



Asset Management Company

Financial Statements 2015

Stefnir hf.
Borgartun 19
105 Reykjavík

Reg. no. 700996-2479

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

The purpose of Stefir hf. is to operate UCITS, investment funds and institutional investors' funds. The company also manages the assets of several partnerships limited by shares that have been established around venture capital investments. Stefir is Iceland's largest fund manager with assets of approximately ISK 400 billion under active management. Stefir is a subsidiary of Arion Bank hf. and the A-part of the Financial Statements is part of the Consolidated Financial Statements of the Bank and its subsidiaries.

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

Operations during the year

The company reported earnings of ISK 1,170 million in the period according to the income statement. The company's equity at the end of the period was approximately ISK 2.7 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 64.2%, 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 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 Stefir. The board of directors of Stefir was elected at the meeting and comprises the following members: Hrund Rudolfsdóttir, chairman, Kristján Jóhannsson, vice chairman, and Jökull Heiddal Úlfsson, Svava Bjarnadóttir and Thórdur Sverrisson who are board directors.

In 2012 Stefir was the first Icelandic company to be recognized for "Excellence in good corporate governance." This award is granted by the Center for Corporate Governance at the University of Iceland. During the year was Stefir recognized in this way again for the next two years, and therefore remains a model company in good corporate governance in Iceland. The company is constantly working on maintaining and developing corporate governance and re-attaining this recognition annually is part of this effort.

The board and employees of Stefir took several steps during the year to raise awareness and highlight the importance of corporate governance. In early 2015 the board of directors of Stefir approved revised rules on how Stefir votes in respect of listed limited companies. The rules and how voting rights on behalf of funds managed by Stefir are exercised at shareholders' meetings can be publicly viewed on the Company's website. The rules on proxy voting are designed to increase transparency in the management of the company's funds for the benefit of their unit holders. Flóki Halldórsson, Stefir's managing director, gave a talk on corporate governance and boards of directors at a conference for the management of institutional investors. He also gave a talk at an open conference on the more active role of institutional investors as shareholders in listed companies and the responsibility involved in wielding proxy votes. Two directors, Hrund Rudolfsdóttir and Kristján Jóhannsson, taught and participated in debate in a course of studies held by the Center for Corporate Governance during the autumn. The board of directors of Stefir has supported research into good corporate governance at university level during the year.

For the fourth year in a row Stefir was recognized by Creditinfo as one of the outstanding companies of 2015. We are proud that Stefir is considered to be one of the companies contributing to the development of the Icelandic business sector.

Assets under management decreased by approximately ISK 4 billion during the year, from ISK 404 billion to ISK 400 billion. The decrease can be attributed to ongoing changes to Stefir's largest institutional investment fund, ABMIIF. However, Icelandic equity funds, mixed funds and alternative investments did grow during the year. Assets under management are well distributed between asset classes and the company's revenue structure is consistent with the board's objectives.

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

Balanced funds have long been an important part of the company's product offering and Iceland's largest balanced fund, Stefmir Managed Balanced Fund, is celebrating its 20th year of operation in 2016. The fund is a popular investment option for regular savers and it has more than 4,000 unit holders. The fund yielded good returns last year, more than 30%, and the fund grew by 43% during the year. In 2015 the fund focused on Icelandic equities which yielded good returns and Stefmir's Icelandic equities funds performed strongly. Stefmir - Icelandic Growth Fund generated a nominal return of more than 45% last year, outperforming the selected share index of NASDAQ OMX Iceland.

Stefmir's fixed income funds are a fundamental component of many asset portfolios of individual and institutional investors. The funds benefited from strong returns in mixed funds and portfolios last year. We are pleased by the extent to which Stefmir Liquidity Fund, which primarily contains deposits of financial institutions, has grown and at the same time the investor group has become more diverse.

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

The owners of the bond series REG 1 12 1 agreed to increase the series which was issued by the institutional investor fund REG 1 in 2012. The series was increased by ISK 1.5 billion and entirely sold to owners.

