

BASE PROSPECTUS



The Norwegian Local Government Funding Agency

KOMMUNALBANKEN AS

Incorporated with limited liability in the Kingdom of Norway

Programme For The Issuance Of Debt Instruments

Application has been made to the Luxembourg Stock Exchange for debt instruments (the "**Instruments**") issued under the programme (the "**Programme**") described in this document (as amended or supplemented, the "**Base Prospectus**") to be admitted to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange during the period of twelve months after the date of this document. The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on Markets in Financial Instruments (the "**MiFID Directive**"). Application will also be made for Instruments issued under this Base Prospectus to be admitted to listing on the Official List of the United Kingdom Financial Services Authority (the "**FSA**") and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**") during the period of twelve months after the date of this Base Prospectus. The Regulated Market of the London Stock Exchange is a regulated market for the purposes of the MiFID Directive. Instruments may also be issued under the Programme which are not listed on any stock exchange.

Application has been made to the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**") in its capacity as competent authority in Luxembourg for the purpose of the Luxembourg law dated 10 July 2005 on prospectuses for securities (the "**Luxembourg Prospectus Law**"), which implements the Prospectus Directive (as defined herein) to approve this Base Prospectus as a base prospectus issued in compliance with the Prospectus Directive and the relevant implementing provisions of the Luxembourg Prospectus Law. This Base Prospectus constitutes a Base Prospectus for the purposes of Article 5.4 of the Prospectus Directive. The CSSF gives no undertaking as to the economic and financial opportuneness of the transaction contemplated by this Base Prospectus or the quality or solvency of the Issuer in line with the provisions of Article 7(7) of the Luxembourg Prospectus Law.

The Instruments have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S ("**Regulation S**") under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Instruments are being offered and sold (i) outside the United States to non-U.S. persons in reliance on Regulation S (the "**Regulation S Instruments**") and (ii) within the United States to persons who are both "qualified institutional buyers" (each, a "**QIB**") within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act and "qualified purchasers" (each, a "**QP**") within the meaning of Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended (the "**Investment Company Act**"), and the rules and regulations thereunder, in each case acting for their own account or for the account of one or more QIBs who are also QPs in reliance on Rule 144A (the "**Rule 144A Instruments**"). Instruments may not be issued under the Programme with a denomination of less than EUR 1,000 (or equivalent in another currency) and, in the case of Rule 144A Instruments and any Instruments issued as part of a Tranche (as defined herein) of Instruments that contain both Regulation S and Rule 144A Instruments, U.S.\$100,000 (or equivalent in another currency). Prospective purchasers are hereby notified that sellers of the Instruments may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Instruments and distribution of this Base Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

There are certain risks related to the issue of Instruments under the Programme which investors should ensure they fully understand (see "*Risk Factors*" on page 12 of this Base Prospectus).

Arranger for the Programme
MORGAN STANLEY

Dealers

BARCLAYS
CITIGROUP
DAIWA CAPITAL MARKETS EUROPE
GOLDMAN SACHS INTERNATIONAL
J.P. MORGAN
MITSUBISHI UFJ SECURITIES INTERNATIONAL PLC
MORGAN STANLEY
RBC CAPITAL MARKETS
UBS INVESTMENT BANK

BOFA MERRILL LYNCH
CREDIT SUISSE
DEUTSCHE BANK
HSBC
KOMMUNALBANKEN AS
MIZUHO INTERNATIONAL PLC
NOMURA
SMBC NIKKO

18 April 2012

This Base Prospectus may only be used for the purpose for which it has been published.

Kommunalbanken AS (the "**Issuer**") (in relation to itself and the Instruments only) accepts responsibility for the information contained in this Base Prospectus. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in the Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This document should be read and construed with any other information deemed to be incorporated by reference and, in relation to any Series (as defined herein) of Instruments, should be read and construed together with the relevant Final Terms (as defined herein).

The Issuer has confirmed to the dealers (the "**Dealers**") named under "*Subscription and Sale*" below that this Base Prospectus is true, accurate and complete in all material respects and is not misleading; that the opinions and intentions expressed therein are honestly held and based on reasonable assumptions; that there are no other facts in relation to the information contained or incorporated by reference in this Base Prospectus the omission of which would, in the context of the Programme or the issue of the Instruments, make any statement therein or opinions or intentions expressed therein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing. The Issuer has further confirmed to the Dealers that this Base Prospectus contains all such information as may be required by all applicable laws, rules and regulations.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any documents incorporated by reference herein or other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained in this Base Prospectus.

Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Instrument shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date thereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuer since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Instruments, see "*Subscription and Sale*".

The Instruments have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may include Instruments in bearer form which are subject to U.S. tax law requirements. Instruments may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from the registration requirements of the Securities Act.

THE INSTRUMENTS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, AND NONE OF THE FOREGOING AUTHORITIES HAVE PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF INSTRUMENTS OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

The Instruments are being offered and sold outside the United States only to persons that are non-U.S. persons in reliance on Regulation S and within the United States only to QIBs that are also QPs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Instruments may be relying on the exemption from the provision of Section 5 of the Securities Act provided by Rule 144A. Instruments may not lawfully be offered

or sold to persons in the United Kingdom otherwise than in compliance with the Prospectus Directive and any applicable law. For a description of these and certain further restrictions on offers, sales, and transfers of Instruments and distribution of this Base Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Instruments and should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Instruments. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

In this Base Prospectus, unless otherwise specified, references to "**EUR**", "**€**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to "**U.S.\$**", "**USD**" and "**U.S. dollars**" are to the lawful currency of the United States, references to "**£**" and "**Pound Sterling**" are to the lawful currency of the United Kingdom and references to "**NOK**" and "**Norwegian krone**" are to the lawful currency of the Kingdom of Norway.

The expression "**Relevant Member State**" means a Member State of the European Economic Area which has implemented the Prospectus Directive, "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955 ("**RSA 421-B**"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer is a government funding agency incorporated under the laws of the Kingdom of Norway. All of the officers and directors named herein reside outside of the United States and all or a substantial portion of the assets of the Issuer and its officers and directors are located outside the United States. As a result, prospective investors may have difficulties effecting service of process in the United States upon the Issuer or such persons in connection with any lawsuits related to the Instruments, including actions arising under the federal securities laws of the United States. In addition, investors may have difficulties in enforcing in original actions brought in courts in jurisdictions outside the United States, liabilities predicated upon U.S. securities laws.

AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any Instruments are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, it will during any period that it is neither subject to Section 13 or 15(d) of the U.S. Securities and Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder furnish, upon request, to any holder or beneficial owner of Instruments or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

FORWARD-LOOKING STATEMENTS

This Base Prospectus includes "forward-looking statements". All statements other than statements of historical fact included in this Base Prospectus, including, without limitation, those regarding the Issuer's financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" and similar terms and phrases, including references to assumptions.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements, or industry results. These factors include, but are not limited to, the following:

- competitive pressure;
- market conditions;
- volatility in interest rates;
- operational risk;
- counterparty risk;
- liquidity risk;
- the occurrence of catastrophic events, terrorist attacks and similar events;
- significant adverse regulatory developments, including changes in tax law;
- a downgrade in the Issuer's credit ratings;
- an interruption, failure or breach of the Issuer's operational system;
- the ineffectiveness of the Issuer's risk management policies and procedures; and
- requirements to make additional pension contributions.

The Issuer's risks are more specifically described under "*Risk Factors*". If one or more of these risks or uncertainties materialise, or if underlying assumptions prove incorrect, the Issuer's actual results, performance or achievements or industry results may be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's present and future business strategies and the environment in which the Issuer will operate in the future. These forward-looking statements speak only as of the date of this Base Prospectus or as of such earlier date at which such statements are expressed to be given. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

RATINGS

As of the date of this Base Prospectus, the following credit ratings have been assigned to the Issuer:

Moody's Investors Service Ltd ("**Moody's**"):

Long-term senior debt	Instruments issued under the Programme		
	Senior unsecured	Subordinated	Short-term
Aaa	Aaa	Aa1	P-1

Standard & Poor's Credit Market Services Europe Limited ("**S&P**"):

Long-term senior debt	Instruments issued under the Programme	
	Senior unsecured with maturity of one year or more	Senior unsecured with maturity of less than one year
AAA	AAA	A-1+

The information relating to credit rating systems below has been extracted from the websites of Moody's and S&P, as applicable. The Issuer confirms that such information has been accurately reproduced and that, so far as the Issuer is aware, and is able to ascertain from information published by Moody's and S&P, no facts have been omitted which would render the reproduced information inaccurate or misleading.

According to Moody's rating system, obligations rated Aaa are judged to be of the highest quality with minimal credit risk, obligations rated Aa are judged to be of high quality and are subject to very low credit risk and issuers rated P-1 have a superior ability to repay short-term debt obligations. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

According to the S&P rating system, an obligor rated "AAA" has extremely strong capacity to meet its financial commitments. "AAA" is the highest issuer credit rating assigned by S&P. The addition of pluses and minuses provides further distinctions within ratings range from "AA" to "CCC".

Both Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are established in the European Economic Area ("**EEA**") and registered under Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**") and are, as of the date of this Base Prospectus, included in the list of credit ratings agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation.

Tranches of Instruments issued under the Programme will be rated or unrated. Where a Tranche of Instruments is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Instruments already issued. Where a Tranche of Instruments is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Instruments will be (1) issued by a credit rating agency established in the EEA and registered (or which has applied for registration and not been refused) under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms.

ESMA is obliged to maintain on its website, www.esma.europa.eu, a list of credit rating agencies registered and certified in accordance with the CRA Regulation. This list must be updated within 5 working days of ESMA's adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation. The ESMA website is not incorporated by reference into, nor does it form part of, this Base Prospectus.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit

rating agency established in the EEA and registered under the CRA Regulation or (3) the rating is provided by a credit rating agency not established in the EEA but which is certified under the CRA Regulation.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

CONTENTS

	Page
INFORMATION INCORPORATED BY REFERENCE.....	1
GENERAL DESCRIPTION OF THE PROGRAMME.....	3
SUMMARY OF THE PROGRAMME.....	4
RISK FACTORS	12
TERMS AND CONDITIONS OF THE INSTRUMENTS.....	18
PROVISIONS RELATING TO THE INSTRUMENTS WHILST IN GLOBAL FORM.....	52
FORM OF FINAL TERMS	58
USE OF PROCEEDS.....	73
KOMMUNALBANKEN AS.....	74
TAXATION.....	79
CERTAIN ERISA CONSIDERATIONS	91
SUBSCRIPTION AND SALE.....	92
TRANSFER RESTRICTIONS	97
CLEARING AND SETTLEMENT	102
GENERAL INFORMATION	106

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF INSTRUMENTS, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVERALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL.

HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF INSTRUMENTS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF INSTRUMENTS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF INSTRUMENTS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSON(S) ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

INFORMATION INCORPORATED BY REFERENCE

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

(1) Audited non-consolidated financial statements of the Issuer in respect of the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") (as set out on the following pages of the 2011 Annual Report of the Issuer)

1. Income Statement	p. 22
2. Statement of Comprehensive Income	p. 22
3. Statement of Financial Position	p. 23
4. Statement of Changes in Equity	p. 24
5. Statement of Cash Flows	p. 25
6. Accounting Policies	p. 26-29
7. Notes to the Financial Statements	p. 30-48
8. Auditor's Report	p. 50

(2) Audited non-consolidated financial statements of the Issuer in respect of the year ended 31 December 2010 prepared in accordance with IFRS (as set out on the following pages of the 2010 Annual Report of the Issuer)

1. Income Statement	p. 20
2. Statement of Comprehensive Income	p. 20
3. Statement of Financial Position	p. 21
4. Statement of Changes in Equity	p. 23
5. Statement of Cash Flows	p. 24
6. Accounting Policies	p. 25-29
7. Notes to the Financial Statements	p. 30-52
8. Auditor's Report	p. 53

(3) Audited non-consolidated financial statements of the Issuer in respect of the year ended 31 December 2009 prepared in accordance with IFRS (as set out on the following pages of the 2009 Annual Report of the Issuer)

1. Income Statement	p. 16
2. Statement of Comprehensive Income	p. 16
3. Statement of Financial Position	p. 17
4. Statement of Changes in Equity	p. 18
5. Statement of Cash Flows	p. 19
6. Accounting Policies	p. 20-23
7. Notes to the Financial Statements	p. 24-38
8. Auditor's Report	p. 39

(4) Base Prospectus dated 19 April 2011

1. Terms and Conditions of the Instruments	p. 17-50
--	----------

(5) Base Prospectus dated 20 April 2010

1. Terms and Conditions of the Instruments p. 17-50

(6) Base Prospectus dated 22 April 2009

1. Terms and Conditions of the Instruments p. 15-45

(7) Base Prospectus dated 24 April 2008

1. Terms and Conditions of the Instruments p. 22-50

Any other information not listed above but contained in such documents is given for information purposes only.

Any statement contained herein or any of the documents incorporated by reference in, and forming part of, this Base Prospectus shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement, *provided that* such modifying or superseding statement is made by way of an annual information update or supplements to this Base Prospectus pursuant to Articles 10 and 16 respectively of the Prospectus Directive.

The Issuer will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the written or oral request of such person, a copy of any or all of the information which is incorporated herein by reference. Written or oral requests for such information should be directed to the specified office of any Paying Agent or the specified office of the Listing Agent in Luxembourg. In addition, the Base Prospectus, any or all of the information which is incorporated herein by reference and the Final Terms of any Instruments admitted to listing on the official list of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Issuer will, in connection with the admission of the Instruments to listing on the official list of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange and/or to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange, so long as any Instrument remains outstanding and admitted to trading on such exchange(s), in the event of a material adverse change in the financial condition of the Issuer which is not reflected in this Base Prospectus or any change in the information set out under "*Terms and Conditions of the Instruments*", prepare a supplement to this Base Prospectus for use in connection with any subsequent issue of Instruments to be admitted to trading on the exchange(s). If the terms of the Programme are modified or amended in a manner which would make this Base Prospectus inaccurate or misleading, a new Base Prospectus will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Instruments denominated in any currency or currencies subject as set out herein. A summary of the Programme and the Instruments appears below in "*Summary of the Programme*". The applicable terms and conditions of any Instruments will be agreed between the Issuer and the relevant Dealer(s) prior to the issue of the Instruments and will be those set out herein under "*Terms and Conditions of the Instruments*" below as supplemented, modified or replaced by the applicable Final Terms.

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Base Prospectus and any decision to invest in the Instruments should be based on a consideration of the Base Prospectus as a whole, including any information incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the Responsible Persons in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus, including any information incorporated by reference. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.

1. INFORMATION ABOUT INSTRUMENTS TO BE ISSUED UNDER THE PROGRAMME

Issuer:	Kommunalbanken AS
Arranger:	Morgan Stanley & Co. International plc
Dealers:	Barclays Bank PLC, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities Ltd., Kommunalbanken AS, Merrill Lynch International, Mitsubishi UFJ Securities International plc, Mizuho International plc, Morgan Stanley & Co. International plc, Nomura International plc, RBC Europe Limited, SMBC Nikko Capital Markets Limited, UBS Limited and any other dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche (as defined below) of Instruments.
Issue and Paying Agent:	Deutsche Bank AG, London Branch
U.S. Paying Agent, U.S. Registrar and U.S. Transfer Agent:	Deutsche Bank Trust Company Americas
Non-U.S. Paying Agent, Non-U.S. Registrar and Non-U.S. Transfer Agent:	Deutsche Bank Luxembourg S.A.
VPS Account Operator:	DnB NOR Bank ASA
Luxembourg Listing Agent:	Deutsche Bank Luxembourg S.A.
Programme Amount:	The Programme has an unlimited programme amount.
Issuance in Series:	Instruments will be issued in series (each, a " Series "). Each Series may comprise one or more tranches (" Tranches " and each, a " Tranche ") issued on different issue dates. The Instruments of each Series will all be subject to identical terms, except that the issue date, issue price and the amount of the first payment of interest may be different in respect of different Tranches. The Instruments of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Instruments of different denominations.
Form of Instruments	Instruments may be issued in bearer form (" Bearer Instruments "), in registered form (" Registered Instruments "),

or in uncertificated book entry form cleared through the Norwegian Central Securities Depository, the *Verdipapirsentralen ASA* ("**VPS Instruments**" and the "**VPS**" respectively).

Bearer Instruments:

Bearer Instruments will be sold outside the United States to non-U.S. persons in "offshore transactions" within the meaning of Regulation S.

In respect of each Tranche of Bearer Instruments, the Issuer will deliver a temporary global Instrument (a "**Temporary Global Instrument**") or (if TEFRA is specified as non-applicable or if the TEFRA C Rules are specified as applicable) a permanent global instrument (a "**Permanent Global Instrument**" and with the Temporary Global Instrument, the "**Bearer Global Instrument**"). Each global Instrument which is intended to be issued in new global instrument ("**NGI**" or "**New Global Instrument**") form, as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") and each global Instrument which is not intended to be issued in NGI form (a "**Classic Global Instrument**" or "**CGI**"), as specified in the relevant Final Terms, will be deposited on or before the relevant issue date therefore with a depositary or a common depositary for Euroclear) and/or Clearstream, Luxembourg and/or any other relevant clearing system. The NGI form has been introduced to allow for the possibility of Instruments being issued and held in a manner which will permit them to be recognised as eligible collateral for monetary policy of the central banking system for the euro (the "**Eurosystem**") and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. However in any particular case such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time.

Each Temporary Global Instrument will be exchangeable for a Permanent Global Instrument or, if so specified in the relevant Final Terms, for Instruments in definitive bearer form ("**Definitive Bearer Instruments**") and/or (if so specified in the relevant Final Terms) Registered Instruments in accordance with its terms. Each Permanent Global Instrument will be exchangeable for Definitive Bearer Instruments and/or (if so specified in the relevant Final Terms) Registered Instruments in accordance with its terms in certain limited circumstances (see further under "*Provisions Relating to the Instruments whilst in Global Form*" below). Definitive Bearer Instruments will, if interest-bearing, either have interest coupons ("**Coupons**") attached and, if appropriate, a talon ("**Talon**") for further Coupons and will, if the principal thereof is repayable by instalments, have payment receipts ("**Receipts**") attached.

Registered Instruments:

Registered Instruments may be sold (i) outside the United States to non-U.S. persons in "offshore transactions" within the meaning of Regulation S ("**Regulation S Instruments**") and/or (ii) in the United States to QIBs that are also QPs within the

meaning of Rule 144A ("**Rule 144A Instruments**").

Regulation S Instruments will be represented on issue by an Instrument in registered form, without interest coupons (each, a "**Regulation S Global Instrument**"), and Rule 144A Instruments will be represented on issue by an Instrument in registered form, without interest coupons (each, a "**Rule 144A Global Instrument**" and, together with the Regulation S Global Instrument, the "**Global Registered Instruments**" and, together with the Global Bearer Instruments, the "**Global Instruments**"). The provisions governing the exchange of interests in the Global Registered Instruments for definitive Instruments in registered form (each, a "**Definitive Registered Instrument**" and together with the Definitive Bearer Instruments, the "**Definitive Instruments**") in certain limited circumstances are described in "*Provisions Relating to the Instruments Whilst in Global Form — Form and Exchange — Global Registered Instruments*".

On the relevant issue date, Global Registered Instruments of each Series will be (i) registered in the name of, and deposited with, a common depository on behalf of Euroclear and Clearstream, Luxembourg; and/or (ii) registered in the name of Cede & Co. as nominee for, and deposited with a custodian for, The Depository Trust Company ("**DTC**"); and/or (iii) registered and deposited with any other agreed clearing system, as specified in the applicable Final Terms. Registered Instruments may not be exchanged for Bearer Instruments and are subject to certain restrictions on transfer. See "*Subscription and Sale*" and "*Transfer Restrictions*".

VPS Instruments:

VPS Instruments will be sold outside the United States to non-U.S. persons in "offshore transactions" within the meaning of Regulation S.

VPS Instruments are issued in uncertificated and dematerialised book entry form, with the legal title thereto being evidenced by book entries in the register for such VPS Instruments kept by the VPS on behalf of the Issuer. Title to VPS Instruments will not be evidenced by any physical note or document of title.

For the avoidance of doubt, the TEFRA C and TEFRA D Rules will not be applicable to VPS Instruments and VPS Instruments will not be exchangeable for Bearer Instruments or Registered Instruments.

Currencies:

Instruments may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Instruments may, subject to compliance as aforesaid, be made in and/or linked to, any currency or currencies other than the currency in which such Instruments are denominated.

Denominations:

Instruments will be issued in such denominations as may be specified in the relevant Final Terms (at least EUR 1,000 or its equivalent in another currency and in the case of Rule 144A Instruments and any Instruments issued as part of a Tranche of Instruments that contains both Regulation S and Regulation 144A Instruments, at least U.S.\$100,000 (or equivalent in

another currency), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Any Instruments which have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Instruments is carried on from an establishment maintained by the Issuer in the United Kingdom, such Instruments must: (a) have a minimum denomination of £100,000 (or its equivalent in other currencies) and be issued only 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 (b) be issued in other circumstances which do not constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer.

Status:	Instruments may be issued on a subordinated or unsubordinated basis, as specified in the relevant Final Terms.
Issue Price:	Instruments may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms.
Maturities	Any maturity subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption:	Instruments may be redeemable at par or at such other Redemption Amount (detailed in a formula or otherwise) as may be specified in the relevant Final Terms.
Early Redemption:	Early redemption will be permitted for taxation reasons as mentioned in " <i>Terms and Conditions of the Instruments — Early Redemption for Taxation Reasons</i> ", but will otherwise be permitted only to the extent specified in the relevant Final Terms.
Interest:	Instruments may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed or floating rate and may vary during the lifetime of the relevant Series.
ERISA:	Unless otherwise stated in the applicable Final Terms, "employee benefit plans" subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (" ERISA "), "plans" subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the " Code "), and any entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, the assets of any such employee benefit plan or plan, generally will not be permitted to purchase or hold Instruments (or any interest therein). See " <i>Certain ERISA Considerations</i> ".
Taxation:	Payments in respect of Instruments will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Norway or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will (subject to certain exceptions) pay such

additional amounts as will result in the holders of Instruments, Receipts and Coupons receiving such amounts as they would have received in respect of such Instruments, Receipts and Coupons had no such withholding or deduction been required.

Governing Law:

Except for Condition 3.2 (which is governed by the laws of the Kingdom of Norway), the Instruments, all related contractual documentation and any non-contractual obligations arising out of or in connection with them will be governed by English law.

VPS Instruments must comply with the Norwegian Securities Register Act of 5 July 2002 no. 64, as amended from time to time and the holders of VPS Instruments will be entitled to the rights and are subject to the obligations and liabilities which arise under this act and any related regulations and legislation.

Admission to listing and to trading:

Each Series (other than Series of VPS Instruments) may be admitted to listing on the official list of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange and/or to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange and/or any other stock exchange as may be agreed between the Issuer and the relevant Dealer(s) and specified in the relevant Final Terms or may be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authorities, stock exchanges, regulated markets and/or quotation systems.

Each Series of VPS Instruments may be admitted to listing on the Oslo Stock Exchange and/or any other stock exchange as may be agreed between the Issuer and the relevant Dealer(s) and specified in the relevant Final Terms or may be issued on the basis that they will not be admitted to listing, trading and/or quotation by any listing authorities, stock exchanges, regulated markets and/or quotation systems.

Terms and Conditions:

Final Terms will be prepared in respect of each Tranche of Instruments a copy of which will, in the case of Instruments to be admitted to listing on the official list of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange be delivered to the regulated market of the Luxembourg Stock Exchange on or before the date of issue of such Instruments or will, in the case of VPS Instruments to be admitted to trading on the Oslo Stock Exchange, be delivered to the Oslo Stock Exchange on or before the date of issue of such VPS Instruments. The terms and conditions applicable to each Tranche will be those set out herein under "*Terms and Conditions of the Instruments*" as supplemented, modified or replaced by the relevant Final Terms.

The price and amount of Instruments to be issued under the Programme will be determined by the Issuer and the Dealer(s) at the time of issue in accordance with prevailing market conditions.

Risk Factors:

There are certain risks related to any issue of the Instruments under the Programme, which investors should ensure they fully understand.

There are risks relating to the Instruments in that (1) there is not active trading market for the Instruments, (2) they may be redeemed prior to maturity, (3) investors will have to rely on their procedures for transfer, payment and communication with the Issuer because the Global Instruments are held by or on behalf of Euroclear and Clearstream, Luxembourg, (4) some of them may be subordinated to most of the Issuer's liabilities, (5) they may be index linked or dual currency in which case there is a risk that any investor may lose the value of their entire investments or part of it, (6) they may be partly paid or issued at a substantial discount or premium, (7) the conditions of them may be modified or waived and (8) are subject to changes in their governing law/s.

There are risks relating to the Instruments and the market generally, namely (1) interest rate risk, (2) exchange rate risks and exchange controls, and in that (3) any credit or corporate ratings may not reflect all risks. There are also counterparty risks and liquidity risks.

For a more detailed description of the risks, please see "*Risk Factors*" on page 12 of this Base Prospectus.

Enforcement of Instruments in Global Form:

In the case of Instruments in global form, the rights of investors will be supported by a Deed of Covenant dated 18 April 2012, a copy of which will be available for inspection at the specified office of the Issue and Paying Agent.

Clearing Systems:

Euroclear, Clearstream, Luxembourg, DTC and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Final Terms.

Ratings:

The Issuer's long-term senior debt credit rating is Aaa by Moody's Investors Service Ltd ("**Moody's**") and AAA by Standard & Poor's Credit Market Services Europe Limited. ("**S&P**"). Both Moody's and S&P are established in the European Economic Area ("**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

Tranches of Instruments may be rated or unrated. Where a Tranche of Instruments is rated, the applicable rating(s) will be specified in the relevant Final Terms. Where a Tranche of Instruments is rated, such rating will not necessarily be the same as the Issuer's long term credit rating or the rating(s) assigned to Instruments already issued. Whether or not each credit rating applied for in relation to a relevant Tranche of Instruments will be (1) issued by a credit rating agency established in the EEA and registered (or which has applied for registration and not been refused) under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a credit rating agency which is established in the EEA and registered under the CRA Regulation, or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is

provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation, or (3) the rating is provided by a credit rating agency not established in the EEA but which is certified under the CRA Regulation.

A credit rating is not a recommendation to buy, sell or hold Instruments and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Selling Restrictions:

For a description of certain restrictions on offers, sales, deliveries and transfers of Instruments and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, Japan and the Kingdom of Norway, see under "*Subscription and Sale*" and "*Transfer Restrictions*".

