suffered or incurred by the Fund and/or any other person as a result of the proper performance of the Services by the Servicer save where such loss, liability, claim, expense or damage is suffered or incurred as a result of any negligence, wilful misconduct or default of the Servicer or as a result of a breach by the Servicer of the terms and provisions of this Agreement or the other Transaction Documents in relation to such functions.

### 3.6 **Liability of Custody Agent**

- (a) The Custody Agent shall indemnify the Fund on demand on an after-tax basis for any loss, liability, claim, expense or damage suffered or incurred by the Fund in respect of the negligence, wilful misconduct or default of the Custody Agent in carrying out its functions as Custody Agent under this Agreement or the other Transaction Documents or as a result of a breach by the Custody Agent of the terms and provisions of this Agreement or the other Transaction Documents in relation to such functions.
- (b) For the avoidance of doubt, the Custody Agent shall not be liable in respect of any loss, liability, claim, expense or damage suffered or incurred by the Fund and/or any other person as a result of the proper performance of the Custody Agent's services by the Custody Agent save where such loss, liability, claim, expense or damage is suffered or incurred as a result of any negligence, wilful misconduct or default of the Custody Agent or as a result of a breach by the Custody Agent of the terms and provisions of this Agreement or the other Transaction Documents in relation to such functions.

## 4. **ADMINISTRATION OF MORTGAGES**

### 4.1 **Direct Debiting Scheme**

- (a) For the purposes of collecting amounts due from Borrowers under the Loans and their Related Security comprised in the Portfolio the Servicer will unless otherwise agreed in writing with the Fund and the Representative:
  - (i) act, or procure that another person approved by the Fund (such approval not to be unreasonably withheld) acts as collection agent for the Fund under the Direct Debiting Scheme and remains a member of the Direct Debiting Scheme or any scheme which replaces the Direct Debiting Scheme;
  - (ii) subject to Clauses 4.1(b) and 4.1(c), deliver to the appropriate Account Bank at which the GIC Account is maintained such instructions as may be necessary from time to time for the debit of the account of each Borrower in respect of which there is a direct debit mandate (the date of such delivery being the **D.D. Date**) with the Monthly Payment due from such Debtor, and for the amount of such Monthly Payment to be credited to the relevant GIC Account, on the D.D. Date or, if such day is not a Business Day, the following Business Day;
  - (iii) subject to Clauses 4.1(b) and 4.1(c), deliver to the appropriate Account Bank at which the GIC Account is maintained not later than ten Business Days before the next succeeding Monthly Payment Day after the D.D. Date, instructions for the debit of the account of each Borrower in respect of which there is a direct debit mandate and the Monthly Payment due and owing from such Borrower on the last D.D. Date remains outstanding to the extent that, on the date of presentation of such instructions, such Monthly Payment has not been received in full by the Servicer on behalf of the Fund. Any such amount shall be credited to the GIC Account;
  - (iv) subject to Clauses 4.1(b) and 4.1(c), deliver to the appropriate Account Bank such other instructions for the debit of the account of each Borrower in respect of which there is a direct debit mandate in accordance with the Direct Debiting Scheme as may be appropriate for the recovery of sums due by such Borrower;
  - (v) comply in all material respects with the requirements from time to time of the Direct Debiting Scheme and Rules to the Direct Debiting Scheme as amended from time to time; and

- (vi) take all such other steps as are reasonably appropriate to ensure that all monies received from Borrowers during banking hours on any particular day are credited on that day to the GIC Account.
- (b) The Servicer may agree with a Borrower that the Direct Debiting Scheme shall not apply to Monthly Payments to be made by such Borrower, provided, subject to Clause 4.1(d), that: (i) alternative payment arrangements are made which are intended to ensure timely payment of Monthly Payments due from the Borrower to the Fund; and (ii) the change in arrangements was made at the instigation of the Borrower or by the Servicer in accordance with the procedures which would be adopted by a Reasonable, Prudent Mortgage Lender.
- (c) The Servicer may, notwithstanding the proviso to Clause 4.1(b), agree such procedures for the payment by a Borrower of: (i) overdue amounts; and (ii) amounts payable on redemption of a Loan or a Mortgage in whole or in part other than through the Direct Debiting Scheme as would be agreed by a Reasonable, Prudent Mortgage Lender.
- (d) Where a Borrower permits a direct debit to be made to his bank account, the Servicer will endeavour to procure that such Borrower maintains a valid and effective mandate relating to such direct debit in relation to each Monthly Payment due from that Borrower, provided that in any case where a Borrower will not permit a direct debit to be made to his bank account the Servicer will endeavour to make alternative arrangements acceptable to a Reasonable, Prudent Mortgage Lender so that such Borrower nevertheless pays each Monthly Payment on the due date.
- (e) If at any time the Servicer shall receive notice whether under the Direct Debiting Scheme or otherwise that any amount (or part thereof) which was paid in or credited pursuant to Clause 4.1 and which has been transferred to the GIC Account has not been received as cleared funds or has otherwise been recalled, the Servicer shall notify the Cash Manager and instruct the Cash Manager forthwith to debit the GIC Account and credit the relevant collection account for the whole or any part of such amount (such amount hereinafter referred to as the "shortfall") and an amount equal to any costs which are irrecoverable by the Servicer from the relevant Borrower and incurred by the Servicer as a result of such shortfall; provided that no debit from the GIC Account for the credit of the collection accounts in respect of any shortfall may be made on or after a Calculation Date in respect of the relevant period between that Calculation Date and the next Interest Payment Date unless sufficient funds are available after paying or making provision for the payment of amounts to be made on that Interest Payment Date. After the following Interest Payment Date, the Fund shall transfer or procure on its behalf the transfer from the GIC Account to the relevant collection account of an amount equal to such shortfall subject to it having sufficient funds available to it or the Servicer shall deduct an amount equal to such shortfall from payments otherwise due on a daily basis from the Seller to the Fund in respect of Revenue Receipts received under the Loans sold by the Seller to the Fund.

#### 4.2 Administration and Enforcement of Mortgages

- (a) The Fund hereby directs the Servicer to administer the Loans and their Related Security comprised in the Portfolio as if the Loans and their Related Security had not been sold to the Fund but remained with the Seller and carry out its specific obligations under this Agreement in accordance with this Agreement and the Seller's Policy.
- (b) The Servicer will, in relation to any default by a Borrower under or in connection with a Loan or a Mortgage comprised in the Portfolio, comply with the Enforcement Procedures or, to the extent that the Enforcement Procedures are not applicable having regard to the nature of the default in question, with the procedures that would be undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the Fund provided that:

- (i) the Servicer shall only become obliged to comply with the Enforcement Procedures (to the extent applicable) or to take action as aforesaid after it has become aware of the default; and
- (ii) it is acknowledged by the Fund and the Representative that mortgage lenders generally exercise discretion in pursuing their respective enforcement procedures and that the Servicer may exercise such discretion as would a Reasonable, Prudent Mortgage Lender in applying the Enforcement Procedures to any particular defaulting Borrower or taking action as aforesaid, provided that in exercising such discretion the interest of the Fund is not materially prejudiced.

#### 4.3 **Records**

The Servicer shall keep and maintain records in relation to the Loans and their Related Security comprised in the Portfolio, on a Loan by Loan basis, for the purposes of identifying amounts paid by each Borrower, any amount due from a Borrower and the Outstanding Principal Balance of each Loan and such other records as would be kept by a Reasonable, Prudent Mortgage Lender. The Servicer will provide such information to the Fund and/or the Representative or to their order at any time upon reasonable notice subject to the Servicer being reasonably capable of providing such information without significant additional cost subject to applicable legislation from time to time and provided that no duty of confidence and no industry code of practice will or may be breached thereby.

#### 4.4 **Agent**

- (a) If the Servicer in carrying out its functions as Servicer under this Agreement receives (including in its capacity as agent for the Fund) any money whatsoever arising from the Loans and their Related Security comprised in the Portfolio, which money belongs to the Fund and is to be paid to the GIC Account pursuant to this Agreement or any of the other Transaction Documents or otherwise, it will hold such moneys as agent for the Fund and shall keep such money separate from all other monies held by the Servicer and shall, as soon as reasonably practicable and in any event within three Business Days of receipt of the same, pay the monies into the GIC Account.
- (b) All other sums received by the Servicer in respect of the Mortgages comprised in the Portfolio shall be held by the Servicer for itself.

#### 5. **NO LIABILITY**

- 5.1 The Servicer shall have no liability for any obligation of a Borrower under any Loan comprised in the Portfolio or any Related Security and nothing herein shall constitute a guarantee, indemnity or similar obligation, by or of the Servicer of or in relation to any Loan, any Related Security or any Borrower.
- 5.2 Save as otherwise provided in this Agreement, the Servicer shall have no liability for the obligations of the Fund under any of the Transaction Documents or otherwise and nothing herein shall constitute a guarantee, indemnity or similar obligation, by the Servicer of the Fund in respect of any of those obligations.

#### 6. **NEW MORTGAGES**

- 6.1 The Portfolio may be augmented from time to time by the sale to the Fund on any Assignment Date of New Mortgages by the Seller in accordance with the Mortgage Sale Agreement.
- 6.2 The sale by the Seller of New Mortgages to the Fund will in all cases be subject to the terms set out in the Mortgage Sale Agreement including, without limitation, the conditions set out in Clause 4 of the Mortgage Sale Agreement and the Representations and Warranties made by the Seller pursuant to Clause 7 of the Mortgage Sale Agreement.



7. **REDEMPTION OF MORTGAGES**

- 7.1 Upon repayment in full of all sums due in relation to the Loans comprised in the Portfolio secured by a Mortgage, the Servicer shall, and is hereby authorised by the Fund and the Representative to, execute a receipt or discharge of the Mortgage and any such other or further instrument or document regarding such Mortgage and/or the other Related Security as it considers to be necessary or advisable, and to release the relevant Mortgage Document to the person or persons entitled thereto.
- 7.2 The Servicer undertakes that prior to any actual release by it of the relevant Mortgage Document it will take reasonable and appropriate steps, acting as a Reasonable, Prudent Mortgage Lender, to satisfy itself that the relevant Mortgage Document is being released to the person or persons entitled thereto.
- 7.3 The Servicer shall procure that if, upon completion of the Enforcement Procedures in relation to a Loan and its Related Security in the Portfolio, an amount in excess of all sums due by the relevant Borrower is recovered or received, the balance, after discharge of all sums due by the relevant Borrower, is paid to the person or persons next entitled thereto.

8. **POWERS OF ATTORNEY**

- 8.1 For good and valuable consideration and as security for the interests of the Fund hereunder, the Fund hereby appoints the Servicer as its attorney on its behalf, and in its own or the attorney's name, for the following purposes:
- (a) executing all documents necessary for the purpose of discharging a Mortgage and/or any other Related Security in relation to a Loan comprised in the Portfolio which has been repaid in full and any other Related Security or for the sale of a Property which is subject to a Mortgage;
  - (b) executing all documents necessary for the purpose of releasing a Mortgage in accordance with Clause 7;
  - (c) executing all documents and doing all such acts and things which in the reasonable opinion of the Servicer are necessary or desirable for the efficient provision of the Services hereunder; and
  - (d) exercising its rights, powers and discretion under the Mortgages and/or any other Related Security relating to Loans comprised in the Portfolio,

provided that, for the avoidance of doubt, this power of attorney shall not authorise the Servicer to sell any of the Loans and/or their Related Security comprised in the Portfolio except as specifically authorised in the Transaction Documents. For the avoidance of doubt, the Fund shall not be liable or responsible for the acts of the Servicer or any failure by the Servicer to act under or in respect of this power of attorney.

- 8.2 The appointment contained in Clause 8.1 shall be irrevocable unless and until the termination of the appointment of the Servicer pursuant to Clause 17 of this Agreement upon which the appointments contained in Clause 8.1 shall be automatically revoked.

9. **COSTS AND EXPENSES**

The Fund will on each Fund Payment Date reimburse, in accordance with Clauses 11.4 and 13.4 of the Fund Deed, each of the Servicer and the Custody Agent for all reasonable out-of-pocket costs, expenses and charges (together with any amounts in respect of applicable taxes in relation thereto) properly incurred by the Servicer or the Custody Agent, as the case may be in the performance of the Services and the Custody Agent Services, respectively, including any such reasonable costs, expenses or charges not reimbursed to the Servicer or the Custody Agent, as the case may be on any previous Fund Payment Date and the Servicer or the Custody Agent, as the case may be shall supply the Fund with an appropriate tax invoice issued by the person making the supply.

## 10. INFORMATION

### 10.1 Maintenance of Records

The Servicer shall keep the Customer Files relating to the Loans comprised in the Portfolio in safe custody and shall take appropriate technical and organisational measures against the unauthorised or unlawful processing of personal data and against accidental loss or destruction of, or damage to, personal data. The Servicer shall maintain in an adequate form such records as are necessary to enforce each Mortgage comprised in the Portfolio and, where relevant, any other Related Security. The Servicer shall keep Customer Files in relation to the Portfolio in such a way that they can be distinguished from information held by the Servicer for its own behalf as mortgagee or for other third persons.

### 10.2 Access to Books and Records

Subject to all applicable laws, the Servicer shall permit the Fund (and its auditors) and the Representative and any other person nominated by the Fund (to whom the Servicer has no reasonable objection) upon reasonable notice during normal office hours to have access, or procure that such person or persons are granted access, to the Customer Files, all books of record and account relating to the administration of the Loans and their Related Security comprised in the Portfolio and related matters in accordance with this Agreement.

### 10.3 Information Covenants

- (a) The Servicer shall provide the Fund and the Representative monthly with a report in, or substantially in, the form set out in Schedule 2 and shall assist the Cash Manager in the production of the Monthly Asset Coverage Reports substantially in the form set out in Schedule 3 of the Cash Management Agreement.
- (b) The Servicer shall, upon request, provide the Fund and the Representative monthly with a report stored upon electronic media including, but not limited to, a CD-ROM in a form acceptable to the Fund and the Representative (each acting reasonably) containing information regarding the Loans then comprised in the Portfolio including, but not limited to, details of the relevant account number, the relevant Borrower's name, the title number and the postcode of the relevant Property and the completion date of the relevant Mortgage.
- (c) The Servicer shall, at the request of the Fund and the Representative, furnish the Fund and the Representative with such other information relating to its business and financial condition and (to the extent that it has such information and subject to any confidentiality restrictions binding upon it) that of any person to whom it has subcontracted or delegated part of its obligations hereunder as it may be reasonable for the Fund and the Representative (as appropriate) to request in connection with the matters contemplated by the Programme, provided that the Fund or the Representative (as appropriate) shall not make such a request more than once every three months unless, in the belief of the Fund or the Representative (as appropriate), an Issuer Event of Default or a Servicer Termination Event (as defined in Clause 17.1) shall have occurred and is continuing or may reasonably be expected to occur.
- (d) Subject to any applicable law or contrary instruction from the Fund, the Servicer shall furnish to each beneficial owner of any Covered Bonds issued under the Programme (an **Investor**) monthly reports on the Portfolio in, or substantially in, the form of Schedule 2 (the **Monthly Reports**). The Servicer, upon request by an Investor, shall also furnish previous Monthly Reports to such Investor.
- (e) Subject to any applicable law or contrary instruction from both (and, for the avoidance of doubt, not only one) the Fund and the Representative, the Servicer will make reasonable

efforts to make available to Investors Monthly Reports (including previous Monthly Reports) in an electronic format acceptable to the Representative such as "Bloomberg".

## 11. REMUNERATION

11.1 The Fund shall pay to the Servicer for its Services hereunder an administration fee (the **Administration Fee**) (inclusive of applicable taxes) which:

- (a) shall be calculated in relation to each Calculation Period on the basis of the aggregate of:
  - (i) the number of days elapsed in that Calculation Period and a 365 day year (or, in the case of a Calculation Period ending in a leap year, a 366 day year) at the rate of 0.01 per cent. per annum (inclusive of applicable taxes) on the aggregate amount of the Loans in the Portfolio as at close of business on the preceding Calculation Payment Date (or, as applicable, the First Assignment Date); and
  - (ii) fees paid by Borrowers during that Calculation Period, in accordance with the Mortgage Conditions, in respect of the administration of their Loan; and
- (b) shall be paid to the Servicer in arrear on each Fund Payment Date in the manner contemplated by and in accordance with the provisions of Clauses 11.4 and 13.4 of the Fund Deed.

11.2 The Fund shall pay, on each Fund Payment Date, to the Custody Agent in the respect of the performance of Custody Agent Services a fee as agreed upon in writing from time to time by the Custody Agent and the Fund provided that any such fee has been previously agreed by the Representative.

## 12. MORTGAGE DOCUMENTS

12.1 The Servicer shall keep the Mortgage Documents relating to the Loans and their Related Security comprised in the Portfolio in safe custody and shall not without the prior written consent of the Fund and the Representative part with possession, custody or control of them otherwise than to a subcontractor or delegate appointed pursuant to Clause 3.2 or to a lawyer, licensed conveyancer, qualified conveyancer or authorised practitioner or pursuant to any law or order of any court, or pursuant to any direction, request or requirement (whether or not having the force of law) of any central bank or any governmental or other regulatory or taxation authority, subject to the usual undertaking to hold them to the order of the Seller (who in turn will hold them to the order of the Representative) or to the District Commissioner or, upon redemption of the relevant Loan, to the order of the Borrower.

12.2 The Mortgage Documents relating to the Loans and their Related Security comprised in the Portfolio shall be kept in such a manner so that a computer record is maintained of their location and they are identifiable and retrievable by reference to an account number and pool identifier and identifiable and distinguishable from the mortgage documents relating to other properties and mortgages in respect of which the Servicer is mortgagee or chargee or servicer.

12.3 The Servicer shall provide access or procure that access is provided to the Mortgage Documents relating to the Loans and their Related Security comprised in the Portfolio to the Fund, the Representative and their respective agents at all reasonable times and upon reasonable notice. The Servicer acknowledges that the Customer Files relating to the Loans and their Related Security comprised in the Portfolio in its possession, custody or control will be held to the order of the Representative and that it has, in its capacity as Servicer, no beneficial interest therein and the Servicer irrevocably waives any rights or any Security Interest which it might have therein or to which it might at any time be entitled.

12.4 The Servicer shall, forthwith on the termination of the appointment of the Servicer pursuant to Clause 17 of this Agreement, deliver the Customer Files relating to the Loans and their Related Security comprised in the Portfolio to or to the order of the Representative or to such person as the

Representative elects as a substitute servicer in accordance with the terms of this Agreement upon written request by the Fund or the Representative made at any time on or after notice of, or on or after, termination of the appointment of the Servicer pursuant to Clause 17 of this Agreement.

**13. DATA PROTECTION**

13.1 Each of the Servicer and the Fund represents that as at the date hereof it has obtained, and that hereafter it will maintain, all appropriate registrations, licences and authorities (if any) required under the relevant data protection legislation in Iceland to enable it to perform its obligations under this Agreement. In addition to the foregoing and notwithstanding any of the other provisions of this Agreement, each of the Servicer and the Fund hereby agree and covenant that the Servicer and the Fund will only use any data in relation to the Loans and their Related Security comprised in the Portfolio and the related Borrowers for the purposes of administering and/or managing those Mortgages in the Portfolio, and will not sell such data to any third party or allow any third party to use such data other than in compliance with the relevant data protection legislation in Iceland and other relevant acts and rules, the conditions stated in this Clause 13 and for the sole purpose of administering and/or managing those Loans and their Related Security in the Portfolio.

13.2 The Servicer will use all reasonable endeavours to ensure that, in the event of the appointment of a subcontractor in accordance with Clause 3.2, such subcontractor shall obtain and maintain all appropriate registrations, licences and authorities, and comply with obligations equivalent to those imposed on the Servicer in this Clause 13, to enable it to perform its obligations.

**14. COVENANTS OF SERVICER**

14.1 The Servicer hereby covenants with and undertakes to each of the Fund and the Representative that without prejudice to any of its specific obligations hereunder it will:

- (a) administer the Loans and their Related Security comprised in the Portfolio as if the same had not been sold to the Fund but had remained with the Seller;
- (b) provide the Services in such manner and with the same level of skill, care and diligence as would a Reasonable, Prudent Mortgage Lender;
- (c) comply with any proper directions, orders and instructions which the Fund may from time to time give to it in accordance with the provisions of this Agreement;
- (d) keep in force all licences, approvals, authorisations and consents which may be necessary in connection with the performance of the Services;
- (e) not knowingly fail to comply with any legal requirements in the performance of the Services;
- (f) make all payments required to be made by it pursuant to this Agreement on the due date for payment thereof in immediately available funds for value on such day without set-off (including, without limitation, in respect of any fees owed to it) or counterclaim;
- (g) not without the prior written consent of the Representative amend or terminate any of the Transaction Documents save in accordance with their terms; and
- (h) forthwith upon becoming aware of any event which may reasonably give rise to an obligation of the Seller to repurchase any Loan pursuant to the Mortgage Sale Agreement, notify the Fund in writing of such event.

14.2 The covenants of the Servicer in Clause 14.1 shall remain in force until this Agreement is terminated but without prejudice to any right or remedy of the Fund, the Representative and/or the Seller arising from breach of any such covenant prior to the date of termination of this Agreement.

15. **COVENANTS, REPRESENTATIONS AND WARRANTIES OF THE CUSTODY AGENT**

15.1 The Custody Agent hereby covenants with and undertakes to each of the Fund and the Representative that without prejudice to any of its specific obligations hereunder it will:

- (a) it shall hold and shall require that any subcontractors or delegates appointed pursuant to Clause 3.3 and any Central Securities Depository shall hold the unit shares or any other property of the Fund held by it in such a way that the unit shares issued by the Fund will not be available to its creditors in the event of an attachment, a bankruptcy or any situation similar thereto;
- (b) it shall not cause or permit unit shares issued by the Fund or any other property of the Fund held by it to become subject to any right, charge, security interest, lien or other claim of any kind in favour of itself, any subcontractor or delegate appointed pursuant to Clause 3.3 or any Central Securities Depository through or in which any unit shares issued by the Fund or any other property of the Fund held by it is held or any creditor of any of them;
- (c) it shall not lend any unit shares issued by the Fund or any other property of the Fund held by it to third parties;
- (d) it shall notify the Fund if any of the representations given in Clause 15.3 are no longer true and correct;
- (e) it shall supply periodic reports with respect to the unit shares issued by the Fund or any other property of the Fund held by it;
- (f) it shall notify the Fund forthwith upon discovery of any loss of any property of the Fund held by it due to fraud or dishonesty of its agents or employees, and shall provide the description of such incident with sufficient specificity to enable a claim for reimbursement of such loss to be filed under any governing surety bond or insurance policy;
- (g) it shall notify the Fund forthwith in the event that an attempt is made by a third party to assert any claim over any property of the Fund held by it, so that the Fund will be able to take appropriate action to protect the property from such claim;
- (h) it shall inform the Fund promptly of any actual or proposed changes in local laws, regulations and market practices that (could) affect the services provided by the Custody Agent under this Agreement and shall provide the Fund with all other information which a prudent and professional custody agent would consider to be relevant for the interest of the Fund in respect of or in connection with the property of the Fund held by it;
- (i) its books and records relating to the property of the Fund held by it shall be open to inspection and audit at reasonable times (the Custody Agent requires one weeks notice prior to inspection and audit) by officers of, auditors employed by or other representations of the Fund; and
- (j) it shall maintain at all times during the effectiveness of this Agreement adequate policies of insurance with recognised insurance companies against the risk of loss, damage or fraud of its employees and shall provide the Fund with information on the coverage of such insurance.

15.2 The covenants of the Custody Agent in Clause 15.1 shall remain in force until this Agreement is terminated but without prejudice to any right or remedy of the Fund, the Representative and/or the Seller owing from breach of any such covenant prior to the date of termination of this Agreement.

15.3 The Custody Agent represents and warrants to the Fund and the Representative as at the date hereof that:

- (a) it is a financial institution incorporated and organised under the laws of Iceland which is regulated as such by the Financial Supervisory Authority of Iceland;
- (b) it has the requisite financial strength to provide reasonable care in relation to any unit shares issued by, and any other property of, the Fund held by it;
- (c) contingency plans are in place and rehearsed periodically by it to ensure work will not be disrupted for lengthy periods of time and that alternative power resources and back-up sites shall be available; and
- (d) adequate protection against unauthorised access to data and data processing areas is provided for.

16. **SERVICES NON-EXCLUSIVE**

Nothing in this Agreement shall prevent the Servicer or the Custody Agent from rendering or performing services similar to those provided for in this Agreement to or for itself or other persons, firms or companies or from carrying on business similar to or in competition with the business of the Fund.

17. **TERMINATION OF SERVICER**

17.1 If any of the following events (each, a **Servicer Termination Event** and, in relation to the events referred to in Clauses 17.1(a) to 17.2(c), a **Servicer Event of Default**) shall occur:

- (a) default is made by the Servicer in the payment on the due date of any amount due and payable by it under this Agreement and such default continues unremedied for a period of three Business Days after the earlier of the Servicer becoming aware of such default or receipt by the Servicer of written notice from the Representative or the Fund requiring the default to be remedied;
- (b) default is made by the Servicer in the performance or observance of any of its other covenants and obligations under this Agreement which, in the reasonable opinion of the Representative, is materially prejudicial to the interests of the Covered Bondholders, and such default continues unremedied for a period of five Business Days after the earlier of the Servicer becoming aware of such default or receipt by the Servicer of written notice from the Fund and the Representative requiring the default to be remedied, provided however that where the relevant default occurs as a result of a default by any person to whom the Servicer has subcontracted or delegated part of its obligations hereunder, such default shall not constitute a Servicer Termination Event if, within such period of five Business Days of receipt of such notice from the Fund and the Representative, the Servicer terminates the relevant subcontracting or delegation arrangements and takes such steps as the Fund and the Representative may specify to remedy such default or to indemnify the Fund against the consequences of such default;
- (c) an Insolvency Event occurs in relation to the Servicer;
- (d) neither the Servicer nor a directly or indirectly wholly-owned subsidiary of the Servicer is servicing the Portfolio pursuant to this Agreement; or
- (e) the Servicer has not terminated the subcontracting and delegation within five Business Days if required by Clause 17.6,

then the Fund and the Representative may at once or at any time thereafter while such default continues by notice in writing to the Servicer terminate its appointment as Servicer under this Agreement with effect from a date (not earlier than the date of the notice) specified in the notice. Upon termination of

the Servicer as servicer under this Agreement, the Representative shall use reasonable endeavours to appoint a Servicer that satisfies the conditions set forth in Clauses 17.2(c) and (d).

- 17.2 The appointment of the Servicer under this Agreement may be terminated by the Servicer upon the expiry of not less than six months' notice of termination given by the Servicer to the Representative and the Fund provided that:
- (a) the Fund and the Representative consent in writing to such termination;
  - (b) a New Servicer shall be appointed, with the consent in writing of the Representative such appointment to be effective not later than the date of such termination;
  - (c) such New Servicer has experience of administering residential mortgages in Iceland and is approved by the Fund; and
  - (d) such New Servicer enters into an agreement substantially on the same terms as the relevant provisions of this Agreement with the Fund, the Seller, the Representative and the Custody Agent and the Servicer shall not be released from its obligations under the relevant provisions of this Agreement until such New Servicer has entered into such new agreement.
- 17.3 On and after termination of the appointment of the Servicer under this Agreement pursuant to this Clause 17, all authority and power of the Servicer under this Agreement shall be terminated and be of no further effect and the Servicer shall not thereafter hold itself out in any way as the agent of the Fund pursuant to this Agreement.
- 17.4 Upon termination of the appointment of the Servicer under this Agreement pursuant to this Clause 17, the Servicer shall:
- (a) forthwith deliver (and in the meantime hold as agent for, and to the order of, the Representative) to the Fund or as it shall direct the Customer Files, all books of account, papers, records, registers, correspondence and documents in its possession or under its control relating to the affairs of or belonging to the Fund and the Loans comprised in the Portfolio and any other Related Security, (if practicable, on the date of receipt by the Servicer) any monies then held by the Servicer on behalf of the Fund and any other assets of the Fund;
  - (b) take such further action as the Fund and the Representative may reasonably direct at the expense of the Fund (including in relation to the appointment of a substitute servicer) provided that the Representative shall not be required to take or direct to be taken such further action unless it has been indemnified to its satisfaction;
  - (c) provide all relevant information contained on computer records in the form of magnetic tape, CD-ROMs and/or other form of electronic media, as appropriate, together with details of the layout of the files encoded on such magnetic tapes, CD-ROMs and/or other form of electronic media, as appropriate, (or such other format as the parties may agree); and
  - (d) co-operate and consult with and assist the Fund, the Representative and their nominees (which shall, for the avoidance of doubt, include any new servicer appointed by any of them) for the purposes of explaining the file layouts and the format of the magnetic tapes, CD-ROMs and/or other form of electronic media, as appropriate, generally containing such computer records on the computer system of the Fund or such nominee.
- 17.5 The Servicer shall deliver to the Fund and the Representative as soon as reasonably practicable but in any event within five days of becoming aware thereof a notice of any Servicer Termination Event or any event which with the giving of notice or lapse of time or certification would constitute the same.
- 17.6 If an Insolvency Event occurs in relation to any person to whom the Servicer has subcontracted or delegated part of its obligations hereunder, the Servicer shall notify the Representative and the Servicer

shall within five Business Days of such an event occurring, terminate the relevant subcontracting or delegation arrangements.

- 17.7 Termination of this Agreement or the appointment of the Servicer under this Agreement shall be without prejudice to the liabilities of the Fund to the Servicer or vice versa incurred before the date of such termination. The Servicer shall have no right of set-off or any lien in respect of such amounts against amounts held by it on behalf of the Fund.
- 17.8 This Agreement shall terminate at such time as the Fund has no further interest in any of the Loans or their Related Security that have been comprised in the Portfolio.
- 17.9 On termination of the appointment of the Servicer under the provisions of this Clause 17, the Servicer shall be entitled to receive all fees and other monies accrued up to the date of termination but shall not be entitled to any other or further compensation. Such monies so receivable by the Servicer shall be paid by the Fund in accordance with the provisions of the Fund Deed on the dates on which they would otherwise have fallen due hereunder. For the avoidance of doubt, such termination shall not affect the Servicer's rights to receive payment of all amounts (if any) due to it from the Fund other than under this Agreement.
- 17.10 Prior to termination of this Agreement, the Servicer, the Seller, the Representative and the Fund shall co-operate to obtain the agreement of the Borrowers to a new bank mandate permitting the Fund to operate the Direct Debiting Scheme with respect to the Loans in the Portfolio.
- 17.11 Any provision of this Agreement which is stated to continue after termination of the Agreement shall remain in full force and effect notwithstanding termination.

## 18. **TERMINATION OF CUSTODY AGENT**

- 18.1 If any of the following events (each, a **Custody Agent Termination Event** and, in relation to the events referred to in Clauses 17.1(a) to 17.2(c), a **Custody Agent Event of Default**) shall occur:
- (a) default is made by the Custody Agent in the payment on the due date of any amount due and payable by it under this Agreement and such default continues unremedied for a period of three Business Days after the earlier of the Custody Agent becoming aware of such default or receipt by the Custody Agent of written notice from the Representative or the Fund requiring the default to be remedied;
  - (b) default is made by the Custody Agent in the performance or observance of any of its other covenants and obligations under this Agreement which, in the reasonable opinion of the Representative, is materially prejudicial to the interests of the Covered Bondholders, and such default continues unremedied for a period of five Business Days after the earlier of the Custody Agent becoming aware of such default or receipt by the Custody Agent of written notice from the Fund and the Representative requiring the default to be remedied, provided however that where the relevant default occurs as a result of a default by any person to whom the Custody Agent has subcontracted or delegated part of its obligations hereunder, such default shall not constitute a Custody Agent Termination Event if, within such period of five Business Days of receipt of such notice from the Fund and the Representative, the Custody Agent terminates the relevant subcontracting or delegation arrangements and takes such steps as the Fund and the Representative may specify to remedy such default or to indemnify the Fund against the consequences of such default;
  - (c) an Insolvency Event occurs in relation to the Custody Agent; or
  - (d) the Custody Agent has not terminated the subcontracting and delegation within five Business Days if required by Clause 17.6,



then the Fund and the Representative may at once or at any time thereafter while such default continues by notice in writing to the Custody Agent terminate its appointment as Custody Agent under this Agreement with effect from a date (not earlier than the date of the notice) specified in the notice. Upon termination of the Custody Agent as Custody Agent under this Agreement, the Representative shall use reasonable endeavours to appoint a Custody Agent that satisfies the conditions set forth in Clauses 17.2(c) and (d).

- 18.2 The appointment of the Custody Agent under this Agreement may be terminated by the Custody Agent upon the expiry of not less than six months' notice of termination given by the Custody Agent to the Representative and the Fund provided that:
- (a) the Fund and the Representative consent in writing to such termination;
  - (b) a New Custody Agent shall be appointed, with the consent in writing of the Representative such appointment to be effective not later than the date of such termination;
  - (c) such New Custody Agent satisfies the criteria set out in the Act and in this Agreement in respect of a Custody Agent and is approved by the Fund; and
  - (d) such New Custody Agent enters into an agreement substantially on the same terms as the relevant provisions of this Agreement with the Fund, the Seller, the Representative and the Custody Agent and the Servicer shall not be released from its obligations under the relevant provisions of this Agreement until such New Custody Agent has entered into such new agreement.
- 18.3 On and after termination of the appointment of the Custody Agent under this Agreement pursuant to this Clause 17, all authority and power of the Custody Agent under this Agreement shall be terminated and be of no further effect and the Custody Agent shall not thereafter hold itself out in any way as the agent of the Fund pursuant to this Agreement.
- 18.4 Upon termination of the appointment of the Custody Agent under this Agreement pursuant to this Clause 17, the Custody Agent shall:
- (a) forthwith deliver (and in the meantime hold as agent for, and to the order of, the Representative) to the Fund or as it shall direct the unit shares issued by the Fund and all other property of the Fund held by it; and
  - (b) take such further action as the Fund and the Representative may reasonably direct at the expense of the Fund (including in relation to the appointment of a substitute custody agent) provided that the Representative shall not be required to take or direct to be taken such further action unless it has been indemnified to its satisfaction.
- 18.5 The Custody Agent shall deliver to the Fund and the Representative as soon as reasonably practicable but in any event within five days of becoming aware thereof a notice of any Custody Agent Termination Event or any event which with the giving of notice or lapse of time or certification would constitute the same.
- 18.6 If an Insolvency Event occurs in relation to any person to whom the Custody Agent has subcontracted or delegated part of its obligations hereunder, the Custody Agent shall notify the Representative and the Custody Agent shall within five Business Days of such an event occurring, terminate the relevant subcontracting or delegation arrangements.
- 18.7 Termination of this Agreement or the appointment of the Custody Agent under this Agreement shall be without prejudice to the liabilities of the Fund to the Custody Agent or vice versa incurred before the date of such termination. The Servicer shall have no right of set-off or any lien in respect of such amounts against amounts held by it on behalf of the Fund.

