

Market News

Total lending by the Housing Financing Fund (HFF) amounted to around ISK 4.9 billion (bn) in December. Of that amount, around ISK 1.3 bn were loans for rental housing, while around 3.6 bn were general loans. Therefore the Fund's lending in the 4th quarter amounted to around ISK 15.8 bn. The total lending for the year amounted to more than ISK 49.5 bn, slightly above the upper limits of the forecast lending for 2006. HFF bonds were issued for a nominal value of ISK 39 bn, which is near the upper limit of the 2006 lending forecast.

HFF's forecast for lending, HFF bond issuance and the Fund's repayments for the year 2007 was published at the Iceland Stock Exchange (ICEX) in December. According to the forecast, the Fund's lending for the year 2007 will amount to between ISK 52 and 57 bn, and HFF bonds worth from 47 to 55 bn will be issued. HFF's lending and funding are assumed to reach a better balance during the year following the imbalance of the two previous years. HFF's repayments in the year 2007 are forecast to amount to from ISK 49 to 56 bn, similar to the total repayment of the year 2006, which totalled 53.7 bn.

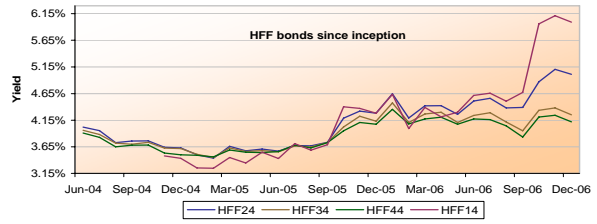
Moody's confirmed HFF's positive credit rating on 20 December, 2006. Two days later S&P lowered its foreign currency rating for HFF, following the lowering of the Treasury's foreign currency rating. However, S&P retained its local currency rating for the HFF, while the same rating for the Treasury was lowered.

On 21 December, the Central Bank of Iceland raised its policy interest rates by 0.25 percentage points to 14.25%. This resulted in a slightly increased yield on HFF bonds, but this increase was reversed after S&P's announcement, resulting in a decrease of the yield.

According to the result of a recent survey by Capacent of the public's attitude towards HFF, more than 80% of the surveyed are happy with the Fund, while only 3.8% are negative towards the HFF.

This result conforms to a comparable survey amongst those who had purchased property during the period from July to the end of October, 2006, where 75.9% were positive toward HFF. However, 7% of real estate buyers were negative towards the Fund. Many of those who have a negative attitude complain over the Fund's maximum loan amount being too low and about limitations due to fire insurance valuations restricting normal lending.

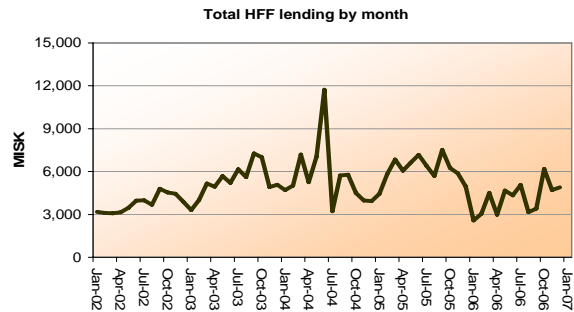
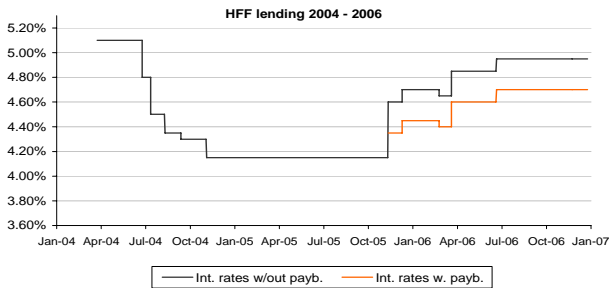
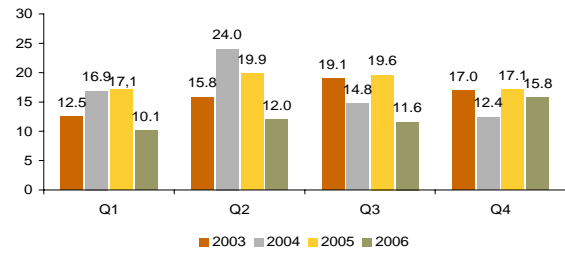
HFF's repayments amounted to around ISK 5.5 bn in December. Thereof redemption of housing bonds amounted to around ISK 630 million and repayments of HFF bonds totalled ISK 4.3 bn. Total repayments by HFF in the year 2006 thus amounted to around ISK 50 bn.



Series	Oct. 2006	Nov. 2006	Dec. 2006	Duration	Face value	Outst. F. value
HFF14	5.96%	6.11%	5.99%	3.7	57.7	47.8
HFF24	4.87%	5.11%	5.01%	7.4	128.6	117.2
HFF34	4.33%	4.38%	4.25%	11.2	126.4	120.4
HFF44	4.21%	4.24%	4.12%	14.4	156.8	152.3

*Yield on the last trading day of each month
Duration (yrs) and class size (MISK) as of end of December '06
Of the total issuance of the face value, ISK 4.8 bn in each series directly belong to the lending facilitation for HFF bond market makers

Total lending by quarter (ISK billion)



HFF Auctions, Lending and Payments

Actual Figures 2006

MISK	Forecast Q4	Actual Q4	Forecast 2006	Actual Jan-Des 2006
HFF bond issuance	11-13	11.9	35-41	39.0
New HFF lending	12-14	10.9	43-49	49.5
HFF paayments	12-14	11.3	53-59	53.7

Forecast for 2007

MISK	1Q	2Q	3Q	4Q	Total 2006
HFF bond issuance	11-13	12-14	11-13	13-15	47-55
New HFF lending	12-13	13-15	13-15	14-16	52-59
HFF paayments	14-15	12-14	11-13	12-14	49-56

HFF bonds auctions

