

Information Memorandum



ÍSLANDBANKI hf.

(Incorporated in Iceland as a public limited company)

**A\$1,500,000,000
Debt Issuance Programme**

Under the Debt Issuance Programme described in this Information Memorandum (the "Programme"), Íslandsbanki hf. (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue debt securities (the "Notes"). The aggregate principal amount of Notes issued under the Programme may be up to A\$1,500,000,000 outstanding at any one time as of the date hereof.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). Notes may not be offered, sold or delivered within the United States or to or for the account of U.S. persons unless registered under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. tax law requirements are satisfied. For a description of certain restrictions on offers and sales of Notes and on distribution of this Information Memorandum, see "Subscription and Sale".

Íslandsbanki hf. is not a bank which is authorised under the Banking Act 1959 of Australia. The Notes are not the obligations of any government and, in particular, are not guaranteed by the Commonwealth of Australia.

Arranger

UBS AG, Australia Branch

(ABN 47 088 129 613)

Dealers

ABN AMRO Bank N.V.

Australian Branch

(ABN 84 079 478 612)

Citigroup Global Markets

Australia Pty Ltd

(ABN 64 003 114 832)

Commonwealth Bank of Australia

(ABN 48 123 123 124)

Deutsche Bank AG, Sydney Branch

(ABN 13 064 165 162)

National Australia Bank Limited

(ABN 12 004 044 937)

UBS AG, Australia Branch

19 April 2005

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Important Notice

Introduction

This Information Memorandum relates to a debt issuance programme (“**Programme**”) established by Íslandsbanki hf. (“**Issuer**”) under which short-term notes (“**STNs**”) and medium term notes (“**MTNs**”, and together with the STNS, “**Notes**”) may be issued from time to time. This Information Memorandum relates solely to Notes which may be issued in Australia by the Issuer under the Programme. Potential investors in other debt instruments which may be issued by the Issuer under the Programme should refer to any disclosure document relevant to the issue of those debt instruments.

Issuer’s responsibility

This Information Memorandum has been prepared by and issued with the authority of the Issuer. The Issuer accepts responsibility for the information contained in this Information Memorandum.

Documents incorporated by reference

This Information Memorandum is to be read in conjunction with all documents which are deemed to be incorporated into it by reference (see the paragraph entitled “Documents incorporated by reference” below). This Information Memorandum shall, unless otherwise expressly stated, be read and construed on the basis that such documents are so incorporated and form part of this Information Memorandum. References to “Information Memorandum” are to this Information Memorandum together with any other document incorporated by reference collectively and to any of them individually.

No independent verification or authorisation

The only role of the Arranger, Dealers and Agents (each as defined in the “Summary of the Programme” below) in the preparation of this Information Memorandum has been to confirm to the Issuer that their respective name and address details under “Summary of the Programme” and “Directory” are accurate as at the Preparation Date (as defined below).

The Arranger, Dealers or Agents have not independently verified the other information contained in this Information Memorandum. Accordingly, no representation, warranty or undertaking, express or implied, is made, and no responsibility is accepted, by them as to the accuracy or completeness of this Information Memorandum or any further information supplied by the Issuer in connection with the Programme.

Independent advice

This Information Memorandum contains only summary information concerning the Notes. It is not a prospectus or other disclosure document for the purposes of the Corporations Act 2001 of Australia and is not intended to provide the basis of any credit or other evaluation in respect of the Issuer or the Notes and should not be considered as a recommendation or a statement of opinion (or a report of either of these things) by the Issuer, the Arranger, the Dealers or the Agents that any recipient of this Information Memorandum or any other financial statements should purchase any Notes or any rights in respect of any Notes. Each investor contemplating purchasing any Notes or any rights in respect of any Notes under the Programme should make (and shall be taken to have made) its own independent investigation of the financial condition and affairs of, and its own appraisal of the creditworthiness of, the Issuer.

No advice is given in respect of the taxation treatment of investors in connection with investment in any Notes and each investor is advised to consult its own professional adviser.

Currency of information

The information contained in this Information Memorandum is prepared as of its Preparation Date. Neither the delivery of this Information Memorandum nor any offer, issue or sale made in connection

with this Information Memorandum at any time implies that the information contained in it is correct at any time subsequent to the Preparation Date or that any other information supplied in connection with the Programme is correct as of any time subsequent to the Preparation Date. In particular, the Issuer is not under any obligation to the holders of any Notes to update this Information Memorandum at any time after an issue of Notes.

In this Information Memorandum, “**Preparation Date**” means:

- in relation to this Information Memorandum, the date indicated on its face or, if the Information Memorandum has been amended or supplemented, the date indicated on the face of that amendment or supplement;
- in relation to any reports and financial statements incorporated by reference in this Information Memorandum, the date up to, or as at, the date on which the reports and statements relate; and
- in relation to any other item of information which is incorporated by reference in this Information Memorandum, the date indicated in that information as being its date of release.

The Arranger, the Dealers and the Agents expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, amongst other things, the documents which are deemed to be incorporated in this Information Memorandum by reference when deciding whether or not to purchase any Notes. In addition, the Issuer makes filings with the relevant market or regulatory authorities where its securities may be offered or listed from time to time, and such filings may include information material to investors. Copies of such filings are available from the Issuer on request.

No person has been authorised to give any information or make any representation not contained in, or consistent with, this Information Memorandum in connection with the Issuer, the Programme or the issue or sale of the Notes and, if given or made, that information or representation must not be relied on as having been authorised by the Issuer, Arranger, Dealers or Agents.

All references in this Information Memorandum to A\$ or Australian dollars are to the currency of Australia.

Terms and conditions of issue

The applicable terms of any Notes will be as set out in the Conditions of the Notes included in this Information Memorandum, as supplemented, modified or replaced by any relevant Pricing Supplement or STN Supplement for those Notes.

Agency and distribution arrangements

The Issuer has agreed to pay the Agents' fees for undertaking their respective roles and reimburse them for certain of their expenses incurred in connection with the Programme. The Issuer may also pay a Dealer a fee in respect of the Notes subscribed by it and has agreed to reimburse the Dealers for certain expenses incurred in connection with the Programme and indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes.

Each Dealer, its subsidiaries, directors and employees may have pecuniary or other interests in the Notes and may also have interests pursuant to other arrangements and may receive fees, brokerage and commissions and may act as a principal in dealing in any Notes.

The distribution of this Information Memorandum and any relevant Pricing Supplement or STN Supplement and the subscription, offer, sale or transfer of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Arranger, Dealers or Agents represents that this Information Memorandum may be lawfully distributed, or that any Notes may be lawfully subscribed for, offered, sold or transferred in compliance with any applicable law in any such jurisdiction, or under an exemption available in that jurisdiction, or assumes any responsibility for facilitating any distribution or offering. No action has been taken, or will be taken, by the Issuer, the Arranger, Dealers or Agents in

any jurisdiction which would permit a public offering of any Notes or distribution of this Information Memorandum in any jurisdiction where action for that purpose is required.

In particular, the Notes have not been and will not be registered under the US Securities Act of 1933, as amended (“**Securities Act**”) or the securities laws of any state in the United States of America. The Notes may not be offered, sold, delivered or transferred within the United States of America or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act), unless those Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

No offer

This Information Memorandum does not, and is not intended to, constitute an offer or invitation by or on behalf of the Issuer, the Arranger, the Dealers or any Agent to any person to subscribe for, purchase or otherwise deal in any Notes.

References to credit ratings

There are references in this Information Memorandum to credit ratings. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating agency. Each rating should be evaluated independently of any other rating.

Documents incorporated by reference

The following documents are incorporated in, and taken to form part of, this Information Memorandum:

- all amendments and supplements to this Information Memorandum published by the Issuer from time to time;
- the most recently published financial statements of the Issuer; and
- all documents published by the Issuer and stated to be incorporated in this Information Memorandum by reference including any relevant Pricing Supplement (in the case of MTNs) or STN Supplement (in the case of STNs).

Any statement contained in this Information Memorandum or in any of the documents incorporated by reference in, and forming part of this Information Memorandum, shall be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

Copies of documents incorporated by reference may be obtained from the Issuer.

Summary of the Programme

The following is a summary only and should be read with the rest of this Information Memorandum and, in relation to any Notes, the Conditions of the Notes and any applicable Pricing Supplement or STN Supplement.

Issuer:	Íslandsbanki hf.
Description:	<p>A non-underwritten debt issuance programme (“Programme”) under which, subject to applicable laws and directives, the Issuer may issue STNs and MTNs.</p> <p>The features of the Notes are described in greater detail elsewhere in this Information Memorandum.</p> <p>The features of any other debt instruments will be described in a disclosure document relevant to the issue of those debt instruments prior to their issuance.</p>
Programme Limit:	<p>A\$1,500,000,000</p> <p>The Programme Limit may be increased by the Issuer from time to time in accordance with the provisions of the Dealer Agreement for the Programme dated 19 April 2005.</p>
Arranger:	UBS AG, Australia Branch
Dealers:	<p>ABN AMRO Bank N.V., Australian Branch Citigroup Global Markets Australia Pty Limited Commonwealth Bank of Australia Deutsche Bank AG, Sydney Branch National Australia Bank Limited UBS AG, Australia Branch</p> <p>Details of the Arranger’s and Dealers’ Australian Business Numbers (“ABN”) and Australian Financial Services Licence (“AFSL”) numbers are set out in the Directory.</p> <p>Additional Dealers may be appointed from time to time by the Issuer in accordance with the Dealer Agreement for any Tranche of Notes or to the Programme generally. The Issuer may also issue Notes directly to purchasers or investors (as applicable) procured by it.</p>
Registrar:	<p>Austraclear Services Limited (ABN 28 003 284 419) and any other persons appointed by the Issuer to establish and maintain a Register (as defined below) on the Issuer’s behalf from time to time.</p> <p>A Registrar may also provide issue and paying agency services with respect to each Series or Tranche of Notes initially lodged and held through or predominantly through the Austraclear System.</p>
Calculation Agents:	<p>If a Calculation Agent is required for the purpose of calculating any amount or making any determination in respect of a Series or Tranche of Notes, that appointment will be notified in the relevant Pricing Supplement or STN Supplement. The Issuer may terminate the appointment of the Calculation Agent, appoint additional or other Calculation Agents or elect to have no Calculation Agent. Where no Calculation Agent is appointed the calculation of interest, principal and other payments in respect of Notes will be made by the Issuer.</p>

Agent:	Each Registrar, Calculation Agent and any other person appointed by the Issuer to perform other agency functions with respect to a Series or Tranche of Notes. Details of each appointment will be notified in the relevant Pricing Supplement or STN Supplement.
Programme Term:	The Programme continues until terminated by the Issuer giving 30 days notice to the then current Dealers or earlier by agreement between the Issuer, the Arranger and the then current Dealers.
Rating:	Notes to be issued under the Programme are expected to be assigned an A1 rating by Moody's. Structured or Subordinated Notes may have a different credit rating to the other Notes. Where an individual Tranche or Series of Notes is rated, the rating may not necessarily be the same as the ratings specified above. A rating is not a recommendation to buy, sell or hold Notes and is subject to variation, suspension or withdrawal at any time by the assigning organisation.
Form of Notes:	Notes issued by the Issuer will be in registered form. They will be debt obligations of the Issuer which are constituted by, and owing under, a Note Deed Poll dated 19 April 2005 (as amended and/or supplemented from time to time) (" Note Deed Poll "). Notes will take the form of entries in a register maintained by the Registrar. The terms and conditions of the Notes are contained in schedule 1 and schedule 2 to the Note Deed Poll, as modified and supplemented by an STN Supplement or Pricing Supplement for the relevant Tranche. Notes may bear interest at a fixed or floating rate, be issued at a discount or premium to the face value or otherwise bear interest which is calculated by a formula or an index as specified in the relevant Pricing Supplement or STN Supplement. The Notes of any Series may be described as "MTNs", "STNs", "Notes", "Bonds", "Instruments", "Indexed Notes", "Amortising Notes", "Credit Linked Notes", "FRNs", "Zero Coupon Notes", "Subordinated Notes" or by any other marketing name specified in the relevant Pricing Supplement or STN Supplement.
Method of Issue:	The Notes may be issued on a syndicated or non-syndicated basis.
Interest Periods and Interest Rates:	The length of the interest periods and the applicable rate of interest or its method of calculation may differ from time to time or be constant for any Series as specified in the relevant Pricing Supplement or STN Supplement. Notes may have a maximum rate of interest, a minimum rate of interest or both.
Status and ranking:	The Notes (other than Subordinated Notes) will constitute unsubordinated and unsecured obligations of the Issuer, as described in Condition 3 of the Notes. Subordinated Notes will be direct, conditional and unsecured obligations of the Issuer ranking as described in the subordination provisions in the MTN Conditions. Íslandsbanki hf. is not a bank which is authorised under the Banking Act 1959 of Australia. The Notes are not the obligations of any government and, in particular, are not guaranteed by the Commonwealth of Australia.