18.8 On termination of the appointment of the Custody Agent under the provisions of this Clause 18, the Custody Agent shall be entitled to receive all fees and other monies accrued up to the date of termination but shall not be entitled to any other or further compensation. Such monies so receivable by the Custody Agent shall be paid by the Fund in accordance with the provisions of the Fund Deed on the dates on which they would otherwise have fallen due hereunder. For the avoidance of doubt, such termination shall not affect the Custody Agent's rights to receive payment of all amounts (if any) due to it from the Fund other than under this Agreement.

18.9 Any provision of this Agreement which is stated to continue after termination of the Agreement shall remain in full force and effect notwithstanding termination.

## 19. FURTHER ASSURANCE

19.1 The parties hereto agree that they will co-operate fully to do all such further acts and things and execute any further documents as may be necessary or desirable to give full effect to the arrangements contemplated by this Agreement.

19.2 Without prejudice to the generality of Clause 19.1, the Fund and the Representative shall upon request by the Servicer forthwith give to the Servicer such further powers of attorney or other written authorisations, mandates or instruments as are necessary to enable the Servicer to perform the Services.

19.3 Nothing herein contained shall impose any obligation or liability on the Fund to assume or perform any of the obligations of the Servicer and/or the Custody Agent hereunder or render it liable for any breach thereof.

## 20. CONFIDENTIALITY

During the continuance of this Agreement or after its termination, each of the Fund, the Servicer, the Seller, the Representative and the Custody Agent shall use its best endeavours not to disclose to any person, firm or company whatsoever any information relating to the business, finances or other matters of a confidential nature of any other party hereto of which it may exclusively by virtue of being party to the Transaction Documents have become possessed and shall use all reasonable endeavours to prevent any such disclosure as aforesaid, provided however that the provisions of this Clause 20 shall not apply:

- (a) to any information already known to the Fund or the Representative otherwise than as a result of entering into any of the Transaction Documents;
- (b) to any information subsequently received by the Fund or the Representative which it would otherwise be free to disclose;
- (c) to any information which is or becomes public knowledge otherwise than as a result of the conduct of the Fund or the Representative;
- (d) to any extent that the Fund or the Representative is required to disclose the same pursuant to any law or order of any court or pursuant to any direction, request or requirement (whether or not having the force of law) of any central bank or any governmental or other authority (including, without limitation, any official bank examiners or regulators);
- (e) to the extent that the Fund or the Representative needs to disclose the same for determining the existence of, or declaring, a Fund Event of Default, a Servicer Termination Event, a Custody Agent Event of Default or a Custody Agent Termination Event, the protection or enforcement of any of its rights under any of the Transaction Documents or in connection herewith or therewith or for the purpose of discharging, in such manner as it thinks fit, its duties under or in connection with such agreements in each case to such persons as are required to be informed of such information for such purposes; or

- (f) in relation to any information disclosed to the professional advisers of the Fund or the Representative or any prospective New Servicer.

## 21. NOTICES

21.1 Any notice to be given pursuant to this Agreement to any of the parties hereto shall be sufficiently served if sent:

- (a) in the case of the Servicer and the Seller, to Arion Bank hf., at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 6229 and email: mtndesk@arionbanki.is) for the attention of the Funding Department;
- (b) in the case of the Fund, to Arion Bank Mortgages Institutional Investor Fund, at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7489 and email: info@stefnir.is) for the attention of Stefnir hf. – Arion Bank Mortgages Institutional Investor Fund;
- (c) in the case of the Representative, to Deutsche Trustee Company Limited, at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number: +(44) 20 7547 6149 and email: TSS-GDS.EUR@db.com) for the attention of the Managing Director; and
- (d) in the case of the Custody Agent, to Verdis hf. formerly Arion Custody Services hf., at Armuli 13, 105 Reykjavik, Iceland (facsimile number: +(354) 528-2909 and email: rm@verdis.is) for the attention of Security Custody,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others. All notices served under this Agreement shall be simultaneously copied to the Representative by the person serving the same.

21.2 Notwithstanding Clause 21.1 above and provided that each give their prior consent to such delivery, any party to this Agreement may send notice to or otherwise communicate with any of the other parties to this Agreement by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Agreement shall be deemed: (i) to have received any electronic mail sent by the any other party to this Agreement pursuant to the terms of this Clause 21.2 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Agreement shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Agreement (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

## 22. VARIATION AND WAIVER

No variation or waiver of this Agreement shall be effective unless it is in writing and signed by (or by some person duly authorised by) each of the parties. No single or partial exercise of, or failure or delay in exercising, any right under this Agreement shall constitute a waiver or preclude any other or further exercise of that or any other right.

23. **ASSIGNMENT**

- 23.1 The Representative may not assign or transfer any of its rights and obligations under this Agreement without the prior written consent of the Fund.
- 23.2 The Servicer may not assign or transfer any of its rights and obligations under this Agreement without the prior written consent of the Representative and the Fund.
- 23.3 The Custody Agent may not assign or transfer any of its rights and obligations under this Agreement without the prior written consent of the Representative and the Fund.

24. **CHANGE OF REPRESENTATIVE**

- 24.1 If there is any change in the identity of the Representative or an additional Representative is appointed, the remaining Representative and/or the retiring Representative, the Servicer, the Seller, the Fund and the Custody Agent shall execute such documents and take such action as the successor Representative and the outgoing Representative may reasonably require for the purpose of vesting in the successor Representative the rights and obligations of the outgoing Representative under this Agreement and releasing the outgoing Representative from its future obligations under this Agreement.
- 24.2 It is hereby acknowledged and agreed that by its execution of this Agreement the Representative shall not assume or have any obligations or liabilities to the Servicer, the Seller, the Fund or the Custody Agent under this Agreement notwithstanding any provision herein and that the Representative has agreed to become a party to this Agreement for the purpose only of taking the benefit of this Agreement. It is further acknowledged and agreed that the Representative shall not at any time assume any obligations of the Management Company under this Agreement or under the Articles of Association of the Fund. For the avoidance of doubt, the parties to this Agreement acknowledge that the rights and powers of the Representative are governed by the Representative and Agency Agreement. Any liberty or right which may be exercised or determination which may be made under this Agreement by the Representative may be exercised or made in the Representative's absolute discretion without any obligation to give reasons therefor and the Representative shall not be responsible for any liability occasioned by so acting but subject always to the provisions of Clause 12.6 of the Representative and Agency Agreement.

25. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts (manually or be facsimile) and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same instrument.

26. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

- 26.1 This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.
- 26.2 Each party to this Agreement irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

**THIS AGREEMENT** has been entered into on the date stated at the beginning of this Agreement.

## **SCHEDULE 1**

### **THE SERVICES**

In addition to the Services set out in the body of this Agreement, the Servicer shall, in relation to the Loans and their Related Security in the Portfolio:

- (a) keep records and books of account on behalf of the Fund;
- (b) keep records for all taxation purposes;
- (c) notify relevant Borrowers of any change in their Monthly Payments;
- (d) assist the auditors of the Fund and provide information to them upon reasonable request;
- (e) provide a redemption statement upon the request of a Borrower or the Borrower's lawyer, licensed conveyancer or qualified conveyancer;
- (f) notify relevant Borrowers of any other matter or thing which the applicable Mortgage Conditions require them to be notified of in the manner and at the time required by such Mortgage Conditions;
- (g) subject to the provisions of this Agreement (including without limitation Clause 4.2) take all reasonable steps to recover all sums due to the Fund including without limitation by the institution of proceedings and/or the enforcement of any Mortgage comprised in the Portfolio using the discretion of a Reasonable, Prudent Mortgage Lender in applying the enforcement procedures forming part of the Seller's Policy;
- (h) take all other action and do all other things which it would be reasonable to expect a Reasonable, Prudent Mortgage Lender to do in administering its Mortgages; and
- (i) act as collection agent for the Fund under the Direct Debiting Scheme in accordance with the provisions of this Agreement.

**SCHEDULE 2**

**FORM OF MONTHLY REPORT**

**COVERED BONDS FUND PERIODIC REPORT FOR PERIOD • to •**

**Mortgage Asset Analysis**

**Analysis of Mortgage Movements**

	<b>Current Period</b>		<b>Cumulative</b>	
	<b>Number</b>	<b>Value ISK 000's</b>	<b>Number</b>	<b>Value ISK 000's</b>
Brought Forward				
Replenishment				
Repurchased				
Redemptions				
Other Movements				
Carried Forward				

Annualised one month CPR	%	(including redemptions and repurchases)
Annualised three month CPR	%	
Annualised 12 month CPR	%	

**Asset Profiles**

Weighted Average Seasoning	months	* (see definition below)
Weighted Average Loan size		
Weighted Average LTV	%	
Weighted Average Remaining Term	years	

**Original LTV Bands**

<b>Range</b>	<b>Number</b>	<b>Balance</b>	<b>Percentage</b>
0.00 - 25.00			%
25.01 - 50.00			%
50.01 - 75.00			%
75.01 - 80.00			%
80.01 - 85.00			%
85.01 - 90.00			%
90.01 - 95.00			%
Total			100.00%

\*

The balance is the current outstanding balance on the account including accrued interest.

The LTV is that at origination and excludes any capitalised high loan to value fees, valuation fees or booking fees.

**Arrears**

**Band**

Current  
 1.00 - 1.99 months  
 2.00 - 2.99 months  
 3.00 - 3.99 months  
 4.00 - 4.99 months  
 5.00 - 5.99 months  
 6.00 - 11.99 months  
 12 months and over  
 Properties in Possession  
 Total

Number	Principal ISK 000's	Overdue ISK 000's	Percentage
			%
			%
			%
			%
			%
			%
			%
			%
			100.00%

Definition of Arrears

This arrears multiplier is calculated as the arrears amount (which is the difference between the expected monthly repayments and the amount that has actually been paid, i.e. a total of under and/or over payments) divided by the monthly amount repayable. It is recalculated every time the arrears amount changes, i.e. on the date when a payment is due.

**Excess Spread**

Current month  
 Rolling three month average

%
%

**Properties in Possession  
 Stock**

Brought Forward  
 Repossessed in Period  
 Sold in Period  
 Carried Forward

Current Period	
Number	Value ISK 000's

Cumulative	
Number	Value ISK 000's

**Repossession in Sales Information**

Average time Possession to Sale  
 Average time Possession to Sale

days

**SIGNATORIES**

**The Servicer and the Seller**

**ARION BANK HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_  
**Name:**  
**Title: Associate Director**

\_\_\_\_\_  
**Name:**  
**Title: Associate Director**



**The Custody Agent**

**VERDIS HF.**  
**formerly ARION CUSTODY SERVICES HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**SCHEDULE 1F**

**AMENDED AND RESTATED CASH MANAGEMENT AGREEMENT**

**AMENDED AND RESTATED**

**CASH MANAGEMENT AGREEMENT**

**ARION BANK HF.**

**as the Cash Manager, the Seller and the Servicer**

**and**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

**as the Fund**

**and**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

**as the Representative**

**\_\_\_\_\_ January 2012**

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**THIS AGREEMENT** is dated \_\_\_\_\_ January, 2012

**BETWEEN:**

- (1) **ARION BANK HF.**, ID number 581008-0150, a public limited company incorporated under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Cash Manager**, the **Seller** and the **Servicer**);
- (2) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID number 570106-9610, an institutional investment fund established under the laws of Iceland whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (referred to herein as the **Fund**); and
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a company incorporated under the laws of England and Wales whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (in its capacity as the **Representative**).

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- (B) On each Issue Date the Issuer will issue Covered Bonds under the Programme.
- (C) The Issuer will apply the proceeds of the issue of Covered Bonds to make available Term Advances to the Fund, subject to the terms of the Intercompany Loan Agreement.
- (D) The Fund will acquire Loans and their Related Security from the Seller from time to time pursuant to the Mortgage Sale Agreement.
- (E) The Fund has agreed to guarantee the obligations of the Issuer under the Covered Bonds pursuant to the terms of the Covered Bond Guarantee.
- (F) The Cash Manager will provide cash management services to the Fund and the Representative on the terms and subject to the conditions contained in this Agreement.
- (G) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day to day operations of the Fund are managed by Stefnir hf. formerly Kaupthing Asset Management Company hf. (the **Management Company**). The Management Company shall execute this Agreement on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Agreement.
- (H) This Agreement replaces the Cash Management Agreement dated 29 March, 2006.

**IT IS HEREBY AGREED** as follows:

1. **DEFINITIONS AND CONSTRUCTION**

- 1.1 The master definitions and construction agreement made between, *inter alios*, the parties to this Agreement on \_\_\_\_\_ January, 2012 (as the same may be amended, varied and/or supplemented from time to time, the **Master Definitions and Construction Agreement**) is expressly and specifically incorporated into this Agreement and, accordingly, the expressions defined in the Master Definitions

and Construction 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 this Agreement, including the recitals hereto and this Agreement shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions and Construction Agreement.

1.2 The recitals to this Agreement shall constitute integral parts of this Agreement and shall be read with it for all purposes and intents.

## 2. **APPOINTMENT OF CASH MANAGER**

### 2.1 **Appointment**

Until termination pursuant to Clause 11, the Fund hereby appoints the Cash Manager as its lawful agent to provide the Cash Management Services set out in this Agreement and the Cash Manager hereby accepts such appointment on the terms and subject to the conditions of this Agreement.

### 2.2 **Duties prescribed by Transaction Documents**

For the avoidance of doubt and in connection with the appointment made pursuant to Clause 2.1, save as expressly provided elsewhere in this Agreement, nothing herein shall be construed so as to give the Cash Manager any powers, rights, authorities, directions or obligations other than as specified in this Agreement and the other Transaction Documents.

### 2.3 **Appointment conditional upon issuance of Covered Bonds**

The appointment made pursuant to Clause 2.1 is conditional upon the passing of the Noteholders' Resolutions.

## 3. **THE CASH MANAGEMENT SERVICES**

### 3.1 **General**

The Cash Manager shall provide the services set out in this Agreement and the Schedules annexed hereto (the **Cash Management Services**) provided that, for the avoidance of doubt, the Cash Manager shall not provide any Cash Management Services which the Management Company or the Custody Agent is obliged to provide to the Fund as a matter of Icelandic law and/or pursuant to the terms of the Articles of Association of the Fund.

### 3.2 **Approvals and authorisations**

The Cash Manager shall maintain, or procure the maintenance of, all approvals, authorisations, consents and licences required in connection with the business of the Fund that is the subject of this Agreement and shall prepare and submit, or procure the preparation and submission of, on behalf of the Fund, all necessary applications and requests for any further approvals, authorisations, consents or licences which may be required in connection with the business of the Fund that is the subject of this Agreement and shall, so far as it is reasonably able to do so, perform the Cash Management Services in such a way as not to prejudice the continuation of any such approvals, authorisations, consents or licences.

### 3.3 **Liability of Cash Manager**

(a) Save as otherwise provided in this Agreement, the Cash Manager shall have no liability for the obligations of the Fund, the Representative and/or any other person under any of the other Transaction Documents or otherwise and nothing herein shall constitute a guarantee, indemnity or similar obligation by or of the Cash Manager of or in relation to the obligations of either the Fund, the Representative and/or any other person under the other Transaction Documents.

- (b) The Cash Manager shall not be liable in respect of any loss, liability, claim, expense or damage suffered or incurred by the Fund, the Representative and/or any other person as a result of the proper performance of the Cash Management Services by the Cash Manager save to the extent that such loss, liability, claim, expense or damage is suffered or incurred as a result of any negligence, bad faith or wilful default of the Cash Manager or as a result of a breach by the Cash Manager of the terms and provisions of this Agreement or any of the other Transaction Documents to which the Cash Manager is a party (in its capacity as such) in relation to such functions.
- (c) The Cash Manager shall indemnify each of the Fund and the Representative on demand for any loss, liability, claim, expense or damage suffered or incurred by either of them in respect of the negligence, bad faith or wilful default of the Cash Manager in carrying out its functions as Cash Manager under this Agreement or under the other Transaction Documents to which the Cash Manager is a party (in its capacity as such) in relation to such functions or as a result of a breach by the Cash Manager of the terms and provisions of this Agreement or such other Transaction Documents to which the Cash Manager is a party (in its capacity as such) in relation to such functions.

#### 4. **PAYMENTS, ACCOUNTS, LEDGERS**

##### 4.1 **Establishment of GIC Account**

The Cash Manager hereby confirms that the GIC Account has been established on or before the date hereof pursuant to the Bank Account Agreement and the Guaranteed Investment Contract and that the GIC Account Mandate in the agreed form will apply thereto as at the Programme Date. The Cash Manager undertakes (so far as it is able to procure the same) that as at the date hereof the GIC Account will be operative and that the Cash Manager will not create or permit to subsist any security interest in relation to the GIC Account.

##### 4.2 **Ledgers**

- (a) The Cash Manager shall open and maintain in the books of the Fund certain Ledgers to be known as:

- (i) the Revenue Ledger;
- (ii) the Unit Account Ledger;
- (iii) the Reserve Ledger; and
- (iv) the Payment Ledger,

and all the foregoing Ledgers shall together reflect the aggregate of all amounts of cash standing to the credit of the GIC Account and all amounts invested in Substitution Assets and Authorised Investments purchased from amounts standing to the credit of the GIC Account from time to time.

- (b) The Cash Manager shall also open and maintain in the books of the Fund the Intercompany Loan Ledger which shall record amounts repaid in respect of each Term Advance borrowed under the Facility made available to the Fund pursuant to the terms of the Intercompany Loan Agreement. The Intercompany Loan Ledger shall consist of one sub-ledger for each Term Advance which is made.
- (c) The Cash Manager shall make credits and debits to the Ledgers in accordance with Schedule 2.

##### 4.3 **Bank Accounts**

- (a) The Cash Manager shall procure that the following amounts are paid into the GIC Account:
  - (i) all Revenue Receipts;
  - (ii) all Cash Equity Contributions; and
  - (iii) any other amounts whatsoever received by or on behalf of the Fund after the Programme Date.
- (b) The Cash Manager shall procure that all interest earned on the GIC Account and all investment proceeds from Substitution Assets and/or Authorised Investments purchased from amounts standing to the credit of the GIC Account are credited to the GIC Account.
- (c) The Cash Manager shall procure that the proceeds of each Term Advance are applied in accordance with Clause 3.1 of the Intercompany Loan Agreement.
- (d) Each of the payments into the GIC Account shall be made forthwith upon receipt by the Fund or the Cash Manager, as the case may be, of the amount in question.
- (e) For the avoidance of doubt, as soon as reasonably practicable after becoming aware of the same, the Cash Manager shall withdraw moneys from the GIC Account if and to the extent that such moneys were credited thereto in error and shall use its reasonable endeavours to ensure that such moneys are applied correctly thereafter.
- (f) The Cash Manager shall promptly notify each of the Fund and the Representative of any additional account which supplements or replaces the GIC Account and each of the parties hereto agrees to make any amendments to this Agreement that are required as a result of the establishment of any supplemental account.
- (g) Each of the Cash Manager and the Fund undertakes that, so far as it is able to procure the same the GIC Account and all instructions and Mandates in relation thereto will continue to be operative and will not, save as permitted pursuant to the Bank Account Agreement, be changed without the prior written consent of the Representative (such consent not to be unreasonably withheld or delayed). For the avoidance of doubt, the Cash Manager may change the authorised signatories in respect of any instructions or Mandates relating to the GIC Account, without the prior written consent of the Representative, in accordance with Clause 3.2 of the Bank Account Agreement.

#### 4.4 **Bank Account Statements**

The Cash Manager shall take all reasonable steps to ensure that it receives a monthly bank statement in relation to the GIC Account and that it furnishes a copy of such statements to the Fund and the Representative.

#### 5. **THIRD PARTY AMOUNTS**

The Cash Manager shall withdraw any Third Party Amounts received by the Fund and standing to the credit of the GIC Account and pay the same to the relevant entity entitled to those Third Party Amounts provided that there are sufficient amounts standing to the credit of the GIC Account to meet such payment. Third Party Amounts due to the Seller shall be paid by bank account transfer to such account as may be specified by the Seller from time to time, promptly following a request for such withdrawal being received from the Seller.

#### 6. **INFORMATION**

##### 6.1 **Use of I.T. systems**

- (a) The Cash Manager represents and warrants that at the date hereof in respect of the software which is to be used by the Cash Manager in providing the Cash Management Services it has in place all necessary licences and/or consents from the respective licensor or licensors (if any) of such software.
- (b) The Cash Manager undertakes that it shall for the duration of this Agreement, use reasonable endeavours to:
  - (i) ensure that the licences and/or consents referred to in paragraph (a) are maintained in full force and effect; and
  - (ii) except in so far as it would breach any other of its legal obligations, grant to any person to whom it may sub-contract or delegate the performance of all or any of its powers and obligations under this Agreement and/or to such person as the Fund elects as a substitute cash manager in accordance with the terms of this Agreement a licence to use any proprietary software together with any updates which may be made thereto from time to time.
- (c) The Cash Manager shall use reasonable endeavours to maintain in working order the information technology systems used by the Cash Manager in providing the Cash Management Services.
- (d) The Cash Manager shall pass to any person to whom it may sub-contract or delegate the performance of all or any of its powers and obligations under this Agreement and/or to such person as the Fund and the Representative may select as a substitute cash manager in accordance with the terms of this Agreement the benefit of any warranties in relation to the software insofar as the same are capable of assignment.

## 6.2 Access to Books and Records

Subject to all applicable laws, the Cash Manager shall permit the auditors of the Fund, the Representative and any other person nominated by the Representative (to whom the Cash Manager has no reasonable objection) at any time during normal office hours upon reasonable notice to have access, or procure that such person or persons are granted access, to all books of record and account relating to the Cash Management Services provided by the Cash Manager and related matters in accordance with this Agreement.

## 6.3 Information Covenants

- (a) With the assistance of the Servicer, the Cash Manager shall prepare and provide the Fund, the Representative and the Seller with the Monthly Asset Coverage Report within two Business Days of each Fund Payment Date.
- (b) The Cash Manager shall provide details of: (i) any material amendment to the Transaction Documents; and (ii) any other information relating to the Cash Manager as the Representative may reasonably request in connection with its obligations under this Agreement, provided that the Representative shall not make such a request more than once every three months unless, in the reasonable belief of the Representative, an Issuer Event of Default or Potential Issuer Event of Default or a Fund Event of Default or Potential Fund Event of Default or a Cash Manager Termination Event (as defined in Clause 11.1) has occurred and is continuing, and provided further that such request does not adversely interfere with the Cash Manager's day to day provision of the Cash Management Services under the other terms of this Agreement.
- (c) The Cash Manager shall, at the request of the Representative, furnish the Representative with such other information relating to its business and financial condition as it may be reasonable for the Representative to request in connection with this Agreement, provided that such



request does not adversely interfere with the Cash Manager's day to day provision of the Cash Management Services under the other terms of this Agreement.

## **7. REMUNERATION**

### **7.1 Fee payable**

- (a) Subject to paragraph (b) below, the Fund shall pay to the Cash Manager for its Cash Management Services hereunder a cash management fee which shall be agreed in writing between the Fund and the Cash Manager from time to time.
- (b) Unless and until otherwise agreed by the Fund in writing (notified to the Cash Manager), the Fund shall be solely responsible for paying the cash management fee to the Cash Manager which is referred to in paragraph (a) above.

### **7.2 Payment of fee**

The cash management fee referred to in Clause 7.1 shall be paid to the Cash Manager in arrear on each Fund Payment Date in the manner contemplated by and in accordance with the provisions of the applicable Priorities of Payments.

## **8. COSTS AND EXPENSES**

8.1 Subject to and in accordance with the applicable Priorities of Payments, the Fund will on each Fund Payment Date reimburse the Cash Manager for all reasonable out-of-pocket costs, expenses and charges properly incurred by the Cash Manager in the performance of the Cash Management Services including any such costs, expenses or charges not reimbursed to the Cash Manager on any previous Fund Payment Date.

8.2 Unless and until otherwise agreed by the Fund in writing (notified to the Cash Manager), the Fund shall be solely responsible for reimbursing the Cash Manager for the reasonable out-of-pocket costs, expenses and charges referred to in Clause 8.1 above.

## **9. COVENANTS OF CASH MANAGER**

### **9.1 Covenants**

The Cash Manager hereby covenants with and undertakes to each of the Fund and the Representative that without prejudice to any of its specific obligations hereunder:

- (a) it will devote all due skill, care and diligence to the performance of its obligations and the exercise of its discretions hereunder;
- (b) it will comply with any proper directions, orders and instructions which the Fund or the Representative may from time to time give to it in accordance with the provisions of this Agreement and, in the event of any conflict, those of the Representative shall prevail;
- (c) it will use its reasonable endeavours to keep in force all licences, approvals, authorisations and consents which may be necessary in connection with the performance of the Cash Management Services and prepare and submit all necessary applications and requests for any further approval, authorisation, consent or licence required in connection with the performance of the Cash Management Services;
- (d) save as otherwise agreed with the Fund and the Representative, it will provide free of charge to the Fund during normal office hours office space, facilities, equipment and staff sufficient to fulfil the obligations of the Fund under this Agreement;

- (e) it will not knowingly fail to comply with any legal requirements in the performance of the Cash Management Services;
- (f) it will make all payments required to be made by it pursuant to this Agreement on the due date for payment thereof for value on such day without set-off (including, without limitation, in respect of any fees owed to it) or counterclaim; and
- (g) it will not without the prior written consent of the Representative agree to any amendments to or termination of any of the Transaction Documents save in accordance with their terms.

## 9.2 **Duration of covenants**

The covenants of the Cash Manager in Clause 9.1 shall remain in force until this Agreement is terminated but without prejudice to any right or remedy of the Fund and/or the Representative arising from breach of any such covenant prior to the date of termination of this Agreement.

## 10. **SERVICES NON-EXCLUSIVE**

Nothing in this Agreement shall prevent the Cash Manager from rendering or performing services similar to those provided for in this Agreement to or for itself or other persons, firms or companies or from carrying on business similar to or in competition with the business of the Fund or the Representative.

## 11. **TERMINATION**

### 11.1 **Cash Manager Termination Events**

- (a) If any of the following events (**Cash Manager Termination Events**) shall occur:
  - (i) the Cash Manager defaults in the payment on the due date of any payment due and payable by it under this Agreement or in the performance of its obligations under paragraph (e) of Schedule 1 and such default continues unremedied for a period of three Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Representative requiring the same to be remedied; or
  - (ii) the Cash Manager defaults in the performance or observance of any of its other covenants and obligations under this Agreement, which in the reasonable opinion of the Representative is materially prejudicial to the interests of the Covered Bondholders and such default continues unremedied for a period of 20 days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Representative requiring the same to be remedied; or
  - (iii) an Insolvency Event occurs in respect of the Cash Manager,

then the Fund and/or the Representative may at once or at any time thereafter while such default continues by notice in writing to the Cash Manager terminate its appointment as Cash Manager under this Agreement with effect from a date (not earlier than the date of the notice) specified in the notice.

- (b) Upon termination of the appointment of the Cash Manager pursuant to this Clause 11.1, the Fund agrees to use its reasonable endeavours to appoint a substitute cash manager (but shall have no liability to any person in the event that, having used reasonable endeavours, it is unable to appoint a substitute cash manager).

Any substitute cash manager:

- (i) must agree to enter into an agreement substantially on the same terms as the relevant provisions of this Agreement or on such terms as are satisfactory to the Fund and the Representative; and
- (ii) will be subject to the prior written approval of the Representative (such consent not to be unreasonably withheld, delayed or made subject to conditions).

#### 11.2 **Resignation of Cash Manager**

The appointment of the Cash Manager under this Agreement may be terminated upon the expiry of not less than 12 months' notice of termination given by the Cash Manager to the Fund and the Representative (or such shorter time as may be agreed between the Cash Manager, the Fund and the Representative) provided that:

- (a) a substitute cash manager shall be appointed, such appointment to be effective not later than the date of such termination;
- (b) such substitute cash manager has cash management experience and is approved by the Fund and the Representative; and
- (c) the substitute cash manager enters into an agreement substantially on the same terms as the relevant provisions of this Agreement (or on such terms as are satisfactory to the Fund and the Representative) and the Cash Manager shall not be released from its obligations under the relevant provisions of this Agreement until such substitute cash manager has entered into such new agreement.

#### 11.3 **Effect of Termination**

- (a) On and after termination of the appointment of the Cash Manager under this Agreement pursuant to this Clause 11, all authority and power of the Cash Manager under this Agreement shall be terminated and be of no further effect and the Cash Manager shall not thereafter hold itself out in any way as the agent of the Fund pursuant to this Agreement.
- (b) Upon termination of the appointment of the Cash Manager under this Agreement pursuant to this Clause 11, the Cash Manager shall:
  - (i) forthwith deliver (and in the meantime hold to the order of the Fund or the Representative, as the case may be) to the Fund or the Representative, as the case may be, or as the Fund or the Representative shall direct (and in the event of a conflict between directions from the Fund and directions from the Representative, the directions of the Representative shall prevail), all books of account, papers, records, registers, correspondence and documents in its possession or under its control relating to the affairs of or belongings of the Fund or the Representative, as the case may be (if practicable, on the date of receipt), any moneys then held by the Cash Manager on behalf of the Fund or the Representative and any other assets of the Fund and the Representative;
  - (ii) take such further action as the Fund or the Representative, as the case may be, may reasonably direct at the expense of the Fund (including in relation to the appointment of a substitute cash manager), provided that the Fund or the Representative, as the case may be, shall not be required to take or direct to be taken such further action unless it has been indemnified to its satisfaction (and in the event of a conflict between the directions of the Fund and the directions of the Representative, the directions of the Representative shall prevail);
  - (iii) provide all relevant information contained on computer records in the form of flat file and/or upon electronic media (including, but not limited to, CD-ROM) together with

details of the layout of the files set out in such flat file and/or such electronic media;  
and

- (iv) co-operate and consult with and assist the Fund or the Representative or its nominee, as the case may be, for the purposes of explaining the file layouts and the format of the flat file/electronic media containing such computer records on the computer system of the Fund or the Representative or such nominee, as the case may be.

#### 11.4 **Notice of Event of Default**

The Cash Manager shall deliver to the Fund and the Representative as soon as reasonably practicable but in any event within three Business Days of becoming aware thereof a notice of any Cash Manager Termination Event or any event which with the giving of notice or expiry of any grace period or certification, as specified in such Cash Manager Termination Event, would constitute the same or any Intercompany Loan Event of Default.

#### 11.5 **General provisions relating to termination**

- (a) Termination of this Agreement or the appointment of a substitute cash manager under this Agreement shall be without prejudice to the liabilities of the Fund to the Cash Manager or vice versa incurred before the date of such termination. The Cash Manager hereby agrees that it shall have no right of set-off or any lien in respect of such amounts against amounts held by it on behalf of the Fund.
- (b) This Agreement shall terminate automatically at such time as the Fund's obligations under the Covered Bond Guarantee have been fully discharged.
- (c) On termination of the appointment of the Cash Manager under the provisions of this Clause 11, the Cash Manager shall be entitled to receive all fees and other moneys accrued up to (but excluding) the date of termination but shall not be entitled to any other or further compensation. Such moneys so receivable by the Cash Manager shall be paid by the Fund, on the dates on which they would otherwise have fallen due hereunder and under the terms of the Fund Deed. For the avoidance of doubt, such termination shall not affect Arion Bank hf.'s rights to receive payment of all amounts (if any) due to it from the Fund other than in its capacity as Cash Manager under this Agreement.
- (d) Any provision of this Agreement which is stated to continue after termination of the Agreement shall remain in full force and effect notwithstanding termination.

#### 12. **FURTHER ASSURANCE, NO SET-OFF**

##### 12.1 **Co-operation, etc**

The parties hereto agree that they will co-operate fully to do all such further acts and things and execute any further documents as may be necessary or desirable to give full effect to the arrangements contemplated by this Agreement.

##### 12.2 **Powers of attorney**

Without prejudice to the generality of Clause 12.1, the Fund and the Representative shall upon request by the Cash Manager forthwith give to the Cash Manager such further powers of attorney or other written authorisations, mandates or instruments as are necessary to enable the Cash Manager to perform the Cash Management Services.

##### 12.3 **No set-off**

The Cash Manager agrees that it will not:

- (a) set off or purport to set off any amount which the Fund is or will become obliged to pay to it under this Agreement against any amount from time to time standing to the credit of or to be credited to the GIC Account or any replacement or additional bank account of the Fund; or
- (b) make or exercise any claims or demands, any rights of counterclaim or any other equities against or withhold payment of any and all sums of money which may at any time and from time to time be standing to the credit of the GIC Account or any replacement of additional bank account of the Fund.

#### 12.4 **Acknowledgement of Servicer and Seller**

Each of the Servicer and the Seller acknowledge the Cash Management Services to be provided by the Cash Manager and agree to provide all information and assistance reasonably required by the Cash Manager in a timely fashion in order for the Cash Manager to comply with its obligations under this Agreement.

#### 12.5 **New parties**

Each of the parties hereto agrees to make all changes that are reasonably necessary or desirable to this Agreement following the accession of a New Seller and/or New Servicer to the transaction constituted by the Transaction Documents.

### 13. **REPRESENTATIVE**

#### 13.1 **Change of Representative**

In the event that there is any change in the identity of the Representative, as the case may be, the Cash Manager shall execute such documents with any other parties to this Agreement and take such actions as such new Representative may reasonably require for the purposes of vesting in such new Representative the rights of the Representative under this Agreement and under the Representative and Agency Agreement.

