

To: The International Swaps and
Derivatives Association, Inc.
360 Madison Avenue, 16th floor
New York, NY 10017
United States of America

Reykjavik, 29 August 2017
File no. 2430-17-0505

Subject: Collateral Taker Insolvency

We have been requested by the International Swaps and Derivatives Association, Inc. ("**ISDA**") to prepare an opinion with respect to the laws of Iceland as they apply to certain provisions of:

- (i) the 2016 Phase One Credit Support Annex for Initial Margin (IM) governed by New York law (the "**IM NY Annex**");
- (ii) the 2016 Phase One IM Credit Support Deed, governed by English law (the "**IM Deed**" and together with the IM NY Annex, the "**IM Security Documents**");
- (iii) the ISDA Euroclear Security Agreement (the "**Euroclear Security Agreement**");
- (iv) the ISDA Euroclear Collateral Transfer Agreement (NY Law) (the "**Euroclear NY CTA**");
- (v) the ISDA Euroclear Collateral Transfer Agreement (Multi-Regime) (the "**Euroclear Multi-Regime CTA**"; and together with the Euroclear Security Agreement and the Euroclear NY CTA, the "**Euroclear Documents**");
- (vi) the ISDA Clearstream 2016 Security Agreement (the "**Clearstream Security Agreement**");
- (vii) the ISDA Clearstream 2016 Collateral Transfer Agreement (NY Law) (the "**Clearstream NY CTA**"); and
- (viii) the ISDA Clearstream 2016 Collateral Transfer Agreement (Multi-Regime) (the "**Clearstream Multi-Regime CTA**"; and together with the Clearstream Security Agreement and the Clearstream NY CTA, the "**Clearstream Documents**"),

in each case, when entered into to provide credit support for transactions ("**Transactions**") entered into pursuant to an ISDA master agreement (the "**Master**

Agreement”).¹

Capitalized terms used herein that are not defined herein shall have the meanings ascribed to such terms in the Master Agreement or the relevant IM Security Document, as applicable.

In this opinion the term “**Collateral Provider**” shall refer to the Pledgor (under the IM NY Annex) or the Chargor (under the IM Deed), as context requires, in relation to which “**Collateral Taker**” means the Secured Party.

The term “**Collateral**”, when used in this opinion, is meant to refer, in the case of each IM Security Document, to any assets in which a security interest is created by the Collateral Provider in favor of the Collateral Taker as credit support for the obligations of the Collateral Provider under the relevant Master Agreement.

Scope of Transaction types covered by the opinion

Appendix A hereto (dated August 2015) contains a brief description of the various types of Transactions that may be documented under a Master Agreement. Please note that we are not opining on the validity of these underlying Transactions or on the validity or enforceability of any Master Agreement, other than to the extent that provisions of the relevant Master Agreement are necessary to give effect to the Collateral arrangements documented under the relevant Credit Support Documents, as explained herein.

Scope of counterparty types covered by this opinion

Appendix B hereto sets out the types of counterparty covered by this opinion.

Fact Patterns

The following three principal fact patterns concern (a) whether or not the Location (as defined below) of the Collateral Taker is in Iceland and (b) whether or not the Location of the Collateral is in Iceland:

- (a) The Location of the Collateral Taker is in Iceland and the Location of the Collateral is outside Iceland.
- (b) The Location of the Collateral Taker is in Iceland and the Location of the Collateral is in Iceland.
- (c) The Location of the Collateral Taker is outside Iceland and the Location of the Collateral is in Iceland.

For the foregoing purposes:

- (a) the “**Location**” of the Collateral Taker is in Iceland if it is incorporated or otherwise organized in Iceland and/or if it has a branch or other place of business

¹ Refers to the following master agreements published by ISDA: (i) the 1992 ISDA Master Agreement (Multicurrency – Cross Border); (ii) the 1992 ISDA Master Agreement (Local Currency – Single Jurisdiction); and (iii) the 2002 ISDA Master Agreement.

in Iceland; and

- (b) the "**Location**" of Collateral is the place where an asset of that type is located under the private international law rules of Iceland. Note that the Clearstream Documents and Euroclear Documents relate to specific collateral arrangements involving Clearstream and Euroclear. From an Icelandic law perspective, Collateral held in Clearstream or Euroclear would generally be considered outside Iceland (as such Collateral is in Luxembourg or Belgium), meaning that its creation, perfection and enforcement would not be governed by Icelandic law.

"**Located**" when used below in relation to a Collateral Taker or any Collateral should be construed accordingly.

Although we do not expressly refer to each fact pattern in our answers to each question, we have taken the fact patterns into consideration in developing our analysis. It should generally be apparent from the context which of the fact patterns is under discussion. In addition, it should generally be clear from the terms of each question whether the Collateral is to be considered as located in Iceland or in a foreign jurisdiction.

We begin by giving a short introduction to the most important applicable legislation on the validity and enforceability of collateral arrangements under Icelandic law and the impact of the currency restrictions currently in place in Iceland.

NOTES ON APPLICABLE LAW

Act on Financial Collateral Arrangements

Iceland is a party to the European Economic Area (hereinafter the "**EEA**")² and is as such obliged to implement certain EU directives. With the passing of the Act No. 46/2005 on Financial Collateral Arrangements (the "**Collateral Act**") on May 4, 2005, Iceland implemented the EU Directive 2002/47/EC on the same subject (the "**Collateral Directive**"). By this implementation some previously underlying uncertainty concerning the legal status and definitions of financial collateral arrangements under Icelandic laws was clarified.

