



Translation from Icelandic

## **Proposals to the Annual General Meeting of Arion Bank hf. to be held 15 March 2023**

The Annual General Meeting of Arion Bank hf. ("Arion bank" or the "Bank") will be held at the Bank's head office at Borgartún 19, 105 Reykjavík, at 16:00 Icelandic time on 15 March 2023. Shareholders will also have the option of attending by electronic means. On the day of the announcement of the Annual General Meeting there are 1.455.616.790 outstanding shares in the Bank with voting rights.

### **Agenda:**

- 1. Report of the Board of Directors on the Bank's operations, activities and financial situation during the last financial year**
- 2. Approval of the Bank's annual financial statements and consolidated accounts for the last financial year**
- 3. Decision on payment of a dividend**
- 4. Election of the Bank's Board of Directors, Chairman of the Board and Vice-Chairman**
- 5. Election of an auditing firm**
- 6. Decision on remuneration to the Bank's Board of Directors and compensation to members of the Board's sub-committees**
- 7. Decision on remuneration to members of the Bank's Nomination Committee**
- 8. Election of two members of the Bank's Nomination Committee**
- 9. Proposal to amend the Rules of Procedure for the Nomination Committee**
- 10. Proposal to amend the Bank's Remuneration Policy**
- 11. Proposal to reduce share capital by cancelling the Bank's own shares and a corresponding amendment to the Articles of Association**
- 12. Proposal to renew the Bank's authorisation to purchase own shares and a corresponding amendment to the Articles of Association**
- 13. Proposals to amend the Bank's Articles of Association**
- 14. Other business**

### **Proposals of the Board of Directors:**

- 1. Item no. 2 - Approval of the Bank's annual financial statements and consolidated accounts for the last financial year**

The Board of Directors proposes that the Annual Financial Statements and consolidated accounts for the year 2022 will be approved.

Benedikt Gíslason, Chief Executive Officer, will present the Annual Financial Statements, as approved by the Board of Directors at its meeting on 8 February 2023.

- 2. Item no. 3 - Decision on payment of a dividend**

The Board of Directors proposes that a dividend of ISK 8.5 per share will be paid to the Bank's shareholders, equal to approximately ISK 12.5 billion, taking into account own shares held by the Bank.

If approved by the shareholders, the Bank's shares traded on and after 16 March 2023 (Ex-date) will be ex-dividend.

The right to a dividend will be paid to shareholders registered in the Bank's shareholders registry at the end of 17 March 2023 (Record date).

The payment date of the dividend will be 23 March 2023.



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Explanatory note:

The Board of Directors proposes that the Bank pay dividends of ISK 12.5 billion in 2023, net of own shares. This dividend calculates as ISK 8.5 per share.

**3. Item no. 5 - Election of an auditing firm**

The Board of Directors proposes that Deloitte ehf. will be elected to continue to act as the Bank's external auditors until the next AGM. This proposal is based on an agreement between Arion Bank and Deloitte from December 2021 and Article 90 of the Act on Financial Undertakings, no. 161/2002.

**4. Item no. 6 - Decision on remuneration to the Board of Directors and compensation to members of the Board's sub-committees**

The Board of Directors proposes the following remuneration for the Board of Directors, members of Board sub-committees and alternate Directors:

The monthly salary of Board members be ISK 550,000, the monthly salary of the Vice-Chairman be ISK 825,000 and the monthly salary of the Chairman be ISK 1,100,000. Board members residing outside of Iceland will receive a further ISK 350,000 for each Board meeting they attend in person.

In addition, it will be permitted to pay those Board members who serve on the Board's sub-committees a maximum of ISK 225,000 a month for each committee and the chairmen of Board sub-committees ISK 337,500 a month.

Alternate Directors shall receive a payment of ISK 550,000 per year. In addition, alternate Directors shall be paid ISK 275,000 for each meeting attended.

