

**MOTIONS OF THE BOARD OF DIRECTORS OF KVÍKA BANKI HF.  
TO THE ANNUAL GENERAL MEETING ON 21 APRIL 2021**

**Meeting agenda**

- 1) Report from the Company's Board of Directors on its activities during the past operating year.
- 2) The Company's annual financial statements for 2020 and a decision on the treatment of the Company's profit during the financial year.
- 3) Motion authorising the Company to purchase own shares.
- 4) Motion on the Company's remuneration policy.
- 5) Motion of the Board of Directors to amend the Company's Articles of Association.
- 6) Election of the Company's directors and alternates.
- 7) Election of the Company's auditors.
- 8) Decision on remuneration to directors and members of the Board's subcommittees.
- 9) Other business.

**A. The Company's annual financial statements for 2020 and a decision on the treatment of the Company's profit during the financial year (Agenda item 2)**

The Board of Directors moves that the financial statements for 2020 be approved as presented. The Board of Directors moves that no dividends be paid to shareholders in 2021 and that the profit for the year 2020 be added to the Company's equity.

*Explanatory Notes:* Reference is made to the annual financial statements concerning the disposition of profit and other changes to the equity account.

According to the Company's dividend policy, its objective is to pay 25% of annual after-tax profit as a dividend to shareholders, however, in implementing the dividend policy equal consideration shall be given to traditional dividend payments, on the one hand, and repurchase of the Company's own shares through a buy-back programme, on the other. The implementation of the policy shall also take into account the equity position and assessment of the opportunities offered by reinvesting profits in the Company's operations and growth.

During the past year, a merger with TM hf. and Lykill fjármögnun hf. was undertaken, which will be finalised at the end of March/beginning of April 2021. In addition, at the beginning of 2021, the purchase of all shares in Netgíró hf. was finalised, together with the acquisition of all shares in Aur app ehf. in March 2021. In these circumstances, the Board considered it desirable to propose that no dividends be paid in 2021, even though the Company's equity position is very strong: its capital ratio was 28.3% on a consolidated basis at year end 2020. However, regulators' requirements for minimum capital ratio are also high. While the Company's capital ratio well exceeds such requirements, currently 20.6%, it is necessary for equity to exceed the regulatory minimum, both for security reasons and to provide the scope to seek opportunities considered profitable. A strong equity position is a prerequisite for financing the Company's balance sheet with a view to growth potential and favourable funding terms.

In the light of this, under the third item on the Agenda of this meeting, the Board of Directors moves that authorisation be granted to repurchase own shares. If the situation in 2021 offers scope for a reduction in equity, the Company's Board of Directors may decide to exercise such authorisation to repurchase own shares.

## **B. Motion authorising the Company to purchase own shares (Agenda item 3)**

The Company's Board of Directors makes the following motion for approval by the Company's Annual General Meeting:

*“The Annual General Meeting of Kvika banki hf., held on 21 April 2021, agrees to authorise the Board of Directors, on the basis of Art. 55 of the Act on Public Limited Companies, No. 2/1995, to purchase on behalf of the Company up to 5% of its share capital. This authorisation shall be exercised for the purpose of: i) establishing a formal buy-back programme and/or ii) expanding or reinforcing marketmaking in the Company's shares, so that the Company may own, provided other statutory requirements are satisfied, up to 5% of the Company's share capital. The implementation of a buy-back programme on the basis of this authorisation is subject to the prior approval of the Financial Supervisory Authority of the Central Bank of Iceland, in accordance with subparagraph a of the third paragraph of Art. 84 of the Act on Financial Undertakings, No. 161/2002, having been granted. This authorisation shall be valid until the Company's Annual General Meeting in 2022.”*

Explanatory Notes: The Board of Directors requests a similar authorisation for the purchase of own shares as was granted for one year at the last Annual General Meeting. The authorisation granted at the last Annual General Meeting amounted to 10% of the Company's share capital; however, in light of the increase in share capital due to the merger of Kvika banki hf., TM hf. and Lykill fjármögnun hf. the Board moves that this authorisation amount to 5% of share capital. The authorisation to purchase own shares was not exercised in the past year.

Generally speaking, similar considerations apply to share buy-backs as to a decision on dividends, taking into account the Company's performance. The objective of the proposal is to set out in a transparent manner how the Bank is authorised to distribute funds to shareholders, having regard, among other things, for the Bank's dividend policy. This authorisation to repurchase own shares must comply with the currently applicable requirements of laws and regulations on buy-backs. It must also be ensured that the Financial Supervisory Authority of the Central Bank of Iceland has given its approval before a buy-back programme is launched, as provided for in the Act on Financial Undertakings, No. 161/2002. A formal buy-back programme is subject to provisions of the Act on Securities Transactions, No. 108/2007, and rules adopted on its basis. When deciding on and implementing a buy-back programme, these provisions will be complied with as currently applicable, and the implementation of such a programme shall ensure transparency in such transactions with own shares.