In our view, based on the assumptions you have asked us to make, a collateral arrangement entered into under any of the Credit Support Documents in connection with the Master Agreement on or after May 4, 2005, would constitute a "financial collateral arrangement" for purposes of the Collateral Act and will therefore be treated as such in our discussions in this opinion. It should be noted, however, that this has not been specifically tested by Icelandic courts.

The effect of the Collateral Act, interpreted in a manner consistent with the purpose of the policy underlying the Collateral Directive, is to strengthen existing law relating to financial collateral arrangements and to restrict or remove restrictions or any adverse change in the law relating to such arrangements. Among the principal effects of the

² EEA covers all countries of the European Union and three EFTA states (Iceland, Norway and Liechtenstein, but excluding Switzerland).

Collateral Act in relation to financial collateral arrangements are the limitation of re-characterisation risk and the displacement of certain provisions of the Icelandic Act No. 21/1991 on Insolvency etc. (the "**Insolvency Act**"), e.g. rules relating to set off and rescission. All of those issues are discussed in more detail later in this opinion, where relevant.

Please note that the Collateral Act only applies to collateral transactions where both the Collateral Taker and the Collateral Provider is any of the following:

- (i) Governmental authorities, excluding state held companies enjoying a state guarantee;
- (ii) central banks and certain international institutions;
- (iii) licensed financial undertakings;
- (iv) licensed insurance companies;
- (v) investment funds;
- (vi) management companies;
- (vii) intermediaries and clearing houses; and
- (viii) other parties, provided the counterparty falls within any of the items above.

It should also be mentioned that the Collateral Act mainly focuses on the obligations of the Collateral Provider and is mostly silent on any obligations of the Collateral Taker.

Act on Foreign Exchange

Capital controls were enacted in Iceland with Act No. 87/1992 on Foreign Exchange (the "**Foreign Exchange Act**"). The capital controls were intended to severely restrict the outflow of foreign currency from Iceland.

According to Article 13 b of the Foreign Exchange Act, the cross-border movement of capital, i.e. transfer or transport of capital across national borders and transfer of capital between residents and non-residents, is generally prohibited. This relates, *inter alia*, to (i) deposits to and withdrawals from accounts with credit institutions; and (ii) the import and export of securities and/or currency (domestic or foreign).

Furthermore, it is prohibited to transact derivatives contracts involving ISK against a foreign currency, whether these contracts involve currencies, securities, or a combination thereof, or other comparable financial instruments. However, derivatives transactions related solely to trade in goods and services are not prohibited.

Please note that on 14 March 2017, new rules on foreign exchange³ entered into force, substantially lifting the capital controls set out in the Foreign Exchange Act. The new rules provide for a number of general exemptions from the capital controls.

According to the new rules, Icelandic parties may now freely enter into *non-ISK related* derivatives (i.e. where ISK is not involved) with foreign parties, meet their contractual obligations in relation to such derivatives and acquire foreign currency for that purpose. Icelandic parties may also post collateral in favour of foreign parties in relation to such

³ Rules No. 200/2017 on Foreign Exchange.

derivatives transactions, in accordance with the Collateral Act. The Central Bank of Iceland has informally confirmed that this also means that the foreign counterparty may enforce its rights against the Icelandic party in relation to non-ISK derivatives and the posted collateral. It should be mentioned, however, that any collateral denominated in ISK and maintained in Iceland may remain subject to certain restrictions pursuant to the Act No. 37/2016 on the Treatment of ISK-denominated Assets Subject to Special Restrictions (the “**ISK Treatment Act**”). Furthermore, and upon posting, transfer and enforcement of collateral located in Iceland, notifications may need to be made to the Central Bank of Iceland.

ISK-derivatives (i.e. where ISK is used in a contract against foreign currency) remain subject to the capital controls which generally prohibit Icelandic parties from entering into such derivatives. However, the new rules provide for an important exemption from this, stating that ISK-derivatives transactions with financial undertakings in Iceland for the purpose of hedging against risk are exempt from the general prohibition. The exemption is subject to (a) the Central Bank of Iceland having confirmed that the transaction is made for hedging purposes and thus falls within the scope of the exemption; and (b) the foreign exchange imbalance to be hedged existing over the duration of the derivatives contract. The rules further provide that if the underlying premises change in terms of the exchange imbalance, the contracts should be amended accordingly. The rules set out additional provisions on the form and substance of the confirmation request to be delivered to the Central Bank and the accompanying documentation, which vary depending on the proposed hedging.

We therefore strongly advise that further legal guidance be sought on a case-by-case basis when foreign parties contemplate entering into Credit Support Documents with Icelandic parties.

Please note that we do not take the effect of the Foreign Exchange Act or the new rules into consideration when answering the questions in this opinion. Our answers must, however, be read with consideration of the above.

1 ASSUMPTIONS RELATING TO THE SECURITY DOCUMENTS

For this purpose of this opinion, we make the following assumptions:

- (A) The Collateral Provider has entered into a Master Agreement and an IM Security Document with the Collateral Taker. The parties have entered into either (i) a Master Agreement governed by New York law, or (ii) a Master Agreement governed by English law.
- (B) Each IM Security Document is entered into in connection with either a New York law or English law governed ISDA Master Agreement and may be subject to a different governing law than the relevant ISDA Master Agreement (depending on whether the parties choose to align the governing law of the IM Security Document to (i) the Location of the relevant Custodial Account; or (ii) the governing law of the ISDA Master Agreement). The IM NY Annex forms a part of the relevant ISDA Master Agreement and therefore, unless revised by the counterparties, is subject to the same governing law as the relevant ISDA Master Agreement. In respect of an IM NY Annex entered into in connection with an English law governed ISDA Master Agreement, the parties will provide in

paragraph 13 of the IM NY Annex that the Annex is governed by and construed in accordance with New York law.

