



# Annual Report 2023

# Report of the Board of Directors 2023

## Introduction

The report of the Board of Directors accompanying the annual financial statements is intended to provide a clear overview of the activities of the Pension Fund of Commerce (Lífeyrissjóður verzlunarmanna, LV), to supplement the information contained in the fund's annual financial statements for 2023. Its aim is to give stakeholders a fuller picture of the fund's activities. These include, for instance, the fund's current and prospective members, its member organisations, public authorities and securities issuers.

Its contents reflect the currently applicable rules on annual financial statements of pension funds and provisions of the Act on Annual Financial Statements. In preparing the Board's Report and the Annual and Sustainability Report, emphasis is placed on integrating financial and non-financial information (sustainability information). The aim is to provide a clear and informative summary and, to maintain an overview, reference is made to various aspects of the attached Annual and Sustainability Report of LV for 2023 and to the more detailed discussion in the annual financial statements.

For an overview of several important aspects of LV's internal activities and external working environment, reference is made to the various aspects of LV's activities described in the introductory chapter of the fund's Annual and Sustainability Report.

## Highlights of the operating results

### *Balance sheet*

LV's principal activity is the operation of the entitlement system of its mutual division, personal pensions division and the administration of five asset portfolios, i.e. that of the mutual division and those of the four personal pension investment options.

The performance of the fund's portfolio in 2023 was considerably better than in the previous year; however, there were considerable fluctuations in the markets. To begin with, the year was characterised by persistent inflation and high interest rates. Equity and bond prices remained low well into the year and yields remained high. The conflict in the Ukraine and now, towards the end of the year, in the Middle East create continued uncertainty and price pressures in commodity and energy markets. There was a turnaround in equity markets towards the end of the year, resulting in a positive real return on the portfolio of the mutual pension division as well as the Verðbréfaeið option of personal pension savings. The nominal yield on options Ævilleið 1 to 3 in personal pension savings was positive, although the real yield was negative for all real options.

It is worth noting that the earthquakes and eruptions occurring in the Reykjanes area have already affected the town of Grindavík and the operating environment and situation of companies in the area. The long-term impact of these natural disasters is not yet evident. LV holds several outstanding member loans secured by residential property in Grindavík, as well as equities and bonds of enterprises in the Reykjanes area. LV is monitoring the development of these cases, but so far no reason has been seen to write down the value of these assets.

**Investment income and operating expenses** The aggregate net investment income of all portfolios was ISK 102,958 million, as compared to the negative outcome of ISK 42,441 million the previous year. The fund's operating costs, i.e. office and administrative costs, amounted to ISK 1,718 million, compared to ISK 1,497 million the previous year. Operating expenses as a percentage of the average asset position were 0.14% compared to 0.13% the previous year. The number of full-time equivalent positions during the year was 57.6 compared to 54.2 in 2022. Total salaries amounted to ISK 920.3 million and salary-related expenses were ISK 221.1 million.

**Mutual pension division** The mutual division portfolio is the pension fund's largest, with assets amounting to ISK 1,256 billion at year-end compared to ISK 1,146 billion the previous year. The division's nominal return was 8.6%, compared to a -3.6% nominal return the previous year. Taking inflation into account, the net real return was 0.5%, compared to a negative real return of 11.9% in 2022. The long-term real return remains good, or 4.8% on average over the past 5 years, 4.8% for the last 10 years and 4.1% over the past 20 years.

The development of the actuarial position during the year was unfavourable. At year-end it was negative by 6.8% compared to a negative position of 5.6% the previous year. The main factors driving this were that annual real return was only 0.5% and rising inflation (as all of the mutual division's obligations are inflationindexed).

**The investment options for personal pensions** are four in number. Three of them, *Ævileið* I, II and III, form a continuous lifetime progression with varying levels of risk; the fourth, *Verðbréfaeið*, follows the same investment strategy as the mutual division. This option has not been open for new membership agreements since 2017.

The nominal return of all personal pension options was positive during the year. *Ævileið* I, II and III have now been in operation for six calendar years and the five-year nominal return amounts to 8.6% for *Ævileið* I, 6.7% for *Ævileið* II, 4.0% for *Ævileið* III and 10.7% for *Verðbréfaeið*.

The portfolios of the personal pension options have grown in recent years and totalled ISK 31.0 billion at year-end, compared to ISK 27.0 billion the previous year and 12.5 billion six years ago, i.e. at year-end 2017.

**Pension products** The fund's pension products consist of entitlement in the mutual pension division and personal pension options (general personal pension and specified personal pension). Providing services, information and advice is also an integral aspect of the fund's pension products.

The increase in premiums to the mutual division, the number of active fund members and the number of individuals receiving pensions continued during the year. Contributions to the mutual division amounted to ISK 44.3 billion, compared to ISK 39.4 billion in 2022. The average number of active fund members was 37,152, an increase from 36,512 the previous year, while the average number of individuals receiving pensions increased to 24,222, compared to 22,215 the previous year. The number of pension recipients who have earned significant entitlement is also increasing: pension payments from the mutual division totalled ISK 33.2 billion compared to ISK 25.2 billion the previous year, with the result that the ratio of pension payments to premiums, the so-called pension burden of the mutual division, increased to 74.9% in 2023 compared to 64.0% the previous year.

### *The environment*

Pension funds have only fairly recently begun to consider environmental factors systematically. This results from growing awareness, legal developments and increased knowledge of the importance of this aspect in the activities of pension funds and other institutional investors.

In the past few years emphasis has been placed on improving the fund's expertise and skills in the area. Part of this is the publication of a sustainability report, which is now increasingly integrated with financial disclosure in the Board's report and the Annual Report. The intention is to continue further in this direction, in line with the development of rules and standards in the field.

As is well known, LV's objective is to maximise the long-term return on the fund's portfolios, taking risk into account, in the interests of fund members, while at the same time keeping track of how the fund's financial income is generated. LV has adopted a policy for responsible investment and asset management takes sustainability risk factors into account when managing portfolios. Asset management analyses sustainability risks alongside traditional analyses of financial metrics with the aim of achieving the optimal risk-adjusted return at any given time based on available information and assumptions. Among the main challenges in that regard is the availability of data, how non-standard and reliable this is for the purpose of comparison between issuers and how it can be utilised for decision-making.

The introduction of the EU regulatory framework, including the Sustainable Finance Disclosure Regulation (SFDR) and the establishment of a framework to facilitate sustainable investment (the Taxonomy Regulation),

will to some extent resolve the above questions. Further rules are expected and the Board is monitoring these developments. The fund is currently working on the implementation of the sustainability regulations that have been transposed into Icelandic law, and its disclosure will take them into account. At present, all LV's fund divisions are classified as Article 6 funds under the SFDR.

LV has increased access to sustainability data and work on analysing the carbon footprint of portfolios has been partially completed and is now published in the Annual and Sustainability Report. Assessment of climate risk was also part of the Board's own risk assessment in 2023. In tandem with analyses of sustainability risk factors in accordance with LV's Policy on Responsible Investment, the fund follows the Board's policy adopted in 2021, on excluding certain investment options from its portfolios. In recent years, LV has placed increased emphasis on the fund's active ownership role. As part of this, the Board updated its shareholder policy at year-end 2023. The policy highlights issues that the fund emphasises concerning those companies in which it invests in and the companies it considers as investment options. Among the emphases of the update are various ESG issues, such as the role of nomination committees and Board elections, more detailed provisions on employee remuneration policies, rules on related party transactions and enterprises' policies on climate issues. The aforementioned policies can be found on the fund's website.

