REMUNERATION POLICY

1. Objective

The principal objective of the Remuneration Policy of Kvika banki hf. (*“Kvika” or “the Company”*) is to make Kvika a desirable workplace for qualified and ambitious individuals and to be able to build long-term relationships with staff.

To enable its profitable operation, the Company must have the flexibility to offer competitive wages and other financial rewards, reflecting the scope of employees’ activities, their responsibility and performance.

Kvika's remuneration policy is intended to:

- Provide shareholders with insight into the Company's policy regarding the terms of employment of its directors, CEO, other senior managers and other Company employees.
- Ensure that terms of employment and bonuses effectively support Kvika’s objectives.
- Prevent terms of employment from encouraging excessive risk appetite.
- Make sure that the terms of employment accord with Kvika's value of long-term thinking, the Company’s current situation, and laws, regulations and good governance and business practices for the Company’s sound and reliable operations.
- Support Kvika's business strategy.
- Promote consideration of the long-term interests of the Company's owners, employees, customers and other stakeholders in a systematic and transparent manner.

Emphasis is placed on ensuring solid and effective risk management in the following ways:

- With good governance in connection with setting targets.
- By considering both financial and non-financial objectives in assessing performance.

Kvika’s Remuneration Policy has been prepared as provided for in Art. 79 a of Act No. 2/1995, on Public Limited Companies, provisions of Act No. 161/2002, on Financial Undertakings, ("*AFU*") and Rules of the Financial Supervisory Authority (FME) No. 388/2016 on Bonus Schemes under the Act on Financial Undertakings ("*FME Rules*"). The Board is responsible for the Company's Remuneration Policy and for ensuring there are processes and monitoring in effect to ensure its implementation. Each year, an opinion is obtained from the Risk Committee as to whether Kvika's Remuneration Policy reflects the Company's risk policy and business model.

2. The Board’s Remuneration Committee

The Remuneration Committee is a subcommittee of Kvika’s Board of Directors. It is comprised of a minimum of three persons, at least two of whom are directors of the Company. The majority of the Committee shall be independent of the Company and its management. The Company's employees may not sit on the Remuneration Committee. The Committee shall adopt its own protocols, providing in detail for the implementation of its tasks, which shall be approved by the Board.

The Committee's main role is to formulate a remuneration policy and monitor its implementation, ensuring that salaries and other terms of employment accord with the Company's plans and objectives, as well as current laws, regulations and best practice.

The Remuneration Committee shall review the Remuneration Policy each year and independently assess interaction between remuneration and risk-taking.

3. Remuneration to the CEO and senior executives

Kvika's Board of Directors is responsible for hiring the CEO and determines his/her terms of employment. A written employment contract shall be concluded with the Bank's CEO, the terms of which shall be competitive in an Icelandic context. The basic salary and other payments to the CEO shall be based on his/her education, experience, competence and responsibility and the scope of the work. Other terms of employment shall be specified in the employment contract, including pension fund contribution, vacation, benefits and notice of termination of employment.

The CEO shall determine the terms of employment of Bank's executives within the specific framework set by the Board, acting on a proposal from the Remuneration Committee. The Board shall determine the terms of employment of the Internal Auditor, acting on a proposal from the Remuneration Committee. The terms of employment of these parties shall be competitive in an Icelandic context. Their basic salary and other payments to them shall be based on their education, experience and responsibility and the scope of the work.

The CEO may conclude severance agreements with employees under the same restrictions as provided for in Art. 57 b of the Act on Financial Undertakings. Concluding severance agreements is only authorised if the Company's operations have been profitable for the last three years successively; such payments may not extend more than 12 months following termination of employment. The Board may, however, grant the CEO a broader authorisation, provided it can be accommodated within statutory provisions.

4. Remuneration to directors and members of the Board’s subcommittees

The Board of Directors shall submit a proposal to the Company’s AGM on remuneration for Board duties and work on the Board's subcommittees for the coming operating year. This remuneration shall reflect the responsibility involved in the work, the environment in which the Company operates and the work contribution required for the task and shall furthermore take into account remuneration to directors and committee members of similar companies. The Board of Directors shall take decisions on mandatory contributions in connection with remuneration for Board work, such as the employer’s pension contributions, which shall accord with usual practice for Kvika's employees.