Tenor:	STNs must have a tenor of no less than 7 days and no more than 365 days. MTNs must have a tenor of more than 365 days. There is no maximum tenor for MTNs.
Currencies:	<p>Australian dollars. Subject to any applicable legal or regulatory requirements, Notes may also be denominated in any other freely transferable and freely convertible currency as may be agreed between the Issuer and the relevant Dealer.</p> <p>Payments in respect of Notes may be made in, or limited to, a currency or currencies other than the currency in which the Notes are denominated, all as set out in the relevant Pricing Supplement or STN Supplement.</p>
Issue Price:	Notes may be issued at any price on a fully or partly paid basis, as specified in any relevant Pricing Supplement or STN Supplement.
Settlement Price:	As specified in any relevant Pricing Supplement or STN Supplement, or as otherwise agreed between the parties.
Issuance in Series:	<p>Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and (unless the Notes are approved for trading in the Austraclear System) interest commencement date may be different in respect of different Tranches of a Series. The Notes of each Series are intended to be fungible with other Notes of that Series.</p> <p>However, in certain circumstances, Notes of a particular Tranche may not be, nor will they become, fungible with Notes of any other Tranche or Tranches forming part of the same Series until a specified time following their issue, as described in the relevant Pricing Supplement or STN Supplement.</p>
Denominations:	Notes will be issued in the single denomination specified in the relevant Pricing Supplement or STN Supplement.
Title:	<p>Entry of the name of the person in the Register in respect of a Note constitutes the obtaining and passing of title and it is conclusive evidence that the person so entered is the absolute owner of the Notes subject to correction for fraud or error. Title to those Notes passes when details of the transfer are entered in the Register.</p> <p>Notes held in the Austraclear System will be registered in the name of Austraclear Limited (ABN 94 002 060 773) ("Austraclear"). Title to Notes held in a Clearing System (as defined below) will be determined in accordance with the rules and regulations of that Clearing System.</p> <p>No certificates or other evidence of title will be issued to holders of Notes unless the Issuer determines that certificates should be available or are required by any applicable law or regulation.</p>
Clearing System:	<p>Notes may be transacted either within or outside any Clearing System. The Issuer may apply to Austraclear for approval for the Notes to be traded on the settlement system operated by Austraclear ("Austraclear System"). Such approval of the Notes by Austraclear is not a recommendation or endorsement by Austraclear of the Notes.</p> <p>Notes may also be traded on the settlement system operated by Euroclear Bank S.A./N.A. ("Euroclear"), the settlement system operated by Clearstream Banking société anonyme ("Clearstream, Luxembourg") or</p>

any other clearing system outside Australia specified in the relevant Pricing Supplement or STN Supplement (together with the Austraclear System, Euroclear and Clearstream, Luxembourg, each a “**Clearing System**”).

- Negative pledge: See condition 4 of the MTN Conditions.
- Cross default: See condition 15.1(c) of the MTN Conditions.
- Governing law: The Notes, and all related documents, will be governed by the laws in force in New South Wales, Australia, except as stated in MTN Condition 3.3.
- Use of proceeds: The net proceeds from the issue of Notes will be used by the Issuer for its general corporate purposes.
- Transfer procedure: Notes may only be transferred in whole.
- Notes may only be transferred between persons in a jurisdiction or jurisdictions other than Australia if the transfer is in compliance with the laws of the jurisdiction in which the transfer takes place.
- Notes not held in a Clearing System may only be transferred by completing and delivering to the Registrar a signed transfer form in compliance with all applicable laws.
- Interests in respect of Notes held in a Clearing System are transferable only in accordance with the rules and regulations of the relevant Clearing System.
- Redemption: Notes may be redeemed before their stated maturity as described in the Conditions.
- Notes held in a Clearing System will be redeemed through that Clearing System in a manner consistent with the rules and regulations of that Clearing System.
- Payments and Record Date: Payments will be made to the persons whose names are entered in the Register as at 5.00pm (Sydney time) on the relevant Record Date. The Record Date is the eighth calendar day before a payment date, or, any other date so specified in the relevant Pricing Supplement or STN Supplement.
- Payments to persons who hold interests or rights in respect of any Notes held in a Clearing System will be made by transfer to their relevant account in accordance with the rules and regulations of the relevant Clearing System.
- If Notes are not held in a Clearing System, payments will be made to the account of the registered holder noted in the Register. If no account is notified, then payments will be made by cheque mailed on the Business Day immediately before the payment date to the registered holder at its address appearing in the Register at the close of business on the Record Date.
- Stamp duty: Any stamp duty incurred at the time of issue of the Notes will be for the account of the Issuer. Any stamp duty incurred on a transfer of Notes will be for the account of the relevant investors.
- As at the date of this Information Memorandum, no Australian stamp duty is payable on the issue, transfer or redemption of the Notes. Investors are advised to seek independent advice regarding any stamp duty or other

taxes imposed by another jurisdiction upon the transfer of Notes, or interests in Notes, in any jurisdiction outside of Australia. Investors are advised to seek independent advice regarding stamp duty.

Withholding tax: All payments with respect to the Notes will be made free and clear of withholding or deduction for or on account of any taxes or other charges imposed by any governmental authority or agency in Iceland, except as provided in Condition 8 of the STNs and Condition 13 of the MTNs.

Australian and Iceland taxation: An overview of the Australian and Icelandic taxation treatment of payments of interest on the Notes and certain other matters is set out under the section entitled "Taxation" below. However, investors should obtain their own taxation advice regarding the taxation status of investing in Notes.

Tax File Numbers and Australian Business Numbers: The Issuer will deduct amounts from payments of interest to be made under the Notes at the prescribed rate if an Australian resident investor has not supplied an appropriate Tax File Number ("**TFN**"), ABN or such exemption details as may be necessary to enable the payment to be made without deduction.

Selling restrictions: The offer, sale, transfer and delivery of Notes and the distribution of this Information Memorandum and other material in relation to the Notes are subject to such restrictions as may apply in any jurisdiction in which the Notes may be offered, sold or transferred in connection with the offering and sale of a particular Tranche of Notes. In particular, restrictions on the offer or sale of the Notes in Australia, Iceland, the United Kingdom, the United States of America, Hong Kong, Japan, New Zealand and Singapore are set out in the section entitled "Selling Restrictions" below.

Listing: The Issuer does not currently intend to list the Notes on any stock exchange.

However, the Issuer may elect to apply to list one or more Tranches of Notes on the Australian Stock Exchange Limited ("**ASX**") or any other stock exchange specified in the relevant Pricing Supplement or STN Supplement. Notes listed on the ASX will not be transferred through or registered on the Clearing House Electronic Sub-Register System ("**CHES**") operated by the ASX and will not be "Approved Financial Products" for the purposes of CHES. If an interface between the Register and CHES is established the documents relating to the Programme may be amended to facilitate settlement on CHES and the Notes will become "Approved Financial Products" for the purposes of CHES.

Investment Risks: This paragraph does not describe all the risks of an investment in the Notes. Prospective investors or purchasers should consult their own financial and legal advisers about risks associated with an investment in a particular Tranche of Notes and the suitability of investing in the Notes in light of their particular circumstances.

An investment in certain types of structured Notes, the premium and/or the interest on or principal of which is determined by reference to one or more values of currencies, commodities, interest rates or other indices or formulae, either directly or indirectly, may entail significant risks not associated with similar investments in a conventional debt security, including the risks that the resulting interest rate will be less than that payable on a conventional debt security purchased at the same time and/or that an investor could lose all or a substantial portion of the principal of those Notes.

Neither the current nor the historical value of the relevant currencies, commodities, interest rates or other indices or formulae should be taken as an indication of future performance of such currencies, commodities, interest rates or other indices or formulae during the term of any Notes.

The Issuer

The Issuer is a public limited company incorporated in Iceland and operating under Icelandic law. The Issuer is registered with the registrar of companies in Iceland and its registration number is 550500-3530. The registered office and place of business of the Issuer is a Kirkjusandur 2, IS-155 Reykjavík, Iceland.

The operations of the Issuer are subject to the provisions of Act no. 2/1995 on Public Limited Companies and Act on Financial Undertakings No. 161/2002. The Issuer is authorised to provide all financial services stipulated in the latter Act as further specified in the Articles of Association of the Issuer, which means that it is subject to all EU directives on commercial banks and savings banks and its activities are under the supervision of the Icelandic Financial Supervisory Authority.

The Issuer and its subsidiaries and affiliates (together, the “Group”) comprise a leading financial group in Iceland and the Issuer is the second largest company listed on the Iceland Stock Exchange by market capitalisation. The Issuer operates seven business units: Retail Banking, Corporate Banking, Investment Banking, Asset-based Financing, Capital Markets, Asset Management and Insurance, along with 29 branches in Iceland and a branch in London. The Issuer currently has 8 wholly-owned subsidiaries, including the insurance company Sjóvá-Almennar tryggingar hf., KredittBanken ASA and Bolig- og Næringsbanken ASA. Other subsidiaries consist of holding companies for investments of the Issuer, a real estate management company, and projects sponsored by the Issuer. In addition, the Issuer also has substantial shareholdings in other financial services companies, including a 35.0 per cent. shareholding in Europay Iceland, which is the Mastercard franchise in Iceland, and an 18.5 per cent. shareholding in Iceland’s Visa licensee, Greiðslumiðlun.

Conditions of the STNs

The following are the conditions which, as supplemented, amended or replaced by any applicable STN Supplement, will apply to each STN constituted by the Note Deed Poll.

Definitions and interpretation provisions are set out in Condition 15 (“Interpretation”).

Part 1 Introduction

1 Introduction

1.1 Programme

STNs are issued under a debt issuance programme established by the Issuer.

1.2 STN Supplement

STNs are issued in Series. A Series may comprise one or more Tranches having one or more Issue Dates and on conditions otherwise identical. A Tranche may be the subject of a STN Supplement which supplements, amends or replaces these Conditions. If there is any inconsistency between these Conditions and any applicable STN Supplement, the applicable STN Supplement prevails.

Copies of any applicable STN Supplement are available for inspection or on request by an STN Holder or prospective STN Holder during normal business hours at the Specified Office of the Issuer or the Registrar.

1.3 Types of STNs

An STN is a short term debt obligation issued at a discount to its principal amount.

1.4 Denomination

STNs are issued in a single denomination of A\$10,000 unless otherwise specified in any applicable STN Supplement.

1.5 Currency

STNs are denominated in Australian dollars unless otherwise specified in any applicable STN Supplement.

1.6 Clearing Systems

STNs may be held in a Clearing System, in which case the rights of a person holding an interest in the STNs lodged in the Clearing System are subject to the rules and regulations of the Clearing System.

Part 2 The STNs

2 Form

2.1 Constitution under Note Deed Poll

STNs are debt obligations of the Issuer constituted by, and owing under, the Note Deed Poll.

2.2 Form

STNs are issued in registered form by entry in the Register.

2.3 No certificates

No certificates will be issued to STN Holders unless the Issuer determines that certificates should be available or are required by any applicable law.

3 Status

3.1 Status of STNs

STNs constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer.

3.2 Ranking

STNs rank equally among themselves and at least equally with all other unsubordinated and unsecured obligations of the Issuer, except for liabilities mandatorily preferred by law.

4 Title and transfer of STNs

4.1 Title

Title to STNs passes when details of the transfer are entered in the Register.

4.2 Effect of entries in Register

Each entry in the Register in respect of an STN constitutes:

- (a) an unconditional and irrevocable undertaking by the Issuer to the STN Holder to pay principal and any other amount in accordance with these Conditions; and
- (b) an entitlement to the other benefits given to STN Holders under these Conditions in respect of the relevant STN.

4.3 Register conclusive as to ownership

Entries in the Register in relation to an STN constitute conclusive evidence that the person so entered is the absolute owner of the STN subject to correction for fraud or error.

4.4 Non-recognition of interests

Except as required by law, the Issuer and the Registrar must treat the person whose name is entered in the Register as the holder of an STN as the absolute owner of that STN. This Condition applies whether or not an STN is overdue and despite any notice of ownership, trust or interest in the STN.

4.5 Joint holders

Where two or more persons are entered in the Register as the joint holders of an STN then they are taken to hold the STN as joint tenants with rights of survivorship, but the Registrar is not bound to register more than four persons as joint holders of an STN.

4.6 Transfers in whole

STNs may be transferred in whole but not in part.

4.7 Compliance with laws

STNs may only be transferred if:

- (a) the offer or invitation giving rise to the transfer does not constitute an offer or invitation for which disclosure is required to be made to investors under Part 6D.2 of the Corporations Act; and
- (b) the transfer complies with any applicable law or directive of the jurisdiction where the transfer takes place.

4.8 Transfer procedures

Interests in STNs held in a Clearing System are transferable only in accordance with the rules and regulations of that Clearing System.

Application for the transfer of STNs not held in a Clearing System must be made by the lodgment of a transfer form with the Registrar at its Specified Office. Transfer forms must be in the form available from the Registrar. Each transfer form must be:

- (a) duly completed;
- (b) accompanied by any evidence the Registrar may require to establish that the transfer form has been duly executed; and
- (c) signed by, or on behalf of, both the transferor and the transferee.