#### 13.2 **Representative Liability**

- (a) For the avoidance of doubt, the Representative shall not be liable to pay any amounts due under Clauses 7 and 8, and without prejudice to the obligations of the Fund, in respect of such amounts.
- (b) It is hereby acknowledged and agreed that by its execution of this Agreement the Representative shall not assume or have any obligations or liabilities to the Cash Manager or the Fund under this Agreement notwithstanding any provision herein and that the Representative has agreed to become a party to this Agreement for the purpose only of taking the benefit of this Agreement and agreeing to amendments to this Agreement pursuant to Clause 16. For the avoidance of doubt, the parties to this Agreement acknowledge that the rights and powers of the Representative are governed by the Representative and Agency Agreement. Any liberty or right which may be exercised or determination which may be made under this Agreement by the Representative may be exercised or made in the Representative's absolute discretion, without any obligation to give reasons therefor, and the Representative shall not be responsible for any liability occasioned by so acting, but subject always to the provisions of Clause 12.6 of the Representative and Agency Agreement.

### 14. **CONFIDENTIALITY**

During the continuance of this Agreement or after its termination, each of the Fund, the Cash Manager, the Seller, the Servicer and the Representative shall use its best endeavours not to disclose to any person, firm or company whatsoever any information relating to the business, finances or other matters of a confidential nature of any other party hereto of which it may exclusively by virtue of being party to

the Transaction Documents have become possessed and shall use all reasonable endeavours to prevent any such disclosure as aforesaid, provided however that the provisions of this Clause 14 shall not apply:

- (a) to any information already known to the recipient otherwise than as a result of entering into any of the Transaction Documents;
- (b) to any information subsequently received by the recipient which it would otherwise be free to disclose;
- (c) to any information which is or becomes public knowledge otherwise than as a result of the conduct of the recipient;
- (d) to any extent that the recipient is required to disclose the same pursuant to any law or order of any court of competent jurisdiction or pursuant to any direction, request or requirement (whether or not having the force of law) of any central bank or any governmental or other authority (including, without limitation, any official bank examiners or regulators);
- (e) to the extent that the recipient needs to disclose the same for determining the existence of, or declaring, an Issuer Event of Default, a Fund Event of Default or a Cash Manager Termination Event, the protection or enforcement of any of its rights under any of the Transaction Documents or in connection herewith or therewith or for the purpose of discharging, in such manner as it thinks fit, its duties under or in connection with such agreements in each case to such persons as require to be informed of such information for such purposes;
- (f) in relation to any information disclosed to the professional advisers of the recipient or any prospective new cash manager or prospective new representative; or
- (g) to any information which the recipient is required to disclose to the Management Company and/or the Custody Agent in order for the Management Company and/or the Custody Agent to be able to comply with its duties and obligations to the Fund under Icelandic law and/or pursuant to the terms of the Articles of Association of the Fund.

## 15. NOTICES

15.1 Any notices to be given pursuant to this Agreement to any of the parties hereto shall be sufficiently served if sent by prepaid first class post, by hand or facsimile transmission and shall be deemed to be given (if by facsimile transmission) when despatched, (if delivered by hand) on the day of delivery if delivered before 17.00 hours on a Business Day or on the next Business Day if delivered thereafter or on a day which is not a Business Day or (if by first class post) when it would be received in the ordinary course of the post and shall be sent:

- (a) in the case of the Cash Manager, the Seller and the Servicer, to Arion Bank hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 6229 and email: mtndesk@arionbanki.is) for the attention of the Funding Department;
- (b) in the case of the Fund, to Arion Bank Mortgages Institutional Investor Fund at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7489 and email: info@stefnir.is) for the attention of Stefnir hf. – Arion Bank Mortgages Institutional Investor Fund; and
- (c) in the case of the Representative, to Deutsche Trustee Company Limited at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number: ++(44) 20 7547 6149 and email: TSS-GDS.EUR@db.com) for the attention of the Managing Director,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 15.1.

- 15.2 Notwithstanding Clause 15.1 above and provided that each give their prior consent to such delivery, any party to this Agreement may send notice to or otherwise communicate with any of the other parties to this Agreement by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Agreement shall be deemed: (i) to have received any electronic mail sent by the any other party to this Agreement pursuant to the terms of this Clause 15.2 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Agreement shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Agreement (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

16. **AMENDMENTS, VARIATION AND WAIVER**

Any amendments to this Agreement will be made only with the prior written consent of each party to this Agreement. No waiver of this Agreement shall be effective unless it is in writing and signed by (or by some person duly authorised by) each of the parties. No single or partial exercise of, or failure or delay in exercising, any right under this Agreement shall constitute a waiver or preclude any other or further exercise of that or any other right.

17. **ASSIGNMENT**

17.1 **Assignment by the Fund**

The Fund may not assign or transfer any of its respective rights and obligations under this Agreement without the prior written consent of each of the Representative and the Cash Manager.

17.2 **No assignment by Cash Manager**

The Cash Manager may not assign or transfer any of its rights and obligations under this Agreement without the prior written consent of the Fund and the Representative.

18. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts (manually or by facsimile) each of which, when executed and delivered, shall constitute an original, but all the counterparts shall together constitute but one and the same instrument provided, however, that this Agreement shall have no force or effect until it is executed by the last party to execute the same and shall be deemed to have been executed and delivered in the place where such last party executed this Agreement.

19. **GOVERNING LAW AND SUBMISSION TO JURISDICTION**

19.1 **Governing Law**

This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

19.2 **Submission to Jurisdiction**

Each of the parties to this Agreement irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

**THIS AGREEMENT** has been entered into on the date stated at the beginning of this Agreement.



## SCHEDULE 1

### THE CASH MANAGEMENT SERVICES

The Cash Manager shall:

- (a) operate the GIC Account and ensure that payments are made into and from such accounts in accordance with this Agreement, the Fund Deed, the Bank Account Agreement, the Guaranteed Investment Contract, and any other applicable Transaction Document, provided however that nothing herein shall require the Cash Manager to make funds available to the Fund to enable such payments to be made other than as expressly required by the provisions of this Agreement and nothing herein shall constitute a guarantee, indemnity or other similar obligation by or of the Cash Manager of or in relation to all or any of the obligations of the Fund under any of the Transaction Documents;
- (b) keep any records necessary for all taxation purposes;
- (c) cause the annual accounts of the Fund to be audited by the auditors of the Fund, procure (so far as it is able so to do) that the auditors of the Fund make a report thereon as required by law and assist the auditors of the Fund and provide such information to them as they may reasonably request for the purpose of carrying out their duties as auditors;
- (d) use its reasonable endeavours, on behalf of the Fund, to assist the Custody Agent to prepare or procure the preparation of and filing of all reports, annual returns, financial statements, statutory forms and other returns which the Fund is required by law to prepare and file, procure that copies of all such documents together with each report of the auditors of the Fund referred to in paragraph (c) above are delivered to the Fund and the Representative as soon as practicable after the preparation thereof, make all determinations, give all notices and make all registrations and other notifications required in the day-to-day operation of the business of the Fund or required to be given or made by the Fund pursuant to the Transaction Documents;
- (e) make withdrawals on behalf of the Fund from the GIC Account, but only:
  - (i) if the Account Bank at which such account is maintained has confirmed to the Cash Manager that there are sufficient amounts standing to the credit of the GIC Account to make such withdrawal on such date;
  - (ii) from the Payment Ledger on the GIC Account for application in accordance with the relevant Priorities of Payments or in accordance with paragraph 4 of Schedule 2 hereto or otherwise in accordance with the Transaction Documents;
  - (iii) until the occurrence of a Fund Event of Default and service of a Fund Acceleration Notice on the Fund (copied to the Cash Manager),  
  
respectively as permitted by and in accordance with this Agreement, the Fund Deed, the Bank Account Agreement, the Guaranteed Investment Contract, and the other Transaction Documents, but shall not in carrying out its functions as Cash Manager under this Agreement otherwise make withdrawals from the GIC Account;
- (f) provide accounting services, including reviewing receipts and payments, supervising and assisting in the preparation of interim statements and final accounts and supervising and assisting in the preparation of tax returns;
- (g) provide or procure the provision of company secretarial and administration services to the Fund including the keeping of all registers, co-operate in the convening of management board and general meetings and provide registered office facilities;

- (h) on behalf of the Fund, provided that such moneys are at the relevant time available to the Fund, pay all the out-of-pocket expenses of the Fund, properly incurred by the Cash Manager on behalf of the Fund in the performance of the Cash Manager's duties hereunder, including without limitation:
- (i) all taxes which may be due or payable by the Fund;
  - (ii) all registration, transfer, filing and other fees and other charges payable in respect of the sale by the Seller of the Portfolio or any part of it to the Fund;
  - (iii) all necessary filing and other fees in compliance with regulatory requirements;
  - (iv) all legal and audit fees and other professional advisory fees;
  - (v) all communication expenses including postage, courier and telephone charges; and
  - (vi) following service of a Notice to Pay on the Fund, all fees payable to the Icelandic Stock Exchange and any other stock exchange on which the Covered Bonds are listed but only if the Issuer has not otherwise paid those fees;
- (i) at the written request of the Fund or with the prior written consent of the Representative, invest moneys standing from time to time to the credit of the GIC Account in Substitution Assets or Authorised Investments (any such purchase to be at the sole discretion of the Cash Manager), subject to the following provisions:
- (i) any such Substitution Assets or, as applicable, Authorised Investments shall be purchased in the name of the Fund;
  - (ii) if required by the Representative on or prior to purchasing any Substitution Assets, the Fund has entered into appropriate hedging arrangements with a hedge provider that has the requisite ratings to hedge against the interest rate risk (if any) associated with such Substitution Assets, in each case on terms that are satisfactory to the Representative; and
  - (iii) any costs properly and reasonably incurred in investing in, holding or disposing of any Substitution Assets and/or (as applicable) any Authorised Investments will be reimbursed to the Cash Manager and the Representative by the Fund;
  - (iv) all income or other distributions arising on, or proceeds following the disposal or maturity of, any Substitution Assets and/or Authorised Investments shall be credited to the GIC Account;
  - (v) the Representative and the Cash Manager shall not be responsible (save where any loss results from the Representative's or Cash Manager's own fraud, wilful default or negligence or that of its officers or employees) for any loss occasioned by reason of any such Substitution Assets or Authorised Investments whether by depreciation in value or otherwise provided that such Substitution Assets or Authorised Investments were made in accordance with the above provisions; and
  - (vi) following service of an Asset Coverage Test Breach Notice (until revoked) or a Notice to Pay on the Fund, the Cash Manager shall take all reasonable steps to sell the Substitution Assets then held in the name of the Fund and the Representative as quickly as reasonably practicable and for the best price then reasonably available and credit the proceeds thereof to the GIC Account;
- (j) procure (so far as the Cash Manager, using its reasonable endeavours, is able so to do) compliance by the Fund with all applicable legal requirements and with the terms of the Transaction Documents to which the Fund is a party, provided always that the Cash Manager shall not lend or provide any sum to the Fund and the Cash Manager shall have no liability whatsoever to the Fund, the Representative or any other person for any failure by the Fund to make any payment due, or to perform its other

obligations, under any of the Transaction Documents other than to the extent arising from the Cash Manager failing to perform any of its obligations under this Agreement (but without prejudice to the obligations of Arion Bank hf. in its separate capacities as the Servicer and the Seller);

- (k) prior to service of a Notice to Pay on the Fund, do all calculations on each Calculation Date which are required to determine whether the Portfolio is in compliance with the Asset Coverage Test in accordance with Clause 10 of the Fund Deed;
- (l) (not later than two Business Days following any Calculation Date in respect of which the Asset Monitor is obliged, in accordance with Clause 2 of the Asset Monitor Agreement, to conduct tests of the calculations performed by the Cash Manager on that Calculation Date in respect of the Asset Coverage Test) despatch to the Asset Monitor the information described in Clause 3.1 of the Asset Monitor Agreement; and
- (m) deliver to the Fund and the Representative as soon as reasonably practicable but in any event within three Business Days of becoming aware thereof a notice of any:
  - (i) Cash Manager Termination Event or any event which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute a Cash Manager Termination Event;
  - (ii) Issuer Event of Default or Potential Issuer Event of Default; or
  - (iii) Fund Event of Default or any Potential Fund Event of Default.

## SCHEDULE 2

### CASH MANAGEMENT AND MAINTENANCE OF LEDGERS

#### 1. **Determination**

- (a) On the Calculation Date immediately preceding each Fund Payment Date, the Fund or the Cash Manager on its behalf shall calculate the amount of Available Receipts available for distribution on the immediately following Fund Payment Date and the Reserve Fund Required Amount.
- (b) Without prejudice to the obligations of the Calculation Agent, the Cash Manager shall, if necessary, perform all currency conversions free of charge, cost or expense at the relevant exchange rate (for the purposes of any calculations referred to above: (i) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (e.g. 9.876541% being rounded down to 9.87654%); and (ii) any currency amounts used in or resulting from such calculations will be rounded in accordance with relevant market practice).
- (c) Each determination made in accordance with this paragraph 1 shall (in the absence of demonstrable error) be final and binding on all persons.

#### 2. **Notification of Determinations**

- (a) The Cash Manager may make all the determinations referred to in paragraph 1(a) on the basis that the amount of any Losses will not increase and on the basis of any other reasonable and proper assumptions as the Cash Manager considers appropriate (including without limitation as to the amount of any payments to be made or amounts received under the relevant Priorities of Payments during the period from and including the Fund Payment Date following the relevant Calculation Date to but excluding the next following Fund Payment Date).

The Cash Manager shall notify the Fund and the Representative on request of any such other assumptions and shall take account of any representations made by the Issuer and the Representative (as the case may be) in relation thereto.

- (b) Each determination made in accordance with this paragraph 2 shall (in the absence of demonstrable error) be final and binding on all persons.
- (c) The Cash Manager shall procure that the determinations and notifications required to be made by the Fund pursuant to the Terms and Conditions of the Covered Bonds are made.

#### 3. **Pre-Acceleration Priority of Payments**

On each Fund Payment Date, the Fund or the Cash Manager on its behalf will transfer Available Receipts from the Revenue Ledger and the Reserve Ledger, as applicable, to the Payment Ledger on the GIC Account in accordance with Clause 11 of the Fund Deed.

Subject to paragraph (e) of Schedule 1, prior to service of a Notice to Pay or a Fund Acceleration Notice on the Fund, the Cash Manager will procure that Available Receipts standing to the credit of the Payment Ledger on the GIC Account are applied on each Fund Payment Date in accordance with the Pre Acceleration Priority of Payments (subject to, if an Asset Coverage Test Breach Notice has been served and has not been revoked, Clause 12 of the Fund Deed).

#### 4. **Other Payments**

Subject to paragraph (e) of Schedule 1, the Cash Manager agrees, and the Fund concurs, that (save as otherwise specified below) amounts may be transferred from the relevant Ledgers on the GIC Account to the Payment Ledger on the GIC Account, and the following payments may be made from the

Payment Ledger on the GIC Account (to the extent that withdrawal of those amounts would not cause the balance of the Payment Ledger on the GIC Account to become overdrawn) on any date:

- (i) to pay when due and payable any amounts due and payable by the Fund to third parties and incurred without breach by the Fund of the Transaction Documents and not provided for payment elsewhere in the Pre Acceleration Priority of Payments or the Guarantee Priority of Payments; and
- (ii) to refund any amounts due arising from the rejection of any payments in respect of a Loan and any other amounts which have not been received by the Fund as cleared funds.

**5. Use of Ledgers**

- (a) The Cash Manager shall forthwith record moneys received or payments made by it on behalf of the Fund in the Ledgers in the manner set out in this Agreement and the Fund Deed.
- (b) A debit item shall only be made in respect of any of the Ledgers and the corresponding payment or transfer (if any) may only be made from the GIC Account to the extent that such entry does not cause the relevant Ledger to have a debit balance.
- (c) Following service of a Notice to Pay on the Fund the Cash Manager shall not be obliged to maintain the Ledgers other than the Unit Account Ledger and the Intercompany Loan Ledger.
- (d) The Cash Manager shall establish any new Ledgers required by the Fund or the Representative to record payments under the Covered Bond Guarantee or otherwise.
- (e) If, at any time, the Cash Manager is in any doubt as to which Ledger a particular amount should be credited or debited, it shall consult with the Representative thereon.

**6. Revenue Ledger**

The Cash Manager shall ensure that:

- (a) the following amounts shall be credited to the Revenue Ledger:
  - (i) all Revenue Receipts;
  - (ii) all interest received by the Fund on the GIC Account;
  - (iii) all amounts received by the Fund representing income on any Substitution Assets and Authorised Investments;
  - (iv) the proceeds from any sale of Loans to the extent that such proceeds comprise Accrued Interest or Arrears of Interest; and
  - (v) any other revenue income of the Fund which is not referred to in paragraphs (i) to (iii) above; and
- (b) any payment or provision made under the Pre-Acceleration Priority of Payments or made under paragraph 4 above (but only to the extent that such payment made under paragraph 4 has been recorded as a receipt on the Revenue Ledger) shall be debited to the Revenue Ledger.

**7. Unit Account Ledgers**

- (a) The Cash Manager shall ensure that each Equity Contribution made by a Holder shall be credited to that Holder's Unit Account Ledger or, as applicable, debited from that Holder's Unit Account Ledger

where a Unit Distribution has been made pursuant to Clause 9 of the Fund Deed. The Cash Manager shall record on each Holder's Unit Account Ledger whether the relevant Equity Contribution was a Cash Equity Contribution or an Equity Contribution in Kind. The Cash Manager shall ensure that, if the Seller directs, Cash Equity Contributions are transferred from the Unit Account Ledger to the Reserve Account Ledger as soon as reasonably practicable.

- (b) The Cash Manager shall ensure that each Unit Distribution to a Holder shall be debited to that Holder's Unit Account Ledger.

8. **Reserve Ledger**

The Cash Manager shall ensure that:

- (a) any Term Advances (or part thereof) borrowed by the Fund under the Intercompany Loan Agreement that are specifically required to be credited to the Reserve Fund, shall be credited to the Reserve Ledger;
- (b) any Cash Equity Contributions to the Reserve Fund at the direction of the Seller shall be credited to the Reserve Ledger;
- (c) amounts shall be credited to the Reserve Ledger in accordance with the Pre-Acceleration Priority of Payments; and
- (d) amounts shall be debited to the Reserve Ledger on each Fund Payment Date in order to be applied in accordance with the Pre-Acceleration Priority of Payments or, as applicable, the Guarantee Priority of Payments.

9. **Payment Ledger**

The Cash Manager shall ensure that amounts shall be debited and credited to the Payment Ledger in accordance with paragraphs 3 and 4 of this Schedule.

10. **Intercompany Loan Ledger**

The Cash Manager shall ensure that all payments made in accordance with the terms of the Term Advances are recorded in the Intercompany Loan Ledger.

11. **Payments to Principal Paying Agent**

Each of the Representative and the Fund agree that all amounts payable by the Cash Manager in respect of the Intercompany Loan or under the Covered Bond Guarantee, in accordance with the applicable Priorities of Payments, may be paid directly to the Principal Paying Agent.

**SCHEDULE 3**

**FORM OF FUND MONTHLY ASSET COVERAGE REPORT**

**FUND MONTHLY ASSET COVERAGE REPORT FOR PERIOD •**

**Calculation Date:** [   ]

**Principal Amount Outstanding of the Covered Bonds:** ISK [   ]

**Adjusted Aggregate Loan Amount:** [   ]

$$aA+B+C+D-W= [   ]$$

where:

$$aA = [   ]$$

$$B = [   ]$$

$$C = [   ]$$

$$D = [   ]$$

$$W = [   ]$$

(where "aA", "B", "C", "D" and "W" have the meanings given in clause 10.2 of the Fund Deed)

**Asset Coverage Test:** [*passed/not passed*].



**SIGNATORIES**

**The Cash Manager, the Seller and the Servicer**

**ARION BANK HF.**

By: \_\_\_\_\_

**Name:**

**Title:**

\_\_\_\_\_  
**Name:**

**Title:**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_

**Name:**

**Title:**

\_\_\_\_\_  
**Name:**

**Title:**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_

**Name:**

**Title: Associate Director**

\_\_\_\_\_  
**Name:**

**Title: Associate Director**

**SCHEDULE 1G**

**AMENDED AND RESTATED BANK ACCOUNT AGREEMENT**

**AMENDED AND RESTATED**

**BANK ACCOUNT AGREEMENT**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**  
as the Fund

**and**

**ARION BANK HF.**  
as the Cash Manager, the GIC Provider and the Account Bank

**and**

**DEUTSCHE TRUSTEE COMPANY LIMITED**  
as the Representative

\_\_\_\_\_ **January 2012**

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**THIS AGREEMENT** is dated \_\_\_\_\_ January, 2012

**BETWEEN:**

- (1) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID number 570106-9610, an investment fund established under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (referred to herein as the **Fund**);
- (2) **ARION BANK HF.**, ID number 581008-0150, a public limited company incorporated under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Cash Manager**, in its capacity as the **GIC Provider** and in its capacity as the **Account Bank**); and
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a company incorporated under the laws of England and Wales, whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (in its capacity as the **Representative**).

**WHEREAS:**

- (A) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day-to-day operations of the Fund are managed by Stefair hf. formerly Kaupthing Asset Management Company hf. (the **Management Company**). The Management Company shall execute this Agreement on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Agreement.

**IT IS HEREBY AGREED** as follows:

1. **DEFINITIONS AND CONSTRUCTION**

- 1.1 By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- 1.2 The master definitions and construction agreement made between, inter alios, the parties to this Agreement on \_\_\_\_\_ January, 2012 (as the same may be amended, varied and/or supplemented from time to time, the **Master Definitions and Construction Agreement**) is expressly and specifically incorporated into this Agreement and, accordingly, the expressions defined in the Master Definitions and Construction 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 this Agreement, including the recital hereto and this Agreement shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions and Construction Agreement.
- 1.3 The recital to this Agreement shall constitute an integral part of this Agreement and shall be read with it for all its purposes and intents.
- 1.4 This Agreement replaces the Bank Account Agreement dated 29 March, 2006.

2. **THE GIC ACCOUNT**

2.1 **Instructions from the Cash Manager**

Subject to Clauses 2.4 and 5.3, the Account Bank shall comply with any direction of the Cash Manager given on a Business Day to effect a payment by debiting the GIC Account held with the Account Bank,

if such direction: (i) is in writing, is given by telephone and confirmed in writing not later than close of business on the day on which such direction is given, or is given by the internet banking service provided by the Account Bank; and (ii) complies with the GIC Account Mandate as appropriate (such direction shall constitute an irrevocable payment instruction) in accordance with the terms set out in the Cash Management Agreement.

## **2.2 Timing of Payment**

The Account Bank agrees that, in the case of the GIC Account if directed pursuant to Clause 2.1 to make any payment then, subject to Clauses 2.4 and 5.3, it will effect the payment specified in such direction not later than the day specified for payment therein and for value on the day specified therein provided that, if any direction specifying that payment be made on the same day as the direction is given is received later than 12:00 p.m. (Reykjavik time) on any Business Day, the Account Bank shall make such payment at the commencement of business on the following Business Day for value that day.

## **2.3 Account Bank Charges**

The charges of the Account Bank for the operation of the GIC Account held with the Account Bank shall be debited to the GIC Account only on the first of each month in accordance with the order of priority set out in the Fund Deed, and the Fund by its execution hereof irrevocably agrees that this shall be done. The charges shall be payable at the same rates as are generally applicable to the business customers of the Account Bank provided that, subject to Clause 7.5, if there are insufficient funds standing to the credit of the GIC Account to pay such charges, the Account Bank shall not be relieved of its obligations in respect of the GIC Account held with it.

## **2.4 No Negative Balance**

Notwithstanding the provisions of Clause 2.1, amounts shall only be withdrawn from the GIC Account held with the Account Bank to the extent that such withdrawal does not cause the GIC Account to have a negative balance.

# **3. MANDATES**

## **3.1 Signing and Delivery of Mandates**

In the case of the GIC Account the Fund has delivered to the Account Bank prior to the date hereof the duly executed GIC Account Mandate and the Account Bank hereby confirms to the Representative that the GIC Account Mandate has been provided to it, that the GIC Account is open and that the Mandate is operative. The Account Bank acknowledges that the Mandate and any other mandates delivered from time to time pursuant to the terms hereof shall be subject to the terms of this Agreement.

## **3.2 Amendment or Revocation**

The Account Bank agrees that it shall notify the Representative as soon as is reasonably practicable and in accordance with Clause 11 if it receives any amendment to or revocation of any Mandate relating to the GIC Account held with the Account Bank (other than a change of Authorised Signatory) and shall require the prior written consent of the Representative to any such amendment or revocation (other than a change of Authorised Signatory) but, unless such Mandate is revoked, the Account Bank may continue to comply with such Mandate (as it may from time to time be amended in accordance with the provisions of this Clause 3.2) unless it receives notice in writing from the Representative to the effect that a Fund Acceleration Notice has been served on the Fund or that the appointment of Arion Bank hf. as Cash Manager under the Cash Management Agreement has been terminated and shall, thereafter, act solely on the instructions of the Representative and in accordance with the terms of those instructions as provided in Clause 5.3 of this Agreement.

#### 4. **ACKNOWLEDGEMENT BY THE ACCOUNT BANK**

##### 4.1 **Restriction on Account Bank's Rights**

Notwithstanding anything to the contrary in the Mandate, the Account Bank hereby:

- (a) waives any right it has or may hereafter acquire to combine, consolidate or merge the GIC Account held with it with any other account of the Cash Manager, the Fund, the Issuer, the Representative or any other person or any liabilities of the Cash Manager, the Fund, the Issuer, the Seller, the Representative or any other person to it;
- (b) agrees that it may not exercise any lien or, to the extent permitted by law, any set-off or transfer any sum standing to the credit of or to be credited to the GIC Account held with it in or towards satisfaction of any liabilities to it of the Cash Manager, the Fund, the Issuer, the Representative or any other person owing to it;
- (c) agrees that it will not take, and shall not take, any steps whatsoever to recover any amount due or owing to it pursuant to this Agreement or any other debts whatsoever owing to it by the Fund, or procure the winding-up or liquidation of the Fund in respect of any of the liabilities of the Fund;
- (d) agrees that it shall have recourse only to sums paid to or received by (or on behalf of) the Fund pursuant to the Transaction Documents; and
- (e) agrees that it will notify the Cash Manager, the Fund and the Representative if compliance with any instruction would cause the GIC Account held with it to which such instruction relates to have a negative balance, such notification to be given on the same Business Day that it determines that compliance with such instruction would cause any such account to have a negative balance.

##### 4.2 **Account Statement**

Unless and until directed otherwise by the Representative in accordance with Clause 11, the Account Bank shall provide each of the Cash Manager, the Fund and the Representative with a written statement in respect of the GIC Account held with it as soon as reasonably practicable after receipt of a request for a statement. The Account Bank is hereby authorised by the Fund to provide statements in respect of the GIC Account held with it to the Cash Manager and the Representative.

#### 5. **CERTIFICATION, INDEMNITY AND FUND ACCELERATION NOTICE**

##### 5.1 **Account Bank to Comply with Cash Manager's Instructions**

Unless otherwise directed in writing by the Representative pursuant to Clause 5.3 below, in making any transfer or payment from the GIC Account held with the Account Bank in accordance with this Agreement, the Account Bank shall be entitled to act as directed by the Cash Manager pursuant to Clauses 2.1 and 2.2 above and to rely as to the amount of any such transfer or payment on the Cash Manager's instructions in accordance with, in the case of the GIC Account, the relevant Mandate and the Account Bank shall have no liability to the Cash Manager, the Fund, the Seller or the Representative for having acted on such instructions except in the case of their respective wilful default, fraud or negligence.

##### 5.2 **Fund Indemnity**

Subject to the Priorities of Payments, the Fund shall indemnify the Account Bank or, pursuant to Clause 5.3, the Representative, as the case may be, to the extent of available funds then standing to the credit of the GIC Account held with the Account Bank against any loss, cost, damage, charge or expense properly incurred by the Account Bank or the Representative, as the case may be, in

complying with any instruction delivered pursuant to and in accordance with this Agreement, save that this indemnity shall not extend to:

- (a) the charges of the Account Bank (if any) for the operation of the GIC Account held with the Account Bank other than as provided in this Agreement; and
- (b) any loss, cost, damage, charge or expense arising from any negligence, wilful misconduct or breach by the Account Bank of its obligations under this Agreement.

### 5.3 **Consequences of an Fund Acceleration Notice**

The Account Bank acknowledges that, if it receives notice in writing from the Representative to the effect that: (a) the Representative has served an Fund Acceleration Notice on the Fund; or (b) that the appointment of Arion Bank hf. as Cash Manager under the Cash Management Agreement has been terminated (but without prejudice to Clause 5.1 above) all right, authority and power of the Cash Manager in respect of the GIC Account held with it shall be terminated and be of no further effect and the Account Bank agrees that it shall, upon receipt of such notice from the Representative, comply with the directions of the Representative or any successor cash manager appointed by the Representative (subject to such successor cash manager having entered into an agreement with it on substantially the same terms as this Agreement) in relation to the operation of the GIC Account held with it.

## 6. **CHANGE OF REPRESENTATIVE OR ACCOUNT BANK**

### 6.1 **Change of Representative**

- (a) If there is any change in the identity of the Representative in accordance with the Representative and Agency Agreement, the Account Bank, the Cash Manager and the Fund shall execute such documents and take such action as the successor Representative and the outgoing Representative may reasonably require for the purpose of vesting in the successor Representative the rights and powers of the outgoing Representative under this Agreement.
- (b) It is hereby acknowledged and agreed that by its execution of this Agreement, the Representative shall not assume or have any obligations or liabilities to the Account Bank, the GIC Provider, the Cash Manager or the Fund under this Agreement notwithstanding any provision herein and that the Representative has agreed to become a party to this Agreement for the purpose only of taking the benefit of this Agreement and agreeing to amendments to this Agreement pursuant to Clause 19. For the avoidance of doubt, the parties to this Agreement acknowledge that the rights and powers of the Representative are governed by the Representative and Agency Agreement. Any liberty or right which may be exercised or determination which may be made under this Agreement by the Representative may be exercised or made in the Representative's absolute discretion without any obligation to give reasons therefor and the Representative shall not be responsible for any liability occasioned by so acting but subject always to the provisions of Clause 12.6 of the Representative and Agency Agreement.

### 6.2 **Change of Account Bank**

If there is any change in the identity of the Account Bank, the Cash Manager, the Fund, the GIC Provider and the Representative shall execute such documents and take such actions as the new Account Bank and the outgoing Account Bank and the Representative may require for the purpose of vesting in the new Account Bank the rights and obligations of the outgoing Account Bank and releasing the outgoing Account Bank from its future obligations under this Agreement.

## 7. **TERMINATION**

### 7.1 **Termination Events**

The Cash Manager or the Fund:

- (a) may (with the prior written consent of the Representative) terminate this Agreement with respect to the Account Bank in the event that the matters specified in paragraph (iii) below or (iv) below occur; and
- (b) shall (with the prior written consent of the Representative) terminate this Agreement with respect to the Account Bank in the event that any of the matters specified in paragraphs (i) to (iii) (inclusive) below occur,

in each case by serving a written notice of termination on the Account Bank (such termination to be effective three Business Days following service of such notice) in any of the following circumstances:

- (i) if an order is made or effective resolutions are passed for the winding-up of the Account Bank except a winding-up for the purposes of or pursuant to a solvent amalgamation or reconstruction the terms of which have previously been approved in writing by the Fund and the Representative (such approval not to be unreasonably withheld or delayed); or
- (ii) if proceedings are initiated against the Account Bank under any applicable liquidation, insolvency, composition, reorganisation or other similar laws and such proceedings are not, in the reasonable opinion of the Fund and/or the Representative, being disputed in good faith with a reasonable prospect of success or an administrative or other receiver, manager, administrator or other similar official is appointed in relation to the Account Bank or in relation to the whole or a part of the undertaking or assets of the Account Bank, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of the Account Bank, or a distress, execution, attachment, sequestration or other process is levied or enforced upon, sued out or put in force against the whole or a part of the undertaking or assets of the Account Bank and such possession or process (as the case may be) is not discharged or otherwise ceases to apply within 14 days of its commencement, or the Account Bank initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment or assignation for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or
- (iii) if the Account Bank breaches its obligations under this Agreement, the Guaranteed Investment Contract or any other Transaction Document to which the Account Bank is a party.

#### **7.2 Notification of Termination Event**

Each of the Fund, the Cash Manager and the Account Bank undertakes and agrees to notify the Representative in accordance with Clause 11 promptly upon becoming aware thereof of any event that would or could entitle the Representative to serve a notice of termination pursuant to Clause 7.3.

#### **7.3 Termination by Representative**

In addition, prior to the service of a Fund Acceleration Notice on the Fund, the Representative may terminate this Agreement and close the GIC Account held with the Account Bank by serving a notice of termination on the Account Bank (such termination to be effective three Business Days following service of such notice) if any of the events specified in Clause 7.1 (i) to (iii) (inclusive) of this Agreement occurs in relation to the Account Bank. Following the service of a Fund Acceleration Notice on the Fund, the Representative may serve a notice of termination at any time.

#### **7.4 Automatic Termination**

This Agreement shall automatically terminate (if not terminated earlier pursuant to this Clause 7) on the date falling 90 days after the termination of the Fund Deed.



## 7.5 **Termination by Account Bank**

The Account Bank may terminate this Agreement and cease to operate the GIC Account held with it at any time:

- (a) on giving not less than six months' prior written notice thereof ending on any Business Day which does not fall on a Fund Payment Date or less than 10 Business Days before a Fund Payment Date to each of the other parties hereto without assigning any reason therefor; or
- (b) on giving not less than three months' prior written notice thereof ending on any Business Day which does not fall on a Fund Payment Date or less than 10 Business Days before a Fund Payment Date to each of the other parties hereto if the Account Bank shall have demanded payment of its due charges or any interest and the same shall have remained unpaid for a period of one month, provided that if the relevant amounts have been paid on or before the date six weeks after the date of delivery of such notice then the notice shall have no effect,

provided that such termination shall not take effect until a replacement financial institution or institutions being an authorised institution under Act 161/2002 on Financial Undertakings has entered into an agreement in form and substance similar to this Agreement.

In either case the Account Bank shall not be responsible for any costs or expenses occasioned by such termination and cessation. In the event of such termination and cessation the Account Bank shall assist the other parties hereto to effect an orderly transition of the banking arrangements documented hereby.

## 8. **FURTHER ASSURANCE**

The parties hereto agree that they will co-operate fully to do all such further acts and things and execute any further documents as may be necessary or reasonably desirable to give full effect to the arrangements contemplated by this Agreement.

