



Asset Management Company

Financial Statements 2023

Stefnir hf.  
Borgartun 19  
105 Reykjavík

Reg. no. 700996-2479

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**In the case of any discrepancy between the English and the Icelandic texts, the Icelandic versions shall prevail and questions of interpretation will be addressed solely in the Icelandic language.**

# Report and endorsement of the board of directors and the managing director

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Stefnir hf. is an independent financial institution pursuant to the Financial Undertakings Act No. 161/2002. The company operates on the basis of an operating license from the Financial Supervisory Authority of the Central Bank of Iceland as a manager of UCITS pursuant to Act No. 116/2021 on Undertakings for Collective Investment in Transferable Securities (UCITS) and as an alternative investment fund manager pursuant to Act No. 45/2020 on Alternative Investment Fund Managers. The company's operating license also applies to asset management, investment advice, and the custody and management of unit shares or shares in funds for collective investment.

Stefnir is a well-established Icelandic fund manager with assets of approximately ISK 247 billion under active management. Stefnir is a subsidiary of Arion Bank hf. and an associated company, and the A-part of the Financial Statements is part of the Consolidated Financial Statements of the Bank and its subsidiaries.

The Financial Statements of the company are divided in two: part A which includes the Financial Statements of Stefnir hf. and part B which includes the Financial Statements of UCITS, and alternative investment funds marketed towards the public. The Interim Financial Statements have been prepared in accordance with the Annual Accounts Act, the Financial Undertakings Act and the rules of the Financial Supervisory Authority of the Central Bank of Iceland on the accounts of UCITS management companies and alternative investment fund managers.

## Operations during the year

The company reported earnings of ISK 1,095 million in the year according to the income statement. The company's equity at the end of the year was approximately ISK 2,874 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 61.7%, the minimum allowed by law being 8.0%.

At the beginning and end of the year, the company's share capital was ISK 43.5 million and was entirely owned by Arion Bank hf. and a related company.

## Highlights of 2023

Stefnir's annual general meeting was held on 16 March 2023 and a resolution was passed to pay a dividend of ISK 1,250 million to the shareholders. The following people sit on the company's board of directors: Sigrún Ragna Ólafsdóttir, chairwoman, Guðmundur Jóhann Jónsson and Hrefna Ösp Sigfinnsdóttir. The company also has an audit and risk committee, and a remuneration committee. The managing director of Stefnir is Jón Finnbogason

The board of directors of Stefnir has proposed at its AGM that a dividend for 2023 be paid amounting to ISK 1,000 million.

The securities markets were rather volatile in 2023. In an effort to stem inflation, the Central Bank of Iceland raised its base rates by 3.35 points in 2023, from 6% to 9.25%. In 2022 the Bank had raised its base rates by 4 points, from 2% to 6%. Yields on government bonds, which form the basis for pricing interest rates in the bond market, underwent substantial change in 2022 and this trend continued in 2023. The yield on indexed government bond series RIKS 37 0115 and RIKS 26 0216 climbed by 0.66% and 1.69%, ending at 2.53% and 3.57%. These significant price swings on the bond market also had an impact on the domestic equities market.

The OMXI 10 index slumped 18.1% between the beginning of the year until 9. November. It then staged a remarkable recovery in the final few weeks of the year, ending the year in almost the same place as it started. It was a different story for the international markets, which enjoyed an excellent year, and markets on both sides of the Atlantic ended the year well up. This is clearly reflected in the price of Katla Fund – Global Equity which gained 24% in 2023, 2 points higher than the MSCI.

Stefnir's newest credit fund, SÍL hs, was fully invested at year end and all the fund's commitments had been called in, ISK 7 billion.

During the year SÍA III slhf, an alternative investment fund managed by Stefnir, sold its entire holding in the Icelandic software company Men & Mice ehf. to the international company BlueCat Networks. SÍA III slhf. owned its share via MM Holdings ehf. and the fund acquired a 93% stake in the company in 2019. SÍA III slhf. also sold its share in Lyfja hf. to Festi hf. SÍA III slhf. was a 70% shareholder in Lyfja hf. via its subsidiary SID ehf. In the transaction the enterprise value of Lyfja hf. was estimated at ISK 7.8 billion, but the final purchase price of the share capital will be determined by the company's debt position at the time of handover, plus the share price in Festi hf. at the time. SÍA III slhf.'s transaction with the shareholding in Lyfja hf. is being reviewed by the Icelandic Competition Authority.

# Report and endorsement of the Board of Directors and the Managing Director, cont.

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## **Performance of assets under management**

Assets under management decreased by approximately ISK 14 billion, from approximately ISK 261 billion at the beginning of 2023 to approximately ISK 247 billion at the end of 2023. However, assets amounting to approximately ISK 16 billion were distributed to the owners of the companies of SÍA III slhf., a company classed as co-investors with SÍA III slhf, and to the owners of SRL slhf. Assets under management are well distributed between asset classes and the Stefnr's revenue structure is in line with the board's objectives.

## **Non-financial information, responsible investment, corporate governance and risk management**

Stefnr's role is to manage its clients' assets as best serves their interests. Responsible and diverse investment options and thorough disclosure of information are central to the corporate social responsibility that Stefnr aspires to maintain. By paying due attention to environmental and social issues and good corporate governance we believe the company can have a positive influence on our society, to the benefit of fund members and other stakeholders. Non-financial reporting pursuant to Article 66 d of Act No. 3/2006 can be seen on Stefnr's website, and Stefnr records non-financial information in accordance with the Nasdaq ESG reporting guide which can be found on its website <https://www.nasdaq.com/ESG-Guide>.

The board of directors of Stefnr adopted a policy on responsible investments and we are continuously integrating it into the investment process and asset allocation. Every year Stefnr submits a progress report to PRI (UN Principles for Responsible Investment), the largest international forum for responsible investment.

Stefnr has signed a declaration of intent on investment for a sustainable recovery. Financial resources are critical for shaping the business sector and creating jobs in the period of recovery which lies ahead. Decisions taken today will have a profound impact on developments in the next few years and it is therefore important that sustainability is central to the process. By carefully planning how to invest capital it is possible to foster sustainable development, while at the same time making countries more competitive and safeguarding the future for the next generation.

