

BASE PROSPECTUS



KAUPTHING BANK

KAUPTHING BANK HF.

(incorporated in Iceland as a public limited company)

€12,000,000,000

Euro Medium Term Note Programme

Under this €12,000,000,000 Euro Medium Term Note Programme (the “**Programme**”), Kaupthing Bank hf. (the “**Issuer**”) may from time to time issue notes (the “**Notes**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €12,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “**Summary of the Programme**” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these see “**Risk Factors**”.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the “**CSSF**”) in its capacity as competent authority under the Luxembourg Act dated 10th July, 2005 on prospectuses for securities to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “**Terms and Conditions of the Notes**”) of Notes will be set out in the final terms (the “**Final Terms**”) which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be filed with the CSSF.

The Programme provides that Notes may be listed or admitted to trading, as the case may be on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to this Base Prospectus under the Programme, if appropriate, will be made available which will describe the effect of the agreement reached.

Any person (an “**Investor**”) intending to acquire or acquiring any securities from any person (an “**Offeror**”) should be aware that, in the context of an offer to the public as defined in Directive 2003/71/EC (the “**Prospectus Directive**”), the Issuer may be responsible to the Investor for the Base Prospectus only if the Issuer is acting in association with that Offeror to make the offer to the Investor. Each Investor should therefore verify with the Offeror whether or not the Offeror is acting in association with the Issuer. If the Offeror is not acting in association with the Issuer, the Investor should check with the Offeror whether anyone is responsible for the Base Prospectus for the purposes of Article 6 of the Prospectus Directive as implemented by the national legislation of each EEA Member State in the context of the offer to the public, and, if so, who that person is. If the Investor is in any doubt about whether it can rely on the Base Prospectus and/or who is responsible for its contents it should take legal advice.

Arranger
Credit Suisse

Dealers

Barclays Capital
Daiwa Securities SMBC Europe
Dresdner Kleinwort
NATIXIS

Credit Suisse
Deutsche Bank
Kaupthing Bank
SEB Merchant Banking

The date of this Base Prospectus is 11th September, 2008

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive.

The Issuer, having taken all reasonable care to ensure that such is the case and having made all reasonable enquiries, confirms that the information contained in this Base Prospectus is to the best of the knowledge of the Issuer in accordance with the facts and contains no omission likely to affect its import. The Issuer accepts responsibility accordingly.

The previous paragraph should be read in conjunction with the 9th paragraph on the first page of this Base Prospectus.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers and the persons named in or identifiable following the applicable Final Terms as the Financial Intermediaries, as the case may be.

AN INVESTOR INTENDING TO ACQUIRE OR ACQUIRING ANY NOTES FROM AN OFFEROR WILL DO SO, AND OFFERS AND SALES OF THE NOTES TO AN INVESTOR BY AN OFFEROR WILL BE MADE, IN ACCORDANCE WITH ANY TERMS AND OTHER ARRANGEMENTS IN PLACE BETWEEN SUCH OFFEROR AND SUCH INVESTOR INCLUDING AS TO PRICE, ALLOCATIONS AND SETTLEMENT ARRANGEMENTS. THE ISSUER WILL NOT BE A PARTY TO ANY SUCH ARRANGEMENTS WITH INVESTORS (OTHER THAN THE DEALERS) IN CONNECTION WITH THE OFFER OF SALE OF THE NOTES AND, ACCORDINGLY, THIS BASE PROSPECTUS AND ANY FINAL TERMS WILL NOT CONTAIN SUCH INFORMATION. THE INVESTOR MUST LOOK TO THE OFFEROR AT THE TIME OF SUCH OFFER FOR THE PROVISION OF SUCH INFORMATION. THE ISSUER HAS NO RESPONSIBILITY TO AN INVESTOR IN RESPECT OF SUCH INFORMATION.

Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below).

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers. This Base Prospectus may only be used for the purposes for which it has been published.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating

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

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “*Securities Act*”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see “*Subscription and Sale*” below).

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, unless specifically indicated to the contrary in the applicable Final Terms, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, Italy and Iceland) and Japan, see “*Subscription and Sale*”.

This Base Prospectus has been prepared on the basis that, except to the extent subparagraph (ii) below may apply, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “*Relevant Member State*”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer, or (ii) if a prospectus for such offer has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another

Relevant Member State and notified to the competent authority in that Relevant Member State and (in either case) published, all in accordance with the Prospectus Directive, provided that any such prospectus has subsequently been completed by final terms which specify that offers may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State and such offer is made in the period beginning and ending on the dates specified for such purpose in such prospectus or final terms, as applicable. Except to the extent sub-paragraph (ii) above may apply, neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

All references in this document to “*U.S. dollars*”, “*U.S.\$*”, “*USD*” and “*\$*” refer to United States dollars, to “*ISK*”, “*króna*” or “*krónur*” refer to the currency of Iceland, to “*Japanese Yen*” and “*Yen*” refer to the currency of Japan, to “*Swiss francs*” refer to the currency of Switzerland, to “*Sterling*” and “*£*” refer to pounds sterling and to “*euro*” and “*€*” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

SUMMARY OF THE PROGRAMME

This Summary must be read as an introduction to this Base Prospectus and any decision to invest in any Notes should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Issuer in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to information contained in this Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this Summary.

Issuer: Kaupthing Bank hf. is a Northern European bank with shares listed on the OMX Nordic Exchanges in Iceland ("**OMX ICE**") and in Stockholm ("**OMX STO**"). It operates in 14 jurisdictions, including all the Nordic countries, Belgium, Germany, the Isle of Man, the United Kingdom, Luxembourg, Switzerland, the United States, the Dubai International Financial Centre ("**DIFC**") and the Qatar Financial Centre ("**QFC**"). It holds banking licences in Iceland, the United Kingdom, Denmark, Sweden, Belgium, Switzerland, the Isle of Man and Luxembourg. It also operates branches within the EEA which are authorised to accept deposits. In the United States, it operates through its subsidiary Kaupthing Securities Inc., a licensed broker-dealer. Iceland, Scandinavia and the United Kingdom currently are the Issuer's most important markets, generating 33 per cent., 25.8 per cent. and 31.3 per cent., respectively, of the operating income of Kaupthing Bank hf. and its subsidiaries taken as a whole (the "**Group**") in 2007.

The Issuer offers integrated financial services to companies, institutional investors and individuals. Its services include investment banking, corporate banking, capital markets services, asset management and comprehensive wealth management for private banking clients. In addition, it operates a retail banking franchise in Iceland, where it has its headquarters and, to a lesser extent, in Sweden.

The Issuer is currently one of the seven largest banks in the Nordic region in terms of market capitalisation. It has expanded through organic growth and strategic acquisitions, such as the acquisition of FIH Erhvervsbank A/S ("**FIH**") in July 2004 for ISK 85,868 million and the acquisition of UK-based bank Singer & Friedlander Group plc ("**Singer and Friedlander**") in July 2005 for ISK 63,708 million. The Issuer believes that these acquisitions have improved the quality of its loan portfolio and increased the diversification of its operations. However, FIH, being a wholesale commercial bank, generates lower interest margins than other parts of the Issuer's banking operations.

The Issuer operates across five core business segments:

- Investment Banking;
- Banking;
- Capital Markets;

- Treasury; and
- Asset Management and Private Banking.

In addition, the Issuer operates a number of ancillary units such as Risk Management, Information Technology, Finance and Sales and Marketing.

The Issuer believes that its results for 2007 reflect its focus on Northern Europe, which it considers to be its home market. Approximately 67 per cent. of its income in 2007 was generated outside Iceland. It expects this percentage to increase in 2008, as it seeks to expand its activities in Northern Europe. The following tables summarise the Issuer's profit and loss accounts and balance sheets and provide certain key ratios as at 31st December in each of 2007 and 2006:

	<i>As at and for the year ended December 31,</i>	
	<i>2007</i>	<i>2006</i>
	<i>(ISK)</i>	<i>(ISK)</i>
	<i>(IFRS)</i>	
	<i>(in millions, except percentages)</i>	
Income Statement items		
Net interest income	80,113	52,362
Net fee and commission income	55,021	37,284
Net financial income	14,433	60,157
Other income	16,251	17,413
Operating income	165,818	167,216⁽¹⁾
Salaries and related expenses	46,647	(33,570)
Other operating expenses	32,084	(26,436)
Operating expenses	78,731	(60,006)
Impairment	(6,180)	(6,127)
Earnings before income tax	80,907	101,083
Income tax	(9,716)	(14,636)
Net earnings	71,191	86,447
Minority interest	(1,171)	(1,145)
Shareholders' net earnings	70,020	85,302
Balance Sheet items		
Loans and advances	3,892,849	3,023,943
Financial assets measured at fair value	845,455	665,129
Assets other than mentioned above	609,041	366,324
Total assets	5,347,345	4,055,396
Deposits from credit institutions and central banks	339,088	110,456
Other deposits	1,381,457	750,658
Borrowings	2,615,960	2,399,939
Subordinated loans	267,289	216,030
Liabilities other than mentioned above	387,120	243,421
Total liabilities	4,990,914	3,720,504
Minority interest	10,823	11,382
Shareholders' equity	345,608	323,510
Total liabilities and equity	5,347,345	4,055,396
Financial ratios		
Return on average assets ⁽²⁾	1.52%	2.53%
Return on average equity ⁽³⁾	23.54%	42.39%
Net interest margin	1.92%	1.77%
Net interest spread	2.01%	1.73%
Cost to income ratio ⁽⁴⁾	47.48%	35.89%

As at and for the year
ended December 31,

	2007 (ISK)	2006 (ISK)
	(IFRS)	
Asset quality ratios		
Non-performing loans as a percentage of loans to customers	0.98%	1.00%
Non-performing assets as a percentage of loans to customers	1.04%	1.10%
Provision for loans as a percentage of loans to customers	0.58%	0.65%
Net write-offs as a percentage of average loans to customers outstanding.....	0.09%	0.15%
Capital ratios		
CAD ratio	11.80%	15.0%
Tier 1 capital ratio	9.60%	10.5%

- (1) Operating income includes net (loss) gain on non-current assets held for sale.
- (2) Average on quarter-end balances.
- (3) Represents the annualized geometric mean of the return on shareholders' equity for each quarter during the period. The return on shareholders' equity for each quarter is calculated as (i) shareholders' net earnings for the quarter, divided by (ii) shareholders' equity at the beginning of the quarter, adjusted for changes in shareholders' equity (other than those resulting from shareholders' net earnings for that quarter) during the quarter.
- (4) Operating expenses divided by operating income.

For further information on the financial results of the Issuer, please see the financial statements of the Issuer for the years ended 31st December, 2007 and 2006, incorporated by reference into this Base Prospectus.

Risk Factors:

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes issued under the Programme. These are set out under "*Risk Factors*" below and include (i) the risk that the Issuer's results can be adversely affected by general economic conditions and other business conditions, (ii) the risk that the substantial competitive pressures which the Issuer faces could adversely affect its results of operations, (iii) the risk that the Issuer may be unable to continue growing at historic levels due to a lack of acquisition opportunities and other acquisition related risks, (iv) the risk that regulatory change or enforcement initiatives could adversely affect the Issuer's business and (v) a range of standard banking risks including changes in interest rates and foreign exchange rates and operational, credit, market and liquidity risk, any of which may have an adverse effect on the Issuer's credit ratings and its cost of funds. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Risk Factors*" below. In addition, prospective investors in Reference Item Linked Notes (as defined under "Risks related to the structure of a particular issue of Notes" in "*Risk Factors*") should understand the risks of transactions involving Reference Item Linked Notes and should reach an investment decision only after careful consideration, with their advisers, of the suitability of such Reference Item Linked Notes in light of their particular financial circumstances, the information set forth herein and the information regarding the relevant Reference Item Linked Notes and the particular Reference Item(s) to which the value of, or payments in

respect of, the relevant Reference Item Linked Notes may relate, as specified in the applicable Final Terms.

Where the applicable Final Terms specify one or more Reference Item(s), the relevant Notes will represent an investment linked to the performance of such Reference Item(s) and prospective investors should note that the return (if any) on their investment in the Notes will depend upon the performance of the relevant Reference Item(s).

See “Risks related to the structure of a particular issue of Notes” in “*Risk Factors*”.

PROSPECTIVE INVESTORS MUST REVIEW THE APPLICABLE FINAL TERMS TO ASCERTAIN WHAT THE RELEVANT REFERENCE ITEM(S) ARE AND TO SEE HOW BOTH ANY CASH AMOUNTS OR ASSET AMOUNTS ARE PAYABLE OR DELIVERABLE AND HOW ANY PERIODIC INTEREST PAYMENTS ARE DETERMINED AND WHEN ANY SUCH AMOUNTS ARE PAYABLE AND/OR DELIVERABLE, AS THE CASE MAY BE, BEFORE MAKING ANY DECISION TO PURCHASE ANY REFERENCE ITEM LINKED NOTES.

Description:	Euro Medium Term Note Programme
Arranger:	Credit Suisse Securities (Europe) Limited
Dealers:	Barclays Bank PLC Credit Suisse Securities (Europe) Limited Daiwa Securities SMBC Europe Limited Deutsche Bank AG, London Branch Dresdner Bank Aktiengesellschaft Kaupthing Bank hf. NATIXIS Skandinaviska Enskilda Banken AB (publ) and any other Dealers appointed in accordance with the Programme Agreement.
Issuing and Principal Paying Agent:	Deutsche Bank AG, London Branch
Programme Size:	Up to €12,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Form of the Notes:	The Issuer may issue fully or partly paid Notes, denominated in any currency agreed between the Issuer and the relevant Dealer, at an issue price which is at par or at a discount to, or premium over, par. Senior Notes, Subordinated Notes or Capital Notes may be issued under the Programme. The Notes may be issued on a continuing basis to one or more of the Dealers and any additional Dealer appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis.

Notes may be distributed by way of private or public placement, subject to the restrictions set out under “*Subscription and Sale*”, and in each case on a syndicated or non-syndicated basis.

Notes may be issued as Fixed Rate Notes, Floating Rate Notes, Index Linked Notes, Commodity Linked Notes, Equity Linked Notes, Credit Linked Notes, Dual Currency Notes or Zero Coupon Notes.

Notes may be issued for any maturity greater than one month or such other minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Notes may be issued which cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or which are redeemable at the option of the Issuer and/or the holders of the Notes upon giving notice to the holders of the Notes or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

THE PURCHASE OF NOTES MAY INVOLVE SUBSTANTIAL RISKS AND MAY BE SUITABLE ONLY FOR INVESTORS WHO HAVE THE KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS NECESSARY TO ENABLE THEM TO EVALUATE THE RISKS AND THE MERITS OF AN INVESTMENT IN THE NOTES. PRIOR TO MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY, IN LIGHT OF THEIR OWN FINANCIAL CIRCUMSTANCES AND INVESTMENT OBJECTIVES, (I) ALL THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS AND, IN PARTICULAR, THE CONSIDERATIONS SET FORTH BELOW AND (II) ALL THE INFORMATION SET FORTH IN THE APPLICABLE FINAL TERMS. PROSPECTIVE INVESTORS SHOULD MAKE SUCH ENQUIRIES AS THEY DEEM NECESSARY WITHOUT RELYING ON THE ISSUER OR ANY DEALER.

AN INVESTMENT IN NOTES LINKED TO ONE OR MORE REFERENCE ITEMS MAY ENTAIL SIGNIFICANT RISKS NOT ASSOCIATED WITH INVESTMENTS IN A CONVENTIONAL DEBT SECURITY, INCLUDING BUT NOT LIMITED TO THE RISKS SET OUT BELOW. THE AMOUNT PAID BY THE ISSUER ON REDEMPTION OF THE NOTES MAY BE LESS THAN THE NOMINAL AMOUNT OF THE NOTES, TOGETHER WITH ANY ACCRUED INTEREST, AND MAY IN CERTAIN CIRCUMSTANCES BE ZERO. WHERE THE NOTES ARE REDEEMED BY THE ISSUER BY DELIVERY OF REFERENCE ITEM(S) THE VALUE OF THE REFERENCE ITEM(S) MAY BE LESS THAN THE NOMINAL AMOUNT OF THE NOTES, TOGETHER WITH ANY ACCRUED INTEREST, AND MAY IN CERTAIN CIRCUMSTANCES BE ZERO.

CERTAIN ISSUES OF NOTES INVOLVE A HIGH DEGREE OF RISK AND POTENTIAL INVESTORS SHOULD BE PREPARED TO SUSTAIN A LOSS OF ALL OR PART OF THEIR INVESTMENT.

All references to “we”, “us” and “our” are references to the Issuer.

Risks Related to the Issuer’s Business

Our financial condition and results of operations may be adversely affected by movements in interest rates

Interest rates are highly sensitive to many factors beyond our control, including interest rate and other monetary policies of governments and central banks in the jurisdictions in which we operate and changes to such policies. In particular, the policies of the Economic and Monetary Union of the European Union, the United Kingdom, Iceland, Denmark and Sweden, among others, are and will be significant for us and are subject to change. Income from financial operations such as ours is particularly vulnerable to interest rate volatility.

The results of our banking operations are affected by our management of this interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest

rates and changes in net interest income. The composition of our banking assets and liabilities, and any gap position resulting from the composition, causes the banking operations' net interest income to vary with changes in interest rates. In recent years, our results of operations have been dependent to a great extent on earnings attributable to net interest income. Net interest income represented approximately 48 per cent. of our operating income for 2007, approximately 31 per cent. in 2006, approximately 32 per cent. in 2005 and approximately 37 per cent. in 2004.

A mismatch of interest-earning assets and interest-bearing liabilities in any given period may, in the event of changes in interest rates, have a material effect on the financial condition or results of operations of our banking businesses. In addition, variations in interest rate sensitivity may exist within the repricing periods or between the different currencies in which we hold interest rate positions.

We currently are operating in an environment of volatile interest rates. In particular, the London Interbank Offered Rate ("**LIBOR**") and Euro InterBank Offered Rate ("**EURIBOR**") have been very volatile over recent months. As a significant portion of our liabilities are short to medium term, we may have to refinance these obligations at higher rates. See "*Liquidity risk may impair our ability to fund our operations and adversely affect our financial condition*". If current spreads on our capital markets funding stay wide for an extended period of time, it could, in certain markets, affect our competitive position and adversely affect our net interest margin. As at 31st December, 2007, ISK 1,581,347 million or 31.8 per cent. of our total financial liabilities matured in one to five years while ISK 1,302,323 million of our financial assets matured in that period. Both the European Central Bank and the Central Bank of Iceland have raised interest rates several times over the last three years. Increases in interest rates may have a material adverse effect on our business, financial condition and results of operations.

Our business, results of operations and financial condition are affected by economic and political conditions in Iceland

Our business, results of operations and financial condition are affected directly by economic and political conditions in Iceland. There can be no assurance that the Icelandic economy will grow at the same rates experienced in the recent past or that there will not be a downturn in the Icelandic economy in the future. Recently, interest rates and the rate of inflation in Iceland have been rising. The Central Bank of Iceland has increased its policy interest rate from 8.25 per cent. at 31st December, 2004 to 13.30 per cent. at 31st December, 2006. Since June 2007, the Central Bank of Iceland's policy interest rate has been presented as a 13.30 per cent. nominal interest rate instead of 14.25 per cent., which is the corresponding annual rate of return. On 1st November, 2007, the Central Bank of Iceland increased its policy interest rate by 0.45 per cent. to 13.75 per cent.

The 12-month inflation rate was 6.9 per cent. in 2006, an increase from 4.4 per cent. for 2005, 3.95 per cent. in 2004 and 2.4 per cent. in 2003, while inflation in 2007 was 5.8 per cent. on an annualised basis. Higher interest rates might have an adverse impact on the growth rate of the economy. In addition, Iceland's current account deficit at 31st December, 2006 was 27.3 per cent. of gross domestic product for 2006 and 15.4 per cent. for 2007, affecting the value of the Icelandic króna, which has fallen in value against the euro, the pound sterling and the U.S. dollar since reaching highs against these currencies. In 2007 the Icelandic króna appreciated against the major currencies and the Icelandic trade weighted index depreciated roughly 7 per cent. in the year. Since the beginning of 2008 the Icelandic króna has depreciated against the major currencies. These developments and others may have a material adverse effect on our business, financial condition and results of operations. In 2007 our operations in Iceland represented 31.9 per cent. of our total assets and contributed 33.0 per cent. of our operating income.

Our businesses are subject to the general economic conditions prevailing in Northern Europe and elsewhere

An economic downturn in Northern Europe could affect our results and financial position by reducing demand for our products and services. Such a downturn could also affect the credit quality of our counterparties by increasing the risk that a greater number of their respective customers would default on their loans or other obligations, or would refrain from seeking additional credit. See also “*Our business, results of operations and financial condition are affected by economic and political conditions in Iceland*”. The profitability of our businesses could also be adversely affected by a decline in general economic conditions in the European Economic Area, Northern Europe, Asia or the United States. These factors could have a material adverse effect on our business, financial condition and results of operations.

Our loan portfolio is concentrated in certain currencies, industries and borrowers

Our loan portfolio is exposed to a relatively high concentration in certain currencies and market sectors. As at 31st December, 2007, 13.3 per cent. of our loans to customers were denominated in Icelandic króna, 18.8 per cent. were denominated in Danish krone, 22.5 per cent. were denominated in pounds sterling and 21.6 per cent. in euro. At 31st December, 2007, loans to customers in the service sector (including financial services, public administration and technical services), loans to customers in industry (including manufacturing, food and beverage and construction) and loans to individuals comprised 18.3 per cent., 17.1 per cent. and 17.1 per cent., respectively, of our loan portfolio (excluding loans to banks and off-balance sheet credit related commitments). Furthermore, as at 31st December, 2007, our ten largest borrowers represented 14.3 per cent. of our customer loans and our 20 largest borrowers represented 20.4 per cent. of our customer loans (in each case excluding loans to banks and off-balance sheet credit related commitments), and loans to our single largest borrower represented 2.9 per cent. of our customer loan portfolio.

Our financial condition will continue to be sensitive to downturns in certain industries and the consequent inability of clients to meet their obligations to us. Declines in the financial condition of our largest borrowers and adverse currency movements relative to the Icelandic króna also could have a material adverse effect on our business, financial condition and results of operations. In addition, as at 31st December, 2007, 16.4 per cent. of our loans to customers, or ISK 541 billion, were attributable to our acquisition and leveraged finance portfolio; such loans inherently carry more risk than general corporate lending due to the higher levels of leverage. There can be no assurance that unanticipated provisions for non-performing loans through loan losses or write-offs will not be required in the future.

We are exposed to the risk that third parties who owe us money will not meet, or will be unable to meet, their obligations to us

The availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for small and medium sized enterprises (“**SMEs**”) than is the case for large corporate clients, and is even more limited for individuals. SMEs and individuals form the majority of our client base. SMEs usually have less capital and business experience than large businesses and are hence more likely to default on their loans. Loans to SMEs and loans to individuals represented 39.7 per cent. and 17.1 per cent., respectively, of our total loan portfolio as at 31st December, 2007. Therefore, we may be unable to evaluate correctly the current financial condition of each prospective borrower and, in the case of SMEs, to determine their long-term financial viability. The failure of any member of our Group to accurately assess the credit risk of prospective borrowers and lending to higher risk borrowers could have a material adverse effect on our business, financial condition and results of operations.

Our exposure to the credit risk of borrowers is higher in the case of acquisition finance loans, which typically involve higher levels of leverage than general corporate borrowing and make these

borrowers more exposed to increases in interest rates and downturns in the economy. We have witnessed a number of key trends in acquisition and leveraged finance. The number of banks providing lead arranger services, the size of the private equity market, the amount of funds available to private equity firms and the amount of institutional funding provided through collateral debt obligations have all increased considerably in recent years. As a result of these factors and notwithstanding the recent disruptions in the credit markets, the acquisition and leveraged finance market is increasingly competitive. As at 31st December, 2007, our acquisition and leveraged finance portfolio amounted to approximately ISK 541.3 billion, or 16.4 per cent. of our total loan portfolio. In addition, we typically underwrite all or a substantial portion of acquisition finance loans, which are then sold or syndicated to other parties. Our ability to successfully reduce our exposure in these loans depends on market conditions at the time. If we are unable to syndicate or sell down our position in these acquisition finance loans, we may be left with undesirably high exposure to one or more highly-leveraged borrowers. A default by one or more highly-leveraged borrowers to which we have an undesirably high exposure could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, we may from time to time co-invest with the borrowers under such loans, as the result of which we may also have an equity investment in the target companies in addition to our credit exposure, which could be completely lost if such companies encounter financial difficulties.

Adverse price fluctuations of the securities in our proprietary trading portfolio could have a material adverse effect on our results of operations and financial condition

We have a substantial investment portfolio that includes equity and debt securities of some of the largest issuers of securities in Iceland and Northern Europe. As at 31st December, 2007, our equity and debt investment portfolios totalled ISK 160,797 million and ISK 367,350 million, respectively, and accounted for 3.0 per cent. and 6.8 per cent., respectively, of our total assets. A fall in the price of our Icelandic or other Northern European securities could substantially reduce the value of our investment portfolio and the amount of our other operating income attributable to trading gains.

Under IFRS, we are required to classify our investment portfolio as either trading assets, financial assets designated at fair value through profit and loss, or available for sale securities. The securities in our trading portfolio and financial assets designated at fair value through profit and loss are measured at their fair value at the end of each financial period, with changes in value during the period recognised in our income statement under net gain on financial assets measured at fair value. As a result, declines in the market value of our trading portfolio could adversely affect our profitability, even if those declines have not been realised through a sale of the relevant securities. Financial assets available-for-sale (principally unlisted equity securities held for long-term investment purposes) are also measured at their fair value at the end of each financial period. However, unrealised gains or losses of financial assets available-for-sale are recognised in equity. As a result, declines in the value of our financial assets available-for-sale can reduce our equity, adversely affecting our regulatory capital and the capital ratios (CAD and Tier I capital ratios) that we are required to maintain under applicable law. In 2007, financial loss in Treasury amounted to ISK 17.8 billion, primarily due to the decrease in the fair value of derivative contracts, bonds and asset-backed securities.

In addition, we maintain large positions in individual issues of securities or total claims (including but not limited to loans, bank overdrafts, equity holdings or other forms of financial exposure) on one single counterparty or group of financially connected counterparties, which have sometimes led to material losses, and there can be no assurance that future losses from these holdings will not occur. In certain instances we have also made loans to companies whose securities we hold, increasing our total exposure to them, including, in particular, in leveraged finance transactions. Further, market liquidity constraints can limit our ability to sell large blocks of these securities at attractive prices. Adverse developments affecting these issuers or liquidity for their shares could have a material adverse effect on our business, financial condition and results of operations.

A decline in the value or illiquidity of the collateral securing our loans may adversely affect our loan portfolios

A substantial portion of our loans to customers are secured by collateral, including, in some cases equity securities. In addition to equity securities such collateral includes real estate, securities, ships, and, in the case of fishing vessels, together with their non-transferable fishing quotas, receivables, raw materials and inventories. Downturns in the relevant markets or general deterioration of economic conditions in the industries in which these borrowers operate, or in Iceland, the United Kingdom, Denmark or Sweden generally, or other markets in which the collateral is located, may result in declines in the value of collateral securing loans to levels below the outstanding principal balance on those loans. In the case of equity securities, often such securities are unlisted and illiquid and the value of such securities is closely linked to the business performance of the borrowers compared to such other types of collateral described above. A decline in the value of collateral securing these loans or the inability to obtain additional collateral may, in some cases, require us to reclassify the relevant loans, establish additional provisions for loan losses and increase reserve requirements. In addition, a failure to recover the expected value of collateral in the case of foreclosure may expose us to losses which could have a material adverse effect on our business, financial condition and results of operations.

Liquidity risk may impair our ability to fund our operations and adversely affect our financial condition

Ready access to funds is essential to any banking business, including ours. We rely almost entirely on continuous access to financial markets for short and long-term financing. An inability on our part to access funds or to access the markets from which we raise funds may put our positions in liquid assets at risk and lead us to be unable to finance our operations adequately. A volatile interest rate environment with significant changes in pricing compounds the risk that we will not be able to access funds at favourable rates or at all. These and other factors also could lead creditors and rating agencies to form a negative view of our liquidity, which could result in less favourable credit ratings, higher borrowing costs and less accessible funds. In addition, because we receive a portion of our funding from deposits, in particular wholesale deposits, we are also subject to the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strains.

We rely heavily on wholesale sources of funding, and until recently we had significant funding requirements in order to refund redemptions in 2008. As at 31st December, 2007, we had ISK 875 billion of borrowings maturing in 2008 and ISK 2,302 billion of borrowings maturing in the next five years. Recently, events in the financial markets, in particular the default rates on sub-prime residential mortgages in the United States, have led to disruptions in the credit markets and increased volatility in global credit and equity markets. This volatility may reduce the availability of credit or increase our borrowing costs.

Because we meet a significant portion of our funding requirements in the capital markets, we are exposed to conditions in the different markets in which we fund. We have previously raised funds principally in the Euromarkets, among other funding mechanisms, through the Programme and our €8 billion EMTN programme at FIH Erhvervsbank. We have also raised funds in the Euromarkets through our €2 billion European commercial paper programme for each of Kaupthing and FIH Erhvervsbank. Given the size of our issuances in the Euromarkets, we have diversified our sources of funding, including in the United States, Australia and Japan, where we raised funds for the first time in 2006. However, our access to funding may be more difficult in new markets and adverse economic conditions in Iceland and elsewhere may make it more difficult for us to access funds even in established markets.

In addition, our ability to raise or access funds may be impaired by factors that are not specific to our operations, such as general market conditions, the sovereign rating of Iceland, severe disruption of the financial markets or negative views about the prospects for the industries to which

we provide a large proportion of our loans. For example, the tightening of liquidity in the global credit markets during recent months has increased the risk that we will not be able to access funding at favourable cost or at all. Strains on our liquidity caused by any of these factors or otherwise could adversely affect our financial performance and competitive position. Furthermore, we believe that the other principal Icelandic banks have similar funding requirements and may be competing for funding from a similar class of investors. This also may adversely affect our access to funds and our cost of funding.

Unexpected events, unpredictable economic or market conditions, unforeseeable declines in our earnings or other situations beyond our control could cause either a short or a long-term liquidity crisis. Such a crisis might have a material adverse effect on our business, financial condition and results of operations.

A reduction in our credit ratings could adversely affect our liquidity and businesses

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowings costs, limit our access to the capital markets or trigger our obligations under certain bilateral provisions in some of our trading and collateralised financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with us or require us to post additional collateral. Termination of our trading and collateralised financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

On 9th May, 2008 Fitch downgraded our long-term IDR from A to A- and our short-term IDR from F1 to F2. At the same time Fitch affirmed our Individual Rating at B/C, Support Rating at 2 and Support Rating Floor at BBB. Fitch placed our long-term IDR on Outlook Negative. On 28th February, 2008, Moody's downgraded our long term debt rating to A1 with stable outlook from Aa3 and our financial strength was downgraded to C- from C. Our P1 rating, however, was affirmed for short term and commercial paper. On 19th September, 2007, following our announcement that we would acquire NIBC, Moody's affirmed that it had placed us on review for a possible downgrade and reaffirmed our status of being placed on review on 29th November, 2007 and on 30th January, 2008. On 11th April, 2007, Moody's downgraded our long-term debt rating to 'Aa3' and affirmed our short-term debt ratings. On the same date, Moody's downgraded the long-term debt rating of FIH to 'A1'. The downgrades came in the wake of an upgrade for us by four notches in February 2007, which was based on Moody's new joint default analysis methodology which takes into account potential sources of external support for banks. Following adjustments to the new methodology, Moody's credit ratings for both us and FIH, along with many other banks, were revised with the aforementioned results. We are not currently rated by Standard & Poor's.

Although our ratings are not directly linked to the ratings assigned to the Republic of Iceland there can be no assurance that a downgrade in credit ratings assigned to the Republic of Iceland by any of the rating agencies would not have an adverse effect on our liquidity and competitive position or affect our access to capital markets, if only temporarily. These adverse effects could affect the rating agencies' views on our credit rating. A worsening of our credit rating or the rating for the Republic of Iceland may have a material adverse effect on our business, financial condition and results of operations.

Our income from investment banking activities and investments for our own account is subject to fluctuation

We derive income from investment banking activities. For the year ended 31st December, 2007 we derived approximately 15.5 per cent. of our operating income from our investment banking activities, compared to 29.5 per cent. for the year ended 31st December, 2006 (16.4 per cent. excluding capital gains from the disposal of a substantial portion of our stake in Exista hf.) Our income from our investment banking activities consists of fee income and gains on investments.

Our fee income is in part related to the number and size of the capital market and corporate advisory transactions in which we participate and to underlying market conditions. Fees generated by these transactions are typically not recurring and are subject to volatility. Accordingly, income from our investment banking business tends to be variable, and any reduction in the number and/or size of such transactions will affect our results of operations. In addition, our investment banking unit invests in unlisted and listed companies with a view towards exiting these investments in a limited time from the date of the acquisition. As at 31st December, 2007, these investments amounted to ISK 160,797 million, of which 43 per cent. was in listed shares and equity instruments and 57 per cent. was in unlisted shares and equity instruments, compared to ISK 159,020 million at 31st December, 2006, of which 72 per cent. was in listed shares and equity instruments and 28 per cent. in unlisted shares and equity instruments. We also engage in proprietary trading for our own account and market making, taking both medium and short-term positions in debt and equity instruments. We could be adversely affected by a decline in the value of our holdings or the illiquid nature of certain holdings in our investment portfolio, which is subject to factors affecting the industries in which the companies in the portfolio operate as well as to general market fluctuations. See *“Adverse price fluctuations of the securities in our proprietary trading portfolio could have a material adverse effect on our results of operations and financial condition”*.

Furthermore, under IFRS, our financial assets available-for-sale are measured at their fair value at the end of each financial period, with gains and losses in value during the period being recognised in equity. Significant declines in the fair value of this portfolio in the future could adversely affect our equity.

Trading and investment activities within our treasury unit are inherently exposed to significant risk

Our treasury unit maintains trading and investment positions in various financial and other assets, including currency and related derivative instruments as both agent and principal. These positions are exposed to a number of risks related to the movement of market prices in the underlying instruments. This includes the risk of unfavourable market price and interest rate movements relative to our long or short positions, a decline in the market liquidity of related instruments, volatility in market prices or foreign currency exchange rates relating to these positions, and the risk that instruments chosen to hedge certain positions do not track the market value of those positions. During 2007, our treasury activities recorded losses of net financial income of ISK 17,793 million, ISK 11,650 million of which was recorded in the fourth quarter of 2007 due to unfavourable market conditions.

At 31st December, 2007, our Value-at-Risk (over ten trading days with a 99 per cent. degree of certainty) was ISK 5.4 billion (€59 million), or 1.4 per cent. of Tier I capital and 1.1 per cent. of CAD capital.

A mismatch of our positions in foreign currency could adversely affect our financial condition

Our reporting currency is the Icelandic króna, although as at 1st January, 2009 our reporting currency might be the euro. However, our full year results for 2008 will continue to be affected by fluctuations in the Icelandic króna. As at 31st December, 2007, approximately 86.5 per cent. of our total assets consisted of non-ISK-denominated assets and approximately 83.5 per cent. of our total liabilities were in currencies other than the Icelandic króna, particularly the euro (39.8 per cent.), pounds sterling (13.8 per cent.) and the U.S. dollar (12.4 per cent.). In addition, we trade currency on behalf of our clients and for our own account and maintain open currency positions in currencies other than the Icelandic króna and euro. We do not fully hedge our foreign currency exposure at all times. There can be no assurance that mismatches will not occur or that trading limits will not be breached. If we apply to adopt the euro as our functional currency and this application is approved, we will have a significant portion of our revenues and expenses as well as dividend payments we receive from our subsidiaries originating in currencies other than the euro, as is the case with the

Icelandic króna, including pounds sterling, Danish krone and Swedish króna. Fluctuations in the exchange rates with these currencies will affect the translation of the results of these subsidiaries into Icelandic króna or, beginning in 2009, the euro (if we adopt it as our functional currency), in our consolidated financial statements, where translation difference is recognised through equity. As a result, fluctuations in exchange rates could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to continue to grow through acquisitions

A significant proportion of our growth in recent years has been driven by acquisitions, including the acquisition of JP Nordiska AB in Sweden in 2002, the merger with Búnadarbanki in Iceland in 2003, the acquisition of FIH in Denmark in 2004, and the acquisition of Singer & Friedlander in the United Kingdom in 2005.

We continue to evaluate potential acquisition and investment opportunities that could further expand our international banking operations. These efforts will require significant financial resources and the attention of our board of directors and senior management, which could place a strain on management resources and adversely affect the management of our current operations. Further, no assurance can be given that we will be successful in identifying and acquiring appropriate candidates in the key markets in which we operate, or that other businesses in the future will achieve the return on investments made by us in prior periods. As a result, the level of growth that the Group has experienced in the last three years may not be sustainable.

We have historically financed the majority of our acquisitions through the issuance of shares as well as subordinated bonds. There can be no assurance that we will be able to obtain such financing on favourable terms in the future, or at all. Our failure to successfully realise our acquisition strategy could have a material adverse effect on our business, financial condition and results of operations.

Our loan portfolio may not continue to grow at the historical rate

In 2004, our customer loan portfolio grew by 203 per cent. to ISK 992,400 million, mainly due to the acquisition of FIH. In 2005, our customer loan portfolio grew by 57 per cent. to ISK 1,556,653 million, principally due to the acquisition of Singer & Friedlander as well as organic growth in Denmark and Iceland. In 2006, our customer loan portfolio grew by 64 per cent. to ISK 2,555,191 million. However, approximately half of this increase can be attributed to the weakening of the Icelandic króna in 2006, as approximately 14 per cent. of our loans to customers were denominated in Icelandic króna at 31st December, 2006. When measured in euro, our customer loan portfolio increased by approximately 30 per cent. in 2006, due to organic growth, most significantly at Kaupthing. During 2007, our customer loan portfolio grew by 30.2 per cent. to ISK 3,304,408 million, due to an increase in operations in all our markets. Without future acquisitions we may not be able to achieve similar rates of loan portfolio growth. Furthermore, there are a limited number of high credit quality SME customers, our target clients, to whom banking services may be provided in our target markets. The pace of our loan portfolio growth may be constrained by, among other factors, our ability to increase lending volumes to customers that meet our credit quality standards. There can be no assurance that our strategy to continue to expand our banking network throughout Northern Europe and to target these SME customers will succeed. If we are unable to further expand our loan portfolio in general and our SME customer base in particular, we may not generate sufficient interest income to offset any decline in net interest margins, which could have a material adverse effect on our business, financial condition and results of operations.

The implementation of Basel II may adversely affect our results of operations and financial condition

We may be adversely affected by the implementation of Basel II. We have applied to the Iceland Financial Supervisory Authority ("**FME**") (Fjármálaeftirlitió) to use the Basel II Foundation Internal

Ratings-Based (“**IRB**”) approach to determine our Pillar I capital requirements for credit risk. Under the Foundation IRB approach, we will use special purpose credit models to estimate the risk-related variables that serve as the input in the calculation of our capital requirements. The FME is currently carrying out its supervisory review of the credit models we propose to use for Pillar I, as well as various Pillar II requirements such as stress testing. Since the review has not yet been concluded we cannot at this time quantify how the revised guidelines will affect our requirements for capital and the impact these changes will have on our capital position. It is possible that our deployment and use of capital may have to be altered or additional capital may need to be raised to ensure that the revised capital adequacy requirements are satisfied. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We face increasing competition in the markets in which we operate

The financial services industry and all of our businesses are intensely competitive, and we expect them to remain so. We compete on the basis of a number of factors, including transaction execution, our products and services, innovation, reputation and price.

We face challenges from domestic and international competitors in the various markets in which we operate. Some of our competitors, including well-established domestic banks in each of the markets in which we operate, as well as international banks with operations in most of the markets in which we operate, may have better banking relationships with the SME clients that comprise our target customer bases and may have greater resources and better local market knowledge than we do. These and other factors related to competition could have a material adverse effect on our ability to compete effectively in these markets, and adversely affect our business, financial condition and results of operations.

In addition, we face increased pressure to meet rising customer demands to provide new banking products that are developing rapidly in Northern Europe. There can be no guarantee that our management and employees will succeed in adopting new work methods and approaches to customer service that will keep up with the pace of change in the current banking environment, which may adversely affect our ability to successfully compete in our primary markets.

Further, the number of banking transactions conducted over the internet in the markets in which we operate has grown in recent years and is expected to grow further. We may be unable to compete with other banks that offer more extensive online services to their customers than we currently offer to our customers. There can be no assurance that some of our clients will not choose to transfer some or all of their business to competitors, which could adversely affect our business, financial condition and results of operations.

The residential mortgage market in Iceland has lower margins than in other jurisdictions

Historically, residential mortgages in Iceland have been provided principally by the Housing Finance Fund (the “**HFF**”), which had approximately a 50 per cent. share of the ISK 806 billion Icelandic mortgage market in 2006 compared to our 14.6 per cent. market share (according to our research department’s calculations, based on information provided from the Central Bank of Iceland and HFF). Because it is a quasi-sovereign entity, the HFF has access to lower-cost funding than we do, which it can pass on to its customers in lower rate mortgages. As we believe that it is important to our overall retail business in Iceland to offer competitive market rates to our residential mortgage customers, to the extent we are required to match the mortgage rates of the HFF, our margins in our mortgage lending business in Iceland will be adversely affected.

Our risk management policies, procedures, methods, assessments, techniques and strategies do not encompass all types of risk and may not be fully adequate to measure risk, in particular under extreme market conditions

We devote significant resources to developing risk management policies, procedures and assessment methods for our banking, investment banking and asset management businesses. We,

like other financial institutions, use a sophisticated value-at-risk (“**VaR**”) model, duration analysis and sensitivity analysis as well as other risk assessment methods. Nonetheless, these risk management techniques and strategies may not be fully effective in mitigating risk exposure in all economic market environments or against all types of risk, including risks that we fail to identify or anticipate. In addition, we are in the process of developing additional risk assessment tools which we consider necessary to supplement our existing tools and to enable us to better consolidate risk which exists across the Group. Some of our qualitative tools and metrics for managing risk are based upon use of observed historical market behavior. We apply statistical and other tools to these observations to arrive at quantifications of risk exposures. These tools and metrics may fail to predict or predict incorrectly future risk exposures. As a result, our losses could be significantly greater than these measures would indicate. In addition, our quantified modeling takes into account credit, market, liquidity and operational risks, but does not take into account other risks which may be applicable to our business. Our more qualitative approach to managing risks takes into account a broader set of risks, but is less precise than quantified modeling and could prove insufficient. Unanticipated or incorrectly quantified risk exposures or failure to fully consolidate risks which exist across the Group could result in material losses in our banking, investment banking and asset management businesses.

While we manage our operational risks, these risks remain an inherent part of all of our businesses

The operational risks that we face include the possibility of inadequate or failed internal or external processes or systems, human error, regulatory breaches, employee misconduct or external events such as fraud. Additionally, the loss of key personnel could adversely affect our operations and results.

Our business inherently generates operational risks. The business is dependent on processing a large number of complex transactions across numerous and diverse products, and is subject to a number of different legal and regulatory regimes. The recording and processing of these transactions are potentially exposed to the risk of human and technological errors or a breakdown in internal controls relating to the due authorisation of transactions. Given our high volume of transactions, errors may be repeated or compounded before they are discovered and rectified, and there can be no assurance that risk assessments made in advance will adequately estimate the costs of these errors.

Controls we put in place to mitigate operational risks do not eliminate them and failures could subject us to regulatory scrutiny. These events could potentially result in financial loss as well as harm to our reputation and could in turn adversely affect our business, financial condition and results of operations.

Mandatory physical settlement of derivative transactions may expose us to losses if we are unable to deliver the underlying security or obligation

Like many participants in the derivatives marketplace we are party to a large number of derivative transactions, including credit derivatives that require that we deliver to the counterparty the underlying security or obligation in order to receive payment. In a number of cases, we do not hold the underlying security or obligation and may have difficulty obtaining, or may be unable to obtain, the underlying security or obligation through the physical settlement of other transactions. As a result, we are subject to the risk that we may be unable to obtain the security or obligation within the required contractual timeframe for delivery. This could cause us to forfeit the payments due to us under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to the firm. The derivatives industry is working on various proposals to address this issue. A failure of the industry to address this issue could result in an unwillingness of counterparties to enter into certain types of derivative transactions, which could negatively affect our business.

Unconfirmed derivative transactions and unauthorized assignments of derivatives by counterparties may expose us to unexpected risk and potential losses

Derivative contracts and other transactions entered into with third parties are not always confirmed by the counterparties on a timely basis. While the transaction remains unconfirmed, we are subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce the contract. The growth in the derivatives industry, including credit derivatives and other swap transactions, has also exposed us and other industry participants to an increasing incidence of counterparties seeking to unilaterally assign transactions without required prior notice and consent. Although industry participants have taken steps to eliminate this practice and its effects on a going-forward basis, including through the adoption of the 2005 ISDA Novation Protocol, it is not yet clear how effective these efforts will be, and the steps that have been taken by the industry do not resolve the issue for derivative contracts that were previously entered into. Unauthorized assignments could introduce uncertainty as to the status of a transaction, impair our ability to evaluate credit risk and impede trade reconciliations, which could lead to a higher number of failed transactions and collateral call defaults.

Our risk management methods may leave us exposed to unidentified, unanticipated, or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

Our risk management strategies may fail under certain circumstances, particularly when confronted with risks that have not been identified or anticipated. Risk methodologies and techniques that we adopt to assess credit risk, market risk, liquidity risk and operational risk may be flawed or may not take all risks into account, and it is possible that the methods for assessing these risks are not sound or are based on faulty information, or that they will be misunderstood, not implemented correctly or misapplied by our personnel. In addition, our risk management policies are constantly being re-evaluated and there may be a lag in implementation. Furthermore, some of our qualitative tools and metrics for managing risk are based upon the use of observed historical market behaviour. We apply statistical and other tools to these observations to arrive at quantifications of risk exposures. These tools and metrics may fail to predict future risk exposures. Our losses thus could be significantly greater than our measures would indicate. In addition, our quantified modelling does not take all risks into account. Our more qualitative approach to managing risks takes into account a broader set of risks, but is less precise than quantified modelling and could prove insufficient. Unanticipated or incorrectly quantified risk exposures could have a material adverse effect on our business, financial condition and results of operations.

