

AGREEMENT made as of the 1st day of May, 1942, at the City of Washington, District of Columbia, between the Secretary of the Treasury of the United States of America (hereinafter called the Secretary), the National Bank of Iceland (hereinafter called the Bank) and the Government of Iceland (hereinafter called Iceland).

WHEREAS, the monetary and financial cooperation of the United States of America and Iceland and the stabilization of the United States dollar-Icelandic krona rate of exchange are important factors in promoting trade and in fostering the welfare and friendly relationships of the two countries;

NOW, THEREFORE, in order to further such objectives and in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. The Secretary, through the Federal Reserve Bank of New York as Fiscal Agent of the United States (hereinafter in its capacity as Fiscal Agent of the United States called the Federal) shall, as hereinafter provided, purchase Icelandic kronur from the Bank from time to time as requested by the Bank, the United States dollars paid therefor to be used exclusively for the purpose of stabilizing the exchange value of the Icelandic krona with respect to the United States dollar. The total amount of kronur thus purchased by the Secretary, exclusive of accrued interest thereon and of any kronur repurchased, shall not at any time exceed in the aggregate the equivalent of United States \$2,000,000 computed at the rate at which such kronur are purchased as hereinafter provided. The kronur so purchased shall be credited to the Federal on the books of the Bank in a special account to be opened in the name of

"Federal Reserve Bank of New York as Fiscal Agent of the United States". Upon receipt by the Federal Reserve Bank of New York of advice from the Bank by tested cablegram or radiogram that this account has been credited with a stated amount of Icelandic kronur, the Federal will in turn, in payment therefor, credit the Bank in a special account to be opened by the Federal in the name of "National Bank of Iceland, Special Account", in an amount in United States dollars equivalent, at the Bank's buying rate of exchange in Reykjavik, Iceland, for cable transfers payable in United States dollars on New York, which it shall have determined by virtue of its actual current market operations, to the amount in Icelandic kronur so credited to the account in the name of the Federal on the books of the Bank. At the time that the Bank requests the purchase of the Icelandic kronur, it shall advise the Federal of its buying rate for dollars.

2. The Bank shall credit interest to the special krona account in the name of the Federal on the last day of each successive month from and after the date hereof. Such interest shall be computed at the rate of 1-1/2% (one and one-half percent) per annum on the daily balance of such kronur in such special account as were purchased by the Secretary under this Agreement.

3. (a) Within thirty days after the receipt of notice from the Secretary or the Federal containing such request, the Bank shall repurchase, or cause to be repurchased (and in the case of accrued interest, purchase, or cause to be purchased), in United States dollars, by payments at the Federal Reserve Bank of New York:

(i) Any or all of the kronur purchased by the Secretary through the Federal at the same rate or rates of exchange at which such kronur were purchased; and

(ii) Any or all of the kronur representing interest accrued on, and whether or not credited to, the special krona account on the books of the Bank in the name of the Federal at the average rate of exchange at which the kronur, upon which such interest has accrued, were purchased by the Secretary through the Federal.

(b) Notwithstanding the foregoing, in the absence of such a request by the Secretary or the Federal, kronur in the amount of such accrued interest shall be purchased or caused to be purchased by the Bank by payment in United States dollars at the Federal Reserve Bank of New York on the last day of each successive three-months' period from and after the date hereof and upon the termination of this Agreement, at the rate of exchange described in subdivision (a)(ii) of paragraph 3.

(c) The aforementioned special krona account, the kronur credited thereto (including interest), and all transactions respecting such account, and the other obligations of the Bank and Iceland under this Agreement shall, in so far as the rights, powers and privileges of the Secretary or the Federal may thereby be affected, be exempt and immune from any taxes, fees, charges, restrictions, and controls of any nature under the laws of Iceland or any political subdivision or taxing authority thereof.

4. The Bank may also at any time by making payments at the Federal Reserve Bank of New York in United States dollars at the rate of exchange provided in paragraph 3, repurchase the kronur described in paragraph 3, with available funds from any source.

5. In the event of any failure to repurchase (or, in the case of interest, purchase) the kronur as provided in paragraph 3 or of any other act, done or omitted, not in accordance with the

