



Asset Management Company

Interim Financial Statements

1 January - 30 June 2020

Stefnir hf.
Borgartun 19
105 Reykjavík

Reg. no. 700996-2479

Contents

Report and endorsement of the Board of Directors and the Managing Director	3
Independent Auditor's Report	5
Statement of Income	6
Statement of Financial Position	7
Statement of Cash Flows	8
Notes to the Interim Financial Statements	9

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 227 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 first half of 2020

The company reported earnings of ISK 313.7 million in the period according to the income statement. The company's equity at the end of the period was approximately ISK 1.9 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 52.7%, the minimum allowed by law being 8.0%.

At the beginning and end of the period, the company's share capital was ISK 43.5 million and was entirely owned by Arion Bank hf. and a related company.

Highlights of the first half of 2020

Stefmir's annual general meeting was held on 27 March 2020 and a decision was taken to pay a dividend of ISK 1,070 million to the shareholders. The board of directors, elected at the meeting, comprises Sigrún Ragna Ólafsdóttir, chairman, Jón Óttar Birgisson, vice chairman, and Guðfinna Helgadóttir, board member.

Jökull H. Úlfsson left the company in June. Jóhann Möller was appointed managing director and took up the position on 1 August. Jóhann has worked on the financial market for 20 years and joined Stefmir in 2006, managing domestic equities fund, and has been head of the company's equities team for the past three years.

In the first half of 2020, assets under management decreased by approximately ISK 8.8 billion to approximately ISK 227 billion. Key changes to assets under management include the outflow from short-term fixed income funds and payments from alternative investments. Assets under management are well distributed between asset classes and the company has a sound revenue structure.

The funds' returns were affected by the global pandemic and the ban on public gatherings, which had a wide-reaching impact on the markets both in Iceland and internationally. Returns on fixed income funds managed by Stefmir were good in the first half of 2020, with Stefmir – Government Bonds Long gaining 8.8%. The Central Bank of Iceland's key policy interest rate is now 1%, having been cut by 2 percentage points during the year. Such interest rates present new challenges for fund managers. The equities fund Stefmir Icelandic Growth Fund lost 8.7% during the first half of 2020. Both the domestic and international equities markets recovered well during the second quarter but the market is expected to remain volatile in the medium term. The results of mixed funds broadly reflected the turbulence on the markets.

More information on the funds managed by Stefmir can be seen on the company's website, www.stefmir.is.

Stefmir is continuously working on improvements to its services and transactions with the company's funds. During the first half of the year Stefmir clients were given the opportunity to invest in and subscribe to Stefmir Scandinavian Fund which invests in Scandinavian equities. The response from clients was highly positive and the number of unit holders increased significantly. 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.

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

Stefnir is committed to sustainability and several important steps have been taken to this end during the year. Stefnir has signed an agreement with Kolviður on carbon offsetting and 505 trees will be planted on behalf of the company in 2020. Stefnir submits a progress report to PRI (UN Principles for Responsible Investment) on an annual basis where it will be possible to keep track of the company's progress in implementing its policy on responsible investment.

Outlook, risk factors and events taking place after end of reporting period

The impact of the COVID-19 pandemic obviously presents a major global challenge, which in addition to the health and social impact also has a highly detrimental effect on the economies and markets in which funds managed by Stefnir operate. The board of directors of Stefnir is monitoring the COVID-19 pandemic and the relevant measures taken by the authorities. Contingency plans were enacted with Stefnir's depositary and service providers and there was no disruption to the business caused by the ban on public gatherings in response to the pandemic. Despite the volatility on the markets there was no need to resort to special measures, and the liquidity position of the funds managed by Stefnir was strong. Fluctuations in the price of Stefnir's funds can still be expected due to uncertainty in the markets. It is too early to fully assess the impact of the pandemic on the operations of Stefnir beyond the changes to the market value of the assets of the funds managed by Stefnir. It is always Stefnir's role to consider the interests of unit holders and thereby take all possible measures to protect their interests. The company has demonstrated its ability to adapt to changes in its business environment and also benefits from economies of scale. The outlook is positive despite the many uncertainties in the operating environment, both in the short term and long term.

