



Proposals of the Nomination Committee for the Annual General Meeting of Arion Bank hf. 16 March 2022

On 21 February 2022 the Annual General Meeting for Arion Bank hf. ("Arion" or the "Bank") was formally called. The meeting will be held on 16 March 2022 at 16:00.

Below is the report of the Bank's Nomination Committee ("Nomination Committee" or "Committee") and the proposals of the Committee in accordance with item 4 of the Agenda for the Annual General Meeting 2022 (the "AGM").

1. Role of Nomination Committee

Current applicable Rules of Procedure for the Bank's Nomination Committee were approved at an Annual General Meeting on 17 March 2020. The principal role of the Committee is to ensure that Board members of the Bank have wide and versatile qualifications and experience in order to promote good corporate governance within the Bank. The Committee has an advisory role regarding the election of Board members by putting forth a proposal, at each Annual General Meeting and extraordinary shareholders meeting where Board election is on the agenda, of candidates to serve on the Board of Directors and make a proposal on their remuneration. Based on shareholders' proposals and submissions of candidacy, the Committee shall propose to the shareholders candidates to serve on the Board of Directors and publish its proposal along with other declarations of candidacy. In its proposal for candidates, the Committee shall propose which candidate shall serve as the Chairman and the Vice Chairman of the Board of Directors of the Bank.

The proposals of the Nomination Committee regarding candidates and their remuneration shall be made available to all shareholders. When performing its tasks, the Committee shall take into consideration the interests of all shareholders of the Bank. The Committee shall further aim to ensure that the proposed candidates collectively possess sufficient knowledge, skill, diversity and experience necessary for the operations of the Bank as a financial undertaking. The Committee shall also propose to the Annual General Meeting the remuneration payable to the members of the Board of Directors. Further information regarding the Committee's role may be found in its Rules of Procedure, accessible on the Bank's webpage.

Every year, the Nomination Committee shall review whether the Committee's Rules of Procedure are in accordance with applicable legislation and corporate governance standards. It is the conclusion of the Nomination Committee that the current Rules of Procedure are in accordance with applicable legislation and corporate governance standards and as a result, no changes are proposed to the Rules of Procedure at the Annual General Meeting on 16 March 2022.

A draft bill amending the Act on Financial Undertakings no. 161/2002 has been published on the Government's consultation portal. The draft bill includes detailed provisions on corporate governance of financial undertakings, including the role and undertakings of nomination committees. The proposed changes are aligned with the current Rules of Procedure for the Nomination Committee and as a result, changes are not proposed to the Rules of Procedure of the Nomination Committee before the Annual General Meeting on 16 March 2022. Accordingly, under the current Rules of Procedure, two members of the Nomination Committee will be elected by Shareholders at the Annual General Meeting and the Board will nominate the third member of the Committee. It is noted that the draft bill, currently under review, provides for more extensive duties of nomination committees. If the draft bill is to be accepted as is, certain aspects of the Board's authority relating to the evaluation and reporting, might be transferred from the Board and to the Nomination Committee. Changes may occur to the bill during the Parliament's proceedings, but the Nomination Committee will ensure to follow this matter closely and propose appropriate changes to the Bank's regulatory framework. Changes



to the Rules of Procedure for the Nomination Committee will be submitted to shareholders not later than at the Annual General Meeting 2023.

2. Composition of Nomination Committee of Arion bank 2021-2022

Arion's Nomination Committee consists of three members. In accordance with the current Rules of Procedure for the Committee, two Committee members, Júlíus Þorfinnsson and Vitaliy Ardislamov, were appointed by shareholders at the Annual General Meeting on 16 March 2021. The third member, Sigurbjörg Ásta Jónsdóttir, was nominated by the Board of Directors. Júlíus Þorfinnsson was elected Chair of the Committee.

In December 2021, Vitaliy Ardislamov informed the Chair of the Committee that he did not intend to take part in the Committee's work and would not seek re-election as a member of the Committee. After consulting with the Chairman of the Board and some of the Bank's largest shareholders, the Nomination Committee decided to enlist Auður Bjarnadóttir, one of the owners of Vinnvinn consulting and a human resource specialist, to assist the Committee. Auður has been involved in the Committee's work since December 2021.

3. Work of the Nomination Committee for the last operating year

The Committee held 9 meetings in December 2021 to March 2022 to organise the nomination process, study the Board's performance evaluation, prepare interviews with the Board of Directors, management and major shareholders, and analyse the remuneration of the Board, in comparison with work contribution and remuneration of boards in comparable companies.

