



Asset Management Company

Financial Statements 2022

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

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 260 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 on the accounts of UCITS management companies and alternative investment fund managers.

Operations during the year

The company reported earnings of ISK 1,232.8 million in the year according to the income statement. The company's equity at the end of the year was approximately ISK 3 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 70.4%, 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 2022

Stefnir's annual general meeting was held on 17 March 2022 and a resolution was passed to pay a dividend of ISK 1,456 million to the shareholders. The following people sit on the company's board of directors: Sigrún Ragna Ólafsdóttir, chairman, Guðmundur Jóhann Jónsson and Hrefna Ösp Sigfinnsdóttir. The board of directors operates an audit and risk committee. The managing director of Stefnir is Jón Finnbogason.

Assets under management decreased by approximately ISK 28 billion, from approximately ISK 288 billion to approximately ISK 260 billion. The decrease can partly be explained by negative investment returns due to uncertainty on the markets. The year was highly challenging across all asset classes on the securities markets. Out of all the funds publishing data on investment returns on Keldan, the best performing fund was Stefnir – Savings Fund which yielded a return of 4.15% in 2022. Despite the turbulence of the markets, the number of fund members at Stefnir increased by 5.5% as a result of focused market research and access to Stefnir funds via digital channels, which is where most trading in funds occurs nowadays. Assets under management are well distributed between asset classes and the company's revenue structure is in line with the board's objectives.

One of the company's main focuses is to develop products in response to the needs of clients. Stefnir founded four new funds during the year, two of which were for retail investors. Stefnir – Sustainable Arctic Fund focuses on sustainable equity investments in the Arctic. Stefnir – Icelandic Growth Fund Leveraged invests in domestic equity and can use leveraging and derivatives. Other funds include Stefnir – Multi Strategy Fund II which has broad investment authorizations and SÍL 2 which is an alternative fixed income fund. SÍL 2 completed its ISK 7 billion financing during the year and commenced operations in January 2023. Several important alternative investment milestones were reached during the year. The dissolving of SÍA I, Stefnir's oldest private equity fund, after the sale of the fund's remaining assets in Jarðboranir to a consortium of investors is one such milestone and the fund has generated 17% returns for its unit holders since it was established in 2011. A second milestone was the sale by SÍA III of Reykjavík Edition hotel.

The board of directors of Stefnir has submitted a proposal to its AGM that a dividend for 2022 be paid amounting to ISK 1,250 million. The board of directors is authorized to make further proposals on dividends at a shareholders' meeting and does not exclude the possibility that further dividend payments may be made later in the year.

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

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

Stefnir'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 Stefnir 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 the company's website, and Stefnir records non-financial information in accordance with the Nasdaq ESG reporting guide.

The board of directors of Stefnir adopted a policy on responsible investments and we are continuously integrating it into the investment process and asset allocation. The main aim of product development is to offer responsible investment options in response to the wishes of the company's clients. Every year Stefnir submits a progress report to PRI (UN Principles for Responsible Investment). All Stefnir employees and the board of directors take courses with PRI Academy which is the global leader in training on responsible investment.

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 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 Stefnir 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 the operational security of the company. The board of directors of Stefnir has adopted a risk management policy and it applies to 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 Stefnir is committed to good corporate governance and endeavours to promote responsible behaviour and corporate culture within Stefnir for the benefit of all the company's stakeholders.

Since 2012 Stefnir has been recognized as a company which has achieved excellence in corporate governance by the Center for Corporate Governance. The company is continuously working on maintaining and developing corporate governance and re-attaining this recognition on a regular basis is part of this effort.

Outlook

The outlook for Stefnir is bright. Public interest in funds as an investment option has grown and the Icelandic economy is generally in good health despite uncertainties internationally which could spread to Iceland. 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. Stefnir 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, while keeping in mind that various uncertain factors linked to market volatility are always in place in the short and long term.

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

Endorsement of the Board of Directors and the Managing Director

The Board of Directors and CEO of Stefir hf. hereby confirm the company's Consolidated Financial Statements for the year 2022 by means of their signatures.

Reykjavik, 22 February 2022.

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

To the Board of Directors Shareholders of Stefir hf

Opinion

We have audited the financial statements of Stefir hf. for the year ended December 31, 2022 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 Stefir hf. as at December 31, 2022, 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 Stefir 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

Management is 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 Management and Those Charged with Governance for the Financial Statements

Management is 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, management is responsible for assessing Stefir 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.

Those charged with governance are responsible for overseeing the Stefir hf.'s financial reporting process.

Independent Auditors' Report, cont.

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.

Reykjavik, 22 February 2022

Deloitte ehf.

Gunnar Þorvarðarson
State Authorized Public Accountant

Hugrún Arna Vigfúsardóttir
State Authorized Public Accountant

The Financial Statements of Stefir hf. Is electronically signed by the auditors.

