



*Translation from Icelandic*

## **Proposals to the Annual General Meeting of Arion Bank hf. to be held 16 March 2022**

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 16 March 2022. Shareholders will also have the option of attending by electronic means. On the day of the announcement of the Annual General Meeting there are 1,501,694,369 outstanding shares in the Bank with voting rights.

### **Agenda:**

- 1. The 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 Board of Directors and compensation to members of the Board's sub-committees**
- 7. Decision on remuneration to the members of the Bank's Nomination Committee**
- 8. Election of two members of the Bank's Nomination Committee**
- 9. Proposal from the Board of Directors concerning the Bank's Remuneration Policy**
- 10. Proposal to authorise the Board of Directors to approve an amendment to the share option plan**
- 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. 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 2021 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 9 February 2022.

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

The Board of Directors proposes that a dividend of ISK 15 per share will be paid to the Bank's shareholders, equal to approximately ISK 22,500,000,000.

If approved by the shareholders, the Bank's shares traded on and after 17 March 2022 (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 18 March 2022 (Record date).

The payment date of the dividend will be 24 March 2022.



Translation from Icelandic

Explanatory note:

Arion Bank's Dividend Policy states that the Bank will pay approximately 50% of net earnings attributable to shareholders through either dividends or buy-back of the Bank's shares or a combination of both. It also states that the Bank will consider additional distributions when Arion Bank's capital levels are above the minimum requirement set by the regulators in addition to the Bank's management buffer. Arion Bank's capital adequacy ratio will be 23.8% after the payment of dividends amounting to ISK 22.5 billion and the fulfilment of buy-back program amounting to ISK 4.3 billion, announced on 27 October 2021, and extended on 12 December 2021, which is well above capital requirements.

**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. The Lead Audit Partner is Gunnar Þorvarðarson. 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 525,000, the monthly salary of the Vice-Chairman be ISK 787,500 and the monthly salary of the Chairman be ISK 1,050,000. Board members residing outside of Iceland will receive a further ISK 320,000 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 210,000 a month for each committee and the chairmen of Board sub-committees ISK 315,000 a month. Alternate Directors shall be paid ISK 262,500 for each meeting attended, up to a maximum of ISK 525,000 a month in case of more than one meeting a month.

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 2022 AGM.

Explanatory note:

Further information is to be found in the Nomination Committee's report, which will be made available on 2 March 2022 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 25,000.

**6. Item no. 9 - Proposal from the Board of Directors concerning the Bank's Remuneration Policy**

The Board of Directors proposes that the Remuneration Policy be amended by expanding Chapter VI (*Share Option Plan*) of the Remuneration Policy to reflect the proposed updates to the Bank's share option plan, as per item no. 10.

The Board of Board of Directors proposes, taking into account shareholders' observations at the Bank's last Annual General Meeting, that the wording, material and emphasis of the Bank's Remuneration Policy be updated. The amended Remuneration Policy is intended to enhance transparency for all stakeholders and outline in a more concise manner the remuneration framework of the Bank.

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



Translation from Icelandic

Explanatory note:

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.

**7. Item no. 10 - Proposal to authorise the Board of Directors to approve an amendment to the share option plan**

The Board of Directors proposes to the Annual General Meeting that the Board be authorised to amend the previously established share option plan based on Article 10 of the Act on Income Tax, no. 90/2003, in accordance with the proposed expansion under item no. 9, so that the Bank is authorised to enter into share option agreements with the permanent employees of certain subsidiaries of the Bank, namely Stefmir hf. and Vörður tryggingar hf.

Explanatory note:

At Arion Bank's Annual General Meeting on 17 March 2020 a share option plan, based on Article 10 of the Income Tax Act intended to align employees' interests with the Bank's long-term objectives, was approved.

