Arion Bank
ID-No. 581008-0150

ARION BANKI HF

RULES ON VARIABLE REMUNERATION

November 2024

Name:	Rules on variable remuneration
Responsibility:	Legal and HR
Date:	20 November 2024
Review:	To be concluded before year-end 2025

1. Introduction

1.1 These rules form a part of the remuneration policy of Arion banki hf. ("Arion" or the "Bank"), approved annually by the Bank´s AGM. The Bank´s variable remuneration scheme at any given time shall be in coherence with the goals and requirements set forth in the Bank´s remuneration policy.

1.2 These rules are approved by the Bank´s Board of Directors, following a review and assessment by the Board's Remuneration Committee ("BRC") and the Board's Risk Committee ("BRIC"), in accordance with the applicable rules of procedures of these governance bodies and in line with legal and regulatory requirements.

1.3 The main legal and regulatory basis of these rules are Article 57 (b) of the Act on Financial Undertakings no. 161/2002, the EBA Guidelines on Sound Remuneration Policies, EBA/GL/2021/04 ("EBA Guidelines")[1], Article 94 of Directive 2013/36/EU and Article 6 of Act no.118/2016 on Real Estate Loans to Consumers.

1.4 The Board of Directors is responsible for overseeing the implementation of these rules. The CEO is responsible for the sound execution of these rules. The CEO, in cooperation with managing directors and heads of business units or departments, shall be responsible for introducing these rules to those employees eligible to receive variable remuneration.

2. Objective

2.1 The rules reflect the Bank's objectives for good corporate governance as well as sustained and long-term value creation for all stakeholders, including customers, creditors, shareholders and employees. In addition, these rules aim to achieve the following:

a) To allow the Bank to attract, develop and retain high-performing and motivated employees in a competitive market.

b) To create a *'one team'* culture within the Bank.

c) To encourage employees to create sustainable results.

d) That employees are incentivised to comply with internal and external rules and procedures.

e) To encourage employees to strive for *Operational Excellence.*

f) To create a link between shareholder and employee interests.

2.2 In addition to the substantial risk mitigation and regulated balance between fixed and variable components of employee remuneration, already inherent in the Icelandic legal framework for variable remuneration, as set out in Section 6, the rules further support sound and effective risk management by:

a) Establishing a transparent framework for the Bank´s overall goal settings.

b) Combining the interest of employees in different divisions with the Bank's overall goals.

c) Including both financial and non-financial goals.

d) Requiring the forfeit of remuneration and a claw back mechanism in specific circumstances.

[1] Terms used in these rules, who are not specifically defined, shall have the same meaning as in EBA/GL/2021/04.

3. Scope

3.1 These rules apply to all employees eligible to receive variable remuneration.

3.1.1 Eligible employees are all permanent employees of the Bank, except for employees working in risk management, internal audit, and compliance.

3.1.2 These rules do not apply to members of the Board of Directors. Payment of variable remuneration to members of the Board of Directors is prohibited.

4. Variable remuneration

4.1 General

Variable remuneration shall be awarded in a manner which promotes sound risk management in line with the Bank´s risk policy, encourages long-term sustainable results and does not induce excessive risk- taking.

4.1.1 Variable remuneration may be paid out in cash, shares issued by the Bank ("Shares") or options giving the employee right to purchase a specific number of Shares at a predetermined price and time ("Share Options")[2] as further described in Clause 10.4. In this context, the following shall apply:

a) The total variable remuneration paid to employees may be a combination of cash, Shares or Share Options.

b) The Board of Directors may decide to allow employees to choose which form of payment they prefer to receive from the Bank.

c) Employees receiving variable remuneration amounting to more than 10% of fixed annual salary shall receive at least half of the variable remuneration in the form of Shares or Share Options.

4.1.2 When variable remuneration is granted, care is taken to ensure that the following is considered:

a) That the variable remuneration supports the long-term interests of the Bank.

b) That the variable remuneration does not incur conflict of interest.

c) That the variable remuneration does not reward employees at the expense of consumers.

d) That the variable component reflects the risk underlying the achieved result.

e) That granted variable remuneration may be forfeited in full or in part if grantedon the basis of unsustainable results.

f) That payment of variable remuneration cannot be paid through vehicles or by methods that increase risk of non-compliance.

