



Asset Management Company

Financial Statements 2014

Stefnir hf.
Borgartun 19
105 Reykjavík

Reg. no. 700996-2479

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Report and endorsement of the Board of Directors and the Managing Director

The purpose of Stefir hf. is to operate UCITS, investment funds and institutional investors' funds. The company also manages the assets of several partnerships limited by shares that have been established around venture capital investments. Stefir is Iceland's largest fund manager with assets of approximately ISK 404 billion under active management and has 24 employees. Stefir is a subsidiary of Arion Bank hf. and the A-part of the Financial Statements is part of the Consolidated Financial Statements of the Bank and its subsidiaries

The Financial Statements of the company are divided in two: part A which includes the Financial Statements of Stefir hf. and part B which includes the Financial Statements of UCITS, investment funds and institutional investors' funds. The Interim Financial Statements have been prepared according to the same accounting methods as last year. The Financial Statements have been prepared in accordance with the Annuals Account Act, the Financial Undertakings Act and the rules of the Financial Supervisory Authority on the accounts of UCITS management companies.

Operations during the year

The company reported earnings of ISK 867 million in the period according to the income statement. The company's equity at the end of the period was ISK 2,4 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 63,4%, the minimum allowed by law being 8.0%.

At the beginning and end of the period, the company's share capital was ISK 43.5 million and was entirely owned by Arion Bank hf. and related companies.

Highlights of 2014

The company's annual general meeting was held on 19 March 2014 and a decision was taken to pay a dividend of ISK 1 billion to the shareholders of Stefir. The board of directors of Stefir was elected at the meeting and comprises the following members: Hrund Rudolfsdóttir, chairman, Kristján Jóhannsson, vice chairman, and Jökull Heiddal Úlfsson, Svava Bjarnadóttir and Thórdur Sverrisson who are board directors.

In 2012 Stefir was recognized as the first Icelandic company to be "A model company in good corporate governance." This honour was granted by the Center for Corporate Governance at the University of Iceland and is awarded on the basis of a number of factors, including a survey conducted by the auditing company KPMG ehf. In 2013 Stefir was granted the same recognition, which applies for two years, and therefore remains a model company in good corporate governance in Iceland.

The company is constantly working on maintaining and developing corporate governance and re-attaining this recognition annually is part of this effort. The board and employees of Stefir have encouraged awareness and discussion of corporate governance during the first half of 2014. In March 2014 Hrund Rudolfsdóttir, chairman of Stefir, gave a presentation at a conference on model companies in good corporate governance and also participated in a panel discussion on the subject. Stefir invited all management and all board directors of companies managed by Stefir to participate in a special course on corporate governance. Good attendance and focused discussion of corporate governance better enable board directors to carry out the varied tasks entrusted to them.

For the third year in a row Stefir was recognized by Creditinfo as one of the outstanding companies of 2014. It is most encouraging that the company is considered to be one of those contributing to the development of the Icelandic business sector.

Assets under management decreased by approximately ISK 10 billion, from ISK 413 billion to ISK 404 billion. This decrease can largely be attributed to changes in Stefir's largest institutional investor fund, ABMIIF. However, equities funds and alternative investments grew substantially during the year. Assets under management are well spread between asset classes and the company's revenue structure has improved from year to year after having been made a priority by the company's board.

Returns on Stefir funds have varied according to asset class. Indexed bond funds have faced an uphill struggle as indexed bonds have lower yields than nominal instruments. Inflation slowed down significantly during the year which led to a sharp drop in yields and price increases on nominal

Towards the end of the year the Central Bank cut its policy rates by 0.75% which led to a rise in non-index linked bond prices.

Domestic equities funds managed by Stefir yielded strong returns during the year as the Icelandic market rallied towards the end of the year, and there was also an inflow of capital into the funds. Balanced funds also benefited from

Report and endorsement of the Board of Directors and the Managing Director, cont.

the strongly performing Icelandic market. Stefmir Balanced Fund merged with two smaller balanced funds during the year and now has the most unit holders of any fund in Iceland, a total of 4,000. Stefmir Balanced Fund is also the oldest balanced fund in Iceland.

International equities funds managed by Stefmir are rated by the international ratings agencies Morningstar and Lipper. The funds have been assigned good ratings by these companies. At the beginning of the year all five Stefmir funds had 3 or 4 star ratings from Morningstar and one fund had the highest rating from Lipper. As a result of the strong returns generated by the funds, Icelandic investors contributed new capital to the funds during the year.