For Board members residing outside of Iceland, these figures shall be paid in the equivalent amount in their respective currency, fixed at the average three-year official exchange rate prior to the date of the 2023 AGM.

Explanatory note:

Further information is to be found in the Nomination Committee's report, which is expected to be made available on 1 March 2023 on the Bank's website, [www.arionbanki.is/gm](http://www.arionbanki.is/gm).

**5. Item no. 7 - Decision on remuneration to members of the Bank's Nomination Committee**

The Board of Directors proposes that remuneration to members of the Bank's Nomination Committee shall be a fixed hourly rate of ISK 26,500.

**6. Item no. 9 – Proposal to amend the Rules of Procedure for the Nomination Committee**

The Board of Directors proposes changes to the Rules of Procedure for the Nomination Committee for the purpose of a) aligning the rules with new Article 53 of Act No. 161/2002 on Financial Undertakings and b) clarifying the procedure should a member of the Nomination Committee cease its role between shareholder meetings.

Explanatory note:

On the Bank's website, [www.arionbanki.is/gm](http://www.arionbanki.is/gm), is a copy of the Rules of Procedure of the Nomination Committee, as well as a document that tracks the intended changes to the Rules of Procedure.

**7. Item no. 10 - Proposal to amend the Bank's Remuneration Policy**

The Board of Directors proposes that the Remuneration Policy will be amended in accordance with current legal requirements in Article 57a, b and e of Act No. 161/2002 on Financial Undertakings.

The Bank's Remuneration Policy, reflecting the proposed amendments, is attached hereto as Appendix 1 and is also set out on the Bank's website, [www.arionbanki.is/gm](http://www.arionbanki.is/gm).

Explanatory note:



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The amendments primarily derive from recent amendments to the Act No. 161/2002 on Financial Undertakings, as per Act No. 38/2022. On the Bank's website, [www.arionbanki.is/gm](http://www.arionbanki.is/gm), is a document that tracks the intended changes to the Bank's Remuneration Policy accompanied with a reasoned explanatory note.

**8. Item no. 11 - Proposal to reduce share capital by cancelling the Bank's own shares and a corresponding amendment to the Articles of Association**

The Board of Directors proposes the following to the Annual General Meeting:

"The Annual General Meeting of Arion Bank hf., held on 15 March 2023, resolves to reduce the Bank's share capital by ISK 50,000,000 nominal value, from ISK 1,510,000,000 to ISK 1,460,000,000 nominal value, by cancelling 50,000,000 own shares. The reduction will be executed by cancelling the Bank's own shares amounting to the above-mentioned amount provided that all applicable legal conditions are met."

The proposal entails a change to Article 2.1 of the Bank's Articles of Association, which will read as follows:

"The Company's share capital is ISK 1,460,000,000.00 – one billion four hundred and sixty million Icelandic kronur."

Explanatory note:

*It is proposed to cancel 50,000,000 shares held by the Bank for the benefit of shareholders. If this proposal is accepted, the share capital of the Bank will be reduced from ISK 1,510,000,000 to ISK 1,460,000,000 nominal value. The Financial Supervisory Authority of the Central Bank of Iceland has already approved the reduction in accordance with Act No. 161/2002, on Financial Undertakings and Regulation (EU) on Prudential Requirements for Credit Institutions and Investment Firms, No. 575/2013 (CRR).*

**9. Item no. 12 - Proposal to renew the Bank's authorisation to purchase own shares and a corresponding amendment to the Articles of Association**

The Board of Directors proposes that the authorisation to purchase the Bank's shares be approved. It is further proposed that should the proposal be approved, the authorisation will be recorded in Annex No. 1 to the Articles of Association of the Bank, replacing the current Annex No. 1, and thus be an integral part of the Articles of Association in accordance with Article 7.1 of the Articles of Association. The proposal reads as follows:

