Íbúðalánasjóður

Press Release, 31 March 2014

2013 Financial Statements of the Housing Financing Fund

The 2013 annual financial statements of the Housing Financing Fund (HFF) were approved today by the Fund’s Board of Directors. The 2013 operating results were negative to the tune of ISK 4.354m compared to ISK 7.856m in losses the year before. HFF’s equity at year-end was ISK 14.8bn, having taken into account the increase in share capital amounting to ISK 4.5bn which will be paid to the Fund in the form of bonds based on 1 January 2014, in accordance with the 2013 supplementary budget. Equity amounted to ISK 14.7bn at year-end 2012. The Fund’s equity ratio, calculated in accordance with the provisions of Regulation No. 544/2004 on the Housing Financing Fund, is 3.4%. Equity ratio was 3.2% 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%, and discussions with the authorities are aimed at fulfilling the provisions of the Regulation.

Operating results

The Fund’s net interest income amounted to ISK 2.9bn, compared to ISK 2.5bn in 2012. The weighted active interest on the Fund's financing excluding equity was 4.31% at year-end, and the active loan interest rate was 4.61%. The interest rate margin of the loan portfolio and the Fund’s borrowing increased by 0.005% during the year while, at the same time, the proportion of loans of the Fund’s interest bearing debts has been rising.

Payroll expenses rose by 18.1% from the previous year and are for the most part attributable to: increases in the number of FTEs by 4, the effects of the increase in financial activity levied on the salaries of financial and credit institutions, the effects of collective wage agreement increases and settlements with employees that have finished working for the Fund. Other operating costs increased by ISK 147.5m and can be attributed to: increases in fees connected with the operation of the office of the Ombudsman for Debtors, increased collection costs, increases in the supervision fee of the Financial Supervisory Authority (FME) and purchases of consultancy services. Further itemisation of other operating costs may be found in Note 15 in the financial statements.

Contingencies recorded as impairment of loans in the Fund’s books amounted to ISK 22.4bn at year-end 2013, decreasing by ISK 0.9bn from the previous year. The impairment characterises the results of 2013 as the effect of impairment has a negative impact on the results of the Fund to the tune of ISK 5.7bn. The reasons for such increased impairment are traceable to the fact that the Fund’s lending losses have proved higher than the previously defined contingencies anticipated due to special measures and collection delays. New defined loss events in the loan portfolio, moreover, have increased contingencies by ISK 0.6bn as have the effects of default incidences during the year. There was a significant increase in the number of households that have taken advantage of special measures or have applied for such measures. In addition, accounting principles mean that the value of appropriated assets owned by the Fund decreased in value from what was previously estimated and depart from what their fair value was expected to be. This means that hidden assets have formed in the Fund's appropriated assets which should be redeemable on the sale of such assets as the appropriated assets are recorded at a value that is ISK 2.3bn lower than their anticipated fair value.

Loan impairment Des.31st 2013 *(in ISK bn)*	Loans to homes	*31/12 2012*	Loan to others	*31/12 2012*	**Total loans**	*31/12 2012*
Loans without impairment	**647,2**	*662,4*	**143,6**	*140,0*	**790,9**	*802,4*
Specific impairment	8,9	*9,1*	12,5	*13,2*	21,4	*22,3*
General impairment	0,9	*0,9*	0,1	*0,1*	1,0	*1,0*
Total impairment	**9,8**	*10,0*	**12,6**	*13,3*	**22,4**	*23,3*
Book value of loans after impairment	**637,4**	*652,4*	**131,1**	*126,7*	**768,5**	*779,1*

Loans

Loans at year-end amounted to ISK 768bn, decreasing by approximately ISK 10.5bn during the year. The Fund's borrowing amounted to ISK 848bn and decreased by approximately ISK 13bn during the year. The Fund's total assets stood at ISK 863bn at the end of 2013.

