

## RULES on remuneration policy for financial undertakings

### Article 1

#### *Definitions.*

*Managing director:* A person appointed by the board of directors of a financial undertaking to take charge of its operations in accordance with the provisions of legislation on limited liability companies or the Act on Financial Undertakings, regardless of the name of the position in other respects.

*Remuneration policy:* The rules of procedure of a financial undertaking governing variable remuneration.

*Variable remuneration:* Payments and benefits to an employee, including cash, special pension payments and options, normally depending on performance, which are not a part of the employee's fixed employment terms, where the final amount or extent of payment is not known in advance in a definitive manner.

*Key employee:* A natural person in a position of management in a financial undertaking, other than the managing director, who is empowered to make decisions capable of impacting the future development and performance of the undertaking.

*Undertaking:* A financial undertaking pursuant to the Act on Financial Undertakings.

### Article 2

#### *Scope.*

These Rules apply to financial undertakings, cf. Act No. 161/2002 on Financial Undertakings.

These Rules do not affect rights or obligations of employees laid down in collective bargaining contracts.

### Article 3

#### *General rules on remuneration policy.*

An undertaking intending to pay variable remuneration to one or more employees is required to establish a remuneration policy, to be approved by the board of directors of the undertaking following consultation with the remuneration committee, if appointed. The remuneration policy shall conform to the objectives it is intended to ensure, as provided in Article 4, and the substance of these Rules in other respects.

The managing director of an undertaking shall ensure that contracts and payments to all employees comply with the undertaking's remuneration policy. An undertaking's remuneration policy shall be reviewed at least annually to ensure that it takes account of the undertaking's position at any time and of circumstances in the financial market. The review shall also take into consideration the regular internal assessment by the financial undertaking of the risk of its operations. A remuneration policy shall not be so designed that the total payment of variable remuneration on an annual basis could threaten the ability of the undertaking to return a profit.

An undertaking shall account for the current remuneration policy to the Financial Supervisory Authority. At the request of the Financial Supervisory Authority, the undertaking shall provide reasoning that the remuneration policy complies with the objectives of Article 4 and these Rules in other respects. Approved amendments to the remuneration policy shall be reported promptly to the Financial Supervisory Authority. Information on the remuneration policy, which is sent to the Financial Supervisory Authority, shall be accompanied by a review and analysis of the remuneration policy, as provided in Article 5 of these Rules.

An undertaking, which does not offer any variable remuneration, is not required to establish special rules governing variable remuneration, provided that the board of directors of the undertaking confirms to the Financial Supervisory Authority in a verifiable manner, no later than February of each year, that the undertaking will not pay any variable remuneration that year.

#### Article 4

##### *Objectives of a remuneration policy.*

Remuneration policy shall be so designed that variable remuneration:

1. does not encourage unreasonable risk taking,
2. does not contravene the long-term interests of the undertaking and the stability of the financial system,
3. conforms to viewpoints related to the protection of the undertaking, its creditors and shareholders or guarantee capital owners, and
4. conforms in other respects to proper and sound business practices.

#### Article 5

##### *Monitoring within financial undertakings of the remuneration policy and its implementation.*

The following parties shall review and analyse, when applicable and at least annually, whether variable remuneration complies with the undertaking's remuneration policy and these Rules:

1. Risk Control shall analyse the impact of the remuneration policy on the risk profile and operation of the undertaking.
2. Compliance shall analyse how the structure of the remuneration policy impacts the compliance of the undertaking with the law and rules, including these Rules and the internal rules of the undertaking.
3. Internal Audit shall regularly examine the structure, implementation and impact of the undertaking's remuneration policy. A part of the monitoring shall include a review of the total remuneration to the managing director and key employees. The review shall include all payments from subsidiaries of the undertaking if there are any such payments. In addition, variable remuneration to other employees shall be reviewed.

If the above parties see a reason for any comment, the board of directors of the undertaking and the Financial Supervisory Authority shall be notified without delay.

No later than February of each year, the board of directors of an undertaking shall ensure that the review and analysis of the undertaking's remuneration policy, as provided for in the first paragraph of this Article, are sent to the Financial Supervisory Authority.

#### Article 6

##### *Balance between fixed salaries and variable remuneration.*

A remuneration policy shall be based on the general principle of maintaining a reasonable balance between fixed salaries and variable remuneration.

The aggregate of variable remuneration including deferred payments, which is granted to an employee per annum, shall not amount to more than 25% of the annual salary of the person in question, exclusive of variable remuneration.

A remuneration policy shall be based on the principle that the structure of variable remuneration, e.g. whether payments take the form of cash, shares in the undertaking or a combination of different elements, contributes to a healthy and sound operation of the undertaking in the long term.

Payment of at least 40% of the variable remuneration shall be deferred for a minimum of three years. In assessing whether the payment should be deferred for a longer time than three years, account should be taken of the risk of the operation and the nature of the tasks performed by the employee for the undertaking.

If the total variable remuneration of an employee per annum does not exceed 10% of his or her annual salary, net of variable remuneration, the variable remuneration may be paid out without deferment, notwithstanding the provisions of paragraph 4.

When an undertaking offers variable remuneration in the form of shares in the undertaking and proposes to defer their transfer, or when an undertaking grants an option and temporarily acquires shares in itself in connection with such a transaction, it should be ensured that the aggregate proportion of shares complies with Article 29 of the Act on Financial Undertakings. An undertaking is required to enter such shares in its balance sheet, and holding such shares through another company is prohibited.

#### Article 7

##### *Impact of variable remuneration on the financial position of an undertaking.*

The impact of a remuneration policy shall not be such that the total payments or future obligations related to annual variable remuneration will threaten the ability of the undertaking to return a profit or restrict its ability to strengthen its capital base.