"The Annual General Meeting of Arion Bank hf. held on 15 March 2023 authorises the Board of Directors, based on Article 55 of the Company Act, No. 2/1995, to acquire on behalf of the Company up to 10% of issued share capital in the Company. The authorisation shall be used to set up a formal share repurchase program or for the purpose of offering shareholders generally to sell their shares to the Company, e.g. through auction, provided equal treatment of shareholders is ensured should such offer be made. Shares acquired by the Company hereunder may *inter alia* be used for the purpose of meeting the Company's obligations under share option agreements with its employees, and for payment of variable remuneration as per the Company's Remuneration Policy and variable remuneration framework. The repurchase of shares under this authorisation is conditional upon the prior approval of the Financial Supervisory Authority in accordance with Article 77 of Regulation (EU) on Prudential Requirements for Credit Institutions and Investment Firms, No. 575/2013 (CRR).

This authorisation shall remain in effect until the Company's Annual General Meeting in 2024 or 15 September 2024, whichever occurs first. Older authorisations to purchase own shares are cancelled with the approval of this authorisation. Such cancellation shall, however, not affect any repurchase transactions initiated and published prior to that date."

Explanatory note:



*Translation from Icelandic*

*The Board of Directors proposes that the current authorisation of the Board of Directors to purchase the Bank's shares be renewed. The proposal is similar to the existing authorisation of the Board. The proposal aims at outlining the Bank's shareholder return in a transparent manner and concurrently with the Bank's dividend policy. In general, similar arguments apply to the repurchase of a Bank's own shares as to annual dividend payments, on the basis of the Bank's operating results.*

*The proposed authorisation to repurchase the Bank's own shares will be carried out in accordance with applicable laws and regulations and the prior approval of the Central Bank's Financial Supervisory Authority shall be obtained in accordance with applicable laws and regulations.*

*Furthermore, in line with paragraph 2 (c) of Article 5 of Regulation (EU) No. 596/2014 on Market Abuse (Market Abuse Regulation) the Annex reflects that shares acquired by the Bank on the basis of this authorisation may, inter alia, be used for the purpose of meeting the Bank's obligations under share option agreements and payment of variable remuneration in accordance with the Bank's Remuneration Policy and variable remuneration framework, as per item no. 10.*

#### **10. Item no. 13 – Proposals to amend the Bank's Articles of Association**

The Board of Directors of Arion Bank proposes that the Annual General Meeting of Arion Bank approves the following amendments to the Bank's Articles of Association:

- (a) That Article 3.3 be amended so that the reference therein to Article 84b of Act No. 161/2002 on Financial Undertakings be replaced by a reference to Article 51 and 52 of Regulation (EU) on Prudential Requirements for Credit Institutions and Investment Firms, No. 575/2013 (CRR).
- (b) That Article 3.4 be amended so that the reference therein to Article 84b of Act No. 161/2002 on Financial Undertakings be replaced by a reference to Article 51 and 52 of Regulation (EU) on Prudential Requirements for Credit Institutions and Investment Firms, No. 575/2013 (CRR).

*Explanatory note:*

*The amendments derive from recent amendments to the Act No. 161/2002 on Financial Undertakings, as per Act No. 38/2022.*

- (c) That Article 10.2 be amended to read as follows:

*"A shareholders' meeting must be convened with at least 21 and no more 28 days' notice, in case of Annual General Meeting no more than 42 days' notice, unless a shorter notice is permissible by law. A follow-up shareholders' meeting shall be convened in the same manner and with the same notice as other shareholders' meetings."*

*Explanatory note:*

*The amendment derives from recent amendments to Article 88a of the Act No. 2/1995 on Public Limited Companies, as per Act No. 119/2022.*

- (d) That Article 10.4 be amended to read as follows:

