

Market developments

The Housing Financing Fund (HFF) issued ISK 912 million in mortgages this month. Of that amount, ISK 863 million was for privately owned homes. In comparison, this amount was approximately ISK 1.3 billion in September 2012. The average amount for privately owned homes came to ISK 9.9 million.

Eygló Harðardóttir, Minister of Social Affairs and Housing, appointed a new Board of Directors for the Fund this month. According to amendments made to the Housing Act in July 2012, the CEO and the Board of Directors must now meet the eligibility assessment conducted by The Financial Supervisory Authority.

On September 24th, Moody's rating services affirmed the Fund's Ba1 ratings of the Fund. The outlook is stable.

Yields for all HFF bonds increased this month, by 4-20 points. So far this year, yields on HFF 14 increased 0.20 %, HFF34 0.27% and HFF44 0.17%. HFF24 declined 0.03%. The total turnover of HFF bonds reached ISK 33.6 billion this month, compared to ISK 28.4 billion last month. The Fund's amortization payments on HFF bonds and other liabilities came to ISK 7.9 billion, and prepaid mortgages amounted to ISK 1.4 billion. On September 4th, the Fund announced an additional call on HFF bonds, payable on November 15th 2013. A summary of called bonds was published in the Icelandic Legal Gazette (Lögbirtingablaðið) on September 15th.

Defaults

The number of homes in default continued to decline in September. So far this year, the number of homes in default has dropped approximately 10%, or by 485 homes. The ratio of the underlying mortgage value associated with privately owned homes also continued to drop. At the end of the month, mortgage defaults associated with privately owned homes came to ISK 4.7 billion with an underlying value of ISK 80.4 billion, or approximately 12.26% of HFF's loan portfolio on privately owned homes. This is a 0.18% decrease from the previous month. Homes in default numbered 4,230, thereof 640 homes with suspended mortgage payments. This means that 8.50% of homes with HFF mortgages were in default at the end of September 2013. At the end of the month, defaults on mortgages to legal entities amounted to ISK 4.2 billion with an underlying value of ISK 32.8 billion. Hence, 22.13% of the loan portfolio to legal entities was in default, an increase of 0.80% from the previous month. Defaults or payment suspensions amounted to 14.08% of the Fund's portfolio, compared to 15.48% in September of last year.

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

Outst. amount in the securities lending facility at the end of last month

| Series | HFF14 | HFF24 | HFF34 | HFF44 |
|-------------------------|-------|-------|-------|-------|
| Outstanding amount (NV) | 1,2 | 0,6 | 0,3 | 0,5 |

HFF Auctions, Lending and Payments

| Actual figures 2013 | Forecast 3Q | Actual 3Q | Actual Jan-Sep |
|------------------------|-------------|-----------|----------------|
| HFF bond issuance (NV) | 0 | 0 | 0,0 |
| New HFF lending | 0 | 3,1 | 8,7 |
| HFF total payments | 0 | 18,9 | 61,0 |

| HFF bond holders 30.9.2013 | HFF14 | HFF24 | HFF34 | HFF44 |
|---------------------------------|-------|-------|-------|-------|
| Banks and Savings banks | 13,2% | 1,8% | 0,5% | 0,5% |
| Individuals | 4,2% | 3,2% | 1,4% | 0,9% |
| Foreign Investors | 13,1% | 1,8% | 1,8% | 0,6% |
| Other Corporations | 12,5% | 4,4% | 3,2% | 0,5% |
| Credit Institutions | 17,7% | 5,9% | 5,5% | 3,4% |
| Pension Funds | 4,8% | 52,4% | 68,7% | 85,9% |
| Insurance Companies | 5,1% | 3,5% | 1,9% | 0,9% |
| Securities and Investment Funds | 28,4% | 24,6% | 16,3% | 6,7% |
| Others | 1,0% | 2,3% | 0,7% | 0,7% |
| 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.

September 2013

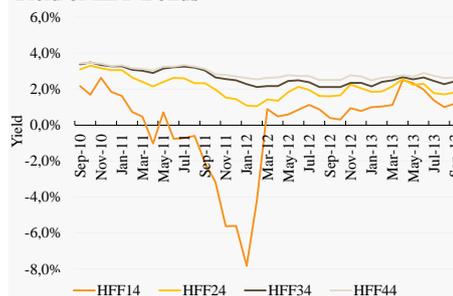
Summary

- New mortgages for privately owned homes amounted to ISK 863 million
- Prepayments amounted to ISK 1.4 billion
- Privately owned homes in default decreased from last month
- 8.5% of homes are in default
- Total amount in default is ISK 8.9 billion, underlying loan amount equals 14.1% of loan portfolio
- HFF's appropriated properties numbered 2.518

HFF Lending Rate

- 4.20% With a prepayment fee
- 4.70% Without a prepayment fee

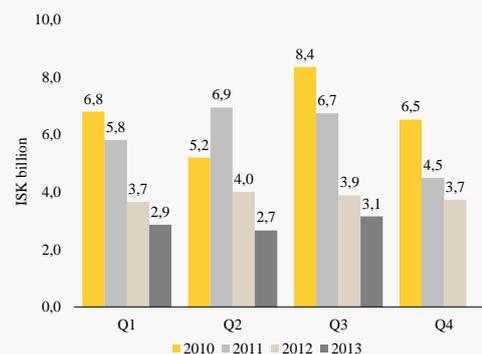
Yield of HFF Bonds



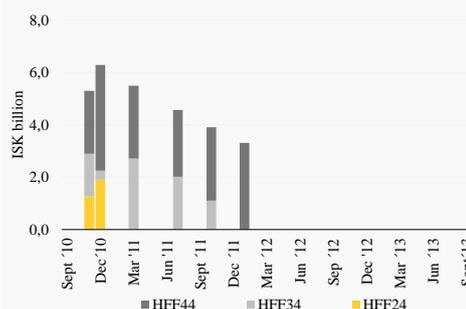
| Series | July 2013 | Aug 2013 | Sept 2014 | Duration | Face value | Outst.n. |
|--------|-----------|----------|-----------|----------|------------|----------|
| HFF14 | 1,37% | 0,99% | 1,19% | 0,7 | 70,0 | 8,2 |
| HFF24 | 1,77% | 1,71% | 1,82% | 5,2 | 164,0 | 101,0 |
| HFF34 | 2,45% | 2,28% | 2,43% | 9,4 | 175,3 | 141,3 |
| HFF44 | 2,74% | 2,62% | 2,66% | 13,4 | 273,1 | 241,4 |