### *Society*

An increased focus on social aspects is somewhat of a novelty among pension funds, both in Iceland and abroad, and is part of the greater emphasis on sustainability of operations and the management of portfolios in general.

LV is monitoring this trend and adapting its activities accordingly. Here the tasks concern, on the one hand, LV's operations directly and, on the other, the impact of its portfolios on social issues.

**Operations** As far as LV's direct operations are concerned, the emphasis on social aspects is manifest primarily in the development of its human resources policy and corporate culture. As explained in the discussion of the fund's business model in Section I of the Annual and Sustainability Report, human capital is an important pillar of the fund's operations. During the year LV followed up on its adopted policy of developing and strengthening human resources, with emphasis on education, professional development, processing of the results of regular human resource measurements and improvements to work facilities. A discussion of these aspects can be found in Section VII, on sustainability in operations, in the Annual and Sustainability Report.

**Pension products** The fund's pension products are important when it comes to social issues. The widespread participation of employees and self-employed persons in the mutual insurance system of pension funds is conducive to improving living standards after retirement. An increase in the premium to the pension fund guarantees a higher lifetime pension and trauma pension. Last year the focus was on talking about pension issues in everyday language, so that fund members can easily understand the pension products and use them to their best advantage. For instance, web content and calculators were updated to improve understanding and simplify decision-making for fund members. In addition, the emphasis on advice and information dissemination on pension matters has been greatly increased and the intention is to continue further along this path in the coming years.

**Asset portfolios** Historically, pension funds and most other institutional investors have focused primarily on the return on their assets taking into account risk, with this risk mainly assessed in light of expected fluctuate in the returns. In the last couple of years, the focus on social aspects related to portfolio management has increased. LV has followed this development and is working on building expertise and skills in that regard.

The fund's policy on excluding certain investments from the fund's portfolios, adopted in 2021, is among the actions taken concerning social issues. Among the undertakings excluded are those which violate the principles of the UN Global Compact. These companies violate the UN standards on human rights and

fundamental rights of workers, for example regarding freedom of association, collective bargaining, forced labour and misuse of child labour. These are important concerns. The development of laws and other issues in this field will continue to be monitored.

### **The policy and rules of LV on governance**

**Strategic planning** In 2021, the Board and management collaborated on drafting the fund's strategic plan until 2030. This work defined the fund's future vision and its mission, implementing its established values. It is based on LV's role as laid down in law and in the fund's Articles of Association, with emphasis on long-term vision in its operations. In doing so, the aim is to reinforce the fund's activities in the long term and prepare it optimally for its role in a rapidly changing operating environment.

**Governance** The Board emphasises complying with rules and recognised standards regarding governance. This includes an efficient organisational structure, team effort, appropriate internal rules, internal controls and discipline exercised by internal and external auditors as well as stakeholders. The follow-up consists, among other things, of increased emphasis on disclosure, as provided in the Board's report and the Annual and Sustainability Report, and through ongoing disclosure by the fund. The Board also regularly evaluates its own working practices.

Further information regarding governance in LV's operations is provided in the detailed governance statement accompanying Section VII of the Annual and Sustainability Report, as well as in Section V, on risk management, and Section VI, on governance and management.

### **LV's business model**

The fund's business model, based on its main role as prescribed in the aforementioned Act and the fund's Articles of Association, is to:

- receive premiums from fund members that form the basis for their entitlement.
- invest the fund's assets in mutual and personal pension divisions.
- pay lifelong pensions upon retirement, trauma pensions in the form of disability pensions to fund members and their children, as well as spouse's and child's pensions upon the death of fund members.
- disburse personal pension savings upon retirement, disability or death.

LV also grants fund members loans in the form of real estate mortgages, in accordance with its currently applicable credit rules.

LV's business model is based on the examples in guidelines on an "Integrated Reporting Framework". There the resources which the fund has to work with are classified into six categories: capital, human capital, society, nature and the environment, tangible assets and intangible assets. The aspects of its operations aimed at creating value for fund members are highlighted: i.e. investment activities, operations and services, pensions and personal pension savings, as well as rules, policies and other criteria. An attempt is made to explain the value creation in operations from each resource. Since 2020, LV has worked to connect its operations with the United Nations' Sustainable Development Goals (SDGs).

### **Stakeholders and importance analysis**

#### *LV's stakeholders*

Since LV began publishing a sustainability report four years ago, the fund has carried out and disclosed the results of a stakeholder analysis. Stakeholders were defined as the individuals, groups or legal entities affected by LV's activities and able to influence the fund's activities. Analysis of its stakeholders makes it easier for the fund to work on and protect the interests it is entrusted with. In 2023, work continued on

strengthening relations with stakeholders by focusing especially on fund members, premium payers and employees, as explained in Section I, on LV's operations.

### **ESG metrics**

For the past four years, LV has published a separate sustainability report in tandem with its Annual Report. The route adopted last year, partly reflecting guidelines on integrated reporting, is to integrate information on non-financial matters (sustainability information) into individual sections of the Annual Report. The objective is to make the information disclosure more targeted and comprehensive. However, Section VII of the Annual and Sustainability Report, on sustainability in LV's activities, still provides specific information on environmental, social and governance (ESG) issues. The information is presented, on the one hand, as a general review and, on the other hand, in tables. The disclosure is mainly based on the GRI (Global Reporting Initiative) guidelines.

### **Risk and uncertainty**

Regarding risks and uncertainties in LV's operations, reference is made to the detailed explanations in Note 19-23 to the fund's annual financial statements.

### **Court actions in connection with amendments to the Articles of Association in response to the increasing life expectancy of fund members**

LV has previously given a detailed account of amendments to the fund's Articles of Association that entered into effect at the beginning of 2023 and concerned changes to entitlement in the mutual division to respond to the increase in life expectancy of fund members and forecasts of continuing increases in life expectancy.

In the spring months, an action was filed against LV concerning the amendments to the fund's Articles of Association, demanding the invalidation of a provision on changes to the entitlement of fund members.

The judgment of the Reykjavík District Court no. E-1722/2023, which was pronounced on 30 November 2023, upheld the plaintiff's claims demanding the invalidation of a specific provision of the amendments to the Articles of Association. The essence of the amendment concerned a recalculation of the earned entitlement of fund members in the mutual division, reducing monthly payments to a varying extent depending on age. The objective was to respond to the increasing life expectancy of fund members, as a greater lengthening of the lifespan of younger fund members is expected than of the lifespan of older members. This forecast is reflected in life expectancy tables published by the Association of Icelandic Actuaries and confirmed by the Minister of Finance and Economic Affairs.

The amendments to the Articles of Association were carefully prepared by the management and Board of LV in consultation with the fund's actuary and law firms, and through dialogue with the authorities. The goal was to respect the nature of pension entitlements as property rights, ensure non-discrimination, proportionality and other legal conditions. In that connection, it was also considered that life expectancy will increase more for those who are younger than for those who are older.

The amendments were approved by the Board and, subsequently, by the LV Council of Representatives at the annual general meeting in March 2022, and were subsequently approved by the Minister of Finance and Economic Affairs.

### **Next steps**

The judgment of the District Court was appealed in December to the Court of Appeal. Furthermore, permission to appeal directly to the Supreme Court was requested which was approved by the Supreme Court on February 20, 2024.

It is established that the majority of the pension fund system has followed a similar path regarding amendments to entitlement due to increasing life expectancy. It is therefore important, for all fund members and the pension system as a whole, that the outcome is based on a solid foundation.

