



Asset Management Company

Financial Statements 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 a well-established Icelandic fund manager with assets of approximately ISK 252 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 Financial Statements of the company are divided in two: part A which includes the Financial Statements of Stefmir hf. and part B which includes the Financial Statements of UCITS, investment funds and institutional investors' funds. The Financial Statements have been prepared according to the same accounting methods as last year. 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.

Operations during the year

The company reported earnings of ISK 975,4 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 73,2%, 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 a related company.

Highlights 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. At a shareholders' meeting on 22 August, the board of directors of the company was elected with the following members: Sigrún Ragna Ólafsdóttir, chairman, Kristján Jóhannsson, vice chairman, Flóki Halldórsson, Ragnhildur Sophusdóttir and Þórður Sverrisson. Hrund Rudolfsdóttir, who had been chairman of the board since 2009, stepped down from the board at the meeting.

Flóki Halldórsson resigned from the company in March of this year. Jökull H. Úlfsson was appointed managing director and took up the position on April 1st. Jökull has extensive experience of the financial markets, where he has worked for the last 25 years.

Assets under management decreased by approximately ISK 79 billion, from approximately ISK 331 billion to approximately ISK 252 billion. Key changes to assets under management include the dissolving of the institutional investor fund ABMIIF, amounting to ISK 98 billion based on the fund's position at the beginning of the year, and payments from alternative investments as investment projects were concluded. Other asset classes benefited from the particularly positive change on the domestic and international markets in 2019 and these assets increased by ISK 19 billion. Assets under management are well distributed between asset classes and the company's revenue structure is in line with the board's objectives.

The funds generated strong returns in all asset classes in 2019. Domestic and international equities markets performed particularly strongly compared with other asset classes. The Icelandic equities fund Stefmir – Icelandic Growth Fund gained more than 19% during the year. International equities markets made substantial gains despite considerable volatility, a fact clearly illustrated by the international equities fund KF Global Value managed by Stefmir which climbed more than 31% in Icelandic krónur during the year.

Fixed income funds also enjoyed an excellent year, mainly due to falling yields combined with Central Bank interest cuts during the year. Mixed funds reaped the benefits of strongly performing equities and bonds and generated satisfactory returns for fund members during the year.

Stefmir operates and manages both Icelandic and international private equity funds and the major fund owners are pension funds, insurance companies and other financial institutions. The private equity fund SÍA III slhf. invested in two companies during the year, Lyfja hf. and Men&Mice hf. SÍA II slhf. delivered shares in Festir hf. to the fund's owners at the end of the year. It is pleasing to see successful investment projects by private equity funds concluded with such excellent results as was the case with Festir.

Stefmir is continuously working on improvements to its services and transactions with the company's funds. During 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, enabling Stefmir's customers to do their business quickly and securely.

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

The board of directors of Stefmir has proposed at its AGM that a dividend for 2019 be paid amounting to ISK 1,070 million. The board of directors is authorized to make further proposals on dividends at a shareholders' meeting and does not rule out that further dividend payments may be made later in the year.

Non-financial information, responsible investment, corporate governance and risk management

Stefmir's role is to manage its clients' assets as best serves their interest. Responsible and diverse investment options and thorough disclosure of information are central to the corporate social responsibility that Stefmir is committed to demonstrating. By paying due attention to environmental and social issues and good corporate governance we believe we can have a positive influence on our society, to the benefit of fund members and other stakeholders. The board of directors of Stefmir adopted a policy on responsible investments for Stefmir funds in December 2018 and it was implemented in 2019. Stefmir's first progress report to PRI (UN Principles for Responsible Investment) was submitted during the year and it will be possible to keep track of the company's progress and compliance with the Principles for Responsible Investment. Non-financial information as stipulated in Article 66 d of the Annual Accounts Act are presented on Group level, in accordance with the 3rd and 4th paragraph in the same Article. For further information, see Arion Bank's Annual report 2019.

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 board of directors of Stefmir adopted a risk management strategy 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 company has defined its risk appetite and the board of directors monitors the key performance indicators on a regular basis.

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.