The total amount of the HFF's new lending in 2013 amounted to approximately ISK 11.5bn as compared to ISK 14.1bn in 2012. It should be noted that the scope of assumed loans and mortgage transfers amounted to a much higher amount than the new loans granted during the year. The number of new loans was 1,051. At the same time, the total number of registered purchase agreements for residential housing was approximately 7,500. The number of new loans in 2012 was 1,302. It should be noted that the HFF's maximum loan amount as defined in regulations has stood unchanged at ISK 20m since 2008 while the average price of residential housing has risen from ISK 24m to ISK 28m during the same period. HFF, furthermore, has not yet been granted permission to offer non-indexed loans.

The weighted average mortgage ratio of the Fund's entire loan portfolio of the property value of the underlying assets is approximately 57.6%. The proportion was 59.0% at the close of 2012. Rising property prices in the market will lead to the strengthening of the collateral position of the loan portfolio.

Defaults have decreased from the previous year if account is taken of the amounts in arrears and the number of households in arrears. Moreover, 7.2% of households had three or more due dates in arrears by year-end 2013 as compared to 8.9% of homes at the end of 2012. The restated balance of all the loans of individuals and legal entities that were in arrears in excess of 90 days, and that of those who had had their loans frozen, amounted to ISK 99.7bn at year-end 2013, as compared to ISK 115.1bn at the end of 2012 as the defaults of legal entities have increased somewhat. Total defaults of all borrowers from the 30th day of default amount to ISK 10bn or the equivalent of 1.29% of the Fund's total lending as compared to 1.14% at the close of 2012. The increase can be attributed to the increase of the number of legal entities in arrears while the defaults of individuals have decreased significantly.

Loans past due Des 31st 2013 *(in ISK bn)*	Loans to homes	*31/12 2012*	Loan to others	*31/12 2012*	**Total loans**	*31/12 2012*
Breakdown of past due loans						
Past due 31–60 days	0,5	*0,5*	0,2	*0,2*	0,7	*0,7*
Past due 61–90 days	0,3	*0,4*	0,1	*0,1*	0,4	*0,5*
Past due more than 90 days	4,3	*5,0*	4,5	*2,6*	8,8	*7,6*
Past due total:	**5,1**	*6,0*	**4,9**	*2,9*	**10,0**	*8,9*

Solutions for borrowers

Approximately 58% of households have taken advantage of the payment difficulty solutions that the Fund offers its clients. These include netting, which approximately 44% of borrowers use and by year-end, 0.9% of households had had their loan payment deferred. Approximately 1% of borrowers have extended their loans, 7.3% of borrowers have been granted the write-off of claims exceeding 110% of the value of their property and 0.6% of households have had loans exceeding the selling price of their property removed when encountering payment difficulties and selling on the free market. Approximately 2.6% are in special measures and even more have applied to undergo such measures, i.e. 1.4% of the loans of individuals are being processed, the value of which is approximately ISK 10bn.

The payment netting account contained ISK 9.8bn at the end of the year 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 8.3bn at the end of 2012.

Appropriated assets and other issues

The Fund redeemed 689 apartments during the year in satisfaction of claims, and sold 307. By year-end 2013, the Fund owned 2,606 apartments, leading to an increase of 382 during the year. Approximately 50% of these assets are rented out if account is taken of the number of properties; alternatively, 54% are being rented out if account is taken of the underlying value. 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. The book value of these assets takes account of the historical cost or estimated fair value, whichever is the lower. The book value, therefore, may be somewhat lower than the estimated fair value of the assets. The book value of these assets at the end of 2013 was ISK 37.6bn, while the real property value of the same assets was ISK 43.1bn and the net estimated fair value on the basis of the price evaluation of a property broker was ISK 39.9bn.

There was some change to the status of the economic collapse cases as one case was settled on the basis of netting and, in addition, other contingencies were increased due to other cases, both due to restatements and the ruling of the Supreme Court that was issued on 20 March 2014. These changes lead to charges in the Fund's books in 2013 to the tune of ISK 549m. Recorded claims due to cases from the economic collapse were ISK 3.5bn at the close of the accounting year and the recorded liabilities due to cases from the economic collapse were ISK 7.3bn. 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.

