



Asset Management Company

Interim Financial Statements

1 January - 30 June 2019

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 Stefmir 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. Stefmir is Iceland's largest fund management company with assets of approximately ISK 337 billion under active management. Stefmir is a subsidiary of Arion Bank hf and the A-part of the Interim Financial Statements is part of the Consolidated Interim 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 Stefmir 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 and the rules on the annual accounts of UCITS and investment funds.

Activities in the first half of 2019

The company reported earnings of ISK 522,7 million in the period according to the income statement. The company's equity at the end of the period was approximately ISK 2,2 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 59,6%, 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 a related company.

Highlights of the first half of 2019

Stefmir's annual general meeting was held on 18 March 2019 and a decision was taken to pay a dividend of ISK 1,070 million to the shareholders. The board of directors of Stefmir was elected at the meeting and comprises the following members: Hrund Rudolfsdóttir, chairman, Kristján Jóhannsson, vice chairman, and Flóki Halldórsson, Ragnhildur Sophusdóttir and Þórdur Sverrisson.

Flóki Halldórsson resigned from the company in March of this year. Jökull H. Úlfsson was appointed managing director and took up the position on 1 April. Jökull has extensive experience of the financial markets, where he has worked for the last 24 years.

Assets under active management increased slightly from the end of 2018, or by ISK 6.1 billion to ISK 337 billion. Key changes to assets under management include redemptions relating to the institutional investments fund ABMIF, totalling ISK 8 billion. Returns on assets have been good so far this year and this results in a net increase in assets managed by the company. Assets under management are well distributed between asset classes and the company's revenue structure is also good.

Returns on funds managed by Stefmir were strong in all asset classes in the first half of the year. The equities fund Stefmir – ÍS15 Icelandic Growth Fund yielded a 19% return in the first six months of the year. Fixed income funds have also made similar gains, particularly those with non-indexed bonds. Mixed funds also benefited from the favourable markets, particularly Stefmir - Balanced Fund, to which more than 4,000 people have entrusted their savings, which has yielded a return of more than 13% so far this year.

International funds managed by Stefmir are performing well in comparison with other international funds and yielded good returns in the first half of the year. KF Global Value has increased by more than 24% in Icelandic krónur the first half of the year Stefmir – Scandinavian Fund is up more than 20% in Icelandic krónur in the same period. Both funds have outperformed their international benchmarks. Detailed information on asset allocation and investment returns on Stefmir funds can be viewed on the company's website, www.stefmir.is.

Stefmir is continuously working on improvements to its services and transactions with the company's funds. In the first half of the year it was decided to insource sales and services to the company's unit holders. A special sales team is responsible for sales and marketing to legal entities, professional investors and institutional investors. Service to individuals is mainly via digital self-service channels and Arion Bank's Call Centre.

In order to meet clients' demands for quick and secure ways to buy and sell in Stefmir funds, changes were introduced to Arion Online Banking, enabling Stefmir clients to subscribe for funds and change subscriptions online, quickly and easily. Regular savings in Stefmir funds is an excellent way to start investing in funds.

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

Stefnir is committed to sustainability and several important steps have been taken to this end during the year. All domestic and international flights by employees were carbon offset with a contribution to the Wetland Fund (Votlendssjóður). One of our fund managers wrote her master's thesis on green bonds and their status on the Swedish bond market. We will place a greater focus on green bonds and responsible investments in the medium term and will implement a policy on responsible investments.

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

The operations of fund management companies are subject to various changes in the external environment. Looking to the second half of 2019 there are various positive factors in the operating environment, while others may have a more negative impact. The markets were favourable in the first half of the year but forecasts of an economic downturn both in Iceland and abroad could materialize and have an impact on the company and the unit holders. Stefnir has demonstrated the ability to adapt to meet the changing business environment and also benefits from economies of scale in its business. The outlook is bright despite several uncertainties in the operating environment, both in the short and long term.




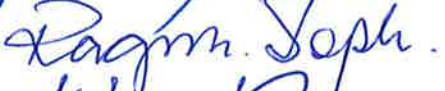

On 8 August Arion Bank announced its plans to prepay covered bond series Arion CB2, a total of ISK 60 billion. When the series is prepaid the institutional investment fund ABMIF, managed by Stefnir, shall be dissolved in accordance with the fund's rules. The prepayment and sale of underlying mortgages from the fund is subject to various conditions, including the approval of the Icelandic Competition Authority. The effect of the dissolving of the fund on Stefnir's operating results for 2019 is minimal.

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 2019 by signing below.

Reykjavik, 22 August 2019.

The Board of Directors:

Managing Director:



Review Report on Interim Financial Statements

To the Board of Directors and Shareholder of Stefmir hf.