## **C. Motion on the Company's Remuneration Policy (Agenda item 4)**

The Company's Board of Directors moves that the Remuneration Policy presented be adopted.

Explanatory Notes: The objective of the Board of Directors of Kvika banki hf. with this motion for a Remuneration Policy which is presented to the Annual General Meeting is to set out a policy for remuneration which enables the Company to attract top-grade employees and thereby ensure its competitiveness, while having regard for the applicable laws and rules.

The substantive changes to the Remuneration Policy, which are now proposed at this Annual General Meeting reflect, *firstly*, that Kvika received equal pay certification in 2020. *Secondly*, the motion proposes to increase the total amount that may be paid in bonuses from ISK 50 million to ISK 150 million, provided that performance targets are met, as the Company is expanding significantly in relation to the aforementioned merger, along with the number of employees. If the profit for the year exceeds the target, currently 15%, for return on equity excluding tax credits and intangible assets, the Board will, however, be authorised to pay up to 20% of profit in excess of the return target (calculated as the ratio of pre-tax profit to weighted equity for the year, excluding tax assets and intangible assets on a consolidated basis). This is estimated to result in a

similar proportion of total salary expenses for the group as last year, i.e. 2.3%, whereas the amount of bonuses paid for the year 2020 was 2.4% of the group's salary expenses. *Thirdly*, the motion is to clarify that a deferred bonus is cancelled in the event that an employee ceases to work for the group on his or her own initiative or is dismissed due to a breach of duty. *Fourthly*, it is proposed that the Board be authorised to approve a stock option plan based on Article 10 of Act No. 90/2003, on Income Tax, authorising the Company to conclude stock option agreements with the Company's employees for the purchase of shares in the bank of up to ISK 1,500,000 market value annually for the next three years.

The aim of Kvika's proposed stock option plan would be to align the interests of employees with the Group's long-term goals. Permanent employees of the group would be given the opportunity of concluding an agreement to earn call options with a purchase price of up to ISK 1,500,000 based on the market price when the agreement is concluded. The options could be exercised every 12 months for a maximum of three years. The stock option plan would be based on Art. 10 of the Income Tax Act and confirmation sought from Iceland Revenue and Customs that the plan satisfies the conditions of that Article. Employees who hold the shares for a full two years following the exercise of the option will pay financial income tax on any profit, whereas if the shares are sold within two years' time regular income tax is paid on the profit.

The amount expensed for the stock option plan is based on Black-Scholes calculations at the beginning of the period and the estimated total expensed is around ISK 116 million over a three-year period, which is equivalent to around ISK 39 million per year.

Other changes to the Remuneration Policy are insubstantial modifications to its wording; reference is made to the existing Remuneration Policy and the Board's report on the implementation of the Remuneration Policy.

#### **D. Motion by the Board of Directors to amend the Company's Articles of Association (Agenda item 5)**

The Board moves that the following amendments be made to the Company's Articles of Association:

##### **(i) Electronic asset registration**

Due to statutory amendments, the Board of Directors proposes an amendment to the reference to the Act concerning electronic registration of title to shares in the Company, so that Art. 2.5 of the Company's Articles of Association shall read as follows:

*“The Company's shares are registered electronically in a central securities depository, operating pursuant to Act No. 7/2020, on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments. The central securities depository's statement of the owners of shares in the Company is a valid register of its shareholders and shall be valid proof of ownership of shares in the Company. All notifications to shareholders shall be sent to the party currently recorded in the Company's shareholders' register as the owner of the respective shares.”*

Explanatory Notes: Following the entry into force of the above-mentioned Act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments, the motion proposes to update the reference to the previous Act No. 131/1997, on Electronic Registration of Title to Securities.

##### **(ii) Convening a shareholders' meeting**

In accordance with provisions of the Act on Public Limited Companies No. 2/1995, it is moved that the provisions of the Company's Articles of Association on the convening of shareholders' meetings be amended to harmonise with those provisions of the Public Limited Companies Act on companies whose shares are listed on a regulated securities market. It is therefore proposed that Art. 3.5 of the Company's Articles of Association shall henceforth read as follows:

*“Shareholder meetings shall be convened electronically to ensure prompt and non-discriminatory access to information. Reliable media shall be used to ensure effective dissemination of information to the general public in the European Economic Area.*

*Shareholders' meetings shall be convened at least three weeks in advance and at most four weeks prior to the meeting.*

*A meeting of the Company's shareholders may be held at a location other than the Company's head office, cf. also Art. 3.10.”*

Explanatory Notes: In accordance with the provisions of the Public Limited Companies Act, No. 2/1995, an amendment is proposed to the provision in the Company's Articles of Association on convening shareholders' meetings, which now provides for announcement by notification to each shareholder by letter or e-mail or by advertisement in a daily newspaper. The proposed amendment complies with Art. 88 b of the aforementioned Act, which applies to companies whose shares have been admitted to trading on a regulated securities market.

