

Íbúðalánasjóður
Housing Financing Fund

Condensed Interim Accounts
January - June 2008
ISK

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

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Endorsement by the Board of Directors and Managing Director

The Condensed Interim Accounts for the period 1 January to 30 June 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim accounts.

According to the income statement, the net profit of the Fund amounted to ISK 466 million for the six months ended 30 June 2008. Equity, according to the balance sheet, amounted to ISK 20.655 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. 544/2004, was 8.0%. 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 ratio above 5.0%

Statement by the Board of Directors and the Managing Director

To the best of our knowledge the condensed interim financial accounts are in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and give a true and fair view of the financial performance of the Fund for the period 1 January to 30 June 2008, its assets, liabilities and financial position as at 30 June 2008 and its interim statement of cash flows for the period.

Further, in our opinion the condensed interim financial accounts and the endorsement by the Board of Directors and the Managing Director give a fair view of the development and performance of the Fund's operations and its financial position and fairly describes the principal risks and uncertainties faced by the Fund.

The board of Directors and the Managing Director have today discussed the condensed interim financial accounts of the Housing Financing Fund for the six-month period ended 30 June 2008 and confirm them by means of their signatures.

Reykjavík, 21 August 2008.

Board of Directors

Hákon Hákonarson
Chairman of the Board

Gunnar S. Björnsson

Kristján Pálsson

Elín R. Líndal

Jóhann Ársællsson

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 at 30 June 2008 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 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 as at 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Reykjavík, 21 August 2008.

KPMG hf.

Helgi F. Arnarson

Condensed Interim Income Statement for the Period from 1 January to 30 June 2008

	Note	2008 1.1.-30.6.	2007 1.1.-30.6.
Interest income		69,117,170	27,410,603
Interest expense		(67,879,288)	(25,048,536)
Net interest income	5	1,237,882	2,362,067
Service income		91,538	119,081
Operating income		1,329,420	2,481,148
Salaries and salary-related expenses		221,609	195,229
Other administrative expenses		252,657	235,693
Other operating expenses		18,057	13,546
Depreciation and amortization		18,903	13,635
Operating expenses		511,226	458,103
Impairment of loans	6	(352,206)	(117,882)
Net profit for the period	7	465,988	1,905,163

Condensed Interim Balance Sheet

	Note	30.6.2008	31.12.2007
Assets			
Cash and cash equivalents		1,355,692	1,053,355
Market securities		34,988,241	39,949,986
Derivatives		5,402,338	1,026,850
Loans to banks		102,433,031	95,941,638
Loans to customers		517,643,709	467,084,491
Mortgages foreclosed		680,845	482,338
Fixed assets		53,004	59,695
Intangible assets		88,081	56,360
Other Assets		146,399	202,810
Total assets		662,791,340	605,857,523
Liabilities			
Derivatives		3,446,453	2,176,754
Bond issues		634,267,985	578,747,759
Other borrowings		4,302,971	4,437,595
Other liabilities		119,170	306,642
Total liabilities		642,136,579	585,668,750
Equity			
Contributed capital		7,155,408	7,155,408
Retained earnings		13,499,353	13,033,365
Total equity	7	20,654,761	20,188,773
Total liabilities and equity		662,791,340	605,857,523

Condensed Interim Statement of Changes in Equity for the Period from 1 January to 30 June 2008

	Contributed capital	Retained earnings	Total equity
Changes in equity from 1 January to 30 June 2007:			
Equity as at 1 January 2007	7,155,408	10,505,277	17,660,685
Net profit for the period		1,905,163	1,905,163
Equity as at 30 June 2007	7,155,408	12,410,440	19,565,848
 Changes in equity from 1 January to 30 June 2008:			
Equity as at 1 January 2008	7,155,408	13,033,365	20,188,773
Net profit for the period		465,988	465,988
Equity as at 30 June 2008	7,155,408	13,499,353	20,654,761

Condensed Interim Statement of Cash Flows for the Period from 1 January to 30 June 2008

	Note	2008 1.1.-30.6.	2007 1.1.-30.6.
Net cash (used in) provided by operating activities	(4,404,465)	27,285
Net cash used in investing activities	(43,933)	(1,772)
Net cash provided by financing activities		4,750,735	0
Increase in Cash and Cash Equivalents		302,337	25,513
Cash and Cash Equivalents at the Beginning of the Year		1,053,355	1,350,489
Cash and Cash Equivalents at the End of the Period		1,355,692	1,376,002

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 21 August 2008.

2. Statement of Compliance

The condensed interim accounts have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They 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 2007.

3. Significant accounting policies

The accounting policies applied by the Fund in these condensed interim accounts are the same as those applied by the Fund in its annual financial statements as at and for the year ended 31 December 2007. The financial statements are available on the Fund's homepage; www.ils.is as well as on the Icelandic stock exchange's homepage; www.omxnordicexchange.com

The condensed interim accounts are presented in Icelandic Krona (ISK) which is the Fund's functional currency. All amounts are rounded to the nearest thousand unless otherwise stated. They have been prepared on 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.

4. 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.

Notes, contd.:

5. Net interest income

	2008 1.1.-30.6.	2007 1.1.-30.6.
<i>Interest income</i>		
Interest income on market securities	3,127,581	1,287,917
Interest income on derivatives	7,164,598	2,405,864
Interest income on loans to banks	9,618,974	4,420,424
Interest income on loans to customers	49,015,710	19,168,610
Government contribution to subsidy interests	190,307	127,788
Total interest income	69,117,170	27,410,603
<i>Interest expense</i>		
Interest expenses on derivatives	7,034,300	1,790,887
Interest expenses on bond issues	60,844,988	23,248,254
Interest expenses on other borrowings		9,395
Total interest expense	67,879,288	25,048,536

6. Loans

Impairment losses on loans during the period are specified as follow:

1.1 - 30.6 2008	Specific impairment	General impairment	Total
Balance at the beginning of the year.....	818,674	389,245	1,207,919
Provision for impairment losses.....	296,066	56,139	352,206
Loans write off.....	(23,566)	(16,303)	(39,869)
Balance at 30 June 2008.....	<u>1,091,174</u>	<u>429,081</u>	<u>1,520,255</u>
Allowance account as percentage of loans.....			0.2%
1.1 - 30.6 2007	Specific impairment	General impairment	Total
Balance at the beginning of the year.....	670,854	346,750	1,017,604
Provision for impairment losses.....	54,177	63,705	117,882
Loans write off.....	(17,019)	(47,612)	(64,631)
Balance at 30 June 2007.....	<u>708,012</u>	<u>362,843</u>	<u>1,070,855</u>
Allowance account as percentage of loans.....			0.2%

7. Equity

The capital ratio of the Fund is calculated 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 the Fund is to keep the ratio above 5.0%

The ratio is calculated as follows:

	30/06/2008	31/12/2007
Equity	20,654,761	20,188,895
Risk base	259,481,922	287,338,643
Capital ratio	8.0%	7.0%