Endorsement of the board of directors and the managing director

The Board of Directors and CEO of Stefnir hf. hereby confirm the company's Consolidated Financial Statements for the period 1 January to 30 June 2020 by means of their electronic signatures.

Reykjavik, 24 August 2020.

The Board of Directors:

Managing Director:

Review Report on Interim Financial Statements

To the Board of Directors and Shareholder of Stefir hf.

We have reviewed the accompanying Interim Financial Statement of Stefir for the period of 1 January to 30 June 2020, which comprise the endorsement and signatures of the board of directors and the managing director, income statement, balance sheet, statement of cash flows, and a summary of significant accounting policies and other explanatory notes.

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

Management and the board is responsible for the preparation and fair presentation of this interim financial information in accordance with Icelandic Financial Statements Act, Act on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS.

Auditor's Responsibility □

Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements, ISRE 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 June 2020 and of its financial performance and its cash flows in the period, in accordance with Icelandic Financial Statements Act, Act on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS.

Reykjavik, 24 August 2020

Deloitte ehf.

Pétur Hansson
State Authorized Public Accountant

The interim Financial Statements of Stefir hf. Is electronically signed by the auditor.

Statement of Income

for the period 1 January to 30 June 2020

	Note	2020	2019
Operating income			
Management and performance based fees	4	1,043,555	1,068,209
Financial income	10	65,415	208,607
Operating income		<u>1,108,970</u>	<u>1,276,816</u>
Financial expense	10	(62,703)	(108)
Net operating income		<u>1,046,267</u>	<u>1,276,708</u>
Operating expense			
Salaries and related expense	11	384,119	326,846
Safe keeping commission		123,900	118,710
Other expense		147,913	178,536
Operating expense		<u>655,932</u>	<u>624,092</u>
Earnings before tax		390,335	652,616
Income tax	12	(76,611)	(129,907)
Net earnings	16	<u>313,724</u>	<u>522,709</u>

Statement of Financial Position

as at 30 June 2020

	Note	30.06.2020	31.12.2019
Assets			
Securities with variable income		1,173,680	2,071,893
Securities with fixed income		78,775	82,854
Total Securities	5, 13	<u>1,252,455</u>	<u>2,154,747</u>
Accounts receivables	7	<u>1,331,247</u>	<u>1,326,995</u>
Total Receivables		<u>1,331,247</u>	<u>1,326,995</u>
Other assets		37,173	52,191
Cash and cash equivalents	8	<u>2,194</u>	<u>15,416</u>
Total Other Assets		<u>39,367</u>	<u>67,607</u>
Total Assets		<u><u>2,623,069</u></u>	<u><u>3,549,349</u></u>
Equity			
Share capital		43,500	43,500
Statutory reserve		10,875	10,875
Fair value equity reserve		87,384	62,901
Retained earnings		<u>1,792,812</u>	<u>2,573,572</u>
Total Equity	16	<u>1,934,571</u>	<u>2,690,848</u>
Liabilities			
Payable to Arion Bank hf.		43,103	41,445
Accounts payable		2,807	3,865
Other liabilities		369,465	531,765
Tax liabilities	17	<u>250,580</u>	<u>262,628</u>
Deferred tax liabilities.....		<u>22,543</u>	<u>18,798</u>
Total liabilities		<u>688,498</u>	<u>858,501</u>
Total Equity and Liabilities		<u><u>2,623,069</u></u>	<u><u>3,549,349</u></u>

Statement of Cash Flows

for the period 1 January to 30 June 2020

	Note	2020	2019
Cash flows from operating activities			
Net earnings	16	313,724	522,709
Non-cash items included in net earnings:			
Valuation changes of securities		14,772	(180,677)
Income tax recognised in profit or loss		76,611	129,908
		<u>405,107</u>	<u>471,940</u>
Changes in operating assets and liabilities	(150,933)	(100,395)
Income tax paid	17	(84,914)	(221,787)
Net cash from operating activities		<u>169,260</u>	<u>149,758</u>
Investing activities			
Change in Securities with variable income		881,442	943,705
Change in Securities with fixed income		6,076	(125,557)
Investing activities		<u>887,518</u>	<u>818,148</u>
Finance activities			
Dividend paid	16	(1,070,000)	(1,070,000)
Finance activities		<u>(1,070,000)</u>	<u>(1,070,000)</u>
Net change in cash and cash equivalents		(13,222)	(102,094)
Cash and cash equivalents at the beginning of the year		15,416	160,014
Cash and cash equivalents at the end of the period	8	<u>2,194</u>	<u>57,920</u>

