



Proposals to the Annual General Meeting of Arion Bank hf. to be held 13 March 2024

The Annual General Meeting of Arion Bank hf. (“Arion Bank” or the “Bank”) will be held at the Bank’s head office at Borgartún 19, 105 Reykjavík, at 16:00 Icelandic time on 13 March 2024. Shareholders will also have the option of attending by electronic means. On the day of the announcement of the Annual General Meeting there are 1.446.356.237 outstanding shares in the Bank with voting rights.

Agenda:

1. **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 and consolidated accounts for the last financial year**
3. **Decision on payment of a dividend**
4. **Election of the Bank’s Board of Directors, Chairman of the Board and Vice-Chairman**
5. **Election of an auditing firm**
6. **Decision on remuneration to the Board of Directors and compensation to members of the Board’s sub-committees**
7. **Decision on remuneration to members of the Bank’s Nomination Committee**
8. **Election of two members of the Bank’s Nomination Committee**
9. **Election of one member of the Bank’s Audit Committee**
10. **Proposal to amend the Bank’s Remuneration Policy**
11. **Proposal to renew the Bank’s authorisation to purchase own shares and a corresponding amendment to the Articles of Association**
12. **Proposals to amend the Bank’s Articles of Association**
13. **Other business**

Proposals of the Board of Directors:

1. **Item no. 2 - Approval of the Bank’s annual financial statements and consolidated accounts for the last financial year**

The Board of Directors proposes that the Annual Financial Statements and consolidated accounts for the year 2023 will be approved.

Benedikt Gíslason, Chief Executive Officer, will present the Annual Financial Statements, as approved by the Board of Directors at its meeting on 7 February 2024.

2. **Item no. 3 - Decision on payment of a dividend**

The Board of Directors proposes that a dividend of ISK 9.0 per share will be paid to the Bank’s shareholders, equal to approximately ISK 13 billion, taking into account own shares held by the Bank.

If approved by the shareholders, the Bank’s shares traded on and after 14 March 2024 (Ex-date) will be ex-dividend.

The right to a dividend will be paid to shareholders registered in the Bank’s shareholders registry at the end of 15 March 2024 (Record date).

The payment date of the dividend will be 21 March 2024.



Explanatory note:

The Board of Directors proposes that the Bank pay dividends of ISK 13 billion, net of own shares. This dividend calculates as ISK 9.0 per share.

3. Item no. 5 - Election of an auditing firm

The Board of Directors proposes that Deloitte ehf. will be elected to continue to act as the Bank's external auditors until the next AGM. This proposal is based on an agreement between Arion Bank and Deloitte from December 2021 and Article 90 of the Act on Financial Undertakings, no. 161/2002.

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

The Board of Directors proposes the following remuneration for the Board of Directors, members of Board sub-committees and alternate Directors:

The monthly salary of Board members be ISK 565.000, the monthly salary of the Vice-Chairman be ISK 847.500 and the monthly salary of the Chairman be ISK 1.130.000. Board members residing outside of Iceland will receive a further ISK 365.000 for each Board meeting they attend in person.

In addition, it will be permitted to pay those Board members who serve on the Board's sub-committees a maximum of ISK 235.000 a month for each committee and the chairmen of Board sub-committees ISK 352.500 a month.

Alternate Directors shall receive a payment of ISK 565.000 per year. In addition, alternate Directors shall be paid ISK 282.500 for each meeting attended but cannot exceed ISK 565.000 per month.

For Board members residing outside of Iceland, these figures shall be paid in the equivalent amount in their respective currency, fixed at the average three-year official exchange rate prior to the date of the 2024 AGM.

Explanatory note:

Further information is to be found in the Nomination Committee's report, which is expected to be made available on 28 February 2024 on the Bank's website, www.arionbanki.is/gm.

