OFFERING CIRCULAR DATED 11 NOVEMBER 2004

HOUSING FINANCING FUND

(Operating in accordance with Icelandic law)

ISK 1,000,000,000

3.75 per cent. Notes due 15 September 2014

The issue price of the ISK 1,000,000,000 3.75 per cent. Notes due 2014 (the "**Notes**") of the Housing Financing Fund (the "**Issuer**" or "**HFF**") is 99.725 per cent. of their principal amount plus accrued interest of ISK 6,354,166.67 in respect of the period from and including 15 September 2004 to but excluding 16 November 2004.

Unless previously redeemed or cancelled, the Notes will be redeemed in 20 semi-annual instalments commencing on 15 March 2005.

The Notes will bear interest from 15 September 2004 at the rate of 3.75 per cent. per annum payable semi-annually in arrear on 15 March and 15 September each year commencing on 15 March 2005. Payments on the Notes will be made in ISK without deduction for or on account of taxes imposed or levied by Iceland to the extent described under "*Terms and Conditions of the Notes - Taxation*".

Application has been made to list the Notes on the Icelandic Stock Exchange ("**ICEX**").

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Manager (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in the denomination of ISK 1 each. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 16 November 2004 (the "**Closing Date**") with a common depositary for Euroclear Bank, S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of ISK 1 each and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

Manager

Deutsche Bank

11 November 2004

DECLARATION

On behalf of the Board of Directors of the Housing Financing fund (HFF), Identity No. 661198-3629, Borgartún 21, 105 Reykjavík, Iceland, we the under-signed, Chairman of the Board and General Manager of HFF, hereby declare that, to the best of our knowledge, the information in this Offering Circular both accords fully with the facts and no important items have been omitted which could affect the evaluation of HFF or the Notes.

Reykjavík, 11 November 2004,
On behalf of the Housing Financing Fund

Gunnar S. Björnsson	Gudmundur Bjarnason
Id. No. 040932-3059	Id. No. 091044-7819
Chairman of the Board	General Manager

Declaration by the Dealer Manager

Deutsche Bank AG London (Deutsche Bank), Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, hereby declares that in preparing this Offering Circular it has gathered the data which in its estimation was necessary to provide a correct picture of HFF and the Notes. To the best of our knowledge no important items have been omitted which could affect the evaluation of HFF or the Notes for which listing is sought.

London, 11 November 2004,
On behalf of Deutsche Bank AG London

Tim Odell	Bill Northfield

Declaration by the Auditors

We the undersigned, KPMG Endurskođun hf., Id. No. 590975-0449, Borgartún 27, 105 Rykajavík, Iceland, have audited and signed without reservation HFF's financial statements for 2001, 2002 and 2003 and reviewed the Interim Accounts dated 30 June 2004.

HFF's financial statements as at and for the years ended 31 December 2001, 2002, 2003 and the Interim Accounts dated 30 June 2004 are included in this Offering Circular. We also confirm that other information in the Offering Circular concerning these financial statements is consistent with such financial statements.

Reykjavík, 11 November 2004,
On behalf of KPMG Endurskođun hf.

Helgi F. Arnarson
Id. No. 030657-2339

The Issuer has confirmed to the Manager that this Offering Circular contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Offering Circular on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing. The Issuer accepts responsibility for the information contained in this Offering Circular.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Manager.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered in the United States or to U.S. persons.

In this Offering Circular, unless otherwise specified, references to "**€**", "**EUR**" or "**Euro**" are to the single currency introduced at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, and references to "**ISK**" or "**króna**" are to the lawful currency of Iceland.

In connection with the issue of the Notes, Deutsche Bank AG London (the "Stabilising Manager") (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be

brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

CONTENTS

TERMS AND CONDITIONS OF THE NOTES

The creation and issue of the Notes by HFF was authorised pursuant to an Act of the Icelandic Parliament (Althingi) No. 57/2004, amending the Act on Housing Affairs No. 44/1998.

These terms and conditions have been approved by the Minister of Social Affairs, pursuant to regulation no. 522/2004, Section 4, following a resolution of the Board of Directors of the Issuer passed on 2 November 2004. The Notes are not subject to any restrictions on transferability and the terms and conditions of the Notes apply to all holders of the Notes.

The 3.75 per cent. Notes due 15 September 2014 of the Housing Financing Fund (the "**Issuer**") are issued in an aggregate principal amount of ISK 1,000,000,000 (the "**Notes**"), which expression includes any further Notes issued pursuant to Condition 16 (*Further Issues*) and are the subject of a fiscal agency agreement (as may be amended or supplemented from time to time, the "**Agency Agreement**") dated 15 November 2004 (the "**Settlement Date**" being 16 November 2004) between the Issuer, Íslandsbanki hf. as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "**Noteholders**"), the holders of the related principal receipts (the "**Receiptholders**" and the "**Receipts**", respectively) and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination and Title**

The Notes are in bearer form in the denomination of ISK 1 with Receipts and Coupons. Title to the Notes, the Receipts and Coupons will pass by delivery. The holder of any Note, Receipt or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

2. **Status**

The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by mandatory provisions of Icelandic law.

3. **State Guarantee**

The entire liabilities of the Issuer, including its obligations to make payments of principal and interest under the Notes, are guaranteed by the Icelandic State. Under Icelandic law, the guarantee is irrevocable and without limitation but, in the event of a default by the Issuer, a Noteholder is required first to exhaust his remedies against the Issuer before he is entitled to make a claim against the Icelandic State.

4. **Negative Pledge**

So long as any Note remains outstanding (as such term is defined in the Agency Agreement), the Issuer shall not create or permit to subsist any Security Interest upon any of its present or future revenues, properties or assets without at the same time or prior thereto securing the Notes equally and rateably therewith; *provided, however*, that the Notes will not be required to be so secured if the Security Interest is on properties or assets to secure an amount not exceeding the purchase price of such properties or assets.

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

5. **Interest**

(a) The Notes will bear fixed interest on their outstanding principal amount from 15 September 2004 at the rate of 3.75 per cent. per annum (the "**Interest Rate**"). Interest (subject to adjustment for indexation in accordance with Condition 8 (*Indexation*)) will be payable in arrear on 15 March and 15 September in each year (each, an "**Interest Payment Date**"), commencing on 15 March 2005.

(b) If interest is required to be paid in respect of a Note on any date other than an Interest Payment Date, it shall be calculated by applying the Interest Rate to the current principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest Icelandic Króna (half a Króna being rounded upwards), where:

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the product of (1) the number of days in the Regular Period in which the relevant period falls and (2) two; and

"**Regular Period**" means each period from (and including) the Settlement Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

6. **Redemption and Purchase**

(a) *Scheduled Redemption*: Unless previously redeemed, purchased or cancelled, the Notes will be redeemed in 20 instalments on the Interest Payment Dates. Subject to Condition 7 (*Payments*) and Condition 8 (*Indexation*) the amount of each instalment to be paid on each Interest Payment Date shall be calculated in accordance with the following formula:

$$A = \frac{r(1+r)^{k-1}}{(1+r)^n - 1}$$

where

A = The amount of each instalment of the relevant Note

r = $\frac{c}{2}$

c = The Rate of Interest of the relevant Note

n = The total number of instalments of the relevant Note

and

k = The number of payments that have already been made (k = 0 on the Settlement Date, k = 1 on the first Interest Payment Date, etc)

(b) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraph (a) above.

(c) *Purchase*: The Issuer may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Receipts and Coupons are purchased therewith.

(d) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Receipts or Coupons attached to or surrendered with them may be cancelled and, in the event that they are so cancelled, may not be reissued or resold.

7. **Payments**

(a) *Payments for the Notes*: The Issuer shall, on each Interest Payment Date in respect of each Note of ISK 1 denomination, make a combined payment of principal due under Condition 6 (*Redemption and Purchase*) and interest due under Condition 5 (*Interest*) in accordance with the following formula which payment, once calculated, shall be adjusted for inflation as set out in Condition 8 (*Indexation*):

$$P = \frac{r}{1 - \left(\frac{1}{1+r}\right)^n}$$

where

P = The combined payment of principal and interest of the relevant Note

$$r = \frac{c}{2}$$

c = The Rate of Interest of the relevant Note

and

n = The total number of instalments of the relevant Note.

(b) *Principal*: Payments of principal set out in Condition 7(a) (*Payments for the Notes*) shall be made only against:

(i) presentation and (in the case of final redemption, *provided that* payment is made in full) surrender of Notes; and

(ii) in respect of any instalment of principal which becomes due on an Interest Payment Date, presentation and (in the case of payment in full) surrender of the appropriate Receipts,

at the Specified Office of any Paying Agent outside the United States.

(c) *Interest*: Payments of interest shall, subject to paragraph (g) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States.

(d) *Method of Payment*: Payments of principal and interest of the Notes will be made in ISK by credit or transfer to an account denominated in ISK and specified by the Noteholder.

(e) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders, Receiptholders or Couponholders in respect of such payments.

(f) *Unmatured Receipts void*: On the due date for final redemption of any Note pursuant to Condition 6(a) (*Scheduled Redemption*), all unmatured Receipts relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Unmatured Coupons void*: On the due date for final redemption of any Note or early redemption of such Note pursuant to Condition 11 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(h) *Payments on business days*: If the due date for payment of any amount in respect of any Note, Receipt or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for business in such place of presentation and, in the case of payment by transfer to a ISK account as referred to above, on which dealings in foreign currencies may be carried on both in Reykjavík and in such place of presentation.

(i) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(j) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, Receipt or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

8. **Indexation**

(a) *Application of the index ratio*: Each amount of interest and principal in respect of the Notes and calculated as set out in Condition 7 (*Payments*) to be paid on an Interest Payment Date, shall be multiplied by the Index Ratio applicable to such Interest Payment Date.

The value of the Index Ratio shall be the value of the Reference Index applicable to the relevant Interest Payment Date divided by the value of the Base Index.

"**Reference Index**" means:

(i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the "**CPI**") for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um vísitölu neysluverðs nr. 12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðið*);

(ii) for each day in the relevant calendar month other than the first day:

(a) if the CPI for the calendar month immediately succeeding the month in which the relevant Interest Payment Date falls (the "**Succeeding Month CPI**") has been published as at the relevant Interest Payment Date:

$$\mathrm{RI} = CP_t \text{ x } \left(\frac{CP_{t+1}}{CP_t}\right)^{\frac{d}{30}}$$

(b) if the Succeeding Month CPI has not been published as at the relevant Interest Payment Date:

$$\mathrm{RI} = CP_t \text{ x } (1+r)^{\frac{d}{360}}$$

where

RI = Reference Index

CP_t = CPI value for the first day of the relevant calendar month

CP_{t+1} = Succeeding Month CPI

d = number of days since the first day of the month (e.g. 2 February = 1)

and

r = annualised inflation forecast of the Central Bank of Iceland

provided that in the event that the value of the Reference Index in (i) or (ii) above is lower than the Base Index, the Reference Index shall equal the Base Index.

"**Base Index**" means 237.400, the value of the CPI on 1 November 2004.

(b) *Changes in the index*: If at any time a new index is substituted for the CPI, as of the calendar month from and including that in which such substitution takes effect:

(i) the Reference Index shall be deemed to refer to the new index; and

(ii) new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

9. **Default Interest**

(a) In the event that payment is improperly withheld or refused, the unpaid amount will bear interest ("**Default Interest**") at the Default Interest Rate in accordance with Sections 5 and 6 of the Act on Interest and Price Indexation no. 38/2001 (*lög um vexti og verðtryggingu*). Default Interest shall be paid up to and including the day on which payment is received by or on behalf of the relevant Noteholder calculated on the basis of the actual number of days elapsed from the payment date as a fraction of a month of 30 days divided by 360.

"**Default Interest Rate**" means the aggregate of the current interest rate of the most common short-term loans of the Central Bank of Iceland to lending institutions and a margin of eleven per cent. as published by the Central Bank of Iceland semi-annually, before 1 January and 1 July each year.

(b) *Calculation of default interest*: Default interest shall be calculated on the basis of the actual number of days elapsed from the payment date as a fraction of a month of 30 days divided by 360.

10. **Taxation**

All payments of principal and interest in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Iceland or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law, in which case, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction.

The Issuer shall bear all costs of stamp, registration or other taxes, duties, assessments or governmental charges of whatsoever nature that are payable in Iceland upon or in connection with the execution or delivery of the Notes, Coupons or Receipts.

11. Events of Default

If any of the following events occurs:

(a) *Non-payment*: the Issuer fails to pay any amount of principal and/or interest in respect of the Notes within 31 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Issuer*: any other present or future indebtedness in Icelandic Króna of the Issuer for borrowed money (being indebtedness of an amount in excess of ISK 2,000,000,000) becomes due and payable prior to the stated maturity thereof by reason of default or any such indebtedness is not paid at the maturity thereof as extended by any grace period applicable thereto or any present or future guarantee of borrowed money in Icelandic Króna (being any guarantee of an amount in excess of ISK 2,000,000,000) given by the Issuer is not honoured when due and called upon or within any grace period applicable thereto or the security for any such guarantee or indebtedness for borrowed money becomes enforceable or the Issuer shall declare a general moratorium on the payment of such indebtedness,

then any Note may, by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its outstanding principal amount together with accrued interest, both as adjusted pursuant to Condition 8 (*Indexation*), without further action or formality.

12. Prescription

Claims for principal and interest shall become void unless the relevant Notes, Coupons (and, in the case of any instalment of principal which became due on an Interest Payment Date, the relevant Receipts) are presented for payment within ten years of the relevant Interest Payment Date.

13. **Replacement of Notes, Receipts and Coupons**

If any Note, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent and the Paying Agent having in Specified Office in Reykjavík, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts or Coupons must be surrendered before replacements will be issued.

