Press Release - 30 August 2012
Performance of the Housing Financing Fund during the first half of 2012.

The 2012 interim financial statements of the Housing Financing Fund (HFF) have been approved by the Fund's Board of Directors. The operating results of the period were negative to the tune of ISK 3,109 million, compared to ISK 1,561 million in profits during the same period in 2011. HFF's equity at the end of the period was ISK 6,445 million, compared to over ISK 9,555 million at year-end 2011. The Fund's equity ratio, calculated according to the provisions of Regulation No. 544/2004 on the Housing Financing Fund is, at present, 1.4%, while it was 2.3% at the beginning of the year. The ratio is calculated in the same manner as the equity ratio of financial undertakings. The Fund's long-term goal is to keep the ratio above 5.0% but not below 4%. The HFF discussions with the authorities are aimed at fulfilling the provisions of the Regulation.

Operating results before impairment are, in all cases, in accordance with the year's approved budget. Net operating income was 30% over projections and can be attributed to successful treasury management. Overall, operating income is 26% over projections. Total operating expenses are 7% under projections. However, expenses resulting from the Fund's larger projects may be expected to materialise in the latter part of the year. A loss of 1.161 million was budgeted for the first half of 2012.

Operating results

The Fund's net interest income amounted to ISK 726 million, compared to ISK 723 million from the same period in 2011.

Other income increased by ISK 243 million between years, most of which was rent income from residential apartments owned by the Fund. Rent income increased by ISK 246 million between years, at the same time as collection income decreased by just under ISK 4 million. At the end of June 2012, 846 properties were rented out, representing an increase of 204 properties during the period.

Payroll costs increased by 24.7% from the previous year due to an increase of just under 14 full-time equivalent units (12.1%), the effects of collective wage contract increases (7.1%) and the addition of financial management tax added on top of the total payroll costs (5.45%). Other operating costs increased by ISK 321 million. This can be attributed to the increase in the number of appropriated assets held by the Fund and operating expenses relating to them (ISK 109 million), increases in contributions to the operation of the Ombudsman for Debtors (ISK 150 million) and costs resulting from purchased expert consultancy services. Further itemisation of other operating costs may be found in the table in the Annex.

The allowance account for credit losses amounted to ISK 20.6 billion at the end of June 2012, decreasing by approximately ISK 1.2 billion from the beginning of the year. Changes to the fair value of properties for sale was recorded, and amounted to ISK 1.1 billion in the interim statements. This was in addition to the ISK 1.9 billion recorded for impairment relating to debt values in excess of the assessed property values on repossession and for precautionary provisions. This was done to off-set the differing condition of the appropriated assets that the Fund has repossessed.

The change to the impairment of loans, appropriation of assets and claims has a negative effect amounting to ISK 3,013 million on the results of the Fund in the first half of the year. The proportion of the increase in impairment is due to the increase of defaulted loans and the age of the defaulted loans. The age of defaults means that the value of loans in excess of property values leads to increased precautionary provisions in the accounts of the Fund. The management of the Fund is also concerned with the incidence of new defaults. It should be noted, however, that approximately 84% of the HFF's loans are not in arrears.

Loan impairment June 30th. 2012 *(in ISK bn)*	Loans to individuals	*31/12 2011*	Loan to others	*31/12 2011*	**Total loans**	*31/12 2011*
Loans without imapirment	**644.1**	*633.8*	**165.9**	*170.1*	**810.0**	*803.9*
Specific impairment	7.2	*5.9*	12.0	*14.4*	19.1	*20.3*
General impairment	1.4	*1.5*	0.0	*0.0*	1.4	*1.5*
Total impairment	**8.6**	*7.4*	**12.0**	*14.4*	**20.6**	*21.8*
Book value of loans after impairment	**635.5**	*626.4*	**153.9**	*155.6*	**789.4**	*782.1*

Loans

At year-end, the book value of loans amounted to ISK 789 billion, with loans increasing by ISK 7 billion during the period. The Fund's borrowing amounted to ISK 870 billion and rose by approximately ISK 15.7 billion during the year. The Fund's total assets stood at ISK 876 billion at the end of June.

