Terms of Auction

for the purchase of Icelandic krónur by the Central Bank of Iceland in exchange for euros

Transaction date: 16 June 2016

1. The Central Bank of Iceland advertises herewith for offers to sell assets registered in Icelandic krónur in return for cash payment in foreign currency (euros). Commercial banks and securities depositories that have deposit accounts with the Central Bank of Iceland are invited to act as intermediaries for the sale in their own names. This auction is the last in the series of auctions that began in 2011; it is an element in the liberalisation of restrictions on capital transactions with foreign currency, in accordance with the Central Bank’s capital account liberalisation strategy of 25 March 2011 and the Government and Central Bank’s capital account liberalisation strategy of 8 June 2015, and is conducted on the basis of Article 18, Paragraph 1 and Temporary Provision III of the Act on the Central Bank of Iceland, no. 36/2001. Movement of capital in domestic currency for collateral and/or settlement of transactions according to this auction and disposal of foreign currency acquired by participants upon settlement of transactions based on accepted bids in this auction are exempt from the restrictions set forth in the Foreign Exchange Act, no. 87/1992, cf. Article 13(o) of that Act, and the restrictions set forth in the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016.

2. The total amount in Icelandic krónur (the auction amount) that the Central Bank offers to purchase is the same as the total amount of the offshore króna assets, cf. the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016; however, the Central Bank reserves full right to determine the auction amount in accordance with these Terms of Auction.

3. Intermediaries submit offers to the Central Bank through the Bloomberg Auction System between 10:00 hrs. and 14:00 hrs. Icelandic time on the transaction date. The deadline for submittal is at 14:00 hrs. on Thursday 16 June 2016 (the transaction date). The auction results will be published on the Central Bank website no later than 9:00 hrs. on Wednesday 22 June 2016, in all instances outside securities exchange opening hours, and will be sent to intermediaries via Bloomberg. Intermediaries then notify their customers of the auction results.

4. The auction will be structured with a single-price format; i.e., all accepted offers will be offered to investors at the same price, The auction price will be determined by the total amount that is offered for sale, as is set forth in the following table:

<table>
<thead>
<tr>
<th>Volume of offshore króna assets offered for sale:</th>
<th>Auction price:</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 kr. – 50,000,000,000 kr.</td>
<td>210 kr. per euro</td>
</tr>
<tr>
<td>50,000,000,001 kr. – 75,000,000,000 kr.</td>
<td>205 kr. per euro</td>
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<tr>
<td>75,000,000,001 kr. – 125,000,000,000 kr.</td>
<td>200 kr. per euro</td>
</tr>
<tr>
<td>125,000,000,001 kr. – 175,000,000,000 kr.</td>
<td>195 kr. per euro</td>
</tr>
<tr>
<td>175,000,000,001 kr. or more</td>
<td>190 kr. per euro</td>
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</tbody>
</table>

5. The combination of non-competitive bids and valid competitive bids that generates the lowest possible price (kr. per euro) will determine the auction price. See Article 10 of these Terms of Auction concerning non-competitive and competitive bids. All non-competitive bids will be accepted in full at the auction price. Competitive bids above the auction price will be accepted in full, competitive bids below the auction price will be rejected in full, and competitive bids equivalent to the auction price will be accepted in full. All bids below 190 kr. per euro will be rejected in full.

6. The Central Bank reserves the right to accept some or all of the offers submitted, or to reject all of them.

7. Those intermediaries that have concluded an agreement with the Central Bank and are listed on the Central Bank website shall collect offers for the sale of offshore króna assets, cf. Article 8 and Article 13 of these Terms of Auction. Offers made between them shall be binding, with the limitations deriving from the auction. Intermediaries shall submit the same type of offers to the Central Bank in their own names. Intermediaries are authorised to combine those offers from their customers that provide for the same type of payment.

8. Intermediaries shall only collect offers where the funds offered are offshore króna assets as these are defined in Article 2, Item 1 of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions.
Restrictions, no. 37/2016, and only those in the form of cash, bonds, and bills issued by the Icelandic Treasury or bearing an Icelandic State guarantee. Offers based on funds other than these shall be excluded from participation; cf., however, Article 13 of these Terms of Auction.

9. For all offers that they submit to the Central Bank, intermediaries shall acquire and collect information on the beneficial owner and the origins of the funds on which each offer is based, in accordance with Chapters II and III of the Act on Measures to Prevent Money Laundering and Terrorist Financing, no. 64/2006, and shall ensure that the beneficial owner is not subject to international sanctions in accordance with the Act on Implementation of International Sanctions, no. 93/2008. The intermediary shall deliver to the Central Bank, without delay, copies of relevant documents that verify the identity of the customer, together with other documents for the due diligence analysis, if requested. In submitting bids, the intermediary agrees, both on its own behalf and on behalf of its customers, that the Central Bank may provide, to the Financial Supervisory Authority, the tax authorities, the prosecuting authorities, and/or the police, information on the beneficial owner of the funds if a demand is made to this effect, irrespective of whether such a demand is directed at the auction in general or at individual bids.