The Committee published an advertisement via a Nasdaq press release on 7 January 2022 calling for Arion's Board candidacies, announced the deadline for declaring candidacy, and offered shareholders the chance to meet the Nomination Committee. The Nomination Committee furthermore emailed all shareholders holding in excess of 1% in the Bank, inviting shareholders to meetings.

Subsequently, the Nomination Committee interviewed the Board of Directors and management and evaluated the work of the Board and the qualification of the Board. The Committee further requested and reviewed information regarding the salaries cost relating to the Board, the subcommittees of the Board, number of meetings and overall costs related thereto. Furthermore, the Nomination Committee met, and corresponded directly, with 13 shareholders, who combined hold around 57% of the Bank's outstanding share capital, where the work of the Nomination Committee was discussed, and shareholders had the opportunity to express their point of view.

The aim of the Committee is to procure that the proposed candidates collectively possess sufficient knowledge, skill, diversity and experience necessary for the operations of the Bank as a financial undertaking, taking interests of all shareholders of the Bank into consideration. As part of that the Committee has assessed candidates based on their qualifications, experience and knowledge, considering statutory qualifications under applicable rules on the qualifications of Board members in financial undertakings, as well as on the basis of the Icelandic Corporate Governance Guidelines, published by the Icelandic Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers, 6th edition February 2021 (the "Guidelines"). Further, the Committee shall ensure that the composition of the Board of Directors complies with the Bank's Articles of Association (the "Articles"), including provisions on gender equality within the Board of Directors.

With a notification published on 7 January 2022, the Nomination Committee invited those interested to submit their candidacies to the Committee. The deadline for declaring candidacy to the Nomination Committee, for those candidates requesting the assessment of the Committee, expired on 25 February 2022. All five current Board members submitted notices of their candidacy for re-election and two as Alternates. The Nomination Committee did not receive any additional declarations of candidacy.



As the deadline for declaring candidacy to the Bank's Board of Directors has now passed, for those candidates seeking the assessment of the Committee, the Nomination Committee has finalised its review of the candidates. Having reviewed the Board's performance for the past year and taking into consideration the views of the Bank's largest shareholders, as well as Board's competency assessment, the Nomination Committee has reached a decision regarding its proposals to be presented at the Annual General Meeting.

4. Candidacies to serve on the Board of Directors

Based on the evaluation of the Board of Directors, meetings and other information, as further described in section 3 above, the Committee has discussed the composition of the Board of the Bank.

The Nomination Committee believes, based on the work carried out, that the Board of Directors of the Bank is composed of ambitious individuals who are highly capable and efficient in their work and that the composition of the Board is good. In the opinion of the Nomination Committee, the current members of the Bank's Board of Directors, who have all declared candidacy for re-election, the necessary experience and knowledge to be able to serve on the Bank's Board of Directors in a satisfactory manner.

It is the opinion of the Nomination Committee that current members of the Board, individually and collectively, have the diverse experience and knowledge required when undertaking the duties of directors as necessary for operations of the Bank as a financial undertaking. It is furthermore the opinion of the Nomination Committee that the experience of current board members is important, as they have all served on the Bank's Board of Directors for a minimum of three years (the chairman having served seven years), and accordingly have considerable experience. Although the number of directors was decreased from seven to five in the last year, it seems that the efficiency of the Board's work has increased and the experience of members of the Boards is likely a key factor.

The Nomination Committee has carried out an evaluation of the independence of the proposed Board members, confirming that each member of the Board fulfils the requirements of independence, according to the Guidelines, as well as other applicable requirements, such as legal requirements in respect of gender ratio. Furthermore, the Nomination Committee has studied and assessed the reputation of Board Members.

The Nomination Committee of the Bank proposes that the below five individuals will be re-appointed as Board members at the Annual General Meeting on 16 March 2022:

Brynjólfur Bjarnason: Brynjólfur was born in 1946. He was first elected as Director at a shareholders' meeting on 20 November 2014. Brynjólfur is Chairman of the Board, and sits on the Board Remuneration Committee, the Board Credit Committee and the Board Audit Committee. Brynjólfur graduated with an MBA from the University of Minnesota and possesses a cand. oecon. degree in business studies from the University of Iceland. Brynjólfur has extensive corporate experience and was a managing director of Enterprise Investment Fund, the CEO of Skipti, CEO of Síminn and CEO of Grandi hf. Brynjólfur has broad experience as a director and has served on numerous boards and been chairman of several. It is the conclusion of the Nomination Committee that, according to the Guidelines, Brynjólfur is independent of the Company, its managers and significant shareholders. The Nomination Committee is of the view that Brynjólfur possesses the relevant background and experience for a Board member of the Bank.

