

**DESCRIPTION OF INFLATION-LINKED
TREASURY BONDS
RIKS 33 0321**



Government Debt Management
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Description of Government Securities: Inflation-Linked Treasury Bond Series RIKS 33 0321

Issuer	The Issuer, on behalf of the Treasury of the Republic of Iceland, is the Central Bank of Iceland, national identification no. 560269-4129, Kalkofnsvegur 1, 150 Reykjavík. Telephone: +354 569 9600, fax: +354 569 9604, website: www.sedlabanki.is
Responsibility	The Central Bank of Iceland is responsible for this Description.
Authorisation	The Minister of Finance, on behalf of the Treasury, has decided to sell Treasury Bonds in Series RIKS 33 0321, based on the authorisation contained in Article 5 of the National Budget for 2012. The series is open, and Bonds in it will be sold on the basis of the authorisation contained in the annual fiscal budget for each year.
Terms of sale	The first sale of the Bond will be on 28 March 2012, and payment and settlement will take place on 30 March 2012. The series will be 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 on NASDAQ OMX Iceland is one króna. The identifying symbol of the series is RIKS 33 0321, and the ISIN code is IS0000021251.
Maturity, interest, and payment dates	The Bonds are inflation-linked and pay interest annually at the end of each interest period. The annual interest is calculated according to the following formula:

$$\text{Coupon}_{\text{paid}} = \text{Coupon}_{\text{real}} \times \frac{\text{Daily inflation ref.}_{\text{payment date}}}{\text{base index}} \times \text{Nominal amount}$$

The annual real coupon will be 3.00%. The Bonds are indexed to CPI for indexation of financial obligations and are with a twenty one-year maturity. The date of issue is 21 March 2012, and the maturity date is 21 March 2033. The first interest accrual date is 21 March 2012. The interest period is one year, from 21 March through 20 March of the following year. The annual date for the payment of interest due is 21 March, with the first interest payment due on 21 March 2013. In the event that the interest payment date falls on a public holiday or a work holiday, the date of payment will be moved to the workday immediately following but the interest period remains unchanged. On the final maturity date, 21 March 2033, the last payment of interest due shall be remitted, together with the indexed Nominal amount of the Bonds according to the following formula:



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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 maturity is lower than the base index, redemption of the principal at par is guaranteed. The Bonds are not callable.

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

Indexation coefficient The same rounding rule as for the daily inflation reference.

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

Base index ref. The base index reference of the Bond is 389.61613.

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 $m-1$,
 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 the settlement date occurs.

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 of bonds The Record day is one bankday previous to the payment date of interest and principal and that rights be determined by the ownership registration in a securities depository following the last regular settlement cycle on that date.



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Special privileges	There are no special benefits or privileges attached to the Bonds.
Taxes	Tax treatment of the Bonds shall be handled in accordance with current tax law in Iceland at any given time. According to Article 3 of the Act on Withholding Tax on Financial Income, no. 94/1996, all domestic financial institutions, securities undertakings, and any other professional custody service providers, intermediaries or collectors for securities transactions are required to deduct withholding tax from interest income and bond discounts and remit the tax thus withheld to the Treasury. The same applies to the Treasury and to Government institutions that pay interest by law. Treasury Notes are exempt from stamp duties in accordance with Act no. 79/1983.
Payment	Payments are transmitted electronically.
Expiry of claims	The expiry of claims, due to lapse of time, deriving from the Bonds is governed by the Act on the Expiration of Obligations, no. 150/2007. Claims for interest will expire four (4) years after the interest payment date, and claims for principal will expire ten (10) years after the maturity date.
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 an actual/actual basis. The ICMA method will be used for the calculation.
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 Act on 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.



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Listing	Bonds sold on 28 March 2012 are expected to be admitted to trading on NASDAQ OMX Iceland on 2 April 2012. The outcome of subsequent auctions will be made public on the OMX news service; thereafter, the Bonds will be admitted to trading on NASDAQ OMX Iceland.
Manager	The Central Bank of Iceland, Kalkofnsvegur 1, 150 Reykjavik, is the manager of this issue and will be responsible for its listing on NASDAQ OMX Iceland.
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	There will be no market making with the issue in the secondary market but the aim is to have market making arrangement with the series within next few years.
Clean price	The Bond will be quoted on clean prices at NASDAQ OMX Iceland, without inflation adjustment.
Information and documents	The description of Treasury Bonds RIKS 33 0321, as well as other information and documents in connection with the issue, can be obtained from the website www.lanamal.is . Further information can be obtained from Government Debt Management, International and Market Operations Department, Central Bank of Iceland.
Translation	If discrepancy is between the English and Icelandic description then the Icelandic text shall prevail.