



Asset Management Company

Interim Financial Statements

1 January - 30 June 2018

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

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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 for private equity investments. Stefir is Iceland's largest fund manager with assets of ISK 333 billion under active management. Stefir is a subsidiary of Arion Bank hf. and the A-part of the Interim 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 Stefir 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 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.

## Activities in the first half of 2018

The company reported earnings of ISK 481 million in the period according to the income statement. The company's equity at the end of the period was approximately ISK 2.4 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 64.9%, 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 2018

Stefir's annual general meeting was held on the 14th of March 2018 and a decision was taken to pay a dividend of ISK 1,350 million to the shareholders. The board of directors of Stefir was elected at the meeting and comprises the following members: Hrunn Rudolfsdóttir, chairman, Kristján Jóhannsson, vice chairman, and Jökull Heiddal Úlfsson, Ragnhildur Sophusdóttir and Thórdur Sverrisson.

Assets under active management decreased from the end of 2017 by ISK 13.5 billion to ISK 333 billion. This decrease is largely attributable to redemptions in Stefir – Liquidity Fund, which has decreased by ISK 9.4 billion since the beginning of the year. Assets under management are well distributed between asset classes and the company's revenue structure is also good.

The investment returns on funds managed by Stefir were variable. The equities fund Stefir – ÍS15 Icelandic Growth Fund yielded a 7% return in the first half of the year, while fixed income and mixed funds with a high percentage of fixed income generated approximately 1%.

There has been some turbulence on the Icelandic and international securities markets in recent periods and therefore one must look at the investment returns with respect to the risk associated with investing in the securities markets. Stefir officially publishes the long-term results of funds twice during the year, plus information on asset allocation and investment returns on its website, [www.stefir.is](http://www.stefir.is).

During the first half of the year the stake held by Stefir Íslenski Athafnasjóðurinn I (SÍA I) in Jarðboranir was placed into an open sale process and it is uncertain how long this process will take. Jarðboranir is the only asset of SÍA I, which was founded in 2011. The fund also owned shares in Sjóvá hf. and Hagar hf, which have been admitted to trading on Nasdaq Iceland. Stefir Íslenski Athafnasjóðurinn III (SÍA III) acquired a 70% stake in the steel and machine works Hamar through the company Stál í stál ehf. in June, and fund's acquisition of a stake in Lyfja is currently being examined by the Icelandic Competition Authority.

The shareholders' participation in SRE III slhf, which sold its real estate portfolio to Reitir in 2016, and in Alþjóða framtakssjóðurinn, set up by Búnaðarbankinn in 2002, came to an end in the first half of the year. As some projects and funds reach a conclusion, new opportunities for investors emerge, including Stefir's new real estate fund, SRL slhf, which acquired Landey ehf in the first half of the year. The fund will focus on expanding and developing Landey's real estate portfolio over the next few years.

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

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## **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 discusses the risks in the company's operating environment. The risks facing the company have been systematically analyzed and measured. The board is regularly informed of and discusses opinions provided by 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 projects and the monitoring of this is one of the critical components for measuring and mitigating risk. The company has also prepared a written business continuity plan concerning the risks which may disrupt or stop the company's operations temporarily and has presented it to Stefmir's employees. Stefmir has been recognized since 2012 as a company which has achieved excellence in corporate governance.

## **Outlook, risk factors and events taking place after the publication of the accounts**

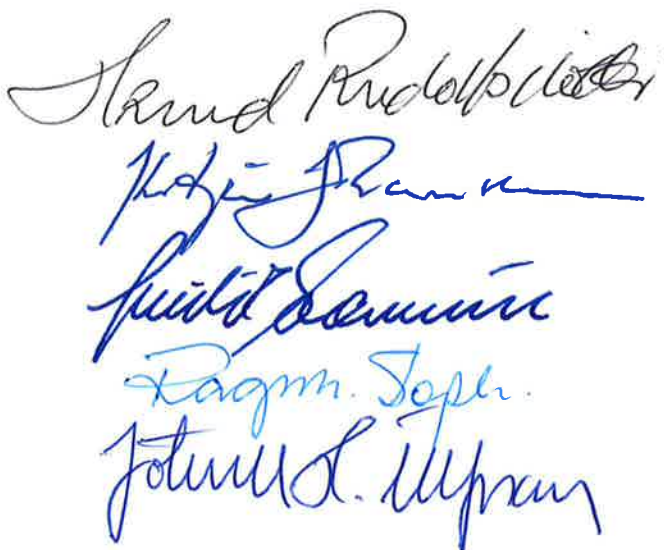
Stefmir regularly assesses the operational viability of its funds with respect to product development, the merging and dissolving of funds, guided by the interests of unit holders. It is clear that the company's fund offering has become more concentrated. The emphasis will remain on innovation as changes to legislation and a growing regulatory framework in recent periods have made it more difficult for smaller funds, partly owing to higher operating expenses.