### **Impact on the entitlement of fund members**

The direct impact of the judgment on entitlement and pension payments to fund members will depend on the final court decision.

LV has analysed the possible impact of the judgment on the entitlement of fund members in the mutual division. Regarding the evaluation of these effects, reference is made to Note 16 to the annual financial statements.

The District Court's judgment states: "The provision of Point 6 of Annex B of the defendant's Articles of Association, dated in April 2022, which entered into force on 1 January 2023, is invalid."

The fund's actuarial status is based on an actuarial assessment of total assets and total liabilities. That assessment takes into account the current situation as well as the future situation. At year-end 2022, the financial position based on actuarial valuation was negative by 5.6%, i.e. pension liabilities were ISK 107.2 billion in excess of total net assets. Of this, total accrued liabilities were ISK 84.5 billion in excess of total net assets.

If the District Court's judgment is upheld by the Supreme Court, the imputed outstanding balance at the end of 2022 would be negative by ISK 180.4 billion. This would make the ratio of total net assets to liabilities at year-end negative by 10.2%. Other things remaining equal, this would require a reduction in the entitlement of fund members in the mutual division. The implementation of this in detail would be based especially on the advice of the fund's actuary and the Board's assessment, as provided for by law. In tandem with this, individuals receiving a pension would have to be paid a pension increase amounting to 4.3%, as the corresponding reduction in entitlement was ruled invalid by the District Court's judgment. This payment would amount to almost ISK 1.2 billion for the year 2023. Such a payment to fund members would also have to be calculated for the year 2024.

At year-end 2023, the fund's actuarial deficiency would be 11.3%, were the judgment to be upheld.

The final change to earned entitlement of fund members in the mutual division would be determined by the fund's actuarial status when the changes were implemented. There, the development of inflation, asset markets and demographic variables such as life expectancy and disability have an impact. Although it is too early to say exactly what the final effect would be, it is assumed that the reduction of earned entitlement would be lowest for younger fund members, then progressively more depending on age, and greatest for individuals who are already receiving a pension. This is the result of the nature of the changes to the Articles of Association that the case concerns, as was explained in detail at the fund's AGM in March 2022.

As underlined in the above, the effect of invalidating Point 6 of Annex B has the greatest impact on fund members who have started receiving pensions, as the changes to the death and survivor tables that led to the amendments to the Articles were the least in their case. They would thereby have to pay for the forecast longer life expectancy of younger fund members than older members, contrary to what the fund's Board and the members' meeting decided at the time.

### **The Board's view of the possible outcomes of the proceedings at the higher court level**

As explained, the amendments to the Articles of Association in question here are based on detailed analytical work by LV's management and other experts, external legal advice and the advice of LV's actuary. In addition, a number of other pension funds have followed a similar path and their Articles of Association and

LV's amendments have been approved by the Minister of Finance and Economic Affairs. The District Court's decision has been scrutinised in detail by LV and advisors. It was their unanimous conclusion that there was every reason to have the District Court's judgment reviewed. In that regard, reference is mainly made to LV's explanatory notes to the Articles of Association and the fund's case preparation to the court.

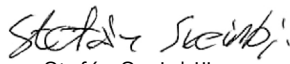
### Statement of the Board of Directors and managing director

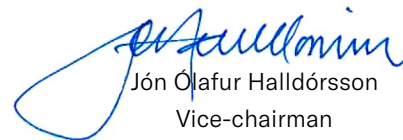
To the best of our knowledge, in our opinion the annual financial statements of Lífeyrissjóður verzlunarmanna, LV, give a clear picture of the pension fund's operating performance in 2023 and its assets, liabilities and financial position as of 31 December 2023. Furthermore, in our opinion, the annual financial statements and report of the Board of Directors and managing director provide a clear overview of developments and the performance of the fund's operations and its position at year-end and describe the principal risk factors facing the pension fund. Further information related to risk management can be found in Notes 19-23 in the annual financial statements and Section V of the Annual and Sustainability Report.

The Board of Directors and Managing Director of Lífeyrissjóður verzlunarmanna have today reviewed the fund's annual financial statements for 2023 and endorse them with their signatures. The annual financial statements will be made available and presented at the fund's next annual general meeting.

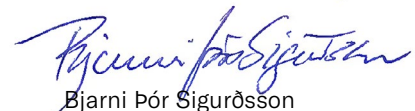
Reykjavík, 22 February 2024

Board of Directors of the Pension fund of  
Commerce (Lífeyrissjóður verzlunarmanna)

  
Stefán Sveinbjörnsson  
Chairman of the Board

  
Jón Ólafur Halldórsson  
Vice-chairman

  
Árni Stefánsson

  
Bjarni Þór Sigurðsson

  
Guðrún Ragna Garðarsdóttir

  
Helga Ingólfssdóttir

  
Sigrún Helgadóttir

  
Sunna Jóhannsdóttir

  
Guðmundur P. Þórhallsson  
Managing Director



# Appendix to the Report of the Board of Directors

## **Pension Fund of Commerce - Corporate Governance Statement 2023**

The Corporate Governance Statement of the Pension Fund of Commerce (LV) refers to Art. 51 of the Rules of the Financial Supervisory Authority of the Central Bank of Iceland, No. 335/2015, on Annual Financial Statements of Pension Funds. An overview of various acts, regulations and internal rules of LV is available on the fund's website in the section on information about the fund.

### **Basis and role of the fund**

The Pension Fund of Commerce (LV) operates under a license from the Minister of Finance, as provided for in Act No. 129/1997, on Mandatory Guarantee of Pension Rights and Operation of Pension Funds, as subsequently amended, and in accordance with the fund's Articles of Association.

Its Articles of Association state that the fund operates on the basis of the collective agreement between the Icelandic Confederation of Labour (ASÍ) and the Confederation of Icelandic Employers (SA) of 12 December 1995, and the Agreement between the union VR, SA and the Icelandic Federation of Trade (FA) of 23 April 2018, together with the amendments to the Articles of Association which entered into force on 1 September 2019.

The fund's role is to ensure its members, their surviving spouses and children pension benefits under the rules laid down in its Articles of Association. These state, for instance, that the fund should place special emphasis on retirement pension entitlement (lifelong pensions) and reserve the right to protect that entitlement primarily when reviewing the entitlement provisions of the fund's Articles.

The pension fund is a long-term investor, which invests members' capital with the objective of obtaining an optimal return, having regard for risk. The fund's Board of Directors emphasises developing its ownership strategy so that it encourages good corporate governance in those companies in which the fund has a holding.

### **Obligation of agency**

Directors and employees must take decisions in accordance with current acts and rules and their convictions, in the manner which best safeguards the interests of fund members and supports the fund's purpose and activities.

The Board of Directors, the managing director and others authorised to represent the fund may not take any measures which are clearly liable to unduly promote the interests of certain fund members, enterprises or others beyond those of other parties or to the detriment of the fund.

Directors are not obliged by the instructions of the parties who nominated them to serve on the fund's Board of Directors.

LV's mandate and obligations concerning sustainability are discussed in the fund's Sustainability Report for 2021.

## **Corporate governance and LV's Corporate Governance Statement**

The Pension Fund of Commerce (LV) emphasises good corporate governance in formulating policy and in the everyday management of the fund. This statement on corporate governance provides fund members, premium payers, public bodies, employees and other stakeholders with information on how the pension fund is governed. The statement is furthermore intended to support good management practices by the fund and by so doing promote its sound operation.

