Housing Financing Fund
Condensed Consolidated Interim Financial Statements
1 January to 30 June 2019

These Financial Statements are translated from the original statements which are in Icelandic. Should there be discrepancies between the two versions, the Icelandic version shall prevail.

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105 Reykjavík

Reg.no. 661198-3629

Contents

Endorsement and Statement by the Board of Directors and CEO

The Condensed Consolidated Interim Financial Statements of the Housing Financing Fund for the period 1 January to 30 June 2019 have been prepared in accordance with the International Financial Reporting Standard IAS 34, Interim Financial Statements, and additional disclosure requirements for companies whose securities are listed on a regulated market.

Results during the period

The results of the Housing Financing Fund's operations for the first six months of 2019 were negative by ISK 2,016 million according to the income statement, compared to an operating surplus of ISK 1,502 million for the same period in 2018. Equity at the end of the period amounted to ISK 20,068 million. The Housing Financing Fund's equity ratio is 8.64%, while the Fund's long-term objective pertaining to the equity ratio is 5%, as according to Regulation no. 544/2004 on the financial and risk management of the Housing Financing Fund.

Net interest income during the period was negative by ISK 1,456 million compared to negative interest income of ISK 81 million during the same period in 2018. Substantial prepayments during the period and in recent years have a negative impact on the development of interest income and increase the Fund's reinvestment risk, however the Fund earns a considerable amount of income from prepayment fees, thereby mitigating the negative effects of prepayments. Interest income contribution amounting to ISK 1,406 million due from the Treasury to compensate for the loss of interest income during the period as a result of the principal reduction of inflation-indexed housing mortgages, cf. Act no. 35/2014, has not been recognised in the Interim Financial Statements. Operating expenses for the period amounted to ISK 1,180 million compared to ISK 959 million during the same period in 2018. The increase is attributed to the operating costs of investment properties amounting to ISK 124 million and, in addition, increased activity due to the operations of the housing benefit system and new projects in housing policy affairs. The Housing Financing Fund pays ISK 57 million during the period to the operations of the government agencies, the Debtor's Ombudsman and the Financial Supervisory Authority, or about 16% of the Fund's other operating expenses.

The Housing Financing Fund sold the rental company Leigufélagið Bríet ehf., a company established by the Fund at the end of 2018, 251 real estate properties during the period and ceased its leasing operations. Leigufélagið Bríet ehf. is a subsidiary of the Housing Financing Fund and is therefore included in the Fund's consolidated financial statements. The rental company Bríet ehf. will work with local authorities to develop the rental market in the rural areas.

Operations and risk factors

There are increased challenges in the operations of the Housing Financing Fund as continued prepayments of the Fund's loans have a significant impact on net interest income. As a larger proportion of financial assets lies outside the loan portfolio, the balance between the assets and liabilities of the Fund is reduced, which has a negative impact on results as indicated by the interim financial statements, and has been stated in the Board's reports in recent years. At the end of the period, ISK 333 billion or 45% of the Fund's assets were outside its loan portfolio (including liquid funds), which has a negative impact on the Fund's interest rate differential. The Fund has, however, accumulated liquidity to meet the payment flow of outstanding debt in the foreseeable future and the government has declared that if the Housing Financing Fund's equity ratio falls below the statutory criteria, the State will provide the Fund with equity. The current capital ratio is 8.64%

Following proposals from a task force appointed by the Minister of Social Affairs and Child Welfare on approaches to reduce the State's risk arising from large-scale prepayments of the Fund's loans, it was decided to legally separate the Fund's policy and implementation of housing policy activities from the financial administration of funding and former lending activities. A bill to that effect was introduced in the government consultation portal last July and deliberations are scheduled for the first days of the autumn session.

If the bill is enacted into law on 1 January 2020, as presumed in the bill, the Fund will continue to operate under the same registration number as the Housing Financing Fund and manage the Fund's assets and liabilities., cf. note nr. 5 Segment information. The bill does not include any changes to the previously issued state guarantee for the Housing Financing Fund (HFF) bond issue.

Endorsement and Statement by the Board of Directors and CEO, contd.:

Operations and risk factors, contd.

Following the Government's decision to divide the activities of the Housing Financing Fund, the Board of Directors of the Housing Financing Fund has appointed an Investment Council, appointing representatives from the Ministry of Social Affairs, the Ministry of Finance and Economic Affairs, the Central Bank of Iceland and the Housing Financing Fund. The role of the Investment Council is to formulate proposals on the processing of the asset and debt portfolio and measures to reduce the risk and scope of state guarantees in regards to the Fund. The commission of the Council is intended to ensure that those responsible for fiscal affairs have at all times information on approaches that can reduce the risk in the operations of the asset and debt portfolio and what effect they have on the Treasury's commitment in the short and long term. The Investment Council is acting on behalf of the Board of Directors of the Housing Financing Fund until legal separation has taken place, which is expected to be around next year. The interim financial statements include segment information that reflects the proposed legal division as in the 2018 financial statements.

Division of the Housing Financing Fund and a new Housing and Construction Authority

The proposal for a new Housing and Construction Authority and the division of the Housing Financing Fund is based on the Housing Financing Fund's 2018 financial statements, which has separated in its financial statements the activities of the Housing Agency from the activities of the HFF Fund. The Housing Agency segment is the part of the Housing Financing Fund's operations that is carried out in accordance with the changed role of the Fund following changes in the Housing Act from 2013 and social lending. The HFF Fund segment is the part of the Housing Financing Fund's activities related to the issuance of HFF bonds, former lending activities and financial management of assets outside the loan portfolio, e.g. liquid funds and other securities. In dividing the loan portfolio, the basis of assumption is that loans granted for social purposes, rental housing as well as loans to individuals granted after 1 January 2013 are included in the loan portfolio of the Housing Agency, but all other loans are considered as loans from the HFF Fund.

The division transpires on January 1, 2018. All loans granted after 1 January 2018 are thus considered to be included in the Housing Agency's loan portfolio. On 1 January 2018, the carrying amount of the Housing Financing Fund's loan portfolio amounts to therefore ISK 138.1 billion, or roughly 28% of the total portfolio. HFF Fund's loan portfolio amounts to ISK 361.9 billion or 72% of the total loan portfolio. When deciding on the division of equity between the segments, it was proposed that the Housing Agency's equity would meet the requirements of an adequate capital ratio, taking into account the risk of the underlying loan portfolio, if the segment were operated as an independent business entity. The Housing Financing Fund's Risk Management carried out an internal capital adequacy assessment (ICAAP) of the Housing Agency. It is assumed that the Housing Agency's operations will be financed with interest income instead of receiving direct contributions allocated by the fiscal budget for its operations. Bonds have been issued between the Housing Agency and the HFF Fund, which will be owned by the HFF Fund after the legislation takes effect as a repayment for the loan portfolio of the Housing Agency.

The Housing Agency's lending operations will be fully financed during the division of the Housing Financing Fund into the Housing Agency and the HFF Fund. The bill, which the Minister of Social Affairs has presented and introduced to the government, assumes that the Housing Agency will prepare annually a budget of its loan requirements correlating with the preparation of the fiscal budget. The loan requirements will be based on housing plans that have been prepared in collaboration with municipalities throughout the country. This will increase the transparency and predictability of this form of public housing support over the long term. The Housing Agency, on the basis of the issued budget, draws on the Treasury's loan line and relends in accordance with the Agency's loan rules. Repayment of loans from the Treasury would reflect the cash flow of the Housing Authority with similar repayment agreements as the Agency's lending agreements. This ensures long-term balance between assets and liabilities and prevents an imbalance between deposits and disbursements. The Housing Agency would therefore not be exposed to the same risks as the Housing Financing Fund, as pointed out by the task force that submitted proposals regarding the division of the Housing Financing Fund.

This arrangement ensures that the Housing Agency will be able to provide affordable loans for social needs, thus contributing to increased housing security and stability in the housing market. Government policy, that is among other things stated in the Government's Covenant and recent standard of living agreements, entails that public housing support will be provided to the most vulnerable groups in the housing market, such as low-income, young people and the elderly, and promote equal living conditions across the country.