Risk management and active internal control are mainstays of the responsible operation of a fund management company. The board of directors of Stefnr has mapped the company's risk management environment. The risks facing the company have been systematically analyzed and measured, and the board is regularly informed of matters relating to risk management and internal control. Measures to manage and mitigate possible risk factors are vital to safeguard the operational security of the company. The board of directors of Stefnr has approved a risk management policy and it concerns the risk management of assets and portfolios of UCITS and alternative investment funds marketed towards the public. The company has defined its risk appetite and the board of directors monitors the key performance indicators on a regular basis.

The board of directors of Stefnr is committed to good corporate governance and endeavours to promote responsible behaviour and corporate culture within Stefnr for the benefit of all the company's stakeholders.

In 2012 Stefnr was the first Icelandic company to be recognized for "Excellence in good corporate governance" by the Center for Corporate Governance. The company is continuously working on improving and developing corporate governance and re-attaining this recognition on a regular basis is part of this effort.

## **Outlook, risk factors and events after the reporting period**

The outlook for Stefnr is generally bright. The interest rate environment has an impact on the company's operations, but the diversified asset composition and broad revenue base reduces the likelihood of volatility in the company's financial performance. Stefnr has demonstrated the ability to adapt to the changing business environment and also benefits from economies of scale in its business. The outlook is considered positive, although uncertainties linked to the development of the markets domestically and internationally, market volatility, and various other external factors exist in the short and long term.

# Report and endorsement of the Board of Directors and the Managing Director, cont.

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At the beginning of February, the alternative investment fund SRE III slhf. which was set up to hold the entire shareholding of Heimstaden ehf. received non-binding commitments from 12 pension funds for shares in the fund amounting to ISK 40 billion. The fund is intended to run a sustainable leasing company which is able to support necessary housing construction over the next few years. No impact on operations has materialized thus far due to the operation of SRE III slhf. with the exception of outlays on the part of Stefnr.

Following a comprehensive assessment of Stefnr funds' ownership of Housing Financing Fund (HFF) bonds issued by the HFF, the funds took part in switch auctions held by the HFF in December 2023 and February 2024 in return for indexed treasury notes. Funds managed by Stefnr which owned HFF bonds have now sold them all, and funds managed by Stefnr did not own any HFF bonds when these financial statements were signed. Therefore there is no issuer risk associated with the HFF in funds managed by Stefnr.

Stefnr was party to legal action on behalf of Stefnr - Balanced Fund against Gamma Capital Management hf. which is discussed in Stefnr's financial information. The case was dismissed by Reykjavík District Court at the beginning of February 2024. Stefnr is paying the proportional cost of taking part in the legal action. No decision has been made concerning any further legal action.

## **Endorsement of the Board of Directors and the Managing Director**

These Annual Financial Statements have been prepared in accordance with the Annuals Account Act, the Financial Undertakings Act and the rules of the Financial Supervisory Authority on the annual accounts of UCITS management companies, alternative investment fund managers, UCITS and investment funds. To the best knowledge of the board of directors and managing director, it is our opinion that the annual financial statements give a clear picture of the company's operating results in 2023, its assets, liabilities and financial position as of 31 December 2023 and cash flows during the year. The company's board of directors and managing director have today discussed the company's annual financial statements for 2023 and confirm them by means of their electronic signatures.

Reykjavik, 21 February 2024.

## **The Board of Directors:**

Sigrún Ragna Ólafsdóttir, chairman of the board  
Guðmundur Jóhann Jónsson, board member  
Hrefna Ösp Sigfinnsdóttir, board member

## **Managing Director:**

Jón Finnbogason

# Independent Auditors' Report

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**To the Board of Directors and the Shareholders of Stefnir hf.**

## **Opinion**

We have audited the financial statements of Stefnir hf. for the year ended December 31, 2023 which comprise the statement of income, the statement of financial position, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Stefnir hf. as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with the Icelandic Financial Statement Act, Act on Financial Undertakings and the rules of the Financial Supervisory Authority on the annual accounts of UCITS management companies, alternative investment fund managers, UCITS and investment funds.

## **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Stefnir hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Other information**

The Board of Directors and the CEO are responsible for the other information. The other information comprises of the report of Board of Directors and Corporate governance statement.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. Except from the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

## **Responsibilities of the Board of Directors and the CEO for the Financial Statements**

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic Financial Statement Act, Act on Financial Undertakings and the rules of the Financial Supervisory Authority on the annual accounts of UCITS management companies, alternative investment fund managers, UCITS and investment funds, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing Stefnir hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors shall supervise the preparation and presentation of the financial statements.

# Independent Auditors' Report, cont.

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## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Stefir hf.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Kópavogur, 21 February 2024

**Deloitte ehf.**

Gunnar Þorvarðarson  
State Authorized Public Accountant

The Financial Statements of Stefir hf. for the year 2023 is electronically certificated by the auditor.

# Statement of Income

## for the year 2023

	Note	2023	2022
<b>Operating income</b>			
Management and performance based fees .....	5	2,704,796	2,944,067
Financial income .....	11	185,408	55,651
Operating income		2,890,204	2,999,718
Financial expense .....	10	( 14,835)	( 59,614)
Net operating income		2,875,369	2,940,104
<b>Operating expense</b>			
Salaries and related expense .....	12	829,716	702,414
Service commissions to Arion bank hf. ....		432,646	456,564
Other expense .....		227,268	214,095
Operating expense		1,489,630	1,373,073
<b>Earnings before tax .....</b>		1,385,739	1,567,031
Income tax .....	15	( 290,801)	( 334,272)
<b>Net earnings .....</b>	19	1,094,938	1,232,759



