
Corporate Governance Statement – 2012



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, 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 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.

Stefnir has been recognized as the first Icelandic company to receive the "excellence in corporate governance" award. 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. A report published by the Center for Corporate Governance in January 2012 suggests that Stefnir could in many ways act as a role model to other companies in terms of good corporate governance. The entire report can be read on Stefnir's website.

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 makes it easier for the board to perform its monitoring duties effectively.

Stefnir hf. is an independent financial company under Act No. 161/2002 on Financial Undertakings. 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. Stefmir is Iceland's largest fund manager with assets of more than ISK 330 billion under active management. Stefmir has 17 employees with extensive experience of work in financial markets.

Stefmir hf. is a wholly owned subsidiary of 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 Stefmir, parties that service and participate in the operations of Stefmir, employees and the general public.

Stefmir is subject to supervision by the FME under Act No. 161/2002 and UCITS, investment funds and professional investor funds managed by the fund are governed by Act No. 128/2011. Risk management and active internal control are mainstays of the responsible operation of a fund management company. The board of directors of Stefmir has mapped Stefmir's risk management environment. The risks facing the company have been systematically analysed and measured. Compliance, internal audit and risk

management are partly 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. The financial statements of Stefmir's funds are the responsibility of another company, Verdis hf. 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 Stefmir and the funds managed by Stefmir. 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.

Stefmir has five elected board members and the same number of alternates. The majority of board members are independent of Arion Bank hf, Stefmir's parent, and the company itself. 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 generally held every month or more often if considered necessary and the minutes are recorded by Stefmir's

operations manager. Stefmir's legal representative is also present and provides board members with legal advice at board meetings. The board met 15 times and achieved a quorum on each occasion. The board's rules of procedure, work schedule and articles of association can be seen on the company's website, www.stefmir.com.

The following independent board members serve on the board of Stefmir: Hrund Rudolfsdóttir, Chairman, corporate director of human resources at Marel, Snjólfur Ólafsson, Vice Chairman, professor in the faculty of business administration at the University of Iceland, Kristján Jóhannsson, lecturer in the faculty of business administration at the University of Iceland and Svava Bjarnadóttir, chief financial officer of Mannvit. The dependent board member is: Eggert Teitsson, deputy managing director of finance at Arion Bank hf. The board members have all served on the board since 2009, with the exception of Kristján Jóhannsson who took up his position in June 2011. Further information on the board members of Stefmir can be seen on the company's website.

The alternates are: Ásgerdur Hrönn Sveinsdóttir, operations and branches manager at Arion Bank hf, Gunnar

Ingi Jóhannsson, attorney at Lögmenn Höfdabakka, Kristbjörg Edda Jóhannsdóttir, manager of product development at Össur, Thórhallur Örn Gudlaugsson, lecturer in the faculty of business administration at the University of Iceland, and Hördur Kvaran, supervisor in Arion Bank's finance division.

The board appointed an auditing committee for the first time in 2011. Its members are Snjólfur Ólafsson, Chairman, and other committee members are Gudlaug Sigurdardóttir and Sturla Jónsson. The auditing committee held five meetings in 2011 and all of the meetings were attended by all of the members. 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 submitted its report to the board of directors of Stefnir in December 2011. The committee's rules of procedure can be found on the website of Stefnir. The board has no other sub-committees; board members have taken on the role of the board remuneration committee and the company's remuneration policy can be found on the company's website.

The board members of Stefnir 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.

At board meetings in December 2011 and January 2012 the board of Stefnir appraised its work and made proposals to make improvements. The managing director was not present during the appraisal and the chairman left the meeting when the board members appraised her work. The results of the appraisal were announced in February. The improvements proposed by the board have been allocated a timeframe for completion and a person has been made responsible for ensuring that this is done. The appraisal was managed by the board secretary.

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/her 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 Art. 16 of Act No. 161/2002.

The board of Stefnir does not have a written policy on corporate social responsibility. The topic has been discussed by the board and it plans to introduce a policy on corporate social responsibility before the end of 2012. It is nevertheless important to point out that Stefnir offers competitive and responsible investment options for the general public and more specialized investors. Stefnir represented several consortiums of investors in 2012 who invested in solid Icelandic companies with the aim of increasing their value and possibly listing them on the stock market. 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 board of Stefnir believes that the above points provide a clear indication of the corporate social responsibility shown by the company although it does not have a written policy at the moment.

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 Stefnir hf. Information on court cases relating to Stefnir can be found in the notes to the company's annual financial statement.