

Íbúðalánasjóður
Housing Financing Fund
Condensed
Interim Accounts
January - June 2010

Íbúðalánasjóður
Borgartúni 21
105 Reykjavík

Reg. no. 661198-3629

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Endorsement and Statement by the Board of Directors and Acting Managing Director

The Condensed Interim Accounts for the period January 1st to June 30th 2010 have been prepared in accordance with the International Financial Reporting Standard (IFRS) for interim accounts, IAS 34.

According to the income statement, the loss of the Fund amounted to ISK 1,680 million for the six months ended June 30th 2010. At the end of June, equity amounted to ISK 8,402 million according to the balance sheet.

As stated in note no. 8, The capital ratio of the Fund, calculated according to stipulations in the Rules on the Housing Financing Fund no. 544/2004, was 2.1% at the end of June 2010. 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%. The Fund's Board of Directors in collaboration with the Minister of Social Affairs and Social Security is working on motions for ways to reach the long-term goal for capital ratio. A work group has been established and it is assumed that the workgroup will deliver its results later in the year 2010.

Impairment loss on loans amounted to ISK 3,699 million at the end of June 2010 and has increased by ISK 572 million during the period. Defaults have increased in the year 2010 and 6.3% of borrowers have one or more overdue instalments at the end of June 2010 compared to 5.3% of borrowers at year end 2009.

From the beginning of the year the Fund has repossessed 392 apartments on foreclosed mortgages. Apartments owned by the Fund numbered 739 at the end of June 2010. The apartments are recognised at estimated market value at the end of June less write-down amounting to ISK 1,135 million due to uncertainty in the housing market.

Among loans to banks at the end of June 2010 the amount of ISK 2,352 million is capitalised due to claims on Landsbanki Íslands hf., Glitnir banki hf. and Straumur - Burðarás fjárfestingarbanki hf. and has remained unchanged from year end 2009. In preparing the Fund's interim financial statements it is assumed that it is entitled to netting. There is uncertainty over the settlement of claims and derivative agreements in addition to the Fund's netting authorisation. The Fund's actual loss may therefore differ from this estimation.

Statement by the Board of Directors and the Acting Managing Director

To the best of our knowledge the condensed interim financial accounts are in accordance with with the International Financial Reporting Standard (IFRS) for interim accounts, IAS 34 and give a true and fair view of the financial performance of the Fund for the period January 1st to June 30th 2010, its assets, liabilities and financial position as at June 30th 2010 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 Acting 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 Acting Managing Director of the Housing Financing Fund have today discussed the Fund's Financial Statements for the six-month period ended June 30th 2010 and confirm them by means of their signatures.

Reykjavik, August 26th 2010

The Board of Directors

Hákon Hákonarson, Chairman
Gunnar S. Björnsson
Elín R. Líndal
Jóhann Ársællsson
Kristján Pálsson

The Acting Managing Director

Ásta H. Bragadóttir

Independent Auditor's Review Report

To the Board of Directors of the Housing Financing Fund.

We have reviewed the accompanying condensed balance sheet of the Housing Financing Fund, which comprise the balance sheet as at June 30th, 2010 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 condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Emphasis of matter

Without qualifying our opinion, we would like to draw the attention to the fact that the Fund's capital ratio, calculated according to stipulations in the Rules on the Housing Financing Fund no. 544/2004, was 2.1% at the end of June 2010 but according to Article 7 of the Rules, the Fund shall set as a long-term goal to maintain its capital ratio over 5.0%. The Fund has in accordance with provisions of the aforementioned rules reported this fact to the Minister of Social Affairs and Social Security. A work group has been established and it is assumed that the workgroup will deliver its results later in the year 2010.

Reykjavik, August 26th 2010

KPMG hf.

Margrét Guðjónsdóttir
Hildur Sigurðardóttir

Condensed Interim Income Statement for the Period from January 1st to June 30th 2010

	Notes	2010 1.1.-30.6.	2009 1.1.-30.6.
Interest income		38.391.741	43.374.139
Interest expense		(38.103.387)	(41.670.728)
Net interest income	5	288.354	1.703.411
Service income	6	214.214	99.976
Total operating income		502.568	1.803.387
Salaries and salary-related expenses		230.761	232.187
Other administrative expenses		428.070	350.045
Other operating expenses		6.125	15.995
Depreciation and amortisation		25.810	26.442
Total operating expenses		690.766	624.669
Impairment	7	(1.492.101)	(715.587)
Net (loss) profit for the period	8	(1.680.299)	463.131

Condensed Interim Balance Sheet as at June 30th 2010

Assets

	Notes	30.6.2010	31.12.2009
Assets			
Cash and cash equivalents		34.168.084	28.384.685
Market securities		1.152.534	0
Loans to banks		2.352.122	6.634.118
Loans to customers		788.563.647	756.634.191
Assets held for sale		6.435.088	2.852.925
Operating assets		53.443	58.023
Intangible assets		181.566	153.284
Other assets		112.838	19.118
Total assets		<u>833.019.322</u>	<u>794.736.344</u>

Equity and liabilities

Liabilities

Bond issues		808.671.446	775.447.922
Other borrowings		15.519.489	9.122.153
Other liabilities		426.090	83.673
Total liabilities		<u>824.617.025</u>	<u>784.653.748</u>

