



Translation from Icelandic

In case of discrepancy the Icelandic version shall prevail

Securities Lending Facility for Primary Dealers

Paragraph 9 in the Agreement regarding Issuance of Treasury Notes and Market Making in Government Securities, between the National Debt Management Agency (“NDMA”) and Primary Dealers, states that a Primary Dealer can borrow temporarily Treasury Notes and Bills (“Loaned Securities”) in exchange for other securities that will be held as collateral (“Collateral”).

Paragraph 1

Borrowing time

Access to the Securities Lending Facility of NDMA is during the daily trading hours of OMX Nordic Exchange in Iceland and 15 minutes after the exchange closes.. The maximum term is 28 days, i.e. from a stated day of the week to the same day of the week four weeks later. If a settlement day is not a business day then the maximum period of borrowing is reduced and the settlement day will be the last preceding day, which OMX is open for business.

Paragraph 2

Credit lines and Series

The maximum outstanding amount each series of securities that the Primary Dealer is permitted to borrow is stated in the document “Fee Schedule and limits for Securities Lending Transactions” that is published on the NDMA’s website, www.ndma.is.

Paragraph 3

Eligible securities

Securities that may serve as Collateral include all electronically registered securities serviced by the referred Agreement and by a similar agreement between the Housing Financing Fund and their appointed dealers and other electronically registered bonds. Collateral needs to meet the following requirements:

1. The issued market value is greater than ISK 3 billion and confirmation is presented that this amount has been sold.
2. The issuer has a credit rating assigned by one of the following credit rating agencies: Standard & Poor’s, Moody’s or Fitch with a long-term rating of at least A- (A minus) or better in the case of Standard & Poor’s or at least A3 in the case of Moody’s or Fitch.
3. There is a structured market making arrangement in place as declared to OMX Nordic Exchange or a similar institution and that the bonds are issued in Icelandic Krona.

Securities with the Guarantee of the Republic of Iceland are eligible if they meet the requirements set out in number 1 to 3, above.

Subordinated Securities may not serve as Collateral and it is not permissible for an issuer to use his own Securities as Collateral.

Collateral shall be the property of the Primary Dealer and free from any lien on delivery. The NDMA holds a lien on the Securities during the contract period.

The NDMA has the permission to deny securities as collateral even if they fulfill the requirements set out in this paragraph.

Paragraph 4

Principal and coupon payments

Securities applied as Collateral should, as a general rule, not mature during the term of the transaction.

Securities that pay a coupon or a partial principal can be used as Collateral even if payments of principal or coupon occur during the contract period, as long as it is not the final maturity of the security. Primary Dealer has the claim on any payment that NDMA receives from Collateral while in its custody. In return NDMA has the right to ask for a commensurable increase in Collateral, before delivering the payment.

If a Primary Dealer has borrowed bond that pays a coupon during the term of the transaction he must return the amount of the coupon to NDMA on the coupon date. On payment the Primary Dealer can ask for a part of the Collateral to be returned, equal to the decrease in final price of the Loaned Securities due to the coupon payment. The NDMA is entitled to claim penalty interest if payment is not made on the coupon date. NDMA is also authorized to withhold and sell Collateral equal to the coupon payment plus penalty interest rate and other incurred costs if three business days have passed since coupon date and the Primary dealer has still not paid.

Paragraph 5

Contract

The NDMA and a Primary Dealer must enter into a separate contract for each transaction where the following is outlined:

- Description of securities involved
- Settlement day
- The Initial Price and the Final Price of the transaction

The market price is based on the valid bids and asks with accrued interest and indexation when the contract is prepared. The market price is based on the best bid regarding Collateral and the best ask regarding Loaned Securities.

The Final Price is the market price of securities minus a percentage based on the remaining time to maturity of the securities, cf. below. This applies only to Collateral and not to Loaned Securities. Market price of Loaned Securities will thus always be equal to their final price. The Final Price of Loaned Securities and Collateral in the relevant transaction between the NDMA and a Primary Dealer shall be equal.

The haircut from market price of Collateral is as follows:

- 2% regarding securities with less than one year to maturity
- 5% regarding securities with one to five years to maturity
- 7% regarding securities with more than five years to maturity

The Initial Price is the Final Price less discount rate. The difference between the Initial Price of Loaned Securities and Collateral in these transactions is equal to the discount rate, which Primary Dealers pay to NDMA.