# Statement of Financial Position

## as at 31 December 2023

	Note	31.12.2023	31.12.2022
<b>Assets</b>			
Securities with fixed income .....		0	113
Securities with variable income .....		1,078,982	1,335,087
Total Securities	6, 16	1,078,982	1,335,200
Accounts receivables .....	8	1,843,725	1,472,911
Receivable from related entities .....		0	16,786
Receivable from related parties .....		173,405	183,025
Total Receivables		2,017,130	1,672,722
Cash and cash equivalents .....	9	875,483	1,113,453
Other assets .....		10,090	12,459
Total Other Assets		885,573	1,125,912
<b>Total Assets</b>		<b>3,981,685</b>	<b>4,133,834</b>
<b>Equity</b>			
Share capital .....		43,500	43,500
Statutory reserve .....		10,875	10,875
Other reserves .....		173,165	201,202
Retained earnings .....		2,646,274	2,766,617
Total Equity	19	2,873,814	3,022,194
<b>Liabilities</b>			
Deferred tax liabilities.....		19,883	18,457
Accounts payable .....		20,970	7,541
Accounts payable to related entities .....		63,847	67,077
Tax liabilities .....	20	289,020	337,161
Other liabilities .....		714,152	681,404
Total liabilities		1,107,872	1,111,640
<b>Total Equity and Liabilities</b>		<b>3,981,686</b>	<b>4,133,834</b>

# Statement of Cash Flows

## for the year 2023

	Note	2023	2022
<b>Cash flows from operating activities</b>			
Net earnings .....	19	1,094,938	1,232,759
Non-cash items included in net earnings:			
Valuation changes of securities .....	(	83,100)	46,575
Income tax recognised in profit or loss .....		290,802	334,272
		<u>1,302,640</u>	<u>1,613,606</u>
Changes in operating assets and liabilities .....	(	292,412)	312,561
Income tax paid .....	20	( 337,516)	( 482,944)
Net cash from operating activities		<u>672,712</u>	<u>1,443,223</u>
<b>Investing activities</b>			
Change in Securities with variable income .....		339,150	1,108,483
Change in Securities with fixed income .....		168	3,472
Investing activities		<u>339,318</u>	<u>1,111,955</u>
<b>Finance activities</b>			
Dividend paid .....	19	( 1,250,000)	( 1,456,000)
Finance activities		<u>( 1,250,000)</u>	<u>( 1,456,000)</u>
<b>Net change in cash and cash equivalents .....</b>		<b>( 237,970)</b>	<b>1,099,178</b>
<b>Cash and cash equivalents at the beginning of the year .....</b>		<b>1,113,453</b>	<b>14,275</b>
<b>Cash and cash equivalents at the end of the year .....</b>	9	<b><u>875,483</u></b>	<b><u>1,113,453</u></b>

# Notes to the Financial Statements

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## Accounting policies

### 1. General information

Stefnir hf. is a limited liability entity and operates in accordance with Act. 2/1995 on Limited Liability Companies and Act. 161/2002 on Financial Undertakings. The address of Stefnir's registered office is at Borgartún 19, Reykjavík and its ID no. is 700996-2479.

Stefnir is a subsidiary of Arion Bank hf., ID no. 581008-0150, Borgartún 19, Reykjavík.

### 2. Financial risk management at the company

Risk management and active internal control are mainstays of the responsible operation of a fund management company. Potential risks are analyzed thoroughly and we work methodically to strengthen the entire structure of the management company.

The operation of Part B funds involves various risks, such as the impact of changes in the price of financial instruments, foreign currencies, the liquidity of debtors and interest rate changes. The risk management of the funds focuses on actions designed to manage these risks. Fund managers seek to manage risk by actively managing financial instruments where applicable. Further information on financial risk factors can be found in the prospectuses on the company's website.

### 3. Basis of preparation

The Financial Statements of Stefnir hf. are prepared in accordance with law on Financial Statements, law on Financial Undertakings, law on Mutual Funds and the rules of the Financial Supervisory Authority on the annual accounts of UCITS management companies, alternative investment fund managers, UCITS and investment funds. The Financial Statements are prepared on the historical cost basis except for Securities that are valued at fair value. The Financial Statements are presented in Icelandic króna (ISK), rounded to the nearest thousand unless otherwise stated.

The Financial Statements of Stefnir hf. are part of the Consolidated Financial Statements for the parent company with information on operations and financial position of the Consolidated company.

### 4. Use of estimates and judgements

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses in the Financial Statements presented. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the Financial Statements.

### 5. Management and performance based fees

The company earns asset management fees for the operations of Stefnir's securities funds, alternative investment funds marketed towards the public and other alternative investment funds. The fee is a fixed percentage of the net assets, total assets or subscriptions of each fund and includes the following operating expenses of the funds; salaries of the employees of the operating company, marketing and management. Additionally the company earns fees for the asset management of foreign funds that are in custody of foreign entities. Performance fees are earned if certain conditions are met.

### 6. Securities

#### a. Securities with variable income

Securities owned by the company are trading assets. Fund units and shares in special purpose entities are measured at cost at the end of the year. Listed fund units are measured at market value at the end of the year.

#### b. Securities with fixed income

Bonds that are listed on regulated securities market which is active and price generating are measured at market price at each time. The expression "active and price generating" means that the closing price of a bond is not based on old trades, trading with an insignificant portion of the total issuance or does not reflect the fair value of the bond as valued by specialists. If the issuer of a bond is expected to default, the bond is valued at the expected recoverable amount taking into account priority order of claims.

A bond where the issuer is deemed viable but is not listed on an active and price generating securities market is measured at present value of future cash flow. The choice of yield curve used for each bond is based on general risk and the circumstances on the market at the end of the year.

# Notes to the Financial Statements, cont.

## b. Securities with fixed income, cont.

For a bond where the issuer is not deemed viable the methods described above are deviated from and the bond is measured at expected recovery value and no interest income is realised. The estimate of expected recovery value takes into account the experience of the recovery from similar issuers, the financial statements of the issuer and statements issued by it. If the issuer is in administration, has defaulted or stated that payments of the bond will not be made the expected recovery is measured 0-1% and the bond entered into a collection process. If new information is received from issuers that have previously been fully provisioned for, the bond is re-valued, which might change the valuation of the bond to higher value. Due to significant uncertainty about the valuation of bonds the final recovery might vary considerably from the valuation at the end of the year.

## 7. Foreign currency transactions

Transactions in foreign currencies are translated to Icelandic króna at exchange rates at the dates of transactions, according to Reuter. Assets and liabilities denominated in foreign currency are translated at exchange rate at the end of the year.