LV's Corporate Governance Statement 2023 is based on those acts and rules which apply at the time the fund's annual financial statements are endorsed by the Board of Directors and managing director. In this

connection regard is had specifically for the provisions of Act No. 129/1997 which apply to the management practices of pension funds, the fund's Articles of Association, FME Rules, including Rules No. 335/2015, on the Annual Financial Statements of Pension Funds, and the 6th edition of the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ Iceland and the Confederation of Icelandic Employers.

#### *Overview of acts, regulations and other rules that concern the fund's operations*

The following are some of the acts, regulations and other rules that concern the pension fund's activities. The overview is intended for information purposes and is not exhaustive.

#### **Acts of the Icelandic parliament Althingi**

- Act No. 129/1997, on Mandatory Guarantee of Pension Rights and Operation of Pension Funds.
- Act No. 87/1998, on Official Supervision of Financial Activities.
- Act No. 90/2018, on Data Protection and the Processing of Personal Data.
- Act No. 140/2018, on Actions to Combat Money Laundering and Terrorist Financing.
- Act No. 3/2006, on Annual Financial Statements.
- Act No. 150/2020 on Equal Status and Equal Rights Irrespective of Gender.
- Act No. 46/1980, on Facilities, Health and Hygiene Procedures and Safety in the Workplace.
- Act No. 40/2020, on Protection of Whistleblowers.

#### **Regulations**

- Regulation No. 391/1998, on Mandatory Guarantee of Pension Rights and Operation of Pension Funds.
- Regulation No. 698/1998, on the Disposition of Premiums for Pension Savings and Supplementary Insurance Cover.
- Regulation No. 916/2009, on Investment Policy and Evaluation of the Returns of Pension Funds and Pension Savings Custodians.
- Regulation No. 590/2017, on Supervision of Pension Funds' Risk.

#### **Rules and guidelines of the Financial Supervisory Authority (FME)**

- FME Rules no. 335/2015, on Annual Financial Statements of Pension Funds.
- FME Rules no. 577/2012, on Pension Funds' Audit Departments and Independent Pension Fund Supervisors.
- FME Guidelines No. 3/2010, on Assessment of the Eligibility of Key Employees.
- FME Guidelines No. 1/ 2019, on Risks Due To Information Systems Operated by Supervised Entities.
- FME Guidelines No. 6/ 2014, on Outsourcing by Supervised Entities.

#### **LV's internal rules** (available on the LV website)

Reference is made to the LV website for an overview of internal rules.

#### **Policy on social responsibility, ethical standards and responsible investment**

Section VI on governance and management in LV's Annual and Sustainability Report for 2023 describes LV's role, vision, guiding principles and core values. Section VII on sustainability in LV's operations contains a comprehensive overview of sustainability factors in LV's activities. They include environmental factors, social factors and corporate governance. Reference is made to these sections and other relevant sections of the Annual and Sustainability Report for a more detailed discussion. There is also discussion of responsible investment and the focus on sustainability factors in asset management in Section IV of the Annual and Sustainability Report on responsible investment.

**LV's policy on responsible investment** Due to the nature of its obligations, LV is a long-term investor. Criteria for responsible investment are part of the fund's investment strategy, and the fund must consider and promote the social responsibility of companies in which it invests.

LV requires the companies in which the fund invests to comply with the laws and regulations that apply to their activities. It is important that they have regard for guidelines on good governance and criteria related to social responsibility and appropriate treatment of natural resources.

LV is a signatory of the UN Principles for Responsible Investment (UNPRI), as are many of the largest pension funds and institutional investors both in North America and Europe. These principles discuss how emphasis on social and environmental issues supports good corporate governance, and by so doing can improve returns on asset portfolios. In this manner the interests of investors and the objectives of society in a broader perspective go hand in hand.

In the autumn of 2021, the fund's Board approved a policy on responsible investment. It describes LV's position on the methodology of responsible investment. It includes the objectives of the policy, the significance of sustainability in asset management, the integration of the methodology of responsible investment with traditional asset management and the implementation of the ownership role, information disclosure on how the policy is applied and its introduction. Furthermore, it emphasises that the companies in which the fund invests are to have responsible relations with their stakeholders and follow LV's emphases regarding good governance.

In tandem with its policy on responsible investment, the Board of the fund approved a policy on the exclusion of specific assets from LV's portfolios. The policy covers all of the fund's portfolios and describes LV's methodology for excluding certain enterprises. In formulating the policy, examples from leading pension funds in the Nordic countries were examined. The implementation of the policy takes time, so for some time yet it will still be possible to find in LV's portfolios enterprises that are on the exclusion list. The reason is that, so far, LV has had limited possibilities to express its views on exclusion when investing in foreign assets such as UCITS.

### **Some rules and criteria followed by LV**

**Conduct and communication** The Board of the pension fund has adopted rules on conduct and communication for the fund's employees and directors. They are intended to encourage appropriate work practices, reduce the risk of conflicts of interest and increase security in the handling of the fund's assets. The rules cover, among other things, good work practices, conflicts of interest, handling of confidential information, as well as gifts, incentive tours and work-related travel.

**Investment strategy** LV's Board of Directors formulates and approves each year an investment strategy for the fund as provided for in Act No. 129/1997 and other valid criteria. It sets out the strategy for the structure and management of the assets of the fund's mutual division and personal pension divisions. The strategy is forwarded to the Financial Supervisory Authority of the Central Bank of Iceland prior to 1 December each year and is available on the fund's website.

**Risk policy** The policy is decided by the Board with reference to Point 9 of the third paragraph of Art. 29 of Act No. 129/1997, regulations issued under the Act and other valid criteria specified in the strategy. The purpose is to increase security in the fund's operation, with the aim of reducing the likelihood that fund members' entitlement to pension payments will be reduced and in general to promote proper and secure operations.

**Risk management strategy** The pension fund has adopted a risk management strategy providing for the management of certain risk factors, for instance, by defining the role and responsibilities of the Board of Directors, the managing director and other parties involved in the implementation of the strategy. It also specifies how risk appetite is measured, specifies the main risk factors involved in the fund's operation and their control, discusses methods of risk management and reporting, and information on how the fund seeks to ensure that all employees are aware of the importance of risk management and how the fund promotes an appropriate risk culture.

**Shareholder policy** Through its shareholder policy, LV's Board aims to support good corporate governance in companies and its development. The shareholder policy lays out the emphases of LV's Board of Directors regarding corporate governance in those companies in which the fund has a holding. It specifies the criteria which LV emphasises in exercising its ownership of limited liability companies listed on the equity market in which the fund has a holding. The policy also applies, as applicable, to unlisted companies in which LV has invested. Due to its nature, the policy applies in particular to companies listed in Iceland. However, its basic criteria also apply to companies listed abroad in which the fund is a shareholder.

**Equal Pay Certification** In April 2022, LV received certification that the pension fund's equal pay system meets the requirements specified in the equal pay standard ÍST 85:2012.

**Human Resources Policy** LV has adopted a formal policy on the priorities of the fund's corporate culture focusing, among other things, on the importance of teamwork, good governance, employee well-being and attracting and building up excellent human resources. The fund also makes equality and non-discrimination the foundation of its management practices, employee training and development, recruitment, terms of employment and working environment.

The human resources policy states, among other things, that the pension fund strives to offer working conditions that attract qualified employees and to have in its service employees with the requisite knowledge, experience and ability for the diverse tasks entrusted to the fund. All work is guided by the fund's values, where responsibility, success and concern for others serve as the pillars of a healthy and safe working environment. The fund's human resources policy is supported by its policies on equal pay, a gender equality plan, education policy and response plan for bullying, sexual and gender-based harassment, gender-based violence and violence in the workplace.