The growth of electronic trading and the introduction of new technology may adversely affect our business and may increase competition

Technology is fundamental to our business and our industry. The growth of electronic trading and the introduction of new technologies is changing our businesses and presenting us with new challenges. Securities, futures and operations transactions are increasingly occurring electronically, both on our own systems and through other alternative trading systems, and it appears that the trend toward alternative trading systems will continue and probably accelerate. Some of these alternative trading systems compete with our trading businesses, including our specialist businesses, and we may experience continued competitive pressures in these and other areas. In addition, the increased use by our clients of low-cost electronic trading systems and direct electronic access to trading markets could cause a reduction in commissions and spreads. An inability to compete and keep up with new technologies could have a material adverse effect on our business, financial condition and results of operation.

We may be vulnerable to the failure of our IT systems and breaches of our security systems

We rely on the proper functioning and continuity of our IT systems. Any significant interruption, degradation, failure or lack of capacity of our IT systems or any other systems in our clearing operations or elsewhere could cause us to fail to complete transactions on a timely basis or at all. A sustained failure of our IT systems centrally or across our branches would have a significant impact on our operations and the confidence of our customers in the reliability and safety of our banking systems. We are in the process of upgrading our Group-wide IT systems. The upgrade may not proceed within the allocated time frame and budget and could cause disruption to our business.

In addition, when we acquire new operations, we need to integrate the IT systems of the acquired business with our existing systems and may experience disruptions or inefficiencies until that integration is complete.

The secure transmission of confidential information is a critical element of our operations. We cannot guarantee that our existing security measures will prevent security breaches, including break-ins, viruses and disruptions. Persons that circumvent the security measures could use our or our clients' confidential information wrongfully, which could expose us to a risk of loss, adverse regulatory consequences or litigation.

There are regulatory and legal risks inherent in our businesses

All of our operations entail considerable regulatory and legal risk, including litigation and liability risk. Each member of our Group is subject to government regulation and inquiry as financial companies in the markets in which they operate, and regulations may be extensive and may change rapidly. In addition, many of our operations are contingent upon licences issued by financial authorities of the countries in which we operate.

Violations of rules and regulations, whether intentional or unintentional, may lead to the withdrawal of some of these licences or to liability claims. Any breach of these or other regulations may adversely affect our reputation or financial condition. In addition, existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change and new laws or regulations could be adopted, which could adversely affect the way we operate our business and our market reputation.

We are also exposed to legal risks in our role as a financial intermediary, collateral manager and a consultant to third party businesses. These risks include potential liability for our role in determining the price of a company and for advice we provide to participants in corporate transactions and in disputes over the terms and conditions of complex trading arrangements. We also face the possibility that counterparties in complex or high-risk trading transactions will claim that we failed to properly inform them of the associated risks or that they were not authorised or permitted to enter into these transactions with us and that their obligations are therefore not enforceable. We are also exposed to customer claims.

We may also be subject to claims arising from disputes with employees for, among other things, alleged illegal dismissal, discrimination or harassment. These risks may often be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. Liability resulting from any of the foregoing or other claims could have a material adverse effect on our business, financial condition and results of operations.

All the Northern European countries are members of the European Economic Area and/or the European Union. This provides us with regulatory conditions similar to those of other European banks. However, the interpretation and implementation of rules on securities trading may still differ among countries. Moreover, the length of history and volume of trading in the different markets vary and, consequently, so does the legal certainty of the framework within which we operate. Thus, we

face a risk of incurring liability from violations of these regulations, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in certain tax laws and tax treaties or in their interpretation could harm our business

Our results of operations could be harmed by changes in tax laws and tax treaties or the interpretation thereof, changes in corporate tax rates and the refusal of tax authorities to issue or extend advanced tax rulings. The unavailability of tax rulings could diminish the range of structured transactions we can enter into with our clients. Changes in the laws and tax treaties among the jurisdictions in which we provide products and services could undermine demand for our products. Any of these or other changes in the tax regimes in which we operate could have a material adverse effect on our business, results of operations and financial condition.

Catastrophic events, terrorist attacks and other acts of war could have a negative impact on our business and results

Catastrophic events, terrorist attacks, other acts of war or hostility, and responses to those acts may create economic and political uncertainties, which could have a negative impact on economic conditions in the regions in which we operate and, more specifically, on our business and results in ways that cannot be predicted.

We may be unable to recruit or retain experienced and qualified personnel, and we are highly dependent on key members of management

Our continuing success depends, in part, on our ability to continue to attract, retain and motivate qualified and experienced banking and management personnel, particularly those individuals who are experienced in investment banking and acquisition finance. Competition for personnel with relevant expertise is intense, due to the relatively small number of available qualified individuals. Competition for qualified personnel, including senior management, is particularly intense in Iceland, where the unemployment rate is currently below 2 per cent. Geographical location of employment may also make it less attractive to a large portion of potential applicants.

The loss of the services of key members of our senior management or staff with institutional and client knowledge may significantly delay our business objectives and could have a material adverse effect on our business, financial condition and results of operations. Furthermore, we are highly dependent on our executive chairman, chief executive officer and senior management team.

Our insurance coverage may not adequately cover losses resulting from the risks for which they are insured

We maintain customary insurance policies for our operations, including insurance for our liquid assets, money transport and directors' and officers' liability, as well as insurance against computer crimes and for employee dishonesty and mistakes. Due to the nature of our operations and the nature of the risks that we face, there can be no assurance that the coverage that we maintain is adequate to cover the losses for which we believe we are insured.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each of the risks highlighted below could adversely affect the trading price of any Notes or the rights of investors under any Notes and, as a result, investors could lose some or all of their investment. The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay

or deliver amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

In addition an investment in the Equity Linked Notes, Commodity Linked Notes, Credit Linked Notes (each as defined below) or other Notes linked to one or more Reference Item(s), may entail significant risks not associated with investments in a conventional debt security, including but not limited to, the risks set out in "*Risks related to the structure of a particular issue of Notes*" set out below.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Risks relating to Reference Item Linked Notes

Dual Currency Notes, Equity Linked Notes, Index Linked Notes, Commodity Linked Notes, Credit Linked Notes and Currency Linked Notes (each as defined below and together “Reference Item Linked Notes”) involve a high degree of risk.

Prospective investors in Reference Item Linked Notes should understand the risks of transactions involving Reference Item Linked Notes and should reach an investment decision only after careful consideration, with their advisers, of the suitability of such Reference Item Linked Notes in light of their particular financial circumstances, the information set forth herein and the information regarding the relevant Reference Item Linked Notes and the particular Reference Item(s) to which the value of, or payments in respect of, the relevant Reference Item Linked Notes may relate, as specified in the applicable Final Terms.

As the amount of interest payable periodically and/or principal payable at maturity may be linked to the performance of the relevant Reference Item(s), an investor in a Reference Item Linked Note must generally be correct about the direction, timing and magnitude of an anticipated change in the value of the relevant Reference Item(s).

Where the applicable Final Terms specify one or more Reference Item(s), the relevant Reference Item Linked Notes will represent an investment linked to the economic performance of such Reference Item(s) and prospective investors should note that the return (if any) on their investment in Reference Item Linked Notes will depend upon the performance of such Reference Item(s). Potential investors should also note that whilst the market value of such Reference Item Linked Notes is linked to such Reference Item(s) and will be influenced (positively or negatively) by such Reference Item(s), any change may not be comparable and may be disproportionate. It is impossible to predict how the level of the relevant Reference Item(s) will vary over time. In contrast to a direct investment in the relevant Reference Item(s), Reference Item Linked Notes represent the right to receive payment or delivery, as the case may be, of the relevant cash amount and/or asset amount on the relevant Maturity Date as well as periodic payments of interest (if specified in the applicable Final Terms), all or some of which may be determined by reference to the performance of the relevant Reference Item(s). The applicable Final Terms will set out the provisions for the determination of any cash amount and/or asset amount and of any periodic interest payments.

PROSPECTIVE INVESTORS MUST REVIEW THE APPLICABLE FINAL TERMS TO ASCERTAIN WHAT THE RELEVANT REFERENCE ITEM(S) ARE AND TO SEE HOW BOTH ANY CASH AMOUNTS AND/OR ASSET AMOUNTS ARE PAYABLE OR DELIVERABLE AND HOW ANY PERIODIC INTEREST PAYMENTS ARE DETERMINED AND WHEN ANY SUCH AMOUNTS ARE PAYABLE AND/OR DELIVERABLE, AS THE CASE MAY BE, BEFORE MAKING ANY DECISION TO PURCHASE ANY REFERENCE ITEM LINKED NOTES.

Fluctuations in the value and/or volatility of the relevant Reference Item(s) may affect the value of the relevant Reference Item Linked Notes. Investors in Reference Item Linked Notes may risk losing their entire investment if the value of the relevant Reference Item(s) does not move in the anticipated direction.

There is no return on Reference Item Linked Notes other than the potential payment or delivery, as the case may be, of the relevant cash amount and/or asset amount on the Maturity Date and payment of any periodic interest payments.

Other factors which may influence the market value of Reference Item Linked Notes include interest rates, potential dividend or interest payments (as applicable) in respect of the relevant Reference Item(s), changes in the method of calculating the level of the relevant Reference Item(s) from time to time and market expectations regarding the future performance of the relevant Reference Item(s), its composition and such Reference Item Linked Notes.

If any of the relevant Reference Item(s) is an index, the value of such Reference Item on any day will reflect the value of its constituents on such day. Changes in the composition of such Reference Item and factors (including those described above) which either affect or may affect the value of the constituents, will affect the value of such Reference Item and therefore may affect the return on an investment in Reference Item Linked Notes.

The Issuer may issue several issues of Reference Item Linked Notes relating to particular Reference Item(s). However, no assurance can be given that the Issuer will issue any Reference Item Linked Notes other than the Reference Item Linked Notes to which the applicable Final Terms relate. At any given time, the number of Reference Item Linked Notes outstanding may be substantial. Reference Item Linked Notes provide opportunities for investment and pose risks to investors as a result of fluctuations in the value of the Reference Item(s) to which such Reference Item Linked Notes relate.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities (see further “*Equity Linked Notes*” and “*Commodity Linked Notes*” below), to movements in currency exchange rates or other factors (each, a “**Relevant Factor**”). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no, or a limited amount, of interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, investors should consult their own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of their particular circumstances.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Equity Linked Notes

The Issuer may issue Notes where the amount of principal ("**Equity Linked Redemption Notes**") and/or interest ("**Equity Linked Interest Notes**") payable is dependent upon the price of or changes in the price of an equity security or a basket of equity securities or where, depending on the price of or change in the price of an equity security or a basket of equity securities, on redemption the Issuer's obligation is to deliver specified assets (together "**Equity Linked Notes**").

Potential investors in any such Notes should be aware that, depending on the terms of the Equity Linked Notes:

- (i) they may receive no or a limited amount of interest;
- (ii) payment of principal or interest or delivery of any specified assets may occur at a different time than expected; and
- (iii) they may lose all or a substantial portion of their investment. In addition, movements in the price of the equity security or basket of equity securities may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices and the timing of changes in the relevant price of the equity security or equity securities may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the price of the equity security or equity securities, the greater the effect on yield.

If the amount of principal and/or interest payable is determined in conjunction with a multiplier greater than one or by reference to some other leverage factor, the effect of changes in the price of the equity security or equity securities on principal and/or interest payable will be magnified.

If Disrupted Day is specified as applying in the applicable Final Terms, the Calculation Agent may determine that an event giving rise to a Disrupted Day (as defined in the Terms and Conditions of the Notes) has occurred at any relevant time. Any such determination may have an effect on the timing of valuation and consequently the value of the Notes and/or may delay (i) any applicable interest payments, in the case of Equity Linked Interest Notes, or (ii) settlement in the case of Equity Linked Redemption Notes. Prospective purchasers should review the Terms and Conditions of the Notes and the applicable Final Terms to ascertain whether and how such provisions apply to the Notes.

If De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer are specified as applying in the applicable Final Terms, prospective purchasers should note that the Issuer may redeem the Notes early at the Early Redemption Amount specified in the applicable Final Terms.

In respect of Equity Linked Notes relating to an equity security or equity securities originally quoted, listed and/or dealt as of the Trade Date in a currency of a member state of the European Union that has not adopted the single currency in accordance with the Treaty establishing the European Community, as amended, if such equity security or equity securities is/are at any time after the Trade Date quoted, listed and/or dealt exclusively in euro on the relevant Exchange, prospective purchasers should note that the Calculation Agent will adjust any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of the Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines in its sole and absolute discretion

to be appropriate to preserve the economic terms of the Notes. Prospective purchasers should also note that the Calculation Agent will make any conversion necessary for the purposes of any such adjustment as of the relevant Valuation Time at an appropriate mid-market spot rate of exchange determined by the Calculation Agent prevailing as of the relevant Valuation Time.

Where the Notes provide for physical delivery, the Calculation Agent may determine that a Settlement Disruption Event is subsisting and/or where “Failure to Deliver due to Illiquidity” is specified as applying in the applicable Final Terms, that it is impossible or impracticable to deliver when due some or all of the assets due to be delivered due to illiquidity in the relevant market. A Settlement Disruption Event is an event beyond the control of the Issuer, as a result of which, in the opinion of the Calculation Agent, delivery of the specified assets to be delivered by or on behalf of the Issuer in accordance with the Terms and Conditions of the Notes and/or the applicable Final Terms, is not practicable. Any such determination may affect the value of the Notes and/or may delay settlement in respect of the Notes.

The market price of such Notes may be volatile and may be affected by the time remaining to the redemption date, the volatility of the equity security or equity securities, the dividend rate (if any) and the financial results and prospects of the issuer or issuers of the relevant equity.

Additional Disruption Events (Index Linked Notes and Equity Linked Notes only)

If Additional Disruption Events are specified as applying in the applicable Final Terms, the Notes will be subject to adjustment or may be redeemed upon the occurrence of any of the Additional Disruption Events specified as applying in the applicable Final Terms.

Commodity Linked Notes

The Issuer may issue Notes where the amount of principal (“**Commodity Linked Redemption Notes**”) and/or interest (“**Commodity Linked Interest Notes**”) payable is dependent upon the price of or changes in the price of a commodity or a basket of commodities or where, depending on the price or change in the price of the commodity or basket of commodities, on redemption the Issuer’s obligation is to deliver specified assets (together “**Commodity Linked Notes**”).

Potential investors in any such Notes should be aware that depending on the terms of the Commodity Linked Notes (i) they may receive no or a limited amount of interest, (ii) payment of principal or interest or delivery of any specified assets may occur at a different time than expected and (iii) they may lose all or a substantial portion of their investment. In addition, the movements in the price of the commodity or basket of commodities may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices and the timing of changes in the relevant price of the commodity or commodities may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the price or prices of the commodities, the greater the effect on yield.

If the amount of principal and/or interest payable is determined in conjunction with a multiplier greater than one or by reference to some other leverage factor, the effect of changes in the price of the commodity or commodities on principal, interest payable or the amount of specified assets deliverable will be magnified.

The market price of such Notes may be volatile and may depend on the time remaining to the redemption date and the volatility of the price of the commodity or commodities. The price of the commodity or commodities may be affected by economic, financial and political events in one or more jurisdictions, including factors affecting the exchange(s) or quotation system(s) on which any such commodities may be treated.

Credit Linked Notes

In the event of the occurrence of certain circumstances (which may include, amongst other things, Bankruptcy, Failure to Pay, Obligation Acceleration, Obligation Default, Repudiation/Moratorium or Restructuring) in relation to a Reference Entity or Reference Entities, in each case as specified in the applicable Final Terms, the obligation of the Issuer to pay principal may be replaced by an obligation to pay other amounts, which may be less than the par value amount, calculated by reference to the value of the Reference Item(s) and/or to deliver the Reference Item(s). In addition, interest bearing Credit Linked Notes may cease to bear interest on or prior to the date of occurrence of such circumstances. The Issuer may issue Credit Linked Notes linked to the performance of two or more Reference Entities where the obligation of the Issuer to pay principal may be replaced by an obligation to pay other amounts, which may be less than the par value amount, calculated by reference to the value of the Reference Item(s) and/or to deliver the Reference Item(s), in each case, in relation to the first Reference Entity in respect of which a Credit Event has occurred. The Issuer may issue Credit Linked Notes linked to the performance of a portfolio of Reference Entities where the amount of principal and interest (if any) payable by the Issuer pursuant to such Credit Linked Notes is dependent on whether a Credit Event in respect of one or more Reference Entities has occurred.

If Merger Event is specified as applying in the applicable Final Terms, prospective purchasers should note that, in the event that in the determination of the Calculation Agent a Merger Event has occurred, the Issuer may redeem the Notes early at the Early Redemption Amount specified in the applicable Final Terms.

The Issuer's obligations in respect of Credit Linked Notes are irrespective of the existence or amount of the Issuer's and/or any of its Affiliates credit exposure to a Reference Entity and the Issuer and/or any of its Affiliates need not suffer any loss nor provide evidence of any loss as a result of the occurrence of a Credit Event.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Target Redemption Notes

Potential investors should be aware that Target Redemption Notes will have a variable maturity which depends on when and if the pre-determined interest amount is reached. In addition and as a result, the market value of such a Note may be more volatile than the market value of other conventional fixed or variable rate debt securities.

Range Accrual Notes

Potential investors should be aware that, depending on the performance of the reference rate, they may receive no interest or less interest than on other conventional fixed or variable rate debt securities. In addition and as a result, the market value of such Notes may be more volatile than the market value of other conventional fixed or variable rate debt securities.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a

conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Issuer's obligations under Subordinated Notes are subordinated

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to Senior Liabilities. "**Senior Liabilities**" means any unconditional, unsubordinated and unsecured obligations of the Issuer. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

The Issuer's obligations under the Capital Notes issued by it will be unsecured and unconditional obligations of the Issuer and will be even more subordinated than the Subordinated Notes. In the event of the insolvency or voluntary or involuntary liquidation of the Issuer, the rights of the holders of the Capital Notes to payments of the principal amount of the Capital Notes and any other amounts including interest due in respect of the Capital Notes; and where the whole or any part of the principal amount of the Capital Notes has been converted into conditional capital contributions as described below and such conditional capital contributions have not been reconverted and reinstated as provided below, the providers of such conditional capital contributions, in respect of such conditional capital contributions, shall rank:

- (i) *pari passu* without any preference among the holders of the Capital Notes and such providers;
- (ii) at least *pari passu* with the rights of the holders of any other outstanding Capital Securities whether or not such Capital Securities have been converted in the manner described below and at least *pari passu* with the rights of the holders of any other obligations of the Issuer constituting or eligible ("**eligible**" to be construed, *mutatis mutandis*, as provided in the definition of Capital Event in Condition 2(c)) as constituting Tier 1 Capital of the Issuer, in each case in relation to their rights as such holders and to payments in respect thereof;
- (iii) in priority to the rights of holders of all classes of ordinary share capital, preferred share capital and other share capital and/or establishment funds (*hlutafe eda stofnfe*) and/or comparable capital and reserves (*sambaerilegt eigid fe*), of the Issuer and in priority to the rights of holders of any obligation of the Issuer expressed to rank junior to the Capital Notes, in each case in relation to their rights as such holders and to payments in respect thereof; and
- (iv) junior in right of payment to the payment of any present or future claims under Senior Obligations and Subordinated Obligations.

No holder of a Capital Note or provider of any conditional capital contribution who shall in the event of the insolvency voluntary or involuntary liquidation of the Issuer be indebted to the Issuer shall be entitled to exercise any right of set-off or counterclaim against moneys owed by the Issuer in

respect of the Capital Notes or conditional capital contributions held or provided by such holder or provider, as the case may be.

To the extent that it may be required to avoid the Issuer no longer meeting the requirements with respect to Minimum Own Funds the Board of Directors of the Issuer, by resolution passed at a board meeting, may decide that the principal amount (or part thereof, as the case may be) of each Capital Note will be utilised by writing down all or part of the principal amount to the extent and by the amount required to avoid falling below the required Minimum Own Funds and converting such aggregate amount ("**Converted Amount**") into a conditional capital contribution.

Reconversion and reinstatement (in whole or in part) as obligations in respect of the Capital Notes of the Converted Amount may only be made out of Unallocated Distributable Profits of the Issuer and subject to a resolution of the board of Directors of the Issuer.

Under certain conditions, interest payments under Capital Notes may be deferred

If, in relation to any issue of Capital Notes, the principal amount (or part thereof) is converted into a conditional capital contribution, the rights of the holders of the Capital Notes in respect of the Converted Amount will thereupon be converted into rights of providers of conditional capital contributions as set out in the Conditions.

Any deferral of interest payments is likely to have an adverse effect on the market price of the Capital Notes. In addition, as a result of the interest deferral provision of the Capital Notes, the market price of the Capital Notes may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's financial condition.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Notes will be unsecured, and therefore will effectively be subordinated to any secured debt

The Notes will not be secured by any of its assets or those of its subsidiaries. As a result, the Notes are effectively subordinated to any secured debt the Issuer may incur. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of the Issuer's secured debt may assert rights against the secured assets in order to receive full payment of their debt before the assets may be used to pay the holders of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law and, in the case of Conditions 2(b), 2(c), 2(d), 2(e), 5(h), 7(e) and 7(m) Icelandic law, in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, Icelandic law or administrative practice after the date of this Base Prospectus.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's

Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Market Value of Notes

The market value of an issue of Notes will be affected by a number of factors independent of the creditworthiness of the Issuer, including, but not limited to:

- (i) the value and volatility of the Reference Item(s);
- (ii) in the case of Credit Linked Notes, the creditworthiness of the Reference Entity or Reference Entities;
- (iii) where the Reference Item(s) is/are equity securities, the dividend rate on the Reference Item(s) and the financial results and prospects of the issuer of each Reference Item;
- (iv) market interest and yield rates;
- (v) fluctuations in exchange rates;
- (vi) liquidity of the Notes or any Reference Item(s) in the secondary market;
- (vii) the time remaining to any redemption date or the maturity date; and
- (viii) economic, financial and political events in one or more jurisdictions, including factors affecting capital markets generally and the stock exchange(s) on which any Reference Item may be traded.

The price at which a Noteholder will be able to sell any Notes prior to maturity may be at a discount, which could be substantial, to the market value of such Notes on the issue date, if, at such time, the market price of the Reference Item(s) is below, equal to or not sufficiently above the market price of the Reference Item(s) on the issue date. The historical market prices of any Reference Item should not be taken as an indication of such Reference Item's future performance during the term of any Note.

Prospective investors who consider purchasing any Notes should reach an investment decision only after carefully considering the suitability of such Notes in light of their particular circumstances.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of

professional advice where appropriate, whether and to what extent (1) Notes are lawful investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have been previously published or are published simultaneously with this Base Prospectus and have been filed with the CSSF shall be deemed to be incorporated in, and form part of, this Base Prospectus:

- (a) the Annual Report 2006 which contains the auditors report and audited consolidated financial statements for the financial year ended 31st December, 2006 including the information set out at the following pages in particular:

	Annual Report 2006
Balance Sheet	118
Income Statement	117
Statement of Cash Flows.....	120-121
Notes	122-181
Auditors Report	116

Any other information not listed above but contained in such document is incorporated by reference for information purposes only;

- (b) the Annual Report 2007 which contains the auditors report and the audited consolidated financial statements for the financial year ended 31st December, 2007 including the information set out at the following pages in particular:

	Annual Report 2007
Balance Sheet	117
Income Statement	116
Statement of Cash Flows.....	119-120
Notes	121-192
Auditors Report	115

Any other information not listed above but contained in such document is incorporated by reference for information purposes only; and

- (c) the interim consolidated financial statements of the Issuer for the six months ended 30th June, 2008 including the information set out at the following pages in particular:

	Interim Consolidated Financial Statements
Balance Sheet	6
Income Statement	5
Condensed Statement of Cash Flows	8
Notes	9-25
Auditors Report	4

Any other information not listed above but contained in such document is incorporated by reference for information purposes only.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus.

Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the Issuer's Office as set out at the end of this Base Prospectus. In addition, such documents will be available, free of charge, from the principal office in Luxembourg of Fortis Banque Luxembourg S.A. for Notes admitted to the official list of the Luxembourg Stock Exchange and to trading on the Regulated Market of the Luxembourg Stock Exchange. This Base Prospectus will also be published on the Luxembourg Stock Exchange's website (www.bourse.lu).

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes.

GENERAL DESCRIPTION OF THE PROGRAMME

The following general description does not purport to be complete and is taken from, and is qualified in its entirety by, the Summary and the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, if appropriate, a supplement to this Base Prospectus will be published.

This general description constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this General Description of the Programme.

Form of Notes:	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Such currencies as may be specified in the applicable Final Terms.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
Maturities:	Such maturities as may be specified in the applicable Final Terms.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Base Prospectus.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: <ul style="list-style-type: none">(i) 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 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes: Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Equity Linked Notes: Payments of interest in respect of Equity Linked Interest Notes will be calculated by reference to a single equity security or basket of equity securities on such terms as specified in the applicable Final Terms.

Payments of principal in respect of Equity Linked Redemption Notes will be calculated by reference to a single equity security or a basket of equity securities. Each nominal amount of Notes equal to the Calculation Amount specified in the applicable Final Terms will be redeemed by payment of the Redemption Amount specified in the applicable Final Terms or, if not so specified, as defined in the Terms and Conditions of the Notes. Equity Linked Redemption Notes may also provide that redemption will be by physical delivery of a given number of Reference Item(s). Accordingly, investment in Equity Linked Redemption Notes may bear similar risks to a direct equity investment and investors should take advice accordingly.

If Potential Adjustment Events and/or De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer are specified as applying in the applicable Final Terms, the Notes may be subject to adjustment or, if De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer are specified as applying in the applicable Final Terms, redeemed, all as more fully set out under "*Terms and Conditions of the Notes*".

Additional Disruption Events (Equity Linked Notes only): If Additional Disruption Events are specified as applying in the applicable Final Terms, the Notes will be subject to adjustment or may be redeemed upon the occurrence of any of the Additional Disruption Events specified as applying in the applicable Final Terms.

Disrupted Days: Where the Notes are Equity Linked Redemption Notes, the Calculation Agent may determine that a Disrupted Day has occurred or exists at a relevant time. Any such determination may have an effect on the value of the Notes and/or may delay settlement in respect of the Notes. Prospective investors should

review the “*Terms and Conditions of the Notes*” to ascertain whether and how such provisions apply to the Notes.

Settlement Risk:	Where any Notes are to be settled by Physical Delivery, the Calculation Agent may determine that a Settlement Disruption Event is subsisting and/or, where “Failure to deliver due to Illiquidity” is specified as applying in the applicable Final Terms, that it is impossible or impractical to deliver when due some or all of the assets due to be delivered due to illiquidity in the relevant market. Any such determination may affect the value of the Notes and/or may delay settlement in respect of the Notes and/or result in whole or partial cash settlement in respect of the Notes. Prospective investors should review the “ <i>Terms and Conditions of the Notes</i> ” and the applicable Final Terms to ascertain whether and how such provisions apply to the Notes.
Illegality:	In the event that the Calculation Agent determines in good faith that the performance of the Issuer’s obligations under a Series of Notes or that any arrangements made to hedge the Issuer’s position under such Notes has or will become unlawful, illegal, or otherwise prohibited in whole or in part, the Issuer may, having given notice to Noteholders, redeem all, but not some only, of the Notes of such Series, each Note being redeemed at the Early Redemption Amount, together, if appropriate, with accrued interest.
Credit Linked Notes:	<p>Notes with respect to which payment of principal and/or interest is linked to the credit of a specified entity or entities will be Credit Linked Notes and will be issued on such terms as the Issuer and the relevant Dealer may agree as indicated in the applicable Final Terms (see also Condition 11).</p> <p>If Conditions to Settlement are satisfied during the Notice Delivery Period, the Issuer will redeem the Notes at the Credit Event Redemption Amount, if Cash Settlement is specified in the applicable Final Terms, or by delivery of the Asset Amount, if Physical Delivery is specified in the applicable Final Terms, as more fully set out under “<i>Terms and Conditions of the Notes</i>”.</p>
Commodity Linked Notes:	Payments (whether in respect of principal or interest and/or whether at maturity or otherwise) in respect of Commodity Linked Notes will be calculated by reference to a single commodity or basket of commodities on such terms as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms).
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Target Redemption Notes:	Target Redemption Notes may bear interest at a variable rate or at a rate that converts from a fixed rate to a variable rate. The cumulative interest earned on a Target Redemption Note cannot exceed a pre-determined amount. If and when that pre-determined amount is reached, the Target Redemption Note is redeemed.

Range Accrual Notes:	Range Accrual Notes generally bear interest at a variable rate reflecting the amount of time during a specified period in which a specified reference rate falls within a defined range.
Redemption:	<p>The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (if any) (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity (if any) and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.</p> <p>In addition, in the case of Capital Notes only, upon the occurrence of a Special Event (as described in Condition 7), the Issuer may, at its option, having given not less than 30 days' nor more than 60 days' notice to the holders of the Capital Notes in accordance with Condition 18 (which notice shall be irrevocable), redeem all (but not some only) of the Capital Notes on the date(s) specified in the applicable Final Terms at an amount equal to the Special Event Redemption Amount (as specified in the applicable Final Terms).</p> <p>Any redemption of Capital Notes is subject to the prior approval of the Financial Supervisory Authority of Iceland (<i>Fjármálaeftirlitid</i>) (the "FSA") (provided that such approval is at such time required to be given in accordance with applicable rules, regulations and policies of the FSA).</p>
Denomination of Notes:	Notes will be issued in such denominations as may be specified in the applicable Final Terms. The minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €1,000 (or if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction (as that term is defined in Condition 12), and subject as provided in Condition 12. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 12, be required to pay additional amounts to cover the amounts so deducted.
Expenses:	If Physical Delivery is specified in the applicable Final Terms as applying in relation to any Notes, all Delivery Expenses arising from the delivery of any Asset Amount in respect of such Note shall be for the account of the relevant Noteholder and no delivery of any Asset Amount shall be made until all Delivery Expenses have been paid to the satisfaction of the Issuer by the relevant Noteholder.

Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 3.
Cross Default:	The terms of the Senior Notes will contain a cross default provision as further described in Condition 14.
Status of the Senior Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Subordination:	Payments in respect of the Capital Notes and the Subordinated Notes will be subordinated as described in Conditions 2(b) and 2(c).
Rating:	The rating of certain series of Notes to be issued under the Programme will be specified in the applicable Final Terms.
Listing and Admission to Trading:	<p>Application has been made to the CSSF to approve this document as a Base Prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on Regulated Market of the Luxembourg Stock Exchange and to be listed on the Official List of the Luxembourg Stock Exchange.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>
Governing Law:	The Notes will be governed by, and construed in accordance with, English law, except the provisions of Conditions 2(b), 2(c), 2(d), 2(e), 5(h), 7(e) and 7(m) which will be governed by Icelandic law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom, Italy and Iceland) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “ <i>Subscription and Sale</i> ”.

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a “**Temporary Global Note**”) or, if so specified in the applicable Final Terms, a permanent Global Note (a “**Permanent Global Note**”) which, in either case, will:

- (i) if the Global Notes are intended to be issued in new global note (“**NGN**”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”); and
- (ii) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the “**Exchange Date**”) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon (i) not less than 60 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein, (ii) only upon the occurrence of an Exchange Event or (iii) at any time at the request of the Issuer. For these purposes, “**Exchange Event**” means that (i) an Event of Default (as defined in Condition 14), or in the case of Subordinated Notes, any of the events set out in Condition 14(b), has occurred and is continuing, (ii) 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, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 18 if an Exchange Event occurs. In the event of the occurrence of an

Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

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

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits (except in relation to Notes issued in NGN form), be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 14. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8:00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the “**Deed of Covenant**”) dated 11th September, 2008 and executed by the Issuer.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of less than €50,000 (or its equivalent in another currency).

[Date]

Kaupthing Bank hf.
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €12,000,000,000
Euro Medium Term Note Programme

[The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that, except as provided in sub-paragraph (ii) below, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer of the Notes may only do so:

- (i) in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer; or
- (ii) in those Public Offer Jurisdictions mentioned in Paragraph 35 of Part A below, provided such person is one of the persons mentioned in Paragraph 35 of Part A below and that such offer is made during the Offer Period specified for such purpose therein.

Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances].¹

[The Base Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a “**Relevant Member State**”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances].²

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 11 September, 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated 11 September, 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 11 September, 2008 and [original date]. Copies of such Base Prospectuses are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and on the Luxembourg Stock Exchange’s website (www.bourse.lu) and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.]

[Consider including the following paragraph for Commodity Linked Notes, Equity Linked Notes and Credit Linked Notes]

[No person has been authorised to give any information or make any representation not contained in or not consistent with these Final Terms, or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Dealer.]

By investing in the Notes each investor represents that:

- (a) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to invest in the Notes and as to whether the investment in the Notes is appropriate or proper for it based upon its own judgement and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the Issuer or any Dealer as investment advice or as a recommendation to invest in the Notes, it being understood that information and explanations related to the terms and conditions of the Notes shall not be considered to be investment advice or a recommendation to invest in the Notes. No communication (written or oral) received from the Issuer or any Dealer shall be deemed to be an assurance or guarantee as to the expected results of the investment in the Notes.*
- (b) Assessment and Understanding. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms and conditions and the risks of the investment in the Notes. It is also capable of assuming, and assumes, the risks of the investment in the Notes.*
- (c) Status of Parties. Neither of the Issuer nor any Dealer is acting as a fiduciary for or adviser to it in respect of the investment in the Notes.]*

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

1. Issuer: [Kaupthing Bank hf.]
2. (i) Series Number: []
(ii) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
(i) Series: []
(ii) Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount
[plus accrued interest from [insert date] ([in the case of fungible issues only,] if applicable)]
6. (i) Specified Denominations: []

(If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €1,000 minimum denomination is not required.)

(ii) Calculation Amount: []

(If only one Specified Denomination, insert the Specified Denomination.

If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
7. (i) Issue Date: []
(ii) Interest Commencement Date: [specify/Issue Date/Not Applicable]

(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
8. Maturity Date: [Fixed rate – specify date/
Floating rate – Interest Payment Date falling on or nearest to [specify month] [subject as provided in Condition 11(d)] [./and] [Condition 11(e)] [and]

- [Condition 11(f)] [the “Scheduled Maturity Date”]
(Include for Credit Linked Notes but include as applicable: see below)
Capital Notes – undated]
9. Interest Basis: ☐ per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- ☐ per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Equity Linked Interest]
[Commodity Linked Interest]
[Dual Currency Interest]
[Target Redemption Interest]
[Range Accrual Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Equity Linked Redemption]
[Credit Linked]
[Commodity Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
11. Change of Interest Basis or Redemption/ Payment Basis: [*Specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis*]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. (a) Status of the Notes: [Senior/Subordinated/Capital Notes]

[*In the case of Capital Notes, specify any details of special provisions of Tier I qualifying Capital Notes, including relevant interest deferral provisions and details of utilisation/conversion*]
- (b) Date Board approval for issuance of Notes obtained: []

[*(NB: Only relevant where Board authorisation is required for the particular Tranche of Notes, i.e. if the Notes are subordinated or are to be listed on a stock exchange outside the European Economic Area)*]
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]

[*If not applicable, delete the remaining sub-paragraphs of this paragraph*]

- (i) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/other (*specify*)] in arrear]
- (ii) Interest Payment Date(s): [] in each year up to and including the Maturity Date/[*specify other*]

(NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [] per Calculation Amount
(Applicable to Notes in definitive form.)
- (iv) Broken Amount(s): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
(Applicable to Notes in definitive form.)
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or *specify other*]
- (vi) Determination Date(s): [] in each year

[Insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short first or last coupon]

NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration

NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA)]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. **Floating Rate Note Provisions** [Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (vi) Screen Rate Determination:

- Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fall back provisions in the Agency Agreement)
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Margin(s): [+/-] [] per cent. per annum
- (ix) Minimum Rate of Interest: [] per cent. per annum
- (x) Maximum Rate of Interest: [] per cent. per annum
- (xi) Day Count Fraction: [Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
30E/360 (ISDA)
Other]
(see Condition 5 for alternatives)
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
17. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [] per cent. per annum

- (ii) Reference Price: []
- (iii) Any other formula/basis of determining amount payable: []
- (iv) Day Count Fraction in relation to Early Redemption Amount and late payment: [Conditions 7(f)(iii) and 7(k) apply/specify other]
18. **Index Linked Interest Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent: [give name (and if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
- (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): []
- (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (v) Specified Period(s)/Specified Interest Payment Dates: []
- (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vii) Additional Business Centre(s): []
- (viii) Minimum Rate of Interest: [] per cent. per annum
- (ix) Maximum Rate of Interest: [] per cent. per annum
- (x) Day Count Fraction: []
19. **Equity Linked Interest Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete remaining subparagraphs of this paragraph)*
- (i) Formula for calculating interest rate including back-up provisions: [Give or annex details]

- | | | |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (ii) | Whether the Notes relate to a basket of equity securities or a single equity security, and the identity of the relevant issuer(s) of the Underlying Equity/Equities): | [Basket of Underlying Equities/Single Underlying Equity]
[Give or annex details] |
| (iii) | Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s) and for making calculations pursuant to Condition 9: | [] |
| (iv) | Specified Period(s)/Specified Interest Payment Dates: | [] |
| (v) | Business Day Convention: | [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other/Not Applicable] |
| (vi) | Additional Business Day Centre(s): | [] |
| (vii) | Minimum Rate of Interest: | [] |
| (viii) | Maximum Rate of Interest: | [] |
| (ix) | Day Count Fraction: | [] |
| (x) | Exchange(s): | [] |
| (xi) | Related Exchange(s): | [/All Exchanges] |
| (xii) | Potential Adjustment Events: | [Applicable/Not Applicable] |
| (xiii) | De-listing, Merger Event, Nationalisation and Insolvency: | [Applicable/Not Applicable] |
| (xiv) | Tender Offer: | [Applicable/Not Applicable] |
| (xv) | Valuation Date(s): | [] |
| (xvi) | Valuation Time: | [Condition 9(e) applies/other] |
| (xvii) | Strike Price: | [] |
| (xviii) | Exchange Rate: | [Applicable/Not Applicable]
[Insert details] |
| (xix) | Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition 9(b)): | [Insert details/Not Applicable] |
| (xx) | Correction of Share Prices: | Correction of Share Prices [applies/does not apply and the Reference Price shall be |

		calculated without regard to any subsequently published correction].
		<i>(If Correction of Share Prices does not apply, delete the following sub-paragraph)</i>
	(xxi) Correction Cut-Off Date:	[] Business Days prior to each Interest Payment Date.
	(xxii) Trade Date:	[]
	(xxiii) Other terms or special conditions:	[]
20.	Commodity Linked Interest Note Provisions	[Applicable/Not Applicable]
		<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Relevant commodity or commodities:	[]
	(ii) Formula for calculating interest rate including back-up provisions:	[Give or annex details]
	(iii) Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s):	[]
	(iv) Specified Period(s)/Specified Interest Payment Dates:	[]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other/Not Applicable]
	(vi) Additional Business Day Centre(s):	[]
	(vii) Minimum Rate of Interest:	[]
	(viii) Maximum Rate of Interest:	[]
	(ix) Day Count Fraction:	[]
	(x) Other terms or special conditions:	[]
21.	Additional Disruption Events (applicable to Equity Linked Interest Notes only):	[Applicable/Not Applicable]
		<i>[Additional Disruption Events are only applicable to certain types of Notes or Equity Linked Interest Notes]</i>
		<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
		[Change in Law]

[Hedging Disruption]

[Increased Cost of Hedging]

[Increased Cost of Stock Borrow]

[Insolvency Filing]

[Loss of Stock Borrow]

[The Maximum Stock Loan Rate in respect of
[specify in relation to each Underlying
Equity/Security] is []]

*(NB: Only applicable if Loss of Stock Borrow is
applicable)*

[The Initial Stock Loan Rate in respect of [specify
in relation to each Underlying Equity/Security] is
[]]

*(NB: Only applicable if Increased Cost of Stock
Borrow is applicable)*

**22. Dual Currency Interest Note
Provisions**

[Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-
paragraphs of this paragraph)*

(i) Rate of Exchange/method of
calculating Rate of Exchange:

[give or annex details]

(ii) Party, if any, responsible for
calculating the principal and/or
interest due (if not the Agent):

[]

(iii) Provisions applicable where
calculation by reference to Rate
of Exchange impossible or
impracticable:

*[need to include a description of market
disruption or settlement disruption events and
adjustment provisions]*

(iv) Person at whose option
Specified Currency(ies) is/are
payable:

[]

23. Target Redemption Note Provisions:

[Not Applicable/give or annex details]

24. Range Accrual Note Provisions:

[Not Applicable/give or annex details]

PROVISIONS RELATING TO REDEMPTION

25. Issuer Call:

[Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-
paragraphs of this paragraph)*

(i) Optional Redemption Date(s):

[[] per Calculation Amount/specify other/
see Appendix]

- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount[/specify other/see Appendix]]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Maximum Redemption Amount: []
- (iv) Notice period (if other than as set out in the Conditions): []
26. Investor Put [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount[/specify other/see Appendix]]
- (iii) Notice period (if other than as set out in the Conditions): []
27. Target Redemption Note Provisions: [Not Applicable/give or annex details]
28. Final Redemption Amount [[] per Calculation Amount/specify other/see Appendix]
29. Early Redemption Amount:
- Early Redemption Amount payable on redemption for taxation reasons or on event of default or on an illegality (or, in the case of Equity Linked Notes, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer in accordance with Condition 9(b)(ii)(b) or, following an Additional Disruption Event (if applicable) or, in the case of Credit Linked Notes, following a Merger Event), and/or the method of calculating the same (**required if Early Redemption Amount different from that set out in Condition 7(f)**):
- [[] per Calculation Amount/specify other/see Appendix]
- [(Consider including the wording below in the case of Equity Linked Notes, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer in accordance with Condition 9(b)(ii)(b) or, following an Additional Disruption Event (if applicable) or, in the case of Credit Linked Notes, following a Merger Event)]*
- With respect to each Calculation Amount, such amount(s) determined by the Calculation Agent which shall represent the fair market value of such Calculation Amount on the date of redemption, including accrued interest (if any), adjusted to account fully for any losses, expenses and costs to the Issuer (or any of its affiliates) of unwinding any underlying or related hedging and funding arrangements, all as

determined by the Calculation Agent in its sole and absolute discretion. For the purposes hereof:

- (i) the references to “together (if appropriate) with interest accrued to (but excluding) the date of redemption” shall be deemed to be deleted from each of Condition 7(b) and Condition 7(h); and
- (ii) the references to “together with accrued interest thereon to the date of repayment” shall be deemed to be deleted from Condition 14.]

30. Capital Notes Provisions

(i) Special Event Redemption Amount: []

(ii) Special Event Redemption Date(s): []

(iii) Investment Considerations: [In making an investment decision in respect of Capital Notes, potential investors should carefully consider the merits and risks of an investment in the Capital Notes and carefully review the Conditions and these Final Terms. In particular (i) the Capital Notes are undated and deeply subordinated; (ii) principal in respect of the Capital Notes may be converted into conditional capital contributions as described in Condition 2(d); (iii) conditional capital contributions may only be reconverted and reinstated as provided in Condition 2(e); (iv) the Issuer shall not pay accrued interest in certain circumstances as provided in Condition 5; and (v) the Capital Notes may be redeemed at the option of the Issuer, as specified in the applicable Final Terms subject to prior approval of the FSA and provided that any conditional capital contributions have been reconverted and reinstated as provided in Condition 2(e), all as further described in Condition 7./Other]

31. Equity Linked Redemption Notes:

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(i) Whether the Notes relate to a basket of equity securities or a single equity security, and the identity of the relevant issuer(s) of the Underlying Equity/Equities: [Basket of Underlying Equities/Single Underlying Equity]
[(Give or annex details)]

- (ii) Whether redemption of the Notes will be by (a) Cash Settlement or (b) Physical Delivery or (c) Cash Settlement and/or Physical Delivery: [Cash Settlement/Physical Delivery/Cash Settlement and/or Physical Delivery]
(If Cash Settlement and/or Physical Delivery specified, specify details for determining in what circumstances Cash Settlement or Physical Delivery will apply)
- (iii) Calculation Agent responsible for making calculations pursuant to Condition 9: []
- (iv) Exchange: []
- (v) Related Exchange(s): [/All Exchanges]
- (vi) Potential Adjustment Events: [Applicable/Not Applicable]
- (vii) De-listing, Merger Event, Nationalisation and Insolvency: [Applicable/Not Applicable]
- (viii) Tender Offer: [Applicable/Not Applicable]
- (ix) Redemption Amount: [Express per Calculation Amount/Not Applicable]
(NB: Where Physical Settlement is applicable, please define "Asset Amount" here)
[If Not Applicable: [Call Equity Linked Redemption Notes/Put Equity Linked Redemption Notes]]
- (x) Valuation Date: []
- (xi) Valuation Time: [Condition 9(e) applies/other]
- (xii) Strike Price: []
- (xiii) Exchange Rate: [Applicable/Not Applicable]
[Insert details]
- (xiv) Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition 9(b)): *[Insert details/Not Applicable]*
- (xv) Correction of Share Prices, Index Levels or Official Settlement Prices: Correction of Share Prices [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction].
(If Correction of Share Prices does not apply, delete the following sub-paragraph)
- (xvi) Correction Cut-Off Date: [] Business Days prior to the Maturity Date.
- (xvii) Trade Date: []
- (xviii) Relevant Assets: []
- (xix) Asset Amount: *[Express per Calculation Amount]*
- (xx) Cut-Off Date: []

- (xxi) Delivery provisions for Asset Amount (including details of who is to make such delivery): []
- (xxii) Failure to deliver due to Illiquidity: [Applicable/Not Applicable]
- (NB: Only applicable to certain types of Equity Linked Redemption Notes)
- (xxiii) Other terms or special conditions: []
32. Additional Disruption Events (*applicable to Equity Linked Redemption Notes only*): [Applicable/Not Applicable]
- [Additional Disruption Events are only applicable to certain types of Equity Linked Redemption Notes]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)
- [Change in Law]
- [Hedging Disruption]
- [Increased Cost of Hedging]
- [Increased Cost of Stock Borrow]
- [Insolvency Filing]
- [Loss of Stock Borrow]
- [The Maximum Stock Loan Rate in respect of *specify in relation to each Underlying Equity/Security* is []]
- (NB: Only applicable if Loss of Stock Borrow is applicable)
- [The Initial Stock Loan Rate in respect of *specify in relation to each Underlying Equity/Security* is []]
- (NB: Only applicable if Increased Cost of Stock Borrow is applicable)
33. Credit Linked Notes: [Applicable/Not Applicable]
- [NB: Consider whether definitions included in Conditions are up to date] (If not applicable, delete the remaining sub-paragraphs of this paragraph)

General

- (i) Redemption Amount: *[Express per Calculation Amount]*
- (ii) Trade Date: ☐ ☐
- (iii) Scheduled Termination Date: *[The day falling five Business Days prior to the Scheduled Maturity Date/specify other]*
- (iv) Calculation Agent responsible for making calculations and determinations pursuant to Condition 11: ☐ ☐
- (v) Calculation Agent City: ☐ ☐

Credit Provisions

- (vi) Reference Entity(ies): ☐ ☐
- (vii) Reference Obligation(s): ☐ ☐
- [The obligation[s] identified as follows:*
- Primary Obligor: ☐ ☐
- Guarantor: ☐ ☐
- Maturity: ☐ ☐
- Coupon: ☐ ☐
- CUSIP/ISIN: ☐ ☐
- (viii) All Guarantees: *[Applicable/Not Applicable]*
- Provisions relating to Qualifying Guarantee and Underlying Obligation: Condition 11(n) *[Applicable/Not Applicable]*
- (ix) Credit Events: *[Bankruptcy]*
- [Failure to Pay]*
- [Grace Period Extension (Condition 11(e))]*
- [Applicable/Not Applicable]*
- [If Applicable:*
- Grace Period: ☐ ☐
- [Obligation Acceleration]*
- [Obligation Default]*
- [Repudiation/Moratorium]*
- [Maturity Date Extension: Condition 11(f):]*
- [Applicable/Not Applicable]]*
- [Restructuring]*

- Provisions relating to Restructuring Credit Event: Condition 11(k) [Applicable/Not Applicable]
- Provisions relating to Multiple Holder Obligation: Condition 11(l) [Applicable/Not Applicable]
- [Restructuring Maturity Limitation and Fully Transferable Obligation [Applicable/Not Applicable]]
- [Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation [Applicable/Not Applicable]]

[other]

Default Requirement: []

Payment Requirement: []

(x) Conditions to Settlement: Notice of Publicly Available Information [Applicable/Not Applicable]

[If Applicable:

Public Source(s): []]

(If other than in the definition in Condition 11(j).)