*"Each shareholder is entitled to have a specific matter dealt with at a convened Annual General Meeting, if it makes a written or electronic request for such to the Board of Directors with sufficient notice to allow the matter to be placed on the agenda of the meeting. Such a request may be made later, however, no later than one week following the date on which the Board's final agenda and proposals for the Annual General Meeting have been published, or 10 days prior to the meeting, whichever deadline expires later. The request must be accompanied by grounds for the same or a draft resolution for the Board of Directors. Information on such request must be published on the Company's website no later than three days prior to the meeting together with the proposal and, as the case may be, the revised meeting agenda."*



*Translation from Icelandic*

Explanatory note:

*The amendment derives from recent amendments to Article 86 of the Act No. 2/1995 on Public Limited Companies, as per Act No. 119/2022.*

On the Bank's website, [www.arionbanki.is/gm](http://www.arionbanki.is/gm), is a document that provides an overview of the intended changes to the Bank's Articles of Association, as well as a clean version of the updated Articles of Association. It should be mentioned that this version also includes amendments proposed under items 11, 12 and 13.

**Explanatory notes to agenda items no. 4 and 8:**

**Item no. 4 - Election of the Bank's Board of Directors, Chairman of the Board and Vice-Chairman**

In accordance with the Bank's Articles of Association, the Bank's Board of Directors shall be elected at an Annual General Meeting of the Bank for a term of one year.

The Board of Directors has decided that the Board election will be executed so that the Board of Directors will be composed of six directors and two alternates, cf. Article 17.1 of the Bank's Articles of Association. The decision is based on a proposal from the Bank's Nomination Committee. Further information is to be found in the Nomination Committee's report, which is expected to be made available on 1 March 2023 on the Bank's website.

Individuals who intend to stand for election as a member of the Board of Directors must give notice of their candidacy in writing to the Board of Directors no later than five days prior to the commencement of the Annual General Meeting, in accordance with the Bank's Articles of Association. Notifications must be sent to [shareholders@arionbanki.is](mailto:shareholders@arionbanki.is) by 16:00 (GMT) on 10 March 2023.

The Nomination Committee will propose to the shareholders the candidates to serve on the Board of Directors based on shareholders' proposals and submission of candidacy and expects to publish its proposal on 1 March 2023. Information regarding all candidates will be published on the Bank's website, [www.arionbanki.is/gm](http://www.arionbanki.is/gm), no later than two days before the Annual General Meeting.

**Item no. 8 - Election of two members of the Bank's Nomination Committee**

In accordance with the Bank's Articles of Association and the Rules of Procedure for the Nomination Committee, a shareholders' meeting shall vote for two of the three members of the Nomination Committee. The third member of the Nomination Committee shall be the Chairman of the Board of Directors or another member of the Board of Directors appointed by the Board.

The individuals who intend to stand for election as members of the Nomination Committee must give notice of their candidacy in writing no later than five days prior to the commencement of the Annual General Meeting. Notifications must be sent to [shareholders@arionbanki.is](mailto:shareholders@arionbanki.is) by 16:00 (GMT) on 10 March 2023. The applicable arrangement for the voting of Board members in the Articles of Association shall apply to the voting of Committee Members. Notifications from candidates will be published on the Bank's website, [www.arionbanki.is/gm](http://www.arionbanki.is/gm), no later than two days before the Annual General Meeting and will be made available at the Bank's headquarters at the same time.



## **Appendix 1 Remuneration Policy of Arion Bank hf.**

### **I. Objective**

The main objective concerning employee remuneration is that Arion Bank offers competitive salaries so that the Bank can attract and retain outstanding employees. The Bank's objective is also to ensure that jobs at the Bank are sought after by qualified individuals. When devising a remuneration policy, it must be ensured that the policy does not encourage excessive risk taking but rather supports the Bank's long-term goals and its healthy operation in line with the Bank's business strategy. The policy is an integral part of the Bank's strategy to protect the long-term interests of the Bank's owners, its employees, customers and other stakeholders, in an organized and transparent manner.

