Íbúðalánasjóður

Housing Financing Fund

Condensed Interim Accounts
January - June 2007
ISK

Íbúðalánasjóður
Housing Financing Fund
Borgartún 21
105 Reykjavík
Iceland
ID no.: 661198-3629

Contents

Endorsement by the Board of Directors and Managing Director

The Condensed Interim Accounts for the period 1 January to 30 June 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim accounts. These are the Fund´s first IFRS Condensed Interim Accounts. The transition to IFRSs resulted in an increase of equity of ISK 1,286 million as at the transition date 1 January 2006. Further explanation regarding the impact of transition to IFRSs is provided in note 11.

According to the income statement, the net profit of the Fund amounted to ISK 2,816 million for the six months ended 30 June 2007. Equity, according to the balance sheet, amounted to ISK 20,477 million at the end of the period. The capital ratio of the Fund, calculated according to stipulations in the Rules on the Housing Financing Fund no. 544/2006, was 7.5%. The calculation of the ratio is equivalent to the calculation of the capital ratio of financial institutions. The long-term goal of the Fund is to keep the ration above 5.0%

The Board of Directors and the Managing Director of the Housing Financing Fund hereby confirm the Fund´s condensed interim accounts for the six months period ended 30 June 2007 by means of their signatures.

Reykjavík, 23 August 2007.

Board of Directors

Hákon Hákonarson
Chairman of the Board

Gunnar S. Björnsson

Kristján Pálsson

Elín R. Líndal

Jóhann Ársælsson

Managing Director

Guðmundur Bjarnason

Independent Auditors' Review Report

To the Board of Directors of the Housing Financing Fund.

Introduction

We have reviewed the accompanying condensed interim balance sheet of the Housing Financing Fund as of June 30, 2007 and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at June 30, 2007, and of its financial performance and its cash flows for the six month period then ended in accordance with IAS 34, Interim Financial Reporting.

Reykjavík, 23 August 2007.

KPMG hf.

Helgi F. Arnarson

Condensed Interim Income Statement
for the Period from 1 January to 30 June 2007

	Note	2007 1.1.-30.6.	2006 1.1.-30.6.
Interest income		26,592,962	36,537,318
Interest expense		(23,398,659)	(33,499,873)
Net interest income	6	3,194,303	3,037,445
Service income		198,128	126,672
Operating income		3,392,431	3,164,117
Salaries and salary-related expenses		195,229	176,057
Other administrative expenses		235,693	235,187
Other operating expenses		13,546	17,247
Depreciation and amortization		13,635	12,812
Total operating income		458,103	441,303
Impairment of loans and receivables		(117,882)	(30,102)
Net profit for the period		2,816,446	2,692,712

Condensed Interim Accounts of Housing Financing Fund June 30, 2007 All amounts are in thousands of Icelandic kronas

Condensed Interim Balance Sheet

Assets

	Note	30.6.2007	1.1.2007
Assets			
Trading assets	7	50,466,501	37,116,676
Amounts due from credit institutions		87,643,026	97,847,647
Loans to customers	8	431,634,217	406,549,623
Mortgages foreclosed		264,291	394,292
Fixed assets		66,027	72,093
Intangible assets		32,667	38,464
Other Assets		130,342	115,375
Total assets		570,237,071	542,134,170
Liabilities			
Trading liabilities		380,315	825,133
Bond issues	9	543,848,391	513,310,594
Other borrowings		5,354,432	10,228,445
Other liabilities		176,802	109,313
Total liabilities		549,759,940	524,473,485
Equity			
Contributed capital		7,155,408	7,155,408
Retained earnings		13,321,723	10,505,277
Total equity	10	20,477,131	17,660,685
Total liabilities and equity		570,237,071	542,134,170

Condensed Interim Accounts of Housing Financing Fund June 30, 2007 All amounts are in thousands of Icelandic kronas

Condensed Interim Statement of Changes in Equity for the Period from 1 January to 30 June 2007