#### Article 8

##### *Signing bonus.*

A remuneration policy shall not provide for a guaranteed bonus, i.e. a bonus paid to an employee independently of his or her performance.

The provision in paragraph 1 does not prevent an undertaking from making a one-off payment to an employee in the first year of employment, a so-called signing bonus.

The aggregate of the signing bonus and of other variable remuneration, including deferred payments, to an employee in the first year of employment shall not amount to more than 60% of his or her annual salary exclusive of variable remuneration. The provision of paragraph 4 of Article 6 on the partial deferment of variable remuneration also applies to signing bonuses.

If an employee, who has terminated his or her employment, is re-hired by the undertaking or by another undertaking in its group within 3 years from the employment termination, payment of a signing bonus to this employee is prohibited.

#### Article 9

##### *Risk assessment.*

When an undertaking intends to pay variable remuneration, the undertaking shall consider the impact of risk on the performance for which the undertaking intends to reward.

A remuneration policy shall provide that employees should not engage in trading, e.g. derivative trading, for the purpose of hedging against risks related to the variable remuneration.

#### Article 10

##### *Performance assessment.*

In the determination of an employee's variable remuneration, account shall not only be taken of the employee's performance but also of the performance of his or her business unit, the performance of the undertaking as a whole, and the risk exposure underlying the performance. The undertaking shall also take into account whether the employee complies with the internal rules and work procedures of the undertaking and whether the employee complies with law and administrative instructions in his or her work, particularly as regards relations with customers.

#### Article 11

##### *Reduction, revocation or reimbursement of variable remuneration.*

A remuneration policy shall be based on the assumption that variable remuneration will not be paid, or only paid to a limited extent, if one of the following circumstances develops:

1. When the required performance of the employee in question is not achieved.
2. When the required performance of the business unit or department in question within the undertaking is not achieved.
3. When the required performance of the undertaking is not achieved, e.g. when the undertaking does not meet the Financial Supervisory Authority's capital adequacy requirements pursuant to Article 84 of the Act on Financial Undertakings.
4. When the employee does not comply with the rules or internal procedures of the undertaking or does not comply with laws or administrative instructions in his or her work.

A remuneration policy shall ensure that an undertaking is permitted to revoke a variable remuneration, which has been decided but has not been paid out, when one or more of the circumstances in points 1 - 4 listed in paragraph 1 develops.

A remuneration policy shall ensure that an undertaking is permitted to recover paid variable remuneration from an employee if it turns out that his or her performance has substantially deviated from the performance anticipated at the time of decision on the variable remuneration. A remuneration policy shall provide for contracts to be made so that a reimbursement claim against an employee is allowed for a certain period of time, even when he or she is no longer employed by the undertaking. The time limit to submit a claim for reimbursement against an employee shall never be less than five years from the time that the decision to pay the variable remuneration was made.

A remuneration policy shall ensure that a variable remuneration, which has already been decided but not paid owing to deferment, as provided in Article 6, will not be paid on the proposed date of payment if the situation of the undertaking has deteriorated materially, or if there are prospects that the situation of the undertaking will deteriorate materially.

If an undertaking is granted a loan of last resort from the Central Bank of Iceland, no variable remuneration shall be paid until it is evident that the undertaking has once again gained a sound financial position.

#### Article 12

##### *Special provisions on board members.*

Payment of variable remuneration to board members of an undertaking is prohibited.

#### Article 13

##### *Special provisions on employees working in risk management, internal auditing or compliance.*

Salaries of employees working in risk management, internal auditing or compliance shall be sufficient to encourage qualified and experienced persons to seek such employment. The salaries shall also take account of the responsibility carried by these employees and be competitive. Supervision by internal audit pursuant to Article 5 of these Rules extends to the above.

Variable remuneration shall not be paid to employees who work in risk management, internal auditing or compliance. Undertakings are required to take this into account in determining the fixed salaries of these employees, cf. paragraph 1.

#### Article 14

##### *Disclosure and transparency.*

All employees shall be informed of the principal features of the remuneration policy. Employees receiving variable remunerations based on an undertaking's remuneration policy shall be informed of the factors that affect payments to them.

The earned rights of employees under any remuneration policy shall be expensed each year according to accounting standards.

At the annual general meeting, shareholders or guarantee capital owners shall be informed of the principal features of the remuneration policy in a clear manner.

The annual financial report shall account for the undertaking's remuneration policy and for variable remuneration earned. The report shall include information on the total liabilities of the undertaking due to variable remuneration, on one hand the liabilities payable in the accounting year and on the other hand the future liabilities of the undertaking related to variable remuneration, cf. provisions of law applicable to the financial reporting of the undertaking. In addition, the annual financial report shall account for the total employment terms, i.e. not only variable remunerations but also all other payments and benefits of the managing director and key employees.

#### Article 15

##### *Entry into force, etc.*

These Rules are issued by virtue of the authorization in Article 57(a) of Act No. 161/2002 on Financial Undertakings and shall enter into force immediately.

Financial undertakings shall for the first time send to the Financial Supervisory Authority information on their remuneration policies in accordance with these Rules no later than 1 November

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2011, together with a review and analysis of the remuneration policy pursuant to Article 5 of these Rules.

A financial undertaking is only permitted to pay variable remuneration in accordance with these Rules, cf. Article 57(a) of Act No. 161/2002 on Financial Undertakings. Violation of Article 57(a) is punishable under Articles 110 and 112(b) of the same Act.

*Financial Supervisory Authority, 30 June 2011.*

**Gunnar T. Andersen.**

*Ragnar Hafliðason.*