Alternative investments have increased in recent quarters, particularly investments in Icelandic private equity and real estate. SÍA II slhf, a company with an operating agreement with Stefmir, was a co-investor in the acquisition of all the share capital of Skeljungur hf. and the Faroese oil company Magn P/F. In February it was announced that SÍA II and other investors had acquired the domestic operations of Norvik, except Byko. This included the retail businesses Kaupás and Elko, as well as an extensive real estate portfolio. Towards the end of the year SÍA II and a consortium of pension funds participated in the share capital increase of Verne Global Limited, which operates a datacentre in southern Iceland. These three investments were also the first investments made by SÍA II and investments equivalent to 70% of the fund's subscription undertakings have now been made. In 2014 SÍA I sold part of its holding in Sjóvá in connection with the company's listing on the NASDAQ OMX Iceland and then transferred to fund members those shares which the fund had remaining in Sjóvá at the time of the listing. This is the second company which SÍA I has listed on the NASDAQ OMX Iceland, following its involvement in listing Hagar at the end of 2011. After the payout to fund members, only one investment in SÍA I remains, i.e. the holding in Jarðboranir hf.

The real estate fund SRE II slhf. now has eight properties in its portfolio, a total of 38,000 m². Last year investments were made in four properties in Reykjavík: Síðumúli 16, Faxafen 5, Skúlagata 17 and Laugavegur 77. More than 80% of subscription undertakings have now been called in.

The institutional investor fund BRIC ELN had a derivative-linked bond with a nominal value of ISK 678 million admitted to trading on NASDAQ OMX Iceland hf. at the end of February 2014.

Risk management and corporate governance

Risk management and active internal control are mainstays of the responsible operation of a fund management company. The board of directors of Stefmir has mapped the company's risk management environment. The risks facing the company have been systematically analysed and measured, and the board is regularly informed of matters relating to risk management and internal control. Measures to manage and mitigate possible risk factors are vital to the operational security of the company. The outsourcing of tasks and monitoring such outsourcing are critical components of risk management and mitigation. The company has also prepared a written contingency plan concerning the risks which may disrupt or stop the company's operations temporarily and has presented it to Stefmir's employees.

The board of directors of Stefmir is committed to good corporate governance and endeavours to promote responsible behaviour and corporate culture within Stefmir for the benefit of all the company's stakeholders.

Forthcoming events, risk factors and uncertainties in the company's operations

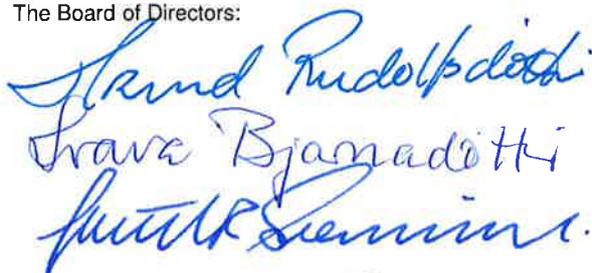
Capital controls hamper the growth of the company's international funds; new investments are not possible and the Central Bank's actions relating to lifting the capital controls have pressured the Icelandic pension funds into selling foreign assets, including UCITS.

Endorsement of the board of directors and the Managing Director

The board of directors and managing director of Stefmir hf. hereby attest the company's interim financial statement for the period 1 January to 31 December 2014 by signing below.

Reykjavik, 26th of February 2015

The Board of Directors:



Managing Director:





Independent Auditor's Report

To the Board of Directors and Shareholders of Stefir hf.

We have audited the accompanying financial statements of Stefir hf. The financial statement includes part A, which is the management company and includes the statements of income, balance sheet, statement of cash flows and explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Icelandic Annual Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

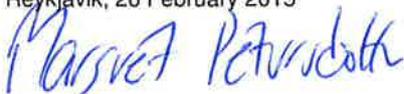
Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Stefir hf. as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with the Icelandic Financial Statements Act, the Financial Undertakings Act and Rules on the Financial Statements of management companies of UCITS.

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

Pursuant to the requirement of Paragraph 2 of Article 104 of the Icelandic Financial Statements Act No. 3/2006, we confirm to the best of our knowledge that the accompanying Endorsement and Statement by the Board of Directors and the Managing Director includes all information required by the Icelandic Financial Statements Act that is not disclosed elsewhere in the Financial Statements.

Reykjavik, 26 February 2015



Margrét Pétursdóttir

State Authorized Public Accountant

Ernst & Young ehf.

