

Market developments

The Housing Financing Fund (HFF) issued ISK 1.4 billion in mortgages this month. Of that amount ISK 1.3 billion was for privately owned homes. In comparison, this amount was ISK 1.3 billion in November 2011. The average amount for privately owned homes this month was ISK 10.6 million. Since the beginning of 2012, the issued amount for privately owned homes is ISK 12.0 billion, compared to ISK 20.5 billion for the same period in 2011.

The Fund has issued a total of 1.223 mortgages for privately owned homes this year, compared to 2.043 for the same period in 2011.

The Government will obtain authorization in the 2013 Government Budget for additional equity injection into HFF, up to ISK 13 billion to ensure that the Fund's equity ratio is not lower than 3% as of the beginning of 2013. It remains, however, the policy of the authorities that HFF's equity ratio should stand at 5% as stipulated in the regulation pertaining to the Fund. Further decisions will be made before the Fund's 2012 annual closing and upon completion of a progress report by a workgroup recently appointed by the Welfare Minister.

The Welfare Minister will appoint a workgroup affiliated with the Prime Minister's Office, the Finance Ministry, the Ministry of Industries and Innovation and the Housing Financing Fund. The team's purpose is to evaluate HFF's future outlook and role in order for the Fund's operation to be sustainable. The group will complete a status report before the end of February 2013.

On November 27th, all HFF bonds were moved to the Observation List NASDAQ OMX Iceland with reference to a government announcement regarding HFF that same day. The decision was made by NASDAQ OMX Iceland due to uncertainty regarding the price formation of the bonds, cf. article 8.2 in the Rules for issuers of Financial Instruments on NASDAQ OMX Iceland.

All HFF bond yields rose 24 - 65 points in November. Since the beginning of 2012, the yield on HFF14 increased 6.55%, HFF24 0.82% and HFF44 0.07%. The yield on HFF34, however, has declined 0.14% this year.

The total turnover of HFF bonds reached ISK 61.5 billion this month, compared to ISK 30.8 billion in October 2012.

The Fund's amortization payments on HFF-bonds and other liabilities came to ISK 660 million this month, and prepaid mortgages amounted to ISK 1.6 billion.

Defaults

At the end of November, mortgage defaults on privately owned homes amounted to ISK 4.91 (4.97)* billion with an underlying value of ISK 90.3 (92.3) billion which is 13.7% (14.0%) of HFF's loan portfolio on privately owned homes. This is a 0.3% decrease from last month with an underlying default amount at the end of the month being 0.5% below the year's average. Homes in default numbered 4.795 (4.913), and there of homes with suspended mortgage payments 616 (634). This means that 9.4% (9.6%) of homes with HFF mortgages were in default at the end of November 2012, which is the same ratio as at year-end 2011.

At the end of the month, defaults on mortgages to legal entities amounted to ISK 3.3 (2.4) billion with an underlying value of ISK 30.5 (30.0) billion. 21.1% (20.8%) of the loan portfolio to legal entities was in default at the end of November, an increase of 0.3% from the previous month and 1.3% below the year's average. The decrease in defaults this year is mostly because HFF has taken over a number of the mortgaged properties.

At the end of the month, 2.641 (2.696) privately owned homes in the capital area were in default but 2.154 (2.217) homes outside that area. Considering the underlying value; 12.1% (12.4%) of mortgages for privately owned homes were in default in the capital area, but 16.3% (16.7%) for privately owned homes outside that area. 15.1% (15.3%) of the Fund's loan portfolio is in default, or in payment suspension.

Defaults are past due payments of 90 days and suspended mortgage payments.

*Figures inside parentheses are last month's figures.

