

**Articles of Association of
Arion Mortgages Institutional Investors Fund**

- 1 Name of the Fund and Management Company of the Fund**
- 1.1 The name of the fund is Arion Mortgages Institutional Investors Fund, ID-No. 570106-9610, hereinafter referred to as the **Fund**. The Fund shall be operated in one department.
- 1.2 The management company of the Fund is Arion Bank hf., ID-No. 581008-0150, of Borgartún 19, 105 Reykjavík, hereinafter referred to as the **Management Company**. References to "Management Company" in these Articles of Association shall include any successor or replacement management company appointed by the Fund in accordance with the terms of the Representative and Agency Agreement. The Management Company is responsible for the Fund's day-to-day operations. The Management Company is authorised to execute all Transaction Documents to which the Fund is a party (including such other documents or certificates to be delivered by the Fund pursuant to, in connection with or as contemplated in, any such Transaction Document), on behalf of the Fund but in doing so the Management Company shall not assume any obligations or liabilities to any other party to such Transaction Document or the recipient of any such document or certificate provided that, for the avoidance of doubt, this does not affect any obligations or liabilities expressly stated in any Transaction Document to be performed by the Management Company.
- 1.3 The Financial Supervisory Authority was notified of the establishment of the Fund on 10 March, 2006 pursuant to Clause 4 of Act no 33/2003 on UCITS and Investment Funds (the **Act**).
- 2 The purpose of the Fund**
- 2.1 The purpose of the Fund is as follows:
- 2.1.1 To invest funds available to the Fund in, *inter alia*, the purchase of Loans and their Related Security from Arion Bank hf., ID-No. 581008-0150, of Borgartún 19, 105 Reykjavík (hereinafter referred to as the **Issuer**), and the Issuer's subsidiaries, all in accordance with the terms of the Transaction Documents.
- 2.1.2 To guarantee the payment of all amounts due under any Covered Bonds issued by the Issuer under its Programme, subject to the terms of the Covered Bond Guarantee.
- 2.2 Any activity of, or action taken by, the Fund other than as specifically described or permitted in these Articles of Association and/or in any Transaction Document or otherwise incidental thereto is strictly prohibited and unauthorised.
- 3 Representative**
- 3.1 On or about the date of its establishment, the Fund shall enter into an agreement with a trust corporation to undertake the role of a Representative. The Representative shall only have the contractual obligations as set out in the Representative and Agency Agreement. The Representative shall, at all times, be independent of the Management Company.
- 3.2 The initial Representative will be 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.
- 4 Definitions**
- 4.1 The following definitions shall apply in these Articles of Association:
- 4.1.1 The *Fund* is operated by a management company of UCITS and Investment Funds, pursuant to Act no. 161/2002 on Financial undertaking and the Act. The Fund is an institutional investors fund, cf. Clause 4 of the Act.
- 4.1.2 The *date of establishment* of the Fund is considered to be the day on which the Management Company issues the Fund's unit shares for the first time.
- 4.1.3 A *unit share* is a financial instrument issued on behalf of the Fund which, subject to the terms of the Transaction Documents, evidences an interest in the Fund's income and assets. No material rights are attached to ownership of