When determining salaries and other remuneration terms it must be ensured that there is no discrimination such that equal salaries are paid for equally valuable positions, in accordance with the Gender Equality Act No. 150/2020. The Bank shall strive to avoid any discrimination within the conditions of employment, including discrimination based on gender. Furthermore, when determining salaries and other remuneration terms care shall be taken to prevent conflict of interest.

In accordance with Article 57a of Act No. 161/2002 on Financial Undertakings, Article 79a of Act No. 2/1995 on Public Limited Companies and rules on good corporate governance, the Board of Directors of Arion Bank shall approve the Bank's remuneration policy on salaries and other payments to the Board Directors, Chief Executive Officer, Deputy Chief Executive Officer, Managing Directors, Compliance Officer and Internal Auditor.

### **II. Board Remuneration Committee**

Arion Bank shall establish a Board Remuneration Committee in accordance with Article 57e of Act No. 161/2002 on Financial Undertakings. The Board Remuneration Committee is one of the sub-committees of the Board of Directors of Arion Bank. Its role is to advise the Board on remuneration to the Chief Executive Officer, Deputy Chief Executive Officer, Managing Directors, Compliance Officer and Internal Auditor, and on the Bank's bonus scheme and other work-related payments. The Chief Executive Officer proposes a salary framework for the Deputy Chief Executive Officer, Managing Directors, Compliance Officer and Internal Auditor in consultation with the Board Remuneration Committee. The Board Remuneration Committee also makes other proposals it considers necessary or appropriate. The Committee shall report on its activities to the Board of Directors at regular intervals.

### **III. Remuneration to Board Directors**

Board Directors shall receive a fixed monthly payment as determined at an Annual General Meeting, cf. Article 79 of Act No. 2/1995 on Public Limited Companies. Otherwise, Article 57a of Act No. 161/2002 on Financial Undertakings applies to the remuneration of Board Directors.

### **IV. Remuneration to the Chief Executive Officer, Deputy Chief Executive Officer, Managing Directors and Compliance Officer**

Remuneration to the Chief Executive Officer, Deputy Chief Executive Officer, Managing Directors and Compliance Officer shall, as a general guideline, be suited to attract and retain skilled leaders.

The Board's Remuneration Committee shall, based on a proposal from the CEO, be tasked with approving appropriate salary frameworks which shall take this policy into consideration, a benchmark with a peer group of financial and non-financial undertakings comparable to Arion Bank in market, size or profile, and be aligned with the Bank's corporate culture, strategy, values, sustainability and the long-term interests of Arion Bank's shareholders and other stakeholders.

Remuneration to the Chief Executive Officer shall be stated in a written employment contract, including fixed salary, pension rights, annual leave, other work-related payments, period of notice and severance



payments. The principle is that the terms of the employment contract governs pension and severance payments.

The salaries of the Deputy Chief Executive Officer, Managing Directors and the Compliance Officer are decided by the Chief Executive Officer in consultation with the Head of Human Resources and shall take into account the scope of the relevant division and level of responsibility. The remuneration of the Deputy Chief Executive Officer, Managing Directors and the Compliance Officer shall be specified in a written employment contract. The principle is that the terms of the employment contract governs pension and severance payments.

In exceptional circumstances it is authorized to enter into severance agreements with the Chief Executive Officer, the Deputy Chief Executive Officer and Managing Directors. The terms of such agreements shall be limited to payments of fixed salary and have maximum validity period of 12 months. Severance payments must reflect performance achieved during employment with the Bank and shall not reward failure or misconduct. Severance payments shall otherwise be conducted in line with the provisions of Act No. 161/2002 on Financial Undertakings and other applicable regulatory requirements.

## **V. Bonus schemes**

It is permitted to pay employees and managers bonuses based on a special bonus scheme which the Board of Directors shall approve following consultation with the Board Remuneration Committee and Board Risk Committee. The Bank is permitted, but not obliged, to pay a bonus. A bonus refers to remuneration to employees of the Bank which is generally defined with respect to performance and does not form part of an employee's fixed remuneration, since the final amount or proportion is not precisely determined in advance.