Transfers are registered without charge provided all applicable Taxes have been paid.

4.9 Effect of transfer

Upon registration and entry of the transferee in the Register the transferor ceases to be entitled to future benefits under these Conditions in respect of the transferred STNs and the transferee becomes so entitled in accordance with Condition 4.2 ("Effect of entries in Register").

4.10 Austraclear as STN Holder

If Austraclear is recorded in the Register as the STN Holder, each person in whose Security Record (as defined in the Austraclear Regulations) an STN is recorded is taken to acknowledge in favour of the Issuer, the Registrar and Austraclear that:

- (a) the Registrar's decision to act as the Registrar of that STN is not a recommendation or endorsement by the Registrar or Austraclear in relation to that STN, but only indicates that the Registrar considers that the holding of the STN is compatible with the performance by it of its obligations as Registrar under an Agency Agreement; and
- (b) the STN Holder does not rely on any fact, matter or circumstance contrary to paragraph (a).

Part 3 Redemption and purchase

5 Redemption

5.1 Redemption

Each STN is redeemable by the Issuer on the Maturity Date at its outstanding principal amount unless:

- (a) the STN has been previously redeemed; or
- (b) the STN has been purchased and cancelled.

5.2 Purchase

The Issuer and any of its Related Entities may at any time purchase STNs in the open market or otherwise and at any price. If purchases are made by tender, tenders must be available to all STN Holders alike. STNs purchased under this Condition 5.2 may be held, resold or cancelled at the discretion of the purchaser and (if the STNs are to be cancelled, the Issuer), subject to compliance with any applicable law.

Part 4 Payments

6 General provisions

6.1 Summary of payment provisions

Payments in respect of STNs must be made in accordance with Condition 7 ("Payments").

6.2 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of Condition 8 ("Taxation").

6.3 Payments on business days

If a payment is due on a day which is not a Business Day then the due date for payment is the next Business Day.

The STN Holder is not entitled to any additional payment in respect of that delay.

6.4 Currency indemnity

The Issuer waives any right it has in any jurisdiction to pay an amount other than in the currency in which it is due. However, if an STN Holder receives an amount in a currency other than that in which it is due:

- (a) it may convert the amount received into the due currency (even though it may be necessary to convert through a third currency to do so) on the day and at such rates (including spot rate, same day value rate or value tomorrow rate) as it reasonably considers appropriate. It may deduct its usual costs in connection with the conversion; and
- (b) the Issuer satisfies its obligation to pay in the due currency only to the extent of the amount of the due currency obtained from the conversion after deducting the costs of the conversion.

7 Payments

7.1 Payment of principal

Payments of principal in respect of an STN will be made to each person registered at 10.00 am on the payment date as the holder of an STN.

7.2 Payments to accounts

Payments in respect of STNs will be made:

- (a) if the STNs are held in the Austraclear System, by crediting on the payment date, the amount due to:
 - (i) the account of Austraclear (as the STN Holder) in the country of the currency in which the STN is denominated previously notified to the Issuer and the Registrar; or
 - (ii) if requested by Austraclear, the accounts of the persons in whose Security Record (as defined in the Austraclear Regulations) an STN is recorded in the country of the currency in which the STN is denominated as previously notified by Austraclear to the Issuer and the Registrar in accordance with Austraclear Regulations; and
- (b) if the STNs are not held in the Austraclear System, by crediting on the payment date, the amount then due under each STN to an account in the country of the currency in which the STN is denominated previously notified by the STN Holder to the Issuer and the Registrar.

7.3 Payments by cheque

If the STN Holder has not notified the Registrar of an account to which payments to it must be made by the close of business on the Business Day immediately before the Maturity Date, payments in respect of the STN will be made by cheque sent by prepaid post on the Business Day immediately before the payment date, at the risk of the registered STN Holder, to the STN Holder (or to the first named joint holder of the STN) at its address appearing in the Register at the close of business on that Business Day. Cheques sent to the nominated address of an STN Holder are taken to have been received by the STN Holder on the payment date and, no further amount is payable by the Issuer in respect of the STNs as a result of the STN Holder not receiving payment on the due date.

8 Taxation

8.1 No set-off, counterclaim or deductions

All payments in respect of the STNs must be made in full without set-off or counterclaim, and without any withholding or deduction in respect of Taxes, unless prohibited by law.

8.2 Withholding tax

Subject to Condition 8.3 ("Withholding tax exemptions"), if a law requires the Issuer to withhold or deduct an amount in respect of Taxes from a payment in respect of the STNs such that the STN Holder would not actually receive on the due date the full amount provided for under the STNs, then:

- (a) the Issuer agrees to deduct the amount for the Taxes (and any further withholding or deduction applicable to any further payment due under paragraph (b) below); and
- (b) if the amount deducted or withheld is in respect of Taxes imposed by a Relevant Tax Jurisdiction, the amount payable is increased so that, after making the deduction and further deductions applicable to additional amounts payable under this Condition, each STN Holder is entitled to receive (at the time the payment is due) the amount it would have received if no deductions or withholdings had been required to be made.

8.3 Withholding tax exemptions

The Issuer is not required to pay an Additional Amount under Condition 8.2(b) (“Withholding tax”) if the obligation to do so arises as a result of any one or more of the following:

- (a) the deduction is required in respect of Taxes by reason of the STN Holder having some connection with a Relevant Tax Jurisdiction other than the mere holding of the STN or receipt of payment in respect of the STN
- (b) the deduction is required as a result of Taxes which would not be required to be deducted by the STN Holder (or the person making a payment on its behalf) if they:
 - (i) provided the Issuer, its agent or any tax authority with their name, address, registration number or similar details or any relevant tax exemption or similar details; or
 - (ii) ensured that any third party complied with any other statutory requirements (such as making a declaration of non-residence or similar claim) for any relevant tax exemption;
- (c) to, or to a third party on behalf of an Australian resident STN Holder or a non-resident STN Holder carrying on business in Australia at or through a permanent establishment of the non-resident in Australia, if that STN Holder has not supplied an appropriate tax file number an Australian business number or other exemption details; or
- (d) in any other circumstances specified in any applicable STN Supplement.

9 Time limit for claims

A claim against the Issuer for a payment under an STN is void unless made within 10 years from the date on which payment first became due

Part 5 General

10 Agents

10.1 Role of Agents

In acting under an Agency Agreement, each Agent acts solely as agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for or with any STN Holder.

10.2 Appointment and replacement of Agents

Subject to Condition 10.4 (“Required Agents”), the Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor.

10.3 Change of Agent

Notice of any change of an Agent or its Specified Offices must promptly be given to the STN Holders by the Issuer or the Agent on its behalf.

10.4 Required Agents

The Issuer must at all times maintain a Registrar.

11 Variation

Any Condition may be amended without the consent of the STN Holders if the amendment:

- (a) is of a formal, minor or technical nature;
- (b) is made to correct a manifest error;
- (c) is made to cure any ambiguity or correct or supplement any defective or inconsistent provision and, in the reasonable opinion of the Issuer, is not materially prejudicial to the interests of the STN Holders; or
- (d) only applies to STNs issued by it after the date of amendment.

12 Further issues

The Issuer may from time to time, without the consent of the STN Holders, issue further STNs having the same Conditions as the STNs of any Series in all respects (or in all respects except for the first payment of interest) so as to form a single series with the STNs of that Series.

13 Notices**13.1 Notices to STN Holders**

All notices and other communications to STN Holders must be in writing and must be left at the address of or sent by prepaid post (airmail, if appropriate) to the address of the STN Holder (as shown in the Register at the close of business on the day which is 3 Business Days before the date of the notice or communication).

They may also be:

- (a) given by an advertisement published in the Australian Financial Review or The Australian; or
- (b) if any applicable STN Supplement specifies an additional or alternate newspaper, given by an advertisement published in that newspaper.

13.2 Notices to the Issuer and the Agents

All notices and other communications to the Issuer or an Agent must be in writing and may be left at the address of, or sent by prepaid post (airmail, if appropriate) to, the Specified Office of the Issuer or the Agent.

13.3 When effective

They take effect from the time they are received unless a later time is specified in them.

13.4 Deemed receipt - publication in newspaper

If published in a newspaper, they are taken to be received on the first date that publication has been made in all the required newspapers.

13.5 Deemed receipt - postal

If sent by post, they are taken to be received five days after posting.

14 Governing law**14.1 Governing law**

STNs are governed by the law in force in New South Wales,.

14.2 Jurisdiction

The Issuer submits, and each STN Holder is taken to have submitted, to the non-exclusive jurisdiction of the courts of New South Wales and courts of appeal from them. The Issuer waives any right it has to object to an action being brought in those courts including by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

14.3 Serving documents

Without preventing any other method of service, any document in any action may be served on the Issuer or an STN Holder by being delivered or left at their registered office or principal place of business .

14.4 Agent for service of process

The Issuer appoints Dabserv Corporate Services Pty Limited (ABN 73 001 824 111) of Level 53, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, as its agent to receive any document referred to in Condition 14.3. If for any reason that person ceases to be able to act as such, the Issuer will immediately appoint another person with an office located in New South Wales to receive any such document and promptly notify the Registrar and the Holders of such appointment.

15 Interpretation**15.1 Definitions**

In these Conditions the following expressions have the following meanings:

Additional Amount means an additional amount payable by the Issuer under Condition 8.2 (“Withholding tax”).

Agency Agreement means:

- (a) the agreement entitled “Agency and Registry Services Agreement” dated on or about the date of the Note Deed Poll between the Issuer and the Registrar in relation to the STNs; and
- (b) any other agreement between the Issuer and the Registrar specified in any applicable STN Supplement; and
- (c) any other agency agreement entered into by the Issuer in relation to an issue of STNs.

Agent means the Registrar and any additional agent appointed under an Agency Agreement.

Austraclear means Austraclear Limited (ABN 94 002 060 773).

Austraclear Regulations means the regulations known as “Austraclear System Regulations” established by Austraclear to govern the use of the Austraclear System.

Austraclear System means the system operated by Austraclear in Australia for holding securities and electronic recording and settling of transactions in those securities between members of the system.

Business Day means a day on which banks are open for general banking business in Sydney and in each (if any) Relevant Financial Centre specified in any applicable STN Supplement (not being a Saturday, Sunday or public holiday in that place) and, if an STN is to be issued or paid on that day, a day on which each Clearing System is operating.

Clearing System means:

- (a) the Austraclear System; or
- (b) any other clearing system specified in any applicable STN Supplement.

Corporations Act means the Corporations Act 2001 of Australia.

Information Memorandum in respect of an STN means:

- (a) the information memorandum, disclosure document (as defined in the Corporations Act) or other offering document referred to in any applicable STN Supplement; or
- (b) if there is no applicable STN Supplement, the most recent information memorandum, disclosure document or other offering document which describes the debt issuance programme referred to in Condition 1.1 ("Programme").

Issue Date means the date on which an STN is issued, as recorded in the Register.

Issuer means Íslandsbanki hf.

Maturity Date means, the date on which an STN matures, as recorded in the Register.

Note Deed Poll means the deed poll so entitled executed by the Issuer on or about 18 April 2005.

Register means the register, including any branch register, of holders of STNs established and maintained by or on behalf of the Issuer under an Agency Agreement.

Registrar means Austraclear Services Limited (ABN 28 003 284 419) or any other person appointed by the Issuer under an Agency Agreement to maintain the Register and perform any payment and other duties as specified in that agreement.

Related Entity has the meaning it has in the Corporations Act.

Relevant Tax Jurisdiction means Iceland or any political sub-division 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 STNs.

Series means an issue of STNs made up of one or more Tranches all of which form a single Series and are issued on the same Conditions except that the Issue Date may be different in respect of different Tranches of a Series.

Specified Office means the office specified in the Information Memorandum or any other address notified to STN Holders from time to time.

STN means a short term debt obligation issued or to be issued by the Issuer which is constituted by, and owing under the Note Deed Poll, the details of which are recorded in, and evidenced by, entry in, the Register.

STN Holder means, in respect of an STN, each person whose name is entered in the Register as the holder of that STN.

For the avoidance of doubt, where an STN is held in a Clearing System, references to an STN Holder include the operator of that system or a nominee for that operator or a common depository for one or more Clearing Systems (in each case acting in accordance with the rules and regulations of the Clearing System or Systems).

STN Supplement means, in respect of a Tranche, the STN Supplement specifying the relevant issue details in relation to it.

Taxes means taxes, levies, imposts, charges and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties, fines and expenses in connection with them except those imposed on, or calculated having regard to, the net income of an STN Holder.

Tranche means an issue of STNs specified as such in any applicable STN Supplement issued on the same Issue Date and on the same Conditions.