Stefmir's strength as a manager of international equities funds is interesting for several reasons. The company employs an experienced team of experts to monitor economic developments and listed international companies and their approach to fund management has long attracted attention. Most international equities funds managed by Stefmir are rated by the international ratings agencies Morningstar and Lipper. The funds have been assigned good ratings by these companies. At the beginning of the year three of Stefmir's funds had 3 or 4 star ratings from Morningstar and the second highest rating from Lipper. The board of directors of Stefmir believes that the funds' diversity and solid results in recent years will be important when institutional and individual investors are considering their investment options as changes to the rules on investing in international funds are on the horizon.

Alternative investments at Stefmir have steadily increased in recent years. In the first half of 2015 SÍA II slhf. increased its investment in Verne Global and at the same time a group of pension funds invested in the company through Stefmir alternative investments. In August 2015 SÍA II slhf. acquired a 35% share in the travel company Kynniserdir. Investments by SÍA II slhf. now represent almost 92% of the company's investment capacity.

Stefmir has managed two real estate investment companies, SRE I and II slhf. In October 2015 these companies reached agreements with Reitir fasteignafélag hf. on the sale of assets owned by the two companies. The total value of the deal was approximately ISK 18 billion. The assets will be transferred once all conditions have been met, which includes gaining the approval of the Icelandic Competition Authority.

Six institutional investor funds managed by the company were dissolved during the year. OFAN SVÍV, BRIC ELN and LFEST 1 Borgartún were dissolved and the bonds listed on NASDAQ OMX Iceland were paid up. KB Fagsjódir 2-4 were dissolved and unit holders were paid out the value of their unit shares. 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. Two fixed income funds, Stefmir – Government Bonds Short Term and Stefmir Bonds Short Term, were dissolved in November 2015 as the funds were so small it was not considered beneficial to unit holders to continue running them. The final payment from the fund was calculated on the basis of the unit holders' holding on the day the fund was dissolved.

The board of directors of Stefmir proposes to the company's shareholders that a dividend of ISK 1,000 million be paid out for 2015.

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

Risk management

Risk management and active internal control are mainstays of the responsible operation of a fund management company. The board of directors of Stefmir has mapped the company's risk management environment. The risks facing the company have been systematically analyzed and measured, and the board is regularly informed of matters relating to risk management and internal control. Measures to manage and mitigate possible risk factors are vital to the operational security of the company. The outsourcing of tasks and monitoring such outsourcing are critical components of risk management and mitigation. The company has also prepared a written contingency plan concerning the risks which may disrupt or stop the company's operations temporarily and has presented it to Stefmir's employees. The board of directors of Stefmir has approved a risk management strategy established on the basis of Regulations No. 471/2014 and it applies to assets and portfolios of UCITS and investment funds managed by the company. The board of directors has regularly monitored key performance indicators in the company's operations.

Corporate governance

The board of directors of Stefmir is committed to good corporate governance and endeavours to promote responsible behaviour and corporate culture within Stefmir for the benefit of all the company's stakeholders. The Corporate Governance Statement 2016 is contained in the unaudited appendix to the Financial Statements.

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

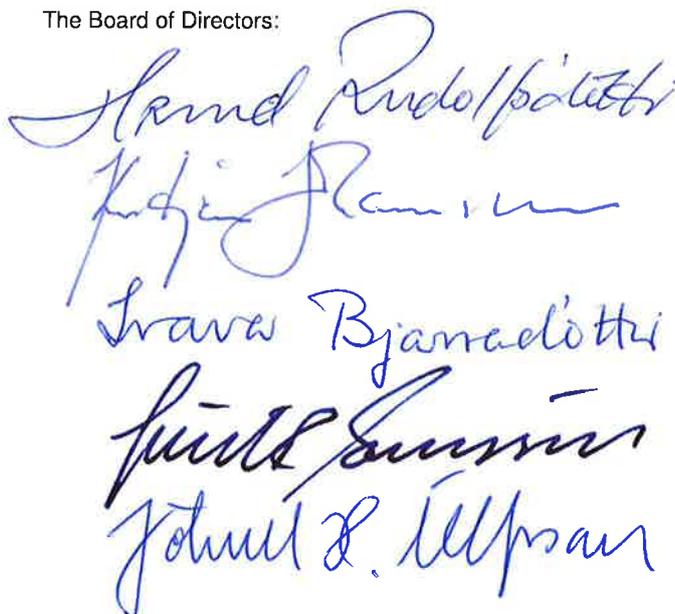
The measures announced by the government on the lifting of the capital controls are considered to be positive for the company. The capital controls have long restricted the growth of international funds managed by Stefmir.