According to the plan, the Bank's permanent employees had the option to conclude an agreement to acquire share options for up to ISK 600,000 annually. The previously stated limit, found in Article 10 of the Income Tax Act, was increased to ISK 1,500,000 per year with Act no. 140/2020. At the Annual General Meeting of the Bank on 16 March 2021, the authorisation of the Board to enter into share option agreements on the basis of an approved share option plan was augmented to ISK 1,500,000 per year, in accordance with the above-mentioned regulatory changes. Thus, the Board of Directors is now authorised to enter into share option agreements with permanent employees pertaining to shares in the Bank for up to ISK 1,500,000 each year.

The Board of Directors considers it desirable, and in line with further integration of companies within the group, that the share option plan is not only aimed at aligning the interests of the Bank and employees of the Bank, but also the Bank and employees of core subsidiaries of the Bank, Stefmir hf. and Vörður tryggingar hf.

The estimated expense resulting from the expansion of the share option plan after the amendment based on Black-Scholes model calculation, amounts to approx. ISK 73,782,130 annually for the remainder of the current share option plan.

**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 16 March 2022, resolves to reduce share capital from ISK 1,660,000,000 to ISK 1,510,000,000 nominal value by cancelling 150,000,000 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 1,510,000,000 – one billion five hundred and ten million Icelandic kronur."

Explanatory note:

It is proposed to cancel 150,000,000 shares held by the Bank for the benefit of current shareholders. If this proposal is accepted, the share capital of the Bank will be reduced from ISK 1,660,000,000 to ISK 1,510,000,000 nominal value. The cancellation of own shares is subject to the approval of the Financial Supervisory Authority of the Central Bank of Iceland in accordance with the Act on Financial Undertakings, no. 161/2002,



*Translation from Icelandic*

**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 16 March 2022 authorises the Board of Directors, based on Article 55 of the Company Act, no. 2/1995, to acquire on behalf of the Bank up to 10% of issued share capital in the Bank. 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 Bank, e.g. through auction, provided equal treatment of shareholders is ensured should such offer be made. The repurchase of shares under this authorisation is conditional upon the prior approval of the Financial Supervisory Authority in accordance with paragraph 3 (a) of Article 84 of the Act on Financial Undertakings, no. 161/2002.

This authorisation shall remain in effect until the Bank's Annual General Meeting in 2023 or 15 September 2023, whichever occurs first. Older authorisations to purchase own shares are cancelled with the approval of this authorisation."

*Explanatory note:*

*The Board of Directors proposes that the current authorisation of the Board of Directors to purchase the Bank's shares is renewed. 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 proposal aims at outlining the Bank's shareholder return in a transparent manner and concurrently with the Bank's dividend policy.*

*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.*

**10. Item no. 13 – Other business**

Proposed resolution to the Board of Directors from Rúnar Einarsson, shareholder.

1. Bonus agreements and future contracts in shares will no longer be made with senior management and all other bonus schemes will be discontinued.
2. In the future, all jobs at the Bank which pay a salary of more than ISK 1,8 million will be advertised and applicants will be asked to submit salary requirements with their application in a sealed envelope. A selection committee will examine the applications, and the applicant who fulfils all the necessary requirements and who also has the lowest salary requirements will be hired.

*Explanatory note*

*"Both of these ideas are intended to lower the Bank's cost and therefore increase profits to shareholders in the form of higher dividend payments."*

*Proposed resolution 1*

*"Employees that get paid very good salaries for their work should not get share option agreements at shareholders costs. This system costs shareholders enormous sums which would be better placed as dividend payments to shareholders or used to lower the Bank's rates for service. Employees who are unhappy with their terms of employment should voice these concerns in employee interviews and try getting a raise or find another job."*

*Proposed resolution 2*



*Translation from Icelandic*

*“Proposed resolution number two is fully in line with the Bank’s Remuneration Policy, where great emphasis is placed on salaries being competitive. The objective of hiring for a managerial position should and must be to hire an individual who is capable, has sufficient education and fulfils all eligibility requirements. It is useless for the Bank’s shareholders to pay a qualified individual ISK 30 million (plus) per year if the same individual would be well-content with ISK 20 million. If this is successful, it’s possible to revisit the salary structure of the Bank’s senior management and extend a call for bids in salaries of all current managers at the Bank with salaries over ISK 2 million per month.”*

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

**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 five 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 will be made available 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 [nominationcommittee@arionbanki.is](mailto:nominationcommittee@arionbanki.is) by 16:00 (GMT) on 11 March 2022.

