STEFNIR

Asset Management Company

Interim Financial Statements 30 June 2015

Stefnir hf.
Borgartun 19
105 Reykjavík

Reg. no. 700996-2479

Contents

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

The purpose of Stefnir 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. Stefnir is Iceland's largest fund manager with assets of approximately ISK 389 billion under active management. Stefnir 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 Interim Financial Statements of the company are divided in two: part A which includes the Interim Financial Statements of Stefnir hf. and part B which includes the Interim 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 Interim Financial Statements have been prepared on 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 507.8 million in the period according to the income statement. The company's equity at the end of the period was approximately ISK 2 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 56.2%, 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 the first half of 2015

The company's annual general meeting was held on 17 March 2015 and a decision was taken to pay a dividend of ISK 900 million to the shareholders of Stefnir. The board of directors of Stefnir 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 Stefnir was the first Icelandic company to be named "A model company in good corporate governance." This award is granted by the Center for Corporate Governance at the University of Iceland. During the year Stefnir 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 Stefnir have raised awareness and discussed the importance of corporate governance during the first half of 2015 and two key steps were taken in this respect. Firstly, the board of directors of Stefnir approved new rules on how Stefnir is allowed to vote in respect of listed limited companies. The rules and the way in which voting rights on behalf of funds managed by Stefnir are exercised at shareholders' meetings can be viewed on the Company's website. The rules and the treatment of proxy votes are designed to increase transparency in the management of the company's funds for the benefit of their unit holders. Secondly, Flóki Halldórsson, Stefnir's managing director, gave a talk on corporate governance and boards of directors at a conference for the management of institutional investors. He discussed what the main factors were that Stefnir takes into account when selecting board directors in order to ensure that boards have sufficient expertise, experience and breadth to deal with a range of tasks.

For the fourth year in a row Stefnir was recognized by Creditinfo as one of the outstanding companies of 2015. 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 15 billion, from ISK 404 billion to ISK 389 billion. The decrease can be attributed to ongoing changes to Stefnir's largest institutional investment fund, ABMIIF. However, equity funds, mixed funds and alternative investments did grow 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 this was made a priority by the company's board.

The majority of funds managed by Stefnir yielded good returns during the first six months of 2015. Domestic and international equities have yielded excellent returns in the first half of 2015, a development clearly reflected in the prices of equity funds and funds focusing on equities. Returns on mixed funds have also been very good during the period, particularly Stefnir Balanced Fund which yielded 14.3% in the first six months of the year and 22.9% over a period of 12 months. The fund has more than 4,000 unit holders, more than 700 of whom have an active monthly subscription. Concerns over inflation have been felt in 2015 and the worsening inflation outlook could push up the price of indexed government securities funds managed by Stefnir, while non-indexed government bonds have been on the back foot.

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

A new institutional investor fund, Ármúli Lánasafn, was established at the beginning of July 2015 and it has issued two 3-year bond classes: preferred bonds to investors and subordinated bonds to MP Straumur. The fund invests in selected debt instruments of MP Straumur. The buyers were institutional investors.

International equities funds managed by Stefnir are rated by the international ratings agencies Morningstar and Lipper. The funds have been assigned good ratings by these companies. Stefnir has managed international equities for almost two decades. Many of the funds have a long operating history, matched by the experience of the people managing them. The funds all have their unique characteristics and the board of directors of Stefnir believes that this diversity and the solid results in recent years will play a key role in the decisions made by institutional and retail investors now that changes are being made to the restrictions on investing in international funds.

Alternative investments at Stefnir have steadily increased in recent years. In the first half of 2015 SÍA II slhf, a company with an operating agreement with Stefnir, increased its investment in Verne Global and at the same time a group of pension funds invested in the company through Stefnir alternative investments. Verne Global is a leading company in the development of energy efficient data centres and is located at Ásbrú in south-west Iceland. Investments by SÍA II slhf. now represent almost 80% of the company's investment capacity. Companies which have invested in real estate performed as expected in the first half of 2015. SRE II slhf. has, for example, called in more than 82% of investors' subscription undertakings with one year of the company's investment period remaining. The company expects to be fully invested by the end of 2015.

Two institutional investor funds managed by the company have been dissolved during the year. OFAN SVÍV and BRIC ELN were dissolved and the bonds listed on NASDAQ Iceland were paid up. The investment fund KB Erlend Skuldabréf was dissolved in April 2015 and the payout ratio to unit holders was more than 87%. The fund had been in the process of being wound up since 2008.

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 Stefnir 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 Stefnir's employees.