Since 2012 Stefmir has been recognized as a company which has achieved excellence in corporate governance by the Center for Corporate Governance. The company is continuously working on maintaining and developing corporate governance and re-attaining this recognition on a regular basis is part of this effort.

Outlook

The operations of fund management companies are subject to various changes in the external environment. Various changes to legislation are imminent, most notably new legislation on institutional investor funds (AIFMD) and legislation applicable to the financial markets (MIFID II). The changes heralded by this legislation are easy to predict, since it is a pan-European regulatory framework which has already been implemented in other countries following lengthy preparations.

Other imminent changes include the arrival of new competition in the form of Fintech companies. Such companies will lead to more intense competition and put pressure on commissions in various financial services. Many of these changes require additional costs, employees with new expertise and changes to business processes and services. Over the last decade, Stefmir has demonstrated the ability to adapt to meet the radically changed business environment and also benefits from economies of scale in its business. The outlook is rather bright despite various uncertainties in the operating environment.

Endorsement of the Board of Directors and the Managing Director

The Board of Directors and CEO of Stefmir hf. hereby confirm the company's Consolidated Financial Statements for the year 2019 by means of their signatures.

Reykjavik, 20 February 2020.

The Board of Directors:


Stefmir hf. Financial Statements 2019

Managing Director:



Independent Auditor's Report

To the Board of Directors Shareholders of Stefir hf

Opinion

We have audited the financial statements of Stefir hf. for the year ended December 31, 2019 which comprise the statement of income, the statement of financial position, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Stefir hf. as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with the Icelandic Financial Statement Act, Act on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Stefir hf. in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises of the report of Board of Directors and Corporate governance statement.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. Except from the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing Stefir hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Stefir hf.'s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Independent Auditor's Report, cont.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Stefir hf.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Reykjavik, 20 February 2020

Deloitte ehf.

Páll Grétar Steingrímsson
State Authorized Public Accountant


Pétur Hansson
State Authorized Public Accountant

Statement of Income

for the year 2019

	Note	2019	2018
Operating income			
Management and performance based fees	4	2.166.236	2.253.977
Financial income	10	246.649	61.899
		<u>2.412.885</u>	<u>2.315.876</u>
		Operating income	
Financial expense	10	(202)	(112)
		<u>2.412.683</u>	<u>2.315.764</u>
		Net operating income	
Operating expense			
Salaries and related expense	11	621.880	604.023
Safe keeping commission		237.420	223.200
Other expense		316.488	374.717
		<u>1.175.788</u>	<u>1.201.940</u>
		Operating expense	
Earnings before tax		1.236.895	1.113.824
Income tax	13	(261.469)	(216.678)
Net earnings	17	<u>975.426</u>	<u>897.146</u>

Statement of Financial Position

as at 31 December 2019

	Note	31.12.2019	31.12.2018
Assets			
Securities with variable income		2.071.893	2.031.101
Securities with fixed income		82.854	20.916
Total Securities	5, 13	<u>2.154.747</u>	<u>2.052.017</u>
Receivable from Arion Bank hf.		0	8.476
Accounts receivables	7	<u>1.326.995</u>	<u>1.274.371</u>
Total Receivables		<u>1.326.995</u>	<u>1.282.847</u>
Other assets		52.191	50.644
Cash and cash equivalents	8	<u>15.416</u>	<u>160.014</u>
Total Other Assets		<u>67.607</u>	<u>210.658</u>
Total Assets		<u><u>3.549.349</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		62.901	40.697
Retained earnings		<u>2.573.572</u>	<u>2.690.349</u>
Total Equity	17	<u>2.690.848</u>	<u>2.785.421</u>
Liabilities			
Payable to Arion Bank hf.		41.445	47.752
Accounts payable		3.865	5.314
Other liabilities		531.765	487.281
Tax liabilities	18	262.628	199.708
Deferred tax liabilities.....		18.798	20.046
Total liabilities		<u>858.501</u>	<u>760.101</u>
Total Equity and Liabilities		<u><u>3.549.349</u></u>	<u><u>3.545.522</u></u>

