

Íslandsbanki hf.

Proposals to the 2016 Annual General Meeting

19 April 2016

1. Proposal for the allocation of profits and payment of dividends

The Board of Directors of Íslandsbanki proposes up to 50% of net profit in 2015 will be paid in dividends to shareholders, but otherwise the profit will be added to the Bank's equity. The Board may convene a special shareholder meeting later in the year where a proposal regarding payment of dividends of profit for the previous fiscal years could be suggested.

2. Proposal for the election of members to the Board of Directors

Shareholders propose that the annual general meeting of Íslandsbanki hf. elects the following persons on the Board of Directors of Íslandsbanki for a term of up until the next Annual General Meeting.

Board of Directors:

Friðrik Sophusson
Anna Þórðardóttir
Auður Finnbogadóttir
Árni Stefánsson
Hallgrímur Snorrason
Heiðrún Jónsdóttir
Helga Valfells

Alternates:

Herdís Gunnarsdóttir
Pálmi Kristinsson

and that Friðrik Sophusson be elected as Chairman.

3. Proposal for the appointment of external auditors

The Board of Directors of Íslandsbanki proposes, pursuant to paragraph 2 of article 6 of the Act on the Icelandic National Audit Office the annual general meeting of Íslandsbanki hf. elects the Icelandic National Audit Office (Ríkisendurskoðun) as the Company's auditing firm.

4. Proposal for the Board of Directors' remuneration for 2016

The Board of Directors of Íslandsbanki proposes that the annual general meeting of Íslandsbanki hf. resolves to pay remuneration to members of the board of directors for their services on the board of directors in the amount of ISK 400,000 per month and ISK 600,000 per month to the Chairman of the Board. In addition to that each board member shall be paid remuneration in the amount of ISK 125,000 per month for services on sub-committees. In addition to this the chairmen of sub-committees shall be paid ISK 50,000 per month. Alternate members of the board shall be paid remuneration in the amount of ISK 200,000 for each meeting they attend.

5. Proposal for the Compensation Policy

The Board of Directors of Íslandsbanki proposes, after consult with shareholders, that the annual general meeting approves the following compensation policy for the bank:

Article 1. Objectives

This compensation policy is set forth in accordance with the provisions of article 79 of Act. 2/1995 on Limited Liability Companies. The policy is founded on the principles of good corporate governance and is meant to support the bank's policy of providing exceptional services while laying the foundation for a good return on equity taking into consideration the long-term interests of the company, its shareholders, customers and employees.

In accordance with these objectives the bank's policy is to offer competitive, but not leading, compensation in line with its competitive environment taking into account the size of the company, the responsibilities in question and success,. This way Íslandsbanki intends to become a sought after place of work for outstanding employees.

The compensation policy covers all main aspects of salary and benefits for the Board of Directors, Chief Executive Officer (CEO), Managing Directors and other employees of the bank.

A Corporate Governance, Compensation and Human Resources Committee operates within the bank comprised of at least four Board members.

Article 2. Compensation of Board members

Board members shall receive a, monthly payment in accordance with the decision of the annual general meeting of the bank, as stipulated in article 79 a of Act No. 2/1995 on Public Limited Companies.

The Board of Directors shall submit a proposal to the annual general meeting on the monthly payment for the upcoming operating year and shall take into account the time Board members spend on their duties and the responsibility involved.

The bank bears the cost of travel incurred by Board members domiciled outside Reykjavík as well as additional compensation for the added time spent by those members of the Board in the carrying out of their duties. Account shall be given of such payments at the Annual General Meeting in relation to the compensation of Board members.

No agreements for settlement upon termination can be made with members of the Board of Directors.

Article 3. Compensation of the CEO

The CEO's terms of employment shall be laid out in a written employment agreement. The CEO's terms of employment shall be competitive, but not leading, taking into account i.a. CEO's qualifications, responsibilities and the scope of his duties.

The employment agreement shall include provisions on other forms of remuneration customary in comparable jobs. The agreement shall contain provisions on pension contributions, vacation, fringe benefits and terms of notice.