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

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

The steps announced by the government on the lifting of the capital controls are considered to be positive for the company. The capital controls have long restricted the growth of international funds managed by the company.

Endorsement of the board of directors and the Managing Director

The board of directors and managing director of Stefnir hf. hereby attest the company's interim financial statement for the period 1 January to 30 June 2015 by signing below.

Reykjavik, 27 August 2015

The Board of Directors:

Hrund Rudolfsdóttir
Svava Bjarnadóttir
[illegible]
[illegible]
Jóhannes [illegible]

Managing Director:

Flóki Halldórsson

Review Report on Interim Financial Information

To the Board of Directors and Shareholder of Stefnir hf.

We have reviewed the accompanying interim financial statement of Stefnir for the period of 1 January to 30 June 2015, which comprise the endorsement and signatures of the board of directors and the managing director, income statement, balance sheet, statement of cash flows, and a summary of significant accounting policies and other explanatory notes.

Management's and the Board of directors Responsibility for the 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 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, 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 2015 and of its financial performance and its cash flows 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, 27 August 2015

Deloitte ehf.

Pálína Árnadóttir
endurskoðandi

Pétur Hansson
endurskoðandi

Interim Statement of Income

for the period 1 January to 30 June 2015

	Note	1.1. - 30.6. 2015	1.1. - 30.6. 2014
Operating income			
Management and performance based fees	4	906.636	994.060
Net financial income	10	220.244	23.945
Net operating income		1.126.880	1.018.005
Operating expense			
Salaries and related expense	11	309.731	272.531
Safe keeping commission		92.838	93.465
Other expense		96.568	111.404
Operating expense		499.137	477.400
Earnings before tax..		627.743	540.605
Income tax	12	(119.885)	(103.249)
Net earnings…………………………………………………………..	16	507.858	437.356

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Interim Statement of Financial Position

as at 30 June 2015

	Note	30.6.2015	31.12.2014
Assets			
Securities with variable income		1.748.804	2.172.255
Securities with fixed income		119.953	45.073
Total Securities	5, 13	1.868.757	2.217.328
Receivable from Arion Bank hf.		288	262
Accounts receivables	7	705.763	626.709
Total Receivables		706.051	626.971
Tax assets	9, 17	34.107	51.006
Other assets		12.300	6.748
Cash and cash equivalents	8	237.841	307.451
Total Other Assets		284.248	365.205
Total Assets		2.859.056	3.209.504
Equity			
Share capital		43.500	43.500
Statutory reserve		10.875	10.875
Retained earnings		1.990.434	2.382.576
Total Equity	16	2.044.809	2.436.951
Liabilities			
Payable to Arion Bank hf.		312.216	291.981
Accounts payable		21.754	7.874
Other liabilities		255.028	262.593
Tax liabilities	17	225.249	210.105
Total liabilities		814.247	772.553
Total Equity and Liabilities		2.859.056	3.209.504

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Interim Statement of Cash Flows

for the period 1 January to 30 June 2015

	Note	1.1. - 30.6. 2015	1.1. - 30.6. 2014
Cash flows from operating activities			
Net earnings	16	507.858	437.356
Non-cash items included in net earnings:			
Valuation changes of securities		(227.450)	(30.025)
Income tax recognised in profit or loss		119.885	103.249
Changes in operating assets and liabilities		(58.082)	(74.734)
		342.211	435.846
Income tax paid	17	(87.842)	(54.333)
Net cash from operating activities		254.369	381.513
Investing activities			
Change in Securities with variable income		570.860	281.943
Change in Securities with fixed income		5.161	5.426
Investing activities		576.021	287.369
Finance activities			
Dividend paid	16	(900.000)	(1.000.000)
Finance activities		(900.000)	(1.000.000)
Net change in cash and cash equivalents		(69.610)	(331.118)
Cash and cash equivalents at the beginning of the period		307.451	597.587
Cash and cash equivalents at the end of the period	8	237.841	266.469

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Notes to the Interim Financial Statements

Accounting policies

1. General information

Stefnir hf. is a limited liabilty entity and operates in accordance with Act. 2/1995 on Limited Liabilty 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 Interim 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 Interim Financial Statements are prepared on the historical cost basis except for Securities that are valued at fair value. The Interim Financial Statements are presented in Icelandic króna (ISK), rounded to the nearest thousand unless otherwise stated. The Interim 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.

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 entites 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 end of the period. Listed fund units are measured at market value at end of the period.

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 period.

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 period.

