

Press Release 4 March 2016

Consolidated Financial Statements of the Housing Financing Fund for the year 2015

Equity base strengthens, credit quality increases and operating expenses decrease

The Housing Financing Fund's Consolidated Financial Statements for the year 2015 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. Profits from the year's operations amounted to ISK 1,826 million compared to ISK 3,241 million the previous year.

The Fund's equity ratio is now 5.5% 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 Fund's long-term objective is to maintain an equity ratio over 5.0%. The Fund's equity at year-end 2015 amounted to ISK 19,838 million compared to ISK 18,011 million at year-end 2014.

Results of Operations

Interest income amounted to ISK 51,706 million compared to interest income in the amount of 45,783 million for the same period in 2014.

Operating expenses amounted to ISK 1,874 million and decreased by 3% or ISK 51 million compared to 2014. Operating expenses decreased despite substantial increases in wages under collective agreements. Equivalent positions decreased by 6% in 2015 and were 95, compared to 101 positions in 2014. Operating expenses as a percentage of total assets was 0.23%.

Quality of loan portfolio improves

At year-end 2015 impairment of loans amounted to ISK 16,148 million, a decrease of ISK 4,443 million during the year. The decrease in impairment is associated with a significant reduction in arrears and improved collateralization of the loan portfolio due to rising prices in the housing market. At the end of the period, the loans of 96.5% of households that are customers of the Fund were performing loans.

Loan impairment December 31st 2015 <i>(in ISK bn)</i>	Loans to homes	31/12 2014	Loan to others	31/12 2014	Total loans	31/12 2014
Loans without impairment	526,0	<i>608,8</i>	138,1	<i>140,4</i>	664,1	<i>749,2</i>
Specific impairment	6,8	<i>8,3</i>	8,2	<i>11,0</i>	14,9	<i>19,4</i>
General impairment	1,1	<i>1,4</i>	0,1	<i>0,3</i>	1,2	<i>1,7</i>
Total impairment	7,8	<i>9,8</i>	8,3	<i>11,3</i>	16,1	<i>21,1</i>
Book value of loans after impairment	518,2	<i>599,0</i>	129,8	<i>129,0</i>	648,0	<i>728,1</i>

Loans

At year-end loans amounted to ISK 648 billion decreasing by ISK 80 billion during the year. Of that amount ISK 33.8 billion was a result of the government's debt solutions. The Fund's borrowings amounted to ISK 784 billion, a decrease of ISK 22 billion during the period. Total assets amounted to ISK 804 billion.

Households in arrears have decreased significantly from the previous year. About 3.5% of households had three or more monthly payments in arrears at year-end 2015, compared to 5.5% of households at year-end 2014.

Loans past due Desember 31st 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	0,3	0,4	0,1	0,2	0,4	0,6
Past due 61–90 days	0,2	0,3	0,0	0,1	0,2	0,4
Past due more than 90 days	2,8	3,9	3,0	3,8	5,8	7,7
Past due total:	3,3	4,6	3,2	4,1	6,4	8,7

Collateral position of the loan portfolio

Approximately 96.1% of the book value of the Fund's loan portfolio lies within the ratio of 90% of loan to official property value at year-end 2015, the same ratio was 94.3% at the beginning of the year. Real estate prices have risen more than prices during the period and defaults have decreased considerably, therefore the collateral position of the loan portfolio has improved. An overwhelming portion of the Fund's loan portfolio is of first priority, in addition the official property value is normally a prudent valuation method for the market value of an asset.

Government solutions for borrowers

During the year, the Fund processed principal mortgage reductions for 25,834 homes amounting to a claim value of ISK 34,440 million. The Fund's lending declined sharply, and the return of funds invested excluding the mortgage portfolio increased accordingly.

About 11,619 customers have taken advantage of the option to prepay their loans by allocating private pension savings towards their loans held by the Fund. Excess prepayments due to customers' allocation of private pension savings towards loans amounted to ISK 4,897 million during the year.

Appropriated assets

The Fund sold 898 properties and redeemed 355 properties during the year. At year-end 1,348 properties were owned by the Fund, a reduction of 543 properties during the year. Approximately 45% of properties for sale are rentals. The book value of appropriated assets takes into account the cost or estimated fair value, whichever is lower. The book value of the Fund's appropriated properties is ISK 20 billion, while the real estate value of the same assets is ISK 24.6 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 2015	Consolidated 2014
Interest income	51.706.865	45.783.689
Interest expenses	-50.074.104	-43.995.208
Net interest income	1.632.761	1.788.481
Other income	182.717	159.252
Total operating income	1.815.478	1.947.733
Salaries and salary-related expenses	920.164	927.151
Other operating expenses	900.688	947.648
Depreciation and amortisation	53.682	50.887
Total operating expenses:	1.874.534	1.925.686
Net income of properties held for sale	162.717	194.901
Net (operating expenses) operating income	103.661	216.948
Impairment of loans and properties held for sale	1.059.259	-1.538.170
Impairment of securities	251.953	4.017.000
Profit from continuing operations	1.414.873	2.695.778
Profit from discontinued operations, net of tax	412.001	545.937
Profit for the year and comprehensive income	1.826.874	3.241.715
Balance sheet	31.12.2015	31.12.2014
<u>Assets</u>		
Cash and cash equivalents	13.236.528	17.524.392
Loans to financial institutions	5.061.627	7.621.776
Treasury securities	4.898.018	3.232.477
Other securities	97.617.421	27.110.898
Receivable due from State Treasury	5.877.687	4.546.964
Loans	647.969.024	728.081.166
Properties held for sale	20.021.499	27.870.768
Investment properties	0	8.063.973
Operating assets	99.578	105.964
Intangible assets	200.838	171.002
Other assets	344.543	326.696
Assets held for sale	8.946.871	0
Total assets	804.273.634	824.656.077
<u>Liabilities and equity</u>		
Liabilities		
Bond issue	778.926.079	798.547.938
Other borrowings	3.631.603	3.871.068
Other liabilities	1.491.087	4.226.095
Total liabilities	784.435.784	806.645.101
Equity		
Contributed capital	57.655.408	57.655.408
Accumulated deficit	-37.817.558	-39.644.432
Total equity	19.837.850	18.010.976
Total liabilities and equity	804.273.634	824.656.077
Risk weighted equity ratio	5,5%	4,5%