15.2 References to certain general terms

Unless the contrary intention appears, a reference in these Conditions to:

- (a) a group of persons is a reference to any two or more of them jointly and to each of them individually;
- (b) a document (including these Conditions) includes any variation or replacement of it;
- (c) law means common law, principles of equity and laws made by any parliament (and laws made by parliament include and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (d) a directive means a treaty, an official directive, request, regulation, guideline or policy (whether or not having the force of law) with which responsible participants in the relevant market generally comply;
- (e) Australian dollars or A\$ is a reference to the lawful currency of Australia;
- (f) a time of day is a reference to Sydney time;
- (g) the word "person" includes an individual, a firm, a body corporate, an unincorporated association and an authority;
- (h) a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) an agreement, representation or warranty in favour of two or more persons is for the benefit of them jointly and each of them individually;
- (j) anything (including any amount) is a reference to the whole and each part of it;
- (k) the words "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

15.3 References to particular terms

Unless the contrary intention appears, in these Conditions:

- (a) a reference to the Issuer, the Registrar, or another Agent is a reference to the person so specified in the Register;

- (b) a reference to the Agency Agreement is a reference to the Agency Agreement applicable to the STNs of the relevant Series.
- (c) a reference to an STN is a reference to an STN of a particular Series issued by the Issuer;
- (d) a reference to an STN Holder is a reference to the holder of STNs of a particular Series;
- (e) a reference to a particular date that is not a Business Day is a reference to that date adjusted by being postponed to the first following day that is a Business Day (or by being adjusted in accordance with any other convention specified in any applicable STN Supplement).

15.4 References to principal and interest

Unless the contrary intention appears, in these Conditions any reference to “principal” is taken to include, any additional amounts in respect of principal which may be payable under Condition 8 (“Taxation”) and any other amount in the nature of principal payable in respect of the STNs under these Conditions.

15.5 Number

The singular includes the plural and vice versa.

15.6 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of these Conditions.

15.7 Terms defined in STN Supplement

Terms which are defined in any applicable STN Supplement as having a defined meaning have the same meaning when used in these Conditions but if the applicable STN Supplement gives no meaning or specifies that the definition is “Not Applicable”, then that definition is not applicable to the STNs.

Conditions of the MTNs

The following are the conditions which, as supplemented, amended or replaced by the relevant Pricing Supplement, apply to each MTN constituted by the Note Deed Poll. References to the "Pricing Supplement" in these conditions do not limit the provisions which may be supplemented, amended or replaced by the Pricing Supplement in relation to a particular Series of MTNs.

Definitions and interpretation provisions are set out in Condition 22 ("Interpretation").

Part 1 Introduction

1 Introduction

1.1 Programme

MTNs are issued under a debt issuance programme established by the Issuer.

1.2 Pricing Supplement

MTNs are issued in Series. A Series may comprise one or more Tranches having one or more Issue Dates and on conditions otherwise identical (other than in respect of the first payment of interest). A Tranche is the subject of a Pricing Supplement which supplements, amends or replaces these Conditions. If there is any inconsistency between these Conditions and the Pricing Supplement, the Pricing Supplement prevails.

Copies of the Pricing Supplement are available for inspection or on request by an MTN Holder or prospective MTN Holder during normal business hours at the Specified Office of the Issuer or the Registrar.

1.3 Types of MTNs

An MTN is either:

- (a) a Fixed Rate MTN; or
- (b) a Floating Rate MTN; or
- (c) a Zero Coupon MTN; or
- (d) a Structured MTN (being either an Index Linked MTN or an Instalment MTN); or
- (e) a Subordinated MTN,

or a combination of the above (or any other type of debt obligation including a certificate of deposit), as specified in the relevant Pricing Supplement.

1.4 Denomination

MTNs are issued in a single Denomination as specified in the Pricing Supplement.

1.5 Currency

MTNs are denominated in the currency specified in the Pricing Supplement.

1.6 Clearing Systems

MTNs may be held in a Clearing System, in which case the rights of a person holding an interest in the MTNs lodged in the Clearing System are subject to the rules and regulations of the Clearing System.

Part 2 The MTNs

2 Form

2.1 Constitution under Note Deed Poll

MTNs are debt obligations of the Issuer constituted by, and owing under, the Note Deed Poll.

2.2 Form

MTNs are issued in registered form by entry in the Register.

2.3 No certificates

No certificates will be issued to MTN Holders unless the Issuer determines that certificates should be available or are required by any applicable law.

3 Status

3.1 Status

MTNs (other than Subordinated MTNS) constitute direct, unconditional, unsubordinated and (subject to Condition 4 ("Negative Pledge")) unsecured obligations of the Issuer.

3.2 Ranking

MTNs (other than Subordinated MTNS) rank equally among themselves and at least equally with all other unsubordinated and unsecured obligations of the Issuer, except for liabilities mandatorily preferred by law.

3.3 Subordination

The Subordinated Notes 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 rateably and without any preference among themselves and accordingly, on the insolvency or liquidation of the Issuer, the Subordinated Notes rank in right of payment:

- (b) 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);
- (c) at least pari passu with all other obligations of the Issuer 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); and
- (d) before the refund of any share capital (hlutafe) and/or comparable capital and reserves (sambaerilegt eigid fe) of the Issuer.

The Issuer undertakes that for so long as any of the Subordinated Notes remain outstanding it will not create any subordinated obligation other than in accordance with and for the purposes of Chapter X; Liquid Asset and Own Funds; Article 84 of the Act (or any provision in any other Act of the Icelandic Parliament which modifies or replaces these provisions).

The provisions of this Condition 3.3 shall be governed by, and construed in accordance with, Icelandic law.

4 Negative pledge

This Condition 4 (“Negative pledge”) does not apply to Subordinated MTNs.

So long as any of the MTNs (other than Subordinated MTNs) remain outstanding the Issuer undertakes that it will not, and that it will procure that none of its Relevant Subsidiaries (as defined below) will, create or have outstanding any mortgage, charge, pledge, lien or other security interest (each a “**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 MTNs (other than Subordinated MTNs) are equally and rateably secured therewith by such Security Interest; or
- (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as shall be approved by an Extraordinary Resolution of the MTN Holders (other than Holders of Subordinated MTNs).

For the purposes of the 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 Relevant Subsidiary (whether or not also the relevant borrower) for the repayment thereof other than:

- (e) 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
- (f) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Relevant Indebtedness in an enforcement of any encumbrance given by such borrower over a Specified Asset or the income, cash flow or other proceeds deriving therefrom (or given by a shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such Relevant Indebtedness, provided that:
 - (i) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement; and
 - (ii) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such Relevant Indebtedness, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
- (g) recourse of such borrower generally, or directly or indirectly to the Issuer or any Relevant 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.

“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:

- (a) such indebtedness which by its terms will mature within a period of one year from its date of issue; and
- (b) Excluded Indebtedness.

“Relevant Subsidiaries” means all Subsidiaries other than:

- (a) a Subsidiary acquired, formed or operated in relation to the merger and acquisitions services provided to a customer of the Issuer for the purpose of completing a transaction or restructuring a company; or
- (b) any Subsidiary acquired or formed as a result of the Issuer’s foreclosure activities in relation to its general banking business.

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

“Subsidiary” means an entity from time to time of which the Issuer:

- (a) has direct or indirect control; or
- (b) owns directly or indirectly more than 50 per cent. of the share capital or similar ownership, and

“control” for this purpose means the power to direct the management and the policies of the entity, whether through the ownership of voting capital, by contract or otherwise.

5 Title and transfer of MTNs

5.1 Title

Title to MTNs passes when details of the transfer are entered in the Register.

5.2 Effect of entries in Register

Each entry in the Register in respect of an MTN constitutes:

- (a) an unconditional and irrevocable undertaking by the Issuer to the MTN Holder to pay principal and (if applicable) interest and any other amount in accordance with these Conditions; and
- (b) an entitlement to the other benefits given to MTN Holders under these Conditions in respect of the relevant MTN.

5.3 Register conclusive as to ownership

Entries in the Register in relation to an MTN constitute conclusive evidence that the person so entered is the absolute owner of the MTN subject to correction for fraud or error.

5.4 Non-recognition of interests

Except as required by law, the Issuer and the Registrar must treat the person whose name is entered in the Register as the holder of an MTN as the absolute owner of that MTN. This Condition applies whether or not an MTN is overdue and despite any notice of ownership, trust or interest in the MTN.

5.5 Joint holders

Where two or more persons are entered in the Register as the joint holders of an MTN then they are taken to hold the MTN as joint tenants with rights of survivorship, but the Registrar is not bound to register more than four persons as joint holders of an MTN.

5.6 Transfers in whole

MTNs may be transferred in whole but not in part.

5.7 Compliance with laws

MTNs may only be transferred if:

- (a) the offer or invitation giving rise to the transfer does not constitute an offer or invitation for which disclosure is required to be made to investors under Part 6D.2 of the Corporations Act; and
- (b) the transfer complies with any applicable law or directive of the jurisdiction where the transfer takes place.

5.8 Transfer procedures

Interests in MTNs held in a Clearing System are transferable only in accordance with the rules and regulations of that Clearing System.

Application for the transfer of MTNs not held in a Clearing System must be made by the lodgment of a transfer form with the Registrar at its Specified Office. Transfer forms must be in the form available from the Registrar. Each transfer form must be:

- (a) duly completed;
- (b) accompanied by any evidence the Registrar may require to establish that the transfer form has been duly executed; and
- (c) signed by, or on behalf of, both the transferor and the transferee.

Transfers are registered without charge provided all applicable Taxes have been paid.

5.9 Effect of transfer

Upon registration and entry of the transferee in the Register the transferor ceases to be entitled to future benefits under these Conditions in respect of the transferred MTNs and the transferee becomes so entitled in accordance with Condition 5.2 ("Effect of entries in Register").

5.10 CHESS

MTNs listed on the Australian Stock Exchange Limited (ABN 98 008 624 691) are not transferred through, or registered on, the Clearing House Electronic Subregister System operated by the Australian Stock Exchange and are not “Approved Financial Products” (as defined for the purposes of that system).

5.11 Austraclear as MTN Holder

If Austraclear is recorded in the Register as the MTN Holder, each person in whose Security Record (as defined in the Austraclear Regulations) an MTN is recorded is taken to acknowledge in favour of the Issuer, the Registrar and Austraclear that:

- (a) the Registrar’s decision to act as the Registrar of that MTN is not a recommendation or endorsement by the Registrar or Austraclear in relation to that MTN, but only indicates that the Registrar considers that the holding of the MTN is compatible with the performance by it of its obligations as Registrar under an Agency Agreement; and
- (b) the MTN Holder does not rely on any fact, matter or circumstance contrary to paragraph (a).

Part 3 Interest

6 Fixed Rate MTNs

This Condition 6 (“Fixed Rate MTNs”) applies to the MTNs only if the Pricing Supplement states that it applies.

6.1 Interest on Fixed Rate MTNs

Each Fixed Rate MTN bears interest on its outstanding principal amount from (and including) its Interest Commencement Date to (but excluding) its Maturity Date at the Interest Rate. Interest is payable in arrear on each Interest Payment Date.

6.2 Fixed Coupon Amount

Unless otherwise specified in the Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the preceding Interest Period is the Fixed Coupon Amount specified in the Pricing Supplement.

6.3 Calculation of interest payable

The amount of interest payable in respect of a Fixed Rate MTN for any period for which a Fixed Coupon Amount is not specified in the Pricing Supplement is calculated by multiplying the Interest Rate for that period, the outstanding principal amount of the Fixed Rate MTN and the applicable Day Count Fraction.

7 Floating Rate MTNs

This Condition 7 (“Floating Rate MTNs”) applies to the MTNs only if the Pricing Supplement states that it applies.

7.1 Interest on Floating Rate MTNs

Each Floating Rate MTN bears interest on its outstanding principal amount from (and including) its Interest Commencement Date to (but excluding) its Maturity Date at the Interest Rate.

Interest is payable in arrear:

- (a) on each Interest Payment Date; or
- (b) if no Interest Payment Date is specified in the Pricing Supplement, each date which falls the number of months or other period specified as the Specified Period in the Pricing Supplement after the preceding Interest Payment Date (, or in the case of the first Interest Payment Date, after the Interest Commencement Date).

7.2 Interest Rate determination

The Interest Rate payable in respect of a Floating Rate MTN must be determined by the Calculation Agent in accordance with these Conditions.

7.3 Fallback Interest Rate

Unless otherwise specified in the Pricing Supplement, if, in respect of an Interest Period, the Calculation Agent is unable to determine a rate in accordance with Condition 7.2 (“Interest Rate determination”), the Interest Rate for the Interest Period is the Interest Rate applicable to the Floating Rate MTNs during the immediately preceding Interest Period.

7.4 ISDA Determination

If ISDA Determination is specified in the Pricing Supplement as the manner in which the Interest Rate is to be determined, the Interest Rate applicable to the Floating Rate MTNs for each Interest Period is the sum of the Margin and the ISDA Rate.