Endorsement and Statement by the Board of Directors and CEO, contd.:

Endorsement by the Board of Directors and CEO

To the best of our knowledge, it is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the Fund's total comprehensive income, assets, liabilities and financial position on 30 June 2019, and changes in cash in the period 1 January to 30 June 2019. Further, in our opinion, the Fund's Condensed Consolidated Interim Financial Statements and the report of the Board of Directors and CEO provide a clear overview of the development and performance of the Fund's operations, describing its position and the main risks and uncertainties of the Fund. The Board of Directors and CEO have today discussed the Condensed Consolidated Interim Financial Statements of the Fund for the period 1 January to 30 June 2019 and hereby confirm them by means of their signature.

Reykjavik, 29 August, 2019

Board of Directors:

Haukur Ingibergsson
Chairman of the Board

G. Valdimar Valdemarsson

Ásta Pálmadóttir

Sigurbjörn Ingimundarson

Elín Oddný Sigurðardóttir

CEO

Hermann Jónasson

Independent Auditor's Review Report

To the Board of Directors of the Housing Financing Fund

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Housing Finance Fund as at June 30, 2019, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information. The Board of Directors and CEO are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Comparative amounts

The condensed statement of financial position of Housing Finance Fund as at 30 June 2019 were reviewed by another auditor. Comparative amounts dated 30 June 2018 were reviewed by another auditor. The auditor's review report is dated 31 August 2018.

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 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Reykjavik, 29 August 2019

KPMG ehf.

Consolidated Income Statement and Statement of Comprehensive Income from 1 January to 30 June 2019

	Notes	2019 1.1.-30.6	Restated 2018* 1.1.-30.6
Interest income		25.505.607	25.178.042
Interest expense		(26.961.820)	(25.258.835)
Net interest (expense) income	21	(1.456.213)	(80.793)
Income from investment properties	26	300.371	0
Other income	22	204.878	221.523
		505.249	221.523
Total operating (expense) income		(950.964)	140.730
Salaries and salary-related expenses	23	615.235	507.044
Operating expenses of investment properties	26	124.154	0
Other operating expenses	24	354.405	410.038
Depreciation and amortisation	25	86.026	41.475
Total operating expenses		1.179.820	958.557
Net expense (income) from appropriated properties	27	(13.802)	92.356
Net operating expense		(2.144.586)	(725.471)
Reversal of impairment of loans, securities and appropriated assets	28	140.840	2.227.805
(Loss)/profit before tax		(2.003.746)	1.502.334
Income tax		(11.823)	0
(Loss)/profit for the year and total comprehensive (loss) income		(2.015.569)	1.502.334

* See note nr. 4.

The notes on pages 11 to 27 are an integral part of these Interim Financial Statements.

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 7 Amounts in ISK thousand

Consolidated Balance Sheet as at 30 June 2019

	Notes	30.6.2019	31.12.2018
Assets			
Cash and cash equivalents	7	88.614.428	76.827.449
Claims on financial institutions	8	18.231.423	21.050.909
Other securities	10	224.410.940	212.149.874
Receivable from State Treasury	11	1.351.987	1.330.355
Loans	12	395.314.511	426.888.831
Appropriated assets	13	326.966	431.091
Investment properties	13	6.262.464	6.044.575
Operating assets	14	138.606	150.405
Intangible assets	15	65.100	85.500
Other assets	16	894.172	691.566
Total assets		735.610.598	745.650.554
Liabilities			
Bond issues	17	714.197.359	722.915.782
Other borrowings	18	141.490	139.417
Deferred tax liability	18	11.823	0
Other liabilities	19	1.192.216	512.076
Total liabilities		715.542.888	723.567.275
Equity			
Contributed capital		57.655.408	57.655.408
Accumulated deficit		(37.587.698)	(35.572.129)
Total equity	20	20.067.710	22.083.279
Total liabilities and equity		735.610.598	745.650.554

The notes on pages 11 to 27 are an integral part of these Interim Financial Statements.

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 8 Amounts in ISK thousand

Consolidated Interim Statement of Changes in Equity from 1 January to 30 June 2019

Changes in equity from 1 January to 30 June 2019	**Notes**	**Contributed capital**	**Accumulated deficit**	**Equity Total**
Equity as at 1 January 2019	15	57.655.408	(35.572.129)	22.083.279
Loss for the period and total comprehensive loss		0	(2.015.569)	(2.015.569)
Equity as at 30 June 2019		57.655.408	(37.587.698)	20.067.710

Changes in equity from 1 January to 30 June 2018 Restated*	**Contributed capital**	**Accumulated deficit**	**Equity Total**
Equity as at 31 December 2017	57.655.408	(32.761.719)	24.893.689
Adjustment of bond issues*	0	(1.285.579)	(1.285.579)
Adjusted equity as at 31 December 2017	57.655.408	(34.047.298)	23.608.110
Impact of adopting IFRS 9 on 1 January 2018		(1.865.803)	(1.865.803)
Equity as at 1 January 2018	57.655.408	(35.913.101)	21.742.307
Profit for the year and total comprehensive profit		1.502.334	1.502.334
Equity as at 30 June 2018	57.655.408	(34.410.767)	23.244.641

* See note nr. 4

The notes on pages 11 to 27 are an integral part of these Interim Financial Statements.

Amounts in ISK thousand

Consolidated Interim Statement of Cash Flows from 1 January to 30 June 2019

	2019 1.1.-30.6.	Restated 2018* 1.1.-30.6.
Cash flows from operating activities		
(Loss)/profit for the year and total comprehensive (loss) income	(2.015.569)	1.502.334
Adjusted for:		
Indexation on loans to financial institutions and customers	(10.592.044)	(7.847.830)
Indexation on borrowings	11.705.163	9.482.635
Depreciation and amortisation	86.026	41.475
Impairment	(140.840)	(2.227.804)
Valuation change of investment properties	(95.869)	0
Changes in operating assets and liabilities:		
Loans	38.312.102	43.196.323
Appropriated properties	235.615	2.261.630
Investment properties	(122.020)	0
Other assets	(256.434)	(532.409)
Other liabilities	691.963	477.572
Cash flows from operating activities	37.808.093	46.353.926
Investing activities		
Claims on financial institutions, change	3.139.375	(13.628.798)
Other securities, change	(8.738.976)	(15.892.709)
Investment in operating assets and intangible assets	0	(2.967)
Investing activities	(5.599.601)	(29.524.474)
Financing activities		
Bond issues and other borrowings, repayments	(20.421.513)	(20.202.721)
Financing activities	(20.421.513)	(20.202.721)
Net increase (decrease) in cash and cash equivalents	11.786.979	(3.373.269)
Cash and cash equivalents at the beginning of the year	63.235.144	66.608.413
Cash and cash equivalents at the end of the period	88.614.428	63.235.144

The notes on pages 11 to 27 are an integral part of these Interim Financial Statements.

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 10 Amounts in ISK thousand

Notes to the Condensed Consolidated Interim Financial Statements

General information

1. Reporting entity

The Housing Financing Fund ("the Fund") is headquartered at Borgartún 21, Reykjavik. The Housing Financing Fund is an independent institution owned by the State. The Fund operates in accordance with the Housing Act no. 44/1998, the Housing Compensation Act no. 75/2016, the Rent Act no. 36/1994 and the Act on Public Housing no. 52/2016, and is governed by a separate Board and appertains to the Ministry of Welfare. The Housing Financing Fund is subject to supervision by the Financial Supervisory in Iceland in accordance with Act no. 87/1998 on official supervision of financial activities. In accordance with the law, the Icelandic State Treasury guaranties all of the Fund’s financial obligations.