Net foreign assets at 31 December 2023 amount to ISK 644 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets .....	643,858	164	78	0
Liabilities .....	0	0	0	0
Net balance 31.12.2023 .....	643,858	164	78	0
Net balance 31.12.2022 .....	699,468	61	291	0
Exchange rate of ISK 31.12.2023 .....	150.13	135.82	172.97	
Exchange rate of ISK 31.12.2022 .....	151.50	141.80	170.84	

## 8. Receivables

Receivables are measured at nominal value deducted by impairment.

## 9. Cash

Cash consists of cash and deposits with credit institutions.

## 10. Tax assets / liabilities

The calculation of deferred tax asset / liability is based on the difference between Statement of Financial Position items as presented in the tax return on the one hand, and in the Financial Statements on the other. This difference is due to the fact that tax assessments are based on premises that differ from those governing the Financial Statements, mostly because of time difference in impairment of securities and foreign exchange gain and loss are distributed over three years in the tax return.

## 11. Net financial income / (expense)

2023

2022

Net financial income / (expense) is specified as follows:

Valuation change in securities assets .....	97,222	(	59,540)	
Foreign exchange gain (loss) .....	(	14,798)	27,934	
Dividend received .....	0		1,725	
Interest income .....	88,186		25,992	
Interest expense .....	(	37)	(	74)
Net financial income / (expense) .....	170,573	(	3,963)	

# Notes to the Financial Statements, cont.

<b>12. Salaries and related expenses and personnel</b>	<b>2023</b>	<b>2022</b>
Salaries .....	633,715	538,540
Share-based payment expenses .....	6,681	6,933
Salary related expenses .....	189,320	156,941
Salaries and related expenses .....	829,716	702,414
Number of employees at the end of the year. ....	24	23
Average number of employees during the year. ....	23	22

At the annual general meeting of Arion Bank on 16 March 2022, the board of directors of the Bank was authorized to make changes to the Bank's share option scheme and it was expanded to include employees of Stefmir. Costs relating to the share option scheme amount to ISK 6.7 million in 2023 (6.9 million in 2022). Please refer to the annual and/or interim financial statements of Arion Bank for further information on the share option scheme.

Compensation of the key management personnel:

Jón Finnbogason, Managing Director .....	42,192	24,000
Sigrún Ragna Ólafsdóttir, Chairman of the Board .....	10,193	9,422
Guðmundur Jóhann Jónsson, Board-member .....	3,210	2,274
Hrefna Ösp Sigfinnsdóttir, Board-member .....	5,881	210
Jóhann G. Möller, former Managing Director .....	0	17,020
Jón Óttar Birgisson, former Vice-Chairman of the Board .....	0	4,476
Guðfinna Helgadóttir, former Board-member .....	0	1,101
Total remuneration .....	61,476	58,503

Salary and salary related expenses of ISK 4.8 million were expensed in the year of 2023 in respect of the resignation of former employees. (ISK 51.1 million in 2022 in respect of the resignation of former employees.)

Remuneration to five managers was total ISK 138.1 million in the year of 2023 (ISK 118.7 million to four managers in the year of 2022).

The Board of Stefmir has set rules for bonus payments in accordance with rules set by the Financial Supervisory Authority no. 388/2016 which have been confirmed by the FSA. An estimated performance plan payment to be paid for the year 2023 amounts to ISK 87 million, including salary related expense (ISK 68.6 million in 2022). Forty percent of the payment is deferred for three years if it exceeds 10% of the employee's annual salary without any bonus payments in accordance with FME rules on remuneration policy for financial undertakings. At the end of the year the company's accrual for performance plan payments amounts to ISK 245.6 million (ISK 170.2 million in the end of 2022).

<b>13. Audit expense</b>	<b>2023</b>	<b>2022</b>
Audit of annual accounts .....	17,578	16,024
Review of the interim accounts .....	4,582	4,210
Other audit services .....	2,421	1,980
Total Audit expense .....	24,581	22,214

## 14. Leases

An agreement is in place between Stefmir hf. and Arion Bank hf. on the leasing of commercial property. The agreement was signed in December 2012. The leased office space is located on the third floor of Borgartún 19. According to the agreement the lease period is indefinite and there is no period of notice.

The lease pursuant to the agreement amounted to ISK 26.4 million in the year 2023. The lease is expensed under other operating expenses in the company's income statement. The corresponding payment in 2022 amounted to ISK 24.2 million.

# Notes to the Financial Statements, cont.

15. Income tax expense	2023	2022
Current tax expense .....	289,020	337,161
Prior year correction .....	355 (	2,231)
Deferred tax expense .....	1,426 (	658)
Total Income tax expense .....	290,801	334,272

16. Securities	31.12.2023	31.12.2022
Securities with variable income are specified as follows:		
Fund units issued by funds operated by Stefir hf. ....	876,323	1,093,690
Shares in investment companies .....	202,659	241,393
Shares in companies .....	0	4
	1,078,982	1,335,087
Securities with fixed income are specified as follows:		
Unlisted:		
Issued by others .....	0	113
	0	113
Securities total .....	1,078,982	1,335,200

## 17. Related parties

Stefir hf. has a related party relationship with the parent company, Arion Bank hf. and its subsidiaries and associates, funds under management, The Board of Directors and key management personnel at Stefir.

No unusual transaction took place with related parties during the year. Transaction with related parties have been conducted on an arm's length basis.

Stefir pays Arion Bank for custody services, in addition Stefir has outsourced activities to Arion Bank, with the approval of the Financial Supervisory Authority. The main outsourced tasks are outsourcing of internal auditing, compliance, IT services, accounting and settlement services, specific tasks to the Commercial Banking division and other activities.

### Transactions with related parties 2023

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated .....	52,698	551,392	875,483	63,847
Funds in operation .....	2,004,695	0	173,405	0
	2,057,393	551,392	1,048,888	63,847

### Transactions with related parties 2022

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated .....	65,964	586,949	1,130,240	67,077
Funds in operation .....	2,353,016	0	183,025	0
	2,418,980	586,949	1,313,265	67,077

## 18. Assets under Management

Assets under Management in funds in operation by Stefir at the end of the year amount to ISK 247 billions compared to ISK 261 billions at year end 2022.