5. Item no. 7 - Decision on remuneration to members of the Bank's Nomination Committee

The Board of Directors proposes that remuneration to members of the Bank's Nomination Committee shall be a fixed hourly rate of ISK 27.500.

6. Item no. 9 - Election of one member of the Bank's Audit Committee

The Board of Directors proposes that Heimir Þorsteinsson, ID. no. 200670-3889, be re-elected as an external member of the Bank's Audit Committee.

Explanatory note:

The proposal derives from recent amendments made to Act No. 3/2006 on Annual Accounts, requiring that any external members to a company's audit committee be appointed by the annual general meeting. Given that the Board of Directors has decided that one member of its Audit Committee shall be a non-director, the Board proposes that this member be appointed by the Annual General Meeting.

7. Item no. 10 – Proposal to amend the Bank's Remuneration Policy

The Board of Directors proposes that the Remuneration Policy will be amended. Firstly, it is proposed that the Remuneration Policy be amended to reflect current legal requirements under Act No. 25/2003 on Disclosure in Financial Services and a Classification System for Sustainable Investments, which implemented the EU's Sustainable Finance Disclosure Regulation ("SFDR") into Icelandic law. According to Article 5 of the SFDR, Arion Bank is required to describe in its remuneration policy how the policy is consistent with the integration



of sustainability risks. Secondly, amendments to chapter I of the Remuneration Policy are proposed in accordance with Article 57(a) of Act No. 161/2002 on Financial Undertakings. Finally, it is proposed that the policy be amended by replacing references to “starfsfólk” by “starfsmenn”, based on gender neutrality. This amendment only relates to the Icelandic version of the Remuneration Policy.

The Bank’s Remuneration Policy, reflecting the proposed amendments, is attached hereto as Appendix 1 are also set out on the Bank’s website, www.arionbanki.is/gm.

Explanatory note:

The amendments primarily derive from EU’s Sustainable Finance Disclosure Regulation (“SFDR”), as well as Act No. 161/2002 on Financial Undertakings. On the Bank’s website, www.arionbanki.is/gm, is a document that tracks the intended changes to the Bank’s Remuneration Policy accompanied with a reasoned explanatory note.

8. Item no. 11 - Proposal to renew the Bank’s authorisation to purchase own shares and a corresponding amendment to the Articles of Association

The Board of Directors proposes that the authorisation to purchase the Bank’s shares be approved. It is further proposed that should the proposal be approved, the authorisation will be recorded in Annex no. 1 to the Articles of Association of the Bank, replacing the current Annex no. 1, and thus be an integral part of the Articles of Association in accordance with Article 7.1 of the Articles of Association. The proposal reads as follows:

“The Annual General Meeting of Arion Bank hf. held on 13 March 2024 authorises the Board of Directors, based on Article 55 of the Company Act, No. 2/1995, to acquire on behalf of the Company own shares, causing the Company and its subsidiaries to hold up to 10% of issued share capital in the Company. The authorisation shall be used to set up a formal share repurchase program or for the purpose of offering shareholders generally to sell their shares to the Company, e.g. through auction, provided equal treatment of shareholders is ensured should such offer be made. Shares acquired by the Company hereunder may *inter alia* be used for the purpose of meeting the Company’s obligations under share option agreements with its employees, and for payment of variable remuneration as per the Company’s Remuneration Policy and variable remuneration framework. The repurchase of shares under this authorisation is conditional upon the prior approval of the Financial Supervisory Authority in accordance with Article 77 of Regulation (EU) on Prudential Requirements for Credit Institutions and Investment Firms, No. 575/2013 (CRR).

This authorisation shall remain in effect until the Company’s Annual General Meeting in 2025 or 13 September 2025, whichever occurs first. Older authorisations to purchase own shares are cancelled with the approval of this authorisation. Such cancellation shall, however, not affect any repurchase transactions initiated and published prior to that date.”

