



Asset Management Company

Financial Statements 2020

Stefnir hf.
Borgartun 19
105 Reykjavík

Reg. no. 700996-2479

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

Stefnir hf. is an independent financial company according to Act No. 161/2002 on Financial Undertakings. 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. 128/2011 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.

Stefnir is a well-established Icelandic fund manager with assets of approximately ISK 230 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, investment funds and alternative investment funds. The 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.

Operations during the year

The company reported earnings of ISK 837.1 million in the period according to the income statement. The company's equity at the end of the year was approximately ISK 2.5 billion according to the balance sheet. The capital ratio, calculated according to the Financial Undertakings Act, is 63.5%, 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 the year

Stefnir's annual general meeting was held on 27 March 2020 and a resolution was passed to pay a dividend of ISK 1,070 million to the shareholders. The company's board of directors, elected at the meeting, comprises Sigrún Ragna Ólafsdóttir, chairman, Jón Óttar Birgisson, vice chairman, and Guðfinna Helgadóttir. The board of directors operates an audit and risk committee.

Jökull. H. Úlfsson left the company in June 2020. Jóhann Möller was appointed managing director and he took up the position on 1 August 2020. Jóhann has worked in the financial markets for 20 year and joined Stefnir in 2006, managing domestic equities funds and he was head of the company's equities team for the last three years.

Despite the unusual conditions created by the COVID-19 pandemic, the board of directors and employees managed to adapt the business to the new circumstances in society and there was no disruption to the business continuity that Stefnir is obliged to maintain along with its quality services to clients.

Assets under management decreased by approximately ISK 22 billion in 2020, from approximately ISK 252 billion to ISK 230 billion. This decrease is largely explained by the dissolving of certain alternative investment funds although it was positive to see growing investor interest in Icelandic shares and corporate bonds in the second half of the year. Many investors were attracted to a new fund, Stefnir – Yield Fund, which will invest in a diverse portfolio of corporate bonds. We hope that this will help encourage further corporate bond issues. Assets under management are well distributed between asset classes and the company's revenue structure is in line with the board's objectives.

The funds generated positive returns in all asset classes in 2020. International and domestic equities markets performed particularly strongly compared with other asset classes. International stock markets made substantial gains despite some volatility. For example, Stefnir – Scandinavian Fund gained 28% and KF Global Value, an international equities fund managed by Stefnir, was up 17% in Icelandic krónur. Stefnir bond funds also performed strongly, with Stefnir - Fixed Income Opportunities Fund returning 8% over the year. Mixed funds reaped the benefits of strongly performing equities and bonds and produced good returns for fund members.

The board of directors of Stefnir has proposed at its AGM that a dividend for 2020 be paid amounting to ISK 837 million. The board of directors is authorized to make further proposals on dividends at a shareholders' meeting and does not rule out 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 we 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 is presented on a group basis, cf. Articles 3 and 4 of the same Act. Refer to Arion Bank's 2020 Annual and Sustainability Report for more information.

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 our clients' wishes. Stefnir's second progress report to PRI (UN Principles for Responsible Investment) was submitted during the year and it will be possible to keep track of the company's progress and compliance with the Principles for Responsible Investment. All Stefnir employees and the board of directors are completing a course with PRI Academy which is the global leader in training on responsible investment.

In 2020 Stefnir 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 on the basis of Regulation No. 471/2014 and it applies to assets and portfolios of UCITS and investment funds managed by the company. 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, risk factors and events taking place after end of reporting period

The spread of COVID-19 represents a challenge for humankind, and in addition to the health and social effects, it has unforeseen impact on the economy and the markets where the funds managed by Stefnir operate. Despite market volatility it did not prove necessary to take any special measures and the liquidity position of the funds managed by the company was good. It is too early to properly assess the impact of the global pandemic on Stefnir beyond the changes we have already seen in the market value of the assets of funds managed by the company. Stefnir has demonstrated the ability to adapt to meet the changing business environment and also benefits from economies of scale in its business. The outlook is bright despite several uncertainties in the operating environment, both in the short and long term.

