



# *Corporate Governance Statement* of Stefnir hf. 2015

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. 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. 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, which applies for two years, 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 is an independent financial institution according to the Financial Undertakings Act No. 161/2002. The company manages UCITS, investment funds and institutional investor funds under Act No. 128/2011. In addition to this, the company is licensed to operate asset management services,



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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 403 billion under active management. Stefnir has 24 employees with extensive experience of work in financial markets.

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 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 company's board of directors has devised a risk strategy for the 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 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. 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 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 auditing committee and the board of directors of Stefnir.

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 price calculations 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 ehf.

When the company devised its

strategy in 2011, the board also worked with the employees to define Stefnir's three core values. These core values were introduced to Stefnir in 2012 and have served as an import guide for employees and the board in their day-to-day activities. When it reviewed its strategy in 2014 the board was in agreement that these core values still hold true and that there was no need to change them. 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 victory" 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 company's core values reflect the ethical standards which the

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board and employees are working in accordance with, and other benchmarks on the same topic can be found in employment agreements, the conflicts of interest policy and the board of directors' rules of procedure.

The company has not established a policy on corporate social responsibility 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. Responsible and diverse investment options and thorough disclosure of information are central to the corporate social responsibility that the company aspires to demonstrate.

In 2014 the board of directors 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.

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. Stefnir's legal representative is also present and provides board members with legal advice at board meetings. An employee from the operations team is the secretary of the board. 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](http://www.stefnir.is)

The board of directors of Stefnir comprises the independent board members Hrunn Rudolfsdóttir, Chairman, CEO of Veritas, Kristján Jóhannsson, Vice Chairman, chairman of Icepharma hf, Svava Bjarnadóttir, owner and consultant at Strategía ehf., Thórdur Sverrisson, self-employed. The dependent board member is Jókull H. Úlfsson, head of A Plus at Arion Bank hf. Hrunn Rudolfsdóttir and Svava Bjarnadóttir have served on the board since 2009. Kristján Jóhannsson was elected to the board in June 2011, Jókull H. Úlfsson in March 2013 and Thórdur Sverrisson in March 2014. Further information

on the board members of Stefnir can be seen on the company's website.

The alternate board members are Ásgerður 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 Hörður Kvaran, specialist in Arion Bank's finance division.

The audit committee, elected by the board, underwent several changes from the previous year. The chairman of the committee is now Svava Bjarnadóttir, boardmember of Stefnir. The other committee members are Gudlaug Sigurdardóttir, engineer, and Sigríður Gudmundsdóttir, internal auditor at Marel. Snjólfur Ólafsson, professor, and Sturla Jónsson, chartered accountant, have stepped down from the committee. The audit committee met seven times in 2014 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

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of every year. Stefnr's board remuneration committee comprises Hrund 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 Stefnr. Read the company's remuneration policy on its website.

The board members of Stefnr 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 is 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, 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, 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 rules 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 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 Stefnr's website.

Stefnr 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 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 Stefnr 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 Stefnr hf.