In this Condition:

- (a) **“ISDA Rate”** means for an Interest Period, a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction if the Calculation Agent for the Floating Rate MTNs were acting as Calculation Agent for that Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
 - (i) the Floating Rate Option, the Designated Maturity and the Reset Date are as specified in the Pricing Supplement; and
 - (ii) the Period End Dates are each Interest Payment Date, the Spread is the Margin and the Floating Rate Day Count Fraction is the Day Count Fraction; and
- (b) **“Swap Transaction”, “Floating Rate”, “Calculation Agent”** (except references to **“Calculation Agent for the Floating Rate MTNs”**), **“Floating Rate Option”, “Designated Maturity”, “Reset Date”, “Period End Date”, “Spread”** and **“Floating Rate Day Count Fraction”** have the meanings given to those terms in the ISDA Definitions.

7.5 Screen Rate Determination

If Screen Rate Determination is specified in the Pricing Supplement as the manner in which the Interest Rate is to be determined, the Interest Rate applicable to the Floating Rate MTNs for each Interest Period is the sum of the Margin and the Screen Rate.

In this Condition, **“Screen Rate”** means, for an Interest Period, the quotation offered for the Reference Rate appearing on the Relevant Screen Page at the Relevant Time on the Interest Determination Date. However:

- (a) if there is more than one offered quotation displayed on the Relevant Screen Page at the Relevant Time on the Interest Determination Date, the **“Screen Rate”** means the

rate calculated by the Calculation Agent as the average of the offered quotations. If there are more than five offered quotations, the Calculation Agent must exclude the highest and lowest quotations (or in the case of equality, one of the highest and one of the lowest quotations) from its calculation;

- (b) if an offered quotation is not displayed by the Relevant Time on the Interest Determination Date or if it is displayed but the Calculation Agent determines that there is an obvious error in that rate, the “**Screen Rate**” means:
 - (i) the rate the Calculation Agent calculates as the average mean of the Reference Rates that each Reference Bank quoted to the leading banks in the Relevant Financial Centre specified in the Pricing Supplement at the Relevant Time on the Interest Determination Date; or
 - (ii) where the Calculation Agent is unable to calculate a rate under paragraph (i) because it is unable to obtain at least two quotes, the rate the Calculation Agent calculates as the average of the rates (being the nearest equivalent to the Reference Rate) quoted by two or more banks chosen by the Calculation Agent in the Relevant Financial Centre at approximately the Relevant Time on the Interest Determination Date for a period equivalent to the Interest Period to leading banks carrying on business in the Relevant Financial Centre in good faith; or
- (c) if the Pricing Supplement specifies an alternative method for the determination of the Screen Rate Determination, then that alternative method applies.

7.6 Bank Bill Rate Determination

If Bank Bill Rate Determination is specified in the Pricing Supplement as the manner in which the Interest Rate is to be determined, the Interest Rate applicable to the Floating Rate MTNs for each Interest Period is the sum of the Margin and the Bank Bill Rate.

In this Condition:

- (a) **Bank Bill Rate** means, for an Interest Period, the average mid rate for Bills having a tenor closest to the Interest Period as displayed on the “BBSW” page of the Reuters Monitor System on the first day of that Interest Period.

However, if the average mid rate is not displayed by 10:30 am on that day, or if it is displayed but the Calculation Agent determines that there is an obvious error in that rate, **Bank Bill Rate** means the rate determined by the Calculation Agent in good faith at approximately 10:30 am on that day, having regard, to the extent possible, to the mid rate of the rates otherwise bid and offered for bank accepted Bills of that tenor at or around that time.; and

- (b) **Bill** has the meaning it has in the Bills of Exchange Act 1909 of Australia and a reference to the acceptance of a Bill is to be interpreted in accordance with that Act.

7.7 Interpolation

If the Pricing Supplement states that "Linear Interpolation" applies to an Interest Period, the Interest Rate for that Interest Period is determined through the use of straight line interpolation by reference to two ISDA Rates, Screen Rates, Bank Bill Rates or other floating rates specified in the Pricing Supplement.

The first rate must be determined as if the Interest Period were the period of time for which rates are available next shorter than the length of the Interest Period (or any alternative Interest Period specified in the Pricing Supplement).

The second rate must be determined as if the Interest Period were the period of time for which rates are available next longer than the length of the Interest Period (or any alternative Interest Period specified in the Pricing Supplement).

8 Structured MTNs

This Condition 8 (“Structured MTNs”) applies to the MTNs only if the Pricing Supplement states that it applies.

8.1 Interest on Structured MTNs

Each interest bearing Structured MTN bears interest on its outstanding principal amount from (and including) its Interest Commencement Date to (but excluding) its Maturity Date at the Interest Rate.

Interest is payable in arrear:

- (a) on each Interest Payment Date; or
- (b) if no Interest Payment Date is specified in the Pricing Supplement, each date which falls the number of months or other period specified as the Specified Period in the Pricing Supplement after the preceding Interest Payment Date (or in the case of the first Interest Payment Date, after the Interest Commencement Date).

8.2 Interest Rate

The Interest Rate payable in respect of an interest bearing Structured MTN must be determined in the manner specified in the Pricing Supplement.

9 General provisions applicable to interest

9.1 Maximum or Minimum Interest Rate

If the Pricing Supplement specifies a Maximum Interest Rate or Minimum Interest Rate for any Interest Period then, the Interest Rate for the Interest Period must not be greater than the maximum, or be less than the minimum, so specified.

9.2 Calculation of Interest Rate and interest payable

The Calculation Agent must, as soon as practicable after determining the Interest Rate in relation to each Interest Period for each Floating Rate MTN and interest bearing Structured MTN, calculate the amount of interest payable for the Interest Period in respect of the outstanding principal amount of that MTN.

Unless otherwise specified in the Pricing Supplement, the amount of interest payable is calculated by multiplying the product of the Interest Rate for the Interest Period and the outstanding principal amount of the MTN by the applicable Day Count Fraction.

The rate determined by the Calculation Agent must be expressed as a percentage rate per annum.

9.3 Calculation of other amounts

If the Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent must, as soon as practicable after the time at which that amount is to be determined, calculate the amount in the manner specified in the Pricing Supplement.

9.4 Notification of Interest Rate, interest payable and other items

The Calculation Agent must notify the Issuer, the Registrar, the MTN Holders, each other Agent and any stock exchange or other relevant authority on which the MTNs are listed of:

- (a) each Interest Rate, the amount of interest payable and each other amount, item or date calculated or determined by it together with the Interest Payment Date; and
- (b) any amendment to any amount, item or date referred to in paragraph (a) arising from any extension or reduction in any Interest Period or calculation period.

The Calculation Agent must give notice under this Condition as soon as practicable after it makes its determination. However, it must give notice of each Interest Rate, the amount of interest payable and each Interest Payment Date by the fourth day of the Interest Period.

The Calculation Agent may amend its determination of any amount, item or date (or make appropriate alternative arrangements by way of adjustment) as a result of the extension or reduction of the Interest Period or calculation period without prior notice but must notify the Issuer, the Registrar, the MTN Holders, each other Agent and each stock exchange or other relevant authority on which the MTNs are listed after doing so.

9.5 Determination final

The determination by the Calculation Agent of all amounts, rates and dates falling to be determined by it under these Conditions is, in the absence of manifest error, final and binding on the Issuer, the Registrar, each MTN Holder and each other Agent.

9.6 Rounding

For the purposes of any calculations required under these Conditions (unless otherwise specified in the Pricing Supplement):

- (a) all percentages resulting from the calculations must be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.);
- (b) all figures must be rounded to five decimal places (with halves being rounded up); and
- (c) all amounts that are due and payable must be rounded (with halves being rounded up) to:
 - (i) in the case of Australian dollars or euro; and
 - (ii) in the case of any other currency, the lowest amount of that currency available as legal tender in the country of that currency.

Part 4 Redemption and purchase

10 Redemption

10.1 Scheduled redemption

Each MTN is redeemable by the Issuer on the Maturity Date at its Redemption Amount unless:

- (a) the MTN has been previously redeemed;
- (b) the MTN has been purchased and cancelled; or
- (c) the Pricing Supplement states that the MTN has no fixed maturity date.

10.2 Partly paid MTNs

Each Partly Paid MTN is redeemable on the Maturity Date in accordance with the Pricing Supplement.

10.3 Instalment MTNs

Each Instalment MTN is partially redeemable in the Instalment Amounts and on the Instalment Dates specified in the Pricing Supplement. The principal amount of each Instalment MTN is reduced by the Instalment Amount with effect from the related Instalment Date.

10.4 Early redemption for taxation reasons

The Issuer may redeem all (but not some) of the MTNs of a Series in whole before their Maturity Date at the Redemption Amount and any interest accrued on it to (but excluding) the redemption date if the Issuer is required under Condition 13.2 (“Withholding tax”) to increase the amount of a payment in respect of an MTN.

However, the Issuer may only do so if:

- (a) the Issuer has given at least 15 days’ (and no more than 60 days’) (or any other period specified in the Pricing Supplement) notice to the Registrar, the MTN Holders, each other Agent and any stock exchange or other relevant authority on which the MTNs are listed; and
- (b) before the Issuer gives the notice under paragraph (a), the Registrar has received:
 - (i) a certificate signed by two authorised signatories of the Issuer; and
 - (ii) an opinion of independent legal advisers of recognised standing in the jurisdiction of incorporation of the Issuer,that the Issuer would be required under Condition 13.2 (“Withholding tax”) to increase the amount of the next payment due in respect of the MTNs;
- (c) in the case of Fixed Rate MTNs, no notice of redemption is given earlier than 90 days before the earliest date on which the Issuer would be obliged to pay Additional Amounts; and
- (d) in the case of Floating Rate MTNs and Structured MTNs bearing a floating rate of interest:
 - (i) the proposed redemption date is an Interest Payment Date; and
 - (ii) no notice of redemption is given earlier than 60 days before the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay Additional Amounts.

10.5 Early redemption at the option of MTN Holders (MTN Holder put)

If the Pricing Supplement states that an MTN Holder may require the Issuer to redeem all or some of the MTNs of a Series held by that MTN Holder before their Maturity Date, the Issuer must redeem the MTNs specified by the MTN Holder at the Redemption Amount and any interest accrued on it to (but excluding) the redemption date if the following conditions are satisfied:

- (a) the amount of MTNs to be redeemed is a multiple of their Denomination;
- (b) the MTN Holder has given at least 30 days’ (and no more than 60 days’) (or any other period specified in the Pricing Supplement) notice, to the Issuer and the Registrar by

delivering to the Specified Office of the Registrar during normal business hours a completed and signed redemption notice in the form obtainable from the Specified Office of the Registrar together with any evidence the Registrar may require to establish title of the MTN Holder to the MTN; and

- (c) the notice referred to in paragraph (b) specifies an account in the country of the currency in which the MTN is denominated to which the payment should be made or an address to where a cheque for payment should be sent; and
- (d) the redemption date is an Early Redemption Date (Put) specified in the Pricing Supplement; and
- (e) any other condition specified in the Pricing Supplement is satisfied.

An MTN Holder may not require the Issuer to redeem any MTN under this Condition 10.5 if the Issuer has given notice that it will redeem that MTN under Condition 10.4 (“Early redemption for taxation reasons”) or Condition 10.6 (“Early redemption at the option of the Issuer (Issuer call)”).

10.6 Early redemption at the option of the Issuer (Issuer call)

If the Pricing Supplement states that the Issuer may redeem all or some of the MTNs of a Series before their Maturity Date under this Condition, the Issuer may redeem so many of the MTNs specified in the Pricing Supplement at the Redemption Amount and any interest accrued on it to (but excluding) the redemption date.

However, the Issuer may only do so if:

- (a) the amount of MTNs to be redeemed is, or is a multiple of, their Denomination;
- (b) the Issuer has given at least 30 days’ (and no more than 60 days’) (or any other period specified in the Pricing Supplement) notice to the Registrar, the MTN Holders, each other Agent and any stock exchange or other relevant authority on which the MTNs are listed; and
- (c) the proposed redemption date is an Early Redemption Date (Call) specified in the Pricing Supplement; and
- (d) any other condition specified in the Pricing Supplement is satisfied.

10.7 Partial redemptions

If only some of the MTNs are to be redeemed under Condition 10.6 (“Early redemption at the option of the Issuer (Issuer call)”), the MTNs to be redeemed must be specified in the notice and selected:

- (a) in a fair and reasonable manner; and
- (b) in compliance with any applicable law, directive or requirement of any stock exchange or other relevant authority on which the MTNs are listed.

10.8 Effect of notice of redemption

Any notice of redemption given under this Condition 10 (“Redemption”) is irrevocable.

10.9 Late payment

If an amount is not paid under this Condition 10 (“Redemption”) when due, then:

- (a) for an MTN (other than a Zero Coupon MTN or a Structured MTN), interest continues to accrue on the unpaid amount (both before and after any demand or judgment) at the default rate specified in the Pricing Supplement (or, if no default rate is specified, the last applicable Interest Rate) until the date on which payment is made to the MTN Holder;
- (b) for a Zero Coupon MTN, the obligation to pay the amount is replaced by an obligation to pay the Amortised Face Amount recalculated as at the date on which payment is made to the MTN Holder; and
- (c) for a Structured MTN as specified in the Pricing Supplement:
 - (i) interest continues to accrue at the default rate specified in the Pricing Supplement (or, if no default rate is specified, the last applicable Interest Rate) until the date on which payment is made to the MTN Holder; or
 - (ii) the obligation to pay the amount is replaced by an obligation to pay an amount determined in the manner specified in the Pricing Supplement.