### **(iii) Electronic shareholders' meetings**

The motion proposes to add an authorisation to hold shareholders' meetings exclusively electronically, cf. the second paragraph of Art. 80 a of the Act on Public Limited Companies, No. 2/1995. A new provision, Art 3.10, will be added to the Company's Articles of Association, which shall read as follows:

*“The Board of Directors may decide to hold a shareholders' meeting exclusively by electronic means, either in full or in part, provided the technology to be used for the meeting is secure, in the Board's estimation, and fulfils the requirements of the Public Limited Companies Act. A decision to hold a shareholders' meeting by electronic means shall be stated in the meeting announcement. This shall also provide information on the necessary technical equipment which shareholders require to participate in the meeting, information as to how shareholders are to give notice of their participation, information as to how voting will take place and where shareholders can obtain instructions on telecommunications equipment, passwords for access to the meeting and other relevant information. If a shareholders' meeting is held in part or in full by electronic means a password entered in the specified telecommunications equipment shall be equivalent to the signature of the respective shareholder and shall be considered confirmation of participation in the shareholders' meeting.”*

Explanatory Notes: The Board of Directors proposes, in accordance with an authorisation in the Public Limited Companies Act, that shareholders' meetings in the Company may be held only electronically.

### **(iv) Cancellation of the authorisation to increase share capital in Part B of Temporary Provision I**

The Board of Directors proposes to cancel the authorisation to increase share capital in Part B of Temporary Provision I of the Company's Articles of Association.

Explanatory Notes: Part B of Temporary Provision I contains an authorisation for the Board of Directors for an increase in share capital amounting to ISK 42,696,575 nominal value. This authorisation was added to the Articles of Association in order to meet the Company's obligations under a previous stock option plan, which expired in 2020. According to its wording, the authorisation is valid until 30 November 2021, but as there are no further contractual obligations for the utilisation of the authorisation, the Board proposes that it be cancelled.

### **(v) Extension of the Board's authorisation to issue warrants**

It is moved that the unused authorisation of the Board to issue warrants in accordance with Temporary Provision II of the Company's Articles of Association, together with the corresponding authorisation to increase share capital, be extended by one year.

*Explanatory Notes:* At the 2019 Annual General Meeting, shareholders agreed to authorise the Board of Directors to issue warrants for up to 100,000,000 new shares. The authorisation was valid until the Company's Annual General Meeting in 2020. In 2019, the Board utilised the authorisation in part and sold at fair value warrants for 46,000,000 new shares. At the Company's Annual General Meeting in 2020, the meeting agreed to extend the unused authorisation under Temporary Provision II to issue warrants, providing for 54,000,000 new shares, for one year, i.e. until the Annual General Meeting in 2021. The authorisation to issue warrants was not exercised the past year, but the Board requests the authorisation of the Annual General Meeting to extend the authorisation again for one year, i.e. until the Company's Annual General Meeting in 2022.

**(vi) Authorisation to increase share capital to meet commitments under a general stock option plan**

In accordance with the motion for changes to the Remuneration Policy, cf. Agenda item 4, it is moved that the Board of Directors be authorised to increase share capital in order to meet the Company's commitments under stock option agreements that may be made on the basis of a stock option plan. A new Temporary Provision V will be added to the Company's Articles of Association, which shall read as follows:

*“The Company’s Board of Directors is authorised to increase its share capital in stages by up to ISK 70,000,000 nominal value, for the purpose of fulfilling stock option agreements in accordance with the Company's stock option plan which has been approved by Iceland Revenue and Customs as provided for in Art. 10 of the Income Tax Act, No. 90/2003. Any portion of this authorisation remaining unexercised shall be valid until 31 December 2024. Shareholders shall not have pre-emptive rights to the new shares. The purchase price of the shares and other terms shall accord with the contents of the stock option agreements and the Company's approved stock option plan.”*

*Explanatory Notes:* Reference is made to the Notes on Agenda item 4 concerning changes to the Remuneration Policy, as this motion is connected to that item. The amount of the authorisation is based on the estimated number of employees during the term of the plan and is approximately 1.5% of the Company's issued share capital.

**E. Motion on the election of the Company’s auditors (Agenda item 7)**

It is moved that the AGM elect Deloitte ehf. as the Company’s auditor for the 2021 financial year.