Specified Number: []]

(If none specified, then it is deemed to be two.)

(xi) Obligation(s):

Obligation Category [*select one* only]: [Payment]

[Borrowed Money]

[Reference Obligations Only]

[Bond]

[Loan]

[Bond or Loan]

Obligation Characteristics [*select all of which apply*]: [Not Subordinated]

[Specified Currency:

[*specify currency*] [Standard Specified Currencies]]

[Not Sovereign Lender]

[Not Domestic Currency:]

[Domestic Currency means: [specify currency]]

[Not Domestic Law]

[Listed]

	[Not Domestic Issuance]
Additional Obligation(s):	[]
(xii) Provisions relating to Monoline Insurer to Reference Entity:	Condition 11(m) [Applicable/Not Applicable]
(xiii) Excluded Obligation(s):	[]
(xiv) Whether redemption of the [] Notes will be by (a) Cash Settlement or (b) Physical Delivery:	[Cash Settlement/Physical Delivery]
(xv) Accrual of Interest upon Credit Event:	[Applicable/Not Applicable]
(xvi) Merger Event: Condition 11(i):	[Applicable/Not Applicable]
If Applicable: Merger Event Redemption Date:	[]
(xvii) [Unwind Costs:	[Standard Unwind Costs/other/Not Applicable]]
<i>Terms relating to Cash Settlement</i>	
(xviii) Credit Event Redemption Amount:	[Express per Calculation Amount]
(xix) Credit Event Redemption Date:	[] Business Days
(xx) Valuation Date:	[Single Valuation Date: [] Business Days] [Multiple Valuation Dates: [] Business Days; and each [] Business Days thereafter. Number of Valuation Dates: []]
(xxi) Valuation Time:	[]
(xxii) Quotation Method:	[Bid/Offer/Mid-market]
(xxiii) Quotation Amount:	[[]/Representative Amount]
(xxiv) [Minimum Quotation Amount:	[]]
(xxv) Quotation Dealers:	[]
(xxvi) Quotations:	[Include Accrued Interest/Exclude Accrued Interest]
(xxvii) Valuation Method:	[Market/Highest] [Average Market/Highest/Average Highest] [Blended Market/Blended Highest] [Average Blended Market/Average Blended Highest]

(xxviii) Other terms or special conditions:	[]
<i>Terms relating to Physical Delivery</i>	
(xxix) Physical Settlement Period:	[] Business Days
(xxx) Asset Amount:	[Include Accrued Interest/Exclude Accrued Interest]
(xxxi) Settlement Currency:	[]
(xxxii) Deliverable Obligations:	
Deliverable Obligation Category <i>[select one only]:</i>	[Payment] [Borrowed Money] [Reference Obligations Only] [Bond] [Loan] [Bond or Loan]
Deliverable Obligation Characteristics <i>[select all of which apply]:</i>	[Not Subordinated] [Specified Currency: <i>[specify currency]</i> [Standard Specified Currencies]] [Not Sovereign Lender] [Not Domestic Currency] [Domestic Currency means: <i>[specify currency]</i>] [Not Domestic Law] [Listed] [Not Contingent] [Not Domestic Issuance] [Assignable Loan] [Consent Required Loan] [Direct Loan Participation] [Qualifying Participation Seller: – <i>insert details</i>] [Transferable] [Maximum Maturity: []] [Accelerated or Matured] [Not Bearer]
Additional Deliverable Obligation(s):	[]

- (xxxiii) Excluded Deliverable Obligation(s): ☐ ☐
- (xxxiv) Indicative Quotations: [Applicable/Not Applicable]
- (xxxv) Cut-Off Date: ☐ ☐
- (xxxvi) Delivery provisions for Asset Amount (including details of who is to make such delivery) if different from Terms and Conditions: ☐ ☐
- (xxxvii) Other terms or special conditions: ☐ ☐
34. Commodity Linked Redemption Notes: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Relevant provisions for determining amount of principal payable and/or assets deliverable: ☐ ☐
- (ii) Calculation Agent responsible for making calculations: ☐ ☐

GENERAL PROVISIONS APPLICABLE TO THE NOTES

35. (a) Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- (Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves)*
- (b) New Global Note: [Yes][No]
36. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
- (Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(iii) and 18(vii) relate)*

37. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
38. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and, consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details. NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
39. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/*give details*]
- (ii) Instalment Date(s): [Not Applicable/*give details*]
40. Redenomination applicable: Redenomination [not] applicable
- [(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)]*
41. Other final terms: [Not Applicable/*give details*]
- [(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]*

DISTRIBUTION

42. (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/*give names and addresses and underwriting commitments*]
- (Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities if such entities are not the same as the Managers)*
- (ii) Date of [Subscription Agreement]: []
- (iii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
43. If non-syndicated, name and address of relevant Dealer: [Not applicable/*give name and address*]
44. Total commission and concession: [] per cent. of the Aggregate Nominal Amount

45. U.S. Selling Restrictions: [Reg. S Category 2; TEFRA D/TEFRA C/TEFRA not applicable]
46. Non-exempt Offer: [Not Applicable] [An offer of the Notes may be made by the Managers [and *[specify names of other financial intermediaries/placers making non-exempt offers, to the extent known OR consider a generic description of other parties involved in non-exempt offers (e.g. "other parties authorised by the Managers") or (if relevant) note that other parties may make non-exempt offers in the Public Offer Jurisdictions during the Offer Period, if not known]]* (together with the Managers, the "**Financial Intermediaries**") other than pursuant to Article 3(2) of the Prospectus Directive in *[specify relevant Member State(s) – which must be jurisdictions where the Base Prospectus and any supplements have been passported (in addition to the jurisdiction where approved and published)]* ("**Public Offer Jurisdictions**") during the period from *[specify date]* until *[specify date or a formula such as "the Issue Date" or "the date which falls [●] Business Days thereafter"]* ("**Offer Period**"). See further Paragraph 10 of Part B below.
- (NB: Consider any local regulatory requirements necessary to be fulfilled so as to be able to make a non-exempt offer in relevant jurisdictions. No such offer should be made in any relevant jurisdiction until those requirements have been met. Non-exempt offers may only be made into jurisdictions in which the base prospectus (and any supplement) has been notified/passported.)
47. Additional selling restrictions: [Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] [public offer in the Public Offer Jurisdictions] [and] [admission to trading on *[specify relevant regulated market (for example the Bourse de Luxembourg) and, if relevant, listing on an official list]*] of the Notes described herein pursuant to the €12,000,000,000 Euro Medium Term Note Programme of Kaupthing Bank hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. *[[Relevant third party information, for example in compliance with Annex XII of the Prospectus Directive Regulation in relation to an index or its components]* has been extracted from *[specify source]*. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by *[specify source]*, no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of Kaupthing Bank hf.:

By: _____
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on *[specify relevant regulated market (for example the Bourse de Luxembourg) and, if relevant, listing on an official list]* with effect from [].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

2. RATINGS

Ratings:

The Notes to be issued have been rated:

Moody's: []

Fitch: []

[[Other]: []]

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

(i) Reasons for the offer: []

(See "Use of Proceeds" wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)

(ii) Estimated net proceeds: []

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

(iii) Estimated total expenses: [] *[Expenses are required to be broken down into each principal intended "use" and presented in order of priority of such "uses".]*

5. YIELD (*Fixed Rate Notes only*)

Indication of yield: []

[Calculated as *[include details of method of calculation in summary form]* on the Issue Date.]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. HISTORIC INTEREST RATES (*Floating Rate Notes only*)

Details of historic [LIBOR/EURIBOR/*other*] rates can be obtained from [Reuters].]

7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING INDEX (*Index-Linked Notes only*)

[If there is a derivative component in the interest or the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying index and the circumstances when the risks are most evident.]

(NB: The requirements below only apply if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the Index is not composed by the Issuer need to include details of where the information about the index can be obtained.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

The Issuer [intends to provide post-issuance information *[specify what information will be reported and where it can be obtained]*] [does not intend to provide post-issuance information].

8. PERFORMANCE OF [THE EQUITY/BASKET OF EQUITIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE EQUITY/BASKET OF EQUITIES]] (*Equity Linked Notes only*)

[Need to include details of where past and future performance and volatility of the [equity/basket of equities] can be obtained.] [Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

9. PERFORMANCE OF [THE COMMODITY/BASKET OF COMMODITIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE COMMODITY/BASKET OF COMMODITIES]] (*Commodity Linked Notes only*)

[Need to include details of where past and future performance and volatility of [the commodity/basket of commodities] can be obtained.] [Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

10. INFORMATION IN RELATION TO THE REFERENCE ENTITY, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING THE REFERENCE ENTITY] (*Credit Linked Notes only*)

[Need to include details of the Reference Entity and of where information on the Reference Entity can be obtained.] [Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

11. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (*Dual Currency Notes only*)

[If there is a derivative component in the interest or the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

(NB: The requirement below only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

12. OPERATIONAL INFORMATION

- | | | |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i) | ISIN Code: | [] |
| (ii) | Common Code: | [] |
| (iii) | Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, <i>société anonyme</i> and the relevant identification number(s): | [Not Applicable/give name(s) and number(s)] |
| (iv) | Delivery: | Delivery [against/free of] payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any): | [] |
| (vi) | Intended to be held in a manner which would allow Eurosystem eligibility: | [Yes] [No]

[Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] <i>[include this text if “yes” selected in which case the Notes must be issued in NGN form]</i> |

13. TERMS AND CONDITIONS OF THE OFFER

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

(i)	Offer Price:	[Issue Price/Not Applicable/ <i>specify</i>]
(ii)	Conditions to which the offer is subject:	[Not applicable/ <i>give details</i>]
(iii)	Description of the application process:	[Not applicable/ <i>give details</i>]
(iv)	Details of the minimum and/or maximum amount of application:	[Not applicable/ <i>give details</i>]
(v)	Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:	[Not applicable/ <i>give details</i>]
(vi)	Details of the method and time limits for paying up and delivering the Notes:	[Not applicable/ <i>give details</i>]
(vii)	Manner in and date on which results of the offer are to be made public:	[Not applicable/ <i>give details</i>]
(viii)	Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	[Not applicable/ <i>give details</i>]
(ix)	Categories of potential investors to which the Notes are offered and whether tranche(s) have been reserved for certain countries:	[Not applicable/ <i>give details</i>]
(x)	Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:	[Not applicable/ <i>give details</i>]
(xi)	Amount of any expenses and taxes specifically charged to the subscriber or purchaser:	[Not applicable/ <i>give details</i>]
(xii)	[Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place.]	[None/ <i>give details</i>]

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme with a denomination of at least €50,000 (or its equivalent in another currency).

[Date]

Kaupthing Bank hf.
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €12,000,000,000
Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 11 September, 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated 11 September, 2008 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 11 September, 2008 and [original date]. Copies of such Base Prospectuses are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and on the Luxembourg Stock Exchange’s website (www.bourse.lu) and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB.]

[Consider including the following paragraph for Commodity Linked Notes, Equity Linked Notes, and Credit Linked Notes]

[No person has been authorised to give any information or make any representation not contained in or not consistent with these Final Terms, or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any Dealer.]

By investing in the Notes each investor represents that:

- (a) Non-Reliance. It is acting for its own account, and it has made its own independent decisions to invest in the Notes and as to whether the investment in the Notes is appropriate or proper for it based upon its own judgement and upon advice from such advisers as it has deemed necessary. It is not relying on any communication (written or oral) of the Issuer or any Dealer as investment advice or as a recommendation to invest in the Notes, it being understood that information and explanations related to the terms and conditions of the Notes shall not be*

considered to be investment advice or a recommendation to invest in the Notes. No communication (written or oral) received from the Issuer or any Dealer shall be deemed to be an assurance or guarantee as to the expected results of the investment in the Notes.

- (b) *Assessment and Understanding. It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts the terms and conditions and the risks of the investment in the Notes. It is also capable of assuming, and assumes, the risks of the investment in the Notes.*
- (c) *Status of Parties. Neither of the Issuer nor any Dealer is acting as a fiduciary for or adviser to it in respect of the investment in the Notes.]*

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

1. Issuer: [Kaupthing Bank hf.]
2. (i) Series Number: []
- (ii) Tranche Number: []
- (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
- (i) Series: []
- (ii) Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date](, if applicable)]
6. (i) Specified Denominations: []

(NB: – Where multiple denominations above [€50,000] or equivalent are being used the following sample wording should be followed:

“[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000].”)

(If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €50,000 minimum denomination is not required.)

- (ii) Calculation Amount: []
- (If only one Specified Denomination, insert the Specified Denomination.*
- If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (i) Issue Date: []
- (ii) Interest Commencement Date: [specify/Issue Date/Not Applicable]
- (NB: An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [Fixed rate – specify date/
- Floating rate – Interest Payment Date falling on or nearest to [specify month] [subject as provided in Condition 11(d)] [./and] [Condition 11(e)] [and] [Condition 11(f)] [the “Scheduled Maturity Date”] (Include for Credit Linked Notes but include as applicable: see below)*
- Capital Notes – undated]*
9. Interest Basis: [[] per cent. Fixed Rate]
- [LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
- [Zero Coupon]
- [Index Linked Interest]
- [Equity Linked Interest]
- [Commodity Linked Interest]
- [Dual Currency Interest]
- [Target Redemption Interest]
- [Range Accrual Interest]
- [specify other]
- (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]
- [Equity Linked Redemption]
- [Credit Linked]
- [Commodity Linked Redemption]
- [Dual Currency Redemption]
- [Partly Paid]
- [Instalment]
- [specify other]
11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
- [Issuer Call]
- [(further particulars specified below)]

13. (a) Status of the Notes: [Senior/Subordinated/Capital Notes]
- [In the case of Capital Notes, specify any details of special provisions of Tier I qualifying Capital Notes, including relevant interest deferral provisions and details of utilisation/conversion]
- (b) Date Board approval for issuance of Notes obtained: []
- (NB: Only relevant where Board authorisation is required for the particular Tranche of Notes, i.e. if the Notes are subordinated or are to be listed on a stock exchange outside the European Economic Area)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
- (ii) Interest Payment Date(s): [] in each year up to and including the Maturity Date/[specify other]
- (NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s):
- (Applicable to Notes in definitive form) [] per Calculation Amount
- (iv) Broken Amount(s):
- (Applicable to Notes in definitive form) [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or specify other]
- (vi) Determination Date(s): [] in each year [Insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short first or last coupon]
- (NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA))
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. **Floating Rate Note Provisions** [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (vi) Screen Rate Determination:
 - Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fall back provisions in the Agency Agreement)
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
 - Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Margin(s): [+/-] [] per cent. per annum
- (ix) Minimum Rate of Interest: [] per cent. per annum
- (x) Maximum Rate of Interest: [] per cent. per annum

- (xi) Day Count Fraction: [Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
30E/360 (ISDA)
Other]
(see Condition 5 for alternatives)
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
17. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [] per cent. per annum
- (ii) Reference Price: []
- (iii) Any other formula/basis of determining amount payable: []
- (iv) Day Count Fraction in relation to Early Redemption Amount and late payment: [Conditions 7(f)(iii) and 7(k) apply/specify other]
18. **Index Linked Interest Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent: [give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
- (iii) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent): []
- (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (v) Specified Period(s)/Specified Interest Payment Dates: []

(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ <i>specify other</i>]
(vii)	Additional Business Centre(s):	[]
(viii)	Minimum Rate of Interest:	[] per cent. per annum
(ix)	Maximum Rate of Interest:	[] per cent. per annum
(x)	Day Count Fraction:	[]
19.	Equity Linked Interest Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete remaining sub-paragraphs of this paragraph)</i>
(i)	Formula for calculating interest rate including back-up provisions:	[Give or annex details]
(ii)	Whether the Notes relate to a basket of equity securities or a single equity security, and the identity of the relevant issuer(s) of the Underlying Equity/Equities:	[Basket of Underlying Equities/Single Underlying Equity] [Give or annex details]
(iii)	Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s) and for making calculations pursuant to Condition 9:	[]
(iv)	Specified Period(s)/Specified Interest Payment Dates:	[]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ <i>specify other</i> /Not Applicable]
(vi)	Additional Business Day Centre(s):	[]
(vii)	Minimum Rate of Interest:	[]
(viii)	Maximum Rate of Interest:	[]
(ix)	Day Count Fraction:	[]
(x)	Exchange(s):	[]
(xi)	Related Exchange(s):	[/All Exchanges]
(xii)	Potential Adjustment Events:	[Applicable/Not Applicable]

(xiii) De-listing, Merger Event, Nationalisation and Insolvency:	[Applicable/Not Applicable]
(xiv) Tender Offer:	[Applicable/Not Applicable]
(xv) Valuation Date(s):	[]
(xvi) Valuation Time:	[Condition 9(e) applies/ <i>other</i>]
(xvii) Strike Price:	[]
(xviii) Exchange Rate:	[Applicable/Not Applicable] [<i>Insert details</i>]
(xix) Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition 9(b)):	[<i>Insert details</i> /Not Applicable]
(xx) Correction of Share Prices:	Correction of Share Prices [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction]. (<i>If Correction of Share Prices does not apply, delete the following sub-paragraph</i>)
(xxi) Correction Cut-Off Date:	[] Business Days prior to each Interest Payment Date
(xxii) Trade Date:	[]
(xxiii) Other terms or special conditions:	[]
20. Commodity Linked Interest Note Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
(i) Relevant commodity or commodities:	[]
(ii) Formula for calculating interest rate including back-up provisions:	[<i>Give or annex details</i>]
(iii) Calculation Agent responsible for calculating the Rate(s) of Interest and Interest Amount(s):	[]
(iv) Specified Period(s)/Specified Interest Payment Dates:	[]
(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ <i>specify other</i> /Not Applicable]

- (vi) Additional Business Day Centre(s): []
- (vii) Minimum Rate of Interest: []
- (viii) Maximum Rate of Interest: []
- (ix) Day Count Fraction: []
- (x) Other terms or special conditions: []
21. **Additional Disruption Events (applicable to Equity Linked Interest Notes only):** [Applicable/Not Applicable]
- [Additional Disruption Events are only applicable to certain types of Equity Linked Interest Notes]*
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- [Change in Law]
- [Hedging Disruption]
- [Increased Cost of Hedging]
- [Increased Cost of Stock Borrow]
- [Insolvency Filing]
- [Loss of Stock Borrow]
- [The Maximum Stock Loan Rate in respect of *[specify in relation to each Underlying Equity/Security]* is []]
- (NB: Only applicable if Loss of Stock Borrow is applicable)*
- [The Initial Stock Loan Rate in respect of *[specify in relation to each Underlying Equity/Security]* is []]
- (NB: Only applicable if Increased Cost of Stock Borrow is applicable)*
22. **Dual Currency Interest Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: *[give or annex details]*
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[need to include a description of market]*

disruption or settlement disruption events and adjustment provisions]

- (iv) Person at whose option Specified Currency(ies) is/are payable: []
23. Target Redemption Note Provisions: [Not Applicable/give or annex details]
24. Range Accrual Note Provisions: [Not Applicable/give or annex details]

PROVISIONS RELATING TO REDEMPTION

25. Issuer Call [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Maximum Redemption Amount: []
- (iv) Notice period (if other than as set out in the Conditions): []
26. Investor Put [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]
- (iii) Notice period (if other than as set out in the Conditions): []
- (NB: If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
27. Target Redemption Note Provisions: [Not Applicable/give or annex details]

28. Final Redemption Amount [[] per Calculation Amount/specify other/see Appendix]
29. Early Redemption Amount:
- Early Redemption Amount payable on redemption for taxation reasons or on event of default or on an illegality (or, in the case of Equity Linked Notes, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer in accordance with Condition 9(b)(ii)(b) or, following an Additional Disruption Event (if applicable) or, in the case of Credit Linked Notes, following a Merger Event), and/or the method of calculating the same (**required if Early Redemption Amount different from that set out in Condition 7(f)**):
- [[] per Calculation Amount/specify other/see Appendix]
- [(Consider including the wording below in the case of Equity Linked Notes, following a De-listing and/or Merger Event and/or Nationalisation and/or Insolvency and/or Tender Offer in accordance with Condition 9(b)(ii)(b) or, following an Additional Disruption Event (if applicable) or, in the case of Credit Linked Notes, following a Merger Event)]*
- With respect to each Calculation Amount, such amount(s) determined by the Calculation Agent which shall represent the fair market value of such Calculation Amount on the date of redemption, including accrued interest (if any), adjusted to account fully for any losses, expenses and costs to the Issuer (or any of its affiliates) of unwinding any underlying or related hedging and funding arrangements, all as determined by the Calculation Agent in its sole and absolute discretion. For the purposes hereof:
- (i) the references to “together (if appropriate) with interest accrued to (but excluding) the date of redemption” shall be deemed to be deleted from each of Condition 7(b) and Condition 7(h); and
 - (ii) the references to “together with accrued interest thereon to the date of repayment” shall be deemed to be deleted from Condition 14.]
30. Capital Notes Provisions
- (i) Special Event Redemption Amount: []
 - (ii) Special Event Redemption Date(s): []
 - (iii) Investment Considerations: []
- [In making an investment decision in respect of Capital Notes, potential investors should carefully consider the merits and risks of an investment in the Capital Notes and carefully review the Conditions and those Final Terms. In particular (i) the Capital Notes are undated and deeply subordinated; (ii) principal in respect of the Capital Notes may be converted into conditional capital contributions as described in Condition

2(d); (iii) conditional capital contributions may only be reconverted and reinstated as provided in Condition 2(e); (iv) the Issuer shall not pay accrued interest in certain circumstances as provided in Condition 5; and (v) the Capital Notes may be redeemed at the option of the Issuer, as specified in the applicable Final Terms subject to prior approval of the FSA and provided that any conditional capital contributions have been reconverted and reinstated as provided in Condition 2(e), all as further described in Condition 7./Other]

31. Equity Linked Redemption Notes:

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- (i) Whether the Notes relate to a basket of equity securities or a single equity security, and the identity of the relevant issuer(s) of the Underlying Equity/Equities:

[Basket of Underlying Equities/Single Underlying Equity]

[(Give or annex details)]

- (ii) Whether redemption of the Notes will be by (a) Cash Settlement or (b) Physical Delivery or (c) Cash Settlement and/or Physical Delivery:

[Cash Settlement/Physical Delivery/Cash Settlement and/or Physical Delivery]

(If Cash Settlement and/or Physical Delivery specified, specify details for determining in what circumstances Cash Settlement or Physical Delivery will apply)

- (iii) Calculation Agent responsible for making calculations pursuant to Condition 9:

[]

- (iv) Exchange:

[]

- (v) Related Exchange(s):

[/All Exchanges]

- (vi) Potential Adjustment Events:

[Applicable/Not Applicable]

- (vii) De-listing, Merger Event, Nationalisation and Insolvency:

[Applicable/Not Applicable]

- (viii) Tender Offer:

[Applicable/Not Applicable]

- (ix) Redemption Amount:

[Express per Calculation Amount/Not Applicable]

(NB: Where Physical Settlement is applicable, please define "Asset Amount" here)

[If Not Applicable:

[Call Equity Linked Redemption Notes/Put Equity Linked Redemption Notes]]

- (x) Valuation Date:

[]

- (xi) Valuation Time:

[Condition 9(e) applies/other]

- (xii) Strike Price:

[]

(xiii) Exchange Rate:	[Applicable/Not Applicable] <i>[Insert details]</i>
(xiv) Multiplier for each Underlying Equity comprising the basket (which is subject to adjustment as set out in Condition 9(b)):	<i>[Insert details/Not Applicable]</i>
(xv) Correction of Share Prices, Index Levels or Official Settlement Prices:	Correction of Share Prices [applies/does not apply and the Reference Price shall be calculated without regard to any subsequently published correction]. <i>(If Correction of Share Prices does not apply, delete the following sub-paragraph)</i>
(xvi) Correction Cut-Off Date:	[] Business Days prior to the Maturity Date.
(xvii) Trade Date:	[]
(xviii) Relevant Assets:	[]
(xix) Asset Amount:	<i>[Express per Calculation Amount]</i>
(xx) Cut-Off Date:	[]
(xxi) Delivery provisions for Asset Amount (including details of who is to make such delivery):	[]
(xxii) Failure to deliver due to Illiquidity:	[Applicable/Not Applicable] <i>(NB: Only applicable to certain types of Equity Linked Redemption Notes)</i>
(xxiii) Other terms or special conditions:	[]
32. Additional Disruption Events (<i>applicable to Equity Linked Redemption Notes only</i>):	[Applicable/Not Applicable] <i>[Additional Disruption Events are only applicable to certain types of Equity Linked Redemption Notes]</i> <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> [Change in Law] [Hedging Disruption] [Increased Cost of Hedging] [Increased Cost of Stock Borrow] [Insolvency Filing] [Loss of Stock Borrow]

[The Maximum Stock Loan Rate in respect of [specify in relation to each Underlying Equity/Security] is []]

(NB: Only applicable if Loss of Stock Borrow is applicable)

[The Initial Stock Loan Rate in respect of [specify in relation to each Underlying Equity/Security] is []]

(NB: Only applicable if Increased Cost of Stock Borrow is applicable)

33. Credit Linked Notes:

[Applicable/Not Applicable]

[NB: Consider whether definitions included in Conditions are up to date]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

General

(i) Redemption Amount: [Express per Calculation Amount]

(ii) Trade Date: []

(iii) Scheduled Termination Date: [The day falling five Business Days prior to the Scheduled Maturity Date/specify other]

(iv) Calculation Agent responsible for making calculations and determinations pursuant to Condition 11: []

(v) Calculation Agent City: []

Credit Provisions

(vi) Reference Entity(ies): []

(vii) Reference Obligation(s): []

[The obligation[s] identified as follows:

Primary Obligor: []

Guarantor: []

Maturity: []

Coupon: []

CUSIP/ISIN: []

(viii) All Guarantees: [Applicable/Not Applicable]

– Provisions relating to Qualifying Guarantee and Underlying Obligation: Condition 11(n) [Applicable/Not Applicable]

(ix) Credit Events: [Bankruptcy]

	[Failure to Pay]
	[Grace Period Extension (Condition 11(e)) [Applicable/Not Applicable]
	[If Applicable:
	Grace Period: []]
	[Obligation Acceleration]
	[Obligation Default]
	[Repudiation/Moratorium]
	[Maturity Date Extension: Condition 11(f): [Applicable/Not Applicable]]
	[Restructuring]
	– Provisions relating to Restructuring Credit Event: Condition 11(k) [Applicable/Not Applicable]
	– Provisions relating to Multiple Holder Obligation: Condition 11(l) [Applicable/Not Applicable]
	– [Restructuring Maturity Limitation and Fully Transferable Obligation [Applicable/Not Applicable]]
	– [Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation [Applicable/Not Applicable]]
	[other]
Default Requirement:	[]
Payment Requirement:	[]
(x) Conditions to Settlement:	Notice of Publicly Available Information [Applicable/Not Applicable]
	[If Applicable:
	Public Source(s): []]
	(If other than in the definition in Condition 11(j).) Specified Number: []]
	(If none specified, then it is deemed to be two.)
(xi) Obligation(s):	
Obligation Category [<i>select one only</i>]:	[Payment] [Borrowed Money] [Reference Obligations Only] [Bond]

	[Loan]
	[Bond or Loan]
Obligation Characteristics <i>[select all of which apply]:</i>	[Not Subordinated]
	[Specified Currency:
	<i>[specify currency]</i> [Standard Specified Currencies]]
	[Not Sovereign Lender]
	[Not Domestic Currency:]
	[Domestic Currency means: <i>[specify currency]</i>]
	[Not Domestic Law]
	[Listed]
	[Not Domestic Issuance]
Additional Obligation(s):	[]
(xii) Provisions relating to Monoline Insurer to Reference Entity:	Condition 11(m) [Applicable/Not Applicable]
(xiii) Excluded Obligation(s):	[]
(xiv) Whether redemption of the [] Notes will be by (a) Cash Settlement or (b) Physical Delivery:	[Cash Settlement/Physical Delivery]
(xv) Accrual of Interest upon Credit Event:	[Applicable/Not Applicable]
(xvi) Merger Event: Condition 11(i):	[Applicable/Not Applicable]
If Applicable: Merger Event Redemption Date:	[]
(xvii) [Unwind Costs:	[Standard Unwind Costs/other/Not Applicable]
<i>Terms relating to Cash Settlement</i>	
(xviii) Credit Event Redemption Amount:	<i>[Express per Specified Denomination]</i>
(xix) Credit Event Redemption Date:	[] Business Days
(xx) Valuation Date:	[Single Valuation Date:
	[] Business Days]
	[Multiple Valuation Dates:
	[] Business Days; and each [] Business Days thereafter.
	Number of Valuation Dates: []]
(xxi) Valuation Time:	[]

(xxii) Quotation Method:	[Bid/Offer/Mid-market]
(xxiii) Quotation Amount:	[[]/Representative Amount]
(xxiv) [Minimum Quotation Amount:	[]]
(xxv) Quotation Dealers:	[]
(xxvi) Quotations:	[Include Accrued Interest/Exclude Accrued Interest]
(xxvii) Valuation Method:	[Market/Highest] [Average Market/Highest/Average Highest] [Blended Market/Blended Highest] [Average Blended Market/Average Blended Highest]
(xxviii) Other terms or special conditions:	[]
<i>Terms relating to Physical Delivery</i>	
(xxix) Physical Settlement Period:	[] Business Days
(xxx) Asset Amount:	[Include Accrued Interest/Exclude Accrued Interest]
(xxxi) Settlement Currency:	[]
(xxxii) Deliverable Obligations:	
Deliverable Obligation Category [select one only]:	[Payment] [Borrowed Money] [Reference Obligations Only] [Bond] [Loan] [Bond or Loan]
Deliverable Obligation Characteristics [select all of which apply]:	[Not Subordinated] [Specified Currency: [specify currency] [Standard Specified Currencies]] [Not Sovereign Lender] [Not Domestic Currency] [Domestic Currency means: [specify currency]] [Not Domestic Law] [Listed] [Not Contingent]

	[Not Domestic Issuance]
	[Assignable Loan]
	[Consent Required Loan]
	[Direct Loan Participation]
	[Qualifying Participation Seller: – <i>insert details</i>]
	[Transferable]
	[Maximum Maturity: []]
	[Accelerated or Matured]
	[Not Bearer]
Additional Deliverable Obligation(s):	[]
(xxxiii) Excluded Deliverable Obligation(s):	[]
(xxxiv) Indicative Quotations:	[Applicable/Not Applicable]
(xxxv) Cut-Off Date:	[]
(xxxvi) Delivery provisions for Asset Amount (including details of who is to make such delivery) if different from Terms and Conditions:	[]
(xxxvii) Other terms or special conditions:	[]
34. Commodity Linked Redemption Notes:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub- paragraphs of this paragraph)</i>
(i) Relevant provisions for determining amount of principal payable and/or assets deliverable:	[]
(ii) Calculation Agent responsible for making calculations:	[]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

35. (a) Form of Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B: The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)

- (b) New Global Note: [Yes][No]
36. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
- (Note that this item relates to the place of payment and not Interest Period end dates to which items 16(iii) and 18(vii) relate)*
37. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
38. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and, consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
39. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
40. Redenomination applicable: Redenomination [not] applicable
- [(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)]*
41. Other final terms: [Not Applicable/give details]

(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

42. (i) If syndicated, names of Managers: [Not Applicable/give names]

(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)

- (ii) Date of Subscription Agreement: []

(Only applicable if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies)

- (iii) Stabilising Manager(s) (if any): [Not Applicable/give name(s)]

43. If non-syndicated, name of relevant Dealer:

[Not Applicable/give name]

(If the Notes are derivative securities for the purpose of the Prospectus Directive, include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis.)

44. U.S. Selling Restrictions:

[Reg. S Category 2;TEFRA D/TEFRA C/TEFRA not applicable]

45. Additional selling restrictions:

[Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [specify relevant regulated market (for example, the Bourse de Luxembourg) and, if relevant, listing on an official list] of the Notes described herein pursuant to the €12,000,000,000 Euro Medium Term Note Programme of Kaupthing Bank hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is

aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of Kaupthing Bank hf.:

By: _____
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market (for example, the Bourse de Luxembourg) and, if relevant, listing on an official list] with effect from [.] [Not Applicable]
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

- Ratings: The Notes to be issued have been rated:
- Moody's: []
Fitch: []
[[Other]: []]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – Amend as appropriate if there are other interests]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer: []
- (ii) Estimated net proceeds: []
- (iii) Estimated total expenses: []

(NB: Delete, unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies. In such a case, (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)

5. YIELD (Fixed Rate Notes only)

Indication of yield: []

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING INDEX (*Index-Linked Notes only*)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the Index is not composed by the Issuer need to include details of where the information about the index can be obtained.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information].

(NB: Paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

7. PERFORMANCE OF [THE EQUITY/BASKET OF EQUITIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE EQUITY/BASKET OF EQUITIES]] (*Equity Linked Notes only*)

[Need to include details of where past and future performance and volatility of the [equity/basket of equities] can be obtained.] [Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

8. PERFORMANCE OF [THE COMMODITY/BASKET OF COMMODITIES], EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING [THE COMMODITY/BASKET OF COMMODITIES]] (*Commodity Linked Notes only*)

[Need to include details of where past and future performance and volatility of [the commodity/basket of commodities] can be obtained.] [Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

9. INFORMATION IN RELATION TO THE REFERENCE ENTITY, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS [AND OTHER INFORMATION CONCERNING THE REFERENCE ENTITY] (*Credit Linked Notes only*)

[Need to include details of the Reference Entity and of where information on the Reference Entity can be obtained.] [Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

10. PERFORMANCE OF RATE[S] OF EXCHANGE (*Dual Currency Notes only*)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

(NB: Paragraph 10 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

11. OPERATIONAL INFORMATION

(i) ISIN Code: []

- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
- [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[Include this text if “yes” selected in which case the Notes must be issued in NGN form]*

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by Kaupthing Bank hf. (the "**Issuer**") pursuant to the Agency Agreement (as defined below).

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note; and
- (iii) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated agency agreement dated 11th September, 2008 (the "**Agency Agreement**"), and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the "**Agent**", which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents).

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

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

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and

(ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the “**Deed of Covenant**”) dated 11th September, 2008 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents.

Copies of the applicable Final Terms are available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

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

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Commodity Linked Interest Note, an Equity Linked Interest Note, a Dual Currency Interest Note, a Range Accrual Note, a Target Redemption Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, a Commodity Linked Redemption Note, an Equity Linked Redemption Note, a Credit Linked Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

This Note may also be a Senior Note, a Subordinated Note or a Capital Note, as indicated in the applicable Final Terms.

Whenever there is any adjustment to the principal amount of any Capital Note pursuant to the Conditions, upon presentation of such Capital Note to the Agent at its specified office, a record of such adjustment shall be endorsed by it on such Capital Note provided that any failure to so present or record shall not in any way affect the decrease or increase pursuant to Condition 2(d).

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

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

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits (except in relation to Notes issued in NGN form), be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. STATUS OF THE SENIOR NOTES AND SUBORDINATION

(a) Status of the Senior Notes

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

(b) Status of the Subordinated Notes

The Subordinated Notes and any relative Receipts and Coupons are unsecured and unconditional obligations of the Issuer, subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act on Financial Undertakings No. 161/2002 (the "**Act**") of the Icelandic Parliament, and rank *pari passu* and ratably and without any preference among themselves and accordingly, on the insolvency or voluntary or involuntary liquidation of the Issuer, the Subordinated Notes rank in right of payment:

- (i) after payment of all obligations of the Issuer which are not expressed to be subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act (or any provision in any other Act of the Icelandic Parliament which modifies or replaces those provisions) ("**Senior Obligations**");

- (ii) at least *pari passu* with all other obligations of the Issuer (other than obligations of the Issuer in respect of Tier I Capital of the Issuer) (as defined below) which are expressed to be subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act (or any provision in any other Act of the Icelandic Parliament which modifies or replaces those provisions) (“**Subordinated Obligations**”);
- (iii) before all obligations of the Issuer in respect of Capital Securities of the Issuer;
- (iv) in priority to the rights of holders of all classes of ordinary share capital, preferred share capital and other share capital and/or establishment funds (*hlutafe eda stofnfe*) and/or comparable capital and reserves (*sambaerilegt eigid fe*), of the Issuer and in priority to the rights of holders of any obligation of the Issuer expressed to rank junior to the Capital Notes, in each case in relation to their rights as such holders and to payment in respect thereof.

The Issuer undertakes that for so long as any of the Subordinated Notes, Receipts or Coupons remain outstanding (as defined in the Agency Agreement) it will not create any subordinated obligation other than in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act or any provision in any other Act of the Icelandic Parliament which modifies or replaces those provisions). The provisions of this Condition 2(b) shall be governed by, and construed in accordance with, Icelandic law.

(c) Status of the Capital Notes

The Capital Notes and any relative Receipts and Coupons are unsecured and unconditional obligations of the Issuer, subordinated in accordance with and for the purposes of Chapter X: Liquid Assets and Own Funds; Article 84 of the Act as described below.

In the event of the insolvency or voluntary or involuntary liquidation of the Issuer, the rights of:

- (a) the holders of the Capital Notes and any relative Receipts and Coupons to payments of the principal amount of the Capital Notes and any other amounts including interest due in respect of the Capital Notes; and
- (b) where the whole or any part of the principal amount of the Capital Notes has been converted into conditional capital contributions as described below and such conditional capital contributions have not been reconverted and reinstated as provided below, the providers of such conditional capital contributions, in respect of such conditional capital contributions,

shall rank:

- (i) *pari passu* without any preference among the holders of the Capital Notes and any relative Receipts and Coupons and such providers;
- (ii) at least *pari passu* with the rights of the holders of any other outstanding Capital Securities whether or not such Capital Securities have been converted in the manner described below and at least *pari passu* with the rights of the holders of any other obligations of the Issuer constituting or eligible (“eligible” to be construed, *mutatis mutandis*, as provided in the definition of Capital Event) as constituting Tier I Capital of the Issuer, in each case in relation to their rights as such holders and to payments in respect thereof;
- (iii) in priority to the rights of holders of all classes of ordinary share capital, preferred share capital and other share capital and/or establishment funds (*hlutafe eda stofnfe*) and/or comparable capital and reserves (*sambaerilegt eigid*

fe), of the Issuer and in priority to the rights of holders of any obligation of the Issuer expressed to rank junior to the Capital Notes, in each case in relation to their rights as such holders and to payments in respect thereof; and

- (iv) junior in right of payment to the payment of any present or future claims under Senior Obligation and Subordinated Obligations.

No holder of a Capital Note or any relative Receipt or Coupon or provider of any conditional capital contribution who shall in the event of the insolvency voluntary or involuntary liquidation of the Issuer be indebted to the Issuer shall be entitled to exercise any right of set-off or counterclaim against moneys owed by the Issuer in respect of the Capital Notes or conditional capital contributions held or provided by such holder or provider, as the case may be.

The Issuer reserves the right to issue Capital Securities in the future or other obligations constituting or eligible as constituting Tier I Capital of the Issuer, provided, however, that any such obligations may not in the event of insolvency or voluntary or involuntary liquidation of the Issuer rank in priority to the Capital Notes.

A “**Capital Event**” means the determination by the Issuer (such determination to be evidenced by a certificate signed by two Directors of the Issuer and to be binding on the Capital Noteholders without further investigation (copies of such certificate to be available for inspection at the specified office of the Agent)), having received confirmation or similar proof thereof from the Financial Supervisory Authority of Iceland (*fjármálaeftirlitid*) or any successor (the “**FSA**”), that the Capital Notes are no longer eligible for inclusion in Tier I Capital of the Issuer and for these purposes the Capital Notes shall be deemed to be so “eligible” notwithstanding that any limits in respect of obligations which can be included in determining such eligibility would be exceeded by including in such determination all or any part of the Capital Notes and accordingly for these purposes any such limits shall be disregarded.

“**Capital Securities**” means any subordinated and undated debt instruments of the Issuer which are recognised Tier I Capital from time to time by the FSA and including, where the context so requires, the Capital Notes.

“**Tier I Capital**” means capital which is treated as issued tier I capital (*Eiginfjártháttur A*) by the FSA either on a solo or on a consolidated basis.

(d) Utilisation and Conversion of Capital Notes

To the extent that it may be required to avoid the Issuer no longer meeting the requirements with respect to minimum own funds (“**Minimum Own Funds**”) as set out in The Act on Financial Undertaking (161/2002), as amended, of the Icelandic Parliament the Board of Directors of the Issuer, by resolution passed at a board meeting, may decide that the principal amount (or part thereof, as the case may be) of each Capital Note will be utilised by writing down all or part of the principal amount to the extent and by the amount required to avoid falling below the required Minimum Own Funds and converting such aggregate amount (the “**Converted Amount**”) into a conditional capital contribution. The rights of the holders of the Capital Notes on any relative Receipts and Coupons in respect of the Converted Amount will thereupon be converted into rights of providers of conditional capital contributions as set out herein.

Upon utilisation of the Converted Amount as above the Issuer shall give notice to the Capital Noteholders in accordance with Condition 18.

Utilisation of the Converted Amount for the purpose of avoiding the Issuer’s own funds falling below the required Minimum Own Funds shall be made prior to the utilisation for the same purpose of the principal amount of outstanding perpetual/undated subordinated debt issued

by the Issuer (other than other Capital Securities) and shall be made following the utilisation for the same purpose of the principal amount of Capital Securities and any other securities ranking junior to the Capital Notes and outstanding at the time of such utilisation and *pro rata* to the principal amount of Capital Securities ranking *pari passu* with the Capital Notes and outstanding at the time of such utilisation.

Where, pursuant to this Condition 2(d), writing down and conversion applies to part only of the principal amount of the Capital Notes, the part of the principal amount of each Capital Note to be subject to such writing down and conversion shall bear the same proportion to the total amount of the principal amount in respect of such Capital Note as the aggregate amount of the principal amount of all the Capital Notes to be subject to such writing down and conversion bears to the aggregate outstanding principal amount of all the Capital Notes respectively. Any reconversion and reinstatement as provided below will be made on the same basis.

Utilisation of the Converted Amount as aforesaid may only be made provided:

- (i) that the Agent has received prior to such utilisation a certificate signed by two Directors of the Issuer confirming that, following such conversion to a Converted Amount, the rights of the providers thereof in respect of such amounts will rank as provided in Condition 2(c) (copies of such certificate will be available for inspection at the specified office of the Agent);
- (ii) that the FSA shall have given its approval thereto provided that such approval can be validly given in accordance with the rules, regulations and policies of the FSA; and
- (iii) that the Agent has received prior to such utilisation a certificate signed by two Directors of the Issuer confirming that following such conversion to a Converted Amount, such amount will be a conditional capital contribution and will be accounted for as such in the balance sheet of the Issuer (copies of such certificate will be available for inspection at the specified office of the Agent).

Utilisation as described above of the whole or part of the principal amount of the Capital Notes shall not constitute an Event of Default under Condition 14.

(e) Reconversion and Reinstatement of Capital Notes

Reconversion and reinstatement (in whole or in part) as obligations in respect of the Capital Notes of the Converted Amount may only be made out of Unallocated Distributable Profits of the Issuer and subject to a resolution of the Board of Directors of the Issuer.

Reconversion and reinstatement shall first be made in respect of perpetual/undated subordinated debt (other than Capital Securities) issued by the Issuer that may have been converted into conditional capital contributions.

Reconversion and reinstatement as obligations in respect of the Capital Notes of the Converted Amount shall be made *pro rata* with any amounts converted in respect of other Capital Securities of the Issuer ranking *pari passu* with the Capital Notes. For the avoidance of doubt, amounts converted in respect of Capital Securities and any other securities expressed to rank junior to the Capital Notes shall be reconverted and reinstated as debt only after the Converted Amount (and any other amounts converted in respect of other Capital Securities of the Issuer expressed to rank *pari passu* with the Capital Notes) has been reconverted and reinstated as aforesaid.

If the Issuer's own funds exceed the required Minimum Own Funds allowing for reconversion and reinstatement (in whole or in part) as debt of amounts converted in respect of subordinated indebtedness in the form of Capital Securities and/or perpetual/undated subordinated securities and/or any other securities or reconversion and reinstatement (in

whole or in part) as obligations in respect of the Capital Notes of any Converted Amount, the Board of Directors of the Issuer shall subsequently decide that such reconversion and reinstatement shall be made with due observance taken to the prescribed ranking between the relevant instruments to the extent such replenishment does not result in the Issuer's own funds falling below the required Minimum Own Funds.