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 publish its proposal along with other declarations of candidacy on the Bank’s website, [www.arionbanki.is/gm](http://www.arionbanki.is/gm), no later than two days before the Annual General Meeting. It will be made available at the Bank’s headquarters at the same time.

**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 11 March 2022. 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. 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.

In accordance with 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**

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.

### **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.



## *Translation from Icelandic*

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 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 three years, unless the variable remuneration in questions is equal to or less than 10% of the employee's annual salary excluding the bonus.

Furthermore, 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 shall be allowed to purchase shares in the Bank for the maximum amount of ISK

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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.



### *Translation from Icelandic*

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.

*So presented for approval at the Annual General Meeting on 16 March 2022.*

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





Translation from Icelandic

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

At Arion Bank's AGM in 2021, specific observations were submitted and recorded in the meeting minutes which focused on authorisations to the Board of Directors to setup bonus schemes and share option plans for employees.

With consideration of these observations, and with the purpose of increased transparency, the Board of Directors of Arion Bank proposes that the Bank's Remuneration Policy be amended. These amendments seek, *inter alia*, to address and set out the purpose of the referenced authorisations. The proposed amendments also provide a further basis to the Bank's policies when it comes to executive pay, limitations to permissible severance agreements with senior management, and emphasise the Bank's focus on gender equality and non-discrimination.

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

### **1. Section I. – Objectives**

The Board of Directors propose that shareholders approve amendments to the objectives of the Bank's Remuneration Policy. The amendments reference in a clearer manner the Bank's emphasis on non-discrimination and gender equality which shall be applied to all forms of remuneration. The amendments are intended to provide a further basis for the Bank's emphasis on equality in all areas of its business.

For many years the Bank has placed great importance on equality and ensuring that people receive equal pay for equally important jobs. The Bank has recently revised its policy on equal opportunities and human rights and set ambitious goals which the CEO is responsible for implementing. The Bank recently announced efforts to support and encourage employees to exercise their right to parental leave irrespective of gender and other factors, by providing additional financial support where applicable and in accordance with the rules of the Parental Leave Fund. The Bank views this as an important factor in the long run when it comes to reducing the gender pay gap and achieving gender balance in management and different job categories.

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

The Board of Directors propose that shareholders approve amendments to the section on executive remuneration in the Remuneration Policy, i.e., on remuneration to the Bank's CEO, Deputy CEO, Managing Directors and Compliance Officer, as well as further clarity regarding severance agreements and limitations which apply when entering into such agreements.

It is the Board's view that the proposed amendments vis-à-vis remuneration to the Bank's CEO, Deputy CEO, Managing Directors and Compliance Officer provide a stronger basis for the Bank's practice when it comes to talent retention, clarifying that top executive remuneration should allow for sufficient talent attraction while at the same time assigning the Board's Remuneration Committee, based on proposals from the CEO, the task of approving an appropriately prudent salary framework which supports the objectives set out in the Bank's Remuneration Policy. This framework should consider a benchmark comparison of a peer group undertakings and take care to align such remuneration with the Bank's corporate culture and values, sustainability, and the long-term interests of the Bank's stakeholders.

Furthermore, the Board proposes amendments to clarify authorisations when it comes to severance agreements for the Chief Executive Officer, Deputy Chief Executive Officer and Managing Directors. If approved, severance agreements would be limited to payments of fixed salary and may not exceed 12 months' pay. Such agreements must also reflect performance during employment for the Bank and may not reward failure or misconduct.



