

KMIIF

Interim Financial Statements 2010

KMIIF
Borgartun 19
105 Reykjavik

Contents

Endorsement and Signatures of the Board of Directors and the Managing Director	3
Independent Auditor's Report	4
Income Statement	5
Balance Sheet	6
Statement of Changes in Net Assets	7
Investment Statement	8
Notes	9

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

The Interim Financial Statements of Kaupthing Mortgages Institutional Investor Fund pertain to part B of the Interim Financial Statements of Stefnir hf., which includes the Financial Statements of Stefnir Verdbrefasjodir, Stefnir Fjarfestingarsjodir and Stefnir Fagfjarfestasjodir. The Interim Financial Statements are prepared according to the same accounting methods as the the financial statements for the previous year. The presentation of these Interim Financial Statements is in accordance with the Financial Supervisory Authority's regulations on financial statements of management companies for mutual funds.

Net loss, according to the Income Statement, amounted to ISK 1,087 million during the period 1 January to 30 June 2010 and the loss is stated as a decrease of units in the fund's books. According to the Balance Sheet, the fund's net assets at the end of the period amounted to ISK 16,216 million.

Because of circumstances following the fall of the Icelandic commercial banks in the fall 2008, banks and other financial institutions have taken actions to meet costumer's debt conditions. Arion bank hf. offered late in the year 2009 ways for costumers to adjust the principal of their debt to 110% of property market value. The amount of loans with mortgage ratio over 110% has been evaluated and the reduction of the principal amounts to ISK 3,921 million at the end of June 2010. The impairment charged to the income statement during the period amounts to ISK 1,798 million.

The Board of Directors and the Managing Director of Rekstrarfelag Kaupthing Bank hf.'s hereby confirm the Interim Financial Statements of the fund for the period 1 January to 30 June 2010 by means of their signatures.

Reykjavik, 25 August, 2010.

Board of Directors:

Managing Director:

Independent Auditor's Report

To the unit holders of Kaupthing Mortgages Institutional Investor Fund.

We have reviewed the accompanying financial statements of KMIIF, which comprise the balance sheet as at 30 June, 2010 and the income statement, statement of changes in net assets, investment statement for the six-month period then ended, 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 the Icelandic Financial Statements Act. 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 fund as at 30 June, 2010, and of its financial performance and its statement of changes in net assets for the six-month period then ended in accordance with the Icelandic Financial Statements Act and regulations on financial statements for management companies of mutual funds.

Reykjavik, 25 August, 2010.

KPMG hf.

Income Statement for 1 January - 30 June 2010

	Notes	2010	2009
		1.1.-30.6	1.1.-30.6
Financial income and (expenses)	2-4		
Interests, indexation, dividends and currency exchange rate difference		4.455	7.244
Interest expense	(3.649)	(6.404)
Impairment on loans	9	(1.798)	0
Net financial (loss) income		(992)	840
Operating expenses			
Administration fee	5	70	67
Other operating expenses		25	0
		95	67
(Loss) profit for the period moved to units		<u>(1.087)</u>	<u>773</u>

Balance Sheet at 30 June 2010

	Notes	30.6.2010	31.12.2009
Assets			
Securities with fixed income	9	121.967	122.274
Cash		19.127	18.022
Other assets		251	0
Total other assets		19.378	18.022
Total assets		141.345	140.296
Liabilities			
Units		16.216	17.303
Liabilities with management- og custody companies		12	12
Issued bonds		125.117	122.981
Total other liabilities		125.129	122.993
Total liabilities		141.345	140.296
Net assets		16.216	17.303
Number of units		9.637	9.637
Exchange rate of units at the end of the period		1,68	1,80

Statement of Changes in Net Assets for 1 January - 30 June 2010

	Notes	2010	2009
		1.1.-30.6	1.1.-30.6
Operating activities			
Profit for the period moved to units	(1.087)	773
Financing activities			
Units sold		0	0
		0	0
Changes in net assets	(1.087)	773
Net assets at the beginning of the year		17.303	17.544
Net assets at the end of the period		16.216	18.317