	Contributed capital	Retained earnings	Total equity
Changes in equity from 1 January to 30 June 2006:			
Equity as at December 31 2006, IS-GAAP	7,155,408	6,739,006	13,894,414
Changes due to IFRSs		984,199	984,199
Equity as at 1 January 2007, IFRSs	7,155,408	7,723,205	14,878,613
Net profit for the period		2,692,712	2,692,712
Equity as at 30 June 2007, IFRSs	7,155,408	10,415,917	17,571,325

	Contributed capital	Retained earnings	Total equity
Changes in equity from 1 January to 30 June 2007:			
Equity as at Desember 31 2006, IS-GAAP	7,155,408	9,219,156	16,374,564
Changes due to IFRSs		1,286,121	1,286,121
Equity as at 1 January 2007, IFRSs	7,155,408	10,505,277	17,660,685
Net profit for the period		2,816,446	2,816,446
Equity as at 30 June 2007, IFRSs	7,155,408	13,321,723	20,477,131

Condensed Interim Accounts of Housing Financing Fund June 30, 2007 7 All amounts are in thousands of Icelandic kronas

Condensed Interim Statement of Cash Flows for the Period from 1 January to 30 June 2007

	Note	2007 1.1.-30.6.	2006 1.1.-30.6.
Net cash provided by operating activities		27,285	(495,127)
Net cash used in investing activities		(1,772)	(12,922)
Net cash provided by financing activities		0	0
Increase (decrease) in Cash and Cash Equivalents		25,513	(508,049)
Cash and Cash Equivalents at the Beginning of the Year		1,350,489	1,434,715
Cash and Cash Equivalents at the End of the Period		1,376,002	926,666

Notes to the Condensed Interim Accounts

General information

1. Reporting entity

The Housing Financing Fund is domiciled in Iceland. The address of the Fund´s registered office is Borgartún 21, Reykjavík. The Fund's objectives are to provide housing loans, loans for new constructions and property development in Iceland. The Housing Financial Fund is an independent institution owned by the State and appertains to a special management and the Minister of Social Welfare.

The interim financial accounts were approved by the Board of Directors and the Managing Director on 23 August 2007.

2. Basis of Preparation

a) *Statement of Compliance*

The condensed interim accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim accounts. These are the Fund´s first IFRS condensed interim accounts for part of the period covered by the first IFRS annual accounts and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed interim accounts do not include all of the information required for full annual accounts.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 11. This note includes reconciliations of equity and net profit for comparative periods reported under IS-GAAP to those reported for those periods under IFRSs.

b) *Basis of Measurement*

The Condensed Interim Accounts have been prepared on the historical cost basis except for trading assets, derivative financial instruments and financial assets and liabilities designated at fair value through profit and loss. Those financial assets and liabilities are measured at fair value.

Mortgages foreclosed are measured at the lower of book value or net fair value.

c) *Presentation and Functional Currency*

The Condensed Interim Accounts are presented in Icelandic krona (ISK), which is the Fund´s functional currency. All financial amounts presented have been rounded to the nearest thousand.

d) *Use of estimates and judgements.*

The preparation of the Condensed Interim Accounts in conformity with IFRS requires management to make judgements, estimates and assumptions, which affect the application of accounting policies and the reported amounts of assets and liabilities as well as income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about management estimates and decisions regarding the application of accounting policies that has significant impact on the condensed interim accounts is disclosed in note 3.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Condensed Interim Accounts and in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRSs.

a) *Interest income and interest expense*

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payment and receipts through the expected life of the financial asset or liability, or where appropriate, a shorter period, to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. Interest income in the income statement comprises of interest from loans and receivables from credit institutions, loans and market securities. Interest expense comprises of bond issues and other borrowings. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

The Fund has provided loans for rental apartments at a 3.5% and 4.5% interest rate. The State Treasury compensates the Fund the interest difference between those loans and loans taken by the Fund. The State Treasury's contribution is based on the difference between deposit and lending rates each year.