Explanatory note:

The Board of Directors proposes that the current authorisation of the Board of Directors to purchase the Bank’s shares is renewed, allowing the Company to hold up to 10% of own shares. 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 and the prior approval of the Central Bank’s Financial Supervisory Authority shall be obtained in accordance with applicable laws and regulations.

Furthermore, in line with paragraph 2 (c) of Article 5 of Regulation (EU) No. 596/2014 on Market Abuse (Market Abuse Regulation) the Annex reflects that shares acquired by the Bank on the



basis of this authorisation may, *inter alia*, be used for the purpose of meeting the Bank's obligations under share option agreements and payment of variable remuneration in accordance with the Bank's Remuneration Policy and variable remuneration framework, as per item no. 10.

9. Item no. 12 – Proposals to amend the Bank's Articles of Association

The Board of Directors of Arion Bank proposes that the Annual General Meeting of Arion Bank approves the following amendments to the Bank's Articles of Association:

- (a) That the following shall be added to Article 16.2 as a new item (ix) (the numbers of any subsequent items to be updated accordingly):

“Appointment of one member of the Company's Audit Committee, if applicable.”

- (b) That the following shall be added as a new Article 24, to read as follows (the numbers of any subsequent Articles to be updated accordingly):

24 Issuance of instruments in relation to resolution procedures

“The Company is authorised to issue the amount of new common equity tier 1 instruments, in accordance with the Act No. 161/2002 on Financial Undertakings, required to enforce a decision of the Resolution Authority of the Central Bank of Iceland in accordance with Chapter VI of the Act No. 70/2020 on Resolution of Credit Institutions and Investment Firms or bail-in according to articles 54 and 55, according to part E of the same act. Articles 3.1 and 3.6 requiring shareholder approval for the increase and reduction of share capital, and Article 3.2 on priority rights of shareholders to subscribe to new shares, shall not apply to changes in share capital in accordance with this Article 24. Moreover, Article 2.1 of these Articles of Association, regarding the Company's share capital, shall be updated without undue delay to reflect the relevant change in share capital in accordance with this Article and does not require further shareholders' approval.”

- (c) That Article 25 (previously Article 24) be amended to read as follows:

“The provisions of Act No. 2/1995 on the Public Limited Companies, Act No. 70/2020 on Resolution of Credit Institutions and Investment Firms and other acts as appropriate shall apply to the Company's winding-up, its merger with other companies or division into two or more legal entities. A decision on such a measure can only be taken by a shareholders' meeting by the same power of votes as is required for amendments to these Articles of Association.”

- (d) That Article 26 (previously Article 25) be amended to read as follows:

“The handling of any aspects not provided for in these Articles of Association shall be governed by the current provisions of the Act No. 2/1995 on Public Limited Companies, Act No. 161/2002 on Financial Undertakings, Act No. 70/2020 on the Resolution of Credit Institutions and Investment Firms and provisions of other legislation as applicable.”

Explanatory note:

The amendment set out in item (a) derives from recent amendments to Act No. 3/2006 on Annual Accounts, requiring that any external members to a company's audit committee be appointed by the annual general meeting. Should the Board of Directors decide that one member of its Audit Committee be a non-director, the Board will therefore propose that this member be appointed by the shareholders at an Annual General Meeting.

The amendments set out in items (b) to (d), however, derive from a direction of the Resolution Authority (the Central Bank of Iceland) that the Bank's Articles of Association will refer to Act No. 70/2020 on the Resolution of Credit Institutions and Investment Firms and provide for any authorisations required thereunder.



On the Bank's website, www.arionbanki.is/gm, is a document that provides an overview of the intended changes to the Bank's Articles of Association, as well as a clean version of the updated Articles of Association, reflecting the amendments proposed under items 11 and 12.

Explanatory notes to agenda items no. 4 and 8:

Item no. 4 - Election of the Bank's Board of Directors, Chairman of the Board and Vice-Chairman

In accordance with the Bank's Articles of Association, the Bank's Board of Directors shall be elected at an Annual General Meeting of the Bank for a term of one year.