The Fund's lending activities have reduced somewhat during the year, in conjunction with increases in prepayments. So, the fund granted 611 general apartment loans during the first six months in 2012, compared to 1,119 loans during the same period in 2011. Prepayment of loans amounted to approximately ISK 9.4 billion during the period, in comparison with ISK 5.2 billion during the first six months of 2011.

The weighted average mortgage ratio of the Fund's entire loan portfolio of the property value of the underlying assets is approximately 64%. The same ratio was 62% at the end of 2011.

Defaults have increased during the year, with around 8.0% of the Fund's borrowers having default in excess of 90 days at the end of June 2012, compared to 7.6% at the end of 2011. The adjusted balance of loans in arrears in excess of 90 days amounted to approximately ISK 101.7 billion at the end of the period – or, 13.3% of all loans. In comparison, the balance of loans in arrears in excess of 90 days amounted to around ISK 93 billion at the beginning of the period. The proportion of defaulted loans in excess of 90 days amounted to ISK 6.4 billion, compared to ISK 6.2 billion at the beginning of the period. Defaults by private persons and legal entities in excess of 90 days have increased from being 0.80% of loans at the beginning of the year to 0.84% at the end of June. Total defaults by borrowers from the first day of default amounted to ISK 8.9 billion - or the equivalent of 1.12% of all of the Fund's loans - as compared to 1.06% at the end of 2011.

Loans past due June 30th. 2012 *(in ISK bn)*	Loans to individuals	*31/12 2011*	Loan to others	*31/12 2011*	**Total loans**	*31/12 2011*
Breakdown of past due loans						
Past due 0-30 days	1.2	*0.8*	0.1	*0.1*	1.3	*0.9*
Past due 31-60 days	0.5	*0.5*	0.2	*0.3*	0.7	*0.7*
Past due 61-90 days	0.4	*0.3*	0.1	*0.1*	0.5	*0.4*
Past due over 90 days	4.2	*3.9*	2.2	*2.3*	6.4	*6.2*
Past due total:	**6.3**	*5.5*	**2.6**	*2.8*	**8.9**	*8.3*

Solutions for borrowers

Approximately 61% of borrowers have taken advantage of the payment difficulty solutions that the Fund offers its clients. Among these are netting, which approximately 46% of borrowers use, while 1,9% of loans to private persons have payment suspension. Approximately 5% of borrowers have extended their loans, 0.5% are in special measures and 7% of borrowers have been granted the write-off of claims exceeding 110% of the value of their property. Moreover, 0.2% of borrowers have had loans exceeding the selling price of their property removed when encountering payment difficulties and selling on the free market. The adjusted status of loans that have been fully or partially in payment suspension at the end of the period amounted to ISK 14.4 billion, while the status of suspended loans at the end of 2011 was ISK 18 billion.

Experience has shown that a proportion of these loans can be expected to remain in arrears when the measures come to an end, if these measures have not been sufficient to solve the problems of the borrowers. In such cases, borrowers will be referred to other solutions that may be available to them.

The payment netting account contained ISK 7.5 billion at the end of June for loans where borrowers have chosen to pay instalments based on the payment netting index, rather than the consumer price index. The payment netting account contained ISK 6.1 billion at the end of 2011.

Appropriated assets and other issues

The Fund repossessed 501 apartments during the first half of the year in satisfaction of claims, and sold 58. By the end of the period, the Fund owned 2,049 apartments, an increase of 443 from the beginning of the year. Approximately 41% of these properties are rented out. HFF rents properties in areas where there is a shortage of rental properties and where the Fund does not have a market-dominant position. Other properties are put on the market for sale. This autumn, over 500 properties throughout Iceland will be put up for sale. The book value of these properties is based on the estimated market value, taking into account the assessment of the condition of the properties - a total of ISK 29.1 billion. Investment due to appropriated assets has increased by ISK 6.6 billion since the beginning of the year.

