



NATIONAL DEBT MANAGEMENT AGENCY

Translation from Icelandic

Securities Lending Facility for Primary Dealers

Paragraph 9 in the Agreement regarding Issuance of Treasury Notes and Market Making in Treasury Notes and Bonds, between the National Debt Management Agency (“NDMA”) and Primary Dealers, states that Primary Dealers have exclusive access to any special privileges NDMA chooses at each time to provide.

Securities Lending Facility

Under the Securities Lending Facility a Primary Dealer is entitled to borrow temporarily Treasury Notes and Bonds (“Loaned Securities”) in the series listed below in exchange for securities that are guaranteed by the State as collateral (“Collateral”).

Credit lines and Series

The following list shows the series, which the Primary Dealer is allowed to borrow from NDMA, and the maximum outstanding amount permitted to each Primary Dealer in each series:

Series	Nominal amount in m.kr.
RIKB 07 0209	1,200
RIKB 10 0317	1,200
RIKB 13 0517	1,200
RIKS 15 1001	1,200

Borrowing time

The Primary Dealers may borrow securities from the NDMA between 10:00 – 16:15 each business day. The maximum period of borrowing 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 Iceland Stock Exchange is open for business.

Collateral

The Securities that may serve as Collateral include all electronically registered series of Treasury Securities serviced by the referred Agreement and by a similar agreement between the Housing Financing Fund and their appointed market makers. Other electronically registered Securities issued in Icelandic króna with market value over 3 b.kr. and serviced by Market Makers in the Icelandic Stock Exchange or a comparable institution may also serve as Collateral. It is a condition that their issuer has a credit rating A3 or higher with the rating company Moody's or A- or higher with the rating companies Standard & Poor's or Fitch. 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



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the Primary Dealer and free from any lien on delivery. The NDMA holds a lien on the Securities during the contract period.

Contract

The NDMA and a Primary Dealer must enter into a separate contract every time a transaction is done 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 at the end of the day in Iceland Stock Exchange one working day prior to the day the contract is made. The market price is based on the best bid when NDMA receives Collateral and the best ask when NDMA delivers 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 the same.

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. When F is discount rate, A is yield, d is the number of days from the first day inclusive to settlement day, a hat (^) means the power of, star (*) means multiplication and slash (/) means division, the equation is as follows:

$$F = (1 - 1/(1+A/100)^{(d/360)}) * 36000/d$$

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.



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Commission

NDMA's commission is based on Central Bank of Iceland policy interest rate. NDMA delivers Loaned Securities where the discount rate equals the policy interest rate of Central Bank of Iceland plus a 0.175% margin, and receives Collateral where the interest payable in advance equals the policy interest rate of Central Bank of Iceland minus a 0.175% margin. Therefore the NDMA's net commission measured as yield is 0.35% a year. A dispatch charge is ISK 5,000 per contract. This charge along with the above commission is collected at the start of the contract period. Interest calculation regarding the number of days of the contract period is based on actual days/360.

Other cost

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.

Delivery of electronic securities

The Primary Dealer must first deliver the Collateral to his temporary account at the Icelandic Securities Depository. Then the NDMA delivers the Loaned Securities to its temporary account at the Icelandic Securities Depository. If the Collateral due to the NDMA has not been received before 16:30 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's temporary account at the Icelandic Securities Depository. When the Loaned Securities have been returned the NDMA will deliver the Collateral to Primary Dealers' temporary account. The Primary Dealer shall return the Loaned Securities before 14:00 on settlement day, and the NDMA shall return the Collateral before 15:00 on the settlement day providing that the Loaned Securities have been returned.

Problem regarding settlement

If the Primary Dealer does not deliver the Loaned Securities on the settlement day, NDMA is entitled to claim overdue 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.

Notices

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.



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Principal and coupon payments

It is allowed to use State guaranteed securities 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 right to claim any payment that NDMA receives from Collateral in its custody. In return NDMA has the right to ask for increased Collateral up to the defined allowed haircut, before delivering the payment.

If a Primary Dealer has borrowed a coupon bond he must pay 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. NDMA is authorized to claim overdue 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 cost if three days have passed since coupon date and the Primary dealer has still not paid.

Exclusion from Facility

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

Entry into force

These rules are based on the Agreements entered into between NDMA and Primary Dealers dated May 12, 2005, and take effect on June 20, 2005. At the same time the older rules dated May 30, 2005 regarding a Securities Lending Facility for Primary Dealers expire.

Reykjavik, June 16, 2005.