



## **Proposals to an Annual General Meeting of Arion Bank hf. to be held 20 March 2019**

An Annual General Meeting of Arion Bank hf. will be held at the Bank's headquarters at Borgartún 19, 105 Reykjavík, at 16:00 Icelandic time on 20 March 2019. At the day of the announcement of the Annual General Meeting there are 1.558.944.002 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**
- 3. A decision on payment of a dividend**
- 4. Election of the Bank's Board of Directors**
- 5. Election of an auditing firm**
- 6. A decision on remuneration to the Board of Directors and compensation to members of the Board's sub-committees**
- 7. A proposal from the Board of Directors concerning the Bank's Remuneration Policy**
- 8. Appointment of two members of the Bank's Nomination Committee**
- 9. A decision on remuneration to the members of the Nomination Committee**
- 10. Proposal to reduce share capital by cancelling the Bank's own shares and a corresponding amendment to the Articles of Association**
- 11. Authorisation to purchase own shares and a corresponding amendment to the Articles of Association**
- 12. Authorisation of issuance of Additional Tier 1 notes and a corresponding amendment to the Articles of Association**
- 13. Amendment to 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**  
The Board of Directors proposes that the Annual Financial Statements for the year 2018 will be approved.



Höskuldur H. Ólafsson, Chief Executive Officer, will present the Annual Financial Statements, as approved by the Board at its meeting on the 13 February 2019. Along with information on the essentials of the Banks' Incentive Scheme.

## 2. Item no 3, a decision on payment of a dividend

### ***Proposal of the Board of Directors:***

The Board of Directors proposes that a dividend of 10,000,000,000.00 ISK will be paid to the Bank's shareholders. The dividend will be equal to 5.00 ISK per share.

If approved by shareholders, the Bank's shares traded on and after 21 March 2019 (Ex-date) will be ex-dividended.

The right to a dividend will be paid to shareholders registered in the Bank's shareholders registry at the end of 22 March 2019 (Record date).

The payment date of the dividend will be 29 March 2019.

### ***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 22.0% after the payment of dividends amounting to ISK 10 bn., which is well above capital requirements.*

## 3. Item no 5, election of an audit firm

The Board of Directors proposes that Deloitte hf., will continue to act as the Bank's external auditors, in accordance with the decision of the Annual General Meeting on 19 March 2015, cf. Article 90 of Act. No. 161/2002, on Financial Undertakings.

## 4. Item no 6, a decision on remuneration to the Board of Directors and compensation to members of the Board's sub-committees

The Nomination Committee proposes to raise the remuneration to the Board of Directors corresponding to an approx. 5 percent from the previous year:

“It is proposed that the monthly salary of board members be ISK 476,600, the monthly salary of the Vice-Chairman be ISK 714,800 and the monthly salary of the Chairman be ISK 952,800. The salary of alternate members will be ISK 241,400 for each meeting attended, up to maximum of ISK 476,600 in the case of more than one meeting a month. In the case of foreign board members, the aforementioned figures shall be doubled. In addition, it will be permitted to pay those board members who serve on board committees of the company a maximum of ISK



190,600 a month for serving on each committee, and the chairmen of board committees ISK 247,600 a month.”

**5. Item no 7, a proposal from the Board of Directors concerning the Bank’s Remuneration Policy**

According to chapter V of the Bank’s Remuneration Policy, the Board of Directors is authorised to set up a Performance-based Compensation System in accordance with the recommendations of the Board Remuneration Committee. In accordance with the Remuneration Policy, the Bank’s Performance-based Compensation System was submitted to a shareholders’ meeting prior to entering into force. The Board of Directors proposes that chapter V of the Remuneration Policy on bonus scheme will be amended so that the wording of the chapter reflects that the Bank has in place a Performance-based Compensation System. It is suggested that the text of the chapter will state that the Bank is authorised to pay its employees and managers bonuses on the basis of a special bonus scheme which the Board of Directors shall approve following consultation with the Board Remuneration Committee and the Board Risk Committee. Furthermore, the bonus scheme must comply with the relevant provisions of law and regulations, including provisions on the maximum amount of bonuses. Otherwise it is proposed that the Remuneration Policy be approved unchanged.

