# Condensed Interim
# Consolidated Financial Statements
# 30 June 2021

Kvika banki hf. • Katrínartún 2 • 105 Reykjavík • Iceland • Reg. no. 540502-2930

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# Endorsement and Statement
## by the Board of Directors and the CEO

The Condensed Interim Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") for the period 1 January to 30 June 2021 have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union, and additional requirements in the Icelandic Financial Statement Act. The Condensed Interim Consolidated Financial Statements comprise Kvika and its subsidiaries (together the "Group").

The Group operates five business segments, Asset Management, Corporate Finance, Banking, Insurance Services and Capital Markets. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services, as well as selected banking services. At the end of June 2021 the Group had ISK 509 billion of assets under management, compared to ISK 527 billion at year end 2020. The decrease in assets under management was mainly caused by divestment of closed end funds. The Bank is listed on the main list of Nasdaq OMX Iceland.

The Bank's Annual General Meeting ("AGM") was held on 21 April 2021. It approved the motion of the Board of Directors ("BOD") to the AGM that no dividend be paid for the operating year 2020. The AGM also approved a motion from the BOD permitting the Bank to purchase up to 5% of own shares subject to regulatory approvals. This authorisation applies until the next annual general meeting in 2022.

**Merger with TM hf. and Lykill fjármögnun hf.**

At the end of March 2021, the previously announced tripartite merger with TM hf. ("TM") and Lykill fjármögnun hf. ("Lykill") was concluded and as at end of March 2021, the Group's operations include insurance services through the subsidiary TM tryggingar hf. TM's shareholders received, in return for their shares in TM, 2,509,934,076 shares in Kvika. The payment was made by issuance of new share capital at end of March 2021. In accordance with IFRS 3, Business Combinations, the purchase price of TM and Lykill will be allocated to identifiable assets and liabilities acquired. Purchase price allocation has not been finalised and therefore the estimation of the fair value of identifiable intangible assets has not been concluded. The goodwill that has been recognised is a preliminary estimate. Refer to note 3 for further information on the merger.

Following the merger, the Financial Supervisory Authority of the Central Bank ("FME") has designated the Group as a financial conglomerate as defined in Article no. 3 of Act no. 61/2017 on Additional Supervision of Financial Conglomerates. As a result of this designation, the Group's capital adequacy is now calculated as the solvency ratio of a financial conglomerate. Solvency measures the Group's ability to take on setbacks, thus indicating its financial strength.

**Acquisition of Netgíró hf. and Aur app ehf.**

During the first quarter of 2021 the Group concluded the acquisitions of Netgíró hf. ("Netgíró") and Aur app ehf. ("Aur"). Netgíró is a provider of "buy now pay later" services and Aur is a leading financial technology services company. Both companies have an extensive client base and the acquisitions are in line with Kvika's policy of utilising technological solutions to modernize financial services. Refer to note 3 for further information on the acquisitions.

**Operations during the first half of 2021**

Profit for the period amounted to ISK 5,053 million (6m 2020: ISK 924 million), corresponding to an annualised 36.4% return on weighted tangible equity, based on the tangible equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. The Covid-19 pandemic continues to have an effect, especially with regards to operational complexity. However, for the period, it has not had a large impact on the Group's operations and income generating segments. The Group's net operating income during the period was ISK 9,566 million (6m 2020: ISK 4,147 million). Net interest income amounted to ISK 1,775 million (6m 2020: ISK 868 million). Net fee income amounted to ISK 3,514 million (6m 2020: ISK 3,014 million). Net premiums and claims amounted to ISK 1,529 million (not part of the Group's operations in 2020). Other operating income amounted to ISK 2,745 million (6m 2020: ISK 266 million). Administrative expenses during the period amounted to ISK 5,003 million (6m 2020: ISK 2,671 million). The figures in the consolidated income statement for the period do not include the operations of TM, Lykill or Aur for the first quarter as the business combinations took place at end of March. Furthermore, they do not include the operations of Netgíró for January as the business combination took place at end of January.

According to the Consolidated Statement of Financial Position, equity at the end of the period amounted to ISK 74,274 million (31.12.2020: ISK 19,208 million) and total assets amounted to ISK 244,517 million (31.12.2020: ISK 123,196 million).

The Group's solvency ratio at 30.06.2021 was 1.48, with a regulatory minimum requirement of 1.0. There is no comparative figure as this is the first year that the Group calculates a solvency ratio.

**Risk management**

The objective of risk management is to promote a good and efficient culture of risk awareness within the Group and to increase the understanding of employees and management on the Group's risk taking, in addition to an assessment process related to risk and capital position. An emphasis is placed on being up to speed on the latest developments and adoption of rules related to risk management, such as regarding capital- and liquidity management. The Group is faced with various kinds of risk that relate to its operations as a financial institution and arise from its day-to-day operations. An active risk management entails analysing risk, measuring it and taking actions to limit it, as well as monitoring risk factors. The Group’s risk management, and its main operations, are described in the notes accompanying the Condensed Interim Consolidated Financial Statements. Refer to notes 42-56 on analysis of exposure to various types of risk.

