

Market Developments

The Housing Financing Fund (HFF) issued around ISK 2.2 billion in mortgages this month. Of that amount, roughly ISK 2.1 billion was for privately owned homes. In comparison, this amount was approximately ISK 1.8 billion in July of last year. The average loan amount issued for privately owned homes was ISK 9.9 million this month, not much different from June's amount. In the first seven months this year, the Fund has issued approximately ISK 13.5 billion compared to ISK 9.4 billion for the same period in 2010.

On July 29th, the Fund held an HFF bond auction and received valid offers for ISK 8.180 billion. The Fund decided to accept the following offers: HFF150434 - ISK 2.010 nominal value, the weighted average yield without commission 3.24%. HFF150644 - ISK 2.550 nominal value, the weighted average yield without commission 3.32%.

August 5th was the settlement date for the transactions and the weighted total average yield of accepted offers without commission was 3.28%, and 3.30% with commission. HFF determines its lending interest rates on the average yield resulting from its HFF bond auctions, in addition to the weighted financing cost of prepaid mortgages. The prime interest rate due to operational costs is 0.45%, due to lending risk 0.45% as well, and 0.50% due to prepayment risk. The weighted interest rate in the auction and for prepaid mortgages is 3.51%. As a result, the Fund's lending interest rate will remain the same, i.e. 4.40% on mortgages that include prepayment auctions and 4.90% on mortgages without such a clause.

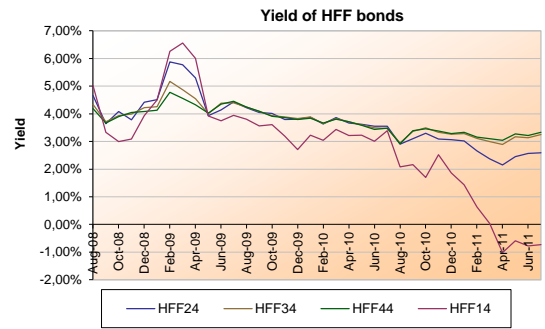
The EFTA Surveillance Agency, recommended that the Icelandic government take measures in order to bring the role of HFF in line with state aid provisions of the EEA Agreement. Presently, a plan to adjust HFF's role and structure is in process, to meet these requirements. The new plan must take effect at the end of this year.

In July, the CPI (Consumer Price Index) based on prices increased 0.11% from the previous month (less housing cost, the index declined 0.22%). Cost of owner occupied housing increased 1.2%. In the last 12 months, the CPI has increased 5% (less housing cost, 4.7%). During the last 3 months, the CPI based on prices has risen 1.6%, which is equivalent to an annual inflation rate of 6.3% (or a 4.2% inflation rate for the CPI less housing cost).

The yield on all HFF bonds rose by 3-12 points in July, depending on the bond series.

Total turnover of HFF bonds reached approximately ISK 43.6 billion this month, compared to roughly ISK 55.7 billion in June this year.

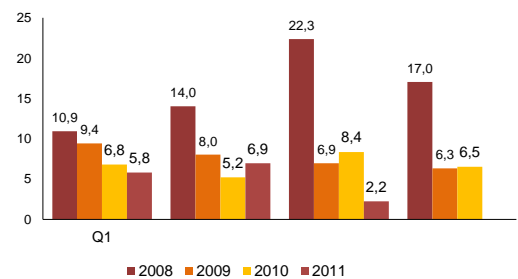
The Fund amortization payments on HFF-and housing bonds came to around ISK 380 million this month. Prepayment of mortgages amounted to about ISK 900 million in July.



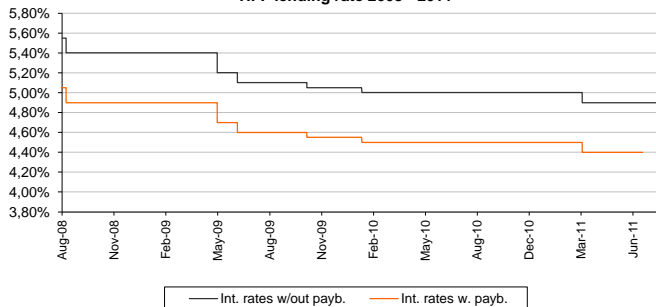
Series	May 2011	June 2011	July 2011	Duration	Face value	Outst. F. value
HFF14	-0,59%	-0,77%	-0,73%	1,6	70,7	27,8
HFF24	2,45%	2,56%	2,59%	5,9	164,2	119,9
HFF34	3,17%	3,14%	3,25%	10,1	173,2	148,1
HFF44	3,28%	3,22%	3,34%	13,7	265,9	242,8

*Yield on the last trading day of each month
Duration (yrs) and class size (MISK) as of end of July '11
Of the total issuance of the face value, ISK 9,6 bn in HFF14, 9,6 bn in HFF24, 9,6 bn in HFF34 and 9,6 bn in HFF44 directly belong to the lending facilitation for HFF bond market makers.

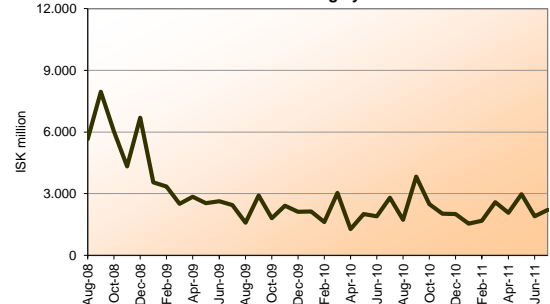
Total lending by quarter (ISK billion)



HFF lending rate 2008 - 2011



Total HFF lending by month



HFF Auctions, Lending and Payments

Actual Figures 2011

Billion ISK	Forecast Q3	Actual	Forecast Q3	Forecast 2011**	Actual Jan-July 2011
HFF bond issuance**	7 - 9	4,6		14 - 18	10,0
New HFF lending	6 - 8	2,2		12 - 16	15,0
HFF total payments	15 - 17	0,4		33 - 37	38,8

**Forecast for Q3 and Q4
*Nominal value

Revised forecast 2011

Billion ISK	3Q	4Q	Total
HFF bond issuance (Nominal value)	7 - 9	7 - 9	14 - 18
HFF bond issuance (Market value)	10 - 13	10 - 13	20 - 26
New HFF lending	6 - 8	6 - 8	12 - 16
HFF total payments	15 - 17	15 - 17	33 - 37

HFF bonds auctions