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 period. Net foreign assets at 30 June amount to ISK 943 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets	917.929	26.433	4.645	185
Liabilities	(6.142)	(8)	0	0
Net balance 30.06.2015	911.787	26.424	4.645	185
Net balance 31.12.2014	826.557	27.063	70	190

7. Receivables

Receivables are measured at nominal value deducted by impairment.

8. Cash

Cash consists of cash and deposits whth credit institutions.

9. Tax assets

The calculation of derferred 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 securites 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:

	1.1. - 30.6. 2015	1.1. - 30.6. 2014
Valuation change in securities assets	248.802	42.038
Dividend received	3.968	4.143
Foreign exchange gain (loss)	(40.571)	(26.544)
Interest income	8.242	4.378
Interest expense	(197)	(70)
Net financial income	220.244	23.945

11. Salaries and related expenses and personnel

Salaries and related expenses are specified as follows:

Salaries	242.365	213.680
Salary related expenses	67.366	58.851
Salaries invoiced	0	0
Salaries and related expenses	309.731	272.531

Number of employees is as follows:

Employees at the end of the period	23	22
Average number of employees during the period	23	21

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	1.1. - 30.6. 2015	1.1. - 30.6. 2014
12. Income tax expense		
Current tax expense	102.986	105.747
Deferred tax expense	16.900	(2.498)
Total Income tax expense	119.885	103.249

13. Securities

Securities with variable income are specified as follows:

Fund units issued by funds operated by Stefnir hf.	1.512.590	1.903.986
Shares in investment companies	231.076	215.133
Shares in companies	5.138	53.136
	1.748.804	2.172.255

Securities with fixed income are specified as follows:

Listed on NASDAQ OMX Iceland:		
Issued by public entities	8.674	9.564
Unlisted:		
Issued by public entities	3.754	3.536
Isued by others	107.525	31.973
	119.953	45.073
Securities total	1.868.757	2.217.328

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 2015:

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	98.135	158.266	250.832	312.216
Funds in operation	1.018.796	0	291.737	0
	1.116.930	158.266	542.569	312.216

Transactions with related parties 2014:

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	86.095	151.998	280.605	281.565
Funds in operation	1.010.701	0	261.145	0
	1.096.796	151.998	541.751	281.565

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15. Assets under Management

Assets under Management in funds in operation by Stefnir at the end of the period amount to ISK 389 billions compared to ISK 404 billions at year end 2014.

16. Equity

a. Total share capital amounts to ISK 43.5 million at the end of the period and is the same as at year end 2014. One vote is associated with every one króna share.

b. Changes in eqity are specified as follows:

	Share capital	Statutory reserve	Retained earnings	Total
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	43.500	10.875	2.382.576	2.436.951
Equity 1.1.2015	43.500	10.875	2.382.576	2.436.951
Dividend paid			(900.000)	(900.000)
Net earnings			507.858	507.858
Equity 30.06.2015	43.500	10.875	1.990.434	2.044.809

c. Equity at end of the period is ISK 2,045 million or 71.5% of total assets. The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 56.2%, exceeding the minimum legal requirement of 8%. The ratio is calculated as follows:

	30.6.2015	31.12.2014
Total equity	2.044.809	2.436.951
Tax asset	(34.107)	(51.006)
Total own funds for solvency purposes	2.010.702	2.385.945
Total capital requirements are specified as follows:		
Credit risk	210.756	232.986
Market risk	75.443	68.310
Capital requirement	286.199	301.297
Capital adequacy ratio	56,2%	63,4%

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17. Tax assets (liabilities)

Changes in tax assets and liabilities are specified as follows:

	30.6.2015	31.12.2014
Tax assets at the beginning of the year	(159.099)	(126.469)
Income tax recognised in Statement of Income	(119.885)	(203.813)
Additional 6% tax recognised in Statement of Income	0	(2.332)
Income tax paid	87.842	173.515
Net tax assets (liabilities) at the end of the period	(191.142)	(159.099)
Specified as follows:		
Current tax	(225.249)	(207.773)
Additional 6% tax on financial institution	0	(2.332)
Deferred tax asset	34.107	51.006
Net tax assets (liabilities) at the end of the period	(191.142)	(159.099)
Deferred tax assets are attributable to the following:		
Securities	25.646	41.057
Deferred foreign exchange gain and loss	6.910	8.399
Other items	1.551	1.550
Deferred tax asset at the end of the period	34.107	51.006
Tax liabilities are attributable to the following:		
Unpaid income tax from previous year	122.263	0
Income tax using the Icelandic corporation tax rate	102.986	207.773
Additional 6% tax on financial institutions	0	2.332
Tax liabilities at the end of the period	225.249	210.105

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.

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