



Proposals to the Annual General Meeting of Arion Bank hf. to be held 16 March 2021

The Annual General Meeting of Arion Bank hf. will be held by electronic means, at 16:00 Icelandic time on 16 March 2021. On the day of the announcement of the Annual General Meeting there are 1,701,798,865 outstanding shares in the Bank with voting rights.

Agenda:

- 1. The Report of the Board of Directors on the Bank's operations during the last financial year**
- 2. Approval of the Bank's annual financial statements**
- 3. Decision on payment of a dividend**
- 4. Election of the Bank's Board of Directors**
- 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. Proposal concerning the Rules of Procedure of the Nomination Committee and a corresponding amendment to the Articles of Association as to the appointment of the Nomination Committee**
- 8. Decision on remuneration to members of the Bank's Nomination Committee**
- 9. Appointment of two members of the Bank's Nomination Committee**
- 10. Proposal from the Board of Directors concerning the Bank's Remuneration Policy**
- 11. Proposal to authorise the Board of Directors to approve an amendment to the share option plan**
- 12. Proposal to reduce share capital by cancelling the Bank's own shares and a corresponding amendment to the Articles of Association**
- 13. Proposal to renew the authorisation to purchase own shares and a corresponding amendment to the Articles of Association**
- 14. Authorisation of issuance of Additional Tier 1 notes and a corresponding amendment to the Articles of Association**
- 15. Proposal to amend the Bank's Articles of Association**
- 16. Other business**

Proposals of the Board of Directors:

- 1. Item no. 2, approval of the Bank's annual financial statements**
The Board of Directors proposes that the Annual Financial Statements for the year 2020 will be approved.

Benedikt Gíslason, Chief Executive Officer, presents the Annual Financial Statements, as approved by the Board of Directors at its meeting on 10 February 2021.



Translation from Icelandic

2. Item no. 3, decision on payment of a dividend

The Board of Directors proposes that a dividend of approximately ISK 2,990,000,000.00 will be paid to the Bank's shareholders. The dividend will be equal to ISK 1.74 per share.

If approved by the shareholders, the Bank's shares traded on and after 17 March 2021 (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 18 March 2021 (Record date).

The payment date of the dividend will be 24 March 2021.

Explanatory note:

Decision on payment of a dividend is in accordance with revised guidelines from the Financial Supervision committee of the Central Bank of Iceland from 13 January 2021 on dividend payments of financial entities and share buybacks, in force until 13 September 2021. The guidelines recommend that dividend payments and share buybacks be limited to 25% of accumulated profit, after taxation, for 2019 and 2020 or 0.4% reduction of Common Equity Tier 1 ratio, whichever is lower. Accordingly, the limit is based on 0.4% reduction of Common Equity Tier 1 ratio. Arion Bank's capital adequacy ratio will be 27.0% after the payment of dividends amounting to just under ISK 3 billion and the fulfilment of a ISK 15 billion buy-back program, approved by the Financial Supervisory Authority of the Central Bank of Iceland on 8 February 2021 and approved by the Board of Directors on 10 February, which is well above capital requirements.

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. The Lead Audit Partner is Páll Grétar Steingrímsson. This proposal is based on an agreement between Arion Bank and Deloitte from August 2019 and Article 90 of Act no. 161/2002, on Financial Undertakings.

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:

It is proposed that the monthly salary of Board members be ISK 600,000, the monthly salary of the Vice-Chairman be ISK 900,000 and the monthly salary of the Chairman be ISK 1,200,000. Board members residing outside of Iceland will receive travel allowance of ISK 300,000 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 200,000 per meeting, but never more than ISK 400,000 a month, and the chairmen of Board sub-committees ISK 300,000 per meeting, but never more than 600,000 a month. Alternate Directors shall be paid a minimum of ISK 300,000 per annum. The salary of alternate Directors will be ISK 600,000 for each Board meeting attended, but never more than ISK 600,000 a month in case there are more meetings.

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 2021 AGM.

Explanatory note:

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

5. Item no. 7, proposal concerning the Rules of Procedure of the Nomination Committee and a corresponding amendment to the Articles of Association as to the appointment of the Nomination Committee



Translation from Icelandic

- a. The Board of Directors proposes that amended Rules of Procedure of the Bank's Nomination Committee will be approved.
- b. The Board of Directors further proposes that if the amended Rules of Procedure will be approved, the following amendment be made to Article 13.2 of the Bank's Articles of Association:

The provisions of item viii) of Article 13.2 shall be replaced by the following:

"Proposal on the Rules of Procedure of the Nomination Committee."