Endorsement of the board of directors and the Managing Director

The board of directors and managing director of Stefmir hf. hereby attest the company's interim financial statement for the period 1 January to 31 December 2015 by signing below.

Reykjavik, 23rd of February 2016

The Board of Directors:


Arndur R. Pálsson
Kjartan Pálsson
Lárus Bjarnadóttir
Sigrún Gunnarsdóttir
Jóhann E. Álfsson

Managing Director:


Elin Hauðsmör

Independent Auditor's Report

To the Board of Directors and Shareholders of Stefnr hf.

We have audited the accompanying financial statements of Stefnr hf., which comprise the endorsement of Board of Directors and the managing director, statement of financial position as at December 31, 2015, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's and the Board of directors Responsibility for the Financial Statements

Management and the board of directors is responsible for the preparation and fair presentation of this financial statement in accordance with Icelandic Financial Statements Act, Act on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS and for such internal control as management and the board of directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view, of the financial position of Stefnr hf. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Icelandic Financial Statements Act, Act on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS.

Reykjavik, 23 February 2016

Deloitte ehf.



Pálína Arnadóttir

State Authorized Public Accountant



Pétur Hansson

State Authorized Public Accountant

Statement of Income

for the year 2014

	Note	2015	2014
Operating income			
Management and performance based fees	4	2.306.048	1.942.075
Net financial income	10	239.935	142.192
Other income		0	0
Net operating income		<u>2.545.983</u>	<u>2.084.267</u>
Operating expense			
Salaries and related expense	11	612.531	536.754
Safe keeping commission		185.239	183.465
Other expense		279.198	290.830
Operating expense		<u>1.076.968</u>	<u>1.011.049</u>
Earnings before tax		1.469.015	1.073.218
Income tax	12	<u>(298.702)</u>	<u>(206.145)</u>
Net earnings	16	<u><u>1.170.313</u></u>	<u><u>867.073</u></u>

Statement of Financial Position

as at 31 December 2014

	Note	2015	2014
Assets			
Securities with variable income		2.379.807	2.172.255
Securities with fixed income		119.232	45.073
Total Securities	5, 13	<u>2.499.039</u>	<u>2.217.328</u>
Receivable from Arion Bank hf.		53.105	262
Accounts receivables	7	<u>947.067</u>	<u>626.709</u>
Total Receivables		<u>1.000.172</u>	<u>626.971</u>
Tax assets	9, 17	28.696	51.006
Other assets		35.254	6.748
Cash and cash equivalents	8	<u>82.232</u>	<u>307.451</u>
Total Other Assets		<u>146.182</u>	<u>365.205</u>
Total Assets		<u><u>3.645.393</u></u>	<u><u>3.209.504</u></u>
Equity			
Share capital		43.500	43.500
Statutory reserve		10.875	10.875
Retained earnings		<u>2.652.889</u>	<u>2.382.576</u>
Total Equity	16	<u>2.707.264</u>	<u>2.436.951</u>
Liabilities			
Payable to Arion Bank hf.		334.898	291.981
Accounts payable		5.948	7.874
Other liabilities		320.891	262.593
Tax liabilities	17	<u>276.392</u>	<u>210.105</u>
Total liabilities		<u>938.129</u>	<u>772.553</u>
Total Equity and Liabilities		<u><u>3.645.393</u></u>	<u><u>3.209.504</u></u>

