

**REPORT OF THE BOARD OF DIRECTORS OF KVÍKA HF.
ON THE IMPLEMENTATION OF THE 2019 REMUNERATION POLICY**

Submitted to the Company's Annual General Meeting, 26 March 2020

Remuneration Policy

An updated Remuneration Policy was adopted at the Annual General Meeting (AGM) of Kvika hf. in March 2019. The stated objective of Kvika's Board of Directors was to set out a policy for the Company on remuneration which would enable the Company to attract top-notch employees and thereby ensure its competitiveness, while having regard for the applicable laws and rules.

Wage increases have been moderate in 2019 and in recent years. The average salary in the Bank decreased by 0.64% from the previous year. However, if the salaries of employees who were on the Company's payroll in December 2018 are compared to those of December 2019, wages of those employees rose by an average of 4.2%. This increase, however, can be attributed mostly to wage increases arising, firstly, from collective bargaining agreements and, secondly, from specific salary changes in cases where employees were transferred within the Bank to other positions, shouldered increased responsibility or other such reason. The wage index rose by 4.5% during the year.

Bonus scheme

The current legal framework in Iceland sets financial undertakings in the country strict limits regarding payment of bonuses to employees. In order to be able to pay bonuses within the authorised limits of the law and rules, a bonus system must be in place setting a framework for the Company's authorised bonus payments.

Kvika has had a bonus scheme in effect in recent years which is based on the applicable legislation. Performance criteria have been determined in advance. Those measurements upon which performance criteria are based concern, among other things, the Bank's return on equity, capital ratio, liquidity ratio, compliance with laws and regulations, employee performance based on business unit performance, cost consciousness, customer satisfaction and participation in and support for the Company's policy and corporate culture.

The Board of Directors takes the final decision on awarding bonuses to employees in accordance with predetermined performance criteria, after receiving a reasoned proposal from the CEO and the Remuneration Committee. The scheme is intended to give the Board scope to reward the outstanding performance of employees.

Employees may not be paid bonuses exceeding 25% of the annual salary of the employee concerned excluding bonuses. In addition, if the bonus exceeds 10% of the employee's annual salary, the payment of at least 40% of the bonus amount decided upon shall be deferred at least three years. Under certain circumstances, specified in the bonus scheme, the Bank may revoke, in whole or in part, an employee's allocated but unpaid bonus, or a deferred bonus, before its date of payment arrives.

Directors, including alternate directors and members of subcommittees, and risk management, internal audit, and compliance staff cannot be awarded bonuses. Other employees can be awarded bonuses under the bonus scheme. Risk Management, the Compliance Officer and the Internal Auditor oversee and conduct an annual audit on the awarding of bonuses in accordance with FME rules.

The total amount of bonuses awarded in 2019 was just over ISK 84 million (just under ISK 108 million including salary-related expenses), while the 2019 budget provided for ISK 75 million, plus 20% of pre-tax profit for the year above ISK 1,990 million, including salary-related expenses.

The amount of bonuses awarded represents 4.3% of the Company's total salary costs for 2019 (3.2% on a consolidated basis).

Wage equality

Kvika has adopted an equal rights policy providing specifically for wage equality. Women and men shall receive equal pay and enjoy the same terms of employment for the same or equally valuable work. Wage equality means that salaries shall be determined in the same manner for all employees regardless of gender, race, nationality, religion, age or other non-relevant factors. The criteria on which wage decisions are based may not therefore result in discrimination.

Equal treatment shall be ensured in the allocation of any remuneration or benefits, direct or indirect, and employees shall enjoy the same terms with regard to pension, vacation and sickness rights irrespective of gender, race, nationality, religion, age or other non-relevant factors.

In the spirit of wage equality, the Bank has set rules on an employer contribution during childbirth leave so that an employee will continue to receive full pay during childbirth leave. The Bank's maximum contribution is currently ISK 600,000 per month and was ISK 400,000 per month in 2019. The purpose of the rules is to equalise the situation of both genders, compensate for employees' possible loss of income and encourage parents of both sexes to take childbirth leave.

