



Íbúðalánasjóður



Íslandsbanki Corporate Services

Prospectus
Housing Bonds Category 1/1998

Housing Bonds

Category 1/1998

Prospectus

Responsibility for prospectus

Íslandsbanki hf., national ID no. 421289-5069, Kirkjusandur, 155 Reykjavík, Iceland is responsible for the trustworthiness of this prospectus.

Issuer

The State Housing Fund, national ID no. 640169-0289, Housing Bonds Department, Suðurlandsbraut 24, 108 Reykjavík, Iceland, is the issuer of these bonds.

Terms and arrangements for sales

1. Íslandsbanki hf., national ID no. 421289-5069, Kirkjusandur, 155 Reykjavík, Iceland acts as an intermediary in the issuance and listing of Housing Bond category 1/1998 on Iceland Stock Exchange. The manager of Housing Bond category 2/1998, however, is Landsbanki Íslands hf., national ID no. 540291-2259, Austurstræti 11, 101 Reykjavík, Iceland.
2. The total amount for categories 1 and 2 of the issue is ISK 16,500,000,000, sixteen thousand five hundred million króna. The total amount of approved bond swaps from categories 1 and 2/1998 shall not exceed ISK 16,500 million during 1998, based on their calculated market price. The bonds are to nominal amounts of ISK 1,000,000 (subcategory A), ISK 100,000 (subcategory B) and ISK 10,000 (subcategory C). The bonds shall be issued in two categories with different maturities: 25 years in category 1 and 40 years in category 2. It has not been decided in advance how the issue of ISK 16,500 million will be divided between the two categories, since this will depend on respective demand for them.
3. The bonds carry a fixed annual rate of interest of 4.75% calculated from their date of issue, December 15, 1997. Their par sale price on the day of issue is 100.
4. The offer period is from the date of issue, December 15, 1997 to the closing date of the categories, which is no later than March 15, 2000. Mortgage Bonds can be swapped against Housing Bonds in the above categories from January 26, 1998, when they will be listed on Iceland Stock Exchange.
5. The bonds are indexed against the Consumer Price Index according to the Consumer Price Index Act no. 12/1995 and the Interest Rates Act no. 25/1987, with subsequent amendments. The reference index is the index for December 1997, which was 181.7 points.
6. The State Housing Fund, Housing Bonds Department, uses these bonds to swap for mortgage bonds which are used for housing purchases. Housing Bond prices are determined by an equation stated in Chapter XVIII of the regulation on the Housing Bond Department and Housing Bond transactions, which is described in the following paragraph. Swaps are made at the Landsbanki Íslands Mortgage Department.

The calculated market value shall be determined by establishing the probable monthly nominal value of Housing Bonds which are to be swapped for Mortgage Bonds, which is done with reference to the average calculated price of Housing Bonds during the respective month. The nominal value calculated in this way is then recalculated in terms of market value based on the average swap value of the category in question on Iceland Stock Exchange, plus six basis points (0.06%). If no trading has taken place in the relevant Housing Bond category during the month covered by the calculations, the average swap value shall be calculated on

the basis of the yield on a comparable Housing Bond category on Iceland Stock Exchange, plus six basis points.

The maturity of Housing Bonds is 25 and 40 years according to the above. The State Housing Fund redeems and repays the Housing Bonds in full with selective draws on fixed due dates, which are March 15, June 15, September 15 and December 15 each year. The first due date is September 15, 1998. The Housing Bond category shall be closed no later than June 15, 2000. Numbers are drawn from the valid unredeemed bonds which have been disbursed three months before the relevant due date or earlier. In each draw, Housing Bonds will be removed to a value corresponding as closely as possible to the repayment of an annuity with the rates of interest which apply to each category, remaining maturity and remaining instalments. The results of the draw shall be made public no later than two months before due date, together with the numbers of previously drawn and unpaid Housing Bonds. Bonds which have not been drawn will be paid in full on the final due date of the category. The final due date of category 1 is December 15, 2022, and of category 2 December 15, 2037, when the principal, price indexation and interest will be paid. Housing Bonds shall not be partially redeemed. The draw is made at the University of Iceland Science Institute in the presence of representatives of the Mortgage Department under the supervision of a public notary.

7. The place of payment for due Housing Bonds is the State Housing Fund, Suðurlandsbraut 24, Reykjavík.
8. The State Housing Fund guarantees repayment of Housing Bonds. The State Housing Fund is an independent agency owned by the State, which is responsible for its activities.
9. The bonds' liability for taxation or exemption from it, and the rates of interest and price indexation applying to them, depend on the income tax and wealth tax in effect at any given time, cf. currently Arts. 8, 73 and 78 of Act no. 75/1981, with subsequent amendments. It is not the responsibility of the issuer to withhold tax on capital gains, cf. paragraph 1 of Art. 3 of Act no. 94/1996. Housing Bonds must be declared when tax returns are filed.
10. Housing Bonds are not liable for stamp duty.
11. Primary trading with Housing Bonds takes place at the Landsbanki Íslands Mortgage Department on behalf of the State Housing Fund Housing Bonds Department.
12. Market maker for Housing Bond category 2/1998 is Íslandsbanki Trading Floor, Kirkjusandur, 155 Reykjavík. Íslandsbanki undertakes to quote daily buying and selling bids for the said category to a minimum amount of ISK 30 million on Iceland Stock Exchange. Íslandsbanki will also renew its bids within 10 minutes of a bid having been accepted. If trading for the day reaches ISK 300 million in a given category, the market maker may cease to submit bids until the following day. The market maker shall take care to ensure that the spread between buying and selling yields is within moderate limits.
13. Housing Bonds are issued against a name and may be conveyed. The name, national ID number and address of the first owner shall be written on the face of the bond. On transfer of ownership of a Housing Bond, the conveyance to the new owner shall be written on the back by recording the date of conveyance and the name, national ID no. and address of the new owner. A Housing Bond may not be conveyed to its bearer. If there is a flaw in the series of conveyance, the bond will not be redeemed unless the bearer presents full proof of his ownership of it.
14. All claims vested in the bonds lapse if they are not declared to the State Housing Fund within 10 years from the due date, irrespective of whether they involve a draw on fixed dates or the final due date. Repayments due on Housing Bonds carry neither interest nor price indexation after the due date.
15. If the issuer does not pay on the due date and if the owner presents the bond then, the issuer shall pay penalty interest from the day it is presented until the day of payment. Penalty interest will be as determined by the Central Bank of Iceland.
16. With respect to the special characteristics of Housing Bonds, reference is made to the Regulations on the Mortgage Department and on Housing Bond transactions, and on the issue of Housing Bond categories 1 and 2/1998.

17. Further information about the listing of Housing Bond category 2/1998 may be obtained from Íslandsbanki and the State Housing Authority Securities Department.
18. Action on any dispute arising from these bonds may be brought in Reykjavík District Court, in accordance with the provisions of Chapter 17 of Act no. 91/1991.

pr. pr. Íslandsbanki hf.

Kristján Arason, department manager

National ID no. 230761-5669, Tjarnarbraut 7, 220 Hafnarfjörður