

APPENDIX

to an Agreement on a Primary Dealership System for HFF Bond Auctions
and Market Making of HFF Bonds in the Secondary Market

RULES

**on the Housing Financing Fund's services
for HFF bond market makers**

RULES

on HFF's Services for HFF Bond Market Makers

Services

The primary dealer has the option to borrow HFF bonds (hereafter referred to as borrowed bonds) from HFF on a temporary basis, in bond classes listed below, in exchange for collateral (hereafter referred to as collateral securities) or cash guarantee.

Primary dealers have exclusive access to these services provided by HFF, as noted in Article 7 of the accompanying agreement on primary dealership for HFF bond auctions and market making of HFF bonds in the secondary market.

Credit lines and loan classes

Bonds that market makers may borrow from HFF are listed in the below table. The table also lists the maximum amount for each class that HFF must be able to provide to the primary dealer.

| Class | Nominal value, ISK million |
|--------------|---------------------------------------|
| HFF150224 | 1.500 |
| HFF150434 | 1.500 |
| HFF150644 | 1.500 |

Loan period

The maximum loan period for the borrowed bonds is 28 days; that is, from a specified day of the week until the same day four weeks later. If the settlement date falls on a holiday, the maximum loan period is reduced and the settlement date moved to the last business day on which the Exchange is open for trading prior to the said holiday.

Collateral

Primary dealers may submit collateral securities and/or cash guarantees in exchange for the borrowed bonds. See more regarding this process below.

Collateral securities

Eligible collateral securities are all the electronically registered bond classes issued by HFF and the Government Debt Management with regard to market making. Securities used as collateral must be the property of the primary dealer and must be free of liens and encumbrances upon delivery. HFF shall hold a lien on the collateral securities during the term of the agreement.

Cash

Securities may also be in the form of cash guarantees. The interest on the collateral shall be 0.5% less than the interest rate at the Central Bank of Iceland. The interest is paid at the end of the year. If cash is used as collateral for one day or less, no interest will be calculated.

Beginning of transaction

The primary dealer may request to borrow bonds from HFF until 15 minutes after the end of trading at the Exchange on all trading days. The request must be e-mailed in time and immediately followed by a phone call in order to confirm receipt of the request.

If HFF approves the request, the primary dealer shall submit collateral no later than 30 minutes after the end of trading at the Exchange.

If securities are not submitted in time, the transaction will be cancelled

HFF delivers the borrowed bonds no later than 45 minutes after the end of trading at the Exchange on the day of the agreement, provided the securities have been turned in.

The transaction

Securities

If the primary dealer submits collateral securities, they must be delivered into HFF's account at the Icelandic Securities Depository, specified in the parties' agreement. HFF then deposits the borrowed bonds into the primary dealer's account at the Icelandic Securities Depository.

Cash

If the primary dealer submits a cash guarantee, it must be deposited into HFF's account, specified in the parties' agreement. HFF then deposits the borrowed bonds into the primary dealer's account at the Icelandic Securities Depository.

Agreement

HFF and the primary dealer make an agreement each time stating *inter alia* the following:

- Description of the securities used in the transaction
- Date of settlement
- Opening and closing price

The primary dealer must deliver a signed agreement to HFF, no later than 12 pm on the following business day at the Exchange.

Closing price is the market price of the bonds less a percentage based on the bonds' duration listed in the table below. The deduction does not apply to borrowed bonds, only to collateral securities. Hence the market price of borrowed bonds will always equal their closing price. In terms of securities trading between the primary dealer and HFF, there shall be no difference between the closing price of borrowed bonds and the closing price of collateral securities.

The deduction for cash guarantees is 5%, hence an additional cash guarantee equal to the deduction must be turned in. There shall be no difference between the closing price of borrowed bonds and the closing price of cash guarantees.