Borgartúni 30

105 Reykjavík

Statement of Income

for the year 2014

| | Note | 2014 | 2013 |
|---|------|------------------|------------------|
| Operating income | | | |
| Management and performance based fees | 4 | 1.860.602 | 1.531.977 |
| Net financial income | 10 | 142.192 | 157.093 |
| Net operating income | | <u>2.002.794</u> | <u>1.689.070</u> |
| Operating expense | | | |
| Salaries and related expense | 11 | 536.754 | 463.095 |
| Safe keeping commission | | 183.465 | 210.232 |
| Service fee to Arion bank hf. | | 12.545 | 26.941 |
| Other expense | | 196.812 | 188.828 |
| Provision for court case | | 0 | (500.000) |
| Operating expense | | <u>929.576</u> | <u>389.096</u> |
| Earnings before tax | | 1.073.218 | 1.299.974 |
| Income tax | 12 | (206.145) | (254.053) |
| Net earnings | 16 | <u>867.073</u> | <u>1.045.921</u> |

Statement of Financial Position

as at 31 December 2014

| | Note | 2014 | 2013 |
|---------------------------------------|-------|-------------------------|-------------------------|
| Assets | | | |
| Securities with variable income | | 2.172.255 | 1.907.043 |
| Securities with fixed income | | 45.073 | 59.476 |
| Total Securities | 5, 13 | <u>2.217.328</u> | <u>1.966.519</u> |
| Receivable from Arion Bank hf. | | 262 | 2.391 |
| Accounts receivables | 7 | <u>626.709</u> | <u>472.077</u> |
| Total Receivables | | <u>626.971</u> | <u>474.468</u> |
| Tax assets | 9, 17 | 51.006 | 47.046 |
| Other assets | | 6.748 | 151.465 |
| Cash and cash equivalents | 8 | <u>307.451</u> | <u>597.587</u> |
| Total Other Assets | | <u>365.205</u> | <u>796.098</u> |
| Total Assets | | <u><u>3.209.504</u></u> | <u><u>3.237.085</u></u> |
| Equity | | | |
| Share capital | | 43.500 | 43.500 |
| Statutory reserve | | 10.875 | 10.875 |
| Retained earnings | | <u>2.382.576</u> | <u>2.515.503</u> |
| Total Equity | 16 | <u>2.436.951</u> | <u>2.569.878</u> |
| Liabilities | | | |
| Payable to Arion Bank hf. | | 291.981 | 277.113 |
| Accounts payable | | 7.874 | 4.901 |
| Other liabilities | | 262.593 | 211.678 |
| Tax liabilities | 17 | <u>210.105</u> | <u>173.515</u> |
| Total liabilities | | <u>772.553</u> | <u>667.207</u> |
| Total Equity and Liabilities | | <u><u>3.209.504</u></u> | <u><u>3.237.085</u></u> |

Statement of Cash Flows

for the year 2014

| | Note | 2014 | 2013 |
|--|------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Net earnings | 16 | 867.073 | 1.045.921 |
| Non-cash items included in net earnings: | | | |
| Valuation changes of securities | (| 130.366) | (186.528) |
| Income tax recognised in profit or loss | | 206.145 | 254.053 |
| Changes in operating assets and liabilities | | 60.970 | (625.494) |
| | | <u>1.003.822</u> | <u>487.952</u> |
| Income tax paid | 17 | (173.515) | (104.029) |
| Net cash from operating activities | | <u>830.307</u> | <u>383.923</u> |
| Investing activities | | | |
| Change in Securities with variable income | (| 127.229) | 337.238 |
| Change in Securities with fixed income | | 6.786 | 20.738 |
| Investing activities | (| <u>120.443</u> | <u>357.976</u> |
| Finance activities | | | |
| Dividend paid | 16 | (1.000.000) | (900.000) |
| Finance activities | (| <u>1.000.000</u> | <u>900.000</u> |
| Net change in cash and cash equivalents | (| 290.136) | (158.101) |
| Cash and cash equivalents at the beginning of the year | | <u>597.587</u> | <u>755.688</u> |
| Cash and cash equivalents at the end of the year..... | 8 | <u><u>307.451</u></u> | <u><u>597.587</u></u> |

Notes to the Financial Statements

Accounting policies

1. General information

Stefnir hf. is a limited liability entity and operates in accordance with Act. 2/1995 on Limited Liability Companies and Act. 161/2002 on Financial Undertakings. The address of Stefnir's registered office is at Borgartún 19, Reykjavík and its ID no. is 700996-2479.

Stefnir is a subsidiary of Arion Bank hf., ID no. 581008-0150, Borgartún 19, Reykjavík.

2. Basis of preparation

The Financial Statements of Stefnir hf., A-part, are prepared in accordance with law on Financial Statements, law on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS. The Financial Statements are prepared on the historical cost basis except for Securities that are valued at fair value. The Financial Statements are presented in Icelandic króna (ISK), rounded to the nearest thousand unless otherwise stated. The Financial Statements of Stefnir hf. are part of the Consolidated Financial Statements for the parent company with information on operations and financial position of the Consolidated company. The Consolidated Financial Statements for Arion Bank is available on the Bank's website, www.arionbank.com.

3. Use of estimates and judgements

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses in the Financial Statements presented. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the Financial Statements.

