

Market Developments

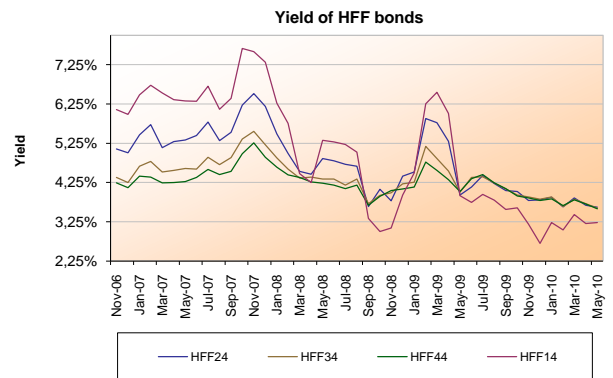
The Housing Financing Fund (HFF) issued roughly ISK 2 billion in mortgages in May. Of that amount, roughly ISK 1.3 billion were mortgages for private ownership. The total amount of issued mortgages in the first five months of 2010 comes to about ISK 10 billion compared to almost ISK 14.8 billion in 2009. The average loan amount was ISK 8.6 million in May but approximately ISK 8.4 million in April.

On May 21st, employees of the Housing Financing Fund (HFF) met with its current market makers for HFF bonds in order to renew agreements on a primary dealership system for HFF bond auctions and market making of HFF bonds in the secondary market. The new agreements will take effect on July 1st, 2010. Certain changes were discussed at the meeting and are as follows: Since it is impossible for HFF to increase issuance in bond series HFF150914 due to current regulations on loan indexation, market makers for that series will only have to submit bids, starting on October 1st, 2010. In the event of a new HFF bond series to be issued during the term of the agreement, market making of that series is anticipated. Undecided features regarding the expected bond series include; the terms of the bonds, whether or not it should include a prepayment clause and whether or not it should be indexed to the CPI (Consumer Price Index). The commission paid to market makers in HFF bond auctions is expected to increase by 0.05%, or from 0.15% to 0.20%. Also, the spread between bid and sales quotes will probably be lowered by 0.05%, for each series.

The property index in the capital area of Iceland declined by 3.56% from April 2009 until April of this year. This is due to a 4.97% decrease in the property index for multifamily homes and a 2.40% increase in the property index of single family homes. The index also declined in the capital area between the months of March and April of this year, or by 0.16%. This is also due to a 0.72% decrease in the index for multifamily homes and an increase of 2.13% for single family homes. For further information, please see, www.fmr.is, the website for the Property Registry of Iceland.

On May 5th, 2010, the Monetary Policy Committee of CBI (Central Bank of Iceland) lowered the bank's interest rate by 0.5 percentage points. Yields on HFF bonds changed slightly as a result. Total turnover of HFF bonds reached approximately ISK 46.6 billion this month, compared to ISK 48.5 billion in April. Yields on HFF bonds rose by 2 points on HFF150914 but declined by 4 - 12 points in other bond series.

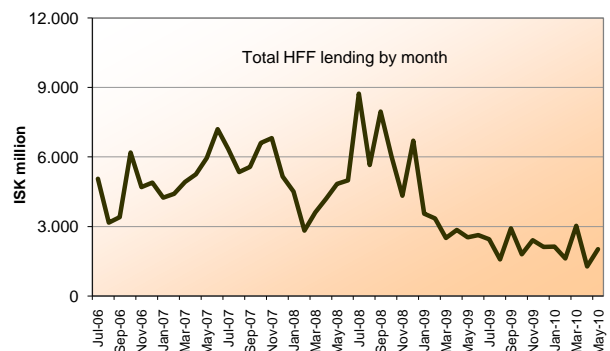
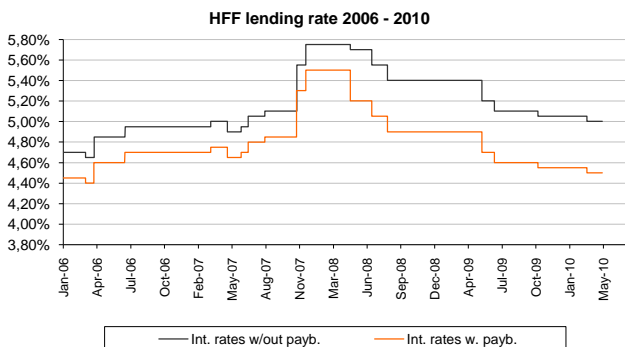
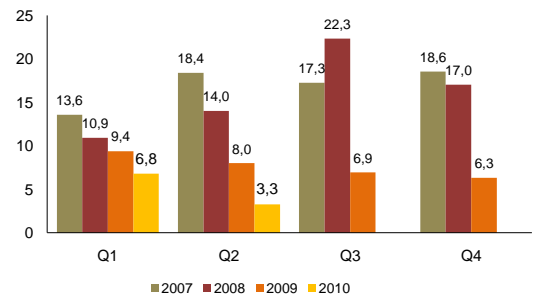
HFF's payments on HFF and housing bonds in May came to approximately ISK 741 million. The amount of prepaid mortgages came to almost ISK 1.9 billion.



Series	Mar. 2010	Apr. 2010	May 2010	Duration	Face value	Outst. F.value
HFF14	3,44%	3,21%	3,23%	2,2	70,7	35,1
HFF24	3,86%	3,67%	3,62%	6,4	157,0	121,5
HFF34	3,83%	3,71%	3,60%	10,4	163,5	143,5
HFF44	3,81%	3,71%	3,58%	13,6	248,8	232,3

*Yield on the last trading day of each month
Duration (yrs) and class size (MISK) as of end of May '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 Auctions, Lending and Payments

Actual Figures 2010

MISK	Forecast Q2	Actual Q2	Forecast 2010	Actual Jan-Apr 2010
HFF bond issuance	12 - 14	7,1	42 - 50	18,0
New HFF lending	6 - 8	3,3	25 - 33	10,1
HFF payments	20 - 22	12,8	65 - 73	30,6

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

