



Terms of Auction

for the purchase of foreign currency by the Central Bank of Iceland

according to the Investment Programme

Transaction date: 9 May 2012

1. The Central Bank of Iceland hereby requests offers for the sale of foreign currency in exchange for Icelandic krónur for long-term investment in the Icelandic economy; cf. the Central Bank of Iceland Terms of foreign exchange transactions according to the Investment Programme for capital account liberalisation, dated 18 November 2011, with subsequent amendments, hereinafter referred to also as “the Terms.” Financial institutions that meet the formal requirements set forth in Article 28 of the Terms are invited to act as intermediaries for the transactions on behalf of investors. The auction is an element in the removal of restrictions on capital movements with foreign currency, in accordance with the Central Bank’s capital account liberalisation strategy, dated 25 March 2011, and is carried out with reference to Article 18, cf. Temporary Provision III of the Act on the Central Bank of Iceland, no. 36/2001, cf. also Temporary Provision I of the Foreign Exchange Act, no. 87/1992, with subsequent amendments. Movement of capital deriving from the foreign exchange transactions is permissible pursuant to Article 13(n) of the Foreign Exchange Act, no. 87/1992.
2. Concurrent with this auction, the Central Bank is holding another auction for the purchase of foreign currency in exchange for Treasury bonds. The auction amount is determined jointly for both auctions. The set minimum price will be the same for both auctions. In other respects, items such as the number and type of bids in either auction could affect the other auction.
3. The total amount of euros (the auction amount) that the Central Bank offers to purchase will be determined after the deadline for submittal of offers has passed. The Central Bank reserves full right to determine the auction amount, *inter alia* with reference to Article 2 of these Terms of Auction.
4. Euros in cash will be purchased with Icelandic krónur subject to the restrictions further described in these Terms of Auction.
5. Intermediaries send offers to the Central Bank through the Bloomberg Auction System between 9:45 hrs. and 10:45 hrs. Icelandic time on the transaction date. The deadline for submittal is at 10:45 hrs. on Wednesday 9 May 2012 (the transaction date). The results of the auction will be published on the Central Bank website at the end of the transaction date and sent to intermediaries by e-mail. Intermediaries then notify their customers of the auction results.
6. The auction will be structured with a single-price format; i.e., all accepted offers will be offered to investors at the same price, and the highest accepted price will determine the auction price. The Central Bank reserves full right to determine the auction price after the deadline has passed. Offers *below* the auction price will be accepted in full, offers *above* the auction price will be rejected in full, and offers *equivalent* to the auction price will be accepted on a *pro rata* basis.
7. The Central Bank reserves the right to accept some or all of the offers submitted, or to reject all of them.
8. Intermediaries – that is, financial institutions that meet the requirements set forth in Article 28 of the Terms and have concluded a collaboration agreement with the Central Bank – shall collect offers for the sale of foreign currency. The Central Bank publishes a list of intermediaries on its website at the time the Terms of Auction are published. Intermediaries shall submit offers to the Central Bank in the name of the investor concerned. Only those investors that have signed the Terms of foreign exchange transactions according to the Investment Programme on the basis of an approved application for participation in the Investment Programme are authorised to

participate. Intermediaries are authorised to submit as many offers as necessary, depending on the number of offers investors wish to have submitted in their names.