Notes to the Interim Financial Statements

Accounting policies

1. General information

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

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

2. Basis of preparation

The Interim Financial Statements of Stefnir hf., A-part, are prepared in accordance with law on Financial Statements, law on Financial Undertakings and Rules on the Financial Statements of management companies of UCITS. The Interim Financial Statements are prepared on the historical cost basis except for Securities that are valued at fair value. The Interim Financial Statements are presented in Icelandic króna (ISK), rounded to the nearest thousand unless otherwise stated. The Interim Financial Statements of Stefnir hf. are part of the Consolidated Financial Statements for the parent company with information on operations and financial position of the Consolidated company.

3. Use of estimates and judgements

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

4. Management and performance based fees

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

5. Securities

a. Securities with variable income

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

b. Securities with fixed income

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

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

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

Notes, continued

6. Foreign currency transactions

Transactions in foreign currencies are translated to Icelandic króna at exchange rates at the dates of transactions, according to Reuter. Assets and liabilities denominated in foreign currency are translated at exchange rate at the end of the period.

Net foreign assets at 30 June 2020 amount to ISK 560 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets	558,836	39	798	0
Liabilities	59	0	0	0
Net balance 30.06.2020	558,895	39	798	0
Net balance 31.12.2019	541,840	119	1,243	0
Exchange rate of ISK 30.06.2020	155.40	138.23	170.94	
Exchange rate of ISK 31.12.2019	135.83	121.04	160.28	

7. Receivables

Receivables are measured at nominal value deducted by impairment.

8. Cash

Cash consists of cash and deposits with credit institutions.

9. Tax assets / liabilities

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

	1.1. - 30.06. 2020	1.1. - 30.06. 2019
10. Net financial income		
Net financial income is specified as follows:		
Valuation change in securities assets	(62,697)	158,538
Dividend received	1,619	0
Foreign exchange gain (loss)	60,011	42,536
Interest income	3,785	7,533
Interest expense	(6)	(108)
Net financial income	2,712	208,499

11. Salaries and related expenses and personnel

Salaries	296,526	251,535
Salary related expenses	87,593	75,311
Salaries and related expenses	384,119	326,846

Number of employees at the end of the period.	20	22
Average number of employees during the period.	21	21

Salary and salary related expenses of ISK 42,3 million were expensed in the period in respect of the resignation of Jökull H. Úlfsson, former Managing Director.

Notes, continued

	1.1. - 30.06. 2020	1.1. - 30.06. 2019
12. Income tax expense		
Current tax expense	72,866	127,706
Deferred tax expense	3,745	2,201
Total Income tax expense	<u>76,611</u>	<u>129,907</u>
13. Securities	30.06.2020	31.12.2019
Securities with variable income are specified as follows:		
Fund units issued by funds operated by Stefmir hf.	1,041,999	1,959,954
Shares in investment companies	131,677	111,935
Shares in companies	4	4
	<u>1,173,680</u>	<u>2,071,893</u>
Securities with fixed income are specified as follows:		
Listed on NASDAQ OMX Iceland:		
Issued by public entities	949	1,880
Unlisted:		
Issued by public entities	1,187	1,144
Issued by others	76,639	79,830
	<u>78,775</u>	<u>82,854</u>
Securities total	<u>1,252,455</u>	<u>2,154,747</u>

14. Related parties

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

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

Among assets are units issued by funds under management.

Transactions with related parties 1.1. - 30.06.2020.

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	33,375	241,668	51,894	43,733
Funds in operation	821,953	0	332,261	0
	<u>855,328</u>	<u>241,668</u>	<u>384,155</u>	<u>43,733</u>

Transactions with related parties 1.1. - 30.06.2019.