- (C) Under the IM Security Documents, both parties will be required to post Collateral to the other (either under the same IM Security Document or under separate IM Security Documents) in an amount that depends on the IM calculation provisions. For the purpose of this opinion, we will only consider the Collateral taking leg of one party – issues relating to the insolvency of the Collateral Provider are considered in a separate opinion.
- (D) Each party is either (i) a corporation, or (ii) a bank or other similar financial institution that is subject to the requirement to post or collect initial margin with respect to derivatives or swaps.
- (E) Each Master Agreement and each IM Security Document is enforceable under the laws of New York or England, as the case may be, and each party has duly authorized, executed and delivered, and has the capacity to enter into, each document.
- (F) Any provisions of the Master Agreement and the relevant IM Security Document that we deem crucial to our opinion have not been altered in any material respect. For the purposes of this opinion, (a) the main provisions of the Master Agreement we deem crucial are the following: the Preamble, Sections 1(a), 1(c), 2(a)(i), 5(a)(vii), 6, 8(a), 8(b) and 13(a) and the related definitions contained in the Preamble and Section 14; and (b) the main provisions of the IM Security Documents are the following: Sections 1(b), 1(c), 2, 3 and 8 and the related definitions set out, or referred to, in the relevant IM Security Document.
- (G) Pursuant to the relevant IM Security Document, the counterparties agree that Eligible Collateral will include cash credited to an account (as opposed to physical notes and coins) and certain types of securities (as further described below) that are located or deemed located either (i) in Iceland, or (ii) outside Iceland.
- (H) Any securities provided as Eligible Collateral are denominated in either the currency of Iceland or any freely convertible currency and consist of (1) corporate debt securities whether or not the issuer is organized or located in Iceland; (2) debt securities issued by the government of Iceland; (3) debt securities issued by the government of a member of the "G-10" group of countries; and (4) corporate equity securities whether or not the issuer is organized or located in Iceland, in the form of intermediated securities.
- (I) Pursuant to the terms and conditions of the Master Agreement, the Collateral Provider enters into a number of Transactions with the Collateral Taker. Such Transactions include any or all of the transactions described in Appendix A. Under the terms of each IM Security Document, the security interest created in the relevant Collateral secures the Obligations of the Collateral Provider arising under the Master Agreement as a whole.
- (J) An Event of Default under Section 5(a)(vii) of the Master Agreement with respect to the Collateral Taker has occurred and a formal bankruptcy, insolvency, liquidation, reorganization, administration or comparable proceeding

(collectively, the "insolvency") has been instituted by or against the Collateral Taker.

- (K) The Collateral provided under the IM Security Document is held in an account (which may hold cash (in a freely convertible currency) and securities) (a "**Custodial Account**") with a third party custodian ("**Custodian**"), with the following characteristics: (x) the Custodian holds the Collateral in the Collateral Provider's name pursuant to a custodial agreement between the Collateral Provider and custodian; (y) the Custodial Account is used exclusively for the Collateral provided by the Collateral Provider to the relevant Collateral Taker; and (z) the Collateral Provider, the Collateral Taker and the Custodian have entered into an agreement (which may be a separate control agreement or may be part of the custodial agreement) under which the Collateral Taker can take control of the margin under certain circumstances.
- (L) In certain circumstances, "initial margin" Collateral may be held at a central securities depository. In these circumstances, the parties will not enter into an IM Security Document. Instead we assume that (w) the Collateral is held in an account within Euroclear or Clearstream; (x) the parties have entered into the Euroclear Documents or the Clearstream Documents (as applicable) and other relevant documentation with Euroclear or Clearstream, which collectively establish collateral arrangements within Euroclear or Clearstream (as applicable) and set forth (i) the manner in which the Collateral is held in Euroclear or Clearstream and (ii) the manner in which the automated transfers of Collateral by Euroclear or Clearstream will be effected (*i.e.*, upon receipt of matching instructions from the Collateral Provider and Collateral Taker as to the overall amount of initial margin Collateral that is required in respect of such Collateral Provider's posting obligation, Euroclear or Clearstream, as applicable, will calculate any excess or deficit and make the relevant transfers accordingly on behalf of the parties in discharge of their obligations to one another); and (y) the Euroclear Documents or the Clearstream Documents and the other documents referred to in (x) (as applicable) are enforceable in accordance with their terms under applicable law (which may be different than the law of Iceland).

With regard to the foregoing, it should be noted that:

- (I) in the case of Euroclear, the Collateral is held in a "Pledged Securities Account" and a "Pledged Cash Account" opened in the Euroclear System in the name of Euroclear acting in its own name but for the account of the Collateral Taker (as pledgee under the pledge granted under the Euroclear Security Agreement) and to be operated in accordance with the relevant Euroclear documents referred to in (x) above; and
- (II) in the case of Clearstream, the Collateral is held in a "Collateral Account" opened in the Clearstream system in the name of the Collateral Provider and pledged to the Collateral Taker pursuant to the Clearstream Security Agreement and to be operated in accordance with the relevant Clearstream documents referred to in (x) above.
- (M) The parties may enter into more than one IM Security Document, including multiple IM Security Documents each subject to different governing laws, and/or

may enter into Euroclear Documents and/or Clearstream Documents.

2 RIGHTS OF THE COLLATERAL PROVIDER UNDER THE IM SECURITY DOCUMENTS

1. *Would the Collateral Provider be entitled to exercise its contractual rights under (a) the IM Security Documents and the custodial arrangements described in assumption (K) to recover the Collateral held by the Custodian in the Account?*

Yes, assuming the Collateral will be held in the name of the Collateral Provider and will be clearly identified.

