



## GUIDANCE TO CANDIDATES TO THE BOARD OF DIRECTORS REGARDING ASSESSMENT OF DIRECTORS INDEPENDENCE

---

According to Article 5 of the Board's Rules of Procedure when electing new Directors the Nomination Committee shall assess the independence of candidates and make its findings available to shareholders on the Bank's website. The assessment shall be based on the criteria set out in the Corporate Governance Guidelines.<sup>1</sup> The Nomination Committee will base its assessment on certain information the candidates shall provide.

The Nomination Committee has a final say, in circumstances where a Director is not sure if he is independent or not (í. álitamál).

The shareholders will be informed of the Nomination Committee's conclusion before the shareholders' meeting via the Bank's website and the information presented in the Corporate Governance Statement. Each candidate or elected Director must inform the Board of any changes to their circumstances which may have an effect on whether they are considered independent.

### **Independent Directors**

The majority of Directors shall be independent of the Company and its day-to-day managers. At least two Directors<sup>2</sup>, moreover, shall be independent of the Company's major shareholders.<sup>3</sup>

One of the most important duties of the Directors is to monitor those who are responsible for the Company's day-to-day operation. If a Director is connected with the Company in any manner that may give cause to question whether their own interests could affect their decision-making towards the Company and its executive managers, this reduces their ability to carry out their supervisory role over managers.

### **Evaluation of Directors' independence**

The Nomination Committee shall assess the independence of candidates before the Company's shareholders' meetings and make the result available to shareholders via the Bank's website.<sup>4</sup>

A Director is not independent of the Company or its day-to-day managers:

---

<sup>1</sup> Guidelines on Corporate Governance published by the Icelandic Chamber of Commerce, NASDAQ OMX Iceland hf. and the Confederation of Icelandic Employers, 5th edition May 2015 - <http://corporategovernance.is/>

<sup>2</sup> This refers to a Board consisting of five members.

<sup>3</sup> A major shareholder is anyone who controls at least 10% of the total share capital or weight of votes in the Company, alone or in co-operation with associated parties.

<sup>4</sup> This refers to independence both from the Company and significant shareholders.



1. If he/she is or has been an employee of the Company [Arion Bank], or a company closely related to the Company<sup>5</sup> [Arion Bank], during the three years prior to the commencement of Board membership.
2. If he/she receives or has received substantial payments from the Company<sup>6</sup> [Arion Bank], a company closely related to the Company [Arion Bank] or its day-to-day managers, apart from a Director's fee, e.g. as a consultant or contractor, in the three years prior to commencement of Board membership.
3. If he/she is in, or has been the past year in, significant business with the Company [Arion Bank] or closely related companies, e.g. as a customer, supplier or partner, or if he/she has other significant business interests in the Company [Arion Bank], whether personally or through another company.
4. If he/she is one of the daily managers of another company in which one of Directors is a daily manager of the Company [Arion Bank].
5. If he/she is, or has been, in the past three years prior to taking a seat on the Board, a partner of the external auditor, or closely related company, or an employee who has taken part in the external audit of the Company [Arion Bank].
6. If he/she has close family ties<sup>7</sup> with any of the Company's [Arion Bank] day-to-day managers or any other persons mentioned above and that person is in direct or indirect business with the Company [Arion Bank] of such a proportion that the director should not be considered independent.

A Director is not independent of the Company's [Arion Bank] major shareholders:<sup>8</sup>

1. If he/she has direct or indirect control of the Company [Arion Bank] or is a board member in a company which has control of the Company [Arion Bank]
2. If he/she owns a significant share in the Company [Arion Bank] or is a board member in a company which owns a significant share in the Company [Arion Bank]

The factors above that can cause a Director to be considered not independent are not exhaustive and it remains in the hands of the Nomination Committee to assess other factors where the interests of specific Directors, large shareholders and the Company itself might collide, both in fact actually and in appearance. The Nomination Committee might, for instance, consider whether the Director has been considered independent for more than seven consecutive years or if individuals or companies related to the Director are in such a relationship with the Company as is mentioned above.

---

<sup>5</sup> If the Company controls at least 10% of the total share capital or weight of votes in another company, the latter shall be deemed to be closely related. If the Company controls 50% or more of the total share capital or weight of votes in another company then it shall be considered to have indirect control of the latter company's shares in other companies.

<sup>6</sup> The payments should be examined and assessed whether they are a considerable amount, for both the Company and the individual Board Member, e.g. if it is a large portion of his gross income.

<sup>7</sup> This refers to if he/she is, or has been, a party's spouse, a relative in the descending or ascending line, whether natural or adoptive or by marriage, or a first cousin.

<sup>8</sup> A major shareholder is anyone who controls at least 10% of the total share capital or weight of votes in the Company, alone or in co-operation with related parties.



The above criteria for independence should not be interpreted in such a manner as to hinder necessary diversity and breadth amongst Board Members.

**It is requested that each candidate declares his independence (í. óháðði) or non-independence (í. hæðði) according to these guidelines (see form for notice of candidacy on the Bank's website here).**