Endorsement of the board of directors and the managing director

The Board of Directors and CEO of Stefnir hf. hereby confirm the company's Consolidated Financial Statements for the year 2020 by means of their electronic signatures.

Reykjavik, 18 February 2021.

The Board of Directors:

Managing Director:

Independent Auditor's 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, 2020 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, 2020, 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 Auditor's 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 Stefmir 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, 18 February 2021

Deloitte ehf.

Pétur Hansson
State Authorized Public Accountant

The Financial Statements of Stefmir hf. Is electronically signed by the auditor.

Statement of Income

for the year 2020

	Note	2020	2019
Operating income			
Management and performance based fees	4	2,137,321	2,166,236
Financial income	10	145,154	246,649
Other income		2,010	0
Operating income		<u>2,284,485</u>	<u>2,412,885</u>
Financial expense	10	(11)	(202)
Net operating income		<u>2,284,474</u>	<u>2,412,683</u>
Operating expense			
Salaries and related expense	11	706,050	621,880
Service commissions to Arion bank hf.		247,800	237,420
Other expense		284,737	316,488
Operating expense		<u>1,238,587</u>	<u>1,175,788</u>
Earnings before tax		1,045,887	1,236,895
Income tax	14	(208,782)	(261,469)
Net earnings	18	<u>837,105</u>	<u>975,426</u>

Statement of Financial Position

as at 31 December 2020

	Note	31.12.2020	31.12.2019
Assets			
Securities with fixed income		97,698	82,854
Securities with variable income		1,709,821	2,071,893
Total Securities	5, 13	<u>1,807,519</u>	<u>2,154,747</u>
Accounts receivables	7	957,808	950,455
Receivable from related entities		82,472	33,257
Receivable from related parties		356,928	343,283
Total Receivables		<u>1,397,208</u>	<u>1,326,995</u>
Cash and cash equivalents	8	16,183	15,416
Other assets		33,536	52,191
Total Other Assets		<u>49,719</u>	<u>67,607</u>
Total Assets		<u><u>3,254,446</u></u>	<u><u>3,549,349</u></u>
Equity			
Share capital		43,500	43,500
Statutory reserve		10,875	10,875
Fair value equity reserve		130,548	62,901
Retained earnings		2,273,029	2,573,572
Total Equity	18	<u>2,457,952</u>	<u>2,690,848</u>
Liabilities			
Deferred tax liabilities.....		23,760	18,798
Accounts payable		13,878	2,255
Accounts payable to related entities		42,876	43,055
Tax liabilities	19	203,820	262,628
Other liabilities		512,160	531,765
Total liabilities		<u>796,494</u>	<u>858,501</u>
Total Equity and Liabilities		<u><u>3,254,446</u></u>	<u><u>3,549,349</u></u>

Statement of Cash Flows

for the year 2020

	Note	2020	2019
Cash flows from operating activities			
Net earnings	18	837,105	975,426
Non-cash items included in net earnings:			
Valuation changes of securities	(118,708)	(209,119)
Income tax recognised in profit or loss		208,782	261,469
		<u>927,179</u>	<u>1,027,776</u>
Changes in operating assets and liabilities	(59,719)	(8,967)
Income tax paid	19	(262,628)	(199,798)
Net cash from operating activities		<u>604,832</u>	<u>819,011</u>
Investing activities			
Change in Securities with variable income		477,111	161,909
Change in Securities with fixed income	(11,176)	(55,518)
Investing activities		<u>465,935</u>	<u>106,391</u>
Finance activities			
Dividend paid	18	(1,070,000)	(1,070,000)
Finance activities		<u>(1,070,000)</u>	<u>(1,070,000)</u>
Net change in cash and cash equivalents		767	(144,598)
Cash and cash equivalents at the beginning of the year		<u>15,416</u>	<u>160,014</u>
Cash and cash equivalents at the end of the year	8	<u><u>16,183</u></u>	<u><u>15,416</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. Basis of preparation

The Financial Statements of Stefnir hf. are prepared in accordance with law on Financial Statements, law 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. 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.

3. 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.

4. Management and performance based fees

The company earns asset management fees for the operations of Stefnir's Securities Funds, Investment Funds 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. Fees are also earned from the operation of special purpose entities that have been established for enterprise investments. 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.

