

Corporate governance

Gap analysis between the Icelandic legal framework and Swedish Corporate Governance Code.

According to the Financial Undertakings Act No. 161/2002 Arion Bank is obliged to comply with recognized guidelines on good corporate governance. The Bank complies with the fifth edition of the Icelandic Guidelines on Corporate Governance issued by Iceland Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland, published in May 2015 and are viewable on the website www.leidbeiningar.is. The Bank complies with the guidelines but with reference to the current shareholder structure certain deviations have been made from the guidelines:

- Article 5.1.2. states that the rules of procedure of sub-committees of the Board shall be posted on the Bank's website. The rules of the Board Credit Committee have not been published on the Bank's website due to their nature.

Below is a comparison between the Icelandic corporate legal framework that the Bank complies with and the current Swedish Corporate Governance Code. The comparison identifies the rules of the Swedish code that go further than the Icelandic guidelines or the Icelandic legal framework.

I. Shareholders' Meeting

- 1. If the ownership structure warrants it and if it is financially feasible given the financial situation of the company, the company is to offer simultaneous interpretation of the shareholders' meeting into other relevant languages than Swedish as well as translation of all or parts of the meeting documentation. The same applies to the minutes of the meeting (Code rule 1.4.)**
 - The meeting notice shall specify the language to be used at the meeting and the language of the documents for the meeting. If the meeting is conducted or if the documents are in a language other than Icelandic the main points of the agenda shall also be available in an Icelandic language summary (Code rule 1.1.4.)
 - *Note: For some time all shareholders' documents, such as proposals and minutes of the meetings have been translated into English. Further, shareholders' meeting are translated into English.*
- 2. A shareholder or a proxy representative of a shareholder who is neither a member of the board nor an employee of the company is to be appointed to verify and sign the minutes of the shareholder's meeting (Code rule 1.5.)**
 - According to the Icelandic Act respecting Public Limited Companies the appointed chairman and secretary of the meeting shall sign the minutes. (Public Limited Companies Act Art. 90 (5))

II. Nomination Committee

- 3. The nomination committee is to propose a candidate for the post of chair of the board to the shareholders' meeting. Code rule 2.1.**
 - The Icelandic guidelines do not state anything about the chairman of the board.
 - *Note: According to the approved Rules of Procedure for the Nomination Committee the Committee shall propose which candidate shall serve as the Chairman and the Vice Chairman of the Board of Directors of the Bank.*
- 4. The nomination committee is to propose fees and other remuneration to each member of the board to the shareholders' meeting. Code rule 2.1.**
 - No similar rule in the Icelandic guidelines. The issue of remuneration for the Board is an item that shall be on the agenda of the Bank's Annual General Meeting according to the Public Limited Companies Act.
 - *Note: Further, according to the approved Rules of Procedure for the Nomination Committee the Committee shall propose to the Annual General Meeting the remuneration payable to the members of the Board of Directors.*

5. The nomination committee presents proposals on election and remuneration of statutory auditor to the shareholders' meeting, the proposals are to include the audit committee's recommendations. Code rule 2.1.

- No similar rule in the Icelandic framework. The election of the Banks auditing firm shall be an item of the agenda of the Annual General Meeting according to the Public Limited Companies Act.

6. The nomination committee is to have at least three members one of whom is to be appointed chair. Code rule 2.3.

- Similar principle in the Icelandic guidelines. However, the Committee may consist of two members, if both of them are independent of the company (guidelines Art. 1.5.2).
- *Note: According the Rules of Procedure of the Nomination Committee the Committee shall consist of three members. Two Committee members shall be appointed annually at the Annual General Meeting of the Bank, the third member of the Committee shall be the Chairman of the Board of Directors or another Board Member appointed by the Board. The Committee shall, at its first meeting following its appointment, appoint its Chairman.*

7. If more than one member of the board is on the nomination committee, no more than one of these may be dependent of a major shareholder in the Company. Code rule 2.4.

- Members of the Board of Directors may be members of the Nomination Committee but may not constitute a majority of the Committee. Additionally, at least one Committee member shall be independent of major shareholders (guidelines Art. 1.5.2 and 1.5.3).
- *Note: According to the Rules of Procedure of 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.*

8. The company is to announce on its website and include in its corporate governance report, additionally to the names of the members of the nomination committee, the names of owners that have appointed particular members of the nomination committee. Same information is to be announced on the company's website for members that leave the committee. Code rules 2.5, 10.2 and 10.3.