Outstanding amount in the securities lending facility at the end of last month

Series	HFF14	HFF24	HFF34	HFF44
Outstanding amount (NV)	1,9	0,8	2,1	0,9

HFF Auctions, Lending and Payments

Actual figures 2012	Forecast 4Q	Actual 4Q	Actual Jan - Nov
HFF bond issuance (NV)	6 - 8	0	3,3
New HFF lending	6 - 8	2,7	14,3
HFF total payments	20 - 22	9,3	68,7

Revised forecast 2012	3Q	4Q	Total
HFF bond issuance (MV)	6 - 8	9 - 11	15 - 19
HFF bond issuance (NV)	4 - 6	6 - 8	10 - 14
New HFF lending	7 - 9	6 - 8	13 - 17
HFF total payments	17 - 19	20 - 22	37 - 41

HFF bond holders 30.11.12	HFF14	HFF24	HFF34	HFF44
Banks and Savings banks	6,2%	1,7%	1,8%	1,4%
Individuals	4,7%	4,9%	1,9%	1,4%
Foreign Investors	33,6%	3,4%	1,5%	0,6%
Other Corporations	9,0%	4,7%	4,0%	1,1%
Credit Institutions	16,3%	5,9%	4,3%	3,2%
Pension Funds	4,4%	48,0%	68,4%	81,6%
Securities and Investment Funds	23,6%	25,1%	14,6%	8,6%
Others	2,3%	6,2%	3,5%	2,0%
*	70,7	164,2	176,3	274,5

*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.

November 2012

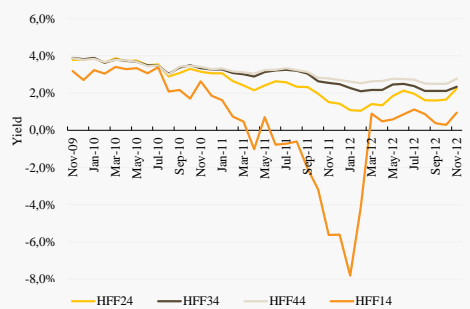
Summary

- New mortgages for privately owned homes amounted to ISK 1.3 billion in November.
- Prepayments amounted to ISK 1.6 billion.
- Privately owned homes in default decreased from last month.
- 9.4% of homes are in default.
- Total amount in default is ISK 8.21 billion, underlying loan amount equals 15.1% of loan portfolio.
- HFF's appropriated properties numbered 2.193

HFF Lending Rate

- 4,20% With a prepayment fee
- 4,70% Without a prepayment fee

Yield of HFF Bonds



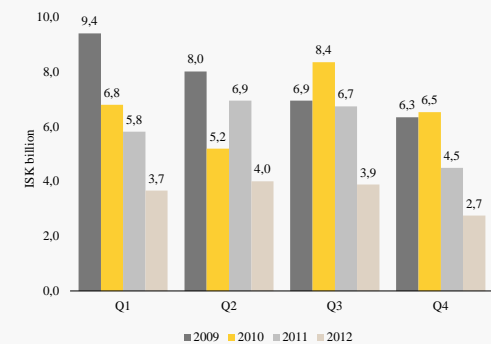
Series	Sept 2012	Oct 2012	Nov 2012	Duration	Face value	Outst. n. value
HFF14	0,39%	0,30%	0,95%	1,0	70,7	16,3
HFF24	1,60%	1,65%	2,25%	5,5	164,2	108,9
HFF34	2,12%	2,11%	2,35%	10,0	176,3	144,3
HFF44	2,50%	2,50%	2,77%	13,5	274,5	246,7

*Yield on the last trading day of each month

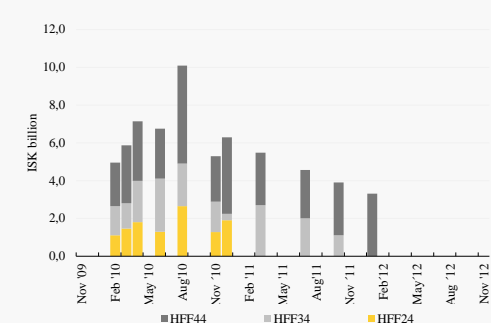
Duration (yrs) and class size (MISK) as of end of November '12