# Notes to the Financial Statements, cont.

## 19. Equity

- a. Share capital amounts to ISK 43.5 million at year end, unchanged from year end 2022, with par value of ISK 1 per share.
- b. Changes in equity are specified as follows:

	Share capital	Statutory reserve	Fair value equity reserve	Retained earnings	Total
Equity 1.1.2022 .....	43,500	10,875	276,880	2,907,247	3,238,502
Dividend paid .....	0	0	0	( 1,456,000)	( 1,456,000)
Net earnings .....	0	0	0	1,232,759	1,232,759
Fair value equity reserve ....	0	0	( 82,611)	82,611	0
Share-based salary reserve	0	0	6,933	0	6,933
Equity 31.12.2022 .....	43,500	10,875	201,202	2,766,617	3,022,194
Equity 1.1.2023 .....	43,500	10,875	201,202	2,766,617	3,022,194
Dividend paid .....	0	0	0	( 1,250,000)	( 1,250,000)
Net earnings .....	0	0	0	1,094,938	1,094,938
Fair value equity reserve ....	0	0	( 30,728)	30,728	0
Share-based salary reserve			2,691	3,991	6,682
Equity 31.12.2023 .....	43,500	10,875	173,165	2,646,274	2,873,814

According to the Financial Statements Act No. 3/2006 fair value changes of financial assets from the initial reporting, shall be transferred from retained earnings to a fair value equity reserve, net of tax. The fair value equity reserve is not subject to dividend payments. The fair value equity reserve shall be released in accordance with fair value changes recognized when financial asset is sold or redeemed or the assumptions for the fair value change is no longer in force.

- c. Return on assets, presented as the ratio between net earnings and the average balance of assets according to the Balance Sheet, was 27.0% in 2023. Return on assets in 2022 was 28.9%.
- d. Equity at end of the year is ISK 2,874 million or 72.2% of total assets.  
The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 61.7%, exceeding the minimum legal requirement of 8%.

The ratio is calculated as follows:

	31.12.2023	31.12.2022
Total equity .....	2,873,814	3,022,194
Total own funds for solvency purposes .....	2,873,814	3,022,194
Total capital requirements are specified as follows:		
Credit risk .....	270,610	268,508
Market risk .....	51,528	55,986
Capital requirement .....	322,138	324,494
Capital requirement due to fixed overheads .....	372,408	343,268
Capital adequacy ratio .....	61.7%	70.4%

# Notes to the Financial Statements, cont.

<b>20. Tax assets (liabilities)</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
Changes in tax assets and liabilities are specified as follows:		
Tax assets at the beginning of the year .....	( 355,618)	( 504,290)
Reassessment of taxes for the previous year .....	( 355)	2,231
Income tax recognised in Statement of Income .....	( 269,903)	( 304,851)
Additional 6% tax recognised in Statement of Income .....	( 20,543)	( 31,652)
Income tax paid .....	337,516	482,944
Net tax assets (liabilities) at the end of the year .....	( 308,903)	( 355,618)
Specified as follows:		
Current tax .....	( 268,477)	( 305,509)
Additional 6% tax on financial institution .....	( 20,543)	( 31,652)
Deferred tax assets (liabilities) .....	( 19,883)	( 18,457)
Net tax assets (liabilities) at the end of the year .....	( 308,903)	( 355,618)
Deferred tax assets are attributable to the following:		
Deferred foreign exchange gain and loss .....	111	( 1,751)
Provision .....	( 19,994)	( 16,706)
Deferred tax assets (liabilities) at the end of the year .....	( 19,883)	( 18,457)
Tax liabilities are attributable to the following:		
Income tax using the Icelandic corporation tax rate .....	268,477	305,509
Additional 6% tax on financial institutions .....	20,543	31,652
Tax liabilities at the end of the year .....	289,020	337,161
<b>21. Shareholders of Stefmir hf.</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
Shareholders of Stefmir hf. with shareholding exceeding 1% of issued share capital:		
Arion banki hf. ....	99.93%	99.93%
Shareholders of Arion banki hf.:		
Gildi Pension fund .....	9.85%	9.85%
LSR - the Pension Fund for Icelandic State Employees .....	9.62%	9.63%
Pension Fund of Commerce .....	9.02%	9.30%
Stoðir hf. ....	5.38%	5.38%
Brú Pension fund .....	4.34%	4.00%
Vanguard .....	3.91%	3.96%
Birta Pension fund .....	3.58%	3.60%
Frjálsi Pension fund .....	3.55%	3.44%
Stapi Pension fund .....	2.85%	3.16%
Hvalur hf. ....	2.52%	2.52%
Festa Pension fund .....	2.38%	2.20%
Stefmir funds .....	2.30%	2.67%
Íslandsbanki hf. ....	2.24%	2.25%
Kvika banki hf. ....	1.66%	1.50%
Almenni Pension fund .....	1.52%	1.52%
Lífsværk Pension fund .....	1.23%	1.18%
Sjóvá Insurance .....	1.09%	1.17%
Landsbankinn hf. ....	1.06%	1.22%
Landsbréf hf. ....	0.98%	1.21%
Arion banki hf. ....	0.95%	0.95%
Other .....	29.97%	29.29%
	100.00%	100.00%



# Corporate Governance Statement of Stefnr hf. 2024

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## Introduction

The board of directors of Stefnr hf. believes that good corporate governance is a key factor behind Stefnr'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 the general public. Good corporate governance also enables the board to perform its monitoring duties effectively.

This corporate governance statement by Stefnr 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 with reference to Article 66 c. of the Annual Accounts Act No. 3/2006. The Guidelines on Corporate Governance, 6th edition, issued by the Icelandic Chamber of Commerce, SA – Business Iceland, and Nasdaq Iceland hf. and the OECD's Principles of Corporate Governance from 2015 were used as a reference when Stefnr hf.'s corporate governance statement was written. The Guidelines on Corporate Governance can be seen at [leidbeiningar.is](http://leidbeiningar.is) and the OECD's Principles of Corporate Governance can be seen here <https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>.

