

AMENDED AND RESTATED

**MASTER DEFINITIONS AND
CONSTRUCTION AGREEMENT**

ARION BANK HF.
as Issuer

and

ARION BANK MORTGAGES INSTITUTIONAL INVESTOR FUND
as the Fund

and

DEUTSCHE BANK AG, LONDON BRANCH
as the Principal Paying Agent

and

DEUTSCHE TRUSTEE COMPANY LIMITED
as the Representative

and

KPMG EHF.
as the Asset Monitor

and

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

and

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

20 January 2012

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THIS AGREEMENT dated on 20 January, 2012

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

WHEREAS:

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

1. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Agents means the Paying Agents and any Calculation Agent;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Day means a day which is both:

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

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

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

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

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

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

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

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

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

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

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

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

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

Clearing Systems means Euroclear and/or Clearstream, Luxembourg;

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

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

Confirmation Letter means:

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

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

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

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

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

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

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

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

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

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

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

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

whether original documentation, in electronic form or otherwise;

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

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

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

Dealer Accession Letter means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EEA means European Economic Area;

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

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

EMU means the European Monetary Union;

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

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

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

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

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

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

EU means the European Union;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

as set out in the applicable Final Terms;

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

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

FSA means the Financial Services Authority;

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

Fund means Arion Bank Mortgages Institutional Investor Fund;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Group means the Issuer and its Subsidiaries;

Guarantee means the Covered Bond Guarantee;

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

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

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

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

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

Icelandic GAAP means the generally acceptable accounting principles in Iceland;

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

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

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

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

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

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

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

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

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

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

- (b) the relevant entity ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Covered Bondholders or for the purposes of a reconstruction, amalgamation or merger between the Issuer and the relevant entity or following the transfer of all or substantially all of the assets of the Issuer to the relevant entity or of the relevant entity to the Issuer or the relevant entity stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part of the undertaking, property or assets of the relevant entity, or a distress, diligence or execution or other process is levied, enforced upon, sued out or put in force against the whole or any material part of the chattels or property of the relevant entity and, in the case of the foregoing events, is not discharged within 30 days;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ISDA means the International Swaps and Derivatives Association, Inc;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Kaupthing means Kaupthing Bank hf.;

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

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

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

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

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

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

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

LIBOR means the London inter-bank offered rate;

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

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

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

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

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

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

Losses means all losses on the Loans;

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

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

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

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

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

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

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

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

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

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

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

Month means calendar month;

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

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

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

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

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

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

Mortgage Document means the document evidencing the Mortgage;

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

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

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

MSA means the Mortgage Sale Agreement;

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

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

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

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

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

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

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

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

New Seller Loans means Loans originated by a New Seller;

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

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

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

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

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

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

OMX ICE means the OMX Nordic Exchange Iceland hf.;

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

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

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

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

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

PROVIDED THAT for each of the following purposes, namely:

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

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

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

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

Partial Portfolio means part of any portfolio of Selected Loans;

Participants means Direct Participants and Indirect Participants;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Programme Date means 29 March, 2006;

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

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

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

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

Prospectus Directive means Directive 2003/71/EC;

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

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

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

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

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

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

Receiptholders means the holders of the Receipts;

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

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

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

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

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

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

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

Regulation S means Regulation S under the Securities Act;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

where,

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

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

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

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

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

Responsible Persons means the Issuer and the Fund;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Substitution Assets means each of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

UCITS means Undertaking for Collective Investment in Transferable Securities;

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

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

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

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

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

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

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

2. INTERPRETATION AND CONSTRUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. **AMENDMENTS**

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

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

4.1 **Governing Law**

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

4.2 **Submission to Jurisdiction**

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

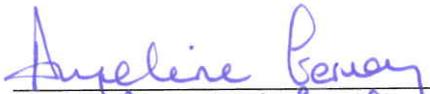
SIGNED by
duly authorised
for and on behalf of
KPMG EHF.

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Name: Helga Harðardóttir
Title: Partner

SIGNED by
duly authorised
for and on behalf of
DEUTSCHE BANK AG, LONDON BRANCH

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Name: Angelina Gavay
Title: Director


Name: S. FERGUSON
Title: VP

SIGNED by
duly authorised
for and on behalf of
DEUTSCHE TRUSTEE COMPANY LIMITED

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Name: Angelina Gavay
Title: Associate Director


Name: S. FERGUSON
Title: Associate Director