

## **ANNOUNCEMENT**

### **Proposals for settlement of Housing Financing Fund bonds**

#### **I**

#### **Summary**

1. A Minister of Finance and Economic Affairs discussion committee and advisors to 18 pension funds have jointly drafted proposals on the settlement of Housing Financing Fund (HFF) bonds,<sup>1</sup> which will facilitate the winding-up of ÍL Fund (previously the HFF).
2. According to the proposals, ÍL Fund and the Icelandic Government will settle claims due to the HFF bonds by delivering Treasury bonds, other securities, and cash in foreign currency (EUR) and Icelandic krónur.
3. ÍL Fund's obligations in connection with the HFF bonds are valued based on the present value of payment flows on the bonds until maturity.
4. The Treasury, as guarantor of the Fund, will contribute capital and other assets for the settlement, thereby enabling the Fund to fulfil its obligations to HFF bond owners and other creditors.
5. Non-cash assets delivered for settlement are, or will be, listed on a regulated securities market and are assessed at market value or fair value.
6. The proposals will be presented at meetings of bondholders for approval and to Parliament in order to obtain the necessary authorisations.
7. Other claims against ÍL Fund will also be settled, and the Fund will then be wound up.

#### **II**

#### **Background**

8. On 23 February 2024, it was announced that it had been decided that the Minister of Finance and Economic Affairs, on behalf of ÍL Fund and the Government of Iceland, and representatives from the 18 pension funds that collectively own the largest share of bonds issued by the ÍL Fund, would commence discussions on the settlement of the Fund's bonds. The aim of the discussions would be to reach an agreement providing for full settlement of the bonds and the creation of conditions to wind up ÍL Fund.

---

<sup>1</sup> Bonds (housing bonds HFF150434 and HFF150644) issued by ÍL Fund (previously the HFF) and maturing in April 2034 and June 2044. The bonds are inflation-indexed annuity-format instruments bearing an interest rate of 3.75% per year.

9. Since then, discussions have been ongoing between Ministry of Finance and Economic Affairs officials and their advisors, on the one hand, and the pension funds' legal and financial advisors, on the other. The parties to the discussions have jointly drafted proposals for the settlement of HFF bonds. These proposals are being presented to the pension funds and made public today.

### III

#### Proposals for settlement

10. In the settlement, total claims due to the HFF bonds are assessed at approximately ISK 174.4bn for HFF150434<sup>2</sup> and ISK 476.9bn for HFF150644<sup>3</sup>, that is the total of ISK 651.4bn. This amount reflects the valuation of the HFF bonds, net of those owned by ÍL Fund at the end of the day on 7 March 2025 **(the reference date)**. The valuation is based on the present value of cash flows on the bonds until maturity is calculated, with a yield of 3.5687% on HFF150434 and a yield of 3.1736% on HFF150644.
11. According to the proposals, the claims will be settled with the delivery, by ÍL Fund and the Icelandic Government, of assets **(settlement assets)** with an at a value equal to the amount of the claims due to the HFF bonds, as follows:<sup>4</sup>
- a) *Treasury bonds*: Inflation-indexed and non-indexed interest-bearing securities issued in nine listed Treasury bond series, with maturities between 2029 and 2050, which will be included in the Treasury benchmark securities system.<sup>5</sup> The assessed value of this asset class is approximately ISK 540.4bn.
  - b) *Other securities*: Covered bonds issued by Landsbankinn hf. and Íslandsbanki hf., and bonds issued by Municipality Credit Iceland plc and Greiðslumiðlun Hringur ehf. The assessed value of this asset class is approximately ISK 38bn.
  - c) *Foreign-denominated cash (euros)*: The value of this asset class is equivalent to ISK 55bn in terms of the average of the Central Bank of Iceland's official exchange mid-rate on the reference date and the four preceding business days.
  - d) *Króna-denominated cash*: ISK 18bn.
12. The valuation of settlement assets falling into the categories *Treasury bonds* and *Other securities* will take place on the reference date, based on the present value of payment flows on the securities until maturity, at appropriate interest rates.
13. Settlement assets will be delivered to creditors in direct proportion to the amount of their claims. The settlement of claims in amounts up to ISK 1.2bn will be handled

---

<sup>2</sup> The rate being 1.2241 (dirty price) on the nominal value of each unit of the issued bonds, net of ÍL Fund's own bonds.

<sup>3</sup> The rate being 1.9103 (dirty price) on the nominal value of each unit of the issued bonds, net of ÍL Fund's own bonds.

<sup>4</sup> Further information can be found in an Annex.

<sup>5</sup> The Treasury has declared its intention, in the presently existing Debt Management Prospect, to establish market making for at least two of these Treasury bond series and intends establish further market making for the remaining series.

as follows, however: 25 per cent will be paid in cash in Icelandic krónur, and 75 per cent will be paid with single category of inflation-indexed Treasury bonds, RIKS 34 for HFF150434 and RIKS 44 for HFF150644.

14. If it is not possible to deliver complete nominal price units of settlement assets to individual creditors because of the amount of the claims concerned, ÍL Fund will be authorised to pay the shortfall in cash in Icelandic krónur and/or with other settlement assets, and to adjust payments to other creditors accordingly, so as to ensure equal treatment.
15. It has been ascertained that several weeks will pass between the reference date and the date of settlement. Therefore, at the time of settlement, adjustments will be made for the following, as applicable: (i) any distributions of interest, indexation, and principal on the HFF bonds that are paid to creditors (payments deducted) between the reference date and the settlement date, and (ii) any distributions of interest, indexation, and principal on settlement assets in the form of securities that are paid to ÍL Fund (payments added) between the reference date and the settlement date. Interest will be calculated on settlement assets in the form of cash for the same period.

