

Press Release 31 August 2016

Turnaround in operations in the first six months of the year

- **Surplus from the Housing Financing Fund's operations amounted to ISK 2.510 million.**
- **The Fund's equity base strengthens - equity ratio well above the long-term goal**
- **Quality of loan portfolio improves and arrears decrease significantly**
- **Strong return on assets outside the loan portfolio**

The Housing Financing Fund's Interim Financial Statements for the first half of the year 2016 were approved by the Fund's Board of Directors today. Operating results were positive amounting to ISK 2,510 million, compared to a loss amounting to ISK 379 million in the previous year. The operational turnaround amounts to nearly three billion ISK.

The Fund's equity ratio is now 6.45% and was 5.46% in the beginning of the year. The ratio is calculated the same way as the capital ratio of financial institutions. The long term goal of the fund is a ratio above 5.0%. The Housing Financing Fund's equity at end of period is ISK 21,781 million and was ISK 19,271 million at the end of 2015.

Results from the Fund's operations continue to improve

Interest income amounted to ISK 28,048 million compared to interest income in the amount of ISK 30,253 million for the same period in 2015. Net interest income amounted to ISK 525 million during the period and was negative in the amount of ISK 473 million for the same period 2015. The strengthening of the Fund's economic position by its focus on sales of appropriated assets, and investments in interest-bearing bonds account for the most part the increase in net interest income. In the second half of the year a further increase in net interest income can be expected due to, among other things, the sale of Leigufélagið Klettur ehf.

The Fund's operating expenses amounted to ISK 909 million, of which ISK 87 million is a one-time cost due to the Fund's streamlining measures and preparations related to the new Act no. 52/2016 on General Housing. Excluding one-time costs, the Fund's operating expenses decreased between years by 9.5%. Operating expenses decrease despite substantial increases in wages as according to collective agreements.

Full-time equivalent positions decreased by 20% from the previous year and were 76 on 30 June 2016 compared to 95 in the same period in 2015. In the Fund's budget it is expected that the reduction of positions will have an effect to a certain degree in the second half of the year by decreasing expenses but will be fully implemented in the year 2017. Operating expenses as a percentage of total assets amounted to 0.23% on an annual basis.

During the period, the Fund sold Leigufélagið Klettur ehf. realizing capital gains in the amount of ISK 1,427 million.

Further reductions in arrears of both households and legal entities

On 30 June 2016, the Fund's loans amounted to ISK 614 billion, and have loans decreased by ISK 34 billion from the beginning of the year. Of that amount, ISK 9.5 billion are due to the government's actions. The Fund's borrowings amounted to ISK 776 billion, decreasing by ISK 8.4 billion during the period. Total assets amounted to ISK 798 billion.

At the end of the period, 98% of households who are customers of HFF had performing loans. Household arrears have decreased significantly between periods. About 2.5% of households had three or more monthly payments in arrears on 30 June 2016 compared to 4.3% of households during the same period 2015. Impairment of loans amounted to ISK 8,033 million at the end of the period, a decrease of ISK 8,115 million from the beginning of the year.

Loans past due June 30th 2016 <i>(in ISK bn)</i>	Loans to homes	31/12 2015	Loan to others	31/12 2015	Total loans	31/12 2015
Breakdown of past due loans						
Past due 31–60 days	0,3	0,3	0,0	0,1	0,3	0,4
Past due 61–90 days	0,2	0,2	0,0	0,0	0,2	0,2
Past due more than 90 days	1,9	2,8	0,6	3,0	2,5	5,8
Past due total:	2,4	3,3	0,6	3,2	3,0	6,4

Collateral status of the loan portfolio

Approximately 96% of the book value of HFF's loan portfolio have a loan-to-value below 90% at the end of the period. Real estate prices have risen more than prices in the period and arrears decreased considerably, therefore resulting in an improvement in the quality of the collateral status underlying the loan portfolio. An overwhelming portion of the Fund's loans are first lien, furthermore the official property value is normally a prudent valuation method for market value of an asset.

Assets outside of the loan portfolio increased

Assets outside of the loan portfolio including liquid funds increased between years and amount to ISK 161 billion. The increase is primarily due to positive results from sales of appropriated assets and prepayments of loans. The real return on assets outside the loan portfolio for the period was 3.39%. On 25 May 2016, the Fund's organisational chart was changed and a new division was established, Treasury, which is responsible for the management of the Fund's assets off the balance sheet.

Reduction in properties owned by the Fund

At the end of the period 825 properties were owned by the Fund, a reduction of 523 properties the first half of the year. The book value of the Fund's properties is ISK 12.3 billion, while the real estate value of the same properties is ISK 15.7 billion. Funds tied in properties for sale decreased by ISK 8.3 billion during the period and were transferred into interest-bearing assets. During the period, the Fund sold 667 properties and repossessed 144 properties. About

47% of properties held for sale are rentals. A reduction in the number of properties owned by the Fund and consequently the reduction in funds tied up in properties as well as the sale of Leigufélagið Klettur ehf. will have a positive impact on the Fund's net interest income in the coming months.

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	Jan-Jun 2016	Jan-Jun 2015
Interest income	28.048.316	30.253.963
Interest expenses	-27.523.280	-30.727.371
Net interest income	525.036	-473.408
Other income	50.513	77.119
Total operating income	575.549	-396.289
Salaries and salary-related expenses	533.352	461.308
Other operating expenses	345.004	419.871
Depreciation and amortisation	30.655	28.029
Total operating expenses:	909.011	909.208
Net income of properties held for sale	46.809	106.064
Net (operating expenses) operating income	-286.653	-1.199.433
Impairment of loans and properties held for sale	1.369.491	369.983
Profit from continuing operations	1.082.838	-829.450
Profit from discontinued operations, net of tax	1.427.190	449.978
Profit (loss) for the period and comprehensive income	2.510.028	-379.472

Balance sheet	30.6.2016	31.12.2015
Assets		
Cash and cash equivalents	20.299.739	13.236.528
Loans to financial institutions	12.619.635	5.061.627
Treasury securities	9.978.346	4.898.018
Other securities	111.941.519	97.617.421
Receivable due from State Treasury	5.961.185	5.877.687
Loans	613.595.245	647.969.024
Properties held for sale	12.290.316	20.021.499
Operating assets	92.330	99.578
Intangible assets	208.036	200.838
Other assets	858.383	344.543
Receivable from sale of subsidiary	10.101.000	0
Assets held for sale	0	8.559.856
Total assets	797.945.734	803.886.619
Liabilities and equity		
Liabilities		
Bond issue	771.840.853	779.492.835
Other borrowings	3.356.207	3.631.603
Other liabilities	967.552	1.491.087
Total liabilities	776.164.612	784.615.525
Equity		
Contributed capital	57.655.408	57.655.408
Accumulated deficit	-35.874.286	-38.384.314
Total equity	21.781.122	19.271.094
Total liabilities and equity	797.945.734	803.886.619
Risk weighted equity ratio	6,45%	5,46%