

RULES on foreign exchange

Article 1

Investment and transactions

Investing in securities, unit share certificates in UCITS and investment funds, money market instruments, or other transferable financial instruments with foreign currency is prohibited. However, parties that have invested in such financial instruments prior to the entry into force of these Rules are permitted to reinvest. If the proceeds of sale or full payment of financial instruments are utilised, in whole or in part, to invest again in the same type of foreign instrument within two weeks' time, this is considered reinvestment in the sense of the second sentence.

Sales proceeds from transactions with króna-denominated financial instruments, according to Paragraph 1, that take place between domestic and foreign parties and are settled in Iceland must be deposited to the seller's account with a financial undertaking in Iceland.

Transactions with króna-denominated instruments according to Paragraph 1 may not be settled in foreign currency.

It is prohibited to carry out foreign exchange transactions related to cross-border movement of capital according to Paragraph 1 of the Temporary Provision of the Foreign Exchange Act, with subsequent amendments, by means of withdrawals from króna-denominated bank accounts at domestic financial undertakings or the Central Bank of Iceland.

Article 2

Direct investment

Direct investment by foreign parties is not subject to any restrictions. Direct investment refers to a capital contribution or other contribution to the equity of a commercial enterprise, or to the purchase of a holding with the aim of acquiring significant influence over its management. Significant influence means that an investor's holding in an undertaking represents 10% or more of its equity capital, guarantee capital, or voting rights, or another holding that enables the exercise of substantial influence on the management of the company concerned. Long-term loans from a company's owners to the company are also considered direct investment.

It is prohibited to carry out movement of capital according to Paragraph 1 of the Temporary Provision of the Foreign Exchange Act, with subsequent amendments, in order to transfer or convey capital out of the country in connection with the sale of direct investments.

Article 3

Issuance and sale of financial instruments

It is prohibited to issue and sell securities, unit share certificates in UCITS and investment funds, money market instruments, or other transferable financial instruments if settlement takes place in a currency other than the currency of issue and the Icelandic króna is one of the settlement currencies. If the issue is denominated in

Icelandic krónur, the proceeds from the sale must be deposited to a króna-denominated account, in the issuer's name, in a financial undertaking in Iceland.

Article 4

Borrowing and lending

Borrowing and lending between domestic and foreign parties for purposes other than cross-border transactions with goods and services shall meet the following requirements:

1. Each party's loan shall not exceed 10,000,000 kr., or the equivalent of that amount in foreign currency, per calendar year.
2. The loan period shall be at least one year.
3. Capital transfers for the loan shall be in accordance with the provisions of Article 8 of these Rules.
4. Loan agreements, including all appendices and accompanying documents, shall be sent to the financial undertaking that carries out the movement of capital within one week of signing.

The provisions of this Article do not apply to borrowing and lending between undertakings within a conglomerate.

Article 5

Guarantees

It is prohibited to act as a guarantor or assume liability for payments between domestic and foreign parties.

The provisions of this Article do not apply to guarantees related to the trade of goods and services, nor do they apply to guarantees between undertakings within a group.

Article 6

Trading in derivatives

It is prohibited to transact derivatives contracts involving the Icelandic króna against a foreign currency, whether these are contracts involving currencies, securities, or a combination of currencies and securities, or other comparable financial instruments.

Derivatives transactions related solely to trade with goods and services do not fall under this provision.

Article 7

Miscellaneous movement of capital

Movement of capital for gifts, subsidies, or other purposes, in amounts exceeding 10,000,000 kr. per calendar year, is prohibited; cf. Paragraph 1, Item 6 of the Temporary Provision of the Foreign Exchange Act, with subsequent amendments.

Article 8

Interest, indexation, dividends, equity income, and instalment payments

Interest, indexation, dividends, equity income, and contractual instalment payments are not considered movement of capital in the sense of these Rules. Wages

are not considered movement of capital in the sense of these Rules. Cross-border prepayment of financial instruments is prohibited, however.

Article 9

Obligation to repatriate foreign currency

All foreign currency that domestic parties acquire, either from the sale of goods and services or in another manner, must be submitted to a domestic financial institution within two weeks of the time the foreign currency was acquired or could have been acquired by the owner or his agent or representative. If the party in question cannot submit the foreign currency within this time limit, he or she must explain the reason to a financial undertaking. The obligation to repatriate foreign currency according to the first sentence of this Article can be fulfilled by depositing foreign currency to a foreign currency account with a financial undertaking in Iceland.

This obligation to repatriate foreign currency does not apply to domestic parties residing abroad for purposes of work or study.

Article 10

Withdrawals from foreign currency accounts

Withdrawals from foreign currency accounts in Iceland or purchases of foreign currency from financial undertakings in Iceland are subject to the requirement that the party in question demonstrate that the funds will be used in accordance with these Rules. It is prohibited to withdraw foreign currency in cash from a foreign currency account without demonstrating that the funds will be used to pay for goods or services, including travel.

Article 11

Importation and exportation of foreign currency

The exportation of foreign currency in cash in amounts exceeding the equivalent of 500,000 kr. per individual party, per calendar month, is prohibited.

Article 12

Guidelines and applications for exemptions

The Central Bank may set further guidelines concerning the implementation of these Rules.

Article 13

Penalties

Violations of the provisions of these Rules are subject to administrative fines and penalties in accordance with Articles 15(a) – 15(d), Article 16, Article 16(a) and Article 16(b) of the Foreign Exchange Act, with subsequent amendments.

Article 14

Limits to scope of application

The provisions of these Rules do not apply to movement of capital or foreign exchange transactions undertaken by the Central Bank of Iceland.

The Rules do not apply to:

1. The Treasury and companies in which the Treasury owns a majority holding, and which operate according to special legislation.
2. Municipalities and companies in which municipalities own a majority holding, and which operate according to special legislation.
3. Companies that are parties to investment agreements with the Government of Iceland, which agreements have been assigned legal validity or are concluded on the basis of special statutory authorisations.
4. Companies that have been granted permission by the Minister of Industry to search for oil according to Act no. 13/2001.
5. Resolution committees that have been appointed on the basis of Article 100a of the Act on Financial Undertakings.

Undertakings with over 80% of their revenues and expenses abroad may apply for an exemption from Articles 1, 4-6, and 9 of the Rules. Those undertakings that believe they meet the requirements set forth in the first sentence shall send an application to the Central Bank of Iceland and demonstrate that they fulfil the conditions. The application shall be accompanied by a confirmation from a chartered auditor. A list of parties that have been granted such exemptions will be published on the website of the Central Bank of Iceland.

Commercial banks, savings banks, and credit institutions are authorised to engage in spot, forward, and swap transactions with foreign currency. Furthermore, commercial banks, savings banks, and credit institutions are authorised to take foreign-denominated loans to finance their activities or to refinance previous debt. Commercial banks and savings banks are authorised to receive money market deposits in Icelandic krónur from foreign parties.

Article 15

Entry into force, etc.

These Rules are set in accordance with the Temporary Provision of the Foreign Exchange Act, with subsequent amendments, and shall enter into force at once. At the same time, the Rules on Foreign Exchange, no. 1082/2008, are abrogated. These Rules shall be reviewed no later than March 1, 2009.

Reykjavík, December 15, 2008

Central Bank of Iceland

Davíð Oddsson
Chairman of
the Board of Governors

Eiríkur Guðnason
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