4. Management and performance based fees

The company earns asset management fees for the operations of Stefnir's Securities Funds, Investment Funds and Professional Investors' Funds. The fee is a fixed percentage of the net assets, total assets or subscriptions of each fund and includes the following operating expenses of the funds; salaries of the employees of the operating company, marketing and management. Fees are also earned from the operation of special purpose entities that have been established for enterprise investments. Additionally the company earns fees for the asset management of foreign funds that are in custody of foreign entities. Performance fees are earned if certain conditions are met.

5. Securities

a. Securities with variable income

Securities owned by the company are trading assets. Fund units and shares in special purpose entities are measured at cost at year end. Listed fund units are measured at market value at end of the year.

b. Securities with fixed income

Bonds that are listed on regulated securities market which is active and price generating are measured at market price at each time. The expression "active and price generating" means that the closing price of a bond is not based on old trades, trading with an insignificant portion of the total issuance or does not reflect the fair value of the bond as valued by specialists. If the issuer of a bond is expected to default, the bond is valued at the expected recoverable amount taking into account priority order of claims.

A bond where the issuer is deemed viable but is not listed on an active and price generating securities market is measured at present value of future cash flow. The choice of yield curve used for each bond is based on general risk and the circumstances on the market at the end of the year.

For a bond where the issuer is not deemed viable the methods described above are deviated from and the bond is measured at expected recovery value and no interest income is realised. The estimate of expected recovery value takes into account the experience of the recovery from similar issuers, the financial statements of the issuer and statements issued by it. If the issuer is in administration, has defaulted or stated that payments of the bond will not be made the expected recovery is measured 0-1% and the bond entered into a collection process. If new information is received from issuers that have previously been fully provisioned for, the bond is re-valued, which might change the valuation of the bond to higher value. Due to significant uncertainty about the valuation of bonds the final recovery might vary considerably from the valuation at end of the year.

Notes, continued:

6. Foreign currency transactions

Transactions in foreign currencies are translated to Icelandic króna at exchange rates at the dates of transactions, according to Reuter. Assets and liabilities denominated in foreign currency are translated at exchange rate at the end of the year. Net foreign assets at 31 December amount to ISK 854 millions and are specified as follows:

| | EUR | USD | GBP | Other |
|------------------------------|-----------|--------|--------|-------|
| Assets | 827.215 | 27.087 | 70 | 190 |
| Liabilities | (658) | (25) | 0 | 0 |
| Net balance 31.12.2014 | 826.557 | 27.063 | 70 | 190 |
| Net balance 31.12.2013 | 1.085.233 | 38.115 | 30.320 | 4.483 |

7. Receivables

Receivables are measured at nominal value deducted by impairment.

8. Cash

Cash consists of cash and deposits with credit institutions.

9. Tax assets

The calculation of deferred tax asset is based on the difference between Statement of Financial Position items as presented in the tax return on the one hand, and in the Financial Statements on the other. This difference is due to the fact that tax assessments are based on premises that differ from those governing the Financial Statements, mostly because of time difference in impairment of securities and foreign exchange gain and loss are distributed over three years in the tax return.

10. Net financial income

Net financial income is specified as follows:

| | 2014 | 2013 |
|---|-----------|-----------|
| Valuation change in securities assets | 141.487 | 221.136 |
| Dividend received | 16.892 | 4.144 |
| Foreign exchange gain (loss) | (22.512) | (80.958) |
| Interest income | 6.477 | 13.046 |
| Interest expense | (152) | (275) |
| Net financial income | 142.192 | 157.093 |

11. Salaries and related expenses and personnel

Salaries and related expenses are specified as follows:

| | | |
|-------------------------------------|---------|---------|
| Salaries | 415.132 | 357.469 |
| Salary related expenses | 121.622 | 106.076 |
| Salaries invoiced | 0 | (450) |
| Salaries and related expenses | 536.754 | 463.095 |

Number of employees is as follows:

| | | |
|---|----|----|
| Employees at the end of the year | 24 | 21 |
| Average number of employees during the year | 22 | 20 |

Notes, continued:

| 11. Salaries and related expenses and personnel, cont. | 2014 | 2013 |
|---|---------------|---------------|
| Compensation of the key management personnel: | | |
| Flóki Halldórsson, Managing Director | 29.760 | 26.398 |
| Hrund Rudolfsdóttir, Chairman of the Board | 6.265 | 4.900 |
| Kristján Jóhannsson, Vice-Chairman of the Board | 2.580 | 2.300 |
| Svava Bjarnadóttir, Board-member | 4.251 | 2.600 |
| Jökull H. Úlfsson, Board-member | 2.580 | 2.000 |
| Pórður Sverrisson, Board-member | 1.980 | 0 |
| Snjólfur Ólafsson, Former Vice-Chairman of the Board | 795 | 3.035 |
| Total remuneration | <u>48.210</u> | <u>41.233</u> |

Remuneration to four managers was total ISK 66.1 million (ISK 92.0 million to six managers in 2013). Remuneration to three non-Board members of the Board Audit and Risk Committee was total ISK 1.7 million (ISK 1.6 million in 2013).