2. *Assuming that the response to question 1 above is yes, are there any requirements that the custodial arrangements described in assumption (K) must satisfy in order to permit the Collateral Provider to exercise such rights?*

Please see our response to question 1 above. No particular requirements set out in law, although please note that this has not been tested by Icelandic courts.

3. *In order for the Collateral Provider to exercise its rights under the IM Security Documents and the custodial arrangements described in assumption (K) to recover the Collateral, is there a requirement that the Collateral Provider have no outstanding obligations to the Collateral Taker?*

According to Icelandic law, this will remain subject to the parties' agreement.

4. *Would the Collateral Provider's ability to exercise its contractual rights be subject to any stay or freeze or otherwise be affected by commencement of the insolvency of the Collateral Taker?*

Given that the Collateral Taker will only have a security interest in the Collateral, we are of the view that the Collateral Provider's ability to exercise its contractual rights should not be subject to any stay or freeze or otherwise be affected by commencement of the insolvency of the Collateral Taker.

5. *Please explain how your responses to questions 1 through 4 above would change if instead of entering into an IM Security Document and custodial arrangements described in assumption (K), the parties enter into the arrangements described in assumption (L)?*

In our view, our responses would not change if instead of entering into an IM Security Document and custodial arrangements described in assumption (K), the parties enter into the arrangements described in assumption (L). We again emphasise, however, that this is not based on any particular provisions of Icelandic law and these arrangements have not been tested by Icelandic courts.

3 MISCELLANEOUS

6. *Are there any other local law considerations that you would recommend the Collateral Provider to consider in connection with recovering the Collateral?*

Not that we are aware of.

7. *Are there any other circumstances you can foresee in Iceland that might affect the Collateral Provider's ability to enforce its contractual rights to recover the Collateral?*

Based on the assumptions set out herein, no.

PENDING DEVELOPMENTS

We are not aware of any pending developments likely to impact on contents of this opinion.

This opinion is addressed to ISDA solely for its benefit and the benefit of its members in relation to their use of the ISDA Credit Support Documents. No other person may rely on this opinion for any purpose without our prior written consent. This opinion may, however, be shown by an ISDA member to a regulatory or supervisory authority of such ISDA member and to ISDA or its member's professional advisors (provided such advisors are bound by obligations of confidentiality with respect to anything contained herein) for the purposes of information only, on the basis that we assume no responsibility to such authority or any such other person as a result, or otherwise.

This opinion is limited to matters of Icelandic law as presently in force, and no view is expressed or should be read as extending by implication or otherwise as to the laws of any other jurisdiction. We assume no obligation to advise the addressee hereof or any third party of any subsequent amendments to Icelandic law.

In this opinion, terms and expressions of law and legal concepts have the meaning attributed to them under the laws of Iceland and shall be read and understood accordingly. The translation of the concepts as well as the concepts themselves may not be identical to the concepts described by the same or similar English-language terms as they exist under the laws of other jurisdictions.

This opinion is governed by the laws of Iceland and each relying party submits to the exclusive jurisdiction of the Icelandic courts.

LOGOS legal services


Gudbjorg Helga Hjartardottir, partner


Heidar Asberg Atlason, partner

**Appendix A
(August 2015)**

**CERTAIN TRANSACTIONS UNDER
THE ISDA MASTER AGREEMENTS**

Basis Swap. A transaction in which one party pays periodic amounts of a given currency based on a floating rate and the other party pays periodic amounts of the same currency based on another floating rate, with both rates reset periodically; all calculations are based on a notional amount of the given currency.

Bond Forward. A transaction in which one party agrees to pay an agreed price for a specified amount of a bond of an issuer or a basket of bonds of several issuers at a future date and the other party agrees to pay a price for the same amount of the same bond to be set on a specified date in the future. The payment calculation is based on the amount of the bond and can be physically-settled (where delivery occurs in exchange for payment) or cash-settled (where settlement occurs based on the difference between the agreed forward price and the prevailing market price at the time of settlement).

Bond Option. A transaction in which one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to purchase (in the case of a call) or sell (in the case of a put) a specified amount of a bond of an issuer, such as Kingdom of Sweden or Unilever N.V., at a specified strike price. The bond option can be settled by physical delivery of the bonds in exchange for the strike price or may be cash settled based on the difference between the market price of the bonds on the exercise date and the strike price.

Bullion Option. A transaction in which one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to purchase (in the case of a call) or sell (in the case of a put) a specified number of Ounces of Bullion at a specified strike price. The option may be settled by physical delivery of Bullion in exchange for the strike price or may be cash settled based on the difference between the market price of Bullion on the exercise date and the strike price.

Bullion Swap. A transaction in which one party pays periodic amounts of a given currency based on a fixed price or a fixed rate and the other party pays periodic amounts of the same currency or a different currency calculated by reference to a Bullion reference price (for example, Gold-COMEX on the COMEX Division of the New York Mercantile Exchange) or another method specified by the parties. Bullion swaps include cap, collar or floor transactions in respect of Bullion.

Bullion Trade. A transaction in which one party agrees to buy from or sell to the other party a specified number of Ounces of Bullion at a specified price for settlement either on a "spot" or two-day basis or on a specified future date. A Bullion Trade may be settled by physical delivery of Bullion in exchange for a specified price or may be cash settled based on the difference between the market price of Bullion on the settlement date and the specified price.

For purposes of Bullion Trades, Bullion Options and Bullion Swaps, "Bullion" means gold, silver, platinum or palladium and "Ounce" means, in the case of gold, a fine troy ounce, and in the case of silver, platinum and palladium, a troy ounce (or in the case of reference prices not expressed in Ounces, the relevant Units of gold, silver, platinum or palladium).

