



Asset Management Company

Interim Financial Statements

1 January - 30 June 2021

Stefnir hf.  
Borgartun 19  
105 Reykjavík

Reg. no. 700996-2479

# Contents

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Report and endorsement of the Board of Directors and the Managing Director .....	3
Interim Review Report on Financial Statements .....	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

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The purpose of Stefnr hf. is to operate UCITS and alternative funds. Stefnr is a well-established Icelandic fund management company which was founded in 1996 and has approximately ISK 271 billion under active management. Stefnr 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 Interim Financial Statements of the company are divided in two: part A which includes the Interim Financial Statements of Stefnr hf. and part B which includes the Interim Financial Statements of UCITS and investment funds. The Interim Financial Statements have been prepared in accordance with the Annuals Account Act, the Financial Undertakings Act and the rules of the Financial Supervisory Authority on the annual accounts of UCITS management companies, alternative investment fund managers, UCITS and investment funds.

## Activities in the first half of 2021

The company reported earnings of ISK 628.9 million in the period according to the income statement. The company's equity at the end of the year was approximately ISK 2.2 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 58.1%, the minimum allowed by law being 8.0%.

At the beginning and end of the year, 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 2021

Stefnr's annual general meeting was held on 18 March 2021 and a resolution was passed to pay a dividend of ISK 837 million to the shareholders. The company's board of directors, elected at the meeting, comprises Sigrún Ragna Ólafsdóttir, chairman, Jón Óttar Birgisson, vice chairman, and Guðfinna Helgadóttir, board member.

During the period five new funds were established, two of which have a focus on ESG. In addition the investment focus of Stefnr – Scandinavian Fund - ESG has changed and investments by this fund take into account the UN Sustainable Development Goals.

Assets under active management increased from the end of 2020 by ISK 41 billion to ISK 271 billion. The main change in assets under management is the inflow into new alternative funds. Assets under management are well distributed between asset classes and the company's revenue structure is also good.

Funds managed by Stefnr yielded solid returns in the first of 2021, particularly Stefnr – innlend hlutabréf hs. (previously Stefnr – ÍS 15) which was up 24.4% in the period. Both the domestic and international stock markets performed strongly during the period and were buoyed by rising optimism in the battle against COVID-19 and greater resilience in the major global economies.

Stefnr is continuously working on improvements to its services and transactions with the company's funds. Stefnr funds are now available to anyone through the Arion app, providing a secure and easy way to invest in Stefnr funds. Service to individuals is mainly via digital self-service channels and Arion Bank's Call Centre.

Stefnr submits an annual progress report to Principles for Responsible Investment in which it is possible to monitor Stefnr's progress in implementing its policy on responsible investment. In addition all Stefnr employees and the board of directors have completed a course and test with PRI Academy on responsible investment. Stefnr is committed to sustainability and several important steps have been taken to this end during the year. Stefnr has signed an agreement with the Iceland Carbon Fund on carbon fixation and 10 trees will be planted for each unit holder in Stefnr – Green Selection in 2021.

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

The board of directors of Stefnr is monitoring the COVID-19 situation and the measures taken the authorities. Stefnr has demonstrated the ability to adapt to the changing business environment and also benefits from economies of scale in its business. The outlook is bright despite several uncertainties in the operating environment, both in the short and long term.

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

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## **Endorsement of the Board of Directors and the Managing Director**

The Board of Directors and Managing Director of Stefmir hf. hereby attest the company's interim financial statement for the period 1 January to 30 June 2021 by means of their electronic signatures.

Reykjavik, 19 August 2021.

### **The Board of Directors:**

Sigrún Ragna Ólafsdóttir, chairman of the board  
Jón Óttar Birgisson, vice chairman of the board  
Guðfinna Helgadóttir, board member

### **Managing Director:**

Jóhann G. Möller

# Review Report on Interim Financial Statements

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

We have reviewed the accompanying Interim Financial Statement of Stefnir for the period of 1 January to 30 June 2021, 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 the rules of the Financial Supervisory Authority on the annual accounts of UCITS management companies, alternative investment fund managers, UCITS, investment funds and other funds under their management.