4.1.3 Employees must be employed by the Bank at the time of the granting of variable remuneration and when variable remuneration is paid out, unless the employee is a *'Good Leaver'*, as defined in clause 5.3.

4.1.4 Employees are prohibited from engaging in any kind of trading, e.g., derivative trading, for the purpose of hedging against risk related to deferred variable remunerations or acquire any insurance for the same purpose.

[2] Subject to appropriate authorizations included in the Bank´s remuneration policy and articles of association as per the Act on Limited Companies no. 2/1995.

4.2 *Annual variable remuneration pools*

Method

4.2.1 A top-down approach shall be used for the setting of the bonus pool, which shall consist of one pool at the bank level. Once decided, the bonus pool shall be fully or partially distributed down to employee level, based on performance assessments and in line with the process set out in this Section.

4.2.2 Assessment of performance shall be a combination of pre-approved performance measures and prudent judgmental approaches, with objectivity, transparency, and simplicity as guiding factors.

4.2.3 A main performance benchmark trigger for the bank shall be as follows:

Weighted competitive ROE = (R_L + R_I + R_K) / (E_L + E_I + E_K)

Where *R* stands for Total Net Earnings and *E* stands for Total Average Equity (average of Q4 for prior year and Q1, Q2, Q3 and Q4 for the corresponding financial year), and the subscripts refer to Landsbankinn hf. (L), Íslandsbanki hf. (I), and Kvika banki hf. (K). The figures are based on consolidated financial statements.

4.2.4 Should this main benchmark be triggered, other KPI´s shall be taken into consideration by the CEO and the Board of Directors when determining the size of the bonus pool and final allocation down to employee level.

Process

4.2.5 Annually, before year-end, the CEO will bring a KPI proposal to the Board of Directors for approval. This must be done prior to any reference period for which variable remuneration may be granted.

4.2.6 In line with the Bank's internal procedures and the EBA Guidelines, both the BRC and BRIC will review the proposal and the system, following risk assessment by Risk Management and assessment by the Compliance division of compliance with applicable regulatory requirements..

4.2.7 In accordance with clause 4.3, the CEO's proposal shall include a list or a benchmark for those employees eligible for variable remuneration of up to 25% of annual fixed remuneration. Other employees will be capped at the 10% level. The proposal shall, furthermore, include whether employees are to be paid in cash, Shares or Share Options or combination of these.

4.2.8 All eligible employees will:

a) Sign an annex to their employment contract prior to inclusion into the system, outlining the applicable rules, including deferral and claw-back provisions

b) The annex will explicitly state that no variable remuneration is guaranteed, and, if granted, will be subject to a deferral period with forfeiture conditions applying during the deferral period.

4.2.9 Should the main performance benchmark set out in clause 4.2.3 be passed for a given reference period, the CEO will propose a performance-based remuneration pool to the Board of Directors for review and approval, which may then be granted to eligible employees. The total remuneration pool shall not exceed the ISK value of the outperformance from the main performance benchmark. The proposal shall, furthermore, be based on an evaluation of performance KPIs approved in line with clause 4.2.5. The following shall also apply:

a) A proportional distribution to all eligible employees shall be assumed, based on their 25% and 10% caps, before taking into consideration the requirements set out in clause 4.2.10.

b) In accordance with the EBA Guidelines, the total remuneration pool must not restrictthe positive development of the Bank's capital base, jeopardise liquidity ratios or financial stability of the market.

c) The number of eligible employees will in any event cap the total amount, as variable remuneration may not exceed 25% of annual fixed remuneration.

4.2.10 Once a total remuneration pool has been approved in line with clause 4.2.9, the performance of the respective division and personal circumstances of each employee shall be evaluated before the granting of variable remuneration may take place, in the following manner:

a) Progress with *Operational Excellence* and KPI´s linked to divisions will affect the final allocation to each division.

b) Conclusions of regular performance reviews and compliance with external and internal rules, including ethical rules, will affect the final allocation of each employee.

4.2.11 The variable remuneration allocation and allocative requirements set out in this Section shall be documented before variable remuneration is granted. Prudent judgemental assessments shall, furthermore, be reasoned and documented before variable remuneration is granted.