## 9. **CONFIDENTIALITY**

None of the parties hereto shall during the term of this Agreement or after its termination disclose to any person whatsoever (except as provided herein or in any of the Transaction Documents to which it is a party or with the authority of the other parties hereto or so far as may be necessary for the proper performance of its obligations hereunder or unless required by law or any applicable stock exchange requirement or any governmental or regulatory authority or ordered to do so by a court of competent jurisdiction) any information relating to the business, finances or other matters of a confidential nature of any other party hereto of which it may in the course of its duties hereunder have become possessed and each of the parties hereto shall use all reasonable endeavours to prevent any such disclosure.

## 10. **COSTS**

The Fund agrees to pay the reasonable costs of the Account Bank in connection with the establishment of the GIC Account held with the Account Bank and the negotiation and execution of any further documents and the taking of any further action to be executed or taken pursuant to Clauses 6, 7 (other than Clauses 7.1(b)(i) to (iii) inclusive, 7.4, 7.5(a)) and 8.

## 11. **NOTICES**

- 11.1 Any notices to be given pursuant to this Agreement to any of the parties hereto shall be sufficiently served if sent by prepaid first class post, by hand or facsimile transmission and shall be deemed to be given (in the case of facsimile transmission) when despatched, (where delivered by hand) on the day of delivery if delivered before 5.00 p.m. on a Business Day or on the next Business Day if delivered thereafter or on a day which is not a Business Day or (in the case of first class post) when it would be received in the ordinary course of the post and shall be sent:

- (a) in the case of the Fund, to Arion Bank Mortgages Institutional Investor Fund, at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7489 and email: info@stefnir.is) for the attention of Stefnir hf. – Arion Bank Mortgages Institutional Investor Fund;
- (b) in the case of the Cash Manager, the GIC Provider, the Seller and the Account Bank, to Arion Bank hf., at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 6229 and email: mtndesk@arionbanki.is) for the attention of the Funding Department; and
- (c) in the case of the Representative, to Deutsche Trustee Company Limited, at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number: +(44) 20 7547 6149 and email: TSS-GDS.EUR@db.com) for the attention of the Managing Director,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 11.

- 11.2 Notwithstanding Clause 11.1 above and provided that each give their prior consent to such delivery, any party to this Agreement may send notice to or otherwise communicate with any of the other parties to this Agreement by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Agreement shall be deemed: (i) to have received any electronic mail sent by the any other party to this Agreement pursuant to the terms of this Clause 11.2 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Agreement shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Agreement (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

**12. INTEREST**

- 12.1 Interest shall be paid on the GIC Account in accordance with the terms of the Guaranteed Investment Contract.
- 12.2 Any other accounts opened by the Fund with the Account Bank or any other bank shall be interest bearing accounts.

**13. WITHHOLDING**

All payments by the Account Bank under this Agreement shall be made in full without any deduction or withholding (whether in respect of set-off, counterclaim, duties, taxes, charges or otherwise whatsoever) unless the deduction or withholding is required by law, in which event the Account Bank shall:

- (a) ensure that the deduction or withholding does not exceed the minimum amount legally required;
- (b) pay to the relevant taxation or other authorities within the period for payment permitted by applicable law the full amount of the deduction or withholding;

- (c) furnish to the Fund or the Representative (as the case may be) within the period for payment permitted by the relevant law, either:
  - (i) an official receipt of the relevant taxation authorities involved in respect of all amounts so deducted or withheld; or
  - (ii) if such receipts are not issued by the taxation authorities concerned on payment to them of amounts so deducted or withheld, a certificate of deduction or equivalent evidence of the relevant deduction or withholding; and
- (d) account to the Fund in full by credit to the GIC Account (as the case may be) for an amount equal to the amount of any rebate, repayment or reimbursement of any deduction or withholding which the Account Bank has made pursuant to this Clause 13 and which is subsequently received by the Account Bank.

14. **TAX STATUS**

The Account Bank has the tax status of a company established under Icelandic legislation (ex. Act. 2/1995 on Public Limited Companies and Act. 138/1994 on Private Limited Companies and Act. 161/2002 on Financial Undertakings) in accordance with Act. 90/2003 on Tax on Assets and Revenues.

15. **ENTIRE AGREEMENT**

This Agreement, the schedule hereto, the Cash Management Agreement and the Guaranteed Investment Contract together constitute the entire agreement and understanding between the parties in relation to the subject matter hereof and cancel and replace any other agreement or understanding in relation thereto.

16. **SEVERABILITY**

If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that will not affect:

- (a) the validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (b) the validity or enforceability in other jurisdictions of that or any other provision of this Agreement.

17. **VARIATION AND WAIVER**

No variation, waiver or novation of this Agreement or any provision(s) of this Agreement shall be effective unless it is in writing and executed by (or by some person duly authorised by) each of the parties hereto. No single or partial exercise of, or failure or delay in exercising, any right under this Agreement shall constitute a waiver or preclude any other or further exercise of that or any other right.

18. **ASSIGNMENT**

Subject as provided in or contemplated by Clauses 6.2 and 7.5:

- (a) the Account Bank may not assign or transfer any of their rights or obligations hereunder without the prior written consent of the Fund and the Representative; and
- (b) the Fund may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Account Bank and the Representative.

19. **AMENDMENTS**

Any amendment, modification or variation to this Agreement will be made only with the prior written consent of each party to this Agreement.

20. **COUNTERPARTS**

This Agreement may be signed (manually or by facsimile) and delivered in one or more counterparts, all of which, taken together, shall constitute one and the same document.

21. **GOVERNING LAW**

This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

22. **SUBMISSION TO JURISDICTION**

Each of the parties to this Agreement irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*)

**THIS AGREEMENT** has been entered into on the date stated at the beginning of this Agreement.

## SCHEDULE 1

### FORM OF MANDATE

#### BANK MANDATE - GIC ACCOUNT

Resolution of the Board of Directors of Stefniir hf. (the **Company**) acting in its capacity as the management company of Arion Bank Mortgages Institutional Investor Fund (the **Fund**).

At a meeting of the Board of Directors of the Company held at Borgartun 19, 105 Reykjavik, Iceland on [ ].

#### IT WAS RESOLVED THAT:

1. The account number [ ] ledger [ ] branch number [ ] in the name of the Fund held with Arion Bank hf. (the **Account Bank**) (the **GIC Account**) will be used as an account for the benefit of the Fund.
2. The mandate given to the Account Bank by virtue of this document (the **Mandate**) is given on the basis that the Account Bank complies with the procedure set out in, and the terms of, this document.
3. Prior to receipt of a notice in writing from the Representative to the contrary, in relation to the GIC Account, the Account Bank is hereby authorised to honour and comply with all cheques, drafts, bills, promissory notes, acceptances, negotiable instruments, directions, orders or instructions, and/or endorsements expressed to be drawn, accepted, made or given and all directions given in writing or by way of electronic impulses in respect of the GIC Account to the extent that compliance with the same should not result in a debit balance; provided that (and subject to paragraph 7) any such cheques, drafts, bills, promissory notes, acceptances, negotiable instruments, directions, orders, instructions and/or endorsements are signed by two people from Schedule 1. The Account Bank is hereby authorised to act on any information given by two directors of the Company regarding any changes to Schedule 1.
4. This Mandate is given on the basis that the Account Bank:
  - (a) prior to receipt of a Fund Acceleration Notice from Deutsche Trustee Company Limited (in its capacity as the **Representative**), agrees to comply with the directions of the Fund (or, pursuant to paragraph 8, of Arion Bank hf. (the **Cash Manager**) as its agent) in respect of the operation of the GIC Account and the Account Bank shall be entitled to rely on any such written direction reasonably purporting to have been given by or on behalf of Fund or the Cash Manager without enquiry; and
  - (b) upon receipt of an Fund Acceleration Notice from the Representative:
    - (i) agrees to comply with the directions of the Representative expressed to be given by the Representative pursuant to the Representative and Agency Agreement in respect of the operation of the GIC Account and the Account Bank shall be entitled to rely on any such written direction reasonably purporting to have been given on behalf of the Representative without enquiry; and
    - (ii) agrees that all right, authority and power of the Fund in respect of the operation of the GIC Account shall be deemed terminated and of no further effect and the Account Bank agrees that it shall, upon receipt of the Fund Acceleration Notice from the Representative, comply with the directions of the Representative in relation to the operation of the GIC Account unless otherwise required by operation of law or by the order or direction of a competent court or tribunal.
5. Unless and until the Account Bank receives notice in writing from or purporting to be from the Representative to the contrary, the Account Bank is authorised to continue to operate the GIC Account in accordance with the instructions of the Fund.

6. At any time prior to notification by the Representative to the contrary, the mandate given to the Account Bank by virtue of these resolutions shall remain in force, unless and until the Account Bank has received a notice of amendment hereto from the Fund.
7. These resolutions shall be communicated to the Account Bank and remain in force until an amendment resolution shall be passed by the board of directors of the Company and a copy thereof, certified by two of the directors of the Company, shall be received by the Account Bank.
8. The Company as the management company of the Fund authorises the Cash Manager to instruct the Account Bank in relation to the GIC Account and authorises the Account Bank to act on those instructions in the manner set forth in the bank account agreement entered into on the Programme Date between the Fund, the Account Bank, the GIC Provider, the Cash Manager and the Representative (the **Bank Account Agreement**).
9. Terms used but not defined in this Mandate shall bear the meanings given to such terms in the Bank Account Agreement.

**Schedule 1**

**To the Bank Mandate - GIC Account**

The following sets out the signatories for the GIC Account, in accordance with Paragraph 3 of the Bank Mandate - GIC Account.

Arion Bank hf. personnel authorised to sign any cheques, drafts bills, promissory notes, acceptances, negotiable instruments, directions, orders or instructions, and/or endorsements in respect of accounts in the name of Arion Bank Mortgages Institutional Investor Fund held at Arion Bank hf. are set out below:

<b>Name</b>	<b>Title</b>	<b>Specimen Signature</b>
-------------	--------------	---------------------------

**SIGNATORIES**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Cash Manager, the GIC Provider and the Account Bank**

**ARION BANK HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_  
**Name:**  
**Title: Associate Director**

\_\_\_\_\_  
**Name:**  
**Title: Associate Director**



**SCHEDULE 1H**

**AMENDED AND RESTATED ASSET MONITOR AGREEMENT**

**AMENDED AND RESTATED**

**ASSET MONITOR AGREEMENT**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**  
as the Fund  
and

**ARION BANK HF.**  
as the Issuer and the Cash Manager

and

**KPMG ehf.**  
as the Asset Monitor

and

**DEUTSCHE TRUSTEE COMPANY LIMITED**  
as the Representative

\_\_\_\_\_ January 2012

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**THIS AGREEMENT** is dated \_\_\_\_\_ January, 2012

**BETWEEN:**

- (1) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID number 570106-9610, an institutional investment fund established under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Fund**);
- (2) **ARION BANK HF.**, ID number 581008-0150, a public limited company incorporated under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (acting in its capacities as the **Issuer** and the **Cash Manager**);
- (3) **KPMG ehf.** acting through its offices at Borgartun 27, 105 Reykjavik, Iceland, (acting in its capacity as the **Asset Monitor**); and
- (4) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a company incorporated under the laws of England and Wales whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (acting in its capacity as the **Representative**).

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- (B) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day-to-day operations of the Fund are managed by Stefnir hf. formerly Kaupthing Asset Management Company hf. (the **Management Company**). The Management Company shall execute this Agreement on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Agreement.
- (C) Pursuant to the terms of the Cash Management Agreement, the Cash Manager has agreed to perform certain calculations in relation to the Asset Coverage Test.
- (D) The Asset Monitor has agreed to be appointed by the Fund to carry out various testing and notification duties in relation to the calculations performed by the Cash Manager in relation to the Asset Coverage Test subject to and in accordance with the terms of this Agreement.
- (E) This Agreement replaces the Asset Monitor Agreement dated 29 March, 2006.

**IT IS HEREBY AGREED** as follows:

1. **DEFINITIONS AND CONSTRUCTION**

1.1 In this Agreement:

**Adjusted Aggregate Loan Amount** has the meaning given in Clause 10.2 of the Fund Deed;

**Asset Coverage Test** has the meaning given in Clause 10 of the Fund Deed;

**Asset Monitor Fee** has the meaning given in Clause 6.1 of this Agreement;

**Asset Monitor Report** means a report substantially in the form contained in Schedule 2 and prepared by the Asset Monitor on the basis of and in accordance with the calculations and procedures set out in Schedule 3;

**Bank Account Agreement** means the bank account agreement entered into on or around the date hereof between the Fund, the Account Bank, the Cash Manager, the GIC Provider and the Representative (as amended and/or supplemented and/or restated from time to time);

**Business Day** means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Reykjavik;

**Calculation Date** means the third Business Day prior to each Fund Payment Date;

**Cash Management Agreement** means the cash management agreement entered into on or around the date hereof between the Fund, the Cash Manager, the Seller, the Servicer and the Representative (as amended and/or supplemented and/or restated from time to time);

**Covered Bond** means each covered bond issued or to be issued pursuant to the Programme Agreement;

**Dealers** means the dealers appointed from time to time in accordance with the Programme Agreement;

**Fund Accounts** means the GIC account and any additional or replacement accounts opened in the name of the Fund;

**Fund Deed** means the deed entered into on or around the date hereof between the Fund, Arion Bank hf. in its capacities as the seller, the cash manager and the holder, the Management Company and the Representative, a copy of which is attached as Schedule 1 to this Agreement (as amended and/or supplemented and/or restated from time to time);

**Fund Event of Default** has the meaning given in Condition 10.2 (*Events of Default, Acceleration and Enforcement – Fund Events of Default*) of the Terms and Conditions;

**Fund Payment Date** means the 15th day of each month or if not a Business Day the next following Business Day;

**Intercompany Loan Agreement** means the term loan agreement entered into on or around the date hereof between the Issuer, the Fund, the Cash Manager and the Representative (as amended and/or supplemented and/or restated from time to time);

**ISK or Icelandic Krona** means the lawful currency of Iceland;

**ISK Equivalent** means, in relation to a Term Advance or a Series of Covered Bonds (including any calculations of the Required Redemption Amount of such Series of Covered Bonds) which is denominated in: (a) a currency other than ISK, the ISK equivalent of such amount ascertained using the relevant spot rate of exchange; and (b) ISK, the applicable amount in ISK;

**Issue Date** means each date on which the Issuer issues Covered Bonds to the holders for the time being of the Covered Bonds;

**Issuer Event of Default** means any of the conditions, events or acts provided in Condition 10.1 (*Events of Default, Acceleration and Enforcement – Issuer Events of Default*) of the Terms and Conditions;

**Monthly Report** means a monthly report provided by the Servicer to the Fund, the Representative and investors in Covered Bonds pursuant to the Servicing Agreement;

**Mortgage Sale Agreement** means the mortgage sale agreement entered into on 29 March, 2006 as amended and restated on or around the date hereof and made between Arion Bank hf. in its capacity as the Seller, the Fund and the Representative (as amended and/or supplemented and/or restated from time to time);

**Notice to Pay** has the meaning given to it in Condition 10.1 (*Events of Default, Acceleration and Enforcement – Issuer Events of Default*) of the Terms and Conditions;

**Principal Amount Outstanding** means in respect of a Covered Bond, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day;

**Priorities of Payments** means the orders of priority for the allocation and distribution of amounts standing to the credit of the Fund Accounts in different circumstances;

**Programme** means the covered bond programme established on the Programme Date;

**Programme Agreement** means the agreement entered into on or around the Programme Date between the Issuer, the Fund and the Dealers named therein (or deemed named therein) concerning the purchase of Covered Bonds to be issued pursuant to the Programme together with any agreement for the time being in force amending, replacing, novating or modifying such agreement and any accession letters and/or agreements supplemental thereto;

**Programme Date** means 29 March, 2006;

**Representative and Agency Agreement** means the representative and agency agreement entered into on or around the date hereof and made between the Issuer, the Fund, the Representative, the Principal Paying Agent and the other Paying Agents (as amended and/or supplemented and/or restated from time to time);

**Servicer** means Arion Bank hf. in its capacity as servicer under the Servicing Agreement or any successor servicer appointed from time to time;

**Servicing Agreement** means the servicing agreement entered into on or around the date hereof between the Fund, the Servicer, the Seller, the Representative and Verdis hf. formerly Arion Custody Services hf. (as amended and/or supplemented and/or restated from time to time);

**Term Advance** means each term advance made by the Issuer to the Fund from the proceeds of Covered Bonds pursuant to the Intercompany Loan Agreement;

**Terms and Conditions** means the terms and conditions of the Covered Bonds as set out in Schedule 1 to the Representative and Agency Agreement; and

**Wages Index** means the wages index published monthly at [www.statice.is](http://www.statice.is) and based on the data collected through the Statistics Iceland Icelandic survey on wages, earnings and labour costs (ISWEL), or such other index as may replace it from time to time, prepared and published by Statistics Iceland (or by any government department or successor body upon which duties in connection with such index are devolved) pursuant to the Act on the Wage Index No. 89/1989.

1.2 The recitals to this Agreement shall constitute integral parts of this Agreement and shall be read with it for all their purposes and intents.

## 2. SERVICES OF THE ASSET MONITOR

2.1 Subject to Clauses 2.2 and 2.5 below, if the Calculation Date immediately preceding an anniversary of the Programme Date falling after the date hereof falls prior to service of a Notice to Pay or a Fund Acceleration Notice, and subject to receipt of the information to be provided to it by the Cash Manager

in accordance with Clause 3 below in relation to the calculations performed by the Cash Manager regarding the relevant Asset Coverage Test, the Asset Monitor shall as soon as reasonably practicable (and in any event not later than 10 Business Days following receipt of such information from the Cash Manager), test the arithmetic accuracy of the calculations performed by the Cash Manager in relation to the Asset Coverage Test on the Calculation Date immediately preceding each anniversary of the Programme Date, with a view to confirmation of the arithmetical accuracy or otherwise of such calculations.

- 2.2 Following the service of an Asset Coverage Test Breach Notice (which has not been revoked), and subject to receipt of the information to be provided to the Asset Monitor in accordance with Clause 3 below, the Asset Monitor shall conduct the tests of the Cash Manager's calculations referred to in Clause 2.1 above in respect of every Calculation Date, as applicable, as soon as reasonably practicable (and in any event not later than 10 Business Days following receipt of the relevant information from the Cash Manager). Following revocation or withdrawal of an Asset Coverage Test Breach Notice the tests of the Cash Manager's calculations will be conducted by the Asset Manager annually in accordance with Clause 2.1 above.
- 2.3 If the tests conducted by the Asset Monitor in accordance with Clauses 2.1 and 2.2, as applicable, reveal errors in the relevant calculations performed by the Cash Manager such that:
- (a) the Asset Coverage Test has been failed on the relevant Calculation Date (where the Cash Manager had recorded it as being satisfied); or
  - (b) the reported Adjusted Aggregate Loan Amount is mis-stated by the Cash Manager by an amount exceeding one per cent. of the Adjusted Aggregate Loan Amount (as at the date of the relevant Asset Coverage Test), as calculated by the Asset Monitor based on the figures supplied by the Cash Manager,

and subject to receipt of the information to be provided to the Asset Monitor in accordance with Clause 3 below, for a period of six months thereafter the Asset Monitor shall conduct the tests of the Cash Manager's calculations referred to in Clause 2.1 in respect of every Calculation Date occurring during that six month period. The Asset Monitor shall perform those tests as soon as reasonably practicable and in any event not later than 10 Business Days following receipt of the relevant information from the Cash Manager.

- 2.4 Subject to receipt of information to be provided to it by the Cash Manager in accordance with Clause 3 below in relation to the calculations performed by the Cash Manager, as soon as reasonably practicable (and in any event before the expiry of the relevant 10 Business Day period referred to in, as applicable, Clauses 2.1 to 2.3 (inclusive) above), the Asset Monitor shall notify, on a confidential basis, the parties to this Agreement, in writing, of the relevant calculations performed by the Cash Manager and of the results of its tests of the arithmetical accuracy of the Cash Manager's calculations, attached to a copy of the relevant calculations performed by the Cash Manager. If the calculations performed by the Cash Manager are not arithmetically accurate, the written notification by the Asset Monitor shall notify on a confidential basis, the parties to this Agreement in writing of the discrepancies identified in the Asset Monitor Report which is required to be delivered pursuant to Clause 2.7.
- 2.5 Other than in relation to the testing by the Asset Monitor of the arithmetic accuracy of the calculations performed by the Cash Manager in accordance with the provisions of this Agreement, the Asset Monitor is entitled, subject to Clause 2.6, to assume that all information provided to the Asset Monitor in accordance with Clause 3.1 is true and correct and is complete and not misleading and is not required to conduct an audit or other similar examination in respect of or otherwise take steps to verify the accuracy or completeness of such information or of any sources from which such information has been extracted by the Cash Manager, save that the Asset Monitor will be required to advise the Cash Manager if it has not been provided with any of those figures referred to in Clause 3.1. Furthermore, the Asset Monitor shall not be required to confirm whether the information provided to it by the Cash Manager: (i) has been accurately extracted from the sources identified therein or agrees with any

underlying accounting or other information; or (ii) is presented in compliance with any relevant accounting or other definitions as to its elements and composition.

- 2.6 As soon as reasonably practicable following receipt of information from the Cash Manager in accordance with Clause 3.1, the Asset Monitor shall check that information against the information contained in the latest Monthly Report prepared by the Servicer for any obvious errors or inconsistencies and, if it detects any such obvious errors or inconsistencies, shall notify the other parties to this Agreement of them. Following such notification, and within three Business Days of receipt of such notification, the Cash Manager shall provide such further or amended information to the Asset Monitor as is necessary to remedy such obvious errors or inconsistencies or shall confirm the accuracy of the information provided in accordance with Clause 3.1. The 10 Business Day period referred to in, as applicable, Clauses 2.1 to 2.3 (inclusive) above, shall commence on and from the date that the Asset Monitor has received such further or amended information from the Cash Manager.
- 2.7 On completion of its calculations and procedures in respect of a Calculation Date for the purposes of this Clause 2, the Asset Monitor will deliver the Asset Monitor Report to the Cash Manager, the Fund, the Issuer and the Representative (in their respective capacities, collectively referred to in this Agreement as the **Recipients**).
- 2.8 Each Asset Monitor Report and any advice the Asset Monitor provides to the Recipients in connection with this Agreement are for the exclusive use of the Recipients (in their respective capacities in which they contract as parties to this Agreement) in the context of the Programme and is provided subject to and in accordance with the terms of this Agreement. Each Asset Monitor Report and such advice should not be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any person other than the parties to this Agreement, without the Asset Monitor's prior written express consent. The Recipients acknowledge that were they to do so (and without limitation) this could expose the Asset Monitor to a risk that a third party who otherwise would not have access to any such Asset Monitor Reports or advice might claim to have relied upon such Asset Monitor Report or advice to its detriment and might bring or threaten to bring an action, claim or proceedings against the Asset Monitor. Save as expressly provided by this Agreement, no person other than the Recipients may rely on the Asset Monitor Report, or any advice and/or information derived from them. The Asset Monitor has no responsibility or liability to any other party (including, without limitation, any Dealer) who is shown or gains access to any Asset Monitor Report or advice.
- 2.9 Nothing in this Agreement precludes the Asset Monitor from taking such steps as are necessary in order to comply with any legal or regulatory requirement or any professional or ethical rules of any relevant professional body of which the Asset Monitor or any of its partners or employees is, at the time, a member.
- 2.10 The Asset Monitor has no responsibility to update any Asset Monitor Report or advice for events occurring after its completion (which, unless provided otherwise in this Agreement, will be the date on which the final Asset Monitor Report is delivered or signed), nor to monitor its continuing relevance or suitability for the purposes of any Recipient.

### 3. **PROVISION OF INFORMATION TO THE ASSET MONITOR**

- 3.1 In accordance with paragraph (k) of Schedule 1 to the Cash Management Agreement, the Cash Manager shall provide the Asset Monitor with (as applicable):
- (a) the figures derived and used by the Cash Manager for items A, B, C, D and W described in Clause 10 (Asset Coverage Test) of the Fund Deed in its calculation of the Adjusted Aggregate Loan Amount on the relevant Calculation Date;
  - (b) the constituent figures used in the calculation of item A described in Clause 10 (Asset Coverage Test) of the Fund Deed in order to test the arithmetical accuracy of the figures used by the Cash Manager for item A provided in accordance with Clause 3.1(a) above; and

- (c) the ISK Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated by the Cash Manager on the relevant Calculation Date for the purposes of Clause 10 (Asset Coverage Test) of the Fund Deed.
- 3.2 The Fund shall procure that the Servicer provides each Monthly Report to the Asset Monitor on its publication.
- 3.3 The Asset Monitor may rely on any instructions, request or representation made, notices given or information supplied, whether orally or in writing, by any person known or reasonably believed by the Asset Monitor to be authorised from time to time by the Fund and/or the Cash Manager in connection with the provision by the Fund and/or the Cash Manager of information pursuant to the terms of this Agreement.
- 3.4 In the preparation of a final Asset Monitor Report, the Asset Monitor may comment or provide advice to any Recipient on information provided to it by the Cash Manager or show the Recipients drafts of the Asset Monitor Report for comment. The Asset Monitor does this on the basis that the Recipients will not rely on any drafts or oral comments or advice. Accordingly, the Asset Monitor will not be responsible if the Recipients choose to act, or refrain from acting, on the basis of any drafts or oral comments or advice. If the Recipients want to rely or want to act on oral comments, they will inform the Asset Monitor in order that it may deal with them in its final Asset Monitor Report. Furthermore, for the convenience of the Recipients, the Asset Monitor Reports, or any advice, may be made available to the Recipients in draft or in electronic as well as hard copy format. Multiple copies and versions of documents may therefore exist in different media. In the case of any discrepancy, the signed hard copy of the final Asset Monitor Report is definitive.
- 3.5 The Asset Monitor will own and retain ownership of its working papers in respect of Asset Monitor Reports and any advice. Any papers retained by the Asset Monitor on termination of this Agreement (including documents legally belonging to the Recipients) may routinely be destroyed in accordance with the Asset Monitor's internal policies.

#### 4. **UNDERTAKINGS OF THE ASSET MONITOR**

Without prejudice to any of its specific obligations under this Agreement, the Asset Monitor undertakes with the Fund and the Representative that it shall:

- (a) exercise reasonable skill and care in the performance of its obligations hereunder; and
- (b) comply with all material legal and regulatory requirements applicable to the conduct of its business so that it can lawfully attend to the performance of its obligations under this Agreement.

#### 5. **TERMINATION**

- 5.1 The Asset Monitor may, at any time, resign from its appointment under this Agreement upon providing the Fund and the Representative with 90 days' prior written notice. The Asset Monitor may resign from its appointment immediately on written notice if any action taken by the Recipients causes a professional conflict of interest for the Asset Monitor under the rules of the professional and/or regulatory bodies regulating the activities of the Asset Monitor. The Asset Monitor will inform the Recipients as soon as reasonably practicable of any action of which the Asset Monitor is aware that may cause a professional conflict of interest for the Asset Monitor which could result in termination under this Clause 5.1.
- 5.2 Any costs, charges, fees or expenses incurred by the Asset Monitor as a result of its resignation under Clause 5.1 above shall be payable in full by the Asset Monitor and will not be liable for reimbursement by the Fund save that the Asset Monitor shall remain entitled to payment for any costs, charges, fees or



expenses payable to the Asset Monitor in accordance with this Agreement incurred or accruing prior to such resignation.

- 5.3 Following any receipt of any notice of resignation by the Asset Monitor in accordance with Clause 5.1 above, the Fund shall immediately use all reasonable endeavours to appoint a substitute asset monitor to provide the services set out in this Agreement, provided that:
- (a) the appointment of such substitute asset monitor is approved by the Representative; and
  - (b) the substitute asset monitor enters into an agreement substantially on the same terms as the terms of this Agreement (or on such terms as are satisfactory to the Representative).

If a substitute asset monitor is not appointed by the date which is 90 days prior to the date when tests are to be carried out in accordance with the terms of this Agreement, then the Fund shall use all reasonable endeavours to appoint an accountancy firm of national standing to carry out the relevant tests on a one-off basis, provided that such appointment is approved by the Representative. The Representative will not be obliged to act as Asset Monitor in any circumstances.

- 5.4 The Fund may, at any time but subject to the prior written consent of the Representative, terminate the appointment of the Asset Monitor hereunder upon providing the Asset Monitor with 30 days' prior written notice, provided that such termination may not be effected unless and until a replacement asset monitor approved by the Representative has been found by the Fund (such replacement to be approved by the Representative if the replacement is an accountancy firm of national standing) which agrees to perform the duties (or substantially similar duties) of the Asset Monitor set out in this Agreement.
- 5.5 Any costs, charges, fees or expenses incurred by the Asset Monitor as a result of its appointment being terminated under Clause 5.4 above (together with the Asset Monitor's rights under Clause 6 in relation to moneys owing to the Asset Monitor for the period up to and including the date of the termination of the Asset Monitor's appointment becoming effective) shall be payable in full by the Fund.
- 5.6 Unless otherwise terminated in accordance with Clauses 5.1 and 5.4, the Asset Monitor's appointment under this Agreement will terminate upon the earlier of the occurrence of a Fund Event of Default or the repayment in full of all amounts outstanding in relation to all Covered Bonds.
- 5.7 On and after termination or resignation of the appointment of the Asset Monitor under this Agreement pursuant to this Clause 5, all authority and power of the Asset Monitor under this Agreement shall be terminated and be of no further effect and the Asset Monitor shall not thereafter hold itself out as having power or authority as Asset Monitor pursuant to this Agreement.

## 6. FEES

- 6.1 The Fund shall (subject to Clauses 6.2 and 6.3 below) pay to the Asset Monitor for its services hereunder an annual fee (the **Asset Monitor Fee**) in an amount of ISK 3,300,000 excluding VAT for the year 2012, which fee shall include the test that the Asset Monitor is required to perform pursuant to Clause 2.1 of this Agreement. The annual Asset Monitor Fee shall be in an amount of ISK 2,200,000 excluding VAT for each year thereafter and will be reviewed annually and adjusted if applicable by reference to the then current Wages Index provided that the base Wages Index for reference shall be as it is at the date of the Agreement. In addition the Asset Monitor shall be entitled to receive an additional fee in the amount of ISK 1,000,000 excluding VAT for each additional test it is required to perform pursuant to Clauses 2.2 and 2.3 of this Agreement (the **Additional Test Fee**). The Asset Monitor Fee and the Additional Test Fee shall be payable on a Fund Payment Date in accordance with Clause 6.2 below.
- 6.2 Notwithstanding Clause 6.1 above, the parties agree that neither the Asset Monitor Fee nor the Additional Test Fee shall become due for payment unless and until the Fund has received (in accordance with Clause 12 below) a duly completed invoice, addressed to the Fund and copied to the

Issuer and the Cash Manager, at least 28 days prior to the relevant Fund Payment Date, in which case the invoice shall be due and payable on that Fund Payment Date. In the event that the Fund fails to receive a duly completed invoice at least 28 days prior to the relevant Fund Payment Date, the Asset Monitor Fee shall become due and payable on the next Fund Payment Date.

- 6.3 Interest shall accrue on any amount due and payable to the Asset Monitor in respect of the Asset Monitor Fee in accordance with this Clause 6 from (but excluding) the relevant Fund Payment Date on which payment is due and payable (but remains unpaid in accordance with Clause 6.2 above) in accordance with penalty rates decided at the relevant time by the Central Bank of Iceland.
- 6.4 For the avoidance of doubt, the Representative will not be responsible for payment of fees, costs and expenses due to or incurred by the Asset Monitor pursuant to its appointment and performance of its duties hereunder.
- 6.5 The Asset Monitor hereby agrees that it shall not take any steps for the purpose of recovering any amounts payable to it under this Clause 6 (including, without limitation, by exercising any rights of set-off) or procuring the winding up, administration or liquidation of the Fund in respect of any of its liabilities whatsoever unless a Fund Acceleration Notice shall have been served.
- 6.6 The Asset Monitor agrees to be bound by the terms of the Priorities of Payment set out in the Cash Management Agreement. Without prejudice to Clause 6.5 above, the Asset Monitor further agrees that, notwithstanding any other provision contained herein, it will not demand or receive payment of, or any distribution in respect of or on account of, any amounts payable by the Fund (or the Cash Manager on its behalf) or the Representative, as applicable, to the Asset Monitor under the Asset Monitor Agreement, in cash or in kind, and will not apply any money or assets in discharge of any such amounts payable to it (whether by set off or by any other method), unless all amounts then due and payable by the Fund to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.
- 6.7 Without prejudice to Clause 6.6 above, whether in the liquidation of the Fund or of any other party to the Transaction Documents or otherwise, if any payment or distribution is received by the Asset Monitor in respect of any amount payable by the Fund (or the Cash Manager on its behalf) or the Representative, as applicable, to the Asset Monitor under this Agreement at a time when, by virtue of the provisions of this Agreement and the Cash Management Agreement no payment or distribution should have been made, the amount so received shall be held by the Asset Monitor as agent for the entity from which such payment was received and shall be returned by the Asset Monitor to such entity forthwith upon receipt (whereupon the relevant payment or distribution shall be deemed not to have been made or received).
- 6.8 Without prejudice to Clause 6.5 above, the Asset Monitor shall not claim, rank, prove or vote as a creditor of the Fund or its estate in competition with any creditors ranking higher in the relevant Priorities of Payments, or claim a right of set-off until all amounts then due and payable to creditors who rank higher in the relevant Priorities of Payments have been paid in full.
- 6.9 Neither the Fund nor the Representative shall pay or repay, or make any distribution in respect of, any amount owing to the Asset Monitor under this Agreement (in cash or in kind) unless and until all amounts then due and payable by the Fund or the Representative to all other creditors ranking higher in the relevant Priorities of Payments have been paid in full.

## **7. ASSIGNMENTS AND TRANSFERS**

- 7.1 This Agreement does not make any of the parties an agent or legal representative of any of the other parties, nor does it create a partnership or joint venture.
- 7.2 Subject to Clause 7.3 no party to this Agreement may assign, novate, transfer or sub-contract any of its rights or obligations under this Agreement other than with the prior written consent of the other parties

to this Agreement, which consent may not be unreasonably withheld or delayed. In addition, no party to this Agreement will either directly or indirectly agree to assign or transfer any claim against any other party to this Agreement arising out of this Agreement to any other party.

- 7.3 The parties hereto acknowledge and agree that the Fund is permitted to assign its rights hereunder to the Representative pursuant to the Representative and Agency Agreement. The parties further acknowledge that the Asset Monitor may delegate the performance of its obligations under this Agreement to any other Asset Monitor Party, provided that it shall nevertheless remain responsible for the performance of those duties.

