

Market Developments

The Housing Financing Fund (HFF) issued around ISK 2.4 billion in mortgages this month. Of that amount, roughly ISK 2.3 billion was for privately owned homes. In comparison, this amount was approximately ISK 1.7 billion in August of last year. The average loan amount issued for privately owned homes was about ISK 10 million this month, not much different from July's amount. In the first 8 months this year, the Fund has issued approximately ISK 15.9 billion compared to ISK 11 billion for the same period in 2010.

On August 31st, the Fund published its 2011 condensed interim account representing a net profit of ISK 1.5 billion compared to a net loss of ISK 1.6 billion for the same period last year. The difference is on one hand due to a reversal of provisions for impairment losses, since the Fund had expected approximately 9400 applications for the government's 110% policy, but only received about 5000. On the other hand, total operating cost has increased from last year due to additional employees handling applications for payment difficulties, property management and financial restructuring of rental associations. Higher operating cost is also due to auctioned property that the Fund has taken over. On June 30th 2011, the Fund's equity was approximately ISK 10 billion compared to ISK 8.6 billion at the end of 2010, and the capital ratio is presently 2.4% compared to 2.2% in the beginning of 2011. The ratio is calculated in accordance to clauses in regulation no. 544/2004 on HFF and in the same way as other financial institutions calculate their capital ratio.

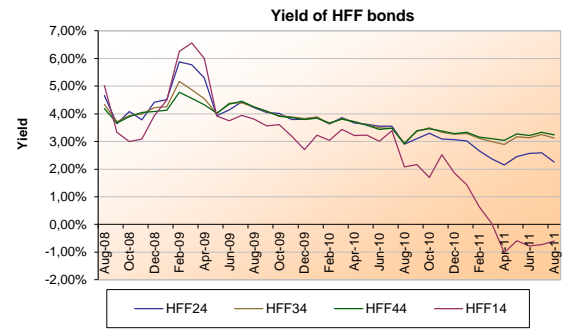
Saga Investment bank terminated its Primary dealership agreement with HFF, regarding HFF bond auctions and market making in the secondary market, effective on September 1st, 2011

The CPI based on prices in August increased 0.26% from July (0.36% less housing cost). In the last 12 months, the CPI has risen 5.0% (4.7% less housing cost) and in the last 3 months, it has risen 0.9% which is equivalent to a 3.5% annual inflation (2.7% less housing cost).

The yield on all HFF bonds, except for HFF14, declined in August. The decline was 10-33 points depending on the series, but HFF14 increased by 12 points.

Total turnover of HFF bonds reached approximately ISK 64 billion this month, compared to roughly ISK 44 billion in July this year.

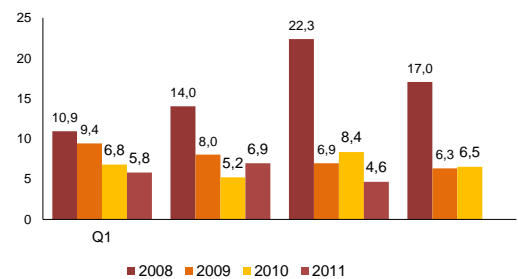
The Fund amortization payments on HFF-and housing bonds came to around ISK 9.8 billion this month. Prepaid mortgages amounted to ISK 940 million.



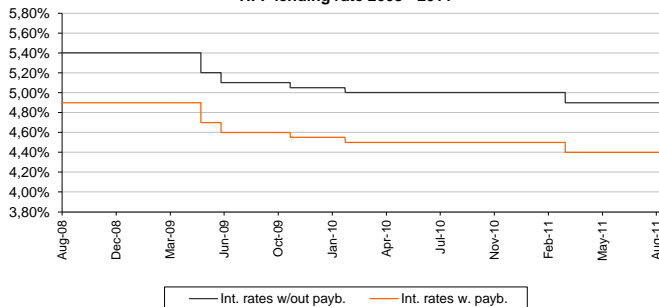
Series	June 2011	July 2011	Aug. 2011	Duration	Face value	Outst. F. value
HFF14	-0,77%	-0,73%	-0,61%	1,5	70,7	27,8
HFF24	2,56%	2,59%	2,25%	6,2	164,2	116,3
HFF34	3,14%	3,25%	3,12%	10,0	175,2	149,8
HFF44	3,22%	3,34%	3,23%	13,7	268,4	245,1

*Yield on the last trading day of each month
Duration (yrs) and class size (MISK) as of end of August '11
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.

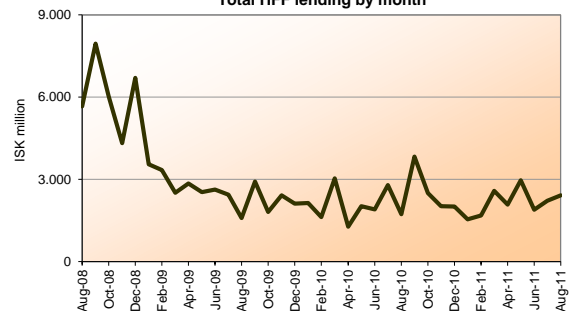
Total lending by quarter (ISK billion)



HFF lending rate 2008 - 2011



Total HFF lending by month



HFF Auctions, Lending and Payments

Actual Figures 2011

Billion ISK	Forecast		Forecast		Actual Jan-Aug 2011
	Q3	Actual	Q3	2011**	
HFF bond issuance**	7 - 9	4,6	14 - 18	10,0	
New HFF lending	6 - 8	4,6	12 - 16	17,4	
HFF total payments	15 - 17	10,1	33 - 37	48,5	

**Forecast for Q3 and Q4
*Nominal value

Revised forecast 2011

Billion ISK	3Q		4Q		Total
	7 - 9	7 - 9	10 - 13	10 - 13	
HFF bond issuance (Nominal value)	7 - 9	7 - 9	14 - 18	14 - 18	
HFF bond issuance (Market value)	10 - 13	10 - 13	20 - 26	20 - 26	
New HFF lending	6 - 8	6 - 8	12 - 16	12 - 16	
HFF total payments	15 - 17	15 - 17	33 - 37	33 - 37	

HFF bonds auctions