We have reviewed the accompanying Interim Financial Statement of Stefmir for the period of 1 January to 30 June 2019, 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 2019 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, 22 August 2019

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 2019

	Note	1.1. - 30.06. 2019	1.1. - 30.06. 2018
Operating income			
Management and performance based fees	4	1.068.209	1.170.495
Financial income	10	208.607	61.361
Operating income		<u>1.276.816</u>	<u>1.231.856</u>
Financial expense	10	(108)	(7.747)
Net operating income		<u>1.276.708</u>	<u>1.224.109</u>
Operating expense			
Salaries and related expense	11	326.846	309.111
Safe keeping commission		118.710	111.600
Other expense		178.536	197.800
Operating expense		<u>624.092</u>	<u>618.511</u>
Earnings before tax		652.616	605.598
Income tax	12	(129.907)	(124.466)
Net earnings	16	<u>522.709</u>	<u>481.132</u>

Statement of Financial Position

as at 30 June 2019

	Note	30.06.2019	31.12.2018
Assets			
Securities with variable income		1.264.616	2.031.101
Securities with fixed income		149.930	20.916
Total Securities	5, 13	<u>1.414.546</u>	<u>2.052.017</u>
Receivable from Arion Bank hf.		1.444	8.476
Accounts receivables	7	<u>1.301.152</u>	<u>1.274.371</u>
Total Receivables		<u>1.302.596</u>	<u>1.282.847</u>
Other assets		58.013	50.644
Cash and cash equivalents	8	<u>57.920</u>	<u>160.014</u>
Total Other Assets		<u>115.933</u>	<u>210.658</u>
Total Assets		<u><u>2.833.075</u></u>	<u><u>3.545.522</u></u>
Equity			
Share capital		43.500	43.500
Statutory reserve		10.875	10.875
Fair value equity reserve		49.923	40.697
Retained earnings		<u>2.133.832</u>	<u>2.690.349</u>
Total Equity	16	<u>2.238.130</u>	<u>2.785.421</u>
Liabilities			
Payable to Arion Bank hf.		48.446	47.752
Accounts payable		44.059	5.314
Other liabilities		374.565	487.281
Tax liabilities	17	<u>105.717</u>	<u>199.708</u>
Deferred tax liabilities.....		22.158	20.046
Total liabilities		<u>594.945</u>	<u>760.101</u>
Total Equity and Liabilities		<u><u>2.833.075</u></u>	<u><u>3.545.522</u></u>

Statement of Cash Flows

for the period 1 January to 30 June 2019

	Note	1.1. - 30.06. 2019	1.1. - 30.06. 2018
Cash flows from operating activities			
Net earnings	16	522.709	481.132
Non-cash items included in net earnings:			
Valuation changes of securities	(180.677)	(48.564)
Income tax recognised in profit or loss		129.908	124.466
		<u>471.940</u>	<u>557.034</u>
Changes in operating assets and liabilities	(100.395)	(52.087)
Income tax paid	17	(221.787)	(89.220)
Net cash from operating activities		<u>149.758</u>	<u>415.727</u>
Investing activities			
Change in Securities with variable income		943.705	903.795
Change in Securities with fixed income	(125.557)	19.044
Investing activities		<u>818.148</u>	<u>922.839</u>
Finance activities			
Dividend paid	16	(1.070.000)	(1.350.000)
Finance activities		<u>(1.070.000)</u>	<u>(1.350.000)</u>
Net change in cash and cash equivalents		(102.094)	(11.434)
Cash and cash equivalents at the beginning of the year		160.014	34.722
Cash and cash equivalents at the end of the period	8	<u>57.920</u>	<u>23.288</u>

Notes to the Interim 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 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 2019 amount to ISK 588 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets	584.873	97	2.883	156
Liabilities	0	(466)	0	0
Net balance 30.06.2019	584.873	(369)	2.883	156
Net balance 31.12.2018	806.483	67	3.106	153
Exchange rate of ISK 30.06.2019	141,70	124,62	158,21	
Exchange rate of ISK 31.12.2018	133,20	116,34	148,27	

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.

	1.1. - 30.06. 2019	1.1. - 30.06. 2018
10. Net financial income		
Net financial income is specified as follows:		
Valuation change in securities assets	158.538	54.081
Dividend received	0	580
Foreign exchange gain (loss)	42.536	(7.674)
Interest income	7.533	6.699
Interest expense	(108)	(72)
Net financial income	208.499	53.614
11. Salaries and related expenses and personnel		
Salaries	251.535	239.615
Salary related expenses	75.311	69.496
Salaries and related expenses	326.846	309.111
Number of employees at the end of the period.	22	21
Average number of employees during the period.	21	20

Notes, continued

	1.1. - 30.06.2019	1.1. - 30.06.2018
12. Income tax expense		
Current tax expense	127.706	113.987
Deferred tax expense	2.201	10.479
Total Income tax expense	<u>129.907</u>	<u>124.466</u>

	30.06.2019	31.12.2018
13. Securities		
Securities with variable income are specified as follows:		
Fund units issued by funds operated by Stefmir hf.	1.143.565	1.921.062
Shares in investment companies	121.047	110.035
Shares in companies	4	4
	<u>1.264.616</u>	<u>2.031.101</u>
Securities with fixed income are specified as follows:		
Listed on NASDAQ OMX Iceland:		
Issued by public entities	3.299	4.505
Unlisted:		
Issued by public entities	1.751	1.705
Issued by others	144.880	14.706
	<u>149.930</u>	<u>20.916</u>
Securities total	<u>1.414.546</u>	<u>2.052.017</u>

14. Related parties

Stefmir 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 Stefmir.