Buy/Sell-Back Transaction. A transaction in which one party purchases a security (in consideration for a cash payment) and agrees to sell back that security (or in some cases an equivalent security) to the other party (in consideration for the original cash payment plus a premium).

Cap Transaction. A transaction in which one party pays a single or periodic fixed amount and the other party pays periodic amounts of the same currency based on the excess, if any, of a specified floating rate (in the case of an interest rate cap), rate or index (in the case of an economic statistic cap) or commodity price (in the case of a commodity cap) in each case that is reset periodically over a specified per annum rate (in the case of an interest rate cap), rate or index (in the case of an economic statistic cap) or commodity price (in the case of a commodity cap).

Collar Transaction. A collar is a combination of a cap and a floor where one party is the floating rate, floating index or floating commodity price payer on the cap and the other party is the floating rate, floating index or floating commodity price payer on the floor.

Commodity Forward. A transaction in which one party agrees to purchase a specified quantity of a commodity at a future date at an agreed fixed or floating price, and the other party agrees to deliver such quantity in exchange for payment at such price on a specified date in the future.

Commodity Index Transaction. A transaction, structured in the form of a swap, cap, collar, floor, option or some combination thereof, between two parties in which the underlying value of the transaction is based on a rate or index based on the price of one or more commodities.

Commodity Option. A transaction in which one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to purchase (in the case of a call) or sell (in the case of a put) a specified quantity of a commodity at a specified strike price. The option can be settled either by physically delivering the quantity of the commodity in exchange for the strike price or by cash settling the option, in which case the seller of the option would pay to the buyer the difference between the market price of that quantity of the commodity on the exercise date and the strike price.

Commodity Swap. A transaction in which one party pays periodic amounts of a given currency based on a fixed price and the other party pays periodic amounts of the same currency based on the price of a commodity, such as natural gas or gold, or a futures contract on a commodity (e.g., West Texas Intermediate Light Sweet Crude Oil on the New York Mercantile Exchange); all calculations are based on a notional quantity of the commodity.

Contingent Credit Default Swap. A Credit Default Swap Transaction under which the calculation amounts applicable to one or both parties may vary over time by reference to the mark-to-market value of a hypothetical swap transaction.

Credit Default Swap Option. A transaction in which one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to enter into a Credit Default Swap.

Credit Default Swap. A transaction in which one party pays either a single fixed amount or periodic fixed amounts or floating amounts determined by reference to a specified notional amount, and the other party (the credit protection seller) pays either a fixed amount or an amount determined by reference to the value of one or more loans, debt securities or other financial instruments (each a "Reference Obligation") issued, guaranteed or otherwise entered into by a third party (the "Reference Entity") upon the occurrence of one or more specified credit events with respect to the Reference Entity (for example, bankruptcy or payment default). The amount payable by the credit protection seller is typically determined based upon the market value of one or more debt securities or other debt instruments issued, guaranteed or otherwise entered into by the Reference Entity. A Credit Default Swap may also be physically settled by payment of a specified fixed amount by one party against delivery of specified obligations ("Deliverable Obligations") by the other party. A Credit Default Swap may also refer to a "basket" (typically ten or less) or a "portfolio" (eleven or more) of Reference Entities or may be an index transaction consisting of a series of component Credit Default Swaps.

Credit Derivative Transaction on Asset-Backed Securities. A Credit Default Swap for which the Reference Obligation is a cash or synthetic asset-backed security. Such a transaction may, but need not necessarily, include "pay as you go" settlements, meaning that the credit protection seller makes payments relating to interest shortfalls, principal shortfalls and write-downs arising on the Reference Obligation and the credit protection buyer makes additional fixed payments or reimbursements of such shortfalls or write-downs.

Credit Spread Transaction. A transaction involving either a forward or an option where the value of the transaction is calculated based on the credit spread implicit in the price of the underlying instrument.

Cross Currency Rate Swap. A transaction in which one party pays periodic amounts in one currency based on a specified fixed rate (or a floating rate that is reset periodically) and the other party pays periodic amounts in another currency based on a floating rate that is reset periodically. All calculations are determined on predetermined notional amounts of the two currencies; often such swaps will involve initial and or final exchanges of amounts corresponding to the notional amounts.

Currency Option. A transaction in which one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to purchase (in the case of a call) or sell (in the case of a put) a specified amount of a given currency at a specified strike price.

Currency Swap. A transaction in which one party pays fixed periodic amounts of one currency and the other party pays fixed periodic amounts of another currency. Payments are calculated on a notional amount. Such swaps may involve initial and or final payments that correspond to the notional amount.

Economic Statistic Transaction. A transaction in which one party pays an amount or periodic amounts of a given currency by reference to interest rates or other factors and the other party pays or may pay an amount or periodic amounts of a currency based on a specified rate or index pertaining to statistical data on economic conditions, which may include economic growth, retail sales, inflation, consumer prices, consumer sentiment, unemployment and housing.

Emissions Allowance Transaction. A transaction in which one party agrees to buy from or sell to the other party a specified quantity of emissions allowances or reductions at a specified price for settlement either on a "spot" basis or on a specified future date. An Emissions Allowance Transaction may also constitute a swap of emissions allowances or reductions or an option whereby one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to receive a payment equal to the amount by which the specified quantity of emissions allowances or reductions exceeds or is less than a specified strike. An Emissions Allowance Transaction may be physically settled by delivery of emissions allowances or reductions in exchange for a specified price, differing vintage years or differing emissions products or may be cash settled based on the difference between the market price of emissions allowances or reductions on the settlement date and the specified price.