4.3 Granting of variable remuneration

4.3.1 All permanent employees of the Bank will be eligible to participate in the system, excluding those in compliance, internal audit, and risk management, in accordance with legal requirements.

4.3.2 Annually, before year end, the CEO shall propose to the Board of Directors a list or a benchmark for employees which will be eligible to receive variable remuneration for a maximum of 25% of annual fixed salary.

a) Those eligible to receive remuneration for a maximum of 25% of annual fixed salary shall be deemed by the CEO as key performers, both in front office and support divisions.

b) All other employees shall be eligible to receive a maximum of 10% of fixed annual salary.

c) Subject to the approval of the Board of Directors, employees will be notified in writing of their eligibility, the total percentage of fixed salary they may receive, the applicable KPI, and other information required by these rules and the applicable legal framework.

4.3.3 The CEO shall consult with legal advisory and HR regarding necessary documentation, such as amendments to employment agreements.

5. Cancellation of granted variable remuneration

5.1 Granted and deferred variable remuneration shall not be paid, or only paid to a limited extent, if one of the following circumstances develops:

a) When the required performance of the employee in question is not achieved.

b) When the required performance of the business unit or department in question within the Bank is not achieved.

c) It is foreseen that the Bank will not, or is likely to not, meet capital adequacy requirements pursuant to article 92(1) of regulation EU no. 575/2013 and chapter X of the Act on Financial Undertakings, or applicable liquidity requirements.

d) When the employee does not comply with rules or internal procedures of the Bank or does not comply with laws or administrative instructions in his or her work.

5.2 If a variable remuneration is forfeited in full or part due to employee performance assessments, the grounds for that conclusion shall be clearly communicated to the employee and set forth in writing by the relevant manager.

5.3 Variable remuneration shall not be paid if the employee has ceased to be an employee of the Bank at time of pay out unless the termination of employment is due to any of the following reasons (*'Good Leaver'*):

a) Ill health or disability which is sufficiently serious to prevent the employee from carrying out his normal duties and which is confirmed by a medical professional.

b) Death of an employee.

c) Retirement pursuant to an employment agreement or collective wage agreement (IS. *kjarasamningur*).

d) The Bank initiates termination of employment for other reason than cause. An employee who initiates termination of employment following a demotion by the Bank falls under this sub-clause d).

5.4 No variable remuneration shall be paid if the situation of the Bank has deteriorated materially or if it is probable that the situation of the Bank will deteriorate materially. The same applies if the Bank receives a loan from the Central Bank of Iceland acting in its capacity as a lender of last resort, or similar financial aid.

5.5 The Bank may reclassify a bad leaver as good leaver, provided that a) the purpose is to secure best interest of the Bank and b) it is pre-approved by the Chairman of the BRC and the Chairman of the Board of Directors.

6. Ratios between fixed and variable remuneration and deferral

6.1 Variable remuneration to individual employees may not exceed 25% of their annual fixed salaries.

6.2 If the variable remuneration exceeds 10% of the annual fixed salaries, at least 40% of the variable remuneration shall be deferred for a period of at least four years. In case of the CEO, and employees reporting directly to the CEO, as per the Bank's organizational chart at any given time, the deferral period shall be at least five years.

a) The deferral can be extended beyond four/five years for employees with high risk-taking duties.

b) Before pay-out, the deferred amount will be subject to possible risk adjustments.

c) Pursuant to article 280 of the EBA Guidelines no interest or dividend is paid on deferred remuneration during the deferral period. Any interest or dividend which is or becomes payable during the deferral period is to be treated as received and owned by the Bank.

6.3 If variable remuneration does not exceed 10% of an employee's annual fixed salaries, payment can be made without any deferral.

7. Retention Policy

7.1 In accordance with the EBA Guidelines variable remuneration paid in Shares shall be subject to a retention period in order to align incentives with the longer-term interest of the Bank.

7.2 Shares that are granted to employees (i.e. not deferred) are subject to a retention period (sale restriction) of three years after delivery.

7.3 Shares that are deferred are subject to a retention period (sale restriction) of one year after delivery, following the deferral period.

8. Claw back of variable remuneration

8.1 If the basis for granting a variable remuneration turns out to have substantially deviated from the performance anticipated at the time when the decision was made, the payment can be clawed back by the Bank in part or in full.

