



TERMS OF INVITATION TO TENDER for NON-INDEXED TREASURY NOTES

Auction date 9 June 2009

- The Minister of Finance, acting on behalf of the Treasury, has decided to tender Treasury Notes in conformity with authorisations contained in the national Budget for the year 2009 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 4 September 2007. 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 Tuesday, June 9, 2009. The date of payment and settlement is Thursday, June 12, 2009.*
- The following series of Treasury Notes will be offered:

Series	ISIN	Maturity date
RIKB 25 0612	IS0000019321	June 12, 2025

Bids shall be submitted as yields, with two decimal places. The auction will be structured as a single-price auction, which means that bids that are accepted in the auction will be sold at the same price. The highest accepted yield (lowest price) approved by the issuer determines the sale price. The results of the tender give an indication of the nominal coupon rate of the Notes. The Central Bank is authorised to determine a nominal coupon rate with a 25-point deviation from the auction results. The Notes will be settled at a price expressed with six decimal places.

Example: It has been decided to accept bids from primary dealers for Treasury Notes for 10 b.kr. Let us say that the highest accepted yield offered by a primary dealer is 7.12%. If the Central Bank decides that the Notes shall bear a nominal coupon rate of 7.12%, the Notes will be sold at a price of 1.000000 to all primary dealers in the auction. The Central Bank is authorised, however, to set the nominal yield of the Notes with a 25-point deviation from the accepted yield; therefore, the Bank can decide that the annual coupon rate of the Notes will be, for example, 7.00%. This means that the Notes are sold at a discount, at a price of 0.988754. The Central Bank can also decide to set the nominal yield for the Notes at 7.25%, which means that the Notes are sold at a premium, at a price of 1.012184.
- The Treasury Notes are issued in dematerialised form by the Icelandic Securities Depository hf. The nominal value unit is one króna; that is, the nominal value and the number of units is the same. Treasury Notes are non-indexed.
- Only primary dealers are authorised to submit bids. The minimum amount of each bid is 1 m.kr. nominal value. Bids shall be submitted in multiples of 1 m.kr.
- After the results of the auction are available, the Central Bank will offer primary dealers the equivalent of 10% of the nominal value sold in the auction, at the price of accepted bids, until 14:00 on Thursday, June 11. Each primary dealer that has submitted an accepted bid in the auction has the right to purchase an amount proportional to its total purchase. The payment and settlement date for these transactions is Friday, June 12, 2009.
- Bids may only be sent to the Central Bank through the Bloomberg Auction System between 13:00 and 14:00 on the auction date (Icelandic local time). Bids shall be expressed as yields, with two decimal places.
- 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 International and Market 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 14:00 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.
- The Treasury reserves the right to reject bids entirely or accept bids in part.
- The results of the auction will be published on the OMX Nordic Exchange in Iceland (OMX ICE) and sent to the primary dealers by e-mail at the end of the day.



10. Payments for the Treasury Notes 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 Notes 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 Notes on the maturity date. Any legal action resulting from these Treasury Notes 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 Notes is subject to the provisions of the Act on the Expiration of Debt and Other Obligations, no. 150/2007.
12. Treasury Notes are exempt from stamp duty in accordance with Act no. 79/1983. The tax liability or tax exemption of Treasury Notes and interest on them is subject to the provisions of the Act on Income and Property Tax, as current at any time. Treasury Notes must be declared on income tax returns.
13. This series of Treasury Notes will be listed on the Nasdaq OMX Nordic Exchange in Iceland. Market makers are Íslandsbanki, Nýi Kaupthing Bank, NBI, MP Bank and Saga Capital.