## 8. **CONFIDENTIALITY**

- 8.1 Each party agrees to keep confidential all information of any kind whatsoever provided to it by any other party pursuant to this Agreement save for:

- (a) information (including Asset Monitor Reports) that it is expressly authorised to provide to any other party or any Dealer under the terms of this Agreement;
- (b) information that is public knowledge otherwise than as a result of the wrongful conduct of such party;
- (c) information that such party is required to disclose pursuant to any law or order of any court or pursuant to any direction, request or requirement (whether or not having the force of law) of any central bank or any governmental or other regulatory or taxation authority;
- (d) information that such party wishes to disclose to its professional indemnity insurers or advisers where such insurers or advisers receive the same under a duty of confidentiality;
- (e) information that such party is required to disclose to the relevant authorities on a public interest disclosure basis or in order to comply with its statutory obligations relating to money laundering and the proceeds of crime;
- (f) information disclosed to professional advisers of the such party or, if such party is the Asset Monitor, to any Asset Monitor Party to whom the Asset Monitor has delegated the performance of its duties under this Agreement, who, in each case, receives the same under a duty of confidentiality in substantially the same terms as this Clause 8; and
- (g) information disclosed with the prior written consent of the other party.

- 8.2 The parties agree that the Asset Monitor shall not be required to disclose to any other party any information which is confidential to any other client of the Asset Monitor and any information received by the Asset Monitor other than by reason of, or in its capacity as, Asset Monitor pursuant to the terms of this Agreement.

- 8.3 The Asset Monitor agrees that it shall have recourse only to sums paid to or received by (or on behalf of) the Fund from time to time.

## 9. **PROVISION OF INFORMATION TO THE REPRESENTATIVE**

The Cash Manager, the Fund and the Asset Monitor shall each provide to the Representative, or procure the provision to the Representative of, such information and evidence available to that party, or of which that party is or becomes aware, in respect of any dealing between that relevant party or its officers, employees, attorneys or agents and the Issuer, the Cash Manager, the Fund and the Asset Monitor (as applicable) under or in relation to this Agreement as the Representative may reasonably request (subject to client confidentiality requirements).

## 10. **LIABILITY**

- 10.1 To the fullest extent permitted by law, the Asset Monitor shall not have liability hereunder to the extent that liability would (but for this Clause 10.1) be imposed upon the Asset Monitor by reason of it having relied upon any statement or information made or provided by any person (including information provided in accordance with Clause 3 above) which was untrue, inaccurate, incomplete or misleading, other than in respect of the activities that the Asset Monitor will conduct under Clause 2.6 and the arithmetical accuracy of the calculations performed by the Cash Manager in respect of the Asset Coverage Test which the Asset Monitor has been appointed to test in accordance with the provisions of this Agreement.
- 10.2 To the fullest extent permitted by law, the Asset Monitor shall not be liable or responsible to any other party hereto for any loss, cost, damage or expense which results from the fraud of any other party or a breach by any of the other parties hereto of any provision of any Transaction Document.
- 10.3 The aggregate liability of the Asset Monitor to the other parties to this Agreement in contract or tort or under statute or otherwise for any loss or damage (including loss of profits) suffered by the other parties to this Agreement arising from or in connection with the performance by the Asset Monitor of its obligations under this Agreement, however such loss or damage is caused, including the negligence, wilful misconduct or default but not the fraud or other deliberate breach of duty of the Asset Monitor, shall be limited to ISK 200,000,000.
- 10.4 The aggregate liability of the Asset Monitor to the other parties to this Agreement pursuant to Clause 10.3 above shall be allocated between the parties to this Agreement. It is agreed that such allocation will be entirely a matter for such other parties, who shall be under no obligation to inform the Asset Monitor of it, provided always that if (for whatever reason) no such allocation is agreed, no party shall dispute the validity, enforceability or operation of the limit of liability set out in Clause 10.3 on the grounds that no such allocation was agreed.
- 10.5 The liability of the Asset Monitor to the other parties to this Agreement in contract or tort or under statute or otherwise for any indirect or consequential economic loss or damage (including loss of profits) suffered by the other parties to this Agreement arising from or in connection with the performance by the Asset Monitor of its obligations under this Agreement, however such loss or damage is caused, including the negligence, wilful misconduct or default but not the fraud or other deliberate breach of duty of the Asset Monitor, shall be excluded.
- 10.6 Any clauses in this Agreement which operate or which may operate to exclude or limit the liability of the Asset Monitor or any other person in any respects shall not operate to exclude or limit any liability which cannot lawfully be excluded or limited.
- 10.7 The Asset Monitor will not be liable for any losses arising out of the use by the Recipients of any Asset Monitor Report for a purpose other than the purposes of the Programme.

## 11. **FURTHER PROVISIONS**

- 11.1 Except as specified herein the respective rights of the parties under this Agreement are cumulative, and may be exercised as often as they consider appropriate and are in addition to their respective rights under the general law. The respective rights of the Fund, the Representative and the Asset Monitor in relation to this Agreement (whether arising under this Agreement or under the general law) shall not be capable of being waived or varied otherwise than by an express waiver or variation in writing. In particular, any failure to exercise or any delay in exercising of any such rights shall not operate as a waiver or variation of that or any other such right; any defective or partial exercise of any of such rights shall not preclude any other or further exercise of that or any other such right. No act or course of conduct or negotiation on their part or on their behalf shall in any way preclude them from exercising any such right or constitute a suspension or any variation of any such right.

- 11.2 If any of the provisions of this Agreement become invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired.

## 12. NOTICES

- 12.1 Any notices to be given pursuant to this Agreement to any of the parties hereto shall be sufficiently served if sent by prepaid first class post, by hand or facsimile transmission and shall be deemed to be given (in the case of facsimile transmission) when received by the recipient or (where delivered by hand) on the day of delivery if delivered before 17.00 hours on a Business Day or on the next Business Day if delivered thereafter or on a day which is not a Business Day or (in the case of first class post) when it would be received in the ordinary course of the post and shall be sent:

- (a) in the case of the Fund, to Arion Bank Mortgages Institutional Investor Fund at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7489 and email: info@stefnir.is) for the attention of Stefnir hf. – Arion Bank Mortgages Institutional Investor Fund;
- (b) in the case of the Issuer and the Cash Manager, to Arion Bank hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 6229 and email: mtndesk@arionbanki.is) for the attention of the Funding Department;
- (c) in the case of the Asset Monitor, to KPMG ehf. at Borgartun 27, 105 Reykjavik, Iceland (facsimile number: +(354) 545 6003 and email: hhardardottir@kpmg.is) for the attention of Helga Hardardottir; and
- (d) in the case of the Representative, to Deutsche Trustee Company Limited at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number: +(44) 20 7547 6149 and email: TSS-GDS.EUR@db.com) for the attention of the Managing Director,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 12.

- 12.2 Notwithstanding Clause 12.1 above and provided that each give their prior consent to such delivery, any party to this Agreement may send notice to or otherwise communicate with any of the other parties to this Agreement by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Agreement shall be deemed: (i) to have received any electronic mail sent by the any other party to this Agreement pursuant to the terms of this Clause 12.2 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Agreement shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Agreement (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

## 13. COUNTERPARTS

This Agreement may be executed in any number of counterparts (manually or by facsimile), and by the parties on separate counterparts, but shall not be effective until each party has executed at least one

counterpart. Each counterpart shall constitute an original of this Agreement, but all the counterparts shall together constitute but one and the same instrument.

14. **THE REPRESENTATIVE**

14.1 If there is any change in the identity of the Representative in accordance with the Representative and Agency Agreement, the parties to this Agreement shall execute such documents and take such action as the successor Representative and the outgoing Representative may reasonably require for the purpose of vesting in the successor Representative the rights and obligations of the outgoing Representative under this Agreement and releasing the outgoing Representative from any future obligations under this Agreement. The Fund shall indemnify the Asset Monitor for all reasonable costs incurred by the Asset Monitor in relation to such change.

14.2 The Representative has agreed to become a party to this Agreement for the better preservation and enforcement of its rights under this Agreement but shall not assume any obligations or liabilities to the Issuer, the Cash Manager, the Asset Monitor or the Fund hereunder. Any liberty or right which may be exercised or any determination which may be made under this Agreement by the Representative may be exercised or made in the Representative's absolute discretion without any obligation to give reasons therefor and the Representative shall not be responsible for any liability occasioned by so acting but subject always to the terms of the Representative and Agency Agreement.

15. **MODIFICATION**

No amendment, modification or variation of this Agreement shall be effective unless it is in writing and signed by (or by some person duly authorised by) each of the parties hereto.

16. **CONTINUING PROVISIONS**

Clauses 5.2, 5.5, 6, 8, 10, 16, 18 and 19 of this Agreement shall survive the expiry or termination of this Agreement.

17. **ENTIRE AGREEMENT**

This Agreement contains the entire agreement between the parties hereto in relation to the services to be performed hereunder and supersedes any prior agreements, understandings, arrangements, statements or representations relating to such services. Nothing in this Clause 17 or Agreement shall operate to limit or exclude any liability for fraud.

18. **GOVERNING LAW**

This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

19. **SUBMISSION TO JURISDICTION**

19.1 Each party to this Agreement hereby irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

**THIS AGREEMENT** has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1**

**THE FUND DEED**

*[Please refer to Schedule 1D of this Deed]*

## SCHEDULE 2

### FORM OF ASSET MONITOR REPORT

ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND  
in its capacity as the Fund

and

ARION BANK HF.  
in its capacity as the Issuer and the Cash Manager

and

DEUTSCHE TRUSTEE COMPANY LIMITED  
in its capacity as the Representative

[addressees as provided for in the Asset Monitor Agreement]

[Date]

Dear Sirs

#### **Asset Monitor Agreement**

We refer to the Asset Monitor Agreement (the **Asset Monitor Agreement**) dated \_\_\_\_\_ January, 2012 (as may be amended, varied, supplemented or novated from time to time) between Arion Bank Mortgages Institutional Investor Fund (the **Fund**), Arion Bank hf. (the **Issuer** and the **Cash Manager**), Deutsche Trustee Company Limited (the **Representative**) (collectively referred to herein as the **Recipients**) and KPMG ehf. (the **Asset Monitor**) under which we, as the Asset Monitor, are required to provide the Recipients with this Asset Monitor Report in respect of the calculation of the Asset Coverage Test by the Cash Manager in respect of the Calculation Date falling on [*insert date*].

The Cash Manager has prepared a statement of calculations in relation to the above Asset Coverage Test (the **Statement**), a copy of which is appended to this letter.

This report is provided pursuant to, and must be read in conjunction with, the Asset Monitor Agreement and is subject to the terms and limitations set out therein.

#### **Basis of report**

We have read the attached Statement prepared by the Cash Manager. Our work was based on obtaining an understanding of the Statement by enquiry of the Cash Manager, reference to the Fund Deed where the calculation is set out, and a recomputation of the calculations in the Statement in order to report on their arithmetical accuracy in accordance with the Asset Monitor Agreement. For the purpose of providing the Recipients with this Asset Monitor Report, other than as set out herein, we have not carried out any work by way of audit, review or verification of the financial information nor of the management accounts, accounting records or other sources from which that information has been extracted. Furthermore, we have not considered whether the information provided to us by the Cash Manager has been accurately extracted from the sources identified therein or agrees with any underlying accounting or other information. Furthermore, we have not considered whether the information provided to us by the Cash Manager is presented in compliance with any relevant accounting or other definitions as to its elements and composition.

#### **Report**

Either:



[Based solely on the procedures described above and in the Asset Monitor Agreement, we confirm that the calculations of the Asset Coverage Test in respect of the Calculation Date falling on [insert date] shown in the Statement are arithmetically accurate.]

or:

[Based solely on the procedures described above and in the Asset Monitor Agreement, we calculated a result of [describe result] [in respect of the Asset Coverage Test in respect of the Calculation Date falling on [insert date], and hence do not concur that the calculations in the Statement are arithmetically accurate] and/or [in respect of the Adjusted Aggregate Loan Amount, which exceeds the reported Adjusted Aggregate Loan Amount in the Statement by more than one per cent].]

Based on the procedures performed, we draw your attention to the following:

#### **Use of Report**

Our report as set out herein is confidential to the Recipients of this Asset Monitor Report, solely in their respective capacities under which they have contracted under the Asset Monitor Agreement and should not be made available to any other person without our prior written consent. It is provided solely for the purpose of the assessment of the Cash Manager's calculations in relation to the Asset Coverage Test in the context of the Programme, and is provided subject to and in accordance with the terms of the Asset Monitor Agreement. We accept no responsibility or liability to any other person (including, without limitation, any Dealer) who is shown or gains access to this Report. We accept no responsibility or liability to any such person for any reliance that may be placed on this Report for any purpose.

Yours faithfully

*KPMG ehf.*

cc [xxx]

## SCHEDULE 3

### CALCULATIONS AND PROCEDURES

#### Asset Coverage Test

The Asset Monitor test of arithmetical accuracy of the Asset Coverage Test will comprise the following steps:

1. Ensure that the Cash Manager has provided, in accordance with Clause 3.1 of the Asset Monitor Agreement:
  - figures A, B, C, D and W described in the Asset Coverage Test; the constituent figures used in the calculations of item A. Specifically, for each Loan:
    - (i) outstanding principal balance and scheduled principal payments;
    - (ii) latest valuation;
    - (iii) collateral valuation; and
    - (iv) whether the Loan is in default including full details thereof;
  - a value for:
    - (i) Asset Percentage; and
    - (ii) any "deemed" reductions as specified in the details after "minus";
  - the ISK Equivalent of the Principal Amount Outstanding of the Covered Bonds as calculated by the Cash Manager on the relevant Calculation Date; and
  - a nil balance where applicable.
2. For A:
  - determine the lower of A(a) and A(b).
3. Re-perform the calculation  $\alpha A + B + C + D - W$  [*the Adjusted Aggregate Loan Amount*]
4. Compare this calculation to that provided by the Cash Manager.
5. Complete the Asset Monitor Report substantially in the form as set out in Schedule 2.

**SIGNATORIES**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Issuer and the Cash Manager**

**ARION BANK HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Asset Monitor**

**KPMG ehf.**

By: \_\_\_\_\_  
**Name: Helga Harðardóttir**  
**Title: Partner**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_  
**Name:**  
**Title: Associate Director**

\_\_\_\_\_  
**Name:**  
**Title: Associate Director**

**SCHEDULE 1J**

**AMENDED AND RESTATED GUARANTEED INVESTMENT CONTRACT**

**AMENDED AND RESTATED**

**GUARANTEED INVESTMENT CONTRACT**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**  
as the Fund

**and**

**ARION BANK HF.**  
as the Cash Manager and the GIC Provider

**and**

**DEUTSCHE TRUSTEE COMPANY LIMITED**  
as the Representative

\_\_\_\_\_ January 2012

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**THIS AGREEMENT** is dated \_\_\_\_\_ January, 2012

**BETWEEN:**

- (1) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID number 570106-9610, an institutional investment fund established under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Fund**);
- (2) **ARION BANK HF.**, ID number 581008-0150, a public limited company incorporated under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacity as the **Cash Manager** and in its capacity as the **GIC Provider**); and
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a company incorporated under the laws of England and Wales whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (in its capacity as the **Representative**).

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- (B) As part of the transactions contemplated in the Programme, the Seller has agreed to sell Loans and their Related Security to the Fund pursuant to the terms of the Mortgage Sale Agreement.
- (C) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day-to-day operations of the Fund are managed by Stefnir hf. formerly Kaupthing Asset Management Company hf. (the **Management Company**). The Management Company shall execute this Agreement on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Agreement.
- (D) The Fund proposes to fund its purchase of the Loans and their Related Security by, amongst other things, drawings under the Term Advances provided by the Issuer pursuant to the Intercompany Loan Agreement, which in turn will be funded by the Issuer by the proceeds of the Covered Bonds issued by the Issuer from time to time under the Programme.
- (E) The Cash Manager has agreed, pursuant to the Cash Management Agreement, to provide Cash Management Services in connection with the business of the Fund.
- (F) The Cash Management Agreement provides that the Fund shall invest its liquid funds from time to time in interest bearing accounts and the GIC Provider is willing to provide such an account pursuant to and on the terms of this Agreement and the Bank Account Agreement.
- (G) This Agreement replaces the Guaranteed Investment Contract dated 29 March, 2006.

**IT IS HEREBY AGREED** as follows:

1. **DEFINITIONS AND INTERPRETATION**

- 1.1 The master definitions and construction agreement made between, *inter alia*, the parties to this Agreement on \_\_\_\_\_ January, 2012 (as the same may be amended, varied and/or supplemented from time to time, the Master Definitions and Construction Agreement) is expressly and specifically

incorporated into this Agreement and, accordingly, the expressions defined in the Master Definitions and Construction 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 this Agreement, including the recitals hereto and this Agreement shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions and Construction Agreement.

- 1.2 The Recitals to this Agreement constitute integral parts of this Agreement and shall be read with it for all their purposes and intents.

## 2. **THE GIC ACCOUNT**

The GIC Provider confirms that (on the instructions of the Fund) the GIC Account has been opened in its books in the name of the Fund, and it agrees to accept on deposit in the GIC Account all monies transferred, from time to time, to the GIC Account, subject to and upon the terms of this Agreement, the Bank Account Agreement, the Cash Management Agreement and the Fund Deed.

## 3. **INTEREST**

- 3.1 Interest shall accrue daily on the GIC Balance and shall be paid monthly in arrear on the first day of the following month (or if such day is not a Business Day, the next succeeding Business Day) at a rate of interest equal to the GIC Rate (calculated on the basis of the actual number of days elapsed and a 365 day year) by payment for value on the same day to the GIC Account or such other accounts as the Fund shall specify.

- 3.2 On any day on which interest is payable by the GIC Provider under this Agreement, the GIC Provider shall pay the amount of interest then due in immediately available, freely transferable, cleared funds by no later than the close of business on that day (or if such day is not a Business Day, the next succeeding Business Day).

- 3.3 In the event that a Fund Acceleration Notice is served on the Fund, then, on the date of such Fund Acceleration Notice, the GIC Provider shall pay to the Representative the aggregate of all interest accrued on the GIC Account on each day during the month in which such Fund Acceleration Notice is served up to (but excluding) the date of such Fund Acceleration Notice. As and from the date of such Fund Acceleration Notice, the GIC Provider shall comply with the directions of the Representative in relation to the GIC Account given in accordance with this Agreement.

## 4. **WITHDRAWALS AND DEPOSITS**

- 4.1 Subject always to the provisions of the Cash Management Agreement, the Bank Account Agreement and the Fund Deed, the Fund, or the Cash Manager on behalf of the Fund, may on any Business Day give notice to the GIC Provider that it wishes to withdraw on such date all or part of the GIC Balance from the GIC Account and the GIC Provider shall comply with such notice and pay the amount specified in such notice to the account specified therein, provided that if any such notice is received after 12 noon (Reykjavik time) on any day it shall be deemed to have been received at the opening of business on the next following Business Day.

- 4.2 The Fund may deposit, or procure the deposit of, sums in the GIC Account, to the extent permitted by the terms of the Cash Management Agreement, the Bank Account Agreement and the Fund Deed, and the GIC Provider agrees to accept and credit to the GIC Account such sums in accordance with the terms hereof.

## 5. **TERMINATION**

- 5.1 Following termination of the Bank Account Agreement and/or closing of the GIC Account in accordance with Clause 7 (*Termination*) of the Bank Account Agreement, the Fund or the Representative may terminate this Agreement by serving a written notice of termination on the GIC Provider.

## 5.2 **Termination by GIC Provider**

The GIC Provider may terminate this Agreement and cease to carry out its obligations in respect of the GIC Account:

- (a) on giving not less than six months' prior written notice thereof ending on any Business Day which does not fall on a Fund Payment Date or less than 10 Business Days before a Fund Payment Date to each of the other parties hereto without assigning any reason therefor; or
- (b) on giving not less than three months' prior written notice thereof ending on any Business Day which does not fall on a Fund Payment Date or less than 10 Business Days before a Fund Payment Date to each of the other parties hereto if the GIC Provider has demanded payment of its due charges or any interest and the same has remained unpaid for a period of one month, provided that if the relevant amounts have been paid on or before the date six weeks after the date of delivery of such notice then the notice shall have no effect,

provided that such termination shall not take effect until a replacement financial institution or institutions being an authorised institution under Act 161/2002 on Financial Undertakings has entered into an agreement in form and substance similar to this Agreement.

The GIC Provider shall not be responsible for any costs or expenses occasioned by such termination and cessation. In the event of such termination and cessation the GIC Provider shall assist the other parties hereto to effect an orderly transition of the banking arrangements documented hereby.

## 6. **WARRANTIES**

- 6.1 The GIC Provider warrants to the Fund and the Representative at the date hereof, on each date on which an amount is credited to the GIC Account and on each Fund Payment Date, that it is duly established under the laws of Iceland and is an institution authorised to carry on banking business (including accepting deposits) under Act 161/2002 on Financial Undertakings.
- 6.2 The GIC Provider undertakes to notify the Fund and the Representative immediately if, at any time during the term of this Agreement, either of the statements contained in Clause 6.1 ceases to be true. The warranties set out in Clause 6.1 shall survive the signing and delivery of this Agreement.

## 7. **ASSIGNMENT**

Save as otherwise contemplated in this Agreement or the Cash Management Agreement, no party hereto (other than the Representative) may assign or transfer any of its rights or obligations hereunder without the prior written consent of the Representative. In any event any assignee of the GIC Provider must be an institution authorised to carry on banking business (including accepting deposits) under Act 161/2002 on Financial Undertakings.

## 8. **AGENCY**

The GIC Provider agrees and confirms that, unless otherwise notified by the Fund or the Representative, the Cash Manager, as agent of the Fund, may act on behalf of the Fund under this Agreement.

## 9. **INFORMATION**

The GIC Provider shall provide to the Representative, or procure the provision to the Representative of, such information and evidence in respect of any dealing between the Fund and the GIC Provider or otherwise under or in relation to this Agreement as the Representative may reasonably request and the Fund hereby waives any right or duty of confidentiality which it may have or which may be owed to it by the GIC Provider in respect of the disclosure of such information and evidence pursuant to this Clause 9.



## 10. PAYMENTS AND WITHHOLDINGS

The parties agree that payments required to be made hereunder shall be made in accordance with Clause 2 of the Bank Account Agreement and that Clauses 13 and 14 of the Bank Account Agreement shall, to the extent that it relates to the GIC Account, be incorporated in and shall apply to, *mutatis mutandis*, this Agreement (and for this purpose references to any "Account Bank" shall be deemed to be the Account Bank at which the GIC Account is maintained from time to time) such that all payments to be made by the GIC Provider hereunder will be made upon the terms and subject to the same conditions as are set out in Clauses 13 and 14 of the Bank Account Agreement.

## 11. NOTICES

11.1 Any notices to be given pursuant to this Agreement to any of the parties hereto shall be sufficiently served if sent by prepaid first class post, by hand or facsimile transmission and shall be deemed to be given (in the case of facsimile transmission) when despatched (where delivered by hand) on the day of delivery if delivered before 5.00 p.m. on a Business Day or on the next Business Day if delivered thereafter or on a day which is not a Business Day or (in the case of first class post) when it would be received in the ordinary course of the post and shall be sent:

- (a) in the case of the Fund, to Arion Bank Mortgages Institutional Investor Fund at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7489 and email: info@stefnir.is) for the attention of Stefnir hf. – Arion Bank Mortgages Institutional Investor Fund;
- (b) in the case of the GIC Provider and the Cash Manager, to Arion Bank hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 6229 and email: mtndesk@arionbanki.is) for the attention of the Funding Department; and
- (c) in the case of the Representative, to Deutsche Trustee Company Limited at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number: +(44) 20 7547 6149 and email: TSS-GDS.EUR@db.com) for the attention of the Managing Director,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 11.

11.2 Notwithstanding Clause 11.1 above and provided that each give their prior consent to such delivery, any party to this Agreement may send notice to or otherwise communicate with any of the other parties to this Agreement by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Agreement shall be deemed: (i) to have received any electronic mail sent by the any other party to this Agreement pursuant to the terms of this Clause 11.2 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Agreement shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Agreement (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

12. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts (manually or by facsimile), and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart. Each counterpart shall constitute an original of this Agreement, but all the counterparts shall together constitute but one and the same instrument.

13. **THE REPRESENTATIVE**

13.1 If there is any change in the identity of the Representative in accordance with the Representative and Agency Agreement, the Fund, the Cash Manager and the GIC Provider shall execute such documents and take such action as the successor Representative and the outgoing Representative may reasonably require for the purpose of vesting in the successor Representative the rights and powers of the outgoing Representative under this Agreement.

13.2 It is hereby acknowledged and agreed that by its execution of this Agreement the Representative shall not assume or have any obligations or liabilities to the Fund, the Cash Manager or the GIC Provider under this Agreement notwithstanding any provision herein and that the Representative has agreed to become a party to this Agreement for the purpose only of taking the benefit of this Agreement and agreeing to amendments to this Agreement pursuant to Clause 14. For the avoidance of doubt, the parties to this Agreement acknowledge that the rights and powers of the Representative are governed by the Representative and Agency Agreement. Any liberty or right which may be exercised or determination which may be made under this Agreement by the Representative may be exercised or made in the Representative's absolute discretion without any obligation to give reasons therefor and the Representative shall not be responsible for any liability occasioned by so acting but subject always to the provisions of Clause 12.6 of the Representative and Agency Agreement.

14. **AMENDMENTS**

Any amendment, modification or variation to this Agreement will be made only with the prior written consent of each party to this Agreement.

15. **GOVERNING LAW AND JURISDICTION**

15.1 This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

15.2 Each party to this Agreement irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

**THIS AGREEMENT** has been entered into on the date stated at the beginning of this Agreement.

**SIGNATORIES**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Cash Manager and the GIC Provider**

**ARION BANK HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_  
**Name:**  
**Title: Associate Director**

\_\_\_\_\_  
**Name:**  
**Title: Associate Director**

**SCHEDULE 1K**

**AMENDED AND RESTATED INTERCOMPANY LOAN AGREEMENT**

**AMENDED AND RESTATED**

**INTERCOMPANY LOAN AGREEMENT**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND  
as the Fund**

**and**

**ARION BANK HF.  
as the Issuer and the Cash Manager**

**and**

**DEUTSCHE TRUSTEE COMPANY LIMITED  
as the Representative**

**\_\_\_\_\_ January 2012**

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**THIS AGREEMENT** is dated \_\_\_\_\_ January, 2012

**BETWEEN:**

- (1) **ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**, ID number 570106-9610, an institutional investment fund established under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (referred to herein as the **Fund**);
- (2) **ARION BANK HF.**, ID number 581008-0150, a public limited company incorporated under the laws of Iceland, whose registered office is at Borgartun 19, 105 Reykjavik, Iceland (in its capacities as the **Issuer** and the **Cash Manager**); and
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a company incorporated under the laws of England and Wales whose registered office is at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (in its capacity as the **Representative**).

**WHEREAS:**

- (A) By resolutions of Covered Bondholders of each Series of the Covered Bonds issued pursuant to the Programme (the **Bondholders' Resolutions**) passed on or around the date hereof, the Covered Bondholders' authorised the Representative, on behalf of the Covered Bondholders, to, *inter alia*, amend and restate this Agreement in accordance with the provisions set out below.
- (B) From time to time the Issuer will issue Covered Bonds pursuant to the Programme.
- (C) The Issuer has agreed that it will lend the proceeds of any issue of Covered Bonds to the Fund.
- (D) This Agreement sets out the agreement between the Issuer and the Fund in relation to the lending of the proceeds of the issue of Covered Bonds to the Fund.
- (E) The Fund is an institutional investment fund established pursuant to Article 4 of Act No. 30/2003 on Undertaking for Collective Investment in Transferable Securities and Investment Funds, to be replaced by Article 4 of Act No. 128/2011 on Undertaking for Collective Investment in Transferable Securities and Investment Funds and Institutional Investor Funds with effect from 1 November, 2011. The day-to-day operations of the Fund are managed by Stefmir hf. formerly Kaupthing Asset Management Company hf. (the **Management Company**). The Management Company shall execute this Agreement on behalf of the Fund in accordance with the terms of the Articles of Association of the Fund, but in doing so it is hereby acknowledged and agreed that the Management Company shall not assume or have any obligations or liabilities to any other party under this Agreement.
- (F) This Agreement replaces the Intercompany Loan Agreement dated 29 March 2006 (the **Original Intercompany Loan Agreement**).

**IT IS AGREED** as follows:

1. **DEFINITIONS AND CONSTRUCTION**

- 1.1 The master definitions and construction agreement made between, *inter alios*, the parties to this Agreement on \_\_\_\_\_ January, 2012 (as the same may be amended, varied and/or supplemented from time to time, the **Master Definitions and Construction Agreement**) is expressly and specifically incorporated into this Agreement and, accordingly, the expressions defined in the Master Definitions and Construction 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 this Agreement, including the recitals hereto and this Agreement shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions and Construction Agreement.

1.2 The recitals to this Agreement shall constitute integral parts of this Agreement and shall be read with it for all their purposes and intents.

## 2. **THE FACILITY**

### 2.1 **Facility**

Subject to the terms of this Agreement, the Issuer agrees to make available to the Fund a multi-currency facility in an aggregate ISK Equivalent amount equal to the Total Credit Commitment (the **Facility**). On the Business Day prior to each Issue Date, the Issuer shall offer Term Advances to the Fund under the Facility that correspond to each Tranche of Covered Bonds to be issued by the Issuer on that Issue Date. Each Term Advance shall be in the currency of the corresponding Series or Tranche of Covered Bonds. Subject to the terms of this Agreement, on each Issue Date the Fund shall accept that offer.

### 2.2 **Existing Term Advances**

The parties hereto agree that the terms of this Agreement shall apply to all Term Advances made under the Original Intercompany Loan Agreement and the parties each agree to be bound by the terms of such Term Advances as if they had been made in accordance with the terms hereof.

## 3. **PURPOSE**

### 3.1 **Application of Term Advances by Fund**

Each Term Advance may only be used by the Fund:

- (a) as consideration in part for the acquisition of Loans and their Related Security from the Seller pursuant to the terms of the Mortgage Sale Agreement; and/or
- (b) subject to an Asset Coverage Test Breach Notice not having been served (and not revoked) on the relevant Issue Date, to make Unit Distributions to Holders by way of a distribution of each Holder's holding of Units in the Fund in an amount equal to the ISK Equivalent of the Term Advance or any part thereof, which shall be paid to each Holder on the relevant Issue Date by bank account transfer or as otherwise directed by each Holder; and/or
- (c) to invest in Substitution Assets (in an amount up to but not exceeding the prescribed limit); and/or
- (d) if an existing Series or part of an existing Series of Covered Bonds is being refinanced by the issue of Covered Bonds to which the Term Advance relates, to repay the Term Advance(s) corresponding to the Covered Bonds being so refinanced (after exchange into the currency of the Term Advance(s) being repaid, if necessary); and/or
- (e) to make a deposit in the GIC Account.

### 3.2 **No obligation to monitor**

Without prejudice to the obligations of the Fund under this Clause 3, neither the Representative nor any of the Covered Bondholders shall be obliged to concern themselves as to the application of amounts drawn by the Fund under this Agreement.

## 4. **CONDITIONS PRECEDENT**

### **Conditions precedent**

Save as the Issuer and the Representative may otherwise agree, each Term Advance will not be available for utilisation on an Issue Date unless:

- (a) the Issuer and the Representative have received a solvency certificate from the Fund, dated the Issue Date, in form and substance satisfactory to the Representative and the Issuer (each acting reasonably);
- (b) the related Series or, as applicable, Tranche of Covered Bonds has been issued by the Issuer on the relevant Issue Date and the subscription proceeds thereof have been received by or on behalf of the Issuer;
- (c) not later than 2.00 p.m. (Reykjavik time) on the relevant Issue Date (or such later time as may be agreed in writing by the Fund, the Issuer and the Representative), the Issuer and the Representative have received a Request from the Fund;
- (d) each of the Issuer and the Fund has confirmed in writing to the Representative that no Issuer Event of Default or Fund Event of Default has occurred and is continuing unwaived or unremedied at the relevant Issue Date or would result from the making of any Term Advance;
- (e) the aggregate of the ISK Equivalents of the principal amounts of the Term Advance to be made and any Term Advances outstanding on the relevant Issue Date does not exceed the Total Credit Commitment; and
- (f) no Asset Coverage Test Breach Notice is outstanding and has not been revoked.

## 5. **ADVANCE OF TERM ADVANCES**

### 5.1 **Notice to Fund**

On the Business Day prior to each Issue Date the Issuer shall give to the Fund (copied to the Representative) a Term Advance Notice, setting out *inter alia*:

- (a) the amount and currency or currencies of the proposed issue on the next Business Day of each Series or, as applicable, Tranche of Covered Bonds under the Programme;
- (b) the principal amount and currency of each Term Advance available for drawing under the Facility on the next Business Day;
- (c) the interest rate or the formula, method or other manner for determining the interest rate applicable to the Term Advance; and
- (d) the Loan Interest Periods applicable to the relevant Term Advance.

### 5.2 **Term Advances correspond to Series and Tranches of Covered Bonds**

- (a) Each Term Advance shall be identified by reference to the relevant Series and Tranche of Covered Bonds that is used to fund it, as set out in each Term Advance Notice. For instance, the Series 1 Tranche 1 Covered Bonds shall fund the Series 1 Tranche 1 Term Advance.
- (b) A Term Advance which is funded by the issue of a Tranche of Covered Bonds on an Issue Date shall be consolidated with the existing Term Advance corresponding to the Series of Covered Bonds that that Tranche will be consolidated with, with effect from the Loan Interest Payment Date for that Term Advance falling immediately after the relevant Issue Date.
- (c) For the purposes of this Agreement and the Transaction Documents, the principal amount of any Term Advance shall be equal to the nominal amount of the relevant Series or Tranche of Covered Bonds.



For the avoidance of doubt, the nominal amount of the relevant Series or Tranche shall not include any premium or discount received by the Issuer in connection with the issue thereof.

