

Press release 3 March 2017

**Turnaround in operations in 2016**

**Better results due to increased quality of the loan portfolio, an increase in interest bearing assets in excess of debts and decreased operating costs.**

* **The Housing Financing Fund's results amounted to ISK 4,257m.**
* **The equity base is 7.26% which is the highest proportion since the Fund was established**
* **Default loans were 2.9% – a significant reduction from the 6.9% in 2015**
* **The sale of appropriated assets realised more than ISK 20,000m, which was invested in interest bearing assets.**

The 2016 Annual Financial Statements of the Housing Financing Fund (HFF) were approved today by the Fund’s Board of Directors. The year's operating results were positive to the tune of ISK 4,257m as compared to ISK 1,827m in 2015. The turnaround in operations amounts to more than billion ISK. This is the third year in a row that HFF shows a profit.

The Fund's equity ratio is now 7.26% but was 5.46% at the end of 2015. The ratio is calculated in the same manner as the equity ratio of financial undertakings. The fund’s long-term goal is to ensure that the ratio is higher than 5.0%. Equity was ISK 23,528m at year end as compared to ISK 19,271m at the end of 2015.

**The Fund's operation continues to improve.**

Net interest income amounted to ISK 1,857m as compared to ISK 1,633m in 2015, which is an increase between years despite the reduction in the loan portfolio. Economisation in operations, focus on the sale of appropriated assets and the turnaround in interest earning assets have all led to better results. Interest income during the period amounted to a total of ISK 50,790m as compared to ISK 51,707m in 2015. The decrease in income is attributable to the reduced loan portfolio. The Fund's balance sheet strengthened during the year.

Operating expenses during the period amounted to ISK 1,735m whereof ISK 100m were one-off costs due to rationalization measures and preparations undertaken by the Fund due to the new Act No. 52/2016 on General Apartments. If the one-off cost is excluded, operating expenses decreased by 12.8% between years despite significant increases in payroll costs following the collective wage agreements reached. The Fund's projections assume that the decrease in operating costs due to economisations in operations will be fully realised in 2017. Operating expenses as a proportion of the total assets of the Fund are 0.22% on an annual basis.

The Fund's results from the sale of appropriated assets was positive during the year and returned ISK 799m in excess of the book value of the assets. In addition, the Fund sold the lease company Leigufélagið Klettur ehf. and raised a sales profit of ISK 1,427m in doing so.

**Proportion of interest bearing assets outside the loan portfolio increases due to prepayments**

At the end of the year, the loans of the fund were ISK 578bn and had decreased by ISK 69bn from the beginning of the year. The reduction in the loan portfolio can be attributed to limited lending, prepayments, write-offs and disposal of private pension savings. Prepayments from customers amounted to ISK 47bn during the year. There has not been any need for the issue of financing bonds during the period. Assets outside the loan portfolio including liquid assets increased between years and are ISK 196bn. The increase is first and foremost attributable to successes in the sale of appropriated assets and the prepayment of loans. The real returns of interest bearing assets outside the loan portfolio during the year was 3.51%. The Fund invested, among other things, in asset-backed indexed bonds issued by Íslandsbanki hf. and Arion banki hf. during the year.

**Development of defaults and the quality of the loan portfolio**

Defaults are now 2.9% of total loans as compared to 6.9% at the same time in 2015. Advantageous economic circumstances and effective collection processes have reduced risks in the loan portfolio. The simplification of collection processes, in that the Fund adopted changed pre-collection procedures, has had a positive effect on the development of defaults. The restated balance of the loans of the Fund in arrears was ISK 17,500m, of which defaults were ISK 3,413m. The provision for losses on loans was ISK 7,480m at the end of the period, decreasing by ISK 8,668m from the beginning of the year. Approximately 10,000 households have taken advantage of the option to pay their loans in the Fund at a faster rate by using their private pension savings as payment toward their mortgage loans.

**Collateral position of loan portfolio improves**

Approximately 96% of the book value of the HFF loan portfolio lies in a collateral range within 90% of the property assessment of the underlying mortgage object at the close of the period. Property prices have risen more than general price levels during the period and defaults have decreased considerably. As a result, the collateral position of the loan portfolio has strengthened. A vast proportion of the Fund’s loans are secured by means of 1st rank mortgages in mortgage objects. In addition, property assessment techniques provide, in general, cautious valuations in relation to the market value of a property.

**Decrease in the number of apartments owned by HFF**

At the close of 2016, financial commitments due to appropriated assets is ISK 10,936m, decreasing by ISK 9,085m over the year with 888 properties sold in 2016. The book value of appropriated assets at the end of the year generally amounted to 80% of the property assessment of the underlying portfolio. Leigufélagið Klettur ehf. was sold to the highest bidder in an open sales procedure. Competition authorities approved the sale of the lease company at the end of November 2016. The Fund redeemed 203 apartments in satisfaction of claims during the period. The Fund owned 663 apartments at the end of the period. The sale of appropriated assets will have a positive impact on the Fund's net interest income in the long term as funds locked up in real property are converted into interest bearing assets.

**Changed future role of the Housing Financing Fund**

Amendments to legislation and government policies call for changes in the role of the Housing Financing Fund. The Housing Financing Fund will change from being first and foremost a financing fund to being the entity responsible for the implementation of housing matters, as provided for in Article 4 of Act No. 44/1998 which states that the Housing Financing Fund shall be in charge of management and implementation of housing issues as provided for in the Act. A changed role calls for new tasks and the HFF will be now address the following tasks:

1. Carry out research into the housing market and thereby provide support to government policy formulation.
2. Allocate initial contributions and establish a new lease system for persons who are under income and asset limits.
3. Provide loans for residential housing purchases irrespective of position or residency on a social basis.
4. Manage the preparation of housing plans and collaborate with municipal authorities as regards the organisation of housing matters.

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