5. 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.

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.

Notes, continued

6. 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 2020 amount to ISK 600 millions and are specified as follows:

	EUR	USD	GBP	Other
Assets	606,375	1	455	0
Liabilities	(7,247)	0	0	0
Net balance 31.12.2020	599,128	1	455	0
Net balance 31.12.2019	541,840	119	1,243	0
Exchange rate of ISK 31.12.2020	156.09	127.64	174.28	
Exchange rate of ISK 31.12.2019	135.83	121.04	160.28	

7. Receivables

Receivables are measured at nominal value deducted by impairment.

8. Cash

Cash consists of cash and deposits with credit institutions.

9. 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.

10. Net financial income

2020

2019

Net financial income is specified as follows:

Valuation change in securities assets	74,249	214,464
Dividend received	1,619	0
Foreign exchange gain (loss)	64,842	17,144
Interest income	4,455	15,043
Interest expense	(22)	(204)
Net financial income	145,143	246,447

11. Salaries and related expenses and personnel

Salaries	543,657	476,599
Salary related expenses	162,393	145,281
Salaries and related expenses	706,050	621,880
Number of employees at the end of the year.	19	21
Average number of employees during the year.	20	21

Notes, continued

11. Salaries and related expenses and personnel, cont.	2020	2019
Compensation of the key management personnel:		
Jóhann G. Möller, Managing Director	13,094	0
Sigrún Ragna Ólafsdóttir, Chairman of the Board	8,566	3,019
Jón Óttar Birgisson, Vice-Chairman of the Board	3,699	0
Guðfinna Helgadóttir, Board-member	3,699	0
Jökull H. Úlfsson, former Managing Director	21,347	25,845
Flóki Halldórsson, former Managing Director	0	14,452
Kristján Jóhannsson, Vice-Chairman of the Board	1,197	4,811
Flóki Halldórsson, former Board-member	1,496	1,496
Ragnhildur Sophusdóttir, former Board-member	449	1,774
Þórður Sverrisson, former Board-member	1,496	5,914
Hrund Rudolfsdóttir, former Chairman of the Board	0	5,486
Jökull H. Úlfsson, former Board-member	0	570
Total remuneration	55,043	63,367

Salary and salary related expenses of ISK 77,8 million were expensed in the year of 2020 in respect of the resignation of the former Managing Director and a number of employees.

Remuneration to five managers was total ISK 146.6 million (ISK 136.3 million in 2019)

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 2020 the company made a provision of ISK 72.4 million for performance plan payment, including salary related expense (ISK 35.1 million in 2019). 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 131.6 million (ISK 131.7 million in the end of 2019).

12. Audit expense	2020	2019
Audit of annual accounts	13,794	13,196
Review of the interim accounts	3,553	3,568
Other related audit services	351	260
	17,697	17,025

13. 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 21.8 million in 2020. The lease is expensed under other operating expenses in the company's income statement. The corresponding payment in 2019 amounted to ISK 21.1 million.

14. Income tax expense	2020	2019
Current tax expense	203,820	262,628
Deferred tax expense	4,962	(1,159)
Total Income tax expense	208,782	261,469

Notes, continued

15. Securities	31.12.2020	31.12.2019
Securities with variable income are specified as follows:		
Fund units issued by funds operated by Stefmir hf.	1,590,676	1,959,954
Shares in investment companies	119,141	111,935
Shares in companies	4	4
	<u>1,709,821</u>	<u>2,071,893</u>
Securities with fixed income are specified as follows:		
Listed on regulated markets:		
Issued by public entities	963	1,880
Issued by others	20,096	0
Unlisted:		
Issued by public entities	585	1,144
Issued by others	76,054	79,830
	<u>97,698</u>	<u>82,854</u>
Securities total	<u>1,807,519</u>	<u>2,154,747</u>

16. Related parties

Stefmir 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 Stefmir.

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

Among assets are units issued by funds under management.

Transactions with related parties 2020.