8.2 All paid-out variable remuneration can be clawed back by the bank if certain conditions are met. These conditions are:

a) A major breach of compliance discovered after the fact.

b) Activity that constitutes a breach of law or regulations discovered after the fact.

c) An employee has participated in or was responsible for actions which caused the Bank substantial loss.

Where:

a) *Breach of compliance* means: If a breach of compliance that would have resulted in immediate dismissal (i. *riftun*) (not a warning) is discovered at any time after the fact (within the time limit for claw back), any variable remuneration paid-out can be clawed back.

b) *Breach of law* means: If an employee is subject to an administrative fine or convicted in court of breaking any law or regulation relating to his work, any variable remuneration paid-out can be clawed back.

8.3 If an employee leaves the Bank within six months from receiving a variable remuneration, the payment can be clawed back in full. This does not apply if the employee's departure is due to *'Good Leaver'* reasons, as defined in clause 5.3.

8.4 Any claw back claim has to be submitted within seven years from the date when the variable remuneration was paid to the employee.

9. Recruitment bonus

9.1 The CEO may grant a recruitment bonus to attract highly skilled and specialized individuals. A recruitment bonus is granted for a period of one year only and the combined recruitment bonus plus variable remuneration may not exceed 25% of annual fixed salaries.

9.2 A recruitment bonus is subject to deferral, pursuant to clause 6, potential cancellation, pursuant to clause 5, and claw back provisions, pursuant to clause 8.

9.3 A recruitment bonus may not be granted when an employee is rehired by the Bank or a group company within three years of leaving the Bank or a group company.

9.4 A recruitment bonus, in the form of compensation or buyout of previous employment contract, shall only be allowed if it complies with the Bank´s long term interest.

Furthermore, all requirements and conditions in this Section 9 shall apply.

10. Process of pay-out in Shares and Share Options

Payment in Shares

10.1 In case of payment of variable remuneration in Shares, the following process shall be applied:

a. Number of shares shall be determined by dividing the allocated variable remuneration amount by share price, as per item b.

b. The share price shall be the market price of the shares at the time of formal approval by the Board of Directors of the annual report.

c. The Bank shall withhold the applicable number of shares to cover employee tax liability at pay out.

10.2 Notwithstanding clause 10.1(a), in respect of payment in Shares that are deferred for a period of 5 years or longer, the Board of Directors shall be authorized (but no obliged) to calculate the number of awarded but deferred Shares by applying a discount rate in accordance with the procedures set out in the EBA guidelines on the applicable notional discount rate for variable remuneration (EBA/GL/2014/01), to a maximum of 25% of the variable remuneration.

10.3 A payment of variable remuneration in shares falls under all the same rules and restrictions as payments in cash, including claw back, deferral, cancellation etc.

Payment in Share Options

10.4 In case of payment of variable remuneration in the form of Share Options the following process shall be applied:

a. The Board of Directors shall determine the terms and conditions of Share Options to be paid out for a specific reference year. To comply with deferral requirements, 40% of the options shall be at least four- or five-year options, as applicable according to Clause 6.2.

b. The Black-Scholes Model shall be used to calculate the fair value of the Share Options at the time of formal approval by the Board of Directors of the annual report. An independent third-party adviser shall be engaged to confirm the Bank´s calculations according to this Clause.

c. An employee shall be paid Share Options equivalent in value as the allocated variable remuneration amount.

10.5 A payment of variable remuneration in Share Options falls under all the same rules and restrictions as payments in cash, including claw back, deferral, cancellation etc.

11. Dispute Resolution

11.1 Any dispute, controversy, or claim arising out of, or in relation to, these Rules on Variable Remuneration or in respect of any payment made or deferred thereunder, including around validity, invalidity, breach, termination, claw back and cancellation, shall be resolved by arbitration in accordance with the Arbitration Rules of the Nordic Arbitration Centre of the Iceland Chamber of Commerce in force on the date on which the arbitration is commenced.

12. Reviews

12.1 These rules shall be reviewed annually by the Board of Directors taking into consideration the current status of the Bank, applicable legislation, market conditions and analyses performed according to clauses 4.1.1 and 4.1.3.

12.2 The head of risk management, internal audit and compliance shall at least annually review and analyse the Bank´s variable remuneration.

Approved by the Board of Directors of Arion bank hf. on 20 November 2024

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