



Stefnir Asset Management Company

Financial Statements 30 June 2013

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 the day-to-day operation of undertakings for collective investments in transferable securities (UCITS), investment funds and institutional investors' funds. Stefir is Iceland's largest fund manager with assets of approximately ISK 418 billion under active management. The company manages the assets of several partnerships limited by shares that have been established around enterprise investment schemes. Stefir is a subsidiary of Arion Bank hf. and Part A 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 Interim Financial Statements of Stefir hf and part B which includes the Interim Financial Statements of UCITS, investment funds and institutional investors' funds. They have been prepared according to the same accounting methods as last year. The Interim Financial Statements have been prepared in accordance with law on Financial Statements, the Financial Undertakings Act and rules on the Financial Statements of management companies of UCITS set by the Icelandic Financial Supervisory Authority.

## Operations during the period

The company returned a profit of ISK 256 million during the period according to the income statement. The company's equity at the end of the period was ISK 1,780 million according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 47.8%; the minimum ratio permitted by the Act is 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 2013

The company's annual general meeting was held on 20 March 2013 and a decision was taken to pay a dividend of ISK 900 million to the shareholders of Stefir. The board of directors of Stefir was elected at the meeting and comprises the following members: Hrund Rudolfsdóttir is chairman, Snjólfur Ólafsson is vice chairman, Jökull Heiðdal Úlfsson, Kristján Jóhannsson and Svava Bjarnadóttir are board members.

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. Stefir was recently given the same award for 2013. The company is constantly working on maintaining and developing corporate governance and the board's decision to establish a remuneration committee during the spring is part of this effort. The board therefore now has two sub-committees; an audit committee was already functioning.

In March 2013 Stefir hf. became a member of the Icelandic Financial Services Association (SFF). By becoming a member of the SFF the company will help protect the interests of the Icelandic financial sector and will also become a member of the Confederation of Icelandic Employers (SA).

Assets under management increased from approximately ISK 386 billion to more than ISK 418 billion, an increase of 7.8%. At the same time the company has diversified its income base by achieving a more even spread of asset classes in its asset portfolio.

Returns on the main markets were satisfactory during the first half of 2013. The 5.6% appreciation of the Icelandic króna against the main trading currencies did, however, have an impact on the returns of international equities funds. The investment environment continues to be shaped by the restrictions imposed by the capital controls on foreign investment. The assets of Icelandic pension funds continued to grow and it has been a priority to develop fund products suited to pension funds, insurance companies and other institutional investors.

Stefir has endeavoured to offer a wide selection of UCITS and investment funds, including six government bond funds in order to cater to the needs of private investors, companies and institutional investors. Stefir now manages six government bond funds which meet well to the requirements of private investors, companies and institutional investors. The returns of equities funds, both Icelandic and international, continued to be excellent during the first half of 2013; for example the investment fund ÍS-15 yielded 18.5%. There was a substantial inflow of new capital to equities funds and this, combined with returns, led to the 65% growth of equities funds managed by Stefir in the first half of 2013. Towards the end of 2012 a new investment fund, Eignaval Hlutabréf, was established.

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

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Alternative investments have increased in recent quarters, particularly investments in Icelandic private equity and real estate. Last year preparations for the launch of a new venture capital fund, SÍA II, were made. It is a successor to SÍA I which was set up in 2010 and is now fully invested. In January 2013 the launch of SÍA II was formally announced. The fund is ISK 7.5 billion, more than twice the size of its predecessor. New investments are being made in venture capital funds and real estate funds. During the first half of the year it was announced that SIA II and other investors intended to acquire Skeljungur hf. and the main assets of Norvík hf. Last year Stefmir's fixed income team completed the financing of numerous major buildings. Stefmir team set up several institutional investor funds which issued asset-backed bonds to finance commercial property. The company has been working on getting bonds issued by the institutional investor funds listed on the Nasdaq OMX Iceland. At the end of 2012 it was announced that the bonds issued by the institutional investor funds OFAN SVÍV and OFAN VÍ had been admitted for trading on the NASDAQ OMX Iceland. During the first half of 2013 bonds issued by the institutional investor funds REG1 and REG2 were admitted for trading. In August 2013 it was announced that bonds issued by the institutional investor fund KLS had been admitted for trading. Preparations for the listing of bonds issued by institutional investor fund BRIC ELN are currently under way.