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	66,168	475,751	98,640	42,876
Funds in operation	1,728,486	0	356,928	0
	<u>1,794,654</u>	<u>475,751</u>	<u>455,568</u>	<u>42,876</u>

Transactions with related parties 2019.

	Revenue	Expense	Receivables/ Assets	Liabilities
Arion bank consolidated	137,715	492,380	48,653	43,055
Funds in operation	1,669,965	0	343,283	0
	<u>1,807,680</u>	<u>492,380</u>	<u>391,936</u>	<u>43,055</u>

17. Assets under Management

Assets under Management in funds in operation by Stefmir at the end of the year amount to ISK 230 billions compared to ISK 252 billions at year end 2019.

Notes, continued

18. Equity

- a. Share capital amounts to ISK 43.5 million at year end, unchanged from year end 2019, 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 1.1.2019	43,500	10,875	40,697	2,690,349	2,785,421
Dividend paid	0	0	0	(1,070,000)	(1,070,000)
Net earnings	0	0	0	975,427	975,427
Fair value equity reserve ...	0	0	22,204	(22,204)	0
Equity 31.12.2019	<u>43,500</u>	<u>10,875</u>	<u>62,901</u>	<u>2,573,572</u>	<u>2,690,848</u>
Equity 1.1.2020	43,500	10,875	62,901	2,573,572	2,690,848
Dividend paid	0	0	0	(1,070,000)	(1,070,000)
Net earnings	0	0	0	837,104	837,104
Fair value equity reserve ...	0	0	67,647	(67,647)	0
Equity 31.12.2020	<u>43,500</u>	<u>10,875</u>	<u>130,548</u>	<u>2,273,029</u>	<u>2,457,952</u>

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 24.6% in 2020. Return on assets in 2019 was 27.5%.

- d. Equity at end of the year is ISK 2,458 million or 75.5% of total assets.

The Capital adequacy ratio of the company which is calculated according to Article 84 of the Act on Financial Undertakings is 63.5%, exceeding the minimum legal requirement of 8%.

The ratio is calculated as follows:

	31.12.2020	31.12.2019
Total equity	<u>2,457,952</u>	<u>2,690,848</u>
Total own funds for solvency purposes	<u>2,457,952</u>	<u>2,690,848</u>
Total capital requirements are specified as follows:		
Credit risk	241,798	249,082
Market risk	<u>47,967</u>	<u>43,456</u>
Capital requirement	<u>289,765</u>	<u>292,538</u>
Capital requirement due to fixed overheads	309,647	293,947
Capital adequacy ratio	63.5%	73.2%