Statement of Cash Flows

for the year 2019

	Note	2019	2018
Cash flows from operating activities			
Net earnings	17	975.426	897.146
Non-cash items included in net earnings:			
Valuation changes of securities	(209.119)	(41.535)
Income tax recognised in profit or loss		261.469	216.677
		<u>1.027.776</u>	<u>1.072.288</u>
Changes in operating assets and liabilities	(8.967)	116.218
Income tax paid	18	(199.798)	(435.178)
Net cash from operating activities		<u>819.011</u>	<u>753.328</u>
Investing activities			
Change in Securities with variable income		161.909	697.862
Change in Securities with fixed income	(55.518)	24.102
Investing activities		<u>106.391</u>	<u>721.964</u>
Finance activities			
Dividend paid	17	(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		(144.598)	125.292
Cash and cash equivalents at the beginning of the year		160.014	34.722
Cash and cash equivalents at the end of the year	8	<u>15.416</u>	<u>160.014</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. 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.

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 year. Listed fund units are measured at market value at the 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 the 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 2019 amount to ISK 543 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets	541.893	119	1.243	0
Liabilities	(53)	0	0	0
Net balance 31.12.2019	541.840	119	1.243	0
Net balance 31.12.2018	806.483	67	3.106	153
Exchange rate of ISK 31.12.2019	135,83	121,04	160,28	
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.

10. Net financial income

2019

2018

Net financial income is specified as follows:

Valuation change in securities assets	214.464	2.012
Dividend received	0	580
Foreign exchange gain (loss)	17.144	45.220
Interest income	15.043	14.104
Interest expense	(204)	(129)
Net financial income	246.447	61.787

11. Salaries and related expenses and personnel

Salaries	476.599	469.033
Salary related expenses	145.281	134.990
Salaries and related expenses	621.880	604.023
Number of employees at the end of the year.	21	21
Average number of employees during the year.	21	21

Notes, continued

11. Salaries and related expenses and personnel, cont.	2019	2018
Compensation of the key management personnel:		
Jökull H. Úlfsson, Managing Director	25.845	0
Sigrún Ragna Ólafsdóttir, Chairman of the Board	3.019	0
Kristján Jóhannsson, Vice-Chairman of the Board	4.811	4.405
Flóki Halldórsson, Board-member	1.496	0
Ragnhildur Sophusdóttir, Board-member	1.774	1.685
Pórður Sverrisson, Board-member	5.914	5.600
Flóki Halldórsson, former Managing Director	14.452	40.177
Hrund Rudolfsdóttir, former Chairman of the Board	5.486	7.855
Jökull H. Úlfsson, former Board-member	570	2.243
Total remuneration	<u>63.367</u>	<u>61.965</u>

Salary and salary related expenses of ISK 25,6 million were expensed in the year of 2019 in respect of the resignation of Flóki Halldórsson, former Managing Director.

Remuneration to five managers was total ISK 136.4 million (ISK 134.2 million to five managers in 2018). Remuneration to one non-Board member of the Board Audit and Risk Committee was total ISK 1.0 million in 2018.

The Board of Stefir 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 2019 the company made a provision of ISK 35.1 million for performance plan payment, including salary related expense (ISK 64.4 million in 2018). Forty percent of the payment is deferred for three years if it exceeds 10% of the employee's annual salary without any bonus payments 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 131.7 million (ISK 155.6 million in the end of 2018).

12. Audit expense	2019	2018
Audit of annual accounts	13.196	12.874
Review of the interim accounts	3.568	3.494
Other related audit services	260	569
	<u>17.025</u>	<u>16.937</u>
13. Income tax expense	2019	2018
Current tax expense	262.628	199.708
Deferred tax expense	(1.159)	16.970
Total Income tax expense	<u>261.469</u>	<u>216.678</u>
14. Securities	31.12.2019	31.12.2018
Securities with variable income are specified as follows:		
Fund units issued by funds operated by Stefir hf.	1.959.954	1.921.062
Shares in investment companies	111.935	110.035
Shares in companies	4	4
	<u>2.071.893</u>	<u>2.031.101</u>
Securities with fixed income are specified as follows:		
Listed on NASDAQ OMX Iceland:		
Issued by public entities	1.880	4.505
Unlisted:		
Issued by public entities	1.144	1.705
Issued by others	79.830	14.706
	<u>82.854</u>	<u>20.916</u>
Securities total	<u>2.154.747</u>	<u>2.052.017</u>

Notes, continued

15. 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.