Interest income and interest expense presented in the income statement consist of:

• Interest income on financial assets and liabilities at amortised cost on an effective interest rate basis.
• Fair value changes of derivatives and hedged items.

b) *Service income*

Service income consists of collection charges. Service income is recognised in the income statement when accrued. Borrowing charges are included in the calculation of effective interest rate and are therefore not included in service income.

c) *Financial assets and financial liabilities*

(i) *Recognition and derecognition of financial assets and liabilities*

The Fund initially recognises financial assets and liabilities on the date that they are originated. Those assets and liabilities are initially recognised on the date at which the Fund becomes a party to the contractual provisions of the instrument, except for loans and receivables that are recognised when funds are transferred to borrowers. Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when the Fund transfers the rights to receive the cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

c) *Financial assets and financial liabilities, contd.*

(ii) *Offsetting*

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Fund has a legal right to set off the amounts and intends either to settle, on a net basis, or realise the asset and settle the liability simultaneously.

(iii) *Loans and receivables from credit institutions*

Loans and receivables are non-derivative financial assets with fixed or determinable payments thate are not quoted in an active market, except for those that the Fund designates as at fair value through profit and loss. Loans and receivables include loans to customers, loans,which the Fund takes part in providing together with other credit institutions and acquired borrowings, which are unlisted and that the company has no intention to sell in the nearest future.

Loans and receivables are initially measured at fair value plus incemental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The book value of loans and receivables includes accrued interest and inflation adjustment.

(iv) *Amortised cost of financial assets and liabilities*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) *Trading assets and trading liabilities*

Trading assets consist of bonds and unit shares in mutual funds. They are initially recognised and subsequently measured at fair value in the balance sheet. Fair value changes are recognised in the income statement. Trading assets and liabilities include derivative assets and liabilities.

(vi) *Fair value measurement*

The determination of fair value of financial assets and financial liabilities quoted in an active market is based on quoted prices. For all other financial instruments fair value is determined by using valuation techniques. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Fund calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

(vii) *Impairment of financial assets*

The carrying amount of the Fund´s assets, other than trading assets and financial assets designated at fair value, is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Two methods are used to calculate impairment losses, one based on an assessment of individual loans and the other based on a collective assessment. Losses expected as a result of future events, no matter how likely, are not recognised.

c) *Financial assets and financial liabilities, contd.*

(vii) *Impairment of financial assets contd.*

Objective evidence of impairment includes information about the following events and conditions:
(i) significant financial difficulty of the borrower;
(ii) a breach of contract, such as a default on installments or on interest or principal payments;

Individually assessed loans and receivables

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. The Group assesses at each balance sheet date whether there is any objective evidence that individual loans are impaired.
Impairment losses are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets´ original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account.

Collectively assessed loans and receivables

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:
- future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash flows of the assets;
- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan;
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Estimates of changes in future cash flows for groups of assets are consistent with changes in observable data from period to period, for example changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the group and their magnitude. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Fund to minimise any differences between loss estimates and actual losses.

Loan write-offs

Loans are written off, partially or in full, when there is no realistic prospect of recovery.

Reversal of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is recognised as revenue in the income statement.

Mortgages foreclosed

When the Fund has redeemed assets on foreclosed mortgages they are recognised at the lower of fair value less estimated cost of sale or book value of the loan net of impairment.

d) *Cash and Cash Equivalents*

Cash and cash equivalents in the Statement of Cash Flows consist of demand deposits with the central bank and credit institutions.

e) *Fixed assets*

Recognition and measurement

Fixed assets are recognised at cost less accumulated depreciation and impairment.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life until residual value is reached. Estimated useful life is specified as follows:

Real estate	25 years
Fixtures and equipment	5-10 years
Vehicle.	10 years

Residual value is reviewed annually unless it is immaterial.

f) *Intangible assets.*

Intangible assets consist of software used in the Fund´s operations and its web site. Intangible assets are amortised on a straight-line basis over the estimated useful life, which is 5 years.

g) *Other assets and liabilities*

Other assets and liabilities are measured at cost.