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	81,658	266,411	110,603	48,446
Funds in operation	819,490	0	348,037	0
	<u>901,148</u>	<u>266,411</u>	<u>458,640</u>	<u>48,446</u>

15. Assets under Management

Assets under Management in funds in operation by Stefmir at the end of the period amount to ISK 227 billions compared to ISK 252 billions at year end 2019.

Notes, continued

16. Equity

a. Share capital amounts to ISK 43.5 million at the end of the period, unchanged from year end 2019, 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 1.1.2019	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>
Equity 1.1.2020	43,500	10,875	62,901	2,573,572	2,690,848
Dividend paid	0	0	0	(1,070,000)	(1,070,000)
Net earnings	0	0	0	313,723	313,723
Fair value equity reserve ...	0	0	24,483	(24,483)	0
Equity 30.06.2020	<u>43,500</u>	<u>10,875</u>	<u>87,384</u>	<u>1,792,812</u>	<u>1,934,571</u>

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

c. Return on assets, presented as the ratio between net earnings and the average balance of assets according to the Balance Sheet, was 20.3% during the first half of 2020. Return on assets for the same period in 2019 was 32.8%.

d. Equity at end of the year is ISK 1935.000 million or 73.8% of total assets.

The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 52.7%, exceeding the minimum legal requirement of 8%.

The ratio is calculated as follows:

	30.06.2020	31.12.2019
Total equity	<u>1,934,571</u>	<u>2,690,848</u>
Total own funds for solvency purposes	<u>1,934,571</u>	<u>2,690,848</u>
Total capital requirements are specified as follows:		
Credit risk	209,598	249,082
Market risk	44,779	43,456
Capital requirement	<u>254,377</u>	<u>292,538</u>
Capital requirement due to fixed overheads	293,947	293,947
Capital adequacy ratio	52.7%	73.2%

Notes, continued

17. Tax assets (liabilities)	30.06.2020	31.12.2019
Changes in tax assets and liabilities are specified as follows:		
Tax assets at the beginning of the year	(281,426)	(219,754)
Income tax recognised in Statement of Income	(76,611)	(261,469)
Income tax paid	84,914	199,797
Net tax assets (liabilities) at the end of the period	<u>(273,123)</u>	<u>(281,426)</u>
Specified as follows:		
Current tax	(250,580)	(262,628)
Deferred tax assets (liabilities)	(22,543)	(18,798)
Net tax assets (liabilities) at the end of the period	<u>(273,123)</u>	<u>(281,426)</u>
Deferred tax assets are attributable to the following:		
Deferred foreign exchange gain and loss	(9,144)	(5,301)
Provision	(13,313)	(13,269)
Other items	(86)	(228)
Deferred tax assets (liabilities) at the end of the period	<u>(22,543)</u>	<u>(18,798)</u>
Tax liabilities are attributable to the following:		
Income tax using the Icelandic corporation tax rate	250,580	262,628
Tax liabilities at the end of the period	<u>250,580</u>	<u>262,628</u>
18. Shareholders of Stefmir hf.	30.06.2020	31.12.2019
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>	23.22%	23.53%
<i>Sculptor Capital Management</i>	9.92%	9.53%
<i>Gildi lífeyrissjóður</i>	9.60%	8.79%
<i>Lífeyrissjóður verzlunarmanna</i>	5.78%	3.67%
<i>Lífeyrissjóður starfsmanna ríkisins</i>	5.03%	3.47%
<i>Stoðir hf.</i>	4.99%	4.96%
<i>Goldman Sachs International</i>	2.97%	3.72%
<i>Eaton Vance funds</i>	2.82%	3.23%
<i>Stapi Lífeyrissjóður</i>	2.61%	1.89%
<i>Birta lífeyrissjóður</i>	2.47%	1.32%
<i>Frjálsi lífeyrissjóðurinn</i>	2.42%	2.18%
<i>Lansdowne partners</i>	2.39%	5.02%
<i>Hvalur hf.</i>	1.52%	1.45%
<i>Stefmir rekstrarfélag hf.</i>	1.24%	2.46%
<i>MainFirst Bank AG</i>	1.14%	1.09%
<i>Lífsverk Pension Fund</i>	1.05%	0.75%
<i>Others</i>	20.83%	22.95%
	<u>100.00%</u>	<u>100.00%</u>

Notes, continued

19. 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.