The Consolidated Interim Financial Statements of the Housing Financing Fund include the Interim Financial Statements of the Fund and its subsidiary Leigufélagið Bríet ehf., which together are referred to as "the Fund" or "the Housing Financing Fund". The Fund's objectives are to provide housing loans, loans for new constructions and property renovations in Iceland. The Fund is responsible for the allocation of government contributions for the development of public housing, housing policy planning, conducting housing market research and carrying out the implementation of housing benefits.

2. Basis of preparation

a. *Statement of compliance with International Financial Reporting Standards*

The Consolidated Interim Financial Statements for the first six months of the year 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union, as well as applicable requirements in accordance with Act No. 3/2006.

The Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Financial Statements of the Fund as at and for the year ended 31 December 2018, which are available on the Fund's website, www.ils.is.

The Board of Directors of the Housing Financing Fund approved the Consolidated Interim Financial Statements on 29 August 2019.

b. *Going concern*

The Fund's management has assessed the Fund's ability to continue as a going concern and has reasonable expectations that the Fund will have sufficient capacity to continue operations. The Consolidated Interim Financial Statements are therefore prepared on a going concern basis.

c. *Functional currency*

The Consolidated Interim Financial Statements are prepared and presented in Icelandic krona (ISK), which is the Fund's functional currency. All financial amounts presented have been rounded to the nearest thousand unless otherwise stated.

d. *Use of estimates and judgements in the application of accounting policies*

The preparation of interim financial statements in conformity with the IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable at the reporting date, 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised and the effect of the changes are entered in the periods that the changes are made and in subsequent periods if the change also affects those periods.

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Impairment of loans, cf. note 11.
- Appropriated assets, cf. note 12.
- Investment properties, see note 13.

3. Significant accounting policies

The accounting polices applied in the Consolidated Interim Financial Statements are consistent with those applied in the Financial Statements for the year 2018, with the exception of the changes introduced by the adoption of the new standard, IFRS 16 Leases. Further information on the changes in accounting policies due to the implementation of the new standards are described in note 33. The impact of adopting IFRS 16 is discussed in Note 4. A.

Leigufélagið Bríet ehf., a subsidiary of the Fund, commenced operations in the year 2019. A consolidated interim financial statement is prepared for the first time for the Fund and its subsidiary. The accounting methods applied in the preparation of the consolidated financial statements are described in Note 34.

Revenues and expenses of the Fund are not recognised directly in other comprehensive (loss) income and the result for the year is therefore equal to total comprehensive (loss) income.

4. Changes in accounting policies and other adjustments

a. Changes in accounting policies

IFRS 16 Leases

IFRS 16-Leases was adopted as of 1. January 2019. The standard sets out the guidelines for recognition, measurement, presentation and disclosure of lease agreements. The objective of the standard is to ensure that the lessee and the lessor provide information that reflects the transaction. The Fund has implemented IFRS 16 by using a retroactive method that implies that comparative figures are not changed. The right-of-use asset recognised amounts to ISK 136,6 million and lease liabilities amount to ISK 139,3 million.

When measuring lease liabilities, leasing agreements were discounted based on the market yield of the HFF's indexed bonds on January 1, 2019, which was 1.3%.

Minimum lease payments according to the 2018 financial statements	211.967
Effect of using market yield	(72.706)
Lease liabilities as of 1 January 2019	139.261

b. Other adjustments

In preparing for the transfer of the Fund's debt into a new system in the year 2018, discrepancies were found in calculations related to effective interest rates and the present value of debt. On the one hand, effective interest rates on initial bond auctions were underestimated, the result being that the effective interest rates on total debt is 4.34% instead of 4.31%. This does not change the carrying amount of these liabilities nor their future charges. On the other hand, effective interest rates that were too high have been used for the discounting of debt issued after initial bond auctions. This has resulted in an underestimation of the Fund's debt amounting to ISK 1,342,495 thousand at the beginning of 2017. An adjustment was made during the year 2018 and this amount is deducted from the Fund's equity. The reduction in equity will be realised in the form of lower interest expenses until the maturity of debt. Thus, interest expenses are therefore ISK 28,456 thousand lower in the period January to June 2019.

This table shows the effect of adjustments on the income state items for the period January to June 2018:

Income Statement and Statement of Comprehensive Income	**Previously published 2018 1.1-30.6**	**Adjustments 2018**	**Restated 2018 1.1-30.6**
Interest income	25.178.042		25.178.042
Interest expense	(25.287.291)	28.456	(25.258.835)
Net interest expense	(109.249)		(80.793)
Other income	221.523		221.523
Total operating income	112.274		140.730
Total operating expenses	958.557		958.557
Net income of appropriated properties	92.356		92.356
Net operating income	(753.927)		(725.471)
Reversal of impairment of loans, securities and appropriated properties	2.227.805		2.227.805
Profit for the year and total comprehensive income	1.473.878	28.456	1.502.334

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 12 Amounts in ISK thousand

Notes, contd.:

4. Changes in accounting policies and other adjustments, contd.
b. Other adjustments, contd.

Balance Sheet	Previously published 30.6.2018	Adjustments	Restated 30.6.2018
Assets:			
Total assets	751.319.523	0	751.319.523
Liabilities			
Bond issues	725.654.013	1.257.123	726.911.136
Other borrowings	370.237		370.237
Other liabilities	793.509		793.509
Total liabilities	726.817.759	1.257.123	728.074.882
Equity			
Contributed capital	57.655.408		57.655.408
Accumulated deficit	(33.153.644)	(1.257.123)	(34.410.767)
Total equity	24.501.764	(1.257.123)	23.244.641
Total liabilities and equity	751.319.523	0	751.319.523

Statement of Cash Flows	Previously published 1.1.-30.6	Adjustments	Restated 1.1-30.6
Operating activities:			
Profit for the year and total comprehensive income	1.473.878	28.456	1.502.334
Non-cash items	(523.068)	(28.456)	(551.524)
Changes in operating assets and liabilities	45.403.116		45.403.116
Cash flows from operating activities:	46.353.926		46.353.926
Investing activities:	(29.524.474)		(29.524.474)
Financing activities:	(20.202.721)		(20.202.721)
Change in cash and cash equivalents	(3.373.269)		(3.373.269)
Cash and cash equivalents at beginning of year	66.608.413		66.608.413
Cash and cash equivalents at the end of the period	63.235.144	0	63.235.144

5. Segment information

A segment is a component of an entity that generates income and expenses that are directly attributable to the segment. Management assesses and evaluates the performance and financial results of the segment and distributes funds specifically to the segment. Financial information of the segment must be separable for operational purposes in order to be identified as a segment.

In 2018, the Fund separated, specifically, its former lending and financial management activities from other activities undertaken in accordance with current legislation and regulations. The Fund is thus divided into two areas of activity, *the Housing Agency* and the *former lending and financial management activities*, named the *HFF Fund*. The Fund's leasing activities are performed by *the* HFF Fund and are considered to be a separate segment during the period. Until January 1, 2018, there was only one segment.

Overhead costs have been distributed between segments as appropriate. The Fund's assets that belong to individual segments are financed through internal financing from the Fund. Equity is allocated to segments based on underlying risk factors and capital requirements. Excess capital belongs to the Fund.

The table below shows identifiable information about the Fund's lending activities on the one hand and other segments, respectively.