14. **Agents**

In acting under the Fiscal Agency Agreement and in connection with the Notes, the Receipts and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders, Receiptholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or agent bank and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain a paying agent in Reykjavík and a fiscal agent. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

15. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, Receiptholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: The Notes and these Conditions may be amended without the consent of the Noteholders, the Receiptholders or the Couponholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

16. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, the Receiptholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

17. **Notices**

Notices to the Noteholders shall be valid if published in a leading newspaper having general circulation in Iceland (which is expected to be the *Morgunblaðið*) or, if the rules of the Icelandic Stock Exchange ("**ICEX**") so admit, by the sole delivery of the relevant notice to either ICEX, Euroclear or Clearstream, Luxembourg for communication to the Noteholders. Any such notice shall be deemed to have been given on the date of first publication. Receiptholders and Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

18. **Redenomination, Renominalisation and Reconventioning**

(a) *Notice of redenomination*: If Iceland becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which Iceland becomes a Participating Member State.

(b) *Redenomination*: Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(i) the Notes shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in ISK, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however, that*, if the Issuer determines, with the agreement of the Fiscal Agent, that market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

(ii) if Notes have been issued in definitive form:

(A) all unmatured Coupons denominated in ISK (whether or not attached to the Notes) will become void with effect from the date (the "**Euro Exchange Date**") on which the Issuer gives notice (the "**Euro Exchange Notice**") to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (*provided that* such Notes and Coupons are available) and no payments will be made in respect thereof;

(B) the payment obligations contained in all Notes denominated in ISK will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 18) shall remain in full force and effect; and

(iii) Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in ISK in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

(iv) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as ISK ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in by Euro cheque drawn on, or by credit or transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a country in a city in which banks have access to the TARGET System.

(c) *Interest*: Following redenomination of the Notes pursuant to this Condition 18, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

(d) *Interpretation*: In this Condition:

"**Participating Member State**" means a member state of the European Union which adopts the Euro as its lawful currency in accordance with the Treaty; and

"**Treaty**" means the Treaty establishing the European Community, as amended.

19. Governing Law and Jurisdiction

The Notes, the Coupons and the Receipts are governed by, and shall be construed in accordance with Icelandic law.

The Issuer irrevocably agrees that any dispute arising out of the Notes, Coupons and Receipts shall be subject to the exclusive jurisdiction of the District Court of Reykjavík (*Héraðsdómur Reykjavíkur*).

Legal action taken under this Condition may be proceeded with in accordance with the Act on Civil Procedure No. 91/1991 (*Lög um meðerð einkamála*), Chapter 17.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of ISK 1 each at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 11 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Receipts and Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder.

The Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Notices: Notwithstanding Condition 17 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 17 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg; *provided, however, that,* so long as the Notes are listed on the ICEX and its rules so require, notices will also be published in a leading newspaper having general circulation in Iceland (which is expected to be the *Morgunblaðið*).

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to ISK 988,750,000, will be used by the Issuer for lending activities.

STATE GUARANTEE

The Notes benefit from a guarantee of collection (*einföld ábyrgð*) of the Icelandic State Treasury. The guarantee is irrevocable and covers all existing and future obligations of HFF including its obligations to make payments of principal and interest under the Notes. The guarantee derives from a recognised principle of Icelandic law that the State Treasury guarantees the obligations of all State agencies unless the guarantee is unequivocally limited to the assets of the agency concerned. The nature of the guarantee is such that in the event of default by HFF, a holder of Notes is required to exhaust all remedies against HFF before being entitled to make a claim against the Icelandic State. As a State agency, HFF cannot be subject to bankruptcy proceedings, as provided by Section 5(3) of Act No. 21/1991 on bankruptcy proceedings. Evidence of HFF's inability to make payments under the Notes could be sought by entering into attachment proceedings following a judgment. An attachment showing HFF to hold insufficient assets for satisfaction of the debt would qualify as proof of HFF's inability to pay, and would thus give rise to a direct claim against the Icelandic State under the guarantee.

DESCRIPTION OF HFF

Íbúðalánasjóður - the Housing Financing Fund

Overview

Íbúðalánasjóður - the Housing Financing Fund ("**HFF**"), Identity No. 661198-3629, was established on 1 January 1999 and has its registered office at Borgartún 21, 150 Reykjavík, Iceland.

HFF was established by the Act on Housing Affairs (*Lög um húsnæðismál*) no. 44/1998 (the "**Act**" or the "**Housing Act**"). The Act currently provides for the administration and organisation of housing affairs in Iceland and sets out a framework of individual entitlement to State-sponsored lending to fund purchases of residential property, responsibility for which is delegated by the State to HFF. Up until 1 July 2004, HFF carried out these functions through the granting of direct loans financed by the issuance of bonds in the domestic financial markets (the "**Housing Authority Bond System**") and through the operation of a "bond swap system" of lending to homebuyers in the form of bonds and the simultaneous issue against these of bonds in the domestic financial markets (the "**Housing Bond System**"), in each case under the overall supervision of the Minister of Social Affairs. Since 1 July 2004, a new system of direct loans to individuals has replaced the Housing Bond System and HFF now finances its loans by selling HFF bonds in the international financial markets. See "*Regulatory Changes*". All bonds issued by HFF under the Housing Bond System and the Housing Authority Bond System and the HFF Bonds are listed on the Icelandic Stock Exchange ("**ICEX**"). Such bonds represent over 50 per cent. of the current market capitalisation of securities listed on ICEX.

HFF is managed by a board of five directors, each of whom is appointed by the Minister of Social Affairs. See "*Management and Employees - Board of Directors*". The authority of the directors is strictly limited to the fulfilling the functions assigned to HFF by the Act. HFF does not engage in any commercial activity outside its core function as supplier of housing loans and in particular does not accept deposits from the public. The Act provides that HFF must maintain its capital base and earn a return on its lending activities. Further, HFF must always have sufficient liquid funds to fulfil its obligations and its lending policy is expected to achieve the Government's housing policy goals in a cost-effective way. HFF is expected to make a profit, but such profit is required to be retained and used to sustain HFF's lending operations and cover losses on loans rather than being paid out in the form of a dividend. HFF is authorised to take a margin on interest rates to cover operational cost, prepayment risk and losses on loans. The Minister of Social Affairs decides this margin (currently 0.6 per cent.) upon submission of a proposal by the Board of Directors of HFF. HFF is currently regulated by the Icelandic Financial Supervisory Authority (*Fjármálaeftirlitið*) ("**FME**"). See "*Regulation - The Financial Supervisory Authority*".

As at 30 June 2004 HFF's total asset value was ISK 493,966,892,000, its loan portfolio was ISK 482,183,305,000 and its capital adequacy ratio was around 5.0 per cent.. For the six months' period ended 30 June 2004 HFF's net income was ISK 574,078,000 and its pre-provisioning operating profit was ISK 1,034,078,000.

History

On its establishment in 1999, HFF assumed all the assets and obligations of its predecessor, the State Housing Board. The State Housing Board was established in 1957 to operate two housing funds established in Iceland, the State Building Fund, which was established in 1955 and was responsible for providing loans to fund private housing, and the Workers' Building Fund, which was established in 1929 and was responsible for the funding of social housing for lower income families.

The State Building Fund

The State Housing Board provided mortgage loans to individual homebuyers through the State Building Fund until 1989. From 1986, Government financial support of private home ownership was linked to pension funds, with the latter providing capital through the purchase of Government bonds or direct loans to the State Building Fund. The principal and interest income from these bonds and loans was on-lent by the Government through the State Housing Board to homebuyers in the form of loans at below-market rates. Although fulfilling the Government's policy of increasing private home ownership, the substantial increase in demand for these loans stretched the financial resources of the pension funds beyond their limits. The Housing Bond system, established in 1989, was designed as a means of providing financing for housing loans at market rates, with social assistance to homebuyers previously provided through below-market rates being channelled instead through a system of tax rebates. The Government's aim was to maintain a policy of encouraging domestic home ownership by State finance of property purchases whilst diversifying the sources of the system's financing, enabling credit institutions and other investors to invest in bonds. This increase in the investor base enabled entitlement to housing loans to be made universal rather than tied to membership of pension funds. The universal availability of loans could be justified in a social context on the grounds that the real financing took place on the market at market rates. Since 1990, all general housing loans to individuals have been made through the Housing Bond System.

The Workers' Building Fund

The Workers' Building Fund built social housing and provided loans to fund social housing projects. These traditionally included lending at subsidised interest rates with restrictions on resale of the properties so financed. The activities of the Workers' Building Fund were funded through the State Treasury and with loans from pension funds. In 1999, the social (Workers' Building Fund) and market (State Building Fund) systems were merged, bringing an end to long waiting lists for social housing and removing the distinction between social and private housing. From 2002, restrictions on the resale of social housing were lifted.

Recent developments

To facilitate the introduction of a new system of direct loans to individuals (which replaced the Housing Bond System on 1 July 2004) in June 2004 HFF offered holders of two outstanding series of housing bonds and five existing series of housing authority bonds the opportunity to exchange these bonds for new securities. The table below shows the nominal amount of each outstanding series that was exchanged pursuant to the exchange offer. An average of over 85% of the total outstanding of such bonds was exchanged through the offer.

The Existing Securities

Series	Eligible Notes	ISIN No.	Nominal Amount Exchanged
1	IBN 20	IS0000001154	34,940,099,480
2	IBH 21	IS0000001063	13,925,002,717
3	IBH 22	IS0000001071	17,577,781,663
4	IBH 26	IS0000004927	18,064,303,670
5	IBH 37	IS0000001097	31,800,628,238
6	IBN 38	IS0000001162	41,802,634,334
7	IBH 41	IS0000004935	74,088,300,931

The following table shows the principal amount of securities outstanding after completion of the exchange offer. The exchange offer has allowed HFF to lower its funding costs.

The New HFF Notes

Series	Eligible Notes	ISIN No.	Principal Amount
1	HFF 24	XS0195066146	125,756,093,423
2	HFF 34	XS0195066575	106,593,953,621
3	HFF 44	XS0195066658	132,482,214,163

On 11 August the EFTA Surveillance Authority held that the operating conditions of HFF were compatible with the EEA-agreement. See "*Legal Proceedings*". On 23 August, having awaited the EFTA decision, a number of local banks entered the housing market offering general loans on terms comparable to those of HFF. Historically, local banks have only enjoyed a small market share of the housing loan market, providing only relatively small supplementary loans to borrowers, but their market share is now expected to increase. See "*Competitive Environment*".

The maximum size of a loan that HFF can grant has been increased to ISK 11.5 million (previously ISK 9.2 to 9.7 million), and the combined maximum amount of a general loan and a supplementary loan is now limited to 13 million ISK. See "*Lending Activities*". The Government has presented a draft Bill to the Althingi, providing for an increase in the loan to value limit to 90% (currently 65% to 70%) which is expected to become effective by January 2005. The Government is also expected to increase the maximum size of a general loan to ISK 13 million by January 2005, while at the same time abolishing the supplementary loan system for new borrowers, so that no borrower is able to borrow more than ISK 13 million in aggregate on one property. See "*Legal Status and Legislative Framework - Regulatory Changes*".

Strategy

HFF's main objective is to offer its loans on the most favourable terms possible within its means in order to facilitate affordable renting or ownership of housing in compliance with the relevant authorising legislation.

The strategic position of HFF is underpinned by its competitive advantages including:

(i) its ability to borrow at rates similar to that of the Government,

(ii) its very efficient operations illustrated by its low cost ratio, and

(iii) its not-for-profit status that eliminates the need to make dividend payments thereby reducing the net margin on its lending activities.

To ensure the low rates, HFF's financing strategy is to continue to issue a limited number of large, State guaranteed inflation-linked bond issues in ISK which, in the case of the Notes, can be settled in one or more international settlement systems.

HFF also expects to lend increasingly to companies which finance property purchases through loans from HFF and which subsequently offer the property to individuals on the rental market. Until now the rental market in Iceland has not been strong, however this is expected to change in the future. Government policy is currently not only to encourage individual home ownership but also to increase the availability of rental housing.

Competitive Environment

HFF is the dominant provider in the Icelandic residential mortgage market. The other participants in the sector are the pension funds, commercial banks and savings banks.

HFF has historically been the largest provider of residential mortgages with a 78.89 per cent. market share as at 30 September 2003. HFF's market share has remained relatively constant over the last four years. The second largest provider of residential mortgages are the pension funds. Their market share has been increasing during recent years from 13.24 per cent. in 1999 to 16.34 per cent. of the total market as of September 2003. The pension funds only lend to their members according to their respective regulations and lending rules. The Icelandic commercial and savings banks together are the third largest participant in the market. The banking sector's share of the residential mortgage market share has decreased in recent years from nearly 8 per cent. in 1999 to 4.76 per cent. as at September 2003.

The table below sets out the share of the domestic mortgages for the years 1999 to 2003.

	1999	**2000**	**2001**	**2002**	**2003 (Sept)**
			(ISK million except percentages)		
Commercial and savings banks	26,870	30,474	28,494	27,069	25,869
	7.99%	7.96%	6.33%	5.53%	4.76%
Pension Funds	44,500	55,900	71,400	83,400	88,667
	13.24%	14.59%	15.86%	16.73%	16.34%
Housing Financing Fund	264,825	296,648	350,204	388,090	428,079
	78.78%	77.45%	77.80%	77.84%	78.89%
Total	336,195	383,022	450,098	498,559	542,615

Source: Central Bank of Iceland

Since August 2004, the competitive situation in the housing mortgage market has changed. Although traditionally not prominent in the mortgage market, several banks are now trying to increase their share. Some domestic banks now offer a fixed rate of 4.2% on first priority mortgages and up to 100% of the purchase price. These loans are however generally subject to a 2% prepayment fee. Many pension funds are now offering 4.3% on first priority mortgages, without any prepayment fee.

This increased competition has led to a higher rate of prepayments of existing HFF loans. HFF believes that some of the mortgages taken out with domestic banks will be used for refinancing purposes, so HFF will not necessarily experience a reduction in its loan portfolio equal to the increased share of the local banks in the residential mortgage market.

Despite these changes in the competitive environment, the Government has expressed its strong support for the continued operation of HFF.