Statement of Cash Flows

for the year 2014

	Note	2015	2014
Cash flows from operating activities			
Net earnings	16	1.170.313	867.073
Non-cash items included in net earnings:			
Valuation changes of securities .....	(	260.047)	(130.366)
Income tax recognised in profit or loss		298.702	206.145
		<u>1.208.968</u>	<u>942.852</u>
Changes in operating assets and liabilities .....	(	302.419)	60.970
Income tax paid	17	(210.105)	(173.515)
Net cash from operating activities		<u>696.444</u>	<u>830.307</u>
Investing activities			
Change in Securities with variable income .....	(	28.168)	(127.229)
Change in Securities with fixed income		6.505	6.786
Investing activities	(	<u>21.663)</u>	<u>(120.443)</u>
Finance activities			
Dividend paid	16	(900.000)	(1.000.000)
Finance activities		<u>(900.000)</u>	<u>(1.000.000)</u>
Net change in cash and cash equivalents .....	(	225.219)	(290.136)
Cash and cash equivalents at the beginning of the year		<u>307.451</u>	<u>597.587</u>
Cash and cash equivalents at the end of the year.....	8	<u><u>82.232</u></u>	<u><u>307.451</u></u>

Notes to the Financial Statements

Accounting policies

1. General information

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

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

2. Basis of preparation

The Financial Statements of Stefnir hf., A-part, are prepared in accordance with law on Financial Statements, law on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS. The Financial Statements are prepared on the historical cost basis except for Securities that are valued at fair value. Accounting principles for refunded fee to Arion bank was changed in 2015 and is now presented as other expense in the statement of income. Comparison figures have been changed accordingly. The Financial Statements are presented in Icelandic króna (ISK), rounded to the nearest thousand unless otherwise stated. The Financial Statements of Stefnir hf. are part of the Consolidated Financial Statements for the parent company with information on operations and financial position of the Consolidated company. The Consolidated Financial Statements for Arion Bank is available on the Bank's website, www.arionbank.com.

3. Use of estimates and judgements

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

4. Management and performance based fees

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

5. Securities

a. Securities with variable income

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

b. Securities with fixed income

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

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

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

Notes, continued:

6. Foreign currency transactions

Transactions in foreign currencies are translated to Icelandic króna at exchange rates at the dates of transactions, according to Reuter. Assets and liabilities denominated in foreign currency are translated at exchange rate at the end of the year. Net foreign assets at 31 December amount to ISK 663 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets	629.348	18.200	16.305	180
Liabilities	(561)	(16)	(560)	0
Net balance 31.12.2015	<u>628.787</u>	<u>18.184</u>	<u>15.745</u>	<u>180</u>
Net balance 31.12.2014	<u>826.557</u>	<u>27.063</u>	<u>70</u>	<u>190</u>
Exchange rate of ISK 31.12.2015	141.28	130.08	191.84	
Exchange rate of ISK 31.12.2014	154.28	127.46	198.65	

7. Receivables

Receivables are measured at nominal value deducted by impairment.

8. Cash

Cash consists of cash and deposits with credit institutions.

9. Tax assets

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

10. Net financial income

Net financial income is specified as follows:

	2015	2014
Valuation change in securities assets	300.904	141.487
Dividend received	3.968	16.892
Foreign exchange gain (loss)	(75.585)	(22.512)
Interest income	10.870	6.477
Interest expense	(222)	(152)
Net financial income	<u>239.935</u>	<u>142.192</u>

11. Salaries and related expenses and personnel

Salaries and related expenses are specified as follows:

Salaries	474.757	417.311
Salary related expenses	<u>137.774</u>	<u>119.443</u>
Salaries and related expenses	<u>612.531</u>	<u>536.754</u>

Number of employees is as follows:

Employees at the end of the year	23	24
Average number of employees during the year	23	22

Notes, continued:

