



GOVERNMENT DEBT MANAGEMENT

Kalkofnsvegi 1 150 Reykjavík Iceland

phone: 569 9600 fax: 569 9604

email: lanamal@lanamal.is

internet: <http://www.lanamal.is>

To newspapers, newsrooms,
and financial institutions

Press release
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Government Debt Management Prospect 2014

- *Planned Treasury bond issuance for 2014 totals 50 b.kr.*
- *Net Treasury bond issuance will equal an estimated 25 b.kr. during the year.*
- *It is planned to issue a new nominal Treasury bond series maturing in 2020.*
- *The balance of outstanding Treasury bills is estimated at 30 b.kr. as of end-2014.*
- *The bond to recapitalise the Central Bank of Iceland will be paid down in the amount of 5 b.kr.*
- *Efforts to build up access to international capital markets will continue.*

Introduction

The net domestic borrowing need is estimated at just under 18 b.kr. in 2014, after taking account of a 4.5 b.kr. contribution to strengthen the capital position of the Housing Financing Fund. The contribution will be paid with the delivery of a bond to the Fund. Treasury bond series RIKB 14 0314, in the amount of 25 b.kr., is scheduled to mature in March, and Treasury bills amounting to 22 b.kr. are due to mature in the next six months. Other domestic instalments for the year total 15 b.kr., including an estimated 5 b.kr. to reduce the principal of the bond issued by the Government to recapitalise the Central Bank of Iceland. Buybacks of RIKS 15 1001 in the amount of 1 b.kr. are planned as well. The Treasury's domestic borrowing need is therefore estimated at 80 b.kr. in 2014.

This borrowing need will be met with Treasury bond issuance in the amount of 50 b.kr. (sale price),¹ and Treasury bill issuance in the amount of 30 b.kr. Net Treasury bond issuance is therefore estimated at 25 b.kr.

¹ The sale price refers to the "clean" price, net of accrued interest.



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Net domestic funding need 2014

<i>Amounts in b.kr.</i>	
Net domestic funding need	18
Redemption and instalments	62
Treasury bills	22
Treasury bonds	25
Other loans and buybacks	15
Domestic funding need	80
Borrowings	80
Treasury bills	30
Treasury bonds	50

Issuance calendars for each quarter will be published on the last business day of the preceding quarter. Each quarterly calendar (Quarterly Government Debt Management *Prospect*) contains information on estimated total issuance, the series to be offered, and the estimated maximum issuance in each series. The quarterly issuance calendar for Q1/2014 is published concurrent with the Government Debt Management *Prospect* for the year 2014.

Medium-Term Debt Management Strategy

The Medium-Term Debt Management Strategy for 2013-2016 was published by the Ministry of Finance and Economic Affairs in March 2013. The strategy sets forth the authorities' plans for credit financing during the specified period. Its principal objectives are to ensure that the Treasury's medium- to long-term financing needs and financial obligations are met at the lowest possible cost that is consistent with a prudent degree of risk and to promote the maintenance and further development of efficient primary and secondary markets for domestic Government securities.

Issuance in 2013

Treasury securities issuance was successful in 2013, except that the Treasury bill issuance target was not met. The 90 b.kr. Treasury bond issuance target for 2013, announced at the beginning of the year, was met by the end of September. The targeted year-end balance of outstanding Treasury bills was 40 b.kr. nominal value, but the actual balance was 22 b.kr. A new nominal two-year bond, RIKB 15 0408, was issued during the year.

Actual sales totalled 94 b.kr. nominal value, including 87 b.kr. in conventional auctions and 7 b.kr. in Central Bank of Iceland foreign currency auctions. In conventional auctions, issuance was concentrated in RIKB 31 0124 (34 b.kr.), RIKB 22 1026 (27 b.kr.), RIKB 15 0408 (23 b.kr.), and RIKB 14 0314 (3 b.kr.).



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RIKB 13 0517 matured during the year, in the amount of 83 b.kr. The weighted average maturity of the domestic and foreign debt portfolio was 6.3 years at the end of 2013, as opposed to 6.4 years at year-end 2012.

The only foreign loan instalments made during the year were on the so-called Avens loan in the amount of 4.8 b.kr., which was issued to finance the purchase of bonds that were owned by Landsbanki Luxembourg but were pledged as collateral to the Central Bank of Luxembourg (ECB). The loan is an amortisation bond bearing variable interest and maturing in 2025.