Selected Financial Information for HFF

The following table shows the profit and loss account for HFF for the years 2001, 2002 and 2003, and the balance sheet for HFF as at 31 December 2001, 2002 and 2003.

Profit and Loss Account - Annual

	2001	2002	2003
		(ISK millions)	
Net Interest Income	1,003.6	1,844.8	2,519.5
Non-Interest Income	(4.2)	926.8	880.1
of which: foreign exchange gain/loss	(612.7)	300.1	74.1
Total Income	999.4	2,771.6	3,399.5
Loan Loss Provision	(651.9)	(747.9)	(936.9)
Pre-Tax Profit	(373.3)	1,262.7	1,678.2
Net Income	(373.3)	1,262.7	1,678.2

According to the Profit and Loss Account the net profit of HFF amounted to ISK 1,678 million for the year 2003. Net interest income amounted to ISK 2,519 million for the year 2003 compared to ISK 1,845 million for the year 2002. Other operation revenue amounted to ISK 880 million for the year 2003 compared to 927 million for the previous year. The change in other operational revenue is explained by the change in currency exchange rate development between years and an increase in income from service charges.

Profit and Loss Account - Interim

Interim Accounts Jan-June (ISK millions)	2003	2004
	(ISK millions)	
Net Interest Income	1,271,6	923.0
Non-Interest Income	357.9	550.3
of which: foreign exchange gain/loss	15.9	0.3
Total Income	1,629.5	1,473.3
Loan Loss Provision	(405.2)	(460.0)
Pre-Tax Profit	841.3	574.1
Net Income	841.3	574.1

According to the Profit and Loss Account the net profit of HFF amounted to ISK 574 million for the first six months of 2004. Net interest income amounted to ISK 923 million for the first six months of 2004 compared to ISK 1,271 million for the same period 2003. Other operation revenue amounted to ISK 550 million for the year 2004 compared to 357 million for the same period the previous year. The change in other operational revenue was again primarily due to change in currency exchange rate development between years and an increase in income from service charges.

Balance sheet - Annual

	2001	2002	2003
		(ISK millions)	
Assets			
Total Net Loans	355,217.2	392,368.2	444,829.2
Total Earning Assets	357,706.4	394,784.6	450,195.9
Total Assets	362,262.8	401,722.0	459,831.6
Liabilities			
Total Funding	353,419.3	391,617.7	448,125.6
Equity	8,684.1	9,946.8	11,625.0

Total Net Loans amounted to ISK 444,829 million at the end of the year 2003 and had increased by ISK 52,461 million during the year. Cash, cash equivalents and market securities increased by ISK 5,504 million during the year 2003. Borrowings amounted to ISK 448,126 million and increased by ISK 56,508 million during the year. Equity, according to the Balance Sheet, amounted to ISK 11,625 million at the end of the year 2003 or 2.5% of HFF's total assets.

Balance sheet - Interim

Interim Accounts Jan-June (ISK millions)	2003	2004
	(ISK millions)	
Assets		
Total Net Loans	415,829.9	482,183,3
Total Earning Assets	418,839.4	487,821.8
Total Assets	423,429,2	493,966.9
Liabilities		
Total Funding	412,474.8	481,534.4
Equity	10,788,1	12,199.1

Total Net Loans amounted to ISK 482,183 million at the end of June 2004 and had increased by ISK 66,353 million during the first six months of the year. Borrowings amounted to ISK 481,534 million increasing by ISK 69,060 million in the first six months of the year. Equity, according to the Balance Sheet, amounted to ISK 12,199 million at the end of the period or 2.5% of HFF's total assets.

Legal Status and Legislative Framework

HFF is an independent legal entity but is a part of the central Government and as such included in the annual State Budget. It is classified in the State Budget as a "C-type Institution", a classification which is also given to finance bodies such as the Agricultural Productivity Fund (*Framleiðnisjóður landbúnaðarins*), the Student Loan Fund (*Lánasjóður íslenskra námsmanna*), the New Business Venture Fund (*Nýsköpunarsjóður atvinnulífsins*) and the Institute of Regional Development (*Byggðastofnun*).

Obligations of HFF have the benefit of a guarantee of collection from the State Treasury of the Republic of Iceland. However, in order to obtain a remedy against the State Treasury, a claimant must have first exhausted all other legal remedies available to it against HFF. See "*State Guarantee*".

According to Article 4 of the Act, the aim of HFF is to manage and implement housing policy in line with the provisions of the Act. In addition, HFF acts as an advisor on housing issues to the Minister of Social Affairs and other officials charged with responsibility for housing affairs. Article 1 sets out the purpose of the Act itself, namely to ensure that the Icelandic population can enjoy security and equal rights to housing and that funds are made available to enable people to acquire or rent housing on affordable terms.

The principal tasks of HFF are defined by Article 9 of the Act, as amended, as:

(i) To provide loans to individuals in accordance with the provisions of the Act.

(ii) To provide loans to municipalities, companies and associations to construct or purchase housing for rent.

(iii) To supervise the finances, running and other operations of HFF and ensure that HFF operates in accordance with existing laws and regulations.

(iv) To make a financial plan that shows a breakdown of planned operational costs for HFF in accordance with the provisions of the State Budget.

(v) To provide the public with information regarding the role and service of HFF.

(vi) To promote technical innovations and other reform in the construction industry, i.e. by providing loans or grants, under provisions further decided by the Minister of Social Affairs.

(vii) To monitor housing requirements in Iceland and planning by municipalities for such requirements.

(viii) To carry out such other activities as are delegated by the minister to HFF by regulations relating to housing affairs.

As HFF is neither a credit institution nor a financial institution as defined in Icelandic law, and does not accept deposits, it is not subject to domestic or international banking regulations. In particular, HFF is not required to comply with capital adequacy requirements set out in domestic or EU legislation such as the Capital Adequacy Directive and Basle recommendations. HFF's financial status and its activities of the issue of loans and Housing Bonds are regulated by the Financial Supervisory Authority and the Central Bank.

HFF is exempted from payment of income tax and property tax, pursuant to Article 4 and Article 71, Section 4 and 5, of the Act on Income and Property Tax no. 90/2003. HFF is also exempted from payment of State Guarantee Risk Premium, pursuant to Article 7 of the State Guarantee Act no. 121/1997. Likewise, Housing Bonds and Housing Authority Bonds (and accordingly HFF bonds) are exempted from Stamp Duty, pursuant to Article 35 of the Act on Stamp Duty no. 36/1978.

Regulatory Changes

On 1 July 2004 a new law "Act Amending the Act No. 44/1998 on Housing Affairs" no. 57/2004 (the "**New Housing Act**") came into effect. The New Housing Act governs and provides for a new system of direct loans to individuals based on the Housing Authority Bond System (which has replaced the existing Housing Bond System of bond swaps). The New Housing Act is the primary legislation giving authority to the Minister of Social Affairs to make secondary legislation in the form of regulations which governs the terms and structure of the new system. Three regulations have been enacted as of 1 July 2004:

(i) *Regulation on ILS-mortgages and HFF Bonds, no. 522/2004*, as amended by regulation 824/2004 – This regulation sets out the principal parameters of the new lending system such as the form of the new HFF bonds, terms and conditions of the ILS-mortgages and entitlement to lending.

(ii) *Regulation on financing and risk management of the Housing Financing Fund, no. 544/2004* – This sets out the new capital adequacy guidance and rules governing HFF. Under this regulation HFF's target will be to achieve a capital adequacy ratio of 5 per cent., with an obligation to report the ratio four times per year to the Ministry of Social

Affairs. If the capital adequacy ratio falls to below 5 per cent., should conventional methods fail to bring the figure up, the "mark to market" option in HFF's loans will be fully or partially exercised.

(iii) *Regulation on maximum loan amount and maximum loan to value ratio, no. 521/2004, as amended by regulation 798/2004* and regulation 823/2004 - These regulations provide for the maximum permissible loan to value ratio of housing loans made by HFF of 70 per cent. (first-time buyers) and 65 per cent. (subsequent purchases). The regulations also lay down the maximum loan amount of ISK 11.5 million and the principle that the combined maximum loan and supplementary loan cannot exceed ISK 13 million. A draft bill has been presented to the Althingi, which provides that the loan to value ratio shall be increased to 90% by 1 January 2005, in line with a clearance from the EFTA Surveillance Authority of 11 August 2004 (see "*Legal Proceedings*").

Lending Activities

Under the new regulatory framework, HFF provides loans to individuals, local authorities, companies and non-Governmental organisations for acquisition of housing. The activities of HFF are divided into the following categories:

(i) *General loans to individuals* - HFF provides loans to individuals for buying new or older housing, for self-building of new housing and for financing extensive renovation of older housing. It also provides loans to construction contractors for construction and resale of residential property. Loans in this category may amount to up to 70 per cent. of the purchase price of the property if the person concerned is buying his or her first dwelling or 65 per cent. for any subsequent purchase. The maximum loan is currently set at ISK 11.5 million.

(ii) *Supplementary loans to individuals for social reasons* - HFF provides supplementary loans of up to 20-25 per cent. of the purchase price of the property on a means tested basis to individuals with low income and limited assets. However, the aggregate of the general loan and supplementary loan may not exceed 90 per cent. of the purchase price of a property and the combined general loan and supplementary loan may not exceed ISK 13 million. HFF also lends to disabled homebuyers who require modification to their housing due to disabilities. All supplementary loans must be approved by the relevant municipal housing committee as well as by HFF.

(iii) *Loans to non-individuals* - HFF provides direct loans to local authorities, designated property companies and non-Governmental organisations for the acquisition of housing for rent. These loans can either be for housing for rent on the general market or for rent to lower-income tenants. In the latter case interest rates are lower and a cap on rents is imposed and monitored by HFF.

Finance from HFF is available to single individuals and married or cohabiting couples. Construction contractors can also use the systems to raise part of the finance for new buildings by taking out a loan which is secured by a bank guarantee and a mortgage on the apartment or house. Such loans to construction contractors are subject to a number of criteria.

Under the New Housing Act (see "*Legal Status and Legislative Framework - Regulatory Changes*") all loans are in the form of direct cash loans. HFF expects that its lending activities will be funded through sale of the Notes in the international capital markets.

The following table sets out the geographical breakdown of HFF's loan portfolio for the years 2001 to 2003.

	2003	2002	2001
	(ISK millions except percentages)		
Reykjavík	184,871	167,227	152,459
	41.56%	42.62%	42.92%
Reykjavík suburban	115,166	106,528	95,980
	25.89%	27.15%	27.02%
Countryside	144,792	118,613	106,778
	32.55%	30.23%	30.06%
Total	444,829	392,368	355,217

Source: HFF

The tables below show the breakdown of HFF's Housing Bond and Housing Authority Bond loan portfolio by size of loan for the years 2001 to 2003.

	2003	2002	2001
	(ISK millions except percentages)		
Housing bond loans (Housing Bond System)			
ISK 5m-9m	157,071	125,753	104,826
	52.52%	48.79%	46.14%
ISK 2m-5m	114,257	106,051	98,684
	38.20%	41.15%	43.44%
ISK 500,000-2m	27,032	25,285	23,086
	9.04%	9.81%	10.16%
Below ISK 500,000	718	651	583
	0.24%	0.25%	0.26%

Source: HFF

	2003	2002	2001
	(ISK millions except percentages)		
Direct loans (Housing Authority Bond System)			
ISK 5m-9m	65,770	58,974	55,527
	45.13%	43.81%	43.37%
ISK 2m-5m	36,187	33,224	31,082
	24.83%	24.68%	24.28%
ISK 500,000-2m	39,022	37,623	36,574
	26.77%	27.95%	28.57%
Below ISK 500,000	4,771	4,807	4,855
	3.27%	3.57%	3.79%

Source: HFF

Loan to Value ratio

The table below sets out the loan to value ratio of HFF as at 31 December 2002 and 2003:

Loan to value

	2002	2003
Less than 50%	74.86%	72.66%
50 - 60%	8.34%	8.35%
60 - 70%	6.65%	7.08%
70 - 80%	4.90%	5.11%
80 - 90%	2.74%	3.12%
90 -100%	1.46%	2.06%
Greater than 100%	1.05%	1.62%
Total LTV ratio	36.34%	38.62%

Source: HFF

Credit Approval Process

The current procedure for an individual to obtain a general loan from HFF to fund a property purchase is as follows:

- *Credit Profiling.* The individual approaches any commercial or retail bank in Iceland. Application forms are submitted and a credit profile is conducted by the bank. The banks currently have a contract with HFF to undertake credit profiling in compliance with rules specified by HFF, although this arrangement will end on 15 December 2004. The credit profiling is based on the information provided by the individual, tax records and shared information kept by Icelandic banks on individuals' credit histories and total current indebtedness.

- *Borrowing Limit Set.* Based on the results of the credit profiling, an individual applicant is assigned a borrowing limit by the bank.

- *Offer Made.* The individual is then able to make an offer on a property based on his or her borrowing limit and HFF's rules that the amount of the loan may not exceed 65 per cent. or 70 per cent. of the value of the property.

- *Acceptance of Offer.* If the seller accepts the offer made, the papers relating to the buyer, the offer, the property and certain additional matters relating thereto such as insurance are sent to HFF.

- *Valuation Check.* HFF checks the purchase price in comparison to the Fire Insurance Valuation issued by the State Real Estate Valuation Agency. Loans cannot exceed 100% of the Fire Insurance Value.

- *Loan Papers Produced.* If the valuation falls within the prescribed limits, the borrower's application is granted and loan papers are printed by HFF.

- *Registration of Loan.* The loan is registered at the District Magistrates' office.

- *HFF's Exchange of Loan.* HFF purchases the loan at 99 per cent. of its face value as at the date when the loan was made. The remaining 1 per cent. is a loan fee charged by HFF (see "*Funding*").

The procedure for an individual to obtain a supplementary loan from HFF for social reasons is similar to the above, although the grant of such a loan is dependent upon an acceptance by the municipality in which the applicant resides and requires the applicant to be within certain income and asset limits. These loans can amount to 20-25% of the purchase price, up to a maximum 90% loan to value limit.