Paul Horner: Paul was born in 1962. He was first elected as Director at a shareholder's meeting on 8 August 2019. Paul is the Vice-Chairman of the Board, Chairman of the Board Credit Committee and member of the Board Risk Committee and the Board Audit Committee. Paul graduated with M.A. Honours in music from the University of Oxford and is an associate of the UK Chartered Institute of Bankers. Paul has extensive experience of Risk and General Management in Retail, Commercial, Investment and Private Banking, gained across various international markets. Paul held various Executive Management and Risk Management roles at Barclays PLC, The Royal Bank of Scotland Group, Coutts & Co Ltd. and Ulster Bank DAC, Dublin. Paul has



a broad experience as a director of financial undertakings. It is the conclusion of the Nomination Committee that, according to the Guidelines, Paul is independent of the Company, its managers and significant shareholders. The Nomination Committee is of the view that Paul possesses the relevant background and experience for a Board member of the Bank.

Gunnar Sturluson: Gunnar was born in 1967. He was first elected Director at a Shareholders' meeting on 9 August 2019. Gunnar is Chairman of the Board Audit Committee and is a member of the Board Credit Committee and the Board Risk Committee. Gunnar graduated as Cand. Jur from the University of Iceland and with an LL.M. degree in Law from the University in Amsterdam. Gunnar has extensive experience as a lawyer and has practiced law since 1992. He joined Logos Legal Services in 2000 as a partner and was managing partner in 2001-2013. Gunnar has held various directorships. It is the conclusion of the Nomination Committee that, according to the Guidelines, Gunnar is independent of the Company, its managers and significant shareholders. The Nomination Committee is of the view that Gunnar possesses the relevant background and experience for a Board member of the Bank.

Liv Fiksdahl: Liv was born in 1965. She was first elected as a Director at Arion Bank's Annual General Meeting on 20 March 2019. Liv is chairman of the Board Remuneration Committee and the Board Tech Committee and member of the Board Audit Committee. Liv holds a degree in Finance and Management from Trondheim Business School and has completed programs from Stanford University, INSEAD and MIT. Liv has an extensive work experience within financial institutions as she was an executive member of DNB for 10 years and has previously worked for Danske Bank/Fokus Bank and Svenska Handelsbanken. Liv has furthermore served on numerous boards. It is the conclusion of the Nomination Committee that, according to the Guidelines, Liv is independent of the Company, its managers and significant shareholders. The Nomination Committee is of the view that Liv possesses the relevant background and experience for a Board member of the Bank.

Steinunn Kristín Þórðardóttir: Steinunn was born in 1972. She was first elected a Director at a Shareholders' meeting on 30th November 2017. Steinunn is the chairman of the Board Risk Committee and a member of the Board Remuneration Committee and the Board Tech Committee. Steinunn holds a master's degree in international management from Thunderbird, Arizona, and a BA in international business and politics from University of South Carolina. Steinunn was previously a partner and CEO of Beringer Finance Norway and founded Akton AS and Acton Capital AS in Norway. Steinunn is CFO of Arundo Analytics AS in Oslo, Norway. Steinunn has served on numerous boards. It is the conclusion of the Nomination Committee that, according to the Guidelines, Steinunn is independent of the Company, its managers and significant shareholders. The Nomination Committee is of the view that Steinunn possesses the relevant background and experience for a Board member of the Bank.

5. Proposed candidates to serve on the Board of Directors as Alternate Directors

The Nomination Committee proposes that the below individuals will be re-appointed as Alternate Directors of the Board of the Bank at the Annual General Meeting on 16 March 2022:

Sigurbjörg Ásta Jónsdóttir: Sigurbjörg was born in April 1970. She was first elected as an Alternate Director at a Shareholder's meeting on 20 March 2014. Sigurbjörg graduated as Cand. Jur from the University of Iceland in 1996 and has received an LL.M. degree from Cambridge University in 1998. She is a Chief Executive Officer at Risk Medical Solutions. It is the conclusion of the Nomination Committee that, according to the Guidelines, Sigurbjörg is independent of the Company, its managers and significant shareholders. The Nomination Committee is of the view that Sigurbjörg possesses the relevant background and experience for an Alternate Board member of the Bank.