Statement of Income

for the year 2022

	Note	2022	2021
Operating income			
Management and performance based fees	5	2,944,067	3,009,797
Financial income	11	55,651	333,157
Operating income		2,999,718	3,342,954
Financial expense	10	(59,614)	(29,621)
Net operating income		2,940,104	3,313,333
Operating expense			
Salaries and related expense	12	702,414	606,148
Service commissions to Arion bank hf.		456,564	410,476
Other expense		214,095	197,954
Operating expense		1,373,073	1,214,578
Earnings before tax		1,567,031	2,098,755
Income tax	15	(334,272)	(481,204)
Net earnings	19	1,232,759	1,617,551

Statement of Financial Position

as at 31 December 2022

	Note	31.12.2022	31.12.2021
Assets			
Securities with fixed income		113	3,177
Securities with variable income		1,335,087	2,490,551
Total Securities	6, 16	1,335,200	2,493,728
Accounts receivables	8	1,472,911	1,434,481
Receivable from related entities		16,786	54,329
Receivable from related parties		183,025	391,806
Total Receivables		1,672,722	1,880,616
Cash and cash equivalents	9	1,113,453	14,275
Other assets		12,459	13,835
Total Other Assets		1,125,912	28,110
Total Assets		4,133,834	4,402,454
Equity			
Share capital		43,500	43,500
Statutory reserve		10,875	10,875
Other reserves		201,202	276,880
Retained earnings		2,766,617	2,907,247
Total Equity	19	3,022,194	3,238,502
Liabilities			
Deferred tax liabilities.....		18,457	19,115
Accounts payable		7,541	18,909
Accounts payable to related entities		67,077	50,531
Tax liabilities	20	337,161	485,175
Other liabilities		681,404	590,222
Total liabilities		1,111,640	1,163,952
Total Equity and Liabilities		4,133,834	4,402,454

Statement of Cash Flows

for the year 2022

	Note	2022	2021
Cash flows from operating activities			
Net earnings	19	1,232,759	1,617,551
Non-cash items included in net earnings:			
Valuation changes of securities		46,575	(304,954)
Income tax recognised in profit or loss		334,272	480,530
		<u>1,613,606</u>	<u>1,793,127</u>
Changes in operating assets and liabilities		312,561	(372,960)
Income tax paid	20	(482,944)	(203,820)
Net cash from operating activities		<u>1,443,223</u>	<u>1,216,347</u>
Investing activities			
Change in Securities with variable income		1,108,483	(477,094)
Change in Securities with fixed income		3,472	95,839
Investing activities		<u>1,111,955</u>	<u>(381,255)</u>
Finance activities			
Dividend paid	19	(1,456,000)	(837,000)
Finance activities		<u>(1,456,000)</u>	<u>(837,000)</u>
Net change in cash and cash equivalents		1,099,178	(1,908)
Cash and cash equivalents at the beginning of the year		14,275	16,183
Cash and cash equivalents at the end of the year	9	<u><u>1,113,453</u></u>	<u><u>14,275</u></u>

Notes to the Financial Statements

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 2022 amount to ISK 700 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets	699,468	61	291	0
Liabilities	0	0	0	0
Net balance 31.12.2022	699,468	61	291	0
Net balance 31.12.2021	743,683	(3,432)	163	0
Exchange rate of ISK 31.12.2022	151.50	141.80	170.84	
Exchange rate of ISK 31.12.2021	147.60	129.75	175.68	

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)

2022

2021

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

Valuation change in securities assets	(59,540)	330,697
Foreign exchange gain (loss)	27,934 (29,598)
Dividend received	1,725	2,070
Interest income	25,992	390
Interest expense	(74)	(23)
Net financial income / (expense)	(3,963)	303,536

Notes to the Financial Statements, cont.

12. Salaries and related expenses and personnel	2022	2021
Salaries	538,540	464,002
Share-based payment expenses	6,933	0
Salary related expenses	156,941	142,146
Salaries and related expenses	<u>702,414</u>	<u>606,148</u>
Number of employees at the end of the year.	23	20
Average number of employees during the year.	22	20

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 6,9 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	24,000	0
Sigrún Ragna Ólafsdóttir, Chairman of the Board	9,422	8,888
Guðmundur Jón Jónsson, Board-member	2,274	0
Hrefna Ösp Sigfinnsdóttir, Board-member	210	0
Jóhann G. Möller, former Managing Director	17,020	38,233
Jón Óttar Birgisson, former Vice-Chairman of the Board	4,476	5,082
Guðfinna Helgadóttir, former Board-member	1,101	2,952
Total remuneration	<u>58,503</u>	<u>55,155</u>

Salary and salary related expenses of ISK 51,5 million were expensed in the year of 2022 in respect of the resignation of former employees. (ISK 0 million in 2021 in respect of the resignation of former employees.)