## **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 Statements for the period 1 January to 30 June 2018 by signing below.

Reykjavik, 16 August 2018.

The Board of Directors:



Handwritten signatures of the Board of Directors:

- Haraldur P. Pálsson
- Halldór Þorvaldsson
- Guðni Thórisson
- Ragnýr Jónsdóttir
- Jónas L. Magnússon

Managing Director:



Handwritten signature of the Managing Director: Eldur Hauðsson

# Review Report on Interim Financial Statements

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## **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 2018, 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 2018 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, 16 August 2018

**Deloitte ehf.**



Páll Grétar Steingrímsson  
State Authorized Public Accountant



Pétur Hansson  
State Authorized Public Accountant

# Statement of Income

## for the period 1 January to 30 June 2018

	Note	2018 1.1. - 30.6.	2017 1.1. - 30.6.
<b>Operating income</b>			
Management and performance based fees .....	4	1.170.495	1.375.830
Financial income .....	10	61.361	98.809
Operating income		1.231.856	1.474.639
Financial expense .....	10	( 7.747)	( 32.854)
Net operating income		1.224.109	1.441.785
<b>Operating expense</b>			
Salaries and related expense .....	11	309.111	319.849
Safe keeping commission .....		111.600	104.100
Other expense .....		197.800	187.571
Operating expense		618.511	611.520
<b>Earnings before tax .....</b>		605.598	830.265
Income tax .....	12	( 124.466)	( 161.388)
<b>Net earnings .....</b>	16	481.132	668.877

# Statement of Financial Position

## as at 30 June 2018

	Note	30.6.2018	31.12.2017
<b>Assets</b>			
Securities with variable income .....		1.835.268	2.690.922
Securities with fixed income .....		28.691	47.312
Total Securities	5, 13	<u>1.863.959</u>	<u>2.738.234</u>
Receivable from Arion Bank hf. ....		24.738	48.434
Accounts receivables .....	7	<u>1.297.239</u>	<u>1.247.227</u>
Total Receivables		<u>1.321.977</u>	<u>1.295.661</u>
Other assets .....		59.305	93.113
Cash and cash equivalents .....	8	<u>23.288</u>	<u>34.722</u>
Total Other Assets		<u>82.593</u>	<u>127.835</u>
<b>Total Assets</b>		<u><u>3.268.529</u></u>	<u><u>4.161.730</u></u>
<b>Equity</b>			
Share capital .....		43.500	43.500
Statutory reserve .....		10.875	10.875
Fair value equity reserve .....		39.588	75.476
Retained earnings .....		<u>2.275.444</u>	<u>3.108.424</u>
Total Equity	16	<u>2.369.407</u>	<u>3.238.275</u>
<b>Liabilities</b>			
Payable to Arion Bank hf. ....		47.077	53.558
Accounts payable .....		29.011	5.740
Other liabilities .....		349.533	425.902
Tax liabilities .....	17	<u>459.946</u>	<u>435.178</u>
Deferred tax liabilities.....		13.555	3.077
Total liabilities		<u>899.122</u>	<u>923.455</u>
<b>Total Equity and Liabilities</b>		<u><u>3.268.529</u></u>	<u><u>4.161.730</u></u>

# Statement of Cash Flows

## for the period 1 January to 30 June 2018

	Note	2018	2017
<b>Cash flows from operating activities</b>			
Net earnings .....	16	481.132	668.877
Non-cash items included in net earnings:			
Valuation changes of securities .....	(	48.564)	( 59.167)
Income tax recognised in profit or loss .....		124.466	161.388
		<u>557.034</u>	<u>771.098</u>
Changes in operating assets and liabilities .....	(	52.087)	( 191.158)
Income tax paid .....	17	<u>( 89.220)</u>	<u>( 140.960)</u>
Net cash from operating activities		<u>415.727</u>	<u>438.980</u>
<b>Investing activities</b>			
Change in Securities with variable income .....		903.795	422.600
Change in Securities with fixed income .....		<u>19.044</u>	<u>91.553</u>
Investing activities		<u>922.839</u>	<u>514.153</u>
<b>Finance activities</b>			
Dividend paid .....	16	<u>( 1.350.000)</u>	<u>( 890.000)</u>
Finance activities		<u>( 1.350.000)</u>	<u>( 890.000)</u>
<b>Net change in cash and cash equivalents .....</b>	(	<b>11.434)</b>	<b>63.133</b>
<b>Cash and cash equivalents at the beginning of the year .....</b>		<u>34.722</u>	<u>29.650</u>
<b>Cash and cash equivalents at the end of the period .....</b>	8	<u><u>23.288</u></u>	<u><u>92.783</u></u>