- unit shares other than those stated in these Articles of Association and the Transaction Documents. The Management Company issues unit shares on behalf of the Fund, as described in Clause 9.2.
- 4.1.4 The master definitions and construction agreement made between, *inter alios*, the Fund and the Management Company on 29/03/2006 (as the same may be amended, varied and/or supplemented from time to time, the **Master Definitions Agreement**) is expressly and specifically incorporated into these Articles of Association and, accordingly, the expressions defined in the Master Definitions Agreement (as so amended, varied and/or supplemented) shall, except where the context otherwise requires and save where otherwise defined herein, have the same meanings in these Articles of Association and these Articles of Association shall be construed in accordance with the interpretation provisions set out in Clause 2 of the Master Definitions Agreement. In the event of inconsistency between the Master Definitions Agreement and these Articles of Association, the Master Definitions Agreement shall prevail.
- 5 Investments of the Fund, Limited Recourse and Segregation of Assets**
- 5.1 Investments of the Fund are financed by issuing unit share certificates and Term Advances under the Intercompany Loan Agreement, all in accordance with the terms of the Transaction Documents.
- 5.2 The payment obligations of the Fund under the Covered Bond Guarantee and the Transaction Documents shall be solely met from the assets of the Fund from time to time.
- 5.3 Creditors of the Fund shall only have recourse against the Fund and assets belonging to the Fund from time to time in accordance with the restrictions specified in these Articles of Association, including, without limitation, Clauses 12 and 15 and the Transaction Documents.
- 5.4 The assets and liabilities of the Fund shall be recorded in the accounts of the Management Company, separately from the assets and liabilities of the Management Company and any other funds managed by the Management Company from time to time.
- 6 Investment strategy of the Fund**
- 6.1 The investment strategy of the Fund shall be in accordance with the terms of the Transaction Documents.
- 7 The Fund's custody agent**
- 7.1 The Fund's custody agent is **Arion Custody Services hf., ID-No. 470502-4520, of Ármúli 13a, 105 Reykjavík**, hereinafter referred to as the **Custody Agent**. References to "Custody Agent" in these Articles of Association shall include any successor or replacement custody agent appointed by the Fund in accordance with the terms of the Representative and Agency Agreement.
- 7.2 The Custody Agent shall provide services to the Fund as set out in the Servicing and Custody Agreement.
- 7.3 Subject to the terms of the Transaction Documents, the Custody Agent shall ensure that the capital and financial instruments belonging to the Fund are kept clearly distinguished from all assets that belong to the Management Company and the Custody Agent's own assets.
- 8 Management Company Fee**
- 8.1 The Fund shall, on each Calculation Date (the **Relevant Calculation Date**), pay to the Management Company a fee (the **Management Company Fee**). The Management Company Fee shall be calculated by or on behalf of the Fund in ISK on the Relevant Calculation Date and shall be equal to:
- the average value of all assets owned by the Fund from, and including, the Calculation Date immediately preceding the Relevant Calculation Date to, but excluding, the Relevant Calculation Date (the **Calculation Period**) (such valuation of assets to be performed in accordance with Clause 11) multiplied by the prevailing Management Company Fee Percentage (being a percentage equal to the Initial Management Company Fee, as amended from time to time in accordance with this Clause 8) (for the avoidance of doubt, any such fee percentage shall be a pro rata

percentage for the Calculation Period). The Management Company Fee Percentage shall not be greater than 1.0% per annum at any time.

8.1.1 The initial Management Company Fee Percentage shall be 0.10% per annum (the **Initial Management Company Fee Percentage**).

8.1.2 If the Initial Management Company Fee Percentage is intended to be changed, the Management Company, on behalf of the Fund, shall give 30 days' prior written notice to the Representative and the Holders.

8.2 Payment of any Management Company Fee shall comply with, and be subject to, Clauses 12.4 and 15.

9 Unit share certificates

9.1 The Fund's unit shares may only be issued or sold to institutional investors, cf. Clause 7, Para 1, Art. 2 of Act no. 33/2003 on Securities Transactions.

9.2 On behalf of the Fund, the Management Company shall issue unit shares to those who provide the Fund with funds to invest. The Holders are the owners of the Fund. The rights of Holders are limited to the rights stipulated in the Transaction Documents and these Articles of Association and, to the extent not in contravention of the terms of the Transaction Documents, in the certificate evidencing the unit share issued by the Management Company on behalf of the Fund.

9.3 Subject to the terms of the Transaction Documents, all Holders have the same rights to the income and assets of the Fund in proportion to their holdings, and the unit shares are confirmation of the claim on the Fund's income and assets.

9.4 The Fund is an open-ended fund and, therefore, the Management Company may issue, from time to time, unit shares on behalf of the Fund provided that any such issue does not contravene the terms of the Transaction Documents.