Despite some pre-payments during 2013, the Fund's finance and risk management was successful in decreasing the imbalance that has been in the Fund's financial position since the economic collapse. Thus the quality of the portfolio rose during the year due to rising property prices and decreasing defaults by individuals, the proportion of interest bearing liabilities rose at the same time and the interest rate margin remained constant. The Fund's liquid assets are very nearly stable and the number of households with payment problems and who are seriously in arrears with the Fund has decreased. The inflow of appropriated assets has slowed and the sale of assets has picked up due to beneficial developments in the property market. The Fund's projections for 2014 anticipate a significant decrease in the number of appropriated assets due to decreased inflow, increased sale of properties, and the transfer of assets to the leasing company Klettur. This should free-up funds which can then be invested more advantageously than hitherto, thereby improving the Fund's interest margin.

Several important steps were taken in 2013 toward ensuring the Fund's sustainability and strengthening its infrastructure. Thus the Fund's Board of Directors confirmed the Fund's policy for 2014-18 and operating plans for 2013-14 whereby the focus is on achieving full operational sustainability, improving interest margins, redeeming appropriated assets, improving the processing of payment difficulty cases and strengthening risk management. The aim is to ensure that the Fund will achieve full sustainability in just a few years. The Fund's key tasks relate specifically to such vital projects.

Approximately 89.9% of the Fund's loan portfolio claim value lies within 90% of the property value of the underlying collateral in 2013 and approximately 6.8% lies outside 100% of the property tax value of the collateral. At the same time, special contingencies against unprotected loan value is approximately 2.8%. A vast proportion of the Fund's loans are secured by means of 1st rank mortgages in collateral. In addition, property assessment techniques provide, in general, cautious valuations in relation to the market value of a property, although there may be some exceptions. The property price index has risen somewhat in excess of price-level changes since the measurement of the current property price assessment that came into effect at the close of 2013. The current property price assessment takes account of price levels as they stood in February 2013.

Further information can be obtained from Sigurdur Erlingsson, CEO and Sigurdur Jón Björnsson, Director of Finances on tel. 569-6900.

Income statement and balance sheet of the Housing Financing Fund

Income statement	2013	2012
Interest income	69.864.947	77.467.433
Interest expenses	(66.917.987)	(74.982.586)
Net interest income	**2.946.960**	**2.484.847**
Other income	160.893	171.480
Total operating income	**3.107.853**	**2.656.327**
Salaries and salary-related expenses	908.402	768.946
Other general operating expenses	1.195.956	1.048.573
Depreciation and amortisation	58.957	67.778
Total operating expenses:	**2.163.315**	**1.885.297**
Revenue in excess of expenses of properties held for sale ..	389.459	178.521
Net (operating expenses) operating income	**1.333.997**	**949.551**
(Impairment) value addition of assets	(5.687.980)	(8.805.592)
Net profit (loss) for the period	**(4.353.983)**	**(7.856.041)**

Balance sheet	31.12.2013	31.12.2012
Assets		
Cash and cash equivalents	7.916.388	10.766.771
Receivable due from State Treasury	4.500.000	13.000.000
Market securities	32.294.209	27.904.569
Claims against credit institutions	11.054.906	13.946.454
Loans to customers	768.480.860	779.095.331
Appropriated assets	37.663.230	30.369.116
Investment in subsidiary	10.000	0
Property, plant and equipment	69.505	71.309
Claims on related parties	73.180	0
Intangible assets	151.428	147.721
Other assets	733.317	762.467
Total assets	862.947.023	876.063.738
Liabilities and equity		
Liabilities		
Bond issue	834.463.465	849.550.870
Other borrowing	4.273.495	4.702.013
Other liabilities	9.364.675	7.111.483
Total liabilities	848.101.634	861.364.366
Equity		
Guarantee capital	57.655.408	53.155.408
Retained earnings	(42.810.019)	(38.456.036)
Total equity	14.845.389	14.699.372
Total liabilities and equity	862.947.023	876.063.738
Risk weighted equity ratio Tier 1 "CAD"	3,4%	3,2%