The Issuer may compel any beneficial owner of an interest in the Rule 144A Instruments to sell its interest in such Instruments, or may sell such interest on behalf of such holder, if such holder is a U.S. person (as defined in Regulation S) that is not both a QIB and a QP.

2. INFORMATION ABOUT THE ISSUER

Established by an Act of Parliament in 1926 as a government administrative body and reorganised as a joint stock company pursuant to Act No. 44 in 1998-99 (the "**Conversion Act**"), and re-named Kommunalbanken AS with effect from 1 November 1999, the Issuer is a local government funding agency and classified as a state instrumentality serving a specific function of providing low-cost funding to Norwegian municipalities and promoting competition in the market for municipal loans, thereby facilitating the efficient provision of public sector services in Norway.

The Issuer is registered in Norway as a joint stock company under the Norwegian law for limited companies (*Lov om aksjeselskap*) and its organisation number is 981203267 and acts only out of its registered office at Haakon VII's gate 5b, 0110 Oslo, Norway with telephone number +47 21 50 20 00.

The Issuer does not hold a banking licence and received a concession from the Royal Norwegian Ministry of Finance to conduct its financing activities. Such concession was granted pursuant to the Financial Institutions Act 1988 (the "**Financial Institutions Act**") and consequently, the Issuer is regulated by the Financial Supervisory Authority of Norway (*Finanstilsynet*) and not by the Norwegian Commercial Bank Act or the Savings Bank Act.

The Issuer uses the name Kommunalbanken Norway, and the abbreviation KBN, in its marketing and investor relations activities.

The Issuer's principal objective is to provide loans on competitive terms to counties, municipalities and inter-municipal companies for a variety of investment projects. Loans are also granted for power plants, private health institutions, co-operative water works and other entities that perform local government services, provided that loans are used to finance projects that can be designated as primary municipal investments and that each such loan benefits from a municipal guarantee. Priority will continue to be given to investment projects considered important by the central government.

As a state instrumentality serving a specific public function, Kommunalbanken is required to limit its lending operations to the territory of Norway and may only lend to Norwegian local

governments, counties, intermunicipal companies and other entities that carry out ordinary local government tasks against either a municipal guarantee, government guarantee or other satisfactory security.

The Issuer practices conservative management discipline with respect to financial risks. All risk management policies are reviewed and approved by the Issuer's Board of Directors, which monitors compliance with approved limits. The Issuer also aims to be well within the limits set by the Financial Supervisory Authority of Norway.

The Issuer attempts to minimise foreign exchange and interest rate risks through hedging operations. Financial derivatives are used solely for this purpose. The Board of Directors has established a conservative liquidity policy target whereby a high liquidity reserve is kept to cover 12 months of future net cash requirements.

Strict risk management principles are in place for investment of the Issuer's portfolio of liquid assets. Investments in government securities, securities issued by highly rated entities and bank deposits form the core of the portfolio of liquid assets.

Conservative counterparty risk management policies are in place and positions are monitored against limits on a mark-to-market basis. Swap counterparties with ratings below AA- by S&P and Aa3 by Moody's have to pose a zero threshold cash collateral with the Issuer.

The Articles of Association of the Issuer provide for the appointment of a Board of Directors consisting of not more than eight members. The Board of Directors is responsible for the management of the Issuer's business activities. The President and CEO is responsible for the Issuer's day-to-day management in accordance with instructions laid down by the Board of Directors and the Supervisory Board.

The Issuer's Supervisory Board is elected in accordance with the Financial Institutions Act and consists of twelve members and four deputy members. A member of the Board of Directors cannot also be a member of the Supervisory Board. The role of the Supervisory Board is to ensure that the Issuer's business activities are being promoted in accordance with the law, regulation, the Articles of Association and the resolutions of the Issuer's Annual General Meeting and the Supervisory Board. The Supervisory Board is responsible for, *inter alia*, the appointment of the President and CEO and the appointment of auditors.

RISK FACTORS

Prospective investors should read the entire Base Prospectus.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Instruments issued under the Programme. These factors are contingencies that may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors (although not exhaustive) which could be material for the purpose of assessing the market risks associated with Instruments issued under the Programme are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Instruments issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Instruments may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Instruments are exhaustive. The risks described below are not the only risks the Issuer faces. Additional risks and uncertainties not presently known to the Issuer or that it currently believes to be immaterial could also have a material impact on its business operations. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in the "Terms and Conditions of the Instruments" below or elsewhere in this Base Prospectus have the same meanings in this section, unless otherwise stated.

Prospective investors should consider, among other things, the following:

Risks Relating to the Instruments

There is no active trading market for the Instruments

Instruments issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Instruments which is already issued). If the Instruments are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Instruments issued under the Programme to be admitted to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of Instruments will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Instruments.

The Instruments may be redeemed prior to maturity

Unless in the case of any particular Tranche of Instruments the relevant Final Terms specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Instruments due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Norway or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Instruments in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Instruments the relevant Final Terms specifies that the Instruments are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Instruments at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Instruments.

Because the Global Instruments are held by or on behalf of Euroclear, Clearstream, Luxembourg and DTC investors will have to rely on their procedures for transfer, payment and communication with the Issuer

Instruments issued under the Programme may be represented by one or more Global Instruments. Such Global Instruments will be deposited with (in the case of a CGI) a common depository, (in the case of an

NGI) a common safekeeper for Euroclear and Clearstream, Luxembourg and/or with a custodian for DTC. Except in the circumstances described in the relevant Global Instrument, investors will not be entitled to receive Definitive Bearer Instruments. Euroclear, Clearstream, Luxembourg and/or DTC (as the case may be) will maintain records of the beneficial interests in the Global Instruments. While the Instruments are represented by one or more Global Instruments, investors will be able to trade their beneficial interests only through Euroclear, Clearstream, Luxembourg and/or DTC (as the case may be). See "*Clearing and Settlement*".

While the Instruments are represented by one or more Global Instruments the Issuer will discharge its payment obligations under the Instruments by making payments to or to the order of a common depository, common safekeeper or custodian (as applicable) for Euroclear, Clearstream, Luxembourg and/or DTC (as the case may be) for distribution to their account holders. A holder of a beneficial interest in a Global Instrument must rely on the procedures of Euroclear, Clearstream, Luxembourg and/or DTC to receive payments under the relevant Instrument. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Instruments.

Holders of beneficial interests in the Global Instruments will not have a direct right to vote in respect of the relevant Instruments. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear, Clearstream, Luxembourg and/or DTC (as the case may be) to appoint appropriate proxies.

Restrictions on transfer

The Instruments have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Instruments may not be offered, sold or delivered within the United States, or to or for the account or benefit of U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable United States state securities laws, or pursuant to an effective registration statement. The Instruments and the Issue and Paying Agency Agreement (as defined in "*Terms and Conditions of the Instruments*") will contain provisions that will restrict the Instruments from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exemptions under the Securities Act. In addition, any offer, sale or transfer of Instrument to U.S. persons or into the United States may be made only to QPs. Furthermore, the Issuer has not registered, and does not intend to register the Instruments under any other country's securities laws. Investors must ensure that their offers and sales of the Instruments within the United States and other countries comply with applicable securities laws. See "*Subscription and Sale*" and "*Transfer Restrictions*".

Nominee arrangements

Where, in the case of an issue of Instruments a nominee service provider is used by an investor to hold the relevant Instruments or such investor holds interests in any Series of Instruments through accounts with a clearing system (such as Euroclear, Clearstream, Luxembourg and/or DTC), such investor will receive payments in respect of principal, interest (if any) or any other amounts due, as applicable, solely on the basis of the arrangements entered into by the investor with the relevant nominee service provider or clearing system, as the case may be. Furthermore, such investor must rely on the relevant nominee service provider or clearing system to distribute all payments attributable to the relevant Instruments which are received from the Issuer. Accordingly, such an investor will be exposed to the credit risk of, and default risk in respect of, the relevant nominee service provider or clearing system, as well as the Issuer.

For the purposes of (a) distributing any notices to Holders, and (b) recognising Holders for the purposes of attending and/or voting at any meetings of Holders, the Issuer will recognise as Holders only those persons who are at any time shown as accountholders in the records of Euroclear, Clearstream, Luxembourg and/or DTC as persons holding a principal amount of the relevant Series of Instruments. Accordingly, an investor must rely upon the nominee service provider which is the accountholder with the relevant clearing system through which the investor made arrangements to invest in the Instruments (and, if applicable, the domestic clearing system through which the Instruments are held), to forward notices received by it from Euroclear, Clearstream, Luxembourg and/or DTC and to return the investor's voting instructions or voting certificate application to Euroclear, Clearstream, Luxembourg and/or DTC. Accordingly, such an investor will be exposed to the risk that the relevant nominee service provider or

clearing system may fail to pass on the relevant notice to, or fail to take relevant instructions from, the investor.

In addition, such a Holder will only be able to sell any Instrument held by it prior to its stated maturity date with the assistance of the relevant nominee service provider.

None of the Issuer, the Arranger, any Dealer to be appointed under the Programme or the Issuing and Principal Paying Agent or any Paying Agent shall be responsible for the acts or omissions of any relevant nominee service provider or clearing system nor makes any representation or warranty, express or implied, as to the services provided by any relevant nominee service provider or clearing system.

Partly paid Instruments

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

Index linked and dual currency Instruments

The Issuer may issue Instruments with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). Potential investors should be aware that:

- the market price of such Instruments may be very volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal; and/or
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes on interest rates, currencies or other indices.

Instruments issued at a substantial discount or premium

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

Credit or corporate ratings may not reflect all risks

As of the date of this Base Prospectus, Moody's and S&P have assigned Aaa and AAA to the long-term senior debt of the Issuer, respectively. One or more independent rating agencies may also assign ratings to the Instruments, which may not necessarily be the same as the rating(s) described above or the rating(s) assigned to Instruments already issued. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this section, and other factors that may affect the value of the Instruments. A credit rating and/or a corporate rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating could adversely affect the trading price of, and market for, Instruments issued under the Programme.

Modification and waiver

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

Change of law

Except for Condition 3.2 (which is governed by the laws of the Kingdom of Norway), the Instruments, all related contractual documentation and any non-contractual obligations arising out of or in connection with them are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to the laws of the Kingdom of Norway or England or administrative practice after the date of this Base Prospectus.

EU Savings Directive

Under the EC Council Directive 2003/48/EC (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a paying agent within the meaning of the EU Savings Directive to an individual resident or certain types of entities called "Residual Entities", within the meaning of Article 4.2 of the EU Savings Directive (the "**Residual Entity**" or "**Residual Entities**"), established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead permitted (unless during that period they elect otherwise) to apply an optional information reporting system whereby if a beneficial owner, within the meaning of the EU Savings Directive, does not comply with the procedures for information reporting, the relevant Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system applies for a transitional period during which the rate of the withholding is 35% as from 1 July 2011. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) within its jurisdiction to, or collected by such a paying agent for, an individual resident or a Residual Entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) in a Member State to, or collected by such a paying agent for, an individual resident or a Residual Entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

Risks Relating to the Issuer

Interest rate risk

Interest rate risk occurs in connection with the Issuer's lending and funding activities and arises from the different interest rate periods for the Issuer's assets and liabilities and the fact that incoming and outgoing payments are due at different times. As part of the management of interest rate risk on assets and liabilities, the Issuer actively purchases and sells securities issued by banks and governments and enters into derivative contracts, mainly FRA (forward rate agreement) contracts and swaps.

The Issuer has maintained its strategy of adapting its funding activities to its various types of loan, which has resulted in the Issuer's funding and lending activities having virtually identical interest rate periods. The Issuer has divided loans and funding into various portfolios. Management of interest rate risk is carried out by means of matching the duration of the various funding portfolios with that of the various lending portfolios. A portfolio's duration is defined as the weighted average duration of each individual funding/lending transaction included in the portfolio. Individual loans/funding transactions are weighted by their market value in comparison to the market value of the portfolio.

Investment in fixed rate Instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of the fixed rate Instruments.

Exchange rate risks and exchange controls

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

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

In its financial guidelines, the Issuer has decided that it will not have net currency positions, and so any foreign currency positions are hedged to the fullest extent practicable.

Taxation risk

Please refer to the "*Taxation*" section.

In certain circumstances the Instruments may be subject to U.S. withholding tax under FATCA

The United States has passed legislation (commonly referred to as "**FATCA**") that may impose U.S. withholding tax on certain payments by non-U.S. financial institutions starting in 2017. While the relevant rules are not entirely clear, it is expected that the Instruments issued by the Issuer will not be subject to this tax. In addition, Instruments issued prior to 1 January 2013 that are classified as debt for U.S. federal income tax purposes are generally exempt from these rules.

Counterparty risk

Counterparty risk relates to the risk that the counterparty to an agreement may be unable to honour its commitments in the future. The Issuer has a conservative policy concerning agreements where vis-à-vis each counterparty. These counterparties may only be Norwegian or international financial institutions with a high credit rating from Moody's or S&P. Counterparties whose rating falls below AA-/Aa3 must post collateral with the Issuer. Exposure is continuously monitored and reported to the Issuer's risk committee each week and to the Board of Directors of the Issuer at each of its meetings. Some agreements are structured with a view to reducing the Issuer's counterparty risk, for example, by entering into netting agreements, taking of collateral, payment in advance or repayment in instalments.

Some Instruments may be subordinated to most of the Issuer's liabilities

If in the case of any particular Tranche of Instruments the relevant Final Terms specifies that the Instruments are subordinated obligations of the Issuer and the Issuer is declared insolvent and a winding up is initiated, it will be required to pay the holders of senior debt and meet its obligations to all its unsubordinated creditors in full before it can make any payments on the relevant Instruments. Depending on the status of a particular Tranche of subordinated Instruments, the Issuer may also be required to pay the holders of other subordinated debt instruments in full before it can make any payments on the relevant Instruments. If this occurs, the Issuer may not have enough assets remaining after these payments to pay amounts due under the relevant Instruments.

Liquidity risk

Liquidity risk relates to the risk that the Issuer may be unable to meet its obligations on the agreed date of settlement as a result of market-related factors. The Issuer seeks to maintain 12 months of net cash requirements to meet its obligations well in advance of the date of maturity for large issues, such that the liquidity risk can be viewed as extremely limited. In addition, the Issuer uses interest rate swaps to hedge the duration of long-term fixed rate funding. The Issuer has the highest credit ratings of AAA from S&P and Aaa from Moody's, enabling prompt access to capital should this be required.

The Issuer has not registered, and will not register, as an investment company under the Investment Company Act

The Issuer will seek to qualify for an exemption from the definition of "investment company" under the Investment Company Act and will not register as an investment company in the United States under the Investment Company Act. The Investment Company Act provides certain protections to investors and imposes certain restrictions on registered investment companies, none of which will be applicable to the Issuer or its investors.

The Kingdom of Norway does not guarantee any of the Issuer's obligations

As at the date of this Base Prospectus, the Issuer is owned entirely by the Norwegian State as represented by the Ministry of Local Government. The Norwegian State does not guarantee any of the Issuer's obligations including the Instruments and payment to Instrument holders is therefore solely dependent on the creditworthiness of the Issuer.

TERMS AND CONDITIONS OF THE INSTRUMENTS

The following are the Terms and Conditions of the Instruments which as supplemented, modified or replaced in relation to any Instruments by the relevant Final Terms, will be applicable to each Series of Instruments:

The Instruments (except, in certain circumstances, for VPS Instruments (as defined herein)) are issued pursuant to and in accordance with an amended and restated issue and paying agency agreement dated 18 April 2012 (as supplemented, amended or replaced from time to time, the "**Issue and Paying Agency Agreement**") and made between Kommunalbanken AS (the "**Issuer**"), Deutsche Bank AG, London Branch in its capacities as issue and paying agent (the "**Issue and Paying Agent**", which expression shall include any successor) and foreign exchange agent (the "**Foreign Exchange**", which expression shall include any successor), Deutsche Bank Trust Company Americas in its capacities as U.S. paying agent (the "**U.S. Paying Agent**", which expression shall include any successor, and together with the Issue and Paying Agent, the "**Paying Agents**"), U.S. registrar (the "**U.S. Registrar**", which expression shall include any successor) and U.S. transfer agent (the "**U.S. Transfer Agent**", which expression shall include any successor) and Deutsche Bank Luxembourg S.A. in its capacities as non-U.S. registrar (the "**non-U.S. Registrar**", which expression shall include any successor, and together with the U.S. Registrar, the "**Registrars**") and non-U.S. transfer agent (the "**non-U.S. Transfer Agent**", which expression shall include any successor, and together with the US Transfer Agent, the "**Transfer Agents**"). Instruments which are in uncertificated book entry form cleared through the Norwegian Central Securities Depository, the *Verdipapirsentralen ASA* (the "**VPS Instruments**" and the "**VPS**", respectively) are also issued in accordance with an agreement dated as of 22 April 2009 (as supplemented, amended or replaced from time to time, the "**VPS Agreement**") and made between the Issuer and DnB NOR Bank ASA, in its capacity as VPS account operator (the "**VPS Account Operator**").

For the purposes of making determinations or calculations of interest rates, interest amounts, redemption amounts or any other matters requiring determination or calculation in accordance with the Conditions of any Series of Instruments (as defined below), the Issuer may appoint a calculation agent (the "**Calculation Agent**") for the purposes of such Instruments, in accordance with the provisions of the Issue and Paying Agency Agreement, and such Calculation Agent shall be specified in the applicable Final Terms.

The Instruments have the benefit of a deed of covenant dated 18 April 2012 (as supplemented, amended or replaced from time to time, the "**Deed of Covenant**") executed by the Issuer in relation to the Instruments.

Copies of the Issue and Paying Agency Agreement, the VPS Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents, the Registrar and the Transfer Agent. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, the Deed of Covenant and all (or certain, in the case of the VPS Instruments) of the provisions of the Issue and Paying Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Instruments.

The Instruments are issued in series (each, a "**Series**"), and each Series may comprise one or more tranches ("**Tranches**" and each, a "**Tranche**") of Instruments. The only provisions of the Issue and Paying Agency Agreement applicable to the VPS Instruments are those in Clause 10.2, Schedule 6 (*Provisions for Meetings of the Holders of Bearer Instruments and VPS Instruments*) and Schedule 11 (*Calculation Agent Appointment Letter*).

Each Tranche will be the subject of a final terms (each, a "**Final Terms**"), a copy of which will be available free of charge during normal business hours at the specified office of the Issue and Paying Agent and/or, as the case may be, the Registrar and, in the case of an Instrument admitted to listing on the official list of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange, the Transfer Agent in Luxembourg and, in the case of a VPS Instrument admitted to trading on the Oslo Stock Exchange, the VPS Account Operator. In the case of a Tranche of Instruments in relation to which application has not been made for listing on any stock exchange, copies of the Final Terms will only be available for inspection by a Holder of or, as the case may be, a Relevant Account Holder (as defined in the Deed of Covenant) in respect of, such Instruments.

The price and amount of Instruments to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

References in these Terms and Conditions to Instruments are to Instruments of the relevant Series and any references to Coupons (as defined in Condition 1.2) and Receipts (as defined in Condition 1.3) are to Coupons and Receipts relating to Instruments of the relevant Series.

References in these Terms and Conditions to the Final Terms are to the Final Terms prepared in relation to the Instruments of the relevant Tranche or Series.

In respect of any Instruments, references herein to these Terms and Conditions are to these terms and conditions as supplemented or modified or (to the extent thereof) replaced by the Final Terms.

Unless otherwise expressly provided in the relevant Final Terms, no amendment of the Issuing and Paying Agency Agreement, Deed of Covenant or the Conditions effective as of 18 April 2012 shall be applicable to Instruments (other than VPS Instruments) issued under the Programme on or before 1 May 2012 for which the relevant Final Terms provide that secondary (*uridashi*) offerings of such Instruments will be made in Japan where (i) the relevant Securities Registration Statements or (ii) Amendments or Supplemental Documents to Shelf Registration Statements under Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) in respect of such Instruments were filed prior to 18 April 2012.

1. **Form and Denomination**

Form of Instruments

- 1.1 Instruments are issued in bearer form ("**Bearer Instruments**") or in registered form ("**Registered Instruments**"), or, in the case of VPS Instruments, in uncertificated and dematerialised book entry form as specified in the Final Terms and are serially numbered. Registered Instruments are not exchangeable for Bearer Instruments. VPS Instruments may not be exchanged for Bearer Instruments or Registered Instruments.
- 1.2 Interest-bearing Bearer Instruments have attached thereto at the time of their initial delivery coupons ("**Coupons**"), presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein. In addition, if so specified in the Final Terms, such Instruments have attached thereto at the time of their initial delivery, a talon ("**Talon**") for further coupons and the expression "**Coupons**" shall, where the context so requires, include Talons.
- 1.3 Bearer Instruments, the principal amount of which is repayable by instalments ("**Instalment Instruments**") have attached thereto at the time of their initial delivery, payment receipts ("**Receipts**") in respect of the instalments of principal.
- 1.4 For so long as any of the Instruments is represented by an Instrument in global form (each, a "**Global Instrument**") held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of such Instruments (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of Instruments standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Instruments for all purposes other than with respect to the payment of principal or interest on the Instruments, for which purpose the bearer of the relevant Global Instrument shall be treated by the Issuer and any Paying Agent as the holder of such Instruments in accordance with and subject to the terms of the relevant Global Instrument (and the expressions "**Holders**" and related expressions shall be construed accordingly).

For so long as the Depository Trust Company ("**DTC**") or its nominee is the registered owner or holder of a Registered Instrument in global form (each, a "**Global Registered Instrument**"), DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Instruments represented by such Global Registered Instrument for all purposes under the Issue

and Paying Agency Agreement and the Instruments except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Instruments which are represented by a Global Instrument held by a common depository for Euroclear or Clearstream, Luxembourg, by a common safekeeper or by a custodian for DTC will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg, and/or DTC as the case may be.

References to Euroclear, and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms. Any amendments to the Terms and Conditions required in connection with such addition or alternative clearing system shall be specified in the applicable Final Terms.

The Terms and Conditions are modified by certain provisions contained in the Global Instruments.

Denomination of Instruments

- 1.5 Bearer Instruments are in the denomination or denominations (each of which denomination is integrally divisible by each smaller denomination) specified in the Final Terms. Bearer Instruments of one denomination may not be exchanged for Bearer Instruments of any other denomination.
- 1.6 Registered Instruments and VPS Instruments are in the minimum denomination specified in the Final Terms or integral multiples thereof.
- 1.7 Instruments may not be issued under the Programme with a Specified Denomination of less than EUR 1,000 (or equivalent in another currency) and, in the case of Rule 144A Instruments and any Instruments issued as part of a Tranche of Instruments that contain both Regulation S and Rule 144A Instruments, at least U.S.\$100,000 (or equivalent in another currency).

Currency of Instruments

- 1.8 The Instruments are denominated in such currency or currencies as may be specified in the Final Terms. Any currency or currencies may be so specified, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Partly Paid Instruments

- 1.9 Instruments may be issued on a partly paid basis ("**Partly Paid Instruments**") if so specified in the Final Terms. The subscription moneys therefore shall be paid in such number of instalments ("**Partly Paid Instalments**") in such amounts, on such dates and in such manner as may be specified in the Final Terms. The first such instalment shall be due and payable on the date of issue of the Instruments. For the purposes of these Terms and Conditions, in respect of any Partly Paid Instrument, ("**Paid Up Amount**") means the aggregate amount of all Partly Paid Instalments in respect thereof as shall have fallen due and been paid up in full in accordance with the Terms and Conditions.

Not less than 14 days nor more than 30 days prior to the due date for payment of any Partly Paid Instalment (other than the first such instalment) the Issuer shall publish a notice in accordance with Condition 14 stating the due date for payment thereof and stating that failure to pay any such Partly Paid Instalment on or prior to such date will entitle the Issuer to forfeit the Instruments with effect from such date ("**Forfeiture Date**") as may be specified in such notice (not being less than 14 days after the due date for payment of such Partly Paid Instalment), unless payment of the relevant Partly Paid Instalment together with any interest accrued thereon is paid prior to the Forfeiture Date. The Issuer shall procure that any Partly Paid Instalments paid in respect of any Instruments subsequent to the Forfeiture Date in respect thereof shall be returned promptly to the persons entitled thereto. The Issuer shall not be liable for any interest on any Partly Paid Instalment so returned.

Interest shall accrue on any Partly Paid Instalment which is not paid on or prior to the due date for payment thereof at the Interest Rate (in the case of non-interest bearing Instruments, at the rate applicable to overdue payments) and shall be calculated in the same manner and on the same basis as if it were interest accruing on the Instruments for the period from and including the due date for payment of the relevant Partly Paid Instalment up to but excluding the Forfeiture Date. For the purpose of the accrual of interest, any payment of any Partly Paid Instalment made after the due date for payment shall be treated as having been made on the day preceding the Forfeiture Date (whether or not a Business Day as defined in Condition 5.10).

Unless an Event of Default (or an event which with the giving of notice, the lapse of time or the making or giving of any determination or certification would constitute an Event of Default) shall have occurred and be continuing, on the Forfeiture Date, the Issuer shall forfeit all of the Instruments in respect of which any Partly Paid Instalment shall not have been duly paid, whereupon the Issuer shall be entitled to retain all Partly Paid Instalments previously paid in respect of such Instruments and shall be discharged from any obligation to repay such amount or to pay interest thereon.

2. **Title and Transfer**

2.1 Title to Bearer Instruments, Receipts and Coupons passes by delivery. References herein to the "**Holder**s" of Bearer Instruments or of Receipts or Coupons are to the bearers of such Bearer Instruments or such Receipts or Coupons.

2.2 Title to Registered Instruments passes by registration in the register which the Issuer shall procure to be kept by the Registrars. The Registrars will maintain separate registers in respect of each of the Regulation S Instruments and the Rule 144A Instruments. References herein to the "**Holder**s" of Registered Instruments are to the persons in whose names such Registered Instruments are so registered in the relevant register.

2.3 Title to VPS Instruments passes by registration between the direct or indirect accountholders at the VPS in accordance with the rules and procedures of the VPS. References to "**Holder**s" of VPS Instruments are to the persons in whose names such VPS Instruments are so registered in the relevant register.

2.4 The Holder of any Bearer Instrument, Coupon, Registered Instrument or VPS Instrument will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

Transfer of Registered Instruments and exchange of Bearer Instruments for Registered Instruments

2.5 A Registered Instrument may, upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement, be transferred in whole or in part only (*provided that* such part is, or is an integral multiple of, the minimum denomination specified in the Final Terms) upon the surrender of the Registered Instrument to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the relevant Registrar or any of the Transfer Agents. A new Registered Instrument will be issued to the transferee and, in the case of a transfer of part only of a Registered Instrument, a new Registered Instrument in respect of the balance not transferred will be issued to the transferor.