Among assets are units issued by funds under management.

Transactions with related parties 2019.

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	137.715	492.380	48.653	43.055
Funds in operation	1.669.965	0	343.283	0
	<u>1.807.680</u>	<u>492.380</u>	<u>391.936</u>	<u>43.055</u>

Transactions with related parties 2018.

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	165.171	540.209	220.418	47.752
Funds in operation	1.639.780	0	331.377	0
	<u>1.804.951</u>	<u>540.209</u>	<u>551.795</u>	<u>47.752</u>

16. Assets under Management

Assets under Management in funds in operation by Stefnir at the end of the year amount to ISK 252 billions compared to ISK 331 billions at year end 2018.

17. Equity

a. Share capital amounts to ISK 43,5 million at year end, 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	975.427	975.427
Fair value equity reserve ...	0	0	22.204	(22.204)	0
Equity 31.12.2019	<u>43.500</u>	<u>10.875</u>	<u>62.901</u>	<u>2.573.572</u>	<u>2.690.848</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.

Notes, continued

17. Equity, cont.

c. Return on assets, presented as the ratio between net earnings and the average balance of assets according to the Balance Sheet, was 27,5% in 2019. Return on assets in 2018 was 23,3%.

d. Equity at end of the year is ISK 2.691 million or 75,8% of total assets.

The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 73,2%, exceeding the minimum legal requirement of 8%.

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

	31.12.2019	31.12.2018
Total equity	2.690.848	2.785.421
Total own funds for solvency purposes	2.690.848	2.785.421
Total capital requirements are specified as follows:		
Credit risk	249.082	235.530
Market risk	43.456	64.785
Capital requirement	292.538	300.315
Capital requirement due to fixed overheads	293.947	300.485
Capital adequacy ratio	73,2%	74,2%

18. Tax assets (liabilities)

Changes in tax assets and liabilities are specified as follows:

	31.12.2019	31.12.2018
Tax assets at the beginning of the year	(219.754)	(438.255)
Income tax recognised in Statement of Income	(261.469)	(216.678)
Income tax paid	199.797	435.179
Net tax assets (liabilities) at the end of the year	(281.426)	(219.754)
Specified as follows:		
Current tax	(262.628)	(199.708)
Deferred tax assets (liabilities)	(18.798)	(20.046)
Net tax assets (liabilities) at the end of the year	(281.426)	(219.754)
Deferred tax assets are attributable to the following:		
Deferred foreign exchange gain and loss	(5.301)	(7.075)
Provision	(13.269)	(12.811)
Other items	(228)	(160)
Deferred tax assets (liabilities) at the end of the year	(18.798)	(20.046)
Tax liabilities are attributable to the following:		
Income tax using the Icelandic corporation tax rate	262.628	199.708
Tax liabilities at the end of the year	262.628	199.708

Notes, continued

19. Shareholders of Stefmir hf.	31.12.2019	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>		
<i>Taconic Capital (through TCA New Sidecar s.á.r.l.)</i>	23,53%	9,99%
<i>Sculptor Capital Management</i>	9,53%	6,58%
<i>Gildi Lífeyrissjóður</i>	8,79%	2,52%
<i>Lansdowne partners</i>	5,02%	2,95%
<i>Stoðir hf.</i>	4,96%	0,61%
<i>Goldman Sachs International</i>	3,72%	3,47%
<i>Lífeyrissjóður verzlunarmanna</i>	3,67%	0,38%
<i>Lífeyrissjóður starfsmanna ríkisins</i>	3,47%	0,53%
<i>Eaton Vance funds</i>	3,23%	3,35%
<i>Stefmir rekstrarfélag hf.</i>	2,46%	0,51%
<i>Arion banki hf.</i>	2,27%	9,31%
<i>Frjálsi Lífeyrissjóðurinn</i>	2,18%	0,09%
<i>Stapi Lífeyrissjóður</i>	1,89%	1,37%
<i>Hvalur hf.</i>	1,45%	0,00%
<i>Birta Lífeyrissjóður</i>	1,32%	0,21%
<i>Júpíter rekstrarfélag hf.</i>	1,10%	0,99%
<i>MainFirst Bank AG</i>	1,09%	0,63%
<i>Íslandsbanki hf.</i>	1,00%	0,88%
<i>Artemis</i>	0,41%	1,69%
<i>Attestor Capital</i>	0,00%	7,35%
<i>Miton Asset Management funds</i>	0,00%	1,37%
<i>Kaupskil ehf. (Subsidiary of Kaupthing hf.)</i>	0,00%	32,67%
<i>Others</i>	18,92%	12,56%
	100,00%	100,00%

