

Market news

Moody's Investors Service announced on 12 September, ratings upgrade for the Housing Financing Fund, from Baa3 to Baa1 with stable outlook. This rating action follows the recent rating action on the Icelandic sovereign issuer rating from 1 September 2016.

The HFF and the Central Banks subsidiary, ESI ehf., signed an agreement in September to the effect that the HFF purchases an indexed linked, asset-backed bond issued by Íslandsbanki hf. from ESI ehf. amounting to a total of ISK 15,999m. The bond in question is a CPI linked bond secured by mortgage loans issued by Íslandsbanki hf, increasing the balance between assets and liabilities.

Total lending by the HFF in September 2016 amounted to ISK 573m, whereof 183m were mortgages for privately owned homes. In comparison, in August 2016, these loans amounted to ISK 154m. The average amount of mortgages for privately owned homes was ISK 8.3m.

The yield of all classes of HFF bonds rose in September. The yield of HFF24 rose by 9 bp, HFF34 by 6 bp and HFF44 by 1 bp. The total turnover of HFF bonds amounted to ISK 6.5bn this month, compared to ISK 8.3bn in August 2016. The HFF's payments due to HFF bonds and other liabilities amounted to ISK 382m in September. Prepayments amounted to ISK 3.7bn.

Development of defaulted loans

By the end of September, defaulted loans to individuals amounted to ISK 1.8bn, with the underlying loan value around ISK 18bn or approximately 3.8% of HFF's loan portfolio to privately owned homes. There are 971 households currently in arrears. The amount of defaulted loans to legal entities was around ISK 534m with an underlying loan value of ISK 2.4bn. Thus 1.6% of the Fund's loans to legal entities are connected to defaults.

The total amount in default was ISK 2.4bn at the end of the month compared to ISK 2.6bn at the end of August. Defaults are a total of 3.3% of the Fund's loan portfolio. The corresponding percentage in September 2015 was 8.5%.

Defaults are considered to be loans in arrears for longer than 90 days.

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

Series	HFF24	HFF34	HFF44
Outstanding amount (NV)	0,0	0,5	0,3

HFF Auctions, Lending and Payments

Actual figures 2016	Sept	YTD
HFF bond issuance (NV)	0	0,0
New HFF lending	0,6	8,9
HFF total payments	0,4	47,7

HFF bond holders	HFF24	HFF34	HFF44
Banks and Savings banks	0,5%	0,1%	0,2%
Individuals	3,0%	1,1%	0,6%
Foreign Investors	0,9%	1,0%	1,0%
Other Corporations	4,0%	1,7%	0,9%
Credit Institutions	3,7%	3,2%	2,1%
Pension Funds	66,1%	79,9%	89,3%
Insurance Companies	2,8%	1,2%	0,7%
Securities and Investm. Funds	16,9%	11,1%	4,5%
Others	2,0%	0,8%	0,7%
Nominal Value	160,4	171,7	269,5

Of the total issuance of the face value, ISK 6 bn in all HFF bonds directly belong to the lending facilitation for HFF bond market makers. All figures are in ISK billion.

September 2016

Summary

- Total lending amounted to ISK 573m
- Nearly 97% of households are performing on their loans
- Underlying loan value in default equals 3.3% of loan portfolio
- HFF's apartments numbered 733 whereof 373 apartments are rented out

HFF Lending Rate

4.20% fixed rate

Yield of HFF Bonds



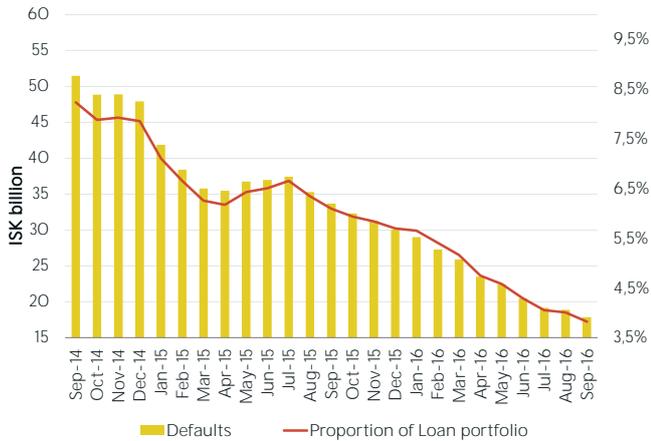
Series	Jul 2016	Aug 2016	Sep 2016	Dur-ation	Face value	Outst.n. value
HFF24	3,30%	2,94%	3,03%	3,7	160,4	74,4
HFF34	3,10%	2,69%	2,75%	8,1	171,7	124,6
HFF44	3,14%	2,71%	2,71%	12,2	269,5	225,2

*Yield on the last trading day of each month
Duration (yrs) and class size (BISK) as of end of September '16
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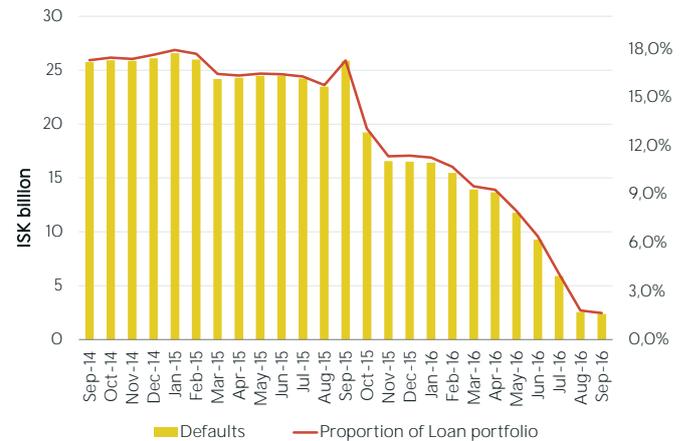
Total Lending by Quarter



Individuals - Defaults



Legal Entities - Defaults



HFF's Apartments held for sale

Property portfolio

The HFF owned 733 properties throughout Iceland by the end of September. Over the course of the month, the fund sold 43 properties and 4 apartments were added to the HFF's portfolio. In addition, purchase offers for 80 properties have been accepted and bidders are currently engaged in financing the purchases.

Undergoing the sales process were 270 properties, most of which are already available for purchase others are going through sales registration. A number of 373 apartments were rented throughout the country. A majority were rented to families and individuals who resided in the properties when the HFF acquired them.

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 table to the right contains an overview of the location of properties, categorized according to regions and their use/disposal. At the end of September 677 properties or 92% of the HFF's portfolio have been rented or are undergoing the sales process or other procedures. A further 56 properties await assessment and will they either be rented out or go into sales process.

HFF's Property According to Regions and Status, 30.09.2016

	For sale	Rented	Empty	In process	Total Sep'16	Total Aug'16
Capital Area	26	80	14	12	132	133
Sth. Peninsula	56	107	2	4	169	187
Western Region	44	47	10	1	102	103
Westfjords	27	13	0	2	42	52
Northw. Region	6	6	2	0	14	15
Northe. Region	27	16	6	4	53	52
Eastern Region	44	31	9	2	86	89
Southern Region	40	73	13	9	135	141
Total	270	373	56	34	733	772

Sold properties

