



# 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 authorized<sup>i</sup> 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 1.500.000<sup>ii</sup> 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.<sup>iii</sup>

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<sup>iv</sup>, 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 Stefnir 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.