

Press Release – 29 August 2014
Results of the Housing Financing Fund during the first half of the year 2014

The Condensed Consolidated Interim Financial Statements of the Housing Financing Fund (HFF) for the first half of the year 2014 were approved by the Fund's Board of Directors today. The operating results of the period were negative amounting to ISK 1,308 million, compared to ISK 2,979 million in losses during the same period the previous year. HFF's equity at the end of the period was ISK 13,538 million, compared to ISK 14,845 million at year-end 2013. At present, the Fund's equity ratio, calculated according to the provisions of Regulation No. 544/2004 on the Housing Financing Fund, is 3.2%, whereas it was 3.4% 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. The condensed consolidate interim financial statement is now, for the first time, presented as a consolidation of the parent company and the Fund's subsidiary, Leigufélagið Klettur ehf., which commenced its operations at the beginning of the period.

Operating results

The Fund's net interest income amounted to ISK 118 million, compared to ISK 578 million from the same period in the previous year. The active interest on the Fund's financing excluding equity was 4.31% at year-end, and the active loan interest rate was 4.60%. The interest rate margin of the loan portfolio and the Fund's borrowing decreased by 0.007% during the year, while at the same time, the proportion of loans of the Fund's interest bearing debts remains the same.

Payroll expenses rose somewhat from the previous year, mostly due to an increase in the number of positions of the parent company: 6 positions at the Fund and 5 at the subsidiary Leigufélagið Klettur ehf. The measures to economise the Fund's operations that were undertaken early in the year will not result in decrease in costs until later in the year. At the same time, other operating costs for the Fund have decreased, so the group's operating costs in early 2014 are similar to the same period in 2013.

Contingencies recorded as impairment of loans in the Fund's books amounted to ISK 21.7bn at the end of June 2014, decreasing by ISK 0.7bn from the beginning of the year. The change to the impairment of loans, appropriation of assets and claims has had a negative effect amounting to ISK 987 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 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. Meanwhile, the number of households in arrears has decreased considerably. It should be noted that approximately 90.3% of the HFF's loans to households and 93% of households are not in arrears.

Loan impairment June 30th 2014 <i>(in ISK bn)</i>	Loans to homes	<i>31/12</i> 2013	Loan to others	<i>31/12</i> 2013	Total loans	<i>31/12</i> 2013
Loans without impairment	633,4	<i>647,2</i>	142,8	<i>143,7</i>	776,2	<i>790,9</i>
Specific impairment	9,1	<i>8,9</i>	11,6	<i>12,5</i>	20,7	<i>21,4</i>
General impairment	0,9	<i>0,9</i>	0,1	<i>0,1</i>	1,0	<i>1,0</i>
Total impairment	10,0	<i>9,8</i>	11,7	<i>12,6</i>	21,7	<i>22,4</i>
Book value of loans after impairment	623,4	<i>637,4</i>	131,0	<i>131,1</i>	754,5	<i>768,5</i>

Loans

On 30 June 2014, the Fund's lending amounted to ISK 754bn, having decreased by ISK 14bn during the period. The Fund's borrowing amounted to ISK 833bn, decreasing by ISK 15bn during the period. The Fund's total assets stood at ISK 846bn at year-end.

New lending by the Fund decreased during period, in conjunction with increases in prepayments. The Fund granted 246 general housing loans during the first six months of the year, compared to 468 loans during the same period in 2013. It should be noted that the scope of assumed loans and mortgage transfers amounted to a significantly higher amount than the new loans granted during the period. Prepayments and extra payments of loans amounted to ISK 11.6bn during the period, compared to ISK 8.3bn in the first six months of 2013. Despite rather extensive prepayments and decreased lending operations, the Fund's cash flow is balanced, as the payment load of the Fund's liabilities was higher than the inflow due to instalments and prepayments.

Defaults have decreased from the previous year if account is taken of the amounts in arrears and the number of households in arrears. Moreover, 6.7% of households had three or more due dates in arrears on 30 June 2014, as compared to 7.2% of homes at the end of 2013. 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 in payment suspension, amounted to ISK 88.2bn at the end of the period, as compared to ISK 99.7bn at year-end 2013. The defaults of all borrowers from the 30th day of default amount to ISK 8.8bn, or the equivalent of 1.29% of the Fund's total lending, as compared to 1.17% at year-end 2013. The decrease can be attributed to the decrease in the number of legal entities in arrears, while the defaults of individuals have increased somewhat.