## **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 2021 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, 19 August 2021

## **Deloitte ehf.**

Hugrún Arna Vigfúsardóttir  
State Authorized Public Accountant

Pétur Hansson  
State Authorized Public Accountant

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

# Statement of Income

## for the period 1 January to 30 June 2021

	Note Note	1.1. - 30.06. 2021	1.1. - 30.06. 2020
<b>Operating income</b>			
Management and performance based fees .....	4	1,222,022	1,043,555
Financial income .....	10	192,197	65,415
Operating income		<u>1,414,219</u>	<u>1,108,970</u>
Financial expense .....	10	( 34,901)	( 62,703)
Net operating income		<u>1,379,318</u>	<u>1,046,267</u>
<b>Operating expense</b>			
Salaries and related expense .....	11	311,654	384,119
Service commissions to Arion bank hf. ....		201,786	197,741
Other expense .....		83,932	74,072
Operating expense		<u>597,372</u>	<u>655,932</u>
<b>Earnings before tax .....</b>		781,946	390,335
Income tax .....	13	( 153,072)	( 76,611)
<b>Net earnings .....</b>	17	<u>628,874</u>	<u>313,724</u>

# Statement of Financial Position

## as at 30 June 2021

	Note	30.06.2021	31.12.2020
<b>Assets</b>			
Securities with fixed income .....		4,003	97,698
Securities with variable income .....		1,438,352	1,709,821
Total Securities	5, 14	1,442,355	1,807,519
Accounts receivables .....	7	1,048,839	957,808
Receivable from related entities .....		18,448	82,472
Receivable from related parties .....		373,755	356,928
Total Receivables		1,441,042	1,397,208
Cash and cash equivalents .....	8	29,762	16,183
Other assets .....		12,219	33,536
Total Other Assets		41,981	49,719
<b>Total Assets</b>		<b>2,925,378</b>	<b>3,254,446</b>
<b>Equity</b>			
Share capital .....		43,500	43,500
Statutory reserve .....		10,875	10,875
Fair value equity reserve .....		205,357	130,548
Retained earnings .....		1,990,093	2,273,029
Total Equity	17	2,249,825	2,457,952
<b>Liabilities</b>			
Deferred tax liabilities.....		17,641	23,760
Accounts payable .....		27,303	13,878
Accounts payable to related entities .....		43,341	42,876
Tax liabilities .....	18	229,070	203,820
Other liabilities .....		358,198	512,160
Total liabilities		675,553	796,494
<b>Total Equity and Liabilities</b>		<b>2,925,378</b>	<b>3,254,446</b>

# Statement of Cash Flows

## for the period 1 January to 30 June 2021

	Note Note	1.1. - 30.06. 2021	1.1. - 30.06. 2020
<b>Cash flows from operating activities</b>			
Net earnings .....	17	628,874	313,724
Non-cash items included in net earnings:			
Valuation changes of securities .....	(	160,875)	14,772
Income tax recognised in profit or loss .....		153,071	76,611
		<u>621,070</u>	<u>405,107</u>
Changes in operating assets and liabilities .....	(	162,590)	( 150,933)
Income tax paid .....	18	( 133,940)	( 84,914)
Net cash from operating activities		<u>324,540</u>	<u>169,260</u>
<b>Investing activities</b>			
Change in Securities with variable income .....		430,909	881,442
Change in Securities with fixed income .....		95,130	6,076
Investing activities		<u>526,039</u>	<u>887,518</u>
<b>Finance activities</b>			
Dividend paid .....	17	( 837,000)	( 1,070,000)
Finance activities		<u>( 837,000)</u>	<u>( 1,070,000)</u>
<b>Net change in cash and cash equivalents .....</b>		13,579	( 13,222)
<b>Cash and cash equivalents at the beginning of the year .....</b>		<u>16,183</u>	<u>15,416</u>
<b>Cash and cash equivalents at the end of the period .....</b>	8	<u>29,762</u>	<u>2,194</u>