If and to the extent that any Converted Amount has been reconverted and reinstated as an obligation in respect of such Capital Note in the balance sheet of the Issuer, such amount shall be reconverted and reinstated as principal and shall be added to the principal amount of such Note not converted to a Converted Amount for all purposes thereafter (and references to "principal" and "principal amount" shall be construed accordingly) and interest shall start to accrue on such amount and become payable in accordance with the terms of the Capital Notes as from the date of such reconversion and reinstatement.

Upon reconversion and reinstatement as obligations in respect of the Notes of the Converted Amount as described above the Issuer shall give notice to the Capital Noteholders in accordance with Condition 18.

The principal amount of the Capital Notes may be utilised and converted as described above on one or more occasions.

"Bank Share Capital" means the ordinary share capital of the Issuer, together with all other securities of the Issuer, ranking *pari passu* with the ordinary shares of the Issuer as to participation in a liquidation surplus.

"Unallocated Distributable Profits" means, in respect of each fiscal year of the Issuer, the aggregate amount, as calculated during the course of such fiscal year in the individual financial statements of the Issuer, of accumulated retained earnings and any other reserves, surpluses, including current operating profits, capable under Icelandic law of being available for distribution as cash dividends to holders of Bank Share Capital in the following year.

3. NEGATIVE PLEDGE

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

Nothing in this Condition 3 shall prevent the Issuer or any Subsidiary of the Issuer, as the case may be, from creating or permitting to subsist a Security Interest upon a defined or definable pool of its assets including, but not limited to, receivables (not representing all of the assets of the Issuer or any Subsidiary of the Issuer, as the case may be) (the **"Secured Assets"**) which is or was created pursuant to any securitisation or like arrangement in accordance with established market practice (whether or not involving itself as the issuer of any issue of asset-backed securities) and whereby all payment obligations in respect of the Relevant Indebtedness of any Person or under any guarantee of or indemnity in respect of the Relevant Indebtedness of any other Person, as the case may be, secured on, or on an interest in the Secured Assets are to be discharged solely from the Secured Assets (or solely from (i) the Secured Assets and (ii) assets of a Person other than the Issuer or any Subsidiary of the Issuer).

For the purposes of these Conditions:

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

- (i) 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
- (ii) 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 (a) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (b) 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
- (iii) recourse of such borrower generally, or directly or indirectly to the Issuer or any Subsidiary, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against which such recourse is available;

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

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

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

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

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

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

4. REDENOMINATION

(a) *Redenomination*

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 18, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of euro 50,000 and/or such higher amounts as the agent may determine and notify to the Noteholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 6 and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the

Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “**Exchange Notice**”) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by the Global Note; and
 - (ii) in the case of definitive Notes, by applying the rate of Interest to the Calculation Amount;and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding; and
- (vii) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

(b) *Definitions*

In these Conditions, the following expressions have the following meanings:

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

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

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

“**Relevant Notes**” means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area; and

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

5. INTEREST

If the Notes are specified in the applicable Final Terms as Equity Linked Interest Notes, then the provisions of this Condition 5 are subject to Condition 9. If the Notes are specified in the applicable Final Terms as Credit Linked Notes, then the provisions of this Condition 5 are subject to Condition 11.

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

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

As used in these Terms and Conditions, “**Fixed Interest Period**” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **“Accrual Period”**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

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

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

In these Terms and Conditions:

“Determination Period” means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the

period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“**sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) *Interest on Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes and Commodity Linked Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note, Index Linked Interest Note, Equity Linked Interest Note and Commodity Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

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

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “**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 and each Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) 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 and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “**TARGET2 System**”) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes and Commodity Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

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

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“**LIBOR**”) or on the Euro-zone inter-bank offered rate (“**EURIBOR**”), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**” and “**Reset Date**” have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) *Screen Rate Determination for Floating Rate Notes*

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

- (1) the offered quotation; or

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

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, Equity Linked Interest Notes and Commodity Linked Interest Notes will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, Equity Linked Interest Notes and Commodity Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes and Commodity Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes, or Index Linked Interest Notes, Equity Linked Interest Notes and Commodity Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

- (B) in the case of Floating Rate Notes, or Index Linked Notes, Equity Linked Interest Notes and Commodity Linked Interest Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note, or an Index Linked Interest Note, Equity Linked Interest Notes and Commodity Linked Interest Notes in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

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

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

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

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D2 will be 30.

- (v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes, Index Linked Interest Notes, Equity Linked

Interest Notes or Commodity Linked Interest Notes are for the time being listed by no later than the first day of each Interest Period and notice thereof to be published in accordance with Condition 18 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes, Index Linked Interest Notes, Equity Linked Interest Notes or Commodity Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 18. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Interest on Target Redemption Notes*

The rate or amount of interest payable in respect of Target Redemption Notes shall be determined in the manner specified in the applicable Final Terms.

(f) *Interest on Range Accrual Notes*

The rate or amount of interest payable in respect of Range Accrual Notes shall be determined in the manner specified in the applicable Final Terms.

(g) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused and/or delivery of any asset deliverable in respect of such Note is improperly not made. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid and/or delivery of all assets deliverable in respect of such Note have been delivered; and

- (2) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and/or all assets in respect of such Note have been received by any agent appointed by the Issuer to deliver such assets to Noteholders and notice to that effect has been given to the Noteholders in accordance with Condition 18,

Provided that if the Notes become redeemable pursuant to Condition 11(b) or Condition 11(c); and

- (A) “Accrual of Interest upon Credit Event” is specified as Not Applicable in the applicable Final Terms, each Note shall cease to bear interest from the Interest Payment Date immediately preceding the Credit Event Determination Date as defined in Condition 11(b) or (c), as the case may be, or if the Credit Event Determination Date is an Interest Payment Date or if the Credit Event Determination Date falls prior to the first Interest Payment Date, no interest shall accrue on the Notes; or
- (B) “Accrual of Interest upon Credit Event” is specified as being applicable in the applicable Final Terms, each Note shall cease to bear interest from the Credit Event Determination Date; and

Provided Further That, if

- (C) Condition 11(d) or Condition 11(e) applies in respect of the Notes and, in the case of Condition 11(d), a Repudiation/Moratorium has not occurred on or prior to the Repudiation/Moratorium Evaluation Date or, in the case of Condition 11(e), a failure to pay has not occurred on or prior to the Grace Period Extension Date, as the case may be; and/or
- (D) Condition 11(f) applies in respect of the Notes and the Scheduled Maturity Date, the Repudiation/Moratorium Evaluation Date or the Grace Period Extension Date, as the case may be, is postponed as provided therein,

then interest will accrue as provided in Condition 11(d), Condition 11(c) or Condition 11(f), as the case may be.

(h) *Sufficiency of Available Distributable Funds in respect of Capital Notes*

- (1) Payments of interest on any Interest Payment Date may not exceed the Available Distributable Funds, taking into account all payments previously made in the fiscal year in which the Interest Payment Date falls in respect of the Capital Notes, other Capital Securities ranking *pari passu* with the Notes and Other Tier I Securities. To the extent that, on any Interest Payment Date, Available Distributable Funds are insufficient to pay or provide for payment in full of all accrued but unpaid interest under the Capital Notes, other Capital Securities ranking *pari passu* with the Capital Notes and Other Tier I Securities (in each case falling due on that Interest Payment Date), the Issuer will make partial payment of all accrued but unpaid interest under the Capital Notes, such other Capital Securities and Other Tier I Securities *pro rata* to the extent of such Available Distributable Funds. If, and to the extent that Available Distributable Funds are insufficient or non-existent and the Issuer makes partial payment of, or does not pay, accrued but unpaid interest, the right of the Capital Noteholders to receive accrued but unpaid interest in respect of the relevant Interest Period will be deferred until the Deferral End Date. At the Deferral End Date the Issuer will make full or partial payment of all deferred but unpaid interest under these Capital Notes and such other Capital Securities and Other Tier 1 Securities *pro rata* to the extent the Issuer has accrued any Unallocated Distributable Profits, as determined by the Board of Directors of the Issuer after consultation with the Issuer’s auditors, in such fiscal year. If, and to the extent that, any deferred payments remain unpaid after the applicable Deferral End Date, the right of the Capital Noteholders to receive such deferred payments will be lost. The Issuer will

have no obligation to make such payments of unpaid deferred interest or to pay interest thereon, whether or not payments of interest in respect of subsequent Interest Periods are made, and such unpaid deferred interest will not be deemed to have “accrued” or been earned for any purpose.

Notwithstanding anything to the contrary herein, the Issuer will not make any payments of interest if the Issuer, following payment of such interest, would no longer meet the requirements with respect to Minimum Own Funds.

- (2) The Issuer covenants that, so long as any Capital Note is outstanding, if the most recent scheduled payments on the Capital Notes have not been made in full or utilisation of a Converted Amount has been made, as aforesaid:
- (i) subject to sub-clause (1) above, it shall not declare (nor shall its Board of Directors propose the declaration of), pay or distribute interest, a dividend or any other amount on, or in respect of, any Other Tier I Securities or any Junior Securities or make any payment on a Tier I Guarantee (except, in the case of Capital Securities ranking *pari passu* with the Capital Notes, any payments made on a *pro rata* basis as contemplated above);
 - (ii) subject to sub-clause (1) above, it shall not redeem, purchase or otherwise acquire any Other Tier I Securities or Junior Securities or purchase or otherwise acquire any security benefiting from a Tier I Guarantee (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking in an insolvency or a voluntary or involuntary liquidation of the Issuer to those shares or securities being redeemed, purchased or acquired); and
 - (iii) it will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any Subsidiary on any security (however named or designated) benefiting from a Tier I Guarantee,

in each case until the Dividend Stopper End Date or, as the case may be, until an amount equal to any Converted Amount has been reconverted and reinstated as an obligation in respect of the Capital Notes in full in the balance sheet of the Issuer, or such amount has been redeemed (such redemption having been approved by the FSA).

If the Issuer deems that it does not have sufficient Available Distributable Funds to pay accrued interest on the Capital Notes on the next Interest Payment Date, the Issuer shall, if reasonably practicable and if so permitted by the applicable regulations of any stock exchange upon which the Issuer's equity or debt is then listed, give not more than 14 nor less than five days' prior notice to the Capital Noteholders in accordance with Condition 18.

“Available Distributable Funds” means, in respect of each fiscal year of the Issuer, the aggregate amount, as calculated as of the end of the immediately preceding fiscal year in the individual financial statements of the Issuer, of accumulated retained earnings and any other reserves and surpluses capable under Icelandic law of being available for distribution as cash dividends to holders of Bank Share Capital, but before deduction of the amount of any dividend or other distribution declared on Bank Share Capital in respect of such prior fiscal year.

“Deferral End Date” means the earlier of (i) the date on which the Issuer accrues enough Unallocated Distributable Profits during the fiscal year of the Issuer in which such interest payments were otherwise due, as determined by the Board of Directors of the Issuer after consultation with the Issuer's auditors, to pay the entire deferred payment due under the

Capital Notes and under other Capital Securities ranking *pari passu* with the Capital Notes and Other Tier I Securities, and makes such payments or (ii) 31st December of the fiscal year of the Issuer in which such payments were otherwise due.

“Dividend Stopper End Date” means the later of (a) if all such scheduled payments are paid on the Deferral End Date applicable to such payment, such Deferral End Date or (b) the date which is twelve calendar months after the earlier of the date (i) on which a full interest payment is not paid on the Capital Notes and (ii) on which a full scheduled dividend, interest payment or distribution on any Capital Security ranking *pari passu* with the Capital Notes has not been paid.

“Junior Securities” means (i) ordinary share capital of the Issuer, (ii) each class of preference share capital of the Issuer and any other instrument of the Issuer ranking *pari passu* herewith or junior hereto, and (iii) preference share capital or any other instrument of any Subsidiary of the Issuer subject to any guarantee or support agreement of the Issuer ranking junior to the obligations of the Issuer under the Capital Notes.

“Other Tier I Securities” means any securities which are Tier I Capital of the Issuer and which rank on an insolvency or a voluntary or involuntary liquidation of the Issuer *pari passu* with the Capital Notes.

“Subsidiary” means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

“Tier I Guarantee” means any guarantee, indemnity or other contractual support arrangement entered into by the Issuer in respect of securities (regardless of name or designation) issued by a Subsidiary which constitutes Tier I Capital of the Issuer.

6. PAYMENTS

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 12.

(b) *Presentation of definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any

sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes, Credit Linked Notes, Equity Linked Notes, Commodity Linked Notes, Range Accrual Notes, Target Redemption Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 12) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 13) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note, Credit Linked Note, Equity Linked Note, Commodity Linked Note, Range Accrual Note, Target Redemption Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 13) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London;
 - (C) each Additional Financial Centre specified in the applicable Final Terms; and

- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(f) *Interpretation of principal and interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 12;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Credit Linked Notes, the Credit Event Redemption Amount (if any);
- (vi) in relation to Equity Linked Redemption Notes, the Failure to Deliver Settlement Price (if any);
- (vii) in relation to Equity Linked Redemption Notes, the Disruption Cash Settlement Price (if any);
- (viii) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (ix) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(f)); and
- (x) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 12.

7. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note, Equity Linked Redemption Note, Credit Linked Note, Dual Currency Redemption Note and Range Accrual Note but excluding each Target Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date. Capital Notes shall be undated, with no fixed date for redemption. Each Target Redemption Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the date determined in accordance with the applicable Final Terms.

(b) *Redemption for tax reasons*

The Notes may, subject, in the case of Capital Notes, to the prior approval of the FSA (provided that such approval can validly be given in accordance with the applicable rules, regulations and policies of the FSA) and to Condition 7(m) below, be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note, an Index Linked Interest Note, an Equity Linked Interest Note, a Credit Linked Note or a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is a Floating Rate Note, an Index Linked Interest Note, an Equity Linked Interest Note, a Credit Linked Note, a Dual Currency Interest Note, a Target Redemption Note or a Range Accrual Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 18, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 12) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, subject, in the case of Capital Notes, to the prior approval of the FSA (provided that such approval can validly be given in accordance with the applicable rules regulations and policies of the FSA) and to Condition 7(m) below, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 18; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or (other than in respect of Capital Notes) some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such

redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 18 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 18 at least five days prior to the Selection Date.

(d) *Redemption at the option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 18 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg, given by a holder of any Note pursuant to this paragraph shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 18.

(e) *Redemption upon the occurrence of a Special Event*

Subject as provided in Condition 7(m) below, and in the case of Capital Notes only, upon the occurrence of a Special Event (as defined in Condition 7(m) below), the Issuer may, subject to the prior approval of the FSA (provided that such approval can validly be given in accordance with applicable rules, regulations and policies of the FSA), at its option, having given not less than 30 days' nor more than 60 days' notice to the holders of the Capital Notes in accordance with Condition 18 (which notice shall be irrevocable), redeem all (but not some only) of the Capital Notes on any Special Event Redemption Date (as specified in the applicable Final Terms) at an amount equal to the Special Event Redemption Amount (as specified in the applicable Final Terms).

(f) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 14, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“**RP**” means the Reference Price;

“**AY**” means the Accrual Yield expressed as a decimal; and

“**y**” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms; or

- (iv) in the case of an Equity Linked Interest Note, an Equity Linked Redemption Note, a Credit Linked Note or a Commodity Linked Note the Early Redemption Amount in respect of each nominal amount of such Notes equal to the Calculation Amount will be determined by reference to the provisions in the applicable Final Terms.

(g) *Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (f) above.

(h) *Illegality*

In the event that the Calculation Agent determines in good faith that the performance of the Issuer's obligations under the Notes or that any arrangements made to hedge the Issuer's obligations under the Notes has or will become unlawful, illegal or otherwise prohibited in whole or part as a result of compliance with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power, or in the interpretation thereof, the Issuer having given not less than ten nor more than 30 days' notice to Noteholders in accordance with Condition 18 (which notice shall be irrevocable), may, on expiry of such notice redeem all, but not some only, of the Notes, each Note being redeemed at the Early Redemption Amount together (if appropriate) with interest accrued to (but not excluding) the date of the redemption.

(i) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(j) *Purchases*

The Issuer or any Subsidiary of the Issuer may (subject, in the case of Capital Notes, to the prior approval of the FSA and provided that such approval can validly be given in accordance with the rules, regulations and policies of the FSA) at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(k) *Cancellation*

All Notes which are redeemed will be cancelled forthwith (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (i) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(l) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 14 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 18.

(m) *Redemption of Converted Amounts*

Save as provided in Condition 14, where any principal amount has been converted into Converted Amounts as described in Condition 2(d), the Issuer shall not redeem the Capital

Notes until all Converted Amounts have been reconverted and reinstated as debt in full as an obligation in respect of the Capital Notes.

A “**Special Event**” means the occurrence of any of a Tax Event or a Capital Event.

A “**Tax Event**” means the receipt by the Issuer of an opinion of counsel in Iceland (experienced in such matters) to the effect that, as a result of (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of Iceland or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any governmental action or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such governmental action or any interpretation or pronouncement that provides for a position with respect to such government action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective or such pronouncement or decision is announced on or after the Issue Date of the Capital Notes, there is more than an insubstantial risk that the Issuer is, or will be, subject to more than a *de minimis* amount of other taxes, duties or other governmental charges or civil liabilities with respect to the Capital Notes or any amount payable in respect of the Capital Notes.

8. COMMODITY LINKED NOTES

Provisions relating to the redemption of Commodity Linked Interest Notes and/or Commodity Linked Redemption Notes will be set out in the applicable Final Terms.

9. EQUITY LINKED NOTES

If the Notes are specified as Equity Linked Interest Notes and/or Equity Linked Redemption Notes in the applicable Final Terms then the provisions of this Condition 9 apply, as applicable, as modified by the applicable Final Terms.

(a) *Redemption of Equity Linked Redemption Notes*

Unless previously redeemed or purchased and cancelled as specified below, each nominal amount (the “**Specified Amount**”) of Equity Linked Redemption Notes equal to the Calculation Amount set out in the applicable Final Terms will be redeemed by the Issuer (A) if Cash Settlement is specified in the applicable Final Terms, by payment of the Redemption Amount on the Maturity Date or (B) if Physical Delivery is specified in the applicable Final Terms, by delivery of the Asset Amount on the Maturity Date or (C) if Cash Settlement and/or Physical Delivery is specified in the applicable Final Terms, by payment of the Redemption Amount and/or by delivery of the Asset Amount on the terms set out in the applicable Final Terms, in each case on the Maturity Date, in each case subject as provided below.

(b) *Potential Adjustment Events, De-listing, Merger Event, Tender Offer, Nationalisation and Insolvency, Correction of Share Prices and Adjustments for Equity Linked Notes in respect of Underlying Equities quoted in European Currencies*

- (i) If Potential Adjustment Events are specified as applying in the applicable Final Terms, then following the declaration by an Equity Issuer of the terms of any Potential Adjustment Event, the Calculation Agent will, in its sole and absolute discretion, determine whether such Potential Adjustment Event has a diluting, concentrative or other effect on the theoretical value of the Underlying Equities and, if so, will (a) make the corresponding adjustment, if any, to any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions

and/or the applicable Final Terms as the Calculation Agent in its sole and absolute discretion determines appropriate to account for that diluting, concentrative or other effect (provided that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relative to the relevant Underlying Equity) and (b) determine the effective date of that adjustment. The Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an options exchange to options on the Underlying Equities traded on that options exchange.

Upon making any such adjustment, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 18, stating the adjustment to the relevant Interest Amount and/or Redemption Amount and/or the Asset Amount, the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms and giving brief details of the Potential Adjustment Event.

For the purposes of this Condition 9:

“Potential Adjustment Event” means any of the following:

- (a) a subdivision, consolidation or reclassification of relevant Underlying Equities (unless resulting in a Merger Event), or a free distribution or dividend of any such Underlying Equities to existing holders by way of bonus, capitalisation or similar issue;
- (b) a distribution, issue or dividend to existing holders of the relevant Underlying Equities of (1) such Underlying Equities or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of an Equity Issuer equally or proportionately with such payments to holders of such Underlying Equities or (3) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the Equity Issuer as a result of a spin-off or other similar transaction or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or other consideration) at less than the prevailing market price as determined by the Calculation Agent;
- (c) an extraordinary dividend as determined by the Calculation Agent;
- (d) a call by an Equity Issuer in respect of relevant Underlying Equities that are not fully paid;
- (e) a repurchase by an Equity Issuer or any of its subsidiaries of relevant Underlying Equities whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
- (f) in respect of an Equity Issuer, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of such Equity Issuer, pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, warrants, debt instruments or stock rights at a price below their market value as determined by the Calculation Agent, provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights; or

- (g) any other event that has or may have, in the opinion of the Calculation Agent, a diluting, concentrative or other effect on the theoretical value of the relevant Underlying Equities.
- (ii) If (x) De-listing, Merger Event, Nationalisation and Insolvency is specified as applying in the applicable Final Terms and/or (y) if Tender Offer is specified as applying in the applicable Final Terms and (in the case of (x)), a De-listing, Merger Event, Nationalisation or Insolvency occurs or (in the case of (y)) a Tender Offer occurs, in each case, in relation to an Underlying Equity, the Issuer in its sole and absolute discretion may:
 - (a) require the Calculation Agent to determine in its sole and absolute discretion the appropriate adjustment, if any, to be made to any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms to account for the De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The relevant adjustments may in the case of adjustments following a Merger Event or Tender Offer include, without limitation, adjustments to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares; or
 - (b) give notice to the Noteholders in accordance with Condition 18 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the Calculation Amount being redeemed at the Early Redemption Amount.

If the provisions of Condition 9(b)(ii)(a) apply the Calculation Agent may (but need not) determine the appropriate adjustment by reference to the adjustment in respect of the De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, made by an options exchange to options on the Underlying Equities traded on that options exchange.

Upon the occurrence (if applicable) of a De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 18 stating the occurrence of the De-listing, Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.

For the purposes of these Terms and Conditions:

“De-listing” means, in respect of any relevant Underlying Equities, the Exchange announces that pursuant to the rules of such Exchange, such Underlying Equities cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in any member state of the European Union);

“Insolvency” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of, or any analogous proceeding affecting, an Equity Issuer (A) all the Underlying Equities of that Equity Issuer are required to be transferred to a trustee, liquidator or other similar official or (B) holders of the Underlying Equities of that Equity Issuer become legally prohibited from transferring them;

“Merger Date” means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Calculation Agent;

“Merger Event” means, in respect of any relevant Underlying Equities, any (a) reclassification or change of such Underlying Equities that results in a transfer of, or an irrevocable commitment to transfer, all such Underlying Equities outstanding to another entity or person, (b) consolidation, amalgamation, merger or binding share exchange of an Equity Issuer with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Equity Issuer is the continuing entity and which does not result in any such reclassification or change of all such Underlying Equities outstanding), (c) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Underlying Equities of the Equity Issuer that results in a transfer of or an irrevocable commitment to transfer all such Underlying Equities (other than such Underlying Equities owned or controlled by such other entity or person), or (d) consolidation, amalgamation, merger or binding share exchange of the Equity Issuer or its subsidiaries with or into another entity in which the Equity Issuer is the continuing entity and which does not result in a reclassification or change of all such Underlying Equities outstanding but results in the outstanding Underlying Equities (other than Underlying Equities owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Underlying Equities immediately following such event, in each case if the Merger Date is on or before the relevant Valuation Date or, if the Notes are to be redeemed by delivery of Underlying Equities, the Maturity Date;

“Nationalisation” means that all the Underlying Equities or all or substantially all the assets of an Equity Issuer are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof; and

“Tender Offer” means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Equity Issuer, as determined by the Calculation Agent, based upon the making of filings with governmental or self regulatory agencies or such other information as the Calculation Agent deems relevant.

- (iii) If Correction of Share Prices is specified as applying in the applicable Final Terms and the price of a Share published on a Valuation Date is subsequently corrected and the correction (the **“Corrected Share Price”**) is published on the relevant Exchange prior to the Correction Cut-Off Date specified in the applicable Final Terms, then such Corrected Share Price shall be deemed to be the closing price for such Share for that Valuation Date and the Calculation Agent shall use such Corrected Share Price in determining the relevant Interest Amount and/or Redemption Amount.
- (iv) In respect of Equity Linked Notes relating to Underlying Equities originally quoted, listed and/or dealt as of the Trade Date in a currency of a member state of the European Union that has not adopted the single currency in accordance with the Treaty establishing the European Community, as amended, if such Underlying Equities are at any time after the Trade Date quoted, listed and/or dealt exclusively in euro on the relevant Exchange, then the Calculation Agent will adjust any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms as the Calculation Agent determines in its sole and absolute discretion to be appropriate to preserve the economic terms of the Notes. The Calculation Agent will make any conversion necessary for the purposes of any such adjustment as of the Valuation Time at an appropriate mid-market spot rate of exchange determined by the Calculation Agent

prevailing as of the Valuation Time. No adjustments under this Condition 9(b)(iii) will affect the currency denomination of any payments in respect of the Notes.

(c) *Physical Delivery*

If any Notes are to be redeemed by delivery of the Asset Amount, in order to obtain delivery of the Asset Amount(s) in respect of any Note:

- (A) if such Note is represented by a Global Note, the relevant Noteholder must deliver to Euroclear or Clearstream, Luxembourg (as applicable), with a copy to the Issuer not later than the close of business in each place of reception on the Cut-Off Date, a duly completed Asset Transfer Notice substantially in the form set out in the Agency Agreement (the “**Asset Transfer Notice**”); and
- (B) if such Note is in definitive form, the relevant Noteholder must deliver to any Paying Agent, with a copy to the Issuer not later than the close of business in each place of reception on the Cut-Off Date, a duly completed Asset Transfer Notice.

Forms of the Asset Transfer Notice may be obtained during normal business hours from the specified office of any Paying Agent.

An Asset Transfer Notice may only be delivered (i) if such Note is represented by a Global Note, in such manner as is acceptable to Euroclear or Clearstream, Luxembourg, as the case may be, which is expected to be by authenticated SWIFT message or tested telex or (ii) if such Note is in definitive form, in writing.

If this Note is in definitive form, this Note must be delivered together with the duly completed Asset Transfer Notice.

The delivery of the Asset Amount shall be made in the manner specified in the applicable Final Terms or in such other commercially reasonable manner as the Issuer shall, in its sole discretion, determine to be appropriate for such delivery and shall notify to the Noteholders in accordance with Condition 18.

All expenses including any applicable depositary charges, transaction or exercise charges, stamp duty, stamp duty reserve tax and/or other taxes or duties (together “**Delivery Expenses**”) arising from the delivery and/or transfer of any Asset Amount shall be for the account of the relevant Noteholder and no delivery and/or transfer of any Asset Amount shall be made until all Delivery Expenses have been paid to the satisfaction of the Issuer by the relevant Noteholder.

An Asset Transfer Notice must:

- (1) specify the name and address of the relevant Noteholder, any account details required for delivery as set out in the applicable Final Terms and the person from whom the Issuer may obtain details for the delivery of the Asset Amount if such delivery is to be made otherwise than in the manner specified in the applicable Final Terms;
- (2) in the case of Notes represented by a Global Note, specify the nominal amount of Notes which are the subject of such notice and the number of the Noteholder's account at Euroclear or Clearstream, Luxembourg, as the case may be, to be debited with such Notes and irrevocably instruct and authorise Euroclear or Clearstream, Luxembourg, as the case may be, to debit the relevant Noteholder's account with such Notes on or before the Maturity Date;
- (3) include an undertaking to pay all Delivery Expenses and, in the case of Notes represented by a Global Note, an authority to debit a specified account of the Noteholder at Euroclear or Clearstream, Luxembourg, as the case may be, in respect thereof and to pay such Delivery Expenses;

- (4) specify an account to which any dividends payable pursuant to this Condition 9(c) or any other cash amounts specified in the applicable Final Terms as being payable are to be paid; and
- (5) authorise the production of such notice in any applicable administrative or legal proceedings.

No Asset Transfer Notice may be withdrawn after receipt thereof by Euroclear, Clearstream, Luxembourg, or a Paying Agent, as the case may be, as provided above. After delivery of an Asset Transfer Notice, the relevant Noteholder may not transfer the Notes which are the subject of such notice.

In the case of Notes represented by a Global Note, upon receipt of such notice, Euroclear or Clearstream, Luxembourg, as the case may be, shall verify that the person specified therein as the Noteholder is the holder of the specified nominal amount of Notes according to its books.

Failure properly to complete and deliver an Asset Transfer Notice may result in such notice being treated as null and void. Any determination as to whether such notice has been properly completed and delivered as provided in these Terms and Conditions shall be made, in the case of Notes represented by a Global Note, by Euroclear or Clearstream, Luxembourg, as the case may be, after consultation with the Issuer and shall be conclusive and binding on the Issuer and the relevant Noteholder and, in the case of Notes in definitive form, by the relevant Paying Agent after consultation with the Issuer, and shall be conclusive and binding on the Issuer and the relevant Noteholder.

Subject as provided in this Condition, in relation to each Note which is to be redeemed by delivery of the Asset Amount, the Asset Amount will be delivered at the risk of the relevant Noteholder, in the manner provided above on the Maturity Date (such date, subject to adjustment in accordance with this Condition, the “**Delivery Date**”), provided that the Asset Transfer Notice is duly delivered to Euroclear, Clearstream, Luxembourg or a Paying Agent, as the case may be, with a copy to the Issuer, as provided above, not later than the close of business in each place of receipt on the Cut-Off Date.

If an Asset Transfer Notice is delivered to Euroclear, Clearstream, Luxembourg or a Paying Agent, as the case may be, with a copy to the Issuer, later than the close of business in each place of receipt on the Cut-Off Date, then the Asset Amount will be delivered as soon as practicable after the Maturity Date (in which case, such date of delivery shall be the Delivery Date) at the risk of such Noteholder in the manner provided above. For the avoidance of doubt, in such circumstances such Noteholder shall not be entitled to any payment, whether of interest or otherwise, as a result of such Delivery Date falling after the originally designated Delivery Date and no liability in respect thereof shall attach to the Issuer.

If, prior to the delivery of the Asset Amount in accordance with this Condition, a Settlement Disruption Event is subsisting, then the Delivery Date in respect of such Note shall be postponed until the date on which no Settlement Disruption Event is subsisting and notice thereof shall be given to the relevant Noteholder, in accordance with Condition 18. Such Noteholder shall not be entitled to any payment, whether of interest or otherwise, on such Note as a result of any delay in the delivery of the Asset Amount pursuant to this paragraph. Where delivery of the Asset Amount has been postponed as provided in this paragraph the Issuer shall not be in breach of these Conditions and no liability in respect thereof shall attach to the Issuer.

For so long as delivery of the Asset Amount in respect of any Note is not practicable by reason of a Settlement Disruption Event, then in lieu of physical settlement and notwithstanding any other provision hereof, the Issuer may elect in its sole discretion to satisfy its obligations in respect of the relevant Note by payment to the relevant Noteholder

of the Disruption Cash Settlement Price not later than on the third Business Day following the date that the notice of such election (the “**Election Notice**”) is given to the Noteholders in accordance with Condition 18. Payment of the Disruption Cash Settlement Price will be made in such manner as shall be notified to the Noteholders in accordance with Condition 18.

For such period of time after the Maturity Date as any person other than the relevant Noteholder shall continue to be the legal owner of the securities comprising the Asset Amount (the “**Intervening Period**”), neither the Issuer nor any other such person shall (i) be under any obligation to deliver or procure delivery to the relevant Noteholder or any subsequent beneficial owner of such Note any letter, certificate, notice, circular or any other document or payment whatsoever received by that person in its capacity as the holder of such Note, (ii) be under any obligation to exercise or procure exercise of any or all rights (including voting rights) attaching to such Note during the Intervening Period or (iii) be under any liability to the relevant Noteholder, or any subsequent beneficial owner of such Note in respect of any loss or damage which the relevant Noteholder, or subsequent beneficial owner may sustain or suffer as a result, whether directly or indirectly, of that person being the legal owner of such Notes during such Intervening Period.

Any interest, dividend or other distribution in respect of any Asset Amount will be payable to the party that would receive such interest, dividend or other distribution according to market practice for a sale of the Underlying Equity executed on the Maturity Date and to be delivered in the same manner as the Asset Amount. Any such interest dividend or other distribution to be paid to a Noteholder shall be paid to the account specified in the relevant Asset Transfer Notice.

Where the Asset Amount is, in the determination of the Issuer, an amount other than an amount of Relevant Assets capable of being delivered, the Noteholders will receive an Asset Amount comprising of the nearest number (rounded down) of Relevant Assets capable of being delivered by the Issuer (taking into account that a Noteholder’s entire holding may be aggregated at the Issuer’s sole and absolute discretion for the purpose of delivering the Asset Amounts), and an amount in the Specified Currency which shall be the value of the amount of the Relevant Assets so rounded down, as calculated by the Calculation Agent in its sole and absolute discretion from such source(s) as it may select (converted if necessary into the Specified Currency by reference to such exchange rate as the Calculation Agent deems appropriate). Payment will be made in such manner as shall be notified to the Noteholders in accordance with Condition 18.

For the purposes of this Condition 9(c):

“**Disruption Cash Settlement Price**” means an amount equal to the fair market value of the relevant Note (but not taking into account any interest accrued on such Note as such interest shall be paid pursuant to Conditions 5 and 6) on such day as shall be selected by the Issuer in its sole and absolute discretion provided that such day is not more than 15 days before the date that the Election Notice is given as provided above, adjusted to take account fully for any losses, expenses and costs to the Issuer and/or any Affiliate of the Issuer of unwinding or adjusting any underlying or related hedging arrangements (including but not limited to any options or selling or otherwise realising any Relevant Asset or other instruments of any type whatsoever which the Issuer and/or any of its Affiliates may hold as part of such hedging arrangements), all as calculated by the Calculation Agent in its sole and absolute discretion; and

“**Settlement Disruption Event**” means an event beyond the control of the Issuer, as a result of which, in the opinion of the Calculation Agent, delivery of the Asset Amount by or on behalf of the Issuer in accordance with these Terms and Conditions and/or the applicable Final Terms is not practicable.

(d) *Failure to Deliver due to Illiquidity*

If Failure to Deliver due to Illiquidity is specified as applying in the applicable Final Terms and, in the opinion of the Calculation Agent, it is impossible or impracticable to deliver, when due, some or all of the Relevant Assets comprising the Asset Amount (the “**Affected Relevant Assets**”), where such failure to deliver is due to illiquidity in the market for the Relevant Assets (a “**Failure to Deliver**”), then:

- (a) subject as provided elsewhere in these Terms and Conditions and/or the applicable Final Terms, any Relevant Assets which are not Affected Relevant Assets, will be delivered on the originally designated Delivery Date in accordance with Condition 9(c); and
- (b) in respect of any Affected Relevant Assets, in lieu of physical settlement and notwithstanding any other provision hereof, the Issuer may elect in its sole discretion, in lieu of delivery of the Affected Relevant Assets, to pay to the relevant Noteholder the Failure to Deliver Settlement Price (as defined below) on the fifth Business Day following the date the Failure to Deliver Notice (as defined below) is given to the Noteholders in accordance with Condition 18. Payment of the Failure to Deliver Settlement Price will be made in such manner as shall be notified to the Noteholders in accordance with Condition 18. The Issuer shall give notice (such notice a “**Failure to Deliver Notice**”) as soon as reasonably practicable to the Noteholders in accordance with Condition 18 that the provisions of this Condition 9(d) apply.

In these Terms and Conditions:

“**Affiliate**” means in relation to any entity (the “**First Entity**”), any entity controlled, directly or indirectly, by the First Entity, any entity that controls, directly or indirectly, the First Entity or any entity directly or indirectly under common control with the First Entity. For these purposes “**control**” means ownership of a majority of the voting power of an entity.

“**Failure to Deliver Settlement Price**” means, in respect of each nominal amount of the Notes equal to the Calculation Amount, the fair market value of the Affected Relevant Assets on the fifth Business Day prior to the date on which the Failure to Deliver Notice is given as provided above, less the proportionate cost to the Issuer and/or its Affiliates of unwinding or adjusting any underlying or related hedging arrangements in respect of the Notes, all as calculated by the Calculation Agent in its sole and absolute discretion.

(e) *Definitions applicable to Equity Linked Notes*

For the purposes of this Condition 9:

“**Disrupted Day**” means any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred.

“**Equity Issuer**” means, in relation to an Underlying Equity, the issuer of such Underlying Equity.

“**Exchange**” means, in respect of an Underlying Equity, each exchange or quotation system specified as such for such Underlying Equity in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the Underlying Equity has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to such Underlying Equity on such temporary substitute exchange or quotation system as on the original Exchange).

“**Exchange Business Day**” means any Scheduled Trading Day on which each Exchange and each Related Exchange are open for trading during their respective regular trading

sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

“Market Disruption Event” means, in respect of an Underlying Equity:

- (a) the occurrence or existence at any time during the one hour period that ends at the relevant Valuation Time of:
 - (i) any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise:
 - (A) relating to the Underlying Equity on the Exchange; or
 - (B) in futures or options contracts relating to the Underlying Equity on any relevant Related Exchange; or
 - (ii) any event (other than an event described in (b) below) that disrupts or impairs (as determined by the Calculation Agent) the ability of market participants in general (A) to effect transactions in, or obtain market values for, the Underlying Equities on the Exchange, or (B) to effect transactions in, or obtain market values for, futures or options contracts relating to the relevant Underlying Equity on any relevant Related Exchange,

which in either case the Calculation Agent determines is material; or

- (b) the closure on any Exchange Business Day of any relevant Exchange(s) or Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or such Related Exchange(s), as the case may be, at least one hour prior to (A) the actual closing time for the regular trading session on such Exchange(s) or such Related Exchange(s) on such Exchange Business Day or if earlier (B) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day.

“Redemption Amount” means, in relation to an Equity Linked Redemption Note, the Redemption Amount specified in the applicable Final Terms or, if no such amount is specified in the applicable Final Terms, an amount calculated by the Calculation Agent equal to:

- (i) in the case of a call Equity Linked Redemption Note:
 - (a) if the Reference Price, in relation to the Valuation Date specified for such Equity Linked Redemption Note in the applicable Final Terms, is greater than the Strike Price:
$$\frac{\text{Reference Price}}{\text{Strike Price}} \times \text{Specified Amount}; \text{ or}$$
 - (b) if the Reference Price, in relation to the Valuation Date specified for such Equity Linked Redemption Note in the applicable Final Terms, is equal to or less than the Strike Price:
$$100 \text{ per cent.} \times \text{Specified Amount}; \text{ or}$$
- (ii) in the case of a put Equity Linked Redemption Note
 - (a) if the Reference Price, in relation to the Valuation Date specified for such Equity Linked Redemption Note in the applicable Final Terms, is less than the Strike Price:

$$\left(1 + \frac{\text{Strike Price} - \text{Reference Price}}{\text{Strike Price}}\right) \times \text{Specified Amount}; \text{ or}$$

- (b) if the Reference Price, in relation to the Valuation Date specified for such Equity Linked Redemption Note in the applicable Final Terms, is equal to or greater than the Strike Price:

100 per cent. x Specified Amount,

provided always that the Redemption Amount shall in no event be less than zero. The Redemption Amount will be rounded to the nearest two decimal places (or, in the case of Japanese Yen, the nearest whole unit) in the Specified Currency, 0.005 (or, in the case of Japanese Yen, half of one unit) being rounded upwards.

“Reference Price” means, in relation to a Valuation Date:

- (A) where the Notes are specified in the applicable Final Terms to relate to a single Underlying Equity, an amount equal to the official closing price on that Valuation Date (or, if so specified in the applicable Final Terms the price at the Valuation Time on that Valuation Date) of the Underlying Equity quoted on the Exchange without regard to any subsequently published correction as determined by the Calculation Agent (or if, in the opinion of the Calculation Agent, no such price (or, as the case may be, no such official closing price) can be determined at such time and, if either Disrupted Day is specified as applying in the applicable Final Terms and that Valuation Date is not a Disrupted Day or if Disrupted Day is specified as not applying in the applicable Final Terms, an amount determined by the Calculation Agent to be equal to the arithmetic mean of the fair market buying price at the Valuation Time on that Valuation Date and the fair market selling price at the Valuation Time on that Valuation Date for the Underlying Equity based, at the Calculation Agent’s discretion, either on the arithmetic mean of the foregoing prices or the middle market quotations provided to it by two or more financial institutions (as selected by the Calculation Agent) engaged in the trading of the Underlying Equity or on such other factors as the Calculation Agent shall decide). The amount determined pursuant to the foregoing shall be converted, if Exchange Rate is specified as applying in the applicable Final Terms, into the Specified Currency at the Exchange Rate and such converted amount shall be the Reference Price; and
- (B) where the Notes are specified in the applicable Final Terms to relate to a Basket of Underlying Equities, an amount equal to the sum of the values calculated for each Underlying Equity as the official closing price on that Valuation Date (or, if so specified in the applicable Final Terms, the price at the Valuation Time on that Valuation Date) of the Underlying Equity quoted on the relevant Exchange without regard to any subsequently published correction as determined by the Calculation Agent (or if, in the opinion of the Calculation Agent, no such price (or, as the case may be, any such official closing price) can be determined at such time and, if Disrupted Day is specified as applying in the applicable Final Terms, and that Valuation Date is not a Disrupted Day or if Disrupted Day is specified as not applying in the applicable Final Terms, an amount determined by the Calculation Agent to be equal to the arithmetic mean of the fair market buying price at the Valuation Time (or, as the case may be, of the closing fair market buying price) on that Valuation Date and the fair market selling price at the Valuation Time (or, as the case may be, of the closing fair market selling price) on that Valuation Date for the Underlying Equity based, at the Calculation Agent’s discretion, either on the arithmetic mean of the foregoing prices or the middle market quotations provided to it by two or more financial institutions (as selected by the Calculation Agent) engaged in the trading of the Underlying Equity or on such other factors as the Calculation Agent shall decide), multiplied by the Multiplier specified in the applicable Final Terms. Each value determined pursuant to the foregoing shall be converted, if

Exchange Rate is specified as applying in the applicable Final Terms, into the Specified Currency at the Exchange Rate and the sum of such converted amounts shall be the Reference Price.

“Related Exchange” means, in relation to an Underlying Equity, each exchange or quotation system specified as such in relation to such Underlying Equity in the applicable Final Terms, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to such Underlying Equity has temporarily relocated (provided that the Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Underlying Equity on such temporary substitute exchange or quotation system as on the original Related Exchange), Provided That where “All Exchanges” is specified as the Related Exchange in the applicable Final Terms, **“Related Exchange”** shall mean each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or options contracts relating to such Underlying Equity.

“Scheduled Closing Time” means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours.

“Scheduled Trading Day” means any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions.

“Scheduled Valuation Date” means, in relation to a Valuation Date, any original date that, but for the occurrence of an event causing a Disrupted Day, would have been that Valuation Date.

“Strike Price” means the amount specified as such in the applicable Final Terms.

“Underlying Equities” and **“Underlying Equity”** mean the equity securities or equity security specified as such in the applicable Final Terms and related expressions shall be construed accordingly.

“Valuation Date” means the date or, in the case of Equity Linked Interest Notes, each date specified as such in the applicable Final Terms or, if any such date is not a Scheduled Trading Day, the next following Scheduled Trading Day unless in the opinion of the Calculation Agent, such day is a Disrupted Day. If such day is a Disrupted Day:

- (a) where the Notes are specified in the applicable Final Terms to relate to a single Underlying Equity, that Valuation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day. In that case (i) the eighth Scheduled Trading Day shall be deemed to be that Valuation Date, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Calculation Agent shall, where practicable, determine the Reference Price in the manner set out in the applicable Final Terms or, if not set out or not so practicable, determine the Reference Price in accordance with its good faith estimate of the Reference Price as of the Valuation Time on that eighth Scheduled Trading Day; or
- (b) where the Notes are specified in the applicable Final Terms to relate to a Basket of Underlying Equities, that Valuation Date for each Underlying Equity not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date and that Valuation Date for each Underlying Equity affected (each an **“Affected Equity”**) by the occurrence of a Disrupted Day shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to the Affected Equity unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a

Disrupted Day relating to the Affected Equity. In that case (i) that eighth Scheduled Trading Day shall be deemed to be that Valuation Date for the Affected Equity, notwithstanding the fact that such day is a Disrupted Day, and (ii) the Calculation Agent shall, where practicable, determine the Reference Price using, in relation to the Affected Equity, a price determined in the manner set out in the applicable Final Terms or, if not set out or if not so practicable, using its good faith estimate of the value for the Affected Equity as of the Valuation Time on that eighth Scheduled Trading Day and otherwise in accordance with the above provisions.

“Valuation Time” means the Valuation Time specified in the applicable Final Terms or, if no Valuation Time is specified, the Scheduled Closing Time on the relevant Exchange on the relevant Valuation Date in relation to each Underlying Equity to be valued. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

10. ADDITIONAL DISRUPTION EVENTS (*applicable to Equity Linked Notes only*)

(a) *Additional Disruption Event*

If the Notes are Equity Linked Notes and Additional Disruption Events are specified as applicable in the applicable Final Terms, then if an Additional Disruption Event occurs, the Issuer in its sole and absolute discretion may take the action described in (A) or (B) below:

- (i) require the Calculation Agent to determine in its sole and absolute discretion the appropriate adjustment, if any, to be made to any one or more of the relevant Interest Amount and/or the Redemption Amount and/or the Asset Amount and/or the Strike Price and/or the Multiplier and/or any of the other terms of these Terms and Conditions and/or the applicable Final Terms to account for the Additional Disruption Event and determine the effective date of that adjustment; or
- (ii) give notice to the Noteholders in accordance with Condition 18 and redeem all, but not some only, of the Notes, each nominal amount of Notes equal to the Calculation Amount being redeemed at the Early Redemption Amount.

Upon the occurrence of an Additional Disruption Event, the Issuer shall give notice as soon as practicable to the Noteholders in accordance with Condition 18 stating the occurrence of the Additional Disruption Event, as the case may be, giving details thereof and the action proposed to be taken in relation thereto.

(b) *Definitions applicable to Additional Disruption Events*

“Additional Disruption Event” means any of Change in Law, Hedging Disruption, Increased Cost of Hedging, Increased Cost of Stock Borrow, Insolvency Filing (applicable only for Equity Linked Redemption Notes) and/or Loss of Stock Borrow, in each case if specified in the applicable Final Terms.