# Endorsement and Statement
## by the Board of Directors and the CEO

**Statement by the Board of Directors and the CEO**

To the best of our knowledge the Condensed Interim Consolidated Financial Statements of Kvika banki hf. for the period 1 January to 30 June 2021 comply with IAS 34 Interim Financial Reporting as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and give a true and fair view of the Group's assets, liabilities and financial position as at 30 June 2021 and the financial performance of the Group and changes of cash flows for the period 1 January to 30 June 2021.

Further, in our opinion the Condensed Interim Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO of the Bank have today discussed the Condensed Interim Consolidated Financial Statements for the period 1 January to 30 June 2021, and confirm them by the means of their signatures.

Reykjavík, 26 August 2021.

**Board of Directors**

Sigurður Hannesson
Chairman

Guðmundur Þórðarson
Deputy Chairman

Helga Kristín Auðunsdóttir

Guðjón Reynisson

**Chief Executive Officer**

Marinó Örn Tryggvason

The condensed interim consolidated financial statements of Kvika banki hf. for the period ended 30 June 2021 are electronically certificated by the Board of Directors and the CEO.

# Review Report on the Condensed Interim Consolidated Financial Statements

**To the Board of Directors and Shareholders of Kvika banki hf.**

We have reviewed the accompanying Condensed Consolidated Interim Statement of Financial Position of Kvika banki hf. and its subsidiaries (the "Group") as of 30 June 2021 and the related Condensed Consolidated Interim Income Statement, Condensed Consolidated Interim Statement of Comprehensive Income, Condensed Consolidated Interim Statement of changes in equity and Condensed Consolidated Interim Statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's and the Board of directors Responsibility for the Condensed Consolidated Financial Statements**

The board of directors and management is responsible for the preparation and fair presentation of this Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act.

**Auditor's Responsibility**

Our responsibility is to express a conclusion on this Condensed Consolidated Interim Financial Statements based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements, ISRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of Condensed Consolidated Interim Financial Statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Consolidated Interim Financial Statements does not give a true and fair view of the financial position of the Group as at 30 June 2021, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act.

**Confirmation of Endorsement and Statement by the Board of Directors and the CEO**

Pursuant to the requirements of Paragraph 2 Article 104 of the Icelandic Act on Financial Statements No. 3/2006, we confirm to the best of our knowledge that the accompanying Endorsement and Statement by the Board of Directors and the CEO includes all information required by the Icelandic Act on Financial Statements that is not disclosed elsewhere in the Condensed Consolidated Interim Financial Statements

Kópavogur, 26 August 2021.

**Deloitte ehf.**

Pálína Árnadóttir
State Authorized Public Accountant

The condensed interim consolidated financial statements of Kvika banki hf. for the period ended 30 June 2021 are electronically certificated by the auditors.

Kvika banki hf. Amounts are in ISK thousands

# Condensed Interim Consolidated Income Statement
## For the period 1 January 2021 to 30 June 2021

| | Notes | 6m 2021 | 6m 2020 |
|---|---|---|---|
| Interest income | | 2,955,982 | 2,043,273 |
| Interest expense | | (1,180,866) | (1,175,522) |
| **Net interest income** | 4 | 1,775,116 | 867,751 |
| Fee and commission income | | 3,726,648 | 3,103,838 |
| Fee and commission expense | | (213,106) | (90,194) |
| **Net fee and commission income** | 5 | 3,513,541 | 3,013,644 |
| Earned premiums, net of reinsurers' share | | 3,899,066 | 0 |
| Claims incurred, net of reinsurers' share | | (2,369,877) | 0 |
| **Net premiums and claims** | 6 | 1,529,189 | 0 |
| Net financial income | 7 | 2,558,101 | 221,963 |
| Share in loss of associates, net of income tax | 23 | (27,566) | (11,308) |
| Other operating income | | 217,456 | 55,276 |
| **Other operating income** | | 2,747,991 | 265,931 |
| **Net operating income** | | 9,565,837 | 4,147,327 |
| Administrative expenses | 9 | (5,003,427) | (2,670,663) |
| Net impairment | 11 | 103,827 | (208,790) |
| Revaluation of contingent consideration | | (40,419) | (251,520) |
| **Profit before taxes** | | 4,625,818 | 1,016,354 |
| Income tax | 12 | 486,524 | (37,359) |
| Special tax on financial activity | 13 | 0 | (24,588) |
| Special tax on financial institutions | 14 | (59,462) | (30,383) |
| **Profit for the period** | | 5,052,879 | 924,025 |

| | Notes | 6m 2021 | 6m 2020 |
|---|---|---|---|
| Attributable to the shareholders of Kvika banki hf. | | 5,111,892 | 942,569 |
| Attributable to non-controlling interest | 22 | (59,013) | (18,545) |
| **Profit for the period** | | 5,052,879 | 924,025 |
| **Earnings per share** | 15 | | |
| Basic earnings per share (ISK per share) | | 1.48 | 0.47 |
| Diluted earnings per share (ISK per share) | | 1.40 | 0.44 |