Equity Forward. A transaction in which one party agrees to pay an agreed price for a specified quantity of shares of an issuer, a basket of shares of several issuers or an equity index at a future date and the other party agrees to pay a price for the same quantity and shares to be set on a specified date in the future. The payment calculation is based on the number of shares and can be physically-settled (where delivery occurs in exchange for payment) or cash-settled (where settlement occurs based on the difference between the agreed forward price and the prevailing market price at the time of settlement).

Equity Index Option. A transaction in which one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to receive a payment equal to the amount by which an equity index either exceeds (in the case of a call) or is less than (in the case of a put) a specified strike price.

Equity Option. A transaction in which one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to purchase (in the case of a call) or sell (in the case of a put) a specified number of shares of an issuer or a basket of shares of several issuers at a specified strike price. The share option may be settled by physical delivery of the shares in exchange for the strike price or may be cash settled based on the difference between the market price of the shares on the exercise date and the strike price.

Equity Swap. A transaction in which one party pays periodic amounts of a given currency based on a fixed price or a fixed or floating rate and the other party pays periodic amounts of the same currency or a different currency based on the performance of a share of an issuer, a basket of shares of several issuers or an equity index, such as the Standard and Poor's 500 Index.

Floor Transaction. A transaction in which one party pays a single or periodic amount and the other party pays periodic amounts of the same currency based on the excess, if any, of a specified per annum rate (in the case of an interest rate floor), rate or index level

(in the case of an economic statistic floor) or commodity price (in the case of a commodity floor) over a specified floating rate (in the case of an interest rate floor), rate or index level (in the case of an economic statistic floor) or commodity price (in the case of a commodity floor).

Foreign Exchange Transaction. A deliverable or non-deliverable transaction providing for the purchase of one currency with another currency providing for settlement either on a "spot" or two-day basis or a specified future date.

Forward Rate Transaction. A transaction in which one party agrees to pay a fixed rate for a defined period and the other party agrees to pay a rate to be set on a specified date in the future. The payment calculation is based on a notional amount and is settled based, among other things, on the difference between the agreed forward rate and the prevailing market rate at the time of settlement.

Freight Transaction. A transaction in which one party pays an amount or periodic amounts of a given currency based on a fixed price and the other party pays an amount or periodic amounts of the same currency based on the price of chartering a ship to transport wet or dry freight from one port to another; all calculations are based either on a notional quantity of freight or, in the case of time charter transactions, on a notional number of days.

Fund Option Transaction: A transaction in which one party grants to the other party (for an agreed payment or other consideration) the right, but not the obligation, to receive a payment based on the redemption value of a specified amount of an interest issued to or held by an investor in a fund, pooled investment vehicle or any other interest identified as such in the relevant Confirmation (a "Fund Interest"), whether i) a single class of Fund Interest of a Single Reference Fund or ii) a basket of Fund Interests in relation to a specified strike price. The Fund Option Transactions will generally be cash settled (where settlement occurs based on the excess of such redemption value over such specified strike price (in the case of a call) or the excess of such specified strike price over such redemption value (in the case of a put) as measured on the valuation date or dates relating to the exercise date).

Fund Forward Transaction: A transaction in which one party agrees to pay an agreed price for the redemption value of a specified amount of i) a single class of Fund Interest of a Single Reference Fund or ii) a basket of Fund Interests at a future date and the other party agrees to pay a price for the redemption value of the same amount of the same Fund Interests to be set on a specified date in the future. The payment calculation is based on the amount of the redemption value relating to such Fund Interest and generally cash-settled (where settlement occurs based on the difference between the agreed forward price and the redemption value measured as of the applicable valuation date or dates).

Fund Swap Transaction: A transaction a transaction in which one party pays periodic amounts of a given currency based on a fixed price or a fixed rate and the other party pays periodic amounts of the same currency based on the redemption value of i) a single class of Fund Interest of a Single Reference Fund or ii) a basket of Fund Interests.

Interest Rate Option. A transaction in which one party grants to the other party (in consideration for a premium payment) the right, but not the obligation, to receive a

payment equal to the amount by which an interest rate either exceeds (in the case of a call option) or is less than (in the case of a put option) a specified strike rate.

Interest Rate Swap. A transaction in which one party pays periodic amounts of a given currency based on a specified fixed rate and the other party pays periodic amounts of the same currency based on a specified floating rate that is reset periodically, such as the London inter-bank offered rate; all calculations are based on a notional amount of the given currency.

Longevity/Mortality Transaction. (a) A transaction employing a derivative instrument, such as a forward, a swap or an option, that is valued according to expected variation in a reference index of observed demographic trends, as exhibited by a specified population, relating to aging, morbidity, and mortality/longevity, or (b) A transaction that references the payment profile underlying a specific portfolio of longevity- or mortality- contingent obligations, e.g. a pool of pension liabilities or life insurance policies (either the actual claims payments or a synthetic basket referencing the profile of claims payments).

Physical Commodity Transaction. A transaction which provides for the purchase of an amount of a commodity, such as oil including oil products, coal, electricity or gas, at a fixed or floating price for actual delivery on one or more dates.

Property Index Derivative Transaction. A transaction, often structured in the form of a forward, option or total return swap, between two parties in which the underlying value of the transaction is based on a rate or index based on residential or commercial property prices for a specified local, regional or national area.

Repurchase Transaction. A transaction in which one party agrees to sell securities to the other party and such party has the right to repurchase those securities (or in some cases equivalent securities) from such other party at a future date.

Securities Lending Transaction. A transaction in which one party transfers securities to a party acting as the borrower in exchange for a payment or a series of payments from the borrower and the borrower's obligation to replace the securities at a defined date with identical securities.