11. Salaries and related expenses and personnel, cont.	2015	2014
Compensation of the key management personnel:		
Flóki Halldórsson, Managing Director	30.330	29.760
Hrund Rudolfsdóttir, Chairman of the Board	6.138	6.265
Kristján Jóhannsson, Vice-Chairman of the Board	2.640	2.580
Svava Bjarnadóttir, Board-member	4.356	4.251
Jökull H. Úlfsson, Board-member	2.640	2.580
Pórður Sverrisson, Board-member	2.640	1.980
Snjólfur Ólafsson, Former Vice-Chairman of the Board	0	795
Total remuneration	48.744	48.210

Remuneration to four managers was total ISK 89.7 million (ISK 66.1 million in 2014). Remuneration to two non-Board members of the Board Audit and Risk Committee was total ISK 1.7 million (ISK 1.7 million in 2014).

The Board of Stefmir has set rules for bonus payments in accordance with rules set by the Financial Supervisory Authority no. 700/2011 which have been confirmed by the FSA. In 2015 the company made a provision of ISK 98.8 million for performance plan payment, including salary related expense (ISK 60.0 million in 2014). Forty percent of the payment is deferred for three years in accordance with FME rules on remuneration policy for financial undertakings. At the end of the year the company's accrual for performance plan payments amounts to ISK 154,8 million (ISK 101,4 million in the end of 2014).

12. Income tax expense	2015	2014
Current tax expense	276.392	210.105
Deferred tax expense	22.310	(3.960)
Total Income tax expense	298.702	206.145

13. Securities

Securities with variable income are specified as follows:

Fund units issued by funds operated by Stefmir hf.	2.091.003	1.903.986
Shares in investment companies	283.901	215.133
Shares in companies	4.903	53.136
	2.379.807	2.172.255

Securities with fixed income are specified as follows:

Listed on NASDAQ OMX Iceland:

Issued by public entities	8.414	9.564
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Unlisted:

Issued by public entities	3.127	3.536
Issued by others	107.691	31.973
	119.232	45.073
Securities total	2.499.039	2.217.328

Notes, continued:

14. Related parties

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

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

Transactions with related parties 2015:

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	185.565	312.519	145.554	334.898
Funds in operation	2.218.961	0	285.170	0
	<u>2.404.526</u>	<u>312.519</u>	<u>430.724</u>	<u>334.898</u>

Transactions with related parties 2014:

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	196.834	296.824	319.597	291.981
Funds in operation	1.970.621	0	280.384	0
	<u>2.167.455</u>	<u>296.824</u>	<u>599.981</u>	<u>291.981</u>

15. Assets under Management

Assets under Management in funds in operation by Stefnir at the end of the year amount to ISK 400 billions compared to ISK 404 billions at year end 2014.

16. Equity

a. Share capital amounts to ISK 43.5 million at year end, unchanged from year end 2014, with par value of ISK 1 per share.

b. Changes in equity 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	<u>43.500</u>	<u>10.875</u>	<u>2.382.576</u>	<u>2.436.951</u>
Equity 1.1.2015	43.500	10.875	2.382.576	2.436.951
Dividend paid			(900.000)	(900.000)
Net earnings			1.170.313	1.170.313
Equity 31.12.2015	<u>43.500</u>	<u>10.875</u>	<u>2.652.889</u>	<u>2.707.264</u>

c. Return on assets, presented as the ratio between net earnings and the average balance of assets during the period according to the Balance Sheet, was 34.0% in 2015. Return on assets in 2014 was 26.9%.

