

DESCRIPTION OF INFLATION-LINKED TREASURY BONDS RIKS 26 0216



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Description of inflation-linked Treasury bond series RIKS 26 0216

Issuer	The Issuer, on behalf of the Treasury of the Republic of Iceland, is Government Debt Management (i. <i>Endurlán ríkissjóðs</i>), national identification no. 471283-0459, Kalkofnsvegur 1, 150 Reykjavík. Telephone: +354 569 9600, website: www.gdm.is .
Responsibility	Government Debt Management is responsible for this description.
Authorisation	It has been decided to sell Treasury bonds in series RIKS 26 0216, based on the authorisation contained in Article 5 of the National Budget for 2018. Sales in the series are based on the authorisation contained in the annual fiscal budget for each year.
Terms of sale	The first sale will take place on 23 November 2018, and payment and settlement will take place on 28 November 2018. The series is open. The bonds will be delivered in electronic form upon payment.
Identification	The series will be issued electronically by a central securities depository in units of one Icelandic króna. The bonds are issued in Icelandic krónur. The minimum unit of trade is one króna. The identifying symbol of the series is RIKS 26 0216. The ISIN number of the bonds is IS0000030732.
Maturity, interest, and payment dates	<p>The bonds are inflation-linked and pay interest annually, at the end of each interest period. Annual interest is calculated according to the following formula:</p> $\text{Coupon}_{\text{paid}} = \text{Coupon}_{\text{real}} \times \frac{\text{Daily inflation ref. payment date}}{\text{base index}} \times \text{Nominal amount}$ <p>The annual real coupon will be 1.50%. The bond has an eight-year maturity and is indexed to the consumer price index. The date of issue is 16 February 2018, and the maturity date is 16 February 2026. The first interest accrual date is 16 February 2018. The interest period is one year, from 16 February through 15 February of the following year. The annual date for the payment of interest due is 16 February with the first interest payment due on 16 February 2019. In the event that the interest payment date falls on a public holiday pursuant to Act no. 32/1997 or a work holiday, the date of payment will be moved to the workday immediately following; however, the interest period will remain unchanged. On the maturity date, 16 February 2026, the last payment of interest due shall be remitted, together with the indexed nominal amount of the bonds, according to the following formula:</p>



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$$\text{Redemption} = \frac{\text{Daily inflation ref. on maturity}}{\text{base index}} \times \text{Nominal amount}$$

If the daily inflation reference on the maturity date is lower than the base index, redemption of the principal at par is guaranteed. The bonds are not callable.

Reference index The consumer price index in Iceland for indexation of financial obligations (CPI), published by Statistics Iceland.

Indexation coefficient The same rounding rule as for the reference index.

$$\text{Indexation coefficient} = \frac{\text{Daily inflation ref. on settlement date}}{\text{base index}}$$

Base index reference The base index reference for the bond is 446.98571.

Indexation method All cash flows, accrued interest, aggregate interest, and principal are paid according to the indexation coefficient.

Daily inflation reference The daily inflation reference is calculated by linear interpolation according to the following formula: The reference applicable to the first day of the month m is the CPI for month $m-2$. For example, the reference applicable to 1 May is the CPI for March. The reference for any other day of the month m is calculated by linear interpolation between the CPI for the month $m-2$ and the CPI for month $m-1$, according to the following formula:

$$\text{Daily inflation ref.} = CPI_{m-2} + \left[\frac{d-1}{D} * (CPI_{m-1} - CPI_{m-2}) \right]$$

Where CPI_{m-1} is the CPI figure for the first day of month $m-1$, where CPI_{m-2} is the CPI figure for the first day of month $m-2$, d is the number of the calendar day corresponding to the settlement date, and D is the number of days in the calendar month in which settlement takes place.

Rounding rules The daily inflation references, including the base index, are rounded to the fifth decimal place. The same rule applies to the indexation coefficient. In calculating dirty prices derived from clean prices, six decimal places are used.

Record date and ex-date The date of record is one banking day prior to the payment date for interest and principal and is determined by the ownership register of the securities depository, following the last regular settlement of the register on that date.

Special privileges There are no special benefits or privileges attached to the bonds.



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Taxes	Tax treatment of the bonds shall be handled in accordance with current tax law at any given time.
Payment	All payments remitted for the bond issue shall take place electronically.
Expiry of claims	The expiry, due to lapse of time, of claims deriving from the bonds is governed by the Act on the Expiration of Obligations, no. 150/2007.
Yield to maturity and selling rate	The yield and selling price are determined by market conditions at any given time.
Daily calculation formula	The day count rule for the price and accrued interest calculation is on actual/actual basis. The ICMA method will be used for the calculation. In calculating dirty prices derived from clean prices, six decimal places are used.
Resolution of disputes	The bonds are subject to Icelandic law. In the event of legal action in connection with the bonds, such action may be brought before the District Court of Reykjavik, in accordance with the provisions of Chapter 17 of the Code of Civil Procedure, no. 91/1991.
Title and transfer	Ownership of the bonds may only be transferred to a party specified by name. A national identification number must be provided with the name of the beneficiary. Account operators as defined in the Act on Electronic Registration of Title to Securities, no. 131/1997, are the only entities authorised to act as intermediaries in the transfer of the bonds. Registration of title to an electronic security certificate in a central securities depository, following final entry by the central securities depository, grants the registered owner legal authority to the rights of which he is the registered owner. There are no other restrictions on the transfer of title to these bonds.
Pre-emptive purchase rights	There are no pre-emptive rights in connection with the issue.
Listing	Bonds sold on 23 November 2018 are expected to be admitted to trading on a regulated securities market on 29 November 2018. The outcome of subsequent auctions will be made public and the bonds listed thereafter.
Manager	The Central Bank of Iceland, Kalkofnsvegur 1, 150 Reykjavik, is the manager of this issue and will be responsible for its listing.
Purpose of the issue	The aim of the issue is to acquire funds for the Treasury and to improve price formation in the domestic bond market.
Market making	The series is subject to the provisions of an agreement with primary dealers regarding Government securities issues and



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market making in the secondary market. Market making with the issue in the secondary market is to begin at the time the series is listed on a regulated securities market.

Clean price

The price of the bond on a regulated securities market shall be quoted in terms of the clean price, without interest and without indexation.

Information and documents

The description of Treasury bonds RIKS 26 0216, as well as other information and documents in connection with the issue, can be found on the website www.lanamal.is. Further information can be obtained from Government Debt Management, International and Market Operations Department, Central Bank of Iceland.

Translation and interpretation

In case of a discrepancy between this description and the signed description registered with the securities depository, the depository's description shall prevail. In case of a discrepancy between the English and Icelandic versions of this description, the Icelandic shall prevail.