Generally speaking, directors shall not be paid or rewarded for Board and committee work other than as stated above. Other payments shall be disclosed specifically at a shareholders’ meeting.

5. Wage equality

Kvika has adopted a human resources and equal rights policy providing specifically for wage equality.

Persons of different genders 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 involve non-relevant 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.

Kvika has also established, documented and implemented an equal pay system, and received equal pay certification in 2020.

6. Bonus schemes

The Act on Financial Undertakings sets limits for financial undertakings 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 scheme must be in place setting limits for the financial undertaking's authorised bonus payments.

Kvika’s Board of Directors has, acting on the opinion of the Remuneration Committee and the Risk Committee, approved the following bonus scheme. The bonus scheme established accords with the rules of the Financial Supervisory Authority (FME) and Article 57 a of the AFU.

6.1. Objective and scope of the bonus scheme

The objective of this bonus scheme is to give the Board scope to reward outstanding performance and create flexibility in the wage structure. Increasing the share of variable wage costs is designed to reduce pressure to raise fixed wages, reduce risk and fluctuations in the Company's performance and in doing so link the long-term interests of employees with those of the Company.

The Company's Board of Directors is authorised, but not obliged, to pay employees bonuses in accordance with this bonus scheme. In applying the bonus scheme, the guiding concern is to:

- Build a corporate culture characterised by ambition, professionalism and drive, where good governance is valued and internal rules and procedures are followed.
- Ensure the implementation of the business strategy and build long-term value for shareholders.
- Ensure that bonuses promote sound risk management, do not encourage excessive risk-taking, and do not threaten the Company's capital base, liquidity or stability.
- Avoid creating conflicts of interest.
- Maintain financial stability.
- Promote proper and sound business practices.

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 shall oversee and conduct an annual audit on the awarding of bonuses in accordance with FME rules.

6.2. Award of bonuses

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.

Bonuses shall only be awarded in accordance with predefined performance targets approved by the Board. Those criteria upon which performance targets are based concern, among other things, the Company's return on equity, capital ratio, liquidity ratio, compliance with laws and regulations, employee performance, business unit performance, cost consciousness, improvement focus, customer satisfaction and participation in and support for the Company’s policy and corporate culture. Employees may not be paid higher bonuses than are authorised by law and the rules of the Financial Supervisory Authority (FME), currently 25% of the annual salary of the employee concerned excluding bonuses. Payment of bonuses shall be deferred in accordance with the law and FME rules, which currently stipulate that, if the bonus exceeds 10% of the employee's annual salary, payment of at least 40% of the bonus amount decided upon shall be deferred at least three years.

Bonuses may not be determined without regard for a performance appraisal. The CEO may, however, decide on a signing bonus for an employee in his/her first year of employment, without a performance appraisal and without the involvement of the Remuneration Committee or Board, within the limits set by the bonus scheme and provisions of the AFU and FME rules.

The Board of Directors has agreed to pay up to ISK 150 million in bonuses for the year 2021, provided that performance targets are met. If the profit for the year exceeds the target, currently a 15% return on equity net of tax credits and intangible assets on a consolidated basis, however, the Board may pay up to 20% of the profit in excess of the target (calculated as the ratio of pre-tax profit to weighted equity for the year, excluding tax credits and intangible assets on a consolidated basis).

For example: Bonuses in the amount of ISK 150 million are equivalent to around 2.3% of the salary costs of Kvika and TM in 2020 on a group-wide basis.

The group's equity was ISK 46,376 million as of 1 January 2021, according to the merger balance sheet, of which ISK 1,239 million were tax credits recognised as income and intangible assets ISK 563 million. The equity benchmark for additional bonuses is therefore ISK 44,573 million.

In order for bonuses of more than ISK 150 million to be authorised for the year 2021, pre-tax profit must be at least 15% of the equity benchmark, or ISK 6,686 million.