- According to the framework applied by Arion Bank, no later than six months before the Bank's Annual General Meeting the Bank shall announce the names of the members of the Committee on its website (guidelines Art.6.2.2 subparagraph 6). However, the framework does not require that the names of owners that have appointed particular members of the nomination committee are published. Conversely, the framework employed by the Bank requires the two Committee members appointed by the shareholders

to 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 (guidelines Art. 1.5.2)

9. When the notice of the annual general meeting is issued the nomination committee is to issue a statement on the company's website explaining its proposals regarding the board of directors with regard to the requirements concerning the composition of the board (cf. Code rule 4.1) and provide specific explanation of its proposals with respect to the requirement to strive for gender balance (cf. Code rule 4.1). Code rules 2.6 and 10.3.

- Based on shareholders' proposals and submissions of candidacy, the Committee shall propose to the shareholders candidates to serve on the Board of Directors and publish its proposal along with other declarations of candidacy at least 2 days prior to the Annual General Meeting or other shareholder meetings where Board election is on the agenda (guidelines Art.1.5.12 and 6.2.2 subparagraphs 7).
- Art. 63(1) of the Icelandic Act respecting Public Limited Companies, furthermore, requires that a board of public limited companies with 50 or more employees, be comprised of both genders when the board is composed of three members. When the number of board members exceeds three, the ratio between men and women must be higher than 40%. (Reflected in guidelines Art. 2.2.1 and 1.5.8, subparagraph 3).

10. If the outgoing chief executive officer is nominated for the post of chair the reasons for this proposal are also to be fully explained in the above mentioned statement on the company's website. Code rules 2.6 and 10.3.

- No similar rule in the Icelandic framework.

11. An account of how the nomination committee has conducted its work and for certain companies a description of the diversity policy (cf. Annual Accounts Act) applied in the committee's work is also to be given in the above mentioned statement on the company's website. Code rules 2.6 and rule 10.3.

- At the Company's Annual General Meeting the Committee shall inform the meeting of the manner in which it has arranged its work and explain its proposals. The Committee's reasoning shall also be available on the Company's website. (Art 1.5.13).

12. Information regarding candidates nominated for election to the board to be posted on the company's website shall include the nomination committee's justification regarding the candidates' independence where circumstances exist that may call their independence in question. Code rules 2.6 and 10.3.

- Similar rule in the Icelandic guidelines. (Art. 1.1.6, 1.5.12 and 6.2.2).

13. At the company's annual general meeting, where the election of board members and auditors is to be held, the nomination committee is to present and explain its proposals with regard to the requirements concerning the composition of the board (cf. Code rule 4.1) and provide specific explanation of its proposals with respect to the requirement to strive for gender balance (cf. Code rule 4.1). Code rule 2.7.

- The Committee's proposals shall be made available on the Bank's website. (Guidelines Art. 1.5.12 and 6.2.2 subparagraphs 7). The Committee shall also inform the Annual General Meeting of the manner in which it has arranged its work and explain its proposals (guidelines Art. 1.5.13). Furthermore, proposals of the Committee shall include reasons for the proposal of each candidate with clear references and explanations for his/her qualifications, with reference to the rules, the Bank's Articles of Association and applicable rules on the qualifications of Board members in financial undertakings (guidelines Art. 1.5.8).

III. The tasks of the Board

14. The principle tasks of the board include ensuring that the company's external communications are characterized by openness and that they are accurate, reliable and relevant (Code rule 3.1.)

- No similar rule in the Icelandic framework. But reference is made to that according to the Act on Financial Undertakings a financial undertaking shall operate in accordance with proper and sound business practices and customs on the financial market.

IV. Size and Composition of the Board

15. Deputies for board directors elected by the shareholders' meeting are not to be appointed (Code rule 4.2.)

- According to the Act on Financial Undertakings at least two alternates shall be elected at a shareholders' meeting.

16. Members of the board are to be appointed for a period extending no longer than the end of the next annual general meeting (Code rule 4.7.)

- A Director's commission remains valid during the period which is specified in the Articles of Association. The electoral period shall be concluded upon the completion of an Annual General Meeting and at the latest 4 years after election (Art. 63(8) of Act No. 2/1995). An Annual General Meeting shall be held as fixed in Company Articles of Association, but no less than once a year (Art. 84 of Act No. 2/1995).
- *Note: In accordance with the Bank's Articles of Association, Directors are elected at a shareholders' meeting for a one year term (Art. 14(1))*

V. Chairman of the Board

17. The chair of the board is to be elected by the shareholders' meeting (Code rule 6.1.)

- The Company's Board of Directors shall elect a Chairman, unless it be decided in Articles of Association that a shareholders' meeting shall elect a Chairman separately (Art. 70 of Act No. 2/1995).
- *Note: According to the Bank's Articles of Association a Chairman shall be elected at a shareholders' meeting (Art. 14(8)).*