Market price is based on bids that are valid at the end of trading at the Exchange on the trading day prior to the agreement date, in addition to accrued interest and indexation. The market price is based on the best bid price for securities and on the best ask price for borrowed bonds.

| Deduction | Duration |
|------------------|------------------|
| 5% | Less than 1 year |
| 10% | More than 1 year |

Opening price is the closing price less interest. The difference between the opening price for borrowed bonds and the opening price for securities in this transaction equals the discount rate that HFF charges the primary dealer.

If, during the term of the agreement, the market value of the collateral securities drops below the specified deduction, HFF is entitled to request additional collateral corresponding to the price reduction. Upon consulting the primary dealer, HFF is entitled to, at the time of the agreement, to request additional deductions on specific collateral securities that might reduce in value during the term of the agreement

Settlement date

On the settlement date of the agreement, the primary dealer shall first return the borrowed bonds to HFF’s account at the Icelandic Securities Depository no later than 15 minutes after the end of trading at the Exchange.

Once the primary dealer has returned the borrowed bonds, HFF returns the collateral securities and/or cash guarantee no later than 30 minutes after the end of trading at the Exchange. Collateral securities are deposited in the primary dealer’s account at the Icelandic Securities Depository but cash guarantees are deposited in the account specified in the parties’ agreement.

Penalties in case of violation of the agreement

In case the primary dealer does not deliver the borrowed bonds on time, a penalty rate will be charged, as listed at the Central Bank of Iceland on the last business day prior to the transaction. Penalty charges are based on the initial price of the borrowed bonds, and will be applied from the due date until the bonds have been returned.

If three business days have passed since the agreement expired and the borrowed bonds have not been returned, HFF is entitled to sell the collateral securities or use the cash guarantee to purchase HFF bonds in order to replace the ones that have not been returned. HFF also reserves the right to collect fees and reparation for the damage caused by the delayed delivery of the borrowed bonds.

If HFF does not deliver the collateral securities or cash guarantee on the settlement date, in spite of the primary dealer having returned the borrowed bonds, HFF shall pay a penalty rate on the initial price of the securities or on the cash guarantee, starting on the due date until the collateral securities are returned.

Commission

HFF's commission is 0.2% per year. A service fee of ISK 20.000 is also charged for each agreement. The primary dealer pays the service fee and the commission at the beginning of the agreement term. The day count rule for calculating interest payable during the term of the agreement is Act.360, where Act signifies the actual number of days.

Other clauses

The agreement may be settled before the final due date. The collateral may also be switched out for another one before the end of the term. In that case, a new agreement is made for the same period of time as the prior one, and a service fee is collected.

Other expenses

Should HFF incur any costs during the term of the agreement, due to the custody, registration or transaction of collateral securities, HFF is entitled collect that cost.

Instalments of collateral securities

Collateral securities subjected to instalment and interest payments during the term of the agreement qualify as collateral as long as they do not reach maturity during the term.

If instalments are made while in HFF's custody, the primary dealer is entitled to receive the payment. However, HFF is entitled to request additional collateral corresponding to the instalment amount.

If instalments are made on borrowed bonds while in custody of the primary dealer, the primary dealer is required to pay interest, instalments and indexation as well as other costs attached to the specific bond class. At the time of payment, the primary dealer has the option to repossess portions of the collateral securities corresponding to the reduction in final price of the borrowed bonds due to the instalment. In case the payment has not been made on the due date, HFF is entitled to collect penalty charges. Furthermore, HFF is entitled to retain and sell collateral securities corresponding to the value of the payment in addition to costs, provided the payment is three days past due and the primary dealer has not made the payment.

Penalties in case rules are violated

HFF may, without prior notice, exclude the primary dealer from further securities lending in accordance to these Rules if the market maker has not complied with the provisions therein.

Entry into force

These Rules and the accompanying agreement on primary dealership for HFF bond auctions and market making of HFF bonds in the secondary market enter into force on July 1, 2016 and expire on June 30, 2017. These rules effectively replace previous Rules on these transactions between HFF and the primary dealer.

Reykjavík.