

Íbúðalánasjóður
Housing Financing Fund
Condensed Interim Accounts
January - June 2009

Housing Financing Fund
Borgartún 21
105 Reykjavík
Iceland

Reg. no. 661198-3629

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Endorsement and Statement by the Board of Directors and Managing Director

The Condensed Interim Accounts for the period 1 January to 30 June 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) for interim accounts.

According to the income statement, the net profit of the Fund amounted to ISK 463 million for the six months ended 30 June 2009. Equity, according to the balance sheet, amounted to ISK 13.748 million at the end of the period. The capital ratio of the Fund, calculated according to stipulations in the Rules on the Housing Financing Fund no. 544/2004, was 4.3%. The calculation of the ratio is equivalent to the calculation of the capital ratio of financial institutions. The long-term goal of the Fund is to keep the ratio above 5.0%.

As stated in note no. 8 the Fund has deposits at SPRON and Straumur - Burðarás fjárfestingarbanki hf. There is a controversy concerning definition of these deposits. If the Fund's claims will be classified as general claims the Fund's loss could amount to around ISK 3.5 billion based on the companies' resolution committees' schedule of reimbursement ratio for uninsured claims.

Statement by the Board of Directors and the Managing Director

To the best of our knowledge the condensed interim financial accounts are in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and give a true and fair view of the financial performance of the Fund for the period 1 January to 30 June 2009, its assets, liabilities and financial position as at 30 June 2009 and its interim statement of cash flows for the period.

Further, in our opinion the condensed interim financial accounts and the endorsement by the Board of Directors and the Managing Director give a fair view of the development and performance of the Fund's operations and its financial position and fairly describes the principal risks and uncertainties faced by the Fund.

The Board of Directors and the Managing Director of the Housing Financing Fund have today discussed the Fund's Financial Statements for the six-month period ended 30 June 2009 and confirm them by means of their signatures.

Reykjavík, 31 August 2009.

The Board of Directors:

Hákon Hákonarson
Chairman

Gunnar S. Björnsson

Kristján Pálsson

Elín R. Líndal

Jóhann Ársællsson

The Managing Director:

Guðmundur Bjarnason

Independent Auditor's Review Report

To the Board of Directors of the Housing Financing Fund.

We have reviewed the accompanying condensed financial statements of the Housing Financing Fund, which comprise the balance sheet as at 30 June, 2009 and the income statement, statement of changes in equity and statement of cash flow for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 June, 2009, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34, Interim Financial Reporting.

Reykjavík, 31 August 2009.

KPMG hf.

Margrét Guðjónsdóttir

Condensed Interim Income Statement for the Period from 1 January to 30 June 2009

	Notes	2009 1.1 -30.6.	2008 1.1. - 30.6.
Interest income		43,374,139	69,117,170
Interest expense		(41,670,728)	(67,879,288)
Net interest income	5	<u>1,703,411</u>	<u>1,237,882</u>
Service income		<u>99,976</u>	<u>91,538</u>
Operating income		1,803,387	1,329,420
Salaries and salary-related expenses		232,187	221,609
Other administrative expenses		350,045	252,657
Other operating expenses		15,995	18,057
Depreciation and amortisation		<u>26,442</u>	<u>18,903</u>
Total operating expenses		<u>624,669</u>	<u>511,226</u>
Impairment	6	<u>(715,587)</u>	<u>(352,206)</u>
Net profit for the period	7	<u>463,131</u>	<u>465,988</u>

Condensed Interim Balance Sheet as at 30 June 2009

	Notes	30/06/2009	31/12/2008
Assets			
Cash and cash equivalents		33,501,008	13,515,506
Loans to banks		11,426,199	29,767,718
Loans to customers		719,282,922	680,405,761
Assets held for sale		2,425,154	1,031,257
Operating assets		60,706	67,164
Intangible assets		138,186	125,364
Other assets		418,769	1,606,476
Total assets		<u>767,252,944</u>	<u>726,519,246</u>
Liabilities			
Bond issues		747,034,543	708,496,649
Other borrowings		6,369,229	4,172,679
Other liabilities		101,131	565,008
Total liabilities		<u>753,504,903</u>	<u>713,234,336</u>
Equity			
Contributed capital		7,155,408	7,155,408
Retained earnings		6,592,633	6,129,502
Total equity	7	<u>13,748,041</u>	<u>13,284,910</u>
Total liabilities and equity		<u>767,252,944</u>	<u>726,519,246</u>