10.10 Purchase

The Issuer and any of its Related Entities may at any time purchase MTNs in the open market or otherwise and at any price. If purchases are made by tender, tenders must be available to all MTN Holders alike. MTNs purchased under this Condition 10.10 may be held, resold or cancelled at the discretion of the purchaser and (if the MTNs are to be cancelled, the Issuer), subject to compliance with any applicable law or requirement of any stock exchange or other relevant authority on which the MTNs are listed.

Part 5 Payments

11 General provisions

11.1 Summary of payment provisions

Payments in respect of MTNs must be made in accordance with Condition 12 ("Payments").

11.2 Payments subject to law

All payments are subject to applicable law, but without prejudice to the provisions of Condition 13 ("Taxation").

11.3 Payments on business days

If a payment is due on a day which is not a Business Day then the due date for payment is adjusted in accordance with the applicable Business Day Convention.

The MTN Holder is not entitled to any additional payment in respect of that delay.

11.4 Currency indemnity

The Issuer waives any right it has in any jurisdiction to pay an amount other than in the currency in which it is due. However, if an MTN Holder receives an amount in a currency other than that in which it is due:

- (a) it may convert the amount received into the due currency (even though it may be necessary to convert through a third currency to do so) on the day and at such rates (including spot rate, same day value rate or value tomorrow rate) as it reasonably considers appropriate. It may deduct its usual costs in connection with the conversion; and

- (b) the Issuer satisfies its obligation to pay in the due currency only to the extent of the amount of the due currency obtained from the conversion after deducting the costs of the conversion.

12 Payments

12.1 Payment of principal

Payments of principal and any final Instalment Amount in respect of an MTN will be made to each person registered at 10.00 am on the payment date as the holder of an MTN.

12.2 Payment of interest

Payments of interest and Instalment Amounts (other than the final Instalment Amount) in respect of an MTN will be made to each person registered at the close of business on the Record Date as the holder of that MTN.

12.3 Payments to accounts

Payments in respect of MTNs will be made:

- (a) if the MTNs are held in the Austraclear System, by crediting on the payment date, the amount due to:
- (i) the account of Austraclear (as the MTN Holder) in the country of the currency in which the MTN is denominated previously notified to the Issuer and the Registrar; or
 - (ii) if requested by Austraclear, the accounts of the persons in whose Security Record (as defined in the Austraclear Regulations) an MTN is recorded in the country of the currency in which the MTN is denominated as previously notified by Austraclear to the Issuer and the Registrar in accordance with Austraclear Regulations; and
- (b) if the MTNs are not held in the Austraclear System, by crediting on the payment date, the amount then due under each MTN to an account in the country of the currency in which the MTN is denominated previously notified by the MTN Holder to the Issuer and the Registrar.

12.4 Payments by cheque

If the MTN Holder has not notified the Registrar of an account to which payments to it must be made by the close of business on the Record Date, payments in respect of the MTN will be made by cheque sent by prepaid post on the Business Day immediately before the payment date, at the risk of the registered MTN Holder, to the MTN Holder (or to the first named joint holder of the MTN) at its address appearing in the Register at the close of business on the Record Date. Cheques sent to the nominated address of an MTN Holder are taken to have been received by the MTN Holder on the payment date and, no further amount is payable by the Issuer in respect of the MTNs as a result of the MTN Holder not receiving payment on the due date.

13 Taxation

13.1 No set-off, counterclaim or deductions

All payments in respect of the MTNs must be made in full without set-off or counterclaim, and without any withholding or deduction in respect of Taxes, unless prohibited by law.

13.2 Withholding tax

Subject to Condition 13.3 (“Withholding tax exemptions”), if a law requires the Issuer to withhold or deduct an amount in respect of Taxes from a payment in respect of the MTNs such that the MTN Holder would not actually receive on the due date the full amount provided for under the MTNs, then:

- (a) the Issuer agrees to deduct the amount for the Taxes (and any further withholding or deduction applicable to any further payment due under paragraph (b) below); and
- (b) if the amount deducted or withheld is in respect of Taxes imposed by a Relevant Tax Jurisdiction, the amount payable is increased so that, after making the deduction and further deductions applicable to additional amounts payable under this Condition, each MTN Holder is entitled to receive (at the time the payment is due) the amount it would have received if no deductions or withholdings had been required to be made.

13.3 Withholding tax exemptions

The Issuer is not required to pay an Additional Amount under Condition 13.2(b) (“Withholding tax”) if the obligation to do so arises as a result of any one or more of the following:

- (a) the deduction is required in respect of Taxes by reason of the MTN Holder having some connection with a Relevant Tax Jurisdiction other than the mere holding of the MTN or receipt of payment in respect of the MTN;
- (b) the deduction is required as a result of Taxes which would not be required to be deducted by the MTN Holder (or the person making a payment on its behalf) if they:
 - (i) provided the Issuer, its agent or any tax authority with their name, address, registration number or similar details or any relevant tax exemption or similar details; or
 - (ii) ensured that any third party complied with any other statutory requirements (such as making a declaration of non-residence or similar claim) for any relevant tax exemption;
- (c) to, or to a third party on behalf of an Australian resident MTN Holder or a non-resident MTN Holder carrying on business in Australia at or through a permanent establishment of the non-resident in Australia, if that MTN Holder has not supplied an appropriate tax file number an Australian business number or other exemption details; or
- (d) in any other circumstances specified in the Pricing Supplement.

14 Time limit for claims

A claim against the Issuer for a payment under an MTN is void unless made within 10 years (in the case of principal) or 5 years (in the case of interest and other amounts) from the date on which payment first became due.

Part 6 Events of Default

15 Events of Default

15.1 Event of Default

An Event of Default occurs in relation to a Series of MTNs:

- (a) if default is made in the payment of any principal, premium (if any) or interest due in respect of the MTNs 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
- (b) 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 an MTN Holder on the Issuer of notice requiring the same to be remedied; or
- (c) if any borrowed money of the Issuer or any of its Principal Subsidiaries is not paid when due or becomes (whether by declaration or automatically in accordance with the relevant agreement or instrument constituting the same) due and payable 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 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 paragraph (c), the borrowed money must, when aggregated with all other borrowed money to which any part of this Condition 15.1(c) applies, exceed U.S.\$5,000,000 (or its equivalent in any other currency); or
- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the MTN Holders; or
- (e) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the MTN Holders, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if:
 - (i) 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 (or documents filed with a court) 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
 - (ii) in any case (other than the appointment of an administrator) the same is not discharged within 14 days; or
- (g) if the Issuer or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

For the purposes of this Condition:

“Principal Subsidiary” of the Issuer means at any time a Subsidiary of the Issuer:

- (a) whose gross revenues attributable to the Issuer (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 in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than 5 per cent. of the consolidated gross revenues attributable to the shareholders of the Issuer, 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 such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that:
 - (i) in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Auditors of the Issuer; and
 - (ii) if, in the case of a Subsidiary which itself has Subsidiaries, no consolidated accounts are prepared and audited, its consolidated gross revenues attributable to the Issuer and consolidated total assets shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared and audited for this purpose by the Auditors of the Issuer or the auditors for the time being of the relevant Subsidiary; 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 prior to such transfer is a Principal Subsidiary of the Issuer, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary of the Issuer and the transferee Subsidiary shall cease to be a Principal Subsidiary of the Issuer pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Issuer on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or before, on or at any time after such date by virtue of the provisions of this subparagraph (b) or subparagraph (c) below; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest relevant audited consolidated accounts of the Issuer and its Subsidiaries relate, generate gross revenues attributable to the Issuer equal to) not less than 5 per cent. of the consolidated gross revenues attributable to the shareholders of the Issuer, or represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary of the Issuer) shall upon such transfer forthwith cease to be a Principal Subsidiary of the Issuer unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate gross revenues attributable to the Issuer equal to) not less than 5 per cent. of the

consolidated gross revenues attributable to the shareholders of the Issuer, or its assets represent (or, in the case aforesaid, are equal to) not less than 5 per cent. of the consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary of the Issuer pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Issuer on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or before, on or at any time after such date by virtue of the provisions of this subparagraph (c) or subparagraph (b) above.

For the purposes of this definition if there shall at any time not be any relevant audited consolidated accounts of the Issuer and its Subsidiaries, references thereto herein shall be deemed to refer to a consolidation by the Auditors of the Issuer of the relevant audited accounts of the Issuer and its Subsidiaries.

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.

“Subsidiary” means an entity from time to time of which the Issuer:

- (a) has direct or indirect control; or
- (b) owns directly or indirectly more than 50 per cent. of the share capital or similar ownership, and

“control” for this purpose means the power to direct the management and the policies of the entity, whether through the ownership of voting capital, by contract or otherwise.

15.2 Consequences of an Event of Default

If an Event of Default occurs and continues unremedied in relation to the MTNs, then an MTN Holder may, by written notice to the Issuer, effective upon the date of receipt thereof, declare any MTNs held by the MTN Holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

15.3 Notification

If an Event of Default occurs, the Issuer must promptly after becoming aware of it notify the Registrar of the occurrence of the Event of Default (specifying details of it) and use its reasonable endeavours to ensure that the Registrar promptly notifies MTN Holders, each other Agent and any stock exchange or other relevant authority on which the MTNs are listed of the occurrence of the Event of Default.

Part 7 General

16 Agents

16.1 Role of Agents

In acting under an Agency Agreement, each Agent acts solely as agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for or with any MTN Holder.

16.2 Appointment and replacement of Agents

Each initial Agent for a Series of MTNs is specified in the Pricing Supplement. Subject to Condition 16.4 (“Required Agents”), the Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor.

16.3 Change of Agent

Notice of any change of a Agent or its Specified Offices must promptly be given to the MTN Holders by the Issuer or the Agent on its behalf.

16.4 Required Agents

The Issuer must:

- (a) at all times maintain a Registrar; and
- (b) if a Calculation Agent is specified in the Pricing Supplement, at all times maintain a Calculation Agent.

17 Meetings of MTN Holders

The Meetings Provisions contain provisions (which have effect as if incorporated in these Conditions) for convening meetings of the MTN Holders of any Series to consider any matter affecting their interests, including any variation of these Conditions by Extraordinary Resolution.

18 Variation

18.1 Variation with consent

Unless Condition 18.2 (“Variation without consent”) applies, any Condition may be varied by the Issuer with prior approval from the MTN Holders by Extraordinary Resolution in accordance with the Meetings Provisions.

18.2 Variation without consent

Any Condition may be amended by the Issuer without the consent of the MTN Holders if the amendment:

- (a) is of a formal, minor or technical nature;
- (b) is made to correct a manifest error;
- (c) is made to cure any ambiguity or correct or supplement any defective or inconsistent provision and, in the reasonable opinion of the Issuer, is not materially prejudicial to the interests of the MTN Holders; or
- (d) only applies to MTNs issued by it after the date of amendment.

19 Further issues

The Issuer may from time to time, without the consent of the MTN Holders, issue further MTNs having the same Conditions as the MTNs of any Series in all respects (or in all respects except for the first payment of interest) so as to form a single series with the MTNs of that Series.

20 Notices**20.1 Notices to MTN Holders**

All notices and other communications to MTN Holders must be in writing and must be left at the address of or sent by prepaid post (airmail, if appropriate) to the address of the MTN Holder (as shown in the Register at the close of business on the day which is 3 Business Days before the date of the notice or communication).

They may also be:

- (a) given by an advertisement published in the Australian Financial Review or The Australian; or
- (b) if the Pricing Supplement specifies an additional or alternate newspaper, given by an advertisement published in that newspaper.

20.2 Notices to the Issuer and the Agents

All notices and other communications to the Issuer or an Agent must be in writing and may be left at the address of, or sent by prepaid post (airmail, if appropriate) to, the Specified Office of the Issuer or the Agent.

20.3 When effective

They take effect from the time they are received unless a later time is specified in them.

20.4 Deemed receipt - publication in newspaper

If published in a newspaper, they are taken to be received on the first date that publication has been made in all the required newspapers.

20.5 Deemed receipt - postal

If sent by post, they are taken to be received five days after posting.

21 Governing law**21.1 Governing law**

MTNs are governed by the law in force in New South Wales, except as stated in Condition 3.3.

21.2 Jurisdiction

The Issuer submits, and each MTN Holder is taken to have submitted, to the non-exclusive jurisdiction of the courts of New South Wales and courts of appeal from them. The Issuer waives any right it has to object to an action being brought in those courts including by claiming that the action has been brought in an inconvenient forum or that those courts do not have jurisdiction.

