



Arion Bank Mortgages Institutional Investor Fund

Interim financial Statements 30 June 2019

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Endorsement and Signatures of the Board of Directors and the Managing Director

The Interim Financial Statements of ABMIF are included in part B of the Interim Financial Statements of Stefmir hf. which contains the Interim Financial Statements of UCITS, investment funds and institutional investors' funds under management. They have been prepared in accordance with law on Financial Statements and rules on the Financial Statements of management companies of UCITS set by the Icelandic Financial Supervisory Authority.

The fund reported profit of ISK 258 million according to the income statement and the profit is recognized as an increase in units in the fund's accounts. The net asset of the fund at the end of June totalled ISK 18.386 million according to the balance sheet.

On 8 August Arion Bank announced its plans to prepay covered bond series Arion CB2, a total of ISK 60 billion. When the series is prepaid the institutional investment fund ABMIF, managed by Stefmir, shall be dissolved in accordance with the fund's rules. The prepayment and sale of underlying mortgages from the fund is subject to various conditions, including the approval of the Icelandic Competition Authority.

The Board of Directors and CEO of Stefmir hf. hereby confirm the fund's Interim Financial Statements for the period 1 January - 30 June 2019 with their signatures.

Reykjavik, 22 August 2019

Board of Directors:



CEO:



Review Report on Interim Financial Statements

To the Board of Directors the unit holder of ABMIIF.

We have reviewed the accompanying interim financial statement of ABMIIF for the period of 1 January to 30 June 2019, which comprise the endorsement and signatures of the board of directors and managing director, income statement, balance sheet, changes in net assets, statement of investment and a summary of significant accounting policies and other explanatory notes.

Management's and the Board of Directors Responsibility for the Interim Financial Statements

Management and the board is responsible for the preparation and fair presentation of this interim financial information in accordance with Icelandic Financial Statements Act, Act on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS.

Auditor's Responsibility

Our responsibility is to express an conclusion on this interim financial information based on our review.

Scope of Review

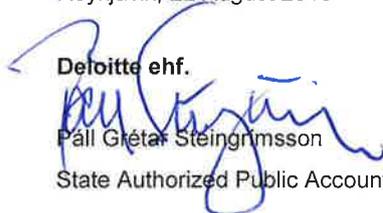
We conducted our review in accordance with International Standards on Review Engagements, ISRE 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review 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 2019 and of its financial performance and its change in net assets in the period, in accordance with Icelandic Financial Statements Act, Act on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS.

Reykjavik, 22 August 2019

Deloitte ehf.


Páll Grétar Steingrímsson

State Authorized Public Accountant


Pétur Hansson

State Authorized Public Accountant

Interim Statement of Income 1 January - 30 June 2019

	Note	1.1. - 30.6 2019	1.1. - 30.6 2018
Income			
	2-5		
Interests		1.417.459	1.385.359
Indexation		1.524.454	1.609.644
Total income		<u>2.941.913</u>	<u>2.995.003</u>
Expenses			
	6		
Administration fee		47.606	47.753
Interest expenses and indexation		2.638.739	2.471.073
Other operating expenses		(2.341)	(9.287)
Total expenses		<u>2.684.004</u>	<u>2.509.539</u>
Net income (expenses)		257.909	485.464
Profit transferred to units		<u>257.909</u>	<u>485.464</u>
Changes in net assets		257.909	485.464
Net assets at the beginning of the year		<u>18.127.815</u>	<u>17.366.127</u>
Net assets at the end of the period		<u><u>18.385.724</u></u>	<u><u>17.851.591</u></u>

Interim Statement of Financial Positions at 30 June 2019

	Note	30.06.2019	31.12.2018
Assets			
Transferable securities		59.988.426	65.953.743
Total assets	7	<u>59.988.426</u>	<u>65.953.743</u>
Other assets:			
Cash	8	31.224.417	31.239.046
Other assets	9	204.804	468.104
Total other assets		<u>31.429.221</u>	<u>31.707.150</u>
Total assets		<u>91.417.647</u>	<u>97.660.893</u>
Liabilities			
Loan from financial institutions		73.024.196	79.524.885
Liabilities with the management company		7.727	8.193
Total liabilities		<u>73.031.923</u>	<u>79.533.078</u>
Net assets		18.385.724	18.127.815
Number of units (in thousands)		23.200	23.200
Exchange rate of units at the end of the period		0,79	0,78

Breakdown of Assets

1. Breakdown of Assets.

	Assets 30.6.2019	Rate %	Assets 31.12.2018	Rate %	Issuer
Other transferable securities:					
Mortgages, unindexed	3.548.284	3,9	3.877.598	4,0	Individuals
Mortgages, indexed	56.440.142	61,7	62.076.145	63,6	Individuals
Other transferable securities, total	59.988.426	65,6	65.953.743	67,5	
Investments, total	59.988.426	65,6	65.953.743	67,5	
Cash	31.224.417	34,2	31.239.046	32,0	
Other assets	204.804	0,2	468.104	0,5	
Total assets	91.417.647	100,0	97.660.893	100,0	

2 .Comparison with Investment Policy.