4. Financial risk management

a) *Hedging*

It is important for the Fund to maintain a balance in the composition of its borrowings and loans. The Fund´s risk management policies require the Fund to minimise its exposure to risk and manage interest rate and credit risk within certain guidelines. The Fund uses both derivatives and other financial instruments to manage the potential earning impact of these risks. Several types of derivatives are used for this purpose, including interest rate swaps and options. The Fund does not apply hedge accounting.

b) *Derivative contracts*

The Fund has entered into interest rate swaps. The purpose is to reduce interest rate risk and to balance the cash flows and duration of the Fund´s financial assets and liabilities. Derivatives are measured at fair value.

c) *Risk management*

The Fund encounters various financial risks which have to be evaluated and managed. The main risks are covered in the following section.

Risk Management Structure

The Board of Directors authorises the Fund´s risk management policy after having sent it to the Financial Supervisory Authority of Iceland for review. In the policy the Board of Directors of the Fund grant the Risk Committe and Investment Management Division permission to uphold the policy.

Credit Risk

All of the Fund´s loans are secured by real estate mortgages. The Fund limits its risk due to these loans in two ways, by setting a maximum individual credit amount and a maximum mortgage proportion. The Risk Management Division evaluates the credit risk on an ongoing basis and prices it when deciding the interest rates on loans, which represent a markup on the interest rates on the Fund´s liabilities.

Interest Rate Risk

Interest rate risk arises due to duration mismatch of financial assets and liabilities. If not properly matched, changes in market interest rates can affect net interest income. The Fund´s Investment Division is responsible for controlling this risk and for ensuring that the mismatch is within the limits set forth in the Fund´s risk management policy.

Prepayment Risk

Borrowers have in general a permission to prepay their loans without having to pay any special fee. Such permission is not available on the Fund´s borrowings, excluding the housing bonds. The Risk Management Division evaluates the Fund´s risk involved and prices it when interest rates on the Fund´s loans are decided.

Liquidity Risk / Funding Risk

The Fund´s Investment Management Division is responsible for monitoring the Fund´s Liquidity needs and for ensuring that there is always sufficient liquidity for the Fund´s operations, for granting loans and repayments of principal and interest on the Fund´s liabilities in accordance with the Fund´s risk management policy.

5. Critical accounting estimates and judgements in applying accounting policies

a) *Impairment losses on loans and receivables*

The Fund regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Fund makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual loans or from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there have been changes in the payment status of borrowers in a group or economic conditions. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) *Fair value measurement of derivatives*

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques which are reviewed regularly. All models that are used must be approved and calibrated to ensure that outputs reflect actual data.

6. Net interest income

	2007 1.1.-30.6.	2006 1.1.-30.6.
Interest income		
Trading assets	1,287,917	2,107,437
Derivative assets held for risk management	1,588,223	2,955,611
Loans and receivables from credit institutions	4,420,424	3,884,805
Loans to customers	19,168,610	27,485,189
Government contribution to subsidy interests	127,788	104,276
Total interest income	26,592,962	36,537,318
Interest expense		
Debt securities issued	23,248,254	32,645,913
Other liabilities	141,010	865,446
Other interest expense and exchange rate difference	9,395	(11,486)
Total interest expense	23,398,659	33,499,873

7. Trading assets

	30/06/2007	01/01/2007
Bonds and bills	47,730,945	35,833,703
Interest rate swaps	2,735,556	1,282,973
	50,466,501	37,116,676

8. Loans

Impairment losses on loans during the period are specified as follows:	2007 1.1.-30.6.	2006 1.1.-30.6.
Balance at 1 January	1,017,604	1,203,307
Charge for the period	117,882	30,102
Write-offs	(63,287)	(7,510)
Balance at 30 June	1,072,199	1,225,899
Allowance account as percentage of loans	0.2%	0.3%

9. Borrowings

Issued bonds are specified as follows:	30/06/2007	01/01/2007
HFF bonds	477,140,549	445,523,798
Housing bonds	43,353,389	43,122,717
Housing Authority bonds	23,354,453	24,664,079
Total	543,848,391	513,310,594

