

## 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.

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

---

<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.

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 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 of 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.*

---

<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.**

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 as 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.

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.

---

<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.