

**Market Developments**

The Housing Financing Fund (HFF) issued approximately ISK 2 billion in mortgages in December. Of that amount, roughly ISK 1.7 billion were for private ownership. The total amount of mortgages issued in Q4 2010 came to almost ISK 6.4 billion, compared to approximately ISK 6.2 billion for the same period in 2009. The total amount for 2010 amounted to ISK 26.9 billion compared to almost ISK 31 billion in 2009. The average loan amount issued for private ownership housing was ISK 10.3 million in December compared to about ISK 8.3 million last November.

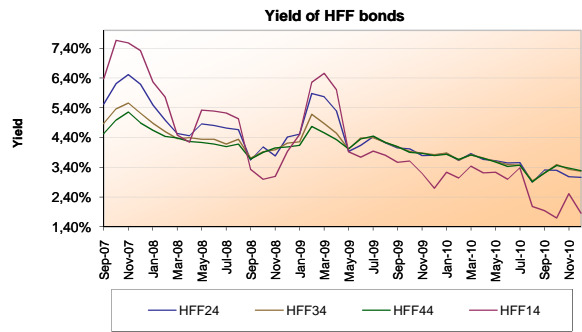
On December 7 2010, the Parliament approved to supply HFF with ISK 33 billion in order to increase the Fund's equity, aiming to have the Fund's capital ratio up to 5% of its risk - adjusted assets by the end of 2011. This increase in equity is in accordance with a letter of intent from the IMF (International Monetary Fund) and the Icelandic government from September 2010.

On December 10<sup>th</sup> HFF held its 7<sup>th</sup> HFF bond auction in 2010. The Fund received bids totaling ISK 7.287 billion at nominal value and accepted bids amounting to ISK 1.907 billion at a nominal price in series HFF24 with an average yield of 2.92% without commission, ISK 340 millions in HFF34 with an average yield of 3.27% without commission, and ISK 4.040 billion in HFF44 with an average yield of 3.37% without commission. The weighted average yield of accepted bids without commission was 3.22% but 3.25% with commission.

Total turnover of HFF bonds reached approximately ISK 48 billion this month, compared to ISK 119.5 billion in November. Total turnover in 2010 amounted to almost ISK 876 billion this year, compared to ISK 985 billion in 2009.

Yields on all bond series declined from the beginning to the end of 2010, by 51-84 points depending on the bond series.

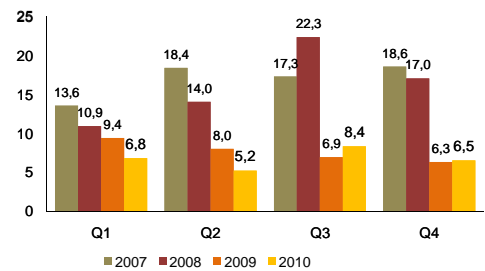
HFF's payments came to approximately ISK 11 billion this month, mostly due to amortizations of housing bonds. The amount of prepaid mortgages amounted to almost ISK 1.9 billion in December.



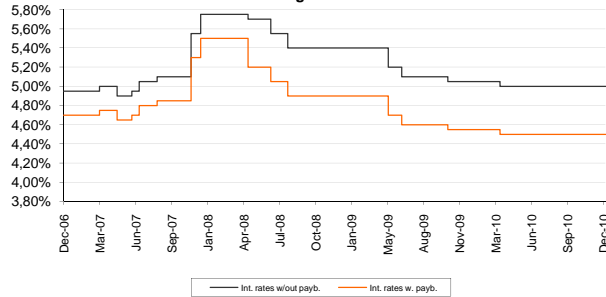
| Series | Oct. 2010 | Nov. 2010 | Dec. 2010 | Duration | Face value | Outst. F. value |
|--------|-----------|-----------|-----------|----------|------------|-----------------|
| HFF14  | 1,70%     | 2,52%     | 1,86%     | 1,9      | 70,7       | 31,4            |
| HFF24  | 3,30%     | 3,09%     | 3,06%     | 6,2      | 164,2      | 123,5           |
| HFF34  | 3,49%     | 3,33%     | 3,26%     | 10,3     | 170,5      | 147,7           |
| HFF44  | 3,46%     | 3,37%     | 3,29%     | 14,0     | 263,1      | 242,1           |

\*Yield on the last trading day of each month  
Duration (yrs) and class size (MISK) as of end of December '10  
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.

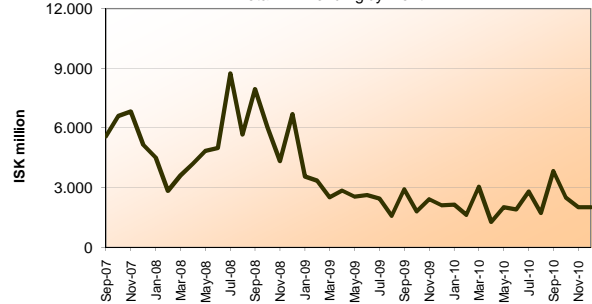
Total lending by quarter (ISK billion)



HFF lending rate 2006 - 2010



Total HFF lending by month



HFF Auctions, Lending and Payments

Actual Figures 2010

| MISK              | Forecast Q4 | Actual Q4 | Forecast 2010 | Actual Jan-Dec 2010 |
|-------------------|-------------|-----------|---------------|---------------------|
| HFF bond issuance | 11 - 13     | 11,6      | 42 - 50       | 46,4                |
| New HFF lending   | 7 - 9       | 6,5       | 25 - 33       | 26,9                |
| HFF payments      | 16 - 18     | 22,0      | 65 - 73       | 79,4                |

Revised Forecast 2010

| MISK              | 1Q     | 2Q      | 3Q      | 4Q      | Total 2010 |
|-------------------|--------|---------|---------|---------|------------|
| HFF bond issuance | 9 - 11 | 12 - 14 | 10 - 12 | 11 - 13 | 42 - 50    |
| New HFF lending   | 5 - 7  | 6 - 8   | 7 - 9   | 7 - 9   | 25 - 33    |
| HFF payments      | 15-17  | 20 - 22 | 14 - 16 | 16-18   | 65 - 73    |

HFF bonds auctions