Condensed Interim Statement of Changes in Equity for the Period from 1 January to 30 June 2009

	Contributed capital	Retained earnings	Total equity
Changes in equity from 1 January to 30 June 2008:			
Equity as at 1 January 2008	7,155,408	13,033,365	20,188,773
Net profit for the period		465,988	465,988
Equity as at 30 June 2008	7,155,408	13,499,353	20,654,761
 Changes in equity from 1 January to 30 June 2009:			
Equity as at 1 January 2009	7,155,408	6,129,502	13,284,910
Net profit for the period		463,131	463,131
Equity as at 30 June 2009	7,155,408	6,592,633	13,748,041

Condensed Interim Statement of Cash Flows for the Period from 1 January to 30 June 2009

	Notes	2009 1.1. - 30.6.	2008 1.1 - 30.6.
Net cash provided by (used in) operating activities		5,886,899	(4,404,465)
Net cash used in investing activities		(32,807)	(43,933)
Net cash provided by financing activities		<u>14,131,410</u>	<u>4,750,735</u>
Net increase in cash and cash equivalents		19,985,502	302,337
Cash and cash equivalents at the beginning of the year		<u>13,515,506</u>	<u>1,053,355</u>
Cash and cash equivalents at the end of the period		<u><u>33,501,008</u></u>	<u><u>1,355,692</u></u>

Notes to the Condensed Interim Accounts

General information

1. Reporting entity

The Housing Financing Fund ("the Fund") is domiciled in Iceland. The address of the Fund's registered office is Borgartún 21, Reykjavik. The Fund's objectives are to provide housing loans, loans for new constructions and property development in Iceland. The Housing Financing Fund is an independent institution owned by the State and appertains to a special management and the Minister of Social Affairs.

The financial statements of the Housing Financing Fund were approved by the Board of Directors on 31 August 2009.

2. Statement of compliance

The condensed interim accounts have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Fund as at and for the year ended 31 December 2008.

At the beginning of the year, revised IAS 1 *Presentation of Financial Statements* (2007) became effective. According to the standard, an entity shall present a statement of comprehensive income. Comprehensive income consist of both revenue and expenses recognised in profit or loss as well as revenue and expenses recognised directly in equity. No revenue or expenses of the Fund are recognised directly in equity and net profit for the period is therefore equal to comprehensive income. Therefore, the Fund only presents an income statement.

3. Significant accounting policies

The accounting policies applied by the Fund in these condensed interim accounts are the same as those applied by the Fund in its annual financial statements as at and for the year ended 31 December 2008. The financial statements are available on the Fund's homepage; www.ils.is as well as on the Icelandic stock exchange's homepage; www.omxnordicexchange.com

The condensed interim accounts are presented in Icelandic Krona (ISK) which is the Fund's functional currency. All amounts are rounded to the nearest thousand unless otherwise stated. They have been prepared on historical cost basis except for trading assets, financial assets and liabilities designated at fair value through profit and loss. Those financial assets and liabilities are measured at fair value. Assets held for sale are measured at the lower of book value or net fair value.

