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# Corporate Governance Statement - 2014

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This corporate governance statement by Stefnir hf. is in compliance with the requirements set forth in recognized guidelines at the time these financial statements are approved by the board of the company and the provisions Article 19 of Act No. 161/2002. Guidelines on Corporate Governance, 4th 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 the Stefnir hf.'s corporate governance statement was written. Both the Guidelines on Corporate Governance and the Principles of Corporate Governance can be viewed on Stefnir's website.

In 2012 Stefnir was recognized as the first Icelandic company to be "A model company in good corporate governance."

This honour was granted by the Center for Corporate Governance at the University of Iceland and is based on a survey conducted by the auditing company KPMG ehf. In 2013 Stefnir was granted the same recognition 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 general public. Good corporate governance also enables the board to perform its monitoring duties effectively.

Stefnir hf. is an independent financial institution according to the Financial Undertakings Act No. 161/2002. The company manages UCITS, investment funds and professional investor funds under Act No. 128/2011. In addition to this, the company is licensed to operate asset management services, investment advisory and to manage financial instruments for collective investments, cf. sub-paragraphs 1-3 of paragraph 1 of Article 27 of Act No. 161/2002. Stefnir is Iceland's largest fund manager with assets of more than ISK 414 billion under active management. Stefnir has 21 employees with average experience on the financial markets of 10 years.



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

The company's operations are subject to stringent restrictions by the legislator. The company's operations are governed by acts of law including the Financial Undertakings Act No. 161/2002 and the UCITS, Investment Funds and Institutional Investor Funds Act, No. 128/2011. Stefnir is monitored 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 of Stefnir has devised a risk strategy for the company:

"Stefnir's board of directors is aware that risk management and active internal control are some of the mainstays of a responsible fund management company. By formulating a clear risk policy the board continues to encourage the existing strong risk management culture within Stefnir and simultaneously informs its policy to its stakeholders.

All risk within Stefnir's operations is identified and assessed regularly

and a process to monitor and report this risk is in place. 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 corporate governance the board of directors ensures that the policies, processes and systems are implemented at all decision levels."

Compliance, internal audit and some risk management functions are outsourced to Arion Bank with the permission of the FME and the board is regularly informed of issues concerning the above.

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 Stefnir hf. and the financial statements of Stefnir's funds are the responsibility of the Bank. The auditing committee examines the financial statement and obtains the opinion of an external auditor on the six-month financial results and 12-month financial results of Stefnir and the funds managed by Stefnir. Reporting to the board of directors with respect to the accounts is the responsibility of the committee; the board also meets the auditing company Ernst & Young hf.

Stefnir has five board members and five 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. An employee of Stefnir is the secretary of the board. Stefnir's legal representative is also present and provides board members with legal advice 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.is/english](http://www.stefnir.is/english).

The board of directors of Stefnir comprises the independent board members Hrund Rudolfsdóttir, Chairman, CEO of Veritas, Snjólfur Ólafsson, Vice Chairman, professor in the faculty of business administration at the University of Iceland, Kristján Jóhannsson, chairman of Icepharma hf. and Svava Bjarnadóttir, partner and consultant at Strategía. The dependent board member is Jökull H. Úlfsson, head of A Plus at Arion Bank hf. The majority of board members have served on the board since 2009. Kristján Jóhannsson was elected to the board in June 2011 and Jökull H. Úlfsson in



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March 2013. Further information on the board members of Stefñir can be seen on the company's website.

The alternate board members are Ásgerdur Hrönn Sveinsdóttir, area and branch manager at Arion Bank hf, Gunnar Ingi Jóhannsson, attorney at Lögmenn Höfðabakka, Kristbjörg Edda Jóhannsdóttir, head of marketing at Síminn, Thórhallur Örn Gudlaugsson, lecturer in the faculty of business administration at the University of Iceland, and Hördur Kvaran, specialist in Arion Bank's finance division.

The audit committee, elected by the board, was re-elected from the previous year. The chairman of the committee is Snjólfur Ólafsson. The other committee members are Gudlaug Sigurdardóttir and Sturla Jónsson. The audit committee met five times in 2013 and achieved a quorum on each occasion. The committee members are independent of the company and their broad expertise in business administration, auditing and management was put to good use in the course of the committee's business. The committee submits its annual report to the board of directors in the first quarter of every year. Stefñir's remuneration committee was founded during the year. Its members are Hrunn Rudolfsdóttir and Svava Bjarnadóttir. The main roles of the committee are to establish a remuneration policy for the company and to make proposals on salaries and other remuneration to the managing director, other management and board of Stefñir. The company's remuneration policy can be read on its website.

The board members of Stefñir jointly devised the following mission statement for the board:

*The board's key role is to establish a corporate strategy and ensure that it is implemented. The core of the strategy is for the company to be a leading fund*

*management company and to ensure that the interests of clients, owners, employees and the community at large are prime considerations. The focus is on running a solid and profitable business and minimizing risk. The board places a strong emphasis on good corporate governance and ensuring that the board and company operate at all times in compliance with the law, rules and good business practices.*

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

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

The company's managing director since 1 July 2009 has been Flóki Halldórsson (born 1973), an economics graduate from the University of Iceland. Flóki has extensive experience of the financial markets and management. The managing director is responsible for ensuring that the day-to-day operations of the company are conducted according to the strategy and instructions given by the board of directors; cf. Paragraph 2, Article 68 of the Public Limited Companies Act. He is responsible for reporting to internal and external supervisory bodies. The managing director is authorized to grant other employees of the company the power to handle limited authorizations of their duties.

The managing director is responsible for analysing, 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.

New roles of procedure for the board were approved in January 2014. The rules were established with reference to Article 54 (2) of the Financial Undertakings Act and Article 70 (5) of the Public Limited Companies Act. The rules of procedure are largely based on guidelines No. 1/2010 of the Financial Supervisory Authority (FME) and the company's articles of association. The work undertaken in relation to the company's recognition as a model company in good corporate governance has been important in this respect. The rules of procedure can be viewed on Stefñir's website.

Stefñir has been at the forefront in offering its clients competitive and responsible investment options in virtually all asset classes. It is vital that the company is able to pass on information accurately and simply to investors. The company's website performs an important role in this respect by displaying detailed information on all the Stefñir funds available to the public.

No judgements for punishable acts according to the Criminal Code, the competition law, the act on financial undertakings or laws on public limited companies, private limited companies, book-keeping, annual accounts, bankruptcy or taxation, nor under special legislation applicable to parties subject to public supervision of financial activities, have been passed on Stefñir hf. Information on court cases relating to Stefñir can be found in the notes to the company's annual financial statement.

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