*Explanatory Notes:* The Board of Directors moves that the Company's current auditors be elected to continue their work. Deloitte ehf. has been the Company's auditing firm since the Company's Annual General Meeting in 2016.

**F. Decision on remuneration to directors and members of the subcommittees of the Board (Agenda item 8)**

It is moved that the remuneration to a director for the Company's next operating year be ISK 455,000 per month (“monthly remuneration”) and the remuneration of the Chairman of the Board double the monthly remuneration. It is moved that directors be paid 25% of the monthly remuneration for each Board meeting in excess of 15 meetings until the next Annual General Meeting of the Company.

It is also moved that the remuneration to alternate directors be half of the monthly remuneration for each Board meeting attended, but never higher than the monthly remuneration in a single month. Each alternate shall receive a minimum payment for the year equivalent to the monthly remuneration.

Finally, it is moved that members of subcommittees receive 45% of the monthly remuneration per month and the committee chairman 55% of the monthly remuneration.

Explanatory Notes: The proposal takes into account the remuneration of directors of comparable companies, the scope of, responsibility involved in and nature of the work, in addition to the opportunity cost borne by directors in carrying out their duties to the Company, e.g. as described in Art. 52 of Act No. 161/2002, on Financial Undertakings. Following the merger of Kvika, TM and Lykill, the nature of the business and the concomitant responsibility of the directors changes. The group's Board of Directors bears increased responsibility in light of more extensive operations on a group level and the remuneration to directors must take this into account. This is in accordance with EBA Guidelines.

The recent merger of Kvika, TM and Lykill must be considered in this context. Remuneration to directors of TM has been higher than to Kvika's directors and it would be inappropriate to reduce this when the Company is expanding, its scope increasing, the nature of its activities changing and responsibilities becoming more extensive. The remuneration of TM's directors has been ISK 455,000 per month and has been unchanged since the Company's Annual General Meeting was held in March 2020. The motion takes this into account and entails that the remuneration for a board member will be the same as approved at TM's Annual General Meeting in 2020, or ISK 455,000.

Remuneration to Kvika's directors has been unchanged since the Company's Annual General Meeting in 2019, held on 14 March that year. At the Company's Annual General Meeting in 2020 the Board moved that remuneration remain unchanged that year due to the uncertainty prevailing in connection with the COVID-19 pandemic. Since the 2019 Annual General Meeting, the flat wage increase in the general labour market under the collective agreement known as Lífskjarasamningur was ISK 50,750 and of this around ISK 33,750 occurred since the Company's annual general meeting in 2020 was held on 26 March 2020. When remuneration to directors was last increased, in 2019, the change in the wage index in 2018 was taken into account. Since then, from the beginning of 2019 to the end of 2020, the wage index has risen by 12.0%, by 7.2% in 2020 alone. It is therefore clear that the increase in the motion is not even in line with wage increases in the general labour market.

	<i>Remuneration to Kvika's directors updated from 2019</i>	<i>Remuneration to Kvika's directors updated from 2020</i>	<i>Remuneration to TM's directors updated from 2020</i>
based on the wage index	ISK 476,010	ISK 455,630	ISK 487,792
based on increases in the Lífskjarasamningur agreement	ISK 475,750	ISK 458,750	ISK 488,750

Remuneration to directors of Arion Bank, Landsbankinn and Íslandsbanki ranges from ISK 450,000 to 490,900 per month; the Chairman's remuneration is ISK 785,000 to 981,400 per month; remuneration of committee members in subcommittees ranges from ISK 196,300 to 225,000; and that of chairmen of the subcommittees from ISK 255,000 to 275,000. The remuneration to Kvika's directors according to this proposal will therefore be in line with the remuneration of directors of comparable companies.

	<i>Arion Bank</i>	<i>Landsbankinn</i>	<i>Íslandsbanki</i>	<i>Kvika (proposal 2021)</i>
Chairman of the Board of Directors	ISK 981,400	ISK 785,000	ISK 785,000	ISK 910,000 (basic remuneration)
Other directors	ISK 490,900	ISK 450,000	ISK 450,000	ISK 455,000 (basic remuneration)
Chairmen of subcommittees	ISK 255,000	ISK 275,000	ISK 275,000	ISK 247,500
Other committee members	ISK 196,300	ISK 225,000	ISK 225,000	ISK 204,750

Should the work prove to be very extensive in scope and the number of board meetings until the Company's next general meeting more than 15, directors will be paid for this specifically. The fixed monthly remuneration thus reflects the responsibility that the work entails, taking into

account the nature of the work and the opportunity costs borne by directors in order to carry out their duties. If there are more board meetings, 25% of the monthly remuneration will be paid for each meeting, reflecting the time spent preparing for a meeting as well as the meeting time.

Board of Directors of Kvika banki hf.