Loans past due June 30th 2014 <i>(in ISK bn)</i>	Loans to homes	<i>31/12</i> 2013	Loan to others	<i>31/12</i> 2013	Total loans	<i>31/12</i> 2013
Breakdown of past due loans						
Past due 31–60 days	0,5	<i>0,5</i>	0,2	<i>0,2</i>	0,7	<i>0,7</i>
Past due 61–90 days	0,3	<i>0,3</i>	0,1	<i>0,1</i>	0,4	<i>0,4</i>
Past due more than 90 days	4,4	<i>4,3</i>	3,3	<i>4,5</i>	7,7	<i>8,8</i>
Past due total:	5,2	<i>5,1</i>	3,6	<i>4,9</i>	8,8	<i>10,0</i>

Solutions for borrowers

Approximately 55% of households have taken advantage of the payment difficulty solutions that the Fund offers its clients. Among these are netting, which approximately 44% of borrowers use. At the end of June, 0.4% of households had had their loans in payment suspension. Approximately 1% of borrowers have extended their loans, 6.3% of borrowers have been granted the write-off of claims exceeding 110% of the value of their property and 0.9% of households have had loans exceeding the selling price of their property removed when encountering payment difficulties and selling on the free market. Approximately 1.9% of borrowers are in special measures and 1.3% of households have applied to undergo such measures, the loan value of these applications amounting to approximately ISK 7.7bn.

The payment netting account contained ISK 10.4bn on 30 June 2014 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 9.8 billion at the end of 2013.

Appropriated assets and other issues

The Fund redeemed 234 properties during the period in satisfaction of claims and sold 733 properties. On 30 June 2014, the Fund owned 2,107 appropriated assets, decreasing by 499 from the start of the year, or 49 when the sale of 450 properties to the subsidiary of Leigufélagið Klettur ehf. is taken into account. Approximately 44% of assets are rented out if account is taken of the number of properties; alternatively, 48% are being rented out if account is taken of the underlying value. The leasing ratio of properties owned by the subsidiary of Leigufélagið Klettur ehf. stood at 96% at the end of June. 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 the Fund's appropriated 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 the parent company's assets on 30 June was ISK 30.4bn, while the real property value of the same assets was ISK 35.4bn and the net estimated fair value on the basis of the price evaluation of a property broker was ISK 32.7bn.

Despite an increase in the scope of pre-payments, 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 period due to rising property prices and decreasing defaults by individuals, and the proportion of interest bearing liabilities compared to lending and the interest rate margin remained constant. The Fund's liquid assets are closer to being stable, and the number of households with payment problems and who are seriously in arrears with the Fund has decreased.

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	Consolidated	
	Jan-Jun 2014	Jan-Jun 2013
Interest income	27.481.585	38.853.062
Interest expenses	(27.363.792)	(38.274.961)
Net interest income	117.793	578.101
Other income	62.613	81.037
Total operating income	180.406	659.138
Salaries and salary-related expenses	500.950	425.483
Other general operating expenses	601.787	654.730
Depreciation and amortisation	25.275	31.346
Total operating expenses:	1.128.013	1.111.559
Revenue in excess of expenses of properties held for sale ..	15.390	120.857
Revenue in excess of expenses of investment properties	611.244	0
Net (operating expenses) operating income	(320.973)	331.564
(Impairment) value addition of assets	(986.770)	(2.646.953)
Net profit (loss) for the period	(1.307.743)	(2.978.517)

Balance sheet	Consolidated	
	30.06.2014	31.12.2013
Assets		
Cash and cash equivalents	5.498.168	7.916.388
Loans to banks	13.016.043	11.478.270
Treasury securities	30.320.721	32.294.209
Receivable due from State Treasury	4.550.204	4.500.000
Loans to customers	754.455.090	768.480.860
Properties held for sale	30.420.436	37.663.230
Investment properties	7.823.347	0
Investment in subsidiary	0	10.000
Operating assets	81.170	69.505
Claims on related parties	0	73.180
Intangible assets	180.490	151.428
Other assets	339.046	309.953
Total assets	846.684.715	862.947.023
Liabilities and equity		
Liabilities		
Bond issue	820.296.407	834.463.465
Other borrowings	4.104.036	4.273.495
Other liabilities	8.746.629	9.364.674
Total liabilities	833.147.072	848.101.634
Equity		
Contributed capital	57.655.408	57.655.408
Accumulated deficit	(44.117.765)	(42.810.019)
Total equity	13.537.643	14.845.389
Total liabilities and equity	846.684.715	862.947.023
Risk weighted equity ratio	3,2%	3,4%