10 Distributions in connection with unit shares

10.1 Unit Distributions shall only be made to the Holders in accordance with the terms of the Transaction Documents.

11 Assessment of the Fund's assets

11.1 An assessment of the Fund's assets should at any given time reflect their real value and calculated as follows:

11.1.1 The value of any Loans and their Related Security owned by the Fund shall consist of the outstanding principal balance, accrued interest and accrued indexation.

11.1.2 Financial instruments which are listed on an organised securities market, in accordance with Act. 34/1998 on activities of stock exchanges and regulated OTC markets, should be assessed according to the closing price of such financial instruments on the relevant organised securities market.

11.1.3 All other financial instruments shall be valued by the Management Company under the supervision of the Custody Agent and the external independent auditors of the Management Company.

12 Financing and priority of claims

12.1 The Fund will invest in accordance with the Fund's investment strategy as stipulated in Clause 6. The Fund finances its investments through, *inter alia*, the Term Advances received by it under the Intercompany Loan Agreement.

12.2 In accordance with its purpose, the Fund is authorised to guarantee the Issuer's payment obligations under the terms of the Covered Bonds and the Representative and Agency Agreement in accordance with Clause 2.1.2.

12.3 Subject to the terms of the Transaction Documents, all contractual obligations incurred by the Fund shall contain provisions subordinating such obligations to claims arising pursuant to the terms of the Covered Bond Guarantee pursuant to Clause 12.2.

12.4 The Fund is obligated to follow the priority of payments in accordance with the terms of clauses 11, 12, 13 and 16 of the Fund Deed.

12.5 The Fund is not permitted to grant any security over its assets without the prior written consent of the Representative.

- 12.6 The Management Company is not permitted to enter into any agreement on behalf of the Fund other than as permitted by these Articles of Association and the terms of the Transaction Documents. The persons of the Management Company who provide services to the Fund shall be employees of the Management Company and not the Fund.
- 13 Calculation of the net asset value of unit shares**
- 13.1 The net asset value of each unit share shall be calculated in ISK and shall be equal to the total of all bank deposits held in the name of the Fund in accordance with the terms of the Transaction Documents and the other assets of the Fund, valued in accordance with Clause 11, minus the Fund's total debts calculated in accordance with the terms of the Transaction Documents divided by the total number of unit shares issued by the Fund from time to time.
- 13.2 The nominal value, upon issue, of each unit share shall be ISK 1.0. Each unit share shall be issued from time to time at its prevailing net asset value.
- 14 No Merger of the Fund with any other fund or legal entity**
- 14.1 The Management Company is under no circumstances authorised or permitted to merge the Fund with any other fund or legal entity.
- 15 Binding terms of business**
- 15.1 To the extent permitted by law, any party having a claim against the Fund is bound by the following terms:
- 15.1.1 Claims against the Fund are subject to limits resulting from the prioritisation of payments as stipulated in Clauses 12.4.
- 15.1.2 Subject to the terms of the Transaction Documents, creditors of the Fund cannot resort to enforcement procedures against the Fund until the Covered Bondholders have received full payment of all amounts due under the terms of the Covered Bonds.
- 16 Dissolution of the Fund**
- 16.1 The Management Company is not authorised to dissolve (or any analogous term), or take steps to dissolve, the Fund in any way under any circumstances until all outstanding Covered Bonds have been redeemed in full.
- 16.2 Provided that there are no Covered Bonds outstanding and subject to the terms of the Transaction Documents, all unit shares issued on behalf of the Fund shall be redeemed on **15 January 2060**. Subject to the terms of the Transaction Documents, each unit share shall be redeemed at its prevailing net asset value.
- 16.3 The Management Company shall announce the dissolution of the Fund by means of an advertisement in a mass medium which has general distribution in Iceland or by such other means permitted under relevant Icelandic legislation.
- 16.4 Subject to the terms of the Transaction Documents, these Articles of Association cannot be changed or amended in any way without the prior written consent of the Representative.