Swap Deliverable Contingent Credit Default Swap. A Contingent Credit Default Swap under which one of the Deliverable Obligations is a claim against the Reference Entity under an ISDA Master Agreement with respect to which an Early Termination Date (as defined therein) has occurred.

Swap Option. A transaction in which one party grants to the other party the right (in consideration for a premium payment), but not the obligation, to enter into a swap with certain specified terms. In some cases the swap option may be settled with a cash payment equal to the market value of the underlying swap at the time of the exercise.

Total Return Swap. A transaction in which one party pays either a single amount or periodic amounts based on the total return on one or more loans, debt securities or other financial instruments (each a "Reference Obligation") issued, guaranteed or otherwise entered into by a third party (the "Reference Entity"), calculated by reference to interest, dividend and fee payments and any appreciation in the market value of each

Reference Obligation, and the other party pays either a single amount or periodic amounts determined by reference to a specified notional amount and any depreciation in the market value of each Reference Obligation.

A total return swap may (but need not) provide for acceleration of its termination date upon the occurrence of one or more specified events with respect to a Reference Entity or a Reference Obligation with a termination payment made by one party to the other calculated by reference to the value of the Reference Obligation.

Weather Index Transaction. A transaction, structured in the form of a swap, cap, collar, floor, option or some combination thereof, between two parties in which the underlying value of the transaction is based on a rate or index pertaining to weather conditions, which may include measurements of heating, cooling, precipitation and wind.

Appendix B

CERTAIN COUNTERPARTY TYPES⁴

Description	Covered by opinion	Legal form(s)
<p><u>Bank/Credit Institution.</u> A legal entity, which may be organized as a corporation, partnership or in some other form, that conducts commercial banking activities, that is, whose core business typically involves (a) taking deposits from private individuals and/or corporate entities and (b) making loans to private individual and/or corporate borrowers. This type of entity is sometimes referred to as a "commercial bank" or, if its business also includes investment banking and trading activities, a "universal bank". (If the entity <u>only</u> conducts investment banking and trading activities, then it falls within the "Investment Firm/Broker Dealer" category below.) This type of entity is referred to as a "credit institution" in European Community (EC) legislation. This category may include specialised types of bank, such as a mortgage savings bank (provided that the relevant entity accepts deposits and makes loans), or such an entity may be considered in the local jurisdiction to constitute a separate category of legal entity (as in the case of a building society in the United Kingdom (UK)).</p>	Yes	<p>Covered by this Opinion, provided that the relevant entity is as a:</p> <p>(i) commercial bank incorporated as a public limited liability company (hf.) and governed by the Act on Financial Undertakings No. 161/2002; or</p> <p>(ii) savings bank governed by the Act on Financial Undertakings No. 161/2002.⁵</p>
<p><u>Central Bank.</u> A legal entity that performs the function of a central bank for a Sovereign or for an area of monetary union (as in the case of the European Central Bank in respect of the euro zone).</p>	Yes	<p>Applies to the Central Bank of Iceland.</p> <p>It should be noted that under Icelandic law, it is unlikely that the Central Bank of Iceland can</p>

⁴ In these definitions, the term "legal entity" means an entity with legal personality other than a private individual.

⁵ Please note that any such entities may by their constitutional documents or by regulatory requirements be limited or not have the capacity to enter into ISDA Master Agreements.

Description	Covered by opinion	Legal form(s)
		become subject to any insolvency proceedings.
<u>Corporation.</u> A legal entity that is organized as a corporation or company rather than a partnership, is engaged in industrial and/or commercial activities and does not fall within one of the other categories in this Appendix B.	Yes	Covered by this Opinion, provided that the relevant entity is incorporated as a: (i) a public limited liability company (Icelandic: <i>hlutafélag</i> (<i>hf.</i>)) incorporated under the Act on Public Limited Liability Companies No. 2/1995; or (ii) private limited liability company (Icelandic: <i>einkahlutafélag</i> (<i>ehf.</i>)) incorporated under the Act on Private Limited Liability Companies No. 138/1994. ⁵
<u>Hedge Fund/Proprietary Trader.</u> A legal entity, which may be organized as a corporation, partnership or in some other legal form, the principal business of which is to deal in and/or manage securities and/or other financial instruments and/or otherwise to carry on an investment business predominantly or exclusively as principal for its own account.	No.	
<u>Insurance Company.</u> A legal entity, which may be organised as a corporation, partnership or in some other legal form (for example, a friendly society or industrial & provident society in the UK), that is licensed to carry on insurance business, and is typically subject to a special regulatory regime and a special insolvency regime in order to protect the interests of policyholders.	No.	
<u>International Organization.</u> An organization of Sovereigns established by treaty entered into between the Sovereigns, including the International Bank for Reconstruction and Development (the World Bank), regional development banks and similar organizations established by treaty.	No.	

Description	Covered by opinion	Legal form(s)
<p><u>Investment Firm/Broker Dealer.</u> A legal entity, which may be organized as a corporation, partnership or in some other form, that does not conduct commercial banking activities but deals in and/or manages securities and/or other financial instruments as an agent for third parties. It may also conduct such activities as principal (but if it does so exclusively as principal, then it most likely falls within the "Hedge Fund/Proprietary Trader" category above.) Its business normally includes holding securities and/or other financial instruments for third parties and operating related cash accounts. This type of entity is referred to as a "broker-dealer" in US legislation and as an "investment firm" in EC legislation.</p>	Yes	Covered by this Opinion, provided that the relevant entity is: an investment bank (a credit undertaking), a securities company, or a securities brokerage, incorporated as a limited liability company and governed by the Act on Financial Undertakings No. 161/2002. ⁵
<p><u>Investment Fund.</u> A legal entity or an arrangement without legal personality (for example, a common law trust) established to provide investors with a share in profits or income arising from property acquired, held, managed or disposed of by the manager(s) of the legal entity or arrangement or a right to payment determined by reference to such profits or income. This type of entity or arrangement is referred to as a "collective investment scheme" in EC legislation. It may be regulated or unregulated. It is typically administered by one or more persons (who may be private individuals and/or corporate entities) who have various rights and obligations governed by general law and/or, typically in the case of regulated Investment Funds, financial services legislation. Where the arrangement does not have separate legal personality, one or more representatives of the Investment Fund (for example, a trustee of a unit trust) contract on behalf of the Investment Fund, are owed the rights and owe the obligations provided for in the contract and are entitled to be indemnified out of the assets comprised in the arrangement.</p>	Yes	Please note that regulated investment funds may by law be restricted from becoming counterparties under the ISDA Master Agreements. ⁵