Pröstur Ríkharðsson: Pröstur was born in 1978. He was first elected as an Alternate Director at a Shareholder's meeting on 20 March 2019. Pröstur graduated as a Cand. Jur. Form the University of Iceland in



2003. He is the Head of Legal at Kaupthing ehf. and has been working for Kaupthing from 2009. It is the conclusion of the Nomination Committee that according to the Guidelines that Þróstur is independent of the Company, its managers and significant shareholders. The Nomination Committee is of the view that Þróstur possesses the relevant background and experience for an Alternate Board member of the Bank.

6. Proposal on Chairman of the Board of Directors

Name: Brynjólfur Bjarnason

Brynjólfur Bjarnason, the current Chairman of Arion, who has been a Board member since 2014 and chairman since 2019, is an independent director. The Committee is of the view that Brynjólfur, who is the senior member of the Board and well-presented and connected in the Icelandic business community, is ideally suited for the role of the Chairman of the Board of Directors of Arion.

7. Proposal on Vice-Chairman of the Board of Directors

Name: Paul Horner

Paul Horner has been a Board member of Arion since 2019 as an independent director and has been a vice chairman of the Board since 2021. Paul has extensive banking background and brings international experience in risk to the Board. The Committee is of the view that the qualifications of Paul described above make him ideally suited for the role of Vice-Chairman of the Board of Directors of Arion.

8. Proposal on remuneration to the members of the Board of Directors of Arion

The current remuneration of Board members, as approved at Arion's Annual General Meeting on 16 March 2021, is as follows:

- Monthly base salary of Board members: ISK 490,900
- Board members residing outside of Iceland receive an extra payment (travel allowance) of ISK 300,000 for each Board meeting they attend in person
- Board members residing in Iceland are entitled to extra private pension rights
- Monthly salary of the Chairman: ISK 981,400 (2x base salaries).
- Monthly salary of the Vice-Chairman: ISK 736,200 (1.5x base salaries).
- Monthly salary for serving on board committees: ISK 196,300
- Monthly salary for serving as Chairman of board committees: ISK 255,000
- The salary of alternate members for each meeting; ISK 248,600 (up to a maximum of ISK 490,900 in the case of more than one meeting a month).

In its review of remuneration to the members of the Board of Directors, the Committee sourced a number of memoranda and reports, including an overview of all costs relating to the Board during the last few years; an overview of remuneration paid to the Board of Directors in comparable listed companies domestically and abroad, as well as peer banks in Iceland; a board performance review in regard to workload required of the board; and a comprehensive summary of activities within board committees.

Furthermore, the Committee discussed the board salary structure with the largest shareholders of the Bank.

When preparing its proposal on remuneration to members of the Board of Directors the Nomination Committee based its proposals on the following facts:

- Total number of Board meetings and Board Committee meetings were 47 in 2021 (14 Board meetings, and 33 Committee meetings).



- On average, board members estimate they spend approx. 40-45 hours a month, preparing for and attending to board meetings and board committee meetings.
- Changes to the salary structure, as agreed by last Annual General Meeting, caused a decrease in payments to foreign Directors, despite added workload due to the number of Directors being reduced at the last Annual General Meeting from seven to five.
- Monthly base payments to the Board (ISK 490,000) have remained unchanged for the past two years.
- At the same time, salary payments within the Bank have increased by an average of 7.4%.
- At the same time, wage index on the general market has risen by 14.3%, according to Statistics Iceland, the National Statistical Institution of Iceland.

After its review, and in light of the above, the Committee proposes to increase payments to members of the Board and Committees of the Bank by an average of around 7%:

- The Committee proposes that the base monthly salary will be ISK 525,000.
- Board members residing outside of Iceland are to receive an extra payment (travel allowance) of ISK 320,000 for each Board meeting they attend in person, to compensate for the time spent traveling to and from meetings.
- Chairman to be paid double base salaries (as before), ISK 1,050,000.
- Vice-Chairman to be paid 1.5x base salaries (as before), ISK 787,500.
- Monthly payments for a seat on the Board committees shall be ISK 210,000 for each committee.
- Monthly payments to the Chairman of each committee shall be ISK 315,000 for each committee,
- Alternate directors to be paid ISK 262,500 for each board meeting attended (and maximum of ISK 525,000 a month in case there are more meetings).