



Press Release
Housing Financing Fund – 6M results 2011

The 6M results of the Housing Financing Fund (HFF) in 2011 were endorsed by the Fund's Board of Directors today. HFF's operations were in surplus by ISK 1.5 billion (bn) during this period, as compared with a deficit on operations of ISK 1.6 bn during this same period last year. The change can be attributed, firstly, to a reverse entry of provisions for loan write-offs, as around 5,000 applications were received for the government's 110% solution whereas some 9,400 applications had been expected. Secondly, operating expenses have increased YoY due to an increase in the number of employees processing applications, managing real estate and working on the financial restructuring of rental companies. In addition, appropriation of real estate has resulted in high one-off costs.

As of 30 June 2011, HFF's equity was just over ISK 10 bn, compared with ISK 8.6 bn at year-end 2010. The Fund's capital ratio, calculated as provided for in Regulation No. 544/2004, on the Housing Financing Fund, is currently 2.4%, up from 2.2% at the beginning of this year. The percentage is calculated in the same manner as the capital adequacy ratio of financial undertakings.

Operating performance

The Fund's net interest income during the period amounted to ISK 727 million (m), compared to ISK 289 m during this same period last year. Fees and commissions rose by ISK 72 m YoY, with the main factor here an increase of 124 m in rental income from rental housing owned by the Fund.

Salary expenses increased by 29.3%, which is explained by a temporary increase in the number of full-time equivalent positions from 69 to 81. Other general operating costs rose by ISK 189 m, primarily due to the increased operating cost of appropriated assets, increased collection costs, and investment in computer equipment in connection with an increase in personnel.

Loan impairment as of the end of June 2011 amounted to ISK 34.1 bn, a decrease of ISK 4.8 bn since the beginning of this year. As around 4,400 fewer borrowers than expected applied for the 110% solution, part of the precautionary provision from last year was reversed. On the other hand, a detailed analysis reveals greater debt and operational difficulties among legal entities than previously assumed and, as a result, an additional precautionary provision of ISK 4 bn was made here. An examination is under way of how HFF could develop solutions for legal entities facing debt and payment difficulties.

Loan impairment 30th June 2011 <i>(in ISK bn)</i>	Loans to individuals	31/12 2010	Loan to others	31/12 2010	Total loans	31/12 2010
Loans without impairment	650,8	635,7	163,1	154,4	814,0	790,1
Specific impairment	8,1	4,9	14,8	9,5	22,9	14,4
Specific impairment (110% LTV measure)	9,7				9,7	
General impairment	1,2	1,4	0,3	0,3	1,5	1,7
Total impairment	19,0	29,0	15,1	9,8	34,1	38,8
Book value of loans after impairment	631,8	606,7	148,0	144,6	779,8	751,3

Loans to customers

As of 30 June 2011, the Fund's loans totalled ISK 779 bn and had increased by ISK 28.5 bn YtD. HFF's bond issuance during this period amounted to ISK 838 bn, which is an increase of ISK 17.6 bn for the 6M period. The Fund's total assets amounted to ISK 855 bn as of 30 June 2011, increasing by 2.2% during the period.

The total amount of new lending by HFF during the first 6M of 2011 amounted to almost ISK 13 bn, as compared to almost ISK 12 in 2010 for the same period. A total of 1,249 new loans were granted while during this same period 2,437 purchase contracts were concluded for residential housing, according to the Land Registry of Iceland.

Defaults have risen YoY, as around 7.8% of the Fund's borrowers had one or more due dates in arrears as of the end of June 2011. Loans in default for over 90 days totalled ISK 4.4 bn, compared to ISK 3.9 bn as of year-end 2010. Loans to individuals and legal entities in default for over 90 days have increased from 0.50% of loans at the beginning of this year to 0.60% at the end of June.

