

Market news

Total lending by the Housing Financing Fund (HFF) in August 2014 amounted to ISK 316m, whereof ISK 297m were mortgages for privately owned homes. In comparison, in August 2013, these loans amounted to ISK 902m. The average amount of mortgages for privately owned homes was ISK 9.0m.

The Condensed Consolidated Interim Financial Statements of the HFF for the first half of the year were approved by the Fund's Board of Directors on August 29. The operating results of the period were negative amounting to ISK 1.3bn compared to ISK 2.9bn in losses during the same period in 2013. HFF's equity at the end of the period was ISK 13.5bn, compared to ISK 14.8bn at year-end 2013. At present, the Fund's equity ratio, calculated according to the provisions of Regulation No. 544/2004 on the HFF, is 3.2%, whereas it was 3.4% at the beginning of the year. The condensed consolidate interim financial statement is now, for the first time, presented as a consolidation of the parent company and the Fund's subsidiary, Leigufélagið Klettur ehf., which commenced its operations at the beginning of the period.

The yield of all classes of HFF bonds declined in August. The decrease was 3-69 points. The yield of HFF14 declined by 69 bp, HFF24 by 21 bp, HFF34 by 3 bp and HFF44 by 4 bp. The total turnover of HFF bonds amounted to ISK 16.7bn this month, compared to ISK 7.7bn in July 2014. The HFF's payments due to HFF bonds and other liabilities amounted to ISK 10.8bn in August. Prepayments amounted to ISK 3.5bn compared to 2.7bn in July.

Development of defaulted loans

The proportion of the underlying loan value of individuals in arrears decreased from the previous month. By the end of August, the amount of defaulted loans to individuals amounted to ISK 4.4bn, with the underlying loan value amounting to ISK 56.1bn or approximately 8.94% of HFF's loan portfolio to privately owned homes, compared to 12.43% in August last year. There are 2,872 households currently in arrears, whereof 160 have had their loan payments deferred. A total of 6.04% of the households that have their property loans from HFF were in arrears with their loans at the end of the month, compared to 8.59% in August 2013. The amount of defaulted loans to legal entities was ISK 3.4bn with an underlying loan value of ISK 25.7bn. Thus 17.32% of the Fund's loans to legal entities are connected to defaults. Defaults or loans with deferred payments are a total of 10.54% of the Fund's loan portfolio. The corresponding percentage in August 2013 was 14.08%.

Defaults are considered to be loans in arrears for longer than 90 days and loans where payments have been deferred.

Outst. amount in the securities lending facility at the end of August

Series	HFF14	HFF24	HFF34	HFF44
Outstanding amount (NV)	0,0	0,0	0,0	1,8

HFF Auctions, Lending and Payments

Actual figures 2014	Forecast 3Q	Actual 3Q	Actual Jan-Aug
HFF bond issuance (NV)	0	0	0,0
New HFF lending	0	1,0	5,5
HFF total payments	0	11,1	55,3

HFF bond holders 31.08.2014	HFF14	HFF24	HFF34	HFF44
Banks and Savings banks	27,1%	3,4%	0,2%	0,3%
Individuals	3,8%	3,2%	1,1%	0,8%
Foreign Investors	8,7%	1,3%	1,0%	1,0%
Other Corporations	15,8%	4,3%	3,1%	0,7%
Credit Institutions	17,4%	7,9%	5,7%	2,9%
Pension Funds	6,3%	50,7%	71,6%	88,1%
Insurance Companies	3,4%	3,9%	1,7%	0,7%
Securities and Investm. Funds	17,1%	23,1%	14,9%	5,0%
Others	0,3%	2,1%	0,6%	0,6%
Nominal Value	70,0	164,0	175,3	273,1

Of the total issuance of the face value, ISK 9.6 bn in all HFF bonds directly belong to the lending facilitation for HFF bond market makers. All figures are in ISK billion.

August 2014

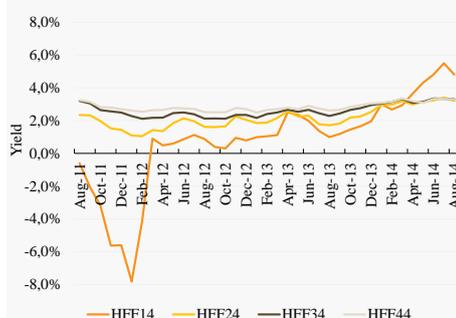
Summary

- New mortgages for privately owned homes amounted to ISK 316 million
- Prepayments amounted to ISK 3.5 billion
- Privately owned homes in arrears decreased from last month
- 6.04% of homes are in arrears
- Total amount in default is ISK 7.8 billion, underlying loan amount equals 10.54% of loan portfolio
- HFF's appropriated properties numbered 2,040 whereof 918 apartments are rented