Notes, continued

19. Tax assets (liabilities)	31.12.2020	31.12.2019
Changes in tax assets and liabilities are specified as follows:		
Tax assets at the beginning of the year	(281,426)	(219,754)
Income tax recognised in Statement of Income	(207,901)	(247,016)
Income tax paid	262,628	199,797
Net tax assets (liabilities) at the end of the year	<u>(227,580)</u>	<u>(281,426)</u>
Specified as follows:		
Current tax	(202,939)	(262,628)
Deferred tax assets (liabilities)	(23,760)	(18,798)
Net tax assets (liabilities) at the end of the year	<u>(227,580)</u>	<u>(281,426)</u>
Deferred tax assets are attributable to the following:		
Deferred foreign exchange gain and loss	(9,789)	(5,301)
Provision	(13,971)	(13,269)
Other items	0	(228)
Deferred tax assets (liabilities) at the end of the year	<u>(23,760)</u>	<u>(18,798)</u>
Tax liabilities are attributable to the following:		
Income tax using the Icelandic corporation tax rate	202,939	248,175
Additional 6% tax on financial institutions	881	14,453
Tax liabilities at the end of the year	<u>203,820</u>	<u>262,628</u>
20. Shareholders of Stefmir hf.	31.12.2020	31.12.2019
Shareholders of Stefmir hf. with shareholding exceeding 1% of issued share capital:		
Arion banki hf.	99.93%	99.93%
<i>Shareholders of Arion banki hf.:</i>		
<i>Taconic Capital (through TCA New Sidecar s.á.r.l.)</i>	<i>23.22%</i>	<i>23.53%</i>
<i>Gildi lífeyrissjóður</i>	<i>9.92%</i>	<i>8.79%</i>
<i>Lífeyrissjóður verzlunarmanna</i>	<i>7.46%</i>	<i>3.67%</i>
<i>Sculptor Capital Management</i>	<i>6.12%</i>	<i>9.53%</i>
<i>Lífeyrissjóður starfsmanna ríkisins</i>	<i>6.03%</i>	<i>3.47%</i>
<i>Stoðir hf.</i>	<i>4.99%</i>	<i>4.96%</i>
<i>Stapi Lífeyrissjóður</i>	<i>2.92%</i>	<i>1.89%</i>
<i>Birta Lífeyrissjóður</i>	<i>2.83%</i>	<i>1.32%</i>
<i>Frjálsi Lífeyrissjóðurinn</i>	<i>2.73%</i>	<i>2.18%</i>
<i>Stefmir rekstrarfélag hf.</i>	<i>2.13%</i>	<i>2.46%</i>
<i>Eaton Vance funds</i>	<i>2.11%</i>	<i>3.23%</i>
<i>Íslandsbanki hf.</i>	<i>1.54%</i>	<i>1.00%</i>
<i>Hvalur hf.</i>	<i>1.52%</i>	<i>1.45%</i>
<i>Lífsverk Pension fund</i>	<i>1.37%</i>	<i>0.77%</i>
<i>MainFirst Bank AG</i>	<i>1.14%</i>	<i>1.09%</i>
<i>Lífeyrissjóður Vestmannaeyja</i>	<i>1.13%</i>	<i>0.52%</i>
<i>Lansdowne partners</i>	<i>1.12%</i>	<i>5.02%</i>
<i>Goldman Sachs International</i>	<i>0.00%</i>	<i>3.72%</i>
<i>Arion banki hf.</i>	<i>0.69%</i>	<i>2.27%</i>
<i>Júpíter rekstrarfélag hf.</i>	<i>0.87%</i>	<i>1.10%</i>
<i>Other</i>	<i>20.17%</i>	<i>18.04%</i>
	<u>100.00%</u>	<u>100.00%</u>

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.

Corporate Governance Statement of Stefir hf. 2021

By issuing this corporate governance statement Stefir hf. (Stefir) is fulfilling the requirements set out in recognized guidelines current at the time this Financial Statement is approved by the company's board of directors and the provisions of Article 19 of Act No. 161/2002, cf. Article 12 of Act No. 75/2010. The Guidelines on Corporate Governance, 5th 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 Stefir hf.'s corporate governance statement was written. The Guidelines on Corporate Governance and the Principles of Corporate Governance can be viewed on Stefir's website.

In 2012 Stefir was 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 ehf. Stefir since been recognized in this way on repeated occasions and therefore remains a model company in good corporate governance in Iceland.

The board of directors of Stefir believes that good corporate governance is a key factor behind Stefir's success as a leading fund management company in Iceland. Corporate governance provides companies with a framework in which objectives are defined, which tools should be used to achieve these objectives and how the success of these objectives is measured. Good corporate governance is designed to provide the right incentives to the board of directors and management to exploit the opportunities which serve the interests of the company, the shareholders and the general public. Good corporate governance also enables the board to perform its monitoring duties effectively.

Stefir hf. is an independent financial company under 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. 128/2011 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. In addition to this, the company is licensed to operate asset management services, investment advisory and to manage financial instruments for collective investments, cf. Article 27 (1.1-3) of Act No. 161/2002. Stefir has assets of ISK 230 billion under fund management. Stefir has a team of 20 people with a diverse range of expertise and experience from the domestic and international financial markets.

Stefir 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 Stefir, parties that service and participate in the operations of Stefir, 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. 128/2011, and the Alternative Investment Fund Managers Act No. 45/2020. Stefir is supervised by the FME under Act No. 87/1998.

Risk management and active internal control are mainstays of the responsible operation of a fund management company. The board confirmed the company's risk policy at the end of 2020. 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 Stefir shall be communicated to the employees and be integral to 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 Stefir 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 Stefir will review the company's risk appetite on an annual basis to take into account changes in the company's internal and external environment.