# Notes to the Interim Financial Statements

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## Accounting policies

### 1. General information

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

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

### 2. Basis of preparation

The Interim Financial Statements of Stefnir hf. are prepared in accordance with law on Financial Statements, law on Financial Undertakings and the rules of the Financial Supervisory Authority on the annual accounts of UCITS management companies, alternative investment fund managers, UCITS and investment funds. 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 other alternative Investment 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 2021 amount to ISK 738 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets .....	738,290	21	529	0
Liabilities .....	( 81)	( 451)	0	0
Net balance 30.06.2021 .....	738,209	( 430)	529	0
Net balance 31.12.2020 .....	599,128	1	455	0
Exchange rate of ISK 30.06.2021 .....	146.70	123.81	170.90	
Exchange rate of ISK 31.12.2020 .....	156.09	127.64	174.28	

### 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. 2021	1.1. - 30.06. 2020
<b>10. Net financial income</b>		
Net financial income is specified as follows:		
Valuation change in securities assets .....	189,885	( 62,697)
Dividend received .....	2,070	1,619
Foreign exchange gain (loss) .....	( 34,891)	60,011
Interest income .....	242	3,785
Interest expense .....	( 10)	( 6)
Net financial income .....	157,296	2,712
<b>11. Salaries and related expenses and personnel</b>		
Salaries .....	238,704	296,526
Salary related expenses .....	72,950	87,593
Salaries and related expenses .....	311,654	384,119
Number of employees at the end of the period. ....	21	20
Average number of employees during the period. ....	20	21

## Notes, continued

### 12. Leases

An agreement is in place between Stefnr hf. and Arion Bank hf. on the leasing of commercial property. The agreement was signed in December 2012. The leased office space is located on the third floor of Borgartún 19. According to the agreement the lease period is indefinite and there is no period of notice.

The lease pursuant to the agreement amounted to ISK 11.2 million in the first half of 2021. The lease is expensed under other operating expenses in the company's income statement. The corresponding payment in 2020 amounted to ISK 10.9 million.

	1.1. - 30.06. 2021	1.1. - 30.06. 2020
<b>13. Income tax expense</b>		
Current tax expense .....	158,517	72,866
Deferred tax expense .....	( 6,119)	3,745
Total Income tax expense .....	<u>153,072</u>	<u>76,611</u>

### 14. Securities

Securities with variable income are specified as follows:

	30.06.2021	31.12.2020
Fund units issued by funds operated by Stefnr hf. ....	1,301,322	1,590,676
Shares in investment companies .....	137,026	119,141
Shares in companies .....	4	4
	<u>1,438,352</u>	<u>1,709,821</u>

Securities with fixed income are specified as follows:

Listed on regulated markets:

Issued by public entities .....	0	963
Issued by others .....	0	20,096

Unlisted:

Issued by public entities .....	603	585
Issued by others .....	3,400	76,054
	<u>4,003</u>	<u>97,698</u>

Securities total .....	<u>1,442,355</u>	<u>1,807,519</u>
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### 15. Related parties

Stefnr 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 Stefnr.

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

Transactions with related parties 1.1. - 30.06.2021.

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated .....	36,957	254,812	48,210	43,341
Funds in operation .....	978,679	0	373,755	0
	<u>1,015,636</u>	<u>254,812</u>	<u>421,965</u>	<u>43,341</u>

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>

### 16. Assets under Management

Assets under Management in funds in operation by Stefnr at the end of the period amount to ISK 271 billions compared to ISK 230 billions at year end 2020.

## Notes, continued

### 17. Equity

- a. Share capital amounts to ISK 43.5 million at the end of the period, unchanged from year end 2020, 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 1.1.2020 .....	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	837,104	837,104
Fair value equity reserve ...	0	0	67,647	( 67,647)	0
Equity 31.12.2020 .....	43,500	10,875	130,548	2,273,029	2,457,952
Equity 1.1.2021 .....	43,500	10,875	130,548	2,273,029	2,457,952
Dividend paid .....	0	0	0	( 837,000)	( 837,000)
Net earnings .....	0	0	0	628,873	628,873
Fair value equity reserve ...	0	0	74,809	( 74,809)	0
Equity 30.06.2021 .....	43,500	10,875	205,357	1,990,093	2,249,825

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 40.7% during the first half of 2021. Return on assets for the same period in 2020 was 20.3%.
- d. Equity at end of the year is ISK 2,250 million or 76.9% of total assets.