#### **IV**

##### **Approval by bondholder meetings and authorisation by Parliament**

16. Final proposals for amendments to the terms of payment on the HFF bonds will be presented at a meeting of bondholders for approval. Meetings will be called with at least four weeks' advance notice. A proposal will be deemed approved if it is supported by votes representing 75 per cent of bondholders, by claim amount. Two separate meetings will be held, one for owners of HFF150434 and the other for owners of HFF150644.
17. It is assumed that, if proposals for amendments to terms of payment on the HFF bonds are approved, the Minister of Finance and Economic Affairs will introduce before Parliament a proposed fiscal budget supplement providing for the authorisation to issue Treasury bonds in accordance with the foregoing.
18. ÍL Fund creditors other than HFF bondholders will be offered settlement of their claims.
19. Transparency and non-discrimination among creditors will be observed in settling the claims and winding up ÍL Fund.

##### *Provisos:*

The proposals described in this announcement are not binding upon ÍL Fund, the Icelandic Government, pension funds, or other creditors of ÍL Fund.

The figures presented in this announcement are published provisionally and are subject to final calculations.

Annex:

### Valuation of the HFF bonds

	Yield	Net issue (nominal value) <sup>1</sup>	Valuation at the reference date	Rate at the reference date
HFF150434	3.5687%	142,488	174,415	1.2241
HFF150644	3.1736%	249,675	476,945	1.9103

<sup>1</sup> Total issue, net of bonds owned by ÍL Fund

### Settlement assets HFF150434

	Yield <sup>1</sup> / Exchange rate <sup>2</sup>	Nominal value	Valuation at the reference date
Treasury bonds			
RIKS 29 0917	3.1192%	50,000	51,859
RIKS 34 1016	2.8575%	37,354	40,074
RIKS 36 0815	2.7723%	25,000	27,465
RIKS 39 1115	2.6656%	15,000	16,757
			<b>136,154</b>
Other securities			
HARP 46 0217	3.9091%	2,170	2,511
ISB CBI 30	3.4928%	1,480	2,102
LBANK CBI 28	3.9038%	2,280	3,268
LSS150434	3.9696%	2,095	1,821
			<b>9,702</b>
Cash in EUR	146.54	€ 96.0	14,065
Cash in ISK			14,494
<b>Total settlement assets</b>			<b>174,415</b>

All amounts are in millions and ISK unless otherwise stated.

<sup>1</sup>The yield of delivered Treasury bonds is based on a 5-day trailing average of the Treasury bond yield curve.

<sup>2</sup>The EUR exchange rate is based on a trailing 5-day average of the Central Bank of Iceland's official exchange mid-rate.

**Settlement assets HFF150644**

	Yield <sup>1</sup> / Exchange rate <sup>2</sup>	Nominal value	Valuation at the reference date
Treasury bonds			
RIKS 29 0917	3.1192%	17,000	17,632
RIKS 34 1016	2.8575%	23,000	24,675
RIKS 36 0815	2.7723%	34,000	37,353
RIKS 39 1115	2.6656%	34,000	37,982
RIKS 41 0815	2.6306%	50,000	57,165
RIKS 44 1017	2.5761%	50,313	58,405
RIKS 47 1115	2.5386%	48,000	56,708
RIKS 50 0915	2.5141%	47,000	56,707
RIKB 32 1015	6.9669%	56,000	57,611
			<b>404,237</b>
Other securities			
HARP 46 0217	3.9091%	6,300	7,289
ISB CBI 30	3.4928%	4,320	6,136
LBANK CBI 28	3.9038%	6,660	9,546
LSS150434	3.9696%	6,096	5,299
			<b>28,270</b>
Cash in EUR	146.54	€ 279.3	40,935
Cash in ISK			3,503
<b>Total settlement assets</b>			<b>476,945</b>

All amounts are in millions and ISK unless otherwise stated.

<sup>1</sup>The yield of delivered Treasury bonds is based on a 5-day trailing average of the Treasury bond yield curve.

<sup>2</sup>The EUR exchange rate is based on a trailing 5-day average of the Central Bank of Iceland's official exchange mid-rate.

**Treasury bonds**

	Date of issue	Maturity date	Base index value	Interest
Treasury bonds				
RIKS 29 0917	17.09.2024	17.09.2029	633.52	3.50%
RIKS 34 1016	16.10.2024	16.10.2034	633.07	3.50%
RIKS 36 0815	15.08.2024	15.08.2036	631.61	3.50%
RIKS 39 1115	15.11.2024	15.11.2039	633.14	3.50%
RIKS 41 0815	15.08.2024	15.08.2041	631.61	3.50%
RIKS 44 1017	17.10.2024	17.10.2044	633.03	3.50%
RIKS 47 1115	15.11.2024	15.11.2047	633.14	3.50%
RIKS 50 0915	15.09.2024	15.09.2050	633.48	3.50%
RIKB 32 1015	15.10.2024	15.10.2032	Non-indexed	7.00%