“Change in Law” means that, on or after the Trade Date (as specified in the applicable Final Terms) (A) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (B) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Calculation Agent determines in its sole and absolute discretion that (X) it has become illegal to hold, acquire or dispose of any relevant Underlying Equity or (Y) it will incur a materially increased cost in performing its obligations in relation to the Notes (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on the tax position of the Issuer and/or any of its Affiliates).

“Hedging Disruption” means that the Issuer and/or any of its Affiliates is unable, after using commercially reasonable efforts, to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the equity or other price risk of the Issuer issuing and performing its obligations with respect to the Notes, or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s).

“Hedging Shares” means the number of Underlying Equities that the Calculation Agent deems necessary to hedge the equity or other price risk of entering into and performing its obligations with respect to the Notes.

“Increased Cost of Hedging” means that the Issuer and/or any of its Affiliates would incur a materially increased (as compared with circumstances existing on the Trade Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the equity or other price risk of the Issuer issuing and performing its obligations with respect to the Notes, or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer and/or any of its Affiliates shall not be deemed an Increased Cost of Hedging.

“Increased Cost of Stock Borrow” means that the Issuer and/or any of its Affiliates would incur a rate to borrow any Underlying Equity that is greater than the Initial Stock Loan Rate.

“Initial Stock Loan Rate” means, in respect of an Underlying Equity the Initial Stock Loan Rate specified in relation to such Underlying Equity, security or commodity in the applicable Final Terms.

“Insolvency Filing” means that an Equity Issuer institutes or has instituted against it by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, or it consents to a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official or it consents to such a petition, provided that proceedings instituted or petitions presented by creditors and not consented to by the Equity Issuer shall not be deemed an Insolvency Filing.

“Loss of Stock Borrow” means that the Issuer and/or any Affiliate is unable, after using commercially reasonable efforts, to borrow (or maintain a borrowing of) any Underlying Equity in an amount equal to the Hedging Shares at a rate equal to or less than the Maximum Stock Loan Rate.

“Maximum Stock Loan Rate” means, in respect of an Underlying Equity, the Maximum Stock Loan Rate specified in the applicable Final Terms.

11. CREDIT LINKED NOTES

If the Notes are specified as Credit Linked Notes in the applicable Final Terms then the provisions of this Condition 11 apply as modified by the applicable Final Terms.

(a) Redemption of Credit Linked Notes

Unless previously redeemed or purchased and cancelled and subject to Conditions to Settlement being satisfied during the Notice Delivery Period, each nominal amount of Notes equal to the Calculation Amount set out in the applicable Final Terms will be redeemed by the Issuer at its Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

If Conditions to Settlement are satisfied during the Notice Delivery Period then (i) if Cash Settlement is specified in the applicable Final Terms, the provisions of Condition 11(b) shall apply or (ii) if Physical Delivery is specified in the applicable Final Terms, the provisions of Condition 11(c) shall apply.

(b) *Cash Settlement*

If Cash Settlement is specified in the applicable Final Terms and Conditions to Settlement are satisfied during the Notice Delivery Period (such date of satisfaction, the “**Credit Event Determination Date**”), the Issuer shall give notice (such notice a “**Settlement Notice**”) to the Noteholders in accordance with Condition 18 and redeem all but not some only of the Notes, each nominal amount of Notes equal to the Calculation Amount set out in the applicable Final Terms being redeemed by the Issuer at the Credit Event Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Credit Event Redemption Date.

If Conditions to Settlement are satisfied and the Notes become redeemable in accordance with this Condition 11(b), upon payment of the Credit Event Redemption Amounts in respect of the Notes the Issuer shall have discharged its obligations in respect of the Notes and shall have no other liability or obligation whatsoever in respect thereof. The Credit Event Redemption Amount may be less than the Calculation Amount of a Note. Any shortfall shall be borne by the Noteholders and no liability shall attach to the Issuer.

(c) *Physical Settlement*

If Physical Delivery is specified in the applicable Final Terms and Conditions to Settlement are satisfied during the Notice Delivery Period (such date of satisfaction, the “**Credit Event Determination Date**”), the Issuer shall give notice (such notice a “**Notice of Physical Settlement**”) to the Noteholders in accordance with Condition 18 and redeem all but not some only of the Notes, each nominal amount of Notes equal to the Calculation Amount set out in the applicable Final Terms being redeemed by the Issuer by Delivery of the Deliverable Obligations comprising the Asset Amount, subject to and in accordance with Conditions 11(g) and (h).

In the Notice of Physical Settlement, the Issuer shall specify the Deliverable Obligations comprising the Asset Amount that it reasonably expects to Deliver. For the avoidance of doubt, the Issuer shall be entitled to select any of the Deliverable Obligations to constitute the Asset Amount, irrespective of their market value.

If “Restructuring Maturity Limitation and Fully Transferable Obligation” is specified as applying in the applicable Final Terms and Restructuring is the only Credit Event specified in a Credit Event Notice, then a Deliverable Obligation may be included in the Asset Amount only if it (i) is a Fully Transferable Obligation and (ii) has a final maturity date not later than the Restructuring Maturity Limitation Date.

If “Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable” is specified as applying in the applicable Final Terms and Restructuring is the only Credit Event specified in a Credit Event Notice, then a Deliverable Obligation may be included in the Asset Amount only if it (i) is a Conditionally Transferable Obligation and (ii) has a final maturity date not later than the applicable Modified Restructuring Maturity Limitation Date.

If Conditions to Settlement are satisfied and the Notes become redeemable in accordance with this Condition 11(c), upon Delivery of the Deliverable Obligations Deliverable and/or payment of the Cash Settlement Amounts, as the case may be, the Issuer shall have discharged its obligations in respect of the Notes and shall have no

other liability or obligation whatsoever in respect thereof. The value of such Deliverable Obligations and/or the Cash Settlement Amount may be less than the Specified Denomination of a Note. Any shortfall shall be borne by the Noteholders and no liability shall attach to the Issuer.

(d) *Repudiation/Moratorium Extension*

Where Repudiation/Moratorium is specified as a Credit Event in the applicable Final Terms, the provisions of this Condition 11(d) shall apply.

Where Conditions to Settlement have not been satisfied on or prior to the Scheduled Termination Date but the Repudiation/Moratorium Extension Condition has been satisfied on or prior to the Scheduled Termination Date or, if Condition 11(f)(y) applies, the Postponed Maturity Date and the Repudiation/Moratorium Evaluation Date in respect of such Potential Repudiation/Moratorium will, in the sole determination of the Calculation Agent, fall after the Scheduled Termination Date, then the Calculation Agent shall notify the Noteholders in accordance with Condition 18 that a Potential Repudiation/Moratorium has occurred and:

- (i) where a Repudiation/Moratorium has not occurred on or prior to the Repudiation/Moratorium Evaluation Date:
 - (A) each nominal amount of Notes equal to the Calculation Amount will be redeemed by the Issuer at the Redemption Amount on the fifth Business Day following the Repudiation/Moratorium Evaluation Date; and
 - (B) in the case of interest bearing Notes, the Issuer shall be obliged to pay interest calculated as provided herein, accruing from (and including) the Interest Payment Date immediately preceding the Scheduled Termination Date or, if none, the Interest Commencement Date to (but excluding) the Scheduled Maturity Date but shall only be obliged to make such payment of interest on the fifth Business Day following the Repudiation/Moratorium Evaluation Date and no further or other amount in respect of interest shall be payable and no additional amount shall be payable in respect of such delay; and
- (ii) where a Repudiation/Moratorium has occurred on or prior to the Repudiation/Moratorium Evaluation Date and Conditions to Settlement are satisfied in the Notice Delivery Period, the provisions of Condition 11(b) or Condition 11(c), as applicable, shall apply to the Notes.

The Luxembourg Stock Exchange will be notified in respect of any such postponement of the Maturity Date pursuant to this Condition 11(d).

(e) *Grace Period Extension*

If “Grace Period Extension” is specified as applying in the applicable Final Terms, the provisions of this Condition 11(e) shall apply.

Where Conditions to Settlement have not been satisfied on or prior to the Scheduled Termination Date but a Potential Failure to Pay has occurred with respect to one or more Obligation(s) in respect of which a Grace Period is applicable on or prior to the Scheduled Termination Date (and such Grace Period(s) is/are continuing as at the Scheduled Termination Date), then:

- (i) where a Failure to Pay has not occurred on or prior to the Grace Period Extension Date:

- (A) each nominal amount of Notes equal to the Calculation Amount will be redeemed by the Issuer at the Redemption Amount on the fifth Business Day following the Grace Period Extension Date; and
- (B) in the case of interest bearing Notes, the Issuer shall be obliged to pay interest calculated as provided herein, accruing from (and including) the Interest Payment Date immediately preceding the Scheduled Termination Date or, if none, the Interest Commencement Date to (but excluding) the Scheduled Maturity Date but shall only be obliged to make such payment of interest on the fifth Business Day following the Grace Period Extension Date and no further or other amount in respect of interest shall be payable and no additional amount shall be payable in respect of such delay; and
- (ii) where a Failure to Pay has occurred on or prior to the Grace Period Extension Date and Conditions to Settlement are satisfied in the Notice Delivery Period, the provisions of Condition 11(b) or Condition 11(c), as applicable, shall apply to the Notes.

The Luxembourg Stock Exchange will be notified in respect of such postponement of the Maturity Date pursuant to this Condition 11(e).

(f) *Maturity Date Extension*

If:

- (x) on (A) the Scheduled Termination Date or, (B), if applicable, the Repudiation/Moratorium Evaluation Date, or (C) if Grace Period Extension is specified as applying in the applicable Final Terms, the Grace Period Extension Date, as the case may be, Conditions to Settlement have not been satisfied but, in the opinion of the Calculation Agent, a Credit Event may have occurred; or
- (y) on the Scheduled Termination Date, in the opinion of the Calculation Agent, a Potential Repudiation/Moratorium may have occurred,

the Calculation Agent may notify the Noteholders in accordance with Condition 18 that the Scheduled Maturity Date, the Repudiation/Moratorium Evaluation Date or the Grace Period Extension Date, as the case may be, has been postponed to a date (such date the "**Postponed Maturity Date**") specified in such notice falling 14 calendar days after the Scheduled Termination Date, the Repudiation/Moratorium Evaluation Date or the Grace Period Extension Date, as the case may be, and

where:

- (i) in the case of Condition 11(f)(x), Conditions to Settlement are not satisfied on or prior to the Postponed Maturity Date or, in the case of Condition 11(f)(y), the Repudiation/Moratorium Extension Condition is not satisfied on or prior to the Postponed Maturity Date:
 - (A) subject as provided below, each nominal amount of Notes equal to the Calculation Amount will be redeemed by the Issuer at the Redemption Amount on the fifth Business Day following the Postponed Maturity Date; and
 - (B) in the case of interest bearing Notes, the Issuer shall be obliged to pay interest calculated as provided herein accruing from (and including) the Interest Payment Date immediately preceding the Scheduled Termination Date or, if none, the Interest Commencement Date to (but excluding) the Scheduled Maturity Date but shall only be obliged to make such payment of interest on the fifth Business Day following the Postponed Maturity Date and no further or other

amount in respect of interest shall be payable and no additional amount shall be payable in respect of such delay; or

(ii) where:

- (A) in the case of Condition 11(f)(x), Conditions to Settlement are satisfied on or prior to the Postponed Maturity Date, the provisions of Condition 11(b) or 11(c) as applicable shall apply to the Notes; or
- (B) in the case of Condition 11(f)(y), the Repudiation/Moratorium Extension Condition is satisfied on or prior to the Postponed Maturity Date, the provisions of Condition 11(d) shall apply to the Notes.

The Luxembourg Stock Exchange will be notified in respect of any such postponement of the Maturity Date pursuant to this Condition 11(f).

(g) *Physical Delivery*

- (i) If any Note is to be redeemed by delivery of the Asset Amount(s), in order to obtain delivery of such Asset Amount(s):
 - (A) if such Note is represented by a Global Note, the relevant Noteholder must deliver to Euroclear or Clearstream, Luxembourg (as applicable), with a copy to the Issuer not later than the close of business in each place of reception on the Cut-Off Date, a duly completed Asset Transfer Notice; and
 - (B) if such Note is in definitive form, the relevant Noteholder must deliver this Note to any Paying Agent with a copy to the Issuer not later than the close of business in each place of reception on the Cut-Off Date, together with a duly completed Asset Transfer Notice.

Forms of the Asset Transfer Notice may be obtained during normal business hours from the specified office of any Paying Agent.

An Asset Transfer Notice may only be delivered (i) if such Note is represented by a Global Note, in such manner as is acceptable to Euroclear or Clearstream, Luxembourg, as the case may be, or if such Note is in definitive form, in writing or by authenticated SWIFT message.

If this Note is in definitive form, this Note must be delivered together with the duly completed Asset Transfer Notice.

An Asset Transfer Notice must:

- (1) specify the name and address of the relevant Noteholder, the person from whom the Issuer may obtain details for the delivery of the Asset Amount and any details required for delivery of the Asset Amount set out in the applicable Final Terms;
- (2) in the case of Notes represented by a Global Note, specify the nominal amount of Notes which are the subject of such notice and the number of the Noteholder's account at Euroclear or Clearstream, Luxembourg, as the case may be, to be debited with such Notes and irrevocably instruct and authorise Euroclear or Clearstream, Luxembourg, as the case may be, to debit the relevant Noteholder's account with such Notes on or before the Settlement Date;
- (3) include an undertaking to pay all Delivery Expenses and, in the case of Notes represented by a Global Note, an authority to debit a specified account of the

Noteholder at Euroclear or Clearstream, Luxembourg, as the case may be, in respect thereof and to pay such Delivery Expenses;

- (4) specify an account to which any amounts payable pursuant to Condition 11(h) or any other cash amounts specified in the applicable Final Terms as being payable are to be paid; and
- (5) authorise the production of such notice in any applicable administrative or legal proceedings.

No Asset Transfer Notice may be withdrawn after receipt thereof by Euroclear or Clearstream, Luxembourg or a Paying Agent, as the case may be, as provided above. After delivery of an Asset Transfer Notice, the relevant Noteholder may not transfer the Notes which are the subject of such notice.

In the case of Notes represented by a Global Note, upon receipt of such notice, Euroclear or Clearstream, Luxembourg, as the case may be, shall verify that the person specified therein as the Noteholder is the holder of the specified nominal amount of Notes according to its books.

Failure properly to complete and deliver an Asset Transfer Notice properly may result in such notice being treated as null and void. Any determination as to whether such notice has been properly completed and delivered properly as provided in these Terms and Conditions shall be made, in the case of Notes represented by a Global Note, by Euroclear or Clearstream, Luxembourg, as the case may be, after consultation with the Issuer and shall be conclusive and binding on the Issuer and the relevant Noteholder and, in the case of Notes in definitive form, by the relevant Paying Agent after consultation with the Issuer as applicable, and shall be conclusive and binding on the Issuer and the relevant Noteholder.

Delivery of the Asset Amount(s) in respect of each Note shall be made at the risk of the relevant Noteholder in such commercially reasonable manner as the Calculation Agent shall in its sole discretion determine and notify to the person designated by the Noteholder in the relevant Asset Transfer Notice or in such manner as is specified in the applicable Final Terms.

If a Noteholder fails to give an Asset Transfer Notice as provided herein on or prior to the Cut-Off Date specified in the applicable Final Terms, the Issuer will, subject as provided above, deliver the Deliverable Obligations constituting the Asset Amount in respect of the relevant Notes as soon as practicable after the receipt of the duly completed Asset Transfer Notice, provided that if, in respect of a Note, a Noteholder fails to give an Asset Transfer Notice prior to the day falling 180 calendar days after the Cut-Off Date, the obligations of the Issuer in respect of such Notes shall be discharged and the Issuer shall not have any liability in respect thereof.

- (ii) All Delivery Expenses arising from the delivery of the Asset Amount in respect of any Notes shall be for the account of the relevant Noteholder and no delivery of any Asset Amount shall be made until all Delivery Expenses have been paid to the satisfaction of the Issuer by the relevant Noteholder.

After delivery of an Asset Amount in respect of a Note and for the Intervening Period, none of the Issuer, the Calculation Agent and any other person shall at any time (i) be under any obligation to deliver or procure delivery to any Noteholder any letter, certificate, notice, circular or any other document or, except as provided herein, payment whatsoever received by that person in respect of the securities or obligations included in such Asset Amount, (ii) be under any obligation to exercise or procure the exercise of any or all rights attaching to such securities or obligations included in such Asset Amount or (iii) be under any liability to a Noteholder in respect of any loss or

damage which such Noteholder may sustain or suffer as a result, whether directly or indirectly, of that person being registered during such Intervening Period as legal owner of such securities or obligations included in such Asset Amount.

- (iii) In relation to each Deliverable Obligation constituting any Asset Amount, the Issuer will Deliver or procure the Delivery of the relevant Deliverable Obligation as provided below on the Settlement Date Provided That if all or some of the Deliverable Obligations included in the Asset Amount in respect of a Note are Undeliverable Obligations and/or Hedge Disruption Obligations, then the Issuer shall continue to attempt to Deliver all or a portion of such Undeliverable Obligations or Hedge Disruption Obligations, as the case may be, on or before the 30th Business Day following the Settlement Date (the “**Final Delivery Date**”),

Provided Further That if all or a portion of such Undeliverable Obligations or Hedge Disruption Obligations, as the case may be, are not Delivered by the Final Delivery Date the provisions of Condition 11(h) shall apply.

(h) *Partial Cash Settlement*

If all or a portion of the Undeliverable Obligations or Hedge Disruption Obligations comprising the Asset Amount in respect of a Note are not Delivered by the Final Delivery Date, the Issuer shall give notice (a “**Cash Settlement Notice**”) to the Noteholders in accordance with Condition 18 and the Issuer shall pay in respect of each Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, the Cash Settlement Amount on the Cash Settlement Date.

In the Cash Settlement Notice, the Issuer must give details of why it is unable to deliver the relevant Undeliverable Obligations or Hedge Disruption Obligation, as the case may be.

Unless otherwise specified in the applicable Final Terms, for the purposes of this Condition 11(h) the following terms shall be defined as follows:

“**Cash Settlement Amount**” is deemed to be, for each Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, an amount calculated by the Calculation Agent equal to the greater of (i) (A) the Outstanding Principal Balance, the Due and Payable Amount or the Currency Amount, as applicable, of each Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, multiplied by (B) the Final Price with respect to such Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, less if applicable (C) Unwind Costs, if any (but excluding any Unwind Costs already taken into account in calculating the relevant Asset Amount), and (ii) zero.

“**Cash Settlement Date**” is deemed to be the date falling three Business Days after the calculation of the Final Price.

“**Indicative Quotation**” means, in accordance with the Quotation Method, each quotation obtained from a Quotation Dealer at the Valuation Time for (to the extent reasonably practicable) an amount of the Undeliverable Obligation or Hedge Disruption Obligations, as the case may be, equal to the Quotation Amount, which reflects such Quotation Dealer’s reasonable assessment of the price of such Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, based on such factors as such Quotation Dealer may consider relevant, which may include historical prices and recovery rates.

“**Market Value**” means, with respect to an Undeliverable Obligation or Hedge Disruption Obligation, as the case may be, on a Valuation Date, (i) if more than three Full Quotations are obtained, the arithmetic mean of such Full Quotations, disregarding the Full Quotations having the same highest and lowest values (and, if more than one such Full Quotation has the same highest or lowest value, then one of such highest or lowest Full Quotations shall be disregarded); (ii) if exactly three Full Quotations are obtained, the Full Quotation

remaining after disregarding the highest and lowest Full Quotations (and, if more than one such Full Quotation has the same highest value or lowest value, then one of such highest or lowest Full Quotations shall be disregarded); (iii) if exactly two Full Quotations are obtained, the arithmetic mean of such Full Quotations; (iv) if fewer than two Full Quotations are obtained and a Weighted Average Quotation is obtained, such Weighted Average Quotation; (v) if Indicative Quotations are specified as applying in the applicable Final Terms and exactly three Indicative Quotations are obtained, the Indicative Quotation remaining after disregarding the highest and lowest Indicative Quotations (and, if more than one such Indicative Quotation has the same highest or lowest value, then one of such highest or lowest Indicative Quotations shall be disregarded); (vi) if fewer than two Full Quotations are obtained and no Weighted Average Quotation is obtained (and, if Indicative Quotations are applicable, fewer than three Indicative Quotations are obtained) then, subject to paragraph (ii) of the definition of “Quotation” below, an amount as determined by the Calculation Agent on the next Business Day on which at least two Full Quotations or a Weighted Average Quotation or, if applicable, three Indicative Quotations are obtained; and (vii) if the Quotations are deemed to be zero, the Market Value shall be zero.

“Quotation” means each Full Quotation, the Weighted Average Quotation and, if Indicative Quotations are specified as applying in the applicable Final Terms, each Indicative Quotation obtained and expressed as a percentage with respect to a Valuation Date in the manner that follows:

- (i) The Calculation Agent shall attempt to obtain Full Quotations with respect to each Valuation Date from five or more Quotation Dealers. If the Calculation Agent is unable to obtain two or more such Full Quotations on the same Business Day within three Business Days of a Valuation Date, then on the next following Business Day (and, if necessary, on each Business Day thereafter until the tenth Business Day following the relevant Valuation Date) the Calculation Agent shall attempt to obtain Full Quotations from five or more Quotation Dealers, and, if two or more Full Quotations are not available, a Weighted Average Quotation. If two or more such Full Quotations or a Weighted Average Quotation are not available on any such Business Day and Indicative Quotations are specified as applying in the applicable Final Terms, the Calculation Agent shall attempt to obtain three Indicative Quotations from five or more Quotation Dealers.
- (ii) If the Calculation Agent is unable to obtain two or more Full Quotations or a Weighted Average Quotation (or, if Indicative Quotations are specified as applying in the applicable Final Terms, three Indicative Quotations) on the same Business Day on or prior to the tenth Business Day following the Valuation Date, the Quotations shall be deemed to be any Full Quotation obtained from a Quotation Dealer at the Valuation Time on such tenth Business Day of, if no Full Quotation is obtained, the weighted average of any firm quotations (or, if applicable, Indicative Quotations) for the Undeliverable Obligation or the Hedge Disruption Obligation, as the case may be, obtained from Quotation Dealers at the Valuation Time on such tenth Business Day with respect to the aggregate portion of the Quotation Amount for which such quotations were obtained and a quotation deemed to be zero for the balance of the Quotation Amount for which firm quotations (or, if applicable, Indicative Quotations) were not obtained on such day.
- (iii) The Calculation Agent shall determine, based on the then current market practice in the market of the relevant Undeliverable Obligation or Hedge Disruption Obligations, as the case may be, whether such Quotations shall include or exclude accrued but unpaid interest. All Quotations shall be obtained in accordance with this specification or determination.

- (iv) If any Quotation obtained with respect to an Accreting Obligation is expressed as a percentage of the amount payable in respect of such obligation at maturity, such Quotation will instead be expressed as a percentage of the Outstanding Principal Balance for the purposes of determining the Final Price.

“Quotation Amount” is deemed to be, with respect to each type or issue of Undeliverable Obligation or Hedge Disruption Obligations, as the case may be, an amount equal to the Outstanding Principal Balance or Due and Payable Amount (or, in either case, its equivalent in the relevant Obligation Currency converted by the Calculation Agent in a commercially reasonable manner by reference to exchange rates in effect at the time that the relevant Quotation is being obtained), as applicable, of such Undeliverable Obligation or Hedge Disruption Obligations, as the case may be.

“Quotation Method” is deemed to be Bid.

“Reference Obligation” is deemed to be each Undeliverable Obligation or Hedge Disruption Obligation, as the case may be.

“Valuation Method” is deemed to be Highest unless fewer than two Full Quotations are obtained or a Weighted Average Quotation applies (or, if applicable, Indicative Quotations), in which case “Valuation Method” is deemed to be Market.

“Valuation Time” is the time specified as such in the applicable Final Terms, or, if no time is so specified, 11:00 a.m. in the principal trading market for the Undeliverable Obligation or the Hedge Disruption Obligation, as the case may be.

“Weighted Average Quotation” means, in accordance with the Quotation Method, the weighted average of firm quotations obtained from Quotation Dealers at the Valuation Time, to the extent reasonably practicable, each for an amount of the Undeliverable Obligation or the Hedge Disruption Obligation, as the case may be, with an Outstanding Principal Balance of as large a size as available but less than the Quotation Amount that in aggregate are approximately equal to the Quotation Amount.

(i) *Redemption following a Merger Event*

If “Merger Event” is specified as applying in the applicable Final Terms, in the event that in the determination of the Calculation Agent a Merger Event has occurred, the Issuer may give notice to the Noteholders in accordance with Condition 18 and redeem each Note at the Early Redemption Amount on the Merger Event Redemption Date.

(j) *Definitions applicable to Credit Linked Notes*

“Accreted Amount” means, with respect to an Accreting Obligation, an amount equal to (a) the sum of (i) the original issue price of such obligation and (ii) the portion of the amount payable at maturity that has accreted in accordance with the terms of the obligation (or as otherwise described below), less (b) any cash payments made by the obligor thereunder that, under the terms of such obligation, reduce the amount payable at maturity (unless such cash payments have been accounted for in (a)(ii) above), in each case calculated as of the earlier of (A) the date on which any event occurs that has the effect of fixing the amount of a claim in respect of principal and (B) the Delivery Date or applicable Valuation Date, as the case may be. Such Accreted Amount shall include any accrued and unpaid periodic cash interest payments (as determined by the Calculation Agent in its sole and absolute discretion) only if “Include Accrued Interest” is specified as being applicable in the applicable Final Terms. If an Accreting Obligation is expressed to accrete pursuant to a straight-line method or if such Obligation’s yield to maturity is not specified in, nor implied from, the terms of such Obligation, then, for the purposes of (a)(ii) above, the Accreted Amount shall be calculated using a rate equal to the yield to maturity of such Obligation. Such yield shall be

determined on a semi-annual bond equivalent basis using the original issue price of such obligation and the amount payable at the scheduled maturity of such obligation, and shall be determined as of the earlier of (A) the date on which any event occurs that has the effect of fixing the amount of a claim in respect of principal and (B) the Delivery Date or applicable Valuation Date, as the case may be. The Accreted Amount shall exclude, in the case of an Exchangeable Obligation, any amount that may be payable under the terms of such obligation in respect of the value of the Equity Securities for which such obligation is exchangeable.

“Accreting Obligation” means any obligation (including, without limitation, a Convertible Obligation or an Exchangeable Obligation), the terms of which expressly provide for an amount payable upon acceleration equal to the original issue price (whether or not equal to the face amount thereof) plus an additional amount or amounts (on account of original issue discount or other accruals of interest or principal not payable on a periodic basis) that will or may accrete, whether or not (a) payment of such additional amounts is subject to a contingency or determined by reference to a formula or index, or (b) periodic cash interest is also payable.

“Affiliate” means, in relation to any entity (the **“First Entity”**), any entity controlled, directly or indirectly, by the First Entity, any entity that controls, directly or indirectly, the First Entity or any entity directly or indirectly under common control with the First Entity. For these purposes, **“control”** means ownership of a majority of the voting power of an entity.

“Asset Amount” means, in respect of each nominal amount of Notes equal to the Calculation Amount, Deliverable Obligations, as selected by the Calculation Agent in its sole and absolute discretion, with:

- (i) in the case of Deliverable Obligations that are Borrowed Money, an Outstanding Principal Balance (including accrued but unpaid interest (as determined by the Calculation Agent) if “Include Accrued Interest” is specified as applying in the applicable Final Terms, but excluding accrued but unpaid interest if “Exclude Accrued Interest” is specified as applying in the applicable Final Terms, and if neither “Include Accrued Interest” nor “Exclude Accrued Interest” is specified as applying in the applicable Final Terms, excluding accrued but unpaid interest); or
- (ii) in the case of Deliverable Obligations that are not Borrowed Money, a Due and Payable Amount,

(or, in the case of either (i) or (ii), the equivalent Currency Amount of any such amount), in an aggregate amount as of the relevant Delivery Date equal to the Calculation Amount less, if Unwind Costs are specified as applying in the applicable Final Terms, Deliverable Obligations with a market value determined by the Calculation Agent in its sole and absolute discretion on the Business Day selected by the Calculation Agent falling during the period from and including the Credit Event Determination Date to and including the Delivery Date equal to the Unwind Costs.

If an obligation by its terms represents or contemplates an obligation to pay an amount greater than the Outstanding Principal Balance of such obligation as of the Delivery Date as a result of the occurrence or non-occurrence of an event or circumstance, the Outstanding Principal Balance of such obligation shall not include any additional amount that would be payable upon the occurrence or non-occurrence of such event or circumstance.

“Asset Transfer Notice” means a duly completed asset transfer notice substantially in the form set out in the Agency Agreement.

“Bankruptcy” means a Reference Entity:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);

- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within thirty calendar days of the institution or presentation thereof or before the Scheduled Termination Date, whichever is earlier;
- (e) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within thirty calendar days thereafter or before the Scheduled Termination Date, whichever is earlier; or
- (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has any analogous effect to any of the events specified in clauses (a) to (g) (inclusive).

"Best Available Information" means:

- (i) in the case of a Reference Entity which files information with its primary securities regulator or primary stock exchange that includes unconsolidated, pro forma financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required, that unconsolidated, pro forma financial information and, if provided subsequently to the provision of unconsolidated, pro forma financial information but before the Calculation Agent makes its determination for the purposes of the definition of "Successor", other relevant information that is contained in any written communication provided by the Reference Entity to its primary securities regulator, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required; or
- (ii) in the case of a Reference Entity which does not file with its primary securities regulators or primary stock exchange, or which does not provide to shareholders, creditors or other persons whose approval of the Succession Event is required, the information contemplated in (i) above, the best publicly available information at the disposal of the Calculation Agent to allow it to make a determination for the purposes of the definition of "Successor".

Information which is made available more than fourteen calendar days after the legally effective date of the Succession Event shall not constitute "Best Available Information".

“Calculation Agent City Business Day” means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the Calculation Agent City specified in the applicable Final Terms.

“Conditionally Transferable Obligation” means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Modified Eligible Transferees without the consent of any person being required, in the case of any Deliverable Obligation other than Bonds, provided, however, that a Deliverable Obligation other than Bonds will be a Conditionally Transferable Obligation notwithstanding that consent of the Reference Entity or the guarantor, if any, of a Deliverable Obligation other than Bonds (or the consent of the relevant obligor if a Reference Entity is guaranteeing such Deliverable Obligation) or any agent is required for such novation, assignment or transfer so long as the terms of such Deliverable Obligation provide that such consent may not be unreasonably withheld or delayed. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered to be a requirement for consent for the purposes of this definition of “Conditionally Transferable Obligation”.

For the purposes of determining whether a Deliverable Obligation satisfies the requirements of the definition of Conditionally Transferable Obligation, such determination shall be made as of the Delivery Date for the Deliverable Obligation, taking into account only the terms of the Deliverable Obligation and any related transfer or consent documents which have been obtained by the Issuer.

“Conditions to Settlement” means the delivery by the Calculation Agent to the Issuer of a Credit Event Notice that is effective and if notice of Publicly Available Information is specified as applying in the applicable Final Terms, a Notice of Publicly Available Information, that is effective, in each case, during the Notice Delivery Period.

“Convertible Obligation” means any obligation that is convertible, in whole or in part, into Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

“Credit Event” means the occurrence of any one or more of the Credit Events specified in the applicable Final Terms which may include Bankruptcy, Failure to Pay, Obligation Acceleration, Obligation Default, Repudiation/Moratorium or Restructuring, or any additional Credit Event specified in the applicable Final Terms, as determined by the Calculation Agent.

If an occurrence would otherwise constitute a Credit Event, such occurrence will constitute a Credit Event whether or not such occurrence arises directly or indirectly from, or is subject to a defence based upon:

- (a) any lack or alleged lack of authority or capacity of a Reference Entity to enter into any Obligation or, as applicable, an Underlying Obligor to enter into any Underlying Obligation;
- (b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation or, as applicable, any Underlying Obligation, however described;
- (c) any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described; or

- (d) the imposition of, or any change in, any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, however described.

“Credit Event Notice” means an irrevocable notice from the Calculation Agent (which may be by telephone) to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that describes a Credit Event that occurred at or after 12:01 a.m. Greenwich Mean Time on the Trade Date and at or prior to 11:59 p.m., Greenwich Mean Time, on the latest of:

- (a) the Scheduled Termination Date;
- (b) where “Grace Period Extension” is specified as applying in the applicable Final Terms, the Grace Period Extension Date if (i) the Credit Event that is the subject of the Credit Event Notice is a Failure to Pay that occurs after the Scheduled Termination Date; and (ii) the Potential Failure to Pay with respect to such Failure to Pay occurs at or prior to 11:59 p.m., Greenwich Mean Time, on the Scheduled Termination Date; and
- (c) the Repudiation/Moratorium Evaluation Date if:
 - (i) the Credit Event that is the subject of the Credit Event Notice is a Repudiation/Moratorium that occurs after the Scheduled Termination Date;
 - (ii) the Potential Repudiation/Moratorium with respect to such Repudiation/Moratorium occurs at or prior to 11:59 p.m., Greenwich Mean Time, on the Scheduled Termination Date; and
 - (iii) the Repudiation/Moratorium Extension Condition is satisfied.

A Credit Event Notice must contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred. The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date the Credit Event Notice is effective. A Credit Event Notice shall be subject to the requirements regarding notices set out in Condition 18.

“Credit Event Redemption Amount” means the amount specified as such in the applicable Final Terms or if no such amount is specified in the applicable Final Terms, an amount calculated by the Calculation Agent equal to:

$$(A \times B) - C$$

where:

“A” is the Calculation Amount;

“B” is the Final Price; and

“C” is Unwind Costs,

provided that in no event shall the Credit Event Amount be less than zero.

“Credit Event Redemption Date” means the day falling the number of Business Days specified in the applicable Final Terms after the calculation of the Final Price.

“Currency Amount” means, whenever an amount is denominated in a currency other than the Settlement Currency and is specified to be determined by reference to a Currency Amount, such amount converted to the relevant Settlement Currency using the Currency Rate.

“Currency Rate” means:

- (a) the rate determined by the Calculation Agent equal to the rate of conversion of the currency of the Deliverable Obligation into the Settlement Currency by reference to:
 - (i) if the Settlement Currency is U.S. Dollars, the Federal Reserve Bank of New York 10:00 a.m. (New York time) mid point rate as displayed on Reuters page FEDSPOT on the date that the Notice of Physical Settlement is deemed given, or in such other commercially reasonable manner as it shall determine; or
 - (ii) if the Settlement Currency is euro, the MEAN price as displayed on Reuters Page EUROFX/1 as of 12:00 p.m. (London time) on the date that the Notice of Physical Settlement is deemed given, or in such other commercially reasonable manner as it shall determine; or
- (b) if the Settlement Currency is not U.S. Dollars or euro, the rate determined by the Calculation Agent in its sole and absolute discretion in a commercially reasonable manner.

“Default Requirement” means the amount specified as such in the applicable Final Terms or its equivalent in the relevant Obligation Currency or, if a Default Requirement is not specified in the applicable Final Terms, USD10,000,000, or its equivalent as calculated by the Calculation Agent in the relevant Obligation Currency, in either case, as of the occurrence of the relevant Credit Event.

“Deliver” means to deliver, novate, transfer (including, in the case of a Qualifying Guarantee, transfer of the benefit of the Qualifying Guarantee), assign or sell, as appropriate, in the manner customary for the settlement of the applicable Deliverable Obligations (which shall include executing all necessary documentation and taking any other necessary actions), in order to convey all right, title and interest in the Asset Amount(s) to the relevant Noteholder free and clear of any and all liens, charges, claims or encumbrances (including without limitation any counterclaim, defence (other than a counterclaim or defence based on the factors set out in (a) to (d) in the definition of “Credit Event” above or right of set-off by or of the Reference Entity or, as applicable, an Underlying Obligor) provided that if all or a portion of an Asset Amount consists of Direct Loan Participations, **“Deliver”** means to create (or procure the creation) of a participation in favour of the relevant Noteholder and to the extent that the Deliverable Obligations consist of Qualifying Guarantees, **“Deliver”** means to Deliver both the Qualifying Guarantee and the Underlying Obligation. **“Delivery”** and **“Delivered”** will be construed accordingly. In the case of a Loan, Delivery shall be effected using documentation substantially in the form of the documentation customarily used in the relevant market for Delivery of such Loan at that time.

“Deliverable Obligation” means, subject as provided in Condition 11(c):

- (a) any obligation of a Reference Entity (either directly, as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee) determined pursuant to the method described in “(A) Method for Determining Deliverable Obligations” below (but excluding any Excluded Deliverable Obligation specified in the applicable Final Terms) that (i) is payable in an amount equal to its Outstanding Principal Balance or Due and Payable Amount, as applicable, (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) of the definition of “Credit Event” above) or right of set-off by or of a Reference Entity or, as applicable, an Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Delivery Date, of immediate assertion or demand by or on behalf of the holder or holders against the Reference Entity for an amount at least equal to the Outstanding Principal Balance or Due and Payable Amount being Delivered apart from the giving of any notice of non-payment

or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement;

- (b) subject to the second paragraph of the definition of “Not Contingent” in “(A) Method for Determining Deliverable Obligations” below, each Reference Obligation, unless specified in the applicable Final Terms as an Excluded Deliverable Obligation;
 - (c) solely in relation to a Restructuring Credit Event applicable to a Sovereign Reference Entity, any Sovereign Restructured Deliverable Obligation (but excluding any Excluded Deliverable Obligation) that (i) is payable in an amount equal to its Outstanding Principal Balance or Due and Payable Amount, as applicable, (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) of the definition of “Credit Event” above) or right of set-off by or of a Reference Entity or, as applicable, an Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Delivery Date, of immediate assertion or demand by or on behalf of the holder or holders against the Reference Entity for an amount at least equal to the Outstanding Principal Balance or Due and Payable Amount being Delivered apart from the giving of any notice of non-payment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement; and
 - (d) any Additional Deliverable Obligation of a Reference Entity specified as such in the applicable Final Terms.
- (A) Method for Determining Deliverable Obligations. For the purposes of this definition of “Deliverable Obligation”, the term “Deliverable Obligation” may be defined as each obligation of each Reference Entity described by the Deliverable Obligation Category specified in the applicable Final Terms, and, subject to (B)(3) below, having each of the Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms, in each case, as of the Delivery Date. The following terms shall have the following meanings:
- (1) “**Deliverable Obligation Category**” means one of Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan (each as defined in the definition of “Obligation” below, except that, for the purpose of determining Deliverable Obligations, the definition of “Reference Obligations Only” shall be amended to state that no Deliverable Obligation Characteristics shall be applicable to Reference Obligations Only).
 - (2) “**Deliverable Obligation Characteristics**” means any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed, Not Domestic Issuance (each as defined in the definition of “Obligation” below), Not Contingent, Assignable Loan, Consent Required Loan, Direct Loan Participation, Transferable, Maximum Maturity, Accelerated or Matured and Not Bearer where:
 - (i) “**Not Contingent**” means any obligation having as of the Delivery Date and all times thereafter an Outstanding Principal Balance or, in the case of obligations that are not Borrowed Money, a Due and Payable Amount, that pursuant to the terms of such obligation may not be reduced as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). A Convertible Obligation, an Exchangeable Obligation and an Accreting Obligation shall constitute Deliverable Obligations that are Not Contingent if such Deliverable Obligation otherwise meets the requirements of the preceding sentence so long as, in the case of

a Convertible Obligation or an Exchangeable Obligation, the right (A) to convert or exchange such obligation or (B) to require the issuer to purchase or redeem such obligation (if the issuer has exercised the right to pay the purchase or redemption price, in whole or in part, in Equity Securities) has not been exercised (or such exercise has been effectively rescinded) on or before the Delivery Date.

If a Reference Obligation is a Convertible Obligation or an Exchangeable Obligation, then such Reference Obligation may be included as a Deliverable Obligation only if the rights referred to in clauses (A) and (B) of paragraph (i) above have not been exercised (or such exercise has been effectively rescinded) on or before the Delivery Date;

- (ii) “**Assignable Loan**” means a Loan that is capable of being assigned or novated to, at a minimum, commercial banks or financial institutions (irrespective of their jurisdiction of organisation) that are not then a lender or a member of the relevant lending syndicate, without the consent of the relevant Reference Entity or the guarantor, if any, of such Loan (or the consent of the applicable borrower if a Reference Entity is guaranteeing such Loan) or any agent;
- (iii) “**Consent Required Loan**” means a Loan that is capable of being assigned or novated with the consent of the relevant Reference Entity or the guarantor, if any, of such Loan (or the consent of the relevant borrower if a Reference Entity is guaranteeing such loan) or any agent;
- (iv) “**Direct Loan Participation**” means a Loan in respect of which, pursuant to a participation agreement, the Issuer is capable of creating, or procuring the creation of, a contractual right in favour of each Noteholder that provides each Noteholder with recourse to the participation seller for a specified share in any payments due under the relevant Loan which are received by such participation seller, any such agreement to be entered into between each Noteholder and either (A) the Issuer (to the extent that the Issuer is then a lender or a member of the relevant lending syndicate), or (B) a Qualifying Participation Seller (if any) (to the extent such Qualifying Participation Seller is then a lender or a member of the relevant lending syndicate);
- (v) “**Transferable**” means an obligation that is transferable to institutional investors without any contractual, statutory or regulatory restriction, provided that none of the following shall be considered contractual, statutory or regulatory restrictions:
 - (a) contractual, statutory or regulatory restrictions that provide for eligibility for resale pursuant to Rule 144A or Regulation S promulgated under the United States Securities Act of 1933, as amended (and any contractual, statutory or regulatory restrictions promulgated under the laws of any jurisdiction having a similar effect in relation to the eligibility for resale of an obligation); or

- (b) restrictions on permitted investments such as statutory or regulatory investment restrictions on insurance companies and pension funds;
- (vi) “**Maximum Maturity**” means an obligation that has a remaining maturity from the Settlement Date of not greater than the period specified in the applicable Final Terms;
- (vii) “**Accelerated or Matured**” means an obligation under which the total amount owed, whether at maturity, by reason of acceleration, upon termination or otherwise (other than amounts in respect of default interest, indemnities, tax gross-ups and other similar amounts), is, or on or prior to the Delivery Date will be, due and payable in full in accordance with the terms of such obligation, or would have been but for, and without regard to, any limitation imposed under any applicable insolvency laws; and
- (viii) “**Not Bearer**” means any obligation that is not a bearer instrument unless interests with respect to such bearer instrument are cleared via Euroclear, Clearstream, Luxembourg or any other internationally recognised clearing system.

(B) Interpretation of Provisions.

- (1) If the Obligation Characteristic “Listed” is specified in the applicable Final Terms, the Final Terms shall be construed as though Listed had been specified as an Obligation Characteristic only with respect to Bonds and shall only be relevant if Bonds are covered by the selected Obligation Category;
- (2) if (i) either of the Deliverable Obligation Characteristics “Listed” or “Not Bearer” is specified in the applicable Final Terms, the Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Bonds and shall only be relevant if Bonds are covered by the selected Deliverable Obligation Category; (ii) the Deliverable Obligation Characteristic “Transferable” is specified in the applicable Final Terms, the Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Deliverable Obligations that are not Loans (and shall only be relevant to the extent that obligations other than Loans are covered by the selected Deliverable Obligation Category); or (iii) any of the Deliverable Obligation Characteristics “Assignable Loan”, “Consent Required Loan” or “Direct Loan Participation” is specified in the applicable Final Terms, the Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Loans and shall only be relevant if Loans are covered by the selected Deliverable Obligation Category;
- (3) if any of Payment, Borrowed Money, Loan or Bond or Loan is specified as the Deliverable Obligation Category and more than one of Assignable Loan, Consent Required Loan and Direct Loan Participation are specified as Deliverable Obligation Characteristics, the Deliverable Obligations may include any Loan that satisfies any one of such Deliverable Obligation Characteristics specified and need not satisfy all such Deliverable Obligation Characteristics; and

- (4) in the event that an Obligation or a Deliverable Obligation is a Qualifying Guarantee, the following will apply:
- (i) For purposes of the application of the Obligation Category or the Deliverable Obligation Category, the Qualifying Guarantee shall be deemed to be described by the same category or categories as those that describe the Underlying Obligation.
 - (ii) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, both the Qualifying Guarantee and the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms from the following list: Specified Currency, Not Sovereign Lender, Not Domestic Currency and Not Domestic Law. For these purposes, unless otherwise specified in the applicable Final Terms, (A) the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America or the euro shall not be a Domestic Currency and (B) the laws of England and the laws of the State of New York shall not be a Domestic Law.
 - (iii) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, only the Qualifying Guarantee must satisfy on the relevant date the Obligation Characteristic or the Deliverable Obligation Characteristic of Not Subordinated, if specified in the applicable Final Terms.
 - (iv) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, only the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms from the following list: Listed, Not Contingent, Not Domestic Issuance, Assignable Loan, Consent Required Loan, Direct Loan Participation, Transferable, Maximum Maturity, Accelerated or Matured and Not Bearer.
 - (v) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics to an Underlying Obligation, references to the Reference Entity shall be deemed to refer to the Underlying Obligor.
 - (vi) The terms “Outstanding Principal Balance” and “Due and Payable Amount” (as they are used in these Terms and Conditions, including without limitation, the definitions of “Cash Settlement Amount” and “Quotation Amount” in Condition 11(h)), when used in connection with Qualifying Guarantees are to be interpreted to be the then “Outstanding Principal Balance” or “Due and Payable Amount”, as applicable, of the Underlying Obligation which is supported by a Qualifying Guarantee.

For the avoidance of doubt, the provisions of this paragraph (B) apply in respect of the definitions of Obligation and Deliverable Obligation as the context admits.

“Delivery Date” means, with respect to a Deliverable Obligation, the date such Deliverable Obligation is Delivered.

“Delivery Expenses” means all costs, taxes, duties and/or expenses, including stamp duty, stamp duty reserve tax and/or other costs, duties or taxes arising from the Delivery of the Asset Amount.

“Domestic Currency” means the currency specified as such in the applicable Final Terms and any successor currency. If no currency is specified in the applicable Final Terms, the Domestic Currency shall be the lawful currency and any successor currency of (a) the relevant Reference Entity, if the Reference Entity is a Sovereign, or (b) the jurisdiction in which the relevant Reference Entity is organised, if the Reference Entity is not a Sovereign. In no event shall Domestic Currency include any successor currency if such successor currency is the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America or the euro (or any successor currency to any such currency).