4. Use of estimates and judgements

The preparation of the Condensed Interim Accounts in conformity with IFRS requires management to make judgements, estimates and assumptions, which affect the application of accounting policies and the reported amounts of assets and liabilities as well as income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Notes, contd.:

5. Net interest income

	2009	2008
	1.1. - 30.6.	1.1. - 30.6.
Interest income		
Interest income on market securities	2,544,706	3,127,581
Interest income on derivatives	0	7,164,598
Interest income on loans to banks	5,518,272	9,618,974
Interest income on loans to customers	35,065,626	49,015,710
Government contribution to subsidy interests	245,535	190,307
Total interest income	43,374,139	69,117,170
Interest expenses		
Interest expenses on derivatives	73,391	7,034,300
Interest expenses on bond issues	41,597,337	60,844,988
Total interest expenses	41,670,728	67,879,288

6. Loans

Impairment losses on loans during the period are specified as follow:

	Specific impairment	General impairment	Total
1.1. - 30.6.2009			
Balance at the beginning of the year	1,083,730	580,990	1,664,720
Provision for impairment losses	361,448	124,087	485,535
Loans write off	(60,433)	(98,787)	(159,220)
Balance at 30 June 2009	<u>1,384,745</u>	<u>606,290</u>	<u>1,991,035</u>

Allowance account as percentage of loans 0.27%

	Specific impairment	General impairment	Total
1.1. - 30.6.2008			
Balance at the beginning of the year	818,674	389,245	1,207,919
Provision for impairment losses	296,067	56,139	352,206
Loans write off	(23,567)	(16,303)	(39,870)
Balance at 30 June 2008	<u>1,091,174</u>	<u>429,081</u>	<u>1,520,255</u>

Allowance account as percentage of loans 0.21%

Total impairment in the Interim Income Statement is as follows:

	2009	2008
	1.1. - 30.6.	1.1. - 30.6.
Provision for impairment losses	485,535	352,206
Impairment for other receivables	230,052	0
Total impairment	715,587	352,206

Notes, contd.:

7. Equity

The Fund's long term objective is to maintain an solvency ratio over 5%. The calculation of solvency ratio is in accordance to international rules (Basel II). If the Fund's solvency ratio falls below 4% the Fund's Board of Directors shall notify the Minister of Finance thereof. Furthermore, the Fund's Board of Directors shall make proposals of ways to reach the long term solvency ratio goal.

Solvency ratio is specified as follows:	30/06/2009	31/12/2008
Total equity	13,748,041	13,284,910
Total solvency ratio is as follows:		
Credit risk	25,215,317	22,462,296
Market risk	88	1,307
Operational risk	519,006	498,718
Total capital requirements	<u>25,734,411</u>	<u>22,962,321</u>
Solvency ratio	4.3%	4.6%

8. Other matters

On March 21, 2009, the Financial Supervisory Authority (FSA) suspended the Board of Directors of SPRON and appointed a resolution committee for the bank. At the same time, the FSA assigned the bank's depository obligations to Kaupping banki hf. According to the decision of the resolution committee of SPRON, deposits of Íbúðalánasjóður in the amount of ISK 3.230 million were retained in closed accounts and still there is controversy on these deposits. Thereof, the amount of ISK 870 million was already available for disbursement according to an agreement thereon.

On March 9, 2009, the FSA suspended the Board of Directors of Straumur – Burðarás fjárfestingabanki hf. and appointed a resolution committee for the bank. At the same time, the FSA assigned the bank's depository obligations to Íslandsbanki hf. According to the decision of the resolution committee of Straumur – Burðarás fjárfestingabanki hf., the deposit of Íbúðalánasjóður in the amount of ISK 2,131 million was retained and still there is controversy on that deposit.

The Fund has thus a receivable from SPRON and Straumur – Burðarás fjárfestingabanki hf. to the amount of ISK 5,361 million due to deposits that the FSA has assigned to special treatment and that will not enjoy automatic precedence according to Act no. 129/2008. The Fund has declared claims in the bankrupt estate of Straumur – Burðarás fjárfestingabanki hf, and has communicated with the resolution committees and winding-up boards of the banks, but the time limit for declaring claims due to SPRON is not yet expired. In all communication with the resolution committees and winding-up boards these claims have been declared as preferential claims by the Fund. Whether the Fund's claims will be approved as such is yet to be confirmed. If the Fund's claims will be classified as general claims the Fund has the right to set off the banks' claims on the Fund against the deposits, taken into account that the Fund's loss could amount to around ISK 3.5 billion based on the companies' resolution committees' schedule of reimbursement ratio for uninsured claims.