The Board of Stefir has set rules for bonus payments in accordance with rules set by the Financial Supervisory Authority no. 700/2011 which have been confirmed by the FSA. Estimated accrued bonus payments for 2014, partly payable in 2015 and partly after three years, amount to ISK 48 million plus salary related expense. Total amount of ISK 60 million has been posted in the Statement of Financial Position. Bonus payments in 2014 amounted to ISK 25 million plus salary related expense. The remaining balance of accrued bonus payments for the year 2012 are payable in 2016 and amount to ISK 18 million, including salary related expense. The remaining balance of accrued bonus payments for the year 2013 are payable in 2017 and amount to ISK 22 million, including salary related expense.

| 12. Income tax expense | 2014 | 2013 |
|--------------------------------|----------------|----------------|
| Current tax expense | 210.105 | 172.236 |
| Deferred tax expense | (3.960) | 81.817 |
| Total Income tax expense | <u>206.145</u> | <u>254.053</u> |

13. Securities

Securities with variable income are specified as follows:

| | | |
|--|------------------|------------------|
| Fund units issued by funds operated by Stefir hf. | 1.903.986 | 1.700.015 |
| Fund units issued by others | 0 | 69.368 |
| Shares in investment companies | 215.133 | 137.660 |
| Shares in companies | 53.136 | 0 |
| | <u>2.172.255</u> | <u>1.907.043</u> |

Securities with fixed income are specified as follows:

Listed on NASDAQ OMX Iceland:

| | | |
|---------------------------------|-------|--------|
| Issued by public entities | 9.564 | 10.614 |
|---------------------------------|-------|--------|

Unlisted:

| | | |
|---------------------------------|------------------|------------------|
| Issued by public entities | 3.536 | 4.150 |
| Issued by others | 31.973 | 44.712 |
| | <u>45.073</u> | <u>59.476</u> |
| Securities total | <u>2.217.328</u> | <u>1.966.519</u> |

Notes, continued:

14. Related parties

Stefnir hf. has a related party relationship with the parent company, Arion Bank hf. and its subsidiaries and associates, funds under management, The Board of Directors and key management personnel at Stefnir.

No unusual transaction took place with related parties during the year. Transaction with related parties have been conducted on an arm's length basis.

Transactions with related parties 2014:

| | Revenue | Expense | Receivables/ Assets | Liabilities |
|-------------------------------|------------------|------------------|------------------------|----------------|
| Arion bank consolidated | 196.834 | 1.329.395 | 319.597 | 291.981 |
| Funds in operation | 1.970.621 | 0 | 290.873 | 0 |
| | <u>2.167.455</u> | <u>1.329.395</u> | <u>610.470</u> | <u>291.981</u> |

Transactions with related parties 2013:

| | Revenue | Expense | Receivables/ Assets | Liabilities |
|-------------------------------|------------------|------------------|------------------------|----------------|
| Arion bank consolidated | 185.937 | 1.290.771 | 613.499 | 281.113 |
| Funds in operation | 2.433.405 | 0 | 213.689 | 0 |
| | <u>2.619.342</u> | <u>1.290.771</u> | <u>827.188</u> | <u>281.113</u> |

Comparative figures for the year 2013 have been changed.

15. Assets under Management

Assets under Management in funds in operation by Stefnir at the end of the year amount to ISK 404 billions compared to ISK 414 billions at year end 2013.

16. Equity

a. Total share capital amounts to ISK 43.5 million at the end of the year and is the same as at year end 2013. One vote is associated with every one króna share.

b. Changes in equity are specified as follows:

| | Share capital | Statutory reserve | Retained earnings | Total |
|-------------------------|---------------|----------------------|----------------------|------------------|
| Equity 1.1.2013 | 43.500 | 10.875 | 2.369.582 | 2.423.957 |
| Dividend paid | | | (900.000) | (900.000) |
| Net earnings | | | 1.045.921 | 1.045.921 |
| Equity 31.12.2013 | <u>43.500</u> | <u>10.875</u> | <u>2.515.503</u> | <u>2.569.878</u> |
| Equity 1.1.2014 | 43.500 | 10.875 | 2.515.503 | 2.569.878 |
| Dividend paid | | | (1.000.000) | (1.000.000) |
| Net earnings | | | 867.073 | 867.073 |
| Equity 31.12.2014 | <u>43.500</u> | <u>10.875</u> | <u>2.382.576</u> | <u>2.436.951</u> |

Notes, continued:

16. Equity, cont.

- c. Equity at end of the year is ISK 2,437 million or 75.9% of total assets. The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 63.4%, exceeding the minimum legal requirement of 8%. The ratio is calculated as follows:

| | 2014 | 2013 |
|--|------------------|------------------|
| Total equity | 2.436.951 | 2.569.878 |
| Tax asset | (51.006) | (47.046) |
| Total own funds for solvency purposes | <u>2.385.945</u> | <u>2.522.832</u> |
| Total capital requirements are specified as follows: | | |
| Credit risk | 232.986 | 216.792 |
| Market risk | <u>68.310</u> | <u>92.652</u> |
| Capital requirement | <u>301.297</u> | <u>309.444</u> |
| Capital adequacy ratio | 63,4% | 65,2% |

17. Tax assets (liabilities)

Changes in tax assets and liabilities are specified as follows:

| | | |
|---|-------------------|-------------------|
| Tax assets at the beginning of the year | (126.469) | 23.555 |
| Income tax recognised in Statement of Income | (203.813) | (254.053) |
| Additional 6% tax recognised in Statement of Income | (2.332) | 0 |
| Income tax paid | <u>173.515</u> | <u>104.029</u> |
| Net tax assets (liabilities) at the end of the year | <u>(159.099)</u> | <u>(126.469)</u> |

Specified as follows:

| | | |
|---|-------------------|-------------------|
| Current tax | (207.773) | (173.515) |
| Additional 6% tax on financial institution | (2.332) | 0 |
| Deferred tax asset | <u>51.006</u> | <u>47.046</u> |
| Net tax assets (liabilities) at the end of the year | <u>(159.099)</u> | <u>(126.469)</u> |

Deferred tax assets are attributable to the following:

| | | |
|---|---------------|---------------|
| Securities | 41.057 | 39.057 |
| Deferred foreign exchange gain and loss | 8.399 | 5.043 |
| Other items | <u>1.550</u> | <u>2.946</u> |
| Deferred tax asset at the end of the year | <u>51.006</u> | <u>47.046</u> |

Tax liabilities are attributable to the following:

| | | |
|---|----------------|----------------|
| Income tax using the Icelandic corporation tax rate | 207.773 | 173.515 |
| Additional 6% tax on financial institutions | <u>2.332</u> | <u>0</u> |
| Tax liabilities at the end of the year | <u>210.105</u> | <u>173.515</u> |

In the case of any discrepancy between the English and the Icelandic texts, the Icelandic versions shall prevail and questions of interpretation will be addressed solely in the Icelandic language.

Corporate Governance Statement of Stefnr hf. 2015

By issuing this corporate governance statement Stefnr hf. (Stefnr) is fulfilling the requirements set out in recognized guidelines current at the time this Financial Statement is approved by the company's board of directors and the provisions of Article 19 of Act No. 161/2002, cf. Article 12 of Act no. 75/2010. Guidelines on Corporate Governance, 4th edition, issued by the Icelandic Chamber of Commerce, the Confederation of Icelandic Employers and NASDAQ OMX Iceland hf. and OECD Principles of Corporate Governance were taken into special consideration when the Stefnr hf.'s corporate governance statement was written. The Guidelines on Corporate Governance and the Principles of Corporate Governance can be viewed on Stefnr's website.

In 2012 Stefnr was recognized as the first Icelandic company to be "A model company in good corporate governance." This honour was granted by the Center for Corporate Governance at the University of Iceland and is based on a survey conducted by the auditing company KPMG ehf. In 2013 Stefnr was granted the same recognition, which applies for two years, and therefore remains a model company in good corporate governance in Iceland.

The board of directors of Stefnr believes that good corporate governance is a key factor behind Stefnr's success as a leading fund management company in Iceland. Corporate governance provides companies with a framework in which objectives are defined, which tools should be used to achieve these objectives and how the success of these objectives is measured. Good corporate governance is designed to provide the right incentives to the board of directors and management to exploit the opportunities which serve the interests of the company, the shareholders and general public. Good corporate governance also enables the board to perform its monitoring duties effectively.

Stefnr is an independent financial institution according to the Financial Undertakings Act No. 161/2002. The company manages UCITS, investment funds and institutional investor funds under Act No. 128/2011. In addition to this, the company is licensed to operate asset management services, investment advisory and to manage financial instruments for collective investments, cf. sub-paragraphs 1-3 of paragraph 1 of Article 27 of Act No. 161/2002. Stefnr is Iceland's largest fund manager with assets of more than ISK 403 billion under active management. Stefnr has 24 employees with extensive experience of work in financial markets.

Stefnr is a subsidiary of Arion Bank hf. The company is fully owned by Arion Bank and related companies. The company's corporate governance statement serves to encourage open and reliable communications between the board, shareholders and other stakeholders such as unit holders in funds managed by Stefnr, parties that service and participate in the operations of Stefnr, employees and the general public.