The Board of Directors has decided that the Board election will be executed so that the Board of Directors will be composed of five directors and two alternates, cf. Article 17.1 of the Bank's Articles of Association. The decision is based on a proposal from the Bank's Nomination Committee but the proposal can be subject to change when the final proposals will be published no later than two weeks before the Annual General Meeting. Further information is to be found in the Nomination Committee's report, which is expected to be made available on 28 February 2024 on the Bank's website.

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 nominationcommittee@arionbanki.is by 16:00 (GMT) on 8 March 2024.

The Nomination Committee will propose to the shareholders the candidates to serve on the Board of Directors based on shareholders' proposals and submission of candidacy and expects to publish its proposal on 28 February 2024. Information regarding all candidates will be published on the Bank's website, www.arionbanki.is/gm, no later than two days before the Annual General Meeting. It will be made available at the Bank's headquarters at the same time.

Item no. 8 - Election of two members of the Bank's 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 for 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 by 16:00 (GMT) on 8 March 2024. The applicable arrangement for the 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, no later than two days before the Annual General Meeting and will be made available at the Bank's headquarters at the same time.



Remuneration Policy of Arion Bank hf.

Translation from Icelandic

I. Objective

The main objective concerning employee remuneration is that Arion Bank offers competitive salaries so that the Bank can attract and retain outstanding employees. The Bank's objective is also to ensure that jobs at the Bank are sought after by qualified individuals. When devising a remuneration policy, it must be ensured that the policy does not encourage excessive risk taking but rather supports the Bank's long-term goals and its healthy operation in line with the Bank's business strategy. The policy is an integral part of the Bank's strategy to protect the long-term interests of the Bank's owners, its employees, customers and other stakeholders, in an organized and transparent manner.

When determining salaries and other remuneration terms it must be ensured that there is no discrimination such that equal salaries are paid for equally valuable positions, in accordance with the Gender Equality Act No. 150/2020. The Bank shall strive to avoid any discrimination within the conditions of employment, including discrimination based on gender. The remuneration for Board of Directors and independent control functions should reflect the nature of their responsibilities, not the performance of the business units under their supervision. Furthermore, when determining salaries and other remuneration terms care shall be taken to prevent conflict of interest.

In accordance with Article 57a of Act No. 161/2002 on Financial Undertakings, Article 79a of Act No. 2/1995 on Public Limited Companies and rules on good corporate governance, the Board of Directors of Arion Bank shall approve the Bank's remuneration policy on salaries and other payments to the Board Directors, Chief Executive Officer, Deputy Chief Executive Officer, Managing Directors, Compliance Officer and Internal Auditor.

II. Board Remuneration Committee

Arion Bank shall establish a Board Remuneration Committee in accordance with Article 57e of Act No. 161/2002 on Financial Undertakings. The Board Remuneration Committee is one of the subcommittees of the Board of Directors of Arion Bank. Its role is to advise the Board on remuneration to the Chief Executive Officer, Deputy Chief Executive Officer, Managing Directors, Compliance Officer and Internal Auditor, and on the Bank's bonus scheme and other work-related payments. The Chief Executive Officer proposes a salary framework for the Deputy Chief Executive Officer, Managing Directors, Compliance Officer and Internal Auditor in consultation with the Board Remuneration Committee. The Board Remuneration Committee also makes other proposals it considers necessary or appropriate. The Committee shall report on its activities to the Board of Directors at regular intervals.

III. Remuneration to Board Directors

Board Directors shall receive a fixed monthly payment as determined at an Annual General Meeting, cf. Article 79 of Act. No. 2/1995 on Public Limited Companies. Otherwise, Article 57a of Act No. 161/2002 on Financial Undertakings applies to the remuneration of Board Directors.