20. Right-of-use-assets

International Financial Reporting Standard, IFRS 16 was adopted on 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosures of leases. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases with few exceptions.

The Icelandic Accounting Standards Board will issue an accounting principle regarding the treatment of leases for companies preparing financial statements in accordance with the Icelandic Financial Statement Act no 3/2006. The accounting principle will allow for companies to apply the same accounting principle for leases during the years 2019 and 2020 as previously used in financial statements in the year 2018. Management has decided to apply the same accounting policies for leases as in its 2018 financial statements. Lease liabilities are considered material for the financial statements of Stefmir hf.

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 Stefnir hf. 2020

By issuing this corporate governance statement Stefnir hf. (Stefnir) 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 Stefnir hf.'s corporate governance statement was written. The Guidelines on Corporate Governance and the Principles of Corporate Governance can be viewed on Stefnir's website.

In 2012 Stefnir was the first Icelandic company to be recognized for "Excellence in good corporate governance." This recognition was awarded by the Center for Corporate Governance at the University of Iceland and is based on an audit performed by KPMG ehf. Stefnir since been recognized in this way on repeated occasions and therefore remains a model company in good corporate governance in Iceland.

The board of directors of Stefnir believes that good corporate governance is a key factor behind Stefnir'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 the general public. Good corporate governance also enables the board to perform its monitoring duties effectively.

Stefnir hf. is an independent financial company under the Financial Undertakings Act No. 161/2002. The company manages undertakings for collective investment in transferable securities, investment funds and professional investment funds in accordance with 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. Article 27 (1.1-3) of Act No. 161/2002. Stefnir has assets of ISK 252 billion under fund management. Stefnir has a team of 22 people with a diverse range of expertise and experience from the domestic and international financial markets.

Stefnir is a subsidiary of Arion Bank hf. The company is fully owned by Arion Bank and a related company. 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 Stefnir, parties that service and participate in the operations of Stefnir, employees and the general public.

The company's operations are subject to 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. Stefnir 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 board of directors affirmed the company's risk policy at the end of 2019. The policy is as follows:

"Stefnir's board of directors is aware that risk management and active internal control are 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 Stefnir 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 Stefnir's operations is identified and assessed on a regular basis. The company has established processes to monitor and report this risk. There is a special emphasis on minimizing reputational risk for the benefit of all stakeholders. Stefnir operates a strong control environment which utilizes policies, processes and systems to appropriate internal controls and risk mitigation. Stefnir has in place a continuity plan to ensure the ability to operate despite a severe business disruption. Through meticulous corporate governance the board of directors ensures that the internal processes and risk management systems are implemented throughout Stefnir."

The company's risk appetite has been defined and this work was based on international models which were adapted to Icelandic conditions and the company. The company's auditing and risk committee helped to define the risk appetite and tolerance limits. The board of directors of Stefnir will review the company's risk appetite on an annual basis to take into account changes in the company's internal and external environment.

Corporate Governance Statement, cont.:

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 board of directors of Stefnr and the audit and risk committee. Internal monitoring and risk management is the responsibility of a member of risk management who is part of the company's operations team. All supervisory measures are documented and regularly assessed by the team. The audit and risk committee is informed of the progress of these measures.

The structure and organization of internal corporate governance are vital tools for the effective management of the company, the separation of different business units and the prevention of conflicts of interest. Internal corporate governance at Stefnr has been assessed and the board of directors is of the opinion that the company operates in accordance with the standards set out there concerning best practice in internal corporate governance.