The company's operations are subject to stringent restrictions by the legislator. The company's operations are governed by acts of law including the Financial Undertakings Act No. 161/2002 and the UCITS, Investment Funds and Institutional Investor Funds Act, No. 128/2011. Stefnr is supervised by the FME under Act No. 87/1998.

Risk management and active internal control are mainstays of the responsible operation of a fund management company. The company's board of directors has devised a risk strategy for the company. The board of directors of Stefnr has devised a risk strategy for the company:

"Stefnr's board of directors is aware that risk management and active internal control are some of the mainstays of a responsible fund management company. By setting out a clear risk policy the board wishes to encourage and support a corporate culture at Stefnr which is characterized by a keen sense of risk awareness. The aim is also to communicate clear messages to all the company's stakeholders.

All risk within Stefnr's operations is identified and assessed on a regular basis. The company has established processes to monitor and report this risk. Stefnr operates a strong control environment which utilizes policies, processes and systems to appropriate internal controls and risk mitigation. Stefnr has in place a continuity plan to ensure the ability to operate despite a severe business disruption. Through corporate governance the board of directors ensures that the policies, processes and systems are implemented at all decision levels."

Compliance, internal auditing and risk management are partly outsourced to Arion Bank with the permission of the FME. The heads of the relevant divisions regularly report the results of their assessments to the auditing committee and the board of directors of Stefnr.

Corporate Governance Statement, cont.:

The company's accounting is the responsibility of Arion Bank's finance division. The FME has authorized the outsourcing of this task. Arion Bank is also the depository of Stefnir hf. and the price calculations of Stefnir's funds are the responsibility of the Bank. The auditing committee examines the financial statement and obtains the opinion of an external auditor on the six-month financial results and 12-month financial results of Stefnir and the funds managed by Stefnir. Reporting to the board of directors with respect to the accounts is the responsibility of the committee; the board also meets the auditing company Ernst & Young ehf.

When the company devised its strategy in 2011, the board also worked with the employees to define Stefnir's three core values. These core values were introduced to Stefnir in 2012 and have served as an import guide for employees and the board in their day-to-day activities. When it reviewed its strategy in 2014 the board was in agreement that these core values still hold true and that there was no need to change them.

The first core value is "success through knowledge" which implies that our strengths are embodied in the combination of knowledge, experience, professional corporate governance and fund management. Meticulous working practices, responsibility and reliability lay the foundations for future success. By doing this we are safeguarding our clients' interests.

Our second core value is "the ambition to excel" which describes our progressive, determined and dynamic approach in which we do not hesitate to seek new ways to achieve our goals. Fertile thinking, ambition and financial clout provide a platform for us to lead the way in developing new financial products. This is how we create key opportunities to excel for the benefit of our clients.

The third and final core value is "united in victory" and it describes how the way we operate is characterized by clearly defined team work, mutual respect and a healthy team spirit in which we support each other in what we do. We are known for our well-considered decisions which we regularly review and re-evaluate. This is how we harness the synergy of a dynamic team in order to provide our clients with outstanding service.

The company's core values reflect the ethical standards which the board and employees are working in accordance with, and other benchmarks on the same topic can be found in employment agreements, the conflicts of interest policy and the board of directors' rules of procedure.

The company has not established a policy on corporate social responsibility but in setting out its strategy and defining its role the board of directors has underlined the importance of being guided by the interests of clients, owners, employees and society as a whole when managing funds and running the company. Responsible and diverse investment options and thorough disclosure of information are central to the corporate social responsibility that the company aspires to demonstrate.

In 2014 the board of directors adopted a policy on conflicts of interest. The objective of the policy is to protect clients and fund members and to safeguard the independence and reputation of the company and its employees. The policy applies equally to directors and employees and implies that the company will take all available measures to prevent conflicts of interest from damaging the interests of clients and fund members.

Stefnir has five board members and five alternate members. The majority of the board is independent of Arion Bank, Stefnir's parent company, and the company itself. All board members are elected at a shareholders' meeting of the company. The managing director is hired by the board and has the mandate from the board to manage the day-to-day operations of the company. Board meetings are held regularly, on average once a month and more often if required. Stefnir's legal representative is also present and provides board members with legal advice at board meetings. An employee from the operations team is the secretary of the board. There were 14 board meetings during the year and there was a quorum present at every meeting. The board's rules of procedure, work schedule and articles of association can be seen on the company's website, www.stefnir.is

The board of directors of Stefnir comprises the independent board members Hrund Rudolfsdóttir, Chairman, CEO of Veritas, Kristján Jóhannsson, Vice Chairman, chairman of Icepharma hf, Svava Bjarnadóttir, owner and consultant at Strategía ehf., Thórdur Sverrisson, self-employed. The dependent board member is Jökull H. Úlfsson, head of A Plus at Arion Bank hf. Hrund Rudolfsdóttir and Svava Bjarnadóttir have served on the board since 2009. Kristján Jóhannsson was elected to the board in June 2011, Jökull H. Úlfsson in March 2013 and Thórdur Sverrisson in March 2014. Further information on the board members of Stefnir can be seen on the company's website.