Equity

Contributed capital		7.155.408	7.155.408
Retained earnings		1.246.889	2.927.188
Total equity	8	<u>8.402.297</u>	<u>10.082.596</u>
Total liabilities and equity		<u>833.019.322</u>	<u>794.736.344</u>

Condensed Interim Statement of Changes in Equity for the Period from January 1st to June 30th 2010

	Contributed capital	Retained earnings	Total equity
Changes in equity from January 1st to June 30th 2009:			
Equity as at January 1st 2009	7.155.408	6.129.502	13.284.910
Net profit for the period		463.131	463.131
Equity as at June 30th 2009	7.155.408	6.592.633	13.748.041
Changes in equity from January 1st to June 30th 2010:			
Equity as at January 1st 2010	7.155.408	2.927.188	10.082.596
Net loss of the period		(1.680.299)	(1.680.299)
Equity as at June 30th 2010	7.155.408	1.246.889	8.402.297

Condensed Interim Statement of Cash Flows for the Period from January 1st to June 30th 2010

	Notes	2010	2009
		1.1.-30.6.	1.1.-30.6.
Net cash (used in) provided by operating activities	(13.238.081)	5.886.899
Net cash used in investing activities	(49.513)	(32.807)
Net cash provided by financing activities		19.070.993	14.131.410
Net increase in cash and cash equivalents		5.783.399	19.985.502
Cash and cash equivalents at the beginning of the year		28.384.685	13.515.506
Cash and cash equivalents at the end of the period		34.168.084	33.501.008

Notes to the Condensed Interim Accounts

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 and Social Security.

The condensed interim accounts of the Housing Financing Fund were approved by the Board of Directors on August 26th 2010.

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 December 31st 2009.

At the beginning of year 2009, revised IAS 1 Presentation of Financial Statements became effective. According to the standard, an entity shall present a statement of comprehensive income. Comprehensive income consists 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 results for the period are 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 December 31st 2009. 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 that assets held for sale are recognised 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

	2010	2009
	1.1.-30.6.	1.1.-30.6.
Interest income		
Interest income on market securities and cash and cash equivalents	1.312.039	3.145.148
Interest income on loans	36.830.030	39.983.456
Government contribution to subsidy interests	249.672	245.535
Total interest income	<u>38.391.741</u>	<u>43.374.139</u>
Interest expenses		
Interest expenses on derivatives	0	73.391
Interest expenses on bond issues	38.103.387	41.597.337
Total interest expenses	<u>38.103.387</u>	<u>41.670.728</u>

6. Service fee income

Service fee income	135.587	92.134
Rental income on apartments repossessed	78.627	7.842
Total service fee income	<u>214.214</u>	<u>99.976</u>

7. Loans

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

	Specific impairment	General impairment	Total
1.1. - 30.6. 2010			
Balance at the beginning of the year.....	2.346.835	780.519	3.127.354
Provision for impairment losses.....	569.177	104.311	673.488
Loans write off.....	(50.843)	(51.030)	(101.873)
Balance at 30.6.2010.....	<u>2.865.169</u>	<u>833.800</u>	<u>3.698.969</u>

Allowance account as percentage of loans..... 0,47%

	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 30.6.2009.....	<u>1.384.745</u>	<u>606.290</u>	<u>1.991.035</u>

Allowance account as percentage of loans..... 0,27%

	2010	2009
	1.1.-30.6.	1.1.-30.6.
Total impairment in the Interim Income Statement is as follows:		
Provision for impairment losses.....	673.488	485.535
Provision due to assets held for sale.....	818.613	0
Impairment for claims on banks.....	0	230.052
Total impairment.....	<u>1.492.101</u>	<u>715.587</u>

Notes, contd.:

8. Equity

The Fund's long term objective is to maintain a capital ratio over 5.0%. The calculation of the capital ratio is in accordance with international rules (Basel II). If the Fund's capital ratio falls below 4.0% the Fund's Board of Directors shall notify the Minister of Social Affairs and Social Security thereof. Furthermore, the Fund's Board of Directors shall make proposals of ways to reach the long term capital ratio goal. In the year 2010, the Fund's Board of Directors has been discussing with the Minister of Social Affairs and Social Security on the Fund's capital ratio standing and on ways to improve the ratio. A work group has been established and it is assumed that the workgroup will deliver its results later in the year 2010.

Capital ratio is specified as follows:	30.6.2010	31.12.2009
Total equity	8.402.297	10.082.596
Total capital ratio is as follows:		
Credit risk	30.959.892	26.245.612
Market risk	79	91
Operational risk	483.141	483.141
Total capital requirements	31.443.112	26.728.844
Capital ratio	2.1%	3.0%

9. Other matters

The Housing Affairs Complaint Committee has in the year 2010 ruled in two cases the result being that the Board of Directors of the Housing Financial Fund was not authorised to request a bank guarantee on loans to contractors during a period when provisions of a Regulation on housing bonds and housing bond trading in relation to loans to constructors and bank guarantee had been abolished. The period in question is from February 21st 2008 to April 24th 2009, but during that time work policies of the Board of Directors of the Housing Financial Fund were in effect, on the evaluation of a debtor's creditworthiness and pledgability of assets, where a valid bank guarantee was requested in relation to loan granting to constructors. The rules were published on the website of the Fund together with other work policies on pledgeability and creditworthiness. The Board of Directors of the Housing Financial Fund has rejected this interpretation. If the Fund will have to repay to the contractor the entire cost of the bank guarantees the repayments could amount to ISK 200 - 300 million.