Explanatory note

*The Board approved an amendment to the Remuneration Policy in its meeting on 13 February 2019. The proposed Remuneration Policy is published on the Bank’s website with the Annual General Meeting material. A Performance-based Compensation System has been in place since 2013 following an approval by a shareholders’ meeting in June 2013. It is suggested that the text of the chapter on bonus scheme be amended so that the text of the chapter reflects that the Bank is permitted, not obligated, to pay its employees and managers bonuses on the basis of a special bonus scheme.*

**6. Item no 9, proposal on the remuneration to members of the Nomination Committee**

It is proposed that members of the Nomination Committee, including the chairman of the Committee, will receive ISK 150,000 for each Committee meeting attended, up to maximum of ISK 150,000 per month in case of more than one meeting a month and maximum of ISK 900,000 per calendar year.

Explanatory note

*According to the Committee’s Rules of Procedure the Annual General Meeting shall decide the remuneration of the Nomination Committee. It is proposed that the remuneration to the members of the Nomination Committee will not be amended from what was decided in a shareholders’ meeting on 5 September 2018.*

**7. Item no 10, 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 of Arion bank hf. submits the following proposal for approval of the Annual General Meeting:

„The Annual General Meeting of Arion bank hf., held on 20 March 2019, resolves to cancel 186,000,000 shares amounting to ISK 186,000,000 of the Bank’s share capital, from ISK 2,000,000,000 to ISK 1,814,000,000 nominal value. 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 4.1 of the Bank’s Articles of Association, which will read as follows:

The Company’s share capital is ISK 1,814,000,000 – one billion eight hundred fourteen million Icelandic kronur.”

Explanatory note

*The Bank now holds 186,160,995 shares in treasury. As there are no plans to use the treasury shares it is proposed to cancel the majority of the shares and deliver the value to current shareholders. If this proposal to cancel the Bank’s own shares is accepted the share capital of the Bank will be reduced from ISK 2,000,000,000 to ISK 1.814.000.000 nominal value.*

**8. Item no 11, authorisation to purchase own shares and a corresponding amendment to the Articles of Association**

The Board of Directors submits the following proposal for the repurchase of the Bank’s shares to the Annual General Meeting of the Bank for approval. It is further proposed that should the proposal be approved the authorisation will be recorded in an Annex to the Articles of Association of the Bank and thus be an integral part of the Articles of Association in accordance with Article 9.3 of the Articles of Association:

“The Annual General Meeting of Arion bank hf. held on 20 March 2019 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 for setting up 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.

In order to obtain the purpose with implementing a formal share repurchase program the Board is authorised to repurchase shares in the Bank up to the authorised ratio of issued share capital, which is 10%. The highest permitted price for each share shall be the latest independent trade or the



highest independent bid, whichever is higher. The Bank's transactions with its own shares under a repurchase programme shall be published in accordance with laws and regulations

This authorisation shall remain in effect until the Bank's Annual General Meeting in 2020 or 15 September 2020, whichever occurs first. Older authorisations to purchase own shares are cancelled by accepting this authorisation."

Explanatory note

*The proposal entails that the Board of Directors is authorised to approve a formal share repurchase program or to offer shareholders generally to sell their shares to the Bank, e.g. through auction. Equal treatment of shareholders shall be ensured under all circumstances should such offers be made. 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. Repurchase of the Bank's shares may however not take place unless the Financial Supervisory Authority has given its prior approval in accordance with the Act on Financial Undertakings no 161/2002. Detailed provisions, including in the Act on Securities Transactions No 108/2007, and applicable regulations apply to formal share repurchase programs. These provisions will apply when approving and carrying out a formal share repurchase program ensuring transparency of such transactions relating to the Bank's own shares. The proposal further authorises the board to offer shareholders generally to sell their shares, e.g. through auction. Should the board of directors decide to use such authorisation, such offer will be carried out in full in accordance with applicable law and only to the extent that formal share repurchase program is deemed insufficient to achieve the Bank's objectives, including on shareholders' return according to the Bank's dividend policy.*

*It is proposed that the authorisation will expire at the Bank's next Annual General Meeting or at the latest on 15 September 2020.*

**9. Item no 12 authorisation of issuance of Additional Tier 1 notes and a corresponding amendment to the Articles of Association**