Description	Covered by opinion	Legal form(s)
<p><u>Local Authority.</u> A legal entity established to administer the functions of local government in a particular region within a Sovereign or State of a Federal Sovereign, for example, a city, county, borough or similar area.</p>	Yes	<p>Please note that municipalities are restricted from using derivatives or similar transaction for other purposes than hedging.</p> <p>Depending on the relevant legislation, such local authorities may be legally prevented from becoming subject to any insolvency proceedings.</p>
<p><u>Partnership.</u> A legal entity or form of arrangement without legal personality that is (a) organised as a general, limited or some other form of partnership and (b) does not fall within one of the other categories in this Appendix B. If it does not have legal personality, it may nonetheless be treated as though it were a legal person for certain purposes (for example, for insolvency purposes) and not for other purposes (for example, tax or personal liability).</p>	Yes	<p>Covered by this Opinion provided that the relevant entity is:</p> <p>(i) a partnership (Icelandic: <i>sameignarfélag (sf.)</i>) organised under the Act on Partnerships No. 50/2007; or</p> <p>(ii) a limited partnership (Icelandic <i>samlagsfélag (slf.)</i>) organised under the Act No. 42/1903.</p> <p>Please note that any such entities may by their constitutional documents be limited from becoming counterparties under the ISDA Master Agreement.</p>

Description	Covered by opinion	Legal form(s)
<p><u>Pension Fund</u>. A legal entity or an arrangement without legal personality (for example, a common law trust) established to provide pension benefits to a specific class of beneficiaries, normally sponsored by an employer or group of employers. It is typically administered by one or more persons (who may be private individuals and/or corporate entities) who have various rights and obligations governed by pensions legislation. Where the arrangement does not have separate legal personality, one or more representatives of the Pension Fund (for example, a trustee of a pension scheme in the form of a common law trust) contract on behalf of the Pension Fund and are owed the rights and owe the obligations provided for in the contract and are entitled to be indemnified out of the assets comprised in the arrangement.</p>	<p>Yes</p>	<p>Covered by this Opinion, provided that the relevant entity is governed by the Act on the Mandatory Guarantee of Pension Rights and the Operation of Pension Funds No. 129/1997. Please note that pension funds may only invest in derivatives for hedging purposes. By law, Pension Funds may be limited from becoming counterparties under the ISDA Master Agreements.</p>
<p><u>Sovereign</u>. A sovereign nation state recognized internationally as such, typically acting through a direct agency or instrumentality of the central government without separate legal personality, for example, the ministry of finance, treasury or national debt office. This category does not include a State of a Federal Sovereign or other political sub-division of a sovereign nation state if the sub-division has separate legal personality (for example, a Local Authority) and it does not include any legal entity owned by a sovereign nation state (see "Sovereign-owned Entity").</p>	<p>Yes</p>	<p>Please note that by law, sovereigns may be limited from becoming counterparties under the ISDA Master Agreements. Furthermore, any financial obligations of Sovereigns may be subject to approval of the Icelandic Parliament.</p> <p>Note that there are no legal procedures available under Icelandic law allowing the Icelandic state to become subject to any insolvency proceedings.</p>

Description	Covered by opinion	Legal form(s)
<u>Sovereign Wealth Fund.</u> A legal entity, often created by a special statute and normally wholly owned by a Sovereign, established to manage assets of or on behalf of the Sovereign, which may or may not hold those assets in its own name. Such an entity is often referred to as an "investment authority". For certain Sovereigns, this function is performed by the Central Bank, however for purposes of this Appendix B the term "Sovereign Wealth Fund" excludes a Central Bank.	No	
<u>Sovereign-Owned Entity.</u> A legal entity wholly or majority-owned by a Sovereign, other than a Central Bank, or by a State of a Federal Sovereign, which may or may not benefit from any immunity enjoyed by the Sovereign or State of a Federal Sovereign from legal proceedings or execution against its assets. This category may include entities active entirely in the private sector without any specific public duties or public sector mission as well as statutory bodies with public duties (for example, a statutory body charged with regulatory responsibility over a sector of the domestic economy). This category does not include local governmental authorities (see "Local Authority").	Yes	<p>Covered by this Opinion, provided that the relevant entity is incorporated or organised as any of the covered legal entities as set out above in this Appendix B.</p> <p>Please note that Sovereign-Owned Entities may by law and/or their constitutional documents be limited from becoming counterparties under the ISDA Master Agreements.</p> <p>Depending on the relevant legislation, such sovereign owned entities may be legally prevented from becoming subject to any insolvency proceedings.</p>
<u>State of a Federal Sovereign.</u> The principal political sub-division of a federal Sovereign, such as Australia (for example, Queensland), Canada (for example, Ontario), Germany (for example, Nordrhein-Westfalen) or the United States of America (for example, Pennsylvania). This category does not include a Local Authority.	No	