Nominal Treasury bond issuance

On 14 March 2014, the nominal RIKB 14 0314 Treasury bond matures in the amount of 25 b.kr.

During the year, RIKB 16 1013 will take over from RIKB 15 0408 as a new two-year series. RIKB 19 0226 and RIKB 25 0615 are both about 87 b.kr. in size and are therefore approaching the 100 b.kr. maximum. It has been decided to launch a new Treasury bond series maturing in 2020. It will be built up in the next few years as a five-year benchmark series and later as a two-year benchmark series. Issuance in other series will depend on market conditions and will be announced in the quarterly issuance calendars throughout the year.

Indexed Treasury bond issuance

RIKS 21 0414 is the only indexed Treasury bond series with a market maker. The series now has a nominal value of 70 b.kr., including accrued indexation. There is a possibility that the series will be expanded, but as before, the main emphasis will be on issuance of nominal benchmark bonds.

Treasury bill issuance

Treasury bill issuance will be structured in the same manner as in the past two years. Each month, a new six-month Treasury bill will be issued, with the possibility of expansion after three months.

It is important to have flexibility in Treasury bill issuance so as to meet temporary intra-year fluctuations in revenues and expenditures. Thus it cannot be ruled out that bills with other maturities will be issued during the year. The aim is to increase the outstanding stock of Treasury bills by about 8 b.kr. during the year, to a year-end balance of 30 b.kr.

Buybacks – exchange auctions

Buybacks of Treasury bond series RIKS 15 1001 will continue, to the extent that market conditions allow. The outstanding balance is about 27 b.kr. market value. It is planned that buybacks will amount to as much as 1 b.kr. The bond does not have a market maker and is therefore not considered a benchmark series.

Another possibility is to hold an exchange auction in which owners of Treasury bonds, particularly RIKB 14 0314, which matures in 2014, will be offered the opportunity to exchange



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them for other benchmark bonds. There is also the possibility of buybacks and exchange auction of non-marketable series.

Foreign currency auctions

The Central Bank of Iceland has scheduled foreign currency auctions for 4 February and 18 March 2014. The Treasury will continue to offer nominal RIKS 33 0321 bonds in Central Bank foreign currency auctions, in exchange for euros. With accrued indexation, the series is 31 b.kr. in size.

Central Bank bond

In 2008, the Treasury issued a five-year inflation-indexed bond to recapitalise the Central Bank of Iceland after the collapse of the banks. The balance of the bond, including indexation, is now about 171 b.kr. The loan matures on 1 January 2014, but it has been decided to extend it by one year. According to plans for 2014, the principal of the bond will be paid down in the amount of about 5 b.kr.

Quarterly Government Debt Management *Prospect*

The bonds to be offered in the upcoming three months will be announced at the end of each quarter. Decisions on the bonds and volume to be issued will be based on the Treasury's borrowing needs and on market conditions. Any changes made to the issuance calendar for the year will be announced in the *Quarterly Prospect*.

Treasury deposits with the Central Bank

The balance on the Treasury's current account with the Central Bank of Iceland was about 84 b.kr. as of end-November 2013, which reflects strong liquidity. In addition, the Treasury holds the equivalent of 325 b.kr. in domestic foreign currency accounts with the Central Bank. The above-specified balances are sufficient to finance 70% of all Treasury expenditures in a single year.

Foreign loans

Maturing in 2014 is a bond issue amounting to 200 million US dollars, or approximately 23 b.kr. Also maturing is a portion of the Avens loan, in the amount of 4.8 b.kr.

In accordance with the Medium-Term Debt Management Strategy, the aim is to issue bonds in the international markets on a regular basis in coming years if market conditions allow. If it is decided to take foreign loans in 2014, the proceeds will be used to refinance other foreign loans.

Timing of funding activities and further information

Treasury bond auctions will be held on predetermined dates, according to the Government Debt Management auction calendar. Once or twice a month, Treasury bonds will be offered, and once a month Treasury bills will be offered. These dates are indicated on the Government Debt Management auction calendar and on the website www.lanamal.is.



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The monthly publication Market Information, the Bloomberg <ICDO> pages, and the websites www.lanamal.is and www.bonds.is will continue to be the main channels for communication.

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Further information can be obtained from Björgvin Sighvatsson, Government Debt Management, at tel +354 569 9600.