In 2012 Stefnr was the first Icelandic company to be recognized for "Excellence in good corporate governance." This recognition was first awarded by the Center for Corporate Governance at the University of Iceland and is based on an audit performed by KPMG. Stefnr has since been recognized in this way on repeated occasions and therefore remains a model company in good corporate governance in Iceland.

Stefnr hf. is an independent financial institution pursuant to the Financial Undertakings Act No. 161/2002. The company operates on the basis of an operating license from the Financial Supervisory Authority of the Central Bank of Iceland as a manager of UCITS pursuant to Act No. 116/2021 on Undertakings for Collective Investment in Transferable Securities (UCITS) and as an alternative investment fund manager pursuant to Act No. 45/2020 on Alternative Investment Fund Managers. The company's operating license also applies to asset management, investment advice, and the custody and management of unit shares or shares in funds for collective investment. Stefnr has assets of ISK 247 billion under fund management at the end of 2023. Stefnr has 24 employees with a diverse range of expertise and experience from the domestic and international financial markets.

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

The company's operations are subject to an operating license issued by the Financial Authority of the Central Bank of Iceland. The company's operations are governed by acts of law including the Financial Undertakings Act No. 161/2002, the UCITS Act No. 116/2021, and the Alternative Investment Fund Managers Act No. 45/2020. Stefnr is supervised by the Financial Authority of the Central Bank of Iceland under the Official Supervision of Financial Operations Act No. 87/1998.

## Main features of internal controls, risk management and accounting

Risk management and active internal control are mainstays of the responsible operation of a fund management company. The board confirmed the company's risk policy at the end of 2023. The risk policy states:

"Risk in the company's operations shall be identified, quantified, measured and monitored according to the criteria established in the business at any given time. The risk appetite of the board of directors of Stefnr shall be communicated to the employees and be integral the process of informed decision-making at the company."

By setting out a clear risk policy the board wishes to encourage and support a corporate culture at Stefnr which is characterized by a keen sense of risk awareness.

The company's risk appetite has been defined and this work was based on international models which were adapted to Icelandic conditions and the company. The company's auditing and risk committee helped to define the risk appetite and tolerance limits. The board of directors of Stefnr will review the company's risk appetite on an annual basis to take into account changes in the company's internal and external environment.

# Corporate Governance Statement, cont.

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The Risk Officer of Stefir is responsible for analyzing and assessing the company's financial risks and operating risks. The Risk Officer takes an active part in formulating the risk policy and risk appetite and is involved in major decisions on risk management. Compliance, Internal Audit and the Risk Officer regularly report the results of their assessments to the board of directors of Stefir and the audit and risk committee. All supervisory measures are documented and regularly assessed by the persons responsible for monitoring risk, e.g. the risk officer. The audit and risk committee is informed of the progress of these measures. Compliance and Internal Audit functions are outsourced with the permission of the Financial Authority of the Central Bank of Iceland to Arion Bank and they work in accordance with a charter from the board of directors of Stefir.

The structure and organization of corporate governance are vital tools for the effective management of the company, the separation of different business units and the prevention of conflicts of interest. Corporate governance at Stefir has been assessed and the board of directors is of the opinion that the company operates in accordance with the standards set out there concerning best practice in internal corporate governance.

Stefir has 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 the board and employees and implies that the company will take all available measures to prevent conflicts of interest from damaging the interests of fund members. An extract of the policy and other rules designed to prevent conflicts of interest, e.g. rules on securities trading by employees of Stefir, can be found on the company's website.

The company's accounting is the responsibility of Arion Bank's finance division. The Financial Authority of the Central Bank of Iceland has authorized the outsourcing of this task. Arion Bank is also the depositary of Stefir hf. and the price calculations of funds managed by Stefir are the responsibility of the Bank. The audit and risk committee examines the company's 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 Deloitte.

## **Values and social responsibility**

In the strategic planning completed in 2023, the Stefir's business focuses over the next few years were decided. The board of directors and employees actively participated in this task, and numerous key performance indicators were set which are designed to support and strengthen Stefir as the leading fund manager in Iceland.

The values decided upon in the strategic planning by the board and employees in 2022 are professional, forward-thinking and responsible. The sentence "Together we create valuable opportunities by being forward-thinking and acting responsibly" is a good description of the power of teamwork which prevails in the company, where we look to the future responsibly, guided by the interests of our clients.

The company's core value is "United in a strong team" which describes the company's overall sense of teamwork.

The board of directors approved the code of ethics in 2022 which reflects the ethical standards according to which the board and employees work. Other benchmarks can be found in employment agreements, the conflicts of interest policy and the board of directors' rules of procedure.

A policy on sustainability and social responsibility was approved by the board in 2023. The policy describes Stefir's sustainability focuses in the long term and how the company adopts sustainability in its business and managing financial assets pursuant to the company's fiduciary duty. The policy can be viewed on Stefir's website.

The company's policy on diversity, equality and participation, which was approved in 2023, sets out the criteria the board has established with respect to diversity and equality.

Stefir is a signatory to the Principles for Responsible Investment and undertakes to provide information on how it takes into account environmental, social and governance issues when managing its investments. The company is also one of the founding members of IcelandSIF, which was founded in 2017. IcelandSIF is an independent forum for discussion and education on responsible and sustainable investment.

# Corporate Governance Statement, cont.

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Stefnir has signed a declaration of intent on investment for a sustainable recovery. Financial resources are critical for shaping the business sector and creating jobs in this recovery. Responsible and diverse investment options and thorough disclosure of information are central to the corporate social responsibility that the company aspires to represent. The board of Stefnir has adopted a policy on responsible investment which applies to investments by funds managed by the company and how Stefnir can have a positive influence on our society, to the benefit of fund members and other stakeholders.

## Board of Directors

The board of directors of Stefnir has three 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. There were 16 board meetings during the year and there was a quorum present at every meeting. The board's standard procedures can be accessed on the company's website, as well as the company's articles of association.

The board of directors of Stefnir has two female and one male director. They all have a diverse background and education and broad experience of business and management. The board members are Sigrún Ragna Ólafsdóttir, chairwoman, Guðmundur Jóhann Jónsson, and Hrefna Ösp Sigfinnsdóttir.