*The notes on pages 11 to 48 are an integral part of these Condensed Interim Consolidated Financial Statements.*

Kvika banki hf. Amounts are in ISK thousands

# Condensed Interim Consolidated Statement of Comprehensive Income

## For the period 1 January 2021 to 30 June 2021

| | Notes | 6m 2021 | 6m 2020 |
|---|---|---|---|
| **Profit for the period** | | 5,052,879 | 924,025 |
| Changes in fair value of financial assets through OCI, net of tax | | (92,868) | 0 |
| Realized net gain transferred to the Income Statement, net of tax | | (1,597) | 0 |
| **Changes to reserve for financial assets at fair value through OCI** | | (94,465) | 0 |
| Exchange difference on translation of foreign subsidiaries | | (4,961) | 24,265 |
| **Other Comphrehensive income that is or may be reclassified subsequently to profit and loss** | | (99,426) | 24,265 |
| **Total comprehensive income for the period** | | 4,953,453 | 948,290 |

| | Notes | 6m 2021 | 6m 2020 |
|---|---|---|---|
| Attributable to the shareholders of Kvika banki hf. | | 5,012,466 | 966,834 |
| Attributable to non-controlling interest | | (59,013) | (18,545) |
| **Total comprehensive income for the period** | | 4,953,453 | 948,290 |

*The notes on pages 11 to 48 are an integral part of these Condensed Interim Consolidated Financial Statements.*

Kvika banki hf. Amounts are in ISK thousands

# Condensed Interim Consolidated Statement of Financial Position

## As at 30 June 2021

| Assets | Notes | 30.6.2021 | 31.12.2020 |
|---|---|---|---|
| Cash and balances with Central Bank | 16 | 18,503,021 | 28,945,030 |
| Fixed income securities | 17 | 45,381,555 | 28,785,033 |
| Shares and other variable income securities | 18 | 20,997,884 | 5,072,830 |
| Securities used for hedging | 19 | 27,071,266 | 19,620,240 |
| Loans to customers | 20 | 67,840,699 | 29,322,972 |
| Derivatives | 21 | 2,162,027 | 389,671 |
| Investment in associates | 23 | 0 | 42,240 |
| Investment properties | 24 | 1,016,905 | 1,016,905 |
| Intangible assets | 25 | 31,961,662 | 3,562,621 |
| Operating lease assets | 26 | 1,679,372 | 0 |
| Property and equipment | | 609,688 | 162,373 |
| Deferred tax assets | | 2,937,127 | 835,816 |
| Reinsurance assets | 29 | 1,186,823 | 0 |
| Other assets | 27 | 23,168,657 | 5,440,092 |
| **Total assets** | | 244,516,687 | 123,195,821 |

| Liabilities | Notes | 30.6.2021 | 31.12.2020 |
|---|---|---|---|
| Deposits | 28 | 66,551,833 | 59,924,683 |
| Technical provision | 29 | 25,582,287 | 0 |
| Borrowings | 30 | 23,309,916 | 26,424,340 |
| Issued bills | 31 | 2,349,922 | 2,003,608 |
| Issued bonds | 32 | 25,265,542 | 5,568,085 |
| Subordinated liabilities | 33 | 4,503,723 | 2,077,225 |
| Short positions held for trading | 34 | 341,308 | 1,520,547 |
| Short positions used for hedging | 35 | 0 | 731,987 |
| Derivatives | 21 | 2,747,758 | 1,750,346 |
| Current tax liabilities | | 202,262 | 341 |
| Deferred tax liabilities | | 990,633 | 236,186 |
| Other liabilities | 36 | 18,397,312 | 3,750,472 |
| **Total liabilities** | | 170,242,497 | 103,987,820 |

| Equity | Notes | 30.6.2021 | 31.12.2020 |
|---|---|---|---|
| Share capital | 37 | 4,743,978 | 2,141,002 |
| Share premium | | 51,867,420 | 4,290,521 |
| Other reserves | | 6,150,944 | 5,014,902 |
| Retained earnings | | 11,549,584 | 7,740,546 |
| **Total equity attributable to the shareholders of Kvika banki hf.** | | 74,311,926 | 19,186,971 |
| Non-controlling interest | | (37,736) | 21,030 |
| **Total equity** | | 74,274,190 | 19,208,001 |
| **Total liabilities and equity** | | 244,516,687 | 123,195,821 |

*The notes on pages 11 to 48 are an integral part of these Condensed Interim Consolidated Financial Statements.*