Investment Statement 30 June 2010

KMIIF	Market value	% of assets
Icelandic bonds		
Kaupthing hf., property loans	121.967	100,0%
Total assets	121.967	100,0%
Issued bonds	(125.117)	(102,6%)
Other assets	19.378	15,9%
Other liabilities	(12)	(0,0%)
Total net assets	<u>16.216</u>	

Notes to the Financial Statements

Accounting methods

1. Basis of preparation

The Interim Financial Statement of Kaupthing Mortgages Institutional Investor Fund are prepared in accordance with the Financial Statements Act and regulations on financial statements for management companies of mutual funds. The Interim Financial Statements are prepared on historical cost basis except that securities are generally stated at market value. The Interim Financial Statements are prepared in accordance with the same accounting methods as the previous year. The Interim Financial Statements have been prepared in Icelandic currency and amounts are presented in millions of Icelandic kronas. The fund is a part of Stefnir hf., which is Arion Bank hf.'s subsidiary. Due to the nature of its operation, the Interim Financial Statements of the fund are not included in the Interim Financial Statements of the bank.

2. Foreign currencies

Assets and liabilities in foreign currencies are translated into Icelandic kronas at the foreign exchange rate ruling at the end of June 2010. Operating income and expenses in foreign currencies are translated at the foreign exchange rate ruling at the transaction date.

3. Interest income and expenses

Interest income and expenses are recognised in the income statement as they incur, based on effective interest.

4. Dividends

Dividends are capitalized when there is demand of redemption, i.e. the date dividends are paid out.

5. Administration fee

KMIIF fagfjarfestasjodur pays to Rekstrarfelag Kaupthing Bank hf. an asset management fee which among other things includes the following operating cost for the fund: salaries of the management company's employee and market and administration cost. Furthermore, the fund pays to Arion hf. a security custody fee.

	Asset manage- ment fee	Security custody fee
KMIIF	0,07%	0,03%

6. Securities with fixed income

a. Property loans are recognised as assets with accrued interests and indexation at the end of the period.

b. Because of circumstances following the fall of the Icelandic commercial banks in the fall 2008, banks and other financial institutions have taken actions to meet customer's debt conditions. Arion bank hf. offered late in the year 2009 ways for costumers to adjust the principal of their debt to 110% of property market value. The amount of loans with mortgage ratio over 110% has been evaluated and the reduction of the principal amounts to ISK 3,921 million at the end of June 2010. The impairment charged to the income statement during the period amounts to ISK 1,798 million.

Notes, contd.:

7. Tax

Mutual funds do not pay income tax but their profits or losses are taxed with the unit holders. Individuals pay capital gains tax on the profits of their securities when they are redeemed. Profits and losses on units owned by companies are included among taxable income or expenses, independent of redemption.

The funds are exempt from capital gains tax in Iceland but not in countries where capital gains tax is imposed on foreign parties' income and in cases where no Double Taxation Convention is in vigor between Iceland and the country in question stating that such income is taxable in Iceland.

8. Units

a. Real return of the mutual fund of Stefnir hf. as of 30.6.2010.

	Last 3 months	Last 6 months	Last 12 months
KMIIF	1,20%	(9,00%)	(7,11%)

b. Statement of book value and exchange rate of units.

	Book value			Exchange rate		
	30.6.2010	2009	2008	30.6.2010	2009	2008
KMIIF	16.216	17.303	17.544	1,68	1,80	1,82

9. Securities with fixed income are specified as follows:

	30.6.2010	31.12.2009
Property loans before impairment	125.888	124.397
Impairment loss at the beginning of the period	(2.123)	0
Impairment loss for the period	(1.798)	(2.123)
Property loans net of impairment	<u>121.967</u>	<u>122.274</u>
Impairment account as a ratio of total loans	<u>3,11%</u>	<u>1,71%</u>

10. Statement of proportional division of assets and investment policy.

	Assets		Change %	Investment policy	
	30.6.2010 %	31.12.2009 %		Minimum %	Maximum %
Other financial instruments	100	100	0	0	100

11. Segmentation of investments and proportional division:

	State, municipality or intern. inst.				Other	Total		
	ISK	%	ISK	%		ISK	%	
Other financial instruments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	121.967	100	121.967	100
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>121.967</u>	<u>100</u>	<u>121.967</u>	<u>100</u>