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Notes, contd.:

5. Segment information, contd.

	Leasing activities	and financial activities		Reconciliations	Total
1 January - 30 June 2019					
Net interest (expense) income....................	(148.795)	(2.494.272)	1.186.854	0	(1.456.213)
Other income..	300.580	60.979	204.420	(60.731)	505.248
Total operating income...........................	**151.785**	**(2.433.293)**	**1.391.274**	**(60.731)**	**(950.965)**
Operating expenses...................................	(177.182)	(159.752)	(903.617)	60.731	(1.179.820)
Net expenses of appropriated properties....	0	(13.802)	0	0	(13.802)
Net operating (expense) income............	**(25.397)**	**(2.606.847)**	**487.657**	**0**	**(2.144.587)**
Reversal of impairment of loans and appropriated assets...................	0	(55.569)	158.256	38.154	140.841
Income tax..	(11.823)	0	0	0	(11.823)
(Loss)/profit for the period and total comprehensive (loss) income.	**(37.220)**	**(2.662.416)**	**645.913**	**38.154**	**(2.015.569)**
30 June 2019					
Total assets...	7.173.112	718.983.523	143.957.545	(134.503.581)	735.610.599
Total liabilities..	5.046.882	714.348.616	128.490.336	(132.342.946)	715.542.888
Share in equity...	2.126.230	4.634.907	15.467.209	(2.160.636)	20.067.710

	Leasing activities	HFF Fund	Housing Agency	Reconciliations	Total
1 January - 30 June 2018					
Net interest (expense) income....................	(136.354)	(1.167.758)	1.223.319	0	(80.793)
Other income..	0	197.536	99.710	(75.723)	221.523
Total operating income...........................	**(136.354)**	**(970.222)**	**1.323.029**	(75.723)	**140.730**
Operating expenses...................................	(29.716)	(119.686)	(884.878)	**75.723**	(958.557)
Net income of appropriated properties.......	92.356	0	0	0	92.356
Net operating (expense) income............	**(73.714)**	**(1.089.908)**	**438.151**	**0**	**(725.471)**
Reversal of impairment of loans and appropriated assets..................	1.171.904	388.481	667.420		2.227.805
Profit/(loss) for the year and total comprehensive income (loss)	**1.098.190**	**(701.427)**	**1.105.571**	**0**	**1.502.334**
30 June 2018					
Total assets..		6.867.534	596.780.260	142.002.760	745.650.554
Total liabilities...		4.835.660	591.531.392	127.200.223	723.567.275
Share in equity...		2.031.874	5.248.868	14.802.537	22.083.279

6. Classification and fair value of financial assets and financial liabilities

Classification and measurement

According to International Financial Reporting Standard IFRS 9 Financial Instruments, financial assets shall be classified on the basis of a business model for managing financial assets and the characteristics of the contractual cash flow of the asset. The classification influences how financial instruments are measured. Financial assets should be classified into the following main categories:

(1) financial assets measured at amortised cost if the objective is to hold the financial asset to maturity and collect, on specified due dates, contractual payments consisting only of principal and interest payments.

(2) financial assets measured at fair value through other comprehensive income (FVOCI) if the objective is to hold the financial asset to maturity and collect, on specified due dates, contractual payments consisting only of principal and interest payments, as well as to sell the financial assets.

(3) financial assets measured at fair value through profit or loss which includes all other financial assets.

Financial liabilities shall be classified into one of the following categories: amortised cost or fair value through profit or loss.

Financial assets and financial liabilities are measured at amortised cost in the Fund's financial statements.

The table below shows the carrying amount of the Fund's financial assets and financial liabilities in accordance with IFRS 9 and their fair value:

Amounts in ISK thousand

6. Classification and fair value of financial assets and financial liabilities, contd.
Classification and measurement,contd.

30. June 2019	Amortised cost	Fair value
Assets:		
Cash and cash equivalents	88.614.428	88.614.428
Claims on financial institutions	18.231.423	18.231.423
Other securities	224.410.940	243.281.000
Receivable from State Treasury	1.351.987	1.351.987
Loans	395.314.511	539.837.907
Other assets	894.172	894.172
Total financial assets	728.817.461	892.210.917
Liabilities:		
Bond issues	714.197.359	951.086.447
Other borrowings	141.490	141.490
Other liabilities	903.796	903.796
Total financial liabilities	715.242.645	952.131.733

31 December 2018		
Assets:		
Cash and cash equivalents	76.827.449	76.827.449
Claims on financial institutions	21.050.909	21.050.909
Other securities	212.149.874	212.766.694
Receivable from State Treasury	1.330.355	1.330.355
Loans	426.888.831	505.141.489
Other assets	691.566	691.566
Total financial assets	738.938.984	817.808.462
Liabilities:		
Bond issues	722.915.782	876.174.600
Other borrowings	139.417	139.417
Other liabilities	340.084	340.084
Total financial liabilities	723.395.283	876.654.101

The fair value of loans is estimated by discounting the cash flows of the loan portfolio by using the yield of HFF bonds plus 1.0% spread. The spread reflects the cost of operating the loan portfolio and the credit risk and prepayment risk in the case of loans which do not contain prepayment options.

The fair value of HFF bonds is based on their market price at the end of the period. The fair value of Housing bonds is measured by discounting the cash flows by using the HFF interest plus 0.5% spread due to lesser liquidity compared to HFF bonds. The fair value of Housing Authority bonds is measured by discounting at the interest of HFF bonds plus 1.0% spread due to liquidity and prepayment risk of those bonds.

The fair value of treasury securities is based on quoted prices in active markets for identical assets.

The fair value of other securities measured at their yield at acquisition is the last quoted market price for the individual category.

7. Cash and cash equivalents

Cash and cash equivalents are specified as follows:	30.6.2019	31.12.2018
Cash in Central Bank	77.035.140	68.117.841
Cash in financial institutions	11.579.288	8.709.608
Cash and cash equivalents total	88.614.428	76.827.449

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 15 Amounts in ISK thousand

Notes, contd.:

8. Claims on financial institutions

Claims on financial institutions are specified as follows:

	30.6.2019	31.12.2018
Inter-bank loans	11.468.200	9.953.346
Other claims	43.003	14.623
Bank bills	6.720.219	11.082.939
Claims on financial institutions total	18.231.422	21.050.908

9. Other securities

Other securities are specified as follows:

	30.6.2019	31.12.2018
Covered bonds	127.405.693	127.507.247
Municipal bonds	11.660.421	9.230.473
Treasury securities	84.000.300	75.441.180
Other securities	1.344.526	0
Provision for losses	0	(29.026)
Other securities total	224.410.940	212.149.874

10. Receivable due from State Treasury

The receivable due from the State Treasury comprises a bond in the amount of ISK 1,240 million that is payable in one lump sum on 1 January 2021. The bond has a permanent prepayment privilege favourable to the Treasury, in part or in full. Only interest payments on the bond is collected during the loan period. The bond is not transferable by the Housing Financing Fund. The carrying amount of the bond at June 30, 2019 is ISK 1,352 million.

11. Loans

Loans are specified as follows:

	30.6.2019	31.12.2018
Loans to individuals	272.433.177	296.650.360
Loans to legal entities	122.881.334	130.238.471
Total loans	395.314.511	426.888.831

Changes in the impairment provision during the period of 1.1.2019-30.6.2019:

	12-month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Balance of provision 1 January 2019	(1.100.020)	(2.728.924)	(3.222.143)	(7.051.087)
Expected credit loss from new loans	(14.222)	(2.125)	0	(16.347)
Reversal of expected credit loss due to prepayments	77.427	98.651	22.569	198.647
Transfer to stage 1	(625.064)	622.106	2.958	0
Transfer to stage 2	205.609	(392.223)	186.615	0
Transfer to stage 3	2.222	110.949	(113.171)	0
Changes in model or underlying risk factors	285.511	(162.615)	(226.314)	(103.418)
Contributions covering write-offs	2.235	17.950	2.602	22.787
Balance of provision 30 June 2019	(1.166.303)	(2.436.231)	(3.346.884)	(6.949.418)

Changes in the impairment provision during the period of 1.1.2018 - 31.12.2018:

	12 month ECL	Lifetime ECL		
	Stage 1	Stage 2	Stage 3	Total
Balance of provision 1 January 2018	(1.533.357)	(2.163.342)	(4.811.638)	(8.508.337)
Expected credit loss from new loans	35.298	30.552	3.218	69.068
Reversal of expected credit loss due to prepayments	109.279	217.182	112.170	438.631
Transfer to stage 1	(347.627)	303.836	43.791	0
Transfer to stage 2	321.322	(2.014.985)	1.693.663	0
Transfer to stage 3	3.130	74.197	(77.327)	0
Changes in model or underlying risk factors	311.608	821.999	(1.330.020)	(196.413)
Contributions covering write-offs	327	1.637	1.144.000	1.145.964
Balance of provision 31 December 2018	(1.100.020)	(2.728.924)	(3.222.143)	(7.051.087)

Amounts in ISK thousand

Notes, contd.:

12. Appropriated assets

The Fund owned 22 properties on 30 June 2019 (year-end 2018: 36) that the Fund had redeemed for the fulfillment of its claims. Total number of appropriated properties managed by the Fund is specified as follows:

	30.6.2019	31.12.2018
Number of properties at the beginning of the year	36	419
Appropriated properties during the period	6	23
Properties sold during the period	(21)	(155)
Reclassification to investment properties	1	(251)
Number of properties at the end of the period	22	36

Properties owned by the Fund are divided as follows by geographical area:

	30.6.2019	31.12.2018
South and South West	2	2
Great Reykjavík area	8	8
South Iceland	6	10
West Iceland	0	2
East Iceland	4	8
North Iceland	1	4
Westfjords	1	2
Number of properties at the end of the period	22	36

At the end of the period the Fund owned 22 properties (at year end 2018: 36), thereoff 12 properties were for sale. At the the end of June 2019 2 properties were rentals (at year-end 2018:1).