IV. Remuneration to Chief Executive Officer, Deputy Chief Executive Officer, Managing Directors and Compliance Officer

Remuneration to the Chief Executive Officer, Deputy Chief Executive Officer, Managing Directors and Compliance Officer shall, as a general guideline, be suited to attract and retain skilled leaders.



The Board's Remuneration Committee shall, based on a proposal from the CEO, be tasked with approving appropriate salary frameworks which shall take this policy into consideration, a benchmark with a peer group of financial and nonfinancial undertakings comparable to Arion Bank in market, size or profile, and be aligned with the Bank's corporate culture, strategy, values, sustainability and the long-term interests of Arion Bank's shareholders and other stakeholders.

Remuneration to the Chief Executive Officer shall be stated in a written employment contract, including fixed salary, pension rights, annual leave, other work-related payments, period of notice and severance payments. The principle is that the terms of the employment contract govern pension and severance payments.

The salaries of the Deputy Chief Executive Officer, Managing Directors and the Compliance Officer are decided by the Chief Executive Officer in consultation with the Head of Human Resources and shall take into account the scope of the relevant division and level of responsibility. The remuneration of the Deputy Chief Executive Officer, Managing Directors and the Compliance Officer shall be specified in a written employment contract. The principle is that the terms of the employment contract govern pension and severance payments.

In exceptional circumstances it is authorized to enter into severance agreements with the Chief Executive Officer, the Deputy Chief Executive Officer and Managing Directors. The terms of such agreements shall be limited to payments of fixed salary and have maximum validity period of 12 months. Severance payments must reflect performance achieved during employment with the Bank and shall not reward failure or misconduct. Severance payments shall otherwise be conducted in line with the provisions of Act No. 161/2002 on Financial Undertakings and other applicable regulatory requirements.

V. Bonus schemes

It is permitted to pay employees and managers bonuses based on a special bonus scheme which the Board of Directors shall approve following consultation with the Board Remuneration Committee and Board Risk Committee. The Bank is permitted, but not obliged, to pay a bonus. A bonus refers to remuneration to employees of the Bank which is generally defined with respect to performance and does not form part of an employee's fixed remuneration, since the final amount

or proportion is not precisely determined in advance. Employees of control functions are not eligible to receive payments pursuant to the bonus scheme.

The objective of a special bonus scheme shall reflect the Bank's emphasis on good corporate governance as well as long-term value creation for all stakeholders, including customers, shareholders and employees. The setup of such a scheme shall appropriately encourage employees to create sustainable long-term results and establish a transparent framework for the Bank's overall goal setting, both financial and non-financial. A bonus scheme may not induce excessive risk taking and performance-based remuneration shall be awarded in a manner which promotes sound risk management in line with the Bank's risk policy and risk appetite.

A bonus scheme shall comply with provisions of law and regulations on such schemes and care shall be taken to appropriately balance the ratio between fixed and variable remuneration. The total bonus granted to an employee, including the CEO, Deputy CEO and Managing Directors, may not on an annual basis, exceed 25% of the employee's annual salary excluding the bonus. For the purpose of risk mitigation, a substantial portion, and in any event at least 40%, of the variable remuneration component, shall be deferred over a period which is not less than four years, in the case of the CEO and employees reporting directly to the CEO, this shall be five years, unless the variable remuneration in questions is equal to or less than 10% of the employee's annual salary excluding the bonus.

The payment of the variable remuneration can be in the form of cash, shares or share linked instruments or a combination thereof. Employees receiving variable remuneration amounting to more than 10% of the employee's annual fixed salary shall receive at least half of the variable remuneration in the form of shares or share linked instruments as applicable, cf. Article 57b of Act No. 161/2002 on Financial Undertakings. Payments in shares and share linked instruments are subject to deferral requirements, as applicable, according to Article 79a of Act No. 2/1995 on Public Limited Companies and Article 57b of Act No. 161/2002 on Financial Undertakings. Furthermore, cancellation and claw back provisions apply to payments in shares and share linked instruments.