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. - 30.06.2019.

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	81.658	266.411	110.603	48.446
Funds in operation	819.490	0	348.037	0
	<u>901.148</u>	<u>266.411</u>	<u>458.640</u>	<u>48.446</u>

Transactions with related parties 1.1. - 30.06.2018.

	Revenue	Expense	Receivables/ Assets	Liabilities
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>

15. Assets under Management

Assets under Management in funds in operation by Stefmir at the end of the period amount to ISK 337 billions compared to ISK 331 billions at year end 2018.

Notes, continued

16. Equity

- a. Share capital amounts to ISK 43,5 million at the end of the period, unchanged from year end 2018, 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 1.1.2018	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	897.146	897.146
Fair value equity reserve ...	0	0	(34.779)	34.779	0
Equity 31.12.2018	<u>43.500</u>	<u>10.875</u>	<u>40.697</u>	<u>2.690.349</u>	<u>2.785.421</u>
Equity 1.1.2019	43.500	10.875	40.697	2.690.349	2.785.421
Dividend paid	0	0	0	(1.070.000)	(1.070.000)
Net earnings	0	0	0	522.709	522.709
Fair value equity reserve ...	0	0	9.226	(9.226)	0
Equity 30.06.2019	<u>43.500</u>	<u>10.875</u>	<u>49.923</u>	<u>2.133.832</u>	<u>2.238.130</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 32,8% during the first half of 2019. Return on assets for the same period in 2018 was 25,9%.
- d. Equity at end of the year is ISK 2.238 million or 79% of total assets.

The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 59,6%, exceeding the minimum legal requirement of 8%.

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

	30.06.2019	31.12.2018
Total equity	2.238.130	2.785.421
Total own funds for solvency purposes	<u>2.238.130</u>	<u>2.785.421</u>
Total capital requirements are specified as follows:		
Credit risk	218.647	235.530
Market risk	47.033	64.785
Capital requirement	<u>265.680</u>	<u>300.315</u>
Capital requirement due to fixed overheads	300.485	300.485
Capital adequacy ratio	59,6%	74,2%

Notes, continued

17. Tax assets (liabilities)	30.06.2019	31.12.2018
Changes in tax assets and liabilities are specified as follows:		
Tax assets at the beginning of the year	(219.754)	(438.255)
Income tax recognised in Statement of Income	(129.908)	(216.678)
Income tax paid	221.787	435.179
Net tax assets (liabilities) at the end of the period	<u>(127.875)</u>	<u>(219.754)</u>
Specified as follows:		
Current tax	(105.717)	(199.708)
Deferred tax assets (liabilities)	<u>(22.158)</u>	<u>(20.046)</u>
Net tax assets (liabilities) at the end of the period	<u>(127.875)</u>	<u>(219.754)</u>
Deferred tax assets are attributable to the following:		
Deferred foreign exchange gain and loss	(8.686)	(7.075)
Provision	(13.020)	(12.811)
Other items	(452)	(160)
Deferred tax assets (liabilities) at the end of the period	<u>(22.158)</u>	<u>(20.046)</u>
Tax liabilities are attributable to the following:		
Income tax claim from previous year	(22.079)	0
Income tax using the Icelandic corporation tax rate	127.796	199.708
Tax liabilities at the end of the period	<u>105.717</u>	<u>199.708</u>
18. Shareholders of Stefmir hf.	30.06.2019	31.12.2018
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>		
Taconic Capital Advisors UK LLP	23,53%	10,00%
Och Ziff Capital management	9,25%	6,60%
Fossar markaðir hf.	8,01%	0,00%
Lansdowne Partners Funds	5,01%	2,90%
Stoðir hf.	4,80%	0,00%
Gildi lífeyrissjóður	4,73%	2,50%
Goldman Sachs Asset Management Funds	3,85%	3,50%
Lsr (Lífeyrissjóður starfsmanna ríkisins)	3,58%	0,00%
Eaton Vance Funds	3,19%	3,30%
Lífeyrissjóður verzlunarmanna	2,73%	0,00%
Deutsche Asset & Wealth Management	2,58%	1,00%
Íslandsbanki hf.	2,47%	0,00%
Milton Asset Management Funds	1,81%	1,40%
Artemis	1,69%	1,20%
Frjálsi lífeyrissjóðurinn	1,69%	0,00%
Stefmir hf. - Sjóðir	1,56%	0,00%
Hvalur hf.	1,45%	0,00%
Stapi lífeyrissjóður	1,40%	0,00%
Landsbankinn hf.	1,36%	0,00%
MainFirst Bank AG	1,09%	1,00%
Júpiter rekstrarfélag hf. - Sjóðir	1,07%	0,00%
Kaupskil ehf.	0,00%	32,70%
Arion banki hf.	0,00%	9,30%
Attestor Capital	0,00%	7,40%
Others	13,15%	17,20%
	<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.