provisions of this Agreement, the Bank shall, if and when the Secretary, acting directly or through the Federal, so elects by giving notice to the Bank and/or Iceland to such effect, become forthwith obligated to repurchase or cause to be repurchased, or in the case of interest, purchase or cause to be purchased, all of the kronur at a total purchase price in United States dollars determined as provided in paragraph 3 by payment at the Federal Reserve Bank of New York and the dollars remaining in the "National Bank of Iceland, Special Account" shall be retained by the Federal and applied by the Secretary or the Federal as a payment on account of such purchase price. No failure or delay on the part of the Secretary in exercising any of his rights, powers, or privileges in whole or in part, under this Agreement shall constitute a waiver thereof, or of any other rights, powers or privileges granted to the Secretary under this Agreement. It is understood that the Federal Reserve Bank of New York will act only as fiscal agent of the United States in carrying out this Agreement and in doing and performing any acts or transactions in connection with this Agreement, and that it will not incur any liability for any acts done or omitted pursuant to instructions of the Secretary. The Federal is authorized to accept and act upon any writing relating to the purchase of kronur under this Agreement or to the "National Bank of Iceland, Special Account" which is received by the Federal in the name of the Bank and which is believed by the Federal to be genuine, and upon any cablegram, radiogram or telegram relating to the foregoing which is received by the Federal in the name of the Bank and which conforms to existing or future arrangements agreed upon between the Bank and the Federal Reserve Bank of New York, or to arrangements hereafter agreed upon between the

Bank and the Federal with regard to the authentication of cablegrams, radiograms or telegrams by the use of test numbers, and all such writings, cablegrams, radiograms and telegrams shall be binding upon the Bank and Iceland.

6. Iceland hereby unconditionally guarantees the full performance by the Bank of all the obligations, duties and liabilities of the Bank under this Agreement and any arrangements made pursuant thereto.

7. Any notice given by the Secretary or the Federal either to the Bank or to Iceland shall be deemed and taken as full notice to both of them, and such notice may be given by the Secretary or the Federal to the Bank at its head office in Reykjavik, Iceland, or to Iceland at the office of the Minister of Finance of Iceland at Reykjavik, Iceland, or to the Icelandic Minister at Washington, D. C. The Bank and Iceland hereby waive diligence, protest, notice and demand of every kind, except as expressly provided for in this Agreement.

8. It is agreed that the United States dollar-Icelandic krona rate of exchange and all other monetary, financial and economic problems of mutual interest shall be discussed between the parties at Washington, D. C., from time to time as circumstances may render appropriate at the request of either the Secretary, Iceland or the Bank and that in any case such discussions shall take place at intervals of approximately six months from and after the date of this Agreement. The Bank and Iceland further agree that the dollars made available under this Agreement will be used as a revolving fund for the stabilization of the exchange value of the Icelandic krona with respect to the United States dollar, and that due diligence will be exercised to prevent the permanent exhaustion

of such fund. In particular, the Bank and Iceland agree to take all reasonable measures to prevent internal currency and credit expansion such as would cause an undue drain on the dollars made available hereunder.

9. Each of the parties to this Agreement shall take and cause to be taken all the necessary measures to effectuate the purposes and intent of this Agreement and to provide each other with such information in their possession relative to foreign exchange transactions, stabilization operations and other matters of mutual interest as is relevant to the proper functioning of this Agreement.

10. Any obligation of the Secretary pursuant to this Agreement shall be conditioned and dependent upon the prior performance by the Bank and/or Iceland of any obligations to be performed or liabilities to be discharged by them, or either of them, under this Agreement and any arrangements made pursuant thereto.

11. Any obligation of the Secretary to purchase kronur under this Agreement shall terminate on June 30, 1943, subject to earlier termination at any time thirty days after receipt by the Bank of a written communication or cablegram, radiogram, or telegram from the Secretary or the Federal to that effect. The termination of any such obligation of the Secretary shall not affect any of the rights, powers or privileges of the Secretary or of the Federal, or any of the duties, liabilities or obligations of the Bank or of Iceland hereunder, all of which shall continue in effect until the Bank and Iceland shall have fully performed their said duties and obligations and discharged said liabilities. If any extension of the Agreement is agreed upon, the Agreement shall continue in full

force and effect during the period thus agreed upon. In the event that the Bank and Iceland wish an extension of this Agreement, they will give the Secretary notice to that effect in writing or by cablegram, radiogram, or telegram at least thirty days prior to the termination of the Agreement.

12. This Agreement shall come into operation and effect as between the parties hereto when Iceland shall file with the State Department of the United States appropriate documents satisfactorily evidencing the authority of the Bank and Iceland under the constitution, laws, statutes, decrees and regulations of Iceland, and under the statutes, by-laws, regulations, resolutions and rules of the Bank, to enter into this Agreement, or satisfactorily evidencing ratification of the action of the Bank and Iceland in entering into this Agreement. The Bank and Iceland each for itself represents and agrees that upon the delivery of the aforementioned documents, the execution and delivery of this Agreement shall have in all respects been duly authorized or ratified, and that all acts, conditions and legal formalities which should have been completed prior to this Agreement becoming effective shall have been completed as required by the constitution, laws, statutes, decrees and regulations of Iceland, and under the statutes, by-laws, regulations, resolutions and rules of the Bank, and in conformity therewith.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate.

/s/ Henry Morgenthau, Jr.  
SECRETARY OF THE TREASURY OF THE UNITED STATES

NATIONAL BANK OF ICELAND

By /s/ Thor Thors

GOVERNMENT OF ICELAND

By /s/ Thor Thors