21.3 Serving documents

Without preventing any other method of service, any document in any action may be served on the Issuer or an MTN Holder by being delivered or left at their registered office or principal place of business.

21.4 Agent for service of process

The Issuer appoints Dabserv Corporate Services Pty Limited (ABN 73 001 824 111) of Level 53, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000, as its agent to receive any document referred to in Condition 21.3. If for any reason that person ceases to be able to act as such, the Issuer will immediately appoint another person with an office located in New South Wales to receive any such document and promptly notify the Registrar and the Holders of such appointment.

22 Interpretation

22.1 Definitions

In these Conditions the following expressions have the following meanings:

Additional Amount means an additional amount payable by the Issuer under Condition 13.2 ("Withholding tax").

Agency Agreement means:

- (a) the agreement entitled "Agency and Registry Services Agreement" dated on or about the date of the Note Deed Poll between the Issuer and the Registrar in relation to the MTNs; and
- (b) any other agreement between the Issuer and the Registrar specified in the Pricing Supplement; and
- (c) any other agency agreement entered into by the Issuer in relation to an issue of MTNs.

Agent means the Registrar, the Calculation Agent and any additional agent appointed under an Agency Agreement.

Amortised Face Amount means, in relation to an MTN, an amount equal to the sum of:

- (a) the issue price specified in the Pricing Supplement; and
- (b) the amount resulting from the application of the amortisation yield specified in the Pricing Supplement (compounded annually) to the issue price (as specified in the Pricing Supplement) from (and including) the Issue Date specified in the Pricing Supplement to (but excluding) the date fixed for redemption or (as the case may be) the date the MTN becomes due and repayable.

If the calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year must be made on the basis of the Day Count Fraction specified in the Pricing Supplement.

Austraclear means Austraclear Limited (ABN 94 002 060 773).

Austraclear Regulations means the regulations known as "Austraclear System Regulations" established by Austraclear to govern the use of the Austraclear System.

Austraclear System means the system operated by Austraclear in Australia for holding securities and electronic recording and settling of transactions in those securities between members of the system.

Business Day means a day on which banks are open for general banking business in Sydney and in each (if any) Relevant Financial Centre specified in the Pricing Supplement (not being a

Saturday, Sunday or public holiday in that place) and, if an MTN is to be issued or paid on that day, a day on which each Clearing System is operating.

Business Day Convention means a convention for adjusting any date if it would otherwise fall on a day that is not a Business Day and the following conventions, where specified in the Pricing Supplement in relation to any date applicable to any MTN, have the following meanings:

- (a) **Floating Rate Convention** means that the date is postponed to the next following day which is a Business Day unless that day falls in the next calendar month, in which event:
 - (i) that date is brought forward to the first preceding day that is a Business Day; and
 - (ii) each subsequent Interest Payment Date is the last Business Day in the month which falls the number of months or other period specified as the Interest Period in the Pricing Supplement after the preceding applicable Interest Payment Date occurred;
- (b) **Following Business Day Convention** means that the date is postponed to the first following day that is a Business Day;
- (c) **Modified Following Business Day Convention or Modified Business Day Convention** means that the date is postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date is brought forward to the first preceding day that is a Business Day;
- (d) **Preceding Business Day Convention** means that the date is brought forward to the first preceding day that is a Business Day; and
- (e) **No Adjustment** means that the relevant date must not be adjusted in accordance with any Business Day Convention.

If no convention is specified in the Pricing Supplement, the Following Business Day Convention applies. Different conventions may be specified in relation to, or apply to, different dates.

Calculation Agent means the Registrar or any other person specified in the Pricing Supplement as the party responsible for calculating the Interest Rate and other amounts required to be calculated under these Conditions.

Clearing System means:

- (a) the Austraclear System; or
- (b) any other clearing system specified in the Pricing Supplement.

Corporations Act means the Corporations Act 2001 of Australia.

Day Count Fraction means, in respect of the calculation of interest for any period of time ("**Calculation Period**"), the day count fraction specified in the Pricing Supplement and:

- (a) if "**Actual/Actual (ISMA)**" is so specified, means:
 - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular

- Period and (2) the number of Regular Periods normally ending in any year;
and
- (ii) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods normally ending in any year;
 - (b) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of:
 - (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and
 - (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
 - (c) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
 - (d) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
 - (e) if "**30/360**" is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months unless:
 - (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day is not considered to be shortened to a 30-day month; or
 - (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February is not considered to be lengthened to a 30-day month);
 - (f) if "**30E/360**" or "**Eurobond Basis**" is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February is not considered to be lengthened to a 30-day month);
 - (g) if "**RBA Bond Basis**" or "**Australian Bond Basis**" is so specified, means one divided by the number of Interest Payment Dates in a year; and
 - (h) any other day count fraction specified in the Pricing Supplement.

Denomination means the notional face value of an MTN specified in the Pricing Supplement.

Encumbrance means any security for the payment of money or the performance of obligations including a mortgage, charge, lien or pledge.

Event of Default means an event so described in Condition 15 (“Events of Default”).

Extraordinary Resolution has the meaning given in the Meetings Provisions.

Fixed Rate MTN means an MTN on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on any other dates as specified in the Pricing Supplement.

Floating Rate MTN means an MTN on which interest is calculated at a floating rate payable 1, 2, 3, 6, or 12 monthly or in respect of any other period or on any date specified in the Pricing Supplement.

Index Linked MTN means an MTN in respect of which the amount payable in respect of interest is calculated by reference to an index or a formula or both as specified in the Pricing Supplement.

Information Memorandum in respect of an MTN means the information memorandum, disclosure document (as defined in the Corporations Act) or other offering document referred to in the Pricing Supplement.

Instalment Amounts has the meaning given in the Pricing Supplement.

Instalment MTN means an MTN which is redeemable in one or more instalments, as specified in the Pricing Supplement.

Interest Commencement Date means, for an MTN, the Issue Date of the MTN or any other date so specified in the Pricing Supplement.

Interest Determination Date has the meaning given in the Pricing Supplement.

Interest Payment Date means each date so specified in, or determined in accordance with, the Pricing Supplement.

Interest Period means each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date. However:

- (a) the first Interest Period commences on (and includes) the Interest Commencement Date; and
- (b) the final Interest Period ends on (but excludes) the Maturity Date.

Interest Rate means, for an MTN, the interest rate (expressed as a percentage per annum) payable in respect of that MTN specified in the Pricing Supplement or calculated or determined in accordance with these Conditions and the Pricing Supplement.

ISDA Definitions means the 2000 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. (as supplemented, amended and updated as at the Issue Date of the first Tranche of the MTNs of the Series).

Issue Date means the date on which an MTN is, or is to be issued, as specified in, or determined in accordance with, the Pricing Supplement.

Issuer means Íslandsbanki hf..

Margin means the margin specified in, or determined in accordance with, the Pricing Supplement.

Maturity Date means, the date so specified in, or determined in accordance with, the Pricing Supplement.

Meetings Provisions means the provisions relating to meetings of MTN Holders set out in schedule 2 of the Note Deed Poll.

MTN means a medium term debt obligation issued or to be issued by the Issuer which is constituted by, and owing under the Note Deed Poll, the details of which are recorded in, and evidenced by, entry in, the Register.

Note Deed Poll means the deed poll so entitled executed by the Issuer on or about 18 April 2005.

MTN Holder means, in respect of an MTN, each person whose name is entered in the Register as the holder of that MTN.

For the avoidance of doubt, where an MTN is held in a Clearing System, references to an MTN Holder include the operator of that system or a nominee for that operator or a common depository for one or more Clearing Systems (in each case acting in accordance with the rules and regulations of the Clearing System or Systems).

Partly Paid MTN means an MTN in relation to which the initial subscription moneys are payable to the Issuer in two or more instalments.

Pricing Supplement means, in respect of a Tranche, the pricing supplement specifying the relevant issue details in relation to it.

Record Date means, the close of business in the place where the Register is maintained on the eighth calendar day before the payment date or any other date so specified in the Pricing Supplement.

Redemption Amount means:

- (a) for an MTN (other than a Zero Coupon MTN or a Structured MTN), the outstanding principal amount as at the date of redemption;
- (b) for a Zero Coupon MTN, the Amortised Face Amount calculated as at the date of redemption; and
- (c) for a Structured MTN, the amount determined by the Calculation Agent in the manner specified in the Pricing Supplement,

and also includes any final instalment and any other amount in the nature of a redemption amount specified in, or determined in accordance with, the Pricing Supplement or these Conditions.

Reference Banks means the institutions so described in the Pricing Supplement or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate.

Reference Rate has the meaning given in the Pricing Supplement.

Register means the register, including any branch register, of holders of MTNs established and maintained by or on behalf of the Issuer under an Agency Agreement.

Registrar means Austraclear Services Limited (ABN 28 003 284 419) or any other person appointed by the Issuer under an Agency Agreement to maintain the Register and perform any payment and other duties as specified in that agreement.

Regular Period means:

- (a) in the case of MTNs where interest is scheduled to be paid only by means of regular payments, each Interest Period;
- (b) in the case of MTNs where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of MTNs where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

Related Entity has the meaning it has in the Corporations Act.

Relevant Indebtedness means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock, certificates of deposit, bills of exchange, transferable loan certificates or other debt securities which, in each case, are capable of being listed, quoted, ordinarily dealt in or traded on any stock exchange, automated trading system, over-the-counter or other securities market.

Relevant Screen Page means:

- (a) the page, section or other part of a particular information service (including the Reuters Monitor Money Rates Service and the Dow Jones Telerate Service) specified as the Relevant Screen Page in the Pricing Supplement; or
- (b) any other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

Relevant Tax Jurisdiction means Iceland or any political sub-division of it 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 MTNs.

Relevant Time has the meaning given in the Pricing Supplement.

Series means an issue of MTNs made up of one or more Tranches all of which form a single Series and are issued on the same Conditions except that the Issue Date and Interest Commencement Date may be different in respect of different Tranches of a Series.

Specified Office means the office specified in the Information Memorandum or any other address notified to MTN Holders from time to time.

Structured MTN means:

- (a) an Index Linked MTN; or
- (b) an Instalment MTN.

Taxes means taxes, levies, imposts, charges and duties (including stamp and transaction duties) imposed by any authority together with any related interest, penalties, fines and expenses in connection with them except if imposed on, or calculated having regard to, the net income of an MTN Holder.

U.S.\$ means the lawful currency of the United States of America.

Tranche means an issue of MTNs specified as such in the Pricing Supplement issued on the same Issue Date and on the same Conditions.

Zero Coupon MTN means an MTN which does not carry entitlement to periodic payment of interest before the redemption date of the MTN and which is issued at a discount to its principal amount.

22.2 References to certain general terms

Unless the contrary intention appears, a reference in these Conditions to:

- (a) a group of persons is a reference to any two or more of them jointly and to each of them individually;
- (b) a document (including these Conditions) includes any variation or replacement of it;
- (c) law means common law, principles of equity and laws made by any parliament (and laws made by parliament include and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (d) a directive means a treaty, an official directive, request, regulation, guideline or policy (whether or not having the force of law) with which responsible participants in the relevant market generally comply;
- (e) Australian dollars or A\$ is a reference to the lawful currency of Australia;
- (f) a time of day is a reference to Sydney time;
- (g) the word “person” includes an individual, a firm, a body corporate, an unincorporated association and an authority;
- (h) a particular person includes a reference to the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) an agreement, representation or warranty in favour of two or more persons is for the benefit of them jointly and each of them individually;
- (j) anything (including any amount) is a reference to the whole and each part of it;
- (k) the words “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

22.3 References to particular terms

Unless the contrary intention appears, in these Conditions:

- (a) a reference to the Issuer, the Registrar, the Calculation Agent or another Agent is a reference to the person so specified in the Pricing Supplement;
- (b) a reference to the Agency Agreement is a reference to the Agency Agreement applicable to the MTNs of the relevant Series.

- (c) a reference to an MTN is a reference to an MTN of a particular Series issued by the Issuer specified in the Pricing Supplement;
- (d) a reference to an MTN Holder is a reference to the holder of MTNs of a particular Series;
- (e) if the MTNs are Zero Coupon MTNs or Structured MTNs which do not bear interest, references to interest are not applicable.
- (f) a reference to a particular date is a reference to that date adjusted in accordance with the applicable Business Day Convention.

22.4 References to principal and interest

Unless the contrary intention appears, in these Conditions:

- (a) any reference to "principal" is taken to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 ("Taxation"), any premium payable in respect of an MTN, and any other amount in the nature of principal payable in respect of the MTNs under these Conditions; and
- (b) the principal amount of an MTN issued at a discount is to be taken as at any time to equal the lesser of:
 - (i) its Denomination; and
 - (ii) if specified in the Pricing Supplement, its Amortised Face Amount at that time;
- (c) the principal amount of an MTN which is to vary by reference to a schedule or formula (where such determination has been previously made in accordance with these Conditions) is to be taken as at any time to equal its varied amount;
- (d) the principal amount of a Partly Paid MTN is to be taken to equal its paid up principal amount;
- (e) the principal amount of an Instalment MTN at any time is to be taken to be its Denomination less the total instalments repaid to the extent that such instalments relate to a repayment of principal; and
- (f) any reference to "interest" is taken to include any Additional Amounts and any other amount in the nature of interest payable in respect of the MTNs under these Conditions.