*Yield on the last trading day of each month
Duration (yrs) and class size (MISK) as of end of September '13
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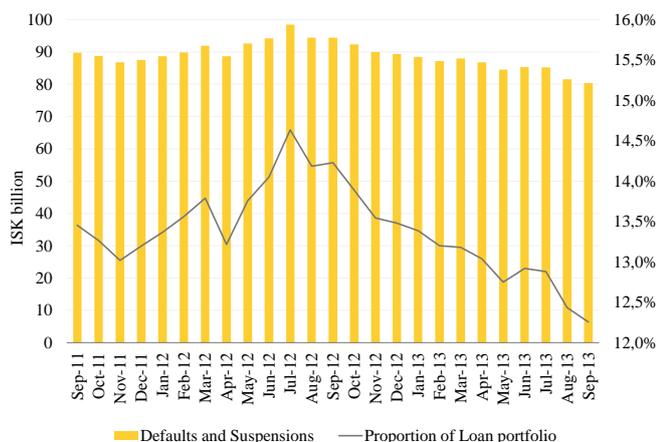
Total Lending by Quarter



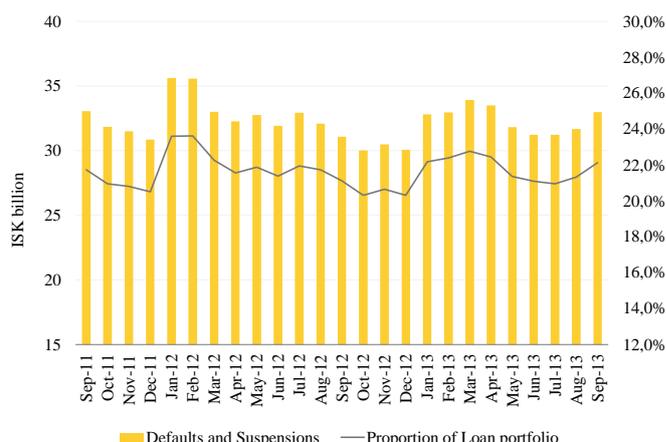
HFF Bond Auctions



Individuals - Defaults and Suspensions



Legal Entities - Defaults and Suspensions



HFF's Appropriated Property

Portfolio

HFF's appropriated properties throughout the country totaled 2,518 in September, compared to 2,575 in August.

A total of 1,181 were being rented throughout the country, most of them to families or persons that occupied the property when acquired by the Fund. The Fund is also authorized to rent out its properties in the general market in areas experiencing a shortage of rental properties. Hence, the Fund has increased the number of rental properties by 330 in the past year in areas experiencing a shortage. The Fund emphasizes renting its available properties; others are being renovated and will be advertised in the next few months.

Property sales are more successful this year than in 2012. For example, the Fund sold to contractors 54 apartments in Vindakor (Kopavogur) this month. The Fund acquired the apartment complex in an early construction stage in 2009. Since the beginning of the year, the Fund has sold 218 properties so far, compared to 98 over the same period in 2012. The number of sold properties since the beginning of 2008 totals 793. The number of properties in the sales process is 875, either in the registration process or already for sale. The Fund is in the process of registering all of its properties that is not being rented, with real estate agencies. 225 properties were uninhabitable, thereof 175 in the building process, hence not ready. The table on the right exhibits the location of properties according to regions in addition to present usage.

All real estate agencies in Iceland are permitted to sell the Fund's properties. A contract between the agencies and the Association of Real Estate Agents is currently in effect, stating guidelines regarding the sales process. Rental rates are based on market rates, similar properties, location, size, age, etc.

Out of HFF's 2,518 properties which the Fund owned at the end of September, 2,090 have so far either been rented, or are in the process of being sold. Additionally, 428 await assessment. Many of them are located in regions where there is a considerable oversupply of property for rent and/or sale.

HFF's Property According to Regions and Status, 30.9.2013

| | Rented | Uninhabitable | In process | Total Sep '13 | Total Aug '13 |
|-------------------------------------|--------------|---------------|------------|---------------|---------------|
| Capital Area | 383 | 151 | 8 | 554 | 600 |
| Southern Peninsula | 294 | 391 | 125 | 811 | 814 |
| Western Region | 104 | 134 | 37 | 279 | 278 |
| Westfjords | 9 | 40 | 15 | 68 | 74 |
| Northwestern Region | 7 | 11 | 0 | 19 | 19 |
| Northeastern Region | 99 | 62 | 1 | 163 | 165 |
| Eastern Region | 118 | 130 | 11 | 263 | 263 |
| Southern Region | 167 | 159 | 28 | 361 | 362 |
| Total | 1,181 | 1,078 | 225 | 2,518 | 2,575 |
| - Process of being sold | 0 | 711 | 164 | 875 | 882 |
| - Rented/other | 1,181 | 0 | 0 | 1,215 | 1,232 |
| Total unoccupied/ in process | 0 | 367 | 61 | 428 | 461 |

Sold properties