The Board of Directors began efforts to obtain equal pay certification in 2019 with a view to having the Bank acquire equal pay certification in 2020.

Remuneration of the Board of Directors, CEO and Managing Directors

The following are the salaries and benefits paid to directors and alternates of the Board, the CEO and the managing directors for the years 2018 and 2019:

	2019 Salary and benefits	2018 Salary and benefits
Marínó Örn Tryggvason, CEO (from 1/6/2019)*	ISK 30,654,769	ISK 0
Ármann Þorvaldsson, former CEO (until 31/5/2019)*	ISK 17,437,500	ISK 41,850,000
Kristín Pétursdóttir, Chairman of the Board and member of the Risk Committee and Remuneration Committee**	ISK 18,545,029 ¹	ISK 9,655,690
Guðmundur Þórðarson, Vice-Chairman of the Board and a member of the Risk Committee	ISK 8,986,072 ²	ISK 5,277,723
Inga Björg Hjaltadóttir, director and member of the Remuneration Committee and Audit Committee	ISK 12,615,511 ³	ISK 5,375,459
Hrönn Sveinsdóttir, director and member of the Audit Committee	ISK 9,150,511 ⁴	ISK 5,375,459
Guðjón Karl Reynisson, director and Chairman of the Remuneration Committee**	ISK 10,305,511 ⁵	ISK 4,097,353
Kristín Guðmundsdóttir, alternate director and Chairman of the Risk Committee and the Audit Committee	ISK 5,049,123	ISK 6,405,287

* The salary and benefits shown in this table are solely for work as CEO. Because of this, the amounts of salaries and benefits of the CEO and the managing directors in 2019 and 2018 are not fully comparable.

** The director in question was only active for part of 2018.

In January 2019 almost ISK 11 million were paid and expensed for remuneration to committee members for 2018, which should have been expensed in the 2018 annual financial statements. Because of this, the amounts of salaries and benefits of directors in 2019 and 2018 are not fully comparable.

¹ Of this ISK 3,024,000 is for committee work in 2018.

² Of this ISK 1,458,000 is for committee work in 2018.

³ Of this ISK 2,970,000 is for committee work in 2018.

⁴ Of this ISK 1,458,000 is for committee work in 2018.

⁵ Of this ISK 1,980,000 is for committee work in 2018.

Pétur Guðmundarson, alternate director	ISK 0	ISK 866,687
Þorsteinn Pálsson, former Chairman of the Board	ISK 0	ISK 2,323,830
Jónas Hagan Guðmundsson, former director	ISK 0	ISK 639,055
Managing directors (2019: 6 (on average: 5.3), 2018: 7 (on average: 6.9))	ISK 229,584,090	ISK 267,410,378
Former managing directors	ISK 59,129,722	ISK 0

Salaries and benefits are substantially all short-term employee benefits. Salaries and benefits paid to directors include payments for their work on the Board's committees.

The CEO and managing directors received bonuses for 2019 but none for 2018. In 2019, the following changes were made to the Bank's management team: i) In May, Marinó Örn Tryggvason became CEO of Kvika and at the same time Ármann Þorvaldsson became Deputy CEO of Kvika. (ii) In September Magnús Ingi Einarsson took over as Managing Director of Banking. (iii) In September, Ragnar Páll Dyer took over as Managing Director of Finance and Operations, and (iv) in September, Hannes Frímann Hrólfsson was engaged as CEO of Jupiter Management Company hf. and concurrently resigned as managing director of Asset Management. No new managing director was hired for Asset Management, and this reduced the number of senior managers during the year. Because of this, the amounts of salaries and benefits of managing directors in 2019 and 2018 are not fully comparable.

For more detailed disclosure see Note 11 of the Company's annual financial statements.