22.5 Number

The singular includes the plural and vice versa.

22.6 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of these Conditions.

22.7 Terms defined in Pricing Supplement

Terms which are defined in the Pricing Supplement as having a defined meaning have the same meaning when used in these Conditions but if the Pricing Supplement gives no meaning or specifies that the definition is "Not Applicable", then that definition is not applicable to the MTNs.

	Business Day Convention	:	[Floating Rate Convention (specify interest period) / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / No Adjustment / other]
	Margin	:	[Specify] (state if positive or negative)
	Day Count Fraction	:	[Specify]
	Fallback Interest Rate	:	[Specify / Not applicable]
	Interest Rate Determination	:	[ISDA Determination / Screen Rate Determination / Bank Bill Rate Determination]
	[If ISDA Determination applies, specify]		
	Floating Rate Option	:	[Specify]
	Designated Maturity	:	[Specify]
	Reset Date	:	[Specify]
	[If Screen Rate Determination applies, specify]		
	Relevant Screen Page	:	[Specify]
	Relevant Time	:	[Specify]
	Reference Rate	:	[Specify]
	Reference Banks	:	[Specify]
	Interest Determination Date	:	[Specify]
	[If Bank Bill Rate Determination applies, specify]		
	Bank Bill Rate	:	[Yes / No] [Set out any variation to the Conditions]
14	Relevant Financial Centre	:	[Applicable (specify) / Not applicable]
15	Linear Interpolation	:	[Applicable / Not applicable] [If applicable, provide details]
16	If MTNs are Structured MTNs	:	Condition 8 applies: [Yes / No]
			[Specify full interest determination provisions, including Interest Commencement Date, rate or calculation basis for interest or actual amounts of interest payable, amount and dates for payment, minimum / maximum rates / late payment default]

- 17 **Amortisation Yield** : [Specify] [In the case of Zero Coupon MTNs, specify the Reference Price]
- 18 **If MTNs are Instalment MTNs** : [Specify details of Instalments including Instalment Amount and Instalment Dates]
- 19 **If MTNs are Partly Paid MTNs** : [Specify details]
- 20 **Business Day Convention** : [Specify]
- 21 **Redemption Amount** : [Specify any variations to the Redemption Amount as defined in the Conditions]
- 22 **Early Redemption Amount (Tax)**
If Early Redemption Amount (Tax) is not the Redemption Amount plus interest accrued on each MTN to (but excluding) the redemption date insert amount or full calculation provisions : [Specify]
- 23 **Early Redemption Amount (Default)** : [Specify]
If Early Redemption Amount (Default) is not the Redemption Amount plus interest accrued on each MTN to (but excluding) the redemption date insert amount or full calculation provisions
- 24 **[Events of Default]** : [Specify any additional (or modifications to) Events of Default]
- 25 **[Additional or alternate newspapers]** : [Specify any additional or alternate newspapers for the purposes of Condition 20.1(b)]
- 26 **[Taxation]** : [Specify any additional circumstances in which an exception to the gross up obligation are to apply pursuant to Condition 13.3(e)]
- 27 **Other relevant terms and conditions** : [Specify any Conditions to be altered, varied, deleted otherwise than as provided above and also any additional Conditions to be included]
- 28 **Registrar** : [Name and address]
[If required, specify details of Agency Agreement]
[If required, specify any other Agents]
- 29 **[Calculation Agent]** : [Name and address]
[If required, specify details of Agency Agreement]
- 30 **Clearing System(s)** : [Austraclear / Specify others]

- 31 ISIN : [Specify]
- 32 [Common Code] : [Specify]
- 33 [Selling restrictions] : [Specify any variation to the selling restrictions
(clause 11.3 of the Dealer Agreement)]
- 34 Listing : [Unlisted / Specify]
- 35 [Other amendments] : [Specify]

CONFIRMED

**For and on behalf of
Íslandsbanki hf.**

By:

Name:

Title:

Date:

Selling Restrictions

Under the Dealer Agreement dated 19 April 2005 between the Issuer, the Arranger and the Dealers (as amended and supplemented from time to time, "Dealer Agreement"), the Notes will be offered by the Issuer through the Dealers. The Issuer has the sole right to accept any offer to purchase Notes and may reject that offer in whole or (subject to the terms of the offer) in part. Each Dealer has the right to reject any offer to purchase Notes made to it in whole or (subject to the terms of such offer) in part. The Issuer is entitled under the Dealer Agreement to appoint one or more Dealers as a dealer for a particular Tranche of Notes or the Programme generally.

Each Dealer has agreed under the Dealer Agreement to comply with any applicable law or directive in any jurisdiction in which it may subscribe for, offer, sell, or transfer Notes and to not directly or indirectly subscribe for, offer, sell or transfer Notes or distribute any Information Memorandum or other offering material in relation to the Notes in any jurisdiction, except in circumstances that will result in compliance by the Dealer with any applicable law.

Neither the Issuer nor any Dealer has represented that any Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or in accordance with any available exemption, or assumes any responsibility for facilitating that sale.

The following selling restrictions apply:

1 General

No action has been taken in any jurisdiction that would permit a public offering of the Notes or possession or distribution of the Information Memorandum or other offering material in any jurisdiction where action for that purpose is required.

Persons into whose hands the Information Memorandum comes are required by the Issuer and Dealers to comply with any applicable law and directive in each jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession or distribute or publish the Information Memorandum or other offering material and to obtain any authorisation required by them for the purchase, offer, sale or delivery by them of any Notes under any applicable law or directive in force in any jurisdiction to which they are subject or in which they make such purchases, offers, sales or deliveries, in all cases at their own expense, and neither the Issuer nor any Dealer has responsibility for such matters.

In these selling restrictions, "directive" includes a treaty, official directive, request, regulation, guideline or policy (whether or not having the force of law) with which responsible participants in the relevant market generally comply.

2 Australia

No prospectus or other disclosure document in relation to the Programme or any Notes has been or will be lodged with the Australian Securities and Investments Commission ("**ASIC**"). Each Dealer represents and agrees and each further Dealer appointed under the Programme will be required to represent and agree that, unless the relevant Pricing Supplement (or another supplement to any Information Memorandum) otherwise provides, it:

- (a) has not made or invited, and will not make or invite, an offer of the Notes for issue or sale in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, any Information Memorandum or other offering material or advertisement relating to any Notes in Australia,

unless (i) the aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in an alternate currency) (disregarding moneys lent by the offeror or its associates) or the offer otherwise does not require disclosure to investors under Part 6D.2 of the Corporations Act 2001 of Australia, (ii) such action complies with applicable laws and directives and (iii) such action does not require any document to be lodged with ASIC.

In addition, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will comply with the directive issued by the Assistant Treasurer of the Commonwealth of Australia dated 23rd September, 1996 as contained in Banking (Exemption) Order No. 82 which requires all offers and transfers to be for a consideration of at least A\$500,000. Banking (Exemption) Order No. 82 does not apply to transfers which occur outside Australia.

3 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 Securities Transaction Law and any other applicable laws or regulations of Iceland.

4 The United Kingdom

Each Dealer represents and agrees and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) **(no offer to public)** it has not offered or sold and will not offer or sell those Notes to persons in the United Kingdom before the expiry of a period of six months from the issue date of those Notes, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (b) **(general compliance)** it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (“**FSMA**”) with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom; and
- (c) **(investment advertisements)** 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 does not apply to the Issuer.

5 The United States of America

Securities Act

The Notes have not been and will not be registered under the Securities Act of 1933 (“**Securities Act**”).

Terms used in the following five paragraphs have the meanings given to them by Regulation S under the Securities Act.

The Notes may not be offered, sold, delivered or transferred within the United States of America, its territories or possessions or to, or for the account or benefit of, U.S. Persons except in accordance with Regulation S or in transactions exempt from the registration requirements of the Securities Act.

Each Dealer represents and agrees and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes:

- (a) as part of their distribution at any time; and
- (b) otherwise until 40 days after 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 Lead Manager,

within the United States of America or to, or for the account or benefit of, U.S. Persons.

Each Dealer who has purchased Notes must determine and certify to the Issuer and, in the case of an issue of Notes on a syndicated basis, the Lead Manager, when it has completed the distribution of those Notes. In the case of an issue of Notes on a syndicated basis, the Lead Manager must certify when the distribution of all the Notes has been completed.

Each Dealer has further represented and agreed and each further Dealer appointed under the Programme will be required to further represent and agree that it will have sent to each distributor to which it sells 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 of America or to, or for the account or benefit of, U.S. Persons.

Until 40 days after the completion of the distribution of all Notes of the Tranche of which those Notes are a part, an offer or sale of Notes within the United States by any dealer or other distributor (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Indexed Notes and Dual Currency Notes

Each issue of Indexed Notes and Dual Currency Notes will be subject to additional U.S. selling restrictions agreed between the Issuer and the relevant Dealer as a term of the issue and purchase of such Notes which are set out in the relevant Pricing Supplement. Each relevant Dealer will be required to agree that it will offer, sell or deliver those Notes only in compliance with those additional U.S. selling restrictions.

6 Hong Kong

Each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent) or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) (the "**CO**"), or (iii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**") and any rules made under the SFO, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the CO; and
- (iii) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons

outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

7 Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan ("**Securities and Exchange Law**") and, accordingly, each Dealer represents and agrees and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to a Japanese Person, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan. For the purposes of this paragraph, "Japanese Person" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

8 New Zealand

The Issuer does not intend that the Notes be offered for sale or subscription to the public in New Zealand in terms of the Securities Act 1978 of New Zealand. Accordingly, no person may subscribe for, offer, sell or deliver any Notes or distribute any Information Memorandum, advertisement or offering material relating to the Notes in breach of the Securities Act 1978 of New Zealand and, in particular, no person may sell or offer for sale Notes to any member of the public in New Zealand in breach of the Securities Act 1978 of New Zealand.

9 Singapore

No term sheet, prospectus or other issue documentation relating to the Notes has been registered as a prospectus with the Monetary Authority of Singapore ("**MAS**") under the Securities and Futures Act (Cap. 289) of Singapore ("**SFA**"). Accordingly, the Notes have not been, and will not be, offered or sold or made the subject of an invitation for subscription or purchase nor may the term sheets, global securities or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than:

- (a) to an institutional investor or other person falling within section 274 of the SFA; or
- (b) to a sophisticated investor (as defined in section 275 of the SFA) and in accordance with the conditions specified in Section 275 of the SFA; or
- (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Taxation

Australian Taxation

The following is a summary of the Australian taxation treatment at the date of this Information Memorandum, Notes to be issued by the Issuer under the Programme and certain other matters. It is a general guide and should be treated with appropriate caution. Prospective holders of Notes who are in any doubt as to their tax position should consult their professional advisers on the tax implications of an investment in the Notes for their particular circumstances.

1. Interest withholding tax

So long as the Issuer continues to be a non-resident of Australia and the Notes issued by it are not attributable to a permanent establishment of the Issuer in Australia, payments of principal and interest made under Notes issued by it should not be subject to Australian interest withholding tax.

2. Other tax matters

Under Australian laws as presently in effect:

- (a) *death duties* - no Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death; and
- (b) *stamp duty and other taxes* - no ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue or transfer of any Notes; and
- (c) *other withholding taxes on payments in respect of Notes* - so long as the Issuer continues to be a non-resident of Australia and does not carry on business at or through a permanent establishment in Australia, the tax file number requirements of Part VA of the Australian Income Tax Assessment Act 1936 and section 12-140 of the Taxation Administration Act 1953 of Australia ("**Taxation Administration Act**") should not apply in connection with Notes issued by the Issuer; and
- (d) *supply withholding tax* - payments in respect of the Notes can be made free and clear of the "supply withholding tax" imposed under section 12-190 of the Taxation Administration Act; and
- (e) *goods and services tax (GST)* - neither the issue nor receipt of the Notes will give rise to a liability for GST in Australia on the basis that the supply of Notes will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by the Issuer, nor the disposal of the Notes, would give rise to any GST liability in Australia.

Icelandic Taxation

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. 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 person 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.

1. 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 or interest on the Notes by a holder who is not a resident of Iceland, or in respect of any amount payable under the Dealer Agreement or the Agency Agreement.
2. 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 not a resident of Iceland.
3. The Issuer is not required by the current laws of Iceland to make any deductions or withholding from any payment of principal or interest due or to become due under the Notes or from any amount payable under the Dealer Agreement or the Agency Agreement, if the recipient is not a resident of Iceland.

Directory

Issuer

Íslandsbanki hf.

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Arranger

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Facsimile: (61 2) 9324 3832
Attention: Head of Debt Capital Markets

Dealers

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Registrar

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ABN 28 003 284 419

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Attention: Manager, Agency and Registry Services