

Market Developments

The Housing Financing Fund (HFF) issued ISK 4.8 billions in mortgage loans in May. Of that amount, loans for rental housing constituted almost ISK 1.1 billion while the amount for general loans came close to ISK 3.8 billions. General mortgages averaged approximately ISK 9.8 millions in May. Hence, loans issued by the Fund this month increased 15% from the previous month, but the average general loan decreased 6% during the same period.

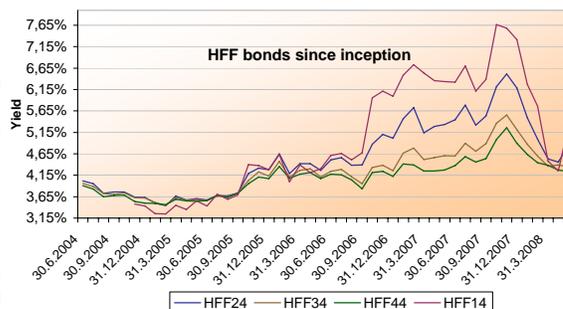
On May 20th, Moody's Investors Service downgraded HFF's issuer rating and local currency ratings to Aa1 from Aaa. The outlook for the Fund was rated stable. The downgrade followed a corresponding downgrade of Iceland's sovereign rating.

On May 22nd, the executive board of the Central Bank of Iceland (CBI) decided to leave the bank's policy rate unchanged at 15.5%. The yield on HFF bonds dropped slightly following the CBI's decision.

The yield on HFF14 and HFF24 bonds increased 107 and 40 points respectively while it decreased on HFF34 and HFF44, 5 and 4 points respectively.

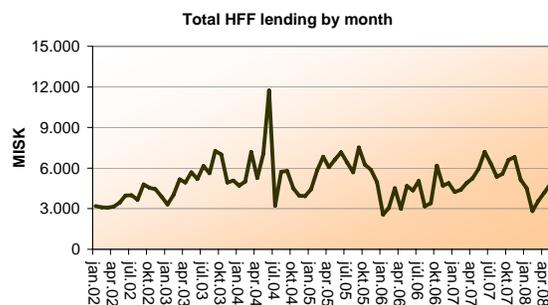
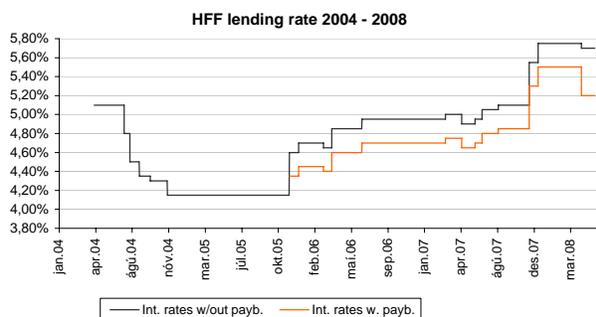
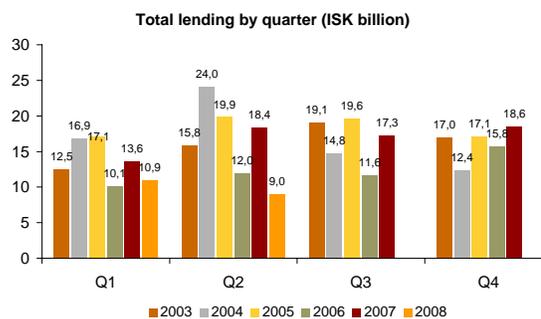
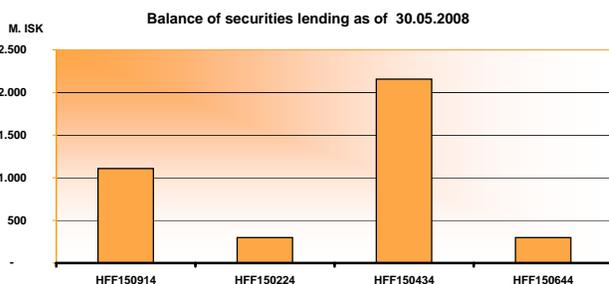
Turnover in HFF bonds reached a record high in May, reaching a total of ISK 391 billion, surging 83% from the previous month. Hence, the turnover in May was four times greater than it was in April, and 68% greater than the average monthly turnover over the past 12 months.

HFF's payments amounted to approximately ISK 310 millions in May with payments of HFF bonds representing the vast majority of the total.



| Series | Mar. 2008 | Apr. 2008 | May 2008 | Duration | Face value | Outst. F.value |
|--------|-----------|-----------|----------|----------|------------|----------------|
| HFF14 | 4.48% | 4.25% | 5.32% | 3.1 | 60.1 | 41.6 |
| HFF24 | 4.53% | 4.46% | 4.86% | 7.0 | 134.9 | 115.3 |
| HFF34 | 4.36% | 4.39% | 4.34% | 10.8 | 132.4 | 122.0 |
| HFF44 | 4.38% | 4.27% | 4.23% | 13.6 | 215.5 | 206.7 |

**Yield on the last trading day of each month
Duration (yrs) and class size (MISK) as of end of May '08
Of the total issuance of the face value, ISK 7.2 bn in each series directly belong to the lending facilitation for HFF bond market makers*



HFF Auctions, Lending and Payments

| MISK | Actual Figures 2008 | | | Actual Jan-May 2008 |
|-------------------|---------------------|-----------|---------------|---------------------|
| | Forecast Q2 | Actual Q2 | Forecast 2008 | |
| HFF bond issuance | 14-16 | 8,0 | 35-41 | 8,0 |
| New HFF lending | 13-15 | 9,0 | 49-55 | 15,1 |
| HFF payments | 11-13 | 5,2 | 44-52 | 17,7 |

| MISK | Revised Forecast for 2008 | | | | |
|-------------------|---------------------------|-------|-------|-------|------------|
| | 1Q | 2Q | 3Q | 4Q | Total 2008 |
| HFF bond issuance | 0 | 14-16 | 11-13 | 10-12 | 35-41 |
| New HFF lending | 11 | 13-15 | 12-14 | 13-15 | 49-55 |
| HFF payments | 11-13 | 11-13 | 10-12 | 12-14 | 44-52 |