Amounts are in ISK thousands

# Condensed Interim Consolidated Statement of Changes in Equity
## For the period 1 January 2021 to 30 June 2021

| | | | | Other reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1 January 2021 to 30 June 2021** | **Notes** | **Share capital** | **Share premium** | **Option reserve** | **Warrants reserve** | **Deficit reduction reserve** | **Fair value reserve** | **Trans-lation reserve** | **Restricted retained earnings** | **Retained earnings** | **Total share-holders' equity** | **Non-controlling interest** | **Total equity** |
| Equity as at 1 January 2021 | | 2,141,002 | 4,290,521 | 0 | 149,462 | 3,103,697 | 27,293 | 54,520 | 1,679,930 | 7,740,546 | 19,186,971 | 21,030 | 19,208,001 |
| Profit for the period | | | | | | | | | | 5,111,892 | 5,111,892 | (59,013) | 5,052,879 |
| Changes in fair value through OCI | | | | | | | (118,081) | | | | (118,081) | | (118,081) |
| Realized net gain transferred to the Income Statement | | | | | | | (1,996) | | | | (1,996) | | (1,996) |
| Translation of foreign operations | | | | | | | | | | | | | |
| Exchange difference on translation of foreign subsidiaries | | | | | | | | (4,961) | | | (4,961) | 247 | (4,713) |
| Total comprehensive income for the period | | 0 | 0 | 0 | 0 | 0 | (120,078) | (4,961) | 0 | 5,111,892 | 4,986,854 | (58,766) | 4,928,088 |
| Restricted retained earnings | | | | | | | | | 1,302,854 | (1,302,854) | 0 | | 0 |
| Transactions with owners of the Bank | | | | | | | | | | | | | |
| Capital increase | | 2,609,376 | 47,678,165 | | | | | | | | 50,287,541 | 0 | 50,287,541 |
| Own shares aquired through business combination | | (6,400) | (143,040) | | | | | | | | (149,440) | | (149,440) |
| Warrants exercised | 38 | | 41,774 | | (41,774) | | | | | | 0 | | 0 |
| **Equity as at 30 June 2021** | | 4,743,978 | 51,867,420 | 0 | 107,688 | 3,103,697 | (92,785) | 49,560 | 2,982,784 | 11,549,584 | 74,311,926 | (37,736) | 74,274,190 |

*The notes on pages 11 to 48 are an integral part of these Condensed Interim Consolidated Financial Statements*

Amounts are in ISK thousands

# Condensed Interim Consolidated Statement of Changes in Equity

## For the period 1 January 2020 to 30 June 2020

| | | | | Other reserves | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1 January 2020 to 30 June 2020** | **Notes** | **Share capital** | **Share premium** | **Option reserve** | **Warrants reserve** | **Deficit reduction reserve** | **Fair value reserve** | **Trans-lation reserve** | **Restricted retained earnings** | **Retained earnings** | **Total share-holders' equity** | **Non-controlling interest** | **Total equity** |
| Equity as at 1 January 2020 | | 1,945,366 | 3,115,992 | 7,687 | 206,501 | 3,103,697 | 0 | 5,586 | 778,191 | 6,292,189 | 15,455,209 | 59,974 | 15,515,183 |
| Profit for the period | | | | | | | | | | 942,569 | 942,569 | (18,545) | 924,025 |
| Translation of foreign operations | | | | | | | | | | | | | |
| Exchange difference on translation of foreign subsidiaries | | | | | | | | 24,265 | | | 24,265 | | 24,265 |
| Total comprehensive income for the period | | 0 | 0 | 0 | 0 | 0 | 0 | 24,265 | 0 | 942,569 | 966,834 | (18,545) | 948,290 |
| Restricted retained earnings | | | | | | | | | 708,977 | (708,977) | 0 | | 0 |
| Transactions with owners of the Bank | | | | | | | | | | | | | |
| Capital increase | | 25,683 | 141,121 | | | | | | | | 166,805 | 35,744 | 202,549 |
| Stock options | | | | 1,691 | | | | | | | 1,691 | | 1,691 |
| Warrants exercised | | | 7,851 | | (7,851) | | | | | | 0 | | 0 |
| **Equity as at 30 June 2020** | | 1,971,049 | 3,264,964 | 9,378 | 198,650 | 3,103,697 | 0 | 29,851 | 1,487,169 | 6,525,781 | 16,590,539 | 77,174 | 16,667,713 |

*The notes on pages 11 to 48 are an integral part of these Condensed Interim Consolidated Financial Statements*