Explanatory notes:

The Nomination Committee has proposed amendments to the Rules of Procedure of the Committee, providing for substantial changes as to how the Nomination Committee members will be appointed. The Board of Directors proposes that the Rules of Procedure will be approved by the Annual General Meeting.

On the Bank's website, www.arionbanki.is/gm, is a copy of the Rules of Procedure of the Nomination Committee, as well as a document that tracks the intended changes to the Rules of Procedure.

First, the Nomination Committee proposes that the Committee's appointment process be changed. The Bank currently elects to annually appoint two Committee members at the AGM for a term of one year. The third member of the Committee is either the Chairman of the Board of Directors or another Board Member appointed by the Board. There is, however, no procedure for replacing shareholder appointed members who, for example, may resign before the Committee's work is concluded. Furthermore, a one-year term lacks flexibility in response to changes in shareholding.

The amended Rules of Procedure provide that the Committee will be formed prior to AGMs, based on two appointments from shareholders, or group of shareholders, controlling the largest number of votes and who wish to appoint a representative. This is a method practiced by institutions such as Nordea, Handelsbanken, Swedbank and Skandinaviska Enskilda Banken.

The term for these representatives would expire upon the constitution of a new Nomination Committee in lead-up to AGM's, while the amended Rules also specify how changes in shareholding may alter the Committee's composition, thus preserving representation of the largest shareholders should an EGM be called to elect members to the Board. The shareholder appointed members would not receive any remuneration for their work.

Second, the amended Rules of Procedure provide that Board members no longer participate as members of the Committee. Rather, the Board will appoint a third Committee member, in consultation with the representatives of the two largest shareholders, who shall possess the appropriate professional qualifications and experience of searching for and assessing Board candidates. This member shall be paid a consultancy fee, in line with market practice, which shall be approved by the two shareholder representatives.

Thirdly, the amended Rules of Procedure proposes the addition of a conflict of interest provision.

Also, the amended Rules of Procedure provide, as recommended by the Board of Directors, which in line with regulatory requirements will approve a policy on the suitability assessment of Directors and the CEO, the Committee proposes that corresponding provisions in the Committee's Rules of Procedure be removed and replaced with a reference to said policy.

If the abovementioned proposal will be approved, no members of the Bank's Nomination Committee will be appointed at an Annual General Meeting, but rather in accordance with the



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amended Rules of Procedure. Accordingly, the Board of Directors proposes that Article 13.2 in the Bank's Articles of Association be amended, so that sub-paragraph viii) be removed and replaced by a new sub-paragraph stating that the approval of the Rules of Procedure of the Nomination Committee (with or without further amendments) will be an agenda item at each Annual General Meeting.

If approved, agenda items 8 and 9 will not be addressed.

- 6. Item no. 8, decision on remuneration to members of the Bank's Nomination Committee**
Should amendments described in section 5 fail to be approved, the Board of Directors proposes that remuneration to members of the Bank's Nomination Committee remain unchanged.

- 7. Item no. 10, proposal from the Board of Directors concerning the Bank's Remuneration Policy**

The Board of Directors proposes that the Remuneration Policy will be amended. The amendments proposed entail changes in wording, not content, intended to better represent the content of the Bank's Remuneration Policy.

Explanatory note:

The Board of Directors approved the amendments to the Remuneration Policy at its meeting on 10 February 2021. On the Bank's website, www.arionbanki.is/gm, is a copy of the Remuneration Policy and a document that tracks the intended changes to the policy.

- 8. Item no. 11, proposal to authorise the Board of Directors to approve an amendment to the share option plan**

The Board of Directors proposes that it be authorised to amend the previously established share option plan based on Article 10 of Act. no. 90/2003 on Income Tax, so that the Company can conclude share option agreements with the Bank's permanent employees for shares in the Bank for up to ISK 1,500,000 per year, instead of the current annual maximum purchase price of ISK 600,000.

Explanatory note:

At Arion Bank's Annual General Meeting on 17 March 2020 a share option plan, based on Article 10 of the Income Tax Act intended to align employees' interests with the Bank's long-term objectives, was approved. According to the plan, the Bank's permanent employees had the option to conclude an agreement to acquire share options for up to ISK 600,000 annually. The previously stated limit, found in Article 10 of the Income Tax Act, was increased to ISK 1,500,000 per year with Act no. 140/2020. The Board of Directors considers it desirable to apply the new limit in order for the share option plan to achieve its objective in aligning employee interests with the Bank's interests in a meaningful way.

