
Statement of Corporate governance



This statement of Stefnir hf.'s corporate governance fulfils the requirements set forth in recognized guidelines available at the time the Financial Statements are approved by the board of the company and the provisions of Art. 19 of Act No. 161/2002 on Financial Undertakings, cf. Art. 12 of Act No. 75/2010. Guidelines on Corporate Governance, 3rd edition, issued by the Icelandic Chamber of Commerce, the Confederation of Icelandic Employers and NASDAQ OMX Iceland hf. and OECD Principles of Corporate Governance were taken into special consideration when Stefnir hf.'s statement of corporate governance was written.

Stefnir hf. is an independent financial company according to Act No. 161/2002 on Financial Undertakings. The company manages undertakings for collective investment in transferable securities, investment funds and alternative investment funds in accordance with Act No. 30/2003 on UCITS. In addition to this, the company is licensed to operate asset management services, investment advisory and to manage financial

instruments for collective investments, cf. Art. 27, Par. 1, items 1-3 of Act No. 161/2002. Stefnir is Iceland's largest fund manager with assets of more than ISK 281 billion under active management. Stefnir has 16 employees possessing extensive experience of work in financial markets.

Stefnir hf. is wholly owned by Arion bank and related companies. The company's statement of corporate governance serves to encourage open and reliable communications between the board, shareholders and other stakeholders that can be defined as: unit shareholders in funds managed by Stefnir, parties that service and participate in the operations of Stefnir, in addition to employees and the public. Stefnir hf. has not operated the subcommittees of the board as until now there has been no apparent need for the Auditing Committee, Remuneration Committee or Appointment Committee. Stefnir hf. will operate a Auditing Committee in 2011 as the LFEST1 alternative investment fund managed by Stefnir has bonds listed on NASDAQ OMX Iceland hf. and therefore fulfils the set condition that a

company with registered domicile in Iceland and securities listed on a regulated securities market in an EEA member state, a state being a party to the European Free Trade Association or the Faroe Islands, shall operate an auditing committee.

Stefnir hf. is subject to control by the Icelandic FSA according to Act No. 161/2002, but internal control and risk management of the company is outsourced to the parent company, Arion bank. The purpose of the arrangement is to promote objective control of funds managed by the company. Stefnir has prepared an operational risk assessment in collaboration with Arion bank's Risk Management where risk factors were analysed and an action plan drawn up to mitigate the impact of the above risk factors. The Internal Audit of Arion bank also compiles an annual report on Stefnir's operations. Both of the said reports are presented to the board of Stefnir. Arion bank's Finance Division, possessing a wide range of specialists, provides Stefnir hf. with financial statement services. A review of interim financial statements



and auditing of the company's annual financial statement is the responsibility of KPMG ehf.

Stefnir hf. has taken active part in building up confidence in the Icelandic financial market. Stefnir founded the institutional investor fund LFEST1 in 2010 and bonds issued by the fund were admitted for trading on NASDAQ OMX Iceland hf. The total nominal value of the bonds is ISK 2.8 billion. Institutional investor funds under the auspices of Stefnir have also taken part in the asset transformation process currently taking place in the domestic corporate market. This primarily concerns the purchase by funds managed by Stefnir of a share in Hagar hf. and the potential listing of the company on NASDAQ OMX Iceland hf. Through its market share on the stock exchange, Stefnir has promoted better access of general investors to investments in shares through their funds which otherwise has been very limited as there have been few market makers in corporate securities. It is important for Stefnir to inform investors about the investment options available at each time, and targeted efforts are being made to provide good quality information about Stefnir's funds on the company's website. The corporate social

responsibility adopted by Stefnir is to offer more competitive and responsible investment options for the public and more specialised investors as part of the build-up currently taking place in Icelandic society.

Stefnir has five elected board members in addition to the same number of alternates. The majority of the board is independent of Arion bank, Stefnir's parent company. The managing director is hired by the board from which he receives authority to run the daily operations of the company. Board meetings are held once a month. The board's standard procedures can be accessed on the company's website, www.stefnir.com, as well as the company's articles of association.

The board of Stefnir hf. has independent directors: Hrund Rudolfsdóttir, Chairman, managing director of professional development at Marel, Snjólfur Ólafsson, Vice Chairman, Professor at the Faculty of Business Administration at the University of Iceland, Svava Bjarnadóttir, Chief Financial Officer of Mannvit. Other board members are: Eggert Teitsson, deputy managing director of Arion bank's Finance Division and Ásgerdur Hrönn Sveinsdóttir, branch manager at Arion bank.

Alternates are: Gunnar Ingi Jóhannsson, attorney at Lögmenn Höfðabakka. Kristbjörg Edda Jóhannsdóttir, manager of Össur's product development. Thórhallur Örn Gudlaugsson, lecturer in the Faculty of Business Administration at the University of Iceland. Hördur Kvaran, specialist in the Finance Division of Arion bank hf.

The role of the board of directors includes enforcing an active system of internal control as well as follow up the company's performance and efficiency. The board is also responsible for the reliability and integrity of financial information and the company's compliance with the applicable laws and rules. The arrangement of internal control is documented in the meeting minutes of board meetings and is followed up by the managing director and the board.

The company's managing director as of 1 July 2009 is Flóki Halldórsson, 37 years old, an economics graduate from the University of Iceland. Flóki has completed the Icelandic FSA's capability test and a diploma in securities trading. Flóki has extensive experience of working in financial markets and management, and he was previously member of the alternative

investment team at Kaupthing Bank Management Company. The managing director is responsible for ensuring that daily operations of the company are conducted according to the policy and instructions provided by the board of directors, cf. Art. 68, Par. 2, of the Public Limited Companies Act. He is responsible for providing information to internal and external supervisory bodies. The managing director is authorised, upon approval by the board, to grant other employees of the company the power to handle limited authorizations of his duties.

The managing director is responsible for analysing, monitoring and supervising risks that accompany the operations of the company. The managing director shall enforce an organizational chart that clearly specifies the area 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 the employees of the company, other than those discussed in Art. 16 of Act No. 161/2002, and discharges them.

No judgements for punishable acts according to the Criminal Code, competition law, the act on financial undertakings or laws on public limited companies, private limited companies, accounting, financial statements, bankruptcy or taxation, nor under special legislation applicable to parties subject to public supervision of financial activities, have been passed on Stefmir hf.

On 8 September 2010, ESA decided to start a formal investigation into whether the bond purchases of three Icelandic commercial banks had involved illegal

state aid within the meaning of the EEA Agreement. Arion bank hf. is one of those banks as it purchased bonds from Stefmir hf.'s money market funds in October 2008. At the time of writing the investigation is under way and Stefmir hf. has communicated its views on the matter to ESA, through the ministry of finance, by a letter dated 16 November 2010. It is very difficult to estimate the impact of the case on Stefmir's operations, but according to ESA's decision Stefmir is seen as one of the parties that may possibly have benefitted from the alleged illegal state aid.

Stefmir has not been refused registration, authorization, membership or permission to conduct certain business, activities or operations. Stefmir hf. has not been subject to withdrawal, revocation or termination of registration, authorization, membership or permission.