

## Market Developments

The Housing Financing Fund (HFF) issued a little less than ISK 5.0 billions in mortgage loans in June, whereof general loans amounted to ISK 4.1 billions while loans for rental housing constituted almost ISK 0.9 billions. The total lending by the Fund increased by almost 4% from the previous month. The total lending by the Housing Financing Fund in the second quarter amounted to about ISK 14.0 billions and about ISK 25.0 in the first half of 2008.

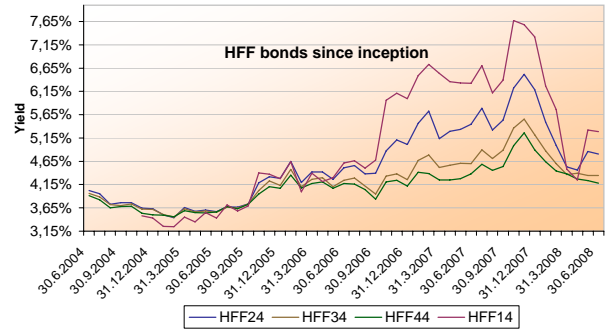
The Housing Financing Fund renewed primary dealership and market makers contracts for HFF-bonds with three banks and three financial institutions in June. The contracts are with Glitnir Bank, Kaupthing Bank, Landsbanki Bank, MP Investment Bank, Saga Capital Investment Bank and Straumur Burdaras Investment Bank and were signed on June 18th to take effect on July 1st.

On June 19th the government of Iceland released a statement in relation to specific measures in housing affairs. These measures include lending to banks, savings banks and other financial institutions for housing loans, raising the maximum loan amount for the Housing Financing Fund (HFF), eliminating fire insurance valuation as a reference point for the Fund's loan amounts and increasing concession for general rental housing loans. These measures will contribute to increase in scheduled issuance of HFF bonds. A new schedule for lending, bond issuance and repayments in the year 2008 will be published at OMX Nordic Exchange in Iceland in July 2008.

The Housing Financing Fund held its second auction in 2008 for HFF bonds. Total bids amounted to ISK 20.8 billions nominal value. The HFF accepted bids worth nominal value ISK 3.6 billions for HFF24 with the weighted yield of 4.8% excluding fees, 3.7 billions for HFF34 with the weighted yield of 4.44% excluding fees and 700 million for HFF44 with the weighted yield of 4.3% excluding fees. As a result the Fund's lending interest rates were lowered and are now 5.05% for loans with a prepayment clause and 5.55% for loans without such a clause.

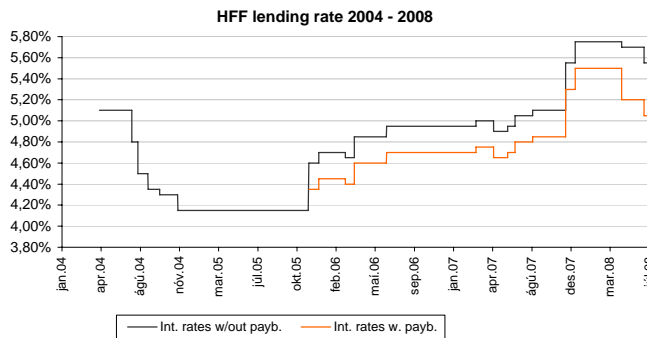
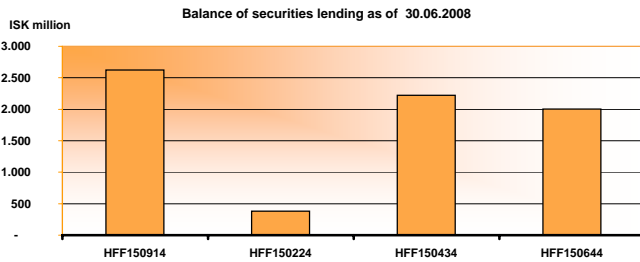
The EFTA Surveillance Authority issued a preliminary view concerning its investigation which opened in June 2006 on the compatibility of the financial support from the Icelandic state to the Housing Financing Fund(HFF) with the EEA-agreement. The press release can be accessed on <http://www.eftasurv.int/information/pressrelease/2008pr/dbaFile14286.html>

Housing Financing Fund(HFF) repayments in June amounted to around ISK 7.4 billions of which the majority were repayments of HFF bonds.



| Series | Apr. 2008 | May 2008 | Jun. 2008 | Duration | Face value | Outst. F.value |
|--------|-----------|----------|-----------|----------|------------|----------------|
| HFF14  | 4,25%     | 5,32%    | 5,29%     | 3,0      | 60,1       | 41,6           |
| HFF24  | 4,46%     | 4,86%    | 4,80%     | 6,9      | 138,5      | 118,3          |
| HFF34  | 4,39%     | 4,34%    | 4,34%     | 10,7     | 136,1      | 125,4          |
| HFF44  | 4,27%     | 4,23%    | 4,18%     | 13,9     | 216,2      | 206,1          |

\*Yield on the last trading day of each month  
Duration (yrs) and class size (MISK) as of end of June '08  
Of the total issuance of the face value, ISK 7.2 bn in each series directly belong to the lending facilitation for HFF bond market makers



### HFF Auctions, Lending and Payments

|                   | Actual Figures 2008 |           |               |                     |
|-------------------|---------------------|-----------|---------------|---------------------|
|                   | Forecast Q2         | Actual Q2 | Forecast 2008 | Actual Jan-Jun 2008 |
| MISK              |                     |           |               |                     |
| HFF bond issuance | 14-16               | 16,0      | 35-41         | 16,0                |
| New HFF lending   | 13-15               | 14,0      | 49-55         | 25,0                |
| HFF payments      | 11-13               | 12,6      | 44-52         | 25,1                |

|                   | Revised Forecast for 2008 |       |       |       |            |
|-------------------|---------------------------|-------|-------|-------|------------|
|                   | 1Q                        | 2Q    | 3Q    | 4Q    | Total 2008 |
| MISK              |                           |       |       |       |            |
| HFF bond issuance | 0                         | 14-16 | 11-13 | 10-12 | 35-41      |
| New HFF lending   | 11                        | 13-15 | 12-14 | 13-15 | 49-55      |
| HFF payments      | 11-13                     | 11-13 | 10-12 | 12-14 | 44-52      |