### 5.3 **Giving of Requests**

Not later than 2.00 p.m. on each Issue Date (or such later time as may be agreed in writing between the Fund, the Issuer and the Representative), the Fund shall give to the Issuer (copied to the Representative) a duly completed Request for the Term Advances in a principal amount and currency which corresponds to the principal amount and currency notified to the Fund in the Term Advance Notice of the previous Business Day. Each Request is irrevocable and (subject to the terms of this Agreement) obliges the Fund to borrow the whole amount specified in the Request on the relevant Drawdown Date upon the terms and subject to the conditions of this Agreement.

### 5.4 **Advance of Term Advances**

- (a) On receipt of a Request from the Fund and if the conditions set out in Clause 4 (Conditions Precedent) have been met, the Issuer shall make the Term Advances available to the Fund on the Issue Date.
- (b) The Issuer shall be entitled to deduct from any Term Advance the amount of any fee due and payable by the Fund to the Issuer under Clause 6.4 in connection with that Term Advance.

### 5.5 **Single drawing of the Term Advances**

Each Term Advance shall, subject to satisfaction of the matters specified in Clause 4 (Conditions Precedent), only be available for drawing in one amount by the Fund on the relevant Issue Date.

## 6. **INTEREST AND FEE**

### 6.1 **Interest Periods**

- (a) Each Loan Interest Period shall match the Interest Periods applicable to the corresponding Tranche or Series of Covered Bonds that funds such Term Advance. In the event of any lengthening or shortening of an Interest Period in respect of any Series or Tranche of Covered Bonds, the Loan Interest Periods will be subject to a corresponding lengthening or shortening. The Issuer shall notify (or shall procure notification to) the Fund of the Loan Interest Payment Dates and the Loan Interest Periods (including any amendment thereto).
- (b) Whenever it is necessary to compute an amount of interest in respect of a Term Advance for any period (including any Loan Interest Period), such interest shall be calculated or determined on the same basis as interest is computed in respect of the corresponding Tranche or Series of Covered Bonds that funded such Term Advance.
- (c) Interest payable in respect of a Term Advance shall be payable on each Loan Interest Payment Date following the Drawdown Date of that Term Advance.
- (d) If the payment of interest in respect of a Term Advance is deferred as a result of the service of an Asset Coverage Test Breach Notice pursuant to Clause 10 of the Fund Deed, then: (i) if such Asset Coverage Test Breach Notice is subsequently revoked, such payment of interest will be made on the next Fund Payment Date after the relevant Asset Coverage Test Breach Notice has been revoked; or (ii) in all other cases, such payment of interest will be made in accordance with the relevant Priorities of Payments.

### 6.2 **Interest rate**

- (a) The interest rate payable in respect of each Term Advance for each Loan Interest Period in respect of that Term Advance shall match the interest rate payable in respect of the

corresponding Interest Period in relation to the Tranche or Series of Covered Bonds that funded such Term Advance.

- (b) The Issuer shall, as soon as practicable after receiving notification under the Terms and Conditions of the Rate of Interest and Interest Amount or, as the case may be, Annuity Amount applicable to an Interest Period in respect of any Series or Tranche of Covered Bonds, notify (or procure notification to) the Fund of the rate of interest and interest amount or, as the case may be, Annuity Amount applicable to the corresponding Loan Interest Period in respect of the corresponding Term Advance.
- (c) All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Clause 6, shall (in the absence of wilful default, bad faith or proven error) be binding on the Fund, the Cash Manager and the Representative and (in such absence as aforesaid) no liability to the Fund shall attach to the Representative, the Cash Manager or the Issuer in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

### 6.3 **Deferred interest**

To the extent that there are insufficient funds available to pay interest on the Term Advances on any Loan Interest Payment Date (or, if Clause 6.1(c) applies, the relevant Fund Payment Date), the shortfall in the interest amount payable will not then fall due but will instead be added to the principal amount outstanding of that Term Advance and interest will be payable on the increased balance of that Term Advance at the rate specified in Clause 6.2 above.

### 6.4 **Fee**

In consideration of the Issuer agreeing to make the Facility available to the Fund, the Fund agrees to pay to the Issuer a flat fee, in connection with each Term Advance relative to a Series or Tranche of Covered Bonds which is issued at a discount to its nominal amount, in an amount equal to the aggregate of: (i) the aggregate amount of the discount; and (ii) the amount of any underwriting, selling or other fee, commission or concession deducted from the proceeds of the issue of the relevant Series or Tranche of Covered Bonds by the Dealers or underwriters thereof.

Such fee shall be due and payable in the currency of the relevant Term Advance on the date of the making of the relevant Term Advance.

## 7. **REPAYMENT**

### 7.1 **Final Repayment**

Subject to Clause 7.2, and unless previously repaid in full, each Term Advance shall be due for repayment on the date that matches the Final Maturity Date of the corresponding Tranche or Series of Covered Bonds that funded such Term Advance. The Fund shall not be obliged to sell any Loans and their Related Security in the Portfolio in order to pay or repay any amounts due to the Issuer under this Agreement.

### 7.2 **Mandatory Repayment**

Each Term Advance shall be repaid on the dates and in the amounts corresponding to the redemption and/or repayment dates and amounts applicable to the corresponding Tranche or Series of Covered Bonds that funded it subject to payment of all higher amounts in the Pre-Acceleration Priority of Payment.

### 7.3 **Discharge of the Fund's obligations under this Agreement**

- (a) To the extent that the Fund purchases or otherwise acquires any Covered Bonds, the proceeds of which were originally applied by the Issuer to make a Term Advance to the Fund, (for the purposes of this Clause 7.3, the **Relevant Covered Bonds**) and the Relevant Covered Bonds are cancelled in accordance with Conditions 7.9 and 7.10, the Issuer will on such payment or repurchase being made become indebted to the Fund for an amount equal to the Principal Amount Outstanding of the repurchased Relevant Covered Bonds and any accrued interest thereon.
- (b) To the extent that the Fund makes, or there is made on its behalf, a payment under the terms of the Covered Bond Guarantee, the Issuer will on such payment being made become indebted to the Fund for an amount equal to such payment.
- (c) Any amounts owing by the Issuer to the Fund in respect of amounts paid by the Fund under the terms of the Covered Bond Guarantee or the repurchase of Relevant Covered Bonds, as applicable, shall be set-off automatically (and without any action being required by the Fund, the Issuer or the Representative) against any amounts repayable by the Fund under the terms of this Agreement. The amount set-off shall be the amount of the relevant payment made by the Fund under the Covered Bond Guarantee or the Principal Amount Outstanding of any Relevant Covered Bonds purchased and cancelled by the Fund in accordance with Conditions 7.9 and 7.10, as applicable, which amount shall be applied to reduce amounts repayable under the Intercompany Loan in the following order of priority:
  - (i) *first*, to reduce and discharge interest (including accrued interest) due and unpaid on the outstanding principal balance of the relevant Term Advance;
  - (ii) *second*, to reduce and discharge the outstanding principal balance of the relevant Term Advance; and
  - (iii) *third*, to reduce and discharge any other amounts due and payable by the Fund to the Issuer under this Agreement.
- (d) If the payment of principal in respect of a Term Advance is deferred as a result of the service of an Asset Coverage Test Breach Notice pursuant to Clause 10 of the Fund Deed, then: (i) if such Asset Coverage Test Breach Notice is subsequently revoked, such payment of principal will be made on the next Fund Payment Date after the relevant Asset Coverage Test Breach Notice has been revoked; or (ii) in all other cases, such payment of principal will be made in accordance with the relevant Priorities of Payments.

## 8. **TAXES**

### 8.1 **No gross up**

All payments by the Fund under this Agreement shall be made without any deduction or withholding for or on account of and free and clear of, any Taxes, except to the extent that the Fund is required by law to make payment subject to any Taxes.

### 8.2 **Tax receipts**

All Taxes required by law to be deducted or withheld by the Fund from any amounts paid or payable under this Agreement shall be paid, to the relevant taxation authority, by the Fund when due and the Fund shall, within 90 days of the payment being made, deliver to the Issuer evidence satisfactory to the Issuer (including all relevant Tax receipts) that the payment has been duly remitted to the appropriate taxation authority.

9. **ILLEGALITY**

If, at any time, it is unlawful for the Issuer to make, fund or allow to remain outstanding a Term Advance made or to be made by it under this Agreement, then the Issuer shall, promptly after becoming aware of the same, deliver to the Fund and the Representative a legal opinion to that effect from reputable counsel and the Issuer may require the Fund to prepay, on any Fund Payment Date, having given not more than 60 days' and not less than 30 days' (or such shorter period as may be required by any relevant law) prior written notice to the Fund and the Representative, the applicable Term Advance(s) without penalty or premium but subject to Clause 10 (Mitigation) of this Agreement.

10. **MITIGATION**

If circumstances arise in respect of the Issuer which would, or would upon the giving of notice, result in:

- (a) the prepayment of the Term Advances pursuant to Clause 9 (Illegality);
- (b) a withholding or deduction from the amount to be paid by the Fund on account of Taxes, pursuant to Clause 8 (Taxes),

then, without in any way limiting, reducing or otherwise qualifying the obligations of the Fund under this Agreement, the Issuer shall:

- (a) promptly upon becoming aware of the circumstances, notify the Representative and the Fund; and
- (b) upon written request from the Fund, take such steps as may be practical to mitigate the effects of those circumstances including (without limitation) the assignment of all its rights under this Agreement to, and assumption of all its obligations under this Agreement by, another company reasonably satisfactory to the Representative, which is willing to participate in the relevant Term Advances in its place and which is not subject to (a) or (b) above, provided that no such transfer or assignment and transfer may be permitted unless the Fund indemnifies the Issuer and the Representative for any reasonable costs and expenses properly incurred by them as a result of such transfer or assignment.

11. **INTERCOMPANY LOAN EVENT OF DEFAULT**

11.1 An Intercompany Loan Event of Default will occur if and only if the Fund does not pay within a period of 90 Business Days from the relevant due date any amount payable by it under this Agreement at the place and in the currency in which it is expressed to be payable in circumstances where the Fund has the funds available to make the relevant payment. There are no other Intercompany Loan Events of Default.

11.2 The Fund shall notify the Issuer and the Representative of any Intercompany Loan Event of Default promptly upon the Fund becoming aware of such event.

12. **PAYMENTS**

12.1 **Payment**

While any amounts remain outstanding under the Covered Bonds, the Issuer directs that all amounts to be paid to the Issuer under this Agreement in relation to a Term Advance shall be paid in the currency of that Term Advance for value by the Fund to such account of the Representative (or, if so directed by the Representative, the Principal Paying Agent) as is notified to the Fund in writing by the Representative for this purpose by not less than five Business Days prior to the first Loan Interest Payment Date in respect of that Term Advance, unless the Issuer has paid or redeemed the corresponding payment under the relevant Series of Covered Bonds (in which case the relevant amount

shall be paid by the Fund to such account of the Issuer as is notified to the Fund by the Issuer for this purpose). The Representative shall give at least five Business Days' notice in writing of any change to the account details of the Representative (or, as applicable, the Principal Paying Agent). For the avoidance of doubt, the Issuer agrees that any payment made in accordance with the above direction of the Issuer shall discharge the relevant obligation of the Fund under this Agreement as if the payment had been made directly to the Issuer.

**12.2 Alternative payment arrangements**

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change in law, exchange control regulations or any similar event) for the Fund to make any payments under this Agreement in the manner specified in Clause 12.1 (Payment), then the Fund shall make such alternative arrangements for the payment of amounts due under this Agreement as are acceptable to the Issuer and the Representative (acting reasonably).

**13. FURTHER PROVISIONS**

**13.1 No set-off**

The Issuer agrees that it will advance the Term Advances to the Fund on each Issue Date (subject to the terms of this Agreement, including without limitation, Clause 4 (Conditions Precedent)) without set-off (including, without limitation, in respect of any amounts owed to it under any other Term Advance or in its capacity as a Holder) or counterclaim.

**13.2 Evidence of indebtedness**

In any proceeding, action or claim relating to this Agreement a statement as to any amount due and payable to the Issuer under this Agreement which is certified as being correct by an officer of the Representative shall, unless otherwise provided in this Agreement, be prima facie evidence that such amount is in fact due and payable.

**13.3 Rights cumulative, waivers**

The respective rights of the Fund, the Issuer and the Representative under this Agreement:

- (a) may be exercised as often as necessary;
- (b) are cumulative and not exclusive of its rights under the general law; and
- (c) may be waived only in writing and specifically.

Delay in exercising or non-exercise of any such right is not a waiver of that right.

**13.4 Severability**

If a provision of this Agreement is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

- (a) the validity or enforceability in that jurisdiction of any other provision of this Agreement; or
- (b) the validity or enforceability in other jurisdictions of that or any other provision of this Agreement.

**13.5 Notices**

Any notices to be given pursuant to this Agreement to any of the parties hereto shall be in writing and shall be sufficiently served if sent by prepaid first class post, by hand or facsimile transmission and

shall be deemed to be given (if by facsimile transmission) when despatched, (if delivered by hand) on the day of delivery if delivered before 5.00 p.m. (Reykjavik time) on a Business Day or on the next Business Day if delivered thereafter or on a day which is not a Business Day or (if by first class post) when it would be received in the ordinary course of post and shall be sent:

- (a) in the case of the Fund, to Arion Bank Mortgages Institutional Investor Fund at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 7489 and email: info@stefnir.is) for the attention of Stefnir hf. – Arion Bank Mortgages Institutional Investor Fund;
- (b) in the case of the Issuer, to Arion Bank hf. at Borgartun 19 at 105 Reykjavik, Iceland (facsimile number: +(354) 444 6229 and email: mtndesk@arionbanki.is) for the attention of the Funding Department;
- (c) in the case of the Cash Manager, to Arion Bank hf. at Borgartun 19, 105 Reykjavik, Iceland (facsimile number: +(354) 444 6229 and email: mtndesk@arionbanki.is) for the attention of the Funding Department; and
- (d) in the case of the Representative, to Deutsche Trustee Company Limited at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom (facsimile number: +(44) 20 7547 6149 and email: TSS-GDS.EUR@db.com) for the attention of the Managing Director,

or to such other address or facsimile number or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this Clause 13.5.

- 13.6 Notwithstanding Clause 13.5 above and provided that each give their prior consent to such delivery, any party to this Agreement may send notice to or otherwise communicate with any of the other parties to this Agreement by electronic mail. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. Each of the parties to this Agreement shall be deemed: (i) to have received any electronic mail sent by the any other party to this Agreement pursuant to the terms of this Clause 13.6 subject to the risks (including the security risks of interception, unauthorised access, corruption or viruses) of communications via electronic mail; and (ii) to have performed reasonable virus checks required in connection with the receipt of electronic mail. Each party to this Agreement shall be responsible for protecting its own systems and interests in relation to electronic communications and each party to this Agreement (in each case including their respective directors, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between such parties and any party's reliance on such information. The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of their respective directors, partners, employees, agents or servants.

### 13.7 **Assignment**

None of the Issuer, the Fund or the Cash Manager may assign or transfer any of its rights or obligations under this Agreement without the prior written consent of the Representative except as provided for in the Transaction Documents.

### 13.8 **Amendments and Variation**

Any amendments to this Agreement will be made only with the prior written consent of each party to this Agreement. No waiver of this Agreement shall be effective unless it is in writing and signed by (or by some person duly authorised by) each of the parties. No single or partial exercise of, or failure or

delay in exercising, any right under this Agreement shall constitute a waiver or preclude any other or further exercise of that or any other right.

### 13.9 **Change of Issuer**

If any entity assumes the obligations of the Issuer under the Covered Bonds, then for so long as any amount is outstanding under this Agreement, the parties to this Agreement shall execute such documents and take such action as the Representative may reasonably require for the purposes of vesting in the Replacement Issuer all the rights and obligations of the Issuer under this Agreement.

### 13.10 **Change of Representative**

In the event that there is any change in the identity of the Representative is appointed in accordance with the Representative and Agency Agreement, as the case may be, the parties to this Agreement shall execute such documents and take such actions as such new Representative may reasonably require for the purposes of vesting in such new Representative the rights or powers of the Representative under this Agreement and under the Representative and Agency Agreement and releasing the retiring Representative from further obligations thereunder.

### 13.11 **Representative Liability**

It is hereby acknowledged and agreed that by its execution of this Agreement the Representative shall not assume or have any obligations or liabilities to the Fund, the Issuer or the Cash Manager under this Agreement notwithstanding any provision of this Agreement and that the Representative has agreed to become a party to this Agreement for the purpose only of taking the benefit of this Agreement and agreeing to amendments to this Agreement pursuant to Clause 13.8 (Amendments and Variation). For the avoidance of doubt, the parties to this Agreement acknowledge that the rights and powers of the Representative are governed by the Representative and Agency Agreement. Any liberty or right which may be exercised or determination which may be made under this Agreement by the Representative may be exercised or made in the Representative's absolute discretion without any obligation to give reasons therefor and the Representative shall not be responsible for any liability occasioned by so acting.

### 13.12 **Counterparts**

This Agreement may be signed (manually or by facsimile) and delivered in more than one counterpart all of which, taken together, shall constitute one and the same Agreement.

## 14. **REDENOMINATION**

Each obligation under this Agreement which has been denominated in ISK shall be redenominated in Euro in accordance with EMU legislation upon such redenomination of the relative Covered Bonds.

## 15. **GOVERNING LAW AND JURISDICTION**

### 15.1 **Governing Law**

This Agreement is governed by, and shall be construed in accordance with, the laws of Iceland.

### 15.2 **Jurisdiction**

Each party to this Agreement irrevocably agrees that any dispute arising out of this Agreement shall be subject to the exclusive jurisdiction of the District Court of Reykjavik (*Héraðsdómur Reykjavíkur*).

**THIS AGREEMENT** has been entered into on the date stated at the beginning of this Agreement.

## SCHEDULE 1

### TERM ADVANCE NOTICE

From: Arion Bank hf. (the **Issuer**)

To: Arion Bank Mortgages Institutional Investor Fund (the **Fund**)

Copy: Deutsche Trustee Company Limited (the **Representative**)

Date: [        ]

Dear Sirs,

We refer to the agreement between, *inter alios*, ourselves, the Fund and the Representative (as from time to time amended, varied, novated or supplemented (the **Intercompany Loan Agreement**)) dated \_\_\_\_\_ January, 2012 whereby a Facility was made available to the Fund. Terms defined in the Intercompany Loan Agreement shall have the same meaning in this Term Advance Notice.

We hereby give you notice that, pursuant to the Intercompany Loan Agreement and upon the terms and subject to the conditions contained therein, we wish to make the following Term Advances available to the Fund on [*Drawdown Date*]:

- Series [ ] Tranche [ ] Term Advance in a principal amount and currency of [ ] to be funded by the Series [ ] Tranche [ ] Covered Bonds on the Issue Date

[*List all Term Advances*]

The aggregate amount available to be drawn under the Facility is [ ] [*List amounts for each currency in which Term Advances are available*].

The Loan Interest Periods applicable to the Term Advance are: [ ] [*Set out relevant Interest Periods*]

The interest rate[s] applicable to the Term Advance [are] [shall be determined in accordance with the following method/ formula]: [ ] [*Set out relevant interest rate[s]*]

A copy of the Final Terms for the corresponding [Tranche/Series] of Covered Bonds that will fund such Term Advance is attached to this Term Advance Notice.

We hereby confirm that no Issuer Event of Default is outstanding that has not been waived or remedied to the satisfaction of the Representative or would result from the making of the Term Advance(s) specified in this Term Advance Notice.

Yours faithfully,

for and on behalf of  
**ARION BANK HF.**



**SCHEDULE 2**

**REQUEST**

From: Arion Bank Mortgages Institutional Investor Fund (the **Fund**)

To: Arion Bank hf. (the **Issuer**)

Copy: Deutsche Trustee Company Limited (the **Representative**)

Date: [        ]

Dear Sirs,

We refer to the agreement between, *inter alios*, ourselves, the Issuer and the Representative (as from time to time amended, varied, novated or supplemented (the **Intercompany Loan Agreement**)) dated \_\_\_\_\_ January, 2012 whereby a multi-currency credit facility was made available to us. Terms defined in the Intercompany Loan Agreement shall have the same meaning in this Request.

We hereby give you notice that, pursuant to the Intercompany Loan Agreement and upon the terms and subject to the conditions contained therein, we wish the Term Advances specified in the attached Term Advance Notice to be made available to us on [*Drawdown Date*]

We confirm that following the making of the Term Advance requested, the aggregate of the ISK Equivalents of the principal amounts outstanding of all Term Advances will not exceed the Total Credit Commitment.

The net proceeds of this drawdown should be credited to our account numbered [                    ] with [                    ].

We hereby confirm that no Fund Event of Default is outstanding that has not been waived or remedied to the satisfaction of the Representative or would result from the making of such Term Advance(s).

Yours faithfully,

for and on behalf of

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

**SIGNATORIES**

**The Fund**

**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Issuer and the Cash Manager**

**ARION BANK HF.**

By: \_\_\_\_\_  
**Name:**  
**Title:**

\_\_\_\_\_  
**Name:**  
**Title:**

**The Representative**

**DEUTSCHE TRUSTEE COMPANY LIMITED**

By: \_\_\_\_\_  
**Name:**  
**Title: Associate Director**

\_\_\_\_\_  
**Name:**  
**Title: Associate Director**

**SCHEDULE 1L**

**AMENDED AND RESTATED FINAL TERMS**

**PART A**

**AMENDED AND RESTATED SERIES 1, TRANCHE 1 FINAL TERMS**

**AMENDED AND RESTATED**

**FINAL TERMS**

29 March 2006,  
as amended and restated on \_\_\_\_\_ January 2012

**ARION BANK HF.**

**Issue of ISK 19,000,000,000 Inflation Linked Annuity Covered Bonds  
irrevocably and unconditionally guaranteed as to payments by  
ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND  
under the ISK 200,000,000,000  
Covered Bond Programme**

**PART A - CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 29 March, 2006 which was approved by the ICEX on 30 March, 2006 and constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the Fund and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Conditions set forth in the Representative and Agency Agreement dated \_\_\_\_\_ January 2012 between, amongst others, Arion Bank hf. as Issuer and Arion Bank Mortgages Institutional Investor Fund as the Fund. The Prospectus and the Representative and Agency Agreement are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

- |    |     |                                   |  |
|----|-----|-----------------------------------|--|
| 1. | (a) | Issuer:                           | Arion Bank hf.                                   |
|    | (b) | Guarantor:                        | Arion Bank Mortgages Institutional Investor Fund |
| 2. | (a) | Series Number:                    | 1  |
|    | (b) | Tranche Number:                   | 1  |
| 3. |     | Specified Currency or Currencies: | ISK  |
| 4. |     | Aggregate Nominal Amount:         |  |
|    | (a) | Series:                           | 19,000,000,000                                   |
|    | (b) | Tranche:                          | 19,000,000,000                                   |

5.	Issue Price:	91.92 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	ISK 1
7.	(a) Issue Date:	30 March, 2006
	(b) Interest Commencement Date:	10 April, 2006
8.	Final Maturity Date:	10 July, 2033
9.	Interest Basis:	Inflation Linked Interest
10.	Redemption/Payment Basis:	Annuity
11.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12:	Call Option:	Issuer Call
13.	(a) Status of the Covered Bonds:	Senior
	(b) Status of the Covered Bond Guarantee:	Senior
	(c) Board approval for issuance of Covered Bonds and Covered Bond Guarantee obtained:	28 October, 2005 (with respect to Kaupthing Bank hf. as original issuer), 26 October, 2011 (with respect to the Issuer) and 10 March, 2006 and 21 February, 2008 (with respect to the Guarantor).
14.	Method of distribution:	Non-syndicated

#### **PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS**

15.	Inflation Linked Annuity Covered Bonds	Applicable
	(a) Rate(s) of Interest:	3.75 per cent. per annum payable quarterly in arrear
	(b) Interest Payment Date(s):	The 10 <sup>th</sup> day of January, April, July and October in each year up to and including the Final Maturity Date, with the first Interest Payment Date being 10 July, 2006.
	(c) Day Count Fraction:	30/360
	(d) Business Day Convention	Following
	(e) Formula for calculation of principal amount due as specified in Condition 7.1:	An amount calculated by the Calculation Agent in accordance with the following formula:

$$A = \frac{r(1+r)^{k-1}}{(1+r)^n - 1} xd$$

where:

A = The amount of each instalment of the relevant Covered Bonds;

$$r = \frac{c}{4};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 109; and

k = The number of payments that have already taken place + 1 (*k* = 1 for the first payment, *k* = 2 for

*the second payment, etc)*

(f) Calculation of Annuity Amount

The formula to calculate the Annuity Amount is as follows:

$$P = \frac{r}{1 - (1+r)^{-n}} \times IR \times d$$

where:

P = The combined payment of principal, interest and indexation amount of the relevant Covered Bonds;

$$r = \frac{c}{4};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 109; and

IR = The Index Ratio as determined in accordance with subparagraph (i) below

(g) Calculation Agent:

Issuer

(h) Initial Annuity Amount:

279,033,973

(i) Index Ratio:

The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Calculation Agent

$$\text{being } IR = \frac{RI}{BI}$$

where:

**Reference Index or RI** means:

(i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the **CPI**) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um vísitölu neysluverös nr.12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðiö*);

(ii) for each day in the relevant calendar month other than the first day:

(a) if the CPI for the calendar month immediately succeeding the month in which the relevant Interest Payment Date falls (the **Succeeding Month CPI**) has been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times \left( \frac{CPI_{t+1}}{CPI_t} \right) \frac{d}{30}$$

- (b) if the Succeeding Month CPI has not been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times (1+i) \frac{d}{360}$$

where:

RI = Reference Index;

$CPI_t$  = CPI value for the first day of the relevant calendar month;

$CPI_{t+1}$  = Succeeding Month CPI;

d = number of days since the first day of the month; and

i = annualised inflation forecast of the Central Bank of Iceland

and

**Base Index** means 252.3.

If at any time a new index is substituted for the CPI, on the calendar month from and including that in which such substitution takes effect:

- (i) the Reference Index shall be deemed to refer to the new index; and
- (ii) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

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

16.	Fixed Rate Covered Bond Provisions	Not Applicable
17.	Floating Rate Covered Bond Provisions	Not Applicable
18.	Zero Coupon Covered Bond Provisions	Not Applicable
19.	Variable Interest Covered Bond Provisions	Not Applicable
20.	Dual Currency Interest Covered Bond Provisions	Not Applicable

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

21.	Issuer Call:	Applicable
	(a) Optional Redemption Date(s):	Each Interest Payment Date
	(b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):	Condition 7.6(a) applies
	(c) If redeemable in part:	
	(i) Minimum Redemption Amount:	Not Applicable

- |      |  |   |
|------|--|---|
| (ii) | Maximum Redemption Amount:   | Not Applicable                          |
| (d)  | Notice period (if other than as set out in the Terms and Conditions):  | As set out in the Terms and Conditions, |
| 22.  | Final Redemption Amount of each Covered Bond:  | Not Applicable                          |
| 23.  | Early Redemption Amount of each Covered Bond payable on redemption on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): | As set out in Condition 7.5             |

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

- |     |  |  |
|-----|--|--|
| 24. | Form of Covered Bonds:   | Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds only after an Exchange Event |
| 25. | Additional Financial Centre(s) or other special provisions relating to Payment Days:   | Not Applicable   |
| 26. | Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):  | Yes  |
| 27. | Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: | Not Applicable   |
| 28. | Details relating to Instalment Covered Bonds:  |  |
|     | (a) Instalment Amount(s):  | Not Applicable   |
|     | (b) Instalment Date(s):  | Not Applicable   |
| 29. | Redenomination applicable:   | Redenomination not applicable  |
| 30. | Other final terms:   | Not Applicable   |

**DISTRIBUTION**

- |     |  |                |
|-----|--|----------------|
| 31. | (a) If syndicated, names of Managers :                                     | Not Applicable |
|     | (b) Date of Purchase Agreement:  | 29 March, 2006 |
|     | (c) Stabilising Manager (if any):  | Not Applicable |
| 32. | If non-syndicated, name of relevant Dealer:                                | Arion Bank hf. |
| 33. | Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D        |
| 34. | Additional selling restrictions:   | Not Applicable |

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the ISK 200,000,000,000 Covered Bond Programme of Arion Bank hf.

**RESPONSIBILITY**

Each of the Issuer and the Fund accepts responsibility for the information contained in these Final Terms. The information contained in paragraph 6 of Part B of these Final Terms has been extracted from the website of statistics of Iceland [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is). Each of the Issuer and the Fund confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Iceland Statistics, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

Signed on behalf of the Fund:

By: .....

By: .....

*Duly authorised*

*Duly authorised*

By: .....

By: .....

*Duly authorised*

*Duly authorised*



## PART B - OTHER INFORMATION

### 1. LISTING

- (a) Listing: No longer applicable.
- (b) Admission to trading: No longer applicable.

### 2. RATINGS

Ratings: No longer applicable.

### 3. NOTIFICATION

The Icelandic Stock Exchange has provided the Issuer with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.

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

Save for any fees payable to the Dealer, so far as the Issuer and the Fund are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.

### 5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (a) Reasons for the offer: As set out in *Use of Proceeds*.
- (b) Estimated net proceeds: ISK 17,464,212,137
- (c) Estimated total expenses: ISK 867,500

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

*Historic performance of the CPI and its influence on the value of the Covered Bonds*

The general cash-flow of the Covered Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 15 of Part A of this Final Terms.

Based on data from Statistics Iceland, the year to year inflation, measured as changes in the CPI, has been positive for the last 30 years ranging from 1.3 per cent, in 1998 to 67.7 per cent, in 1982. The average value over the period is 20 per cent, with standard deviation of 21.4 per cent. The same statistics for the last 10 years is an average inflation rate of 3.6 per cent, and standard deviation of 2.5 per cent.

The development of the CPI since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	202.4	221.5	224.7	230.1	239.2	249.7	266.9	282.3	334.8	356.8	363.4
<b>February</b>	202.8	220.9	224.3	229.4	239.7	249.5	268.0	286.2	336.5	360.9	367.7
<b>March</b>	204.0	221.8	226.7	230.7	241.5	252.3	267.1	290.4	334.5	362.9	371.2
<b>April</b>	206.5	221.9	227.0	232.0	242.0	255.2	268.7	300.3	336	363.8	374.1
<b>May</b>	209.4	221.8	226.6	233.9	240.7	258.9	271.0	304.4	339.8	365.3	377.6
<b>June</b>	212.6	222.8	226.8	235.7	242.4	261.9	272.4	307.1	344.5	364.1	379.5
<b>July</b>	214.2	223.0	226.5	234.6	242.7	263.1	273.0	310	345.1	361.7	379.9

<b>August</b>	214.9	221.8	226.3	234.6	243.2	264.0	273.1	312.8	346.9	362.6	380.9
<b>September</b>	216.3	222.9	227.9	235.6	246.9	265.6	276.7	315.5	349.6	362.6	383.3
<b>October</b>	217.7	224.1	229.0	237.4	248.4	266.2	278.1	322.3	353.6	365.3	
<b>November</b>	218.5	223.7	229.3	237.9	248.0	266.1	279.9	327.9	356.2	365.5	
<b>December</b>	219.5	223.9	230.0	239.0	248.9	266.2	281.8	332.9	357.9	366.7	

Source: Iceland Statistics

The Central Bank's main objective is price stability, defined as a 12-month rise in the CPI of 2.5 per cent. The aim is to keep the rate of inflation on average as close to the target as possible. If it deviates by more than 1.5 per cent, in either direction, the Central Bank is obliged to present the Icelandic Government with a report, which will be made public, explaining the reasons for the deviation from the target and the Central Bank's responses to the deviation.

The development of 12 month inflation (in percentage terms) since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	3.5%	9.4%	1.4%	2.4%	4.0%	4.4%	6.9%	5.8%	18.6%	6.6%	1.8%
<b>February</b>	4.1%	8.9%	1.5%	2.3%	4.5%	4.1%	7.4%	6.8%	17.6%	7.3%	1.9%
<b>March</b>	3.9%	8.7%	2.2%	1.8%	4.7%	4.5%	5.9%	8.7%	15.2%	8.5%	2.3%
<b>April</b>	4.5%	7.5%	2.3%	2.2%	4.3%	5.5%	5.3%	11.8%	11.9%	8.3%	2.8%
<b>May</b>	5.5%	5.9%	2.2%	3.2%	2.9%	7.6%	4.7%	12.3%	11.6%	7.5%	3.4%
<b>June</b>	6.8%	4.8%	1.8%	3.9%	2.8%	8.0%	4.0%	12.7%	12.2%	5.7%	4.2%
<b>July</b>	7.0%	4.1%	1.6%	3.6%	3.5%	8.4%	3.8%	13.6%	11.3%	4.8%	5%
<b>August</b>	7.9%	3.2%	2.0%	3.7%	3.7%	8.6%	3.4%	14.5%	10.9%	4.5%	5%
<b>September</b>	8.4%	3.1%	2.2%	3.4%	4.8%	7.6%	4.0%	14%	10.8%	3.7%	5.7%
<b>October</b>	8.0%	2.9%	2.2%	3.7%	4.6%	7.2%	4.5%	15.9%	9.7%	3.3%	
<b>November</b>	8.1%	2.4%	2.5%	3.8%	4.2%	7.3%	5.2%	17.1%	8.6%	2.6%	
<b>December</b>	8.6%	2.0%	2.7%	3.9%	4.1%	7.0%	5.9%	18.1%	7.5%	2.5%	

Source: Iceland Statistics

If policy changes or if the Icelandic economy runs into long-term stagnation it is possible that the level of the CPI will go down over time resulting in individual future payments on the Covered Bonds being lower in nominal terms than the real value of the same payment on the Issue Date.

Information about the CPI can be obtained from the website of Statistics of Iceland being [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is).