The remuneration policy of the Pension Fund of Commerce is intended to support good governance at the fund. It takes into consideration the fund's Articles of Association, the views expressed in the 6th edition of the Guidelines on Corporate Governance and principles underlying Art. 79a of Act No. 2/1995, on Public Limited Companies.

The policy is intended to support secure operations and the pension fund's objective of providing good service to fund members. The fund's remuneration policy is therefore intended to contribute to making the pension fund a desirable place to work and to ensuring it has at its disposal qualified and experienced staff, which is the basis for the fund's operations to be competitive and in accordance with the highest standards.

## 2) Risk Management and Internal Control

**Risk Management** The Board of Directors has adopted a risk policy and risk management policy for the fund with the aim of increasing the security of its operations. The policies are based on the fund's overall strategy and the laws and regulations that apply to it. In essence, risk management refers to a system of controls enabling the fund to recognise, analyse, monitor, assess and deal with risks in its operations.

Emphasis is placed on making the policies and their application an active part of the activities and linking them to its decision-making in strategic matters as well as daily operations. Emphasis is placed on ensuring the Board and management have good insight into the fund's principal risk factors, are knowledgeable about their role in the process of risk management and supervision, and take an active part in it. It is important that the Board of Directors, management and other employees assess risk in taking decisions as appropriate in each instance.

The fund's risk manager is ultimately responsible for implementation of the policies and risk management of the fund. The risk manager is directly responsible to the managing director. To ensure the risk manager's greater independence in their work and the Board's unmediated access to information, the risk manager is authorised to give reports on risk management and communicate other information concerning risk management directly and without intermediaries to the fund's Board and the Audit Committee.

The policies define the organisation of the fund, its management and the responsibility for implementation of risk management; they discuss the main risk factors in the fund's operations, assess them and specify how they are monitored.

Further information on risk management can be found in the Annual Report, in notes to the annual financial statements and in the risk policy published on the fund's website.

**Internal control** The fund's internal control covers every action by the Board, management and employees to manage risk wherever possible and increase the likelihood that the objectives set for the fund's operations will be achieved. While managers are responsible for the planning and application of internal control, all the fund's employees contribute to its implementation in one way or another.

Internal control arrangements take into account FME rules No. 577/2012, on Pension Funds' Audit Departments and Independent Pension Fund Supervisors. The fund's internal control is reviewed annually by the parties responsible for the fund's internal audit.

The fund's internal control is based, among other things, on reporting, regular disclosure of information, documented work processes and job descriptions, rules on separation of functions, systematic access controls and an effective risk policy and risk supervision.

The fund's risk policy, risk management policy and risk management are important aspects of internal control. The main aspects of the fund's activities are based on documented processes that increase reliability and promote compliance with laws and regulations. Work process are reviewed regularly. The separation of functions and access controls within the fund are intended to reduce the risk of error and fraud. Multiple types of reporting, reconciliations and disclosure to public bodies, the fund's Board and individual managers ensure disciplined operations. A security policy governs the handling and storage of data in the fund's information systems. It is intended to ensure secure handling and preservation of data of significance for the fund's operations. Control functions and automated monitoring are aimed at minimising the impact of operational incidents on information systems. The fund's contingency plan is intended to address more serious operational incidents by restoring information systems.

The fund has also adopted rules on whistleblowers in connection with potential fraud or employee misconduct.

### Organisation of LV

**Annual General Meeting (AGM)** The AGM has supreme authority in affairs of the pension fund unless otherwise provided for by law or in the fund's Articles of Association. The AGM must be held before the end of June every year. All fund members and beneficiaries in B and C divisions (personal pension savings and specified private pensions) have the right to attend the meeting, speak and make proposals.

- The AGM shall include the following agenda items: i) report of the Board of Directors, ii) annual financial statements for the last operating year, iii) an actuarial examination, iv) the fund's investment policy, v) the fund's shareholder policy, vi) the composition of the Board of Directors, and vii) the composition of the Council of Representatives.
- The following is to be presented and voted on: i) the fund's remuneration policy, ii) selection of members for the committee on remuneration to directors, iii) proposal for remuneration to directors, iv) the Board's proposal for an auditor or audit firm, and v) Board motions to amend the fund's Articles of Association.

The members of the Council of Representatives shall vote at the fund's AGM on behalf of their member organisations on the decisions listed above. Resolutions to be dealt with by the AGM must be submitted to the fund's Board of Directors in writing no later than one week prior to the meeting. The minutes of AGMs are available on the fund's website.

More details of the organisation of the fund are provided in its Articles of Association as well as in Act No. 129/1997.

**Board of Directors** The Board of Directors is responsible for the fund's operations and is to ensure that its organisation and activities are generally sound and proper. It makes strategic decisions regarding the fund's situation and operations and ensures adequate supervision of its accounting and handling of financial assets. The Board also proposes amendments to the Articles of Association to member organisations and the AGM, but is also authorised to amend the Articles if certain conditions are met.

The Board of Directors handles the following tasks, among others, cf. Art. 29 of Act No. 129/1997:

- The Board formulates and approves the investment strategy and internal control and documents supervision processes. It also formulates arrangements for internal audit and appoints an independent pension fund supervisor to implement it.
- The Board engages the managing director, determines their salary and terms of employment.
- The Board commissions an actuary to perform an annual actuarial examination of the fund's mutual division.
- The Board establishes rules for the information disclosure by the managing director to the Board; sets rules for transactions by the Board of Directors and employees with financial instruments; adopts a risk policy for the fund; and develops a monitoring system for the fund's risks.
- The Board of Directors decides who will be the fund's representative on the board of an organisation or business enterprise.

Among other issues that the Board discusses at its meetings are more significant investment decisions; risk assessment; proposals for amendments to the Articles of Association; investment, shareholder and risk policies; credit rules; budgets; and public relations. The Board of Directors has adopted Rules of Procedure that are available on the fund's website.

**Managing director** The fund's Board of Directors shall engage a managing director, determine their salary and other terms of employment, authorise the managing director to commit the fund and set rules on their work which are made available on the fund's website. The managing director is responsible for daily operations, for ensuring that they accord with statutory provisions and the fund's Articles of Association, together with policies and instructions issued by the Board of Directors. The managing director shall hire other personnel for the fund.

**Council of Representatives** The pension fund's member organisations shall establish a Council of Representatives for the pension fund, comprised of 50 delegates. The union VR appoints 25 representatives, the Confederation of Icelandic Employers (SA) 23 representatives and the Federation of Trade (FA) 2 representatives. Appointments to the Council of Representative shall be made as provided for in the agreements of the fund's member organisations and the relevant rules adopted by these organisations. More detailed rules about the Council of Representatives can be found in the fund's Articles of Association.

**Auditing** The fund's accounts are audited and endorsed by a certified auditor. Furthermore, the fund's internal audit is performed by an independent auditor. Auditing of the fund and its internal audit are carried out by separate audit firms. LV's Audit Committee makes a proposal to the Board regarding the selection of the fund's auditor (external auditor) and internal auditor.

**Actuary** The actuarial audit is carried out annually as provided for in Art. 39 of Act No. 129/1997 and Regulation No. 391/1998. As provided for in an agreement with the fund, the audit is performed by an actuary recognised by the Financial Supervisory Authority to carry out such tasks. The audit assesses the fund's accrued liabilities and expected future liabilities, on the one hand, and its current assets and expected premiums and returns, on the other.