## **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.

The board of directors of Stefmir draws attention to the fact that legal action has been brought against Stefmir hf. by the winding-up committee of Landsbanki Íslands hf. in respect of transactions made by funds under the company's management with Landsbanki Íslands, before and the around the time of the collapse of the bank. A more detailed description of this and other disputes relating to the company can be found in Note 18.

## **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 30 June 2013 by signing below.

Reykjavík, 26 August 2013

The Board of Directors:



Managing Director:



# Report on review of interm financial statements

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## To the Board of Directors and Shareholder of Stefnir hf.

We have reviewed the accompanying interim financial statements of Stefnir hf. for the 6 months ended 30 June 2013. The interim financial statement includes part A, which is the management company. Part A includes the Endorsement and Statement by the Board of Directors and the Managing Director, income statements, balance sheet, statement of cash flows and explanatory notes for the management company. Management is responsible for the preparation and presentation of these interim financial statements in accordance with Icelandic Financial Statements Act. Our responsibility is to express a conclusion on these interim financial statements based on our review.

### Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial statements 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 Statements are not prepared, in all material respects, in accordance with Icelandic Financial Statements Act, the Financial Undertakings Act and Rules on the Financial Statements of management companies of UCITS.

Reykjavik, 26 August 2013

Ernst & Young ehf.



Margrét Pétursdóttir

State Authorized Public Accountant

# Statement of Income

for the period 1 January to 30 June 2013

	Note	1.1. - 30.6 2013	1.1. - 30.6 2012
<b>Operating income</b>			
Management and performance based fees .....	4	771.756	1.114.900
Net financial income .....	10	( 1.958)	51.726
Net operating income		<u>769.798</u>	<u>1.166.626</u>
<b>Operating expense</b>			
Salaries and related expense .....	11	222.209	177.350
Safe keeping commission .....		96.558	84.234
Service fee to Arion bank hf. ....		19.803	17.559
Other expense .....	18	111.933	93.919
Operating expense		<u>450.503</u>	<u>373.062</u>
<b>Earnings before tax</b> .....		319.295	793.564
Income tax .....	12	( 63.030)	( 167.986)
<b>Net earnings</b> .....	16	<u>256.265</u>	<u>625.578</u>

# Statement of Financial Position

## as at 30 June 2013

	Note	30.6.2013	31.12.2012
<b>Assets</b>			
Securities with variable income .....		1.464.523	2.073.946
Securities with fixed income .....		59.644	64.020
Total Securities	5, 13	<u>1.524.167</u>	<u>2.137.966</u>
Receivable from Arion Bank hf. ....		219	0
Accounts receivables .....	7	445.183	428.431
Total Receivables		<u>445.401</u>	<u>428.431</u>
Tax assets .....	9, 17	148.906	128.863
Other assets .....		10.494	24.334
Cash and cash equivalents .....	8	785.452	755.688
Total Other Assets		<u>944.852</u>	<u>908.885</u>
<b>Total Assets</b>		<u><u>2.914.421</u></u>	<u><u>3.475.282</u></u>
<b>Equity</b>			
Share capital .....		43.500	43.500
Statutory reserve .....		10.875	10.875
Retained earnings .....		1.725.847	2.369.581
Total Equity	16	<u>1.780.222</u>	<u>2.423.956</u>
<b>Liabilities</b>			
Payable to Arion Bank hf. ....		255.628	238.838
Accounts payable .....		5.488	7.759
Other liabilities .....		684.703	699.422
Tax liabilities .....	17	188.381	105.308
Total liabilities		<u>1.134.199</u>	<u>1.051.326</u>
<b>Total Liabilities and Equity</b>		<u><u>2.914.421</u></u>	<u><u>3.475.282</u></u>