**Sigrún Ragna** was born in 1963. Sigrún Ragna is self-employed and is the former CEO of VÍS and Mannvit. She was previously managing director of the finance division of Íslandsbanki and before that was a partner at Deloitte. Sigrún Ragna graduated in business administration from the University of Iceland and is a certified accountant. She has an MBA from Reykjavík University. Sigrún also serves on the board of Síminn where she is vice-chairwoman. Sigrún has no shared interests with Stefnir's main clients or competitors.

**Guðmundur Jóhann** was born in 1959. Guðmundur is self-employed and is the former CEO of Vörður. Guðmundur is also a board member of Útgerðarfélag Reykjavíkur hf., Fareind hf. and Stjórnborði ehf. Guðmundur is a business administration graduate from Seattle University. He gained an MBA from the University of Edinburgh and has completed the Advanced Management Program (AMP) from the IESE Business School. Guðmundur has no shared interests with Stefnir's main clients or competitors. The board has assessed Guðmundur as a non-independent board member according to its rules of procedure and chapter 2.3 of the Guidelines on Corporate Governance on account of his previous employment agreement with Vörður which is also a subsidiary of Arion Bank

**Hrefna Ösp** was born in 1969. Hrefna is the CEO of Creditinfo and former managing director of asset management at Landsbankinn. Hrefna is a board member of Coripharma Holding hf., Vaxandi fjárfestinga hf. and Styrktarsjóður Arnarskóla. Hrefna is a business administration graduate from the University of Iceland, is a licensed securities broker and has completed the Advanced Management Program (AMP) from IESE Business School. Hrefna has no shared interests with Stefnir's main clients or competitors.

The board members have not taken on any special tasks for the company, and the board's rules of procedure specifically address other tasks which board members can take on

Sigrún Ragna Ólafsdóttir has been chairwoman since August 2019, Guðmundur Jóhann Jónsson joined the board in May 2022 and Hrefna Ösp Sigfinnsdóttir joined the board in December 2022. Further information on board members at Stefnir can be found on the company's website.

## Board sub-committees

Stefnir operates an audit and risk committee. The committee is composed of board directors of Stefnir. The committee met eight times in during the operating year and a quorum was present on each occasion. Two 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. The committee's rules of procedure can be found on the company's website.

The board of directors of Stefnir also has a remuneration committee. As with the audit and risk committee, it is composed of board directors of the company. The committee met five times during the operating year and a quorum was present on each occasion. There is no nomination committee since Stefnir is fully owned by Arion Bank and a related company.

# Corporate Governance Statement, cont.

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## **The role of the board**

The role of the board of directors of Stefñir has been defined as follows:

*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 company is guided by the interests of clients, owners, employees and society as a whole when managing financial assets responsibly. There is an emphasis on high quality risk management and running a dependable and profitable business. 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 evaluates its own work and that of committees and the chairman on an annual basis and makes proposals for improvements. For the assessment the board uses an anonymous, digital questionnaire. The results of the assessment are then discussed at a board meeting and the board's proposals for improvements are assigned to people for completion. The key features of the board assessment are value creation and strategic planning, the board agenda and meetings, employees and culture, board composition, assessment of the chairperson, risk management and disclosure and other factors which are important in order for the board to reach its targets. The board examines the assessment, and this is specified in the minutes of the board meeting.

## **Managing director**

The company's managing director since 1 May 2022 is Jón Finnbogason, born 1973. Jón is a lawyer and a licensed securities broker. Jón has worked on the financial markets in a diverse range of management and specialist positions for 23 years. Jón was manager at Byr Savings Bank and later CEO of Byr hf. between 2009 and 2011, when he took over as assistant managing director of retail banking at Íslandsbanki, a position he held until 2013. He worked at Stefñir from 2003 to 2008 and again from 2013 to 2017 when he was head of the fixed income team and deputy managing director. Jón was credit officer at Arion Bank from 2017 to 2022. Jón is chairman of Fimleikasjóður Íslands. Jón has no shared interests with Stefñir's main clients or competitors.

Neither the managing director nor related parties own share or options in Stefñir, but the managing director and related parties do have shares and share option in Arion Bank, the parent company of Stefñir. The main duties of the managing director are to manage the day-to-day business of the company, implement strategy and follow the instructions given by the board of directors, cf. Article 68 (1) 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 carry out limited aspects of his duties.

## **The board's rules of procedure and communications between the shareholders and the board**

The board's rules of procedure are set with reference to 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 (FSA) and the company's articles of association, as well as the work undertaken in relation to the company's recognition as a model company in good corporate governance.

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 Stefñir's website.

## **Conclusion**

No judgments for punishable acts according to the Criminal Code, the Competition Act, Financial Undertakings Act 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.

Stefñir 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 share information accurately and easily with investors. The company's website performs an important role in this respect by publishing detailed information on all the Stefñir funds available to the public.

# EU Taxonomy Regulation

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**In 2023 new legislation was introduced in Iceland which requires Stefir hf. to disclose information in respect of EU Taxonomy. Information in accordance with the EU Taxonomy is being published for the first time in an unaudited annex to the Consolidated Financial Statements for 2023**

On June 1 2023 Act No. 25/2023 on sustainable finance disclosure and taxonomy for sustainable investment came into force. The act transposed into Icelandic law two EU regulations. Firstly, Regulation (EU) 2019/2088 of the European Parliament and of the Council on Sustainable Financial Disclosure (SFDR); and secondly Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Taxonomy Regulation).

The Taxonomy Regulation, which partly came into effect in the EU on 12 July 2020, and came fully into effect on 1 January 2023, establishes a harmonized European taxonomy with definitions of what is considered to be an *environmentally sustainable economic activity*.

The aims of the Taxonomy Regulation include reorienting capital flows towards sustainable investment, increasing transparency and consistency in companies' disclosure with respect to what activities can be considered environmentally sustainable and to combat greenwashing, which involves companies defining and marketing activities as sustainable without basic criteria having been met.