Notes, continued:

16. Equity, cont.

- c. Equity at end of the year is ISK 2,707 million or 74.3% of total assets. The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 64.2%, exceeding the minimum legal requirement of 8%. The ratio is calculated as follows:

	2015	2014
Total equity	2.707.264	2.436.951
Tax asset	(28.696)	(51.006)
Total own funds for solvency purposes	<u>2.678.568</u>	<u>2.385.945</u>
Total capital requirements are specified as follows:		
Credit risk	280.674	232.986
Market risk	53.032	68.310
Capital requirement	<u>333.706</u>	<u>301.297</u>
Capital adequacy ratio	64,2%	63,4%

17. Tax assets (liabilities)

Changes in tax assets and liabilities are specified as follows:

Tax assets at the beginning of the year	(159.099)	(126.469)
Income tax recognised in Statement of Income	(281.073)	(203.813)
Additional 6% tax recognised in Statement of Income	(17.629)	(2.332)
Income tax paid	210.105	173.515
Net tax assets (liabilities) at the end of the year	<u>(247.696)</u>	<u>(159.099)</u>

Specified as follows:

Current tax	(258.763)	(207.773)
Additional 6% tax on financial institution	(17.629)	(2.332)
Deferred tax asset	28.696	51.006
Net tax assets (liabilities) at the end of the year	<u>(247.696)</u>	<u>(159.099)</u>

Deferred tax assets are attributable to the following:

Securities	25.646	41.057
Deferred foreign exchange gain and loss	11.579	8.399
Provision	(10.079)	0
Other items	1.550	1.550
Deferred tax asset at the end of the year	<u>28.696</u>	<u>51.006</u>

Tax liabilities are attributable to the following:

Income tax using the Icelandic corporation tax rate	258.763	207.773
Additional 6% tax on financial institutions	17.629	2.332
Tax liabilities at the end of the year	<u>276.392</u>	<u>210.105</u>

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

Corporate Governance Statement of Stefnr hf. 2016

By issuing this corporate governance statement Stefnr hf. (Stefnr) is fulfilling the requirements set out in recognized guidelines current at the time this Financial Statement is approved by the company's board of directors and the provisions of Article 19 of Act No. 161/2002, cf. Article 12 of Act No. 75/2010. The Guidelines on Corporate Governance, 5th edition, issued by the Icelandic Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland hf., and the OECD's Principles of Corporate Governance from 2015 were used as a reference when Stefnr hf.'s corporate governance statement was written. The Guidelines on Corporate Governance and the Principles of Corporate Governance can be viewed on Stefnr's website.

In 2012 Stefnr was the first Icelandic company to be recognized for "Excellence in good corporate governance". This honour was granted by the Center for Corporate Governance at the University of Iceland and is based on a survey conducted by the auditing company KPMG ehf. In 2014 Stefnr was granted the same recognition, which applies for two years, and it therefore remains a model company in good corporate governance in Iceland.

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

Stefnr is an independent financial institution according to the Financial Undertakings Act No. 161/2002. The company manages UCITS, investment funds and institutional investor funds under Act No. 128/2011. In addition to this, the company is licensed to operate asset management services, investment advisory and to manage financial instruments for collective investments, cf. sub-paragraphs 1-3 of paragraph 1 of Article 27 of Act No. 161/2002. Stefnr is Iceland's largest fund manager with assets of more than ISK 400 billion under active management. Stefnr has 21 employee with extensive experience of work in financial markets.

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

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

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

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

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

Compliance, internal auditing and risk management are partly outsourced to Arion Bank with the permission of the FME. The heads of the relevant divisions regularly report the results of their assessments to the auditing committee and the board of directors of Stefnr. Internal control and risk management is the responsibility of special team at Stefnr which reports directly to the managing director. All supervision measures are documented and regularly assessed by the team. The auditing committee is informed of the progress of these measures.

Corporate Governance Statement, cont.:

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

Stefmir's core values have been an important guideline for employees and the board of directors, who devised them together, in their day-to-day work.

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

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

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

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

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

Stefmir has adopted a policy on conflicts of interest. The objective of the policy is to protect clients and fund members and to safeguard the independence and reputation of the company and its employees. The policy applies equally to directors and employees and implies that the company will take all available measures to prevent conflicts of interest from damaging the interests of clients and fund members. An extract of the policy and other rules designed to prevent conflicts of interest, e.g. rules on business dealings by employees of Stefmir, can be found on the company's website.