**Audit committee appointed by the Board** According to the provisions of the Act on Annual Financial Statements, entities with operations related to the public interest, including pension funds, must operate audit committees. The Board has appointed an Audit Committee, which is responsible to it directly. The Audit Committee's objectives, composition, powers, responsibility and tasks are set out in Rules of Procedure adopted by the Board.

The Committee consists of:

- Jón Ólafur Halldórsson, chair of the Committee. Jón has extensive experience in the business world and does consulting work as well as Board work. He holds, among other things, an MBA degree with a focus on corporate finance and an MSc in management and business administration from the University of Iceland. Jón is vice-chair of LV's Board of Directors.
- Helga Ingólfssdóttir. Helga works in accounting and project management. She is an accredited public bookkeeper and has completed management and business studies at the Continuing Education school of the University of Iceland. Helga is on the Board of Directors of the fund.
- Margret G. Flóvenz is a certified public accountant with extensive experience of audit work.

**Board self-assessment** The Board conducts performance evaluations of its work as provided for in the Rules of Procedure. The results are used by the Board to develop its working practices and support good governance. Questions in the performance evaluation relate to the composition and organisation of the Board, its role and responsibilities, its performance and the performance of its sub-committees.



**Number of Board meetings and attendance** In 2023, 12 Board meetings were held.

More information about the individual directors, meeting attendance and managing director is provided in the electronic version of the Corporate Governance Statement, which is available on the fund's website.

Approved at the meeting of the Board of Directors on  
22 February 2024.



*Accompanying the Corporate Governance Statement is information concerning the eligibility and meeting attendance of directors:*

**Stefán Sveinbjörnsson, chair from 1 April 2023**

- Took his seat as director: August 2019
- Meetings attended in 2023: 12
- Other positions held on behalf of LV, such as directorships in companies: Managing director of the union VR, the Vocational Training Fund, the National Association of Retail Workers, the rental company VR Blær housing foundation slhf. and VR Blær housing foundation ehf. Vice-chair of the housing association Kringlan 7 and Hús verslunarinnar sf. Alternate director of the Icelandic Centre for Retail Studies, Eldrör ehf. and the Education Fund.
- Member of the Pension Fund of Commerce (LV): Yes
- Information on work that the director has done for the fund: None
- Interests connected with the fund's main business partners and competitors: Managing director of VR; the pension fund is responsible for the collection of union dues for VR.
- Other connections to the fund [than those] described above, if they exist: None.

**Jón Ólafur Halldórsson, Vice-chair of the Board of Directors from 1 April 2023**

- Took his seat as director: June 2020
- Meetings attended in 2023: 11
- Other positions held on behalf of LV, such as directorships in companies: Self-employed, chairman of the Board of the Federation of Trade and Services (SVP), chairman of Marga ehf., chairman of the Board of VHE ehf., chairman of the Board of Telemakkus ehf., Director of Kapp ehf, vice-chairman of the Board of LV, a director and executive director of SA, chairman of the National Association of Pension Funds.
- Member of LV: Yes
- Information on work that the director has done for the fund: None.
- Interests connected with the fund's main business partners and competitors: None.
- Other connections to the fund [than those] described above, if they exist: None.

**Árni Stefánsson**

- Took his seat as director: April 2017.
- Meetings attended in 2023: 10
- Other positions held on behalf of LV, such as directorships in companies: CEO of Húsasmiðjan ehf., director of the Federation of Trade and Services (SVP), director of Leikmenn ehf. (company has no activities).
- Member of LV: Yes.
- Information on work that the director has done for the fund: None.
- Interests connected with the fund's main business partners and competitors: None.
- Other connections to the fund [than those] described above, if they exist: None.

**Bjarni Þór Sigurðsson**

- Took his seat as director: August 2019
- Meetings attended in 2023: 11
- Other positions held on behalf of LV, such as directorships in companies: Director of VR, alternate director of VR Blær housing foundation slhf. and chairman of the Council of Representatives of Bjarg housing foundation slhf.
- Member of LV: Yes

- Information on work that the director has done for the fund: None
- Interests connected with the fund's main business partners and competitors: None.
- Other connections to the fund [than those] described above, if they exist: None.

#### **Guðrún Ragna Garðarsdóttir**

- Took her seat as director: April 2022.
- Meetings attended in 2023: 12
- Other positions held on behalf of LV, such as directorships in companies: Managing director of Atlantsólía ehf., chair of the Icelandic Federation of Trade (FA), managing director and alternate director of Atlantsorka ehf. and alternate director of A30 ehf.
- Member of LV: Yes
- Information on work that the director has done for the fund: None
- Interests connected with the fund's main business partners and competitors: None.

#### **Helga Ingólfssdóttir**

- Took her seat as director: August 2019
- Meetings attended in 2023: 12
- Other positions held on behalf of LV, such as directorships in companies: Alternate councillor of the Town of Hafnarfjörður, member of Hafnarfjörður's Family Council and director of the Unemployment Insurance Fund representing the Icelandic Confederation of Labour (ASÍ).
- Member of LV: Yes
- Information on work that the director has done for the fund: None
- Interests connected with the fund's main business partners and competitors: None.
- Other connections to the fund [than those] described above, if they exist: None.

#### **Sigrún Helgadóttir**

- Took her seat as director: September 2021
- Meetings attended in 2023: 9
- Other positions held on behalf of LV, such as directorships in companies: Managing director of Norðurál at Grundartangi, director of Hamarsheiði II ehf., Norðurál ehf., Norðurál Grundartangi ehf. and Century Aluminum Vlissingen BV, Netherlands, alternate director of Klafi ehf. and Kóma ehf.
- Member of LV: Yes
- Information on work that the director has done for the fund: None
- Interests connected with the fund's main business partners and competitors: None.
- Other connections to the fund described above, if they exist: None.

#### **Sunna Jóhannsdóttir**

- Took her seat as director: February 2023.
- Meetings attended in 2023: 10.
- Other positions held on behalf of LV, such as directorships in companies: Project manager of financial affairs and for the Parkinson's Association, member of the Audit Committee of category A and B companies of the City of Reykjavík, including Reykjavík Energy (OR), the Associated Icelandic Ports, Sorpa and Strætó.
- Member of LV: Yes.
- Information on work that the director has done for the fund: None.
- Interests connected with the fund's main business partners and competitors: None.
- Other connections to the fund [than those] described above, if they exist: None.

# Independent Auditor's Report

To the Board of Directors and members of the Pension fund of Commerce (Lífeyrissjóður verzlunarmanna).

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of the Pension Fund of Commerce ("the Fund"), which comprise the balance sheet as at 31 December, 2023, the income statement, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December, 2023, and of its financial performance and its cash flows for the year then ended in accordance with the regulation on the financial statements of pension funds and the Icelandic Financial Statement Act.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

### 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 the Fund in accordance with 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 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.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were first appointed as auditors by the Annual General Meeting on March 28, 2023. The financial statements for the year 2022 were audited by another independent auditor. The independent auditor's report is dated 23 February 2023 and the audit opinion is unqualified.