It is therefore envisaged to authorise the Board of Directors to amend the current share option plan, which has been validated by Iceland Revenue and Customs, so that as of next year the annual maximum according to the plan can be increased to ISK 1,500,000 per year. If needed, agreements with individual employees will be amended accordingly. The estimated total expense resulting from the share option plan after the amendment based on Black-Scholes model calculations, amounts to approx. ISK 92,000,000 per year.

- 9. Item no. 12, proposal to reduce share capital by cancelling the Bank's own shares and a corresponding amendment to the Articles of Association**

The Board of Directors proposes the following to the Annual General Meeting:

„The Annual General Meeting of Arion Bank hf., held on 16 March 2021, resolves to reduce share capital from ISK 1,730,000,000 to ISK 1,700,000,000 nominal value by cancelling 30,000,000 own shares. The reduction will be executed by cancelling the



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Bank's own shares amounting to the above-mentioned amount provided that all applicable legal conditions are met."

The proposal entails a change to Article 4.1. of the Bank's Articles of Association, which will read as follows:

"The Company's share capital is ISK 1,700,000,000 – one billion seven hundred million Icelandic kronur."

Explanatory note:

It is proposed to cancel 30,000,000 shares held by the Bank for the benefit of current shareholders. If this proposal is approved, the share capital of the Bank will be reduced from ISK 1,730,000,000 to ISK 1,700,000,000 nominal value. The share capital reduction by cancelling the Bank's own shares requires approval from the Financial Supervisory Authority of the Central Bank of Iceland in accordance with Act no. 161/2002, on Financial Undertakings.

10. Item no. 13, proposal to renew the 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 is renewed. It is further proposed that should the proposal be approved, the authorisation will be recorded in an Annex to the Articles of Association of the Bank, replacing the current Annex. The proposal reads as follows:

"The Annual General Meeting of Arion Bank hf. held on 16 March 2021 authorises the Board of Directors, based on Article 55 of the Company Act no. 2/1995, to acquire on behalf of the Bank up to 10% of issued share capital of the Bank. 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 Bank, e.g. through auction, provided equal treatment of shareholders is ensured should such offer be made. The repurchase of shares under this authorisation is conditional upon the prior approval of the Financial Supervisory Authority of the Central Bank of Iceland in accordance with paragraph 3 (a) of Article 84 of the Act on Financial Undertakings no 161/2002.

This authorisation shall remain in effect until the Bank's Annual General Meeting in 2022 or 15 September 2022, whichever occurs first. Older authorisations to purchase own shares are cancelled with the approval of this authorisation."

Explanatory note:

The Board of Directors proposes that the current authorisation of the Board of Directors to purchase the Bank's shares is renewed. 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 Financial Supervisory Authority of the Central Bank of Iceland shall be obtained.

11. Item no. 14, authorisation of issuance of Additional Tier 1 notes and a corresponding amendment to the Articles of Association

The Board of Directors proposes that the Annual General Meeting approve an amendment to Article 4.8 in the Bank's Articles of Association, and, furthermore, that a new Article 4.9 be added. The current Article 4.9 will accordingly become Article 4.10.

Articles. 4.8 and 4.9 will, if approved, read as follows:

"With reference to a Shareholders Resolution dated 20 March 2019 (the "Shareholders Resolution"), on 26 February 2020, convertible notes (the "Notes") that meet the additional tier 1 requirements according to article 84 b of the Act on Financial



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Undertakings, no. 161/2002, in the total initial amount of USD 100,000,000 were issued and listed on the Luxembourg Stock Exchange. The Notes are perpetual, subordinated convertible notes and are issued under the €3,000,000,000 Euro Medium Term Note Programme of the Company. The Board of Directors is authorised to issue new shares in the Company in order to fulfil the Company's obligations under the Notes. The amount of the Notes and conditions for conversion is set so that the total number of shares which may be issued upon conversion of the Notes (the "Conversion Shares"), by virtue of this authorisation, may not exceed 211,416,490 shares. The maximum number of Conversion Shares which may be issued upon conversion of the Notes may be increased pursuant to the terms and conditions of the Notes, including in the event of any discounted share issue, bonus issue, discounted rights issue, any other issue of securities to shareholders as a class or issue of other convertible securities, conversion of convertibles other than the Notes, share split, mergers, acquisitions, dividend distributions or similar corporate events (including the Company's dissolution by way of merger or division). The Notes are convertible into Conversion Shares in accordance with the terms and conditions of the Notes if a Conversion Trigger Event (as defined in the terms and conditions of the Notes) occurs at any time while they are outstanding. The Conversion Shares shall upon conversion be deemed as fully paid and have the same rights and obligations as other shares in the Company in accordance with these Articles of Association. With reference to the Shareholders Resolution, the shareholders of the Company have waived any preferential rights with respect to subscription of the Conversion Shares.