2.6 Transfers of beneficial interests in Global Registered Instruments will be effected by Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be, and in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Global Registered Instrument will, subject to compliance with all applicable legal and regulatory restrictions, be exchangeable for Definitive Registered Instruments or for a beneficial interest in another Global Registered Instrument only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC,

Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Issue and Paying Agency Agreement.

- 2.7 Upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement, a Definitive Registered Instrument may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (A) surrender the Definitive Registered Instrument for registration of the transfer of the Definitive Registered Instrument (or the relevant part of the Definitive Registered Instrument) at the specified office of the relevant Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the relevant Registrar or, as the case may be, the relevant Transfer Agent and (ii) the relevant Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request.

Subject as provided above, the relevant Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new Definitive Registered Instrument of a like aggregate nominal amount to the Definitive Registered Instrument (or the relevant part of the Definitive Registered Instrument) transferred. In the case of the transfer of only part of a Definitive Registered Instrument, a new Definitive Registered Instrument in respect of the balance of the Definitive Registered Instrument not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

- 2.8 If so specified in the Final Terms, the Holder of Bearer Instruments may exchange the same for the same aggregate principal amount of Registered Instruments upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement. In order to exchange a Bearer Instrument for a Registered Instrument, the Holder thereof shall surrender such Bearer Instrument at the specified office outside the United States of the Issue and Paying Agent, the Registrar or the Transfer Agent together with a written request for the exchange. Each Bearer Instrument so surrendered must be accompanied by all unmatured Receipts and Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined in Condition 2.9) where the exchange date would, but for the provisions of Condition 2.9, occur between the Record Date (as defined in Condition 9.2(c)) for such payment of interest and the date on which such payment of interest falls due.

- 2.9 Each new Registered Instrument to be issued upon the transfer of a Registered Instrument or the exchange of a Bearer Instrument for a Registered Instrument will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date be available for collection by each relevant Holder at the specified office of the relevant Registrar or any of the Transfer Agents or, at the option of the Holder requesting such exchange or transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the relevant Registrar or the any of Transfer Agents after the Record Date in respect of any payment due in respect of Registered Instruments shall be deemed not to be effectively received by the relevant Registrar or any of the Transfer Agents until the day following the due date for such payment. For the purposes of these Terms and Conditions:

- (a) "**Relevant Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the relevant Registrar or, as the case may be, the relevant Transfer Agent is located and, in the case only of an exchange of a Bearer Instrument for a Registered Instrument where such request for exchange is made to the Issue and Paying Agent, in the place where the specified office of the Issue and Paying Agent is located;

- (b) the "**exchange date**" shall be the Relevant Banking Day following the day on which the relevant Bearer Instrument shall have been surrendered for exchange in accordance with Condition 2.8; and
 - (c) the "**transfer date**" shall be the Relevant Banking Day following the day on which the relevant Registered Instrument shall have been surrendered for transfer in accordance with Condition 2.5,
- 2.10 The issue of new Registered Instruments on transfer or on the exchange of Bearer Instruments for Registered Instruments will be effected without charge by or on behalf of the Issuer, the Issue and Paying Agent, the relevant Registrar or any of the Transfer Agents but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Issue and Paying Agent, the relevant Registrar or any of the Transfer Agents may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.
- 2.11 Upon the transfer, exchange or replacement of Registered Instruments bearing the private placement legend (the "**Private Placement Legend**") set forth in the form of Registered Instrument scheduled to the Issue and Paying Agency Agreement, the relevant Registrar or, as the case may be, the relevant Transfer Agent shall deliver only Registered Instruments that also bear such legend unless either (i) such transfer, exchange or replacement occurs two or more years after the later of (1) the original issue date of such Instruments or (2) the last date on which the Issuer or any affiliates (as defined below) of the Issuer as notified to the relevant Registrar and the relevant Transfer Agent by the Issuer as provided in the following sentence, was the beneficial owner of such Instrument (or any predecessor of such Instrument) or (ii) there is delivered to the relevant Registrar and the relevant Transfer Agent an opinion reasonably satisfactory to the Issuer of counsel experienced in giving opinions with respect to questions arising under the securities laws of the United States to the effect that neither such legend nor the restrictions on transfer set forth therein are required in order to maintain compliance with the provisions of such laws. The Issuer covenants and agrees that it will not acquire any beneficial interest, and will cause its "affiliates" (as defined in paragraph (a)(1) of Rule 144 under the Securities Act) not to acquire any beneficial interest, in any Registered Instrument bearing the Private Placement Legend unless it notifies the Registrar of such acquisition. The relevant Registrar, the relevant Transfer Agent and all Holders shall be entitled to rely without further investigation on any such notification (or lack thereof).
- 2.12 For so long as any of the Registered Instruments remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer covenants and agrees that it shall, during any period in which it is not subject to either Section 13 or 15(d) under the United States Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) under such Act, make available to any Holder in connection with any sale thereof and any prospective purchaser of such Instruments from such Holder, in each case upon request, the information specified in, and meeting the requirements of, Rule 144(d)(4) under the Securities Act.
- 2.13 The transfer of a Registered Instrument will be effected without charge by or on behalf of the Issuer or the relevant Registrar or any Transfer Agent but against such indemnity as the relevant Registrar (or the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- 2.14 All transfers of Registered Instruments and entries on the register are subject to the detailed regulations concerning the transfer of Registered Instruments scheduled to the Issue and Paying Agency Agreement. The regulations may be changed by the Issuer without the prior approval of the Registrars or any Transfer Agent. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Holder who requests a copy of such regulations.

Compulsory Sale

- 2.15 The Issuer may compel any beneficial owner of an interest in the Rule 144A Instruments to sell its interest in such Instruments, or may sell such interest on behalf of such holder, if such holder is a U.S. person (as defined in Regulation S) that is not both a QIB and a QP.

Definitions

2.16 In these Terms and Conditions:

"**QIB**" means a "qualified institutional buyer" within the meaning of Rule 144A;

"**QP**" means a "qualified purchaser" within the meaning of Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended, and the rules and regulations thereunder;

"**Regulation S**" means Regulation S under the Securities Act;

"**Regulation S Instruments**" means those Instruments which are offered and sold outside the United States in "offshore transactions" within the meaning of Regulation S;

"**Rule 144A Instruments**" means those Instruments which are offered and sold within the United States in reliance on Rule 144A under the Securities Act ("**Rule 144A**") only to persons that are both QIBs and QPs, acting for their own account or for the account of one or more QIBs that are also QPs; and

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

3. Status of the Instruments

3.1 Status — Unsubordinated Instruments

- (a) This Condition 3.1 is applicable in relation to Instruments specified in the Final Terms as being unsubordinated or not specified as being subordinated ("**Unsubordinated Instruments**").
- (b) The Instruments constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Issuer, present and future (save for certain mandatory exceptions provided by law).

3.2 Status — Subordinated Instruments

- (a) This Condition 3.2(a) applies only to dated subordinated Instruments and references to "**Instruments**", "**Coupons**" and "**Holder of Coupon**" in this Condition 3.2(a) shall be construed accordingly.
 - (i) The Instruments and the relative Receipts and Coupons constitute unsecured subordinated obligations of the Issuer, conditional as described in Condition 3.2(c), and rank *pari passu* without any preference among themselves and at least equally with all other subordinated obligations of the Issuer (whether actual or contingent) having a fixed maturity from time to time outstanding. The Instruments and the Coupons shall, in the event of a liquidation, dissolution, or other winding-up of the Issuer by way of debt settlement or bankruptcy proceedings, be subordinated in right of payment only to the claims against the Issuer of all unsubordinated creditors of the Issuer and to claims preferred under Norwegian law generally.
 - (ii) The Issuer shall not, without the prior approval of an Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of the holders of Instruments, incur, create, assume, grant or permit to be outstanding any subordinated indebtedness (whether actual or contingent) having a fixed maturity unless such indebtedness is subordinated, subject to applicable law, in the event of liquidation, dissolution or other winding-up of the Issuer by way of debt settlement or bankruptcy proceedings or otherwise in right of payment so as to rank *pari passu* with or junior to the claims of the holders of Instruments and the Holders of Coupon.

- (iii) The Issuer shall not, without the prior approval of an Extraordinary Resolution of the holders of Instruments, incur, create, assume, grant or permit to be outstanding any Undated Subordinated Indebtedness (whether actual or contingent) unless such Undated Subordinated Indebtedness is subordinated, subject to applicable law, in the event of liquidation, dissolution or winding-up of the Issuer by way of debt settlement or bankruptcy proceedings or otherwise in right of payment so as to rank junior to the claims of the holders of Instruments and the Holders of Coupon.
- (b) This Condition 3.2(b) applies only to undated subordinated Instruments and references to "**Instruments**", "**Coupons**" and " **Holders of Coupon**" in this Condition 3.2(b) shall be construed accordingly.

- (i) *General*

The Instruments and the relative Coupons constitute, in the case of the Instruments, undated and, in the case of the Instruments and the Coupons, unsecured subordinated obligations of the Issuer, conditional as described in Condition 3.2(c), and rank *pari passu* without any preference among themselves and rank at least equally with Other *Pari Passu* Claims from time to time outstanding. The right to payment in respect of the Instruments and the Coupons is subordinated to the claims of Senior Creditors and payments of principal and interest in respect of the Instruments and the Coupons are conditional upon the Issuer being Solvent at the time of payment by the Issuer and no principal or interest shall be payable in respect of the Instruments or the Coupons except to the extent that the Issuer could make such payment in whole or in part, rateably with the payments in respect of Other *Pari Passu* Claims, and still be Solvent immediately thereafter. Payment of interest on the Instruments is also subject to the provisions of Condition 5.12(c).

- (ii) *Solvency*

The Issuer shall be "**Solvent**" (any determination of such status being a determination of "**Solvency**") if:

- (A) it is able to pay its debts as they fall due; and
- (B) its Assets exceed its Liabilities (other than its Liabilities to Persons who are not Senior Creditors).

A report as to the Solvency of the Issuer by two (2) members of the Board of Directors of the Issuer or the auditors of the Issuer or (if the Issuer is in liquidation, dissolution or other winding-up in the Kingdom of Norway) its liquidation board, debt settlement committee or bankruptcy board shall in the absence of proven error be treated and accepted by the Issuer and the holders of Instruments and Holders of Coupon as correct and sufficient evidence thereof.

- (iii) *No Set-off*

No holders of Instruments or Couponholder that shall in any respect be indebted to the Issuer shall be entitled to exercise any right of set-off or counterclaim against moneys owed to the Issuer in respect of such indebtedness.

- (iv) *Liquidation, Dissolution or Winding-Up*

If at any time the Issuer is liquidated, dissolved or otherwise wound-up, there shall be payable on the Instruments and the Coupons (in lieu of any other payment, but subject as provided in this Condition 3.2) such amounts, if any, as would have been payable to the holders of Instruments and the Holders of Coupon if, on the day prior to the commencement of the liquidation, dissolution or winding-up and thereafter, they were the holders of securities having a preferential right to a return of assets in the liquidation, dissolution or winding-

up, as the case may be, over the holders of shares in the Issuer, on the assumption that such securities were entitled to receive on a return of capital in such liquidation, dissolution or winding-up, in respect of the principal amount of the Instruments an amount equal to the principal amount of the Instruments and, in the case of interest on the Instruments, an amount equal to interest accrued to but excluding the date of repayment and any Arrears of Interest (as defined in Condition 5.12) and any Additional Interest Amount (as defined in Condition 5.12), and where such amounts ranked at least *pari passu* with any other Undated Subordinated Indebtedness.

(v) *Limitation on other Undated Subordinated Indebtedness*

The Issuer shall not, without the prior approval of an Extraordinary Resolution of the holders of Instruments, incur, create, assume, grant or permit to be outstanding any Undated Subordinated Indebtedness (whether actual or contingent) unless such Undated Subordinated Indebtedness is subordinated in right of payment, subject to applicable law, in the event of liquidation, dissolution or other winding-up of the Issuer by way of debt settlement or bankruptcy so as to rank *pari passu* with or junior to the claims of the holders of Instruments and the Holders of Coupon.

(vi) *Definitions*

In these Terms and Conditions, the following terms shall bear the following meanings:

"**Assets**" means, at any time, the non-consolidated total assets of the Issuer, as shown by the then latest published audited balance sheet of the Issuer, but adjusted for contingencies and for subsequent events, all valued in such manner as the members of the Board of Directors of the Issuer, the auditors of the Issuer or the debt settlement committee or bankruptcy board of the Issuer (as the case may be) may determine.

"**Capital Adequacy Requirements**" has the meaning specified in the definition of Optional Interest Payment Date.

"**Commission**" means the Financial Supervisory Authority of Norway (*Finanstilsynet*) or such other agency of the Kingdom of Norway as assumes or performs the functions as at the Issue Date performed by such Commission.

"**Governmental Authority**" means the government of any jurisdiction in which the Issuer conducts all or any part of its business (including, without limitation, the government of the Kingdom of Norway and all other countries and all political subdivisions thereof), or that asserts any jurisdiction over the conduct of the affairs, or the Property, of the Issuer and any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government (including, without limitation, the Commission).

"**Liabilities**" means, at any time, the non-consolidated total liabilities of the Issuer, as shown by the then latest published audited balance sheet of the Issuer, but adjusted for contingencies and for subsequent events, all valued in such manner as the members of the Board of Directors of the Issuer, the auditors of the Issuer or the debt settlement committee or bankruptcy board of the Issuer (as the case may be) may determine.

"**Optional Interest Payment Date**" means any Interest Payment Date following the date as of which the Issuer's most recent quarterly report to the Commission disclosed that it was in breach (a "**Breach**") of the capital adequacy requirements of the Norwegian Ministry of Finance (or of such other Governmental Authority as shall at the time be the promulgator of such requirements) applicable to the Issuer (the "**Capital Adequacy**

Requirements"), *provided that* such Interest Payment Date shall not be an Optional Interest Payment Date if, since the date of publication of such report, the Issuer has at any time been in compliance with the Capital Adequacy Requirements and will after such payment still be in such compliance and, provided further, that in the event that such report does not disclose a Breach, the relevant Interest Payment Date shall still be deemed to be an Optional Interest Payment Date if immediately after such payment there would be a Breach.

"Other *Pari Passu* Claims" means, in relation to an issue of Undated Subordinated Instruments, claims of creditors of the Issuer that are subordinated so as to rank *pari passu* with the claims of the holders of Instruments or the Holders of Coupon.

"Person" means an individual, a partnership, a corporation, a trust, an unincorporated organisation or a government or agency or political subdivision thereof.

"Property" means any interest in any kind of property or asset, whether real, personal, mixed, tangible, intangible or of any other type.

"Senior Creditors" means, in relation to an issue of Undated Subordinated Instruments, creditors of the Issuer:

- (a) who are depositors or other unsubordinated creditors of the Issuer; or
- (b) whose claims are, or are expressed to be, subordinated (whether only in the event of liquidation, dissolution or other winding-up of the Issuer or otherwise) to the claims of depositors and other unsubordinated creditors of the Issuer but have a fixed maturity, except those whose claims rank, or are expressed to rank, *pari passu* with or junior to the claims of the holders of Instruments and the Holders of Coupon.

"Undated Subordinated Indebtedness" means any indebtedness of the Issuer:

- (a) that by its terms or otherwise is in any respect junior or subordinate in right of payment (whether upon liquidation, dissolution or other winding-up of the Issuer or otherwise) to any other indebtedness of the Issuer; and
- (b) the principal of which has no fixed maturity.

"Violation" means the occurrence and continuation of the Issuer failing to comply, or not being in compliance, with any provision of the Instruments.

(c) *Loss Absorption*

This Condition 3.2(c) applies both to dated subordinated Instruments and to undated subordinated Instruments.

Under Norwegian legislation, if the Issuer's most recent audited accounts reveal that its net assets are less than 25 per cent. of its share capital, the board shall present to the general meeting a description of the Issuer's financial position accompanied by a proposal to write down the share capital against losses shown in the audited accounts. If the general meeting does not pass a resolution to write down the share capital within the period stipulated by the Commission, the Ministry of Finance may decide that the share capital shall be written down by the amount of capital shown to have been lost by the audited accounts. If the Issuer's most recent audited accounts reveal that a substantial portion of the subordinated debt has been lost, the general meeting of the Issuer or the King may decide to write down the Issuer's subordinated debt in the manner described in the foregoing with respect to the share capital.

The Issuer shall give not more than 30 nor less than five Business Days' (as defined in Condition 5.10) prior notice to the Issue and Paying Agent and to the holders of Instruments in accordance with Condition 14 of any cancellation of principal in respect of any Instruments pursuant to this Condition 3.2(c).

To the extent that part only of the outstanding principal amount of the Instruments has been cancelled as provided above, interest will continue to accrue in accordance with the terms hereof on the then outstanding principal amount of such Instruments and on any Arrears of Interest (including any Additional Interest Amounts).

Whilst Norwegian legislation does not specifically grant the right to cancel interest relating to subordinated loan capital, there is a possibility that the Norwegian courts would permit Norwegian authorities, or the Issuer, to cancel accrued but unpaid interest in respect of subordinated loan capital (which would include interest in respect of the Instruments).

4. **Negative Pledge**

This Condition 4 is applicable only in relation to Unsubordinated Instruments. So long as any Instrument remains outstanding (as defined in the Issue and Paying Agency Agreement), the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Instruments equally and rateably therewith or (b) providing such other security for the Instruments as may be approved by an Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of the Holders.

In these Terms and Conditions:

"Guarantee" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness.

"Indebtedness" means any indebtedness of any Person for money borrowed or raised.

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

"Relevant Indebtedness" means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market).

"Security Interest" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

5. **Interest**

Interest

- 5.1 Instruments may be interest-bearing or non interest-bearing, as specified in the Final Terms. Words and expressions appearing in this Condition 5 and not otherwise defined herein or in the Final Terms shall have the meanings given to them in Condition 5.10.

Interest-bearing Instruments

- 5.2 Instruments which are specified in the Final Terms as being interest-bearing shall bear interest from their Interest Commencement Date at the Interest Rate payable in arrears on each Interest Payment Date.

Provisions relating to Fixed Rate Instruments only

- 5.3 If the Final Terms specifies the Interest Rate applicable to the Instruments as being Fixed Rate, the amount of interest payable in respect of each Instrument for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Instruments are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

Provisions relating to Floating Rate Instruments only

- 5.4 If the Final Terms specifies the Interest Rate applicable to the Instruments as being Floating Rate it shall also specify which page (the "**Relevant Screen Page**") on the Reuters Screen or any other information vending service shall be applicable. If such a page is so specified, the Interest Rate applicable to the relevant Instruments for each Interest Accrual Period shall be determined by the Calculation Agent on the following basis:

- (a) the Calculation Agent will determine the offered rate for deposits (or, as the case may require, the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.00005 being rounded upwards) of the rates for deposits) in the relevant currency for a period of the duration of the relevant Interest Accrual Period on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (b) if, on any Interest Determination Date, no such rate for deposits so appears (or, as the case may be, if fewer than two such rates for deposits so appear) or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean (rounded as aforesaid) of the rates at which deposits in the relevant currency are offered by four major banks in the London interbank market (or, in the case of Instruments denominated or payable in euro, in the euro-zone interbank market), reasonably selected by the Calculation Agent, at approximately the Relevant Time on the Interest Determination Date to prime banks in the London interbank market (or, in the case of Instruments denominated or payable in euro, in the euro-zone interbank market) for a period of the duration of the relevant Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time;
- (c) if, on any Interest Determination Date, only two or three rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates so quoted; or
- (d) if fewer than two rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates quoted by four major banks in the Relevant Financial Centre (or, in the case of Instruments denominated in euro, in such financial centre or centres in the euro-zone as the Calculation Agent may select) selected by the Calculation Agent, at approximately 11.00 a.m. (Relevant Financial Centre time (or local time at such other financial centre or centres as aforesaid)) on the first day of the relevant Interest Accrual Period for loans in the relevant currency to leading European banks for a period of the duration of the relevant Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time,

and the Interest Rate applicable to such Instruments during each Interest Accrual Period will be the sum of the relevant margin (the "**Relevant Margin**") specified in the Final Terms and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) so determined provided, however, that, if the Calculation Agent is unable to determine a rate (or, as the case may be, an arithmetic mean of rates) in accordance with the above provisions in relation to any Interest Accrual Period, the Interest Rate applicable to such Instruments during such Interest Accrual Period will be the sum of the Relevant Margin and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of the rates) determined in relation to such Instruments in respect of the last preceding Interest Accrual Period.

Provisions relating to ISDA Rate Instruments only

- 5.5 If the Final Terms specifies the Interest Rate applicable to the Instruments as being ISDA Rate, each Instrument shall bear interest as from such date, and at such rate or in such amounts, and such interest will be payable on such dates, as would have applied (regardless of any event of default or termination event or tax event thereunder) if the Issuer had entered into an interest rate swap transaction with the Holder of such Instrument under the terms of an agreement to which the ISDA Definitions applied and under which:
- the Fixed Rate Payer, Fixed Amount Payer, Fixed Price Payer, Floating Rate Payer, Floating Amount Payer or, as the case may be, the Floating Price Payer is the Issuer (as specified in the Final Terms);
 - the Effective Date is the Interest Commencement Date;
 - the Termination Date is the Maturity Date;
 - the Calculation Agent is the Calculation Agent as specified in the Final Terms;
 - the Calculation Periods are the Interest Accrual Periods;
 - the Period End Dates are the Interest Period End Dates;
 - the Payment Dates are the Interest Payment Dates;
 - the Reset Dates are the Interest Period End Dates;
 - the Calculation Amount is the principal amount of such Instrument;
 - the Day Count Fraction applicable to the calculation of any amount is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions;
 - the Applicable Business Day Convention applicable to any date is that specified in the Final Terms or, if none is so specified, as may be determined in accordance with the ISDA Definitions; and – the other terms are as specified in the Final Terms.

Maximum or Minimum Interest Rate

- 5.6 If any Maximum or Minimum Interest Rate is specified in the Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified.

Accrual of Interest

- 5.7 Interest shall accrue on the Outstanding Principal Amount of each Instrument during each Interest Accrual Period from, and including, the Interest Commencement Date. Interest will cease to accrue as from the due date for redemption therefore (or, in the case of an Instalment Instrument, in respect of each instalment of principal, on the due date for payment of the relevant Instalment Amount) unless upon due presentation or surrender thereof (if required), payment in full of the Redemption Amount (as defined in Condition 6.10) or the relevant Instalment Amount is improperly withheld or refused or default is otherwise made in the payment thereof or the consent of the Commission for such payment has not been given or, having been given, has been withdrawn and not replaced, in which case interest shall continue to accrue on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (as well after as before any demand or judgment) at the Interest Rate then applicable or such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which, the Issue and Paying Agent or, as the case may be, the relevant Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 that the Issue and Paying Agent or, as the case may be, the relevant Registrar has

received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

Interest Amount(s), Calculation Agent and Reference Banks

- 5.8 If a Calculation Agent is specified in the Final Terms, the Calculation Agent, as soon as practicable after the Relevant Time on each Interest Determination Date (or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation) will determine the Interest Rate and calculate the amount(s) of interest payable (the "**Interest Amount(s)**") in respect of each Denomination of the Instruments (in the case of Bearer Instruments) and the minimum denomination (in the case of Registered Instruments) for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date or, as the case may be, the Redemption Amount or any Instalment Amount to be notified to the Issue and Paying Agent, the relevant Registrar (in the case of Registered Instruments), the Issuer, the Holders in accordance with Condition 14 and, if the Instruments are listed on a stock exchange and the rules of such exchange so requires, such exchange as soon as possible after their determination or calculation but in no event later than the fourth London Banking Day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the rules of the relevant stock exchange. The Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of an Interest Accrual Period or the Interest Period. If the Instruments become due and payable under Condition 7, the Interest Rate and the accrued interest payable in respect of the Instruments shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon the Issuer and the Holders and neither the Calculation Agent nor any Reference Bank shall have any liability to the Holders in respect of any determination, calculation, quote or rate made or provided by it.

The Issuer will procure that there shall at all times be such Reference Banks as may be required for the purpose of determining the Interest Rate applicable to the Instruments and a Calculation Agent, if provision is made for one in the Terms and Conditions.

If the Calculation Agent is incapable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate for any Interest Accrual Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Calculations and Adjustments

- 5.9 The amount of interest payable in respect of any Instrument for any period shall be calculated by multiplying the product of the Interest Rate and the Outstanding Principal Amount by the Day Count Fraction, save that (i) if the Final Terms specifies a specific amount in respect of such period, the amount of interest payable in respect of such Instrument for such period will be equal to such specified amount and (ii) where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

For the purposes of any calculations referred to in these Terms and Conditions (unless otherwise specified in the Final Terms), (a) all percentages resulting from such calculations will 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 United States Dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded to the nearest whole Japanese Yen (with 0.5 Japanese Yen being rounded upwards) and (d) all amounts

denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

Definitions

5.10 "**Applicable Business Day Convention**" means the "**Business Day Convention**" which may be specified in the Final Terms as applicable to any date in respect of the Instruments. Where the Final Terms specifies "**No Adjustment**" in relation to any date, such date shall not be adjusted in accordance with any Business Day Convention. Where the Final Terms fails either to specify an applicable Business Day Convention or "**No Adjustment**" for the purposes of an Interest Payment Date or an Interest Period End Date, then in the case of Instruments which bear interest at a fixed rate, "**No Adjustment**" shall be deemed to have been so specified and in the case of Instruments which bear interest at a floating rate, the Modified Following Business Day Convention shall be deemed to have been so specified. Different Business Day Conventions may apply, or be specified in relation to, the Interest Payment Dates, Interest Period End Dates and any other date or dates in respect of any Instruments.

"**Banking Day**" means, in respect of any city, any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in that city.

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business and settle payments in the Relevant Financial Centre in respect of the relevant Instruments or, in relation to Instruments payable in euro, on which the TARGET 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 Business Day Conventions, where specified in the Final Terms in relation to any date applicable to any Instruments, shall have the following meanings:

- (a) "**Following Business Day Convention**" means that such date shall be postponed to the first following day that is a Business Day;
- (b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that such date shall be 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 will be the first preceding day that is a Business Day;
- (c) "**Preceding Business Day Convention**" means that such date shall be brought forward to the first preceding day that is a Business Day; and
- (d) "**FRN Convention**" or "**Eurodollar Convention**" means that each such date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the Final Terms after the calendar month in which the preceding such date occurred *provided that*:
 - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred.