# Statement of Cash Flows

## for the period 1 January to 30 June 2013

	Note	1.1. - 30.6 2013	1.1. - 30.6 2012
<b>Cash flows from operating activities:</b>			
Net earnings .....	16	256.265	625.578
Non-cash items included in net earnings:			
Valuation changes of securities .....	(	50.783)	( 37.075)
Expensed tax .....		63.030	167.986
Changes in operating assets and liabilities .....	(	3.330)	( 337.979)
Net cash from operating activities before taxes		265.182	418.510
Income tax paid .....	17	0	( 9.273)
Net cash from operating activities		265.182	409.236
<b>Investing activities</b>			
Change in Securities with variable income .....		658.976	( 213.540)
Change in Securities with fixed income .....		5.607	5.723
Investing activities		664.582	( 207.817)
<b>Finance activities</b>			
Dividend paid .....	16	( 900.000)	( 700.000)
Finance activities		( 900.000)	( 700.000)
<b>Net change in cash and cash equivalents .....</b>		29.765	( 498.581)
<b>Cash and cash equivalents at the beginning of the year .....</b>		755.688	1.039.777
<b>Cash and cash equivalents at the end of the period.....</b>	8	785.452	541.196



# Notes to the 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 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 company is a subsidiary of Arion bank hf. The Interim Financial Statements of Stefnir hf. are part of the Consolidated Interim 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, contingent liabilities as well as 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 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 buy price at period end. Listed fund units are measured at market value at end of June.

#### 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 June.

## 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 30 June amount to ISK 1.273 millions and are specified as follows:

	EUR	USD	GBP	SEK
Assets .....	1.202.424	37.207	33.535	211
Liabilities .....	( 397)	0	0	0
Net balance 31.12.2013 .....	<u>1.202.027</u>	<u>37.207</u>	<u>33.535</u>	<u>211</u>
Net balance 31.12.2012 .....	<u>1.062.138</u>	<u>45.581</u>	<u>37.944</u>	<u>225</u>

### 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 deferred income tax asset has been calculated and entered in the Statement of Financial Position. The calculation 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:

	1.1. - 30.6 2013	1.1. - 30.6 2012
Valuation change in securities assets .....	77.793	33.382
Dividend received .....	4.144	0
Foreign exchange gain (loss) .....	( 60.434)	12.890
Interest income .....	6.604	5.491
Interest expense .....	( 30.065)	( 37)
Net financial income .....	<u>( 1.958)</u>	<u>51.726</u>

### 11. Personnel

Salaries and related expenses are specified as follows:

Salaries .....	170.735	140.915
Salary related expenses .....	51.923	36.435
Salaries invoiced .....	( 450)	0
Salaries and related expenses .....	<u>222.209</u>	<u>177.350</u>

Number of employees is as follows:

Employees at the end of the period .....	20	17
Average number of employees during the period .....	18	17

## Notes, continued:

	1.1. - 30.6 2013	1.1. - 30.6 2012
<b>12. Income tax</b>		
Current year .....	63.030	158.713
Prior year correction .....	0	9.273
Total Income tax expense .....	<u>63.030</u>	<u>167.986</u>
<b>13. Securities</b>	<b>30.6.2013</b>	<b>31.12.2012</b>
Securities with variable income are specified as follows:		
Fund units issued by funds operated by Stefmir hf. ....	1.299.611	1.925.480
Fund units issued by others .....	69.616	76.779
Shares in investment companies .....	95.296	71.687
	<u>1.464.523</u>	<u>2.073.946</u>
Securities with fixed income are specified as follows:		
Listed on NASDAQ OMX Iceland:		
Issued by public entities .....	10.646	11.862
Unlisted:		
Issued by public entities .....	4.759	4.664
Issued by others .....	44.239	47.494
	<u>59.644</u>	<u>64.020</u>
Securities total .....	<u>1.524.167</u>	<u>2.137.966</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 in the reporting period. Transaction with related parties have been conducted on an arm's length basis.