The objective of a special bonus scheme shall reflect the Bank's emphasis on good corporate governance as well as long-term value creation for all stakeholders, including customers, shareholders and employees. The setup of such a scheme shall appropriately encourage employees to create sustainable long-term results and establish a transparent framework for the Bank's overall goal setting, both financial and non-financial. A bonus scheme may not induce excessive risk taking and performance-based remuneration shall be awarded in a manner which promotes sound risk management in line with the Bank's risk policy and risk appetite.

A bonus scheme shall comply with provisions of law and regulations on such schemes and care shall be taken to appropriately balance the ratio between fixed and variable remuneration. The total bonus granted to an employee, including the CEO, Deputy CEO and Managing Directors, may not on an annual basis, exceed 25% of the employee's annual salary excluding the bonus. For the purpose of risk mitigation, a substantial portion, and in any event at least 40%, of the variable remuneration component, shall be deferred over a period which is not less than four years, in the case of the CEO and employees reporting directly to the CEO, this shall be five years, unless the variable remuneration in questions is equal to or less than 10% of the employee's annual salary excluding the bonus.

The payment of the variable remuneration can be in the form of cash, shares or share linked instruments or a combination thereof. Employees receiving variable remuneration amounting to more than 10% of the employee's annual fixed salary shall receive at least half of the variable remuneration in the form of shares or share linked instruments as applicable, cf. Article 57b of Act No. 161/2002 on Financial Undertakings. Payments in shares and share linked instruments are subject to deferral requirements, as applicable, according to Article 79a of Act No. 2/1995 on Public Limited Companies and Article 57b of Act No. 161/2002 on Financial Undertakings. Furthermore, cancellation and claw back provisions apply to payments in shares and share linked instruments.

A bonus scheme shall include provisions for the Bank to cancel any bonus payment which has not been made, or claw back any bonus payment made, in part or in full, if for example the employee in question participated in or was responsible for actions which caused the Bank substantial loss or a major breach of compliance.

A special bonus scheme, as it is formulated at any given time, shall be consisted with, and be considered part of this remuneration policy. The rules of any such system shall be published on the Bank's website.



## VI. Share option plan

The Bank's Board of Directors is authorized<sup>1</sup> to adopt a share option plan based on the provisions of Article 10 of the Income Tax Act No. 90/2003 and to conclude share option agreements with the Bank's employees and employees of the Bank's core subsidiaries.

The objective of adopting a share option plan shall be to align employees' interests with those of shareholders and with the long-term interests of the Bank, to promote equity participation in the Bank's shares by employees with a view of increasing employee loyalty, and to attract and retain outstanding employees. In line with Article 10 of the Income Tax Act, a share option plan must apply equally towards all permanent employees of the Bank.

On the basis of a share option plan, and in line with the Article 10 of the Income Tax Act, each employee, including the CEO, Deputy CEO and Managing Directors, shall be allowed to purchase shares in the Bank for the maximum amount of ISK 1.500.000<sup>2</sup> annually. An employee may not accumulate or defer the exercising of acquired options. Options which have not been exercised shall be cancelled.

The purchase price shall be the weighted average price in trades with shares in the Bank during the preceding 10 business days prior to the date of the share option agreement. Share option agreements shall require at least 12 months to pass from entering into the share option agreement until the option is exercised for the first time. If an employee exercises their share option, the purchased shares shall be paid for in cash. An employee must commit to owning the acquired shares for at least two years in order to be able use the tax concessions provided for by this plan, cf. Article 10 of the Income Tax Act.

The terms of any share option plan adopted shall be published on the Bank's website.

