

Corporate Governance Statement of Stefir hf. 2013

By issuing this corporate governance statement Stefir hf. (Stefir) 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 Stefir hf.'s corporate governance statement was written. The Guidelines on Corporate Governance and the Principles of Corporate Governance can be viewed on Stefir's website.

In 2012 Stefir 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. This recognition is granted for one year. Stefir aims to win such recognition again next year and KPMG is currently conducting a review in this respect.

The board of directors of Stefir believes that good corporate governance is a key factor behind Stefir'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.

Stefir 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. Stefir is Iceland's largest fund manager with assets of more than ISK 380 billion under active management. Stefir has 20 employees with extensive experience of work in financial markets.

Stefir 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 Stefir, parties that service and participate in the operations of Stefir, 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. Stefir 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 company's board of directors has devised a risk strategy for the company.

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

All risk within Stefir's operations is identified and assessed regularly and a process to monitor and report these risks is in place. Stefir operates a strong control environment which utilizes policies, processes and systems to appropriate internal controls and risk mitigation. Stefir 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 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. Arion Bank is also the depositary of Stefir hf. and the financial statements of Stefir'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 Stefir and the funds managed by Stefir. 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.