"Day Count Fraction" means, in respect of the calculation of an amount for any period of time ("**Calculation Period**"), such day count fraction as may be specified in the Final Terms and:

- (a) if "**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 (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (b) if "**Actual/Actual (ICMA)**" is so specified:
 - (i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (ii) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where

"Determination Period" means the period from and including an Interest Determination Date in any year to but excluding the next Interest Determination Date.

- (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, calculated on a formula basis as follows:

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

where

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

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

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

- (f) if "30E/360" or "Eurobond Basis" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

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

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

- (g) if "30E/360 (ISDA)" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

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

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

"euro-zone" means the zone comprising the Member States of the European Union that participate or are participating in European Monetary Union and that adopt or have adopted the euro as their lawful currency.

"Fixed Coupon Amount" has the meaning given in the relevant Final Terms.

"Interest Accrual Period" means, in respect of an Interest Period, each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date during that Interest Period provided always that the first Interest Accrual Period shall commence on and include the Interest Commencement Date and the final Interest Accrual Period shall end on but exclude the date of final maturity.

"Interest Commencement Date" means the date of issue of the Instruments (as specified in the Final Terms) or such other date as may be specified as such in the Final Terms.

"Interest Determination Date" means, in respect of any Interest Accrual Period, the date falling such number (if any) of Banking Days in such city(ies) as may be specified in the Final Terms prior to the first day of such Interest Accrual Period, or if none is specified:

- (a) in the case of Instruments denominated in Pounds Sterling, the first day of such Interest Accrual Period; or
- (b) in any other case, the date falling two London Banking Days prior to the first day of such Interest Accrual Period.

"Interest Payment Date" means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or, if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as being the Interest Period, each of such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the date of issue of the Instruments (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case).

"Interest Period" means each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date provided always that the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the date of final maturity.

"Interest Period End Date" means the date or dates specified as such in, or determined in accordance with the provisions of, the Final Terms and, if an Applicable Business Day Convention is specified in the Final Terms, as the same may be adjusted in accordance with the Applicable Business Day Convention or, if the Applicable Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the Final Terms as the Interest Accrual Period, such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the Interest Commencement Date (in the case of the first Interest Period End Date) or the previous Interest Period End Date (in any other case) or, if none of the foregoing is specified in the Final Terms, means the date or each of the dates which correspond with the Interest Payment Date(s) in respect of the Instruments.

"Interest Rate" means the rate or rates (expressed as a percentage per annum) or amount or amounts (expressed as a price per unit of relevant currency) of interest payable in respect of the Instruments specified in, or calculated or determined in accordance with the provisions of, the Final Terms.

"ISDA Definitions" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Instruments of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Final Terms, the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Instruments of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.).

"Outstanding Principal Amount" means, in respect of an Instrument, its principal amount less, in respect of any Instalment Instrument, any principal amount on which interest shall have ceased to accrue in accordance with Condition 5.7 or, in the case of a Partly Paid Instrument, the Paid

Up Amount of such Instrument or otherwise as indicated in the Final Terms except that the Paid Up Amount shall be deemed to be nil for Instruments which have been forfeited by the Issuer on or after the Forfeiture Date as provided for in Condition 1.9.

"**Reference Banks**" means such banks as may be specified in the Final Terms as the Reference Banks or, if none are specified, "**Reference Banks**" has the meaning given in the ISDA Definitions, mutatis mutandis.

"**Relevant Financial Centre**" means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of "**Business Day**" in the ISDA Definitions, as modified or supplemented in the Final Terms.

"**Relevant Time**" means the time as of which any rate is to be determined as specified in the Final Terms or, if none is specified, at which it is customary to determine such rate.

"**Reuters Screen**" means, when used in connection with a designated page and any designated information, the display page so designated on the Reuter Monitor Money Rates Service (or such other page as may replace that page on that service for the purpose of displaying such information).

"**Specified Denominations**" has the meaning given in the relevant Final Terms.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System which utilises a single shared platform and which was launched on 19 November 2007.

Non-Interest Bearing Instruments

- 5.11 If any Redemption Amount (as defined in Condition 6.10) or Instalment Amount in respect of any Instrument which is non-interest bearing is not paid when due, interest shall accrue on the overdue amount at a rate per annum (expressed as a percentage per annum) equal to the Amortisation Yield defined in, or determined in accordance with the provisions of, the Final Terms or at such other rate as may be specified for this purpose in the Final Terms until the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made or, if earlier (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which, the Issue and Paying Agent or, as the case may be, the relevant Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 that the Issue and Paying Agent or, as the case may be, the relevant Registrar has received the required funds (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder). The amount of any such interest shall be calculated in accordance with the provisions of Condition 5.9 as if the Interest Rate was the Amortisation Yield, the Outstanding Principal Amount was the overdue sum and the Day Count Fraction was as specified for this purpose in the Final Terms or, if not so specified, 30E/360(as defined in Condition 5.10).

- 5.12 **Arrears of interest etc.**

Arrears of Interest

- (a) On any Optional Interest Payment Date (as defined in Condition 3. 2(b)(vi)) there may be paid (if the Issuer so elects) the interest in respect of Instruments accrued in the Interest Period ending on the day immediately preceding such date, but the Issuer shall not have any obligation to make such payment and any failure to pay shall not constitute a Violation for any purpose *provided that* nothing in this Condition 5.12 shall be construed to permit the Issuer to defer any interest otherwise due and payable on any Interest Payment Date except under the circumstances specified in the definition of Optional Interest Payment Date. Any interest in respect of the Instruments not paid on an Interest Payment Date, together with any other interest in respect thereof not paid on any other Interest Payment Date shall, so long as the same remains unpaid, constitute "**Arrears of Interest**". In addition, each amount of Arrears of Interest shall itself bear interest as if it were principal at a rate which corresponds to the rate of interest from time

to time applicable to the Instruments and the amount of such interest ("**Additional Interest Amount**") with respect to each amount of Arrears of Interest shall become due and payable pursuant to paragraph (iii) below and shall be calculated by the Issue and Paying Agent by applying the rate of interest to the amount of the Arrears of Interest and otherwise mutatis mutandis as provided in this Condition 5.12. The Additional Interest Amount accrued up to any Interest Payment Date shall be added, for the purpose only of calculating the Additional Interest Amount accruing thereafter, to the amount of Arrears of Interest remaining unpaid on such Interest Payment Date so that for such purpose it will be deemed to be Arrears of Interest.

Any reference in these Terms and Conditions to interest in respect of the Instruments shall be deemed to include Arrears of Interest and any Additional Interest Amounts, unless the context requires otherwise.

Payment of Arrears of Interest

- (b) Arrears of Interest (together with the corresponding Additional Interest Amount) shall be payable, in the case of Instruments in definitive form, against presentation or surrender, as the case may be, of the relevant Coupon or, in the case of Instruments represented by a global Instrument, against presentation or surrender, as the case may be, of such global Instrument, all in accordance with this Condition 5.12(b). Arrears of Interest (together with the corresponding Additional Interest Amount) may, at the option of the Issuer, be paid in whole or in part at any time but all Arrears of Interest (together with the corresponding Additional Interest Amount) in respect of all Instruments for the time being outstanding shall become due on whichever is the earliest of:
- (i) seven Business Days (as defined in Condition 5.10) following the date on which the Issuer next satisfies the Capital Adequacy Requirements *provided that* the Issuer shall be deemed not to have satisfied the Capital Adequacy Requirements if payment of such Arrears of Interest (together with the corresponding Additional Interest Amount) would result in a Breach;
 - (ii) the date on which the Instruments are to be redeemed pursuant to any provision of Condition 6; and
 - (iii) the commencement of a liquidation, administration, dissolution or other winding-up of the Issuer in the Kingdom of Norway.

If notice is given by the Issuer of its intention to pay the whole or any part of Arrears of Interest, the Issuer shall be obliged to do so (together with the corresponding Additional Interest Amount) upon the expiration of such notice.

In the event of any liquidation, administration, dissolution or other winding-up of the Issuer, the unpaid interest in respect of the Instruments, including any Arrears of Interest and any Additional Interest Amounts shall rank *pari passu* with the principal of the Instruments.

Notice of Interest Deferral and Payment of Arrears of Interest

- (c) The Issuer shall give not more than 14 nor less than five Business Days' (as defined in Condition 5.10) prior notice to the Issue and Paying Agent and to holders of Instruments in accordance with Condition 14:
- (i) of any Interest Payment Date on which, pursuant to the provisions of this Condition 5, interest will not be paid; and
 - (ii) of any date upon which amounts in respect of Arrears of Interest and/or Additional Interest Amounts shall become due and payable or of any date on which the Issuer shall otherwise elect to pay any such amounts.

Notice of any mandatory or optional payment of amounts in respect of Arrears of Interest and/or Additional Interest Amounts having been given by the Issuer in

accordance with paragraph (c)(ii) above, the Issuer shall be bound to make such payment to which such notice refers.

Partial Payment of Arrears of Interest

- (d) If amounts in respect of Arrears of Interest and Additional Interest Amounts become partially payable:
 - (i) all unpaid amounts of Arrears of Interest shall be payable before any Additional Interest Amounts;
 - (ii) Arrears of Interest accrued for any period shall not be payable until full payment has been made of all Arrears of Interest that have accrued during any earlier period and the order of payment of Additional Interest Amounts shall follow that of the Arrears of Interest to which they relate; and
 - (iii) the amount of Arrears of Interest or Additional Interest Amounts payable in respect of any Instrument shall be pro rata to the total amount of all unpaid Arrears of Interest or, as the case may be, Additional Amounts accrued to the date of payment.

6. Redemption and Purchase

Redemption at Maturity

- 6.1 Unless previously redeemed, or purchased and cancelled or unless such Instrument is stated in the Final Terms as having no fixed maturity date, each Instrument shall be redeemed at its maturity redemption amount (the "**Maturity Redemption Amount**") (which shall be its Outstanding Principal Amount or such other redemption amount as may be specified in or determined in accordance with the Final Terms) (or, in the case of Instalment Instruments, in such number of instalments and in such amounts ("**Instalment Amounts**") as may be specified in, or determined in accordance with the provisions of, the Final Terms) on the date or dates (or, in the case of Instruments which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the Final Terms.

Early Redemption for Taxation Reasons

- 6.2 If, in relation to any Series of Instruments, (i) as a result of any change in the laws, regulations or rulings of the Kingdom of Norway or of any political subdivision thereof or any authority or agency therein or thereof having power to tax or in the interpretation or administration of any such laws, regulations or rulings which is announced and which becomes effective on or after the date of issue of such Instruments or any other date specified in the Final Terms, the Issuer would be required to pay additional amounts as provided in Condition 8, (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it and (iii) such circumstances are evidenced by the delivery by the Issuer to the Issue and Paying Agent (or, in the case of VPS Instruments, the VPS Account Operator) of a certificate signed by two directors of the Issuer stating that the said circumstances prevail and describing the facts leading thereto and an opinion of independent legal advisers of recognised standing to the effect that such circumstances prevail, the Issuer may, at its option (but, in the case of Subordinated Instruments, subject to consent thereto having been obtained from the Commission) and in any case having given no less than 30 nor more than 60 days' notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable) to the Holders of the Instruments in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Instruments comprising the relevant Series at their early tax redemption amount (the "**Early Redemption Amount (Tax)**") (which shall be their Outstanding Principal Amount or, in the case of Instruments which are noninterest bearing, their Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest (if any) thereon Provided, however, that no such notice of redemption may be given earlier than 90 days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current interest period

applicable to the Instruments plus 60 days) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Instruments then due.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 6.6.

Optional Early Redemption (Call)

- 6.3 If this Condition 6.3 is specified in the Final Terms as being applicable, then the Issuer may (subject, in the case of Subordinated Instruments, to consent thereto having been obtained from the Commission) and having given the appropriate notice and subject to such conditions as may be specified in the Final Terms, redeem all (but not, unless and to the extent that the Final Terms specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the "**Early Redemption Amount (Call)**") (which shall be their Outstanding Principal Amount or, in the case of Instruments which are noninterest bearing, their Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest (if any) thereon on the date specified in such notice.

The Issuer may not exercise such option in respect of any Instrument which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Instrument under Condition 6.6.

- 6.4 The appropriate notice referred to in Condition 6.3 is a notice given by the Issuer to the Holders of the Instruments of the relevant Series in accordance with Condition 14, which notice shall be irrevocable and shall specify:

- the Series of Instruments subject to redemption;
- whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of and (except in the case of a Temporary Global Instrument or Permanent Global Instrument) the serial numbers of the Instruments of the relevant Series which are to be redeemed;
- the due date for such redemption, which shall be not less than thirty days nor more than sixty days after the date on which such notice is given and which shall be such date or the next of such dates ("**Call Option Date(s)**") or a day falling within such period ("**Call Option Period**"), as may be specified in the Final Terms and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable; and
- the early Redemption Amount (Call) at which such Instruments are to be redeemed.

Partial Redemption

- 6.5 If the Instruments of a Series are to be redeemed in part only on any date in accordance with Condition 6.3:

- in the case of Bearer Instruments, the Instruments to be redeemed shall be drawn by lot in such European city as the Issue and Paying Agent may specify, or identified in such other manner or in such other place as the Issue and Paying Agent may approve and deem appropriate and fair; and
- in the case of Registered Instruments or VPS Instruments, the Instruments shall be redeemed (so far as may be practicable) pro rata to their principal amounts, provided always that the amount redeemed in respect of each Instrument shall be equal to the minimum denomination thereof or an integral multiple thereof,

subject always to compliance with all applicable laws, the requirements of any stock exchange on which the relevant Instruments may be listed and, if applicable, the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and

Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or, in the case of VPS Instruments, the rules and procedures of the VPS.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.4 to 2.9 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

Optional Early Redemption (Put)

- 6.6 This Condition 6.6 shall only be applicable to Subordinated Instruments in the event that the prior consent thereto of the Commission has been obtained.

If this Condition 6.6 is specified in the Final Terms as being applicable, then the Issuer shall, upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the date specified in the relevant Put Notice (as defined below) at its put early redemption amount (the "**Early Redemption Amount (Put)**") (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with accrued interest (if any) thereon. In order to exercise such option, the Holder must, not less than forty-five days before the date on which such redemption is required to be made as specified in the Put Notice (which date shall be such date or the next of the dates ("**Put Date(s)**") or a day falling within such period ("**Put Period**") as may be specified in the Final Terms), deposit the relevant Instrument (together, in the case of an interest-bearing Instrument in bearer form, with all unmatured Coupons appertaining thereto other than any Coupon maturing on or before the date of redemption (failing which the provisions of Condition 9.1(f) apply)) during normal business hours at the specified office of, in the case of a Bearer Instrument, any Paying Agent or, in the case of a Registered Instrument, the relevant Registrar or any of the Transfer Agents together with a duly completed early redemption notice ("**Put Notice**") in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the relevant Registrar or any of the Transfer Agents specifying, in the case of a Registered Instrument, the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). No Instrument so deposited and option exercised may be withdrawn (except as provided in the Issue and Paying Agency Agreement).

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.4 to 2.9 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

The holder of an Instrument may not exercise such option in respect of any Instrument which is the subject of an exercise by the Issuer of its option to redeem such Instrument under either Condition 6.2 or 6.3.

In the case of VPS Instruments, to exercise the right to require redemption of the VPS Instruments, the holder of the VPS Instrument, must, within the notice period, give notice to the VPS Account Operator of such exercise in accordance with the rules and procedures of the VPS from time to time.

Purchase of Instruments

- 6.7 The Issuer may (but, in the case of Subordinated Instruments, subject to consent thereto having been obtained from the Commission) at any time purchase Instruments in the open market or otherwise and at any price *provided that* all unmatured Receipts and Coupons appertaining thereto are purchased therewith. If purchases are made by tender, tenders must be available to all Holders of Instruments alike.

Cancellation of Redeemed and Purchased Instruments

- 6.8 All unmatured Instruments and Coupons and unexchanged Talons redeemed or purchased in accordance with this Condition 6 may be cancelled, reissued or resold.

Further Provisions applicable to Redemption Amount and Instalment Amounts

- 6.9 The provisions of Condition 5.8 and the last paragraph of Condition 5.9 shall apply to any determination or calculation of the Redemption Amount or any Instalment Amount required by the Final Terms to be made by the Calculation Agent.
- 6.10 References herein to "**Redemption Amount**" shall mean, as appropriate, the Maturity Redemption Amount, the final Instalment Amount, Early Redemption Amount (Tax), Early Redemption Amount (Call), Early Redemption Amount (Put) and Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms.
- 6.11 In the case of any Instrument which is non-interest bearing, the "**Amortised Face Amount**" shall be an amount equal to the sum of:
- (a) the Issue Price specified in the Final Terms; and
 - (b) the product of the Amortisation Yield (compounded annually) being applied to the Issue Price from (and including) the Issue Date specified in the Final Terms to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Instrument becomes due and repayable.

Where such 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 shall be made on the basis of the Day Count Fraction (as defined in Condition 5.10) specified in the Final Terms for the purposes of this Condition 6.11.

- 6.12 In the case of any Instrument which is non-interest bearing, if any Redemption Amount (other than the Maturity Redemption Amount) is improperly withheld or refused or default is otherwise made in the payment thereof, the Amortised Face Amount shall be calculated as provided in Condition 6.11 but as if references in subparagraph (ii) to the date fixed for redemption or the date upon which such Instrument becomes due and repayable were replaced by references to the earlier of:
- (a) the date on which, upon due presentation or surrender of the relevant Instrument (if required), the relevant payment is made; and
 - (b) (except where presentation or surrender of the relevant Instrument is not required as a precondition of payment), the seventh day after the date on which, the Issue and Paying Agent or, as the case may be, the relevant Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 of that circumstance (except to the extent that there is a failure in the subsequent payment thereof to the relevant Holder).

7. Events of Default

7.1 Events of Default — Unsubordinated Instruments

- (a) This Condition 7.1 is applicable in relation to Unsubordinated Instruments only.
- (b) The following events or circumstances (each an "**Event of Default**") shall be acceleration events in relation to the Instruments of any Series, namely:
 - (i) the Issuer fails to pay any amount of principal or interest in respect of the Instruments of the relevant Series or any of them within ten days of the due date for payment thereof; or

- (ii) the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Instruments of the relevant Series or the Issue and Paying Agency Agreement and (except in any case where such default is incapable of remedy when no such continuation or notice, as is hereinafter mentioned, will be required) such default remains unremedied for 60 days after written notice requiring such default to be remedied has been delivered to the Issuer at the specified office of the Issue and Paying Agent by the Holder of any such Instrument; or
 - (iii) any Indebtedness of the Issuer becomes due and repayable prematurely by reason of an event of default (howsoever called) or the Issuer fails to make any payment in respect of any Indebtedness on the due date for payment as extended by any applicable grace period or any security given by the Issuer for any Indebtedness for borrowed money becomes enforceable or if default is made by the Issuer in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness of any other person in an aggregate amount of at least euro 20,000,000 (or its equivalent in any other currency or currencies); or
 - (iv) a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer; or
 - (v) (a) the Issuer is found insolvent or suspends its payments, (b) an administrator or liquidator of the Issuer or the whole or a substantial part of the undertaking, assets and revenues of the Issuer is appointed, (c) the Issuer takes any action for a readjustment and deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or (d) the Issuer ceases to carry on all or any substantial part of its business (other than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
 - (vi) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer; or
 - (vii) any action, condition or thing at any time required to be taken, fulfilled or done in order (a) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Instruments, (b) to ensure that those obligations are legal, valid, binding and enforceable and (c) to make the Instruments and the Coupons admissible in evidence in the courts of the Kingdom of Norway is not taken, fulfilled or done; or
 - (viii) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Instruments.
- (c) If any Event of Default shall occur and be continuing in relation to any Series of Instruments, any Holder of an Instrument of the relevant Series may, by written notice to the Issuer, at the specified office of the Issue and Paying Agent (or, in the case of VPS Instruments, the VPS Account Operator located in Norway), declare that such Instrument and (if the Instrument is interest-bearing) all interest then accrued on such Instrument shall be forthwith due and payable, whereupon the same shall become immediately due and payable at its early termination amount (the "**Early Termination Amount**") (which shall be its Outstanding Principal Amount or, if such Instrument is non-interest bearing, its Amortised Face Amount (as defined in Condition 6.11) or such other redemption amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with all interest (if any) accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Instruments to the contrary notwithstanding, unless, prior thereto, all Events of Default in respect of the Instruments of the relevant Series shall have been cured.

7.2 Events of Default — Subordinated Instruments

- (a) This Condition 7.2 is applicable in relation to Subordinated Instruments only.
- (b) There will be no Events of Default in relation to Subordinated Instruments.

8. Taxation

8.1 All amounts payable (whether in respect of principal, interest or otherwise) in respect of the Instruments will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Kingdom of Norway or any political subdivision thereof or any authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts receivable by the Holder after such withholding or deduction shall equal the respective amounts which would have been receivable by such Holder in the absence of such withholding or deduction; except that no such additional amounts shall be payable in relation to any payment in respect of any Instrument or Coupon:

- (a) to, or to a third party on behalf of, a person who is liable to such taxes, duties, assessments or governmental charges in respect of such Instrument or Coupon by reason of his having some connection with the Kingdom of Norway other than (a) the mere holding of such Instrument or Coupon or (b) the receipt of principal, interest or other amount in respect of such Instrument or Coupon; or
- (b) presented for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts on presenting the same for payment on or before the expiry of such period of thirty days; or
- (c) presented for payment in the Kingdom of Norway; or
- (d) where such withholding or deduction is imposed on a payment to an individual or a residual entity within the meaning of the EU Savings Directive and is required to be made pursuant to (i) European Council Directive 2003/48/EC (the "**EU Savings Directive**") or any law implementing or complying with, or introduced in order to conform to, such Directive (ii) the law of 23 December 2005 introducing a 10 per cent. final withholding tax as regards Luxembourg resident individuals acting in the context of the management of their private wealth and (iii) the agreements on savings income concluded by the State of Luxembourg with several dependant or associated territories of the EU (being Jersey, Guernsey, the Isle of Man, the British Virgin Islands, Montserrat, the Dutch Antilles and Aruba); or
- (e) in respect of any Instrument presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Instrument to another Paying Agent in a Member State of the EU.

The Issuer shall be permitted to withhold or deduct any amounts required by the rules of U.S. Internal Revenue Code Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any inter-governmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the U.S. Internal Revenue Service ("**FATCA withholding**") as a result of a holder, beneficial owner or an intermediary that is not an agent of the Issuer not being entitled to receive payments free of FATCA withholding. The Issuer shall not be liable for, or otherwise obliged to pay, any such FATCA withholding deducted or withheld by the Issuer, any paying agent or any other party.

8.2 For the purposes of these Terms and Conditions, the "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the Issue and Paying Agent, or as the case may be, the Registrar or, in the case of VPS Instruments, the VPS Account Operator on or prior to such due date, it means the first date on which, the full amount of such moneys having been so

received and being available for payment to Holders, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 14.

8.3 If the Issuer becomes subject generally at any time to any taxing jurisdiction other than the Kingdom of Norway references in Condition 6.2 and Condition 8.1 to the Kingdom of Norway shall be read and construed as references to the Kingdom of Norway and/or to such other jurisdiction(s).

8.4 Any reference in these Terms and Conditions to "principal" and/or "interest" in respect of the Instruments shall be deemed also to refer to any additional amounts which may be payable under this Condition 8. Unless the context otherwise requires, any reference in these Terms and Conditions to "principal" shall include any premium payable in respect of an Instrument, any Instalment Amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Terms and Conditions and "interest" shall include all amounts payable pursuant to Condition 5 and any other amounts in the nature of interest payable pursuant to these Terms and Conditions.

9. **Payments**

9.1 **Payments — Bearer Instruments**

- (a) This Condition 9.1 is applicable in relation to Instruments in bearer form.
- (b) Payment of amounts (other than interest) due in respect of Bearer Instruments will be made against presentation and (save in the case of partial payment or payment of an Instalment Amount (other than the final Instalment Amount)) surrender of the relevant Bearer Instruments at the specified office of any of the Paying Agents.

Payment of Instalment Amounts (other than the final Instalment Amount) in respect of an Instalment Instrument which is a Definitive Instrument with Receipts will be made against presentation of the Instrument together with (where applicable) the relevant Receipt and surrender of such Receipt.

The Receipts are not and shall not in any circumstances be deemed to be documents of title and if separated from the Instrument to which they relate will not represent any obligation of the Issuer.

Accordingly, the presentation of an Instrument without the relative Receipt or the presentation of a Receipt without the Instrument to which it appertains shall not entitle the Holder to any payment in respect of the relevant Instalment Amount.

- (c) Payment of amounts in respect of interest on Bearer Instruments will be made:
 - (i) in the case of Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Instruments at the specified office of any of the Paying Agents outside (unless Condition 9.1(d) applies) the United States; and
 - (ii) in the case of Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Instruments, in either case at the specified office of any of the Paying Agents outside (unless Condition 9.1(d) applies) the United States.
- (d) U.S. dollar payments of principal and interest in respect of Bearer Instruments will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:
 - (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to

make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Instruments in the manner provided above when due;

- (ii) payment of the full amount of such interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
 - (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.
- (e) If the due date for payment of any amount due in respect of any Instrument is not a Relevant Financial Centre Day and a Local Banking Day (each as defined in Condition 9.4(c)), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day (or as otherwise specified in the Final Terms) and from such day and thereafter will be entitled to receive payment by cheque on any Local Banking Day, and will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such delay or adjustment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.7 or, if appropriate, Condition 5.11.
- (f) Each Instrument initially delivered with Coupons, Talons or Receipts attached thereto should be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Receipts, Coupons and Talons relating thereto, failing which:
- (i) if the Final Terms specifies that this paragraph (i) of Condition 9.1(f) is applicable (and, in the absence of specification, this paragraph (i) shall apply to Instruments which bear interest at a fixed rate or rates or in fixed amounts) and subject as hereinafter provided, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the total Redemption Amount due) (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such Redemption Amount;
 - (ii) if the Final Terms specifies that this paragraph (ii) of Condition 9.1(f) is applicable (and, in the absence of specification, this paragraph (ii) shall apply to Instruments which bear interest at a floating rate or rates or in variable amounts) all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them;
 - (iii) in the case of Instruments initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them; and
 - (iv) in the case of Instruments initially delivered with Receipts attached thereto, all Receipts relating to such Instruments in respect of a payment of an Instalment Amount which (but for such redemption) would have fallen due on a date after such due date for redemption (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 9.1(f) notwithstanding, if any Instruments should be issued with a maturity date and an Interest Rate or Rates such that, on the presentation for payment of any such Instrument without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) to be deducted would be greater than the Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Instrument, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the Redemption Amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to an Instrument to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

- (g) In relation to Instruments initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 9.1(f) applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 below. Each Talon shall, for the purpose of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

9.2 Payments — Registered Instruments

- (a) This Condition 9.2 is applicable in relation to Registered Instruments.
- (b) Payment of the Redemption Amount (together with accrued interest) due in respect of Registered Instruments (whether or not in global form) will be made against presentation and, save in the case of partial payment of the Redemption Amount, surrender of the relevant Registered Instruments at the specified office of the relevant Registrar. If the due date for payment of the Redemption Amount of any Registered Instrument is not a Relevant Financial Centre Day (as defined in Condition 9.4(c)), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day, and from such day and thereafter will be entitled to receive payment by cheque on any Local Banking Day, and, will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.7 or, as appropriate, Condition 5.11.
- (c) Payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the relevant Registrar as at opening of business (local time in the place of the specified office of the relevant Registrar) on the fifteenth Relevant Banking Day (as defined in Condition 2.9) before the due date for such payment (the "**Record Date**").
- (d) Notwithstanding the provisions of Condition 9.4(b), payment of amounts (whether principal, interest or otherwise) due (other than the Redemption Amount) in respect of Registered Instruments (whether or not in global form) will be made in the currency in which such amount is due by cheque and posted to the address (as recorded in the register held by the relevant Registrar) of the Holder thereof (or, in the case of joint Holders, the first-named) on the Relevant Banking Day (as defined in Condition 2.9) not later than the relevant due date for payment unless prior to the relevant Record Date the Holder thereof (or, in the case of joint Holders, the first-named) has applied to the relevant Registrar or any of the Transfer Agents and the relevant Registrar or the Transfer Agents has acknowledged such application for payment to be made to a

designated account denominated in the relevant currency in which case payment shall be made on the relevant due date for payment by transfer to such account. In the case of payment by transfer to an account, if the due date for any such payment is not a Relevant Financial Centre Day, then the Holder thereof will not be entitled to payment thereof until the first day thereafter which is a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5.7 or, as appropriate, Condition 5.11.