## VII. Reviewing and disclosing information on the policy

The remuneration policy shall be reviewed annually and submitted to an Annual General Meeting for approval or rejection. The Board of Directors shall present the remuneration of Board Directors, the Chief Executive Officer, Deputy Chief Executive Officer and Managing Directors at Annual General Meetings as stated in Article 79a Act No. 2/1995 on Public Limited Companies, in accordance with Act on Financial Undertakings. The remuneration policy may be reviewed more often, for example on account of changes in legislation, and any such amendments must be submitted to a shareholders' meeting. The remuneration policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function.

*So presented for approval at the Annual General Meeting on 15 March 2023.*

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<sup>1</sup> The Board of Directors obtained authorisation by the Bank's AGM in 2020 to adopt a five-year share option plan. The authorisation was expanded by a decision of the Bank's AGM in 2021, raising the maximum purchase amount in line with legislative changes. The authority was expanded by a decision of the 2022 Annual General Meeting, so that the share option plan includes the Bank's subsidiaries, Vörður tryggingar hf. and Stefnir hf.

<sup>2</sup> Approximately EUR 10.395 using official exchange rate at 01.02.22.





## **Explanatory note to proposed amendments to the Remuneration Policy of Arion Bank hf.**

Pursuant to changes to Act No. 161/2002 on Financial Undertakings, which came into effect on 1 July 2022, the Board of Directors of Arion Bank proposes that the Bank's Remuneration Policy be amended. These amendments primarily seek to align the Remuneration Policy with Article 57a, b and e of Act on Financial Undertakings, Article 94 of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("CRD IV") and European Banking Authority ("EBA") Guidelines on gender neutral and sound remuneration policies of 2 July 2021 (EBA/GL/2021/04).

These amendments are further explained below and should be read in conjunction with the amendment proposal and the wording proposed there.

### **1. Section I. – Objective**

The Board of Directors proposes that shareholders approve amendments to the objectives of the Bank's Remuneration Policy. The amendments are in accordance with Article 57a of Act on Financial Undertakings. The Board emphasizes that the Bank must ensure that the remuneration policy is in accordance with the Bank's business strategy and that the Bank shall prevent conflict of interest when determining salaries and other remuneration terms.

### **2. Section II. – Board Remuneration Committee**

A new reference to Article 57e of Act on Financial Undertakings to emphasize that the Board Remuneration Committee operates in accordance with that provision.

### **3. Section III. – Remuneration to Board Directors**

A new reference to Article 57a of Act on Financial Undertakings, to emphasize that the Bank shall comply with legal requirements set out in that provision when determining remuneration to Board Directors.

### **4. Section V. – Bonus schemes**

#### *Background:*

Since 2012, the Bank's Remuneration Policy has authorised the Board of Directors to set up a bonus scheme, in line with applicable legal and regulatory requirements. In late-2019, the Board of Directors agreed to temporarily suspend the system in order to re-evaluate the objectives which the Bank seeks to obtain by implementing such as system. No variable remuneration was, therefore, granted on the basis of performance in 2019.

The Board approved a revised bonus scheme for employees, excluding employees of supervisory units, in late 2020. In contrast with the previous system, all employees of Arion Bank are currently included in the scheme, eligible to receive variable remuneration if targets are met. Majority of employees may receive a bonus for up to 10% of their fixed annual salary in the form of cash payment and without deferral. The CEO, deputy CEO, managing directors, and those employees who have the greatest influence on the Bank's value creation, may receive a bonus of up to 25% of their fixed annual salary in the form of shares in the Bank, with 40% of the amount subject to deferral. Furthermore, the shares the employees receive (60% of the amount) are subject to sale restriction for three years. This additional sale restriction extends beyond regulatory minimums and is aimed at supporting the objective of long-term thinking when it comes to value creation.

The main performance benchmark used to determine whether a bonus will be paid, in part or in full, is whether the Bank's return on equity is higher than the weighted average ROE of the Bank's main competitors. Failure to attain this main target means no bonus will be paid for a given year. Furthermore, the total variable remuneration pool to be distributed may not exceed the amount by which the Bank's ROE exceeds the weighted ROE of competitors. One of the objectives which the Board identified during its revision of the system, was to create a 'one team' spirit within the Bank while taking care of avoiding unwanted incentives. The main performance benchmark is, for



example, not based on subjective comparisons to e.g. internal budget targets, but rather a clear objective comparison with the Bank's main competitors.