The terms of the CEO's employment agreement shall be reviewed annually. In the review notice shall be taken of the CEO's performance, development of market salaries and the bank's performance.

The employment agreement is made under the conditions that no payments shall be made to the CEO upon termination of his employment other than contained in the employment agreement.

Should the Official Remuneration Council make a decision on the compensation of the CEO, the Board of Directors shall ensure that the compensation of the CEO is in accordance with the decision of the Official Remuneration Council.

Article 4. Compensation of Managing Directors

The CEO hires managing directors. Their compensation shall be determined in accordance with Articles 1 and 3 above.

Article 5. Variable compensation

The 2015 Annual General Meeting of Íslandsbanki hf. agreed that employees and managers may be paid variable compensation in the form of cash on the basis of a special variable compensation plan approved by the Board of Directors. On the basis of that decision, agreements for the operating year 2016 have been made on the following terms:

“Variable compensation shall be based on the operational performance of the relevant business unit, the performance of the relevant employee and the overall profit of the bank. The board shall ensure that variable compensation is not linked to the valuation of, or the bank’s recovery from the loan portfolios that were transferred from Glitnir to the Bank at its formation. The board shall define pre-determined and measurable performance targets that shall be used to determine variable compensation. The variable compensation shall be designed and determined with a view to the bank’s long-term interests. Particular care shall be taken to ensure that variable compensation do not encourage excessive risk taking and are consistent with proper and sound business practices.

Risk Management, Compliance and Internal Audit shall at least once a year undertake a review and analysis of the bank’s variable compensation systems and submit their findings to the FME.

Variable compensation may only be paid to persons who are actually working for the bank at the time of payment of the compensation.

The bank’s variable compensations system shall comply with the FME’s rules on compensation systems of financial undertakings. Variable compensation under this article is subject to the following limitations: First, the payment of 40% of the variable compensation must be deferred three years. Second, the aggregate sum of variable compensation to an employee, including deferred payments, must not exceed 25% of the employee’s annual gross income. Third, the total aggregate sum of variable compensation must not exceed 4% of the bank’s annual salaries.”

The Board of Directors shall not make or authorize agreements for variable compensation regarding the operation of the bank after 31.12.2016 without the shareholders consent and then on terms agreed by shareholders at a shareholders meeting.

Article 6. Disclosure of information

At the Annual General Meeting, the Board of Directors shall present information on the compensation of the CEO, managing directors and board members. Information shall be presented on the total amount of salaries and salary related expenses in the past year and the year past that. Furthermore the Board of Directors shall give the Annual General Meeting a report on the performance of the compensation policy in the preceding year.

The bank's compensation policy shall be published on the bank's website.

Article 7. Other employees

When deciding the compensation of other employees, the relevant Managing Directors shall adhere to this policy as applicable.

Article 8. Approval of the Compensation Policy and other matters

The bank's compensation policy shall be presented to the shareholders in each the Annual General Meeting for their approval or rejection.

The Compensation Policy can be reviewed between Annual General Meetings and proposed changes presented to a shareholders meeting for approval.

This policy shall serve as guidelines for the bank and its Board of Directors. The Board of Directors shall record in their minutes any major deviations from the compensation policy. Such deviations shall be well founded and documented. The Board of Directors shall present deviations from the policy and reasons for them at the next Annual General Meeting.

6. Proposal to amend the Articles of Association

The Board of Directors proposal to amend the Articles of Association

The Board of Directors proposes the following amendment to paragraph 1 of article 2 of the Articles of Association:

“Article 2

The domicile and legal venue of the Company is in Kópavogur. The Company has no branches but is permitted to establish branches.”

The Board of Directors is moreover entrusted with notifying the Registry of Enterprises in Iceland when the bank’s headquarters are moved to another location.

7. Other matters

a) Shareholder’s proposal to amend the Board of Directors Rules of Procedure

The shareholder proposes the Board of Directors provide a provision, in its rules of procedure, stipulating Íslandsbanki hf.’s competitive independence from other state owned commercial banks.