- (e) All amounts payable to DTC or its nominee as registered holder of a Global Registered Instrument in respect of Instruments denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Issuer or Issue and Paying Agent to an account in the relevant Specified Currency of the Foreign Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency for conversion into U.S. dollars in accordance with the provisions of the Issue and Paying Agency Agreement. None of the Issuer or the Paying Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Registered Instruments or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

9.3 **Payments — VPS Instruments**

Payments of principal and interest in respect of VPS Instruments will be made to the Holders of such VPS Instruments shown in the records of the VPS in accordance with and subject to the rules and procedures from time to time governing the VPS.

9.4 **Payments — General Provisions**

- (a) Save as otherwise specified in these Terms and Conditions, this Condition 9.4 is applicable in relation to Bearer Instruments, Registered Instruments and VPS Instruments.
- (b) Payments of amounts due (whether principal, interest or otherwise) in respect of Instruments will be made in the currency in which such amount is due (a) by cheque or (b) at the option of the payee, by transfer to an account denominated in the relevant currency specified by the payee. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations.
- (c) For the purposes of these Terms and Conditions:
 - (i) **"Relevant Financial Centre Day"** means, in the case of any currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre and in any other Relevant Financial Centre specified in the Final Terms or, in the case of payment in euro, a day on which the TARGET System is operating or, in the case of any payment in respect of a Global Registered Instrument denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Global Registered Instrument) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City; and
 - (ii) **"Local Banking Day"** means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place of presentation of the relevant Instrument or, as the case may be, Coupon.
- (d) No commissions or expenses shall be charged to the holders of Instruments or Coupons in respect of such payments.

10. **Prescription**

10.1 Claims against the Issuer for payment of principal and interest in respect of Instruments will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after the Relevant Date (as defined in Condition 8.2) for payment thereof.

10.2 In relation to Definitive Bearer Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9.1(f) or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 10 or any Talon the maturity date of which would fall after the due date for redemption of the relevant Instrument.

11. **The Paying Agents, the Foreign Exchange Agent, the Registrars, the Transfer Agents and the Calculation Agent**

11.1 The initial Paying Agents, the Foreign Exchange Agent, Registrars and the Transfer Agents and their respective initial specified offices are specified below. The Calculation Agent in respect of any Instruments shall be specified in the Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Issue and Paying Agent), the Foreign Exchange Agent, the Registrar, the VPS Account Operator, the Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents or another Registrar, Foreign Exchange Agent, VPS Account Operator, Transfer Agent or Calculation Agent *provided that* it will at all times maintain (i) an Issue and Paying Agent, (ii) in the case of Registered Instruments or VPS Instruments, a Registrar, (iii) in the case of VPS Instruments, a VPS Account Operator, (iv) a Paying Agent (which may be the Issue and Paying Agent) with a specified office in a continental European city, (v) in the circumstances described in Condition 9.1(d), a Paying Agent with a specified office in New York City, (vi) a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, such Directive (vii) for so long as any of the Global Registered Instruments payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be a Foreign Exchange Agent and (viii) a Calculation Agent where required by the Terms and Conditions applicable to any Instruments (in the case of (i), (ii), (iii), (vi) and (viii) with a specified office located in such place (if any) as may be required by the Terms and Conditions). The Paying Agents, the Foreign Exchange Agent, the Registrars, the VPS Account Operator, the Transfer Agents and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of any Paying Agent, the Foreign Exchange Agent, the Registrars, the VPS Account Operator, the Transfer Agents or the Calculation Agent will be given promptly by the Issuer to the Holders in accordance with Condition 14.

11.2 The Paying Agents, the Foreign Exchange Agent, the Registrars, the VPS Account Operator, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and, save as provided in the Issue and Paying Agency Agreement, the VPS Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument, Receipt or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Issue and Paying Agency Agreement, the VPS Agreement or other agreement entered into with respect to its appointment or incidental thereto.

12. **Replacement of Instruments**

If any Instrument, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Issue and Paying Agent or such Paying Agent or Paying Agents as may be specified for such purpose in the Final Terms (in the case of Bearer Instruments and Coupons) or of the relevant Registrar or any of the Transfer Agents (in the case of Registered Instruments) ("**Replacement Agent**"), subject to all applicable laws and the requirements of any stock exchange on which the Instruments are listed, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Replacement Agent may

require. Mutilated or defaced Instruments, Receipts and Coupons must be surrendered before replacements will be delivered therefore.

13. **Meetings of Holders and Modification**

The Issue and Paying Agency Agreement contains provisions (which shall have effect as if incorporated herein) for convening meetings of the Holders of Instruments of any Series to consider any matter affecting their interest, including (without limitation) the modification by Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of these Terms and Conditions and the Deed of Covenant insofar as the same may apply to such Instruments. An Extraordinary Resolution passed at any meeting of the Holders of Instruments of any Series will be binding on all Holders of the Instruments of such Series, whether or not they are present at the meeting, and on all Holders of Coupons relating to Instruments of such Series.

The Issuer may, with the consent of the Issue and Paying Agent, or the VPS Account Operator, as the case may be, but without the consent of the Holders of the Instruments of any Series or Coupons, amend these Terms and Conditions and the Deed of Covenant insofar as they may apply to such Instruments to correct a manifest error. Subject as aforesaid, no other modification may be made to these Terms and Conditions or the Deed of Covenant except with the sanction of an Extraordinary Resolution.

14. **Notices**

To Holders of Bearer Instruments

- 14.1 Notices to Holders of Bearer Instruments will, save where another means of effective communication has been specified herein or in the Final Terms, be deemed to be validly given if (i) published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) and (ii) in the case of any Instruments which are admitted to trading on the regulated market of the Luxembourg Stock Exchange (so long as such Instruments are admitted to trading on the regulated market of the Luxembourg Stock Exchange and the rules of that exchange so require), in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or, in either case, if such publication is not practicable, published in a leading English language daily newspaper having general circulation in Europe. The Issuer shall also ensure that notices are duly published in compliance with the requirements of each stock exchange on which the Instruments are listed. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition 14.

To Holders of Registered Instruments

- 14.2 Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the relevant Registrar) at their respective addresses as recorded in the register kept by the relevant Registrar, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day. With respect to Registered Instruments admitted to trading on the regulated market of the Luxembourg Stock Exchange, any notices to holders must also be published in a Luxembourg newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) and, in addition to the foregoing, will be deemed validly given only after the date of such publication.

To Holders of VPS Instruments

- 14.3 Notices to Holders of VPS Instruments will be deemed to be validly given if given in accordance with the rules and procedures of the VPS.

15. **Further Issues**

The Issuer may from time to time, without the consent of the Holders of any Instruments or Coupons, create and issue further instruments, bonds or debentures having the same terms and conditions as such Instruments in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) so as to form a single series with the Instruments of any particular Series even if further Instruments have original issue discount for U.S. federal income tax purposes and even if doing so may adversely affect the value of the original Instruments.

16. **Currency Indemnity**

The currency in which the Instruments are denominated or, if different, payable, as specified in the Final Terms (the "**Contractual Currency**"), is the sole currency of account and payment for all sums payable by the Issuer in respect of the Instruments, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Holder of an Instrument or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of an Instrument or Coupon in respect of such Instrument or Coupon the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of an Instrument or Coupon and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Instruments or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder of an Instrument or Coupon and no proof or evidence of any actual loss will be required by the Issuer.

17. **Waiver and Remedies**

No failure to exercise, and no delay in exercising, on the part of the Holder of any Instrument, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

18. **Rights of Third Parties**

A person who is not a Holder of an Instrument or Coupon has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Instrument or Coupon.

19. **Law and Jurisdiction**

19.1 The Instruments, the Issue and Paying Agency Agreement, the Deed of Covenant and any non-contractual obligations arising out of or in connection with them are governed by English law except for Condition 3.2 which shall be governed by Norwegian law. VPS Instruments must comply with the Norwegian Securities Register Act of 5 July 2002 no. 64, as amended from time to time and the holders of VPS Instruments will be entitled to the rights and are subject to the obligations and liabilities which arise under this Act and any related regulations and legislation.

19.2 The Issuer irrevocably agrees for the benefit of the Holders of the Instruments that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Instruments (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

- 19.3 The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum.
- 19.4 The Issuer agrees that the process by which any proceedings in England are begun may be served on it by being delivered to the Royal Norwegian Embassy at Belgrave Square, London SW1X 8QO or, if different, its registered office for the time being or any address of the Issuer in Great Britain on which process may be served on it in accordance with the Companies Act 2006. If the appointment of the person mentioned in this Condition 19.4 ceases to be effective, the Issuer shall forthwith appoint a further person in England to accept service of process on its behalf in England and notify the name and address of such person to the Issue and Paying Agent and, failing such appointment within fifteen days, any Holder of an Instrument shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Issue and Paying Agent. Nothing contained herein shall affect the right of any Holder of an Instrument to serve process in any other manner permitted by law.
- 19.5 The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Holders of the Instruments or any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.
- 19.6 The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.
- 19.7 To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

PROVISIONS RELATING TO THE INSTRUMENTS WHILST IN GLOBAL FORM

(A) *Relationship of Accountholders with Clearing Systems*

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system as the holder of an Instrument represented by a Global Instrument must look solely to Euroclear, Clearstream, Luxembourg, DTC or such other clearing system (as the case may be) for such person's share of each payment made by the Issuer to the bearer of such Global Instrument (or the registered holder of the Global Registered Instrument, as the case may be), and in relation to all other rights arising under the Global Instruments, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such clearing system (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Instruments for so long as the Instruments are represented by such Global Instrument or Global Registered Instrument and such obligations of the Issuer will be discharged by payment to the bearer of such Global Instrument (or the registered holder of the Global Registered Instrument, as the case may be), in respect of each amount so paid. References in these provisions relating to the Instruments in global form to "**holder**" or "**accountholder**" are to those persons shown in the records of the relevant clearing system as a holder of an Instrument.

(B) *Form and Exchange - Bearer Global Instruments*

- (1) *TEFRA D or TEFRA C*: The Final Terms shall specify whether U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") or U.S. Treasury Regulation § 1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") shall apply. Each Tranche of Bearer Instruments is represented upon issue by a Temporary Global Instrument, unless the Final Terms specifies otherwise and the TEFRA C Rules apply.

Where the Final Terms applicable to a Tranche of Bearer Instruments specifies that TEFRA is not applicable or that the TEFRA C Rules apply, such Tranche is (unless otherwise specified in the Final Terms) represented upon issue by a Permanent Global Instrument.

Interests in a Temporary Global Instrument may be exchanged for:

- (i) interests in a Permanent Global Instrument; or
- (ii) if so specified in the Final Terms, Definitive Bearer Instruments and/or (if so specified in the Final Terms) Registered Instruments.

Exchanges of interests in a Temporary Global Instrument for Definitive Bearer Instruments or, as the case may be, a Permanent Global Instrument will be made only on or after the Exchange Date (as specified in the Final Terms) and (unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments or TEFRA does not apply) provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received. An exchange for Registered Instruments will be made at any time or from such date as may be specified in the Final Terms, in each case, without any requirement for certification.

Whenever any interest in a Temporary Global Instrument is to be exchanged for an interest in a Permanent Global Instrument, the Issuer shall procure:

- (i) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Instrument, duly authenticated and, in the case of an NGI, effectuated, to the bearer of the Temporary Global Instrument; or
- (ii) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Instrument in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Issue and Paying Agent against, in the case of a CGI, presentation and (in the case of final exchange) surrender of the Temporary Global Instrument at the specified office of the Issue and Paying Agent or, in the case of partial exchange of an NGI, confirmation from the common service provider that Euroclear and Clearstream, Luxembourg have made appropriate entries in their records to reflect the relevant exchange and, in the case of final exchange of an NGI, surrender of the Temporary Global Instrument at the specified office of the Issue and Paying Agent or destruction of the Temporary Global Instrument by the common safekeeper in accordance with the Agency Agreement, in any such case within 7 days of the bearer requesting such exchange.

- (2) *Limitation on entitlement under a Temporary Global Instrument after Exchange Date:* Holders of interests in any Temporary Global Instrument shall not (unless, upon due presentation of such Temporary Global Instrument for exchange (in whole but not in part only) for a Permanent Global Instrument or for delivery of Definitive Bearer Instruments and/or Registered Instruments, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Instruments represented by such Temporary Global Instrument which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.
- (3) *Certification of non-U.S. beneficial ownership:* Unless the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments or that TEFRA does not apply and subject to paragraph (2) above, if any date on which a payment of interest is due on the Instruments of a Tranche occurs whilst any of the Instruments of that Tranche are represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received. Payments of amounts due in respect of a Permanent Global Instrument or (subject to paragraph (2) above) a Temporary Global Instrument (if the Final Terms specifies that the TEFRA C Rules are applicable to the Instruments or that TEFRA does not apply) will be made through Euroclear or Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.
- (4) *Exchange for Definitive Bearer Instruments:* Interests in a Permanent Global Instrument will be exchanged (subject to the period allowed for delivery as set out in (i) below), in whole but not in part only and at the request of the Holder of such Global Instrument, for Definitive Bearer Instruments and/or (if so specified in the Final Terms) Registered Instruments, (a) if Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 7 occurs or, (c) at any time on the request of the bearer, if so specified in the Final Terms. Whenever a Permanent Global Instrument is to be exchanged for Definitive Bearer Instruments and/or Registered Instruments, the Issuer shall procure the prompt delivery of such Definitive Bearer Instruments and/or Registered Instruments, duly authenticated and where and to the extent applicable, with Receipts, Coupons and Talons attached (each as defined in Condition 1.2 and Condition 1.3), in an aggregate principal amount equal to the principal amount of such Permanent Global Instrument to the Holder of the Permanent Global Instrument against its surrender at the specified office of the Issue and Paying Agent within 30 days of the Holder requesting such exchange. Furthermore, if,
 - (i) Definitive Bearer Instruments have not been delivered in accordance with the foregoing by 5.00 p.m. (London time) on the thirtieth day after the Holder has requested exchange, or

- (ii) the Permanent Global Instrument (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Permanent Global Instrument has occurred and, in either case, payment in full of the amount of the Redemption Amount (as defined in Condition 6.10) together with all accrued interest thereon has not been made to the Holder in accordance with the Conditions on the due date for payment, then such Permanent Global Instrument (including the obligation to deliver Definitive and/or Registered Instruments) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (i) above) or at 5.00 p.m. (London time) on such due date (in the case of (ii) above) and the Holder of the Permanent Global Instrument will have no further rights thereunder (but without prejudice to the rights which the such Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system as being entitled to interests in the Instruments will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Instrument became void, they had been the Holders of Definitive Bearer Instruments in an aggregate principal amount equal to the principal amount of Instruments they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg or other relevant clearing system (as the case may be).

(C) *Form and Exchange — Global Registered Instruments*

- (1) *Global Registered Instrument:* The Regulation S Instruments of each Tranche will initially be represented by a Regulation S Global Instrument and the Rule 144A Instruments will initially be represented by a Rule 144A Global Instrument. On the relevant issue date, Global Registered Instruments will be (i) registered in the name of, and deposited with, a common depositary on behalf of Euroclear and Clearstream, Luxembourg; and/or, (ii) registered in the name of Cede & Co. as nominee for, and deposited with a custodian for, DTC; and/or (iii) registered and deposited with any other agreed clearing system, as specified in the applicable Final Terms.

By acquisition of beneficial interests in the Regulation S Global Instrument, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S and that it will only offer, sell, pledge or otherwise transfer such beneficial interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. By acquisition of a beneficial interest in the Rule 144A Global Instrument, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A Global Instrument. See "*Transfer Restrictions*".

- (2) *Exchange:* Each Global Registered Instrument will become exchangeable in whole, but not in part, for Definitive Registered Instruments if (a) (in the case of a Regulation S Global Instrument deposited with Euroclear or Clearstream, Luxembourg) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, (b) (in the case of a Rule 144A Global Instrument deposited with DTC) if (A) the Issuer has been notified that DTC is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Registered Instrument or (B) ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such and, in each case, the Issuer is unable to locate and appoint a qualified successor within 90 days of receiving such notice, (c) any of the circumstances described in Condition 7 occurs, or (d) at any time at the request of the registered Holder if so specified in the Final Terms.
- (3) *Transfer:* Interests in a Global Registered Instrument may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Global Registered Instrument. No beneficial owner of an interest in a Global

Registered Instrument will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC to the extent applicable. Registered Instruments are also subject to the restrictions on transfer and will bear a legend regarding such restrictions. See "*Subscription and Sale*" and "*Transfer Restrictions*".

No beneficial interest in the Regulation S Global Instrument may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Instrument unless (i) the transfer is to person that is a QIB and that is also a QP, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Issue and Paying Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Rule 144A Global Instrument may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Instrument unless the transfer is to a non-U.S. person in an offshore transaction in reliance on Regulation S and the transferor provides the relevant Registrar with a written certification substantially in the form set out in the Issue and Paying Agency Agreement to the effect that the transfer is being made to a person who is not a U.S. person in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Instrument that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Instrument will, upon transfer, cease to be an interest in the Regulation S Global Instrument and become an interest in the Rule 144A Global Instrument, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Instrument for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Instrument that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Instrument will, upon transfer, cease to be an interest in the Rule 144A Global Instrument and become an interest in the Regulation S Global Instrument and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Instrument for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of such Global Registered Instruments, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

- (4) *Payments:* Payments of principal, interest and any other amount in respect of the Global Registered Instruments will, in the absence of provision to the contrary, be made to the common depositary for Euroclear and Clearstream, Luxembourg and/or the nominee of DTC, as the case may be, as the registered holders of the Global Registered Instruments. None of the Issuer, the Issuing and Principal Paying Agent, the other Paying Agents or the Registrars will have any responsibility or liability for an aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Registered Instruments or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Definitive Registered Instruments will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 9.2(c)) immediately preceding the due date for payment in the manner provided in that Condition.

Whenever a Global Registered Instrument is to be exchanged for Definitive Registered Instruments, such Definitive Registered Instruments will be issued in an aggregate principal amount equal to the principal Definitive amount of such Global Registered Instrument within five business days of the delivery, by or on behalf of the registered Holder of the Global Registered Instrument, Euroclear and/or Clearstream, Luxembourg and/or DTC to the relevant Registrar of such information as is required to complete and deliver such Definitive Registered

Instruments (including, without limitation, the names and addresses of the persons in whose names the Definitive Registered Instruments are to be registered and the principal amount of each such person's holding) against the surrender of such Global Registered Instrument at the Specified Office of the relevant Registrar. Such exchange will be effected in accordance with the provisions of the Issue and Paying Agency Agreement and the regulations concerning the transfer and registration of Instruments scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the relevant Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If (a) Definitive Registered Instruments have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of a Global Registered Instrument or (b) any of the Instruments evidenced by the Global Registered Instrument have become due and payable in accordance with the Conditions or the date for final redemption of the Instruments has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of such Global Registered Instrument on the due date for payment in accordance with the terms of such Global Registered Instrument, then the Global Registered Instrument (including the obligation to deliver Definitive Registered Instruments) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the Holder will have no further rights thereunder (but without prejudice to the rights which the Holder or others may have under the Deed of Covenant). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg (or other relevant clearing system) as being entitled to interests in the Instruments will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Instrument became void, they had been the registered Holders of Instruments in an aggregate principal amount equal to the principal amount of Instruments they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or other relevant clearing system (as the case may be).

(D) *Amendment to Conditions*

The Temporary Global Instruments, Permanent Global Instruments and Global Registered Instruments contain provisions that apply to the Instruments that they represent, some of which modify the effect of the Terms and Conditions of the Instruments set out in this Base Prospectus. The following is a summary of certain of those provisions:

- (1) *Meetings:* The holder of a Permanent Global Instrument or of the Instruments represented by a Global Registered Instrument shall (unless such Permanent Global Instrument or Global Registered Instrument represents only one Instrument) be treated as being two persons for the purposes of any quorum requirements of a meeting of holders and, at any such meeting, the holder of a Permanent Global Instrument shall be treated as having one vote in respect of each minimum Denomination of Instruments for which such Global Instrument may be exchanged. (All holders of Registered Instruments are entitled to one vote in respect of each Instrument comprising such holder's holding, whether or not represented by a Global Registered Instrument).
- (2) *Cancellation:* Cancellation of any Instrument represented by a Permanent Global Instrument that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Permanent Global Instrument.
- (3) *Purchase:* Instruments represented by a Permanent Global Instrument may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.
- (4) *Issuer's Options:* Any option of the Issuer provided for in the Conditions of the Instruments while such Instruments are represented by a Permanent Global Instrument or a Global Registered Instrument shall be exercised by the Issuer giving notice to the holders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of

Instruments drawn in the case of a partial exercise of an option and accordingly no drawing of Instruments shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Instruments of any Series, the rights of accountholders with a clearing system in respect of the Instruments will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

- (5) *Holder's Options:* Any option of the holders provided for in the Conditions of any Instruments while such Instruments are represented by a Permanent Global Instrument or a Global Registered Instrument may be exercised by the Holder of such Permanent Global Instrument or Global Registered Instrument, giving notice to the Issue and Paying Agent within the time limits relating to the deposit of Instruments with a Paying Agent or the Registrar, in the case of a Global Registered Instrument substantially in the form of the notice available from any Paying Agent (or the Registrar, in the case of a Global Registered Instrument), except that the notice shall not be required to contain the serial numbers of the Instruments in respect of which the option has been exercised, and stating the principal amount of Instruments in respect of which the option is exercised and at the same time presenting for notation the Permanent Global Instrument or the Global Registered Instrument to the Issue and Paying Agent, or to a Paying Agent acting on behalf of the Issue and Paying Agent, (or the Registrar, in the case of a Global Registered Instrument).
- (6) *Notices:* So long as any Instruments are represented by a Permanent Global Instrument or Global Registered Instrument and such Permanent Global Instrument or Global Registered Instrument is held on behalf of a clearing system, notices to the holders of Instruments of that Series may be given by delivery of the relevant notice to the clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the Holder of the Permanent Global Instrument or Global Registered Instrument and, in any case, such notices shall be deemed to have been given to the Holders in accordance with the Conditions on the day after the day on which such notice was delivered to Euroclear and/or Clearstream, Luxembourg and/or DTC and/or any other relevant clearing system except that so long as the Instruments are admitted to trading on the regulated market of the Luxembourg Stock Exchange and the rules of that exchange so require, notice shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu).
- (7) *Record Date:* Each payment in respect of a Global Registered Instrument will be made to the person shown as the Holder in the relevant Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.
- (8) *Payments:* In the case of any payments in respect of a Temporary Global Instrument, Permanent Global Instrument or Global Registered Instrument, references in the Terms and Conditions to presentation and surrender of an Instrument will be to presentation and surrender of the Temporary Global Instrument, Permanent Global Instrument or Global Registered Instrument, as the case may be, and the relevant payment date shall be a day which is a Relevant Financial Centre Day.