The Board of Directors proposes that the Annual General Meeting authorises the Board of Directors, during the period until the Annual General Meeting in 2020 to resolve on the issuance of Additional Tier 1 notes as set out below. According to the proposal the current Article 4.8 of the Bank's Articles of Association shall be erased and replaced with the following provision:

"By a shareholders resolution of the Annual General meeting of Arion Bank the Board of Directors is authorised, for the period until the annual general meeting in 2020, on one or several occasions, with deviation from any shareholders preferential rights, to issue convertible notes for the



maximum amount of ISK 20,000,000,000 or equivalent amount in other currencies that meet Additional Tier 1 requirements according to Article 84 b of the Act on Financial Undertakings, No. 161/2002. Final loan amounts and conditions for conversion shall be set so that the total number of shares which may be issued upon conversion of Additional Tier 1 notes, by virtue of this authorisation, may not exceed 600,000,000 shares at the time of issue of Additional Tier 1 notes. The maximum number of shares which may be issued upon conversion may be increased pursuant to the terms and conditions of the Additional Tier 1 notes in the event of any discounted share issue, bonus issue, discounted rights issue, any other issue of securities to shareholders as a class or issue of other convertible securities, conversion of convertibles other than the Additional Tier 1 notes, share split, mergers, acquisitions, cash or non-cash dividend or similar corporate events. Additional Tier 1 notes shall mandatorily convert into shares under the conditions stated in the terms and conditions of the Additional Tier 1 notes but not be convertible at the option of the holders. The Board of Directors resolves on all other terms and conditions for issuance according to this authorisation.”

Explanatory note

*The Board of Directors proposes that the Annual General Meeting renews the temporary authorisation to the Board of Directors, with certain amendments, to issue Additional Tier 1 notes, effective until the Bank’s Annual General Meeting in 2020. Additional Tier 1 notes mandatorily convert into shares under certain circumstances (convertible securities that absorb losses). If approved it is proposed that the new provision, as set out above, will replace Article 4.8 in the Bank’s Articles of Association and the current Article 4.8 will be erased from the Articles of Association in its entirety. The motion is comprised of the following items:*

*The authorisation may be utilized on one or several occasions prior to the AGM in 2020.*

*The Additional Tier 1 notes shall mandatorily convert into shares under the conditions stated in the terms and conditions of the Additional Tier 1 notes but not be convertible at the option of the holders.*

*Loan amounts and conditions for conversion shall be set so that the total number of shares which may be issued upon conversion of Additional Tier 1 notes, by virtue of this authorisation, may not exceed 600,000,000 shares at the time of issue of Additional Tier 1 notes (to be increased to a corresponding number of shares due to any discounted share issue, bonus issue, discounted rights issue, any other issue of securities to shareholders as a class or issue of other convertible securities, conversion of convertibles other than the Additional Tier 1 notes, share split, mergers, acquisitions, cash or non-cash dividend or similar corporate events).*

*The shareholders waive any preferential rights.*

*The Board of Directors resolves on all other terms and conditions for issuance according to this authorization.*



## 10. Item no 13, proposal to amend the Bank's Articles of Association

It is proposed that an amendment will be made to item vi) of Article 13.2 of the Bank's Articles of Association, so that the reference to the coming operating year will be removed. If the proposal will be approved, item vi) will read as follows:

- vi) a decision on remuneration to the Board of Directors and compensation to members of the Board's sub-committees;

### Explanatory note

*According to the Rules of Procedure of the Nomination Committee the Committee shall prepare and submit to the Annual General Meeting or other shareholders' meetings, as applicable a formal proposal on remuneration and other fees payable to the members of the Board of Directors. The suggested amendments are done so that changes to the remuneration can be amended at a later shareholders' meeting.*

## **Explanatory notes to agenda items No 4 and 8**

### **Election of the Bank's Board of Directors**

In accordance with the Bank's Articles of Association the Bank's Board of Directors shall be elected in an Annual General Meeting of the Bank for a one year term. 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 Icelandic time on 15 March 2019.

The Nomination Committee will propose to the shareholders 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. From the same time they will be made available at the Bank's headquarters.

### **The election of two members to serve on the 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 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 Icelandic time on 15 March 2019. The applicable arrangement for 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 from the same time.