HFF Lending Rate

4.20% fixed rate

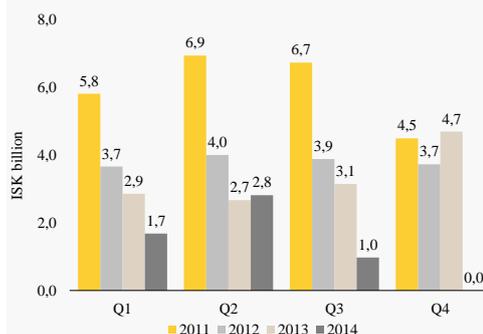
Yield of HFF Bonds



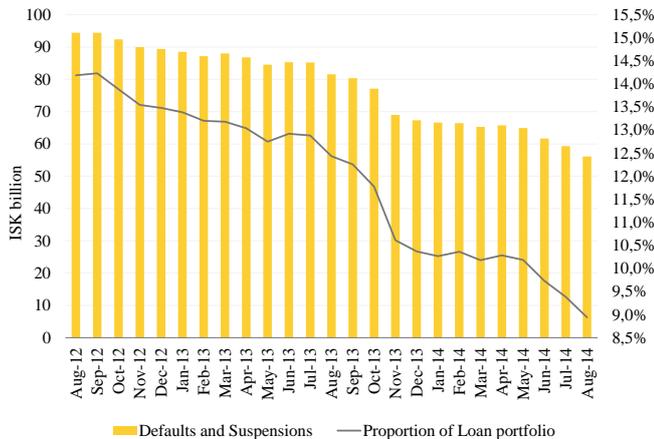
Series	Jun 2014	Jul 2014	Aug 2014	Duration	Face value	Outst.n. value
HFF14	4,80%	5,49%	4,81%	0,0	70,0	4,2
HFF24	3,23%	3,41%	3,20%	4,7	164,0	93,0
HFF34	3,35%	3,33%	3,30%	8,8	175,3	136,8
HFF44	3,32%	3,33%	3,29%	12,7	273,1	237,1

*Yield on the last trading day of each month
Duration (yrs) and class size (BISK) as of end of August '14
Of the total issuance of the face value, ISK 9.6 bn in all HFF bonds directly belong to the lending facilitation for HFF bond market makers.

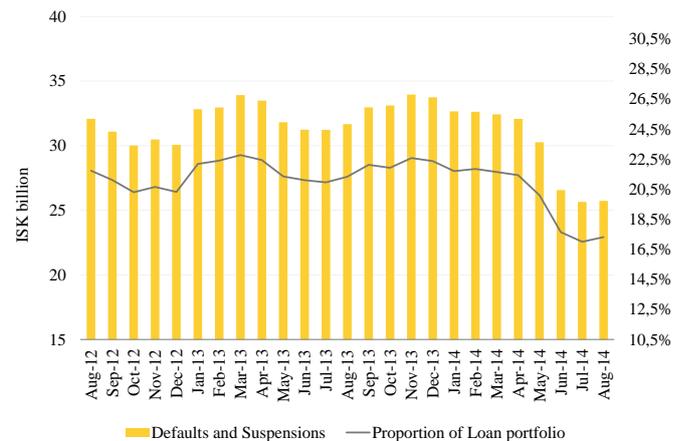
Total Lending by Quarter



Individuals - Defaults and Suspensions



Legal Entities - Defaults and Suspensions



HFF's Appropriated Property

Property portfolio

The HFF owned 2,040 appropriated assets throughout Iceland by the end of August, over the month the fund sold 38 properties and two appropriated assets were added to the HFF's portfolio. Overall 285 appropriated assets have been added since the beginning of the year.

The HFF has sold 819 properties this year. As opposed to 142 properties for the same period in 2013. In addition, purchase offers for 126 properties have been accepted and bidders are currently engaged in financing the purchases. In total the HFF has sold 1,690 properties since the beginning of 2008.

Undergoing the sales process were 983 properties, most of which are already available for purchase others are going through sales registration. A number of 918 apartment were rented throughout the country. The vast majority were rented to families and individuals who resided in the properties when the HFF acquired them. Approximately 75% of the recently added appropriated assets will be rented out in the same manner. In addition 450 apartments are rented through the rental company Klettur thus altogether there are 1,368 rental apartments with affiliation to the HFF.

In the last few months the fund sold 107 properties in five apartments buildings situated in the South and Western Region and the Southern Peninsula. These properties were both in early construction stage or empty and in need of repair. The buyers have now for the most part completed the renovations and repairs and will the properties be rented out and thus support the rental market in those areas.

All estate agencies in Iceland may sell the HFF's properties. The HFF has a partnership agreement with the Association of Estate Agents (Félag fasteignasala) as regards the procedures that must be employed when selling properties owned by the Fund. The Fund's properties are rented at market price, taking into account comparable properties according to location, size, age, etc. The vast majority were rented to families and individuals who resided in the properties when the HFF acquired them.

The table to the right contains an overview of the location of properties, categorized according to regions and their use/disposal. Of the 2,040 properties that the HFF owned at the end of August 2014, 1,918 properties have been rented or are undergoing the sales process or other procedures. A further 122 properties await assessment and will they either be rented out or go into sales process.

HFF's Property According to Regions and Status, 31.08.2014

	For sale	Rented	Empty	Uninhabitable	In process	Total Aug '14	Total
Capital Area	96	258	8	2	6	370	386
Sth. Peninsula	413	360	46	7	4	830	841
Western Region	137	73	17		1	228	231
Westfjords	51	13	3		1	68	70
Northw. Region	13	2	3		1	19	21
Northe. Region	51	42	4	3	3	103	110
Eastern Region	89	81	17		0	187	188
Southern Region	133	89	9	3	1	235	244
Total	983	918	107	15	17	2,040	2,091

Sold properties