9. In submitting an offer, the intermediary consents to these Terms of Auction, both on its own behalf and that of the investor concerned, together with the restrictions related thereto, and guarantees that it is authorised to provide such consent on behalf of the investor.
10. The offers shall meet the requirements set forth in the Terms (Conditions for Transactions) and the requirements generally deriving from the Terms.
11. Offers shall include, at a minimum, information on the amount of foreign currency offered for sale, and the price (in Icelandic krónur per euro, with two significant digits), as well as a reference to the relevant investor's application for participation in the Investment Programme. The minimum amount of each offer shall be EUR 50,000.00, and offers shall be presented in multiples of EUR 1,000.00.
12. Intermediaries shall pay the Central Bank in euros for accepted offers, on behalf of investors, no later than Friday 11 May 2012 at 11:00 hrs. (settlement date), according to standard Central Bank of Iceland payment instructions.
13. If an investor does not honour its offer, the Central Bank reserves the right either to cancel the transaction immediately and accept another offer or to demand compensation from the investor *in natura*, plus the highest lawful penalty interest for the period corresponding to the delay in payment.
14. When payment in foreign currency has been received by the Central Bank, the Bank will deposit the krónur that same day to a special account held by the intermediary with the Central Bank. The account will be closed for disbursement. When it has been demonstrated that all requirements for the transactions have been met, cf. Article 20 of the Terms, disbursement of the krónur will be authorised. The investor and the intermediary are responsible for providing confirmation of fulfilment of the requirements for the transactions, and there is no restriction on the length of time the krónur may remain in the intermediary's account. The intermediary's account shall bear no interest.
15. The Central Bank declares itself free of all liability for offers that do not reach the Central Bank due to system error or for any other reason. Intermediaries may request confirmation of receipt of offers by contacting the International and Market Operations Department of the Central Bank of Iceland. Offers that reach the Central Bank and are registered to individual terminals in the Bloomberg Auction System are binding and are the responsibility of the person who is registered for that terminal. It is permissible to amend or withdraw offers by sending an appropriate message through the Bloomberg Auction System to the Central Bank before 10:45 hrs. on the auction date (the transaction date).
16. **The following RESTRICTIONS shall apply to the foreign exchange transactions:**
 - a. That the investor must sign the Terms of foreign exchange transactions according to the Investment Programme.
 - b. That the investor pledges to use the funds acquired in the transactions to participate in an investment in accordance with the investor's application for participation in the Investment Programme.
 - c. **That the investor shall retain uninterrupted ownership of the investment for five (5) years from the date of purchase, and if payments are forthcoming for the investment prior to the scheduled maturity date, those payments shall be used for investment according to the Investment Programme, as is further specified in the Terms of foreign exchange transactions according to the Investment Programme.**
 - d. That the investor shall, however, receive any type of dividend deriving from the investment without restriction while the restrictions remain in effect; cf. Article 7 of the Terms.

- e. That, in the event of a violation of the prohibition on any type of disposal of the investment for five years, the Central Bank shall be authorised to redeem one-third (1/3) of the investment (foreign exchange transaction), as is further specified in the Terms of foreign exchange transactions according to the Investment Programme.**
 - f. That the investor will be required to sign all documents in connection with restrictions on the investment and shall lend any assistance necessary to ensure that the aforementioned five-year holding requirement is granted satisfactory legal protection.
17. While restrictions according to these Terms of Auction are in effect, all payment instructions for any type of dividend payments on the investments shall be directed to the party required to disburse such payments, and the Central Bank, as rights holder of the restrictions, shall not be held liable for any loss deriving from transactions between the investor and a third party as a result.
 18. While the restrictions according to these Terms of Auction are in effect, the Central Bank of Iceland shall be exempt from liability for all losses incurred by the investor as a result of events beyond human control (*force majeure*), including but not restricted to natural disaster, war, terrorist acts, and laws and regulations imposed by governmental authorities. It is clear that the regular and legally mandated activities of the Central Bank of Iceland can affect currency exchange rates or securities prices; therefore, the Central Bank of Iceland shall not be held liable for any direct or indirect loss on the investments that may be sustained by the investor and can be traced to the Bank's regular and legally mandated activities.
 19. The investor bears all expenses resulting from the legal protection of the restrictions, such as public levies or services provided by securities custodians. The Central Bank of Iceland shall be exempt from liability for all such expense.
 20. These Terms of Auction apply to the Central Bank and the investor as participant in the auction, as well as to the intermediary, as appropriate. The Central Bank is not liable for any obligations between the investor and the intermediary concerning transactions between them as a result of the investor's participation in the auction.
 21. In respects other than those specified in these Terms of Auction, the Central Bank of Iceland Terms of foreign exchange transactions according to the Investment Programme for capital account liberalisation, dated 18 November, with subsequent amendments, shall apply to foreign exchange transactions deriving from participation in the auction. In the event of a conflict between the Terms and these Terms of Auction, the Terms of Auction shall take precedence.
 22. These Terms of Auction have been translated into English; however, the Icelandic original shall be considered the authoritative text.