Remuneration to four managers was total ISK 118.7 million in the year of 2021 (ISK 110.8 million in 2021).

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. In 2022 the company made a provision of ISK 68,6 million for performance plan payment, including salary related expense (ISK 92.2 million in 2021). 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 170,2 million (ISK 159,6 million in the end of 2021).

13. Audit expense	2022	2021
Audit of annual accounts	16,024	14,960
Review of the interim accounts	4,210	3,930
Other audit services	1,980	10,258
Total Audit expense	<u>22,214</u>	<u>29,147</u>

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 24.2 million in the year 2022. The lease is expensed under other operating expenses in the company's income statement. The corresponding payment in 2021 amounted to ISK 22.4 million.

Notes to the Financial Statements, cont.

15. Income tax expense	2022	2021
Current tax expense	337,161	485,175
Prior year correction	(2,231)	674
Deferred tax expense	(658)	(4,645)
Total Income tax expense	334,272	481,204

16. Securities	31.12.2022	31.12.2021
Securities with variable income are specified as follows:		
Fund units issued by funds operated by Stefir hf.	1,093,690	2,343,986
Shares in investment companies	241,393	146,561
Shares in companies	4	4
	1,335,087	2,490,551
Securities with fixed income are specified as follows:		
Unlisted:		
Issued by others	113	3,177
	113	3,177
Securities total	1,335,200	2,493,728

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 2022		Receivables/		
	Revenue	Expense	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

Transactions with related parties 2021		Receivables/		
	Revenue	Expense	Assets	Liabilities
Arion bank consolidated	70,099	526,971	68,604	50,531
Funds in operation	2,138,142	0	391,806	0
	2,208,241	526,971	460,410	50,531

18. Assets under Management

Assets under Management in funds in operation by Stefir at the end of the year amount to ISK 261 billions compared to ISK 288 billions at year end 2021.

Notes to the Financial Statements, cont.

19. Equity

- a. Share capital amounts to ISK 43.5 million at year end, unchanged from year end 2021, 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 1.1.2021	43,500	10,875	130,548	2,273,029	2,457,952
Dividend paid	0	0	0	(837,000)	(837,000)
Net earnings	0	0	0	1,617,550	1,617,550
Fair value equity reserve	0	0	146,332	(146,332)	0
Equity 31.12.2021	43,500	10,875	276,880	2,907,247	3,238,502
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			6,933	0	6,933
Equity 31.12.2022	43,500	10,875	201,202	2,766,617	3,022,194

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 28.9% in 2022. Return on assets in 2021 was 42.3%.
- d. Equity at end of the year is ISK 3,022 million or 73.1% of total assets.
The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 70.4%, exceeding the minimum legal requirement of 8%.

The ratio is calculated as follows:

	31.12.2022	31.12.2021
Total equity	3,022,194	3,238,502
Total own funds for solvency purposes	3,022,194	3,238,502
Total capital requirements are specified as follows:		
Credit risk	268,508	326,465
Market risk	55,986	59,508
Capital requirement	324,494	385,973
Capital requirement due to fixed overheads	343,268	303,645
Capital adequacy ratio	70.4%	67.1%

Notes to the Financial Statements, cont.

20. Tax assets (liabilities)	31.12.2022	31.12.2021
Changes in tax assets and liabilities are specified as follows:		
Tax assets at the beginning of the year	(504,290)	(227,580)
Reassessment of taxes for the previous year	2,231	674
Income tax recognised in Statement of Income	(336,503)	(481,204)
Income tax paid	482,944	203,820
Net tax assets (liabilities) at the end of the year	(355,618)	(504,290)
Specified as follows:		
Current tax	(337,161)	(485,176)
Deferred tax assets (liabilities)	(18,457)	(19,114)
Net tax assets (liabilities) at the end of the year	(355,618)	(504,290)
Deferred tax assets are attributable to the following:		
Deferred foreign exchange gain and loss	(1,751)	(376)
Provision	(16,706)	(18,739)
Deferred tax assets (liabilities) at the end of the year	(18,457)	(19,115)
Tax liabilities are attributable to the following:		
Income tax using the Icelandic corporation tax rate	337,161	485,175
Tax liabilities at the end of the year	337,161	485,175
21. Shareholders of Stefnir hf.	31.12.2022	31.12.2021
Shareholders of Stefnir hf. with shareholding exceeding 1% of issued share capital:		
Arion banki hf.	99.93%	99.93%
Shareholders of Arion banki hf.:		
Gildi Pension fund	9.77%	9.77%
LSR - the Pension Fund for Icelandic State Employees	9.53%	9.60%
Pension Fund of Commerce	9.14%	9.57%
Stoðir hf.	5.20%	5.20%
Stefnir funds	4.05%	3.86%
Brú Pension fund	3.69%	3.27%
Birta Pension fund	3.47%	3.47%
Frjálsi Pension fund	3.17%	3.17%
Stapi Pension fund	3.02%	2.97%
Arion banki hf.	3.01%	1.57%
Hvalur hf.	2.44%	2.44%
Íslandsbanki hf.	2.38%	2.63%
Vanguard	2.27%	0.99%
Festa Pension fund	1.92%	1.89%
Kvika banki hf.	1.82%	2.16%
Almenni Pension fund	1.47%	1.47%
Landsbréf hf.	1.43%	1.42%
Landsbankinn hf.	1.21%	1.31%
Lífsværk Pension fund	1.08%	1.09%
Sjóvá tryggingar	1.00%	0.92%
Kvika Asset Management	0.87%	0.53%
Akta funds	0.15%	1.39%
MainFirst Bank AG	0.00%	0.00%
Bóksal ehf.	0.00%	0.00%
Other	27.91%	29.31%
	100.00%	100.00%