Credit Monitoring

Loan repayments are collected through the same national network of banks which arrange the loan application. Iceland has an integrated banking computer network (the "**RB System**") (of which HFF, via a local bank, is a member) through which customers make loan repayments. The RB System sends out statements to borrowers on a monthly, quarterly or annual basis ten days before payment is due detailing the payment due. Following receipt of the payment from the customer, the receiving bank will pass the payments on to HFF. HFF monitors payments for loan defaults on a monthly basis. This is carried out on HFF's own computer system using data obtained from the RB System.

Following the due date for payment of a loan a borrower is given a fourteen-day grace period during which no interest or penalties accrue. If payment is not made during this grace period, a letter is sent by HFF to the borrower informing them that their loan is in default and setting out the interest and penalties accruing.

If full payment of an outstanding amount together with interest and penalties is not received within four months of the due date for payment, HFF enforces a lien against the mortgaged property. Thereafter, an accelerated court procedure is available to HFF through which the court will grant HFF authority to sell the mortgaged property.

Sales of properties subject to this legal procedure take place at auction, through the District Magistrate. The general public and lawyers representing the creditors can bid for properties. HFF lawyers will bid for a property up to the amount owed. If HFF's bid is successful it will seek to resell the house on the open market. HFF currently has approximately 100 apartments awaiting sale on the open market, the average selling time being 1-2 months. Under Icelandic law, if the amount received from the proceeds of the sale of a property is not sufficient to cover the interest and principal on the defaulted loan, the borrower remains liable for the shortfall. HFF will seek to recover any such shortfalls for a period of five years before writing-off the sum. Bankruptcy procedures are not usually entered into.

A centralised system for recording loan defaults exist in Iceland. This system will prevent a borrower who has defaulted under a loan from obtaining credit for a period of five years.

Should a borrower experience financial difficulties during the lifetime of a loan a procedure exists which allows repayments to be put on hold for a period of up to three years, defaults changed into new loans and/or the maturity of the loans moved back, up to 15 years. In order to qualify for this deferral of repayment, strict criteria must be met. Interest and any penalties outstanding on a deferred loan continue to accrue and are index-linked. In addition, if at any time following the commencement of proceedings to auction a property securing a defaulted loan, the borrower may stop the proceedings by reaching an agreement with HFF for the repayment of the outstanding loan, interest and penalties.

Income and Funding

The principal means of income for HFF are a one-off fee charged to the borrower of each loan and an operating margin.

The one-off fee, intended to cover HFF's operating costs is currently 1 per cent. for the majority of the loans and 0.5 per cent. for the rest and has remained at this level throughout HFF's lifetime and prior to that since 1957. The level of this fee is now governed by Regulation no. 3/1999 on HFF's fee schedule (*Reglugerð um gjaldskrá Íbúðalánasjóðs*).

Housing Bonds made up the bulk of HFF's funding base, with 71% of the funding in 2003. Housing Authority Bonds made up an increasing 21% and other loans the remaining 8%. Other loans relate to borrowing from Pension funds and the Treasury relating to social loans inherited from the old State Housing Agency and not replaced by bonds following the Housing Bond system in 1989. These loans are expected to by fully paid within the next 10 years.

Housing Bonds were issued and delivered in exchange for a mortgage issued by the builder or the owner of the housing. Housing Bonds are indexed through the Consumer Price Index, and carry a fixed interest of 4.75%. Currently, the loan period of the Housing Bonds is 25 or 40 years, involving so-called bullet bonds with a single payment of outstanding amount and interest at the end of the loan period. However, during the loan period, there is a quarterly draw of a specific number of Housing Bonds for redemption. Any bonds drawn in this manner have thus matured and will then be paid in full.

Housing Authority Bonds are indexed through the Consumer Price Index, and carry a fixed interest of 2.7%. The loan period of the Housing Authority Bonds is currently 24 or 42 years, and they are to be repaid through annuity payments.

	1999	2000	2001	2002	2003
Housing Bonds	62.5%	63.4%	65.5%	68.9%	70.9%
Housing Authority Bonds	12.1%	16.1%	19.1%	19.4%	20.9%
Other Loans	25.4%	20.5%	15.5%	11.7%	8.2%

Source: HFF

Following completion of the exchange offer (see "*Recent Developments*") HFF's funding basis consists primarily of three series of notes (HFF 24, HFF 34 and HFF 44) which together comprise approximately 70% of HFF's current funding. These notes are amortising, carry a fixed interest rate of 3.75% and have maturities of 20, 30 or 40 years, respectively. The remainder of HFF's funding is comprised of Housing Bonds (22%) and other bonds (8%).

Day-to-day funding issues are the responsibility of the Treasury Department within HFF, with the Funding Committee taking decisions on matters such as setting interest rates and the issuance of new bonds to finance HFF's lending activities. Decisions are based on a number of factors including the level of new loans granted, the current level of prepayments and lending forecasts. The Funding Committee is appointed by the Board of Directors and at a minimum consists of the CEO, the Treasurer and the Risk Manager. The Funding Committee meets on a regular basis, at least monthly.

Risk Management

Overview

HFF's Board of Directors adopted a new comprehensive Funding and Risk Policy ("**FRP**") on 10 June 2004. The FRP sets out rules and guidelines for the management of funding and treasury operations. Lending operations and corresponding risks are not regulated by the policy. The policy contains both administrative regulations to minimise operational risk and reporting guidelines to recognise early indicators of potential financial risks.

The FRP sets out a division of responsibilities between the front, middle and back offices and for the management and overseeing of the various departments. The front office is responsible for the execution and booking of transactions. An independent controlling function is carried out by the middle office, which monitors market and operational risks and reports to the Risk Manager and the Treasurer. The middle office does not execute or administer transactions. The back office performs the administrative function of securities operations, including confirmation and settlement.

Reporting and Monitoring

The FRP sets out a framework for reporting and monitoring. Reports are compiled by the Risk Manager on a monthly basis. The risk report (containing an overview of HFF's current portfolio and key risk management measures), cash flow forecast and a report of results are sent to the CEO and the Board of Directors. The risk report is also sent to the Minister of Social Affairs and the FME.

Asset and Liability Management

HFF actively monitors and manages asset/liability matches. Mismatches are monitored, measured and hedged as deemed necessary. HFF's Funding and Risk Management Group are responsible for the asset and liability management activities of HFF but subject to policies set by, and monitoring by the Risk management and Funding Committee.

The changes that took place in July 2004 involving the restructuring of the Housing Bond System have resulted in HFF being exposed to new risks due to a mismatch in optionality between assets and liabilities. Homeowners still have the option to repay at par whereas HFF no longer has the option to call the Notes. This new risk will be offset by hedging arrangements to be established and monitored by the Risk Manager. The new system requires more active monitoring of and considerably tighter controls on asset and liability management, and is one of the primary motivations for the adoption of the new FRP.

Interest Rate Risk Management

Interest fluctuations affect the market value of interest-bearing assets and liabilities. For HFF, the risk stems from timing and amount mismatch in cash flows from interest-bearing assets and liabilities. The aim of HFF's interest rate risk management is to protect HFF from changes in market value of interest bearing assets and liabilities caused by market interest rate fluctuations by matching cash flows from assets and liabilities. As HFF's cash flow levels and timings are subject to a level of uncertainty caused by borrowers' prepayment options under the Housing Bond System (the exercise of which prepayment options themselves will be closely linked to the prevailing interest rate), interest rate risk is closely linked to prepayment risk and asset and liability management. The FRP sets out thresholds for mismatches between assets and liabilities.

Prepayment Risk

As set out above, prepayment risk - the risk that levels of actual future prepayments will deviate from forecasts (the likelihood of which is linked to interest rate fluctuations) - is taken into account when calculating interest rate risk levels. HFF measures actual levels of prepayments and forecasts future levels on a monthly basis. Interest rate and funding risk measures are adjusted in accordance with the results of these calculations.

Liquidity Risk Management

HFF has access to reserves and credit lines with a number of banks in order to manage liquidity risk. HFF's liquidity policy stipulates that cash or cash equivalents should cover six months' payments of interest payments on all outstanding debt. A long-term cashflow plan is established along with HFF's annual business plan and budget. A short-term cash flow plan is drawn-up on a daily basis which produces a cashflow plan for the next twenty days.

Counterparty Risk

Surplus liquidity (in the form of cash and cash equivalents, short term investments and credit commitments) liquidity is kept to a minimum. Such surplus liquidity is managed by the

Treasury Department. The permitted level of investment by counterparty is set out below. No investments of more than three months are allowed in normal circumstances. This period may be extended in limited circumstances with the approval of the Funding Committee.

Counterparty Category	**Counterparty**	**Borrowing Limit** *(ISK millions)*
A	Government of Iceland	No limit
B	Investment Grade Banks with a long-term credit rating of BBB or equivalent	5,000
C	Counterparties in OECD states with a long-term credit rating of A+ (Standard & Poor's) or A1 (Moody's)	500
D	Smaller Icelandic Banks	300

Refinancing Risk

All refinancing risk (the risk that HFF will not obtain sufficient borrowings from creditors when a capital need arises) is covered by having cash or cash equivalents to cover 3 months' net lending, based on HFF lending forecasts.

Currency Risk

HFF is exposed to currency risk in connection with any financing denominated in or linked to a foreign currency. Currently, the only non-ISK linked or denominated financing is a bond issue of ISK 1.4 billion which, although denominated in ISK, is indexed to EUR. This was inherited by HFF the State Housing Board in 1999 and will mature in the first quarter of 2007. This bond issue had a negative impact on HFF's results in 2001 of ISK 623 million. Foreign exchange positions are partly hedged using currency derivatives. HFF does not lend in any currency other than ISK.

Inflation Risk

Index-linking of financial obligations has been established practice in the Icelandic financial markets since 1980. To protect the lender from inflation, loan rate are calculated on a real yield basis with interest rate and loan balance adjusted for changes in the Consumer Price Index ("**CPI**"). Due to possible mismatching of index-linked assets and liabilities, HFF can be exposed to inflation risk.

Regulation

The Financial Supervisory Authority

The HFF is subject to the supervisory powers of the FME. Its predecessors, the Bank Inspectorate of the Central Bank of Iceland and the Insurance Supervisory Authority, were merged to form the FME at the beginning of 1999.

The FME is an independent state authority with its own Board of Directors (the "**Board**"), which is appointed for a term of four years. The Board appoints a General Director, who is in charge of the day-to-day activities and operation of the Authority. The FME reports to the Minister of Commerce.

The FME's role is to ensure that the activities of parties subject to supervision are in accordance with laws and regulations and that they are consistent with sound and proper business practices. Parties which are subject to supervision include commercial banks, savings banks, credit undertakings (investment banks), deposit departments of co-operative societies, securities companies, securities brokerages, management companies of UCITS (as defined below), stock exchanges, central securities depositories, pension funds, insurance companies and insurance brokers licensed to operate in Iceland. Several other financial institutions, which operate under certain special legislation, are also subject to supervision by the FME.

The activities of the FME are primarily governed by Act No. 87/1998, as amended, on the Official Supervision of Financial Operations, which covers the institution and its administrative position, operations, confidentiality, activities to be supervised are listed and more. Certain other provisions concerning the supervision and authority of the FME that are contained in various acts, regulations and rules on financial market activities are irrelevant to HFF.

The FME's Supervisory Powers

The FME fulfils its supervisory role by ensuring that the activities of parties such as HFF, which are subject to supervision, are in compliance with current laws, regulations, rules and by-laws applicable to their operations and in all other respects consistent with sound and proper business practices. The FME also works in all areas of the financial market on the basis of international principles concerning effective supervision. These basic principles are implemented by the International Monetary Fund for the purpose of assessing the financial stability of its member states.

The supervision is largely conducted through regular collection of information on the operations and financial position of parties subject to supervision (off-site), various specific surveillance operations (on-site) and written enquiries on specific aspects. In addition, the FME responds to enquiries and requests from parties subject to supervision and their clients and gives recommendations regarding, for example, operating licenses and mergers. The FME publishes reports that are compiled from the annual accounts of financial institutions and other data on their activities. The FME also participates in the development of legislation and regulations for the financial market.

Supervision by the FME is mainly implemented in three ways:

(1) Firstly, through regular gathering of various information concerning the operations and finances of parties subject to supervision. This information gives an overview of the situation of and developments in specific areas of the financial market, as well as indicating the performance of individual parties. As a consequence of this, HFF is obliged to deliver quarterly overview reports to the FME in addition to monthly risk reports.

(2) Secondly, through a range of specific supervisory measures. Special on-site investigations or inspections are conducted in the case of individual parties subject to supervision.

(3) Thirdly, through written enquires to parties subject to supervision on certain areas of their operations. According to the FME, it must take the initiative in its supervisory capacity as it needs to have a clear overview of the situation in different areas of the parties' activities in order to tailor its supervisory procedures accordingly. The FME also deals with various communications and inquiries from parties subject to supervision regarding their operating licences and the interpretation of laws and regulations pertaining to their operations. Customers of financial firms also make inquiries to the FME regarding their business transactions.

The FME can impose daily fines if any party subject to supervision does not provide the requested information or take corrective action within a suitable time frame. Moreover, the FME may impose administrative penalties on a party subject to supervision if such a party does not comply with its decisions.

HFF and its relationship with the FME

Article 27 of the Housing Act stipulates that the FME shall monitor the operations of HFF's Housing Bonds Department to ensure that the issuance of Housing Bonds and the finances of the Department are in accordance with the provisions of the Housing Act and regulations set under it. Monitoring shall be undertaken in compliance with the provisions of the Act on the Official Supervision of Financial Operations. HFF must provide the FME with all the information that it deems necessary. Article 27 further stipulates that if the FME deems it necessary to evaluate the financial status of the Housing Bonds Department, it has the right to collect information and commission on-site investigations of other departments in HFF. In addition to monitoring the Housing Bonds Department, the FME shall monitor housing bond transactions in the secondary market under the Act on Securities Transactions no. 33/2003 and the Act on Undertakings for Collective Investment in Transferable Securities ("**UCITS**") and Investment Funds no. 30/2003.