Kvika banki hf. Amounts are in ISK thousands

# Condensed Interim Consolidated Statement of Cash Flows

## For the period 1 January 2021 to 30 June 2021

| Cash flows from operating activities | Notes | 6m 2021 | 6m 2020 |
|---|---|---|---|
| Profit for the period | | 5,052,879 | 924,025 |
| Adjustments for: | | | |
| Indexation and exchange rate difference | | 358,420 | (1,373,845) |
| Share in (profit) loss of associates, net of income tax | 23 | 27,566 | 11,308 |
| Depreciation and amortisation | | 476,070 | 141,815 |
| Net interest income | | (1,775,116) | (867,751) |
| Net impairment | | (103,827) | 208,790 |
| Income tax | | (486,524) | 37,359 |
| Other adjustments | | (4,393) | 61,700 |
| | | 3,545,076 | (856,600) |
| Changes in: | | | |
| Fixed income securities | | (1,500,945) | (17,125,815) |
| Shares and other variable income securities | | (3,246,439) | (349,291) |
| Securities used for hedging | | (7,451,026) | 13,039,909 |
| Loans to customers | | 1,899,407 | (45,000) |
| Derivatives - assets | | (191,250) | 631,099 |
| Operating lease assets | | 104,653 | |
| Other assets | | (7,367,542) | (3,873,079) |
| Deposits | | 6,443,648 | 9,670,391 |
| Technical provision | | (332,399) | 0 |
| Short positions | | (1,911,226) | 105,704 |
| Derivatives - liabilities | | 954,789 | (656,057) |
| Other liabilities | | 11,230,810 | 3,132,845 |
| | | (1,367,520) | 4,530,706 |
| Interest received | | 2,697,798 | 1,856,701 |
| Interest paid | | (897,728) | (929,674) |
| **Net cash from operating activities** | | 3,977,626 | 4,601,134 |
| **Cash flows from investing activities** | | | |
| Acquisition of intangible assets | 25 | (239,822) | (113,048) |
| Acquisition of property and equipment | | (88,046) | (55,152) |
| Proceeds from the sale of property and equipment | | 0 | 21,647 |
| Dividend from assoiciates | | 3,750 | 3,750 |
| Acquisition of subsidiary, net of cash | | (653,239) | 0 |
| Net sale (investment) in associates | | 0 | 364,426 |
| Lease receivable payments | | 17,148 | 13,910 |
| **Net cash (to) from investing activities** | | (960,210) | 235,533 |
| **Cash flows from financing activities** | | | |
| Borrowings | | (15,409,200) | (4,064,889) |
| Issued bills | | (2,938,000) | (1,961,887) |
| Increase in share capital | | 99,442 | 166,805 |
| Increase in share premium | | 784,172 | 0 |
| Decrease in warrants | | (41,774) | 0 |
| Lease payments | | (163,103) | (102,190) |
| **Net cash to financing activities** | | (17,668,463) | (5,962,162) |
| Net increase in cash and balances with Central Bank | | (14,651,048) | (1,125,495) |
| Cash and balances with Central Bank at the beginning of the year | | 28,945,030 | 26,818,231 |
| Change in cash and cash equivalents due to acquisition of subsidiary | | 4,586,420 | 0 |
| Effects of exchange rate fluctuations on cash and balances with Central Bank | | (377,380) | 1,228,094 |
| **Cash and balances with Central Bank at the end of the period** | 16 | 18,503,021 | 26,920,830 |

*The notes on pages 11 to 48 are an integral part of these Condensed Interim Consolidated Financial Statements.*

# Notes to the Condensed Interim Consolidated Financial Statements

# Notes to the Condensed Interim Consolidated Financial Statements

## General information

**1. Reporting entity**

Kvika banki hf. ("Kvika" or the "Bank") is a limited liability company incorporated and domiciled in Iceland, with its registered office at Katrínartún 2, Reykjavík. The Bank operates as a bank based on Act No. 161/2002, on Financial Undertakings, and is supervised by the Financial Supervisory Authority of the Central Bank ("FME"). At end of March 2021, a tripartite merger with TM hf. and Lykill fjármögnun hf. was concluded and as at end of March 2021, the Group's operations include insurance services through the subsidiary TM tryggingar hf.

The Condensed Interim Consolidated Financial Statements for the period ended 30 June 2021 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). The Group operates five business segments, Asset Management, Corporate Finance, Banking, Insurance Services and Capital Markets. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services as well as selected banking services.

The Condensed Interim Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 26 August 2021.

**2. Basis of preparation**

a. Statement of compliance

The Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting, as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act.

The Condensed Interim Consolidated Financial Statements do not include all of the information required for full Consolidated Financial Statements, and should be read in conjunction with the Bank's Consolidated Financial Statements for the financial year ending 31 December 2020, which are available at www.kvika.is. The merger with TM hf. had a considerable effect on the Group's operations and the Condensed Interim Consolidated Financial Statements, which now include insurance services and appropriate notes. More information on insurance services can be found in the consolidated financial statements of TM hf. which are available at www.tm.is

b. Basis of measurement

The Condensed Interim Consolidated Financial Statements have been prepared using the historical cost basis except for the following:

- fixed income securities are measured at fair value;
- shares and other variable income securities are measured at fair value;
- securities used for hedging are measured at fair value;
- certain loans to customers which are measured at fair value;
- derivatives are measured at fair value;
- investment properties are measured at fair value;
- certain receivables are measured at fair value;
- contingent consideration is measured at fair value;
- short positions are measured at fair value; and
- technical provision is measured in accordance with IFRS 4.

c. Functional and presentation currency

The Condensed Interim Consolidated Financial Statements are prepared in Icelandic Krona (ISK), which is the Bank's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise stated.

The Group's assets and liabilities which are denominated in other currency than ISK are translated to ISK using the exchange rate as at the end of day 30 June 2021.

d. Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue its operations.

e. Estimates and judgements

The preparation of interim financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are based on historical result and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period and future periods if the revision affects both current and future periods.