A bonus scheme shall include provisions for the Bank to cancel any bonus payment which has not been made, or claw back any bonus payment made, in part or in full, if for example the employee in question participated in



or was responsible for actions which caused the Bank substantial loss or a major breach of compliance.

A special bonus scheme, as it is formulated at any given time, shall be consisted with, and be considered part of this remuneration policy. The rules of any such system shall be published on the Bank's website.

VI. Share option plan

The Bank's Board of Directors is authorizedⁱ to adopt a share option plan based on the provisions of Article 10 of the Income Tax Act No. 90/2003 and to conclude share option agreements with the Bank's employees and employees of the Bank's core subsidiaries.

The objective of adopting a share option plan shall be to align employees' interests with those of shareholders and with the long-term interests of the Bank, to promote equity participation in the Bank's shares by employees with a view of increasing employee loyalty, and to attract and retain outstanding employees. In line with Article 10 of the Income Tax Act, a share option plan must apply equally towards all permanent employees of the Bank.

On the basis of a share option plan, and in line with Article 10 of the Income Tax Act, each employee, including the CEO, Deputy CEO and Managing Directors, shall be allowed to purchase shares in the Bank for the maximum amount of ISK 1.500.000ⁱⁱ annually. An employee may not accumulate or defer the exercising of acquired options. Options which have not been exercised shall be cancelled.

The purchase price shall be the weighted average price in trades with shares in the Bank during the preceding 10 business days prior to the date of the share option agreement. Share option agreements shall require at least 12 months to pass from entering into the share option agreement until the option is exercised for the first time. If an employee exercises their share option, the purchased shares shall be paid for in cash. An employee must commit to owning the acquired shares for at least two years in order to be able use the tax concessions provided for by this plan, cf. Article 10 of the Income Tax Act.

The terms of any share option plan adopted shall be published on the Bank's website.

VII. Information regarding the remuneration policy's consistency with integration of sustainability risks

When providing clients with portfolio management services on a discretionary basis, Arion Bank assesses the risk of each investment decision made on behalf of a client. The same applies regarding the provision of investment advisory services, i.e., where Arion Bank provides personal recommendations to clients in respect of one or more transactions relating to financial instruments. Arion Bank is currently working on integrating methodologies and procedures to identify sustainability risks into investment decisions and investment advice processes. Sustainability risk in this respect refers to an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment.ⁱⁱⁱ

In accordance with Arion Bank's rules on variable remuneration, which form a part of the remuneration policy when determining allocation of variable remuneration, consideration should be given to whether key financial and non-financial performance indicators, have been attained. For the year 2024, none of the defined key performance indicators refer specifically to sustainability risk as defined above.

Certain aspects of Arion Bank's remuneration policy incentivize the Bank's employees to duly consider and assess the impacts of sustainability risk in the process of investment decisions within portfolio management services and when providing investment advice services. The policy, including the rules on variable remuneration, emphasizes that remuneration shall be awarded in a manner that does not induce excessive risk-taking. In that context, sustainability risk is not excluded.

Furthermore, the rules on variable remuneration provide that an individual's performance and compliance with external and internal rules shall be reviewed before an employee is allocated a bonus. If an individual employee is found to have not complied with internal rules or procedures^{iv}, laws or administrative instructions, this may lead to a reduction or cancellation of granted and deferred variable remuneration. In this way, Arion Bank's remuneration policy incentivizes the relevant employees to follow applicable internal procedures, as breaches may result in variable remuneration only being paid to a limited extent or not being paid at all, if the conditions for allocations are generally met.