“Downstream Affiliate” means an entity, at the date of the event giving rise to the Credit Event which is the subject of the Credit Event Notice, the Delivery Date or the time of identification of a Substitute Reference Obligation (as applicable), whose outstanding Voting Shares are more than 50 per cent. owned, directly or indirectly, by the Reference Entity. ***“Voting Shares”*** shall mean those shares or other interests that have the power to elect the board of directors or similar governing body of an entity.

“Due and Payable Amount” means, subject as provided in sub-paragraph (4)(vi) of paragraph (B) (Interpretation of Provisions) in the definition of Deliverable Obligation, the amount that is due and payable under (and in accordance with the terms of) a Deliverable Obligation on the Delivery Date, whether by reason of acceleration, maturity, termination or otherwise (excluding sums in respect of default interest, indemnities, tax gross-ups and other similar amounts).

“Eligible Transferee” means each of the following:

- (a)
 - (i) any bank or other financial institution;
 - (ii) an insurance or reinsurance company;
 - (iii) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in sub-paragraph (c)(i) below); and
 - (iv) a registered or licensed broker or dealer (other than a natural person or proprietorship),

provided, however, in each case that such entity has total assets or at least U.S.\$500 million;

- (b) an Affiliate of an entity specified in the preceding sub-paragraph (a);
- (c) each of a corporation, partnership, proprietorship, organisation, trust or other entity:
 - (i) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralised debt obligations, commercial paper conduit or other special purpose vehicle) that (1) has total assets of at least U.S.\$100 million or (2) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least U.S.\$100 million; or
 - (ii) that has total assets of at least U.S.\$500 million; or
 - (iii) the obligations of which under an agreement, contract or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support, or other agreement by an entity described in sub-paragraphs (a), (b), (c)(ii) or (d); and

(d) a Sovereign, Sovereign Agency or Supranational Organisation;

All references in this definition to U.S.\$ include equivalent amounts in other currencies.

“Equity Securities” means:

- (a) in the case of a Convertible Obligation, equity securities (including options and warrants) of the issuer of such obligation or depositary receipts representing equity securities of the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time; and
- (b) in the case of an Exchangeable Obligation, equity securities (including options and warrants) of a person other than the issuer of such obligation or depositary receipts representing those equity securities of a person other than the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time.

“Exchangeable Obligation” means any obligation that is exchangeable, in whole or in part, for Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

“Excluded Deliverable Obligation” means any obligation of a Reference Entity specified as such or of a type described in the applicable Final Terms.

“Excluded Obligation” means any obligation of a Reference Entity specified as such or of a type described in the applicable Final Terms.

“Failure to Pay” means after the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure.

“Final Delivery Date” is as defined in Condition 11(g).

“Final Price” means the price of the relevant Reference Obligation(s), as the case may be, expressed as a percentage, determined in accordance with the Valuation Method specified in the applicable Final Terms or, where applicable, Condition 11(k). The Calculation Agent shall as soon as practicable after obtaining all Quotations for a Valuation Date, make available for inspection by Noteholders at the specified office of the Agent and, for so long as the Notes are listed on the Luxembourg Stock Exchange at the office of the Paying Agent in Luxembourg (i) each such Quotation that it receives in connection with the calculation of the Final Price and (ii) a written computation showing its calculation of the Final Price.

“Full Quotation” means, in accordance with the Quotation Method each firm quotation obtained from a Quotation Dealer at the Valuation Time, to the extent reasonably practicable, for an amount of the Reference Obligation with an Outstanding Principal Balance equal to the Quotation Amount.

“Fully Transferable Obligation” means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Eligible Transferees without the consent of any person being required in the case of any Deliverable Obligation other than Bonds. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered as a requirement for consent for purposes of this definition of “Fully Transferable Obligation”. For purposes of determining whether a Deliverable Obligation satisfies the requirements of this definition of

“Fully Transferable Obligation”, such determination shall be made as of the Delivery Date for the relevant Deliverable Obligation, taking into account only the terms of the Deliverable Obligation and any related transfer or consent documents which have been obtained by the Issuer.

“**Governmental Authority**” means any *de facto* or *de jure* government (or any agency, instrumentality, ministry or department thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of a Reference Entity or of the jurisdiction of organisation of a Reference Entity.

“**Grace Period**” means:

- (a) subject to paragraphs (b) and (c) below, the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the later of the Trade Date and the date as of which such Obligation is issued or incurred;
- (b) if Grace Period Extension is specified as applying in the applicable Final Terms, a Potential Failure to Pay has occurred on or prior to the Scheduled Termination Date and the applicable grace period cannot, by its terms, expire on or prior to the Scheduled Termination Date, the Grace Period shall be deemed to be the lesser of such grace period and the period specified as such in the applicable Final Terms or, if no period is specified in the applicable Final Terms, thirty calendar days; and
- (c) if, at the later of the Trade Date and the date as of which an Obligation is issued or incurred, no grace period with respect to payments or a grace period with respect to payments of less than three Grace Period Business Days is applicable under the terms of such Obligation, a Grace Period of three Grace Period Business Days shall be deemed to apply to such Obligation; provided that, unless Grace Period Extension is specified as applying in the applicable Final Terms, such deemed Grace Period shall expire no later than the Scheduled Termination Date.

“**Grace Period Business Day**” means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places and on the days specified for that purpose in the relevant Obligation and if a place or places are not so specified, in the jurisdiction of the Obligation Currency.

“**Grace Period Extension Date**” means, if:

- (a) Grace Period Extension is specified as applying in the applicable Final Terms; and
- (b) a Potential Failure to Pay occurs on or prior to the Scheduled Termination Date,

the day falling the number of days in the Grace Period after the date of such Potential Failure to Pay.

“**Hedge Disruption Event**” means, in the opinion of the Calculation Agent, any event as a result of which the Issuer and/or any of its Affiliates has not received the relevant Deliverable Obligations under the terms of any transaction entered into by the Issuer and/or any such Affiliate to hedge the obligations or position of the Issuer in respect of the Notes.

“**Hedge Disruption Obligation**” means a Deliverable Obligation included in the Asset Amount which, on the Settlement Date for such Deliverable Obligation, the Calculation Agent determines cannot be Delivered as a result of a Hedge Disruption Event.

“**Intervening Period**” means such period of time as any person other than the relevant Noteholder shall continue to be registered as the legal owner of any securities or other obligations comprising the Asset Amount.

“Market Value” means, with respect to a Reference Obligation on a Valuation Date:

- (a) if more than three Full Quotations are obtained, the arithmetic mean of such Full Quotations, disregarding the Full Quotations having the highest and lowest values (and, if more than one such Full Quotation has the same highest value or lowest value, then one of such highest or lowest Full Quotations shall be disregarded);
- (b) if exactly three Full Quotations are obtained, the Full Quotation remaining after disregarding the highest and lowest Full Quotations (and, if more than one such Full Quotation has the same highest value or lowest value, then one of such highest or lowest Full Quotations shall be disregarded);
- (c) if exactly two Full Quotations are obtained, the arithmetic mean of such Full Quotations;
- (d) if fewer than two Full Quotations and a Weighted Average Quotation is obtained, such Weighted Average Quotation;
- (e) if fewer than two Full Quotations are obtained and no Weighted Average Quotation is obtained, subject as provided in the definition of Quotation, an amount as determined by the Calculation Agent on the next Business Day on which two or more Full Quotations or a Weighted Average Quotation is obtained; and
- (f) if two or more Full Quotations or a Weighted Average Quotation are not obtained on or prior to the tenth Business Day following the applicable Valuation Date, the Market Value shall be any Full Quotation obtained from a Quotation Dealer at the Valuation Time on such tenth Business Day or, if no Full Quotation is obtained, the weighted average of any firm quotations for the Reference Obligation obtained from Quotation Dealers at the Valuation Time on such tenth Business Day with respect to the aggregate portion of the Quotation Amount for which such quotations were obtained and a quotation deemed to be zero for the balance of the Quotation Amount for which firm quotations were not obtained on such day.

“Merger Event” means that at any time during the period from (and including) the Trade Date to (but excluding) the Scheduled Termination Date, a Reference Entity consolidates or amalgamates with, or merges into, or transfers all or substantially all of its assets to, a Reference Entity.

“Minimum Quotation Amount” means the amount specified as such in the applicable Final Terms (or its equivalent in the relevant Obligation Currency) or, if no amount is so specified, the lower of (a) USD1,000,000 (or its equivalent in the relevant Obligation Currency) and (b) the Quotation Amount.

“Modified Eligible Transferee” means any bank, financial institution or other entity which is regularly engaged in an established for the purpose of making, purchasing or investing in loans, securities and other financial assets.

“Modified Restructuring Maturity Limitation Date” means, with respect to a Deliverable Obligation, the date that is the later of (x) the Scheduled Maturity Date and (y) 60 months following the Restructuring Date in the case of a Restructured Bond or Loan, or 30 months following the Restructuring Date in the case of all other Deliverable Obligations.

“Notice Delivery Period” means the period from and including the Trade Date to and including (a) the Scheduled Termination Date; (b) the Grace Period Extension Date if (i) “Grace Period Extension” is specified as applying in the applicable Final Terms, (ii) the Credit Event that is the subject of the Credit Event Notice is a Failure to Pay that occurs after the Scheduled Termination Date, and (iii) the Potential Failure to Pay with respect to such Failure to Pay occurs on or prior to the Scheduled Termination Date; (c) the Repudiation/Moratorium Evaluation Date if (i) the Credit Event that is the subject of the Credit Event Notice is a

Repudiation/Moratorium that occurs after the Scheduled Termination Date, (ii) the Potential Repudiation/Moratorium with respect to such Repudiation/Moratorium occurs on or prior to the Scheduled Termination Date and (iii) the Repudiation/Moratorium Extension Condition is satisfied; or (d) the Postponed Maturity Date if the Maturity Date is postponed pursuant to Condition 11(f).

“Notice of Publicly Available Information” means an irrevocable notice from the Calculation Agent (which may be by telephone) to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that cites Publicly Available Information confirming the occurrence of the Credit Event or Potential Repudiation/Moratorium, as applicable, described in the Credit Event Notice or Repudiation/Moratorium Extension Notice. In relation to a Repudiation/Moratorium Credit Event, the Notice of Publicly Available Information must cite Publicly Available Information confirming the occurrence of both clauses (i) and (ii) of the definition of Repudiation/Moratorium. The notice given must contain a copy or description in reasonable detail, of the relevant Publicly Available Information. If Notice of Publicly Available Information is specified as applying in the applicable Final Terms and a Credit Event Notice or Repudiation/Moratorium Extension Notice, as applicable, contains Publicly Available Information, such Credit Event Notice or Repudiation/Moratorium Extension Notice will also be deemed to be a Notice of Publicly Available Information. A Notice of Publicly Available Information shall be subject to the requirements regarding notices in Condition 11(m).

“Obligation” means:

- (a) any obligation of a Reference Entity (either directly, as a provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee) determined pursuant to the method described in “Method for Determining Obligations” below (but excluding any Excluded Obligation);
- (b) each Reference Obligation specified in the applicable Final Terms, unless specified as an Excluded Obligation; and
- (c) any Additional Obligation of a Reference Entity specified as such in the applicable Final Terms.

Method for Determining Obligations. For the purposes of paragraph (a) of this definition of “Obligation”, the term “Obligation” may be defined as each obligation of each Reference Entity described by the Obligation Category specified in the applicable Final Terms, and having each of the Obligation Characteristics (if any) specified in the applicable Final Terms, in each case, as of the date of the event which constitutes the Credit Event which is the subject of the Credit Event Notice. The following terms shall have the following meanings:

- (A) **“Obligation Category”** means Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan, only one of which shall be specified in the applicable Final Terms, where:
 - (1) **“Payment”** means any obligation (whether present or future, contingent or otherwise) for the payment or repayment of money, including, without limitation, Borrowed Money;
 - (2) **“Borrowed Money”** means any obligation (excluding an obligation under a revolving credit arrangement for which there are no outstanding unpaid drawings in respect of principal) for the payment or repayment of borrowed money (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit);

- (3) **“Reference Obligations Only”** means any obligation that is a Reference Obligation and no Obligation Characteristics shall be applicable to Reference Obligations Only;
 - (4) **“Bond”** means any obligation of a type included in the “Borrowed Money” Obligation Category that is in the form of, or represented by, a bond, note (other than notes delivered pursuant to Loans), certificated debt security or other debt security and shall not include any other type of Borrowed Money;
 - (5) **“Loan”** means any obligation of a type included in the “Borrowed Money” Obligation Category that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement and shall not include any other type of Borrowed Money; and
 - (6) **“Bond or Loan”** means any obligation that is either a Bond or a Loan.
- (B) **“Obligation Characteristics”** means any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed and Not Domestic Issuance specified in the applicable Final Terms, where:
- (1) (a) **“Not Subordinated”** means an obligation that is not Subordinated to the most senior Reference Obligation in priority of payment or, if no Reference Obligation is specified in the applicable Final Terms, any unsubordinated Borrowed Money obligation of the Reference Entity. For purposes of determining whether an obligation satisfies the “Not Subordinated” Obligation Characteristic or Deliverable Obligation Characteristic, the ranking in priority of payment of each Reference Obligation shall be determined as of the later of (1) the Trade Date specified in the applicable Final Terms and (2) the date on which such Reference Obligation was issued or incurred and shall not reflect any change to such ranking in priority of payment after such later date;
 - (b) **“Subordination”** means, with respect to an obligation (the **“Subordinated Obligation”**) and another obligation of the Reference Entity to which such obligation is being compared (the **“Senior Obligation”**), a contractual, trust or other similar arrangement providing that (i) upon the liquidation, dissolution, reorganisation or winding up of the Reference Entity, claims of the holders of the Senior Obligation will be satisfied prior to the claims of the holders of the Subordinated Obligation or (ii) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the Senior Obligation. “Subordinated” will be construed accordingly. For purposes of determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement arrangements shall not be taken into account, except that, notwithstanding the foregoing, priorities arising by operation of law shall be taken into account where the Reference Entity is a Sovereign;
 - (2) **“Specified Currency”** means an obligation that is payable in the currency or currencies specified as such in the applicable Final Terms (or, if Specified Currency is specified in the applicable Final Terms and no currency is so specified, any of the lawful currencies of Canada, Japan, Switzerland, the United Kingdom and the United States of America and the euro and any successor currency to any of the aforementioned currencies, which currencies

shall be referred to collectively in the applicable Final Terms as the “**Standard Specified Currencies**”);

- (3) “**Not Sovereign Lender**” means any obligation that is not primarily owed to a Sovereign or Supranational Organisation, including, without limitation, obligations generally referred to as “Paris Club debt”;
- (4) “**Not Domestic Currency**” means any obligation that is payable in any currency other than the Domestic Currency;
- (5) “**Not Domestic Law**” means any obligation that is not governed by the laws of (a) the relevant Reference Entity, if such Reference Entity is a Sovereign, or (b) the jurisdiction of organisation of the relevant Reference Entity, if such Reference Entity is not a Sovereign;
- (6) “**Listed**” means an obligation that is quoted, listed or ordinarily purchased and sold on an exchange; and
- (7) “**Not Domestic Issuance**” means any obligation other than an obligation that was, at the time the relevant obligation was issued (or reissued, as the case may be) or incurred, intended to be offered for sale primarily in the domestic market of the relevant Reference Entity. Any obligation that is registered or qualified for sale outside the domestic market of the relevant Reference Entity (regardless of whether such obligation is also registered or qualified for sale within the domestic market of the relevant Reference Entity) shall be deemed not to be intended for sale primarily in the domestic market of the Reference Entity.

“**Obligation Acceleration**” means one or more Obligations, in an aggregate amount of not less than the Default Requirement, have become due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default or other similar condition or event (however described), other than a failure to make any required payment, in respect of a Reference Entity under one or more Obligations.

“**Obligation Currency**” means the currency or currencies in which the Obligation is denominated.

“**Obligation Default**” means one or more Obligations in an aggregate amount of not less than the Default Requirement have become capable of being declared due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default, or other similar condition or event (however described), other than a failure to make any required payment, in respect of a Reference Entity under one or more Obligations.

“**Outstanding Principal Balance**” means, subject as provided in sub-paragraph (4)(vi) of paragraph (B) (Interpretation of Provisions) in the definition of Deliverable Obligation:

- (a) with respect to any Accreting Obligation, the Accreted Amount thereof; and
- (b) with respect to any other obligation, the outstanding principal balance of such obligation,

Provided that, with respect to any Exchangeable Obligation that is not an Accreting Obligation, “Outstanding Principal Balance” shall exclude any amount that may be payable under the terms of such obligation in respect of the value of the Equity Securities for which such obligation is exchangeable.

“**Payment Requirement**” means the amount specified as such in the applicable Final Terms or its equivalent in the relevant Obligation Currency or, if a Payment Requirement is not

specified in the applicable Final Terms, USD1,000,000, or its equivalent as calculated by the Calculation Agent in the relevant Obligation Currency, in either case, as of the occurrence of the relevant Failure to Pay or Potential Failure to Pay, as applicable.

“Permitted Currency” means (i) the legal tender of any Group of 7 country (or any country that becomes a member of the Group of 7 if such Group of 7 expands its membership), or (ii) the legal tender of any country which, as of the date of such change, is a member of the Organisation for Economic Co-operation and Development and has a local currency long-term debt rating of either AAA or higher assigned to it by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or any successor to the rating business thereof, Aaa or higher assigned to it by Moody’s Investors Service, Inc. or any successor to the rating business thereof or AAA or higher assigned to it by Fitch Ratings or any successor to the rating business thereof.

“Physical Settlement Period” means the number of Business Days specified as such in the applicable Final Terms or, if a number of Business Days is not so specified, then, with respect to a Deliverable Obligation comprising the Asset Amount, the longest number of Business Days for settlement in accordance with then current market practice of such Deliverable Obligation, as determined by the Calculation Agent.

“Potential Failure to Pay” means the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations, without regard to any grace period or any conditions precedent to the commencement of any grace period applicable to such Obligations, in accordance with the terms of such Obligations at the time of such failure.

“Potential Repudiation/Moratorium” means the occurrence of an event described in paragraph (i) of the definition of Repudiation/Moratorium.

“Publicly Available Information” means:

- (a) information that reasonably confirms any of the facts relevant to the determination that the Credit Event or a Potential Repudiation/Moratorium, as applicable, described in a Credit Event Notice or Repudiation/Moratorium Extension Notice has occurred and which:
 - (i) has been published in or not less than the Specified Number of Public Sources, regardless of whether the reader or user thereof pays a fee to obtain such information provided that, if either the Calculation Agent or the Issuer or any of its respective Affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless either the Calculation Agent or the Issuer or any of its Affiliates is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation;
 - (ii) is information received from or published by (A) a Reference Entity or, as the case may be, a Sovereign Agency in respect of a Reference Entity which is a Sovereign or (B) a trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation;
 - (iii) is information contained in any petition or filing instituting a proceeding described in paragraph (d) of the definition of Bankruptcy against or by a Reference Entity; or
 - (iv) is information contained in any order, decree, notice or filing, however described, or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body.

- (b) In the event that the Calculation Agent is (i) the sole source of information in its capacity as trustee, fiscal agent, administrative agent, clearing agent or paying agent for an Obligation and (ii) a holder of the Obligation with respect to which a Credit Event has occurred, the Calculation Agent shall be required to deliver to the Issuer a certificate signed by a Managing Director (or other substantially equivalent title) of the Calculation Agent, which shall certify the occurrence of a Credit Event with respect to a Reference Entity.
- (c) In relation to any information of the type described in paragraphs (a) (ii), (iii) and (iv) above, the Calculation Agent may assume that such information has been disclosed to it without violating any law, agreement or understanding regarding the confidentiality of such information and that the entity disclosing such information has not taken any action or entered into any agreement or understanding with the Reference Entity or any Affiliate of the Reference Entity that would be breached by, or would prevent, the disclosure of such information to third parties.
- (d) Publicly Available Information need not state:
 - (i) in relation to the definition of “Downstream Affiliate”, the percentage of Voting Shares owned, directly or indirectly, by the Reference Entity; and
 - (ii) that such occurrence:
 - (A) has met the Payment Requirement or Default Requirement;
 - (B) is the result of exceeding any applicable Grace Period; or
 - (C) has met the subjective criteria specified in certain Credit Events.

“Public Source” means each source of Publicly Available Information specified as such in the applicable Final Terms (or if a source is not specified in the applicable Final Terms, each of Bloomberg Service, Dow Jones Telerate Service, Reuter Monitor Money Rates Services, Dow Jones News Wire, Wall Street Journal, New York Times, Nihon Keizai Shinbun, Asahi Shinbun, Yomiuri Shinbun, Financial Times, La Tribune, Les Echos and The Australian Financial Review (and successor publications), the main source(s) of business news in the country in which the Reference Entity is organised and any other internationally recognised published or electronically displayed news sources).

“Qualifying Affiliate Guarantee” means a Qualifying Guarantee provided by a Reference Entity in respect of an Underlying Obligation of a Downstream Affiliate of that Reference Entity.

“Qualifying Guarantee” means an arrangement evidenced by a written instrument pursuant to which a Reference Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due under an obligation (the **“Underlying Obligation”**) for which another party is the obligor (the **“Underlying Obligor”**) and that is not at the time of the Credit Event Subordinated to any unsubordinated Borrowed Money obligation of the Underlying Obligor (with references in the definition of Subordination to the Reference Entity deemed to refer to the Underlying Obligor). Qualifying Guarantees shall exclude any arrangement structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement. The benefit of a Qualifying Guarantee must be capable of being Delivered together with the Delivery of the Underlying Obligation.

“Qualifying Participation Seller” means any participation seller that meets the requirements specified in the applicable Final Terms. If no such requirements are specified, there shall be no Qualifying Participation Seller.

“Quotation” means each Full Quotation and the Weighted Average Quotation obtained and expressed as a percentage with respect to a Valuation Date in the manner that follows:

- (a) The Calculation Agent shall attempt to obtain Full Quotations with respect to each Valuation Date from five or more Quotation Dealers. If the Calculation Agent is unable to obtain two or more such Full Quotations on the same Business Day within three Business Days of a Valuation Date, then, on the next following Business Day (and, if necessary, on each Business Day thereafter until the tenth Business Day following the relevant Valuation Date), the Calculation Agent shall attempt to obtain Full Quotations from five or more Quotation Dealers and, if two or more Full Quotations are not available, a Weighted Average Quotation. If the Calculation Agent is unable to obtain two or more Full Quotations or a Weighted Average Quotation on the same Business Day on or prior to the tenth Business Day following the applicable Valuation Date the Quotations shall be deemed to be any Full Quotation obtained from a Quotation Dealer at the Valuation Time on such tenth Business Day or, if no Full Quotation is obtained, the weighted average of any firm quotations for the Reference Obligation obtained from Quotation Dealers at the Valuation Time on such tenth Business Day with respect to the aggregate portion of the Quotation Amount, for which such quotations were obtained, and a quotation deemed to be zero for the balance of the Quotation Amount for which firm quotations were not obtained on such day.
- (b)
 - (i) If “Include Accrued Interest” is specified in the applicable Final Terms in respect of Quotations, such Quotations shall include accrued but unpaid interest;
 - (ii) if “Exclude Accrued Interest” is specified in the applicable Final Terms in respect of Quotations, such Quotations shall not include accrued but unpaid interest; and
 - (iii) if neither “Include Accrued Interest” nor “Exclude Accrued Interest” is specified in the applicable Final Terms in respect of Quotations, the Calculation Agent shall determine based on then current market practice in the market of the Reference Obligation, whether such Quotations shall include or exclude accrued but unpaid interest. All Quotations shall be obtained in accordance with this specification or determination.
- (c) If any Quotation obtained with respect to an Accreting Obligation is expressed as a percentage of the amount payable in respect of such obligation at maturity, such Quotation will instead be expressed as a percentage of the Outstanding Principal Balance for the purposes of determining the Final Price.

“Quotation Amount” means the amount specified as such in the applicable Final Terms (which may be specified by reference to an amount in a currency or by reference to a Representative Amount) or, if no amount is specified in the applicable Final Terms, the Aggregate Nominal Amount (or, in either case, its equivalent in the relevant Obligation Currency converted by the Calculation Agent in a commercially reasonable manner by reference to exchange rates in effect at the time that the relevant Quotation is being obtained).

“Quotation Dealer” means a dealer in obligations of the type of Obligation(s) for which Quotations are to be obtained including each Quotation Dealer specified in the applicable Final Terms. If no Quotation Dealers are specified in the applicable Final Terms, the Calculation Agent shall select the Quotation Dealers in its sole and absolute discretion. Upon a Quotation Dealer no longer being in existence (with no successors), or not being an active dealer in the obligations of the type for which Quotations are to be obtained, the Calculation Agent may substitute any other Quotation Dealer(s) for such Quotation Dealer(s).

“Quotation Method” means the applicable Quotation Method specified in the applicable Final Terms by reference to one of the following terms:

- (a) **“Bid”** means that only bid quotations shall be requested from Quotation Dealers;

- (b) “**Offer**” means that only offer quotations shall be requested from Quotation Dealers; or
- (c) “**Mid-market**” means that bid and offer quotations shall be requested from Quotation Dealers and shall be averaged for purposes of determining a relevant Quotation Dealer’s quotation.

If a Quotation Method is not specified in the applicable Final Terms, Bid shall apply.

“**Reference Entity**” means the entity or entities specified as such in the applicable Final Terms. Any Successor to a Reference Entity identified pursuant to the definition of “Successor” in this Condition 11(j) shall be the Reference Entity for the purposes of the relevant Series.

“**Reference Obligation**” means each obligation specified or of a type described as such in the applicable Final Terms (if any are so specified or described) and any Substitute Reference Obligation.

“**Relevant Obligations**” means the Obligations constituting Bonds and Loans of the Reference Entity outstanding immediately prior to the effective date of the Succession Event, excluding any debt obligations outstanding between the Reference Entity and any of its Affiliates, as determined by the Calculation Agent. The Calculation Agent will determine the entity which succeeds to such Relevant Obligations on the basis of the Best Available Information. If the date on which the Best Available Information becomes available or is filed precedes the legally effective date of the relevant Succession Event, any assumptions as to the allocation of obligations between or among entities contained in the Best Available Information will be deemed to have been fulfilled as of the legally effective date of the Succession Event, whether or not this is in fact the case.

“**Representative Amount**” means an amount that is representative for a single transaction in the relevant market and at the relevant time, such amount to be determined by the Calculation Agent.

“**Repudiation/Moratorium**” means the occurrence of both of the following events:

- (i) an authorised officer of a Reference Entity or a Governmental Authority:
 - (x) disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, one or more Obligations in an aggregate amount of not less than the Default Requirement; or
 - (y) declares or imposes a moratorium, standstill, roll-over or deferral, whether *de facto* or *de jure*, with respect to one or more Obligations in an aggregate amount of not less than the Default Requirement; and
- (ii) a Failure to Pay, determined without regard to the Payment Requirement, or a Restructuring, determined without regard to the Default Requirement, with respect to any such Obligation, occurs on or prior to the Repudiation/Moratorium Evaluation Date.

“**Repudiation/Moratorium Evaluation Date**” means, if a Potential Repudiation/Moratorium occurs on or prior to the Scheduled Maturity Date, (i) if the Obligations to which such Potential Repudiation/Moratorium relates include Bonds, the date that is the later of (A) the date that is 60 days after the date of such Potential Repudiation/Moratorium and (B) the first payment date under any such Bond after the date of such Potential Repudiation/Moratorium (or, if later, the expiration date of any applicable Grace Period in respect of such payment date) and (ii) if the Obligations to which such Potential Repudiation/Moratorium relates do not include Bonds, the date that is 60 days after the date of such Potential Repudiation/Moratorium.

“Repudiation/Moratorium Extension Condition” means the delivery of a Repudiation/Moratorium Extension Notice and, if specified as applicable in the applicable Final Terms, Notice of Publicly Available Information by the Calculation Agent to the Issuer that is effective during the period from and including the Trade Date to and including the Scheduled Termination Date or, if Condition 11(f)(y) applies, the Postponed Maturity Date.

“Repudiation/Moratorium Extension Notice” means an irrevocable notice (which may be by telephone) from the Calculation Agent to the Issuer (which the Calculation Agent has the right but not the obligation to deliver) that describes a Potential Repudiation/Moratorium that occurred on or after the Trade Date and on or prior to the Scheduled Termination Date. A Repudiation/Moratorium Extension Notice must contain a description in reasonable detail of the facts relevant to the determination that a Potential Repudiation/Moratorium has occurred and indicate the date of the occurrence. The Potential Repudiation/Moratorium that is the subject of the Repudiation/Moratorium Extension Notice need not be continuing on the date the Repudiation/Moratorium Extension Notice is effective.

“Restructured Bond or Loan” means an Obligation which is a Bond or Loan and in respect of which the Restructuring that is the subject of a Credit Event Notice has occurred.

“Restructuring” means, with respect to one or more Obligations and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs in a form that binds all holders of such Obligation, is agreed between a Reference Entity or a Governmental Authority and a sufficient number of holders of the Obligation to bind all the holders of such Obligation or is announced (or otherwise decreed) by a Reference Entity or a Governmental Authority in a form that binds all holders of such Obligation, and such event is not expressly provided for under the terms of such Obligation in effect as of the later of the Trade Date and the date as of which such Obligation is issued or incurred:

- (i) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals;
- (ii) a reduction in the amount of principal or premium payable at maturity or at scheduled redemption dates;
- (iii) a postponement or other deferral of a date or dates for either (i) the payment or accrual of interest or (ii) the payment of principal or premium;
- (iv) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation to any other Obligation; or
- (v) any change in the currency or composition of any payment of interest or principal to any currency which is not a Permitted Currency.

Notwithstanding the above provisions, none of the following shall constitute a Restructuring:

- (a) the payment in euro of interest or principal in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;
- (b) the occurrence of, agreement to or announcement of any of the events described in (i) to (v) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
- (c) the occurrence of, agreement to or announcement of any of the events described in (i) to (v) above in circumstances where such event does not directly or indirectly result

from a deterioration in the creditworthiness or financial condition of the Reference Entity.

For purposes of the definition of Restructuring and Condition 11(l), the term Obligation shall be deemed to include Underlying Obligations for which the Reference Entity is acting as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee. In the case of a Qualifying Guarantee and an Underlying Obligation, references to the Reference Entity in the definition of Restructuring and the definition of Subordination shall be deemed to refer to the Underlying Obligor and the reference to the Reference Entity in the second paragraph of this definition of Restructuring shall continue to refer to the Reference Entity.

“Restructuring Date” means, with respect to a Restructured Bond or Loan, the date on which a Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring.

“Restructuring Maturity Limitation Date” means the date that is the earlier of (x) thirty months following the Restructuring Date and (y) the latest final maturity date of any Restructured Bond or Loan, provided, however, that under no circumstances shall the Restructuring Maturity Limitation Date be earlier than the Scheduled Termination Date or later than thirty months following the Scheduled Termination Date and, if it is, it shall be deemed to be the Scheduled Termination Date or thirty months following the Scheduled Termination Date, as the case may be.

“Settlement Currency” means the currency specified as such in the applicable Final Terms or, if no currency is specified in the applicable Final Terms, the Specified Currency of the Notes.

“Settlement Date” means the last day of the longest Physical Settlement Period following the satisfaction of Conditions to Settlement (the **“Scheduled Settlement Date”**) *“provided that”* if a Hedge Disruption Event has occurred and is continuing on the second Business Day immediately preceding the Scheduled Settlement Date, the Settlement Date shall be the earlier of (i) the second Business Day following the date on which no Hedge Disruption Event subsists and (ii) the day falling 60 Business Days following the Scheduled Settlement Date.

“Sovereign” means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) thereof.

“Sovereign Agency” means any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) of a Sovereign.

“Sovereign Restructured Deliverable Obligation” means an Obligation of a Sovereign Reference Entity (a) in respect of which a Restructuring that is the subject of the relevant Credit Event Notice has occurred and (b) described by the Deliverable Obligation Category specified in the applicable Final Terms, and, subject to paragraph (3) of “(B) Interpretation of Provisions” in the definition of “Deliverable Obligation”, having each of the Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms, in each case, immediately preceding the date on which such Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring without regard to whether the Obligation would satisfy such Deliverable Obligation Category or Deliverable Obligation Characteristics after such Restructuring.

“Specified Number” means the number of Public Source(s) specified in the applicable Final Terms or, if no number is specified in the applicable Final Terms, two.

“Substitute Reference Obligation” means one or more obligations of a Reference Entity (either directly or as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is

specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee) that will replace one or more Reference Obligations in respect of such Reference Entity, identified by the Calculation Agent in accordance with the following procedures:

- (a) In the event that:
 - (i) a Reference Obligation in respect of such Reference Entity is redeemed in whole; or
 - (ii) in the opinion of the Calculation Agent (A) the aggregate amounts due under any Reference Obligation in respect of such Reference Entity have been materially reduced by redemption or otherwise (other than due to any scheduled redemption, amortisation or prepayments), (B) any Reference Obligation in respect of such Reference Entity is an Underlying Obligation with a Qualifying Guarantee of a Reference Entity and, other than due to the existence or occurrence of a Credit Event, the Qualifying Guarantee is no longer a valid and binding obligation of such Reference Entity enforceable in accordance with its terms or (C) for any other reason, other than due to the existence or occurrence of a Credit Event, any Reference Obligation in respect of a Reference Entity is no longer an obligation of such Reference Entity,

the Calculation Agent shall identify one or more Obligations to replace such Reference Obligation in respect of a Reference Entity.

- (b) Any Substitute Reference Obligation or Substitute Reference Obligations shall be an Obligation that (1) ranks *pari passu* (or, if no such Obligation exists, then, at the option of the Issuer, an Obligation that ranks senior) in priority of payment with such Reference Obligation (with the ranking in priority of payment of such Reference Obligation being determined as of the later of (A) the Trade Date and (B) the date on which such Reference Obligation was issued or incurred and not reflecting any change to such ranking in priority of payment after such later date), (2) preserves the economic equivalent, as closely as practicable as determined by the Calculation Agent of the delivery and payment obligations of the Issuer and (3) is an obligation of a Reference Entity (either directly or as provider of a Qualifying Affiliate Guarantee or, if All Guarantees is specified as applicable in the applicable Final Terms, as provider of any Qualifying Guarantee). The Substitute Reference Obligation or Substitute Reference Obligations identified by the Calculation Agent shall, without further action, replace such Reference Obligation or Reference Obligations.
- (c) If more than one specific Reference Obligation is identified as a Reference Obligation in respect of a Reference Entity in relation to a Series, any of the events set forth in paragraph (a) above has occurred with respect to one or more but not all such Reference Obligations, and the Calculation Agent determines that no Substitute Reference Obligation is available for one or more of such Reference Obligations, each such Reference Obligation for which no Substitute Reference Obligation is available shall cease to be a Reference Obligation.
- (d) If more than one specific Reference Obligation is identified as a Reference Obligation in respect of a Reference Entity in relation to a Series, any of the events set forth in paragraph (a) above has occurred with respect to all such Reference Obligations, and the Calculation Agent determines that at least one Substitute Reference Obligation is available for any such Reference Obligation, then each such Reference Obligation shall be replaced by a Substitute Reference Obligation and each Reference Obligation for which no Substitute Reference Obligation is available will cease to be a Reference Obligation.
- (e) If:

- (i) more than one specific Reference Obligation is identified as a Reference Obligation in respect of a Reference Entity in relation to a Series, any of the events set forth in paragraph (a) above has occurred with respect to all such Reference Obligations and the Calculation Agent determines that no Substitute Reference Obligation is available for any of such Reference Obligations; or
- (ii) only one specific Reference Obligation is identified as a Reference Obligation in respect of a Reference Entity in relation to a Series, any of the events set forth in paragraph (a) above has occurred with respect to such Reference Obligation and the Calculation Agent determines that no Substitute Reference Obligation is available for that Reference Obligation,

then the Calculation Agent shall continue to attempt to identify a Substitute Reference Obligation until the later of (A) the Scheduled Termination Date, (B) the Grace Period Extension Date (if any) and (C) the Repudiation/Moratorium Evaluation Date (if any). If (i) either Cash Settlement is specified in the applicable Final Terms and the Credit Event Redemption Amount is determined by reference to a Reference Obligation or Physical Delivery is specified in the applicable Final Terms and the Reference Obligation is the only Deliverable Obligation and (ii) on or prior to the later of (A) the Scheduled Termination Date, (B) the Grace Period Extension Date or (C) the Repudiation/Moratorium Evaluation Date, a Substitute Reference Obligation has not been identified, the obligations of the Issuer under the Notes shall cease as of the later of (A) the Scheduled Termination Date, (B) the Grace Period Extension Date or (C) the Repudiation/Moratorium Evaluation Date.

- (f) For the purposes of identification of a Reference Obligation, any change in the Reference Obligation's CUSIP or ISIN number or other similar identifier will not, in and of itself, convert such Reference Obligation into a different Obligation.

"Succession Event" means an event such as a merger, de-merger, consolidation, amalgamation, transfer of assets or liabilities, spin-off or other similar event in which one entity succeeds to the obligations of another entity, whether by operation of law or pursuant to any agreement. Notwithstanding the foregoing, "Succession Event" shall not include an event in which the holders of obligations of the Reference Entity exchange such obligations for the obligations of another entity, unless such exchange occurs in connection with a merger, demerger, consolidation, amalgamation, transfer of assets or liabilities, spin-off or other similar event.

"Successor" means:

- (a) in relation to a Reference Entity that is not a Sovereign, the entity or entities, if any, determined as set forth below:
 - (i) if one entity directly or indirectly succeeds to 75 per cent. or more of the Relevant Obligations of the Reference Entity by way of a Succession Event, that entity will be the sole Successor;
 - (ii) if only one entity directly or indirectly succeeds to more than 25 per cent. (but less than 75 per cent.) of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than 25 per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entity that succeeds to more than 25 per cent. of the Relevant Obligations will be the sole Successor;
 - (iii) if more than one entity each directly or indirectly succeed to more than 25 per cent. of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than 25 per cent. of the Relevant Obligations of the Reference Entity remain with Reference Entity, the entities that succeed to more

than 25 per cent. of the Relevant Obligations will each be a Successor and these Terms and Conditions and/or the applicable Final Terms will be adjusted as provided below;

- (iv) if one or more entity each directly or indirectly succeed to more than 25 per cent. of the Relevant Obligations of the Reference Entity by way of a Succession Event, and more than 25 per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, each such entity and the Reference Entity will each be a Successor and these Terms and Conditions and/or the applicable Final Terms will be adjusted as provided below;
 - (v) if one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than 25 per cent. of the Relevant Obligations of the Reference Entity and the Reference Entity continues to exist, there will be no Successor and the Reference Entity will not be changed in any way as a result of the Succession Event;
 - (vi) if one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than 25 per cent. of the Relevant Obligations of the Reference Entity and the Reference Entity ceases to exist, the entity which succeeds to the greatest percentage of Relevant Obligations (or, if two or more entities succeed to an equal percentage of Relevant Obligations, the entity from among those entities which succeeds to the greatest percentage of obligations of the Reference Entity) will be the sole Successor; and
- (b) in relation to a Sovereign Reference Entity, any direct or indirect successor(s) to that Reference Entity irrespective of whether such successor(s) assumes any of the obligations of such Reference Entity.

In the case of (a) above, the Calculation Agent will be responsible for determining, as soon as reasonably practicable after it becomes aware of the relevant Succession Event (but no earlier than fourteen calendar days after the legally effective date of the Succession Event), and with effect from the legally effective date of the Succession Event, whether the relevant thresholds set forth above have been met, or which entity qualifies under (a)(vi) above, as applicable. In calculating the percentages used to determine whether the relevant thresholds set forth above have been met, or which entity qualifies under (a)(vi) above, as applicable, the Calculation Agent shall use, in respect of each applicable Relevant Obligation included in such calculation, the amount of the liability in respect of such Relevant Obligation listed in the Best Available Information and shall, as soon as practicable after such calculation, make such calculation available for inspection by Noteholder(s) at the specified office of the Agent and, for so long as the Notes are listed on the Luxembourg Stock Exchange, at the office of the Paying Agent in Luxembourg.

Where pursuant to paragraph (a)(iii) or (a)(iv) above, more than one Successor has been identified, the Calculation Agent shall adjust such of these Terms and Conditions and/or the applicable Final Terms as it in its sole and absolute discretion acting in a commercially reasonable manner shall determine to be appropriate to reflect that the relevant Reference Entity has been succeeded by more than one Successor and shall determine the effective date of that adjustment. The Calculation Agent shall be deemed to be acting in a commercially reasonable manner if it adjusts such of these Terms and Conditions and/or the applicable Final Terms in such a manner as to reflect the adjustment to and/or division of any credit derivative transaction(s) related to or underlying the Notes under the provisions of the 2006 ISDA Credit Derivatives Definitions.

Upon the Calculation Agent making such adjustment, the Issuer shall give notice as soon as practicable to Noteholders in accordance with Condition 18, stating the adjustment to these Terms and Conditions and/or the applicable Final Terms and giving brief details of the relevant Succession Event.

For the purposes of this definition of “Successor”, “**succeed**” means, with respect to a Reference Entity and its Relevant Obligations (or, as applicable, obligations), that a party other than such Reference Entity (i) assumes or becomes liable for such Relevant Obligations (or, as applicable, obligations) whether by operation of law or pursuant to any agreement or (ii) issues Bonds that are exchanged for Relevant Obligations (or, as applicable, obligations), and in either case such Reference Entity is no longer an obligor (primarily or secondarily) or guarantor with respect to such Relevant Obligations (or, as applicable, obligations). The determinations required pursuant to paragraph (a) of this definition of “Successor” shall be made, in the case of an exchange offer, on the basis of the Outstanding Principal Balance of Relevant Obligations tendered and accepted in the exchange and not on the basis of the Outstanding Principal Balance of Bonds for which Relevant Obligations have been exchanged.

Where:

- (A) a Reference Obligation is specified in the applicable Final Terms; and
- (B) one or more Successors to the Reference Entity have been identified; and
- (C) any one or more such Successors have not assumed the Reference Obligation,

a Substitute Reference Obligation will be determined in accordance with the definition of “Substitute Reference Obligation” above.

“**Supranational Organisation**” means any entity or organisation established by treaty or other arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns, and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and the European Bank for Reconstruction and Development.

“**Trade Date**” means the date specified as such in the applicable Final Terms.

“**Undeliverable Obligation**” means a Deliverable Obligation included in the Asset Amount which, on the Settlement Date for such Deliverable Obligation, the Calculation Agent determines for any reason (including without limitation, failure of the relevant clearance system or due to any law, regulation, court order or market conditions or the non-receipt of any requisite consents with respect to the Delivery of Loans) it is impossible or illegal to Deliver on the Settlement Date.

“**Unwind Costs**” means the amount specified in the applicable Final Terms or if “Standard Unwind Costs” are specified in the applicable Final Terms, an amount determined by the Calculation Agent equal to the sum of (without duplication) all costs, fees, charges, expenses (including loss of funding), tax and duties incurred by the Issuer and/or any of its Affiliates in connection with the redemption of the Notes and the related termination, settlement or re-establishment of any hedge or related trading position, such amount to be apportioned pro rata amongst each nominal amount of Notes in the Calculation Amount.

“**Valuation Date**” means (a) where Physical Delivery is specified as applying in the applicable Final Terms the day falling three Business Days after the Final Delivery Date, or (b) where Cash Settlement is specified as applying in the applicable Final Terms, if “Single Valuation Date” is specified in the applicable Final Terms, the date that is the number of Business Days specified in the Final Terms after the Credit Event Determination Date or, if the number of Business Days is not so specified, five Business Days after the Credit Event

Determination Date, and if “Multiple Valuation Dates” is specified in the applicable Final Terms, each of the following dates:

- (i) the date that is the number of Business Days specified in the applicable Final Terms after the Credit Event Determination Date (or, if the number of Business Days is not specified, five Business Days); and
- (ii) each successive date that is the number of Business Days specified in the applicable Final Terms (or if the number of Business Days is not so specified, five Business Days) after the date on which the Calculation Agent obtains a Market Value with respect to the immediately preceding Valuation Date.

When “Multiple Valuation Dates” is specified in the applicable Final Terms, the total number of Valuation Dates shall be equal to the number of Valuation Dates specified in the applicable Final Terms (or, if the number of Valuation Dates is not so specified, five Valuation Dates).

If neither Single Valuation Date nor Multiple Valuation Dates is specified in the applicable Final Terms, Single Valuation Date shall apply.

“Valuation Method”:

- (a) The following Valuation Methods may be specified in the applicable Final Terms for a Series with only one Reference Obligation and only one Valuation Date:
 - (i) **“Market”** means the Market Value determined by the Calculation Agent with respect to the Valuation Date; or
 - (ii) **“Highest”** means the highest Quotation obtained by the Calculation Agent with respect to the Valuation Date.

If no such Valuation Method is specified in the applicable Final Terms, the Valuation Method shall be Highest.

- (b) The following Valuation Methods may be specified in the applicable Final Terms for a Series with only one Reference Obligation and more than one Valuation Date:
 - (i) **“Average Market”** means the unweighted arithmetic mean of the Market Values determined by the Calculation Agent with respect to each Valuation Date; or
 - (ii) **“Highest”** means the highest Quotation obtained by the Calculation Agent with respect to any Valuation Date; or
 - (iii) **“Average Highest”** means the unweighted arithmetic mean of the highest Quotations obtained by the Calculation Agent with respect to each Valuation Date.

If no such Valuation Method is specified in the applicable Final Terms, the Valuation Method shall be Average Highest.

- (c) The following Valuation Methods may be specified in the applicable Final Terms for a Series with more than one Reference Obligation and only one Valuation Date:
 - (i) **“Blended Market”** means the unweighted arithmetic mean of the Market Value for each Reference Obligation determined by the Calculation Agent with respect to the Valuation Date; or
 - (ii) **“Blended Highest”** means the unweighted arithmetic mean of the highest Quotations obtained by the Calculation Agent for each Reference Obligation with respect to the Valuation Date.

If no such Valuation Method is specified in the applicable Final Terms, the Valuation Method shall be Blended Highest.

- (d) The following Valuation Methods may be specified in the applicable Final Terms for a Series with more than one Reference Obligation and more than one Valuation Date:
- (i) **“Average Blended Market”** means, using values with respect to each Valuation Date determined by the Calculation Agent in accordance with the Blended Market Valuation Method, the unweighted arithmetic mean of the values so determined with respect to each Valuation Date; or
 - (ii) **“Average Blended Highest”** means, using values with respect to each Valuation Date determined by the Calculation Agent in accordance with the Blended Highest Valuation Method, the unweighted arithmetic mean of the values so determined with respect to each Valuation Date.