The FME's supervision of HFF has been very limited as Article 27 of the Housing Act is not precise as to the scope of the FME's powers. The fact that a "Housing Bonds Department", so named, does not exist as such also results in an unclear supervisory role for the FME on HFF's matters. The supervision fee that HFF is currently obliged to pay for the FME's supervisory role, in accordance with Article 5 of the Act on the Payment of Costs for Public Supervision of Financial Activities no. 99/1999, is also demonstrative of the FME's level of supervision, as it amounts to 0.0004% of total assets, but never less than ISK 400,000, which is considered to be a low amount compared to that payable for other activities subject to FME's supervision. However, research on HFF's internal surveillance and risk management was carried out by the FME in 2003 and some comments were made to HFF's management after the research. Furthermore, HFF has sent quarterly reports to FME on bad debts and defaults, and the FME has monitored all market information concerning and originating from HFF and its annual accounts.

Pursuant to the New Housing Act, the control exercised by the FME will expand to cover all activities of HFF, in particular as regards issues of marketable debt instruments, rather than being limited to the Housing Bond Department as it has previously been. As of 1 July 2004, the relationship between HFF and FME will therefore be more active and the monitoring obligations of the FME will mirror its obligations with respect to the banking sector. This should be reflected in monthly reports from HFF on certain subjects, such as risk management and financial status. This amendment is expected to lead to an increase in the fee payable by HFF for the FME's supervision as the Act on the Payment for Costs of Public Supervision of Financial Activities is updated annually.

Legal proceedings

HFF is party to a number of legal proceedings in the everyday course of its business. However, management does not consider such proceedings material or consider that should such proceedings result in judgements against HFF, the sums involved in such proceedings would individually or in the aggregate have a material effect on HFF or its business.

On 20 April 2004, the Bankers' and Securities Dealers' Association of Iceland ("**BSDA**") filed a complaint with the EFTA Surveillance Authority ("**ESA**") regarding HFF's credit market activity. The complaint was based on the following findings from a University of Reykjavík report:

(i) HFF is competing with other creditors in providing mortgage loans, making it susceptible to EEA-competition rules, even though it is fully owned by the State.

(ii) HFF's position is incompatible with the main objectives of the EEA Agreement, not in line with the competition rules of the Agreement and hinders international trade (since the Icelandic housing market is not a desirable option for foreign banks).

(iii) HFF's special rights, as granted by the State, constitute hindrances for other financial institutions to grant housing loans and thus contradict Iceland's obligations under the EEA Agreement.

On 11 August 2004 the ESA adopted a decision which dealt with the complaints raised by the BSDA as well as a Notification of the Government of November 2003 regarding the Government's intention to increase the maximum loan to value ratio to 90% of purchase price. ESA came to the conclusion that while the operating conditions of HFF constituted State aid, they were acceptable under the rules applicable to services to general economic interest. ESA referred to the objective of HFF to promote, through the granting of loans, access to affordable house financing on equal conditions throughout the country, along with the special allocation of funds to increase the possibility of acquiring or renting housing on manageable terms. In this respect the Authority concluded that the HFF was entrusted with services of general economic interest, given their social and universal dimension, distinguishable from the economic interest of other economic activities. The Authority was also of the view that HFF's costs to render the service of general economic interest were not overcompensated and that the State support was limited to what was necessary for the HFF to perform the specific service in question. Finally, the Authority was of the opinion that the

HFF's financing mechanism did not affect the development of trade to an extent contrary to the interests of the Contracting Parties.

This decision is a final conclusion on behalf of ESA as regards a complaint lodged with ESA by the BSDA regarding HFF's credit market activity subject to the right of appeal to the EFTA court until 23 November 2004. The decision does also allow for an increase in the maximum loan to value ratio of general HFF loans up to 90% of purchase price.

Management and Employees

Board of Directors

The Board of Directors of HFF is made up of five Directors each appointed by the Minister of Social Affairs. The tenure of office is four years and there is no restriction on reappointment. The current Directors, who began their second term on 1 January 2003 are:

Name	Position	Principal Outside Interests
Mr. Gunnar S Björnsson Id. No. 040932-3059 Ofanleiti 19, 103 Reykjavík	President	Consultant and former Director of the Maestros and Building Contractors Union
Mr. Hákon Hákonarson Id. No. 060245-4799 Munkathverárstræti 22, 600 Akureyri	Vice President	Director of the North Regional Metal Workers Union
Mr. Birkir Jón Jónsson Id. No. 240779-5289 Jötnaborgum 12, 112 Reykjavík	Director	Member of Althingi, the Icelandic Parliament
Ms. Kristín Ástgeirsdóttir Id. No. 030551-4519 Meistaravöllum 31, 107 Reykjavík	Director	Former member of Althingi, advisor to the UNIFEM
Mr. Kristján Pálsson Id. No. 011244-4759 Kjarrmóar 3, 260 Reykjanesbær	Director	Consultant, former member of Althingi, and former mayor of several municipalities

Senior Management

HFF is managed on a day-to-day basis by a CEO assisted by five departmental managers.

Name	Position
Mr. Guðmundur Bjarnason Id. No. 091044-7819 Kirkjusandi 5, 105 Reykjavík	CEO
Mr. Hallur Magnússon Id. No. 080462-4849 Rauðagerði 58, 108 Reykjavík	Manager of Development, Investor and Public Relations
Mr. Jóhann G Jóhannsson Id. No. 310164-3569 Brautarland 3, 108 Reykjavík	Manager of Risk Management
Ms. Ásta H Bragadóttir Id. No. 220463-5409 Laekjarfit 4, 210 Garðabær	Manager of Operations
Mr. Sigurður Geirsson Id. No. 100155-4359 Reykjamelur 4, 270 Mosfellsbaer	Manager of Treasury
Mr. Bjarni Frímann Karlsson Id. No. 200949-3079 Frostaskjól 35, 107 Reykjavík	Manager of Lending

Employees

HFF currently employ 60 staff, of which 56 are full-time and 4 part-time. The workforce has grown at a low and steady rate in recent years. HFF has a very high rate of staff retention. All employees are union members and benefit from collective bargaining agreements entered into between the unions and HFF. HFF believes that the relationship with its employees and the unions is very good.

CAPITALISATION AND INDEBTEDNESS OF HFF

The following table, extracted without material adjustment from the accounts reviewed by HFF's auditors, sets out the capitalisation and indebtedness of HFF as at 30 June 2004.

	as at 30 June 2004
	(ISK millions)
Equity	
Capital	12,199
Borrowings	
Issued Bonds	481,534
Total Capitalisation	493,733

There has been ISK 70,471 million increase in the capitalisation and indebtedness of HFF since 30 June 2003. HFF has no contingent liabilities. Under the Act, HFF is not permitted to advance unsecured loans. All outstanding loans are secured by a mortgage.

THE REPUBLIC OF ICELAND

About Iceland

Iceland is located in the North Atlantic between Norway, Scotland, and Greenland. It is the second largest island in Europe and the third largest in the Atlantic Ocean, with a land area of some 103,000 square kilometres, a coastline of 4,970 kilometres and an exclusive 200 nautical mile economic zone, extending over 758,000 square kilometres in the surrounding waters. Iceland enjoys a warmer climate than its northerly location would indicate because a part of the Gulf Stream flows around the southern and western coasts of the country. With only 2.7 inhabitants per square kilometre, Iceland is one of the least densely populated countries in Europe. The population of Iceland was 290,570 at the end of year 2003. The annual rate of population growth was 1.1% between 1998-2003. Around 62% of the population (181,888) lives in the capital city of Reykjavík and its surrounding municipalities. The largest town outside the capital area is Akureyri, in the north, with a population of 16,086.

Political Structure and External Relations

Iceland was settled late in the 9th century. A general legislative and judicial assembly, Althingi, was established in 930 and a uniform code of laws for the country was adopted at the same time. In 1262, Iceland concluded a treaty establishing a union with the Norwegian monarchy. When the Danish and Norwegian monarchies were united in 1380, Iceland came under Danish rule, which lasted for more than five hundred years. Iceland was granted a new constitution in 1874 and obtained home rule in 1904. With the Act of Union in 1918, Iceland became a sovereign state in a monarchical union with Denmark. In 1944, Iceland terminated this union with Denmark and founded a Republic. The present constitution was adopted on 17th June, 1944 when the Republic was established.

Iceland has a parliamentary system of government. Legislative power is vested in the Parliament (*Althingi*), and executive power in a cabinet headed by the Prime Minister. The Government has to be supported by a majority of Parliament to remain in power. The 63 members of the Parliament are, as of the general elections on 10th May 2003, elected from six constituencies, on the basis of proportional representation, for a term of four years. A parliamentary bill becomes a law when it is passed by the Parliament and signed by the President. The President is the head of state and is elected for a term of four years by a direct vote of the electorate. Iceland has a tradition of political stability. Since gaining autonomy from Denmark in 1918, governments have normally been formed by a coalition of two or more political parties. Currently there is an Independence Party/Progressive Party coalition government, which enjoys a majority in the Parliament.

Iceland has participated actively in international co-operation. Iceland belongs to a group of Nordic countries that includes Denmark, Sweden, Norway and Finland - as well as Greenland and the Faeroe Islands. The Nordic countries have established wide-ranging co-operation in a variety of fields, including economic affairs and international representation. Iceland is a member of the Nordic Council and of a number of specialised institutions such as the Nordic Investment Bank. Iceland became a member of the United Nations in 1946 and is an active participant in most of its affiliated agencies. Iceland is a founding member of the Bretton

Woods institutions that were established in 1945, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). Iceland is also one of the original members of the Organisation for Economic Cooperation and Development (OECD). It joined the Council of Europe in 1950 and has participated in the Organisation for Security and Cooperation in Europe since it was initiated in 1975. In 1964 Iceland became a party to the General Agreement on Tariffs and Trade, the predecessor to the World Trade Organisation (WTO). Iceland joined the European Free Trade Association (EFTA) in 1970 and entered into a free-trade agreement with the European Community in 1972. In May 1992, the member countries of EFTA and the European Union signed an agreement to establish a free-trade zone, the European Economic Area (EEA), which took effect on 1st January, 1994. Iceland is also a founding member of the North Atlantic Treaty Organisation (NATO), established in 1949. A defence treaty with the United States was concluded in 1951. A NATO military base, staffed by United States military personnel, is operated at Keflavik in the Southwest of Iceland.

The Icelandic economy

With a GDP of approximately U.S.$8.8 billion in 2003, the size of the economy is relatively small. However, with GDP per capita of U.S.$36,320 in 2003, evenly distributed across the population, living standards are among the highest in the world. The economy, based on fisheries and agriculture at the beginning of the last century, has diversified into manufacturing and service industries in recent decades. Important primary and secondary industries are based on the use of renewable natural resources, namely the coastal fishing banks, hydroelectric power and geothermal power. The foreign trade of Iceland is characterised by a relatively high ratio of trade to GDP.

Share of GDP by Sector, 2003P	**%**
Agriculture	1.5
Fisheries and fish processing	9.7
Aluminium and ferro-silicon	1.2
Other manufacturing industry	8.4
Electricity and water supply	3.6
Construction	8.2
Commerce	11.8
Transport, storage, communication	8.1
Other services	25.6
General Government	22.0
Imputed bank service charges	-6.9

P=Provisional
Source: Statistics Iceland

The healthcare system is a crucial part of Iceland's extensive welfare system, a system that has been under development for over 100 years. The social security system comprises insurance such as pension insurance, occupational injury insurance, health and maternity insurance. Approximately 85 per cent. of total medical billings are paid out of public funds. Life expectancy in Iceland is among the highest in the world and infant mortality among the lowest. Old age pension is increasingly provided by fully funded compulsory pension schemes, jointly run by employer and employee representatives. Most of these pension funds were established around 1970 and their relative share in total old age and disability pensions is growing rapidly.

Recent economic developments

Average economic growth in the last 10 years has been 3.2%. Following a period of stagnation, economic growth surged in the late 1990's, initially spurred by robust exports, followed by a rapid expansion of gross fixed investment and finally by a surge in private consumption. In 1998-2000 signs of overheating became increasingly visible. Credit growth was excessive, wages rose faster than productivity, inflation rose sharply and the current account deficit widened, peaking at 10% of GDP in 2000. This undermined the stability of the króna (ISK), which depreciated sharply from the spring of 2000 to November 2001. The economy slowed down in 2001, and in 2002 GDP is estimated to have contracted by 0.6% as domestic demand shrank for the second subsequent year and export growth slowed down. The economy recovered strongly in 2003 with GDP growing at a rate of 4%. The latest macroeconomic forecast from the Ministry of Finance projects GDP growth of 4.25% in 2004 and 4.75% in 2005.

Billions of ISK	**2003**	**2004P**
Private consumption	450.0	487.7
Public consumption	213.6	222.9
Gross fixed capital formation	172.4	211.2
National expenditure	834.6	921.9
Exports of goods and services	287.8	297.6
Imports of goods and services	311.5	353.2
Gross domestic production (GDP)	810.8	866.3

P= preliminary, volume change in 1990 prices
Source: Statistics Iceland, Central Bank of Iceland and Ministry of Finance

% change from previous year	**2001**	**2002**	**2003P**	**2004F**	**2005F**
Private consumption	-3.0	-1.1	6.6	5.5	6.25
Public consumption	3.1	4.0	3.3	0.5	2.0
Gross fixed capital formation	-7.0	-14.8	17,6	17.0	15.75
National expenditure	-3.6	-2.9	8.0	7.0	7.75
Exports of goods and services	7.7	3.7	0,3	5.0	4.0
Imports of goods and services	-9.0	-2.3	9.7	11.75	11.5
Gross domestic production (GDP)	2.8	-0.6	4,3	4.25	4.75

P= preliminary, F= forecast
Source: Statistics Iceland, Central Bank of Iceland and Ministry of Finance

During the period 2000-2002 Iceland experienced an exceptionally rapid current account reversal, as the current account went from a large deficit in 2000 to nearly a balance in 2002. The reversal in the current account was helped by favourable external conditions, strong marine export prices, a good fish catch and low international interest rates. A sharp contraction in domestic demand which caused imports to contract by altogether 11% in 2001 and 2002 was also a major contributing factor. During the boom years, the external deficit was financed mainly by private sector borrowing.