### Emphasis of matter related to uncertainty of outcome of legal proceedings

Without qualifying our opinion, we would like to draw attention to the discussion in the Board's report in the section on Court actions in connection with amendments to the Articles of Association in response to the increasing life expectancy of fund members and to note 16 in the annual accounts, which discusses the impact on the actuarial position of the Fund as a result of the outcome of legal proceedings in which amendments to the Fund's articles of association were declared invalid. The fund has appealed the judgment to Landsréttur and requested permission to appeal directly to the Supreme Court. The Supreme Court has granted leave of appeal. It is not possible to assess the expected outcome of these litigations, but at the end of 2023 the Fund has calculated an actuarial position assuming that the amendments pursuant to Annex B, item 6 are in force. If the District Court's decision will stand, it is clear that the fund will have to recalculate its actuarial position at the end of 2022 and 2023. The potential impact on the fund is discussed in an explanatory note.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key Audit Matters

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### Assessment of investments

The book value of investments amounted ISK 1,273 billion or 98.7% of total assets on 31 December 2023 (2022: ISK 1,158 billion). Reference is made to notes 2.7 and 9 - 12 for investments.

Investments include stocks, shares and bonds. The fund sets an investment policy which where, among other things, the composition of the investments and the confidence limits of individual investment classes are discussed.

The investments are either assessed at fair value, held to maturity or according to valuation method, where variables are based on market information and other external information.

Due to the size and importance of investments and that a part of them is assessed at an other external valuation, then their assessment is a key audit matter.

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### Assessment of pension liability

Mutual insurance department's pension liability amounted to ISK 2,105 billion on 31 December 2023 (2022: ISK 1,896 billion). Revalued assets in excess of the fund's total liabilities amounted to ISK -142 billion on 31 December 2023 or -6.8% of the liabilities (2022: ISK -107 billion or -5.6% of the liabilities). Reference is made to the statement of actuarial position and to note 16.

The actuarial position indicates the fund's ability to meet its pension liability. The calculation is performed by an independent actuarial mathematician and is largely based on assumptions that have been issued by the Icelandic actuarial association and approved by the Ministry of Finance and Economic Affairs. Due to the importance of the fund's actuarial position, the pension liability is a key audit matter.

## How the matter was addressed in the audit

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Our audit procedures were designed to confirm the value of investments. These procedures include:

- Information was obtained about the investment process and the methodology and criteria for investment valuation.
- The exchange rate of a sample of listed investments was confirmed with the help of the data provider.
- The fund's methods and calculations of unregistered investments were assessed.
- An independent calculation by KPMG's valuation specialist on the value of a sample of bonds recognized at fair value or held to maturity.
- Relevant notes were reviewed, including the note regarding the level of fair value.

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Our audit procedures were designed to evaluating the assumptions used by the actuary in estimating the pension liability. These procedures include:

- We assessed the independence and competence of an actuary.
- Information was obtained about the calculation process.
- The fund's procedures for recalculating the actuarial liability and actuarial revaluation of securities were reviewed.
- The funds monitoring of the rights of fund members were reviewed.
- Analytical measures were carried out on the development of the pension liability, assumptions and conclusions.
- We reviewed the summary of the actuarial position and note 16 in the financial statements and confirmed that the presentation was in accordance with the rules.
- We performed a recalculation of a sample of actuarial revaluations of investments.

## **Other information**

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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. The annual report is not available at our reporting date but is expected to be made available to us after that date.

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

The Board of Directors and CEO are responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic Financial Statement Act, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and CEO are responsible for assessing the Fund'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 they either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

## **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 judgment 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 the Fund'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 Fund'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 Fund 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 The Board of Directors and audit committee 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with The Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and CEO accompanying the financial statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the financial statements.



The engagement partner on the audit resulting in this independent auditor's report is  
Hrafnhildur Helgadóttir.

Reykjavík, February 22, 2024.  
KPMG ehf.

# Statement of Changes in Net Assets for Pension Payments 2023

	<b>2023</b>	<b>2022</b>
<b>Premiums</b>		
Members .....	13,172,136	11,663,366
Employers .....	34,264,007	30,462,916
Transfer of rights and repayments .....	(64,171)	(51,281)
	<u>47,371,972</u>	<u>42,075,001</u>
Special supplementary contributions .....	568,460	460,215
	<u>47,940,432</u>	<u>42,535,216</u>
<b>Pensions</b>		
Total amount of pensions .....	34,461,017	26,344,122
Contribution to Rehabilitation Fund .....	293,545	259,444
Direct expenses from disability pensions .....	15,433	14,575
	<u>34,769,995</u>	<u>26,618,141</u>
<b>Net investment income</b>		
Net income from holdings in companies and funds .....	61,398,835	(69,512,940)
Net income from bonds .....	40,817,501	27,478,240
Interest income from cash equivalents .....	1,093,383	63,585
Interest income from premiums and other claims .....	151,318	66,955
Other investment income .....	0	(665)
Investment expenses .....	(502,869)	(536,615)
	<u>102,958,168</u>	<u>(42,441,440)</u>
<b>Operating expenses</b>		
Office and management expenses .....	1,718,274	1,496,541
Increase in net assets .....	114,410,331	(28,020,905)
Net assets from previous year-end .....	1,173,110,572	1,201,131,477
Net assets for pension payments at year-end .....	<u>1,287,520,903</u>	<u>1,173,110,572</u>

# Balance Sheet as of December 31, 2023

	2023	2022
<b>Investments</b>		
Holdings in companies and funds .....	785,289,427	711,974,088
Bonds .....	487,711,211	446,345,960
Other investments .....	0	0
	<u>1,273,000,638</u>	<u>1,158,320,048</u>
<b>Claims</b>		
Claims on employers .....	4,462,557	3,688,203
Other claims .....	570,910	3,520
	<u>5,033,467</u>	<u>3,691,723</u>
<b>Other assets</b>		
Fixed assets .....	512,439	294,148
Cash equivalents .....	10,593,355	12,159,151
Total assets	<u>1,289,139,899</u>	<u>1,174,465,070</u>
<b>Liabilities</b>		
<b>Short-term liabilities</b>		
Cost incurred and income collected in advance .....	131,339	128,573
Other liabilities .....	1,487,656	1,225,925
	<u>1,618,995</u>	<u>1,354,498</u>
Net assets for pension payments at year-end .....	<u>1,287,520,903</u>	<u>1,173,110,572</u>
<b>Division of net assets for pension payments</b>		
Common pension fund .....	1,256,491,994	1,146,104,987
Private pension fund – Securities division .....	20,886,055	19,129,315
Private pension fund – Other division .....	10,142,854	7,876,269
	<u>1,287,520,903</u>	<u>1,173,110,571</u>



# Statement of Cash Flows 2023

	<b>2023</b>	<b>2022</b>
<b>Inflow</b>		
Premiums .....	47,455,432	42,270,217
Paid interest income on cash equivalents and claims .....	916,030	342,269
Other inflow .....	429,553	372,809
	<u>48,801,015</u>	<u>42,985,295</u>
<b>Outflow</b>		
Pensions .....	34,769,995	26,618,141
Operating expenses .....	1,651,829	1,420,831
Investment in operating assets .....	281,968	71,826
Other outflow .....	964,337	165,751
	<u>37,668,129</u>	<u>28,276,549</u>
New disposable resources for investments .....	<u>11,132,886</u>	<u>14,708,746</u>
<b>Investment transactions</b>		
Received income from holdings in companies and funds .....	13,096,157	18,660,035
Investments in holdings in companies and funds .....	(112,082,083)	(120,760,255)
Sold holdings in companies and funds .....	86,568,793	85,758,726
Installments on bond principals and interest .....	57,780,234	52,829,738
Purchased bonds .....	(77,987,599)	(66,545,344)
Sold bonds .....	19,657,376	13,797,469
Sold other investments .....	0	24,600
	<u>(12,967,122)</u>	<u>(16,235,031)</u>
Increase (decrease) in cash equivalents .....	(1,834,237)	(1,526,285)
Exchange rate difference on cash equivalents .....	268,441	(219,325)
Cash equivalents at beginning of year .....	12,159,151	13,904,760
Cash equivalents at year-end .....	<u>10,593,355</u>	<u>12,159,151</u>