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, 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 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 Stefir.

Corporate Governance Statement, cont.:

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.

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 depository 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.

Stefir's core values have been an important guideline for employees and the board of directors, who devised them together, in their day-to-day work.

The first core value is "success through knowledge" which implies that our strengths are embodied in the combination of knowledge, experience, professional corporate governance and fund management. Meticulous working practices, responsibility and reliability lay the foundations for future success. By doing this we are safeguarding our clients' interests.

Our second core value is "the ambition to excel" which describes our progressive, determined and dynamic approach in which we do not hesitate to seek new ways to achieve our goals. Fertile thinking, ambition and financial clout provide a platform for us to lead the way in developing new financial products. This is how we create key opportunities to excel for the benefit of our clients.

The third and final core value is "united in a strong team" and it describes how the way we operate is characterized by clearly defined team work, mutual respect and a healthy team spirit in which we support each other in what we do. We are known for our well-considered decisions which we regularly review and re-evaluate. This is how we harness the synergy of a dynamic team in order to provide our clients with outstanding service.

The board of directors approved the code of conduct in 2018 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.

The company has not formally adopted a policy on sustainability but in setting out its strategy and defining its role the board of directors has underlined the importance of being guided by the interests of clients, owners, employees and society as a whole when managing funds and running the company. At the beginning of 2018 Stefir became 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. During the year Stefir submitted its second progress report to PRI and it will be possible to keep track of the company's progress on responsible investment as more reports are added to the PRI database. The company is also one of the founding members of Iceland SIF, which was founded in 2017. Iceland SIF is an independent forum for discussion and education on responsible and sustainable investment.

In 2020 Stefir 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 Stefir has adopted a policy on responsible investment which applies to investments by funds managed by the company and how Stefir can have a positive influence on our society, to the benefit of fund members and other stakeholders.

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

Stefir has three board members and two alternate members. The majority of the board is independent of Arion Bank, Stefir'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 21 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.

Corporate Governance Statement, cont.:

The board of directors of Stefmir comprises Sigrún Ragna Ólafsdóttir, chairman, self-employed, Jón Óttar Birgisson, vice chairman, managing director of Stöplar Advisory ehf., and Guðfinna Helgadóttir, business development specialist at Arion Bank hf. Sigrún Ragna has been chairman of the board since August 2019, while Jón Óttar joined the board in March 2020. Further information on board members at Stefmir can be found on the company's website.

The alternate board members are Ásgerdur Hrönn Sveinsdóttir, area manager at Arion Bank hf., and Þórhallur Örn Guðlaugsson, lecturer in the faculty of business administration at the University of Iceland. The audit and risk committee was appointed by the board of directors in March 2020. The committee is composed of board directors of Stefmir. The committee met eight times in 2020 and achieved a quorum 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 Stefmir does not have a remuneration committee as this function is performed by the board. There is no nomination committee due to Stefmir's ownership structure, where the company is fully owned by Arion Bank and a related company.

The board of directors of Stefmir 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. The focus is on running a solid and profitable business and minimizing risk. The board places a strong emphasis on good corporate governance and ensuring that the board and company operate at all times in compliance with the law, rules and good business practices.

The role of the board is defined in more detail in the rules of procedures and the company's articles of association.

The board 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, electronic 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 company's managing director since 1 August 2020 is Jóhann G. Möller, born in 1979. Jóhann is a business studies graduate and is a qualified stockbroker. Jóhann has extensive experience of the financial markets, where he has worked for the past 20 years and he joined Stefmir in 2006, managing domestic equities funds and he was head of the company's equities team for the last three years. Jóhann does not serve on the board of any companies and owns no shares or call option in Stefmir. There are no common interests with Stefmir's main business partners, competitors or shareholders. 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 their duties.

The board's rules of procedure were established with reference to Article 54 (2) of the Financial Undertakings Act and Article 70 (5) of the Public Limited Companies Act. The rules of procedure are largely based on Guidelines No. 1/2010 of the Financial Supervisory Authority (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 Stefmir'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 Stefmir hf.

Stefmir 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 Stefmir funds available to the public.