Consequently, Iceland's external debt ratios deteriorated. Net external debt peaked at 102% of GDP in 2002, but has declined slightly since then. The net international investment position peaked at 78.5% of GDP in 2002, but also started to decline in 2003.

Key Economic Indicators

	2001	2002	2003P	2004F	2005F
GDP Growth (%)	3.0	-0.5	4.0	4.25	4.75
Inflation (% change)	6.7	4.8	2.1	3.3	3.2
Unemployment (% of labour force)	1.4	2.5	3.4	3.0	2.5
Wages (% change)	8.8	7.2	5.6	-	5.5
Current Account Balance (% of GDP)	-3.8	-0.4	-5.5	-8.75	-11.5
Public Sector Balance (% of GDP)	0.2	-1.1	-1.4	-	-
Central Government Balance (% of GDP)	0.6	-0.6	-1.1	0.6	1.24
Net external debt (% of GDP)	101.3	101.9	102.6	103.25	108.75
International investment position (% of GDP)	-75.6	-79.0	-69.3	-71.5	-78.5

P= preliminary, F= forecast
Source: Statistics Iceland, Central Bank of Iceland and Ministry of Finance

A fundamental change in the framework of monetary policy was made in March 2001. The use of the exchange rate as an intermediate target until then did to some extent restrain the Central Bank's manoeuvrability to combat inflation. The flexibility of the exchange rate policy had been gradually increased at the same time as interest rates were raised, but this proved insufficient. The Central Bank raised its benchmark interest rates four times in 2000 from 9.0% in January to 11.4% in November that year and intervened repeatedly in the foreign exchange market as the króna came under increasing pressure in the summer of 2000. On 27th March, 2001, the Central Bank announced that the policy of maintaining a stable exchange rate had been abandoned. Instead an inflation target of 2.5% inflation was adopted, to be reached in 2003. Tolerance limits of ±1.5% were also defined with temporary wider limits during the adjustment period. Inflation rose markedly in the first three quarters following the change in the monetary regime, temporarily overshooting the tolerance limits due to a combination of stronger than expected economic performance and weaker than expected exchange rates. Nevertheless, the Central Bank managed to achieve its target earlier than expected. By the end of 2002 the inflation target had been reached and inflation has been at or under the target. Monetary policy remained tight until a phase of rapid monetary easing was started in the spring of 2002, when the inflation outlook had improved significantly among gathering signs of an economic slowdown. The bank's policy interest rate currently stands at 7.25%.

Looking ahead economic growth has resumed in 2003 and is expected to remain robust in 2004 and 2005. The construction of a large aluminium smelter on the east coast, the expansion of an existing smelter and associated hydro-power facilities will provide a big boost to the economy in the years to come. The planned projects will constitute a considerable challenge to monetary and fiscal policy.

Public Finances and Foreign Debt

Between the years 1995 and 2000, the general government balance improved from a deficit of 3% of GDP in 1995 to a surplus of 2.5% of GDP in 1999 and 2000. In 2001 and 2002, the fiscal surplus shrank as the economy cooled down. The general government finances are estimated to have been in slight deficit in 2003 but are expected also to be in surplus in 2004 (Source: Ministry of Finance).

At year-end 2003, the Treasury's long-term foreign debt amounted to an estimated ISK 150 billion and the outstanding stock of Euro-commercial paper stood at ISK 14 billion. The short-term debt at the end of 2003 was considerably lower than in 2002. This is mainly because of privatisation receipts from the sale of the last two publicly owned commercial banks. Around 30% of the Treasury's foreign currency obligations were denominated in U.S. dollars, 8% in Japanese yen, and 62% were denominated in various European currencies.

Treasury Foreign Debt

	Long-term Debt (% of GDP)	Short-term Debt (% of GDP)	Total Debt (% of GDP)	Total Debt (Billions ISK)Net
1995	24	4	28	127
1996	23	4	27	132
1997	21	3	24	127
1998	18	2	20	117
1999	15	4	19	118
2000	16	5	21	139
2001	21	6	27	198
2002	19	4	23	184
2003	18.5	1.7	20	164

Source: Statistics Iceland and Central Bank of Iceland

Financial markets in Iceland

The Icelandic financial system has been substantially reformed over the last decade. In particular, as a result of Iceland's membership of the EEA, legislation and regulations regarding credit institutions and other financial institutions have been conformed to the various regulations and directives of the European Union.

The Icelandic banking system consists of three commercial banks (*Íslandsbanki hf., Landsbanki Íslands hf. and KB Banki hf.*) and twenty-four savings banks. In addition, the savings banks mutually run a clearing bank (*Sparisjóðabanki Íslands hf.*). The commercial and savings banks' funding is to a large extent based on retail deposits and domestic bond issues. The commercial banks are also frequent borrowers in international markets. The total loans and market securities of the banking system amounted to around ISK 853 billion at the end of 2002.

There are three main players on the Icelandic insurance market. Insurance companies are active in the financial market, mainly through their investment activities.

Pension funds represent the largest part of the financial system in Iceland. The pension fund system is fully funded and at the end of 2002 the total assets amounted to 85% of GDP in that year. The pension funds receive payments from employers and employees and are the single most important source of long term finance in the country. Membership in a pension fund is obligatory for wage earners and the self-employed. The pension funds are independent non-governmental entities. They invest mainly in domestic bond issues, equity capital and foreign securities.

In the beginning of 1999, the Bank Inspectorate of the Central Bank of Iceland and the Insurance Supervisory Authority were merged into a new separate entity, the Financial Supervisory Authority ("**FME**"). FME supervises the whole range of financial institutions, insurance companies and pension funds in Iceland.

The Central Bank is responsible for implementing monetary policy consistent with the goal of maintaining price stability. The Central Bank imposes a reserve requirement on all the commercial banks and savings banks, at present amounting to 1.0 to 3.0% of total disposable funds, depending on maturity.

ICEX operates under legislation adopted in 1998, which converted ICEX into a limited liability company. At the same time its monopoly on exchange activities was abolished. Currently there are 20 members of ICEX. Shares of around 38 companies are listed on it, as well as government securities and corporate bonds. Total number of listed securities is currently 390.

ICEX joined the NOREX Alliance of Nordic exchanges in 2000, which included the adoption of the SAXESS trading system.

TAXATION

Icelandic taxation

The comments below are of a general nature based on HFF's understanding of current law and practice in Iceland and should not be construed as providing legitimate expectations as to the system of taxation being as described herein or precluding changes in the applicable rules on taxation in the future. They relate only to the position of persons who are the absolute beneficial owners of the Notes. They may not apply to certain classes of person such as dealers. Prospective holders of the Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

Non-Icelandic tax residents

(a) There are no taxes or other governmental charges payable under the laws of Iceland or any authority of, or in, Iceland in respect of the principal or interest on the Notes by a holder who is not a tax resident of Iceland.

(b) There are no estate or inheritance taxes, succession duties or gift taxes imposed by Iceland or any authority of, or in, Iceland in respect of the Notes if, at the time of the death of the holder or the transfer of the Notes, such holder or transferor is not a tax resident of Iceland.

(c) The Issuer is however required by the current laws of Iceland to withhold a 10% tax on any payment of interest due under the Notes. Where the recipient is not a tax resident of Iceland a tax refund for the withholding tax can be claimed or the holder can register with the Internal Revenue in advance as a non-resident and thus be exempted from the withholding tax. For the avoidance of any doubt, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction.

Icelandic tax residents

(a) Beneficial owners of the Notes that are resident in Iceland for tax purposes are subject to income tax in Iceland on their interest income in accordance with Icelandic tax law. The tax rate depends on their tax status.

(b) Subject to certain exemptions, applicable to e.g. most banks and pension funds, HFF is required to withhold a 10% tax on the interest paid to the holders of the Notes which is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder.

(c) Pursuant to a letter from the Internal Revenue Directorate of 25 June 2004 the Notes will be deductible from the tax base of individuals for net wealth tax purposes in accordance with the Act on Income Tax and Net Wealth Tax No. 90/2003 (*lög um tekjuskatt og eignarskatt*), Section 77, up to a certain amount.

EU Savings Directive

On 3 June 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from 1 July 2005, *provided that* certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interests or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

SUBSCRIPTION AND SALE

Deutsche Bank AG London (the "**Manager**") has, in a subscription agreement dated 15 November 2004 (the "**Subscription Agreement**") and made between the Issuer and the Manager upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at their issue price of 99.725 per cent. of their principal amount plus accrued interest in respect thereof and less certain amounts in respect of fees and commissions. The Issuer has also agreed to reimburse the Manager for certain of its expenses incurred in connection with the management of the issue of the Notes. The Manager is entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Manager has further represented, warranted and undertaken that:

1. ***No offer to public:*** It has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to the expiry of a period of six months from the issue date of such Notes except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

2. ***Financial Promotion:*** It has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

3. ***General compliance:*** It has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

No action has been or will be taken in any jurisdiction by the Issuer or the Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 2 November 2004 pursuant to an Act of the Icelandic Parliament (*Althingi*) No. 57/2004, amending the Act on Housing Affairs No. 44/1998.

2. Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting the Issuer, any of its subsidiaries or any of their respective assets, nor is the Issuer aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.

3. Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer since 31 December 2003 that is material in the context of the issue of the Notes.

4. The forward-looking statements contained in this document are based on current expectations. Actual results may differ materially from those expressed. Factors that might cause forward-looking statements to differ materially from actual results include, among other things, overall economic and business conditions being different than those currently anticipated resulting in changes in demand for HFF's services; competitive factors in the market in which HFF operates; changes in Government regulations; consequences of acts of war or terrorism; significant fluctuations in interest rates and foreign currencies from that currently anticipated; and the impact of tax and other legislation or regulations to HFF.

5. HFF was awarded first-time local currency issuer ratings of AA+ and Aaa (and foreign currency issuer ratings of A+ and Aaa) from Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc ("**S&P**") and Moody's Investors Services, Inc. ("**Moody's**"), respectively. A credit rating is not a recommendation to buy and sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating agency.

6. For so long as any of the Notes are outstanding, copies of the following documents may be obtained during normal business hours at the office of the Fiscal Agent (as set out at the back of this Offering Circular):

   (a) the audited consolidated financial statements of HFF as at and for the years ended 31 December 2001, 2002 and 2003; and

   (b) the latest published unaudited interim and audited year-end consolidated financial statements of HFF.

7. As of the Settlement Date, copies of the Offering Circular may be obtained during normal business hours at the office of HFF. As of the Settlement Date and for so long as any of the Notes are outstanding, copies of the final Offering Circular may be obtained during normal business hours at the office of the Paying Agent.

8. In connection with the application for the Notes to be listed on ICEX, copies of a legal notice relating to the issue of the Notes will be deposited prior to listing with ICEX, where they may be inspected and copies obtained upon request.

9. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Note or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

10. It is intended that the Notes will be accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0205348427 and the common code is 020534842.

11. The auditors of HFF are KPMG Endurskodun hf., State Authorised Public Accountants, who have audited the financial statements of HFF for the years ended 31 December 2001, 2002 and 2003, without qualification, in accordance with generally accepted auditing standards in Iceland.

12. The ticker codes for the Notes in the trading system of ICEX will be HFF 150914.

INDEX TO FINANCIAL STATEMENTS

ENDORSEMENT BY THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The year 2003 is the fifth operational year of the Housing Financing Fund. The year is characterized by a considerable increase in loans from the previous years. Processed applications increased for housing bonds loans increased by 18.2% from the previous year and their total number exceeded 12.3 thousand. Total issue of housing bonds at their calculated amount amounted to a total of ISK 48.4 billion compared to approximately ISK 34.9 billion for 2002, an increase of approximately 38.7%. This increase is considerably higher than the increase in the number of applications. This is explained by the increase in the price of housing and the increase of the amount of the average loan. Furthermore there was a considerable increase in the processing of applications for additional loans. 3,338 loans were processed for an amount of ISK 6.3 billion compared to 2,595 loans for the amount of ISK 4.8 billion in 2002. The increase in the number of loans was thus 28.6% while the amount increased by 31.3%. Moreover, there was a considerable increase in the processing of loans for rental housing. The issue of by the Housing Financing Found of housing bonds and housing financing bonds amounted to total of ISK 66.5 billion at the calculated price of housing bonds and the sales price of housing financing bonds. Despite this large number of issues the discount on housing bonds decreased and they were sold at a premium in June. At the end of the year 2003 housing bonds were still sold at a premium. The reason is i.e. a better supply of information from the Housing Financing Fund and an increased demand due to the purchase of foreign investors of the Fund's bonds. Finally it should be mentioned that default was at a historical low in 2003. Requests for assistance due to payment difficulties increased from 936 to 1,003 from the previous year and that assistance now provided by the Fund to its clients, along with payment services offered by banks and the fact that interest subsidies are now partly used to pay defaults account for the total defaults being as little as it is.

According to the Profit and Loss Account the net profit of the Fund amounted to ISK 1,678 million for the year. The net interest income amounted to ISK 2,519 million for the year, compared to ISK 1,845 million for the year 2002. Other operation revenue amounted to ISK 880 million for the year compared to 927 million for the previous year. The change in other operational revenue is explained by the change in currency exchange rate development between years and an increase in income from service charges. The exchange gain for this year was ISK 74 million for the Fund compared to an exchange rate gain of ISK 300 million the year before. The cost of the operation of the Fund amounted to ISK 784 million and increases by 3% between years.