By a shareholders resolution of the Annual General meeting of the Company on 16 March 2021, the Board of Directors is authorised, for the period until the annual general meeting in 2025, on one or several occasions, with deviation from any shareholders preferential rights, to issue convertible notes for the maximum amount of ISK 20,000,000,000 or equivalent amount in other currencies (the "New Notes") that meet Additional Tier 1 requirements according to Article 84 b of the Act on Financial Undertakings, No. 161/2002. The New Notes shall be perpetual (without a maturity date), subordinated and convertible into shares in the Company. Final loan amounts and conditions for conversion shall be set so that the total number of shares which may be issued upon conversion of the New Notes (the "New Conversion Shares"), by virtue of this authorisation, may not exceed 600,000,000 shares. The maximum number of New Conversion Shares which may be issued upon conversion may however be increased pursuant to the terms and conditions of the New Notes e.g. in the event of any discounted share issue, bonus issue, discounted rights issue, any other issue of securities to shareholders as a class or issue of other convertible securities, conversion of convertibles other than the New Notes, share split, mergers, acquisitions, cash or non-cash dividend or similar corporate events (including the Company's dissolution by way of merger or division). The New Notes shall be convertible into Conversion Shares in accordance with the terms and conditions of the New Notes. The New Notes will not be convertible at the option of the holders. The New Conversion Shares shall upon conversion be deemed as fully paid and have the same rights and obligations as other shares in the Company in accordance with these Articles of Association. By the shareholders resolution, the shareholders of the Company waive any preferential rights with respect to subscription of the New Conversion Shares. The Board of Directors shall resolve on all other terms and conditions for issuance according to this authorisation."

Explanatory note:

The Bank's Annual General Meeting in 2019 authorised the Board of Director's to issue convertible notes that meet Additional Tier 1 requirements according to Article 84 b of the Act on Financial Undertakings, No. 161/2002. The authorisation was valid until the Annual General Meeting in 2020.



Translation from Icelandic

On the one hand, the proposed rewording of Article 4.8 is made to reflect the fact that the relevant convertible notes have already been issued. On the other, a new Art. 4.9 will authorise the Board of Directors to issue new convertible notes, in line with conditions set out therein, for the maximum amount of ISK 20,000,000,000 or equivalent amount in other currencies, valid for the period until the Annual General Meeting in 2025.

12. Item no. 15, proposal to amend the Bank's Articles of Association

The Board of Directors of Arion Bank proposes that the Annual General Meeting of Arion Bank approve new Articles of Association for the company.

Explanatory note:

The new Articles of Association are intended simplify the current Articles of Association, make structural changes and improve internal coherence. Additionally, proposed changes include removing expressions and wording which is restated from legal statutes. This will limit the risk of discrepancy with legal acts and the need to approve minor amendments should small wording changes be made to existing statutes.

The proposed amendments represent only minimal material changes. 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 new Articles of Association. It should be mentioned that this version includes amendments proposed in item 5 (agenda item 9) and items 9-11 (agenda items 12-14). Should these proposals not be approved, the relevant amendments will not be reflected in the new Articles of Association.

Explanatory notes to agenda items no. 4 and 9

Election of the Bank's Board of Directors

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 comprise of five directors and two alternates.

The decision is based on a proposal from the Bank's Nomination Committee.

Further information is to be found in the Nomination Committee's report, which will be made available 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 Icelandic time on 11 March 2021.

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 publish its proposal along with other declarations of candidacy on the Bank's website www.arionbanki.is/gm no later than two days before the Annual General Meeting. They will be made available at the Bank's headquarters at the same time.

The election of two members to serve on the 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 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 Icelandic time on 11 March 2021. 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



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later than two days before the Annual General Meeting and will be made available at the Bank's headquarters at the same time.

Please note that if the proposal under agenda item 7 is approved, voting on members to serve on the Nomination Committee will not take place.