(E) *Partly Paid Instruments*

While any Partly Paid Instalments due from the holder of Partly Paid Instruments are overdue, no interest in a Permanent Global Instruments or Global Registered Instrument representing such Instruments may be exchanged for an interest in a Permanent Global Instrument or for Definitive Bearer Instruments or a Registered Instrument (as the case may be). If any holder fails to pay any instalment due on any Partly Paid Instruments within the time specified, the Issuer may forfeit such Instruments and shall have no further obligation to such holder in respect of them.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Instruments will be substantially in the following form, duly amended (if necessary) and completed to reflect the particular terms of the relevant Instruments and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [•]

KOMMUNALBANKEN AS

Issue of

[Aggregate Principal Amount of Tranche]

[Title of Instruments]

UNDER THE PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 18 April 2012 [and the supplement to the Base Prospectus dated [•] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC, as amended) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and the supplement to the Base Prospectus] [is] [are] available for viewing at Kommunalbanken AS, Haakon VIIs gate 5b, 0110 Oslo, Norway and Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, and the website of the Luxembourg Stock Exchange (www.bourse.lu) and copies may be obtained from Kommunalbanken AS, Haakon VIIs gate 5b, 0110 Oslo, Norway and Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated [•]] (and incorporated by reference in the Base Prospectus dated 18 April 2012). This document constitutes the Final Terms of the Instruments described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC, as amended) (the "**Prospectus Directive**") and, save in respect of the Conditions, must be read in conjunction with the Base Prospectus dated 18 April 2012 [and the supplement to the Base Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Instruments is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and 18 April 2012 [and the supplement to the Base Prospectuses dated [•] and [•]]. The Base Prospectuses [and the supplement to the Base Prospectuses] are available for viewing at Kommunalbanken AS, Haakon VIIs gate 5b, 0110 Oslo, Norway and Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, and the website of the Luxembourg Stock Exchange (www.bourse.lu) and copies may be obtained from Kommunalbanken AS, Haakon VIIs gate 5b, 0110 Oslo, Norway and Deutsche Bank AG, London Branch, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

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

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

1. Issuer: Kommunalbanken AS
2. [(i)] Series Number: []
 [(ii)] Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible.)
3. Specified Currency or Currencies: []
4. Aggregate Principal Amount: []
 [(i)] Series: []
 [(ii)] Tranche: []
5. Issue Price: [] per cent. of the Aggregate Principal Amount
 [plus accrued interest from *[insert date]* (if applicable)]
6. (i) Specified Denominations: []
[No instruments may be issued under the Programme with a Specified Denomination of less than EUR 1,000 (or equivalent in another currency) and, in the case of Rule 144A Instruments and any Instruments issued as part of a Tranche of Instruments that contain both Regulation S and Rule 144A Instruments, at least U.S.\$100,000 (or equivalent in another currency).]
 (ii) Calculation Amount: []
7. (i) Issue Date: []
 (ii) Interest Commencement Date: *[Specify/Issue Date/Not Applicable]*
8. Maturity Date: *[Specify date or (for Floating Rate Instruments) Interest Payment Date falling in or nearest to the relevant month and year]*
[Instruments (including Instruments denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).]
9. Interest Basis: *[[•] per cent. Fixed Rate]*
[[specify reference rate] +/- [•] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Other (specify)]

(further particulars specified below)

10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency]
[Partly Paid]
[Instalment]
[Other (*specify*)]
11. Change of Interest or Redemption/
Payment Basis: [*Specify details of any provision for convertibility of
Instruments into another interest or redemption/
payment basis*]
12. Pull/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. [(i)] Status of the Instruments: [Senior/[Dated/Perpetual]/Subordinated]

[(ii)] [Date [Board] approval for
issuance of Instruments obtained: [] [and []], respectively]]

[(*N.B. Only relevant where Board (or similar)
authorization is required for the particular tranche of
Instruments*)]
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Instrument Provisions** [Applicable/Not Applicable]
*(If not applicable, delete the remaining sub-
paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [] per cent. per annum [payable [annually/semi-
annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [] in each year commencing on [*specify first Interest
Payment Date*]
- (iii) Adjustment of Interest
Payment Date(s) for payment
purposes: [No Adjustment]/[Interest Payment Dates will not be
adjusted for calculation of interest; however, for
payment purposes only, the [*specify applicable
Business Day Convention*] will apply]
- (iv) Fixed Coupon Amount[(s)]: [] per Calculation Amount
- (v) Broken Amount(s): [] per Calculation Amount, payable on the Interest
Payment Date falling [in/on] []
- (vi) Day Count Fraction: [Actual/Actual (ISDA)]/[Actual/Actual (ICMA)]/
[Actual/365 (Fixed)]/[Actual/360]/[30/360]
[30E/360][30E/360 (ISDA)] [*If none of these options
apply, give details*]
- (vii) Determination Dates: [] in each year [*insert regular interest payment
dates, ignoring issue date or maturity date in the case
of a long or short first or last coupon. N.B. only
relevant where Day Count Fraction is Actual/Actual
(ICMA)*]
- (viii) Other terms relating to the
method of calculating interest [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-

	for Fixed Rate Instruments:	<i>paragraphs of this paragraph)</i>
16.	Floating Rate Instrument Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i)	Interest Period(s)	[]
(ii)	Specified Period:	<i>(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable")</i>
(iii)	Specified Interest Payment Dates:	[] <i>(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")</i>
(iv)	[First Interest Payment Date]:	[]
(v)	Business Day Convention:	[FRN Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other <i>(give details)</i>]
(vi)	Relevant Financial Centre(s):	[Not Applicable/ <i>give details</i>]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined	[Screen Rate Determination/ISDA Determination/other <i>(give details)</i>]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Issue and Paying Agent]):	<i>[[name] shall be the Calculation Agent (no need to specify if the Issue and Paying Agent is to perform this function)]</i>
(ix)	Screen Rate Determination:	
	• Reference Rate:	<i>[For example, LIBOR or EURIBOR]</i>
	• Interest Determination Date(s):	[]
	• Relevant Screen Page:	<i>[For example, Reuters, LIBOR 01/EURIBOR 01]</i>
	• Relevant Time:	<i>[For example, 11:00 a.m. London time/Brussels time]</i>
	• Relevant Financial Centre:	<i>[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]</i>
(x)	ISDA Determination:	
	• Floating Rate Option	[]
	• Designated Maturity:	[]

- Reset Date: []
 - (xi) Margin(s): [+/-] [] per cent. per annum
 - (xii) Minimum Rate of Interest: [] per cent. per annum
 - (xiii) Maximum Rate of Interest: [] per cent. per annum
 - (xiv) Day Count Fraction: []
 - (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions: []
17. **Zero Coupon Instrument Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) [Amortisation/Accrual] Yield: [] per cent. per annum
 - (ii) Reference Price: []
 - (iii) Any other formula/basis of determining amount payable: [] *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
18. **Index-Linked Interest Instrument/other variable-linked interest Instrument Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula/other variable: *[give or annex details]*
 - (ii) Calculation Agent responsible or calculating the interest due: []
 - (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: []
 - (iv) Determination Date(s): []
 - (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [] *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
 - (vi) Interest or calculation period(s): []

- (vii) Specified Interest Payment Dates: []
 - (viii) Business Day Convention: [*FRN Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (give details)*]
 - (ix) Relevant Financial Centre(s): []
 - (x) Minimum Rate/Amount of Interest: [] per cent. per annum
 - (xi) Maximum Rate/Amount of Interest: [] per cent. per annum
 - (xii) Day Count Fraction: []
19. **Dual Currency Instrument Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph) [give details]
- (i) Rate of Exchange/method of calculating Rate of Exchange: [] [give details]
 - (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: []
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange [] [*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
 - (iv) Person at whose option Specified Currency (ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

20. **Call Option** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount(s) (Call) of each Instrument and method, if any, of calculation of such amount(s): [] per Calculation Amount
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount [] per Calculation Amount
 - (b) Maximum Redemption Amount: [] per Calculation Amount

- (iv) Notice period []
21. **Put Option** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) of each Instrument and method, if any, of calculation of such amount(s): [] per Calculation Amount
- (iii) Notice period: []
22. **Maturity Redemption Amount of each Instrument** [] per Calculation Amount 1/other/see Appendix
- In cases where the Maturity Redemption Amount is Index-Linked or other variable-linked:
- (i) Index/Formula/variable: [give or annex details]
- (ii) Calculation Agent responsible for calculating the Maturity Redemption Amount: []
- (iii) Provisions for determining Maturity Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: []
- (iv) Determination Date(s): []
- (v) Provisions for determining Maturity Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [] *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (vi) Payment Date: []
- (vii) Minimum Maturity Redemption Amount: [] per Calculation Amount
- (viii) Maximum Maturity Redemption Amount: [] per Calculation Amount
23. **Early Redemption Amount**
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the [Not Applicable/give details]
- (If both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Instruments/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Instruments)*

Conditions):

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

24. Form of Instruments:
- Bearer Instruments:**
- [Temporary Global Instrument exchangeable for a Permanent Global Instrument which is exchangeable for Definitive Bearer Instruments on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]
- [Temporary Global Instrument exchangeable for [Definitive Bearer Instruments and/or Registered Instruments] on [] days notice]
- [Permanent Global Instrument exchangeable for Definitive Bearer Instruments on [] days notice/at any time/in the limited circumstances specified in the Permanent Global Instrument]
- Registered Instruments:**
- [Regulation S Instrument/Rule 144A Instrument]
- VPS Instruments:**
- [VPS Instruments issued in uncertificated book entry form]
25. New Global Instrument: [Yes] [No]
26. Relevant Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15(ii), 16(iv) and 18(ix) relates]
27. Talons for future Coupons or Receipts to be attached to Definitive Bearer Instruments (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to Partly Paid Instruments: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment]: [Not Applicable/give details]
29. Details relating to Instalment Instruments: amount of each instalment, date on which each payment is to be made: [Not Applicable/give details]
30. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Final Terms apply]
31. Other final terms: [Not Applicable/give details]
- (When adding any other final terms consideration

should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

32. (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/give names, addresses and Managers and underwriting commitments]
[(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)
- (ii) Date of [Subscription] Agreement [] *(Include indication of the material features, including the quotas)*
- (iii) Stabilising Manager(s) (if any): [Not Applicable/give name]
33. If non-syndicated, name and address of Dealer: [Not Applicable/give name and address]
34. Total (underwriting and placing) commission and concession: [] per cent. of the Aggregate Principal Amount
35. U.S. Selling Restrictions: [Reg. S Compliance Category 2]
(In the case of Bearer Instruments) - [TEFRA C/TEFRA D/TEFRA not applicable]
(In the case of Registered Instruments) – Rule 144A and section 3(c)(7) QPs.
(In the case of VPS Instruments) - [Not Applicable]
36. ERISA: Employee benefit plans subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), "plans" subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), and any entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, the assets of any such employee benefit plan or plan, generally will not be permitted to purchase or hold the Instruments (or any interest therein). *[Revise as necessary should Plans be permitted to purchase or hold the Instruments (or any interest therein). See "Certain ERISA Considerations".]*
37. Non-exempt Offer: [Not Applicable] [An offer of the Instruments may be made by the Managers [and [specify, if applicable]] other than pursuant to Article 3(2) of the Prospectus Directive in [specify relevant Member State(s) - which must be jurisdictions where the Prospectus and any supplements have been passported] ("**Public Offer Jurisdictions**") during the period from [specify date] until [specify date] ("**Offer Period**"). See further Paragraph 10 of Part B below.

38. Additional selling restrictions: [Not Applicable/*give details*]
39. [Secondary (*uridashi*) offerings of the Instruments to be made in Japan and (i) the relevant Securities Registration Statements or (ii) Amendments or Supplemental Documents to Shelf Registration Statements under Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended) in respect of the Instruments were filed prior to 18 April 2012: [Yes/No]
- [The amendments to the Dealership Agreement, Issuing and Paying Agency Agreement, Deed of Covenant and the Conditions effective as of 18 April 2012 [are/are not] applicable to the Instruments] [*Include this text if "Yes" selected*]¹

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and] [public offer in the Public Offer Jurisdictions] [and] [admission to trading on the regulated market of the Luxembourg Stock Exchange and/or the Regulated Market of the London Stock Exchange of the Instruments described herein] pursuant to the Programme for the Issuance of Debt Instruments of Kommunalbanken AS.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[•] has been extracted from [•].] The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By:.....
Duly authorised

¹ This item is only applicable to Instruments (other than VPS Instruments) issued on or before 1 May 2012.

PART B - OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Luxembourg/London/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Instruments to be admitted to listing on the official list of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange and/or to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange with effect from [].] [Not Applicable.]

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

2. RATINGS

- Ratings: [The Instruments to be issued [have been/are expected to be] rated]/[The Issuer's long-term senior debt has been rated]/[The Programme under which the Instruments are to be issued has been rated]:

[S&P*: []]
[Moody's*: []]
[[Other]: []]

** The exact legal name of the rating agency entity providing the rating should be specified - for example, "Standard & Poor's Credit Market Services Europe Limited", rather than just "S&P" or "Standard and Poor's".*

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

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

Option 1 - CRA established in the EEA and registered under the CRA Regulation

[Insert rating agency legal name] is established in the European Economic Area (the "EEA") and registered under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation").

Option 2 - CRA established in the EEA, not registered under the CRA Regulation but has applied for registration

[Insert rating agency legal name] is established in the European Economic Area (the "EEA") and has applied for registration under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation"), although notification of the corresponding registration decision has not yet been provided by the [relevant competent authority]/[European Securities and Markets Authority ("ESMA")].

Option 3 - CRA established in the EEA, not registered under the CRA Regulation and not applied for registration

[*Insert rating agency legal name*] is established in the European Economic Area (the "EEA") and is neither registered nor has it applied for registration under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation").

Option 4 - CRA not established in the EEA but relevant rating is endorsed by a CRA which is established and registered under the CRA Regulation

[*Insert rating agency legal name*] is not established in the European Economic Area (the "EEA") but the rating it has given to the Instruments is endorsed by [*insert legal name of credit rating agency*], which is established in the EEA and registered under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation").

Option 5 - CRA is not established in the EEA and relevant rating is not endorsed under the CRA Regulation but CRA is certified under the CRA Regulation

[*Insert rating agency legal name*] is not established in the European Economic Area (the "EEA") but is certified under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation").

Option 6 - CRA neither established in the EEA nor certified under the CRA Regulation and relevant rating is not endorsed under the CRA Regulation

[*Insert rating agency legal name*] is not established in the European Economic Area (the "EEA") and is not certified under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation") and the rating it has given to the Instruments is not endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation.

[In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, or (2) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation, or (3) the rating is provided by a credit rating agency not established in the EEA but which is certified under the CRA Regulation.]

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in "*Subscription and Sale*", so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer."

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

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

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

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

[(iii) Estimated total expenses:] *[Include breakdown of expenses.] (If the Instruments are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*

5. **[Fixed Rate Instruments only - YIELD**

Indication of yield:]
Calculated as *[include details of method of calculation in summary form]* on the Issue Date. As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. **[Floating Rate Instruments only - HISTORIC INTEREST RATES**

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

7. **[Index-Linked or other variable-linked Instruments only– PERFORMANCE OF INDEX/ FORMULA/OTHER VARIABLE, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. [Where the underlying is an index, need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index, need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

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

8. **[Dual Currency Instruments only – PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

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

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

9. OPERATIONAL INFORMATION

ISIN Code: []

Common Code: []

CUSIP Number []

New Global Instrument intended to be held in a manner which would allow Eurosystem eligibility: [Not Applicable/Yes/No]

Note that the designation "Yes" simply means that the Instruments are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Instruments will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[Include this text if "Yes" selected in which case the Instruments must be issued in NGI form]*

Clearing system(s): [Euroclear/Clearstream, Luxembourg/DTC/other (give details)/Verdispapirsentralen ASA, Norway. VPS identification: []]. The Issuer shall be entitled to obtain certain information from the register maintained by the VPS for the purposes of performing its obligations under the issue of VPS instruments]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) or Foreign Exchange Agent(s) (if any): []

Name and address of Luxembourg Intermediary Agent: [Not Applicable/give details]
[Include details for public offers into Luxembourg only.]

10. TERMS AND CONDITIONS OF THE OFFER

Offer Price: [Issue Price][specify]

Conditions to which the offer is subject: [Not Applicable/give details]

Description of the application process: [Not Applicable/give details]

Description of possibility to reduce subscriptions and manner for refunding excess [Not Applicable/give details]

amount paid by applicants:	
Details of the minimum and/or maximum amount of application:	[Not Applicable/ <i>give details</i>]
Details of the method and time limits for paying up and delivering the Instruments:	[Not Applicable/ <i>give details</i>]
Manner in and date on which results of the offer are to be made public:	[Not Applicable/ <i>give details</i>]
Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	[Not Applicable/ <i>give details</i>]
Categories of potential investors to which the Instruments are offered and whether tranche(s) have been reserved for certain countries:	[Not Applicable/ <i>give details</i>]
Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:	[Not Applicable/ <i>give details</i>]
Amount of any expenses and taxes specifically charged to the subscriber or purchaser:	[Not Applicable/ <i>give details</i>]
Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place.	[None/ <i>give details</i>]

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Instruments will be applied by the Issuer to meet part of its general financing requirements.

KOMMUNALBANKEN AS

Introduction

Established by an Act of Parliament in 1926 as a government administrative body and reorganised as a joint stock company pursuant to the Conversion Act, and re-named Kommunalbanken AS with effect from 1 November 1999, the Issuer is a local government funding agency and classified as a state instrumentality serving the public policy function of providing low cost funding to Norwegian municipalities and promoting competition in the market for municipal loans, thereby facilitating the efficient provision of public sector services in Norway.

The Issuer is registered in Norway as a joint stock company under the Norwegian law for limited companies (*Lov om aksjeselskap*) and its organisation number is 981203267 and acts only out of its registered office at Haakon VII's gate 5b, 0110 Oslo, Norway with telephone number +47 21 50 20 00.

The Issuer does not hold a banking licence and received a concession from the Royal Norwegian Ministry of Finance to conduct its financing activities. Such concession was granted pursuant to the Financial Institutions Act and consequently, the Issuer is regulated by the Financial Supervisory Authority of Norway (*Finanstilsynet*) and not by the Norwegian Commercial Bank Act or the Savings Bank Act.

The Issuer uses the name Kommunalbanken Norway (KBN) in its marketing and investor relations activities. The Issuer currently has AAA/Aaa ratings from S&P and Moody's respectively.

Financial Year

The Issuer's financial year runs from 1 January to 31 December.

Public Ownership

The Issuer is owned entirely by the Norwegian State represented by the Ministry of Local Government.

Business

The Issuer's principal objective is to provide loans on competitive terms to counties, municipalities and inter-municipal companies for a variety of investment projects. Loans are also granted for power plants, private health institutions, co-operative water works and other entities that perform local government services, provided that loans are used to finance projects that can be designated as primary municipal investments and that each such loan benefits from a municipal guarantee. Priority will continue to be given to investment projects considered important by the central government.

The largest share of both approved and disbursed loans in 2011 were for projects in the health and social sector and in primary education, namely care homes for the elderly, schools and kindergartens. In addition, KBN financed a large number of road-construction projects.

The Issuer offers a range of products to the municipal sector. The largest segment of the loan portfolio is linked to floating interest rates based either on short term money market rates or Norwegian Interbank Offer Rates (NIBOR) with various interest rate reset dates. Loans are also granted on a fixed rate basis with varying fixed rate periods set to meet each individual customer's needs and market views.

The majority of municipalities borrow through a single loan for annual investments. The lending products are continuously developed to provide the municipal sector with the flexibility it requires as well as to meet the needs of municipalities of all sizes. Loan pricing is not dependent on volume as it is an important goal to be able to offer small and medium-sized municipalities loans on equal terms to their larger peers.

The Issuer has not suffered a loan loss since it began operations in 1926 which reflects not only its conservative lending policies but also the nature of municipal finance in Norway. Municipalities are very closely supervised by the central government, they may not budget for an operating deficit and must cover any actual deficit over the following three budgets. Under the Local Government Act, municipalities may not become bankrupt but must instead follow specified procedures for workouts. Such procedures have never had to be used. Despite the strict supervision of the municipal sector, the Norwegian authorities have assigned a 20 per cent. risk weighting to the Norwegian local government

sector reflecting their prudent attitude towards risk compared to other European countries with zero per cent. local government risk weighting.

There has been no material adverse change in the ordinary course of business or in the prospects or condition of the Issuer since 31 December 2011, being the date of its last published audited financial statements. No material contracts are entered into which are not in the ordinary course of the Issuer's business and there have been no recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency.

Funding Activities

The objective of the Issuer's funding operations is to meet growing borrowing requirements with a well diversified funding base, effectively achieved by regular issuance of benchmark transactions, a visible presence in institutional niche markets and by being a flexible issuer of structured instruments. The Issuer also benefits from strong name recognition in the retail market in Europe and Asia.

The majority of funding is issued off the Programme. Bond issues take the form of public offerings or private placements. Public offerings are made to institutional and retail investors in a number of currencies and countries. All funding transactions must comply with the Issuer's conservative financial policies including no currency and interest rate risk exposure.

The Issuer has an active marketing and investor relations strategy which involves regular presentations to intermediaries and investors worldwide as well as participation in investor conferences and panels.

The Issuer maintains a high liquidity reserve to cover future net cash requirements. Investments in government securities, securities issued by highly rated entities and bank deposits form the core of the Issuer's portfolio of liquid assets.

Risk Management

(a) *General*

The Issuer practices conservative management discipline with respect to financial risks. All risk management policies are reviewed and approved by the Issuer's Board of Directors, which monitors compliance with approved limits. The Issuer also aims to be well within the limits set by the Financial Supervisory Authority of Norway.

The Issuer attempts to minimise foreign exchange and interest rate risks through hedging operations.

Financial derivatives are used solely for this purpose. The Board of Directors has established a conservative liquidity policy target whereby a high liquidity reserve is kept to cover 12 months of future net cash requirements.

Strict risk management principles are in place for the investment of the Issuer's portfolio of liquid assets. Investments in government securities, securities issued by highly rated entities and bank deposits form the core of the portfolio of liquid assets.

Conservative counterparty risk management policies are in place and positions are monitored against limits on a mark-to-market basis. The minimum rating requirement for international swap counterparties is AA- by S&P and Aa3 by Moody's, below which the counterparty must post collateral with the Issuer.

(b) *Information Technology*

The Issuer's business benefits from the use of modern information technology ("**IT**") systems. In accordance with its IT strategy, the Issuer has recently replaced and updated front, middle and backoffice systems which will continue to be enhanced and developed during 2012.

(c) *Organisational Structure*

The Issuer is organised into six departments: Lending, Finance, Treasury Accounting, Marketing & Corporate Communications, and Risk Management and Financial Control.

As at 31 December 2011, the Issuer had a total of 50 employees.

(d) **Management**

The Articles of Association of the Issuer provide for the appointment of a Board of Directors consisting of not more than eight members. The Board of Directors is responsible for the management of the Issuer's business activities. The President and CEO is responsible for the Issuer's day-to-day management in accordance with instructions laid down by the Board of Directors and the Supervisory Board.

(e) **Corporate Governance**

According to the Financial Institutions Act, financial institutions shall have a Supervisory Board of at least 12 members and a Board of Directors with at least 4 members.

Supervisory Board

The Issuer's Supervisory Board is elected in accordance with the Financial Institutions Act and consists of twelve members and four deputy members. A member of the Board of Directors cannot also be a member of the Supervisory Board. The role of the Supervisory Board is to ensure that the Issuer's business activities are being promoted in accordance with the law, regulation, the Articles of Association and the resolutions of the Issuer's Annual General Meeting and the Supervisory Board. The Supervisory Board is responsible for inter alia, the appointment of the President and CEO and the appointment of auditors.

According to the Financial Institutions Act, the Supervisory Board "should represent a variety of interests, its members being drawn from the various districts, stakeholder groups and industries affected by the company's activities. Members of the Board of Directors may not serve as members of the committee of representatives". As far as is known to the Issuer, no potential conflicts of interest exist between any duties to the Issuer of the persons on the Supervisory Board and their private interests or other duties.

The current composition of the Supervisory Board, together with their principal other occupations, is as follows:

Elin Eidsvik, Chairman
CEO, Hamarøy municipality

Svein Ludvigsen
County Governor, Troms

Hanne Braathen
Mayor, Storfjord municipality

Bjørn Arild Gram, Vice-Chairman
Mayor, Steinkjer municipality

Svein Skaaraas
CEO, Hamar municipality

Tore Sirnes
CEO, Sandnes municipality

Berit Flåmo
Head of Development, Trondheimfjord Intermunicipal Harbour

Karen Marie Hjelmeseter
Municipal board member, Sogndal municipality

Knut Wille
CEO, Skien municipality

Anita Orlund
Mayor, Skedsmo municipality

Arne Johansen
CEO, Harstad municipality

Bjørn Ove Nyvik
Employees's Representative, KBN

Alternates to the supervisory board:

Hans Seierstad
Mayor, Østre Toten municipality

Rune Øygaard
Mayor, Vågå municipality

Berit Koht
Chief Financial Officer, Troms County

Mona Skanke
Mayor, Porsanger municipality

The business address of each of the above-mentioned members of the Supervisory Board is Haakon VII's gate 5b, 0110 Oslo, Norway.

Board of Directors

The Board of Directors is elected in accordance with the Financial Institutions Act. As far as is known to the Issuer, no potential conflicts of interest exist between any duties to the Issuer of the persons on the Board of Directors and their private interests or other duties.

The current composition of the Board of Directors, together with their principal other occupations, is as follows:

Else Bugge Fougner, Chairman
Barrister-at-law (Supreme Court) and partner in the law firm Hjort DA. Minister of Justice 1989-90

Nils R. Sandal, Vice Chairman
Mayor, Sogn og Fjordane municipality

Nanna Egidius
Director of Strategic Planning and Development, Lillehammer municipality

Martha Takvam
CEO, Telenor Real Estate

Frode Berge
Development Manager, Stavanger Regional Business Development

Åmund T. Lunde
CEO, Oslo Municipality Pension Fund

Rune Sollie
Chief AFC, Statoil Fuel & Retail

Ellen E. Scavenius
Head of Treasury, KBN

Roald Fischer
Head of Documentation, KBN

The business address of each of the above-mentioned members of the Board of Directors is Haakon VII's gate 5b, 0110 Oslo, Norway.

Audit Committee

Effective from 1 July 2010, the Board of Directors has appointed an audit committee consisting of Åmund T. Lunde (chairman), Nanna Egidius, Rune Sollie and Martha Takvam. The audit committee is a

preparatory and advisory committee for the Board of Directors, with its members elected by and among the members of the Board. The primary tasks of the audit committee is to follow up the financial reporting process, monitor the systems for internal control and risk management, maintain regular contact with the appointed auditor of the company and review and monitor the independence of the auditor.

Control Committee

The Control Committee is appointed by the General Assembly for a period of two years. It consists of three members and supervises the Issuer, i.e. the transactions of the Board of Directors, to ensure that the business is run in accordance with the Articles of Association and the law. One member must have the qualifications required of judges.

The current composition of the Control Committee, together with their principal other occupations, is as follows:

Britt Lund
Former CEO, Tinn municipality

Kjell Inge Skaldebø
CEO, Åfjord municipality

Anne-Ma Tostrup Smith
Lawyer, Statoil ASA

Deputy member: Roy Jevard, CEO, Melhus municipality

Auditor

Ernst & Young AS (member of The Norwegian Institute of Public Accountants), Oslo Atrium, PO Box 20, 0051 Oslo, Norway, have audited the financial statements of the Issuer without qualification for the financial years ended 31 December 2011, 31 December 2010 and 31 December 2009.

TAXATION

The following is a general description of certain Austrian, Norwegian and Luxembourg tax considerations relating to the Instruments (the general description regarding Luxembourg only addresses withholding tax issues). It does not purport to be a complete analysis of all tax considerations relating to the Instruments. Prospective purchasers of Instruments should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Austria, Norway and Luxembourg of acquiring, holding and disposing of Instruments and receiving payments of interest, principal and/or other amounts under the Instruments. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. Prospective Investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Instruments.

KINGDOM OF NORWAY

Taxation on Interest

Non-resident Holders of Instruments

Interest paid to a non-resident holder of Instruments will not be subject to Norwegian income or withholding tax. Such holder of Instruments may, however, be subject to taxation if the holding of Instruments is effectively connected with a business carried on by the holder of Instruments in Norway.

Such tax liability may be modified through an applicable tax treaty.