# Notes to the Interim Financial Statements

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

## 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 period.

Net foreign assets at 30 June amount to ISK 658 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets .....	661.429	54	5.101	137
Liabilities .....	( 2.236)	( 6.242)	0	0
Net balance 30.6.2018 .....	659.193	( 6.188)	5.101	137
Net balance 31.12.2017 .....	651.631	53	26.171	148
Exchange rate of ISK 30.6.2018 .....	123,2	105,50	139,22	
Exchange rate of ISK 31.12.2017 .....	124,52	103,7	140,16	

### 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 / liabilities

The calculation of deferred tax asset / liability 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:

	2018 1.1. - 30.6.	2017 1.1. - 30.6.
Valuation change in securities assets .....	54.081	92.848
Dividend received .....	580	0
Foreign exchange gain (loss) .....	( 7.674)	( 32.824)
Interest income .....	6.699	5.961
Interest expense .....	( 72)	( 30)
Net financial income .....	53.614	65.955

### 11. Salaries and related expenses and personnel

Salaries .....	239.615	247.439
Salary related expenses .....	69.496	72.410
Salaries and related expenses .....	309.111	319.849
Number of employees at the end of the period. ....	21	20
Average number of employees during the period. ....	20	20

## Notes, continued

	<b>2018</b>	<b>2017</b>
<b>12. Income tax expense</b>	<b>1.1. - 30.6.</b>	<b>1.1. - 30.6.</b>
Current tax expense .....	113.987	149.142
Deferred tax expense .....	10.479	12.246
Total Income tax expense .....	<u>124.466</u>	<u>161.388</u>

### 13. Securities

Securities with variable income are specified as follows:

	<b>30.6.2018</b>	<b>31.12.2017</b>
Fund units issued by funds operated by Stefnir hf. ....	1.707.447	2.559.453
Shares in investment companies .....	112.633	115.801
Shares in companies .....	15.188	15.668
	<u>1.835.268</u>	<u>2.690.922</u>

Securities with fixed income are specified as follows:

Listed on NASDAQ OMX Iceland:

Issued by public entities ..... 4.627 5.802

Unlisted:

Issued by public entities ..... 2.229 2.159

Issued by others ..... 21.835 39.351

Securities total ..... 1.863.959 2.738.234

### 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 1.1. - 30.6. 2018.

	<b>Revenue</b>	<b>Expense</b>	<b>Receivables/ Assets</b>	<b>Liabilities</b>
Arion bank consolidated .....	72.614	274.861	56.151	47.077
Funds in operation .....	870.003	0	433.837	0
	<u>942.617</u>	<u>274.861</u>	<u>489.988</u>	<u>47.077</u>

Transactions with related parties 1.1. - 30.6. 2017.

	<b>Revenue</b>	<b>Expense</b>	<b>Receivables/ Assets</b>	<b>Liabilities</b>
Arion bank consolidated .....	92.687	249.291	142.708	47.086
Funds in operation .....	1.033.349	0	284.646	0
	<u>1.126.036</u>	<u>249.291</u>	<u>427.354</u>	<u>47.086</u>

### 15. Assets under Management

Assets under Management in funds in operation by Stefnir at the end of the period amount to ISK 333 billions compared to ISK 347 billions at year end 2017.

## Notes, continued

### 16. Equity

- a. Share capital amounts to ISK 43,5 million at the end of the period, unchanged from year end 2017, with par value of ISK 1 per share.