# Financial Indicators

<b>Common Pension Fund</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Financial position based on actuarial valuation</b>					
Net assets in excess of total liabilities .....	(6.8%)	(5.6%)	3.5%	10.6%	8.4%
Net assets in excess of accrued liabilities .....	(8.6%)	(6.9%)	12.2%	17.1%	14.0%
<b>Return on investment</b>					
Net nominal return on investment * .....	8.6%	(3.6%)	16.9%	14.7%	18.7%
Real return on investment * .....	0.7%	(11.8%)	11.6%	11.0%	15.8%
Net real return on investment * .....	0.5%	(11.9%)	11.5%	10.8%	15.6%
Net nominal return on investment (at market price) * .....	7.8%	(6.2%)	16.9%	14.8%	19.7%
Net real return on investment (at market price) * .....	(0.2%)	(14.2%)	11.5%	11.0%	16.6%
Net real return (five-year average) .....	4.8%	4.9%	8.8%	6.2%	6.1%
Net real return (ten-year average) .....	4.8%	5.3%	7.6%	6.7%	6.0%
Net real return (twenty-year average) .....	4.1%	4.6%	5.2%	4.5%	4.1%
Net real return (thirty-year average) .....	4.7%	4.9%	5.5%	5.4%	5.2%
<b>Investment securities</b>					
Listed holdings in companies and funds .....	47.9%	47.8%	53.8%	52.6%	48.2%
Listed bonds .....	28.0%	27.8%	26.5%	28.2%	28.6%
Unlisted holdings in companies and funds .....	13.7%	13.7%	10.8%	8.1%	7.7%
Unlisted bonds .....	10.4%	10.7%	8.9%	11.1%	15.5%
Bank deposits .....	0.0%	0.0%	0.0%	0.0%	0.0%
Other investments .....	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Investment securities by currencies</b>					
Securities in Icelandic króna .....	54.2%	56.2%	54.9%	56.5%	60.3%
Securities in other currencies .....	45.8%	43.8%	45.1%	43.5%	39.7%
<b>Number of</b>					
Number of active fund members .....	37,152	36,512	35,854	35,697	36,503
Number of total fund members at year-end .....	186,351	182,768	178,661	175,193	174,963
Number of pensioners .....	24,222	22,115	21,044	19,813	18,452
Staff (full-time equivalent position) .....	57.6	54.2	51.1	49.7	46.8
<b>Pension payments</b>					
Old age pension .....	79.6%	77.5%	76.7%	76.3%	76.4%
Disability pension .....	16.0%	17.5%	17.9%	18.2%	17.8%
Spouse's pension .....	3.9%	4.4%	4.7%	4.7%	5.1%
Children's allowance .....	0.5%	0.6%	0.7%	0.8%	0.7%
<b>Other financial indicators</b>					
Pensions as percentage of premiums .....	72.5%	62.6%	60.2%	53.3%	46.0%
Operating expenses as percentage of premiums .....	3.6%	3.5%	3.4%	3.4%	3.0%
Net investment income as % of average asset position .....	8.4%	(3.6%)	15.7%	13.8%	17.2%
Operating expenses as % of average asset position .....	0.14%	0.13%	0.12%	0.13%	0.14%
<b>Amounts at fixed prices (in millions of Icelandic króna)</b>					
Total premiums .....	47,940	45,940	45,408	44,489	47,213
Total pensions .....	34,770	28,749	27,339	23,699	21,735
Total net investment income .....	102,958	(45,839)	205,366	160,945	174,460
Total operating expenses .....	1,718	1,616	1,541	1,519	1,428
Increase in net assets for pension payments .....	114,410	(30,264)	221,893	180,216	198,510

\* Return is calculated on the basis of FME rules (assets are not valued on daily basis)

# Financial Indicators

<b>Private Pension Funds</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Private pension fund – Securities division</b>					
Net nominal return on investment *	8.6%	(3.6%)	16.9%	14.7%	18.7%
Net real return on investment *	0.5%	(11.9%)	11.5%	10.8%	15.6%
Net real return (five-year average)	4.8%	4.9%	8.8%	6.2%	6.1%
Number of active fund members	1,159	1,173	1,236	1,314	1,363
Number of pensioners	144	125	135	87	84
Securities division has the same investment strategy as the Common Division					
<b>Private pension fund – Ævileið I division</b>					
Net nominal return on investment *	7.2%	(7.9%)	17.4%	15.4%	12.9%
Net real return on investment *	(0.7%)	(15.8%)	12.0%	11.5%	10.0%
Net real return (five-year average)	2.8%	2.4%			
Number of active fund members	2,433	2,221	2,020	1,848	1,629
Number of pensioners	7	2	1	2	2
<b>Investment securities</b>					
Listed holdings in companies and funds	52.7%	52.2%	58.8%	64.9%	67.8%
Listed bonds	47.3%	47.8%	41.2%	35.1%	32.2%
Unlisted holdings in companies and funds	0.0%	0.0%	0.0%	0.0%	0.0%
Unlisted bonds	0.0%	0.0%	0.0%	0.0%	0.0%
Securities in Icelandic króna	69.1%	72.7%	72.9%	79.0%	75.1%
Securities in other currencies	30.9%	27.3%	27.1%	21.0%	24.9%
<b>Private pension fund – Ævileið II division</b>					
Net nominal return on investment *	5.9%	(5.1%)	10.7%	11.6%	11.1%
Net real return on investment *	(1.9%)	(13.2%)	5.6%	7.8%	8.2%
Net real return (five-year average)	1.0%	1.5%			
Number of active fund members	1,433	1,352	1,293	1,235	1,146
Number of pensioners	53	25	13	5	2
<b>Investment securities</b>					
Listed holdings in companies and funds	32.4%	31.6%	35.8%	44.5%	48.3%
Listed bonds	67.6%	68.4%	64.2%	55.5%	51.7%
Unlisted holdings in companies and funds	0.0%	0.0%	0.0%	0.0%	0.0%
Unlisted bonds	0.0%	0.0%	0.0%	0.0%	0.0%
Securities in Icelandic króna	84.4%	86.8%	85.7%	88.2%	84.7%
Securities in other currencies	15.6%	13.2%	14.3%	11.8%	15.3%
<b>Private pension fund – Ævileið III division</b>					
Net nominal return on investment *	5.8%	1.3%	1.7%	5.4%	5.8%
Net real return on investment *	(2.0%)	(7.3%)	(3.0%)	1.8%	3.1%
Net real return (five-year average)	1.6%	1.1%			
Number of active fund members	681	659	673	731	775
Number of pensioners	69	37	21	16	17
<b>Investment securities</b>					
Listed holdings in companies and funds	23.1%	24.8%	22.1%	22.7%	24.2%
Listed bonds	76.9%	75.2%	77.9%	77.3%	75.8%
Unlisted holdings in companies and funds	0.0%	0.0%	0.0%	0.0%	0.0%
Unlisted bonds	0.0%	0.0%	0.0%	0.0%	0.0%
Securities in Icelandic króna	100.0%	100.0%	100.0%	100.0%	100.0%
Securities in other currencies	0.0%	0.0%	0.0%	0.0%	0.0%

\* Return is calculated on the basis of FME rules (assets are not valued on daily basis)