Corporate Governance Statement, cont.:

The alternate board members are Ásgerdur Hrönn Sveinsdóttir, area and branch manager at Arion Bank hf, Gunnar Ingi Jóhannsson, attorney at Lögmenn Höfdabakka, Kristbjörg Edda Jóhannsdóttir, head of marketing at Síminn, Thórhallur Örn Gudlaugsson, lecturer in the faculty of business administration at the University of Iceland, and Hördur Kvaran, specialist in Arion Bank's finance division.

The audit committee, elected by the board, underwent several changes from the previous year. The chairman of the committee is now Svava Bjarnadóttir, boardmember of Stefmir. The other committee members are Gudlaug Sigurdardóttir, engineer, and Sigríður Gudmundsdóttir, internal auditor at Marel. Snjólfur Ólafsson, professor, and Sturla Jónsson, chartered accountant, have stepped down from the committee. The audit committee met seven times in 2014 and achieved a quorum on each occasion. The committee members are independent of the company and their broad expertise in business administration, auditing and management was put to good use in the course of the committee's business. The committee submits its annual report to the board of directors in the first quarter of every year. Stefmir's board remuneration committee comprises Hrund Rudolfsdóttir and Svava Bjarnadóttir. The main roles of the committee are to establish a remuneration policy for the company and to make proposals on salaries and other remuneration to the managing director, other management and board of Stefmir. Read the company's

The board members of Stefmir jointly devised the following mission statement for the board:

The board's key role is to establish a corporate strategy and ensure that it is implemented. The core of the strategy is for the company to be a leading fund management company and to ensure that the interests of clients, owners, employees and the community at large are prime considerations. The focus is on running a solid and profitable business and minimizing risk. The board places a strong emphasis on good corporate governance and ensuring that the board and company operate at all times in compliance with the law, rules and good business practices.

The role of the board is defined in more detail in the rules of procedures and the company's articles of association.

The board assesses its work annually and proposes ways to make improvements. The managing director is not present during the assessment and the chairman leaves the meeting when the board members assessed her work. The assessment is then compiled, the board's proposals for improvements are sent out the relevant parties and a time frame is set for completion.

The company's managing director since 1 July 2009 is Flóki Halldórsson (born 1973), an economics graduate from the University of Iceland. Flóki has extensive experience of the financial markets and management. The managing director is responsible for ensuring that the day-to-day operations of the company are conducted according to the strategy and instructions given by the board of directors; cf. Paragraph 2, Article 68 of the Public Limited Companies Act. He is responsible for reporting to internal and external supervisory bodies. The managing director is authorized, upon approval by the board, to grant other employees of the company the power to handle limited authorizations of his duties.

The managing director is responsible for analysing, measuring, monitoring and supervising risks associated with the operations of the company. The managing director shall maintain an organizational chart that clearly specifies areas of responsibility, employees' authorizations and channels of communications. The managing director shall formalize objectives for internal control in consultation with the board and ensure that the follow-up is efficient. The managing director hires and dismisses the employees of the company, other than those discussed in Article 16 of Act No. 161/2002 and discharges them.

New rules of procedure for the board were approved in January 2014. The rules were established with reference to Article 54 (2) of the Financial Undertakings Act and Article 70 (5) of the Public Limited Companies Act. The rules of procedure are largely based on guidelines No. 1/2010 of the Financial Supervisory Authority (FME) and the company's articles of association. The work undertaken in relation to the company's recognition as a model company in good corporate governance has been important in this respect.

The board of directors' rules of procedure cover in detail the protocol for communications between shareholders and the board. The rules basically state that the chairman of the board is responsible for communications between the board and shareholders. The chairman shall ensure that the board is informed of all communications with shareholders and that at every board meeting a report, verbal or in writing, shall be given on communications with

Corporate Governance Statement, cont.:

Stefnir has been a leader in many areas and has placed great importance on offering its clients competitive and responsible investment options in virtually all asset classes. It is vital that the company is able to pass on information accurately and simply to investors. The company's website performs an important role in this respect by displaying detailed information on all the Stefnir funds available to the public.

No judgements for punishable acts according to the Criminal Code, the competition law, the act on financial undertakings or laws on public limited companies, private limited companies, book-keeping, annual accounts, bankruptcy or taxation, nor under special legislation applicable to parties subject to public supervision of financial activities, have been passed on Stefnir hf.