Resident Holders of Instruments

A resident holder of Instruments will be subject to Norwegian income taxation on interest at the applicable rate. The same applies to other legal entities that are subject to taxation in Norway (including, but not limited to, individuals and legal entities having a permanent establishment in Norway, provided that the Instruments are used in or connected with any business activity operated through such permanent establishment). In such cases, interest received by such persons or legal entities will be subject to Norwegian taxation at the applicable rate, currently at a rate of 28% of net taxable income.

Taxation of Capital Gains

Non-resident Holders of Instruments

A non-resident holder of Instruments is not taxed in Norway on gains derived from the sale, disposal or redemption of the Instruments. Such holder of Instruments may, however, be subject to taxation if the holding of Instruments is effectively connected with a business carried on by the holder of Instruments in Norway.

Such tax liability may be modified through an applicable tax treaty.

Resident Holders of Instruments

A resident holder of Instruments will be subject to Norwegian income taxation on capital gains at the applicable rate. The same applies to other legal entities that are subject to taxation in Norway (including, but not limited to, individuals and legal entities having a permanent establishment in Norway, provided that the Instruments are used in or connected with any business activity operated through such permanent establishment). In such cases, gains or profits realised by such persons or legal entities on the ownership, sale, disposal or redemption of the Instruments will be subject to Norwegian taxation at the applicable rate.

Wealth Tax

Non-resident Holders of Instruments

An individual non-resident holder of Instruments is not subject to wealth tax, unless the holding of Instruments is effectively connected with a business carried on by the holder of Instruments in Norway.

Such tax liability may be modified through an applicable tax treaty.

Resident Holders of Instruments

An individual resident holder of Instruments is subject to wealth tax in Norway at the applicable rate.

Transfer Tax etc

There is currently no Norwegian transfer tax on the transfer of Instruments. Norway does not levy any property tax or similar taxes on the Instruments.

LUXEMBOURG

Withholding tax

All payments of interest and principal by the Issuer in the context of the holding, disposal, redemption or repurchase of the Instruments, which are not profit sharing, can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

- (i) regarding non resident holders of Instruments, the application of the Luxembourg laws of 21 June 2005 implementing the European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the "**EU Savings Directive**") and several agreements concluded with certain dependant or associated territories and providing for the possible application of a withholding tax (35 per cent. from 1 July 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "**Residual Entities**") (see paragraph "*EU Savings Directive*" below, which may be applicable in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the above-mentioned EU Savings Directive or agreements); and
- (ii) regarding resident individual holders of Instruments, the application of the Luxembourg law of 23 December 2005 which has introduced a 10 per cent. withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg laws of 21 June 2005 implementing the EU Savings Directive). This law should apply to savings income accrued as from 1 July 2005 and paid as from 1 January 2006.

Pursuant to the law of 23 December 2005 as amended by the law of 17 July 2008, Luxembourg resident individuals who are the beneficial owners of savings income paid by a paying agent within the meaning of the EU Savings Directive established outside Luxembourg, in a Member State of either the European Union or the European Economic Area, or in a jurisdiction having concluded an agreement with Luxembourg in connection with the EU Savings Directive, can opt to self declare and pay a 10 per cent. tax (the "**Levy**") on these savings income.

The 10 per cent. withholding tax as described above or the Levy are final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer.

EU SAVINGS DIRECTIVE

Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a paying agent within the meaning of the EU Savings Directive to an individual resident or certain types of entities called "Residual Entities", within the meaning of Article 4.2 of the EU Savings Directive (the "**Residual Entity**" or "**Residual Entities**"), established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead permitted (unless during that period they elect otherwise) to apply an optional information reporting system whereby if a beneficial owner, within the meaning of the EU Savings Directive, does not comply with the procedures for information reporting, the relevant Member State will levy a withholding tax on payments to such

beneficial owner. The withholding tax system applies for a transitional period during which the rate of the withholding is 35% as from 1 July 2011. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) within its jurisdiction to, or collected by such a paying agent for, an individual resident or a Residual Entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) in a Member State to, or collected by such a paying agent for, an individual resident or a Residual Entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

REPUBLIC OF AUSTRIA

The information provided below does not purport to be a complete summary of the tax law and practice currently applicable in the Republic of Austria. For their particular case, prospective investors should consult their own professional advisors.

The following is a summary description of certain Austrian tax implications relating to the Instruments based upon Austrian tax law currently in effect as far as "**non-residents**" (within the meaning of the respective Austrian tax law) are concerned (see also "*EU Savings Directive*" above). It does not take into account any double taxation situation between Austria and the country of residence or domicile of the individual investor, and does not take any responsibility for any future changes in Austrian tax law, its interpretation by the Austrian tax authorities or the Austrian supreme courts.

Interest payments

In the Republic of Austria, interest payments in respect of Instruments to non-residents, in accordance with the terms and conditions of the Instruments will be exempt from any Austrian income tax deduction, including any Austrian withholding tax on investment income, as long as interest payments are made by agents domiciled outside of Austria.

If interest payments are made by an agent located in Austria ("**disbursing agent**"), a non-resident of Austria will, however, be obliged to disclose his/her identity and foreign address and supply corroborating evidence thereof to prevent Austrian withholding tax on investment income of presently 25 per cent. being deducted.

In case interest payments are made in Austria to a person who is resident of an EU Member State it should be noted that the *EU-Quellensteuergesetz* ("**EU-QuStG**") implemented the EU Savings Directive in Austria, which was passed by the Austrian parliament on 25 March 2004. The Austrian EU-QuStG withholds (for the transitional period as defined in the Directive) tax from interest payments on a time scaled basis. For the first three years after the EU-QuStG came into force 15 per cent. were withheld on paid interest, for the subsequent three years, i.e. until 30 June 2011, a withholding tax of 20 per cent. applied and since 1 July 2011, the tax to be deducted amounts to 35 per cent. This tax is not withheld at any time if the holder of the Instrument(s) entitled to the interest payment can provide a certification of the competent tax authority of the EU Member State where he/she is resident and which must include his/her name, address, tax number or other identification number or if such number is not available, the date of birth and the disbursing agent's registered office. In addition, the name and address of the disbursing agent, as well as the account number of the holder of the Instrument(s) or, if an account number is unavailable, the security identification number must be included. The Austrian EU-QuStG entered into force on the date on which pursuant to Art. 17 Sec. 2 and Sec. 3 of the EU Savings Directive the implementation into national law became compulsory (i.e. 1 July 2005).

If Instruments are assets of a permanent establishment, interest payments in respect of such Instruments will qualify as "**income of other trade or business**". In this case, withholding tax on investment income may generally be avoided by filing a declaration of exemption. If the investor discloses his identity and foreign address and supplies corroborating evidence thereof, no withholding tax on investment income will be levied, even if no declaration of exemption has been filed. However, the interest payments will be subject to limited tax liability as business income.

The holding of Instruments in a clearing system has no influence on the tax treatment of the owner.

Capital gains

Holders of Instruments who are non-residents of Austria are not subject to Austrian tax on capital gains derived from the sale of the Instruments unless the Instruments are assets of an Austrian permanent establishment.

Inheritance and gift tax

The Austrian Constitutional Court found the Inheritance and Gift Tax Act to be unconstitutional and repealed it with effect of 1 August 2008. The Austrian legislator thereafter enacted the *Schenkungsmitteilungsgesetz* (Gift Notification Act) with effect from 1 August 2008, requiring gifts and inherited assets exceeding certain amounts to be notified to the tax authorities.

Stamp Duty

Under certain circumstances the transfer of Registered Instruments or *Pfandbriefe* in registered form may trigger a stamp duty in Austria at the rate of 0.8 per cent. of the consideration. Therefore investors should consult their own professional advisors before executing transfer documents for such Instruments or bringing or sending into Austria such documents or any certified copy thereof or any written confirmation or written reference.

Recent Developments

On 31 December 2010, Austria's Federal Budget Implementation Act for the years 2011 to 2014 ("**BIA 2011**") entered into force which by way of amendments to the Austrian Income Tax Act 1988 ("**ITA**") introduced a new tax on "realised" capital gains (*Einkünfte aus realisierten Wertsteigerungen von Kapitalvermögen*). This new tax will apply to "realised" capital gains stemming from the sale or redemption of securities, including securities such as the Instruments, irrespective of whether they have been held as business or non-business assets and irrespective of whether the profits have been realised within a particular holding period (the former tax exemption regarding securities held for more than one year has been abolished).

Such profits are subject to a special tax rate of 25 per cent. This tax is in principle "final", which means that no further taxation will be imposed on such capital gains and that they do not have to be declared in other tax declarations of the taxpayer. However, as regards profits from debt instruments, such as the Instruments, the special tax rate will only apply in cases where the instruments have in the primary offering been offered to an undetermined number of people ("**public offer**").

Further, in its international dimension the tax only applies if either the custodian bank (*depotführende Stelle*) or – under certain conditions – the paying office (*auszahlende Stelle*) is located in Austria. In most cases the paying office will be the bank with which the investor maintains his securities account. The custodian bank or, if applicable, the paying office will be responsible for deduction of the capital gains tax and its transfer to the respective Austrian tax office.

Due to a decision of the Austrian Constitutional Court (*Verfassungsgerichtshof*) dated 16 June 2011, the amendments of the ITA relating to the new capital gains tax will become effective on 1 April 2012 (instead as originally intended on 1 October 2011) and will affect debt instruments, such as the Instruments, if purchased after 31 March 2012.

As regards income from debt instruments purchased on or before this date, the old tax regime continues to apply with some particularities (for their particular case, prospective investors should consult their own professional advisors).

Due to the lack of any administrative practice and relevant legal writings, the information on Austria's newly enacted capital gains tax is only based on the wording of the law and on the explanatory notes thereto.

UNITED STATES FEDERAL INCOME TAXATION

The discussion of tax matters in this Base Prospectus is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal, state or local tax penalties, and was written to support the promotion or marketing of the Programme. Each taxpayer should seek advice based on such person's particular circumstances from an independent tax advisor.

The following summary discusses the principal U.S. federal income tax consequences of the acquisition, ownership and disposition of the Instruments. Except as specifically noted below, this discussion applies only to:

- Instruments purchased on original issuance at their issue price (as defined below);
- Instruments held as capital assets;
- U.S. Holders (as defined below); and
- Instruments with an original maturity of 30 years or less.

This discussion does not describe all of the tax consequences that may be relevant in light of a Holder's particular circumstances or to Holders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- persons holding Instruments as part of a hedging transaction, straddle, conversion transaction or other integrated transaction;
- U.S. Holders whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes; or
- former citizens and residents of the United States.

This summary is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations all as of the date of this Base Prospectus and any of which may at any time be repeated, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. Persons considering the purchase of the Instruments should consult the relevant Final Terms for any additional discussion regarding U.S. federal income taxation and should consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

This summary does not discuss Instruments that by their terms may be retired for an amount less than their principal amount and Instruments subject to special rules. The tax treatment of certain Instruments such as, for example, Index-Linked Interest Instruments or Dual Currency Instruments, may be specified in the relevant Final Terms. Moreover, this summary does not discuss Bearer Instruments. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Instruments. U.S. Holders should consult their tax advisors regarding the restrictions and penalties imposed under U.S. federal income tax law with respect to Bearer Instruments and any other tax consequences with respect to the acquisition, ownership and disposition of any of these Instruments.

As used herein, the term "**U.S. Holder**" means a beneficial owner of an Instrument that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Instruments, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. A partnership considering an investment in the Instruments should consult with its tax advisors regarding the U.S. federal tax consequences to its partners of an investment in the Instruments.

Payments of Stated Interest

Interest paid on an Instrument will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below). Interest income earned by a U.S. Holder with respect to an Instrument will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the Holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisors about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to original issue discount instruments and foreign currency instruments are described under "*—Original Issue Discount,*" "*—Contingent Payment Debt Instruments,*" and "*—Foreign Currency Instruments.*"

Original Issue Discount

An Instrument that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued at an original discount for U.S. federal income tax purposes (and will be referred to as an "original issue discount Instrument") unless the Instrument satisfies a *de minimis* threshold (as described below) or is a short-term Instrument (as defined below). The "issue price" of an Instrument generally will be the first price at which a substantial amount of the Instruments are sold to the public (which does not include sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of an Instrument generally will equal the sum of all payments required to be made under the Instrument other than payments of "qualified stated interest." "Qualified stated interest" is stated interest unconditionally payable (other than in debt instruments of the issuer) at least annually during the entire term of the Instrument at a single fixed rate of interest, at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Instrument is denominated.

If the difference between an Instrument's stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., $\frac{1}{4}$ of 1 per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity, the Instrument will not be considered to have original issue discount. U.S. Holders of the Instruments with a *de minimis* amount of original issue discount will include this original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Instrument.

U.S. Holders of original issue discount Instruments that mature more than one year from their date of issuance will be required to include original issue discount in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of

whether cash attributable to this income is received. Under these rules, U.S. Holders generally will have to include in taxable income, increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any particular Instrument (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium) in accordance with a constant yield method based on the compounding of interest, and generally may revoke such election only with the permission of the U.S. Internal Revenue Service ("**IRS**") (a "**constant yield election**"). If a U.S. Holder makes a constant yield election with respect to an Instrument with market discount (discussed below), the U.S. Holder will be treated as having made an election to include market discount in income currently over the life of all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies. U.S. Holders should consult their tax advisors about making this election in light of their particular circumstances.

An Instrument that matures one year or less from its date of issuance (a "**short-term Instrument**") will be treated as being issued at a discount and none of the interest paid on the Instrument will be treated as qualified stated interest regardless of issue price. In general, a cash method U.S. Holder of a short-term Instrument is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. Holders who so elect and certain other Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder who is not required and who does not elect to include the discount in income currently, any gain realised on the sale, exchange, or retirement of the short-term Instrument will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Instruments in an amount not exceeding the accrued discount until the accrued discount is included in income.

Market Discount

If a U.S. Holder purchases an Instrument (other than a short-term Instrument) for an amount that is less than its stated redemption price at maturity or, in the case of an original issue discount Instrument, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. Holder will be required to treat any principal payment (or, in the case of an original issue discount Instrument, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of an Instrument, including disposition in certain nonrecognition transactions, as ordinary income to the extent of the market discount accrued on the Instrument at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. Holder pursuant to an election by the Holder to include market discount in income as it accrues. An election to include market discount in income as it accrues applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies and may not be revoked without the consent of the IRS. In addition, a U.S. Holder that does not elect to include market discount in income currently may be required to defer, until the maturity of the Instrument or its earlier disposition (including certain nontaxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Instrument.

Market discount will accrue on a straight line basis unless a U.S. Holder makes an election on an Instrument to accrue on the basis of a constant rate. This election is irrevocable once made (as described under "*Original Issue Discount*"). Such election will result in a deemed election for all market discount bonds acquired by the Holder on or after the first day of the first taxable year to which such election applies.

Acquisition Premium and Amortisable Bond Premium

A U.S. Holder who purchases an Instrument for an amount that is greater than the Instrument's adjusted issue price but less than or equal to the sum of all amounts payable on the Instrument after the purchase date other than payments of qualified interest will be considered to have purchased the Instrument at an acquisition premium. Under the acquisition premium rules, the amount of original issue discount that the U.S. Holder must include in its gross income with respect to the Instrument for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. Holder purchases an Instrument for an amount that is greater than the stated redemption price at maturity, the U.S. Holder will be considered to have purchased the Instrument with amortisable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The Holder may elect to amortise this premium, using a constant yield method, over the remaining term of the Instrument. A Holder who elects to amortise bond premium must reduce its tax basis in the Instrument by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations then owned and thereafter acquired by the Holder and may be revoked only with the consent of the IRS.

If a U.S. Holder makes a constant yield election (as described under "*—Original Issue Discount*") for an Instrument with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the Holder's debt instruments with amortisable bond premium.

Sale, Exchange or Retirement of the Instruments

Upon the sale, exchange or retirement of an Instrument, a U.S. Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the Holder's adjusted tax basis in the Instrument. A U.S. Holder's adjusted tax basis in an Instrument generally will equal the acquisition cost of the Instrument increased by the amount of original issue discount and market discount included in the U.S. Holder's gross income and decreased by any bond premium or acquisition premium previously amortised and by the amount of any payment received from the Issuer other than a payment of qualified stated interest. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. Holder's foreign tax credit limitation. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid qualified stated interest on the Instrument. Amounts attributable to accrued but unpaid qualified stated interest are treated as payments of interest as described under "*—Payments of Stated Interest*".

Except as described below, gain or loss realised on the sale, exchange or retirement of an Instrument will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Instrument for more than one year. Exceptions to this general rule apply to the extent of any accrued market discount or, in the case of a short-term Instrument, to the extent of any accrued discount not previously included in the Holder's taxable income. See "*—Original Issue Discount*" and "*—Market Discount*." In addition, other exceptions to this general rule apply in the case of foreign currency Instruments, and contingent payment debt instruments. See "*—Foreign Currency Instruments*" and "*—Contingent Payment Debt Instruments*." The deductibility of capital losses is subject to limitations.

Contingent Payment Debt Instruments

If the terms of the Instruments provide for certain contingencies that affect the timing and amount of payments (including Instruments with a variable rate or rates that do not qualify as "variable rate debt instruments" for purposes of the original issue discount rules) they generally will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Instruments qualifies as qualified stated interest. Rather, a U.S. Holder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on the Instrument and the Instrument's "projected payment schedule" as described below. The comparable yield is determined by the Issuer at the time of issuance of the Instruments. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Instruments. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, the Issuer will be required to construct a "projected payment schedule" that represents a series of payments

the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuer regarding the actual amount, if any, that the contingent payment debt instrument will pay.

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by the Issuer in determining interest accruals and adjustments, unless the Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of the Holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment instrument (as set forth below).

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year:

- will first reduce the amount of interest in respect of the contingent payment debt instrument that a Holder would otherwise be required to include in income in the taxable year; and
- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:
 - the amount of all previous interest inclusions under the contingent payment debt instrument over
 - the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the two per cent. floor limitation imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realised on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. Holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a contingent payment debt instrument, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the Holder's adjusted basis in the contingent payment debt instrument. A U.S. Holder's adjusted basis in an Instrument that is a contingent payment debt instrument generally will be the acquisition cost of the Instrument, increased by the interest previously accrued by the U.S. Holder on the Instrument under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any noncontingent payments and the projected amount of any contingent payments previously made on the Instrument. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations. In addition, if a Holder recognises loss above certain thresholds, the Holder may be required to file a disclosure statement with the IRS (as described under "*Reportable Transactions*").

A U.S. Holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument equal to the fair market value of the property, determined at the time of retirement. The Holder's holding period for the property will commence on the day immediately following its receipt. Special rules apply to contingent payment debt instruments that are denominated, or

provide for payments, in a currency other than the U.S. dollar ("**Foreign Currency Contingent Payment Debt Instruments**"). Very generally, these instruments are accounted for like a contingent payment debt instrument, as described above, but in the currency of the Foreign Currency Contingent Payment Debt Instruments. The relevant amounts must then be translated into U.S. dollars. The rules applicable to Foreign Currency Contingent Payment Debt Instruments are complex and U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of such instruments.

Foreign Currency Instruments

The following discussion summarises the principal U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of the Instruments that are denominated in a specified currency other than the U.S. dollar or the payments of interest or principal on which are payable in a currency other than the U.S. dollar ("**foreign currency Instruments**")

The rules applicable to foreign currency Instruments could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Instrument to be recharacterised as ordinary income or loss. The rules applicable to foreign currency Instruments are complex and may depend on the Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a Holder should make any of these elections may depend on the Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Instruments.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a foreign currency Instrument will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency.

An accrual method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount or market discount, but reduced by acquisition premium and amortisable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a foreign currency Instrument during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Holder will recognise ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required to currently accrue original issue discount or market discount.

An accrual method U.S. Holder or cash method U.S. Holder accruing original issue discount may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day in the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the partial accrual period in the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Original issue discount, market discount, acquisition premium and amortisable bond premium on a foreign currency Instrument are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realised with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above. Accrued market discount (other than market discount currently included in income) taken into account upon the receipt of any partial principal payment or upon the sale, retirement or other

disposition of an Instrument is translated into U.S. dollars at the spot rate on such payment or disposition date.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as on the sale, exchange or retirement of the foreign currency Instrument. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realised on the sale, exchange or retirement of a foreign currency Instrument with amortisable bond premium by a U.S. Holder who has not elected to amortise the premium will be a capital loss to the extent of the bond premium.

A U.S. Holder's tax basis in a foreign currency Instrument, and the amount of any subsequent adjustment to the Holder's tax basis, will be the U.S. dollar value amount of the foreign currency amount paid for such foreign currency Instrument, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. A U.S. Holder who purchases a foreign currency Instrument with previously owned foreign currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the foreign currency Instrument on the date of purchase.

Gain or loss realised upon the sale, exchange or retirement of a foreign currency Instrument that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Instrument, determined on the date the payment is received or the Instrument is disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount of the Instrument, determined on the date the U.S. Holder acquired the Instrument. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Instruments described above. The foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by the Holder on the sale, exchange or retirement of the foreign currency Instrument. The source of the foreign currency gain or loss will be determined by reference to the residence of the Holder on whose books the Instrument is properly reflected. Any gain or loss realised by these Holders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of short-term Instrument, to the extent of any discount not previously included in the Holder's income provided that the Instrument is not a Foreign Currency Contingent Payment Debt Instrument. Holders should consult their tax advisors with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Instrument accrue.

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a foreign currency Instrument equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. A cash method taxpayer who buys or sells a foreign currency Instrument that is traded on an established securities market is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations **provided that** the Instruments are traded on an established securities market. This election cannot be changed without the consent of the IRS. If either (i) the Instrument is not traded on an established securities market or (ii) it is and the holder is an accrual method taxpayer that does not make the election described above with respect to such Instrument, exchange gain or loss may result from currency fluctuations between the trade date and the settlement date of the purchase or sale. Any gain or loss realised by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase foreign currency Instruments) will be ordinary income or loss.

Backup Withholding and Information Reporting

Information returns may be filed with the IRS in connection with payments on the Instruments and the proceeds from a sale or other disposition of the Instruments. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup

withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the Holder's U.S. federal income tax liability and may entitle them to a refund, provided that the required information is timely furnished to the IRS.

Certain Reporting Obligations

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Instruments as a reportable transaction if the loss exceeds U.S.\$50,000 in a single taxable year if the U.S. Holder is an individual or trust, or higher amounts for other U.S. Holders. In the event the acquisition, ownership or disposition of the Instruments constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. Prospective purchasers should consult their tax advisors regarding the application of these rules to the acquisition, ownership or disposition of the Instruments.

In addition, U.S. Holders should consult their tax advisors about any additional reporting obligations that may apply as a result of the acquisition, holding or disposition of the Instruments.

The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a Holder's particular situation. Holders should consult their tax advisors with respect to the tax consequences to them of the ownership and disposition of the Instruments, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in U.S. federal or other tax laws.

The above summary is not exhaustive. It does not take into account special considerations that may apply in a particular situation. Investors and other interested parties should obtain individual tax advice in connection with the acquisition and holding as well as the sale or repayment of Instruments.

CERTAIN ERISA CONSIDERATIONS

ERISA imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. In general, unless otherwise permitted pursuant to the Final Terms relating to any Instruments, Plans may not purchase, hold or hold any interest in any Instruments.

Unless otherwise provided in the relevant Final Terms, each purchaser or transferee of any Instruments, or interest in an Instrument, will be required to represent and agree or be deemed to have represented and agreed that (i) it is not and for so long as it holds any Instrument (or any interest therein) will not be a Plan, or an entity the assets of which are deemed to constitute the assets of any Benefit Plan Investor, or otherwise and (ii) if it is an employee benefit plan that is not a Benefit Plan Investor which is subject to any U.S. Federal, state, local or non-U.S. law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), the purchase and holding of an Instrument (or any interest therein) do not and will not violate any such substantially Similar Law. The term "**Benefit Plan Investor**" means any (i) "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) "plan" as defined in and subject to Section 4975 of the Code and (iii) entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, "plan assets" by reason of such an employee benefit plan's or plan's investment in such entity for the purpose of 29 U.S.C.F.R. Section 2510.3-101(f) (as modified by Section 3(42) of ERISA) or otherwise for purposes of Section 406 of ERISA or Section 4975 of the Code.

To the extent a purchase of any Instrument (or an interest in an Instrument) by a Plan is permitted pursuant to the relevant Final Terms, prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Instrument is acquired by a Plan with respect to which the Issuer, the Agent, the Arranger or the Dealers or any of their respective affiliates are a party in interest or a disqualified person. A party in interest or disqualified person who engages in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Instruments and the circumstances under which such decision is made. To the extent such purchaser is permitted by the relevant Final Terms to purchase any Instrument, such purchaser will be required to represent and agree that such purchase and holding of an Instrument will not constitute or result in a non-exempt prohibited transaction under ERISA and Section 4975 of the Code.

Governmental plans and certain church and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other federal or non-U.S. laws that are substantially similar to ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing any Instruments.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Instruments to the extent permitted in the Final Terms should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such investment will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, or any other violation of an applicable requirement of ERISA.

SUBSCRIPTION AND SALE

Instruments may be sold from time to time by the Issuer to any one or more of Barclays Bank PLC, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Daiwa Capital Markets Europe Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, J.P. Morgan Securities Ltd., Kommunalbanken AS, Merrill Lynch International, Mitsubishi UFJ Securities International plc, Mizuho International plc, Morgan Stanley & Co. International plc, Nomura International plc, RBC Europe Limited, SMBC Nikko Capital Markets Limited, and UBS Limited (the "**Dealers**"). The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealership agreement dated 18 April 2012 (as the same may be supplemented, amended or replaced from time to time, the "**Dealership Agreement**") and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.

United States of America

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the Instruments have not been and will not be registered under the Securities Act and, accordingly, the Instruments may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. Each Dealer has also represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that, except as permitted under the Dealership Agreement, and as described below, it will not offer, sell or deliver the Instruments (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of the Tranche of which the Instruments are a part as determined and certified to the Principal Paying Agent by the Relevant Dealer (or in the case of such Tranche of Instruments sold to or through more than one Relevant Dealer, by each of such Relevant Dealers as to the Instruments of such Tranche sold by or through it, in which case the Principal Paying Agent shall notify each Relevant Dealer when all such Relevant Dealers have so certified) except in accordance with Regulation S or Rule 144A as set out below, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells the Instruments during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice substantially in the following effect:

"The securities covered hereby have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of the Tranche of which the Instruments are a part as determined and certified to the Principal Paying Agent by the Relevant Dealer (or in the case of such Tranche of Instruments sold to or through more than one Relevant Dealer, by each of such Relevant Dealers as to the Instruments of such Tranche sold by or through it, in which case the Principal Paying Agent shall notify each Relevant Dealer when all such Relevant Dealers have so certified) except in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act to a person that the seller reasonably believes is both a qualified institutional buyer (within the meaning of Rule 144A under the Securities Act) and a qualified purchaser (within the meaning of Section 2(a)(51)(A) of the United States Investment Company Act of 1940, as amended). Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act".

