GOVERNMENT DEBT MANAGEMENT

TERMS OF INVITATION TO TENDER
for
TREASURY BONDS SWITCH OPERATION

Auction date 19 October 2018

1. The Minister of Finance, acting on behalf of the Treasury, has decided to tender Treasury Bonds in conformity with authorisations contained in the National Budget for the year 2018 and with reference to the provisions of the Act on the National Debt Management Agency, no. 43/1990, with subsequent amendments, and the agreement between the Ministry of Finance and the Central Bank of Iceland concerning the Government Debt Management agency, which was concluded on 18 October 2010. The aim of the issue is to acquire funds for the Treasury and to improve the interest rate structure in the domestic bond market. *The auction date is Friday 19 October 2018. The date of payment and settlement is Wednesday 24 October 2018.*

2. The following series of Treasury Bonds will be offered:

Series	ISIN	Maturity date
RIKB 20 0205	**IS0000024453**	**05.02.2020**

   The Central Bank reserves the right to accept all of the submitted bids, part of them or reject all of them. The auction will be structured as a single-price auction, which means that all accepted bids will be offered to primary dealers at the same price. The lowest accepted price (highest yield) will determine the selling price.

   NOTE it is only possible to purchase bonds in RIKB 20 0205 with the sale of RIKB 19 0226, which matures on 26 February 2019. Government Debt Management will purchase RIKB 19 0226 at a pre-determined price – that is, at a clean price of 101.219 (106.972425 with accrued interest per 100 nominal value) – with settlement on 24 October 2018. To clarify, this price is equivalent to 4.93% yield. The value of the bond, together with accrued interest, will constitute payment for the new issued bonds.

3. The Treasury Bonds are issued in dematerialised form by the Icelandic Securities Depository hf. The value unit is one króna; that is, the nominal value and the number of units is the same.

4. Only primary dealers are authorised to submit bids. The minimum amount of each bid is 1 m.kr. Bids shall be submitted in multiples of 1 m.kr.

5. Bids may only be sent to the Central Bank through the Bloomberg Auction System between 10:30 and 11:00 on the auction date (Icelandic local time). Bids shall be expressed on a price basis, with three decimals.

6. If bids do not reach the Central Bank due to system error or any other reason, the Central Bank disclaims all liability. Parties can obtain a confirmation of acceptance of their bids by calling the Treasury and Market Operation Department of the Central Bank of Iceland (tel: +354 569 9633). Bids 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 bids by sending an appropriate message through the Bloomberg Auction System to the Central Bank before 11:00 on the auction date. If problems arise because of the use of the Bloomberg Auction System, the terms of "Form of Auction Process & BAS Back-Up Memorandum", which has been sent to all primary dealers that are authorised to submit bids, shall apply.

7. The Treasury reserves the right to reject bids entirely or accept bids in part.

8. The results of the auction will be published on the NASDAQ Iceland and sent to the primary dealers by e-mail.

9. No special compensation is paid in relations to purchase of RIKB 19 0226.

10. Payments for the Treasury Bonds in accordance with accepted bids in the auction must be received by the Central Bank before 14:00 on the date of payment, and the Bonds will be delivered in electronic form on the same day. If payment is not received at the correct time, the Treasury reserves the right to claim from the bidder the maximum legal penalty interest for the duration of the delay.

11. The Treasury will pay the debt according to the aforementioned Treasury Bonds on the maturity date. Any legal action resulting from these Treasury Bonds or any disagreement concerning the interpretation of terms and conditions may be referred to the District Court of Reykjavík, pursuant to the provisions of Chapter 17 of the Code of Civil Procedure, Act no. 91/1991. The expiry of claims in accordance with these Treasury Bonds is subject to the provisions of the Act on the Expiration of Debt and Other Obligations, no. 150/2007.

12. Treasury Bonds are exempt from stamp duty in accordance with Act no. 79/1983. The tax liability or tax exemption of Treasury Bonds and interest on them is subject to the provisions of the Act on Income Tax, as current at any time. Treasury Bonds must be declared on income tax returns.

13. This series of Treasury Bonds is listed on the NASDAQ in Iceland. Market makers are Arion Bank, Íslandsbanki, Kvika and Landsbankinn.