10. Equity

The capital ratio of the Fund is calucated according to stipulations in Regulations on the Housing Financing Fund no. 544/2004. The calculation of the ratio is equivalent to the calculation of the capital ratio of financial institutions. The long-term goal of fhe Fund is to keep the ratio above 5.0%

The ratio is calculated as follows:

	30/06/2007	31/12/2006
Equity	20,477,131	17,660,685
Risk base	272,895,866	260,123,475
Capital ratio	7.5%	6.8%

Condensed Interim Accounts of Housing Financing Fund June 30, 2007 All amounts are in thousands of Icelandic kronas

Changes to accounting policies in accordance with International Financial Reporting Standards (IFRSs)

11. As stated in note 2, these are the Fund's first condensed interim financial accounts for part of the period covered by the first IFRS annual financial statements prepared in accodance with IFRSs, as adopted by the EU.

The Fund´s condensed annual accounts for the period 1 January to 30 June 2007 is prepared in accordance with the accounting policies specified in the notes on significant accounting policies. This also applies to comparative information for the six months ended June 2006, the financial statements for the year ended 31 December 2006 and the preparation of an opening IFRS balance sheet at 1 January 2006 (the Fund´s date of transition).

Amounts in the opening Balance Sheet of 1 January 2006 have been changed in accordance with IFRS, but were previously presented in accordance with the Annual Accounts Act and the Regulation on the Presentation and Contents of the Annual Accounts of Commerial Banks, Savings Banks and Other Financial Institutions (referred to as IS-GAAP). The following tables and notes show the effects the change from IS-GAAP to IFRS has had on the financial position of the Fund and its financial results There are no significant changes to the cash flows summary according to IFRS compared with how it was previously under IS-GAAP.

Changes in equity from IS-GAAP to IFRSs:

Equity according to IS-GAAP at 31 December 2006		16,374,564
Equity according to IFRS´s at 1 January 2007		17,660,685
Change in equity from IS-GAAP to IFRSs		1,286,121
Adjustments at the beginning of the year 2006:		
Receivables from other credit institutions	IAS 39	(163,527)
Loans	IAS 39	558,991
Bond issues	IAS 39	2,127,343
Other liabilities	IAS 39	(1,538,607)
Total		984,200
Changes during the year 2006		
Net interest income	IAS 39	(107,771)
Depreciation of fixed assets	IAS 16	(4,852)
Provision for impairment losses on loans	IAS 39	414,544
Total		301,921
Total effect of transition from IS-GAAP to IFRSs		1,286,121

Condensed Interim Accounts of Housing Financing Fund June 30, 2007 All amounts are in thousands of Icelandic kronas

11. contd.:

The total effect of the transition to IFRSs is an increase in equity amounting to 1,286 million. Following is an explanation of the the effect of transition on the income statement and balance sheet.

Derivatives
In accordance to IFRSs all derivative assets and liabilities are measured at fair value. Previously some of these financial assets and liabilities were measured at cost. The total effect of the change in measurement basis is an decrease in equity amounting to 2,214 million.

Borrowing charges
In accordance with IFRSs borrowing charges are an integral part of the interest income of loans and recognised over the expected life of the loan. Previously borrowing charges were recognised in the income statement on grant date of loans. The total effect of this change in the accounting policy is a decrease in equity amounting to 2,425 million.

Impairment of loans and receivables
In accordance with the requirements of IAS 39 the Fund has made impairment test on its loans and receivables. As a result of that test equity increased by 3,193 million.

IAS 39 requires the Fund to reassess all its loans as to judge if there are objective evidence of impairment, effecting the estimated future cash flows of the loans. If objective evidence indicate that an impairment loss has occured the book value of the loan will be reduced to its estimated discounted cash flow.

Liabilities designated at fair value.
The Fund has applied the fair value option of IAS 39 and designated a portion of its liabilities as liabilities at fair value through profit and loss. The objective is to decrease an accounting mismatch that would otherwise arise since derivative contracts used for heding those liabilities are measured at fair value through profit and loss. The effect of this is an increase in equity amounting to 2,272 million.