Loans amounted to ISK 445,280 million at the end of the year and had increased by ISK 52,354 million during the year. Cash, cash equivalents and market securities increased by ISK 5,504 million during the year. Borrowings amounted to ISK 448,126 million and increased by ISK 56,508 million during the year. Equity, according to the Balance Sheet, amounted to ISK 11,625 million at the end of year, or 2.5% of the Fund's total assets.

The Board of Directors and the Managing Director of the Housing Financing Fund hereby confirm the Fund's Annual Accounts for the year 2003 by means of their signatures.

Reykjavik, March 25, 2004.

Board of Directors:

Gunnar S. Björnsson

Kristín Ástgeirsdóttir

Kristján Pálsson

Birkir Jónsson

Hákon Hákonarson

Managing Director:

Guðmundur Bjarnason

AUDITORS' REPORT

To the Board of Directors of the Housing Loan Fund.

We have audited the accompanying Balance Sheet and Consolidated Balance Sheet of the Housing Loan Fund as of December 31, 2003, and the related Profit and Loss Account and Statement of Cash Flows for the year then ended. The auditing is conducted according to an authorization from the Icelandic National Audit Office. These Annual Accounts are the responsibility of the Fund's Management. Our responsibility is to express an opinion on these Annual Accounts based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Annual Accounts are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual Accounts. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall presentation of the Annual Accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Annual Accounts give a true and fair view of the financial position of the Housing Financing Fund as of December 31, 2003, and the results of its operations and its cash flows for the year then ended, in accordance with the law and generally accepted accounting principles in Iceland.

Reykjavik, March 25, 2004.

Helgi F. Arnarson

Óskar Sverrisson

KPMG Endurskoðun hf.

PROFIT AND LOSS ACCOUNT 2003

	Notes	2003	2002	2001
Financial Income:				
Interest from credit institutions		204,142	343,125	93,928
Interest on loans		31,261,068	22,176,747	45,320,473
Interest on bonds		278,365	157,252	311,924
	3	31,743,575	22,677,124	45,726,325
Financial Expenses:				
Interest on borrowings	3, 12	29,418,620	20,903,510	44,036,634
Calculated inflation adjustment		0	0	695,636
		29,418,620	20,903,510	44,732,270
Financial income - Financial expenses		2,324,955	1,773,614	994,055
Government contribution to subsidy interests		194,525	71,218	9,511
Net interest income		2,519,480	1,844,832	1,003,566
Other Operating Income:				
Income from service charges	4, 13	985,550	797,754	716,127
Expenses in respect of commissions and other service charges		(179,602)	(170,989)	(107,662)
Value adjustments of other financial operations		74,113	300,052	(612,667)
		880,061	926,817	(4,202)
Net operating income		3,399,541	2,771,649	999,364
Other Operating Expenses:				
Salaries and salary-related expenses	14	265,210	229,522	221,105
Other administrative expenses	18	473,602	466,192	466,977
Depreciation	24	19,949	18,829	16,940
Other operating expenses	19	25,679	46,527	15,662
		784,440	761,070	720,684
Provisions for losses on the loan portfolio	23	(936,884)	(747,881)	(651,940)
Net Profit for the Year	29	1,678,217	1,262,698	(373,260)

Annual Accounts of Íbúðalánasjóður 2003 All amounts are in thousands of Icelandic kronas.

BALANCE SHEET

Assets

	Notes	2003	2002	2001
Amounts Due From Credit Institutions:				
Deposits with the Central Bank		0	261,587	654,972
Amounts due from other credit institutions		8,862,886	5,954,211	3,388,640
	20	8,862,886	6,215,798	4,043,612
Loans:	5-7 21-23			
Loans to customers		444,829,150	392,368,228	355,217,188
Mortgages foreclosed		450,865	558,030	351,878
		445,280,015	392,926,258	355,569,066
Market Securities	8	5,366,792	2,416,356	2,489,186
Other Assets:				
Fixed assets	9, 24	68,883	79,215	90,093
Other assets		52,674	28,403	12,081
Accrued income		200,332	56,016	58,749
		321,889	163,634	160,923
Total Assets		459,831,582	401,722,046	362,262,787

December 31, 2003

Liabilities and Equity

	Notes	2003	2002	2001
Borrowings:				
Securities, issue	28	411,401,972	345,683,140	298,740,531
Other borrowings		36,723,626	45,934,552	54,678,815
	27	448,125,598	391,617,692	353,419,346
Other Liabilities		80,954	157,541	159,326
Equity:				
Contributed capital		6,886,159	6,703,815	6,572,368
Retained earnings		4,738,871	3,242,998	2,111,747
	29	11,625,030	9,946,813	8,684,115
Total Liabilities and Equity		459,831,582	401,722,046	362,262,787
Not included in the Balance Sheet:				
Obligations	30			

All amounts are in thousands of Icelandic kronas.

STATEMENT OF CASH FLOWS 2003

	Notes	2003	2002	2001
Cash Flows from Operating Activities				
Net profit for the year.......................................	29	1,678,217	1,262,698	(373,260)
Difference between net profit and cash from operations:				
Indexation on borrowings and housing bonds...		(296,408)	(447,828)	(755,078)
Calculated inflation adjustment....................		0	0	695,636
Exchange rate difference		(74,113)	(300,052)	612,667
Depreciation of fixed assets........................	24	19,949	18,829	16,940
Provision for losses on the loan portfolio........	23	936,884	747,881	651,940
Changes in assets and liabilities........................		(144,316)	2,733	(157,024)
Net cash provided by operating activities		2,120,213	1,284,261	691,821
Cash Flows from Investment Activities:				
Amounts due from credit institutions, changes		(92,901)	(122,420)	0
Loans, changes..		(41,967,681)	(37,357,192)	(30,904,697)
Market securities, (increase) decrease		(2,950,436)	72,830	(1,786,834)
Investment in fixed assets	24	(9,617)	(7,952)	0
Other assets, changes		(24,271)	(16,322)	(210,604)
Net cash used in investment activities		(45,044,906)	(37,431,056)	(32,902,135)
Cash Flows from Financing Activities:				
Borrowings, changes....................................		45,555,469	38,198,346	24,950,303
Other liabilities, changes		(76,589)	(1,785)	(93,505)
Net cash provided by financing activities		45,478,880	38,196,561	24,856,798
Increase in Cash and Cash equivalents		2,554,187	2,049,766	(7,353,516)
Cash and Cash Equivalents at the Beginning of the Year		6,093,378	4,043,612	11,397,128
Cash and Cash Equivalents at the End of the Year	10	8,647,565	6,093,378	4,043,612

All amounts are in thousands of Icelandic kronas.

NOTES TO THE ANNUAL ACCOUNTS

Summary of Accounting Principles

Basis of Preparation

1. The Annual Accounts have been prepared in accordance with the Annual Accounts Act and the Regulation on the Presentation and Contents of the Annual Accounts of Commercial Banks, Savings Banks and Other Financial Institutions. It is based on cost accounting and is prepared according to the same accounting principles as for the previous year. The Annual Accounts are prepared in Icelandic currency and amounts are presented in thousands of Icelandic krónur.

Foreign Currency

2. Assets and liabilities in foreign currency are converted to Icelandic currency at the year-end 2003 exchange rate. Operational revenue and expenses in foreign currency are converted at the exchange rate of the date of transaction.

Interest Income and Expenses

3. Interest income and interest expenses are entered into the Profit and Loss Account as they accrue. Interest income is calculated on amounts due from other financial institutions, loans and market securities. Interest expenses are calculated on amounts owed to issuance of securities and other borrowings.

   Loans and the loans which the Fund took over from the State Building Fund, the Laborers' Building Fund and the Housing Bond division are presented using a present value depreciation method based on a 4.0% interest rate which was the market interest rate at the end of the year 1998. The Fund's new loans normally carry 5.1% interest but other loans carry 3.5 to 5.7%. The loans assumed by the Fund carry 4.3% to 5.7% interest.

   The Fund has granted loans to rental apartments at 3.5% and 4.5% interest rate. The Government pays the interest difference between those loans and the loans taken by the Fund.

Service Income

4. Service income includes income from borrowing charges and collection charges. Service income is entered into the Fund's Profit and Loss Account when they are derived.

Loans

5. Loans are capitalised with accrued interest and indexation at year-end. Indexed loans are entered based on indices effective at the beginning of 2004.

6. A provision for losses on the loan portfolio is made to meet the risk attached to lending operations. The loss provision is based on estimation and does not represent a final

write-off. In addition to the required contribution, certain risk factors are evaluated to determine the total contribution for this purpose. First, there are specific provisions to adjust for loans that have received a poor risk evaluation, and secondly, there is a general provision to meet the general risk of lending operations. The provision has been deducted from the appropriate Balance Sheet items.

7. The Fund has redeemed assets on foreclosed mortgages. Foreclosed mortgages are entered at estimated market value in the Fund's Annual Accounts.

Market Securities

8. The Fund's market securities are presented as bonds and unit shares of mutual funds. Market securities are valued at market price at year-end.

Property and Equipment

9. Property and equipment are capitalized at cost price less depreciation. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the property and equipment until a scrap value is reached. Estimated useful life is specified as follows:

Real estate	25 years
Fixtures and equipment	5-10 years
Vehicle	10 years

Cash and Cash Equivalents

10. Cash and cash equivalents in the Statement of Cash Flows consist of demand deposits with credit institutions.

Derivatives

11. The Fund's derivatives transactions are conducted as forward exchange contracts and as swaps against the Fund's own interest rate and currency exposure. The derivates aim at minimizing the Funds exchange and interest rate risk. The contracts are valued according to estimated market price at year-end. Contract value or nominal value is not entered in the Fund's Balance Sheet whereas contract performance is entered in the Profit and Loss Account and in the Balance Sheet.

Interest Expenses

12. Interest on borrowings is specified as follows:

	2003	2002	2001
Bonds issued	26,972,631	16,661,568	33,815,868
Other borrowings	2,445,989	4,241,942	10,220,766
Total interest on borrowings	29,418,620	20,903,510	44,036,634

Annual Accounts of Íbúðalánasjóður 2003 All amounts are in thousands of Icelandic kronas.

Income from Commissions

13. Income from commissions is specified as follows:

Borrowing charges	593,916	415,503	366,411
Collection charges	391,634	382,251	349,716
Total commission income	985,550	797,754	716,127

Personnel

14. Salaries and salary-related expenses are specified as follows:

	2003	2002	2001
Salaries	211,637	184,450	184,385
Salary-related expenses	47,269	39,043	30,828
Other employee related expenses	6,304	6,029	5,892
Total salaries and salary-related expenses	265,210	229,522	221,105

15. The Fund's total number of employees is as follows:

Average number of employees during the year measured as full-time equivalent positions	63	59	60
Positions at the end of the year	63	56	61

16. Salaries paid to the Board of Directors and the Managing Director are specified as follows:

	2003
Guðmundur Bjarnason, Managing Director	12,303
Gunnar S. Björnsson, Chairman of the Board	1,926
Other board members (4)	3,852
Total	18,081

Auditors' Fees

17. Remuneration to the Fund's auditors is specified as follows:

Audit of annual accounts	5,870
Review of interim accounts	2,867
Other services	1,226
Total	9,963

Annual Accounts of Íbúðalánasjóður 2003 All amounts are in thousands of Icelandic kronas.

Other Administrative Expenses

18. Other administrative expenses are specified as follows:

	2003	2002	2001
Collection charges	249,311	235,062	213,860
Computerization of housing bonds	18,383	12,992	26,206
Housing	60,550	46,213	58,516
Advertisements and promotions	15,938	19,426	17,145
Operation of IT systems	63,393	95,297	87,643
Other administrative expenses	66,027	57,202	63,607
	473,602	466,192	466,977

19. Other operating expenses are specified as follows:

	2003	2002	2001
Grants due to technological advances	13,430	10,120	11,870
Homes' Advisory Office	4,482	4,171	3,792
Other grants	1,200	1,700	0
Claims in relation to the Holt Real Estate Agency	6,567	30,536	0
Total	25,679	46,527	15,662

Amounts Due from Credit Institutions

20. Amounts due from credit institutions mature as follows:

On demand	8,647,565	6,093,378	4,043,612
Up to 3 months	50,370	18,011	0
Over 1 year and up to 5 years	164,951	104,409	0
Over 5 years	0	0	0
Total	8,862,886	6,215,798	4,043,612

Loans

21. Loans to customers specified by types of loans:

Housing Authority Bonds in the Housing Bond Department	305,461,878	262,712,040	222,057,859
Other Housing Authority Bonds	134,875,081	125,043,567	126,731,304
Loans due to payment difficulties	1,659,290	1,765,295	1,670,759
Loans to Day Care Centers and Homes	1,433,811	1,430,092	1,132,530
Loan due to additions/improvements	575,868	693,401	790,951
Other loans	823,222	723,833	2,833,785
Total	444,829,150	392,368,228	355,217,188

Annual Accounts of Íbúðalánasjóður 2003 All amounts are in thousands of Icelandic kronas.

22. Loan to customers specified by maturity:

On demand	1,999,593	2,045,177	2,068,372
Up to 1 year	10,425,913	27,394,008	24,541,572
Over 1 year and up to 5 years	44,720,195	108,063,091	96,945,541
Over 5 years	387,683,449	254,865,952	231,661,703
Total	444,829,150	392,368,228	355,217,188

23. Changes in the provision for losses during the year are specified as follows:

	Specific	General	2003 Total	2002 Total	2001 Total
Provision at the beginning of the year	424,308	1,184,478	1,608,786	1,248,167	1,618,556
Provision for losses over the year	353,087	583,797	936,884	747,881	651,940
Actual losses during the year	(76,670)	0	(76,670)	(387,263)	(1,022,329)
Provision at the end of the year	700,725	1,768,275	2,469,000	1,608,785	1,248,167
Provision for losses on the loan portfolio as percentage of loans...	0.2%	0.4%	0.6%	0.4%	0.4%

Other assets

24. Property and equipment are specified as follows:

	Vehicle	Real estate	Fixtures and equipment	Total
Total value 1.1.2003	1,541	6,071	140,565	148,177
Additions during the year	0	0	9,617	9,617
Total value 31.12.2003	1,541	6,071	150,182	157,794
Previously depreciated	257	3,506	65,199	68,962
Depreciation during the year	154	242	19,553	19,949
Total depreciation	411	3,748	84,752	88,911
Net book value 31.12.2003	1,130	2,323	65,430	68,883
Annual depreciation ratios	10%	4%	10-20%	

The official assessment value of the real estate and land at year end 2003 amounted to ISK 5.1 million. The fire insurance value of the real estate at the same time amounted to ISK 10.2 million.