If no such Valuation Method is specified in the applicable Final Terms, the Valuation Method shall be Average Blended Highest.

- (e) Notwithstanding paragraphs (a) to (d) above, if Quotations include Weighted Average Quotations or fewer than two Full Quotations, the Valuation Method shall be Market, Average Market, Blended Market or Average Blended Market, as the case may be.

“Valuation Time” means the time specified as such in the applicable Final Terms or, if no time is so specified, 11:00 a.m. in the principal trading market for the Reference Obligation.

“Weighted Average Quotation” means, in accordance with the Quotation Method, the weighted average of firm quotations obtained from Quotation Dealers at the Valuation Time, to the extent reasonably practicable, each for an amount of the Reference Obligation with an Outstanding Principal Balance of as large a size as available but less than the Quotation Amount (but, if a Minimum Quotation Amount is specified in the applicable Final Terms, of a size equal to the Minimum Quotation Amount or, if quotations of a size equal to the Minimum Quotation Amount are not available, quotations as near in size as practicable to the Minimum Quotation Amount) that in aggregate are approximately equal to the Quotation Amount.

(k) *Credit Event Notice after Restructuring Credit Event*

If Condition 11(k) is specified as applicable in the applicable Final Terms, then, notwithstanding anything to the contrary in these Terms and Conditions, upon the occurrence of a Restructuring Credit Event during the Notice Delivery Period:

- (a) the Calculation Agent may deliver a Credit Event Notice in respect of an amount (the **“Partial Redemption Amount”**) that is less than the principal amount outstanding of each Note immediately prior to the delivery of such Credit Event Notice. In such circumstances the provisions of Condition 11 shall be deemed to apply to the Partial Redemption Amount only and each such Note shall be redeemed in part (such redeemed part being equal to the Partial Redemption Amount).
- (b) For the avoidance of doubt (i) the principal amount of each such Note not so redeemed in part shall remain outstanding and interest shall accrue on the principal amount outstanding of such Note as provided in Condition 3 (adjusted in such manner as the Calculation Agent in its sole and absolute discretion determines to be appropriate), (ii) the provisions of Condition 11 shall apply to such principal amount outstanding of such Note in the event that subsequent Credit Event Notices are delivered in respect of the Reference Entity that was the subject of the Restructuring Credit Event and (iii) once a Credit Event Notice with respect to a Restructuring Credit Event has been delivered in respect of a Reference Entity, no further Credit Event Notices may be

delivered in respect of any Reference Entity other than the Reference Entity that was the subject of the Restructuring Credit Event.

- (c) If the provisions of this Condition 11(k) apply in respect of the Notes, on redemption of part of each such Note the relevant Note or, if the Notes are represented by a Global Note, such Global Note, shall be endorsed to reflect such part redemption.

(l) *Provisions relating to Multiple Holder Obligation*

If Condition 11(l) is specified as applicable in the applicable Final Terms, notwithstanding anything to the contrary in the definition of Restructuring and related provisions, the occurrence of, agreement to, or announcement of, any of the events described in subparagraphs (i) to (v) of the definition of “Restructuring” shall not be a Restructuring unless the Obligation in respect of any such events is a Multiple Holder Obligation.

“Multiple Holder Obligation” means an Obligation that (i) at the time of the event which constitutes a Restructuring Credit Event is held by more than three holders that are not Affiliates of each other and (ii) with respect to which a percentage of holders (determined pursuant to the terms of the Obligation as in effect on the date of such event) at least equal to sixty-six and two-thirds is required to consent to the event which constitutes a Restructuring Credit Event.

(m) *Provisions taken from the ISDA supplement titled “Additional Provisions – Monoline Insurer as Reference Entity (May 2003)”*

If Condition 11(m) is specified as applicable in the applicable Final Terms, the following provisions will apply:

- (a) Obligation and Deliverable Obligation. Paragraph (a) of the definition of “Obligation” in Condition 11(j) and paragraph (a) of the definition of “Deliverable Obligation” in Condition 11(j) are hereby amended by adding “or Qualifying Policy” after “as provider of a Qualifying Affiliate Guarantee”.
- (b) Interpretation of Provisions. In the event that an Obligation or a Deliverable Obligation is a Qualifying Policy, paragraph (B) of the definition of “Deliverable Obligation” in Condition 11(j) will apply, with references to the Qualifying Guarantee, the Underlying Obligation and the Underlying Obligor deemed to include the Qualifying Policy, the Insured Instrument and the Insured Obligor, respectively, except that:
 - (i) the Obligation Category Borrowed Money and the Obligation Category and Deliverable Obligation Category Bond shall be deemed to include distributions payable under an Insured Instrument in the form of a pass-through certificate or similar funded beneficial interest, the Deliverable Obligation Category Bond shall be deemed to include such an Insured Instrument, and the terms “obligation” and “obligor” as used in this Condition 11 in respect of such an Insured Instrument shall be construed accordingly;
 - (ii) references in the definitions of Assignable Loan and Consent Required Loan to “the guarantor” and “guaranteeing” shall be deemed to include “the insurer” and “insuring”, respectively;
 - (iii) neither the Qualifying Policy nor the Insured Instrument must satisfy on the relevant date the Deliverable Obligation Characteristic of Accelerated or Matured, whether or not that characteristic is otherwise specified as applicable in the applicable Final Terms;
 - (iv) if the Assignable Loan, Consent Required Loan, Direct Loan Participation or Transferable Deliverable Obligation Characteristics are specified in the

applicable Final Terms and if the benefit of the Qualifying Policy is not transferred as part of any transfer of the Insured Instrument, the Qualifying Policy must be transferable at least to the same extent as the Insured Instrument; and

- (v) with respect to an Insured Instrument in the form of a pass-through certificate or similar funded beneficial interest, the term “Outstanding Principal Balance” shall mean the outstanding Certificate Balance and “maturity”, as such term is used in the Maximum Maturity Deliverable Obligation Characteristic, shall mean the specified date by which the Qualifying Policy guarantees or insures, as applicable, that the ultimate distribution of the Certificate Balance will occur.
- (c) Not Contingent. An Insured Instrument will not be regarded as failing to satisfy the Not Contingent Deliverable Obligation Characteristic solely because such Insured Instrument is subject to provisions limiting recourse in respect of such Insured Instrument to the proceeds of specified assets (including proceeds subject to a priority of payments) or reducing the amount of any Instrument Payments owing under such Insured Instrument, provided that such provisions are not applicable to the Qualifying Policy by the terms thereof and the Qualifying Policy continues to guarantee or insure, as applicable, the Instrument Payments that would have been required to be made absent any such limitation or reduction. By specifying that this Condition 11(m) is applicable, no inference should be made as to the interpretation of the “Not Contingent” Deliverable Obligation Characteristic in the context of limited recourse or similar terms applicable to Deliverable Obligations other than Qualifying Policies.
- (d) Deliver. For the purposes of the definition of “Deliver” in Condition 11(j), “Deliver” with respect to an obligation that is a Qualifying Policy means to Deliver both the Insured Instrument and the benefit of the Qualifying Policy (or a custodial receipt issued by an internationally recognised custodian representing an interest in such an Insured Instrument and the related Qualifying Policy), and “Delivery” and “Delivered” will be construed accordingly.
- (e) Provisions for Determining a Successor. The paragraph commencing “For the purposes of this definition of “Successor” ..” in the definition of “Successor” in Condition 11(j) is hereby amended by adding “or insurer” after “or guarantor”.
- (f) Substitute Reference Obligation. The first paragraph of the definition of “Substitute Reference Obligation” and paragraph (b) thereof in Condition 11(j) is hereby amended by adding “or Qualifying Policy” after “or as provider of a Qualifying Affiliate Guarantee”. For purposes of sub-paragraph (a)(ii)(B) the definition of “Substitute Reference Obligation” references to “the Qualifying Guarantee” and the “Underlying Obligation” shall be deemed to include “the Qualifying Policy” and “the Insured Instrument”, respectively.
- (g) Other Provisions. For purposes of paragraph (a)(ii) of the definition of “Deliverable Obligation” and the definitions of “Credit Event” and “Deliver” in Condition 11(j) references to “the Underlying Obligation” and “the Underlying Obligor” shall be deemed to include “Insured Instruments” and the “Insured Obligor”, respectively.
- (h) Additional Definitions.

“**Qualifying Policy**” means a financial guaranty insurance policy or similar financial guarantee pursuant to which a Reference Entity irrevocably guarantees or insures all Instrument Payments of an instrument that constitutes Borrowed Money (modified as set forth in this Condition 11(m)) (the “**Insured Instrument**”) for which another party (including a special purpose entity or trust) is the obligor (the “**Insured Obligor**”). Qualifying Policies shall exclude any arrangement (i) structured as a surety bond,

letter of credit or equivalent legal arrangement or (ii) pursuant to the express contractual terms of which the payment obligations of the Reference Entity can be discharged or reduced as a result of the occurrence or non-occurrence of an event or circumstance (other than the payment of Instrument Payments). The benefit of a Qualifying Policy must be capable of being Delivered together with the Delivery of the Insured Instrument.

“Instrument Payments” means (A) in the case of any Insured Instrument that is in the form of a pass-through certificate or similar funded beneficial interest, (x) the specified periodic distributions in respect of interest or other return on the Certificate Balance on or prior to the ultimate distribution of the Certificate Balance and (y) the ultimate distribution of the Certificate Balance on or prior to a specified date and (B) in the case of any other Insured Instrument, the scheduled payments of principal and interest, in the case of both (A) and (B) (1) determined without regard to limited recourse or reduction provisions of the type described in Condition 11(m)(c) above and (2) excluding sums in respect of default interest, indemnities, tax gross-ups, make-whole amounts, early redemption premiums and other similar amounts (whether or not guaranteed or insured by the Qualifying Policy).

“Certificate Balance” means, in the case of an Insured Instrument that is in the form of a pass-through certificate or similar funded beneficial interest, the unit principal balance, certificate balance or similar measure of unreimbursed principal investment.

(n) *Supplement to provisions relating to Qualifying Guarantee and Underlying Obligation*

(a) If this Condition 11(n) is specified as applicable in the applicable Final Terms, Condition 11(j) shall be amended by:

(i) the deletion of the definition of “Downstream Affiliate” and the substitution of the following therefor:

“Downstream Affiliate” means an entity whose outstanding Voting Shares were, at the date of issuance of the Qualifying Guarantee, more than 50 per cent. owned, directly or indirectly, by the Reference Entity.”;

(ii) the deletion of paragraphs (B)(4)(ii) and (B)(4)(iii) of the definition of “Deliverable Obligation”, the substitution of the following therefor and the re-numbering of the remaining paragraphs accordingly:

“(ii) For purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, both the Qualifying Guarantee and the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or Deliverable Obligation Characteristics, if any, specified in the applicable Final Terms from the following list: Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency and Not Domestic Law. For these purposes, unless otherwise specified in the applicable Final Terms, (A) the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America or the euro shall not be a Domestic Currency and (B) the laws of England and the laws of the State of New York shall not be a Domestic Law.”; and

(iii) the deletion of the definition of “Qualifying Guarantee” and the substitution of the following therefor:

“Qualifying Guarantee” means an arrangement evidenced by a written instrument pursuant to which a Reference Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due

under an obligation (the “**Underlying Obligation**”) for which another party is the obligor (the “**Underlying Obligor**”). Qualifying Guarantees shall exclude any arrangement (i) structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement or (ii) pursuant to the terms of which the payment obligations of the Reference Entity can be discharged, reduced or otherwise altered or assigned (other than by operation law) as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). The benefit of a Qualifying Guarantee must be capable of being Delivered together with the Delivery of the Underlying Obligation.”; and

- (b) Condition 11(l) shall be amended by the insertion of the following at the end of the first paragraph thereof:

“provided that any Obligation that is a Bond shall be deemed to satisfy the requirement in (ii) of the definition of “Multiple Holder Obligation” below”.

- (o) *Calculation Agent and Calculation Agent Notices*

Whenever the Calculation Agent is required to act or exercise judgment, it will do so in good faith and in a commercially reasonable manner. The Calculation Agent shall, as soon as practicable after making any determination pursuant to this Condition 11, notify the Issuer and the Noteholders of such determination. The Calculation Agent is not acting as a fiduciary for or as an adviser to the Noteholders in respect of its duties as Calculation Agent in connection with any Notes.

The determination by the Calculation Agent of any amount or of any state of affairs, circumstance, event or other matter, or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Calculation Agent pursuant to this Condition 11 shall (in the absence of manifest error) be final and binding on the Issuer and the Noteholders. In performing its duties pursuant to the Notes, the Calculation Agent shall act in its sole and absolute discretion. Any delay, deferral or forbearance by the Calculation Agent in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion, and neither the Calculation Agent nor the Issuer shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.

In relation to the delivery by the Calculation Agent to the Issuer of any notice pursuant to this Condition 11, a notice delivered on or prior to 4:00 p.m. (Calculation Agent City time) on a Calculation Agent City Business Day will be effective on such Calculation Agent City Business Day. A notice delivered after 4:00 p.m. (Calculation Agent City time) on a Calculation Agent City Business Day or on a day which is not a Calculation Agent City Business Day will be deemed effective on the next following Calculation Agent City Business Day, regardless of the form in which it is delivered. For purposes of the two preceding sentences, a notice given by telephone will be deemed to have been delivered at the time the telephone conversation takes place. If the notice is delivered by telephone, a written confirmation will be executed and delivered confirming the substance of that notice within one Calculation Agent City Business Day of that notice. Failure to provide that written confirmation will not affect the effectiveness of that telephonic notice.

12. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay

such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (i) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6(e)); or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (A) “**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 to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes, Receipts and Coupons; and
- (B) “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 18.

13. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 12) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

14. EVENTS OF DEFAULT

- (a) *Events of Default relating to Senior Notes*

If any one or more of the following events (each an “**Event of Default**”) shall occur with respect to any Senior Note:

- (i) if default is made in the payment of any principal, premium (if any) or interest due in respect of the Notes or any of them and the default continues for a period of three days in the case of principal or premium (if any) and seven days in the case of interest; or
- (ii) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer of notice requiring the same to be remedied; or
- (iii) if any borrowed money of the Issuer or any of its Principal Subsidiaries is not paid when due or becomes (whether by declaration or automatically in accordance with the relevant agreement or instrument constituting the same) due and payable by reason of any default (however described) prior to the date when it would otherwise have become due or any creditor of the Issuer or any of its Principal Subsidiaries becomes entitled to declare any such Borrowed Money due and payable by reason of any default (however described) or any facility or commitment available to the Issuer or any of its Principal Subsidiaries relating to Borrowed Money is withdrawn, suspended or cancelled by reason of any default (however described) of the company concerned, provided that, for the purposes of this sub-clause (iii), the Borrowed Money must, when aggregated with all other Borrowed Money to which any part of this Condition 14(a)(iii) applies, exceed U.S.\$15,000,000 (or its equivalent in any other currency); or
- (iv) if any order is made by any competent court or resolution passed for the winding-up or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders; or
- (v) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (vi) if (A) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) the same is not discharged within 14 days; or
- (vii) if the Issuer or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors),

then any holder of a Senior Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Senior Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at their Early Redemption Amount (as described in Condition 7(f)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the purposes of this Condition:

“Principal Subsidiary” at any time shall mean a Subsidiary of the Issuer *inter alia*:

- (A) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 5 per cent. of the consolidated gross revenues, or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries; or
- (B) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately before the transfer is a Principal Subsidiary,

all as more particularly defined in the Agency Agreement.

A report by the Auditors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

(b) *Enforcement relating to Subordinated Notes*

- (i) If the Issuer fails to meet its obligations under the Subordinated Notes, any holder of a Subordinated Note may, at its own discretion and without further notice, institute proceedings in Iceland for the compulsory winding-up of the Issuer in accordance with Act No. 161/2002 on Financial Undertakings.
- (ii) Any holder of a Subordinated Note may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Subordinated Notes provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.
- (iii) If an order is made or an effective resolution is passed for the winding-up or liquidation of the Issuer, then the Subordinated Notes shall become due and payable at their Early Redemption Amount together with interest accrued to the date of repayment, without presentment, demand, protest or other notice of any kind.

(c) *Events of Default relating to Capital Notes*

- (i) The following events or circumstances (each an ***“Event of Default”***) shall be an event of default in relation to the Capital Notes:
 - (A) the Issuer shall default in the payment of principal for a period of three days in respect of any Capital Note which has become due and payable in accordance with the Conditions; or

- (B) the Issuer shall, to the extent that it is obliged to pay interest under Condition 5(h), default for a period of seven days in the payment of interest due on any Capital Note in accordance with the Conditions; or
 - (C) a court or agency or supervisory authority in Iceland (having jurisdiction in respect of the same) shall have instituted a proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or all or substantially all of its property, and such proceedings, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 14 days; or
 - (D) the Issuer shall file a petition to take advantage of any insolvency statute or shall voluntarily suspend payment of its obligations.
- (ii) If any Event of Default shall have occurred and shall be continuing, any holder of a Capital Note may give notice to the Issuer that the Capital Note is, and it shall accordingly, subject to this Condition 14(c), forthwith become, immediately due and repayable whether or not the whole or any part of any Converted Amount has been reconverted and reinstated as debt at an amount equal to the principal amount (construed as provided above) of the Capital Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make such payment of interest in accordance with Condition 5(h) or would be so obliged were the due date for repayment an Interest Payment Date).
 - (iii) If a Capital Note has been declared due and payable under this Condition 14(c), the holder of the Capital Note may claim payment in respect of the Capital Notes only in the insolvency or voluntary or involuntary liquidation of the Issuer and may therefore institute such steps, including the obtaining of a judgment against the Issuer for any amount due in respect of the Capital Notes, as it thinks desirable with a view to having the Issuer declared insolvent or put into liquidation.
 - (iv) A holder of Capital Notes may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Capital Notes (other than, without prejudice to sub-paragraphs (ii) and (iii) above, any obligation for the payment of any principal or interest in respect of the Capital Notes) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

A provider of any Converted Amount may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under Condition 2(c) or 2(d) provided that the Issuer shall not by virtue of the institution of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

- (v) No remedy against the Issuer, other than as provided in sub-paragraphs (ii), (iii) and (iv) above, or proving or claiming in the insolvency or voluntary or involuntary liquidation of the Issuer in Iceland or elsewhere, shall be available to the holders of Capital Notes, whether for the recovery of amounts owing in respect of the Capital Notes or in respect of any breach by the Issuer of any of its obligations or undertakings with respect to the Capital Notes.

15. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

16. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent; and
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or other relevant authority); and
- (c) there will at all times be a paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 18.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

17. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 13.

18. NOTICES

All notices regarding the Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London, and (ii) if and for so long as the Notes are admitted to trading on, and listed on the Official List of, the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg and/or on the Luxembourg Stock Exchange's website (www.bourse.lu). It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and *Luxemburger*

Wort or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

19. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement although any modification in relation to Capital Notes cannot be made without the prior approval of the FSA (provided that such approval can be validly given in accordance with the rules, regulations and policies of the FSA). Such a meeting may be convened by the Issuer or Noteholders holding not less than 5 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 18 as soon as practicable thereafter.

20. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

21. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Except as provided herein in relation to providers of any Converted Amount and as provided in the Global Notes in relation to Accountholders (as defined therein), no person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

22. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law*

The Agency Agreement, the Deed of Covenant, the Notes (other than Conditions 2(b), 2(c), 2(d), 2(e), 5(h), 7(e) and 7(m)), the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with any of the above shall be governed by, and construed in accordance with, English law. Conditions 2(b), 2(c), 2(d), 2(e), 5(h), 7(e) and 7(m) of the Notes are governed by, and shall be construed in accordance with, Icelandic law.

(b) *Submission to jurisdiction*

The Issuer agrees, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons (including any dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons) and that accordingly any suit, action or proceedings arising out of or in connection with any of the above (together referred to as “**Proceedings**”) may be brought in such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one

or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) *Appointment of Process Agent*

The Issuer appoints Kaupthing Singer & Friedlander Limited of One Hanover Street, London W1S 1AX, United Kingdom as its agent for service of process, and undertakes that, in the event that Kaupthing Singer & Friedlander Limited ceases so to act or ceases to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

(d) *Waiver of immunity*

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

(e) *Other documents*

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, which include making a profit. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF THE ISSUER

All references to “we”, “us”, “our” and “Kaupthing” under this “Description of the Issuer” are references to the Issuer.

Overview

We are a Northern European bank with shares listed on the OMX ICE and the OMX STO. We operate in 14 jurisdictions, including all the Nordic countries, Belgium, Germany, the Isle of Man, the United Kingdom, Luxembourg, Switzerland, the United States, the DIFC and the QFC. We hold banking licenses in Iceland, the United Kingdom, Denmark, Sweden, Belgium, Switzerland, the Isle of Man and Luxembourg. We also operate branches within the EEA which are authorised to accept deposits. In the United States, we operate through our subsidiary Kaupthing Securities Inc., a licensed broker-dealer. Iceland, Scandinavia and the United Kingdom currently are our most important markets, generating 33.0 per cent., 25.8 per cent. and 31.3 per cent., respectively, of our net operating income in 2007.

We offer integrated financial services to companies, institutional investors and individuals. Our services include investment banking, corporate banking, capital markets services and asset management and comprehensive wealth management for private banking clients. In addition, we operate a retail banking franchise in Iceland, where we have our headquarters and, to a lesser extent, in Sweden.

We currently are one of the seven largest banks in the Nordic region in terms of market capitalisation. We have expanded through organic growth and strategic acquisitions, such as the acquisition of FIH Erhvervsbank A/S (“**FIH**”) in July 2004 for ISK 85,868 million and the more recent acquisition of UK-based bank Singer & Friedlander Group plc (“**Singer & Friedlander**”) in July 2005 for ISK 63,708 million. We believe that these acquisitions have improved the quality of our loan portfolio and increased the diversification of our operations. However, FIH, being a wholesale commercial bank, generates lower interest margins than our other banking operations.

We believe that our results for 2007 reflect our focus on Northern Europe, which we consider to be our home market. Approximately 67 per cent. of our income in 2007 was generated outside Iceland. We expect this percentage to increase in 2008, as we seek to expand our activities in Northern Europe. We currently have senior long-term debt ratings of ‘A1’ from Moody’s and ‘A-’ from Fitch. As of 31st December, 2007, our total assets were ISK 5,347,345 million, our Tier 1 ratio was 9.6 per cent. and our Capital Adequacy Directive (“**CAD**”) ratio was 11.8 per cent. Our net earnings for 2007 were ISK 71,191 million, a decrease of 17.6 per cent. from 2006 primarily as a result of more difficult conditions in financial markets.

We operate across five core business segments:

- Investment Banking;
- Banking;
- Capital Markets;
- Treasury; and
- Asset Management and Private Banking.

In addition, we operate a number of ancillary units such as Risk Management, Information Technology, Finance and Sales and Marketing.

History

We were created in our present form by the merger of two of Iceland’s foremost banks, Kaupthing Bank hf. and Búnadarbanki Islands hf. (“**Búnadarbanki**”), both of which enjoyed a strong market

position in Iceland. Búnadarbanki dates back to 1929, when the Icelandic parliament, the Althing, passed a law on the founding of Búnadarbanki. At the beginning of 1998, Búnadarbanki became a limited liability company and the government began to sell its holdings in the bank. The bank was privatised in stages and this process was completed at the beginning of 2003. Búnadarbanki was listed on the Main List of the Iceland Stock Exchange in December 1998.

Kaupthing hf. was established in Reykjavík in 1982, coinciding with the launch of the free capital market in Iceland. Kaupthing hf. later became an investment bank and changed its name to Kaupthing Bank hf. in 2002. In September 2000, Kaupthing Bank hf. was listed on the Iceland Stock Exchange (now the OMX ICE) and, in December 2002, it was listed on the O-list of the Stockholm Stock Exchange (now the OMX STO).

In May 2003, Kaupthing Bank hf. and Búnadarbanki merged under the name Kaupthing Búnadarbanki hf., which later became Kaupthing Bank hf. Kaupthing Bank hf. acquired the assets and liabilities of Búnadarbanki and shareholders in Búnadarbanki received 48.23 per cent. of the total share capital in Kaupthing Bank hf. in exchange for their shares.

In recent years, we have strengthened our position abroad by acquiring financial companies and establishing subsidiaries. We believe that the most important developments so far have been the acquisition in 2002 of the Swedish bank, JP Nordiska AB (now Kaupthing Bank Sverige AB), the acquisition in September 2004 of the Danish bank FIH and the acquisition in July 2005 of the UK-based bank Singer & Friedlander. The acquisition of JP Nordiska AB significantly strengthened our position in the Nordic countries, an area which we consider to be our home market. Our acquisition of FIH, a Danish corporate lending bank, approximately doubled the size of our balance sheet and further diversified our loan portfolio. We continue to evaluate potential acquisition opportunities that could further expand our international banking operations

Recent Developments

Decision not to proceed with the announced acquisition of NIBC

On 30th January, 2008, Kaupthing Bank hf. and NIBC determined not to proceed with the announced acquisition of NIBC by Kaupthing Bank hf. due to the instability in financial markets. Relevant regulatory submissions have been withdrawn and the share purchase agreement has been terminated.

In light of this development, the proposed rights issue in Kaupthing Bank hf. which was due to take place in the first quarter of 2008 was cancelled.

The final phase in the restructuring of our UK business

On 25th February, 2008, we announced, as the final step in the restructuring of our UK business following our acquisition of Singer & Friedlander in 2005, that our UK subsidiary, Kaupthing Singer & Friedlander Limited ("**KSF**"), will be exiting its Asset Finance and Commodity Trade Finance businesses and that KSF has made structural changes within its Banking Division.

Following the restructuring KSF will be purely focused on providing integrated financial services to SMEs and high net worth individuals through its five core business segments: Banking, Investment Banking, Treasury, Capital Markets and Asset Management & Private Banking.

Asset Finance (Corporate Asset Finance, Healthcare Asset Finance and Insurance Premium Finance) and Commodity Trade Finance are non-core to KSF and have been operating largely on a standalone basis. Exiting these businesses will have a positive impact on KSF's cost base and will free up liquidity in excess of £1 billion (€1.3 billion) in 2008. The capital released will be reinvested to further grow the core UK business. After the divestment there is no longer any significant asset finance business within the Group.

In addition KSF has transferred the Structured Finance division from Banking into the Acquisition and Leveraged Finance division within Investment Banking. KSF will also close its Property and Corporate Banking activities in Leeds and Manchester and move them to Birmingham and London.

Furthermore, on 5th August, 2008 KSF announced that it had sold its Insurance Premium Finance business to Close Brothers at a small premium to net asset value. The sale will free up more than £100 million in liquidity for KSF. The Commodity Trade Finance business has also effectively been closed and 97 per cent. of the initial portfolio, which was approximately £350 million, has been recouped.

The exit from the Asset Finance business has been ongoing since the announcement attracted interest for the whole and parts of the operation from a number of potential acquirers. The disposal process of the Corporate Asset Finance and Healthcare Finance divisions is ongoing and Kaupthing expects to give a further update on progress in the coming months.

Rating Changes

On 28th February, 2008 Moody's Investors Service, Inc. ("**Moody's**") downgraded our long-term deposit and senior debt ratings in local and foreign currencies one notch from Aa3 to A1 and the Bank's Financial Strength Rating from C to C-.

Our rating for short-term obligations in local and foreign currencies of P-1, which is the highest short-term rating given by Moody's, remains unchanged.

The outlook on all ratings is stable. The ratings were affirmed on 21st May, 2008 following Moody's downgrade of the Icelandic Sovereign to Aa1 from Aaa.

According to Moody's, our recurring earnings power and capital adequacy weakened in 2007 from previously strong levels, and our business model remains reliant on investment banking and capital markets activities, both of which Moody's expects to prove challenging over the coming years. The adverse shift in market conditions may put downward pressure on our capital adequacy assuming moderate asset growth.

Moody's notes that our liquidity profile and cash position is strong, and the announced asset sale by KSF is also viewed positively in terms of liquidity. Even though the rating agency expresses concerns with regard to asset quality, it notes that it has conducted several stress tests on our loan portfolio, subjecting it among other things to different defaults, which showed that we can withstand substantial downward pressure.

On 9th May 2008, Fitch Ratings Ltd. ("**Fitch**") downgraded our Long-term Issuer Default Rating ("**IDR**") one notch from A to A- and our Short-term IDR from F1 to F2. Our Individual rating of B/C, Support 2 and Support Rating Floor BBB remains unchanged. The long-term IDR was placed on negative outlook.

According to Fitch, our ratings, while supported by the geographic diversification of our franchise and success in turning around and integrating foreign subsidiaries, also reflect an expectation of some deterioration in its core markets of Iceland and the UK. The large liquidity portfolio maintained by us and launch of retail deposits accounts in a large number of countries should support the diversification of our funding sources.

Postponement of change of Functional Currency

In accordance with IFRS standards, our Board of Directors decided last year to change our functional currency to the euro from the beginning of 2008.

The importance of the euro in our operations has increased in recent years. For example, as at 31st December, 2007, less than 14 per cent. of our total assets and less than 11 per cent. of total debt were in ISK.

The application process took, however, more time than expected and in March 2008 it was announced that at that point, more than two months into the accounting year, it would be difficult to change the functional currency as of 1st January 2008. Also taken into consideration was the current market turbulence.

Furthermore, at the Annual General Meeting held on 7th March 2008, a proposal was approved which authorises our Board of Directors to be able to apply for our share capital to be denominated in euros instead of Icelandic krónas. It is expected that settlement of trading with shares denominated in euro will be possible in Iceland before the end of 2008. Our Board of Directors considers it appropriate to change the functional currency and the denomination of the share capital at the same time.

In view of the above, we decided in March, 2008 to postpone the change of the functional currency to the euro until January 2009 and to withdraw the current application. Our Board of Directors is, however, still determined to change the functional currency to the euro to ensure that our accounts give at all times a true and fair view of our consolidated financial position.

Proposed acquisition of SPRON

On 30th April, 2008 we announced that we had decided to enter negotiations with Reykjavik Savingsbank hf. (“**SPRON**”) on a possible merger between the companies.

On 1st July, 2008 the Boards of Directors of Kaupthing Bank hf. and SPRON agreed on a merger schedule, according to which we will take over SPRON's assets and liabilities by a merger. The merger will have an insignificant impact on our total size on a consolidated basis.

The merger is subject to the approval of the Icelandic Financial Supervisory Authority. The merger is also subject to the competition authorities not rejecting it or imposing conditions which the Boards of Directors of the companies consider unacceptable or which would make it inevitable to resubmit the merger proposal to a SPRON shareholders' meeting. The creditors' approval and shareholders' approvals of the merger have already been obtained.

Legal Status and Legislative Background

The Issuer is a public limited company incorporated in Iceland in 1982 for an unlimited duration and operating under Icelandic law. It is registered with the registrar of companies in Iceland and its registration number is 560882-0419. The registered office of the Issuer is at Borgartun 19, 105 Reykjavik, Iceland, tel. +354 444 6000. The operations of the Issuer are, among other things, subject to the provisions of Act no. 2/1995 on Public Limited Companies, as amended, and Act no. 161/2002 on Financial Undertakings, as amended. The Issuer is subject to the supervision of the Icelandic Financial Supervisory Authority.

Under the Issuer's constitutional documents, its legal name is Kaupthing Bank hf. (Kaupthing banki hf. in Iceland, previously Kaupthing Bunadarbanki hf.). Prior to 28th April, 2004, the Issuer issued Notes under the Programme using the legal name Kaupthing Bunadarbanki hf. Since 28th April, 2004, the Issuer has used the legal name Kaupthing Bank hf. for all purposes under the Programme, as it became the policy of the Issuer to use the legal name of Kaupthing Bank hf. abroad instead of the English spelling of the previous Icelandic legal name, Kaupthing Bunadarbanki hf.

SOURCES OF FUNDS

Liquidity, Capital and Funding

Funding

Our principal sources of funding are capital market issuances, deposits and inter-bank borrowings. Historically, we have relied on the capital markets as our principal source of funding, although in recent years we have successfully sought to increase deposits as a source of funds.

In general, we seek to utilise local knowledge and relationships to raise short term funds and domestic currency funding in each entity in the Group to meet a part of each entity's funding needs. FIH covers most of its own funding needs but the majority of the remaining Group's long term funding is raised by us. We can finance other operations of the Group through inter-group borrowings.

In general, our long term funding strategy for 2008 and 2009 is made from a liquidity perspective. Thus, our long-term funding strategy is based on our projections and expectations on redemptions and other future outflow and we aim to estimate how much funding is needed to keep our secured liquidity above our liquidity requirements to ensure ongoing liquidity.

The table below sets out our funding sources, by amount and as a percentage of total funding, as at 31st December, 2007, 2006 and 2005.

		<i>At 31st December,</i>					
		<i>2007</i>		<i>2006</i>		<i>2005</i>	
		<i>(ISK millions)</i>	<i>(%)</i>	<i>(ISK millions)</i>	<i>(%)</i>	<i>(ISK millions)</i>	<i>(%)</i>
Credit institutions and							
central banks		339,088	7.4	110,456	3.2	69,643	3.1
Deposits		1,381,457	30.0	750,658	21.6	486,175	21.9
Bonds issued		1,638,113	35.6	1,762,483	50.7	1,158,806	52.4
Bills issued		136,813	3.0	156,203	4.5	164,910	7.4
Money market		555,606	12.1	373,285	10.7	200,581	9.1
Other loans		285,428	6.2	107,968	3.1	32,270	1.5
Subordinated loans ..		267,289	5.8	216,030	6.2	102,688	4.6
Total		4,603,794	100.0	3,477,083	100.0	2,215,073	100.0

The table below shows the maturity profile of our long-term borrowing at 31st December, 2007.

		<i>2012 and beyond</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Kaupthing Bank hf.		587,635	170,931	240,988	385,908	155,982
FIH		106,911	47,400	131,714	151,637	170,521
KSF		9,994	0	31,668		
Total		704,540	218,331	404,370	537,545	326,503

The table below shows the maturity profile of our financial assets and liabilities at 31st December, 2007.

	<i>On demand</i>	<i>Up to 3 months</i>	<i>3 – 12 months</i>	<i>1 – 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
<i>(ISK millions)</i>						
Assets:						
Cash and central bank balances.. ..	97,959					97,959
Loans to credit institutions	222,264	338,345	17,074	7,780	2,978	588,441
Loans to customers ..	246,355	659,348	436,019	1,105,372	857,314	3,304,408
Financial assets measured at fair value	284,342	207,845	27,241	189,171	136,691	845,290
Financial assets available-for-sale.. ..					165	165
Total financial assets	850,920	1,205,538	480,334	1,302,323	997,148	4,836,263
Liabilities:						
Credit institutions and central banks	15,756	268,668	21,429	31,335	1,900	339,088
Deposits	409,995	752,544	151,599	23,237	44,082	1,381,457
Borrowings	62,024	527,799	284,895	1,427,770	313,472	2,615,960
Financial liabilities measured at fair value	118,443	17,477	20,180	96,703	232,431	485,234
Total financial liabilities	606,218	1,566,488	478,103	1,579,045	591,885	4,821,739
Net financial assets/ (liabilities)	244,702	-360,950	2,231	-276,722	405,263	14,524
Cumulative net financial assets/ (liabilities)	244,702	-116,248	-114,017	-390,739	14,524	14,524

Deposits

Deposits from credit institutions and central banks totalled ISK 339,088 million as at 31st December, 2007, an increase of ISK 228,632 million or 207.0 per cent. over ISK 110,456 million as at 31st December, 2006.

	<i>31.12.2007</i>	<i>31.12.2006</i>
Due to credit institutions and central banks by maturity:		
On demand	15,756	10,384
Up to 3 months	268,668	90,269
Over 3 months and up to a year	21,429	4,045
Over 1 year and up to 5 years	31,335	3,605
Over 5 years	1,900	2,153
Due to credit institutions and central banks.. ..	339,088	110,456

During the year ended 31st December, 2007, there was an increase in other deposits to ISK 1,381,457 million as at 31st December, 2007, compared with ISK 750,658 million as at 31st December, 2006. We had a deposit to customer loan ratio of 29.57 per cent. as at 31st December, 2006 and 41.81 per cent. as at 31st December, 2007 and have set a long-term target of 50.0 per cent.

The table below sets out a breakdown of the Issuer's deposits as at 31st December, 2007 and 31st December, 2006 in accordance with IFRS.

	<u>31.12.2007</u>	<u>31.12.2006</u>
Other deposits by maturity:		
On demand	409,995	226,966
Up to 3 months	752,544	409,317
Over 3 months and up to a year	151,599	86,755
Over 1 year and up to 5 years	23,237	21,459
Over 5 years	44,082	6,161
Other deposits	<u>1,381,457</u>	<u>750,658</u>

Liquidity

We consider liquidity to be a vital component of our business. Our liquidity could be impaired in several situations, most of which may arise due to circumstances which we are unable to control. Therefore, it is essential that we hold a strong base of liquid assets. Our liquid assets consist of financial assets, such as bonds, loans to credit institutions and cash and cash balances with central banks. The table below shows the composition of our liquid assets, by amount and as a percentage of total liquid assets as at 31st December, 2007, 2006 and 2005.

<i>At 31st December,</i>							
<u>2007</u>				<u>2006</u>		<u>2005</u>	
	<i>(ISK millions)</i>	<i>(%)</i>		<i>(ISK millions)</i>	<i>(%)</i>	<i>(ISK millions)</i>	<i>(%)</i>
Cash and cash balances							
with central banks ..	97,959	9%		106,961	10%	34,877	5%
Loans to credit							
institutions	588,441	52%		485,334	47%	195,594	28%
Bonds and debt							
instruments	367,350	33%		318,264	31%	390,575	56%
Total liquid assets ..	<u>1,053,750</u>	<u>94%</u>		<u>910,559</u>	<u>89%</u>	<u>621,046</u>	<u>89%</u>
Listed equities	67,236	6%		113,816	11%	72,596	11%
Total liquid assets and listed equities	<u>1,116,986</u>	<u>100%</u>		<u>1,024,375</u>	<u>100%</u>	<u>693,642</u>	<u>100%</u>

In addition, as at 31st December, 2007, we had ISK 516,295 million of committed and undrawn revolving and backup credit facilities and ISK 349,335 million available under our commercial paper programs.

In 2006 we introduced a stricter liquidity measure, called secured liquidity. The primary goal of our liquidity management is to have enough secured (committed) liquidity to cover all maturing obligations for at least 360 days and at the same time maintain stable level of business without any access to the capital markets. Therefore, we have established new committed bank facilities to strengthen our liquidity position. They include revolving credit facilities, repurchase agreements and a variety of backup facilities to give us continuous access to liquidity. They have strengthened our secured liquidity, and we (including FIH) now have secured liquidity in excess of 360 days, so that we can carry out our day-to-day business, including covering all of our maturing obligations for at least 360 days without having to access the capital markets.

We believe that our liquidity position has remained strong over the past few months and that our exposure to the prevailing volatility in the markets where we operate, particularly in Iceland, has been significantly reduced. See “*Risk Management—Liquidity Risk*”.

Capital

The management of our capital base is critical to the growth of our loan portfolio and other risk-weighted assets. Risk weighted assets have grown from ISK 1,945 billion as at 31st December, 2005 to ISK 3,068 billion as at 31st December, 2006 and ISK 4,113 billion as at 31st December, 2007. Against this increase, we have sought to increase our capital base, both through the issuance of additional equity and of subordinated debt that qualifies as Tier I and Tier II capital.

The table below shows the development of our capital base since 2005.

											<i>At 31st December,</i>		
											<i>2007</i>	<i>2006</i>	<i>2005</i>
Total risk weighted assets	..	..	..	..	..	..	..	..	..	..	4,113,432	3,067,640	1,945,271
Equity													
Total Tier I capital	..	..	..	..	..	..	..	..	..	..	395,504	321,433	182,028
Total Tier II capital	..	..	..	..	..	..	..	..	..	..	90,640	139,393	54,834
Total capital	..	..	..	..	..	..	..	..	..	..	486,144	460,826	236,862
CAD ratio	..	..	..	..	..	..	..	..	..	..	11.80%	15.00%	12.20%
Tier I capital ratio	..	..	..	..	..	..	..	..	..	..	9.60%	10.50%	9.40%

According to the provisions of Articles 84 and 85 of the Law No. 161/2002 on Financial Undertakings, a bank's subordinated loans and equity capital, after subtraction of the book value of shares held in other financial institutions, may not at any time fall below 8.0 per cent. of its risk-adjusted asset base, as defined by law. The risk-adjusted asset base of a bank is comprised of total assets as well as guarantees issued and calculated risk factors after the deduction of various figures in the balance sheet, according to the rules of the Financial Supervisory Authority. As at 31st December, 2007, the Issuer complies with all statutory ratios in accordance with the provisions of Art. 28 and 83 of the Act on Financial Undertakings. Together with subordinated loans, total capital and reserves amounted to ISK 486,144 million as at 31st December, 2007 of which ISK 395,504 million consisted of Tier 1 capital. It is the Issuer's policy to seek to maintain an 11 per cent. capital ratio for the Group with a minimum Tier 1 ratio of 8 per cent.

The Issuer's equity as at 31st December, 2007 amounted to ISK 356,431 million. The Issuer's capital adequacy ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 11.8 per cent. as at 31st December, 2007. According to the law the ratio may not go below 8 per cent.

Uses of Funds

The table below sets out a breakdown of the Issuer's uses of funds as at 31st December, 2007 and 31st December, 2006 in accordance with IFRS.

											<i>31.12.2007</i>	<i>31.12.2006</i>
Cash and cash balances with central banks	..	..	..	..	..	..	..	..	..	..	97,959	106,961
Loans and advances	..	..	..	..	..	..	..	..	..	..	3,892,849	3,023,943
Financial assets measured at fair value	..	..	..	..	..	..	..	..	..	..	845,290	664,965
Financial assets available-for-sale	..	..	..	..	..	..	..	..	..	..	165	164
Investments in associates	..	..	..	..	..	..	..	..	..	..	83,831	5,304
Intangible assets	..	..	..	..	..	..	..	..	..	..	66,774	68,301
Investment property	..	..	..	..	..	..	..	..	..	..	28,155	31,584
Property and equipment	..	..	..	..	..	..	..	..	..	..	32,714	30,466
Tax assets	..	..	..	..	..	..	..	..	..	..	6,899	5,834
Non-current assets and disposal groups classified as held-for-sale											1,842	2,334
Other assets	..	..	..	..	..	..	..	..	..	..	290,867	115,540
Total assets	..	..	..	..	..	..	..	..	..	..	5,347,345	4,055,396

The predominant lending activity of the Issuer is making loans to an extensive range of corporate customers and private individuals.

The Issuer provides services to all sectors and has sought to establish a diversified portfolio of marketable securities and loans in order to minimise its lending risks. The Issuer believes that its portfolio of loans and marketable securities is well distributed between economic sectors.

The table below sets out the breakdown of the Issuer's total loans and marketable securities by customer categories as at 31st December, 2007.

	<u>31.12.2007</u>
Industry	17.1%
Service	18.3%
Individuals	17.1%
Real estate	20.7%
Holding companies	14.7%
Trade.. .. .	10.1%
Transportation	2.0%
	<u>100.0%</u>

The table below sets out a breakdown by remaining maturity of the Group's loans to customers and leasing agreements as at 31st December, 2007 and 31st December, 2006.

	<u>31.12.2007</u>	<u>31.12.2006</u>
On demand	246,355	202,564
Up to 3 months	659,348	437,861
Over 3 months and up to a year	436,019	326,551
Over 1 year and up to 5 years	1,105,372	796,445
Over 5 years	857,314	775,188
Loans to customers	<u>3,304,408</u>	<u>2,538,609</u>

Shareholders

The table below sets out the 10 largest shareholders of the Issuer as at 31st December, 2007.

	<u>Shares</u>	<u>%</u>
Exista B.V	170,439,413	23.02%
Egla Invest B.V.	73,153,352	9.88%
Gift fjárfestingarfélag ehf.	25,587,835	3.46%
Lífeyrissjóðir Bankastræti 7	23,876,240	3.22%
Lífeyrissjóður verslunarmanna	23,568,100	3.18%
Gildi –lífeyrissjóður	21,495,380	2.90%
Raffeisen Zentralbank Österreich	13,550,300	1.83%
Sund ehf.	8,638,506	1.17%
Sigurður Einarsson	8,180,423	1.10%
Hreiðar Már Sigurðsson ehf.	7,235,239	0.98%

RISK MANAGEMENT

We face various types of risks related to our business as a financial institution, which arise from our day-to-day operations. The most significant of these risks are described below. Management devotes a considerable portion of its time to the management of risk. Effective risk management involves identifying the significant risks, quantifying our exposure to these risks and taking appropriate action to limit these risks by, among other things, constantly monitoring them.

Risk Policy

Our Chief Risk Officer is responsible for coordinating risk management on a Group-wide level, both in terms of risk reporting and enforcing adherence to the Group's risk policy. The Risk Management division plays a crucial role in gathering information across subsidiaries, analysing and aggregating the information collected and highlighting any risk concentrations and aberrations to our Chief Risk Officer and Group management. The information presented in the reports generated for our Chief Risk Officer and/or Group management may be detailed or provide a summary of the information collected and analysed, depending on the purpose of the reports. Our Chief Risk Officer or Group management may request further explanations or more detailed information after reviewing the reports. Measures aimed at controlling or reducing risk, such as limits on exposures and concentrations of risks, are also often monitored through our Risk Management division, which is responsible for overseeing risk on a Group-wide level. Within our subsidiaries, local risk management units operate to further enforce compliance with local risk policies, report to local management and coordinate risk control methods and measures with our Risk Management division or our Chief Risk Officer.

Many risks can adversely affect our business. Banks and other financial institutions must determine the magnitude of risk and limit it with sensible credit and investments in other assets. It is the policy of our board of directors that the various risks be constantly monitored and managed. For these purposes, we operate a centralised Risk Management division. In addition, our internal auditor oversees our operations in order to ensure that our rules and procedures are implemented in accordance with resolutions made by our board of directors.

Our board of directors determine our goals in terms of risk by issuing a risk policy. The risk policy defines both the acceptable levels of risk for day-to-day operations, as well as our willingness to incur risk weighed against the expected rewards. Our risk policy is detailed in an Internal Control and Procedural Handbook, which is maintained by the Risk Management division and revised at least annually. Amendments or minor changes can be made more frequently but each change must be approved by our Chief Executive Officer ("**CEO**") before it becomes effective and then must be approved by our board of directors. Significant changes and changes that affect risk limitations are submitted to our board of directors for review and approval before they take effect. Our board of directors review and approve the handbook on an annual basis.