VIII. Reviewing and disclosing information on the policy

The remuneration policy shall be reviewed annually and submitted to an Annual General Meeting for approval or rejection. The Board of Directors shall present the remuneration of Board Directors, the Chief Executive Officer, Deputy Chief Executive Officer and Managing Directors at Annual General Meetings as stated in Article 79a Act No. 2/1995 on Public Limited Companies, in accordance with Act on Financial

Undertakings. The remuneration policy may be reviewed more often, for example on account of changes in legislation, and any such amendments must be submitted to a shareholders' meeting. The remuneration policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for remuneration adopted by the management body in its supervisory function.

So presented for approval at the annual General Meeting on 13 March 2024.

- i. The Board of Directors obtained authorisation by the Bank's AGM in 2020 to adopt a five-year share option plan. The authorisation was expanded by a decision of the Bank's AGM in 2021, raising the maximum purchase amount in line with legislative changes. The authority was expanded by a decision of the 2022 Annual General Meeting, so that the share option plan includes the Bank's subsidiaries, Vörður tryggingar hf. and Stefmir hf.
 - ii. Approximately EUR 10.395 using official exchange rate at 01.02.22.
 - iii. As per Article 22(2) Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector, as per Act no. 25/2023 on disclosure of information on sustainability in the field of financial services and classification system for sustainable investments.
 - iv. At present, internal procedures regarding the integration of sustainability risks in investment decisions and investment advice processes are still in development. Once implemented, however, relevant employees are expected to follow the internal procedure for the purposes of assessing sustainability risk and its possible impacts on the returns of financial products.
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Explanatory note to proposed amendments to the Remuneration Policy of Arion Bank hf.

Certain amendments were made to the Bank's Remuneration Policy in 2023. These amendments primarily sought to align the Remuneration Policy with Article 57a, b and e of Act no. 161/2002 on Financial Undertakings, Article 94 of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms ("CRD IV") and European Banking Authority ("EBA") Guidelines on gender neutral and sound remuneration policies of 2 July 2021 (EBA/GL/2021/04).

The changes now proposed are to implement Act no. 25/2023 on sustainability-related disclosures in the financial services sector and classification system for sustainable investment, which transposed regulation (EU) 2019/2088 of the European Parliament and of the Council ("SFDR") into Icelandic law. In addition, an amendment is proposed to the Remuneration Policy to further align it with Art. 57a of Act no. 161/2002 on Financial Undertakings.

Chapter I. Objectives

The following sentence has been added to the chapter in accordance with Article 57a of Act no. 161/2002:

"The remuneration for Board of Directors and independent control functions should be fixed and reflect the nature of their responsibilities not the performance of the business units under their supervision."

Chapter V. Bonus Schemes

Background:

Since 2012, the Bank's Remuneration Policy has authorized the Board of Directors to set up a bonus scheme, in line with applicable legal and regulatory requirements. In late 2019, the Board of Directors agreed to temporarily suspend the system in order to re-evaluate the objectives which the Bank sought to obtain by implementing such a system. No variable remuneration was, therefore, granted on the basis of performance in 2019.

The Board approved a revised bonus scheme for employees in late 2020. In contrast with the previous system, all employees of Arion Bank, excluding employees of control functions, are currently included in the scheme, eligible to receive variable remuneration if targets are met. The majority of employees could receive a bonus for up to 10% of their fixed annual salary in the form of cash payment and without deferral. The CEO, deputy CEO, managing directors, and those employees who had the greatest influence on the Bank's value creation, could receive a bonus of up to 25% of their fixed annual salary in the form of shares in the Bank, with 40% of the amount subject to deferral. Furthermore, the shares the employees received (60% of the amount) were subject to sale restriction for three years. This additional sale restriction extends beyond regulatory minimums and was aimed at supporting the objective of long-term thinking when it comes to value creation.

Last year, the Remuneration Policy was amended to allow for payments under the bonus scheme in share-linked instruments, such as options to buy shares in the Bank. This was in accordance with amendments to the Act on Financial Undertakings, c.f. Article 57b.