18. If the chair of the board is an employee of the company or has duties assigned by the company in addition to his/hers responsibilities as chair, the division of work and responsibilities between the chair and the chief executive officer is to be clearly stated in the board's statutory Rules of Procedure and its Instructions to the Chief Executive Officer. (Code rule 6.2)

- According to the Act on Financial Undertakings the Chairman of the Board shall not take on any work or projects for the Company other than those considered a natural part of his/her duties as Chairman of the Board, with the exception of specific projects that the Board has entrusted to him/her (see also guidelines art. 3.1.2.)

VI. Board Procedures

19. Committees of the board are to keep minutes of their meetings and the minutes are to be available to the board (Code rule 7.2.)

- The board shall decide upon a procedure for information provision from the sub-committees in its operating rules, e.g. whether the board should have access to the minutes of sub-committees (guidelines art. 5.2.4.)
- *Note: According to the Arion Board Rules of Procedure the sub-committees keep meeting minutes which are accessible by the Board.*

20. The description of the company's internal controls included in the corporate governance report is also to include the board's measures for monitoring that the internal controls related to financial reports and reporting to the board function adequately (Code rule 7.4.)

- The corporate governance statement is to contain a description of the main aspects of internal control and the company's risk management (guidelines Art. 6.1.2.)

21. The board of directors is to ensure that the company's six months and nine months' reports are reviewed by the statutory auditor (Code rule 7.6.)

- No similar rule in the Icelandic guidelines.

- *Note: The Bank's six months reports are reviewed by the statutory auditor.*

VII. Evaluation of the Board and CEO

22. No member of the executive management is to be present during the evaluation process of the chief executive officer (Code rule 8.2.)

- Any board member who is also one of the company's day-to-day managers shall not be present for the evaluation of the performance of the chief executive officer (guidelines Art. 2.6.3.)

VIII. Remuneration to Board and Executive Management

23. The remuneration committee is to monitor and evaluate programs for variable remuneration, both ongoing and those that have ended during the year, for the executive management (Code rule 9.1.)

- A remuneration scheme should be approved by the Board after receiving the opinion of the Remuneration Committee and Risk Committee, if such committees exist (Art. 5(2) FME rules no. 388/2016 see also Art. 13.)
- The Remuneration Committee shall ensure that the remuneration policy of the company is enforced (guidelines Art. 5.4.5.)

24. The remuneration committee is to monitor and evaluate the application of the guidelines for remuneration (cf. Public Limited Companies Act) of the board and executive management, that the annual general meeting is legally obliged to establish, as well as the current remuneration structures and levels in the company (Code rule 9.1.)

- A Board of Directors shall approve the Company's remuneration policy. The remuneration policy shall be approved at the Company's Annual General Meeting with or without amendments. There the Company's Board of Directors shall also give an account of the remuneration of the Company's Officers and Directors and the estimated costs on account of the right of share purchase options and explain the implementation of a previously approved remuneration policy. In case the Company's Board of Directors deviate from the remuneration policy this shall be substantiated in each individual instance in the Record of Minutes of the Company's Board of Directors. (Art. 79a of Act No. 2/1995).
- The Remuneration Committee shall ensure that the remuneration policy of the company is enforced (guidelines Art. 5.4.5.)

25. The board is to publish the above mentioned remuneration committee's evaluations of programs for variable remuneration and application of guidelines for remuneration in the corporate governance section of the company's website no later than three weeks before the annual general meeting (Code rule 10.3.)

- No similar rule in the Icelandic framework. However, all documents forming the basis for the remuneration policy shall be made accessible to shareholders no later than two weeks before the Annual General Meeting (guidelines Art. 2.7.3.)

26. The vesting period of share and share-price related incentive programs or the period from the commencement of an agreement to the end date for acquisition of shares is to be no less than three years (Code rule 9.7.)

- At least 40% of the determined bonus shall be deferred for at least three years unless the determined bonus does not exceed 10% of the employee's annual salary. The rule on deference applies even after the employee's retirement (Art. 7 of FME's Rules no. 388/2016)

27. Share or share-price related incentive programs that involve acquisition of shares are to be designed so that a personal holding of shares in the company is promoted (Code rule 9.7.)

- No similar rule in the Icelandic framework.

28. Share or share-price related incentive programs designed for board members are to be devised by the company's owners and promote long- term ownership of shares (Code rule 9.7.)