### **3. Section V. – Bonus Schemes**

The Board of Directors propose that shareholders approve amendments to the section of the remuneration policy which discusses bonus schemes, with the aim of providing a clearer framework and objectives for setting up such schemes. The proposed framework stresses that any such scheme shall reflect the Bank's emphasis on good corporate governance, long-term value creation, and to appropriately encourage employees to create sustainable long-term results. Furthermore, that efforts shall be taken to minimise excessive risk taking and establish a transparent framework for the Bank's overall goal setting. A bonus scheme must allow the Bank to cancel any bonus payments which have not been awarded, and to claw back bonus payments made, in part or in full, if, for example, an employee participates in or is responsible for actions which cause the Bank substantial losses or participates in a major breach of compliance. To ensure transparency towards shareholders, employees and other stakeholders it is proposed that the rules of a bonus scheme shall be published on the Bank's website.

The Bank's Remuneration Policy has authorised the Board of Directors to setup a bonus scheme, in line with applicable legal and regulatory requirements, since 2012. 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 a system. No variable remuneration was, therefore, granted on the basis of performance in 2019.

The Board approved a revised bonus system 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. Managers, and those employees who have the greatest influence on the Bank's revenues and costs, 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 deferred for three years. 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 to avoid 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 the law, knowledge of the customer (KYC/AML), 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.



## *Translation from Icelandic*

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 long-term thinking when it comes to value creation as well as adding a retention element to retain talent.

#### **4. Section VI. - Share Option Plans**

The Board of Directors propose that shareholders approve amendments to the section of the remuneration policy which authorised the Board of Directors in 2020 to implement a share option plan in accordance with the Income Tax Act. The amendments aim at providing further clarity as to the framework and objectives pursued by implementing such a plan. Additionally, in line with efforts of the Bank to further integrate the Arion Group, it is proposed that the authorisation of the Board will be extended to employees of the Bank's core subsidiaries.<sup>3</sup> To ensure transparency towards shareholders, employees and other stakeholders, it is proposed that the terms of any share option plan adopted shall be published on the Bank's website.

The Bank's 2020 Annual General Meeting originally approved amendments to the Remuneration Policy, authorising the Board of Directors to implement an employee share option plan in accordance with the Income Tax Act. Following confirmation from the Directorate of Internal Revenue, the Board approved a roll out of the plan to employees in February 2021, following the publication of the Bank's 2020 annual accounts. A total of 628 employees participated in the plan. Shortly after, the Income Tax Act was amended, raising the limit of the permitted market value purchase from ISK 600,000<sup>4</sup> to ISK 1,500,000. In line with this, based on a proposal of the Board of Directors, the Bank's 2021 Annual General Meeting agreed to amend the current share option plan accordingly, i.e., to increase the maximum purchase price per employee for the remainder of the option plan period (4 years).

Many of the previously discussed objectives relating to a bonus scheme apply to the Board's authorisation to adopt a share option plan. However, a share option plan adopted on the basis of the Income Tax Act is not considered variable remuneration, and requires that employees, who choose to exercise their option, pay for the purchased shares in cash.

According to Income Tax Act, employees who sell shares purchased based on a share option plan in less than two years after their purchase, pay salary income tax on the difference between the purchase price and market price of the shares. However, if they own the shares for at least two years, the employee pays capital gains tax. The plan, therefore, supports the Board's objectives when it comes to employee equity participation, interest alignment with the Bank's shareholders, and supporting long-term thinking when it comes to value creation.

A condition of the share option plan is that the plan must be made available to all permanent employees, which is also in line with the Bank's goal of creating a 'one team' spirit and to promote a performance culture within the Bank. Lastly, all employees participating in the plan may purchase for the same statutory maximum amount of ISK 1,500,000<sup>5</sup> per year, irrespective of their role within the Bank.

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<sup>3</sup> Currently includes Vörður Insurance and Stefmir.

<sup>4</sup> Approximately EUR 4.160 using official exchange rate at 01.02.22

<sup>5</sup> Approximately EUR 10.395 using official exchange rate at 01.02.22