Certain changes were made to the bonus scheme for the year 2024 due to this. The main change is that certain employees, who previously were only entitled to receive shares in the Bank, can now, in addition to a payment of up to 5% of their annual salary, choose whether to receive the remainder of the variable remuneration in the form of shares in the Bank or share options, up the equivalent of 20% of their annual salary. 40% of the variable remuneration is deferred for a period of four or five years in accordance with the Act on Financial Undertakings. In addition, there is a three-year sale restriction on delivered shares for those who chose to receive shares. This amendment will be implemented in 2025 in respect of the year 2024. If any payments will be made in the form of share options, then shareholders will be informed of the main terms of such agreements and the criteria for their pricing, but the price of shares shall be

increased on a yearly basis by calculating annual interest consistent with market practice. The fair value of the share options shall be calculated by using the Black-Scholes model and an independent third-party adviser shall be engaged to confirm the Bank's calculations.

The main performance benchmark used to determine whether a bonus will be paid, in part or in full, is whether the Bank's return on equity is higher than the weighted average ROE of the Bank's main competitors. Failure to attain this main target means no bonus will be paid for a given year. Furthermore, the total variable remuneration pool to be distributed may not exceed the amount by which the Bank's ROE exceeds the weighted ROE of competitors. One of the objectives which the Board identified during its revision of the system, was to create a 'one team' spirit within the Bank while taking care of avoiding unwanted incentives. The main performance benchmark is, for example, not based on subjective comparisons to e.g. internal budget targets, but rather a clear objective comparison with the Bank's main competitors.

The Board also identified an appropriately structured bonus scheme as a key element to improve performance culture, while at the same time promoting equity participation to align the interests of shareholders and employees. If the main ROE performance benchmark is attained, a range of other factors are taken into consideration when deciding on bonuses for a given employee, such as ROE of the Bank, its individual divisions, cost-to-income ratio, compliance with law and code of ethics, knowledge of the customer (KYC/AML), equal pay ratio, employee mandatory education and more. The Board also considers the bonus scheme as a tool to relieve pressure on fixed wages and create more flexibility when it comes to operational costs, in line with performance.

Market surveys on remuneration, which the Bank takes part in along with other financial and non-financial market participants, has confirmed that the Bank offers competitive fixed salaries without being a market leader. Should the Bank exceed market trends when it comes to overall remuneration, it is directly tied to operational outperformance and creating shareholder value, compared to other market participants. Lastly, by implementing a variable remuneration scheme with shares, which are subject to deferral and with lock-up restrictions and share options (which are only exercisable following a certain period), there is further alignment towards increased long-term thinking when it comes to value creation as well as adding a retention element to retain highly skilled employees in a competitive environment.

In accordance with Act 161/2002 on Financial Undertakings, the bonus for an individual employee can never be of a higher amount than 25% of fixed annual salary and thereof, 40% shall be deferred for a period of 4 or 5 years. The majority of the Bank's employees can receive up to 10% of their fixed annual salary in bonus but only 15-17% of employees are eligible to receive up to 25%. Payments according to the bonus scheme are therefore limited both by law and internal regulations of the Bank.

It is now proposed that the following sentence be added to the chapter in accordance with Article 57b of Act no. 161/2002:

"Employees of control functions are not eligible to receive payments pursuant to the bonus scheme."

Chapter VI. Share option plan

No amendments are proposed to the Bank's share option plan which is based on the provisions of Article 10 of the Income Tax Act No. 90/2003. The current plan expires in 2026 and covers all employees of the Bank and the subsidiaries Vörður tryggingar hf. and Stefmir hf.

Chapter VII. Information regarding the remuneration policy's consistency with integration of sustainability risks

In accordance with Art. 5 of SFDR a new chapter has been added to the Remuneration Policy of the Bank disclosing how the policy is consistent with the integration of sustainability risk in the operations of the Bank, and explains the manner in which the Remuneration Policy, i.a. through the Bonus Scheme, is formative for employees integrating sustainability risk in investment decisions and investment advice.