Stefmir has five board members and two alternate members. The majority of the board is independent of Arion Bank, Stefmir's parent company, and the company itself. All board members are elected at a shareholders' meeting of the company. The managing director is hired by the board and has the mandate from the board to manage the day-to-day operations of the company. Board meetings are held regularly, on average once a month and more often if required. Stefmir's attorney is the secretary to the board and provides legal advice to the directors at board meetings. There were 13 board meetings during the year and there was a quorum present at every meeting. The board's rules of procedure, work schedule and articles of association can be seen on the company's website, www.stefmir.com.

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

Corporate Governance Statement, cont.:

The alternate board members are Ásgerdur Hrönn Sveinsdóttir, area manager at Arion Bank hf., and Thórhallur Örn Gudlaugsson, lecturer in the faculty of business administration at the University of Iceland. The number of alternates was reduced from five to two at the same time as changes were made to the company's articles of association at its AGM in March 2015.

The auditing committee was appointed by the board of directors in March 2015. The chairman of the board is Svava Bjarnadóttir, director on the board of Stefmir. The other committee members are Gudlaug Sigurdardóttir, engineer at Össur hf., and Sigríður Gudmundsdóttir, internal auditor at Marel hf. The audit committee met six times in 2015 and there was a quorum present on each occasion. The committee members are independent of the company and their broad expertise in business administration, auditing and management was put to good use in the course of the committee's business. The committee submits its annual report to the board of directors in the first quarter of every year. The committee's rules of procedure can be found on the company's website.

The role of the auditing committee will be modified in 2016 as changes to the Financial Undertakings Act No. 161/2002 are introduced. The committee will be called the audit and risk committee, the selection of committee members will differ from the current format and its tasks will be redefined in the committee's rules of procedure. These changes will be introduced in the spring of 2016.

Stefmir's remuneration committee comprises Hrund Rudolfsdóttir and Thordur Sverrisson. The main roles of the committee are to prepare a proposal for a remuneration policy for the company and to make proposals on salaries and other remuneration to the managing director, other management and the board of Stefmir. The committee also deals with a range of monitoring functions related to remuneration and human resources. The remuneration committee met four times in 2015 and there was a quorum present on each occasion. The committee works in accordance with its rules of procedure and has established a work schedule for its operating year. The rules of procedure of the remuneration committee are not publically available. The committee submits its annual report to the board of directors in the first quarter of every year. The company's remuneration policy can be viewed on its website.

The shareholders' meeting of Stefmir has not decided that the board shall appoint a nomination committee.

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

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

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

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

The company's managing director since 1 July 2009 has been Flóki Halldórsson (born 1973), an economics graduate from the University of Iceland. Flóki has extensive experience of the financial markets and management. Flóki is a board director of companies which are connected to Stefmir's business. He or related parties have no shareholdings or call options in the company. The managing director is responsible for ensuring that the day-to-day operations of the company are conducted according to the strategy and instructions given by the board of directors; cf. Article 68 (1) of the Public Limited Companies Act. He is responsible for reporting to internal and external supervisory bodies. The managing director is authorized, upon approval by the board, to grant other employees of the company the power to handle limited authorizations of his/her duties.

Corporate Governance Statement, cont.:

The managing director is responsible for analyzing, measuring, monitoring and supervising risks associated with the operations of the company. The managing director shall maintain an organizational chart that clearly specifies areas of responsibility, employees' authorizations and channels of communications. The managing director shall formalize objectives for internal control in consultation with the board and ensure that the follow-up is efficient. The managing director hires and dismisses the employees of the company, other than those discussed in Article 16 of Act No. 161/2002 and discharges them. The board's rules of procedure were established with reference to Article 54 (2) of the Financial Undertakings Act and Article 70 (5) of the Public Limited Companies Act. The rules of procedure are largely based on guidelines No. 1/2010 of the Financial Supervisory Authority (FME) and the company's articles of association. The work undertaken in relation to the company's recognition as a model company in good corporate governance has been important in this respect.

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

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

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