Information about areas of estimation uncertainty and critical judgements made by management in applying accounting policies that can have a significant effect on the amounts recognised in the Condensed Interim Consolidated Financial Statements, is provided in the Consolidated Financial Statements as at and for the year ended 31 December 2020.

f. Relevance and importance of notes to the reader

In order to enhance the informational value of the Condensed Interim Consolidated Financial Statements, the notes are evaluated based on relevance and importance for the reader. This can result in information, that has been evaluated as neither important or relevant for the reader, not being presented in the notes.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**3. Business combinations**

a. Merger of Kvika banki, TM hf. and Lykill fjármögnun hf.

In March 2021, the tripartite merger of Kvika banki hf. ("Kvika"), TM hf. ("TM") and Lykill Fjármögnun hf. ("Lykill") was concluded. In the merger TM and Lykill were dissolved without settlement of debts, the three companies were combined and are TM and Lykill thereby a part of the Bank as at 30 March 2021 and their subsidiaries are part of the Group's Condensed Interim Consolidated Financial Statements 31 March 2021. The activities and operations of TM and Lykill have been integrated with those of the Bank and the merged company operates under the name Kvika banki hf. In 2021, the Bank incurred transaction costs and costs related to the merger, refer to note 9 for more information on operating expenses.

The transaction is a good strategic fit and allows for loan diversification for the Group. It is anticipated that cost synergies will result in considerably lower funding costs and reduced operating expenses for the activities of Lykill and TM. For more information, reference is made to stock exhange releases and investor presentations that Kvika has published.

The consideration transferred, to the previous owners of TM, was in the form of shares in the merged company in exchange for their shares in TM. TM's shareholders received, in return for their shares in TM, 2,509,934,076 shares in Kvika. The payment was made by issuance of new share capital at end of March 2021. The fair value of the Kvika shares transferred was based on the listed share price of the Bank at 30 March 2021, being 19.7 per share. Kvika is the acquirer in the business combination as, among other things, the majority of the Group's senior management and board of directors consists of management and directors from Kvika.

In accordance with IFRS 3, Business Combinations, the purchase price of TM and Lykill will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation ("PPA") has not been finalised as the merger has recently taken place, and therefore the estimation of the fair value of identifiable intangible assets has not been concluded. The preliminary goodwill amounts to ISK 25,897 million. The following table summarises the consideration paid for TM and Lykill and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 30 March 2021.

| **Identifiable assets acquired and liabilities assumed** | **30.3.2021** |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 4,476,923 |
| Fixed income securities | 15,649,175 |
| Shares and other variable income securities | 12,899,937 |
| Loans to customers | 39,384,339 |
| Operating lease assets | 1,784,025 |
| Investment where investment risk is borne by life-insurance policyholders | 93,883 |
| Derivatives | 1,581,106 |
| Goodwill | 99,916 |
| Intangible assets | 750,648 |
| Property and equipment | 793,195 |
| Deferred tax assets | 1,088,721 |
| Other assets | 11,706,807 |
| Total | 90,308,676 |
| | |
| **Liabilities** | |
| Borrowings | 6,457,110 |
| Issued bills | 3,253,058 |
| Issued bonds | 24,241,920 |
| Subordinated liabilities | 2,358,610 |
| Technical provision for life-insurance policies where investment risk is borne by policyholders | 93,883 |
| Derivatives | 42,623 |
| Deferred tax liabilities | 694,715 |
| Technical provision | 27,169,612 |
| Other liabilities | 2,448,226 |
| Total | 66,759,755 |
| | |
| Total identifiable net assets | 23,548,921 |
| Acquisition price | 49,445,701 |
| Preliminary goodwill on acquisition | 25,896,781 |

The figures in the consolidated income statement for the period do not include the operations of TM or Lykill during January through March as the merger took place at end of March. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 12,747 million and the consolidated profit before tax for the period would have been ISK 6,132 million.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**3. Business combinations (cont.)**

b. Acquisition of Netgíró hf.

In January 2021, the Group acquired 80% of the shares in Netgíró hf. ("Netgíró") and is Netgíró a part of the Group and Consolidated Financial Statements from the end of January 2021. The Group is now the sole owner of Netgíró as before the acquisition, it owned 20% of the shares in the company. The 20% share which the Group previously owned was at end of 2020 held at a fair value in line with the purchase price for the remaining share. The consideration transferred, to the previous owners of Netgíró, was in the form of a cash payment of ISK 325 million. In 2021, the Group incurred transaction costs and costs related to the acquisition, refer to note 9 for more information on operating expenses.

Netgíró is a provider of "buy now pay later" services. The transaction is a good strategic fit and is in line with Kvika's policy of utilising technological solutions to modernize financial services. The acquisition also allows for loan diversification for the Group, and synergies in terms of improved funding costs.

In accordance with IFRS 3, Business Combinations, the purchase price of Netgíró will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation has not been finalised and the preliminary goodwill amounts to ISK 710 million. The following table summarises the consideration paid for Netgíró and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 31 January 2021.

| **Identifiable assets acquired and liabilities assumed** | **31.1.2021** |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 35,843 |
| Loans to customers | 2,655,867 |
| Property and equipment | 4,335 |
| Intangible assets | 409,372 |
| Deferred tax assets | 112,300 |
| Other assets | 285,884 |
| Total | 3,503,602 |
| **Liabilities** | |
| Borrowings | 3,320,809 |
| Other liabilities | 487,284 |
| Total | 3,808,094 |
| Total identifiable net assets | (304,492) |
| Acquisition price | 406,000 |
| Preliminary goodwill on acquisition | 710,492 |

As a part of the acquisition, the Group provided Netgíró with funding to repurchase cash flow from loans which it had sold. The presentation in the table above reflects this.

