

Press Release 28 August 2015

Results of the Housing Financing Fund for the first half of the year 2015

Equity base strengthens, quality of loan portfolio improves and operating costs decrease

The Housing Financing Fund's Consolidated Interim Financial Statements for the first half of the year 2015 were approved by the Fund's Board of Directors today. The Housing Financing Fund's Consolidated Interim Financial Statements are comprised of the financial statements of the Housing Financing Fund and its subsidiary, Leigufélagið Klettur ehf. The Fund's results are above expectations, with operating loss amounting to ISK 808 million compared to a loss of ISK 1,308 million for the same period in the previous year.

The Fund's equity ratio has risen to 4.8% compared to 4.5% 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 above 5.0%. The Fund's equity amounted to ISK 17,279 million compared to ISK 18,087 million at the end of 2014.

Results of Operations

Interest income amounted to ISK 30,074 million compared to ISK 27,481 million for the same period in 2014.

Operating expenses amounted to ISK 958 million, a decrease of 15% or ISK 170 million compared to the same period in 2014. The number of employees decreased by 9% in the first half of the year 2015, and were 100 compared to 109 for the same period in 2014, of which five were employees of Leigufélagið Klettur ehf. Operating expenses as a percentage of total assets was 0.23% annualized, compared to 0.27% for the same period last year.

The quality of the loan portfolio has improved

Impairment losses on loans amounted to ISK 19,590 million at the end of June 2015 decreasing by ISK 1,538 million from the beginning of the year. The decrease in impairment is a result of a significant reduction in defaults by households and the strengthening of the collateral underlying the Fund's loan portfolio due to price increases in the real estate market. At the end of the period, 95.7% of households who are customers of the Fund had performing loans.

Loan impairment June 30th 2015 <i>(in ISK bn)</i>	Loans to homes	31/12 2014	Loan to others	31/12 2014	Total loans	31/12 2014
Loans before impairment	569,9	<i>608,8</i>	141,4	<i>140,4</i>	711,3	<i>749,2</i>
Specific impairment	8,2	<i>8,3</i>	10,0	<i>11,0</i>	18,2	<i>19,4</i>
General impairment	1,2	<i>1,4</i>	0,2	<i>0,3</i>	1,4	<i>1,7</i>
Total impairment	9,4	<i>9,8</i>	10,2	<i>11,3</i>	19,6	<i>21,1</i>
Book value of loans after impairment	560,5	<i>599,0</i>	131,2	<i>129,0</i>	691,7	<i>728,1</i>

Loans

On June 30th 2015, the Fund's loans amounted to ISK 691 billion, decreasing by ISK 36 billion since the beginning of the year. Of that amount, ISK 28 billion are due to the government's actions. The Fund's borrowings amounted to ISK 801 billion, a reduction of ISK 5.5 billion during the period. Total assets amounted to ISK 818 billion.

Households in arrears decreased significantly between periods. About 4.3% of households had three or more monthly payments in arrears on 30 June 2015 compared to 5.5% of households at the end of 2014.

Loans past due June 30th 2015 <i>(in ISK bn)</i>	Loans to homes	31/12 2014	Loan to others	31/12 2014	Total loans	31/12 2014
Breakdown of past due loans						
Past due 31–60 days	0,6	0,4	0,2	0,2	0,8	0,6
Past due 61–90 days	0,3	0,3	0,1	0,1	0,4	0,4
Past due more than 90 days	3,3	3,9	4,1	3,8	7,4	7,7
Past due total:	4,2	4,6	4,4	4,1	8,6	8,7

Loan portfolio credit quality

Approximately 94% of the book value of the Fund's loan portfolio has a loan-to-value below 90% at mid-year 2015, based on the tax-value of the property which is a conservative measure of market value. Property prices have risen more than inflation in the period and arrears decreased considerably, therefore resulting in an improvement of the quality of the collateral underlying the loan portfolio. An overwhelming portion of the Fund's mortgages are first lien.

Debt measures for borrowers

During the period the Fund has processed principal reduction of mortgages for 24,727 households amounting to the value of ISK 34,178 million. As a result, the Fund's loan portfolio has decreased with a corresponding increase in liquidity. Authorities plan to complete the payment of the purchase price of the adjustment portion of the loan portfolio in January 2016 as according to the contract thereof.

About 10,612 households have taken advantage of the option to pay their loans quicker by allocating private pension savings towards their loans held by the Fund. Excess payments resulting from the action plan have amounted to ISK 2,887 million as of 30 June 2015.

Reposessed properties

During the period, the Fund sold 548 properties and reposessed 181 property on foreclosed mortgages. On 30 June, the Fund owned 1,524 reposessed properties, a decrease of 367 properties since the beginning of the year. About 46% of these properties are rentals. Reposessed properties are recognised at the lower of cost on repossession or fair value. The carrying amount of the parent's company reposessed properties as of 30 June amounted to ISK 22 billion, while the official property value of these assets is ISK 26.6 billion.

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

Income statement and balance sheet of the Housing Financing Fund

Income statement	Consolidated Jan-Jun 2015	Consolidated Jan-Jun 2014
Interest income	30.074.224	27.481.585
Interest expenses	-31.155.720	-27.363.792
Net interest income	-1.081.496	117.793
Other income	77.119	62.613
Total operating income	-1.004.377	180.406
Salaries and salary-related expenses	492.114	500.951
Other operating expenses	435.783	601.788
Depreciation and amortisation	30.188	25.275
Total operating expenses:	958.085	1.128.014
Net income of investment properties	792.128	611.244
Net income of properties held for sale	106.064	15.390
Net (operating expenses) operating income	-1.064.270	-320.974
Impairment of loans and properties held for sale	368.731	-986.770
Income tax	-112.495	0
Loss for the year	-808.034	-1.307.744

Balance sheet	Consolidated Jan-Jun 2015	Consolidated Jan-Dec 2014
<u>Assets</u>		
Cash and cash equivalents	49.639.012	17.351.330
Loans to financial institutions	9.592.314	7.621.776
Treasury securities	31.141.429	30.343.375
Receivable due from State Treasury	4.624.727	4.546.964
Loans	691.709.495	728.081.166
Properties held for sale	22.034.030	27.870.768
Investment properties	8.666.930	8.063.973
Operating assets	107.839	105.964
Intangible assets	158.217	171.002
Other assets	489.834	344.148
Total assets	818.163.827	824.500.466
<u>Liabilities and equity</u>		
Liabilities		
Bond issue	795.512.852	798.547.938
Other borrowings	3.773.117	3.871.068
Other liabilities	1.598.788	3.994.356
Total liabilities	800.884.757	806.413.362
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	818.163.827	824.500.466
Risk weighted equity ratio	4,8%	4,5%