

The Board of Directors of Arion Bank hf.  
Borgartún 19  
105 Reykjavik

Reykjavik, 5 March 2023

**Subject: Resolution and amendment proposal at annual general meeting on 15 March 2023**

With reference to the invitation to the annual general meeting of Arion Bank hf. Gildi Pension Fund wishes to propose the following resolution concerning agenda item 9 and asks for the following amendment proposal concerning agenda item 10 to be discussed at the annual general meeting.

**Agenda item 9: Proposal on amendment to the rules of procedure of the nomination committee**

Gildi Pension Fund asks that the following position be discussed by the chair of the meeting and that the position be entered into the book of minutes of the AGM:

In the current proposal of the board of directors it is proposed that a provision be inserted concerning the structure, role and framework of the nomination committee in accordance with Article 53 of the Financial Undertakings Act No. 161/2002. Naturally, Gildi Pension Fund supports the fact the company operates at all times in accordance with the law but nevertheless wishes to comment on the amendments being made.

Gildi is of the opinion that there is no valid reason, as provided for in the new Act, that at least one in three members of the nomination committee, and never less than one, should be a member of the board of directors. In the opinion of Gildi, the experience of the last few years among listed companies in Iceland has shown the opposite, namely that it is better for board members not to have a seat in nomination committees. It is also rather unusual that under the new laws being introduced at the meeting bank nomination committees have the statutory role to assess the work of managing directors and the company's policy on hiring managing directors and certain managers. In Gildi's opinion it would be more normal for such tasks to be the responsibility of the board of directors, not the nomination committee. It should be noted that the above changes in the Icelandic legislation do not necessarily appear to have any basis in the European rules being introduced since the substance of these changes applies to companies with different administrative structures than those which are the norm in Iceland. Gildi does not believe that these changes set a good example for other listed companies. These changes are of such a nature that they perhaps necessitate a review of the aforementioned legal provisions. Gildi Pension Fund approves the current proposal but with the above reservations.

**Agenda item 10: Proposal on amendment to the Bank's remuneration policy**

The following amendments have been proposed to Article V of the bonus scheme in the Bank's remuneration policy (underlined text added):

[...] 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. If variable remuneration is paid in the form of share-linked rights, shareholders shall be informed of the terms of such rights and the criteria for their pricing. [...]

**Explanatory note on amendment proposal:**

The Bank proposes that authorization be granted to pay variable remuneration in the form of share-linked instruments. Call options are specifically mentioned in this context as share-linked rights. Reference is made in this context to recent amendments of the Financial Undertakings Act. It is not

## Translation from Icelandic

completely clear to the fund whether references to share-linked rights in legislation are necessarily referring to leveraged products, e.g. call options, but it is assumed that it has been confirmed that this is authorized. It is also assumed that the board of directors of the Bank considers it reasonable to offer such leveraged products as they are specifically mentioned in the reasoning behind the proposal.

For this reason, it is proposed by Gildi that if variable remuneration is paid in the form of share-linked rights, shareholders must be informed of the terms of such rights and the criteria behind their pricing. Ideally these terms should be included in the remuneration policy itself but it is assumed that they are currently not available. It is important in the opinion of the fund that shareholders have adequate information on the terms and pricing of such rights to allow them to form an opinion on how the Bank's remuneration policy is being implemented.

The fund expects that in the event that call options are allocated, the terms of these options would be such that the interests of shareholders and employees are matched as well as possible. For example, the call options might have a duration of at least 3 years upon issue, the exercise price would increase over time, with respect to a normal rate of return in the opinion of the board, and it is assumed that the option holders will retain a certain number of shares in the company after the options can be exercised.

Call options and their pricing are based on subjective criteria and would presumably constitute a transaction between employees of the Bank and the Bank itself with a financial product which is not traded on the general market. Therefore, it is important to pay particular attention to pricing if such an arrangement goes ahead, and shareholders should be informed of the criteria for pricing. Here the fund is not referring to one particular method of pricing (e.g. Black-Scholes) but rather which criteria, e.g. on interest and volatility, were used when applying a pricing method and what the outcome was for each issued call option.

This proposal is designed to increase transparency when implementing the Bank's remuneration policy and is made with this objective in mind.

Yours sincerely  
**Gildi Pension Fund**