The figures in the consolidated income statement for the period do not include the operations of Netgíró in January as the merger took place at end of January. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 9,851 million and the consolidated profit before tax for the period would have been ISK 4,619 million.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**3. Business combinations (cont.)**

c. Acquisition of Aur app ehf.

In March 2021, the Group acquired Aur app ehf. ("Aur") and is Aur a part of the Group and Consolidated Financial Statements from 31 March 2021. The consideration transferred, to the previous owners of Aur, was in the form of a cash payment of ISK 453 million. In 2021, the Group incurred transaction costs and costs related to the acquisition, refer to note 9 for more information on operating expenses.

Aur is a leading financial technology services company with an extensive client base. The acquisition is in line with Kvika's policy of utilising technological solutions to modernize financial services.

In accordance with IFRS 3, Business Combinations, the purchase price of Aur will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation has not been finalised and the preliminary goodwill amounts to ISK 478 million. The following table summarises the consideration paid for Aur and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 31 March 2021.

| **Identifiable assets acquired and liabilities assumed** | **31.3.2021** |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 75,302 |
| Intangible assets | 38,132 |
| Other assets | 3,925 |
| Total | 117,359 |
| | |
| **Liabilities** | |
| Other liabilities | 142,538 |
| Total | 142,538 |
| | |
| Total identifiable net assets | (25,179) |
| Acquisition price | 453,239 |
| Preliminary goodwill on acquisition | 478,418 |

The figures in the consolidated income statement for the period do not include the operations of Aur for January through March as the merger took place at end of March. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 9,812 million and the consolidated profit before tax for the period would have been ISK 4,625 million.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## Income statement

**4. Net interest income**

Interest income is specified as follows:

| | 6m 2021 | 6m 2020 |
|---|---|---|
| Cash and balances with Central Bank | 55,000 | 306,662 |
| Derivatives | 344,320 | 405,883 |
| Loans to customers | 2,014,615 | 1,262,580 |
| Fixed income securities (FVOCI) | 221,791 | 0 |
| Other interest income | 320,257 | 68,148 |
| **Total** | 2,955,982 | 2,043,273 |

Interest expense is specified as follows:

| | 6m 2021 | 6m 2020 |
|---|---|---|
| Deposits | 323,071 | 486,549 |
| Borrowings | 67,020 | 424,800 |
| Issued bills | 25,787 | 55,365 |
| Issued bonds | 516,017 | 82,140 |
| Subordinated liabilities | 196,444 | 94,972 |
| Derivatives | 1,067 | 4,967 |
| Other interest expense* | 51,461 | 26,729 |
| **Total** | 1,180,866 | 1,175,522 |

* Thereof are lease liabilities' interest expense amounting to ISK 20 million (6m 2020: ISK 11 million).

During the period in 2021, ISK 112 million were expensed in one-off costs related to refinancing debt which was acquired in relation to the merger with Lykill.

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 2,250 million (6m 2020: ISK 1,546 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 1,179 million (6m 2020: ISK 1,170 million).

**5. Net fee and commission income**

Fee income and expenses are presented on a net fee basis, as presented in internal reporting to management for decision making purposes, and broken down by business segments. The business segments are representative of the nature and types of activity from which the Group generates fee income from. A description of each business segment is provided in note 59.

| **Net fee and commission income by business segment** | 6m 2021 | 6m 2020 |
|---|---|---|
| Corporate Banking | 393,845 | 269,222 |
| Corporate Finance | 320,743 | 166,770 |
| Capital Markets | 422,038 | 491,800 |
| Proprietary trading and Treasury | 57,746 | 84,473 |
| Asset Management | 2,278,515 | 2,010,329 |
| TM tryggingar | (30,689) | 0 |
| Support functions and eliminations | 71,344 | (8,950) |
| **Total** | 3,513,541 | 3,013,644 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## 6. Net premiums and claims

Net premiums and claims is specified as follows:

| Earned premiums, net of reinsurers' share | 6m 2021 |
|---|---|
| Premiums written | 2,901,839 |
| Premiums written, reinsurers' share | (123,876) |
| Change in provision for unearned premiums | 1,258,350 |
| Change in provision for unearned premiums, reinsurers' share | (137,247) |
| **Total** | 3,899,066 |

| Claims incurred, net of reinsurers' share | 6m 2021 |
|---|---|
| Claims paid | (2,755,502) |
| Claims paid, reinsurers' share | 469,456 |
| Change in provision for claims due to insurance operations | 288,825 |
| Change in risk margin | (1,802) |
| Change in provision for claims, reinsurers' share | (370,854) |
| **Total** | (2,369,877) |
| **Net premiums and claims** | 1,529,189 |
| Combined ratio | 80.8% |

Insurance operations became part of the Group's operations following the merger with TM hf. at end of the first quarter of 2021. As a result, the operating figures only relate to period 01.04.2021 to 30.06.2021. Furthermore, there are no comparative figures as insurance operations were not part of the consolidated financial statements for the year 2020.

