

EXECUTION VERSION

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

20 January 2012

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THIS AGREEMENT is made on 20 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 20 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 depository (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 depository (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, Receipholders 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, Receipholders 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, Receipholders 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, Receipholders 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 Receipholders 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 20 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 **Receipholders**) 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 20 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 Receipholders 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 20 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:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” 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 D₂ is greater than 29, in which case D₂ 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:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” 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 D₂ 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:

$$\text{Day Count Fraction} = \frac{[360x(Y2 - Y1)] + [30x(M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” 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 D₁ will be 30; and

“D₂” 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 D₂ 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

^y 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 20 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/.....]⁽¹⁾ 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⁽²⁾ 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]⁽¹⁾:

Bank:
.....

Branch Address:

Branch Code:
.....

Account Number:

Signature of holder:

[To be completed by recipient Paying Agent]

Details of missing unmatured Coupons⁽³⁾

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.]¹

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 20 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 evidence of the nominal amount of Covered Bonds represented by this Global Covered Bond and, for these

¹ This legend can be deleted if the Covered Bonds have an initial maturity of 365 days or less.

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>Deutsche Bank AG, London Branch</p> <p>By:</p> <p>Effectuated without recourse, warranty or liability by</p> <p>..... as common safekeeper</p> <p>By:</p>

PART 2

PAYMENT OF INSTALMENT AMOUNTS

Date made	Total amount of Instalment Amounts payable	Total amount of Instalment Amounts paid	Remaining nominal amount of this Global Covered Bond following such payment ³	Confirmation of payment on behalf of the Issuer

³ See the most recent entry in Part 2, 3 or 4 of Schedule 1 or in Schedule 2 in order to determine this amount.

Schedule 2 to the Temporary Global Covered Bond⁶

EXCHANGES

FOR DEFINITIVE COVERED BONDS OR PERMANENT GLOBAL COVERED BOND

The following exchanges of a part of this Global Covered Bond for Definitive Covered Bonds or a Permanent Global Covered Bond have been made:

Date made	Nominal amount of this Global Covered Bond exchanged for Definitive Covered Bonds or a Permanent Global Covered Bond	Remaining nominal amount of this Global Covered Bond following such exchange ⁷	Notation made on behalf of the Issuer

⁶ Schedule Two should only be completed where the applicable Final Terms indicates that this Global Covered Bond is not intended to be a New Global Note.

⁷ See the most recent entry in Part 2, 3 or 4 of Schedule 1 or in Schedule 2 in order to determine this amount.

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: []⁸

Yours faithfully,

[Euroclear Bank S.A./N.V. as operator of the Euroclear System]/[Clearstream Banking, société anonyme]

By:

⁸ 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 authorise you to produce this certification to any interested party in such proceedings.

Dated: []⁹

[Name of Person Making Certification]

By:

⁹ 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.]¹⁰

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 20 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.

¹⁰ 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:

Authenticated without recourse, warranty or liability by
Deutsche Bank AG, London Branch
By:
Effectuated without recourse, warranty or liability by
..... as common safekeeper
By:

PART 3
REDEMPTIONS

Date made	Total amount of principal payable	Amount of principal paid	Remaining nominal amount of this Global Covered Bond following such redemption ¹³	Confirmation of redemption on behalf of the Issuer

¹³ See the most recent entry in Part 2, 3 or 4 of Schedule 1 or in Schedule 2 in order to determine this amount.

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]

00	000000	[ISIN]	00	000000
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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.]¹⁷

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 20 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.

¹⁷ 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.]¹⁸

00 000000 [ISIN] 00 000000

¹⁸ 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:

PART 6

FORM OF TALON

[*Face of Talon*]

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 Maturity*]]

Series No. []

On and after [] further Coupons [and a further Talon] appertaining to the Covered Bond to which this Talon appertains will be issued at the specified office of any of the Paying Agents set out on the reverse hereof (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) upon production and surrender of this Talon.

This Talon may, in certain circumstances, become void under the Terms and Conditions endorsed on the Covered Bond to which this Talon appertains.

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 20 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 20 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 []¹⁹, no Issuer Event of Default or Potential Issuer Event of Default existed [other than []]²⁰ and no Issuer Event of Default or Potential Issuer Event of Default had existed at any time since []²¹ [the certification date of the previous certificate delivered under Clause 11(1)²² [other than []]²³; and]
- (b) as at []¹⁹ no Fund Event of Default or Potential Fund Event of Default existed [other than []]²⁰ and No Fund Event of Default or Potential Fund Event of Default had existed at any time since []²¹ [the certification date of the previous certificate delivered under Clause 11(1)²² [other than []]²⁰; and]
- (c) [from and including []²¹ [the certification date of the previous certificate delivered under Clause 11(m)]⁴ to and including []¹⁹, [the Issuer] [the Fund]²⁴ has complied with all its obligations under this Agreement [other than []]²⁵.]

¹⁹ Specify a date not more than 7 days before the date of delivery of the certificate.

²⁰ If any event of default or potential event of default did exist, give details; otherwise delete.

²¹ Insert date of Agency and Representative Agreement in respect of the first certificate delivered under Clause 14(1), otherwise delete.

²² Include unless the certificate is the first certificate delivered under Clause 14(1), in which case delete.

²³ If any event of default of potential event of default did exist, give details, otherwise delete.

²⁴ Delete as appropriate.

²⁵ 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

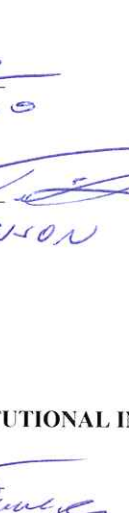
ARION BANK HF.

By: 
Name: H. HOFFMANN
Title: CEO


Name: S. DIETRICHSON
Title: CEO

The Fund


ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND

By: 
Name: John Handerson
Title: John Handerson

Name:
Title:

The Representative

DEUTSCHE TRUSTEE COMPANY LIMITED

By: 
Name: Gavin Oye
Title: Associate Director

Name:
Title: Associate Director

The Principal Paying Agent

DEUTSCHE BANK AG, LONDON BRANCH

By:

Jens Oge
Name:
Title: Director

Name:
Title:

The other Paying Agent

ARION BANK HF

By:

Håvard Oatsson
Name: HÅVARD OATSSON
Title: CEO

[Signature]
Name:
Title:

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: - Angelina Gerney

Name: Angelina Gerney

Title: Associate Director

Name: S. Brause

Title: Associate Director

The Principal Paying Agent

DEUTSCHE BANK AG, LONDON BRANCH

By: Angeline Gerey
Name: Angeline Gerey
Title: Director
[Signature]
Name: S. Ferguson
Title: VP

The other Paying Agent

ARION BANK HF.

By: _____
Name:
Title:

Name:
Title: