

## IMPORTANT NOTICE

**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the attached Invitation, whether received by e-mail or otherwise received as a result of electronic communication, and you are, therefore, advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached document. In accessing the attached Invitation, you agree to be bound by the following terms and conditions, including any modification to them from time to time, each time that you receive any information from Barclays Capital Inc. or Citigroup Global Markets Limited, as dealer managers (the “**Dealer Managers**”) or Global Bondholder Services Corporation as information and tender agent (the “**Information and Tender Agent**”). Capitalized terms used but not otherwise defined in this disclaimer shall have the meanings given to them in the attached Invitation.

You have been sent the attached Invitation on the basis that you have confirmed to the Dealer Managers or to the Information and Tender Agent, being the sender of the attached Invitation, that:

- (a) you are a holder or a beneficial owner of the U.S.\$1,000,000,000 5.875% Notes due 2022 (Reg S ISIN USX34650AA31 and 144A ISIN US451029AE22; Reg S CUSIP X34650AA3 and 144A CUSIP 451029AE2) issued by the Republic of Iceland (“**Iceland**”);
- (b) you are a person to whom it is lawful to send the attached Invitation or to make an offer pursuant to the Invitation, in each case in accordance with applicable laws, and you are permitted under the laws of your jurisdiction of residence and domicile to participate in the Invitation;
- (c) you consent to the delivery of the attached Invitation by electronic transmission; and
- (d) you have understood and agree to the terms set forth herein.

The attached Invitation has been sent to you in an electronic form. However, you are advised that documents transmitted in electronic form may be altered or changed during the process of transmission and consequently none of Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar (each as defined in the attached Invitation), any person who controls, or is a director, officer, employee or agent of, any of Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar, or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Invitation distributed to you in electronic format and the hard copy version available to you on request from the Dealer Managers or the Information and Tender Agent.

The distribution of the attached Invitation in certain jurisdictions may be restricted by law and persons into whose possession this Invitation comes are requested to inform themselves about, and to observe, any such restrictions. No action has been or will be taken in any jurisdiction in relation to the Invitation that would permit a public offering of securities.

The materials relating to the attached Invitation do not constitute, and may not be used in connection with, an offer or invitation in any place where offers or invitations are not permitted by law.

In the United Kingdom this Invitation may only be communicated to (i) investment professionals falling within Article 19(5) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Order”); (ii) persons falling within Article 49(2)(a) to (d) of the Order; or (iii) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated or caused to be communicated (whether pursuant to Article 34 of the Order or otherwise) (all such persons together being referred to as “relevant persons”).

**THE ATTACHED INVITATION MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED INVITATION, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS REQUIREMENT MAY RESULT IN A VIOLATION OF APPLICABLE LAWS AND REGULATIONS.**

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**Republic of Iceland**

Invites the Holders of its

**U.S.\$1,000,000,000 5.875% Notes due 2022 (the “Notes”)  
(Reg S ISIN USX34650AA31 and 144A ISIN US451029AE22;  
Reg S CUSIP X34650AA3 and 144A CUSIP 451029AE2;  
to submit offers to sell for cash any and all of the Notes outstanding**

**This document is referred to as the “Invitation”.**

Iceland is inviting holders of its Notes to submit offers to sell their Notes for cash, upon the terms and subject to the conditions contained herein. The Invitation is being made in respect of any and all outstanding Notes, subject to the conditions described herein.

The following table sets forth some of the terms of the Invitation:

<u>Title of Notes</u>	<u>CUSIP/ISIN</u>	<u>Principal Amount Outstanding</u>	<u>Fixed Spread (bp)</u>	<u>Reference UST Security</u>	<u>Bloomberg Reference Page</u>
5.875% Notes due 2022	144A: 451029AE2 / US451029AE22  Reg S: X34650AA3 / USX34650AA31	U.S.\$1,000,000,000	75	1.875% due February 28, 2022	PX1

For each U.S.\$1,000 principal amount of Notes you sell in the Invitation, Iceland will pay a cash amount (the “**Purchase Price**”) calculated as described herein.

In addition, Iceland will pay accrued and unpaid interest during the period from and including the most recent interest payment date for the Notes to but excluding the Settlement Date (as defined herein).

The Notes are listed on the Official List of the London Stock Exchange and trade on the regulated market of the London Stock Exchange. Iceland intends to continue to list the Notes not accepted for purchase on the Official List of the London Stock Exchange following the consummation of the Invitation, subject to that exchange’s rules and standards, and to have such Notes trade on the regulated market of the London Stock Exchange.

See “*Risk Factors*” on page 10 for a discussion of factors you should consider before submitting an offer to sell your Notes for cash.

**THE INVITATION WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON APRIL 4, 2017, UNLESS EXTENDED OR EARLIER TERMINATED BY ICELAND IN ITS SOLE DISCRETION (SUCH DATE, AS IT MAY BE EXTENDED, THE “EXPIRATION DATE”).**

Holders are advised to check with any broker, dealer, bank, custodian, trust company or other trustee, Clearing System (as defined herein) or other intermediary through which they hold Notes whether such broker, dealer, bank, custodian, trust company or other trustee, Clearing System or other intermediary applies different deadlines for any of the events specified above, and then adhere to such deadlines if such deadlines are prior to the deadline set out above.

*Dealer Managers*

**Barclays**

**Citigroup**

The date of this document is March 29, 2017.

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## INTRODUCTION

Iceland has provided you with only the information contained in this document. Iceland has not authorized anyone else to provide you with different information. Iceland is seeking offers to sell the Notes for cash only in jurisdictions where it is lawful to do so.

Iceland is furnishing this document solely for use by current holders of Notes in the context of the Invitation.

The information contained in this Invitation is accurate only as of the date on the front of this document, regardless of the time of delivery of this document or of any payment of cash.

Neither the delivery of this Invitation nor any payment for Notes pursuant to this Invitation shall, under any circumstances, create any implication that the information contained herein is current as of any time subsequent to the date of such information or that there has been no change in the information set out in it or in the affairs of Iceland since the date hereof.

Notes acquired by Iceland pursuant to the Invitation will be cancelled. Accordingly, the purchase of Notes pursuant to the Invitation will reduce the aggregate principal amount of Notes that otherwise might trade in the market, which could adversely affect the liquidity and market value of the remaining Notes. Notes not purchased in the Invitation will remain outstanding.

Barclays Capital Inc. and Citigroup Global Markets Limited are acting as the “**Dealer Managers**” for the Invitation,

None of Iceland, the Dealer Managers, Citibank, N.A. as the “**Principal Paying Agent**” and “**Registrar**” for the Notes, or Global Bondholder Services Corporation as the “**Information and Tender Agent**” for the Invitation, has expressed any opinion as to whether the terms of the Invitation are fair. None of Iceland, the Dealer Managers, the Principal Paying Agent, the Transfer Agent or the Information and Tender Agent makes any recommendation that you offer to sell Notes for cash or refrain from doing so pursuant to the Invitation, and no one has been authorized by Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar to make any such recommendation. You must make your own decision as to whether to offer to sell Notes for cash or refrain from doing so, and, if so, the principal amount of Notes to offer to sell.

References to “U.S.\$” or “\$” in this Invitation are to United States dollars.

References to the “Republic” or “Iceland” are to the Republic of Iceland.

Offers to sell may only be submitted by a direct participant in The Depository Trust Company (“**DTC**”), the Euroclear Bank SA/NV (“**Euroclear**”) or Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**” and together with DTC and Euroclear, the “**Clearing Systems**”). Iceland reserves the right to reject any offer not received in the appropriate form.

## CERTAIN LEGAL RESTRICTIONS

The distribution of materials relating to the Invitation, and the transactions contemplated by the Invitation, may be restricted by law in certain jurisdictions. If materials relating to the Invitation come into your possession, you are required by Iceland to inform yourself of and to observe all of these restrictions. The materials relating to the Invitation do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. Neither this document nor any related documents have been filed with, and have not been approved or reviewed by any federal or state securities commission or regulatory authority of any country. No authority has passed upon the accuracy or adequacy of this document or any related documents, and it is unlawful and may be a criminal offense to make any representation to the contrary. If a jurisdiction requires that the Invitation be made by a licensed broker or dealer and the Dealer Managers or any affiliate of either Dealer Managers is a licensed broker or dealer in that jurisdiction, the Invitation shall be deemed to be made by the Dealer Managers or such affiliate on behalf of Iceland in that jurisdiction. Owners who may lawfully participate in

the Invitation in accordance with the terms thereof are referred to as “holders”. For more information, see “*Holders’ Representations, Warranties and Undertakings*”, “*Dealer Managers and Information and Tender Agent*” and “*Jurisdictional Restrictions*” in this document.

## SUMMARY OF THE INVITATION

*This summary highlights information contained elsewhere in this document. It is not complete and may not contain all the information that you should consider before offering Notes for cash. You should read this entire document carefully.*

### The Invitation

<b>The Invitation</b> .....	Iceland is inviting holders of its Notes to submit offers to sell their Notes for cash, upon the terms and subject to the conditions contained herein. The Invitation is being made in respect of any and all outstanding Notes, subject to the conditions described herein. For a more detailed discussion, see “ <i>Terms of the Invitation</i> ”.
<b>Purpose</b> .....	Purchasing the Notes at the Purchase Price is sound debt and liquidity management for the Republic of Iceland and provides liquidity to holders whose Notes are accepted for purchase in the Invitation.
<b>Source of Funds</b> .....	Iceland intends to pay the aggregate Purchase Price of the Notes purchased pursuant to the Invitation, together with accrued and unpaid interest thereon, and expenses to be borne by the Republic in connection with the Invitation from funds held by Iceland with the Central Bank of Iceland.
<b>Conditions to the Invitation</b> .....	Notwithstanding any other provision of the Invitation, the settlement of the Invitation is conditional on, among other things, the absence of legal actions or proceedings concerning the legality, timing or restrictions applicable to the consummation of the Invitation. For more information regarding the conditions to which the Invitation is subject, see “ <i>Terms of the Invitation—Conditions to the Invitation</i> ”.
<b>Consideration to Be Received Pursuant to the Invitation</b> .....	If you offer to sell Notes pursuant to the Invitation and Iceland accepts your offer, you will receive, for each U.S.\$1,000 principal amount of Notes sold in the Invitation, a cash Purchase Price calculated as described under “ <i>Terms of the Invitation—Consideration to be Received Pursuant to Invitation.</i> ” In addition, you will receive accrued and unpaid interest on the Notes you sell in the Invitation during the period from and including the most recent interest payment date for the Notes to but excluding the Settlement Date.
<b>Acceptance of Offers</b> .....	Iceland reserves the right, in its sole discretion, not to accept any offers to sell Notes.
<b>Pricing Date and Time</b> .....	On April 5, 2017 at 10:00 a.m. New York City time (such date, as the same may be extended, the “ <b>Pricing Date</b> ” and, along with time stated herein, the “ <b>Pricing Date and Time</b> ”) Iceland will calculate, determine and announce the Purchase Price.

**Settlement** ..... Iceland currently anticipates that settlement of the Invitation will occur on April 7, 2017 (such date, as the same may be extended, the “**Settlement Date**”), the third business day following the Expiration Date, unless the Invitation is extended. If Iceland extends the Invitation, it will at the time of extension announce the date it then expects to be the Settlement Date.

**Submitting Offers** ..... If you are a holder and you wish to participate, you or the custodial entity through which you hold your Notes must submit an offer, at or prior to 5:00 p.m., New York City time, on the Expiration Date. Offers may be submitted only by direct participants in DTC, Euroclear or Clearstream, Luxembourg.

If you are a beneficial owner and the custodial entity through which you hold your Notes uses DTC, Euroclear or Clearstream, Luxembourg as a clearing system, then you must follow instructions and deadlines as specified by DTC, Euroclear or Clearstream, Luxembourg, as applicable.

**Extension or Termination of the Invitation** ..... Iceland reserves the right, on or prior to the Expiration Date and in its sole discretion, to extend or terminate the Invitation. Any such extension or termination will be announced by Iceland by a notice to the Clearing Systems for communication to direct participants and/or through delivery of a notice as required by the London Stock Exchange or such other regulatory information service as Iceland may determine (the “**News Service**”) on the business day following such termination or extension. The duration of any such extension shall be within Iceland’s sole discretion. If Iceland extends the Invitation, it will at the time of extension announce the date it then expects to be the Expiration Date.

**Withdrawal and Revocation**..... If Iceland amends the Invitation in any way that, in the opinion of Iceland (in consultation with the Dealer Managers), is materially prejudicial to holders of Notes that have already submitted offers before the announcement of such amendment, then such holders shall have certain rights of withdrawal. For a detailed discussion, see “*Terms of the Invitation—Limited Revocation and Withdrawal Rights*”.

Offers submitted may be withdrawn or revoked only in the limited circumstances set out in “*Terms of the Invitation—Limited Revocation and Withdrawal Rights*”. Iceland may elect to extend the Expiration Date, in which case the application of the circumstances in which such limited withdrawal rights apply will also be extended up to the extended Expiration Date.

<b>Term of the Invitation; Amendments</b> .....	<p>The Invitation will expire at 5:00 P.M., New York City time, on the Expiration Date, unless Iceland in its sole discretion extends it or terminates it earlier.</p> <p>Iceland reserves the right, in its sole discretion, to amend the Invitation. Any such amendment will be announced by Iceland by press release issued to the News Service on the business day following such amendment.</p>
<b>Jurisdictions</b> .....	<p>Iceland is making the Invitation only in those jurisdictions where it is legal. See “<i>Certain Legal Restrictions</i>”, “<i>Holder’s Representations, Warranties and Undertakings</i>”, “<i>Dealer Managers and Information and Tender Agent</i>”, and “<i>Jurisdictional Restrictions</i>”.</p>
<b>U.S. Federal Income Tax Considerations</b> ..	<p>For a discussion of certain U.S. federal income tax considerations relating to the Invitation applicable to beneficial owners of Notes, see “<i>Taxation—Certain U.S. Federal Income Tax Consequences</i>.”</p>
<b>Dealer Managers</b> .....	<p>Barclays Capital Inc. Citigroup Global Markets Limited</p>
<b>Information and Tender Agent</b> .....	<p>Global Bondholder Services Corporation. Requests for additional copies of this Invitation should be directed to the Information and Tender Agent. Its contact information appears on the back cover page of this Invitation.</p>

## SUMMARY TIME SCHEDULE FOR THE INVITATION

*The following summarizes the anticipated time schedule for the Invitation, assuming, among other things, that the Expiration Date is not extended. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this document. All references are to New York City time.*

<u>Date</u>	<u>Action</u>
March 29, 2017 (“ <b>Launch Date</b> ”)	Announcement of the terms of the Invitation.
March 29, 2017 through April 4, 2017 at 5:00 p.m. New York City time	The Invitation is open during this period. Holders of Notes may submit offers as described in this document.
5:00 p.m. New York City time on April 4, 2017 (the “ <b>Expiration Date</b> ”)	The Invitation expires, unless Iceland extends it or terminates it earlier in its sole discretion. Holders of Notes may no longer submit offers.
April 5, 2017 at 10:00 a.m. New York City time (“ <b>Pricing Date and Time</b> ”)	<p>If Iceland determines, in its sole discretion, to accept any offers to sell, Iceland calculates, determines and announces the Purchase Price.</p> <p>Iceland reserves the right to make other announcements relating to the Invitation, including changes to the Settlement Date, until the Pricing Date and Time.</p>
April 7, 2017 (“ <b>Settlement Date</b> ”)	If Iceland determines to accept any offers to sell the Notes, Settlement of the Invitation is expected to occur three business days after the Expiration Date, unless the Invitation is extended. If Iceland extends the Invitation, it will at the time of extension announce the date it then expects to be the Settlement Date.

## RISK FACTORS

*This section describes certain risks associated with the Invitation. You should consult your financial and legal advisors about the risk of participating in the Invitation. Iceland disclaims any responsibility for advising you on these matters.*

**Limited Trading Market; Increased Volatility.** Notes not purchased pursuant to the Invitation will remain outstanding. The purchase of Notes pursuant to the Invitation and the cancellation of such Notes will reduce the aggregate principal amount of Notes that otherwise might trade in the market, which could adversely affect the liquidity and market value of any Notes not purchased. To the extent that Notes are purchased by the Republic pursuant to the Invitation, the trading markets for the Notes that are not purchased pursuant to the Invitation may become more limited. A debt security with a smaller outstanding principal amount available for trading (a smaller “float”) may command a lower price than would a comparable debt security with a greater float. Therefore, the market price of Notes not purchased may be affected adversely to the extent the amount of Notes purchased by the Republic reduces the float of the Notes. On the other hand, if the Republic’s purchase of the Notes is viewed by the market as significant positive news due to its potential beneficial impact on the Republic’s external liabilities, the price of the Notes could rise following completion of the Invitation to a level greater than the Purchase Price. The reduced float may also make the trading price of the Notes more volatile. The extent of the trading market for the Notes following consummation of the Invitation will depend upon the principal amount of such Notes that remains outstanding and available for trading, the number of holders that remain at such time, the interest in maintaining markets in the Notes on the part of securities firms and other factors. There can be no assurance that any trading market will exist for the Notes following the Invitation.

**Other Purchases of Notes.** Whether or not the Invitation is consummated, the Republic may continue to acquire, from time to time following the Pricing Date and Time, Notes other than pursuant to the Invitation, including through open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the prices to be paid pursuant to the Invitation and could be for cash or other consideration.

**Responsibility for Assessing the Merits of the Invitation and Complying with the Procedures of the Invitation.** Each holder of Notes is responsible for assessing the merits of the Invitation. None of Iceland, the Dealer Managers or the Information and Tender Agent has made or will make any assessment of the merits of the Invitation or of the impact of the Invitation on the interests of the holders either as a class or as individuals. Further, the holders of Notes are solely responsible for complying with all of the procedures for participating in the Invitation, including the submission of offers to sell Notes. None of Iceland, the Dealer Managers or the Information and Tender Agent assumes any responsibility for informing holders of Notes of any irregularities with respect to offers to sell Notes. Until Iceland announces the aggregate principal amount of Notes accepted for purchase, if any, which Iceland is expected to do on the Pricing Date, no assurance can be given that any Notes validly offered pursuant to the Invitation will be accepted for purchase. Because the Purchase Price for the Notes is based on a fixed spread pricing formula linked to a yield on U.S. Treasury security specified in the table on the front cover of this Invitation (the “**Reference UST Security**”), the Purchase Price for the Notes will be affected by changes in that yield during the term of the Invitation prior to the Pricing Date.

**Irrevocability of Offers to Sell Notes.** Under the Invitation, offers to sell Notes will be irrevocable except in the limited circumstances described in “*Terms of the Invitation—Limited Revocation and Withdrawal Rights*”.

**Blocking of Notes.** When considering whether to participate in the Invitation, holders of Notes should take into account that restrictions on the transfer of Notes by holders will apply from the time of submission of offers to sell. A holder of Notes will, on submitting an offer to sell, agree that its Notes will be blocked in the relevant account in the relevant Clearing System from the date the relevant offer to sell is submitted until the earlier of (i) the date on which, in the limited circumstances in which withdrawal of offers to sell is permitted as described in “*Terms of the Invitation—Limited Revocation and Withdrawal Rights*”, the relevant offer to sell is withdrawn (including their automatic withdrawal on the termination of the Invitation) and (ii) the time of settlement on the Settlement Date.

**Compliance with Jurisdictional Restrictions.** Holders of Notes are referred to and required to inform themselves about and to observe the restrictions set out in “*Jurisdictional Restrictions*”, and the holders of Notes, by

submitting offers to sell and offering Notes for sale pursuant to the Invitation, will be deemed to make the acknowledgements, representations, warranties and undertakings set out in “*Holders’ Representations, Warranties and Undertakings*”. Non-compliance with these could result in, among other things, the unwinding of trades and/or heavy penalties.

***Jurisdiction; Enforcement of Judgments.*** The Republic is a sovereign government, and your ability to collect on judgments of a foreign court (including United States and English courts) against the Republic may be limited. The Republic reserves the right to plead sovereign immunity under the Foreign Sovereign Immunities Act in actions brought against it under United States securities laws or any state securities law. If you bring a suit against the Republic under United States federal or state securities laws, unless the Republic waives immunity, you will be able to obtain a United States judgment against the Republic only if a court determines that the Republic is not entitled to sovereign immunity under the Foreign Sovereign Immunities Act. Even if you obtain a United States judgment in any such suit, you may not be able to enforce the judgment in the Republic. Moreover, you may not be able to enforce a judgment obtained under the Foreign Sovereign Immunities Act against the Republic’s property located in the United States except under the limited circumstances specified in the Foreign Sovereign Immunities Act.

## TERMS OF THE INVITATION

### Introduction

Iceland is inviting holders of its Notes to submit offers to sell their Notes for cash, upon the terms and subject to the conditions contained herein. The Invitation is being made in respect of any and all outstanding Notes, subject to the conditions described herein.

### Purpose of the Invitation

Purchasing the Notes at the Purchase Price is sound debt and liquidity management for the Republic of Iceland and provides liquidity to holders whose Notes are accepted for purchase in the Invitation.

### Source of Funds

Iceland intends to pay the aggregate Purchase Price of the Notes purchased pursuant to the Invitation, together with accrued and unpaid interest thereon, and expenses to be borne by the Republic in connection with the Invitation from funds held by Iceland with the Central Bank of Iceland.

### Consideration to Be Received Pursuant to Invitation

If you offer to sell Notes for cash pursuant to the Invitation and Iceland accepts your offer, you will receive, for each U.S.\$1,000 principal amount of Notes you sell in the Invitation, a cash Purchase Price equal to the value of all the remaining payments of principal thereof and interest thereon required to be made from the Settlement Date and through the scheduled maturity of the Notes (assuming all such payments are made in full when due), discounted to the Settlement Date (in a manner consistent with the methodology underlying the formula for the Purchase Price set forth in Annex A) at the discount rate described below minus the amount of any accrued and unpaid interest on the Notes you sell in this Invitation. The discount rate applied will be equal to the sum of:

- the yield to maturity of the Reference UST Security as calculated by the Dealer Managers in accordance with standard market practice based on the bid-side price of the Reference UST Security as displayed on Bloomberg Reference Page PX1 as of the Pricing Date and Time, or, if the Dealer Managers determine that such page is not operational or is displaying inaccurate information at that time, the bid-side price of the Reference UST Security as determined at or around the Pricing Date and Time by such other means as the Dealer Managers may consider to be appropriate in their sole discretion under the circumstances (the “**Reference Yield**”), and
- the fixed spread specified in the table on the front cover of this Invitation (the “**Fixed Spread**”).

In addition, you will receive accrued and unpaid interest on the Notes you sell in the Invitation during the period from and including the most recent interest payment date for the Notes to but excluding the Settlement Date (the “**Accrued Interest**”).

The Dealer Managers will determine the Reference Yield, the Purchase Price and the Accrued Interest for the Notes on the Pricing Date and their determination will be final and binding, absent manifest error. The Republic will announce by press release issued to the News Service the Reference Yield, the Purchase Price and the Accrued Interest for the Notes on the business day following the Pricing Date. The aggregate cash amount to be paid on the Notes you sell in the Invitation will be rounded to the nearest cent.

A hypothetical calculation demonstrating the determination of the Purchase Price with respect to the Notes per U.S.\$1,000 principal amount of the Notes in the manner described above is set forth in Annex B hereto. The actual Purchase Price for the Notes will be determined in accordance with the Invitation.

At any time prior to the Expiration Date, you may obtain hypothetical quotes of the Reference Yield and the Purchase Price before the actual amounts are calculated (determined as of a then recent time) by contacting the Dealer Managers at their respective telephone numbers set forth on the back cover of this document.

The Republic cannot assure you that the Purchase Price for the Notes will be equal to the hypothetical calculations set forth in Annex B. Because the Purchase Price for the Notes is based on a fixed spread pricing formula linked to a yield on the Reference UST Security, the Purchase Price for the Notes will be affected by changes in that yield during the term of the Invitation prior to the Pricing Date.

The principal amount of Notes you may offer to sell pursuant to the Invitation must be in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof.

### **Acceptance of Offers**

Iceland reserves the right, in its sole discretion, to not accept any offers to sell Notes.

Notes may be offered for sale and accepted for payment only in principal amounts equal to minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. No alternative, conditional or contingent offers of Notes for sale will be accepted. Holders who offer less than all of their Notes for sale must continue to hold Notes in the minimum denomination of U.S.\$100,000 principal amount and integral multiples of U.S.\$1,000 in excess thereof.

Once Iceland has announced by press release issued to the News Service that it has accepted the offers to sell Notes, such offers shall constitute binding obligations of the submitting holders and Iceland to consummate the sale, in the manner described under “*Settlement*” below.

### **No Recommendation**

You should independently analyze the value of the Notes and make an independent assessment of the terms of the Invitation. None of Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar has expressed any opinion as to whether the terms of the Invitation are fair. None of Iceland, the Dealer Managers, the Principal Paying Agent, the Registrar or the Information and Tender Agent makes any recommendation that you offer to sell Notes for cash or refrain from doing so pursuant to the Invitation, and no one has been authorized by Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar to make any such recommendation. You must make your own decision as to whether to offer to sell Notes for cash or refrain from doing so, and, if so, the principal amount of Notes to offer to sell.

### **Invitation Procedures**

#### ***General***

If you are a holder and you wish to participate, you or the custodial entity through which you hold your Notes must submit an offer, at or prior to 5:00 p.m., New York City time, on the Expiration Date. Offers may be submitted only by direct participants in DTC, Euroclear or Clearstream, Luxembourg.

By submitting an offer to sell Notes pursuant to the Invitation, holders are deemed to make certain acknowledgments, representations, warranties and undertakings to Iceland, the Dealer Managers and the Information and Tender Agent as set forth under “*Holder’s Representations, Warranties and Undertakings*”.

There is no Letter of Transmittal associated with the Invitation.

#### ***Offers with Respect to Notes Held in DTC***

If holders hold their Notes through DTC, holders must arrange for a direct participant in DTC to submit their offer to sell through DTC’s Automated Tender Offer Program (“**ATOP**”) and follow the procedure for book-entry

transfer set forth below. DTC has confirmed that the Invitation is eligible for ATOP. Accordingly, a DTC participant must electronically transmit its submission of an offer to sell in accordance with DTC's ATOP procedures for the Invitation. DTC will then send an Agent's Message to the Information and Tender Agent.

The term "Agent's Message" means a message, transmitted by DTC, received by the Information and Tender Agent and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgment from the tendering participant, which acknowledgment states that such participant has received and agrees to be bound by the terms of the Invitation and that Iceland may enforce such agreement against such participant.

A holder's offer must be submitted through DTC's ATOP system in accordance with the deadlines and procedures established by DTC, and an Agent's Message with respect to a holder's offer to sell must be received by the Information and Tender Agent at or prior to 5:00 p.m., New York City time, on the Expiration Date.

### ***Offers with Respect to Notes Held in Euroclear or Clearstream, Luxembourg***

If holders hold their Notes through Euroclear or Clearstream, Luxembourg, holders must arrange for a direct participant in Euroclear or Clearstream, Luxembourg, as the case may be, to deliver their offer to sell, which includes "blocking" instructions (as defined below), to Euroclear or Clearstream, Luxembourg in accordance with the procedures and deadlines specified by Euroclear or Clearstream, Luxembourg at or prior to 5:00 p.m., New York City time, on the Expiration Date.

"Blocking" instructions means:

- instructions to block any attempt to transfer a holder's Notes on or prior to the Settlement Date,
- instructions to debit a holder's account on or about the Settlement Date in respect of such amount of a holder's Notes that they have offered to sell, or in respect such lesser portion of a holder's Notes as are accepted for sale by Iceland, upon receipt of an instruction by the Information and Tender Agent to receive a holder's Notes for Iceland, and
- an authorization to disclose, to the Information and Tender Agent, the identity of the participant account holder and account information related to such "blocking" instruction;

subject in each case to the automatic withdrawal of the instruction in the event that the Invitation is terminated by Iceland and subject to a holder's limited right to withdraw or revoke an offer as set out in "*Limited Revocation and Withdrawal Rights*" below.

A holder's offer to sell, which includes holder's "blocking" instructions, must be delivered and received by Euroclear or Clearstream, Luxembourg in accordance with the procedures established by them and at or prior to the deadlines established by each of those clearing systems. Holders are responsible for informing themselves of these deadlines and for arranging the due and timely delivery of "blocking" instructions to Euroclear or Clearstream, Luxembourg.

### ***Offers with Respect to Notes Held by Custodians***

If a holder holds its Notes through a custodian, a holder may not submit an offer to sell directly. Holders should contact that custodian to submit offers to sell on their behalf, and should note that the deadlines imposed by such custodian may be earlier than the deadlines specified in this Invitation.

### ***Deadlines***

Holders are responsible for arranging for the timely submission of their offers to sell pursuant to one of the procedures above.

None of Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar will be responsible for the communication of offers to sell by:

- holders of Notes to the direct participant in DTC, Euroclear or Clearstream, Luxembourg through which they hold Notes, or
- holders of Notes or the direct participant to the Information and Tender Agent, DTC, Euroclear or Clearstream, Luxembourg.

If a holder holds Notes through a broker, dealer, commercial bank or financial institution, the holder should consult with that institution as to whether it will charge any service fees.

### **Irregularities**

All questions regarding the validity, form and eligibility, including time of receipt or revocation, of offers to sell will be determined by Iceland in its sole discretion, which determination will be final and binding. Iceland reserves the absolute right to reject offers to sell Notes that are not in proper form, including offers for which Notes have not been blocked, or for which any corresponding agreement by Iceland to purchase would, in Iceland's opinion, be unlawful. Iceland reserves the absolute right to waive any of the conditions of the Invitation or defects in offers to sell. None of Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar shall be under any duty to give notice to you, as the offering holder, of any irregularities in the submission of offers, nor shall any of them incur any liability for the failure to give such notice.

### **Limited Revocation and Withdrawal Rights**

Except in the limited circumstances described below, offers to sell Notes under the Invitation will be irrevocable. If Iceland amends the Invitation in any way that, in the opinion of Iceland (in consultation with the Dealer Managers), is materially prejudicial to holders of Notes that have already submitted offers before the announcement of such amendment, then such offers may be withdrawn at any time from the date and time of such announcement until 5:00 P.M. (New York City time) on the second business day following such announcement (subject to the earlier deadlines required by the Clearing Systems and any intermediary through which holders hold their Notes).

For the avoidance of doubt, any extension or re-opening of the Invitation (including any amendment in relation to the Expiration Date and/or Settlement Date) shall not be considered so materially prejudicial.

Holders of Notes wishing to exercise any such right of revocation should do so in accordance with the procedures set out herein. Beneficial owners of Notes that are held through an intermediary are advised to check with such entity when it would require to receive instructions to withdraw offers in order to meet the above deadline. For the avoidance of doubt, any holder of Notes who does not exercise any such right of revocation in the circumstances and in the manner specified above, shall be deemed to have waived such right of revocation and its original offer will remain effective.

### **Expiration Date**

The Invitation will expire at 5:00 p.m., New York City time, on April 4, 2017, unless extended or earlier terminated by Iceland, in its sole discretion.

### **Extension, Termination or Amendment of the Invitation**

Iceland reserves the right, in its sole discretion, (i) not to accept any offers to sell Notes, and (ii) to extend, terminate or otherwise amend the Invitation, including changes to the Settlement Date, until the Pricing Date and Time. Any such extension, termination or amendment will be announced by Iceland by press release issued to the News Service by 9:00 a.m., New York City time, on the business day following such extension, termination or amendment. The duration of any such extension shall be within Iceland's sole discretion.

### **Participation by the Dealer Managers and Iceland**

The Dealer Managers may submit offers to sell Notes for their own account or on behalf of eligible holders.

Iceland may not submit offers directly, nor may any Icelandic governmental agency submit offers of Notes owned by Iceland but tendered on Iceland's behalf by such agency. However, Icelandic governmental agencies holding Notes for their own account may submit offers. "Icelandic governmental agency" means the Central Bank of Iceland or any governmental agency or any institution under the direct or indirect control of Iceland or any Icelandic governmental agency acting at the direction of, or on behalf of, Iceland. Regulation of financial institutions in Iceland by regulatory authorities of Iceland does not constitute control for this purpose.

### **Conditions to the Invitation**

Notwithstanding any other provisions of the Invitation, the Invitation is conditional upon there not having been threatened, instituted or pending any action or proceeding before any court or governmental, regulatory or administrative body that: (1) makes or seeks to make illegal the acceptance of payment of, or payment for, the Notes pursuant to the Invitation; (2) would or might result in a material delay in, or materially restrict, the ability of Iceland to accept for payment or pay for the Notes; or (3) imposes or seeks to impose material limitations on the ability of Iceland to purchase or cancel the Notes.

Each of the foregoing conditions is for the sole benefit of Iceland and may be waived by Iceland, in whole or in part, at any time and from time to time, in its discretion. Any determination by Iceland concerning the conditions set forth above (including whether or not any such condition has been satisfied or waived) will be final and binding upon all parties. If the foregoing conditions are not satisfied, in the opinion of Iceland, or waived by Iceland in full, the Invitation will lapse.

### **Communication**

Information about the Invitation will, to the extent provided in this document, be issued by press release to the News Service.

### **Settlement**

Iceland currently anticipates that the Settlement Date will occur on April 7, 2017, the third business day following the Expiration Date, unless the Invitation is extended. If Iceland extends the Invitation, it will at the time of extension announce the date it then expects to be the Settlement Date.

On the Settlement Date, with respect to the amount of your Notes accepted for payment:

- if Iceland has accepted your offer, you must deliver to the Republic good and marketable title to such Notes, free and clear of all liens, charges, claims, encumbrances, interests, rights of third parties and restrictions of any kind; and
- in return you will receive, solely by same-day credit to the account in which such Notes were being held, the cash to which you are entitled pursuant to the terms of the Invitation.

It is the responsibility of the holder to establish the account from which such Notes will be delivered and to which the cash payments are to be delivered.

### **Certain Other Matters**

Iceland reserves the right following completion or cancellation of the Invitation to issue a new invitation to holders to submit offers to exchange or sell Notes on terms that may be more or less favourable than those contemplated by the Invitation. The issuance of any new invitation will depend on various factors, including interest rates prevailing at the time and the principal amount of Notes purchased and cancelled pursuant to the Invitation.

**The Invitation and any offers to sell, together with any non-contractual obligations arising out of or in connection therewith, will be governed by English law, except with respect to the authorization of the Invitation, which will be governed by the laws of the Republic of Iceland. By submitting an offer to sell, a holder irrevocably and unconditionally agrees for the exclusive benefit of Iceland, the Dealer Managers and the**

**Information and Tender Agent that the courts of England are to have jurisdiction to settle, and English law shall govern, any disputes which may arise in connection with the Invitation and any offers to sell, and that accordingly, any suit, action or proceedings arising out of or in connection with the foregoing may be brought in such courts.**

Iceland's determination of any calculation or quotation made with respect to the Invitation shall be conclusive and binding on all holders, absent manifest error.

#### **Market for the Notes**

Notes acquired by Iceland pursuant to the Invitation will be cancelled. Accordingly, the purchase of Notes pursuant to the Invitation will reduce the aggregate principal amount of Notes that otherwise might trade in the market, which could adversely affect the liquidity and market value of the remaining Notes. Notes not purchased in the Invitation will remain outstanding.

## TAXATION

In view of the number of different jurisdictions where tax laws may apply to a holder of the Notes or to a beneficial owner of the Notes, other than as provided below under “—*Certain U.S. Federal Income Tax Consequences*”, this Invitation does not discuss the tax consequences to holders of the Notes or such beneficial owners of the purchase of the Notes. The holders and such beneficial owners of the Notes are urged to consult their own professional advisors regarding these possible tax consequences under the laws of the jurisdictions that apply to them or to the sale of their Notes and their receipt of the purchase price and accrued and unpaid interest. Holders and beneficial owners of the Notes are liable for their own taxes and have no recourse to Iceland, the Dealer Managers or the Information and Tender Agent with respect to taxes arising in connection with the Invitation.

### CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain U.S. federal income tax consequences of the Invitation that may be relevant to a beneficial owner of Notes. For purposes of this section, a U.S. holder is a beneficial owner of Notes that is a citizen or resident of the United States or a domestic corporation or otherwise subject to U.S. federal income tax on a net income basis in respect of the Notes. The summary is based on laws, regulations, rulings and decisions now in effect, all of which are subject to change. The discussion does not deal with special classes of holders, such as dealers in securities or currencies, banks, financial institutions, insurance companies, tax-exempt organizations, entities classified as partnerships and the partners therein, individuals present in the United States for 183 days or more during the taxable year, persons holding Notes as a position in a “straddle” or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction or persons that have a functional currency other than the U.S. dollar. This discussion assumes that the Notes are held as “capital assets” within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended. The discussion does not address the alternative minimum tax, the Medicare tax on net investment income or other aspects of U.S. federal income or state and local taxation that may be relevant to a holder in light of the holder’s particular circumstances.

#### Sale of the Notes

Sales of Notes pursuant to the Invitation by U.S. holders will be taxable transactions for U.S. federal income tax purposes. Subject to the discussion of the market discount rules set forth below, a U.S. holder selling Notes pursuant to the Invitation will recognize capital gain or loss in an amount equal to the difference between the amount of cash received (other than amounts received attributable to accrued interest, which will be taxed as such) and the U.S. holder’s adjusted tax basis in the Notes sold at the time of sale. A U.S. holder’s adjusted tax basis in a Note generally will equal the amount paid therefor, increased by the amount of any market discount previously taken into account by the U.S. holder and reduced by the amount of any amortizable bond premium previously amortized by the U.S. holder with respect to the Notes. Any gain or loss will be long-term capital gain or loss if the U.S. holder’s holding period for the Notes on the date of sale was more than one year.

In general, if a U.S. holder acquired the Notes with market discount, any gain realized by a U.S. holder on the sale of the Notes will be treated as ordinary income to the extent of the portion of the market discount that has accrued while the Notes were held by the U.S. holder, unless the U.S. holder has elected to include market discount in income currently as it accrues.

Other than as provided below under “—*Information Reporting and Backup Withholding*”, sales of Notes pursuant to the Invitation by a beneficial owner of Notes that is not a U.S. holder (“**a non-U.S. holder**”) will not be subject to U.S. federal income tax.

#### Information Reporting and Backup Withholding

A U.S. holder who tenders its Notes may be subject to backup withholding unless the U.S. holder (i) satisfies the conditions for an exemption and demonstrates this fact when required, or (ii) provides a correct taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. The amount of any backup withholding from a tender offer will be allowed as a credit against the U.S. holder’s federal income tax liability and may entitle the U.S. holder to a

refund, provided that the required information is furnished to the U.S. Internal Revenue Service.

A non-U.S. holder who tenders its Notes may be required to comply with applicable certification procedures to establish that it is a non-U.S. holder in order to avoid the application of information reporting requirements and backup withholding tax.

## HOLDERS' REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

By offering Notes for sale, each holder of the Notes and any direct participant offering such Notes on such holder's behalf shall be deemed to agree with, and acknowledge, represent, warrant and undertake to Iceland, the Dealer Managers and the Information and Tender Agent on the Expiration Date and Settlement Date, as set forth below (any such holder or direct participant making all of these acknowledgements, agreements, representations, warranties and undertakings without exception, an "**Eligible Holder**"). If any holder of such Notes or the direct participant is unable to give these acknowledgements, agreements, representations, warranties and undertakings, such holder or direct participant should contact the Information and Tender Agent immediately.

1. You have received, reviewed and accepted the terms and conditions of the Invitation and the offer and jurisdictional restrictions, all as described in this Invitation.
2. You are assuming all the risks inherent in participating in the Invitation, and have undertaken all the appropriate analysis of the implications of the Invitation, without reliance on Iceland, the Dealer Managers, the Information and Tender Agent or any of their respective directors or employees.
3. Upon the terms and subject to the conditions of the Invitation, you have tendered the principal amount of Notes validly offered for sale and blocked in the relevant Clearing System and, subject to and effective on the acceptance for purchase by Iceland in respect of such Notes pursuant to the Invitation, you renounce all right, title and interest in and to all such Notes accepted for purchase pursuant to the Invitation and waive and release any rights or claims you may have against Iceland with respect to any such Notes or the Invitation.
4. You have (a) arranged for a direct participant in DTC, Euroclear or Clearstream, Luxembourg as appropriate, to deliver tender instructions with respect to the Notes to DTC, Euroclear or Clearstream, Luxembourg, as appropriate, in the manner specified in this Invitation prior to 5:00 p.m., New York City time, on the Expiration Date, (b) authorized DTC, Euroclear or Clearstream, Luxembourg, as appropriate, in accordance with their procedures and deadlines, to (i) block any attempt to transfer prior to the Settlement Date such Notes, (ii) cancel such Notes (or such lesser portion as shall be accepted for purchase by Iceland) upon receipt of an instruction from the Information and Tender Agent on or after the Settlement Date to have such Notes transferred to Iceland or as it may direct and (iii) disclose the name of the direct participant and information about the foregoing instructions with respect to such Notes, and (c) further authorized the Information and Tender Agent to instruct DTC, Euroclear or Clearstream, Luxembourg, as appropriate, as to the aggregate principal amount of such Notes that shall have been accepted for purchase by Iceland.
5. You have full power and authority to sell the Notes which you have offered to sell pursuant to the Invitation and, if such Notes are accepted for purchase pursuant to the Invitation, such Notes will be transferred to, or for the account of, Iceland with full title free from all liens, charges and encumbrances, not subject to any adverse claim and together with all rights attached thereto, and you will, upon request, execute and deliver any additional documents and/or do such other things deemed by Iceland or the Information and Tender Agent, to be necessary or desirable to complete the sale, assignment, transfer and/or cancellation of such Notes or to evidence such power and authority.
6. All authority conferred or agreed to be conferred pursuant to your acknowledgements, agreements, representations, warranties, undertakings and directions, and all of your obligations shall be binding upon your successors, assigns, heirs, executors, trustees in bankruptcy and legal representatives, and shall not be affected by, and shall survive, your death or incapacity.
7. You understand that acceptance for purchase of Notes validly offered for sale by you pursuant to the Invitation will constitute a binding agreement between you and Iceland, in accordance with and subject to the terms and conditions of the Invitation.
8. You understand that Iceland may, at its sole discretion, extend, re-open, amend or waive any condition of or

terminate the Invitation at any time, and that in the event of a termination of the Invitation, the relevant Notes will be returned to the holder.

9. None of Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar or any of their respective directors or employees, has given you any information with respect to the Invitation save as expressly set out in this Invitation nor has any of them made any recommendation to you as to whether you should offer Notes for sale in the Invitation, and you have made your own decision with regard to offering Notes for sale in the Invitation based on any legal, tax or financial advice you have deemed necessary to seek.
10. No information has been provided to you by Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar or any of their respective directors or employees, with regard to the tax consequences for holders of Notes arising from any Notes sold pursuant to the Invitation and the receipt of any cash payment, and you acknowledge that you are solely liable for any taxes and similar or related payments imposed on you under the laws of any applicable jurisdiction as a result of your participation in the Invitation and you agree that you will not and do not have any right of recourse (whether by way of reimbursement, indemnity or otherwise) against Iceland, the Dealer Managers, the Information and Tender Agent, the Principal Paying Agent or the Registrar, any of their respective directors or employees or any other person in respect of such taxes and payments.
11. You are not a person to whom it is unlawful to make an invitation pursuant to the Invitation under applicable securities laws, you have not distributed or forwarded this Invitation or any other documents or materials relating to the Invitation to any such person, and you have (before offering the Notes for sale) complied with all laws and regulations applicable to you for the purposes of your participation in the Invitation.
12. You are not a person or organisation (i) designated on the Office of Foreign Assets Control of the U.S. Department of the Treasury (“**OFAC**”) list of Specially Designated Nationals and Blocked Persons, the Sectoral Sanctions Identification List, or any other list of sanctioned persons maintained by the United States, or on the Consolidated List of Financial Sanctions Targets maintained by Her Majesty’s Treasury, including, for the avoidance of doubt, any Russian or Ukrainian person or organisation designated under any EU Council Regulation concerning restrictive measures in relation to Ukraine, or on any other list of targeted persons issued under any economic or financial sanctions administered by OFAC, the U.S. State Department, any other agency of the U.S. government, the United Nations, the European Union or any member state thereof of Her Majesty’s Treasury of the United Kingdom (“**Economic Sanctions Law**”), (ii) that is, or is an agency or an instrumentality of, a government of a country or other territory subject to a general export, import, financial or investment embargo under any Economic Sanctions Law, which territories, as of the date of this Agreement, include Crimea, Cuba, Iran, North Korea, Sudan and Syria (a “**Sanctioned Territory**”), (iii) 50% or more owned by (in the case of sub-clause (i)) or 50% or more owned or otherwise controlled by (in the case of sub-clause (ii)), or acting on behalf of, any of the foregoing, (iv) located within or operating from a Sanctioned Territory, or (v) otherwise a person or entity with whom dealings are restricted or prohibited under any Economic Sanctions Law.
13. You are not located or resident in the United Kingdom or, if you are located or resident in the United Kingdom, you are either (a) an investment professional falling within Article 19(5) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”); (b) a person falling within Article 49(2)(a) to (d) of the Order; or (c) a person to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated or caused to be communicated (whether pursuant to Article 34 of the Order or otherwise).
14. You are outside the Kingdom of Belgium or, if you are located or resident in the Kingdom of Belgium, you are a “qualified investor” within the meaning of Article 10, §1, of the Belgian Law of 16 June 2006 on public offering of securities and admission to trading of securities on regulated markets (as amended from time to time), as referred to in Article 6, §3, of the Belgian Law of 1 April 2007 on public takeover

bids (as amended from time to time), acting on or on behalf of your own account.

15. You are outside the Republic of France or, if you are located in the Republic of France, you are (i) a provider of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service de gestion de portefeuille pour compte de tiers*) and/or (ii) a qualified investor (*investisseur qualifié*), other than an individual, (as defined in Articles L.411-1, L.411-2, D.411-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier* and applicable regulations thereunder).
16. You, and any beneficial owner of the Notes or any other person on whose behalf you are acting, are not located or resident in the Republic of Italy (“**Italy**”) or, if located or resident in Italy, are, or are offering the Notes for sale through, an authorised person (such as an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with Legislative Decree No. 58 of February 24, 1998, as amended, CONSOB Regulation No. 16190 of October 29, 2007, as amended, and Legislative Decree No. 385 of September 1, 1998, as amended) and in compliance with applicable laws and regulations and with any requirements imposed by the *Commissione Nazionale per le Società e la Borsa* (CONSOB) or any other Italian authority.
17. You acknowledge that Iceland, the Dealer Managers and the Information and Tender Agent will rely upon the truth and accuracy of the foregoing acknowledgments, agreements, representations, warranties and undertakings.
18. You shall indemnify Iceland, the Dealer Managers and the Information and Tender Agent against all and any losses, costs, claims, liabilities, expenses, charges, actions or demands which any of them may incur or which may be made against any of them as a result of any breach of any of the terms of, or any of the representations, warranties and/or undertakings given by you pursuant to, the Invitation (including any acceptance thereof).

## **DEALER MANAGERS AND INFORMATION AND TENDER AGENT**

Iceland has entered into a Dealer Manager Agreement with Barclays Capital Inc. and Citigroup Global Markets Limited as Dealer Managers for the Invitation. Pursuant to the Dealer Manager Agreement, Iceland has (a) retained the Dealer Managers to act, directly or through affiliates, on behalf of Iceland as Dealer Managers in connection with the Invitation, (b) agreed to pay the Dealer Managers a fee based on the aggregate principal amount of Notes purchased in connection with the Invitation, (c) agreed to reimburse the Dealer Managers for certain expenses in connection with the Invitation, and (d) agreed to indemnify the Dealer Managers against certain liabilities and expenses in connection with the Invitation, including liabilities under the U.S. Securities Act of 1933, as amended. The Dealer Manager Agreement contains various other representations, warranties, covenants and conditions customary for agreements of this sort.

At any given time, the Dealer Managers may trade Notes or other debt securities of Iceland for their own account or for the account of customers and may accordingly hold long or short positions in the Notes or other debt securities of Iceland.

The Dealer Managers and their respective affiliates may engage in transactions with and perform services, including financial, advisory, other investment banking and general banking services, for Iceland for which it has received and would receive customary fees and commissions. These transactions and services are carried out in the ordinary course of business.

Iceland has retained Global Bondholder Services Corporation to act as Information and Tender Agent in connection with the Invitation. Iceland has agreed to (a) pay the Information and Tender Agent customary fees for its services and (b) reimburse the Information and Tender Agent for certain of its out-of-pocket expenses in connection with the Invitation. Global Bondholder Services Corporation's address is 65 Broadway, Suite 404, New York, New York 10006.

Neither the Dealer Managers nor the Information and Tender Agent assume any responsibility for the accuracy or completeness of the information concerning Iceland contained in this Invitation or for any failure by Iceland to disclose events that may have occurred after the date of this Invitation that may affect the completeness or accuracy of this Invitation.

## JURISDICTIONAL RESTRICTIONS

The distribution of this Invitation and the materials related to this Invitation and the transactions contemplated hereby are restricted by law in certain jurisdictions. Persons into whose possession this Invitation and the materials related to this Invitation come are required by Iceland, the Dealer Managers and the Information and Tender Agent to inform themselves of and to observe any such restrictions. Persons accepting this Invitation shall be deemed to have represented, warranted and agreed that (i) they are not a person to whom it is unlawful to make an invitation pursuant to the Invitation under applicable securities laws; (ii) they have not distributed or forwarded this Invitation or any other documents or materials relating to the Invitation to any such person; and (iii) they have (before offering the Notes for sale) complied with all laws and regulations applicable to them for the purposes of their participation in the Invitation.

The materials related to this Invitation do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which an offer or solicitation is not authorized or in which the person making an offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make an offer or solicitation. Neither Iceland nor the Dealer Managers accept any responsibility for any violation by any person of any of the restrictions applicable in certain jurisdictions.

This Invitation does not constitute, and may not be used in connection with, an offer, solicitation or invitation by anyone to participate in the Invitation in any jurisdiction in which, or to any person to whom, it is unlawful to make such invitation or for there to be such participation under applicable laws. In those jurisdictions where the securities, blue sky or other laws require the Invitation to be made by a licensed broker or dealer and any of the Dealer Managers or any of its affiliates is such a licensed broker or dealer in such jurisdictions, such Invitation shall be deemed to be made on behalf of Iceland by such Dealer Manager or affiliate, as the case may be, and the Invitation is not made in any such jurisdiction where the Dealer Managers or any of their respective affiliates are not so licensed.

Each holder of Notes participating in the Invitation will be deemed to give certain representations as set out in “*Holders’ Representations, Warranties and Undertakings*”. Any offer of Notes for sale pursuant to the Invitation from a holder of Notes that is unable to make these representations will not be accepted. Each of Iceland, the Dealer Managers and the Information and Tender Agent reserves the right, in its absolute discretion, to investigate, in relation to any offer of Notes for sale pursuant to the Invitation, whether any such representation given by a holder of Notes is correct and, if such investigation is undertaken and as a result Iceland determines (for any reason) that such representation is not correct, such offer shall not be accepted.

The following summary of foreign jurisdiction offering and sale limitations and qualifications has been prepared only for your general information. It has been prepared with the assistance of local counsel in each jurisdiction believed by us to be responsible. Accordingly, Iceland does not assume any responsibility for the accuracy, completeness or fairness of the statements contained herein.

### **Iceland**

The Invitation is not a public offering in accordance with Icelandic securities laws, and can be made to, and accepted by, any person in Iceland. The Invitation need not be and will not be registered with the Icelandic Financial Supervisory Authority (*Fjármálaeftirlitið*).

### **United Kingdom**

In the United Kingdom this Invitation has not been or will not be made to persons other than (i) investment professionals falling within Article 19(5) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Order**”); (ii) persons falling within Article 49(2)(a) to (d) of the Order; or (iii) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) may otherwise lawfully be communicated or caused to be communicated (whether pursuant to Article 34 of the Order or otherwise) (all such persons together being referred to as “**relevant persons**”). This Invitation is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to

relevant persons and will be engaged in only with relevant persons.

## Belgium

Neither this Invitation nor any other documents or materials relating to the Invitation have been submitted to or will be submitted for approval or recognition to the Belgian Financial Services and Markets Authority (*Autorité des Services et des Marchés Financiers / Autoriteit voor Financiële Diensten en Markten*) and, accordingly, the Invitation may not be made in Belgium by way of a public offering, as defined in Articles 3, §1, 1°, and 6, §1, of the Belgian Law of 1 April 2007 on public takeover bids (“*loi relative aux offres publiques d’acquisition/wet op de openbare overnamebiedingen*”) (as amended from time to time). Accordingly, the Invitation is exclusively conducted under private placement exceptions and the Invitation may not be advertised and the Invitation will not be extended, and neither this Invitation nor any other documents or materials relating to the Invitation (including any memorandum, information circular, brochure or any similar documents) may, has been or shall be distributed or made available, directly or indirectly, to any person in Belgium other than “qualified investors” (“*investisseur qualifié/gekwalificeerde belegger*”) in the meaning of Article 10, §1, of the Belgian Law of 16 June 2006 on public offering of securities and admission to trading of securities on regulated markets (“*loi relative aux offres publiques d’instruments de placement et aux admissions d’instruments de placement à la négociation sur des marchés réglementés/wet op de openbare aanbieding van beleggingsinstrumenten en de toelating van beleggingsinstrumenten tot de verhandeling op een gereglementeerde markt*”) (as amended from time to time), as referred to in Article 6, §3, of said Belgian Law of 1 April 2007 on public takeover bids, acting on their own account. Insofar as Belgium is concerned, this Invitation has been issued only for the personal use of the above qualified investors and exclusively for the purpose of the Invitation. Accordingly, the information contained in this Invitation may not be used for any other purpose or disclosed to any other person in Belgium.

## France

The Invitation is not being made, directly or indirectly, to the public in France. Neither this Invitation nor any other documents or offering materials relating to the Invitation have been distributed or caused to be distributed and will not be distributed or caused to be distributed to the public in France and only (i) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d’investissement de gestion de portefeuille pour compte de tiers*), and/or (ii) qualified investors (*investisseurs qualifiés*), other than individuals, acting for their own account, all as defined in, and in accordance with, Articles L.411-1, L.411-2, D.411-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier* and applicable regulations thereunder, are eligible to participate in the Invitation. This Invitation has not been and will not be submitted to the clearance procedures (*visa*) of nor approved by the *Autorité des marchés financiers*.

## Italy

Neither this Invitation nor any documents or materials relating to the Invitation have been or will be submitted to the clearance procedures of the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to applicable Italian laws and regulations. The Invitation is being carried out in Italy as an exempted offer pursuant to article 101-bis, paragraph 3-bis of Legislative Decree No. 58 of February 24, 1998, as amended (the “**Financial Services Act**”) and article 35-bis, paragraph 4 of CONSOB Regulation No. 11971 of May 14, 1999, as amended. Holders or beneficial holders of the Notes that are resident or located in Italy can offer to sell the Notes in the Invitation through authorised persons (such as an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007, as amended, and Legislative Decree No. 385 of September 1, 1998, as amended) and in compliance with applicable laws and regulations and with any requirements imposed by CONSOB or any other Italian authority.

Each intermediary must comply with the applicable laws and regulations concerning information duties *vis-à-vis* its clients in connection with the Notes or the Invitation.

**FORMULA TO CALCULATE THE PURCHASE PRICE FOR THE NOTES**

YLD	=	The sum of the Reference Yield (as defined in this Invitation) and the Fixed Spread (as set forth on the front cover of this Invitation).
$CF_i$	=	The aggregate amount of cash per \$1,000 principal amount scheduled to be paid on the Note on the “i <sup>th</sup> ” out of the N remaining cash payment dates for such Note. Scheduled payments of cash include interest and, on the maturity date, interest and principal.
CPN	=	The contractual annual rate of interest payable on a Note expressed as a decimal number.
N	=	The number of remaining cash payment dates for the Notes from but excluding the Settlement Date to and including the maturity date.
/	=	Divide. The term immediately to the left of the division symbol is divided by the term immediately to the right of the division symbol before any addition or subtraction operations are performed.
exp	=	Exponentiate. The term to the left of the exponentiation symbol is raised to the power indicated by the term to the right of the exponentiation symbol.
$D_i$	=	The number of days from and including the Settlement Date to but excluding the “i <sup>th</sup> ” out of the N remaining cash payment dates for the Notes. The number of days is computed using the 30/360 day count method in accordance with market convention.
$\sum_{i=1}^N$	=	Summate. The term to the right of the summation symbol is separately calculated “N” times (substituting for “i” in that term each whole number between 1 and N, inclusive), and the separate calculations are then added together.
Accrued Interest	=	$\$1,000 \times (CPN/2) \times (S/180)$ .
Purchase Price	=	The price per \$1,000 principal amount of the Notes (excluding Accrued Interest). A tendering holder of Notes will receive a total amount per \$1,000 principal amount (rounded to the nearest cent) equal to the Purchase Price plus Accrued Interest.
Purchase Price	=	$\sum_{i=1}^N \frac{CF_i}{(1 + YLD/2)^{\exp(D_i/180)}} - \text{Accrued Interest}$

**HYPOTHETICAL PURCHASE PRICE AND ACCRUED INTEREST DETERMINATION**

This schedule provides a hypothetical illustration of the total consideration and tender offer consideration for the Notes and the Accrued Interest on the Notes from the applicable last interest payment date to, but not including an assumed Settlement Date based on hypothetical data, and should, therefore, be used solely for the purpose of obtaining an understanding of the calculation of the total consideration and tender offer consideration, as quoted at hypothetical rates and times, and should not be used or relied upon for any other purposes.

<b>Title of Security</b>	<b>5.875% Notes due 2022</b>
<b>Maturity Date</b>	May 11, 2022
<b>Reference Treasury</b>	1.875% UST due 2/28/2022
<b>Fixed Spread</b>	75bps
<i>Hypothetical Example:</i>	
<b>Hypothetical Price Determination Date and Time</b>	March 28, 2017 at 10:00 a.m. New York City time
<b>Assumed Settlement Date</b>	April 7, 2017
<b>Reference Yield</b>	1.913%
<b>N (number of payments)</b>	11
<b>S (days accrued)</b>	146
<b>CPN</b>	5.875%
<b>YLD</b>	2.663%
<b>Hypothetical Purchase Price</b>	115.205%
<b>Accrued Interest</b>	2.383%

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