Receivables at fair value
In accordance with IAS 39 the Fund has designated a portion of its receivables from credit institution as at fair value through profit and loss. The objective is to decrease an accounting mismatch that would otherwise arise since derivative contracts used for heding those receivables are measured at fair value through profit and loss. The effect of this is an decrease in equity amounting to 58 million.

Funding costs
The Fund´s borrowing costs, i.e. cost of issuing debt, is capitalised and expensed over the estimated life of the liability. Previously these costs were expensed when incurred. The effect of this is an increase in equity amounting to 523 million.

Notes, contd.:

From IS-GAAP to IFRSs

The following tables provide an overview of the effect of the transition to IFRSs by valuation and presentation.

Income Statement for the year 2006, change from IS-GAAP to IFRSs

		Change in valuation	Change in presentation		
According to IS-GAAP					**IFRSs**
Net interest income.........................	3,223,463	(107,771)	386,053	3,501,745	Net interest income
Service income................................	680,391		(426,172)	254,219	Service income
Service expense...............................	(21,744)		21,744	0	
Exchange difference........................	(18,375)		18,375	0	
Salaries and salary related expenses..............................	(353,971)			(353,971)	Salaries and salary related expenses
Other operating expenses................	(481,230)			(481,230)	Other operating expenses
Other expense..................................	(25,797)			(25,797)	
Depreciation....................................	(24,836)	(4,852)		(29,688)	Depreciation
Provision for impairment................	(497,752)	414,544		(83,208)	Impairment of loans and receivables
Net profit for the year	2,480,149	301,921	0	2,782,070	**Net profit for the year**

Balance sheet, change from IS-GAAP to IFRSs

IS-GAAP 31 December 2006					**IFRSs**
Trading assets..................................			37,116,676	37,116,676	Trading assets
Receivables from credit institutions.......................................	99,029,788	(476,907)	(705,234)	97,847,647	Receivables from credit institutions
Loans..	405,721,030	828,592		406,549,622	Loans
Foreclosed mortgages......................	394,292			394,292	Foreclosed mortgages
Market securities and equity investments...........................	36,411,442		(36,411,442)	0	
Fixed assets.....................................	115,409	(4,852)	(38,464)	72,093	Fixed assets
Intangible assets..............................	0		38,464	38,464	Intangible assets
Other assets.....................................	115,375			115,375	Other assets
Total assets	541,787,336	346,833	0	542,134,169	**Total assets**
			825,133	825,133	Trading liabilities
Bond issues.....................................	515,062,428	(1,751,835)		513,310,593	Bond issues
Other borrowings............................	10,228,445			10,228,445	Other borrowings
Other liabilities................................	121,899	812,547	(825,133)	109,313	Trading liabilities
Equity..	16,374,564	1,286,121		17,660,685	Equity
Total liabilities and equity	541,787,336	346,833	(825,133)	541,309,036	**Total liabilities and equity**

Condensed Interim Accounts of Housing Financing Fund June 30, 2007 All amounts are in thousands of Icelandic kronas

Income statement 1 January to 30 June 2006
change from IS-GAAP to IFRSs

According to IS-GAAP		Change in valuation	Change in presentation		IFRSs
Net interest income..........................	2,914,828	(50,036)	172,654	3,037,446	Net interest income
Service income................................	303,226		(176,554)	126,672	Service income
Service expense................................	(15,387)		15,387	0	
Exchange difference.........................	11,487		(11,487)	0	
Salaries and salary related expenses...............................	(176,057)			(176,057)	Salaries and salary related expenses
Other operating expenses.................	(235,187)			(235,187)	Other operating expenses
Other expenses................................	(17,247)			(17,247)	Other expenses
Depreciation....................................	(12,812)			(12,812)	Depreciation
Provision for impairment.................	(237,374)	207,272		(30,102)	Impairment of loans and R.
Net profit for the period	2,535,477	157,236	0	2,692,713	**Net profit for the period**

Condensed Interim Accounts of Housing Financing Fund June 30, 2007 All amounts are in thousands of Icelandic kronas