Loans past due 30th June 2011 <i>(in ISK bn)</i>	Loans to individuals	31/12 2010	Loan to others	31/12 2010	Total loans	31/12 2010
Breakdown of past due loans						
Past due 30-60 days	0,5	0,4	0,3	0,2	0,9	0,6
Past due 60-90 days	0,3	0,3	0,2	0,1	0,4	0,3
Past due over 90 days	3,0	2,4	1,8	1,5	4,8	3,9
Past due over 30 days total:	3,8	3,0	2,3	1,8	6,1	4,8

Solutions for borrowers

Around 53% of borrowers have availed themselves of the payment remedies offered by HFF. Those remedies which the Fund has offered borrowers, in collaboration with other credit institutions, the Debtor's Ombudsman and the government, include: Payment adjustment, problem debt resolution, payment mitigation for individuals, temporary solutions for borrowers holding two residential properties, temporary payment mitigation of residential mortgage payments, freezing and partial freezing of loans, and the 110% solution.

The updated balance on loans which have been frozen or partially frozen at end of the period amounted to ISK 29.1 bn, which is equivalent to borrowers holding 3.5% of total loans availing themselves of the option of total or partial freezing. The comparable amount of loans frozen as of the end of last year was ISK 40 bn.

The balance on the payment adjustment account as of the end of the period was ISK 4.6 bn, compared to ISK 3.2 bn at year-end 2010, in connection with loans where the borrower has elected to make payments based on the payment equalisation index rather than the CPI.

Appropriated assets and other matters

Since the beginning of this year, HFF has appropriated 388 properties to enforce its claims and sold 80 properties; during the same period of 2010, 392 properties were appropriated and none sold. As of 30 June, 576 properties owned by HFF were rented out, or 42% of the Fund's properties. Residential properties owned by the Fund numbered 1,377 at the end of June 2011. HFF offers households residing in properties which the Fund has appropriated at auction, whether owners or tenants, to rent the property at market rates in each location.

In accordance with the strategy formulated by a housing group set up by the Ministry of Welfare, HFF intends to promote an increased long-term supply and security on the rental market, by establishing a rental company for appropriated assets which are suitable for occupation. The Fund will also endeavour to increase the supply of rental accommodation in areas where there is a clear shortage of such, however, without distorting rental market equilibrium. Assets under construction or in poor condition will be sold.

For further information, contact General Manager Sigurður Erlingsson or Sigurður Jón Björnsson, Director of HFF's Finance division, tel. +354 569 6900.

HFF's Income Statement and Balance Sheet 2007 – 1H 2011

<i>Income statement (in ISK million)</i>	2011 1H	2010 1H	2010	2009	2008	2007
Net interest income	727	288	2.529	2.802	2.671	3.511
Other income	286	214	418	237	184	257
Total operating expenses	-954	-691	-1.407	-1.206	-1.076	-945
Net operating income	59	-188	1.540	1.833	1.779	2.823
Impairment on assets	1.503	-1.492	-36.053	-5.035	-8.683	-295
Profit (loss) for the period	1.562	-1.680	-34.513	-3.202	-6.904	2.528
<i>Balance Sheet (in ISK million)</i>	2011 1H	2010 1H	2010	2009	2008	2007
Cash and cash equivalents	53.796	35.321	32.158	28.385	14.876	42.030
Claims against credit institutions	3.214	2.352	4.037	6.634	29.768	95.942
Receivable due from Treasury	0	0	33.000			
Loans to customers	779.807	788.564	751.281	756.634	680.406	467.085
Properties held for sale	17.320	6.435	15.029	2.853	1.031	482
Other assets	491	348	460	341	438	319
Total assets	854.627	833.019	835.964	794.847	726.519	605.858
Derivative contracts	0	0	0	0	0	2.177
Bond issued	837.891	808.671	820.310	775.448	708.496	578.748
Other borrowing	6.320	15.519	6.666	9.122	4.173	4.438
Other liabilities	284	426	418	195	565	306
Total equity	10.131	8.402	8.569	10.083	13.285	20.189
Total liabilities and equity	854.627	833.019	835.964	794.847	726.519	605.858
Equity ratio	2,4%	2,1%	2,2%	3,0%	4,6%	7,0%
Number of appropriated properties	1.377	739	1.069	347	196	80