The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 58.1%, exceeding the minimum legal requirement of 8%.

The ratio is calculated as follows:

	30.06.2021	31.12.2020
Total equity .....	2,249,825	2,457,952
Total own funds for solvency purposes .....	2,249,825	2,457,952
Total capital requirements are specified as follows:		
Credit risk .....	231,850	241,798
Market risk .....	59,099	47,967
Capital requirement .....	290,949	289,765
Capital requirement due to fixed overheads .....	309,647	309,647
Capital adequacy ratio .....	58.1%	63.5%

## Notes, continued

<b>18. Tax assets (liabilities)</b>	<b>30.06.2021</b>	<b>31.12.2020</b>
Changes in tax assets and liabilities are specified as follows:		
Tax assets at the beginning of the year .....	( 227,580)	( 281,426)
Income tax recognised in Statement of Income .....	( 153,072)	( 207,901)
Income tax paid .....	133,941	262,628
Net tax assets (liabilities) at the end of the period .....	<u>( 246,711)</u>	<u>( 227,580)</u>
Specified as follows:		
Current tax .....	( 229,071)	( 202,939)
Deferred tax assets (liabilities) .....	( 17,640)	( 23,760)
Net tax assets (liabilities) at the end of the period .....	<u>( 246,711)</u>	<u>( 227,580)</u>
Deferred tax assets are attributable to the following:		
Deferred foreign exchange gain and loss .....	329	( 9,789)
Provision .....	( 17,970)	( 13,971)
Deferred tax assets (liabilities) at the end of the period .....	<u>( 17,641)</u>	<u>( 23,760)</u>
Tax liabilities are attributable to the following:		
Income tax using the Icelandic corporation tax rate .....	229,070	202,939
Additional 6% tax on financial institutions .....	0	881
Tax liabilities at the end of the period .....	<u>229,070</u>	<u>203,820</u>
<b>19. Shareholders of Stefnir hf.</b>	<b>30.06.2021</b>	<b>31.12.2020</b>
Shareholders of Stefnir hf. with shareholding exceeding 1% of issued share capital:		
Arion banki hf. ....	99.93%	99.93%
Shareholders of Arion banki hf.:		
Lífeyrissjóður verzlunarmanna .....	9.22%	7.46%
Lífeyrissjóður starfsmanna ríkisins .....	8.92%	6.03%
Gildi lífeyrissjóður .....	8.64%	9.92%
Stoðir hf. ....	4.99%	4.99%
Arion banki hf. ....	3.86%	0.69%
Íslandsbanki hf. ....	3.64%	0.38%
Birta lífeyrissjóður .....	3.26%	2.83%
Stefnir rekstrarfélag hf. ....	3.02%	2.13%
Frjálsi lífeyrissjóðurinn .....	2.83%	2.73%
Stapi Lífeyrissjóður .....	2.69%	2.92%
Kvika banki hf. ....	2.43%	0.63%
Hvalur hf. ....	2.22%	1.52%
Akta sjóðir .....	2.06%	0.00%
Landsbankinn hf. ....	1.84%	0.98%
Brú Lífeyrissjóður .....	1.69%	0.63%
Íslandssjóðir .....	1.68%	0.69%
Kvika eignastýring .....	1.55%	0.98%
Lífsvirk Pension fund .....	1.40%	1.37%
Almenni lífeyrissjóður .....	1.38%	0.67%
Bóksal ehf. ....	1.35%	0.14%
Lífeyrissjóður Vestmannaeyja .....	1.30%	1.13%
Landsbréf hf. ....	1.25%	0.66%
Festa lífeyrissjóður .....	1.23%	0.72%
MainFirst Bank AG .....	1.18%	1.14%
Sjóvá tryggingar .....	1.01%	0.87%
Eaton Vance funds .....	0.84%	2.11%
Taconic Capital Advisors .....	0.00%	23.22%
Sculptor Capital Management .....	0.00%	6.12%
Lansdowne partners .....	0.00%	1.12%
Other .....	24.53%	15.23%
	<u>100.00%</u>	<u>100.00%</u>

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