The Risk Management division enforces our risk policy by monitoring risk, with the aim of identifying and quantifying significant risk exposures and acting upon them if necessary. To ensure that our decision-making process is properly supervised and that the boundaries set by our board of directors and the regulatory authorities are not exceeded, the Risk Management division regularly reports risk exposures, usage of limits and any special concerns to senior management and our board of directors.

Types of Risks

Credit Risk

Credit risk is the current or prospective risk to earnings and capital arising from the failure of an obligor to repay principal or interest at the stipulated time or otherwise to perform as agreed. This risk is enhanced if the assigned collateral only partly covers the claims made on the borrower or if its value is variable or uncertain. Credit risk arises whenever we commit our funds, resulting in

capital or earnings being dependent on the performance of a counterparty, issuer or borrower. Credit risk includes concentration risk, residual risk, credit risk in securitisation and cross border (or transfer) risk.

Credit Risk Management

Carefully monitored credit risk serves as a basis for stable profits. Our main asset is our loan portfolio. To maintain and further improve a healthy loan portfolio it is imperative to scrutinise all applications and identify potential problem loans during the application phase, as well as constantly monitoring the current loan portfolio. While it is not our policy to issue credit only in cases of very low risk, we believe that it is of the utmost importance that the price of issued credit reflects both the risk and the cost incurred. This means that a detailed assessment of individual customers, their financial positions, and any collateral is a prerequisite for granting credit.

The basic elements for the quantification of credit risk are the probability of default, the loss in the event of default and exposure at default. These quantities need to be measured with an effective and accurate credit rating system. Information, both quantitative and qualitative, must be gathered, both specifically with regard to the counterparty and to its general economic situation in order to estimate the counterparty's creditworthiness. Furthermore, a facility rating should be performed to determine the loss parameters in case of a default.

Our policy is to apply sophisticated credit models to monitor credit risk. These credit models are also the foundation for the application of our internal rating-based approach to calculate capital requirements. Therefore, the development, implementation and application of these models must be in accordance with our Basel II strategy. The pricing of each credit granted should reflect the risk taken. The client's interests should be guarded at all times, and it must be considered likely that the client will be able to repay a given loan. In particular, the quality of collateral can never be the sole reason for a positive credit decision.

In the long run, our credit strategy aims to have write-offs represent less than 5 per cent. of net interest income. In 2007, our write-offs represented 3.2 per cent. of net interest income. We design and implement all aspects of the credit process with this long-term goal in mind.

Provisions for losses should reflect the expected loss, both for loans for which specific provisions exist as well as for portfolios of performing loans. The collective assessment of such portfolios should be based on default predictions and losses given default parameters.

Day-to-day credit risk is monitored by the Risk Management division. The Risk Management division is responsible for the development and maintenance of credit monitoring and reporting systems. This includes collecting data from all operational systems within our Group, data verification and unification. The department also performs numerical analyses of the loan portfolio, e.g. estimating expected loss, concentrations within the loan portfolio and mapping defaults in a systematic way. The proprietary credit models we employ have been developed by the Risk Management division within our parent company and locally within subsidiaries.

Credit Application Process

We employ a credit decision process as a Group and within each subsidiary. The highest authority in the credit process is our Group Board Credit Committee, whose members consist of three board members and our CEO. All exposures above €165 million are referred to our Group Board Credit Committee for approval. The process structure is based on the hierarchy of the credit committees below the Board Credit Committee, which, depending on the subsidiary, have two or more levels of approval and each with different overall limits depending on the size of the subsidiary. The principle of central management of risk and decision-making authority is maintained by having our CEO or his deputy as a member of the credit committee at each subsidiary.

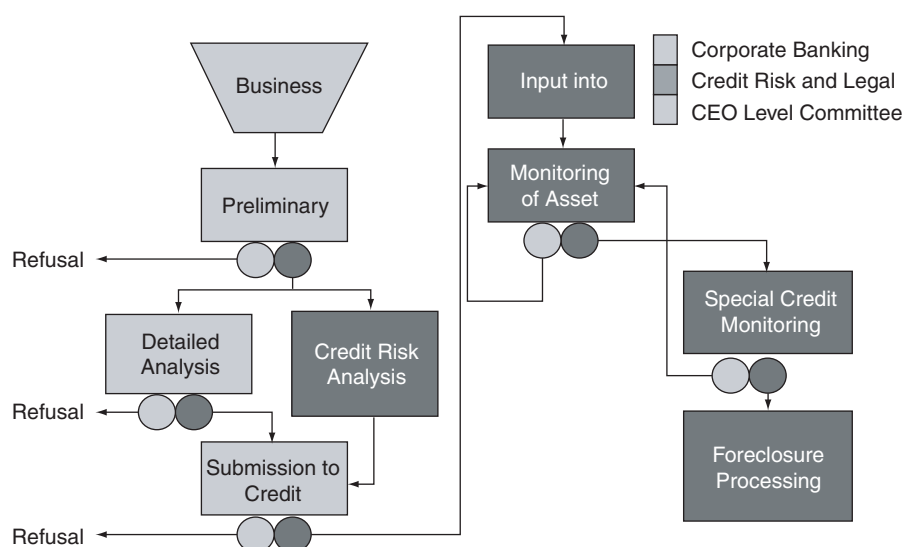
The Management Credit Committee, which has the highest overall credit approval authority, is overseen by our Group Board Credit Committee. We also have two lower levels of committees within corporate and retail banking that have the authority to approve exposures within certain lower limits.

In order to make use of our local expertise, a large part of our credit and collateral risk is evaluated on a local level at our subsidiaries where similar credit committee structures are in place. Each subsidiary's management credit committee may approve exposure only within a fixed limit (which limit varies from subsidiary to subsidiary). Any credit exposures above such a limit are referred to the relevant subsidiary's board credit committee.

We have implemented two measures in order to maintain Group-wide oversight of large exposures. As mentioned above, we have established our CEO or his deputy as a member of all subsidiary credit committees as well as of our Group's Management Credit Committee. In addition, all exposures and increases in exposure in excess of ISK 500 million must be entered into a database of large exposures maintained by our Risk Management division. If the aggregated exposure to a single entity, or a number of financially related entities, across the Group exceeds €165 million of the Group's risk capital (which is an estimate of the maximum transfer loss within a certain time period on a portfolio of assets given a certain confidence level), the exposure must be referred to our Group Board Credit Committee.

This structure gives us the ability to incorporate much needed local expertise, while at the same time managing risk at a global level. Local credit committees of our subsidiaries are able to grant credits, but the total of the exposure to any applicant and financially related counterparties is limited, most commonly by the subsidiary's capital. All applications that would lead to exposures exceeding the set limit are referred to the Group Board Credit Committee.

The diagram below illustrates the principal parts of our credit process.



If a preliminary analysis by an account manager in Corporate Banking indicates that a business inquiry merits further scrutiny, it is then analysed in greater detail. If it passes the detailed analysis it is then submitted to the credit committee along with a standard credit risk analysis of the borrower (i.e. a credit rating).

The standard credit evaluation process is based both on quantitative figures from the financial statements and on an array of qualitative factors. Factual information on the borrower is collected as well as pertinent macroeconomic data, such as an outlook for the relevant sector. These subjective factors are assessed by answering predetermined questions. The analyst cannot rely solely on his quantitative skills, but must also have extensive knowledge of the inner workings of

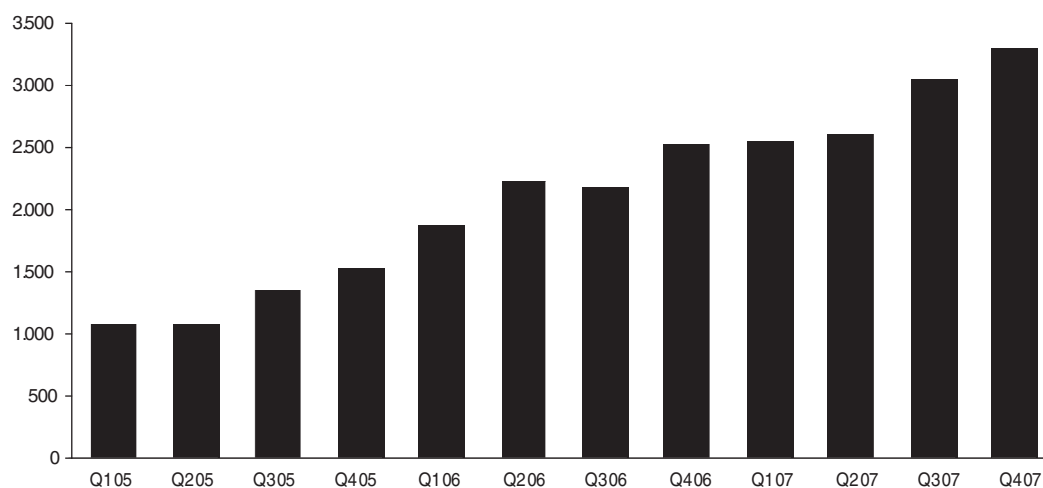
the company in question and be in close contact with its management. Furthermore, a facility rating of the collateral is performed to determine the loss parameter in the case of default.

The credit rating of the counterparty plays a fundamental role in the final decision of the committee as well as in the terms being offered if the application is accepted. If the client accepts the terms offered, then the loan becomes part of our loan portfolio, where long-term monitoring takes place with regard to limits and the credit quality of the client. In particular, the client is re-rated using the standard credit rating at least once a year. If weakened credit quality or other signs become evident, such as breach of loan covenants or a missed payment, then the loan is placed under special credit monitoring. If conditions improve, the loan may be removed from the special monitoring, but in some cases the loan may eventually end in foreclosure.

Credit Exposure

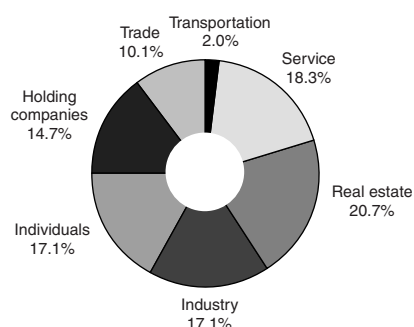
At 31st December, 2007 we had five large exposures exceeding 10 per cent. of our risk capital. At 31st December, 2007, total loans to customers net of provisions for losses amounted to ISK 3,304 billion. Corporate loans totalled ISK 2,739 billion, and loans to individuals totalled ISK 565 billion. The loan portfolio increased by approximately 30 per cent. during 2007. We believe that our portfolio is well diversified. Our largest exposures are to companies within the real estate sector, which constitute around 21 per cent. of our portfolio, followed by the service sector at approximately 18 per cent., industry sector and individuals both at approximately 17 per cent., holding companies (investment companies) at approximately 15 per cent., trade at approximately 10 per cent. and transportation at approximately 2 per cent. At the end of 2006, total loans to customers net of provisions for losses amounted to ISK 2,539 billion. The loan portfolio increased by approximately 30 per cent. in 2007. At the end of 2007, corporate loans totalled ISK 2,739 billion, up from ISK 2,116 billion in 2006, and loans to individuals totalled ISK 565 billion, up from ISK 422 billion in 2006.

The chart below illustrates the growth of our loan portfolio on a quarterly basis since the beginning of 2005.

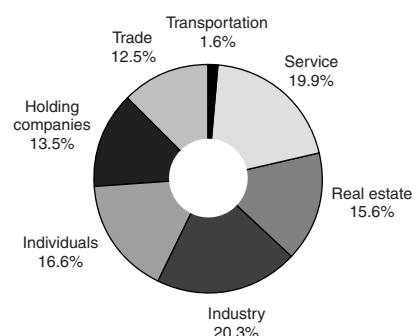


The charts below illustrate the distribution of our loan portfolio to customers, net of loan loss provisions, by sector at 31st December, 2007, which totalled ISK 3,304 billion and at 31st December, 2006, which totalled ISK 2,539 billion.

31st December, 2007



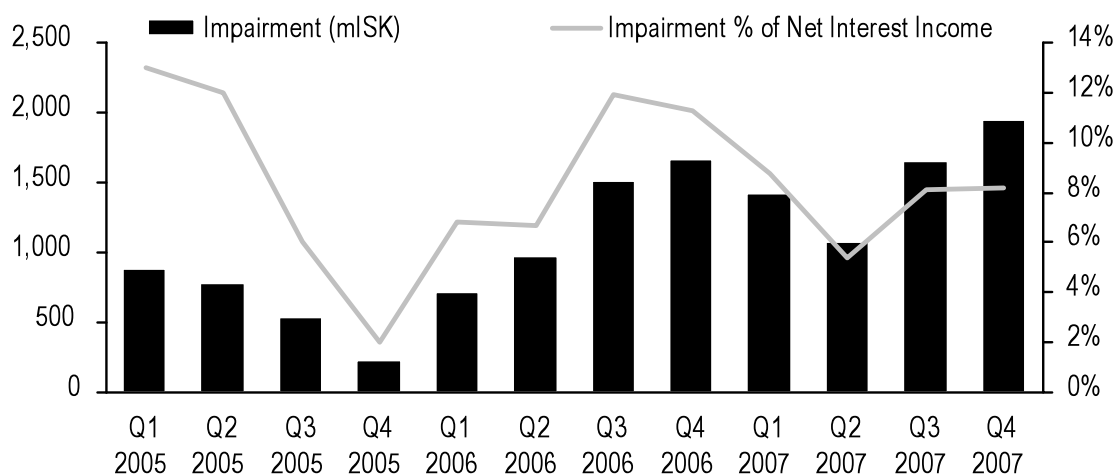
31st December, 2006



Credit defaults

Since 2003, we have made significant efforts to improve the quality of our loan portfolio. Stricter rules and procedures when issuing credit were introduced and certain loans that were considered doubtful were accelerated on default.

The chart below illustrates the development of our impairments on a quarterly basis since 2005, both in absolute amounts and as a percentage of net interest income.



We believe that our efforts have generally improved the quality of the Group's loan portfolio. During 2007 and 2006, impairments were approximately 8 per cent. and 9 per cent. of net interest income, respectively, down from 21 per cent. in 2004, reflecting the improved quality of our loan portfolio, aided by the performance of FIH's higher quality loan portfolio, which has historically experienced fewer loan losses than the rest of the Group's portfolio.

Asset Quality Ratios

We look at our asset quality in several ways to assess the quality of our loan portfolio and how it changes over time. Given the rapid growth of our portfolio over the past few years, we calculate these measures as a percentage to make the comparison meaningful over multiple time periods.

The table and chart below show non-performing assets as a percentage of loans to customers, non-performing loans as a percentage of loans to customers, provisions for loans as a percentage of loans to customers and net write-offs as a percentage of average outstanding loans to customers.

	<i>2005</i>	<i>2006</i>	<i>2007</i>
Non-performing assets as % of loans to customers	1.120%	1.100%	1.039%
Non-performing loans as % of loans to customers	0.980%	1.005%	0.984%
Provisions for loans as % of loans to customers	0.839%	0.653%	0.587%
Net write-offs as % of average loans to customers	0.268%	0.155%	0.092%

Market Risk

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security and commodity prices and foreign exchange rates in the trading book. Market risk arises from market making, dealing, and position-taking in bonds, securities, currencies, commodities and derivatives.

Market Risk Management and Control

Our market risk policy is designed to monitor closely the risks embedded in our investments and operations and to make sure that all risks are identified, monitored and reported, both on a Group and local level.

Trades and positions exposed to market risk are recorded in a central database, controlled and managed according to the Group's market risk policy. This enables the Risk Management division to monitor intra-day trades and overnight holdings for different trading units and for the Group. The Risk Management division sends a daily report covering the performance and risk exposures of all trading desks. The daily report is sent to the managing director of the Risk Management division, the head of trading, the managing director of the Treasury division and our CEO.

Each trading unit within the Group adheres to the general rules set by our board of directors. Moreover, each trading unit has its own set of working procedures and rules that further specify its targets, limits and scope in trading.

Position limits, or any changes to them, are proposed by the managing director of Capital Markets and then must be approved by the managing director of the Risk Management division and reviewed by our CEO. The size of each position limit is based on, among other things, underlying liquidity, our appetite for risk, as well as legal limitations on individual positions imposed by the relevant authorities. For example, in August 2006 our maximum equity exposure, both in listed and unlisted equity, was set at 35 per cent. of our risk capital (which does not include off-balance sheet exposures) based on a decision by our board of directors. Transactions that meet certain criteria are reviewed and approved by our board of directors. As at 31st December, 2007, our total equity exposure was ISK 161 billion, representing 33.1 per cent. of our risk capital and 3.0 per cent. of our total assets.

Measurement Methods

Risk measures are generated by proprietary systems that utilise the counterparty, market data and trade databases generated and used by our trade systems. Additionally, the risk management systems are enhanced by various third party solutions. Models employed in evaluating these measures include position-based models (which provide details on exposure to market risk, profit and loss and sensitivities such as durations), volatility based models (which are based on the volatility of market variables and their related co-variance) and scenario-based models (in which the frequency of a severe loss is estimated by repeating random scenarios with certain statistical properties that have generally been estimated from historical data).

All trades and intra-day profit or loss are reported continuously to the managing director of the Risk Management division through a position monitoring system. The managing director of the Risk Management division appoints a person and a backup person who are responsible for monitoring the intra-day positions in different trading units within the Group and alerting the managing director of the Risk Management division if any deviations or exceptions are observed.

Our Risk Management division sends a daily report on profit and loss and turnover to the managing director of the Risk Management division, the head of the Trading division, the managing director of Treasury and our CEO. The division also sends a weekly risk assessment report to the head of Trading, our CEO and the board of directors, detailing volatility-based and scenario-based measures such as VaR and stress tests based on current exposure. VaR is a commonly used technique to estimate the probability of portfolio losses based on statistical analysis of historical prices and their volatility. We use 10-day VaR with a 99 per cent. confidence level, which means that losses over a 10-day period are expected to exceed the VaR once every 100 10-day periods.

Market Risk Analysis

The table below sets out our VaR in absolute amounts and as a percentage of total risk capital at the dates shown:

											At December 31,		
											2007	2006	2005
In ISK millions..	..	..	..	..	..	..	..	..	..	..	5,398	5,476	3,602
As a percentage of total risk capital	..	..	..	..	..	..	..	..	..	..	1.1%	1.20%	1.51%

In general, our VaR has increased in recent years due to the growth in our trading portfolio. Our VaR at 31st December, 2007 decreased from our VaR at 31st December, 2006, however, because of a decrease in our equity exposure due principally to the reclassification of Storebrand ASA as an associate.

Liquidity Risk

Access to liquid funds is essential to our business. Liquidity risk is the risk that we will not be able to meet our short-term liabilities as they become due. It arises from the inability to manage unplanned changes in funding sources. Our liquidity could be impaired by an inability to access debt markets, an inability to access funds from our subsidiaries or an inability to sell assets. This situation might arise due to circumstances beyond our control, such as general market disruption or an operational incident that affects either third parties or us. Accordingly, we have developed a comprehensive set of liquidity and funding policies that are intended to maintain significant flexibility to address firm-specific and broader industry or market liquidity events. Our objective is to have access to sufficient sources of funding and to enable our core business to continue to generate revenues, even under adverse market conditions.

Up until the third quarter of 2006, we had three key liquidity targets: we sought to have enough available secured liquidity to enable us to serve and repay maturing debt for at least 180 days

without accessing the capital markets; we sought to have a minimum of 360 days of sufficient unsecured liquidity (which consists of secured liquidity plus available amounts under our euro-commercial paper programme and unused money market lines) to cover our liabilities over that period; and we sought to cover short-term liabilities for 390 days with unsecured liquidity together with liquid assets (listed and liquid securities).

In the beginning of the third quarter in 2006, we enhanced our liquidity policy. Since then, we have used one fundamental liquidity measure which focuses on secured liquidity and is used to closely monitor our liquidity position. This liquidity measure replaces the three less stringent liquidity measures described above. Under this new secured liquidity measure, the goal is to have sufficient secured (committed) liquidity to repay all maturing obligations for at least 360 days and at the same time maintain a stable level of business without any access to capital markets. Eligible secured assets under the new secured liquidity calculations consist of deposits, bonds eligible for repurchase transactions, unused committed revolving credit facilities with maturities over one year without material adverse change clauses, and backup facilities with maturities over one year without material adverse change clauses.

Our liquidity risk is monitored centrally, with the exception of FIH, which monitors liquidity locally but in coordination with the Group.

The table below shows our secured liquidity (maturing assets in excess of maturing liabilities) at 31st December, 2007 and 31st December, 2006.

	<i>Up to 1 month</i>	<i>1-3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-2 years</i>
	<i>(ISK billions)</i>				
Secured liquidity at 31st December, 2007	647	420	247	102	(566) ⁽¹⁾
Secured liquidity at 31st December, 2006	856	573	360	121	(373)

(1) Only measured at year end.

We maintain a contingency funding plan which specifies an approach to analysing and responding to liquidity events and crises. Our plan provides a framework to estimate the likelihood of a liquidity event and to determine its possible severity. The plan is part of our Internal Control and Procedural Handbook.

Interest Rate Risk

Our operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, we are also exposed to basis risk, which is the difference in repricing characteristics of various floating rate indices, such as the savings rate and six-month LIBOR. Our risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with our business strategies. Interest rate risk is monitored centrally with duration reports and yield-curve stress testing for each currency.

The table below shows our interest rate risk by currency and maturity at 31st December, 2007. Risk is measured by assuming a 1 per cent. simultaneous increase in all yield curves in the relevant maturity band, measured in millions of Icelandic króna. Trading interest rate risk refers to exposures on the trading book where positions are marked-to-market and pre-tax profit or loss is recognised immediately. Banking interest rate risk refers to exposure on the banking book where pre-tax profit or loss is realised over the lifetime of the exposure.

At 31st December, 2007								
			Up to	1-3	3-12	1-5	Over	
			1 month	months	months	years	5 years	Total
(ISK millions)								
Currency:								
Icelandic króna	Trading	(1)	127	251	454	(579)	252	
	Banking	13	(68)	(682)	1,724	(17,957)	(16,970)	
Danish krone	Trading	36	70	116	(1,113)	(3,673)	(4,564)	
	Banking	26	91	(12)	479	(1,679)	(1,095)	
Euro	Trading	(111)	(112)	298	505	351	931	
	Banking	65	139	349	648	(57)	1,144	
Pounds Sterling	Trading	9	(85)	(14)	(15)	5	(100)	
	Banking	40	185	(666)	(72)	(84)	(597)	
United States Dollar	Trading	(29)	(66)	(77)	(285)	125	(332)	
	Banking	25	24	4	964	(115)	902	
Swiss Franc	Trading	80	(7)	(193)	(11)	63	(68)	
	Banking	(1)	213	(51)	2,022	(2,701)	(518)	

At 31st December, 2007, the total amount of the Group's ISK-denominated inflation-linked assets was ISK 339,670 million and the total amount of the Group's ISK-denominated inflation-linked liabilities was ISK 192,554 million.

In analysing net interest income, we have calculated net interest income under several different rate scenarios over a 12 month period. Our calculations include a case in which interest rates remain flat and cases with variations that occur when rates immediately increase 100 basis points and when rates immediately decrease 100 basis points. These rates also assume an immediate shift in all yield curves. The effect that a 100 basis point change in interest rates would have on our operating income as projected for the next twelve months beginning 31st December, 2007 using a static balance sheet is estimated to be an ISK 3,881 million decrease in our operating income, assuming an instantaneous shift in all yield curves and static foreign exchange rates.

Interest rate risk increased significantly at the end of 2004 following the introduction of fixed-interest mortgage products in the retail market in Iceland. Those products remain the main source of interest rate risk within our Group, and the risk has increased in recent years in line with the growth of the Icelandic mortgage portfolio. However, this is a hold-to-maturity portfolio in the banking book and therefore this interest rate risk will not be realised through the income statement.

Operational Risk

Operational risk is the risk of direct or indirect loss, or damage to our reputation, resulting from inadequate or failed internal processes or systems, or from human error or external events that affect our image or operations or that can have an adverse effect on our share price. Strategic risk, reputation risk, legal risk and compliance risk are all types of operational risk. Operational risk is inherent in all activities within the Group.

It is our policy to reduce the frequency and impact of operational risks in a cost-effective manner. We seek to achieve this by fostering a strong culture surrounding operational risk, based upon internal controls, quality management, leadership skills and well educated, qualified staff. Our main process for identifying and monitoring operational risk is through the self-assessment of risk and

control and through the recording of loss events, near misses and operational incidents. Each business unit regularly assesses its own risk and relevant controls and evaluates the possible impacts. If risk exceeds acceptable limits, then our internal controls and the quality and efficiency of the internal processes are re-evaluated to bring the risk within acceptable risk limits.

Our operational risk framework sets out the roles and responsibilities in relation to management and supervision, as well as the tools and methods we use to identify, measure, monitor and control operational risk. Sound Practices for the Management and Supervision of Operational Risk, published by the Basel Committee for Banking Supervision, provided us with guidance for the development of our operational risk framework to ensure rigorous and effective management and supervision.

The implementation of the operational risk framework is divided into five levels:

- documenting, reviewing and improving upon operational working processes, policies and internal rules;
- self-assessment of risk and control;
- identifying and then monitoring key risk indicators;
- collecting data regarding loss events and near misses; and
- analysis and reporting.

Each of our business units holds the primary responsibility for managing its own operational risk. However, the operational risk department is responsible for developing and maintaining our operational risk framework and providing guidance and support to our business units during the implementation of this framework. The operational risk department acts as a source of information on the development of operational risk. This department also tracks each unit's operational risk, and if any unit should exceed predefined risk limits, the head of the relevant unit would be notified. The operational risk department monitors the situation until the risk has been eliminated or reduced to acceptable levels.

The operational risk department works closely with each unit to ensure the management, identification, measurement and monitoring of the Bank's operational risk. The internal audit department conducts independent reviews of each business unit and provides an overview of the evaluation methods for operational risk. The department is responsible for evaluating our internal controls and procedures and ensuring that our operations are carried out in accordance with the policies and instructions of our board of directors. We monitor operational risk through a system of internal controls established at different levels within the Group. These controls are set out in our Internal Control and Procedural Handbook.

IT systems and information security are important components of operational risk management. In mid-2005, we started the implementation of ISO/IEC 27001:2005, the international standard for information security management promulgated by the International Organization for Standardization. We maintain this security policy to ensure that our policies, processes, rules and controls over information, information systems and communication channels are sound and in accordance with best practice.

We have a specially appointed security committee responsible for implementing and maintaining this security policy, ensuring our compliance with the ISO/IEC 27001:2005 standard. We also have an information security officer, who is responsible for the day-to-day supervision of matters relating to our security policy, ensuring that IT systems, processes and internal rules comply with ISO/IEC 27001:2005 standards.

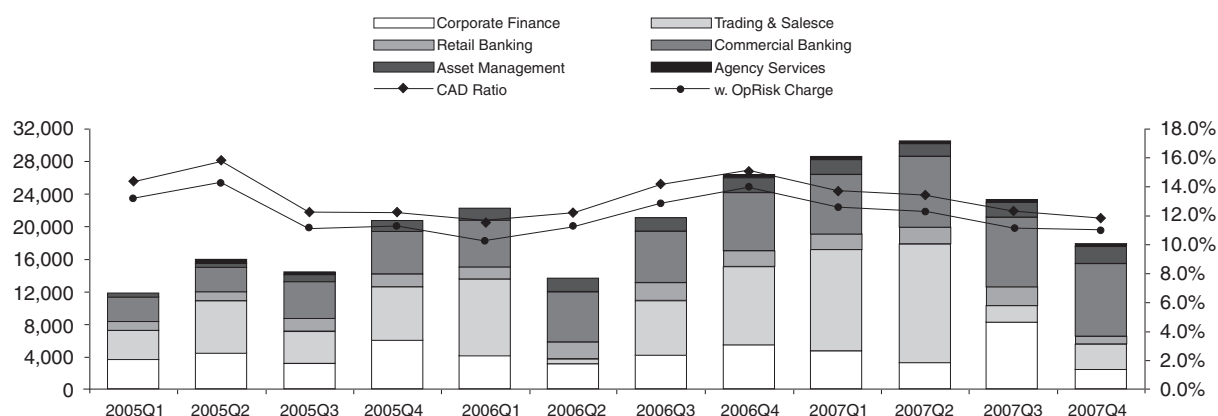
In addition, we have a crisis management plan to increase our resilience to disruptions in business arising from internal and/or external events. The crisis management plan seeks to reduce the

impact of crises on our operations, reputation, profitability, clients, shareholders and our other stakeholders.

We have also taken out various insurance policies to cover major operational risk events.

Operational Risk Analysis

We evaluate the capital charge due to operational risk applicable to us according to the Standardised Approach outlined in the new Capital Requirements Directive (“**CRD**”) of Basel II. However, at a later stage we intend to implement advanced methods for more risk-sensitive quantification of operational risk. In order to estimate the operational risk capital charge, our business segments are mapped onto the following six business lines according to Basel II standards: Corporate Finance refers to our Investment Banking segment, Trading and Sales refers to our Treasury and Capital Market segments, Retail Banking and Commercial Banking together refer to our Banking segment, Asset Management refers to our Asset Management and Private Banking segment and Agency Services refers to our Arion Custody Services (our subsidiary). According to the CRD, our Payment & Settlement and Retail Brokerage segments are included in the Trading and Sales business line. The chart below shows operational risk for each business line, according to the Basel II Standardised Approach described below.



Basel II

The Basel II rules are a set of new, more risk-sensitive rules for capital requirement calculations that came into effect as of 1st January, 2007. The Basel II rules define the minimum capital that a financial institution must hold for unexpected events. These rules also provide minimum qualitative standards and risk management practices that a financial institution should have in place. The current Basel II rules include capital requirements for operational risk in addition to credit risk and market risk, which are already covered in the Basel I rules.

The Basel II rules were developed by the Basel Committee for Banking Supervision to replace the Basel I rules. The committee’s first proposal for revising the capital adequacy framework was published in June 1999. In November 2005, the revised framework, the International Convergence of Capital Measurement and Capital Standards, was published. Based on the recommendations of the revised framework, the Basel II rules were ratified by the European Union in Directive 2006/48/EC, published in June 2006.

The Basel II rules are represented by three “Pillars”: Pillar I addresses the calculation of minimum regulatory capital requirements for credit, market and operational risk. Pillar II addresses the supervisory review process, the financial institution’s capital adequacy assessment including other

risks not addressed under Pillar I and the strategy for maintaining capital levels. Pillar III addresses market discipline and requirements regarding market disclosure of risk-related information.

Under Pillar I, financial institutions can choose from three approaches for the calculation of the credit risk capital: the Standardised method (which is similar to the Basel I rules), the Foundation Internal Ratings-Based (“**IRB**”) approach and the Advanced IRB — the difference being the sophistication of the capital requirement calculations. Under the Foundation IRB approach and the Advanced IRB approach, the financial institution uses its own calculation of risk related variables that serve as the input in the calculation of capital requirement. For operational risk, financial institutions can also choose from three approaches: the Basic Indicator approach, the Standardised Approach and the Advanced Measurement Approach (“**AMA**”) — the difference being the sophistication of methods and the processes required for operational risk monitoring and quantification.

We have applied to the FME for permission to use the Foundation IRB approach to determine our capital requirements for credit risk. We believe that the Foundation IRB approach will have a minimal impact on our capital requirements. Under the Foundation IRB approach, a decrease in our loan portfolio risk will eliminate the increase in cost due to operational risk. Our aim is to begin using the Foundation IRB approach for calculation of risk weighted assets from 2008 by using our own estimation of probability of default parameters. We will start to use loss given default parameters (“**LGD**”) and credit conversion factors (“**CCF**”) as given in the CRD for all exposures except retail, where internal LGD and CCF will be used. We aim to have implemented all necessary internal models for credit risk calculation according to the Foundation IRB approach in the near future, and then apply for use of the Advanced IRB approach as soon as possible.

The FME is currently carrying out its supervisory review of the credit models we propose to use for Pillar I as well as various Pillar II requirements such as stress testing. Since the review has not yet been concluded, we cannot at this time quantify how the revised guidelines will affect our requirements for capital and the impact these changes will have on our capital position.

We have been fully involved in implementing Basel II rules since late 2004. However, the first rating models were introduced into part of our portfolio in December 2003. The focus in 2007 has been on application to the FME for the IRB Foundation approach method and fulfillment of Basel II requirements. A great deal of work has been expended on data preparation and collection of historical statistical analysis and model construction. With regard to operational risk, we have implemented the Standardised Approach, and aim towards the AMA in the future.

BOARD OF DIRECTORS OF THE ISSUER

The Issuer's Board of Directors consists of nine members and nine alternates.

Board

Sigurður Einarsson – Born in 1960. Chairman of the Board of Directors. Graduated as an economist from the University of Copenhagen in 1987. Joined Kaupthing Bank hf. in 1994 and was appointed Executive Chairman in May 2003.

Lyður Guðmundsson – Born in 1967. Deputy Chairman of the Board. Executive Chairman of Exista hf. Member of the board of several companies, including Bakkavör Group and Iceland Telecom where he serves as Chairman of the Board. Elected to the board in 2008.

Asgeir Thoroddsen – Born in 1942. Graduated with a Cand. Jur. Degree from the University of Iceland in 1967 and received a degree in public administration from New York University in 1971. Attorney to the Supreme Court of Iceland. Elected to the board in 2003.

Bjarnfredur H. Olafsson – Born in 1967. Graduated with a Cand. Jur. Degree from the University of Iceland in 1993 and received a masters of law in comparative law from the University of Miami School of Law in 1997 and a degree in international business administration from Nova South-eastern University School of Business & Entrepreneurship in 1998. Attorney to the District Court of Iceland. Elected to the board in 2003.

Brynja Halldorsdottir – Born in 1957. Graduated with a degree in business administration from the University of Iceland in 1981. CEO of Norvik hf. Elected to the board in 2004.

Gunnar Pall Palsson – Born in 1961. Graduated with a degree in business administration from the University of Iceland in 1987. CEO of Commercial Worker's Union of Reykjavik (VR). Elected to the board in 2001.

Hjörleifur Thor Jakobsson – Born in 1957. Graduated from the Mechanical and Industrial Engineering department of the University of Iceland in 1981 and received his MSc in engineering from Oklahoma State University in 1982. CEO of Egla hf. Elected to the board in 2003.

Niels de Coninck-Smith – Born in 1956. Graduated with a MSc in 1980 from the Copenhagen School of Economics and later received a masters in business administration from the Wharton School of the University of Pennsylvania in 1982. Board member of Ferrosan A/S. Elected to the board in 2005.

Tommy Persson – Born in 1948. Chairman of CEA, Comité European des Assurances; Chairman of Lansforsäkringar Bergslagen; Chairman of Kommuninvest AB, Chairman of the 7th Swedish Pension Fund. Elected to the board in 2002.

The business address of each of the above persons is Borgartun 19, 105 Reykjavik, Iceland.

Senior Management

Hreidar Mar Sigurdsson – Chief Executive Officer of Kaupthing Bank hf. Born in 1970. Graduated with a degree in business administration from the University of Iceland in 1994 and joined Kaupthing Bank hf. later that year. Appointed CEO in 2003.

Gudny Arna Sveinsdottir – Chief Financial Officer. Born in 1966. Graduated with a degree in business administration from the University of Iceland in 1991 and received an MSc in finance and accounting from the University of Uppsala in 1996. Joined Kaupthing Bank hf. in 2001.

Steingrímur Karason – Chief Risk Officer. Born in 1968. Graduated with a degree in mechanical engineering from the University of Iceland in 1991 and received an MSc in engineering in 1993 and

a Ph.D. in 1997, both from the Massachusetts Institute of Technology. Joined Kaupthing Bank hf. in 1997.

Asgrimur Skarphedinsson – Chief Information Officer. Born in 1958. Graduated with a degree in electrical engineering from Odense Teknikum in Denmark in 1982. Joined Kaupthing Bank hf. in 1997.

Gudni Niels Adalsteinsson – Group Treasurer. Born in 1967. Graduated with a degree in economics from the University of Iceland in 1991 and received an MSc in business administration from Cambridge University in 1998. Joined Kaupthing Bank hf. in 2005.

Jonas Sigurgeirsson – Chief Communications Officer. Born in 1968. Graduated with a degree in history from the University of Iceland in 1992 and received an MSc in business administration from the University of Tampa in 2000. Joined Kaupthing Bank hf. in 2000.

Bjarki H. Diego – Chief Credit Officer. Born in 1968. Graduated with a Cand. Juris degree in Law from the University of Iceland in 1993 and later received an LL.M degree in International Business Law from the University College of London in 1999. Joined Kaupthing Bank hf. in 2000.

The business address of each of the above persons is Borgartun 19, 105 Reykjavik, Iceland.

No director has any actual or potential conflict of interest between his or her duties to the Issuer and his or her private interests or other duties.

Internal Auditor

Lilja Steinhorsdottir – Internal Auditor. Born in 1949. Graduated with a degree in Business Administration from the University of Iceland in 1980. State Authorised Public Accountant in 1984. Received an MBA degree from the University of Edinburgh in 1998. Joined Kaupthing Bank hf. in 2006.

State Authorised Public Accountants

The state authorised public accountants of Kaupthing Bank hf. are KPMG hf. and on their behalf, Sigurdur Jonsson.

Sigurdur Jonsson. Born in 1956. State Authorised Public Accountant. Accountant of Kaupthing Bank hf. from 1991 to 2006 and again from 2008.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

Set out on the following pages are a five year summary consolidated profit and loss account, balance sheet and key ratios for the Group prepared in accordance with IFRS (although certain IFRS balance sheet information for years prior to 2004 is not available) and a reconciliation of the Group's 2005 profit and loss account and balance sheet between Icelandic GAAP and IFRS.

FIVE YEAR SUMMARY – THE GROUP

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>(ISK millions)</i>				
Profit and Loss					
Net interest income	80,113	52,362	32,710	18,259	10,124
Other operating income	85,705	114,854	68,694	31,687	21,656
Net operating income	165,818	167,216	101,404	49,946	31,780
Other operating expenses	-78,731	-60,006	-34,731	-23,625	-18,493
Impairment	-6,180	-6,127	-4,389	-3,825	-3,894
Taxes	-9,716	-14,636	-11,228	-4,237	-1,486
Net earnings	71,191	86,447	51,055	18,258	7,907
Net shareholders' earnings	70,020	85,302	49,259	17,707	7,520
Minority interest	1,171	1,145	1,796	552	387
Balance Sheet					
Assets					
Cash bal. with central banks	97,959	106,961	34,877	6,290	—
Loans to credit institutions	588,441	485,334	195,594	174,310	—
Loans to customers	3,304,408	2,538,609	1,543,700	980,107	—
Bonds and debt instruments	367,350	318,264	390,575	202,934	—
Shares and equity instruments	160,632	158,856	114,188	84,615	—
Derivatives	134,856	65,454	21,047	13,085	—
Derivatives used for hedging	22,503	6,453	4,459	3,820	—
Securities used for hedging	159,949	115,938	82,098	0	—
Financial assets Available-for-sale	165	164	167	1,507	—
Investment in associates	83,831	5,304	13,888	3,649	—
Intangible assets	66,774	68,301	54,943	35,098	—
Investment property	28,155	31,584	24,156	19,155	—
Property and equipment	32,714	30,466	22,433	6,092	—
Tax assets	6,899	5,834	5,004	1,092	—
Non-current assets held for sale	1,842	2,334	2,303	3,631	—
Other assets	290,867	115,540	31,380	19,069	—
Total assets	<u>5,347,345</u>	<u>4,055,396</u>	<u>2,540,811</u>	<u>1,554,453</u>	<u>558,569</u>

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<i>(ISK millions)</i>				
Liabilities and equity					
Deposits.. .. .	1,381,457	750,657	486,176	202,193	182,497
Other liabilities	3,342,168	2,753,816	1,749,436	1,135,728	308,837
Minority interest	10,823	11,382	8,329	9,539	10,603
Subordinated loans	267,289	216,030	102,688	57,623	10,704
Shareholders' equity	345,608	323,510	194,183	149,370	45,928
Total liabilities and equity.. .. .	5,347,345	4,055,396	2,540,811	1,554,453	558,569
Key Ratios					
Cost / income ratio	47,5%	35,9%	34,8%	47,3%	58,2%
Return on shareholders' equity	23,5%	42,4%	34,0%	25,5%	23,0%
Impairment/Loans and advances	0,2%	0,2%	0,2%	0,4%	1,1%
Total credit reserves	0,6%	0,6%	0,7%	1,4%	2,4%
Price / earnings	9,2	6,6	9,9	12,4	12,2
Earnings per share, ISK	95,2	127,1	75,2	35,6	18,5
Earnings per share diluted, ISK	93,3	123,4	73,9	35,1	18,4
Average no. of shares outstanding, million	736	671	655	497	406
Avg. no. of shares outstanding diluted, million	751	691	666	505	411
No. of shares at end of period, million	737	732	664	652	438
No. of shares at end of period diluted, million	752	752	675	660	443
Share price at end of period	880	841	746	442	225

TAXATION

1. Icelandic Taxation

The comments below are of a general nature based upon the Issuer's understanding of current law and practice in Iceland. They should not be construed as providing specific advice as to Icelandic taxation and are subject to changes as to the applicable rules in the future. They relate only to the position of persons who are the absolute beneficial owners of the Notes. They may not apply to certain classes of persons, such as dealers. Prospective holders of the Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

Non-Icelandic tax residents

As for individuals or legal entities that are not resident, domiciled (or registered in the case of legal entities), or engaged in trade or business through a permanent establishment in Iceland (hereinafter non-Icelandic tax residents), there are no taxes or other governmental charges payable under the laws of Iceland or any authority of, or in, Iceland in respect of the principal, interest or any other amount payable on the Notes.

The Issuer is not required to withhold any taxes in respect of such amounts provided that the Director of Internal Revenue's confirmation of the Paying Agent's and the relevant Dealer's, in case of it being a holder of such Note, status as non-Icelandic tax-residents has been obtained (either by the Paying Agent and the Dealer or the Issuer on their behalf). At the time of publication of this Prospectus, the Issuer has obtained all the necessary confirmations and is therefore not required to withhold any taxes in respect of such amounts.

In the event the Issuer is required to withhold tax in respect of such amounts, it will pay such additional amounts as shall be necessary in order that the net amounts received by the holder of such Note after such withholding shall equal the respective amounts of principal and interest which otherwise have been receivable in respect of such Note, in the absence of such withholding. In the event that the Issuer will need to pay additional amounts to investors due to withholding tax, the Issuer is entitled to any refund that might be claimable from the tax authorities.

There are no estate or inheritance taxes, succession duties, gift taxes or capital gains taxes imposed by Iceland or any authority of, or in, Iceland in respect of the Notes if, at the time of the death of the holder or the transfer of the Notes, such holder or transferor is a non-Icelandic tax resident.

Icelandic tax residents

Individuals or legal entities that are resident, domiciled (or registered in the case of legal entities), or engaged in trade or business through a permanent establishment in Iceland (hereinafter Icelandic tax residents), are subject to income tax in Iceland on their interest income in accordance with Icelandic tax law. The tax rate depends on their tax status.

Subject to certain exemptions applicable to, for example, most banks and pension funds, the Issuer is required to withhold a 10% tax on interest payments to recipients who are Icelandic tax residents. Such withholding is a preliminary tax payment but does not necessarily constitute the final tax liability of the recipient.

2. EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead

required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

3. Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force, and subject to the laws of 21st June, 2005 (the “**Laws**”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3rd June, 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the “**Territories**”), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories, will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 20 per cent. and will be levied at a rate of 35 per cent. as of 1 July, 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23rd December, 2005 (the “**Law**”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement dated 31st August, 2006 and as supplemented by a supplemental programme agreement dated 13th September, 2007 and a second supplemental programme agreement dated 11th September, 2008 (the “**Programme Agreement**”), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes, Equity Linked Notes, Commodity Linked Notes, Credit Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the applicable final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (d) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (e) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (e) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the “**FIEL**”) and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which

term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

The Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Notes be distributed, in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February, 1998, as amended (the “**Financial Services Act**”) and the relevant implementing CONSOB regulations, as amended from time to time, and in Article 2 of Directive No. 2003/71/EC of 4 November, 2003; or
- (ii) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the Financial Services Act and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May, 1999, as amended (“**Regulation No. 11971**”).

Any offer, sale or delivery of the Notes or distribution of copies of the Base Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October, 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September, 1993, as amended (the “**Banking Act**”);
- (b) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

In accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on solicitation of investments applies under (i) and (ii) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

Iceland

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer Notes to the public in Iceland, except in compliance with the Icelandic Act on Securities Transactions (No. 108/2007) and any applicable laws or regulations of Iceland.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and

regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries, and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 13th June, 2003. Subsequent increases in the amount of the Programme were duly authorised by resolutions of the Board of Directors of the Issuer dated 27th March, 2004, 23rd November, 2004, 27th May, 2005 and 31st August, 2006. The update of the programme on 11th September, 2008 was duly authorised by a resolution of the Board of Directors of the Issuer dated 30th July, 2008.

Listing of Notes and Admission to Trading

Application has been made to the CSSF to approve this document as a Base Prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Documents available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available free of charge from the registered office of the Issuer and from the specified offices of the Paying Agent for the time being in Luxembourg:

- (i) the articles of association (with an English translation thereof) of the Issuer;
- (ii) the audited financial statements of the Issuer in respect of the financial years ended 31st December, 2007 and 31st December, 2006 in each case together with the audit reports prepared in connection therewith;
- (iii) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer (with an English translation thereof) in each case together with any audit or review reports prepared in connection therewith;
- (iv) the Programme Agreement, the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Base Prospectus;
- (vi) any future Base Prospectuses, prospectuses, information memoranda and supplements (including Final Terms save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document

incorporated by reference are available on the Luxembourg Stock Exchange's website (www.bourse.lu).

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels and the address for Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or material change

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries, taken as a whole, since 30th June, 2008 and there has been no material adverse change in the prospects of the Issuer or the Issuer and its subsidiaries, taken as a whole, since 31st December, 2007.

Litigation

Neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Auditors

The auditors of the Issuer are KPMG hf., chartered accountants and a member of The Institute of State Authorised Public Accountants in Iceland, who have audited the Issuer's accounts, without qualification, in accordance with International Financial Reporting Standards ("*IFRS*") for each of the two financial years ended on 31st December, 2006 and 2007. The auditors of the Issuer have no material interest in the Issuer.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and its affiliates in the ordinary course of business.

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