	Book value 30.6.2019	Rate of investment %	Book value 31.12.2018	Rate of investment %	Investment policy %	
					Minimum	Maximum
Mortgages	59.988.426	100,0	65.953.743	100,0	0	100
Total investments	59.988.426	100,0	65.953.743	100,0		

3. Cumulative Purchases and Sales.

	Cumulative purchases 1.1.-30.6.2019	Cumulative sales 1.1.-30.6.2019	Cumulative purchases 2018	Cumulative sales 2018
Units sold	0	0	0	0
	0	0	0	0

4. Segmentation of investments by Countries and Currency.

		Book value 30.6.2019	Rate of investment %	Book value 31.12.2018	Rate of investment %
Iceland	ISK	59.988.426	100,0	65.953.743	100,0
		59.988.426	100,0	65.953.743	100,0

Breakdown of Assets, cont.

5. Statement of Main Assets

	Assets 30.6.2019	Assets 31.12.2018	Changes of book value	%
Mortgages, indexed	56.440.142	62.076.145	(5.636.003)	(6,2%)
Mortgages, unindexed	3.548.284	3.877.598	(329.314)	(0,4%)
Mortgages	59.988.426	65.953.743	(5.965.317)	(6,5%)
Other assets	31.429.221	31.707.150	(277.929)	(0,3%)
Total assets	91.417.647	97.660.893	(6.243.246)	(6,8%)

6. Net Assets and return of the Fund

	30.6.2019	31.12.2018	31.12.2017	31.12.2016
Net assets	18.385.724	18.127.815	17.366.127	24.606.797
Exchange rate	0,7925	0,7814	0,7485	1,0606

7. Return of the Fund

	1.1.-30.6.2019	2018	2017	2016
Return of the fund	1,42%	4,39%	(29,43%)	6,66%
Real return of the fund	(0,20%)	1,10%	(30,63%)	4,47%

8. Loan from Financial Institutions

The fund and Arion Banki hf. made Subordinated Intercompany Loan Agreements to finance the acquisition of the mortgages. The loan agreement is calculated taking into account accrued interest and the consumer price index. Interest on the loan agreement is 3.75% p.a.

Repayments on loan agreements at the end of the end of June 2019 are as follows:

	Value
Repayments 2019-2020	1.994.850
Repayments 2020-2021	1.444.258
Repayments 2021-2022	1.499.184
Repayments 2022-2023	1.556.198
Repayments 2023-2024	1.615.382
Repayments later	64.914.324
	<u>73.024.196</u>

Notes to the Interim Financial Statements

Accounting methods

1. General information

The purpose of the ABMIIF Fund is to invest in residential real estate loans from Arion Bank and its subsidiaries, in accordance with the terms of the issuance of Covered Bonds. Its purpose is also to guarantee the payment of all amounts due under any Covered Bonds issued by the Issuer under the Programme, subject to the term of the Covered Bond Guarantee.

2. Basis of preparation

The Interim Financial Statements of Arion Bank Mortgages Institutional Investor Fund have been prepared in accordance with the Financial Statements Act and rules regarding Financial Statements of UCITS and investment funds set by the Icelandic Financial Supervisory Authority. They are prepared on the historical cost basis. The Interim Financial Statements have been prepared in Icelandic krónur (ISK) rounded to the nearest thousand. The fund is a part of Stefmir hf. which is a subsidiary of Arion Bank hf. The Interim Financial Statements form part of the consolidated Interim Financial Statements of Arion Bank hf.

3. Assessment and decisions

When preparing the Interim Financial Statements, the management is required by the Annual Accounts Act to assess and make decisions on important components of the Interim Financial Statements which are subjective by their nature. The assessment is based on experience and other relevant factors which are otherwise unavailable. Any changes according to this assessment are recognized during the period in which they occur.

4. Indexed assets and liabilities

Indexed assets and liabilities are calculated on basis of indexes valid 1 July 2019. Accrued indexation on principal of assets and liabilities is recognised in the income statement.

5. Interest income and expenses

Interest income and expense are recognised in the income statement as they are incurred.

6. Administration fee

The fund pays Stefmir hf. administration fee which includes the following operating costs for the fund: salaries of employees of the management company, marketing costs and administration; included in the administration fee is a custody fee to Arion banki hf. Administration fees are 0.1% of the fund's total assets.

The fund also pays fee for official supervisory.

7. Securities with fixed income

a. Mortgages are recognised with accrued interest and indexation at the end of June 2019. At the end of June 7,1% of the fund's mortgages were calculated according to the index for mortgage payment adjustment.

b. Provisions are done by a general provision and a special provision. Total provision for losses amounts to ISK 1 million, which is all collective provision. The provision account has been deducted from Securities with fixed income in the Balance sheet.

c. Mortgages are specified as:

	30.6.2019	31.12.2018
Mortgages before impairment	59.989.576	65.958.338
Provision at the beginning of the year	(4.595)	(15.835)
Reversal during the period	3.445	11.240
Mortgages at the end of the period	<u>59.988.426</u>	<u>65.953.743</u>
Provision for losses as a ratio of total loans	0,00%	0,01%

Notes, cont.:

8. Cash

Cash consists of cash and deposits with credit institutions including accrued interests.

9. Other assets.

Other assets include unsettled trades and deviations in exchange translations of assets.

10. Other liabilities.

Other liabilities include withhold capital gain tax on profits, unsettled trades and deviations in exchange translations of liabilities.

11. Taxation

The fund does not pay income tax; instead profit or loss from operations are taxed with the unit holders. Individuals pay capital gains tax on profits on their securities when redeemed. Profit and loss on unit shares owned by companies are treated as taxable income and expenses, regardless of redemption.

The fund is exempt from capital gains tax in Iceland but not in those countries where capital gains tax is imposed on income of foreign residents and when no double taxation agreement stating that such income should be taxed in Iceland exists between Iceland and the relevant country.