- Board Directors, employees of Risk Management, Internal Audit and Compliance may not be participants in an incentive scheme (FME Rules no. 388/2016).

29. Fixed salary during a period of notice and severance pay are together not to exceed an amount equivalent to the individual's fixed salary for two years (Code rule 9.8.)

- If an undertaking has returned a profit over the last three consecutive years, severance agreements may be concluded with a CEO or key employee. Such agreements shall take the form of direct wage payments and shall not have a term of more than 12 months following termination of employment (Art. 57(b) of Act No. 161/2002).

30. The company is to post on its website a description of the company's system of variable remuneration to the board and executive management and of each outstanding share and share-price related incentive schemes (Code rule 10.3.)

- All employees should be informed about the main features of the incentive scheme. Employees who receive bonuses based on the company's incentive scheme should be informed about the variables that may affect their payments. At the Annual General

Meeting, the shareholders shall be informed about main features of the incentive scheme in a clear manner. Information on the scheme and acquired rights should be outlined in the company's financial statements. (Art. 15 of FME Rules no. 388/2016).

- The remuneration policy of the company shall be accessible on the company's website (guidelines Art. 6.2.2.)

IX. Information on Corporate Governance and Sustainability

31. Information regarding the decision-making authority of any board committee is to be included in the corporate governance report of the company (Code rule 10.2.)

- The Board is responsible for the appointment and activities of sub-committees and they operate under its authority. The establishment of a sub-committee does not reduce the responsibilities of the Board or relieve it of any liability. All Board members shall have an overview of the matters delegated to sub-committees and be aware of the fact that decision-making powers remain with the entire Board (guidelines Art. 5.1.1)
- Information regarding activities and where the written rules of procedure of sub-committees can be accessed is to be included in the corporate governance statement of the company (guidelines Art. 6.1.2.)

32. Information regarding how the board's performance evaluation is conducted and reported is to be included in the corporate governance report of the company (Code rule 10.2.)

- Information regarding the principal aspects on the board's performance assessment is to be included in the corporate governance statement (guidelines Art. 6.1.2.)

33. The company is to post on its website the ten most recent years' corporate governance reports together with the part of the audit report that deals with the corporate governance report or the auditor's written statement on the corporate governance report (cf. Companies Act and Annual Accounts Act). Code rule 10.3.

- The company is to post on its website the company's corporate governance statement (guidelines Art. 6.2.2.)
- The Bank has posted on its website corporate governance statements for the last 7 years (2012-2018)

34. Companies which are legally required to publish a sustainability report, or which without being subject to this requirement voluntarily publish such a report, are to make available on their website the ten most recent years' sustainability reports along with the part of the auditor's report which covers the sustainability report or the auditor's written statement on the sustainability report (cf. Companies Act and Annual Accounts Act). Code rule 10.4.

- Art. 66 (d) of the Act on Annual Accounts No. 3/2006 which discusses non-financial disclosure states that a company falling within the scope of point 9 and subsection (d) of point 11 of Art. 2 of the Act and parent companies of large consolidations shall attach in a summary with the report of the board of directors information necessary to evaluate the development, scope, position and impact of the company in relation to environmental, social and human resource matters. Also, an account shall be provided of the policy of the company as regards human rights and the means used by the company to combat corruption and bribery.

35. As well as the information stipulated by legislation (cf. Annual Accounts Act), the following information is to be included in the corporate governance report of the company if it is not presented in the annual report:

- i. The composition of the nomination committee**
- ii. How board evaluation is conducted and reported**
- iii. Any breach of stock exchange rules or good practice reported by the relevant disciplinary committee or the Swedish Securities Council.**

- The statement shall contain the following items (guidelines art. 6.1.2.):
 1. Description of the composition and activities of the Board, management and sub-committees of the Board.
 2. Arrangements for the appointment of Nomination Committee members.
 3. Principal aspects of the Board's performance assessment.
 4. Information on infringements of laws and regulations that the appropriate supervisory or ruling body has determined.
- The Company's website shall include the following information (guidelines art. 6.2.2):
 1. Information on the arrangements for the appointment of the Nomination Committee, the working procedures of the Committee and information on the Committee members. Information on Committee members

36. The company is to have a section of its website devoted to corporate governance matters and it is to include the following information:

- i. The ten most recent corporate governance reports**
- ii. A description of the company's system of variable remuneration and each outstanding share or share-related incentive scheme**
- iii. Results of the evaluation of programs for variable remuneration and the evaluation of application of guidelines for remuneration**
 - The Company's website shall include information on e.g. the Company's corporate governance statement and remuneration policy (guidelines Art. 6.2.2)