Appropriated assets at the end of the period are specified as follows:

30 June 2019	Number of properties	Official property value	Fair value	Carrying amount
Rentals	2	49.100	40.975	1.800
In sales process	12	269.000	184.260	167.126
Vacant	3	102.750	72.500	53.943
Other properties*	5	197.346	127.736	104.097
Total	22	618.196	425.471	326.966

* Abandoned, rent arrears or properties that have recently entered the portfolio and are being processed

31 December 2018				
Rentals	1	49.100	37.902	29.491
In sales process	20	448.480	306.810	260.422
Vacant	10	240.300	154.183	138.985
Other properties*	5	142.998	244.514	2.193
Total	38	880.878	743.409	431.091

* Abandoned, rent arrears or properties that have recently entered the portfolio and are being processed

	30.6.2019	31.12.2018
Changes during the period:		
Balance 1 January	431.091	6.631.138
Repossessed during the period	140.039	361.423
Properties sold during the period	(355.600)	(3.400.110)
Reclassification of appropriated properties during the period	(22.150)	(4.586.637)
Recoveries from appropriated properties	133.586	1.425.277
Balance at end of period	326.966	431.091

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 17 Amounts in ISK thousand

Notes, contd.:

13. Investment properties

Investment properties are specified as follows:

	Captial region	South and Southwest	West and Westfjords	North Iceland	East Iceland	Total
Total cost						
Reclass........................	1.172.324	2.275.276	569.745	290.631	278.661	4.586.637
Balance at 31.12.2018..	1.172.324	2.275.276	569.745	290.631	278.661	4.586.637
Reclass........................	39.188	(17.038)	0	0	0	22.150
Additions......................	35.138	69.857	32.194	4.263	14.218	155.670
Sold during the period..	0	(33.724)	(7.545)	0	0	(41.269)
Balance at 30.6.2019....	1.246.650	2.294.371	594.394	294.894	292.879	4.723.188
Value adjustment						
Value adjustment..........	358.839	814.524	135.015	73.182	76.376	1.457.936
Value adj.at 31.12.2018	358.839	814.524	135.015	73.182	76.376	1.457.936
Value adjustment..........	(25.304)	218.667	(65.853)	(6.213)	(25.428)	95.869
Sold during the period..	0	(9.576)	(4.955)	0	0	(14.531)
Value adj. at 30.6.2019.	333.535	1.023.615	64.207	66.969	50.948	1.539.274
Carrying amount						
Balance at 31.12.2018..	1.531.163	3.089.800	704.760	363.813	355.037	6.044.573
Balance at 30.06.2019..	1.580.185	3.317.986	658.601	361.863	343.827	6.262.462

Number of assets

The Fund's investment properties are residential properties owned by Leigufélagið Bríet ehf. The leasing company took over the ownership and the operations of the properties. As of June 30, 2019 there were 248 investment properties (at year-end 2018: 251).

Official assessment value and replacement value

The official assessment value of the Fund's investment properties at the end of the period amounted to ISK 7,261 million. The official replacement value of the Fund's investment properties at the end of the period amounted to ISK 8,392 million.

14. Operating assets:

Operating assets are specified as follows:

	Fixtures and equipment	Real estate	Total
Total Cost			
Balance at 1.1.2018	292.149	30.727	322.876
Additions during the period	30.674	0	30.674
Balance at 31.12.2018	322.823	30.727	353.550
Additions during the period	0	0	0
Balance at 30.6.2019	322.823	30.727	353.550
Depreciation			
Balance at 1.1.2018	162.860	9.747	172.607
Depreciation during the period	29.512	1.027	30.539
Balance at 31.12.2018	192.372	10.774	203.146
Depreciation during the period	11.285	513	11.798
Balance at 30.06.2019	203.657	11.287	214.944

	Fixtures and equipment	Real estate	Total
Carrying amount			
Balance at 1.1.2018	129.289	20.980	150.269
Balance at 31.12.2018	130.451	19.953	150.404
Balance at 30.6.2019	119.166	19.440	138.606

The official assessment value of real estate on 30 June 2019 amounted to ISK 25.3 million (2018: ISK 25.3 million) and replacement value amounted to ISK 25.7 million (2018: ISK 25.9 million).

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 18 Amounts in ISK thousand

Notes, contd.:

15. Intangible assets

Intangible assets are specified as follows:

	Software
Total Cost	
Balance at 1.1.2018	671.550
Additions during the period	2.969
Balance at 31.12.2018	671.550
Additions during the period	0
Balance at 30.6.2019	671.550
Amortisation	
Balance at 1.1.2018	505.545
Amortisation during the period	83.474
Balance at 31.12.2018	589.019
Amortisation during the period	20.400
Balance at 30.6.2019	609.419
Carrying amounts	
Balance at 1.1.2018	166.005
Balance at 31.12.2018	85.500
Balance at 30.6.2019	65.100

16. Other assets

Other assets are specified as follows:

	30.6.2019	31.12.2018
EIR bond securities	95.435	95.081
Other securities	127.773	141.166
Purchase contracts	44.094	155.913
Right-of-use assets (cf. note 4a)	136.587	0
Accounts receivable	451.938	288.389
Value added tax claim	6.616	11.017
Other	31.728	0
Total other assets	894.172	691.566

17. Bond issues

The Fund issues housing bonds in three HFF series. The name of each series indicates the maturity year of the series. The bond issues are all inflation-indexed annuity bonds with semi-annual payments. Housing bonds are inflation-indexed annuity bonds and are callable. Housing Authority bonds are inflation-indexed annuity bonds. The effective interest rate of the HFF bonds is 4.34%.

Bond issues are specified as follows:

	Final maturity	Number of yearly installments	Outstanding principal	Contractual interest rate	30.6.2019 Carrying amount
HFF24 bond	2024	2	51.850.022	Fixed 3.75%	99.177.417
HFF34 bond	2034	2	109.273.708	Fixed 3.75%	200.697.790
HFF44 bond	2044	2	210.698.653	Fixed 3.75%	390.851.500
Housing bonds	2040	Callable	1.270.730	4.75% - 6.00%	7.818.519
Housing Authority bonds	2020/2038	2	6.452.303	2.70% - 6.25%	15.652.134
Bond issues total			379.545.416		714.197.359

	Final maturity	Number of yearly installments	Outstanding principal	Contractual interest rate	31.12.2018 Carrying amount
HFF24 bond	2024	2	56.524.778	Fixed 3.75%	106.251.839
HFF34 bond	2034	2	111.848.826	Fixed 3.75%	202.076.157
HFF44 bond	2044	2	213.230.708	Fixed 3.75%	388.953.137
Housing bonds	2040	Callable	1.381.293	4.75% - 6.00%	8.315.093
Housing Authority bonds	2020/2038	2	7.107.181	2.70% - 6.25%	17.319.556
Bond issues total			390.092.786		722.915.782