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 Stefnr hf. and the price calculations of funds managed by Stefnr are the responsibility of the Bank. The audit and risk 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 Stefnr and the funds managed by Stefnr. 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.

Stefnr'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 board of directors approved the code of conduct in 2018 which reflects the ethical standards according to which the board and employees work. Other benchmarks can be found in employment agreements, the conflicts of interest policy and the board of directors' rules of procedure.

The company has not formally adopted a policy on sustainability 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. At the beginning of 2018 Stefnr became a signatory to the Principles for Responsible Investment and undertakes to provide information on how it takes into account environmental, social and governance issues when managing its investments. During the year Stefnr submitted its first progress report to PRI and it will be possible to keep track of the company's progress on responsible investment as more reports are added to the PRI database. The company is also one of the founding members of Iceland SIF, which was founded in 2017. Iceland SIF is an independent forum for discussion and education on responsible and sustainable investment. Responsible and diverse investment options and thorough disclosure of information are central to the corporate social responsibility that the company aspires to represent. In 2018 the board of Stefnr adopted a policy on responsible investment which applies to investments by funds managed by the company and how Stefnr can have a positive influence on our society, to the benefit of fund members and other stakeholders.

Stefnr 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 Stefnr, can be found on the company's website.

Corporate Governance Statement, cont.:

Stefnir has five board members and two alternate members. The majority of the board is independent of Arion Bank, Stefnir'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. Stefnir's attorney is the secretary to the board and provides legal advice to the directors at board meetings. There were 14 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.stefnir.com.

The board of directors of Stefnir comprises the independent board members Sigrún Ragna Ólafsdóttir, Chairman, self-employed, Kristján Jóhannsson, Vice Chairman, chairman of Icepharma hf, and Þórður Sverrisson, self-employed. Dependent board members are Flóki Halldórsson, former managing director of Stefnir hf. and Ragnhildur Sophusdóttir, attorney at Arion Bank hf. Sigrún Ragna took over as chairman from Hrund Rudolfsdóttir in August 2019, Kristján Jóhannsson joined the board in June 2011, Þórður Sverrisson in March 2014, Ragnhildur Sophusdóttir in March 2016 and Flóki Halldórsson in April 2019. Further information on board members at Stefnir can be found on the company's website.

The alternate board members are Ásgerdur Hrönn Sveinsdóttir, area manager at Arion Bank hf., and Þórhallur Örn Guðlaugsson, lecturer in the faculty of business administration at the University of Iceland. The audit and risk committee was appointed by the board of directors in August 2019. The committee consists of the board members Þórður Sverrisson, Kristján Jóhannsson, and Flóki Halldórsson. The audit committee met seven times in 2019 and a quorum was present on each occasion. Two 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 board of Stefnir appointed Sigrún Ragna Ólafsdóttir, Flóki Halldórsson and Þórður Sverrisson to serve on the remuneration committee of Stefnir in August 2019. 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 Stefnir. The committee also deals with a range of monitoring functions related to remuneration and human resources. The remuneration committee met six times in 2019 and a quorum was 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 company does not have a nomination committee.

The board of directors of Stefnir 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 company is guided by the interests of clients, owners, employees and society at large. 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 evaluates its own work and that of the chairman on an annual basis and makes proposals for improvements. For the assessment the board uses an anonymous, digital questionnaire. The results of the assessment are then discussed at a board meeting and the board's proposals for improvements are assigned to people for completion.

The company's managing director since 1 April 2019 is Jökull H. Úlfsson, born in 1963. Jökull completed a cand. oecon degree in finance from the University of Iceland and is a qualified stockbroker. Jökull has extensive experience of the financial markets, where he has worked for the last 25 years. The main duties of the managing director are to manage the day-to-day business of the company, implement strategy and follow the 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 carry out limited aspects of their 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, as well as the work undertaken in relation to the company's recognition as a model company in good corporate governance.

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 Stefir's website.

No judgments for punishable acts according to the Criminal Code, the Competition Act, Financial Undertakings Act 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 Stefir hf.

Stefir 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 share information accurately and easily with investors. The company's website performs an important role in this respect by displaying detailed information on all the Stefir funds available to the public.