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that neither it, its affiliates nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act) in connection with any offer or sale of the Instruments in the United States.

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that neither it, its affiliates nor any persons acting on its or their behalf has engaged or will engage in any form of directed selling efforts (as defined in Regulation S) with respect to the Instruments and it and they have complied and will comply with the offering restrictions requirements of Regulation S. The Instruments are being offered and sold outside of the United States only to non-U.S. persons in reliance on Regulation S. Each Dealer may only, through its respective U.S. broker-dealer affiliates, arrange for the offer and resale of the Rule 144A Instruments within the United States only to QIBs that are QPs in accordance with Rule 144A. VPS Instruments will be sold outside the United States to non-U.S. persons in "offshore transactions" within the meaning of Regulation S.

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has offered and sold and will offer and sell Instruments in the United States only to persons whom it reasonably believes are both QIBs and QPs who can represent that (A) they are QPs who are QIBs within the meaning of Rule 144A; (B) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (C) they are not a participant-directed employee plan, such as a 401(d) plan; (D) they are acting for their own account, or the account of one or more QIBs each of which is a QP; (E) they are not formed for the purpose of investing in the Instruments or the Issuer, (F) each account for which they are purchasing will hold and transfer at least U.S.\$100,000 in principal amount of Instruments at any time (or equivalent in another currency), (G) they understand that the Issuer may receive a list of participant holding positions in its securities from one or more book-entry depositories; and (H) they will provide notice of the transfer restrictions set forth in the Prospectus to any subsequent transferees.

In connection with the offer and resale of the Instruments in the United States each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it is a QIB who is also a QP.

In addition, until 40 days after the commencement of the offering of the each Tranche of Instruments, an offer or sale of such Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

Instruments in bearer form will be issued in accordance with the provisions of United States Treasury Regulation § 1.163-5(c)(2)(i)(D) (the "D Rules"), unless the relevant Final Terms specifies that Instruments in bearer form will be issued in accordance with the provisions of United States Treasury Regulation § 1.163-5(c)(2)(i)(C) (the "C Rules").

In addition, in respect of Instruments issued in accordance with the D Rules each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) except to the extent permitted under the D Rules, (i) it has not offered or sold, and during the restricted period will not offer or sell, Instruments in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii) such Dealer has not delivered and will not deliver within the United States or its possessions definitive Instruments in bearer form that are sold during the restricted period;
- (b) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Instruments in bearer form are aware that such Instruments may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (c) if such Dealer is a United States person, it represents that it is acquiring the Instruments in bearer form for purposes of resale in connection with their original issuance and, if such Dealer retains Instruments in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D)(6); and

- (d) with respect to each affiliate (if any) that acquires from such Dealer Instruments in bearer form for the purposes of offering or selling such Instruments during the restricted period, such Dealer either (i) hereby represents and agrees on behalf of such affiliate (if any) to the effect set forth in sub-paragraph (a), (b) and (c) of this paragraph or (ii) agrees that it will obtain from such affiliate (if any) for the benefit of the Issuer the representations and agreements contained in sub-paragraphs (a), (b) and (c) of this paragraph; and
- (e) it shall obtain for the benefit of the Issuer the representations, and agreements contained in sub-paragraphs (a), (b), (c), and (d) of this paragraph from any person other than its affiliate with whom it enters into a written contract, (a "distributor" as defined in U.S. Treasury Regulation §1.163-5(c)(2)(i)(D)(4)), for the offer or sale during the restricted period of the Instruments.

Terms used in the above paragraph have the meanings given to them by the United States Internal Revenue Code and Regulations thereunder, including the D Rules.

In addition, where the C Rules are specified in the relevant Final Terms as being applicable in relation to any Tranche of Instruments, Instruments in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, Instruments in bearer form within the United States or its possessions in connection with the original issuance. Further, each Dealer represents and agrees and each further Dealer appointed under the Programme will be required to represent and agree in connection with the original issuance of Instruments in bearer form, that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of Instruments in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

Each issuance of index-, commodity- or currency-linked Instruments shall be subject to additional U.S. selling restrictions as the relevant Dealer or Dealers shall agree as a term of the issuance and purchase of such Instruments. Each Dealer agrees and each further Dealer appointed under the Programme will be required to agree that it shall offer, sell and deliver such Instruments only in compliance with such additional U.S. selling restrictions.

In connection with each sale of Instruments pursuant to Rule 144A under the Securities Act, neither the relevant Dealer nor any person acting on its behalf will engage in any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act).

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Relevant Member State, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

- (a) *Approved Prospectus*: if the Final Terms in relation to the Instruments specify that an offer of those Instruments may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Instruments which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, *provided that* any such prospectus which is not a drawdown prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Final Terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) *Fewer than 100 offerees*: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Instruments referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Instruments to the public**" in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) *No deposit-taking*: In relation to any Instruments having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their business, where the issue of the Instruments would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer; and
- (b) *Financial Promotion*: It has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 Instruments in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Instruments in, from or otherwise involving the United Kingdom.

Japan

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Instruments 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 any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in

effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Kingdom of Norway

Instruments may not be offered or sold within Norway or outside Norway to Norwegian residents, except for VPS Instruments in accordance with applicable laws and regulations.

General

Each Dealer has represented, warranted and agreed that, to the best of its knowledge, it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Instruments or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Instruments or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Instruments) or (in any other case) in a supplement to this document.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer, including potentially the Instruments offered hereby. Any such short positions could adversely affect future trading prices of the Instruments offered hereby. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

TRANSFER RESTRICTIONS

Rule 144A Instruments

Each purchaser of Rule 144A Instruments, by accepting delivery of this Base Prospectus and the Rule 144A Instruments, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB that is also a QP, (b) was not formed for the purpose of investing in the Rule 144A Instruments or the Issuer, (c) is not a broker dealer which owns and invests on a discretionary basis less than U.S.\$25,000,000 in securities of unaffiliated issuers, (d) is not a participant-directed employee plan such as a 401(k) plan, (e) is acting for its own account, or the account of one or more QIBs each of which is also a QP, and (f) is aware, and each beneficial owner of the Rule 144A Instruments has been advised, that the sale of the Rule 144A Instruments to it is being made in reliance on Rule 144A.
2. It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Instruments in a principal amount that is not less than U.S.\$100,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Rule 144A Instruments from one or more book entry depositaries.
3. (i) The Rule 144A Instruments have not been nor will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) to the Issuer or an affiliate thereof, or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States and (ii) it will, and each subsequent holder of the Rule 144A Instruments is required to, notify any purchaser of the Rule 144A Instruments from it of the resale restrictions on the Rule 144A Instruments.
4. It understands that the Issuer has the power to compel any beneficial owner of the Rule 144A Instruments that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Instruments, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Instruments to a U.S. person who is not a QIB and a QP. Any purported transfer of the Rule 144A Instruments to a purchaser that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void *ab initio*.
5. The Rule 144A Instruments, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend in or substantially in the following form:

THIS INSTRUMENT HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT THAT IS ALSO A QUALIFIED PURCHASER ("QP") WITHIN THE MEANING OF SECTION 2(a)(51)(A) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"), AND THE RULES AND REGULATIONS THEREUNDER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$100,000, (2) IN AN OFFSHORE TRANSACTION IN

ACCORDANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (3) TO THE ISSUER OR AN AFFILIATE THEREOF OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE INSTRUMENTS IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT AND WILL BE VOID *AB INITIO*. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS INSTRUMENT.

EACH PERSON WHO PURCHASES OR OTHERWISE ACQUIRES THIS INSTRUMENT (OR A BENEFICIAL INTEREST HEREIN) REPRESENTS, WARRANTS, ACKNOWLEDGES AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT, AND EACH PERSON FOR WHICH IT IS ACTING, (i) IS A QIB THAT IS A QP, (ii) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE INSTRUMENTS, (iii) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS, (iv) IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN, (v) IS ACTING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QP, (vi) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS THE INSTRUMENTS, WILL HOLD AND TRANSFER BENEFICIAL INTERESTS IN THE INSTRUMENTS IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.\$100,000; (vii) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN THE INSTRUMENTS FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (viii) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREES.

ANY RESALE OR OTHER TRANSFER OF THIS INSTRUMENT (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OR ANY OF ITS AGENTS. IN ADDITION TO THE FOREGOING, IN THE EVENT OF A TRANSFER OF THIS INSTRUMENT (OR BENEFICIAL INTEREST HEREIN) TO A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL SUCH TRANSFEREE TO SELL THIS INSTRUMENT OR ITS INTEREST HEREIN TO A PERSON WHO (I) IS A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS INSTRUMENT OR INTEREST HEREIN IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) IS NOT A U.S. PERSON AND PURCHASES THE INSTRUMENT IN AN OFFSHORE TRANSACTION WITHIN THE MEANING OF REGULATION S OR (B) COMPEL SUCH TRANSFEREE TO SELL THIS INSTRUMENT OR ITS INTEREST HEREIN TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE ORIGINAL TRANSFEREE, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF THIS INSTRUMENT OR INTEREST HEREIN TO A U.S.A. PERSON WHO IS NOT A QIB AND A QP. EACH TRANSFEROR OF THIS INSTRUMENT WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT TO ITS TRANSFEREE. THE ISSUER HAS NOT REGISTERED AND DOES NOT INTEND TO REGISTER UNDER THE INVESTMENT COMPANY ACT.

UNLESS OTHERWISE STATED IN THE FINAL TERMS, THIS INSTRUMENT (OR ANY INTEREST HEREIN) MAY NOT BE PURCHASED BY OR OTHERWISE

ACQUIRED BY ANY "EMPLOYEE BENEFIT PLAN" WITHIN THE MEANING OF AND SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), A "PLAN" WITHIN THE MEANING OF AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR ANY PERSON OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE (OR ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE) THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF 29 U.S. C.F.R. 2510.3-101 (AS MODIFIED BY SECTION 3(42) OF ERISA) (ANY OF THE FOREGOING, A "BENEFIT PLAN INVESTOR"). EACH HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT (A) IT IS NOT (AND IS NOT DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO BE) AND FOR SO LONG AS IT HOLDS THIS INSTRUMENT WILL NOT BE (OR BE DEEMED FOR SUCH PURPOSES TO BE) A BENEFIT PLAN INVESTOR AND (B) IF IT IS AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), THE PURCHASE AND HOLDING OF THIS INSTRUMENT (OR ANY INTEREST HEREIN) DOES NOT AND WILL NOT VIOLATE ANY SUCH SUBSTANTIALLY SIMILAR LAW. ANY PURPORTED PURCHASE OR TRANSFER OF AN INSTRUMENT THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

THE ISSUER MAY COMPEL EACH BENEFICIAL HOLDER HEREOF TO CERTIFY PERIODICALLY THAT SUCH OWNER IS A QIB AND A QP.

6. Unless otherwise stated in the relevant Final Terms, it understands that it will be deemed to have represented and agreed that (i) it is not and for so long as it holds an Instrument (or any interest therein) will not be a Plan or any entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, "plan assets" by reason of such Plan's investment in the entity, and (ii) if it is an employee benefit plan that is not a Benefit Plan Investor and is subject to Similar Law, the purchase and holding of an Instrument does not and will not result in a violation of any such Similar Law. Any purported purchase or transfer of an Instrument that does not comply with the foregoing shall be null and void *ab initio*.
7. It understands that the Issuer, the Registrars, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Instruments is no longer accurate, it shall promptly notify the Issuer and the relevant Dealer(s). If it is acquiring any Rule 144A Instruments for the account of one or more QIBs that are also QPs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
8. It understands that the Rule 144A Instruments will be represented by a Rule 144A Global Instrument. Before any interest in a Rule 144A Global Instrument may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Instrument, it will be required to provide the Registrar with a written certification as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Rule 144A Instruments may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Instruments

Each purchaser of any Instrument represented by the Regulation S Global Instrument (or beneficial interest therein) and each subsequent purchaser of such Regulation S Instruments in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Regulation S Instruments will be deemed to have represented, warranted, agreed and acknowledged that:

1. It is, or at the time Regulation S Instruments are purchased will be, the beneficial owner of the

Regulation S Instruments and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

2. It understands that the Regulation S Instruments have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer Regulation S Instruments except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
3. It understands that the Regulation S Instruments, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend in or substantially in the following form:

THIS INSTRUMENT HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT IN A TRANSACTION THAT WILL NOT CAUSE THE ISSUER TO BECOME REQUIRED TO REGISTER AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

UNLESS OTHERWISE STATED IN THE FINAL TERMS, THIS INSTRUMENT (OR ANY INTEREST HEREIN) MAY NOT BE PURCHASED BY OR OTHERWISE ACQUIRED BY ANY "EMPLOYEE BENEFIT PLAN" WITHIN THE MEANING OF AND SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), A "PLAN" WITHIN THE MEANING OF AND SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR ANY PERSON OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE (OR ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE) THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF 29 U.S. C.F.R. 2510.3-101 (AS MODIFIED BY SECTION 3(42) OF ERISA) (ANY OF THE FOREGOING, A "BENEFIT PLAN INVESTOR"). EACH HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT (A) IT IS NOT (AND IS NOT DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO BE) AND FOR SO LONG AS IT HOLDS THIS INSTRUMENT WILL NOT BE (OR BE DEEMED FOR SUCH PURPOSES TO BE) A BENEFIT PLAN INVESTOR AND (B) IF IT IS AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), THE PURCHASE AND HOLDING OF THIS INSTRUMENT (OR ANY INTEREST HEREIN) DOES NOT AND WILL NOT VIOLATE ANY SUCH SUBSTANTIALLY SIMILAR LAW. ANY PURPORTED PURCHASE OR TRANSFER OF AN INSTRUMENT THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

4. Unless otherwise stated in the relevant Final Terms, it understands that it will be deemed to have represented and agreed that (i) it is not and for so long as it holds an Instrument (or any interest therein) will not be a Plan or any entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, "plan assets" by reason of such Plan's investment in the entity, and (ii) if it is an employee benefit plan that is not a Benefit Plan Investor and is subject to Similar Law, the purchase and holding of an Instrument will not result in a violation of any such Similar Law. Any purported purchase or transfer of an Instrument that does not comply with the foregoing shall be null and void *ab initio*.
5. It understands that the Issuer, the Registrars, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements

deemed to have been made by it by its purchase of Regulation S Instruments is no longer accurate, it shall promptly notify the Issuer and the relevant Dealer(s).

6. It understands that the Regulation S Instruments will be represented by a Regulation S Global Instrument. Prior to the expiration of the distribution compliance period (as defined in Regulation S), before any interest in a Regulation S Global Instrument may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Instrument, it will be required to provide the Registrar with a written certification as to compliance with applicable securities laws.

CLEARING AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and/or Clearstream, Luxembourg (together, the "Clearing Systems") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing Systems. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Instruments held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuers nor any Dealer takes any responsibility for the accuracy thereof. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

DTC Book-Entry System

Registered Instruments whether as part of the initial distribution of the Instruments or in the secondary market, are eligible to be held in book-entry form in DTC.

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Participants**") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants ("**Direct Participants**") include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly ("**Indirect Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Registered Instruments among Direct Participants on whose behalf it acts with respect to Instruments accepted into DTC's book-entry settlement system ("**DTC Instruments**") as described below, and receives and transmits distributions of principal and interest on DTC Instruments. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Instruments ("**Owners**") have accounts with respect to the DTC Instruments similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Instruments through Direct Participants or Indirect Participants will not possess Registered Instruments, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest with respect to the DTC Instruments.

Purchases of DTC Instruments under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Instruments on DTC's records. The ownership interest of each actual purchaser of each DTC Instrument ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Instruments are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Instruments, except in the event that use of the book-entry system for the DTC Instruments is discontinued.

To facilitate subsequent transfers, all DTC Instruments deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Instruments with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Instruments; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Instruments are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Instruments within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Instruments. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Instruments are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Instruments will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "*street name*", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, DTC will exchange the DTC Instruments for Definitive Registered Instruments, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Instrument, will be legended as set forth under "*Transfer Restrictions*".

Book-entry Ownership of and Payments in respect of DTC Instruments

The Issuer may apply to DTC in order to have each Tranche of Instruments represented by the Rule 144A Global Instrument, and if applicable, the Regulation S Global Instrument, accepted in its book-entry settlement system. Upon the issue of any Global Registered Instruments, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Registered Instrument to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer.

Ownership of beneficial interests in a Global Registered Instrument will be limited to Direct Participants or Indirect Participants. Ownership of beneficial interests in a Global Registered Instrument will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Registered Instrument registered in the name of DTC's nominee will be made to the order of such nominee as the registered holder of such Instrument. In the case of any payment in a currency other than U.S. dollars, payment will be made to the relevant Paying Agent on behalf of DTC's nominee and the relevant Paying Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Registered Instrument in the currency in which such payment was made

and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Instruments will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Paying Agents, the Registrars or the Issuer. Payments of principal, premium, if any, and interest, if any, on Instruments to DTC are the responsibility of the Issuer.

Transfers of Instruments Represented by Global Registered Instruments

Transfers of any interests in Instruments represented by a Global Registered Instrument will be effected in accordance with the customary rules and operating procedures of Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be. The laws of some states within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Instruments represented by a Global Registered Instrument to such persons may depend upon the ability to exchange such Instruments for Definitive Registered Instruments. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Instruments represented by a Global Registered Instrument held by DTC to pledge such Instruments to persons or entities that do not participate in the DTC system or to otherwise take action in respect of such Instruments may depend upon the ability to exchange such Instruments for Instruments in definitive form. The ability of any holder of Instruments represented by a Global Registered Instrument held by DTC to resell, pledge or otherwise transfer such Instruments may be impaired if the proposed transferee of such Instruments is not eligible to hold such Instruments through a direct or indirect participant in the DTC system.

Transfers at any time by a holder of a book-entry interest in a Rule 144A Global Instrument to a transferee who takes delivery of such book-entry interest through a Regulation S Global Instrument for the same Series of Instruments will only be made upon delivery to the Registrar of a certificate setting forth compliance with the provisions of Regulation S. Prior to the expiration of the distribution compliance period (as defined in Regulation S), ownership of book-entry interests in a Regulation S Global Instrument will be limited to persons that have accounts with Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be, or persons who hold such book-entry interest through Euroclear, Clearstream, Luxembourg and/or DTC, as the case may be, and any sale or transfer of such book-entry interest to a US person (within the meaning of Regulation S) shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A. Transfers at any time by a holder of a book-entry interest in a Regulation S Global Instrument to a transferee who takes delivery of such book-entry interest through a Rule 144A Global Instrument for the same Series of Instruments will only be made upon receipt by the relevant Registrar or the relevant Transfer Agent of a written certificate from the transferor of such book-entry interest to the effect that such transfer is being made to a person whom such transferor, and any person acting on its behalf, reasonably believes is a QIB and a QP within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with any applicable securities laws of any state of the United States.

Subject to compliance with the transfer restrictions applicable to the Registered Instruments described under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrars, and/or the Paying Agents, as the case may be, and any custodian with whom the relevant Global Registered Instruments have been deposited.

On or after the relevant issue date for any Series, transfers of Instruments of such Series between accountholders in Euroclear or Clearstream, Luxembourg and transfers of Instruments of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in DTC and Euroclear or Clearstream, Luxembourg participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear or Clearstream, Luxembourg on the other, transfers of interests in the relevant Global Registered Instruments will be effected through the relevant Registrar and/or the relevant Paying Agent, as the case may be, and the custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payments must be made separately.

Euroclear, Clearstream, Luxembourg and DTC have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Global Registered Instruments among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Registrars, the Paying Agents or any Dealer(s) will be responsible for any performance by Euroclear, Clearstream, Luxembourg and DTC or its respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Instruments represented by Global Registered Instruments or for maintaining, supervising or reviewing any records relating to such beneficial interests.

GENERAL INFORMATION

1. Application has been made to list the Instruments (other than VPS Instruments) issued under the Programme on the official list of the Luxembourg Stock Exchange and to admit them to trading on the regulated market of the Luxembourg Stock Exchange. Application will also be made to list the Instruments (other than VPS Instruments) issued under the Programme on the Official List of the FSA and to admit them to trading on the Regulated Market of the London Stock Exchange.

Instruments may be issued pursuant to the Programme which will not be admitted to listing on the official list of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

2. The Programme was authorised by a resolution of the Board of Directors of the Issuer on 30 December 1999. Subsequent increases of the size of the Programme were authorised by resolutions of the Board of Directors of the Issuer, most recently on 1 November 2010. The update of the Programme was authorised by a resolution of the Board of Directors of the Issuer on 16 December 2011. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Instruments.
3. The Instruments (other than VPS Instruments) have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping book-entry records). In addition, the Issuer may make an application for any Rule 144A Instruments to be accepted for trading in book-entry form in DTC. The VPS Instruments have been accepted for clearance through the VPS. The appropriate common code, International Securities Identification Number and CUSIP number in relation to the Instruments of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Instruments for clearance together with any further appropriate information. The address of Euroclear is 3 Boulevard de Roi Albert II, B.1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, the address of DTC is 55 Water Street, New York, New York, 10041, United States of America and the address of the VPS is Biskop Gunnerusgate, 14A, 0185 Oslo, Norway.
4. Bearer Instruments (other than Temporary Global Instruments) with maturities of over one year and any Coupon appertaining thereto will bear a legend substantially to the following effect: **"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."**
5. The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months before the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer.
6. There has been no material adverse change in the prospects of the Issuer since 31 December 2011, nor has there been any significant change in the financial or trading position of the Issuer which has occurred since 31 December 2011.
7. For so long as the Programme remains in effect or any Instruments shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected (and in the case of (d) and (e) will be obtainable free of charge in copy form) during normal business hours at the specified office of the Issue and Paying Agent and the Registrar, namely:
 - (a) the Issue and Paying Agency Agreement;
 - (b) the Deed of Covenant;
 - (c) the Dealership Agreement;

- (d) any Final Terms relating to Instruments which are listed on any stock exchange. (In the case of any Instruments which are not listed on any stock exchange, copies of the relevant Final Terms will only be available for inspection by a Holder of or, as the case may be, a Beneficiary (as defined in the Deed of Covenant) in respect of, such Instruments);
 - (e) the current Base Prospectus and any supplements thereto and any other information incorporated herein or therein by reference; and
 - (f) the Articles of Association of the Issuer.
8. For so long as the Programme remains in effect or any Instruments shall be outstanding, copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the specified office of the Issue and Paying Agent and the Registrar, namely:
- (a) the most recent publicly available audited unconsolidated financial statements of the Issuer beginning with such financial statements for the years ended 31 December 2011, 31 December 2010 and 31 December 2009; and
 - (b) the most recent publicly available unaudited interim unconsolidated financial statements of the Issuer.

The Issuer produces quarterly unaudited interim financial statements. The Issuer does not publish consolidated financial statements.

The Issuer does not intend to provide any post-issuance information, except if required by any applicable laws and regulations.

9. This Base Prospectus shall be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).
10. The unconsolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2011, 2010 and 2009 by Ernst & Young AS (member of the Norwegian Institute of Public Accountants) whose registered office is at Oslo Atrium, PO Box 20, 0051 Oslo, Norway. The unconsolidated financial statements of the Issuer for the year ended 31 December 2011 are subject to approval at its 2012 Annual General Meeting, which has not been held as at the date of this Base Prospectus.
11. The Issuer has not entered into any contracts outside of the ordinary course of business that have had or may reasonably be expected to have a material effect on its business or that could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to the holders of the Instruments in respect of the Instruments being issued.
12. The Issuer may, on or after the date of this Base Prospectus, make applications for one or more further certificates of approval under Article 18 of the Prospectus Directive as implemented in Luxembourg to be issued by the CSSF to the competent authority in any Member State.

ISSUER

Kommunalbanken AS

Haakon VIIs gate 5b
0110 Oslo
Norway

ARRANGER AND DEALER

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA
England

DEALERS

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB
England

Citigroup Global Markets Limited

Citigroup Centre
Canada Square
London E14 5LB
England

Credit Suisse Securities (Europe) Limited

One Cabot Square
Canary Wharf
London E14 4QJ
England

Daiwa Capital Markets Europe Limited

5 King William Street
London EC4N 7AX
England

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB
England

Goldman Sachs International

Peterborough Court
133 Fleet Street
London EC4A 2BB
England

HSBC Bank plc

8 Canada Square
London E14 5HQ
England

J.P. Morgan Securities Ltd.

125 London Wall
London EC2Y 5AJ
England

Kommunalbanken AS

Haakon VIIs gate 5b
0110 Oslo
Norway

Merrill Lynch International

2 King Edward Street
London EC1A 1HQ
England

Mitsubishi UFJ Securities International plc

Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ
England

Mizuho International plc

Bracken House
One Friday Street
London EC4M 9JA
England

Nomura International plc

1 Angel Lane
London EC4R 3AB
England

RBC Europe Limited

Riverbank House, 2 Swan Lane
London EC4R 3BF
England

SMBC Nikko Capital Markets Limited

One New Change
London EC4M 9AF
England

UBS Limited

1 Finsbury Avenue
London EC2M 2PP
England

ISSUE AND PAYING AGENT AND FOREIGN EXCHANGE AGENT

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB
England

U.S. PAYING AGENT, U.S. REGISTRAR AND U.S. TRANSFER AGENT

Deutsche Bank Trust Company Americas

60 Wall Street, Mailstop NYC60-2710
New York, New York 10005
U.S.A.

NON-U.S. PAYING AGENT, NON-U.S. REGISTRAR AND NON-U.S. TRANSFER AGENT

Deutsche Bank Luxembourg S.A.

2 boulevard Konrad Adenauer
L-1115 Luxembourg
Grand Duchy of Luxembourg

VPS ACCOUNT OPERATOR

DnB NOR Bank ASA, Verdipapirservice

Stranden 21
Aker Brygge
0021 Oslo
Norway

LISTING AGENT

Deutsche Bank Luxembourg S.A.

2, Boulevard Konrad Adenauer
L-1115 Luxembourg

AUDITORS TO THE ISSUER

Ernst & Young AS

Oslo Atrium
P.O. Box 20
0051 Oslo
Norway

LEGAL ADVISERS

*To the Arranger and Dealers
as to English Law*

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ
England

*To the Issuer as to
Norwegian Law*

SIMONSEN Advokatfirma DA

Filipstad Brygge 1
0252 Oslo
Norway