7. **OPERATIONAL INFORMATION**

- (a) ISIN Code: XS0249806851
- (b) Common Code: 024980685
- (c) Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification number(s): Not Applicable
- (d) Delivery: Delivery against payment
- (e) Names and addresses of additional Paying Agent(s) (if any): Not applicable

**PART B**

**AMENDED AND RESTATED SERIES 1, TRANCHE 2 FINAL TERMS**

**AMENDED AND RESTATED**

**FINAL TERMS**

1 August 2006,  
as amended and restated on \_\_\_\_\_ January 2012

**ARION BANK HF.**

**Issue of ISK 2,876,852,908 Inflation Linked Annuity Covered Bonds (to be consolidated and form a single series with the ISK 19,000,000,000 Inflation Linked Annuity Covered Bonds issued on 30 March, 2006)**  
**irrevocably and unconditionally guaranteed as to payments by**  
**ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND**  
**under the ISK 200,000,000,000**  
**Covered Bond Programme**

**PART A - CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 29 March, 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the Fund and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Conditions set forth in the Representative and Agency Agreement dated \_\_\_\_\_ January 2012 between, amongst others, Arion Bank hf. as Issuer and Arion Bank Mortgages Institutional Investor Fund as the Fund. The Prospectus and the Representative and Agency Agreement are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

- |    |     |                                   |   |
|----|-----|-----------------------------------|---|
| 1. | (a) | Issuer:                           | Arion Bank hf.  |
|    | (b) | Guarantor:                        | Arion Bank Mortgages Institutional Investor Fund  |
| 2. | (a) | Series Number:                    | 1   |
|    | (b) | Tranche Number:                   | 2   |
|    |     |                                   | (to be consolidated and form a single series with the ISK 19,000,000,000 Inflation Linked Annuity Covered Bonds issued on 30 March, 2006) |
| 3. |     | Specified Currency or Currencies: | ISK   |

4.	Aggregate Nominal Amount:	
	(a) Series:	21,876,852,908
	(b) Tranche:	2,876,852,908
5.	Issue Price:	94.8607 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	ISK 1
7.	(a) Issue Date:	1 August, 2006
	(b) Interest Commencement Date:	10 April, 2006
8.	Final Maturity Date:	10 July, 2033
9.	Interest Basis:	Inflation Linked Interest
10.	Redemption/Payment Basis:	Annuity
11.	Change of Interest Basis or Redemption/Payment	Not Applicable
12.	Call Option:	Issuer Call
13.	(a) Status of the Covered Bonds:	Senior
	(b) Status of the Covered Bond Guarantee:	Senior
	(c) Board approval for issuance of Covered Bonds and Covered Bond Guarantee obtained:	28 October, 2005 (with respect to Kaupthing Bank hf. as original issuer), 26 October, 2011 (with respect to the Issuer) and 10 March, 2006 and 21 February, 2008 (with respect to the Guarantor).
14.	Method of distribution:	Non-syndicated

#### **PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS**

15.	Inflation Linked Annuity Covered Bonds	Applicable
	(a) Rate(s) of Interest:	3.75 per cent. per annum payable quarterly in arrear
	(b) Interest Payment Date(s):	The 10th day of January, April, July and October in each year up to and including the Final Maturity Date, with the first Interest Payment Date being 10 July, 2006.
	(c) Day Count Fraction:	30/360
	(d) Business Day Convention	Following
	(e) Formula for calculation of principal amount due as specified in Condition 7.1:	An amount calculated by the Calculation Agent in accordance with the following formula:

$$A = \frac{r(1+r)^{k-1}}{(1+r)^n - 1} \times d$$

where:

A = The amount of each instalment of the relevant Covered Bonds;

$$r = \frac{c}{4};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

- d = The Specified Denomination of the relevant Covered Bonds;
- n = 109; and
- k = The number of payments that have already taken place + 1 (*k = 1 for the first payment, k = 2 for the second payment, etc*)
- (f) Calculation of Annuity Amount The formula to calculate the Annuity Amount is as follows:
- $$P = \frac{r}{1 - (1 + r)^{-n}} \times IR \times d$$
- where:
- P = The combined payment of principal, interest and indexation amount of the relevant Covered Bonds;
- r =  $\frac{c}{4}$ ;
- c = The Rate of Interest applicable to the relevant Covered Bonds;
- d = The Specified Denomination of the relevant Covered Bonds;
- n = 109; and
- IR = The Index Ratio as determined in accordance with subparagraph (i) below
- (g) Calculation Agent: Issuer
- (h) Initial Annuity Amount: 42,475,043
- (i) Index Ratio: The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Calculation Agent
- $$\text{being } IR = \frac{RI}{BI}$$
- where:
- Reference Index or RI** means:
- (i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the **CPI**) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um vísitölu neysluverðs nr. 12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðið*);
- (ii) for each day in the relevant calendar month other than the first day:
- (a) if the CPI for the calendar month immediately succeeding the month in which the relevant Interest Payment Date falls (the **Succeeding Month CPI**)

has been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times \left( \frac{CPI_{t+1}}{CPI_t} \right)^{\frac{d}{30}}$$

(b) if the Succeeding Month CPI has not been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times (1 + i)^{\frac{d}{360}}$$

where:

RI = Reference Index;

CPI<sub>t</sub> = CPI value for the first day of the relevant calendar month;

CPI<sub>t+1</sub> = Succeeding Month CPI;

d = number of days since the first day of the month; and

i = annualised inflation forecast of the Central Bank of Iceland

and

**Base Index** means 252.3.

If at any time a new index is substituted for the CPI, on the calendar month from and including that in which such substitution takes effect:

- (i) the Reference Index shall be deemed to refer to the new index; and
- (ii) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

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

16.	Fixed Rate Covered Bond Provisions	Not Applicable
17.	Floating Rate Covered Bond Provisions	Not Applicable
18.	Zero Coupon Covered Bond Provisions	Not Applicable
19.	Variable Interest Covered Bond Provisions	Not Applicable
20.	Dual Currency Interest Covered Bond Provisions	Not Applicable

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

21.	Issuer Call:	Applicable
	(a) Optional Redemption Date(s):	Each Interest Payment Date
	(b) Optional Redemption Amount of each Covered Bond and method, if	Condition 7.6(a) applies

any, of calculation of such amount(s):

- |     |  |   |   |
|-----|--|---|---|
| (c) | If redeemable in part:   |   |   |
|     | (i)  | Minimum Redemption Amount:  | Not Applicable                          |
|     | (ii)   | Maximum Redemption Amount:  | Not Applicable                          |
|     | (d)  | Notice period (if other than as set out in the Terms and Conditions): | As set out in the Terms and Conditions, |
| 22. | Final Redemption Amount of each Covered Bond:  |   | Not Applicable                          |
| 23. | Early Redemption Amount of each Covered Bond payable on redemption on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): |   | As set out in Condition 7.5             |

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

- |     |  |  |
|-----|--|--|
| 24. | Form of Covered Bonds:   | Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds only after an Exchange Event |
| 25. | Additional Financial Centre(s) or other special provisions relating to Payment Days:   | Not Applicable   |
| 26. | Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):  | Yes  |
| 27. | Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: | Not Applicable   |
| 28. | Details relating to Instalment Covered Bonds:  |  |
|     | (a) Instalment Amount(s):  | Not Applicable   |
|     | (b) Instalment Date(s):  | Not Applicable   |
| 29. | Redenomination applicable:   | Redenomination not applicable  |
| 30. | Other final terms:   | Not Applicable   |

**DISTRIBUTION**

- |     |  |                |
|-----|--|----------------|
| 31. | (a) If syndicated, names of Managers :                                     | Not Applicable |
|     | (b) Date of Purchase Agreement:  | 28 July, 2006  |
|     | (c) Stabilising Manager (if any):  | Not Applicable |
| 32. | If non-syndicated, name of relevant Dealer:                                | Arion Bank hf. |
| 33. | Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D        |



34. Additional selling restrictions: Not Applicable

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the ISK 200,000,000,000 Covered Bond Programme of Arion Bank hf.

**RESPONSIBILITY**

Each of the Issuer and the Fund accepts responsibility for the information contained in these Final Terms. The information contained in paragraph 6 of Part B of these Final Terms has been extracted from the website of statistics of Iceland [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is). Each of the Issuer and the Fund confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Iceland Statistics, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

Signed on behalf of the Fund:

By .....

By: .....

*Duly authorised*

*Duly authorised*

By .....

By: .....

*Duly authorised*

*Duly authorised*

## PART B - OTHER INFORMATION

### 1. LISTING

- (a) Listing: No longer applicable.
- (b) Admission to trading: No longer applicable.

### 2. RATINGS

Ratings: No longer applicable.

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

Save for any fees payable to the Dealer, so far as the Issuer and the Fund are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (a) Reasons for the offer: As set out in *Use of Proceeds*.
- (b) Estimated net proceeds: ISK 2,845,820,419
- (c) Estimated total expenses: ISK 750,000

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

*Historic performance of the CPI and its influence on the value of the Covered Bonds*

The general cash-flow of the Covered Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 15 of Part A of this Final Terms.

Based on data from Statistics Iceland, the year to year inflation, measured as changes in the CPI, has been positive for the last 30 years ranging from 1.3 per cent. in 1998 to 67.7 per cent. in 1982. The average value over the period is 20 per cent. with standard deviation of 21.4 per cent. The same statistics for the last 10 years is an average inflation rate of 3.6 per cent. And standard deviation of 2.5 per cent.

The development of the CPI since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	202.4	221.5	224.7	230.1	239.2	249.7	266.9	282.3	334.8	356.8	363.4
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<b>August</b>	214.9	221.8	226.3	234.6	243.2	264.0	273.1	312.8	346.9	362.6	380.9
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<b>November</b>	218.5	223.7	229.3	237.9	248.0	266.1	279.9	327.9	356.2	365.5	
<b>December</b>	219.5	223.9	230.0	239.0	248.9	266.2	281.8	332.9	357.9	366.7	

Source: Iceland Statistics

The Central Bank's main objective is price stability, defined as a 12-month rise in the CPI of 2.5 per cent. The aim is to keep the rate of inflation on average as close to the target as possible. If it deviates by more than 1.5 per cent. in either direction, the Central Bank is obliged to present the Icelandic Government with a report, which will be made public, explaining the reasons for the deviation from the target and the Central Bank's responses to the deviation.

The development of 12 month inflation (in percentage terms) since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	3.5%	9.4%	1.4%	2.4%	4.0%	4.4%	6.9%	5.8%	18.6%	6.6%	1.8%
<b>February</b>	4.1%	8.9%	1.5%	2.3%	4.5%	4.1%	7.4%	6.8%	17.6%	7.3%	1.9%
<b>March</b>	3.9%	8.7%	2.2%	1.8%	4.7%	4.5%	5.9%	8.7%	15.2%	8.5%	2.3%
<b>April</b>	4.5%	7.5%	2.3%	2.2%	4.3%	5.5%	5.3%	11.8%	11.9%	8.3%	2.8%
<b>May</b>	5.5%	5.9%	2.2%	3.2%	2.9%	7.6%	4.7%	12.3%	11.6%	7.5%	3.4%
<b>June</b>	6.8%	4.8%	1.8%	3.9%	2.8%	8.0%	4.0%	12.7%	12.2%	5.7%	4.2%
<b>July</b>	7.0%	4.1%	1.6%	3.6%	3.5%	8.4%	3.8%	13.6%	11.3%	4.8%	5%
<b>August</b>	7.9%	3.2%	2.0%	3.7%	3.7%	8.6%	3.4%	14.5%	10.9%	4.5%	5%
<b>September</b>	8.4%	3.1%	2.2%	3.4%	4.8%	7.6%	4.0%	14%	10.8%	3.7%	5.7%
<b>October</b>	8.0%	2.9%	2.2%	3.7%	4.6%	7.2%	4.5%	15.9%	9.7%	3.3%	
<b>November</b>	8.1%	2.4%	2.5%	3.8%	4.2%	7.3%	5.2%	17.1%	8.6%	2.6%	
<b>December</b>	8.6%	2.0%	2.7%	3.9%	4.1%	7.0%	5.9%	18.1%	7.5%	2.5%	

Source: Iceland Statistics

If policy changes or if the Icelandic economy runs into long-term stagnation it is possible that the level of the CPI will go down over time resulting in individual future payments on the Covered Bonds being lower in nominal terms than the real value of the same payment on the Issue Date.

Information about the CPI can be obtained from the website of Statistics of Iceland being [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is).

6. **OPERATIONAL INFORMATION**

- |     |   |                          |
|-----|---|--------------------------|
| (a) | Temporary ISIN Code:  | XS0263458126             |
|     | ISIN Code:  | XS0249806851             |
| (b) | Temporary Common Code:  | 026345812                |
|     | Common Code:  | 024980685                |
| (c) | Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification number(s): | Not Applicable           |
| (d) | Delivery:   | Delivery against payment |
| (e) | Names and addresses of additional Paying Agent(s) (if any):   | Not applicable           |

**PART C**

**AMENDED AND RESTATED SERIES 2, TRANCHE 1 FINAL TERMS**

**AMENDED AND RESTATED**

**FINAL TERMS**

29 March 2006,  
as amended and restated on \_\_\_\_\_ January 2012

**ARION BANK HF.**

**Issue of ISK 29,068,676,100 Inflation Linked Annuity Covered Bonds  
irrevocably and unconditionally guaranteed as to payments by  
ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND  
under the ISK 200,000,000,000  
Covered Bond Programme**

**PART A - CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 29 March, 2006 which was approved by ICEX on 30 March, 2006 and constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the Fund and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Conditions set forth in the Representative and Agency Agreement dated \_\_\_\_\_ January 2012 between, amongst others, Arion Bank hf. as Issuer and Arion Bank Mortgages Institutional Investor Fund as the Fund. The Prospectus and the Representative and Agency Agreement are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

- |    |     |                                   |  |
|----|-----|-----------------------------------|--|
| 1. | (a) | Issuer:                           | Arion Bank hf.                                   |
|    | (b) | Guarantor:                        | Arion Bank Mortgages Institutional Investor Fund |
| 2. | (a) | Series Number:                    | 2  |
|    | (b) | Tranche Number:                   | 1  |
| 3. |     | Specified Currency or Currencies: | ISK  |

4.	Aggregate Nominal Amount:	
	(a) Series:	29,068,676,100
	(b) Tranche:	29,068,676,100
5.	Issue Price:	89.14 per cent. of the Aggregate Nominal Amount
6.	Specified Denominations:	ISK 1
7.	(a) Issue Date:	30 March, 2006
	(b) Interest Commencement Date:	10 April, 2006
8.	Final Maturity Date:	10 July, 2048
9.	Interest Basis:	Inflation Linked Interest
10.	Redemption/Payment Basis:	Annuity
11.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12.	Call Option:	Issuer Call
13.	(a) Status of the Covered Bonds:	Senior
	(b) Status of the Covered Bond Guarantee:	Senior
	(c) Board approval for issuance of Covered Bonds and Covered Bond Guarantee obtained:	28 October, 2005 (with respect to Kaupthing Bank hf. as original issuer), 26 October, 2011 (with respect to the Issuer) and 10 March, 2006 and 21 February, 2008 (with respect to the Guarantor).
14.	Method of distribution:	Non-syndicated

**PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS**

15.	Inflation Linked Annuity Covered Bonds	Applicable
	(a) Rate(s) of Interest:	3.75 per cent. per annum payable quarterly in arrear
	(b) Interest Payment Date(s):	The 10th day of January, April, July and October in each year up to and including the Final Maturity Date, with the first Interest Payment Date being 10 July, 2006.
	(c) Day Count Fraction:	30/360
	(d) Business Day Convention	Following
	(e) Formula for calculation of principal amount due as specified in Condition	An amount calculated by the Calculation Agent in accordance with the following formula:

7.1:

$$A = \frac{r(1+r)^{k-1}}{(1+r)^n - 1} \times d$$

where:

A = The amount of each instalment of the relevant Covered Bonds;

$$r = \frac{c}{4};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 169; and

k = The number of payments that have already taken place + 1 (*k = 1 for the first payment, k = 2 for the second payment, etc*)

(f) Calculation of Annuity Amount:

The formula to calculate the Annuity Amount is as follows:

$$P = \frac{r}{1 - (1+r)^{-n}} \times IR \times d$$

where:

P = The combined payment of principal, interest and indexation amount of the relevant Covered Bonds;

$$r = \frac{c}{4};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 169; and

IR = The Index Ratio as determined in accordance with subparagraph (i) below

(g) Calculation Agent:

Issuer

(h) Initial Annuity Amount:

343,480,165

(i) Index Ratio:

The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Calculation Agent

$$\text{being } IR = \frac{RI}{BI}$$

Where:

**Reference Index** or **RI** means:

- (i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the CPI) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um vísitölu neysluverðs nr. 12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðið*);
- (ii) for each day in the relevant calendar month other than the first day:

- (a) if the CPI for the calendar month immediately succeeding the month in which the relevant Interest Payment Date falls (the **Succeeding Month CPI**) has been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times \left( \frac{CPI_{t+1}}{CPI_t} \right)^{\frac{d}{30}}$$

- (b) if the Succeeding Month CPI has not been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times (1 + i)^{\frac{d}{360}}$$

where:

RI = Reference Index;

CPI<sub>t</sub> = CPI value for the first day of the relevant calendar month;

CPI<sub>t+1</sub> = Succeeding Month CPI;

d = number of days since the first



day of the month; and

i = annualised inflation forecast of  
the Central Bank of Iceland

and

**Base Index** means 252.3.

If at any time a new index is substituted for the CPI, on the calendar month from and including that in which such substitution takes effect:

- (i) the Reference Index shall be deemed to refer to the new index; and
- (ii) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

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

16.	Fixed Rate Covered Bond Provisions	Not Applicable
17.	Floating Rate Covered Bond Provisions	Not Applicable
18.	Zero Coupon Covered Bond Provisions	Not Applicable
19.	Variable Interest Covered Bond Provisions	Not Applicable
20.	Dual Currency Interest Covered Bond Provisions	Not Applicable

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

21.	Issuer Call:	Applicable
	(a) Optional Redemption Date(s):	Each Interest Payment Date
	(b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):	Condition 7.6(a) applies
	(c) If redeemable in part:	
	(i) Minimum Redemption Amount:	Not Applicable
	(ii) Maximum Redemption Amount:	Not Applicable
	(d) Notice period (if other than as set out in the Terms and Conditions):	As set out in the Terms and Conditions.

- |     |  |                             |
|-----|--|-----------------------------|
| 22. | Final Redemption Amount of each Covered Bond:  | Not Applicable              |
| 23. | Early Redemption Amount of each Covered Bond payable on redemption on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): | As set out in Condition 7.5 |

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

- |     |  |  |
|-----|--|--|
| 24. | Form of Covered Bonds:   | Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds only after an Exchange Event |
| 25. | Additional Financial Centre(s) or other special provisions relating to Payment Days:   | Not Applicable   |
| 26. | Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):  | Yes  |
| 27. | Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: | Not Applicable   |
| 28. | Details relating to Instalment Covered Bonds:  |  |
|     | (a) Instalment Amount(s):  | Not Applicable   |
|     | (b) Instalment Date(s):  | Not Applicable   |
| 29. | Redenomination applicable:   | Redenomination not applicable  |
| 30. | Other final terms:   | Not Applicable   |

**DISTRIBUTION**

- |     |  |                |
|-----|--|----------------|
| 31. | (a) If syndicated, names of Managers :                                     | Not Applicable |
|     | (b) Date of Purchase Agreement:  | 29 March, 2006 |
|     | (c) Stabilising Manager (if any):  | Not Applicable |
| 32. | If non-syndicated, name of relevant Dealer:                                | Arion Bank hf. |
| 33. | Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D        |
| 34. | Additional selling restrictions:   | Not Applicable |

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the ISK 200,000,000,000 Covered Bond Programme of Arion Bank hf.

**RESPONSIBILITY**

Each of the Issuer and the Fund accepts responsibility for the information contained in these Final Terms. The information contained in paragraph 6 of Part B of these Final Terms has been extracted from the website of statistics of Iceland www.hagstofa.is or www.statice.is. Each of the Issuer and the Fund confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Iceland Statistics, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

Signed on behalf of the Fund:

By: .....

By: .....

*Duly authorised*

*Duly authorised*

By: .....

By: .....

*Duly authorised*

*Duly authorised*

## PART B - OTHER INFORMATION

### 1. LISTING

- (a) Listing: No longer applicable.
- (b) Admission to trading: No longer applicable.

### 2. RATINGS

Ratings: No longer applicable.

### 3. NOTIFICATION

The Icelandic Stock Exchange has provided the Issuer with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.

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

Save for any fees payable to the Dealer, so far as the Issuer and the Fund are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.

### 5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (a) Reasons for the offer: As set out in *Use of Proceeds*.
- (b) Estimated net proceeds: ISK 25,910,787,900.
- (c) Estimated total expenses: ISK 867,500

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

#### *Historic performance of the CPI and its influence on the value of the Covered Bonds*

The general cash-flow of the Covered Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 15 of Part A of this Final Terms.

Based on data from Statistics Iceland, the year to year inflation, measured as changes in the CPI, has been positive for the last 30 years ranging from 1.3 per cent, in 1998 to 67.7 per cent, in 1982. The average value over the period is 20 per cent, with standard deviation of 21.4 per cent. The same statistics for the last 10 years is an average inflation rate of 3.6 per cent, and standard deviation of 2.5 per cent.

The development of the CPI since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	202.4	221.5	224.7	230.1	239.2	249.7	266.9	282.3	334.8	356.8	363.4
<b>February</b>	202.8	220.9	224.3	229.4	239.7	249.5	268.0	286.2	336.5	360.9	367.7
<b>March</b>	204.0	221.8	226.7	230.7	241.5	252.3	267.1	290.4	334.5	362.9	371.2
<b>April</b>	206.5	221.9	227.0	232.0	242.0	255.2	268.7	300.3	336	363.8	374.1
<b>May</b>	209.4	221.8	226.6	233.9	240.7	258.9	271.0	304.4	339.8	365.3	377.6
<b>June</b>	212.6	222.8	226.8	235.7	242.4	261.9	272.4	307.1	344.5	364.1	379.5
<b>July</b>	214.2	223.0	226.5	234.6	242.7	263.1	273.0	310	345.1	361.7	379.9

<b>August</b>	214.9	221.8	226.3	234.6	243.2	264.0	273.1	312.8	346.9	362.6	380.9
<b>September</b>	216.3	222.9	227.9	235.6	246.9	265.6	276.7	315.5	349.6	362.6	383.3
<b>October</b>	217.7	224.1	229.0	237.4	248.4	266.2	278.1	322.3	353.6	365.3	
<b>November</b>	218.5	223.7	229.3	237.9	248.0	266.1	279.9	327.9	356.2	365.5	
<b>December</b>	219.5	223.9	230.0	239.0	248.9	266.2	281.8	332.9	357.9	366.7	

Source: Iceland Statistics

The Central Bank's main objective is price stability, defined as a 12-month rise in the CPI of 2.5 percent. The aim is to keep the rate of inflation on average as close to the target as possible. If it deviates by more than 1.5 per cent, in either direction, the Central Bank is obliged to present the Icelandic Government with a report, which will be made public, explaining the reasons for the deviation from the target and the Central Bank's responses to the deviation.

The development of 12 month inflation (in percentage terms) since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	3.5%	9.4%	1.4%	2.4%	4.0%	4.4%	6.9%	5.8%	18.6%	6.6%	1.8%
<b>February</b>	4.1%	8.9%	1.5%	2.3%	4.5%	4.1%	7.4%	6.8%	17.6%	7.3%	1.9%
<b>March</b>	3.9%	8.7%	2.2%	1.8%	4.7%	4.5%	5.9%	8.7%	15.2%	8.5%	2.3%
<b>April</b>	4.5%	7.5%	2.3%	2.2%	4.3%	5.5%	5.3%	11.8%	11.9%	8.3%	2.8%
<b>May</b>	5.5%	5.9%	2.2%	3.2%	2.9%	7.6%	4.7%	12.3%	11.6%	7.5%	3.4%
<b>June</b>	6.8%	4.8%	1.8%	3.9%	2.8%	8.0%	4.0%	12.7%	12.2%	5.7%	4.2%
<b>July</b>	7.0%	4.1%	1.6%	3.6%	3.5%	8.4%	3.8%	13.6%	11.3%	4.8%	5%
<b>August</b>	7.9%	3.2%	2.0%	3.7%	3.7%	8.6%	3.4%	14.5%	10.9%	4.5%	5%
<b>September</b>	8.4%	3.1%	2.2%	3.4%	4.8%	7.6%	4.0%	14%	10.8%	3.7%	5.7%
<b>October</b>	8.0%	2.9%	2.2%	3.7%	4.6%	7.2%	4.5%	15.9%	9.7%	3.3%	
<b>November</b>	8.1%	2.4%	2.5%	3.8%	4.2%	7.3%	5.2%	17.1%	8.6%	2.6%	
<b>December</b>	8.6%	2.0%	2.7%	3.9%	4.1%	7.0%	5.9%	18.1%	7.5%	2.5%	

Source: Iceland Statistics

If policy changes or if the Icelandic economy runs into long-term stagnation it is possible that the level of the CPI will go down over time resulting in individual future payments on the Covered Bonds being lower in nominal terms than the real value of the same payment on the Issue Date.

Information about the CPI can be obtained from the website of Statistics of Iceland being [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is).

## 7. OPERATIONAL INFORMATION

- (a) ISIN Code: XS0249806935
- (b) Common Code: 024980693
- (c) Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification numbers): Not applicable
- (d) Delivery: Delivery against payment
- (e) Names and addresses of additional Paying Agent(s) (if any): Not applicable

**PART D**

**AMENDED AND RESTATED SERIES 2, TRANCHE 2 FINAL TERMS**

**AMENDED AND RESTATED**

**FINAL TERMS**

1 August 2006,  
as amended and restated on \_\_\_\_\_ January 2012

**ARION BANK HF.**

**Issue of ISK 22,055,872,292 Inflation Linked Annuity Covered Bonds (to be consolidated and form a single series with the ISK 29,068,676,100 Inflation Linked Annuity Covered Bonds issued on 30 March, 2006)**

**irrevocably and unconditionally guaranteed as to payments by  
ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND  
under the ISK 200,000,000,000  
Covered Bond Programme**

**PART A - CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 29 March, 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003171/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the Fund and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Conditions set forth in the Representative and Agency Agreement dated \_\_\_\_\_ January 2012 between, amongst others, Arion Bank hf. as Issuer and Arion Bank Mortgages Institutional Investor Fund as the Fund. The Prospectus and the Representative and Agency Agreement are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

- |    |     |                 |  |
|----|-----|-----------------|--|
| 1. | (a) | Issuer:         | Arion Bank hf.                                   |
|    | (b) | Guarantor:      | Arion Bank Mortgages Institutional Investor Fund |
| 2. | (a) | Series Number:  | 2  |
|    | (b) | Tranche Number: | 2  |

(to be consolidated and form a single series with  
the ISK 29,068,676,100 Inflation Linked Annuity

Covered Bonds issued on 30 March, 2006)

3.	Specified Currency or Currencies:	ISK
4.	Aggregate Nominal Amount:	
	(a) Series:	51,124,548,392
	(b) Tranche:	22,055,872,292
5.	Issue Price:	95.1957 per cent, of the Aggregate Nominal Amount
6.	Specified Denominations:	ISK 1
7.	(a) Issue Date:	1 August, 2006
	(b) Interest Commencement Date:	10 April, 2006
8.	Final Maturity Date:	10 July, 2048
9.	Interest Basis:	Inflation Linked Interest
10.	Redemption/Payment Basis:	Annuity
11.	Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12.	Call Option:	Issuer Call
13.	(a) Status of the Covered Bonds:	Senior
	(b) Status of the Covered Bond Guarantee:	Senior
	(c) Board approval for issuance of Covered Bonds and Covered Bond Guarantee obtained:	28 October, 2005 (with respect to Kaupthing Bank hf. as original issuer), 26 October, 2011 (with respect to the Issuer) and 10 March, 2006 and 21 February, 2008 (with respect to the Guarantor).
14.	Method of distribution:	Non-syndicated

**PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS**

15.	Inflation Linked Annuity Covered Bonds	Applicable
	(a) Rate(s) of Interest:	3.75 per cent, per annum payable quarterly in arrear
	(b) Interest Payment Date(s):	The 10th day of January, April, July and October in each year up to and including the Final Maturity Date, with the first Interest Payment Date being 10 July, 2006.
	(c) Day Count Fraction:	30/360
	(d) Business Day Convention	Following

(e) Formula for calculation of principal amount due as specified in Condition 7.1:

An amount calculated by the Calculation Agent in accordance with the following formula:

$$A = \frac{r(1+r)^{k-1}}{(1+r)^n - 1} \times d$$

where:

A = The amount of each instalment of the relevant Covered Bonds;

$$r = \frac{c}{4};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 169; and

k = The number of payments that have already taken place + 1 (*k = 1 for the first payment, k = 2 for the second payment, etc*)

(f) Calculation of Annuity Amount:

The formula to calculate the Annuity Amount is as follows:

$$P = \frac{r}{1 - (1+r)^{-n}} \times IR \times d$$

where:

P = The combined payment of principal, interest and indexation amount of the relevant Covered Bonds;

$$r = \frac{c}{4}$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 169; and

IR = The Index Ratio as determined in accordance with subparagraph (i) below Issuer



- (g) Calculation Agent: Issuer
- (h) Initial Annuity Amount: 261,253,506
- (i) Index Ratio: The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Calculation Agent

$$\text{being } IR = \frac{RI}{BI}$$

Where:

**Reference Index** or **RI** means:

- (i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the **CPI**) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um visitölu neysluverðs nr. 12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðið*);
- (ii) for each day in the relevant calendar month other than the first day:
- (a) if the CPI for the calendar month immediately succeeding the month in which the relevant Interest Payment Date falls (the **Succeeding Month CPI**) has been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times \left( \frac{CPI_{t+1}}{CPI_t} \right)^{\frac{d}{30}}$$

- (b) if the Succeeding Month CPI has not been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times (1 + i)^{\frac{d}{360}}$$

where:

RI = Reference Index;

CPI<sub>t</sub> = CPI value for the first day of the relevant calendar month;

$CPI_{t+i}$  = Succeeding Month CPI;

d = number of days since the first day of the month; and

i = annualised inflation forecast of the Central Bank of Iceland

and

**Base Index** means 252.3.

If at any time a new index is substituted for the CPI, on the calendar month from and including that in which such substitution takes effect:

(iii) the Reference Index shall be deemed to refer to the new index; and

(iv) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

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

16.	Fixed Rate Covered Bond Provisions	Not Applicable
17.	Floating Rate Covered Bond Provisions	Not Applicable
18.	Zero Coupon Covered Bond Provisions	Not Applicable
19.	Variable Interest Covered Bond Provisions	Not Applicable
20.	Dual Currency Interest Covered Bond Provisions	Not Applicable

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

21.	Issuer Call:	Applicable
	(a) Optional Redemption Date(s):	Each Interest Payment Date
	(b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):	Condition 7.6(a) applies
	(c) If redeemable in part:	
	(i) Minimum Redemption Amount:	Not Applicable
	(ii) Maximum Redemption Amount:	Not Applicable

- |     |  |   |
|-----|--|---|
| (d) | Notice period (if other than as set out in the Terms and Conditions):  | As set out in the Terms and Conditions. |
| 22. | Final Redemption Amount of each Covered Bond:  | Not Applicable                          |
| 23. | Early Redemption Amount of each Covered Bond payable on redemption on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): | As set out in Condition 7.5             |

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

- |     |  |  |
|-----|--|--|
| 24. | Form of Covered Bonds:   | Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds only after an Exchange Event |
| 25. | Additional Financial Centre(s) or other special provisions relating to Payment Days:   | Not Applicable   |
| 26. | Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature):  | Yes  |
| 27. | Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: | Not Applicable   |
| 28. | Details relating to Instalment Covered Bonds:  |  |
|     | (a) Instalment Amount(s):  | Not Applicable   |
|     | (b) Instalment Date(s):  | Not Applicable   |
| 29. | Redenomination applicable:   | Redenomination not applicable  |
| 30. | Other final terms:   | Not Applicable   |

**DISTRIBUTION**

- |     |  |                |
|-----|--|----------------|
| 31. | (a) If syndicated, names of Managers :                                     | Not Applicable |
|     | (b) Date of Purchase Agreement:  | 29 July, 2006  |
|     | (c) Stabilising Manager (if any):  | Not applicable |
| 32. | If non-syndicated, name of relevant Dealer:                                | Arion Bank hf. |
| 33. | Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: | TEFRA D        |

34. Additional selling restrictions: Not Applicable

**LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the ISK 200,000,000,000 Covered Bond Programme of Arion Bank hf.

**RESPONSIBILITY**

Each of the Issuer and the Fund accepts responsibility for the information contained in these Final Terms. The information contained in paragraph 6 of Part B of these Final Terms has been extracted from the website of statistics of Iceland [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is). Each of the Issuer and the Fund confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Iceland Statistics, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

Signed on behalf of the Fund:

By: .....

By: .....

*Duly authorised*

*Duly authorised*

By: .....

By: .....

*Duly authorised*

*Duly authorised*

## PART B - OTHER INFORMATION

### 1. LISTING

- (a) Listing: No longer applicable.
- (b) Admission to trading: No longer applicable.

### 2. RATINGS

Ratings: No longer applicable.

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

Save for any fees payable to the Dealer, so far as the Issuer and the Fund are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (a) Reasons for the offer: As set out in *Use of Proceeds*.
- (b) Estimated net proceeds: ISK 21,8950,018,244.
- (c) Estimated total expenses: ISK 750,000

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

*Historic performance of the CPI and its influence on the value of the Covered Bonds*

The general cash-flow of the Covered Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 15 of Part A of this Final Terms.

Based on data from Statistics Iceland, the year to year inflation, measured as changes in the CPI, has been positive for the last 30 years ranging from 1.3 per cent, in 1998 to 67.7 per cent, in 1982. The average value over the period is 20 per cent, with standard deviation of 21.4 per cent. The same statistics for the last 10 years is an average inflation rate of 3.6 per cent, and standard deviation of 2.5 per cent.

The development of the CPI since 2001 is set out in the table below.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	202.4	221.5	224.7	230.1	239.2	249.7	266.9	282.3	334.8	356.8	363.4
<b>February</b>	202.8	220.9	224.3	229.4	239.7	249.5	268.0	286.2	336.5	360.9	367.7
<b>March</b>	204.0	221.8	226.7	230.7	241.5	252.3	267.1	290.4	334.5	362.9	371.2
<b>April</b>	206.5	221.9	227.0	232.0	242.0	255.2	268.7	300.3	336	363.8	374.1
<b>May</b>	209.4	221.8	226.6	233.9	240.7	258.9	271.0	304.4	339.8	365.3	377.6
<b>June</b>	212.6	222.8	226.8	235.7	242.4	261.9	272.4	307.1	344.5	364.1	379.5
<b>July</b>	214.2	223.0	226.5	234.6	242.7	263.1	273.0	310	345.1	361.7	379.9
<b>August</b>	214.9	221.8	226.3	234.6	243.2	264.0	273.1	312.8	346.9	362.6	380.9
<b>September</b>	216.3	222.9	227.9	235.6	246.9	265.6	276.7	315.5	349.6	362.6	383.3
<b>October</b>	217.7	224.1	229.0	237.4	248.4	266.2	278.1	322.3	353.6	365.3	
<b>November</b>	218.5	223.7	229.3	237.9	248.0	266.1	279.9	327.9	356.2	365.5	
<b>December</b>	219.5	223.9	230.0	239.0	248.9	266.2	281.8	332.9	357.9	366.7	

Source: Icelandic Statistics

The Central Bank's main objective is price stability, defined as a 12-month rise in the CPI of 2.5 per cent. The aim is to keep the rate of inflation on average as close to the target as possible. If it deviates by more than 1.5 per cent. in either direction, the Central Bank is obliged to present the Icelandic Government with a report, which will be made public, explaining the reasons for the deviation from the target and the Central Bank's responses to the deviation.

