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## Iceland's Housing Financing Fund Assigned 'A+' Foreign and 'AA+' Local Currency Ratings

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LONDON (Standard & Poor's) June 14, 2004--Standard & Poor's Ratings Services said today it assigned its 'A+' foreign currency and 'AA+' local currency issuer credit ratings to Ibudalanasjodur, the Housing Financing Fund (HFF) of the Republic of Iceland (foreign currency A+/Positive/A-1+; local currency AA+/Stable/A-1+). At the same time, Standard & Poor's assigned its 'A-1+' short-term rating to HFF. The ratings are the same as those on the Republic, which is the sole owner of HFF and provides an ultimate (although not a timely) guarantee of HFF's liabilities. The outlooks on HFF also match those of the Republic--positive for the foreign currency rating and stable for the local currency rating.

"HFF's ratings reflect the government's support, as indicated by its ultimate guarantee of the agency's debt and its 100% ownership," said Standard and Poor's managing director and deputy head of sovereign ratings group John Chambers. "The ratings are also supported by the importance attached to private home ownership, which the HFF has so successfully promoted. Although HFF is not a profit-maximizing entity, its operating and financial performance has been robust for a public enterprise," added Mr. Chambers.

HFF was established in 1998 by law as a government agency under the legislation of the Republic of Iceland. As the sole specialized housing financing fund in the Republic, HFF is the main instrument supporting the government's housing policy.

The state maintains close supervision over HFF, with the Ministry of

Social Affairs selecting HFF's supervisory board, chairman, and vice-chairman. The Ministry of Social Affairs and the Ministry of Finance approve HFF's budget, which is presented with the state budget. The state is ultimately responsible for all of HFF's liabilities. The guarantee extended to HFF is, however, a guarantee of collection where payments can be claimed from the state only after HFF has defaulted on its obligations.

"Nevertheless, it is our opinion that the Icelandic government and the monetary authorities would support HFF in a timely manner in a financial stress scenario, due to the Fund's compelling public policy role and prominence in Icelandic capital markets," said Mr. Chambers.

HFF's profitability has been adequate, in line with its not-for-profit public policy role. The agency's financial robustness is further supported by its exemption from corporate and property taxation and the fact that it does not pay out dividends. Finally, as a public law entity, HFF is not subject to ordinary bankruptcy law. Instead, a specific law would have to be passed to liquidate the entity.

Standard & Poor's expects that HFF will continue to play a key role in the Icelandic government's housing plans and policies and that government support will not diminish. HFF enjoys significant political support from all relevant political parties, making a major change in the regulatory environment improbable. Accordingly, privatization risk, and the concomitant weakening of government support is highly unlikely in the foreseeable future. That said, domestic Icelandic banks have filed a complaint against the HFF with the European Free Trade Association Surveillance Authority, regarding unfair financial sector competition under EU state aid rules, due to HFF's funding advantage from the ultimate government guarantee. Standard & Poor's does not believe that any adverse ruling, should it be forthcoming, would materially hurt the implementation of HFF's policy role or its financial strength. Should the legal challenge prove successful and lead to a change in HFF's institutional arrangements, however, its ratings could be affected.

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