- b. Changes in equity are specified as follows:

	Share capital	Statutory reserve	Fair value equity reserve	Retained earnings	Total
Equity 1.1.2017 .....	43.500	10.875	33.818	2.360.390	2.448.583
Dividend paid .....	0	0	0	( 890.000)	( 890.000)
Net earnings .....	0	0	0	1.679.692	1.679.692
Fair value equity reserve ....	0	0	41.658	( 41.658)	0
Equity 31.12.2017 .....	<u>43.500</u>	<u>10.875</u>	<u>75.476</u>	<u>3.108.424</u>	<u>3.238.275</u>
Equity 1.1.2018 .....	43.500	10.875	75.476	3.108.424	3.238.275
Dividend paid .....	0	0	0	( 1.350.000)	( 1.350.000)
Net earnings .....	0	0	0	481.132	481.132
Fair value equity reserve ....	0	0	( 35.888)	35.888	0
Equity 30.6.2018 .....	<u>43.500</u>	<u>10.875</u>	<u>39.588</u>	<u>2.275.444</u>	<u>2.369.407</u>

According to the Financial Statements Act No. 3/2006 fair value changes of financial assets from the initial reporting, shall be transferred from retained earnings to a fair value equity reserve, net of tax. The fair value equity reserve is not subject to dividend payments. The fair value equity reserve shall be released in accordance with fair value changes recognized when financial asset is sold or redeemed or the assumptions for the fair value change is no longer in force.

- c. Return on assets, presented as the ratio between net earnings and the average balance of assets according to the Balance Sheet, was 25,9% during the first half of 2018. Return on assets for the same period in 2017 was 44,1%.

- d. Equity at end of the year is ISK 2.369 million or 72,5% of total assets.

The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 64,9%, exceeding the minimum legal requirement of 8%.

Comparison figures have been changed accordingly. The ratio is calculated as follows:

	30.6.2018	31.12.2017
Total equity .....	2.369.407	3.238.275
Total own funds for solvency purposes .....	<u>2.369.407</u>	<u>3.238.275</u>
Total capital requirements are specified as follows:		
Credit risk .....	233.265	265.465
Market risk .....	53.154	54.240
Capital requirement .....	<u>286.419</u>	<u>319.705</u>
Capital requirement due to fixed overheads .....	292.180	292.180
Capital adequacy ratio .....	64,9%	81,0%

## Notes, continued

<b>17. Tax assets (liabilities)</b>	<b>30.6.2018</b>	<b>31.12.2017</b>
Changes in tax assets and liabilities are specified as follows:		
Tax assets at the beginning of the year .....	( 438.255)	( 148.777)
Income tax recognised in Statement of Income .....	( 124.466)	( 464.418)
Income tax paid .....	89.220	174.940
Net tax assets (liabilities) at the end of the period .....	<u>( 473.501)</u>	<u>( 438.255)</u>
Specified as follows:		
Current tax .....	( 459.946)	( 435.178)
Deferred tax assets (liabilities) .....	( 13.555)	( 3.077)
Net tax assets (liabilities) at the end of the period .....	<u>( 473.501)</u>	<u>( 438.255)</u>
Deferred tax assets are attributable to the following:		
Deferred foreign exchange gain and loss .....	( 23)	4.862
Provision .....	( 13.219)	( 12.956)
Other items .....	( 313)	5.017
Deferred tax assets (liabilities) at the end of the period .....	<u>( 13.555)</u>	<u>( 3.077)</u>
Tax liabilities are attributable to the following:		
Income tax using the Icelandic corporation tax rate .....	459.946	435.178
Tax liabilities at the end of the period .....	<u>459.946</u>	<u>435.178</u>
<b>18. Shareholders of Stefmir hf.</b>	<b>30.6.2018</b>	<b>31.12.2017</b>
Shareholders of Stefmir hf. with shareholding exceeding 1% of issued share capital:		
Arion banki hf. ....	99,93%	99,93%
<i>Shareholders of Arion banki hf.:</i>		
<i>Kaupskil ehf.</i> .....	32,67%	55,57%
<i>Taconic Capital</i> .....	10,00%	9,99%
<i>Arion banki hf.</i> .....	9,30%	9,50%
<i>Attestor Capital</i> .....	9,09%	12,44%
<i>Och Ziff Capital management</i> .....	6,58%	6,58%
<i>Goldman Sachs funds</i> .....	3,37%	3,37%
<i>Lansdowne funds</i> .....	2,95%	-
<i>Milton Asset Management funds</i> .....	1,63%	-
<i>Goldman Sachs &amp; Co. LLC (Custodian)</i> .....	1,44%	-
<i>Morgan Stanley - MSIL IPB Client account (Custodian)</i> .....	1,37%	-
<i>Stefmir funds</i> .....	1,28%	-
<i>Eaton Vance funds</i> .....	1,23%	-
<i>JP Morgan Bank Luxembourg S.A. (Custodian)</i> .....	1,00%	-
<i>Other</i> .....	18,09%	2,55%
	<u>100,00%</u>	<u>100,00%</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.**