The development of 12 month inflation (in percentage terms) since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	3.5%	9.4%	1.4%	2.4%	4.0%	4.4%	6.9%	5.8%	18.6%	6.6%	1.8%
<b>February</b>	4.1%	8.9%	1.5%	2.3%	4.5%	4.1%	7.4%	6.8%	17.6%	7.3%	1.9%
<b>March</b>	3.9%	8.7%	2.2%	1.8%	4.7%	4.5%	5.9%	8.7%	15.2%	8.5%	2.3%
<b>April</b>	4.5%	7.5%	2.3%	2.2%	4.3%	5.5%	5.3%	11.8%	11.9%	8.3%	2.8%
<b>May</b>	5.5%	5.9%	2.2%	3.2%	2.9%	7.6%	4.7%	12.3%	11.6%	7.5%	3.4%
<b>June</b>	6.8%	4.8%	1.8%	3.9%	2.8%	8.0%	4.0%	12.7%	12.2%	5.7%	4.2%
<b>July</b>	7.0%	4.1%	1.6%	3.6%	3.5%	8.4%	3.8%	13.6%	11.3%	4.8%	5%
<b>August</b>	7.9%	3.2%	2.0%	3.7%	3.7%	8.6%	3.4%	14.5%	10.9%	4.5%	5%
<b>September</b>	8.4%	3.1%	2.2%	3.4%	4.8%	7.6%	4.0%	14%	10.8%	3.7%	5.7%
<b>October</b>	8.0%	2.9%	2.2%	3.7%	4.6%	7.2%	4.5%	15.9%	9.7%	3.3%	
<b>November</b>	8.1%	2.4%	2.5%	3.8%	4.2%	7.3%	5.2%	17.1%	8.6%	2.6%	
<b>December</b>	8.6%	2.0%	2.7%	3.9%	4.1%	7.0%	5.9%	18.1%	7.5%	2.5%	

Source: Icelandic Statistics

If policy changes or if the Icelandic economy runs into long-term stagnation it is possible that the level of the CPI will go down over time resulting in individual future payments on the Covered Bonds being lower in nominal terms than the real value of the same payment on the Issue Date.

Information about the CPI can be obtained from the website of Statistics of Iceland being [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is).

## 6. OPERATIONAL INFORMATION

- (a) Temporary ISIN Code: XS0263457821  
 ISIN Code: XS0249806935
- (b) Temporary Common Code: 026345782

Common Code: 024980693

- (c) Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification numbers):
- (d) Delivery: Delivery against payment
- (e) Names and addresses of additional Paying Agent(s) (if any): Not applicable

**PART E**

**AMENDED AND RESTATED SERIES 3 FINAL TERMS**

**AMENDED AND RESTATED**

**FINAL TERMS**

13 March 2008,  
as amended and restated on \_\_\_\_\_ January 2012

**ARION BANK HF.**

**Issue of ISK 4,000,000,000 Inflation Linked Annuity Covered Bonds  
irrevocably and unconditionally guaranteed as to payments by  
ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND  
under the ISK 200,000,000,000  
Covered Bond Programme**

The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in any other circumstances.



## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 29 February, 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the Fund and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Conditions set forth in the Representative and Agency Agreement dated \_\_\_\_\_ January 2012 between, amongst others, Arion Bank hf. as Issuer and Arion Bank Mortgages Institutional Investor Fund as the Fund. The Prospectus and the Representative and Agency Agreement are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

- |     |     |   |  |
|-----|-----|---|--|
| 1.  | (a) | Issuer:   | Arion Bank hf.                                   |
|     | (b) | Guarantor:  | Arion Bank Mortgages Institutional Investor Fund |
| 2.  | (a) | Series Number:  | 3  |
|     | (b) | Tranche Number:                                       | 1  |
| 3.  |     | Specified Currency or Currencies:                     | ISK  |
| 4.  |     | Aggregate Nominal Amount:                             |  |
|     | (a) | Series:   | 4,000,000,000                                    |
|     | (b) | Tranche:  | 4,000,000,000                                    |
| 5.  |     | Issue Price:  | 92.103 per cent. of the Aggregate Nominal Amount |
| 6.  | (a) | Specified Denominations:                              | ISK 100,000                                      |
|     | (b) | Calculation Amount:                                   | ISK 100,000                                      |
| 7.  | (a) | Issue Date:   | 14 March, 2008                                   |
|     | (b) | Interest Commencement Date:                           | 10 March, 2008                                   |
| 8.  |     | Final Maturity Date:                                  | 10 January, 2031                                 |
| 9.  |     | Interest Basis:                                       | Inflation Linked Interest                        |
| 10. |     | Redemption/Payment Basis:                             | Annuity  |
| 11. |     | Change of Interest Basis or Redemption/Payment Basis: | Not Applicable                                   |
| 12. |     | Call Option:  | Issuer Call                                      |
| 13. | (a) | Status of the Covered Bonds:                          | Senior   |
|     | (b) | Status of the Covered Bond Guarantee:                 | Senior   |

- (c) Board approval for issuance of Covered Bonds and Covered Bond Guarantee obtained: 28 October, 2005 (with respect to Kaupthing Bank hf. as original issuer), 26 October, 2011 (with respect to the Issuer) and 10 March, 2006 and 21 February, 2008 (with respect to the Guarantor).

14. Method of distribution: Non-syndicated

**PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS**

15. Inflation Linked Annuity Covered Bonds Applicable

- (a) Rate(s) of Interest: 4.0 per cent. per annum payable quarterly in arrear
- (b) Interest Payment Date(s): The 10th day of January, April, July and October in each year up to and including the Final Maturity Date, with the first Interest Payment being 10 April, 2008
- (c) Day Count Fraction: 30/360
- (d) Formula for calculation of principal amount due as specified in Condition 7.1:

$$A = \frac{r(1+r)^{k-1}}{(1+r)^{n-1}} \times d$$

where:

A = The amount of each instalment of the relevant Covered Bonds;

$$r = \frac{c}{4}$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 92; and

k = The number of payments that have already taken place + 1 (*k = 1 for the first payment, k = 2 for the second payment, etc*)

- (e) Calculation of Annuity Amount: The formula to calculate the Annuity Amount is as follows:

$$P = \frac{r}{1 - (1+r)^{-n}} \times IR \times d$$

where:

P = The combined payment of principal, interest and

indexation amount of the relevant Covered Bonds;

$$r = \frac{c}{4}$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 92; and

IR = The Index Ratio as determined in accordance with subparagraph (h) below

(f) Calculation Agent: Issuer

(g) Initial Annuity Amount: ISK 66,704,940

(h) Index Ratio: The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Calculation Agent

$$\text{being IR} = \frac{\text{RI}}{\text{BI}}$$

where:

**Reference Index or RI** means:

(i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the **CPI**) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um vísitölu neysluverðs nr. 12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðið*);

(ii) for each day in the relevant calendar month other than the first day:

$$\text{RI} = \text{CPI}_t + \frac{d-1}{30} \times (\text{CPI}_{t+1} - \text{CPI}_t)$$

where:

RI = Reference Index;

$\text{CPI}_t$  = CPI value for the first day of the relevant calendar month;

$\text{CPI}_{t+1}$  = Succeeding Month CPI;

d = the day number of the month;

**Base Index** means 282.3, being the value of the CPI on 1 March, 2008.

If at any time a new index is substituted for the CPI, on the calendar month from and including that in which such substitution takes effect:

- (i) the Reference Index shall be deemed to refer to the new index; and
- (ii) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

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

- |     |  |                |
|-----|--|----------------|
| 16. | Fixed Rate Covered Bond Provisions             | Not Applicable |
| 17. | Floating Rate Covered Bond Provisions          | Not Applicable |
| 18. | Zero Coupon Covered Bond Provisions            | Not Applicable |
| 19. | Variable Interest Covered Bond Provisions      | Not Applicable |
| 20. | Dual Currency Interest Covered Bond Provisions | Not Applicable |

**PROVISIONS RELATING TO REDEMPTION**

- |     |   |  |
|-----|---|--|
| 21. | Issuer Call:  | Applicable                             |
|     | (a) Optional Redemption Date(s):  | Each Interest Payment Date             |
|     | (b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s): | Condition 7.6(a) applies               |
|     | (c) If redeemable in part:  |  |
|     | (i) Minimum Redemption Amount:  | Not Applicable                         |
|     | (ii) Maximum Redemption Amount:   | Not Applicable                         |
|     | (d) Notice period (if other than as set out in the Terms and Conditions):                                 | As set out in the Terms and Conditions |
| 22. | Final Redemption Amount of each Covered Bond:   | Not Applicable                         |

23. Early Redemption Amount of each Covered Bond payable on redemption on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): As set out in Condition 7.5

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

24. (a) Form of Covered Bonds: Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds only after an Exchange Event
- (b) New Global Note: No
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: Not Applicable
26. Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature): Yes
27. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: Not Applicable
28. Details relating to Instalment Covered Bonds:
- (a) Instalment Amount(s): Not Applicable
- (b) Instalment Date(s): Not Applicable
29. Redenomination applicable: Redenomination not applicable
30. Other final terms: Not Applicable

**DISTRIBUTION**

31. (a) If syndicated, names and addresses of Managers and underwriting commitments: Not Applicable
- (b) Date of Subscription Agreement: 13 March, 2008
- (c) Stabilising Manager (if any): Not applicable
32. If non-syndicated, name of relevant Dealer: Arion Bank hf.
33. Total commission and concession: Not applicable
34. U.S. Selling Restrictions: Reg. S Compliance Category: TEFRA D

- 35. Non-exempt Offer Not Applicable
- 36. Additional selling restrictions: Not Applicable

**PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue and admission to trading on the regulated market of the OMX Nordic Exchange Iceland of the Covered Bonds described herein pursuant to the ISK 200,000,000,000 Covered Bond Programme of Arion Bank hf.

**RESPONSIBILITY**

Each of the Issuer and the Fund accepts responsibility for the information contained in these Final Terms. The information contained in paragraph 5 of Part B of these Final Terms has been extracted from the website of statistics of Iceland [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is). Each of the Issuer and the Fund confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Iceland Statistics no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By: .....  
*Duly authorised*

By: .....  
*Duly authorised*

Signed on behalf of the Fund:

By: .....  
*Duly authorised*

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING** No longer applicable.

2. **RATINGS**

Ratings: No longer applicable.

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

Save for any fees payable to the Dealer, so far as the Issuer and the Fund are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.

4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

- (a) Reasons for the offer: As set out in "Use of Proceeds" in the Prospectus.
- (b) Estimated net proceeds: ISK 3,684,128,718
- (c) Estimated total expenses: ISK 1,500,000.

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

*Historic performance of the CPI and its influence on the value of the Covered Bonds*

The general cash-flow of the Covered Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 15 of Part A of this Final Terms.

Based on data from Statistics Iceland, the year to year inflation, measured as changes in the CPI, has over the last 30 years ranged from -0.04 per cent. in 1994 to 102.8 per cent. in 1982. The average value over the period is 19 per cent. with standard deviation of 21.8 per cent. The same statistic for the last 10 years is an average inflation rate of 4.2 per cent. and standard deviation of 2.2 per cent.

The development of the CPI since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	202.4	221.5	224.7	230.1	239.2	249.7	266.9	282.3	334.8	356.8	363.4
<b>February</b>	202.8	220.9	224.3	229.4	239.7	249.5	268.0	286.2	336.5	360.9	367.7
<b>March</b>	204.0	221.8	226.7	230.7	241.5	252.3	267.1	290.4	334.5	362.9	371.2
<b>April</b>	206.5	221.9	227.0	232.0	242.0	255.2	268.7	300.3	336	363.8	374.1
<b>May</b>	209.4	221.8	226.6	233.9	240.7	258.9	271.0	304.4	339.8	365.3	377.6
<b>June</b>	212.6	222.8	226.8	235.7	242.4	261.9	272.4	307.1	344.5	364.1	379.5
<b>July</b>	214.2	223.0	226.5	234.6	242.7	263.1	273.0	310	345.1	361.7	379.9
<b>August</b>	214.9	221.8	226.3	234.6	243.2	264.0	273.1	312.8	346.9	362.6	380.9
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<b>November</b>	218.5	223.7	229.3	237.9	248.0	266.1	279.9	327.9	356.2	365.5	
<b>December</b>	219.5	223.9	230.0	239.0	248.9	266.2	281.8	332.9	357.9	366.7	

Source: Statistics Iceland

The Central Bank's main objective is price stability, defined as a 12-month rise in the CPI of 2.5 per cent. The aim is to keep the rate of inflation on average as close to the target as possible. If it deviates by more than 1.5

per cent. in either direction, the Central Bank is obliged to present the Icelandic Government with a report, which will be made public, explaining the reasons for the deviation from the target and the Central Bank's responses to the deviation.

The development of 12 month inflation (in percentage terms) since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	3.5%	9.4%	1.4%	2.4%	4.0%	4.4%	6.9%	5.8%	18.6%	6.6%	1.8%
<b>February</b>	4.1%	8.9%	1.5%	2.3%	4.5%	4.1%	7.4%	6.8%	17.6%	7.3%	1.9%
<b>March</b>	3.9%	8.7%	2.2%	1.8%	4.7%	4.5%	5.9%	8.7%	15.2%	8.5%	2.3%
<b>April</b>	4.5%	7.5%	2.3%	2.2%	4.3%	5.5%	5.3%	11.8%	11.9%	8.3%	2.8%
<b>May</b>	5.5%	5.9%	2.2%	3.2%	2.9%	7.6%	4.7%	12.3%	11.6%	7.5%	3.4%
<b>June</b>	6.8%	4.8%	1.8%	3.9%	2.8%	8.0%	4.0%	12.7%	12.2%	5.7%	4.2%
<b>July</b>	7.0%	4.1%	1.6%	3.6%	3.5%	8.4%	3.8%	13.6%	11.3%	4.8%	5%
<b>August</b>	7.9%	3.2%	2.0%	3.7%	3.7%	8.6%	3.4%	14.5%	10.9%	4.5%	5%
<b>September</b>	8.4%	3.1%	2.2%	3.4%	4.8%	7.6%	4.0%	14%	10.8%	3.7%	5.7%
<b>October</b>	8.0%	2.9%	2.2%	3.7%	4.6%	7.2%	4.5%	15.9%	9.7%	3.3%	
<b>November</b>	8.1%	2.4%	2.5%	3.8%	4.2%	7.3%	5.2%	17.1%	8.6%	2.6%	
<b>December</b>	8.6%	2.0%	2.7%	3.9%	4.1%	7.0%	5.9%	18.1%	7.5%	2.5%	

Source: Statistics Iceland

If policy changes or if the Icelandic economy runs into long-term stagnation it is possible that the level of the CPI will go down over time resulting in individual future payments on the Covered Bonds being lower in nominal terms than the real value of the same payment on the Issue Date.

Information about the CPI can be obtained from the website of Statistics of Iceland being [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is).

## 6. OPERATIONAL INFORMATION

- |     |  |   |
|-----|--|---|
| (a) | ISIN Code:   | XS0349859016  |
| (b) | Common Code:   | 034985901   |
| (c) | Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, <i>société anonyme</i> and the relevant identification number(s): | Not Applicable  |
| (d) | Delivery:  | Delivery free of payment  |
| (e) | Names and addresses of initial Paying Agent(s) (if any):   | Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB |
| (f) | Intended to be held in a manner which would allow Eurosystem eligibility:  | No  |



**PART F**

**AMENDED AND RESTATED SERIES 4 FINAL TERMS**

**AMENDED AND RESTATED**

**FINAL TERMS**

13 March 2008,  
as amended and restated on \_\_\_\_\_ January 2012

**ARION BANK HF.**

**Issue of ISK 15,500,000,000 Inflation Linked Annuity Covered Bonds  
irrevocably and unconditionally guaranteed as to payments by  
ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND under the ISK 200,000,000,000  
Covered Bond Programme**

The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in any other circumstances.

## PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 29 February, 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer, the Fund and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Conditions set forth in the Representative and Agency Agreement dated \_\_\_\_\_ January 2012 between, amongst others, Arion Bank hf. as Issuer and Arion Bank Mortgages Institutional Investor Fund as the Fund. The Prospectus and the Representative and Agency Agreement are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

- |     |     |  |  |
|-----|-----|--|--|
| 1.  | (a) | Issuer:  | Arion Bank hf.                                   |
|     | (b) | Guarantor:   | Arion Bank Mortgages Institutional Investor Fund |
| 2.  | (a) | Series Number:   | 4  |
|     | (b) | Tranche Number:  | 1  |
| 3.  |     | Specified Currency or Currencies:                        | ISK  |
| 4.  |     | Aggregate Nominal Amount:                                |  |
|     | (a) | Series:  | 15,500,000,000                                   |
|     | (b) | Tranche:   | 15,500,000,000                                   |
| 5.  |     | Issue Price:   | 89.85 per cent. of the Aggregate Nominal Amount  |
| 6.  | (a) | Specified Denominations:                                 | ISK 100,000                                      |
|     | (b) | Calculation Amount:                                      | ISK 100,000                                      |
| 7.  | (a) | Issue Date:  | 14 March, 2008                                   |
|     | (b) | Interest Commencement Date:                              | 10 March, 2008                                   |
| 8.  |     | Final Maturity Date:                                     | 10 July, 2045                                    |
| 9.  |     | Interest Basis:  | Inflation Linked Interest                        |
| 10. |     | Redemption/Payment Basis:                                | Annuity  |
| 11. |     | Change of Interest Basis or<br>Redemption/Payment Basis: | Not Applicable                                   |
| 12. |     | Call Option:   | Issuer Call                                      |
| 13. | (a) | Status of the Covered Bonds:                             | Senior   |
|     | (b) | Status of the Covered Bond<br>Guarantee:                 | Senior   |

(c) Date Board approval for issuance of Covered Bonds and Covered Bond Guarantee obtained: 28 October, 2005 (with respect to Kaupthing Bank hf. as original issuer), 26 October, 2011 (with respect to the Issuer) and 10 March, 2006 and 21 February, 2008 (with respect to the Guarantor).

14. Method of distribution: Non-syndicated

**PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS**

15. Inflation Linked Annuity Covered Bonds Applicable

(a) Rate(s) of Interest: 4.0 per cent. per annum payable quarterly in arrear

(b) Interest Payment Date(s): The 10th day of January, April, July and October in each year up to and including the Final Maturity Date, with the first Interest Payment being 10 April, 2008

(c) Day Count Fraction: 30/360

(d) Formula for calculation of principal amount due as specified in Condition 7.1: An amount calculated by the Calculation Agent in accordance with the following formula:

$$A = \frac{r(1+r)^{k-1}}{(1+r)^{n-1}} \times d$$

where:

A = The amount of each instalment of the relevant Covered Bonds;

$$r = \frac{c}{4}$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 150; and

k = The number of payments that have already taken place + 1 (*k = 1 for the first payment, k = 2 for the second payment, etc*)

(e) Calculation of Annuity Amount: The formula to calculate the Annuity Amount is as follows:

$$P = \frac{r}{1 - (1+r)^{-n}} \times IR \times d$$

where:

P = The combined payment of principal, interest and

indexation amount of the relevant Covered Bonds;

$$r = \frac{c}{4}$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = 150; and

IR = The Index Ratio as determined in accordance with subparagraph (h) below

- (f) Calculation Agent: Issuer
- (g) Initial Annuity Amount: ISK 199,948,083
- (h) Index Ratio: The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Calculation Agent

$$\text{being } IR = \frac{RI}{BI}$$

where:

**Reference Index or RI** means:

- (i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the **CPI**) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um vísitölu neysluverðs nr. 12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðið*);
- (ii) for each day in the relevant calendar month other than the first day:

$$RI = CPI_t + \frac{d-1}{30} \times (CPI_{t+1} - CPI_t)$$

where:

RI = Reference Index;

$CPI_t$  = CPI value for the first day of the relevant calendar month;

$CPI_{t+1}$  = Succeeding Month CPI;

d = the day number of the month;

**Base Index** means 282.3, being the value of the CPI on 1 March, 2008.

If at any time a new index is substituted for the CPI, on the calendar month from and including that in which such substitution takes effect:

- (i) the Reference Index shall be deemed to refer to the new index; and
- (ii) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

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

16.	Fixed Rate Covered Bond Provisions	Not Applicable
17.	Floating Rate Covered Bond Provisions	Not Applicable
18.	Zero Coupon Covered Bond Provisions	Not Applicable
19.	Variable Interest Covered Bond Provisions	Not Applicable
20.	Dual Currency Interest Covered Bond Provisions	Not Applicable

**PROVISIONS RELATING TO REDEMPTION**

21.	Issuer Call:	Applicable
	(a) Optional Redemption Date(s):	Each Interest Payment Date
	(b) Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):	Condition 7.6(a) applies
	(c) If redeemable in part:	
	(i) Minimum Redemption Amount:	Not Applicable
	(ii) Maximum Redemption Amount:	Not Applicable
	(d) Notice period (if other than as set out in the Terms and Conditions):	As set out in the Terms and Conditions
22.	Final Redemption Amount of each Covered Bond:	Not Applicable

23. Early Redemption Amount of each Covered Bond payable on redemption on event of default, etc. and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): As set out in Condition 7.5

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

24. (a) Form of Covered Bonds: Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for Definitive Covered Bonds only after an Exchange Event
- (b) New Global Note: No
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: Not Applicable
26. Talons for future Coupons or Receipts to be attached to Definitive Covered Bonds (and dates on which such Talons mature): Yes
27. Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: Not Applicable
28. Details relating to Instalment Covered Bonds:
- (a) Instalment Amount(s): Not Applicable
- (b) Instalment Date(s): Not Applicable
29. Redenomination applicable: Redenomination not applicable
30. Other final terms: Not Applicable

**DISTRIBUTION**

31. (a) If syndicated, names and addresses of Managers and underwriting commitments: Not Applicable
- (b) Date of Subscription Agreement: 13 March, 2008
- (c) Stabilising Manager (if any): Not applicable
32. If non-syndicated, name of relevant Dealer: Arion Bank hf.
33. Total commission and concession: Not applicable
34. U.S. Selling Restrictions: Reg. S Compliance Category: TEFRA D

- 35. Non-exempt Offer Not Applicable
- 36. Additional selling restrictions: Not Applicable

**PURPOSE OF FINAL TERMS**

These Final Terms comprise the final terms required for issue and admission to trading on the regulated market of the OMX Nordic Exchange Iceland of the Covered Bonds described herein pursuant to the ISK 200,000,000,000 Covered Bond Programme of Arion Bank hf.

**RESPONSIBILITY**

Each of the Issuer and the Fund accepts responsibility for the information contained in these Final Terms. The information contained in paragraph 5 of Part B of these Final Terms has been extracted from the website of statistics of Iceland [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is). Each of the Issuer and the Fund confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Iceland Statistics no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

Signed on behalf of the Fund:

By: .....  
*Duly authorised*

By: .....  
*Duly authorised*

By: .....  
*Duly authorised*

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING** No longer applicable.

2. **RATINGS**

Ratings: No longer applicable.

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

Save for any fees payable to the Dealer, so far as the Issuer and the Fund are aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.

4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

- (a) Reasons for the offer: As set out in "Use of Proceeds" in the Prospectus.
- (b) Estimated net proceeds: ISK 13,926,680,800
- (c) Estimated total expenses: ISK 1,500,000.

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

*Historic performance of the CPI and its influence on the value of the Covered Bonds*

The general cash-flow of the Covered Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 15 of Part A of this Final Terms.

Based on data from Statistics Iceland, the year to year inflation, measured as changes in the CPI, has over the last 30 years ranged from -0.04 per cent. in 1994 to 102.8 per cent. in 1982. The average value over the period is 19 per cent. with standard deviation of 21.8 per cent. The same statistic for the last 10 years is an average inflation rate of 4.2 per cent. and standard deviation of 2.2 per cent.

The development of the CPI since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	202.4	221.5	224.7	230.1	239.2	249.7	266.9	282.3	334.8	356.8	363.4
<b>February</b>	202.8	220.9	224.3	229.4	239.7	249.5	268.0	286.2	336.5	360.9	367.7
<b>March</b>	204.0	221.8	226.7	230.7	241.5	252.3	267.1	290.4	334.5	362.9	371.2
<b>April</b>	206.5	221.9	227.0	232.0	242.0	255.2	268.7	300.3	336	363.8	374.1
<b>May</b>	209.4	221.8	226.6	233.9	240.7	258.9	271.0	304.4	339.8	365.3	377.6
<b>June</b>	212.6	222.8	226.8	235.7	242.4	261.9	272.4	307.1	344.5	364.1	379.5
<b>July</b>	214.2	223.0	226.5	234.6	242.7	263.1	273.0	310	345.1	361.7	379.9
<b>August</b>	214.9	221.8	226.3	234.6	243.2	264.0	273.1	312.8	346.9	362.6	380.9
<b>September</b>	216.3	222.9	227.9	235.6	246.9	265.6	276.7	315.5	349.6	362.6	383.3
<b>October</b>	217.7	224.1	229.0	237.4	248.4	266.2	278.1	322.3	353.6	365.3	
<b>November</b>	218.5	223.7	229.3	237.9	248.0	266.1	279.9	327.9	356.2	365.5	
<b>December</b>	219.5	223.9	230.0	239.0	248.9	266.2	281.8	332.9	357.9	366.7	

Source: Statistics Iceland

The Central Bank's main objective is price stability, defined as a 12-month rise in the CPI of 2.5 per cent. The aim is to keep the rate of inflation on average as close to the target as possible. If it deviates by more than 1.5



per cent. in either direction, the Central Bank is obliged to present the Icelandic Government with a report, which will be made public, explaining the reasons for the deviation from the target and the Central Bank's responses to the deviation.

The development of 12 month inflation (in percentage terms) since 2001 is set out in the table below:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>January</b>	3.5%	9.4%	1.4%	2.4%	4.0%	4.4%	6.9%	5.8%	18.6%	6.6%	1.8%
<b>February</b>	4.1%	8.9%	1.5%	2.3%	4.5%	4.1%	7.4%	6.8%	17.6%	7.3%	1.9%
<b>March</b>	3.9%	8.7%	2.2%	1.8%	4.7%	4.5%	5.9%	8.7%	15.2%	8.5%	2.3%
<b>April</b>	4.5%	7.5%	2.3%	2.2%	4.3%	5.5%	5.3%	11.8%	11.9%	8.3%	2.8%
<b>May</b>	5.5%	5.9%	2.2%	3.2%	2.9%	7.6%	4.7%	12.3%	11.6%	7.5%	3.4%
<b>June</b>	6.8%	4.8%	1.8%	3.9%	2.8%	8.0%	4.0%	12.7%	12.2%	5.7%	4.2%
<b>July</b>	7.0%	4.1%	1.6%	3.6%	3.5%	8.4%	3.8%	13.6%	11.3%	4.8%	5%
<b>August</b>	7.9%	3.2%	2.0%	3.7%	3.7%	8.6%	3.4%	14.5%	10.9%	4.5%	5%
<b>September</b>	8.4%	3.1%	2.2%	3.4%	4.8%	7.6%	4.0%	14%	10.8%	3.7%	5.7%
<b>October</b>	8.0%	2.9%	2.2%	3.7%	4.6%	7.2%	4.5%	15.9%	9.7%	3.3%	
<b>November</b>	8.1%	2.4%	2.5%	3.8%	4.2%	7.3%	5.2%	17.1%	8.6%	2.6%	
<b>December</b>	8.6%	2.0%	2.7%	3.9%	4.1%	7.0%	5.9%	18.1%	7.5%	2.5%	

Source: Statistics Iceland

If policy changes or if the Icelandic economy runs into long-term stagnation it is possible that the level of the CPI will go down over time resulting in individual future payments on the Covered Bonds being lower in nominal terms than the real value of the same payment on the Issue Date.

Information about the CPI can be obtained from the website of Statistics of Iceland being [www.hagstofa.is](http://www.hagstofa.is) or [www.statice.is](http://www.statice.is).

## 6. OPERATIONAL INFORMATION

- |     |  |   |
|-----|--|---|
| (a) | ISIN Code:   | XS0349858984  |
| (b) | Common Code:   | 034985898   |
| (c) | Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, <i>société anonyme</i> and the relevant identification number(s): | Not Applicable  |
| (d) | Delivery:  | Delivery free of payment  |
| (e) | Names and addresses of initial Paying Agent(s) (if any):   | Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB |
| (f) | Intended to be held in a manner which would allow Eurosystem eligibility:  | No  |

EXECUTION PAGES

The Issuer, the Cash Manager, the GIC Provider, the Account Bank, the Seller, the Servicer, the Paying Agent, the Initial Dealer and a Holder

EXECUTED as a Deed by  
THE WINDING-UP COMMITTEE OF  
KAUPTHING HF. formerly KAUPTHING  
BANK HF.  
ON BEHALF OF KAUPTHING HF.

) Feldis L. Oskarsdottir  
) Name: FELDIS L OSKARSDOTTIR  
) Title: member of WUC  
) David Björnsson  
) Name: DAVID BJORNSSON  
) Title: member of WUC  
) Theodor Skurvisson  
) Name: THEODOR SKURVISSON  
) Title: MEMBER OF WUC

The Substituted Entity

EXECUTED as a Deed by  
ARION BANK HF.

) H.H. Olafsson  
) Name: H H OLAFSSON  
) Title: CEO  
) S. Petursson  
) Name: S. PETURSSON  
) Title: CFO

The Fund

EXECUTED as a Deed by  
ARION BANK MORTGAGES INSTITUTIONAL  
INVESTOR FUND formerly KAUPTHING  
MORTGAGES INSTITUTIONAL INVESTOR  
FUND

) Fund Manager  
) Name: Fund Manager  
) Title: John Handörnan  
) Name:  
) Title:

The Principal Paying Agent

EXECUTED as a Deed by  
DEUTSCHE BANK AG, LONDON BRANCH

) Martin Oje  
) Name: Martin Oje  
) Title: Director  
) Name:  
) Title:

[SIGNATURE PAGES TO DEED OF WAIVER, SUBSTITUTION AND AMENDMENT]

**The Representative**

EXECUTED as a Deed by  
**DEUTSCHE TRUSTEE COMPANY LIMITED**

) Mein Oye  
) Name:  
) Title: Associate Director  
)  
)  
)  
) Name:  
) Title: Associate Director

**The Management Company**

EXECUTED as a Deed by  
**STEFNIR HF.**  
formerly KAUPTHING BANK ASSET  
MANAGEMENT COMPANY HF.

) Pauli Halvarsson  
) Name: Fund Manager  
) Title:  
) Edur Hauðsson  
) Name:  
) Title:

**The Custody Agent**

EXECUTED as a Deed by  
**VERDIS HF.**  
formerly ARION CUSTODY SERVICES HF.

) Quinn Blondal  
) Name: CEO  
) Title:  
)  
)  
) Name:  
) Title:

**The Asset Monitor**

EXECUTED as a Deed by  
**KPMG EHF.**

) Helga Harðardóttir  
) Name: Helga Harðardóttir  
) Title: Partner

EXECUTION PAGES

**The Issuer, the Cash Manager, the GIC Provider, the Account Bank, the Seller, the Servicer, the Paying Agent, the Initial Dealer and a Holder**

EXECUTED as a Deed by ) \_\_\_\_\_  
**THE WINDING-UP COMMITTEE OF** ) Name:  
**KAUPTHING HF. formerly KAUPTHING** ) Title:  
**BANK HF.** ) \_\_\_\_\_  
**ON BEHALF OF KAUPTHING HF.** ) \_\_\_\_\_  
 ) Name:  
 ) Title:  
 ) \_\_\_\_\_  
 ) Name:  
 ) Title:

**The Substituted Entity**

EXECUTED as a Deed by ) \_\_\_\_\_  
**ARION BANK HF.** ) Name:  
 ) Title:  
 ) \_\_\_\_\_  
 ) Name:  
 ) Title:

**The Fund**

EXECUTED as a Deed by ) \_\_\_\_\_  
**ARION BANK MORTGAGES INSTITUTIONAL** ) Name:  
**INVESTOR FUND formerly KAUPTHING** ) Title:  
**MORTGAGES INSTITUTIONAL INVESTOR** ) \_\_\_\_\_  
**FUND** ) \_\_\_\_\_  
 ) Name:  
 ) Title:

**The Principal Paying Agent**

EXECUTED as a Deed by ) Angeline Geney.  
**DEUTSCHE BANK AG, LONDON BRANCH** ) Name: Angeline Geney  
 ) Title: Director  
 ) \_\_\_\_\_  
 ) Name: S. Ferencsai  
 ) Title: VP

[SIGNATURE PAGES TO DEED OF WAIVER, SUBSTITUTION AND AMENDMENT]

**The Representative**

EXECUTED as a Deed by  
**DEUTSCHE TRUSTEE COMPANY LIMITED**

) Angeline Geney  
 ) Name: Angeline Geney  
 ) Title: Associate Director  
 )  
 )  
 ) S. Ferguson  
 ) Name: S. Ferguson  
 ) Title: Associate Director



**The Management Company**

EXECUTED as a Deed by  
**STEFNIR HF.**  
formerly **KAUPTHING BANK ASSET**  
**MANAGEMENT COMPANY HF.**

) \_\_\_\_\_  
 ) Name:  
 ) Title:  
 )  
 ) \_\_\_\_\_  
 ) Name:  
 ) Title:

**The Custody Agent**

EXECUTED as a Deed by  
**VERDIS HF.**  
formerly **ARION CUSTODY SERVICES HF.**

) \_\_\_\_\_  
 ) Name:  
 ) Title:  
 )  
 ) \_\_\_\_\_  
 ) Name:  
 ) Title:

**The Asset Monitor**

EXECUTED as a Deed by  
**KPMG EHF.**

) \_\_\_\_\_  
 ) Name: Helga Harðardóttir  
 ) Title: Partner