

**REPORT OF THE BOARD OF DIRECTORS OF KVÍKA BANKI HF.
TO SHAREHOLDERS ON THE IMPLEMENTATION
OF THE 2020 REMUNERATION POLICY**

Submitted to the Company's Annual General Meeting, 21 April 2021

Remuneration Policy

An updated Remuneration Policy was adopted at the Annual General Meeting (AGM) of Kvika banki hf. in March 2020. As stated, the objective of Kvika's Board of Directors was to set out a policy for the Company on remuneration enabling the Company to attract top-grade employees and thereby ensuring its competitiveness, while having regard for the applicable laws and rules.

Wage increases have been moderate in 2020 and in recent years. The average salary in the Bank decreased by 0.74% from the previous year. However, if the salaries of employees who were on the Company's payroll on 1 January 2020 are compared to those of 31 December 2020, the average increase per employee was 3.81%, or 0.4% lower than the previous year. This increase can be attributed mostly to wage increases, firstly, arising from collective bargaining agreements and, secondly, from specific salary changes in cases where employees were transferred within the Company to other positions, shouldered increased responsibility or other such reason. By comparison, the wage index rose by 7.2% 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 scheme 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 legal framework. Performance targets have been determined in advance. Those criteria upon which performance targets 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 targets, after receiving a substantiated proposal from the CEO and the Remuneration Committee. The scheme is intended to give the Board scope to reward outstanding performance.

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 for 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 2020 was slightly over ISK 67 million (slightly over ISK 86 million, including salary-related expenses), while the 2020 budget provided for ISK 50 million, plus 20% of pre-tax profit for the year in excess of 15% return on equity net of tax credits. The amount of bonuses awarded is 2.4% of the total wage cost on a consolidated basis.

Wage equality

Kvika has adopted an 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 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.

Kvika received equal pay certification in 2020 and that certification is valid for the next three years. In the wage analysis carried out following the certification, the difference between the total wages of males and females was 1.2% and for fixed wages the difference was only 0.4%. As a result, there was no need to adjust salaries as part of this process.

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 2019 and 2020:

	2020 Salary and benefits	2019 Salary and benefits	Paid in 2019 for 2018.
Marínó Örn Tryggvason, CEO (from 1 June 2019)*	ISK 51,397,000	ISK 30,655,000	
Ármann Þorvaldsson, former CEO (until 31 May 2019)*	ISK 0	ISK 17,438,000	
Sigurður Hannesson, Chairman of the Board and member of the Risk Committee and Remuneration Committee	ISK 11,673,000	ISK 0	
Guðmundur Þórðarson, Vice-Chairman of the Board and member of the Risk Committee	ISK 8,299,000	ISK 7,528,000	ISK 1,458,000
Inga Björg Hjaltadóttir, director and member of the Remuneration Committee and Audit Committee	ISK 10,163,000**	ISK 9,646,000	ISK 2,970,000
Hrönn Sveinsdóttir, director and Chairman of the Audit Committee	ISK 8,299,000	ISK 7,693,000	ISK 1,458,000
Guðjón Karl Reynisson, director and Chairman of the Remuneration Committee	ISK 8,472,000	ISK 8,326,000	ISK 1,980,000
Albert Þór Jónsson, alternate director	ISK 489,000	ISK 0	
Kristín Pétursdóttir, former Chairman of the Board and former member of the Risk Committee and Remuneration Committee	ISK 3,968,000	ISK 15,521,000	ISK 3,024,000
Kristín Guðmundsdóttir, former alternate director and former member of the Risk Committee and Remuneration Committee	ISK 1,755,000	ISK 5,049,000	
Managing directors (2020: 6 (on average: 6), 2019: 6 (on average: 5.3))	ISK 283,518,000	ISK 229,584,000	
Former managing directors	ISK 0	ISK 59,130,000	
Total	ISK 388,032,000	ISK 390,570,000	ISK 10,890,000

Salaries and benefits paid to directors include payments for their work on the Board's subcommittees. The CEO and managing directors received bonuses for 2020 and for 2019.

For more detailed disclosures see Note 9 of the Company's annual financial statements

* 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 2020 and 2019 are not comparable.

** Thereof ISK 388.125 for work on a board subcommittee of Kvika eignastýring hf.