If pre-tax profit without additional acquisitions proved to be ISK 7000 million, profit of ISK 314 million would be in excess of the 15% return on equity benchmark. The Board of Directors would then be authorised to pay up to 20% of the excess return on equity of about ISK 63 million in additional bonuses. Maximum bonus payments would therefore be ISK 213 million, which is 3.3% of the companies' 2020 salary costs on a group-wide basis and 3% of pre-tax profit.

Figures in this example are based on the merger balance sheet of Kvika, TM and Lykill on 1 January 2021.

6.3. Revoking, repayment or reduction of bonuses

Kvika may revoke, in whole or in part, an employee's allocated but unpaid bonus, or a deferred bonus, before its date of payment arrives under any of the following circumstances:

- The prescribed performance of the employee concerned is not achieved.
- The prescribed performance of the business unit/division of the Company concerned is not achieved.
- It is foreseen that the Company will not or is not likely to satisfy its capital base benchmark or an assessment of its capital requirement, as referred to in Art. 84 of the AFU, or the requirements of applicable rules on liquidity.
- The employee does not comply with the Company's internal rules or procedures or does not respect laws or administrative provisions in his/her work.
- The Company receives a loan of last resort from a central bank or similar financial assistance.
- The employee resigns from the group on his/her own initiative or is dismissed due to a breach of duty.

An employee may also not be awarded a maximum bonus if any of the aforementioned circumstances exist.

Furthermore, Kvika is authorised to demand full or partial repayment from an employee of a bonus already paid if it turns out that the employee participated in or was responsible for actions which caused the Company a substantial loss or was in major breach of his/her duties. The same applies if an employee is discovered to have failed to comply with laws, regulations, administrative provisions or Kvika's internal rules. Repayment of bonuses may also be demanded if the employee's performance proves to have deviated to a significant extent from what was anticipated when the bonus decision was made.

A claim for repayment must be made within seven years from the award of the bonus. The Board of Directors of the Company shall take care to show fairness when deciding on claims for repayment and seek the opinion of external lawyers.

A deferred bonus shall not be paid when the proposed date of payment arrives if the Company's position has deteriorated significantly or is expected to deteriorate significantly.

7. Stock options

The Board of Directors may adopt a stock option plan based on Art. 10 of the Income Tax Act, No. 90/2003, and authorize the Company to conclude stock option agreements with group employees under this plan. Such a plan must meet the requirements of the above Act, i.e.:

- The option is open to all employees.
- Employees' shares shall convey the same rights as other shares in the Company.
- The employee must hold a permanent position with the Company or other company in the same group of companies.
- At least 12 months must elapse from the conclusion of a stock option agreement until the option is exercised.
- The purchase price may not be lower than the weighted average price in trading in holdings/shares in the Company during the ten full trading days preceding the date of the agreement.
- The stock option agreement is not transferable.
- the maximum purchase per employee is a total of ISK 1,500,000 per year, or the amount currently provided for in the Income Tax Act, based on the purchase price in the agreement.
- The stock option plan must be confirmed by Iceland Revenue and Customs before it takes effect.

8. Information disclosure

At the AGM, the Board of Directors shall give an account of the terms of remuneration to management and directors and the main aspects of its bonus scheme, and explain the implementation of the previously approved Remuneration Policy. The annual financial statements shall include an account of the bonus scheme and bonus entitlements earned. It shall provide information on the company's total liabilities and payments made for bonuses. In addition, the annual financial statements shall give an account of the overall terms of employment of key executives in accordance with accounting principles.

This remuneration policy shall be published on Kvika's website.

9. Approval of the Remuneration Policy

The Board of Directors has approved the Remuneration Policy after receiving the opinion of the Remuneration Committee and it shall enter into force once the Annual General Meeting has adopted it.

The Remuneration Policy shall be reviewed each year and referred to the Company's AGM for adoption with or without amendments. The Remuneration Policy serves as a guideline for the Company and the Board of Directors.

The Board shall record any significant deviations from the Remuneration Policy in its meeting records, and these deviations shall be justified. The Board of Directors shall provide an account of such deviations at the Annual General Meeting.

Reykjavík, 21 April 2021.