Corporate Governance Statement of Stefnr hf. 2023

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 Financial Undertakings 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 and the Principles of Corporate Governance can be viewed on Stefnr's website.

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 more than ISK 260 billion under fund management. Stefnr has a team of 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 restrictions by the legislator. 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 FSA under Act No. 87/1998.

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 2022. 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.

The Risk Officer of Stefnr 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, 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 Stefnr and the audit and risk committee. All supervisory measures are documented and regularly assessed by the team. 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 FSA to Arion Bank and they work in accordance with a charter from the board of directors of Stefnr.

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 Stefnr 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.

The company's accounting is the responsibility of Arion Bank's finance division. The FSA has authorized the outsourcing of this task. Arion Bank is also the depositary of Stefnr hf. and the price calculations of funds managed by Stefnr 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 Stefnr and the funds managed by Stefnr. 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.

In 2022 Stefnr completed strategic planning to define the company's new values. It was a joint effort between the employees and the board of directors.

The values are: professionalism, foresight and responsibility and the sentence "Together we create valuable opportunities by being forward-thinking and acting responsibly" is descriptive of the spirit of cooperation and teamwork at Stefnr, where the company looks to the future responsibly and prioritizes the interests of its 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 conduct 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 at the beginning of 2022. The policy describes Stefnr'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 Stefnr's website.

Stefnr 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.

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 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 Stefnr has adopted a policy on responsible investment which applies to investments by funds managed by the company and how Stefnr can have a positive influence on our society, to the benefit of fund members and other stakeholders.

Corporate Governance Statement, cont.

Stefnir 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 clients and fund members. An extract of the policy and other rules designed to prevent conflicts of interest, e.g. rules on business dealings by employees of Stefnir, can be found on the company's website.

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 19 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 who have a diverse background and education and broad experience of business and management. The board members are Sigrún Ragna Ólafsdóttir, chairman, self-employed, Guðmundur Jóhann Jónsson, CEO of Vörður Insurance and Hrefna Ösp Sigfinnsdóttir, CEO of Creditinfo. Sigrún Ragna has been chairman since August 2019, Guðmundur Jóhann joined the board in May 2022 after Guðfinna Helgadóttir, employee of Arion Bank, stepped down from the board following a change in the law, and Hrefna joined the board in December 2022 after Jón Óttar Birgisson stepped down from the board after he took up a position at Stefnir following changes to the alternative investments team.

The company's policy on diversity, equality and participation, which was approved in early 2022, sets out the criteria the board has established with respect to diversity and equality. Further information on board members at Stefnir can be found on the company's website.

Stefnir has an audit and risk committee. The committee is composed of board directors of Stefnir. The committee met eight times in 2022 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 Stefnir did not operate a remuneration committee during the year as this function is performed by the board. Stefnir plans to set up a remuneration committee before the company's AGM in March 2023. There is no nomination committee due to Stefnir's ownership structure, where the company is fully owned by Arion Bank and a related company.

The board of directors 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 company is guided by the interests of clients, owners, employees and society at large 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 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. In light of the changes to the company's board of directors in December it was decided not to use the digital questionnaire, but instead the board decided to evaluate its work verbally at a board meeting and used questions based on good corporate governance.

Corporate Governance Statement, cont.:

The company's managing director since 1 May 2022 is Jón Finnbogason, born 1973. Jón is a lawyer and a qualified stockbroker.

Jón has worked on the financial markets in a diverse range of management and specialist positions for 23 years. He worked at Stefir from 2003 to 2008 and again from 2013 to 2017 when he was head of the fixed income team and deputy managing director.

Neither the managing director nor related persons own shares or options in Stefir. 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 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 Stefir's website.

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 Stefir hf.

Stefir 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 Stefir funds available to the public.