Assets and Liabilities Index-linked or in Foreign Currencies

25. The total amount of indexed assets is ISK 447.436 million, and the total amount of indexed liabilities is ISK 446.109 million respectively, at year-end.

26. The total amount of assets in foreign currencies in the Annual Accounts is ISK 1,704 million, and the total amount of liabilities amounted to ISK 3,310 million, respectively, at year-end. Included in assets and liabilities are forward contracts and swaps, see note 30.

Annual Accounts of Íbúðalánasjóður 2003 All amounts are in thousands of Icelandic kronas.

Borrowings

27. Borrowings mature as follows:

	2003	2002	2001
Up to 1 year	23,146,852	36,608,305	34,960,075
Over 1 year and up to 5 years	81,698,436	129,913,085	124,776,999
Over 5 years	343,280,310	225,096,302	193,682,272
Total	448,125,598	391,617,692	353,419,346

28. Issued bonds are specified as follows:

	2003	2002	2001
Housing bonds	317,714,998	269,643,597	231,317,235
Housing Authority bonds	93,686,974	76,039,543	67,423,296
	411,401,972	345,683,140	298,740,531

Equity

29. Changes in equity are as follows:

	Contributed capital	Retained earnings	Total
Equity 1.1.2003	6,703,815	3,242,998	9,946,813
Contributed capital revaluated	182,344	(182,344)	
Net profit		1,678,217	1,678,217
Equity 31.12.2003	6,886,159	4,738,871	11,625,030

Obligations

30. Foreign exchange and interest rate swaps are specified as follows:

	2003	2002	2001
Foreign exchange and interest rate swaps:			
Assets in foreign currencies	1,518,912	2,001,688	2,665,779
Liabilities in foreign currencies	1,294,303	1,869,756	2,749,817

All amounts are in thousands of Icelandic kronas.

Íbúðalánasjóður

Housing Financing Fund

Interim Accounts
January - June 2004
ISK

Íbúðalánasjóður
Housing Financing Fund
Borgatún 21
105 Reykjavík

ID no.: 661198-3629

Endorsement by the Board of Directors and Managing Director

The Interim Accounts of the Housing Financing Fund are prepared in accordance with the Annual Accounts Act and the Regulation on the Preparation and Content of Annual Accounts of Financial Institutions. They are prepared in accordance with the same accounting principles as for the previous year.

According to the Profit and Loss Account, the net profit of the Fund amounted to ISK 574 million for the period, compared to ISK 841 million for the same period of the previous year. Other operating income amounted to ISK 550 million for the period, compared to ISK 358 million for the same period of the previous year. The change in other operating income is explained mainly by increase in loans to customers between years. The fund's other operating expenses increased by 15% compared to the same period last year. This is mainly due to general change in the loan system and a change in the system of bond issuing.

Loans amounted to ISK 482,658 million at the end of June and they have increased by ISK 37,378 million during the period. Borrowings amounted to ISK 481,534 million and they increased by ISK 33,409 million during the period. The Fund's equity amounted to ISK 12,199 million at the end of June, or 2.5% of the Fund's total assets.

The Board of Directors and the Managing Director of the Housing Financing Fund hereby confirm the Fund's Interim Accounts for the period by means of their signatures.

Reykjavik, August 26, 2004.

Board of Directors:

Gunnar S. Björnsson, president

Kristín Ástgeirsdóttir

Kristján Pálsson

Birkir J. Jónsson

Hákon Hákonarson

Managing Director:

Guðmundur Bjarnason

Auditors' Report

To the Board of Directors of Housing Financing Fund.

We have reviewed the Interim Accounts of the Housing Financing Fund as of June 30, 2004, and the related Profit and Loss Account and Statement of Cash Flows for the six months then ended. All information included in this Interim Accounts is the responsibility of the management of the Housing Financing Fund.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data and ratios. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Interim Accounts taken as a whole. Accordingly, we do not express such and opinion.

Based on our review, we are not aware of any material modifications that should be made to the Interim Accounts in order for them to be in conformity with generally accepted accounting principles in Iceland.

Reykjavik, August 26, 2004.

Helgi F. Arnarson
Óskar Sverrisson

KPMG Endurskoðun hf.

Profit and Loss Account January 1 - June 30, 2004

	Notes	2004 1.1.-30.6.	2003 1.1.-30.6.
Financial Income:			
Interest from credit institutions		115,694	105,858
Interest on loans		22,144,721	14,885,021
Interest on market securities		228,077	144,624
		22,488,492	15,135,503
Financial Expenses:			
Interest on borrowings		21,664,645	13,945,946
Interest income – Interest expense		823,847	1,189,557
Government contribution to interest subsidy		99,168	82,000
Net interest income	3	923,015	1,271,557
Other Operating Income:			
Service income	4	589,167	455,455
Service expenses		(38,530)	(81,539)
Value adjustments of other financial operations		(322)	(15,966)
		550,315	357,950
Net operating income		1,473,330	1,629,507
Other Operating Expenses:			
Salaries and salary-related expenses		138,377	123,917
Other administrative expenses		285,332	244,793
Depreciation		6,161	10,202
Other operating expenses		9,382	4,106
		439,252	383,018
Provisions for losses on the loan portfolio	12	(460,000)	(405,206)
Net Profit for the Period	15	574,078	841,283

All amounts are in thousands of Icelandic kronas.

Balance Sheet

	Notes	30.6.2004	31.12.2003
Amounts Due from Credit Institutions:			
Deposits with the Central Bank of Iceland		247,436	105,952
Amounts due from other credit institutions		5,204,946	8,756,934
		5,452,382	8,862,886
Loans:	5-7		
Loans to customers		482,183,305	444,829,150
Mortgages foreclosed		474,278	450,865
		482,657,583	445,280,015
Market Securities	8	5,638,500	5,366,792
Other Assets:			
Fixed Assets	9	73,363	68,883
Other assets		2,071	52,674
Accrued income		142,993	200,332
		218,427	321,889
Total Assets		493,966,892	459,831,582

All amounts are in thousands of Icelandic kronas.

Liabilities and Equity

	Notes	30.6.2004	31.12.2003
Borrowings:			
Bond Issues		448,839,425	411,401,972
Other borrowings		32,695,006	36,723,626
		481,534,431	448,125,598
Other Liabilities		233,353	80,954
Equity:			
Contributed capital		7,056,816	6,886,159
Retained earnings		5,142,292	4,738,871
	15	12,199,108	11,625,030
Total Liabilities and Equity		493,966,892	459,831,582

All amounts are in thousands of Icelandic kronas.

Statement of Cash Flows January 1 - June 30, 2004

	Notes	2004 01.01 - 30.06	2003 01.01 - 30.06
Cash Flows from Operating Activities:			
Net profit for the period	15	574,078	841,283
Difference between net profit and cash from operations:			
Indexation on loans and borrowings		(442,464)	(413,494)
Value adjustments of other financial operations		322	15,966
Depreciation of fixed assets		6,161	10,202
Provision for losses on the loan portfolio	12	460,000	405,206
Changes in operating assets and liabilities		52,859	1,896
Net cash provided by operating activities		650,956	861,059
Cash Flows from Investing Activities:			
Amounts due from credit institutions, increase		(52,313)	(79,523)
Loans, increase		(37,377,568)	(23,430,497)
Market securities, (increase)		(271,708)	(593,134)
Investment in fixed assets		(10,641)	(13,770)
Other assets, decrease (increase)		50,603	(79,683)
Net cash used in investing activities		(37,661,627)	(24,196,607)
Cash Flows from Financing Activities:			
Borrowings, increase		33,408,832	20,857,098
Other liabilities, increase		152,400	8,777
Net cash provided by financing activities		33,561,232	20,865,875
Decrease in Cash and Cash Equivalents		(3,449,439)	(2,469,673)
Cash and Cash Equivalents at the Beginning of the Year		8,647,565	6,093,378
Cash and Cash Equivalents at the End of the Period	10	5,198,126	3,623,705

All amounts are in thousands of Icelandic kronas.

Summary of Accounting Principles

Basis of Preparation

1. The Interim Accounts are prepared in accordance with the Annual Accounts Act and the Regulation on the Presentation and Content of Annual Accounts of Financial Institutions. The Interim Accounts are based on historical cost accounting and are prepared according to the same accounting principles as for the previous year. The Interim Accounts are prepared in Icelandic currency and amounts are presented in thousands of Icelandic krónur.

Foreign Currency

2. Assets and liabilities denominated in foreign currencies are converted to Icelandic currency at the exchange rates effective at the end of June. Revenue and expenses denominated in foreign currencies are converted at the exchange rate effective on the transaction date.

Interest Income and Expenses

3. Interest income and interest expenses are recorded into the Profit and Loss Account as they accrue. Interest income is calculated on amounts due from other financial institutions, loans and market securities. Interest expenses are calculated on amounts owed through issuance of bonds and other borrowings.

   Loans and borrowings which were taken over by the Fund from the State Building Fund, the Laborers' Building Fund and the Housing Bond Division are discounted using a 4.0% interest rate, which was the market discount rate of housing authority bonds at the end of the year 1998. The Fund's housing loans carry a 5.1% interest rate but other loans carry 3.5 to 5.7% interest rates. The Fund's borrowings carry 4.3% to 5.7% interest rates.

   The Fund has made loans for rental apartments at 3.5% and 4.5% interest rates. The Government subsidizes the interest difference between these loans and the Fund's borrowings. The Government's subsidy is calculated each year based on the difference in interest rates of loans and borrowings.

Service Income

4. Service income includes income from loan charges and collection charges. Service income is entered in the Fund's Profit and Loss Account when it is derived.

Loans

5. Loans are capitalised with accrued interest and indexation at the end of June. Indexed loans are capitalised based on indices effective in July 2004.

6. A provision for losses on the loan portfolio is made to meet the risk inherent to lending operations. The loss provision is based on the estimation of credit risk and does not

represent a final write-off. On the one hand, a provision has been made for loans which are estimated as being especially risky, and on the other hand, there has been made a general provision to meet the general credit risk of lending operations. The provision has been deducted from the appropriate Balance Sheet items.

7. The Fund has redeemed assets on foreclosed mortgages. Foreclosed mortgages are capitalised at estimated market value in the Fund's Interim Accounts.

Market Securities

8. The Fund's market securities consist of bonds and unit shares of mutual funds. Market securities are capitalised at market value at the end of June.

Fixed Assets

9. Fixed assets are capitalised at cost price less depreciation. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the fixed assets until scrap value is reached. Estimated useful life is specified as follows:

Real estate	25 years
Fixtures and equipment	5 years
Vehicle	5 years

Cash and Cash Equivalents

10. Cash and cash equivalents as presented in the Statement of Cash Flows consist of demand deposits with credit institutions.

Derivatives

11. The Fund's has entered into forward currency and interest rate swaps in order to reduce the Fund's interest rate and exchange rate risk. The swaps are valued at estimated market value at the end of June. The nominal amounts of swaps are not recorded in the Fund's Balance Sheet whereas their outcome is recorded in the Profit and Loss Account and in the Balance Sheet.

Loans

12. The changes in the loss provision are as follows:

	Specific	General	Total
Loss provision at the beginning of the year	700,734	1,768,266	2,469,000
Provision for losses for the period ...	57,846	402,154	460,000
Actual losses during the period	(13,275)		(13,275)
Loss provision at the end of June	745,305	2,170,420	2,915,725
Loss provision as a percentage of loans			0,6%

Interim Accounts of Íbúðalánasjóður June 30, 2004 All amounts are in thousands of Icelandic kronas.

Assets and Liabilities Denominated in Foreign Currency

13. Assets and liabilities denominated in foreign currencies specify as follows:

Assets:	
Amount due from credit institutions	39,599
Currency and interest rate swaps, as shown in note 14	1,148,469
	1,188,068
Liabilities:	
Borrowings	1,332,915
Currency and interest rate swaps, as shown in note 14	1,006,317
	2,339,232

Obligations

14. The currency and interest rate swaps specify as follows:

Assets denominated in foreign currencies	1,148,469
Liabilities denominated in foreign currencies	1,006,317

Equity

15. Changes in equity are as follows:

	Contributed capital	Retained earnings	Total
Equity as of 1.1.2004	6,886,159	4,738,871	11,625,030
Revaluation of contributed capital	170,657	(170,657)	
Net profit		574,078	574,078
Equity as of 30.6.2004	7,056,816	5,142,292	12,199,108

All amounts are in thousands of Icelandic kronas.

THE ISSUER

The Housing Financing Fund
Borgartún 21
105 Reykjavík
Iceland

MANAGER

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

LEGAL ADVISERS

To the Issuer

Evrópurádgjöf sf. - EurConsult
Árni Páll Árnason, hdl.
Lækjargötu 4
101 Reykjavík
Iceland

To the Manager as to Icelandic law

LEX lögmannsstofa
Sundagörðum 2
15-104 Reykjavík
Iceland

To the Manager as to English law

Clifford Chance Limited Liability Partnership
10 Upper Bank Street
London E14 5JJ
United Kingdom

FISCAL AND PAYING AGENT

Íslandsbanki hf.
Lynghálsi 4
155 Reykjavík
Iceland

AUDITORS

For Housing Financing Fund

KPMG Endurskodun hf.
Borgartún 27
105 Reykjavík
Iceland