The Board also identified an appropriately structured bonus scheme as a key element to improve performance culture, while at the same time promoting equity participation to align the interests of shareholders and employees. If the main ROE performance benchmark is attained, a range of other factors are taken into consideration when deciding on bonuses for a given employee, such as ROE of the Bank, its individual divisions, cost-to-income ratio, compliance with law and code of ethics, knowledge of the customer (KYC/AML), equal pay ratio, employee mandatory education and more. The Board also considers the bonus scheme as a tool to relieve pressures on fixed wages and create more flexibility when it comes to operational costs, in line with performance.

Market surveys on remuneration, which the Bank takes part in along with other financial and non-financial market participants, has confirmed that the Bank offers competitive fixed salaries without being a market leader. Should the Bank exceed market trends when it comes to overall remuneration, it is directly tied to operational outperformance and creating shareholder value, compared to other market participants. Lastly, by implementing a share based variable remuneration scheme for those employees eligible for variable remuneration exceeding 10% of their annual salary, which is capped at 25% and with lock-up restrictions on selling awarded shares, there is further alignment towards increased long-term thinking when it comes to value creation as well as adding a retention element to retain highly skilled employees in a competitive environment.

*Proposed amendments:*

In accordance with new Article 57b of Act on Financial Undertakings, the Board of Directors propose that shareholders approve the following amendments to the section of the Bank's Remuneration Policy which discusses bonus schemes.

Reference to the applicable Article in the Act No. 161/2002, changed from 57a to 57b. Amendment stating that variable remuneration may be in the form of cash, shares or share linked instruments or combination thereof. New requirement stating that employees receiving variable remuneration amounting to more than 10% of annual fixed salary shall receive at least half of the variable remuneration in the form of shares or share linked instruments<sup>3</sup>.

Deferral of 40% of variable remuneration increased from three to four years. In case of the CEO, and employees reporting directly to the CEO, deferral shall be five years. Deferral requirements do not apply when variable remuneration is 10% of annual fixed salary or lower.

These proposed amendments will align the Remuneration Policy section on bonus schemes with the recently amended Act No. 161/2002 on Financial Undertakings. The main changes relate to a new legal requirement of paying at least half of variable remuneration in the form of shares or share linked instruments, unless exemptions apply as stipulated in paragraph 2 of Article 57b of Act on Financial Undertakings. As explained in the background section, the Bank's current variable remuneration framework assumes a full payment in the form of shares issued by the Bank to employees eligible to receive bonus for up to 25% of fixed annual salary.

In line with the requirements set forth in the recently amended Act on Financial Undertakings, it is proposed to add the possibility of paying bonus in the form of share linked instruments, such as share options. Payment in share options has the purpose of encouraging employees long-term thinking and sustainable value creation, align interest of employees and shareholders and furthermore to attract and retain highly skilled individuals in an environment where competitors are increasingly offering such instruments to employees. In line with legal requirements, the exercise of share options would be subject to vesting for three years for 60% of the option and deferral for four to five years for the remaining 40%. Share options are furthermore subject to cancellation and claw back provisions in the variable remuneration framework.

## **5. Section VII. – Reviewing and disclosing information on the policy**

The Board of Directors proposes that shareholders approve amendments to the section of the Bank's Remuneration Policy on reviewing and disclosing information, in accordance with paragraph

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<sup>3</sup> Taking into consideration exemptions as per paragraph 2 of Article 57b of Act on Financial Undertakings.



*Translation from Icelandic*

4 of Article 57a of Act on Financial Undertakings, stating that the Bank's Remuneration Policy shall, at least annually, be subject to a central and independent internal review for compliance with policies and procedures for remuneration.