## **Eligible and environmentally sustainable activities**

An activity is considered to be eligible if it is defined in delegated EU regulations, established in the basis of the Taxonomy Regulation, on the technical screening criteria which the activity needs to fulfil in order to be considered environmentally sustainable according to the taxonomy. If the taxonomy applies to the activity, it is considered eligible. Eligibility does not, however, determine whether a particular activity is eligible, but just states that there are technical screening criteria for the activity which enable it to be analyzed in accordance with the taxonomy.

The Taxonomy Regulation covers six environmental objectives:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

The first delegated EU regulation no. 2021/2139 (the Delegated Climate Regulation) addresses the environmental objectives Climate change mitigation and climate change adaptation. The economic activity which the taxonomy covers now is any activity which is important for reducing greenhouse gas emissions and to increase resilience. Therefore, manufacturing, construction, energy and transportation are eligible economic activities under the regulation. Eventually, the taxonomy will apply to more economic activities and the other four environmental objectives. Delegated regulation (EU) 2023/2486 on these four environmental objectives came into force in the EU in December and is waiting to be implemented in Iceland.

In order for an economic activity to be considered environmentally sustainable it must be aligned with one of the six environmental objectives of the regulation but at the same time must do no significant harm to other objectives. This is to prevent an economic activity from being considered environmentally sustainable if it then does such harm to the environment that it outweighs the activity's contribution to the environmental objective. The activity also needed to be carried out in accordance with minimum safeguards which, among other things, address human rights, and to meet technical screening criteria.

# EU Taxonomy Regulation, cont.

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## Reporting on the taxonomy in 2023

From January 2022 companies operating on the EU market have been required to publish information on eligible assets in their annual financial statements. A year later the disclosure requirement was broadened so that companies, other than financial institutions, were required to publish key performance indicators in accordance with the entire regulation. From January 2024 onwards, financial institutions in Iceland and the EU have been required to publish information on environmentally sustainable assets. Financial institutions need data from their counterparties in order to publish their own key performance indicators on both eligible and environmentally sustainable activities, which explains the one-year delay in publishing KPIs for financial institutions. In Iceland the regulation did not come into force until 2023, meaning that Icelandic companies are publishing information in accordance with the taxonomy for the first time in 2024, unlike other companies in the EU which have been doing it in their annual financial statements since the 2021 financial year.

The taxonomy is still under development and gradually the scope of disclosure will increase and companies will get a better handle on disclosure in accordance with the Taxonomy Regulation.

On 18 January 2024, the register of annual accounts announced on its website limited exemptions from the requirement to publish information in suitable templates where relevant and/or reliable information does not exist. Since there is virtually zero experience in Iceland in disclosure relating to the EU Taxonomy and the data required to calculate KPIs is very limited.

## Companies within scope

There are approximately 300 companies in Iceland within the scope of the Taxonomy Directive and they are required to implement EU Taxonomy and disclose information on the taxonomy in the 2023 annual financial statements. These are companies which are required to publish non-financial information, cf. Article 66 d of the Annual Accounts Act, i.e. major companies, parent companies of major groups and public-interest entities, often called NFRD (1) companies. A list of Icelandic companies subject to these disclosure requirements was obtained from an analyst which manages such information. Part A of Stefni's annual accounts is part of Arion Bank's consolidated accounts. In the appendix of the consolidated financial statements, you can find detailed information in accordance with the EU taxonomy regulation.

## Implementation in Iceland and lack of necessary data

The provisions of Article 8 of the Taxonomy Regulation concern information which companies should disclose with respect to the taxonomy and these provisions are expanded on in the Disclosure Delegated Act No. 2021/2178. This describes in detail the methodology, subject matter and configuration of disclosure, plus a timeline for entry into force and implementation of the Regulation for credit institutions and other companies.

The implementation of the regulation is arranged so that companies can implement taxonomy disclosure in stages over a period of years. The Taxonomy Regulation entered into force in the EU on 12 July 2020 and implementation of the regulation is based on that date. In Iceland, however, the regulation came into force on 1 June 2023 and those companies required to disclose information with respect to the EU taxonomy will publish this information for the first time in 2024, i.e. for the 2023 annual financial statements. Companies operating in the EU have therefore published this information in their financial statements since 2021 and how it has been implemented therefore differs from the situation in Iceland.

This means that the data required, to calculate the EU Taxonomy alignment and to what extent Stefni's assets are considered environmentally sustainable, is largely not yet available.

(1) NFRD stands for Non-Financial Reporting Directive



# EU Taxonomy Regulation, cont.

## Off-balance sheet exposures

### Assets under management

Icelandic companies which come under the scope of the Taxonomy Regulation will publish their first figures on the proportion of environmentally sustainable turnover and capital expenditure in 2024 in the annual financial statement for 2023. Therefore, it was impossible for Stefnir to calculate the proportion of environmentally sustainable turnover and capital expenditure for their assets in domestic equities and bonds and domestic alternative investments.

Furthermore, no international equities fund or international alternative investment fund in asset portfolios of Stefnir's funds has published the eligibility or ratio of their environmentally sustainable assets. Reporting in accordance with the Taxonomy Regulation from the investment funds is expected in their annual financial statements for 2023.

Since the implementation of the Taxonomy Regulation commenced earlier for companies in the EU, those companies covered by the regulation have already reported their mitigation and adaptation to climate change. Therefore, is possible to estimate the eligibility and the proportion of environmentally sustainable turnover and capital expenditure for certain investments in individual foreign assets. Data on eligible and environmentally sustainable assets was obtained from Bloomberg.

Government bonds are not covered by the regulation so there is no disclosure requirement for them.

For the reasons given above the publication of KPIs for assets under management at Stefnir is limited for 2023.

	Gross carrying amount	Gross carrying amount*	EU Taxonomy eligible assets*	EU Taxonomy aligned assets**	EU Taxonomy aligned assets***
<b>Assets under management</b>	<b>247,419,275</b>	<b>143,058,273</b>	<b>2,954,535</b>	<b>174,807</b>	<b>128,402</b>
Of which debt securities	102,481,058	60,421,191	-	-	-
Of which equity instruments	144,938,217	82,637,083	2,954,535	174,807	128,402

\*Non-financial corporations (subject to NFDR disclosure obligations)

\*\*Based on the CapEx KPI of the counterparty

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