



NATIONAL DEBT MANAGEMENT AGENCY

**AGREEMENT REGARDING ISSUANCE AND
MARKET MAKING IN TREASURY BILLS**

Agreement regarding Issuance and Market Making in Treasury Bills

The National Debt Management Agency, State Reg. No. 521192-2409 and [Name], hereafter referred to as Primary Dealer, have signed the following Agreement regarding Issuance of the next six Treasury Bills Series and Market Making of those to maturity.

This Agreement is identical to those made with other Primary Dealers dated the same date as this Agreement.

The aim of this Agreement is to increase price formation in the secondary market and enhance the Treasury's access to borrowed money.

1. Rights and obligations of Primary Dealers

1. paragraph

Treasury Bill Auctions and Primary Dealer Access

Treasury Bills will be auctioned bi-monthly in which one issue with a maturity of circa seven months will be auctioned. Each bill will be auctioned in the beginning of an odd number month with final maturity on a VAT-settlement date in an even number month. The first issue will be auctioned the next 1st of July with a maturity of 5th of February 2004. Primary Dealers are the sole participants at NDMA auctions of Treasury Bills.

2. paragraph

Obligations of Primary Dealer in auctions

The Primary Dealer is obliged to submit bids at each auction of Treasury Bills for a minimum of one billion ISK at nominal value. Bids shall be in line with published terms of the auction and in accordance with current market prices at each time.

3. paragraph

Obligations of Primary Dealer in the secondary market

The Primary Dealer is obliged to quote on Iceland Stock Exchange's electronic trading system before opening time bid and ask offers in those bills this Agreement covers and do so until the last issued bill comes to maturity. Trading lots shall be at minimum 100 m.kr. at nominal value in each issue. The Primary Dealer is obliged to renew its offers within ten minutes after execution of transaction. If the Primary Dealer's total transaction in one issue during that day equals 400 m.kr. at nominal value the Primary Dealer is entitled to suspend bid and offers quotes for that particular series for the remainder of that day.

The maximum spread between the Primary Dealer's bid and offer quotes are determined by price. The maximum spread of issues this Agreement covers shall not exceed 0,03%.

The Primary Dealer grants the NDMA access to information regarding its offerings and transactions at the Iceland Stock Exchange for the Treasury Bills this Agreement covers.

4. paragraph

Contact person

The Primary Dealer shall name a contact person to the NDMA. Meetings with Primary Dealers are arranged by NDMA on a need to basis.

2. Obligations of the NDMA

5. paragraph

Payment and calculation of commission

Settlement and payment of commission will take place 16 December 2003, 10 June 2004 and 15 December 2004. The commission is divided into the following parts:

I

The NDMA pays to the Primary Dealer an amount on the 16 December 2003 and on the 10 June 2004, i.e. twice during the Agreement, that will be divided equally between all Primary Dealers. The amount at disposal for all Primary Dealers each period is total 3,5 m.kr.

II

The NDMA pays to the Primary Dealer on 16 December 2003 and 10 June 2004, i.e. twice during the Agreement an amount which is calculated as a percentage of accepted bids at the last three Treasury Bill-auctions. The amount at disposal for all Primary Dealers each period is total 12 m.kr. Example: NDMA has sold in last three auctions Government Bills for 12 billion kr. at nominal value. A Primary Dealer that has purchased 3 billion kr. at nominal value at the auctions will receive an amount of $\frac{1}{4}$ of 12 m.kr. or 3 m.kr.

III

The NDMA pays to the Primary Dealer on 10 June 2004 and 15 December 2004, i.e. twice during the Agreement period an amount which is calculated as a percentage of the market share of all Primary Dealers transactions in Iceland Stock Exchange's electronic trading platform (marked as "AUTO") with all the Treasury Bills Series under this Agreement. At disposal for all Primary Dealers on each occasion are total 12 m.kr. The first payment shall take place on 10 June 2004 for the turnover of the first three issues from issue date till maturity. The second payment shall take place on 15 December 2004 for the turnover for the last three issues from issue date till maturity.

3. Other factors

6. paragraph

Should there be a serious market disturbance the NDMA can after consulting Primary Dealers terminate individual paragraphs of this Agreement.

7. paragraph

This Agreement is effective from 1 July 2003 and is effective for the next six issues of Treasury Bills until their maturity. Should either party to this Agreement regard a serious violation has been done regarding this agreement that party can terminate the agreement without further notice. If during the term of the Agreement a consolidation takes place between Primary Dealers, the Agreements with those Primary Dealers involved will be reviewed.

Reykjavik 13 May 2003

National Debt Management Agency

[Primary Dealer]