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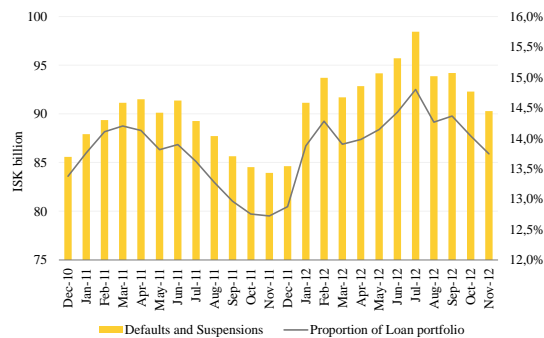
Total Lending by Quarter



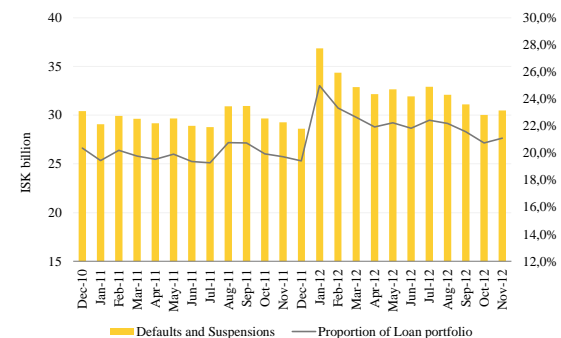
HFF Bond Auctions



Defaults and Suspensions of Individuals



Defaults and Suspensions of Legal Entities



HFF's Appropriated Property

Portfolio

At the end of November, HFF's appropriated properties throughout the country numbered 2.193, an increase of 38 from last month. Around 53% of HFF's appropriated properties were previously owned by constructors, rental companies or other legal entities

Out of HFF's total properties, 1492 were built in 1972 – 2008 but only 60 after 2008. 641 were built prior to 1972.

The total portfolio size is 240.982 m². Of that, 48.538 m² is in the capital area, 81.981 m² in the Southern Peninsula, 39.603 m² in the Southern region, 21.760 m² in the Eastern region and 49.100 m² in other regions.

The table on the right exhibits the location of these properties according to regions in addition to the present usage.

Throughout the country, 881 of these properties are being rented. HFF is authorized to rent out properties in regions where there is a shortage of rental properties. Therefore the number of HFF rental properties in areas with high demand has been increasing. Rates are based on rental market rates, using among other things a database of registered rental contracts, in order to evaluate market rates in certain regions, comparing similar properties according to location, size, age, etc. Registered rental contracts are archived at Registry Iceland which holds a record of 17.000 registered rental contracts.

324 properties are uninhabitable. These are either in the building process, hence not fully completed or uninhabitable due to age or poor condition. 729 properties are in the process of being sold; they are either already registered for sale or in the pre-registration process. All real estate agencies throughout the country are permitted to sell HFF's properties and a contract between the agencies and HFF states the process in which this should be done.

Out of HFF's 2.139 properties, 1.673 have so far either been rented, or are in the process of being sold. 520 properties await assessment. Many of them are in regions where there is a significant supply of property.

HFF has sold 570 properties since the beginning of 2008.

HFF's Property According to Regions and Status, 30.11.2012

	Rented		Uninhabitable	In process	Total	
	Empty	Occupied			30.11.12	31.10.12
Capital Area	275	111	69	26	481	466
Southern Peninsula	241	329	135	20	725	715
Western Region	83	119	58	4	264	259
Westfjords	15	28	15	0	58	54
Northwestern Region	6	7	0	0	13	13
Northeastern Region	73	46	2	4	125	122
Eastern Region	65	146	12	1	224	225
Southern Region	123	139	33	8	303	301
Total	881	925	324	63	2.193	2.155
- Process of being sold	0	486	243	0	729	
- Rented/other	881	0	0	63	944	
Total unoccupied/ in process	0	439	81	0	520	504

Sold properties