Transactions with related parties 1 January to 30 June 2013:

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated .....	93.285	121.123	800.557	255.628
Funds in operation .....	685.075	121.123	203.242	41.084
	<u>778.360</u>	<u>121.123</u>	<u>1.003.799</u>	<u>296.712</u>

### 15. Assets under Management

Assets under Management in funds in operation by Stefmir at the end of the period amount to ISK 418 billions compared to ISK 386 billions at year end 2012.

## Notes, continued:

### 16. Equity

a. Total share capital amounts to ISK 43.5 million at the end of the period. 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 1.1.2012 .....	43.500	10.875	2.333.545	2.387.920
Dividend paid .....			( 700.000)	( 700.000)
Net earnings .....			736.037	736.037
Equity 31.12.2012 .....	<u>43.500</u>	<u>10.875</u>	<u>2.369.581</u>	<u>2.423.956</u>
Equity 1.1.2013 .....	43.500	10.875	2.369.581	2.423.956
Dividend paid .....			( 900.000)	( 900.000)
Net earnings .....			256.265	256.265
Equity 30.6.2013 .....	<u>43.500</u>	<u>10.875</u>	<u>1.725.847</u>	<u>1.780.222</u>

c. Equity at end of June is ISK 1,780 thousands or 61.1% of total assets. The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 47.8%, exceeding the minimum legal requirement of 8%. The ratio is calculated as follows:

	30.6.2013	31.12.2012
Total equity .....	1.780.222	2.423.956
Tax assets .....	( 148.906)	( 128.863)
Total own funds for solvency purposes .....	<u>1.631.315</u>	<u>2.295.093</u>
Total capital requirements are specified as follows:		
Credit risk .....	170.955	219.350
Market risk .....	101.838	91.671
Capital requirement .....	<u>272.793</u>	<u>311.021</u>
Capital adequacy ratio .....	47,8%	59,0%

## Notes, continued:

<b>17. Tax asset</b>	<b>30.6.2013</b>	<b>31.12.2012</b>
Changes in deferred tax assets are specified as follows:		
Tax assets at the beginning of the year .....	23.556	209.888
Income tax recognised in profit or loss .....	( 63.030)	( 186.332)
Net tax asset at the end of the period .....	<u>( 39.475)</u>	<u>23.556</u>
Specified as follows:		
Current taxes .....	( 188.381)	0
Deferred t axes .....	148.906	28.143
Net tax asset at the end of the period .....	<u>( 39.475)</u>	<u>28.143</u>
Tax assets are attributable to the following:		
Securities .....	39.057	39.057
Deferred foreign exchange gain and loss .....	350	( 13.693)
Provision .....	106.000	0
Other items .....	3.499	3.499
Deferred tax asset at the end of the period .....	<u>148.906</u>	<u>28.863</u>

## 18. Other information

In October 2011 the winding-up committee of Landsbanki Íslands brought legal action against the company demanding the annulment and repayment of payments made by Landsbanki Íslands of money market deposits which matured in early October 2008 to two funds managed by Stefnir. The amount involved is ISK 450 million plus interest. As a result of this judgment by Reykjavik District Court, Stefnir, on behalf of the two funds, has been ordered to repay the amounts. The company made provisions in respect of this case in 2012. The case has been appealed to the Supreme Court of Iceland.

A legal entity has brought legal action against Stefnir and Arion Bank and is claiming damages for alleged illegal handling by Kaupthing Bank hf. of financial assets which Kaupthing Bank hf. was instructed to manage for the legal entity. Stefnir and the bank are defending this case and reject the claims of the legal entity.

**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.**