

Press Release 26 March 2014

Consolidated Financial Statements for the year 2014 of the Housing Financing Fund

The Housing Financing Fund's Consolidated Financial Statements for the year 2014 were approved by the Fund's Board of Directors today. The Housing Financing Fund's Consolidated Financial Statements are comprised of the financial statements of the Housing Financing Fund and its subsidiary, Leigufélagið Klettur ehf. Results from the year's operations were positive, amounting to ISK 3,241 million compared to ISK 4,353 million loss in the previous year. The Fund's equity at year-end amounted to ISK 18.1 billion, compared to ISK 14.8 billion at year-end 2013. The Fund's equity ratio is 4.5% compared to 3.4% in the beginning of the year. The equity ratio is calculated in the same manner as the equity ratio of financial institutions. The long term objective of the Fund is to maintain a ratio of 5.0%.

Results of Operations

The Fund's net interest income amounted to ISK 1.5 billion compared to ISK 1.2 billion in the year 2013. The effective cost of the Fund's financing was 4.31% at year-end and the effective interest rate on loans amounted to 4.59%. The net interest margin of the Fund's loan portfolio to the Fund's borrowings is therefore 0.28%.

Salaries and salary-related expenses increased by 8.6% from the previous year, due mainly to an increase in the number of positions of its subsidiary and the impact of salary increases in accordance with collective bargaining agreements. The number of employees of the Fund at the end of the year was 3% less than at the end of the previous year due to cost reduction measures undertaken during the year, despite the increase in the number of positions of its subsidiary. Other operating expenses decreased by ISK 186 million from the previous year due to a reduction in fees associated with the operations of the Debtors' Ombudsman and cost reduction measures undertaken by the Fund. A more detailed breakdown of other operating expenses can be found in note 23 in the Consolidated Financial Statements.

The increase in real estate prices in excess of inflation and the significant reduction of individuals in arrears substantially strengthens the credit quality of the Fund's loan portfolio in 2014. Provisions for impairment from lending to individuals and legal entities during the year has adequately covered the credit losses that have occurred during the year. Nevertheless, the Fund's methodology and assessment was reviewed during the year and it was decided to further increase the loss provision of the Fund's loan portfolio, specifically in the case of loans to individuals in terms of both specific and general provisions. Also recognized as impairment is the estimated loss on the portion of the loan portfolio to be purchased by the government based on the agreement related to the principal reduction of mortgages. The government's actions account for an increase of approximately ISK 433 million in specific impairment of loans to individuals which is the difference of the book value of the loan and the expected sale value. This provision is made despite the fact that according to the framework agreement on debt solutions with the government, financial institutions should not suffer losses or gains due to government measures. The increase in the provision therefore mitigates the increase in the quality of the collateral underlying the Fund's loan portfolio. The provision for the impairment of the Fund's loans amounted to ISK 21.1 billion at year-end 2014 reducing the impairment of only ISK 1.3 billion from the previous year despite the significant strengthening of the credit quality of the loan portfolio.

Loan impairment Desember 31st 2014 <i>(in ISK bn)</i>	Loans to homes	31/12 2013	Loan to others	31/12 2013	Total loans	31/12 2013
Loans without impairment	608,8	<i>647,2</i>	140,4	<i>143,7</i>	749,2	<i>790,9</i>
Specific impairment	8,3	<i>8,9</i>	11,0	<i>12,5</i>	19,4	<i>21,4</i>
General impairment	1,4	<i>0,9</i>	0,3	<i>0,1</i>	1,7	<i>1,0</i>
Total impairment	9,8	<i>9,8</i>	11,3	<i>12,6</i>	21,1	<i>22,4</i>
Book value of loans after impairment	599,0	<i>637,4</i>	129,0	<i>131,1</i>	728,1	<i>768,5</i>

Progress was made during the year in the finalization of disputes related to the Fund's position with the winding-up committees of the former banks. Two cases were completed during the year, one contract was finalized and the other was settled on the basis of an agreement concluded at year-end 2013. Changes in the status of disputes result in the reversal of previously recognized provisions of claims in the amount of ISK 4 billion.

Impairment changes generate the results of the year 2014 as impairment has a positive impact on the Fund's performance in the amount of ISK 2,473 million.

The operations of the Fund and its subsidiary were in line with forecasts for the year 2014.

Loans

At year end loans amounted to ISK 728 billion and decreased by ISK 40.4 billion during the year. The Fund's borrowings amounted to ISK 806 billion, a reduction of ISK 41.5 billion during the year. Total assets at the end of the year amounted to ISK 824 billion.

The total amount of new loans amounted to ISK 6.6 billion compared to ISK 11.5 billion in the year 2013. It should be noted that the extent of loans assumed by new creditors and mortgage transfers is significantly more than the amount of new loans this year or about ISK 18.3 billion. The number of new loans during the year 2014 was 636 compared to 1,302 loans in 2013. The Fund has not been authorized to offer non-indexed loans and the uncertainty as to the future of the Fund has had a significant impact on the extent of new loans.