Among claims on credit institutions at the end of the year, ISK 1,987 million is recognised as assets due to claims on Landsbanki Íslands hf., Glitnir Bank hf. and Straumur - Burðarás Investment Bank hf. In total, the Fund has written down claims on the old banks by approximately ISK 11.1 billion since their collapse. The Fund’s accounts assume that the

Fund is entitled to netting, although there is some uncertainty about the settlement of claims and derivatives together with the Fund’s netting authorisation.

Preparations are underway to add non-indexed loans to the HFF’s product range in the next few months.

The Housing Financing Fund has been granted permission to establish a subsidiary to operate appropriated assets, and work is being carried out in preparation for such a company. In the long-term, however, it not the role of the Fund to be involved in renting operations, and the subsidiary will be sold as soon as conditions are ripe to do so.

Further information can be obtained from by Sigurður Erlingsson, CEO and Sigurður Jón Björnsson Financial Director on tel. +354 569-6900.

Income statement and Balance sheet of the Housing Financing Fund

Income statement	Jan-June 2012	Jan-June 2011
Interest income	49.470.187	46.233.313
Interest expenses	(48.744.080)	(45.509.668)
Net interest income	**726.107**	**723.645**
Other income	529.565	286.341
Total operating income:	**1.255.672**	**1.009.986**
Salaries and salary-related expenses	379.250	304.041
Other general operating expenses	939.416	617.633
Depreciation and amortisation	32.952	32.721
Total operating expenses:	**1.351.618**	**954.395**
Net (operating expenses) operating income	**(95.946)**	**55.591**
(Impairment) value addition of assets	(3.013.770)	1.506.218
Net profit (loss) for the period	**(3.109.716)**	**1.561.809**

Balance sheet	Jan-June 2012	31.12.2011
Assets		
Cash and cash equivalents	4.036.121	3.962.556
Time deposits	10.126.147	9.112.767
Market securities	33.582.823	33.495.031
Claims against credit institutions	8.988.846	11.002.754
Loans to customers	789.415.840	782.052.561
Appropriated assets	29.082.229	22.486.684
Property, plant and equipment	72.204	78.390
Intangible assets	113.902	140.668
Other assets	1.144.019	1.639.875
Total assets	876.562.131	863.971.286
Liabilities and equity		
Liabilities		
Bond issue	864.638.056	848.878.935
Other borrowing	5.181.413	5.288.670
Other liabilities	296.965	248.268
Total liabilities	870.116.434	854.415.873
Equity		
Guarantee capital	40.155.408	40.155.408
Retained earnings	(33.709.711)	(30.599.995)
Total equity	6.445.697	9.555.413
Total liabilities and equity	876.562.131	863.971.286
Risk weighted equity ratio Tier 1 "CAD"	1,40%	2,30%

Analysis of other costs (ISK thousands)	Jan-June 2012	Jan-June 2011	Change	%
Ombudsman for debtors	150.256	0	150.256	
Operation of properties for sale	376.229	266.797	109.431	41,0%
Bought-in expert services	95.452	54.045	41.407	76,6%
Credit rating agencies	22.828	5.687	17.141	301,4%
Housing costs	57.899	52.449	5.449	10,4%
Price assessment of properties..................	22.541	17.250	5.291	30,7%
Financial Supervisory Authority	24.798	21.330	3.468	16,3%
Computer systems and equipment	83.474	80.992	2.481	3,1%
Collection costs	76.465	74.652	1.812	2,4%
Other operating expenses	17.774	16.922	852	5,0%
Advertising, promotional material and grants	11.701	27.508	(15.808)	-57,5%
Total:	**939.416**	**617.633**	**321.783**	52,1%