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 19 Amounts in ISK thousand

Notes, contd.:

17. Bond issues, contd.

Changes during the period:

Balance 1.1.2019	722.915.782
Changes affecting cash flow:	
Repayments	(20.423.586)
Changes not affecting cash flow:	
Indexation	11.705.163
Balance 30.06.2019	714.197.359

18. Other borrowings

Other borrowings are specified as follows:

	30.6.2019	31.12.2018
Insurance fund	7.395	7.395
Callable bonds	134.095	132.022
Total other borrowings	141.490	139.417

19. Deferred tax liability

Deferred tax liability is specified as follows:

Income tax according to income statement	11.823	0
Deferred tax liability 30 June	11.823	0

20. Other liabilities

Other liabilities are specified as follows:

Salaries and related expenses	261.843	171.992
Special pension fund contributions	50.430	0
Unpaid housing benefit contributions	604.498	192.100
Lease liabilities	139.261	0
Other liabilities	136.184	147.984
Total other liabilities	1.192.216	512.076

21. Net interest (expense) income

Interest income

Interest income on items not at fair value:

	30.6.2019	30.6.2018
Interest income on cash and cash equivalents	1.872.315	1.441.035
Interest income and indexation on loans	16.296.513	17.710.757
Interest income on receivable from the Treasury and claims on financial institutions	490.357	375.465
Interest income on covered bonds	4.073.002	3.477.282
Interest income on government bonds	2.162.043	1.697.698
Interest income from other financial assets	294.352	163.282
	25.188.582	24.865.519
Gov't contribution due to reduced interest margin related to debt solutions*	317.025	312.524
Total interest income	25.505.607	25.178.043

*The government contribution due to social benefit loans to municipalities and organisations, such as student associations and organisations of disabled.

Interest expense	30.6.2019	30.6.2018
Interest expense on items not at fair value:		
Interest and indexation expense on bonds issued	54.760.669	44.891.921
Other	11.013	163.997
Total interest expense	54.771.682	45.055.918
Net interest (expense) income	(29.266.075)	(19.877.875)

22. Other income

Other income is specified as follows:

	30.6.2019	30.6.2018
Collection and service income*	204.878	221.523
	204.878	221.523

Statements of the Housing Financing Fund 30 June 2019 20 Amounts in ISK thousand

Notes, contd.:

23. Salaries and salary-related expenses

Salaries and salary-related expenses are specified as follows:

	30.6.2019	30.6.2018
Salaries	410.409	348.137
Pension fund contributions	52.778	46.682
Special pension fund contributions	50.430	0
Financial transaction tax	15.361	16.104
Employee vacation obligation	29.172	59.084
Other salary-related expenses	44.746	22.475
Other personnel expenses	12.340	14.562
Total salaries and salary-related expenses	615.236	507.044
Average number of employees during the period in full-time equivalent units*	80	78

24. Other operating expenses

Other operating expenses are specified as follows:

Collection fees	27.075	51.924
Operating expenses of housing	6.758	67.318
Operating cost of IT systems	155.485	110.676
Audit and review of financial statements	10.600	9.779
Professional services	42.606	26.580
Cost due to implementation of IFRS 9	0	17.515
Real estate valuation	2.497	3.468
Advertising, promotional material and grants	9.833	8.626
Debtors' Ombudsman	20.875	34.245
Financial Supervisory Authority supervision fee	36.049	34.979
Service fees	17.788	23.140
Other operating expenses	24.839	21.789
Total other operating expenses	354.405	410.039

25. Depreciation and amortisation during the period:

Depreciation and amortisation is specified as follows:

Depreciation of operating assets (cf. note 14)	11.798	10.569
Amortisation of intangible assets (cf. note 15)	20.400	30.906
Depreciation of right-of-use assets	53.828	0
Total depreciation and amortisation	86.026	41.475

26. Net income from investment properties

Net income from investment properties is specified as follows:

Rental income from investment properties	199.150	0
Profit from sale of investment properties	5.352	0
Change in valuation	95.869	0
Income from investment properties	300.371	0
Expenses due to investment properties	(124.154)	0
Net income from investment properties	176.217	0

27. Net income (expense) from appropriated properties

Net income (expense) from appropriated properties is specified as follows:

	30.6.2019	30.6.2018
Rental income from appropriated properties	682	216.248
Expenses due to appropriated properties	(14.484)	(123.891)
Net (expense) income from appropriated properties	(13.802)	92.357

The costs of real estate held for sale in the table above include only the direct incurred costs of the properties cf. property taxes, insurance, maintenance, energy costs and commissions of administrators but exclude indirect operating costs such as salaries and other administrative expenses. If all expenses were included such as the operating expenses incurred by the Fund due to its management of the properties, the expenses would be significantly higher than stated in the breakdown above.

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 21 Amounts in ISK thousand

Notes, contd.:

28. Impairment

Total impairment recognised in the income statement is specified as follows:

	30.6.2019	30.6.2018
Reversal of impairment of loans	(42.315)	(1.072.014)
Impairment of other financial assets	32.965	8.846
Recoveries from appropriated properties	(131.490)	(1.171.904)
Impairment of other receivables	0	7.268
Impairment recognised as income	(140.840)	(2.227.804)

29. Income tax

The activities of the Fund's subsidiary Leigufélagið Bríet ehf. are taxable activities. Income tax is specified as follows:

Change in temporary difference of tax liability	(11.823)	0
Income tax total	(11.823)	0

Effective tax rate is specified as follows:

Profit from taxable activities before tax	59.245	0
Tax rate (20%)	11.849	0
Other changes	(26)	0
Income tax according to the income statement	11.823	0

30. Investment in subsidiary

The rental company Leigufélagið Bríet ehf. was established on 12 December 2018 and the Housing Financing Fund owns 100% of the company's shares. On 1 March 2019, the company acquired most of the investment properties held by the Fund. The sale price of the assets amounted to ISK 6,066.7 million, financed by an increase in share capital in the amount of ISK 1,213.3 million and the issuance of a mortgage bond amounting to ISK 4,853.4 million. Subsequently the company's share capital was increased by ISK 900 million to cover expected future improvements to the investment property portfolio in the coming years. The Housing Financing Fund has also committed to provide financing to the company in the form of an additional share capital increase of up to ISK 300 million until the year 2024 if necessary.

31. Related parties

The Fund has a related party relationship with its owner, board members and executive officers. The Housing Financing Fund is publicly owned and administratively falls under the Ministry and Minister of Welfare. Government institutions and self-governing corporate entities that are financially dependent on the authorities are related parties of the Fund. Loans to related parties are granted on arms-length basis. A related party had a mortgage loan amounting to ISK 10 million on 30 June 2019. The loan is current at the end of the period (year-end 2018: ISK 0 million).

32. Other matters

The Fund is a party to several disputes that are currently before the courts. The disputes vary in nature, such as appeals related to debt remedies, damages due to forced sales and sales of appropriated assets, disputes regarding penalty interests, disputes on the settlements of forced sales due to usufruct fees, etc. It is the Fund's opinion however, that these cases, both individually and combined are not likely to have a significant financial impact on the Fund.

33. Risk management

a. *Credit risk*

Credit risk is the risk of financial loss of the Fund if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. It is the Fund's main objective is to continue to maintain a low level of risk in its operations.

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 22 Amounts in ISK thousand

Notes, contd.:

33. Risk management, contd.:

a. *Credit risk, contd.*

Maximum exposure to credit risk

The following table shows the maximum exposure credit risk of the Fund:

	30.6.2019	31.12.2018
Balance sheet credit risk:		
Cash and cash equivalents	88.614.429	76.827.449
Claims on financial institutions	18.231.423	21.050.909
Other securities	224.410.940	212.149.874
Receivable from State Treasury	1.351.987	1.330.355
Loans	395.314.511	426.888.831
Other financial assets	887.556	680.549
Total balance sheet credit risk	728.810.846	738.927.967
Maximum exposure to credit risk	728.810.846	738.927.967

Quality of loans

The following table shows both the gross carrying amount of loans and the expected credit losses (ECL) and the classification into risk levels.