10. Bids shall contain, at a minimum, information on the volume of offshore króna assets offered for sale and the type of offshore króna assets, referred to in these Terms of Auction as non-competitive bids; however, bids may also specify reservations concerning price, referred to in these Terms of Auction as competitive bids. In all instances where the offshore króna assets are not in the form of cash, the name of the Treasury bill or bond series as listed on the Nasdaq Iceland hf. securities exchange shall be specified. Information on the repurchase price of Treasury bonds, Treasury bills, and Housing Financing Funds for euros in this auction will be published on the Central Bank of Iceland website on 10 June 2016. There is no minimum amount for each submitted offer, and offers shall be submitted in increments of one króna.

11. The intermediary shall deposit the offshore króna assets in cash to Central Bank account no. 0001-26-40083, and offshore króna assets in the form of electronically registered securities shall be delivered to the neutral zone of the Nasdaq CSD Iceland hf. securities depository, under the national ID number of the Central Bank 560269-4129, in both instances before 10:00 hrs. on 29 June 2016. The foreign currency will be deposited to the intermediary’s euro account before the end of the day on 29 June 2016, in accordance with payment instructions that shall be submitted before the end of the day on 22 June 2016. If an intermediary does not honour its offer, the Central Bank reserves the right to demand full performance and charge the highest legally permitted penalty interest for the period corresponding to the delay in payment, all without further notice, and without liability vis-à-vis the intermediary’s customers.

12. No later than Tuesday 5 July 2016, the intermediary shall deliver foreign currency to the customer, in accordance with the customer’s offer to sell, which the intermediary accepted on its own behalf. The intermediary distributes the purchased foreign currency among its customers in accordance with the sell offers collected by the intermediary and is responsible for all distribution of funds among its customers.

13. Intermediaries are also authorised to collect offers in which the funds offered are based on offshore króna assets other than those in the form of cash, Treasury bonds and bills, and bonds and bills bearing a State guarantee. Such offers may not be combined. Settlement of such offers shall take place with a deposit, made by the intermediary to the Central Bank account specified in Article 11 of these Terms of Auction, of an amount equal to the market value of the offshore króna assets less the product of the market value of the offshore króna assets and a percentage of the Central Bank of Iceland’s official central exchange rate of the Icelandic króna against the euro on 20 May 2016 and the auction exchange rate as determined in the auction, which can be expressed as follows:

$$\left(1 - \frac{\text{official Central Bank EURISK exchange rate}}{\text{auction exchange rate (kr. pr. euro)}}\right) \times \text{market value of offshore króna assets}$$

The market value of offshore króna assets shall be based on a reasoned valuation by an impartial chartered accountant of the fair value or cost value of the asset at the time the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions enters into force, as defined according to the Annual Accounts Act, but never lower than the nominal value or book value of the underlying asset. Either the customer or the intermediary shall obtain the valuation at its own expense, and the chartered accountant must provide confirmation of impartiality. The Central Bank of Iceland is authorised to request further
explanations or reject the results of the valuation if it is considered demonstrated that the valuation is not based on satisfactory premises. Documentation providing information on the value of such assets shall be received by the Central Bank no later than 10:00 on 10 June 2016. The assets on which accepted offers are based are exempt from the Act on the Treatment of Kröna-Denominated Assets Subject to Special Restrictions. Furthermore, the disposal of the assets is exempt from the restrictions contained in the Foreign Exchange Act.

14. 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. The Central Bank is authorised to cancel an auction in its entirety due to technical difficulties. Intermediaries may request confirmation of receipt of offers from the Market Operations and Financial Management Department of the Central Bank of Iceland, but such requests will not affect the deadline for submittal of offers. 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 the deadline for submittal of offers, which is 14:00 hrs. on the auction date.

15. These Terms of Auction apply between the Central Bank and the intermediary, as participant in the auction. The Central Bank is not liable for any obligations between the intermediary and its customers concerning foreign exchange transactions between them as a result of the intermediary’s participation in the auction.

16. Notwithstanding the provisions of these Terms of Auction, intermediaries may submit bids by other means than through the Bloomberg system, subject to explicit agreement with the Central Bank.

17. These Terms of Auction have been translated into English; however, the Icelandic original shall be considered the authoritative text.