Households in arrears have decreased from the previous year both in regards to the amount in arrears and the number of households in arrears. There were 5.5% of households with three or more payments in arrears at year-end 2014 compared to 7.2% of households at year-end 2013 and 8.9% of households at year-end 2012. The outstanding balance of all loans of individuals and legal entities in arrears for more than 90 days and in suspension amounted to ISK 75.9 billion at year-end 2014, compared to ISK 99.7 billion at year-end 2013. The total amount in arrears for at least 30 days amounted to ISK 8.7 billion, which corresponds to 1.19% of the total loan portfolio of the Fund compared to 1.29% at year-end 2013.

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

Loan portfolio credit quality

Approximately 91.7% of the book value of the Fund's loan portfolio has a loan-to-value below 90% at the end of 2014, compared to 89.9% in 2013. About 5.4% of the value of the loan portfolio is above the 100% loan-to-value, compared to 6.8% in 2013. At the same time, the specific impairment provision for unprotected loans was 2.9% of the total loan portfolio, unchanged from the previous year, despite improved credit quality. An overwhelming portion of the Fund's mortgages are first lien. In addition the official property value is normally a prudent valuation method for market value of an asset, although there may be exceptions.

Debt measures for borrowers

About 58.5% of households have utilized the payment measures that the Fund offers its borrowers. Thereof about 44.4% have utilized the payment detainment measure, and 14.1% have utilized other measures. Of that amount 2.1% of lenders have utilized specific measures and an additional number of borrowers have applied for such measures or 0.6% of individual loans in progress, amounting to approximately ISK 5 billion of the value of the loans.

The balance of the payment detainment account was ISK 11.3 billion at year-end 2014. Payment detainment is a measure in which lenders have chosen to pay installments indexed to the payment detainment index instead of the CPI. The payment detainment account amounted to ISK 9.8 billion at year-end 2013. At year-end 2014 approximately 1.6% of the indexation factor was transferred to the payment detainment account, the highest ratio being 19.6% in 2010. If this trend continues it is expected that the Fund's borrowers will begin payments of payment detainment balances in early 2015.

Appropriated properties and other issues

The Fund repossessed 351 properties during the year and sold 1,066, of which 450 were sold to Leigufélagið Klettur ehf., a fully owned subsidiary of the Fund. The properties held by Klettur are now classified as investment properties in the Consolidated Financial Statements of the Fund. At year end the Fund owned 1,891 repossessed properties, a decrease of 715 during the year. About 48% of the number of properties are rentals, compared to 51% based on book value. The Fund rents out the properties in areas where there is a shortage of rental housing and where the Fund does not have a dominant market share. Other properties are listed for sale. The book value of these properties is based on historical cost or estimated fair value whichever is lower and therefore the book value may be lower than the estimated fair value. Book value of these properties at the end of 2014 is ISK 27.8 billion while the official property value of these properties is ISK 33.1 billion and the net estimated fair value based on a realtor's valuation assessment is ISK 28.8 billion.

Further information provided by Sigurdur Erlingsson CEO and Sigurdur Jon Bjornsson CFO, telephone 569 6900.

Income statement and balance sheet of the Housing Financing Fund

Income statement	Consolidated 2014	Consolidated 2013
Interest income	45.547.186	68.143.480
Interest expenses	-43.995.677	-66.917.987
Net interest income	1.551.509	1.225.493
Other income	159.252	160.893
Total operating income	1.710.761	1.386.386
Salaries and salary-related expenses	986.420	908.402
Other operating expenses	1.009.680	1.195.956
Depreciation and amortisation	54.086	58.957
Total operating expenses:	2.050.186	2.163.315
Net income of investment properties	1.049.834	0
Net income of properties held for sale	194.901	389.459
Net (operating expenses) operating income	905.310	-387.470
Impairment of loans and properties held for sale	-1.544.107	-3.372.513
Impairment of securities	4.017.000	-594.000
Income tax	-136.488	-136.488
Profit (loss) for the year	3.241.715	-4.353.983

Balance sheet	Consolidated 2014	Consolidated 2013
<u>Assets</u>		
Cash and cash equivalents	17.524.392	7.916.388
Loans to financial institutions	7.621.776	11.478.270
Treasury securities	30.343.375	32.294.209
Receivable due from State Treasury	4.546.964	4.500.000
Loans	728.081.166	768.480.860
Properties held for sale	27.870.768	37.663.230
Investment properties	8.063.973	0
Investment in subsidiary	0	10.000
Operating assets	105.964	69.505
Claims on related parties	0	73.180
Intangible assets	171.002	151.428
Other assets	326.696	309.953
Total assets	824.656.076	862.947.023
<u>Liabilities and equity</u>		
Liabilities		
Bond issue	798.547.938	834.463.465
Other borrowings	3.871.068	4.273.495
Other liabilities	4.149.966	9.364.674
Total liabilities	806.568.972	848.101.634
Equity		
Contributed capital	57.655.408	57.655.408
Accumulated deficit	(39.568.304)	(42.810.019)
Total equity	18.087.104	14.845.389
Total liabilities and equity	824.656.076	862.947.023
Risk weighted equity ratio	4,5%	3,4%