30 June 2019	Loans to individuals	Loans to entities	Total
Stage 1			
Gross carrying amount	228.822.096	117.271.606	346.093.702
12-month ECL	(433.247)	(733.056)	(1.166.303)
Carrying amount	228.388.849	116.538.550	344.927.399
Stage 2			
Gross carrying amount	40.812.229	6.557.399	47.369.628
Lifetime ECL	(1.455.934)	(980.297)	(2.436.231)
Carrying amount	39.356.295	5.577.102	44.933.397
Stage 3			
Gross carrying amount	5.175.670	3.624.928	8.800.598
Lifetime ECL	(487.638)	(2.859.246)	(3.346.884)
Carrying amount	4.688.032	765.682	5.453.714
Total carrying amount	272.433.176	122.881.334	395.314.510

31 December 2018	Loans to individuals	Loans to entities	Total
Stage 1			
Gross carrying amount	248.358.735	122.972.484	371.331.219
12-month ECL	(489.559)	(610.461)	(1.100.020)
Carrying amount	247.869.176	122.362.023	370.231.199
Stage 2			
Gross carrying amount	44.650.076	8.204.001	52.854.077
Lifetime ECL	(1.584.706)	(1.144.219)	(2.728.925)
Carrying amount	43.065.370	7.059.782	50.125.152
Stage 3			
Gross carrying amount	6.339.555	3.415.067	9.754.622
Lifetime ECL	(623.741)	(2.598.401)	(3.222.142)
Carrying amount	5.715.814	816.666	6.532.480
Total carrying amount	296.650.360	130.238.471	426.888.831

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 23 Amounts in ISK thousand

Notes, contd.:

33. Risk management, contd.:

a. *Credit risk, contd.*

Quality of loans, contd.

The following table shows the gross carrying amount of loans and the carrying amount of loans by past due status.

30 June 2019	Not past due	30-59 days past due	60-89 days past due	Over 90 days past due	Impairment provision	Carrying amount
Loans to individuals......	261.724.445	5.588.943	1.839.922	3.279.867	2.376.819	272.433.177
Loans to entities...........	118.334.604	3.839.762	4.661	702.307	4.572.599	122.881.334
	380.059.049	9.428.705	1.844.583	3.982.174	6.949.418	395.314.511

31 December 2018	Not past due	30-59 days past due	60-89 days past due	Over 90 days past due	Impairment provision	Carrying amount
Loans to individuals......	285.057.230	5.938.617	1.657.133	3.997.380	2.695.841	296.650.360
Loans to entities...........	128.321.594	1.100.210	0	816.666	4.355.246	130.238.471
	413.378.824	7.038.827	1.657.133	4.814.046	7.051.087	426.888.831

The following table shows an age analysis of total arrears on loans.

	Loans to individuals		Loans to legal entities		Total	
	30.6.2019	31.12.2018	30.6.2019	31.12.2018	30.6.2019	31.12.2018
Loans past due:						
Arrears less then						
30-59 days.....................	75.017	75.040	62.427	255.019	137.444	330.059
60-89 days.....................	33.802	30.838	92	0	33.894	30.838
Past due over 90 days........	330.074	489.534	1.652.416	1.268.389	1.982.490	1.757.923
Total past due................	438.893	595.412	1.714.935	1.523.408	2.153.828	2.118.820

To maximise loan recovery, loan terms may change. Changes of terms have not resulted in the transfer of loans between stages, which means that the expected credit losses that were previously based on life-time expected losses are based on 12-month expected credit losses.

Write-off of loans

Loans are written off under the following circumstances:

- Upon loss on the sale of property auctioned, when the sales value is lower than the valuation of the apartment, according to Article 57 of Act no. 90/1991 on forced sale.
- Upon the approval of the Board of the Housing Financing Fund on the discontinuance of a claim in accordance with Regulation no. 359/2010, on the treatment of the Housing Financing Fund's claims effected by collateral loss.
- Abiding by Act no. 101/2010 as according to the Act on Housing par. 3 Art. 47 on write-offs as according to agreement on debt mitigation.
- Upon the financial restructuring of legal entities under agreement pursuant to Act no. 101/2010 as according to the Housing Act par. 6 Art. 47.

Binding loan commitments

Obligations not recognised in the balance sheet:	30.6.2019	31.12.2018
Binding loan commitments at year-end	4.883.415	4.581.075

Quality of pledges

The Housing Financing Fund's loans are secured by real estate collateral. Loans granted are the maximum of 80% of the purchase price, provided that there are no other restrictions of a maximum loan amount, which is ISK 30 million for individuals. The maximum official assessment value of the assets may not be over ISK 50 million. Following the granting of a loan, individual mortgages are not assessed specifically in terms of fair value unless in relation to the evaluation of possible impairment losses. Requirements for general housing loans are that a binding purchase offer has been made, which in general may be equal to the fair value of the specific real estate on the date of purchase.

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 24 Amounts in ISK thousand

Notes, contd.:

33. Risk management, contd.:

a. *Credit risk, contd.*

Quality of pledges, contd.:

The ratio of the Fund's loans to the official assessment value is approx. 34.4% at the end of the period compared to 38.4% at year end 2018. The majority of the Fund's loans have first pledge right. Loan-to-value ratios, i.e. the calculated remaining balance of loans excluding specific impairment as a proportion of the official property value, are specified as follows at year end:

	30.6.2019	31.12.2018
Proportion of the total loans under 50% of the official assessment value	84,9%	85,3%
Proportion of the total loans from 51 - 70% of the official assessment value....................................	10,5%	10,4%
Proportion of the total loans from 71 - 90% of the official assessment value	3,0%	2,8%
Proportion of the total loans from 91 - 100% of the official assessment value	0,5%	0,5%
Proportion of the total loans from 101 - 110% of the official assessment value	0,2%	0,3%
Proportion of the total loans over 110% of the official assessment value	0,8%	0,8%
	100%	100%

b. *Liquidity risk*

Liquid risk management

Liquidity risk is the Fund's risk of not being able to meet its contractual interest and principal payments on its borrowings. By effective control of its liquidity balance the Fund endeavours to ensure that there are always sufficient funds in order to meet its obligations if a temporary imbalance arises between the payment flow on the Fund's loans and other financial assets on the one hand, and its borrowing on the other.

The Fund's treasury management includes liquidity analysis and liquidity management. The Fund's liquidity plan is organised in advance with reference to the operational and financial budget. The liquidity budget is updated on a regular basis.

Liquidity risk measurement

A key element of the Fund's liquidity management is to ensure a balance between the cash flow of financial assets and financial liabilities. The following table shows the cash flow of the financial assets and the financial liabilities of the fund at the end of the period

Analysis of financial assets and financial liabilities:

	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
30 June 2019					
Financial assets:					
Cash and cash equivalents	87.724.631	0	0	0	87.724.631
Other securities	2.779.047	34.999.459	74.002.383	177.077.180	288.858.069
Receivable from State Treasury	16.643	16.919	1.324.527	0	1.358.089
Loans to customers	7.971.487	21.128.015	110.240.254	620.771.689	760.111.445
Claims on financial institutions...................	15.900.542	1.900.000	0	0	17.800.542
Total financial assets.................................	114.392.350	58.044.393	185.567.164	797.848.869	1.155.852.776
Financial liabilities:					
Borrower and other liabilities......................	11.763.936	59.433.507	264.580.140	745.677.063	1.081.454.646
Binding loan commitment..........................	0	4.883.415	0	0	4.883.415
Total financial liabilities:.............................	11.763.936	64.316.922	264.580.140	745.677.063	1.086.338.061
Net balance..	102.628.414	(6.272.529)	(79.012.976)	52.171.806	69.514.715
31 December 2018					
Financial assets:					
Cash and cash equivalents	76.827.449	0	0	0	76.827.449
Other securities	15.241.323	6.153.522	67.416.633	183.493.737	272.305.215
Receivable from State Treasury	16.919	16.643	1.341.446	0	1.375.008
Loans to customers	7.469.878	23.015.668	114.801.207	646.694.654	791.981.407
Claims on financial institutions...................	16.089.786	5.100.000	0	0	21.189.786
Other assets...	1.348	4.045	21.123	111.007	137.523
Total financial assets.................................	115.646.703	34.289.878	183.580.409	830.299.398	1.163.816.388
Financial liabilities:					
Borrower and other liabilities......................	13.524.187	54.807.697	253.719.251	749.114.265	1.071.165.400
Binding loan commitment..........................	0	4.581.075	0	0	4.581.075
Total financial liabilities:.............................	13.524.187	59.388.772	253.719.251	749.114.265	1.075.746.475
Net balance..	102.122.516	(25.098.894)	(70.138.842)	81.185.133	88.069.913