The discount rate with two digits is calculated from the yield. The following equation is applied:

$$F = \left[1 - \frac{1}{\left(1 + \frac{A}{100}\right)^{\left(\frac{d}{360}\right)}} \right] \cdot \left[\frac{36,000}{d} \right]$$

Where F is discount rate, A is yield, d is the number of days from the first day inclusive to settlement day,

If the market price of the collateral decreases more than defined haircut over the contract period, the NDMA is allowed to demand more Collateral. At the making of a contract the NDMA can also demand increased haircut from individual Collateral if it is not secure enough that it will maintain its value throughout the contract period.

Paragraph 6

Commission and other costs

NDMA's charges a cost that is based on the document "Fee Schedule and limits for Securities Lending Transactions" that is published on NDMA's website, www.ndma.is.

1. The commission is based on Central Bank of Iceland policy interest rate. Interest payable on Loaned securities is calculated by adding a premium to the policy interest rate. Interest payable on Collateral securities is calculated by a reduction from the Central Bank of Iceland policy interest rate. Daycount for calculation of interest is Act/360.
2. A dispatch charge is paid per contract.
3. Commissions are payable on the start of the contract.

In case of some other cost incurring due to custody of collateral during the contract period the NDMA is authorized to collect it at the beginning of the contract period. An example would be safekeeping fees for HFF bonds held at Euroclear.

Paragraph 7

Delivery of electronic securities

The Primary Dealer must first deliver the Collateral to the Icelandic Securities Depository bearing the National Identity Number of NDMA, 521192-2409. After receiving the Collateral, NDMA delivers the Loaned Securities to Icelandic

Securities Depository where the Primary Dealer can access them. If the Collateral due to the NDMA has not been received 30 minutes after the market close on the transaction day, the NDMA can cancel the transaction. On the settlement day, the Primary Dealer shall first return the Loaned Securities to NDMA' account at the Icelandic Securities Depository. When the Loaned Securities have been returned, the NDMA will deliver the Collateral to Icelandic Securities Depository where the Primary Dealer can access them. The Primary Dealer shall return the Loaned Securities before 14:00 on the day of maturity, and the NDMA shall return the Collateral before 15:00 on the day of maturity, provided the Loaned Securities have been returned.

For electronic securities that are not listed with the Icelandic Securities Depository the general rule is that Collateral Securities are first delivered to the NDMA before Loaned Securities are dispatched. On the day of maturity the general rule is that Collateral Securities are dispatched only after Loaned Securities have been delivered. If the option of concurrent delivery is at hand it may also be applied.

Paragraph 8

Settlement complications

If the Primary Dealer does not deliver the Loaned Securities on the settlement day, NDMA is entitled to claim penalty interest on the Initial Price of the relevant Loaned Securities until they have been returned. If after three business days a Primary Dealer has not yet returned the Loaned Securities, the NDMA is permitted to sell the Collateral on its own account, and collect from the Primary Dealer any cost and damage incurred. If the Primary Dealer has returned the Loaned Securities but the NDMA has not returned the Collateral on the settlement day, then the Primary Dealer is also permitted to claim overdue interest and collect any cost and damage incurred in connection with the transaction.

Paragraph 9

Notifications

Notices from Primary Dealers to the NDMA regarding financial matters in these rules are valid if sent by fax provided that an authorized signature on the Primary Dealers' side duly signs the fax. NDMA emphasizes that Primary Dealers will confirm by telephone call if a contract has been sent via fax. Telephone calls related to transactions are recorded.

Paragraph 10

Exclusion from Facility

The NDMA has the right without further notice to exclude a Primary Dealer from further access to the Facility if the Primary Dealer does not comply with the rules.

Paragraph 11

Entry into force

These rules are based on the Agreements entered into between NDMA and Primary Dealers, dated May 26, 2006, and take effect on September 6, 2007. At the same time the older rules dated January 4, 2007, regarding a Securities Lending Facility for Primary Dealers will expire.

Reykjavik, September 5, 2007
National Debt Management Agency