



## GUIDANCE TO CANDIDATES TO THE NOMINATION COMMITTEE REGARDING THE ASSESSMENT OF INDEPENDENCE

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The Nomination Committee shall consist of three members, appointed annually for a term of one year. Two Committee members shall be appointed annually at the Annual General Meeting of the Bank. The applicable arrangement for voting of Board members in the Bank's Articles of Association and the Act on Limited Liability Companies No 2/1995 shall apply to the voting of Committee members.

According to Article 2 of Rules of Procedure for the Nomination Committee, the two Committee members appointed by the shareholders, must be independent of the Bank and its day to day management, where at least one member shall be independent of the largest shareholder of the Bank or any group of shareholders acting in concert. The same criteria shall apply to the assessment of independence of Committee members as to the assessment of the independence of Board members.

The assessment shall be based on the criteria set out in the Corporate Governance Guidelines.<sup>1</sup> The Board will base its assessment on certain information the candidates shall provide.

The Board decides if a Candidate is not sure if he is independent or not (í. álitamál). Further assistance can be provided by Legal for each candidate.

The shareholders will be informed of the Board'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.

### Evaluation of Candidates' independence

The Board shall assess the independence of candidates before the Company's shareholders' meeting and make the result available to shareholders via the Bank's website.<sup>2</sup>

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

1. If he/she is or has been an employee of the Company [Arion Bank], or a company closely related to the Company<sup>3</sup> [Arion Bank], during the three years prior to the commencement of Board membership.

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<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 independence both from the Company and significant shareholders.

<sup>3</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.



2. If he/she receives or has received substantial payments from the Company<sup>4</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>5</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 candidate is not independent of the Company's [Arion Bank] major shareholders:<sup>6</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 candidate to be considered not independent are not exhaustive and it remains in the hands of the Board to assess other factors where the interests of specific candidates, large shareholders and the Company itself might collide, both in fact actually and in appearance. The Board might, for instance, consider whether the candidate has been considered independent for more than seven consecutive years or if individuals or companies related to the candidate are in such a relationship with the Company as is mentioned above.

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

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

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<sup>4</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>5</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>6</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.