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 25 Amounts in ISK thousand

Notes, contd.:

33. Risk management, contd.:

c. *Interest risk*

Interest rate risk is defined as the risk that the future cash flows of financial instruments will fluctuate due to changes in market interest rates. The Fund recognises neither financial liabilities nor financial assets at fair value, and fair value risk due to interest rate changes is therefore limited. Around 88.1% of the Fund's financial assets (2018: 89.6%) and 89.6% (2018: 99.9%) of its financial liabilities have fixed interest rates and therefore the effect of interest rate changes on payment flows is insubstantial. Decisions on changing the interest rates on loans with floating interest rates is entirely in the hands of the Fund. However, the difference between the duration of assets and liabilities causes risk exposure for the Fund as if a balance is not maintained changes in interest rates may affect its net interest income. The duration of the Fund's financial assets at the end of the period is 12.82 years (2018: 12.29 years) and of financial liabilities 9.63 years (2018: 9.42 years). According to the Fund's risk management policy this difference may be up to 0.9 years.

The weighted average effective interest rate on the Fund's non-equity borrowings was 4.34% at the end of the period (2018: 4.34%), and the weighted average effective interest rate on loans at the same time was 4.43% (2018: 4.46%). The interest margin on the Fund's loan portfolio and its borrowings is therefore positive by 0.09%.

The risk committee assesses the Fund's prepayment risk and other factors related to interest rate risk and assesses this risk when the interest rates on the Fund's loans are decided. In order to reduce even further this risk the Fund also offers loans with prepayment fees that bear lower interest rates than loans without such a fee. On a monthly basis the real proportion of prepayments is measured and estimates for future prepayment ratios are calculated. On the basis of estimated prepayments the Fund regularly reviews its funding in order to limit the sensitivity of its loan portfolio with regards to interest rates.

Prepayment risk

Borrowers may in many cases prepay their loans owed to the Fund without paying a specific prepayment fee. However, the Fund's issued bonds do not include prepayment options, with the exception of housing bonds. Therefore, an imbalance between the duration of financial asset and liabilities may arise, which would lead to reinvestment risk for the Fund and thereby interest rate risk.

Around ISK 130 billion of the Fund's loans (2018: ISK 141 billion) are hedged with prepayment fees in part or entirely and prepayable housing bonds should the borrower choose to prepay its loan before the end of the loan term. Related interest rate and reinvestment risk is considered to be considerable, especially while market interest rates remain low. The Fund is working on limiting this risk.

CPI-indexation risk

CPI-indexation risk is the risk of fluctuations in the consumer price index (CPI) affecting the fair value and cash flow of indexed financial instruments. The majority of the Fund's loans are indexed, financed with indexed bonds. The indexation risk is largely explained by the fact that not all financial assets are indexed, but the Fund's liabilities are all indexed. Indexation risk is managed by calculating the sensitivity of the Fund's total balance in indexed assets and liabilities with respect to changes in the consumer price index.

	30.6.2019	31.12.2018
CPI-indexed financial assets:		
Loans	394.461.562	426.454.111
Treasury securities and other financial assets	202.577.481	191.260.184
Total financial assets	597.039.043	617.714.295
CPI-indexed financial liabilities:		
Bond issue	714.197.359	722.915.782
Other borrowings	141.490	139.417
Total financial liabilities	714.338.849	723.055.199
Total CPI-indexation balance	(117.299.806)	(105.340.904)

d. *Operational risk*

Operational risk is the risk of loss as a result of insufficient internal processes, employees and systems, or because of external events, including legal risk. The Fund uses both preventive and supervisory methods to minimise its operational risk. The preventive methods include clear and documented procedures regarding all the Fund's major factors of operations, training of employees, data back-up, access control and other procedures. The Fund is ISO 27001 certified for information security, a written security policy as well as having a Risk Committee and Security manager who manage various aspects of operational risk. Heads of divisions are responsible for the management of operational risk in their divisions and monitor the operational risk as well as their employees.

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 26 Amounts in ISK thousand

Notes, contd.:

33. Risk management, contd.:

e. *Equity and capital management*

The Fund's long-term objective is to maintain an equity ratio over 5.0%. The calculation of the equity ratio is in accordance with international standards (Basel II). If the Fund's equity ratio falls below 4.0% the Fund's Board of Directors shall notify the Minister of Social Affairs and Equality thereof. Furthermore, the Fund's Board of Directors shall propose solutions to reach the long-term equity ratio goal.

Equity ratio is specified as follows:	30.6.2019	31.12.2018
Total equity according to the interim financial statements	20.067.710	22.083.279
Intangible assets	(65.100)	(85.500)
Equity base	20.002.610	21.997.779
Risk exposure is specified as follows:		
Credit risk	227.833.082	242.631.000
Market risk	3.583.334	0
Operational risk	0	3.583.338
Total risk exposure amount	231.416.416	246.214.338
Equity ratio	8,64%	8.93%

34. *Significant accounting policies*

a. *The basis of consolidation*

The Consolidated Interim Financial Statements consist of the Interim Financial Statements of the Housing Financing Fund and its subsidiary, Leigufélagið Bríet ehf. Subsidiaries are the companies controlled by the Fund. The Fund controls a company when it is at risk or benefits from the variable return of its stake in a company and has the ability to have an affect on those returns as a result of its control over the company. Subsidiaries' interim financial statements are included in the Consolidated Interim Financial Statements from the date of control until the date control ceases to exist. The subsidiary is wholly owned by the Housing Financing Fund and has the same fiscal year as the Fund. All transactions and balances between the Fund and the subsidiary are eliminated in the preparation of the consolidated interim financial statements.

Change in accounting policies

With the exception of the changes that accompany the adoption of new standards or are reported specifically below, the accounting policies applied in the interim financial statements are the same as in the Fund's financial statements for the year 2018.

Taxation

Income tax on the taxable activities of the subsidiary, Leigufélagið Bríet ehf., is calculated and recognised in the interim financial statements as of 30 June 2019. The calculation is based on pre-tax results, taking into account the permanent difference between taxable income and income as according to the interim financial statements. The income tax rate is 20%. Income tax liability is due to the difference between the tax base of balance sheet items on the one hand and their carrying amount in the interim financial statements on the other. The difference is due to the fact that the Fund's income tax base is based on other assumptions than its financial statements.

IFRS 16 - Lease

The Fund as a lessee

Regarding lease agreements where the Fund is the lessee, the Fund recognises these agreements as lease liabilities and right-of-use assets. Initially, the lease liabilities and right-of-use assets are recognised as the total value of the lease payments discounted at the Fund's incremental borrowing rate. Right-of use assets are depreciated using a straight-line method during the lease term, and depreciation is recognised in the income statement as depreciation and amortisation. The interest expense on the lease liability is recognised as interest expense in the income statement.

The Fund as a lessor

In the case of financing leases, the present value of the lease payments is recognised as a receivable among other assets. Finance income is recognised over the life of the lease, using a method that reflects a fixed rate of return on the Fund's net investment in the lease. Income from operating leases is recognised as incurred.

Condensed Interim Financial Statements of the Housing Financing Fund 30 June 2019 27 Amounts in ISK thousand