## 7. Net financial income

Net financial income is specified as follows:

| | 6m 2021 | 6m 2020 |
|---|---|---|
| Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss | | |
| Fixed income securities | 183,460 | 323,864 |
| Shares and other variable income securities | 2,211,692 | (46,729) |
| Derivatives | 168,001 | 743 |
| Loans to customers | (21,522) | (28,710) |
| Unwinding, interest and exchange rate change of technical provision | 40,520 | 0 |
| Foreign currency exchange difference | (24,050) | (27,205) |
| **Total** | 2,558,101 | 221,963 |

## 8. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

| | 6m 2021 | 6m 2020 |
|---|---|---|
| (Loss) gain on financial instruments at fair value through profit and loss | (244,078) | 612,253 |
| Gain (loss) on other financial instruments | 220,028 | (639,458) |
| **Total** | (24,050) | (27,205) |

## 9. Administrative expenses

| Administrative expenses are specified as follows: | 6m 2021 | 6m 2020 |
|---|---|---|
| Salaries and related expenses | 2,956,126 | 1,771,594 |
| Other operating expenses | 1,554,940 | 723,133 |
| Depositors' and Investors' Guarantee Fund contributions | 16,291 | 34,121 |
| Depreciation and amortisation | 327,785 | 51,314 |
| Depreciation of right of use asset | 148,285 | 90,501 |
| **Total** | 5,003,427 | 2,670,663 |

During the period in 2021, ISK 105 million in one-off and irregular operating expenses were incurred by the Group due to mergers and acquisitions. Of that amount, ISK 10 million are included among salaries and related expenses and ISK 95 million are included among other operating expenses in the table above.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## 10. Salaries and related expenses

| Salaries and related expenses are specified as follows: | 6m 2021 | 6m 2020 |
|---|---|---|
| Salaries | 2,161,482 | 1,403,394 |
| Performance based payments excluding share-based payments | 181,546 | 3,726 |
| Share-based payment expenses | 0 | 1,691 |
| Pension fund contributions | 259,998 | 181,075 |
| Tax on financial activity | 115,747 | 79,940 |
| Other salary related expenses | 237,353 | 101,769 |
| **Total** | 2,956,126 | 1,771,594 |
| Average number of full time employees during the period | 313 | 134 |
| Total number of full time employees at the end of the period | 322 | 145 |

The figures for 2020 do not include employees of TM hf. and its subsidiaries, Lykill fjármögnun hf. and TM tryggingar hf., nor for Netgíró hf. or Aur app ehf. At the beginning of 2021, these companies had 179 full time employees and Kvika and its subsidiaries had 160, or 339 in total.

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a tax based on salary payments, called tax on financial activity. The current tax rate is 5.50% (2020: 5.50%).

The amount of performance based payments that has been expensed is based on the results for the first half of 2021 and the guidelines on performance based payments set forth in the Group’s remuneration policy. The performance based payments have not been allocated to any employees or business segments and are subject to approval by the Board of Directors.

## 11. Net impairment

| | 6m 2021 | 6m 2020 |
|---|---|---|
| Net change in impairment of loans | (84,985) | 135,571 |
| Net change in impairment of other assets | (12,625) | 55,442 |
| Net change in impairment of loan commitments, guarantees and unused credit facilities | (6,216) | 17,777 |
| **Total** | (103,827) | 208,790 |

## 12. Income tax

The Bank and many of its subsidiaries will not pay income tax on its profit for 2021 due to the fact that Group has a tax loss carry forward that offsets the calculated income tax. Following business combinations during the first half of 2021, the tax loss carry forward has increased considerably and as at 30 June it amounts to ISK 26 billion for the Group. A substantial part of the tax loss carry forward is utilisable until end of year 2028. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised a part of the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position.

Income tax is recognised based on the tax rates and tax laws enacted during the current year, according to which the domestic corporate income tax rate was 20.0% (2020: 20.0%)

## 13. Special tax on financial activity

The special tax on financial activity is an additional income tax which becomes effective when the income tax base exceeds ISK 1,000 million. It is levied on the same entities as the tax on financial activity according to Act No. 90/2003. The tax rate is set at 6.0% (2020: 6.0%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

## 14. Special tax on financial institutions

According to Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including banks, must pay annually a tax based on the carrying amount of their liabilities as determined for tax purposes in excess of ISK 50 billion at year-end. The tax rate is set at 0.145% (2020: 0.145%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

## 15. Earnings per share

The calculation of basic earnings per share is based on earnings attributable to shareholders and a weighted average number of shares outstanding during the period. The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Bank has issued warrants and stock options that have a dilutive effect.

| | 6m 2021 | 6m 2020 |
|---|---|---|
| Net earnings attributable to equity holders of the Bank | 5,111,892 | 942,569 |
| Weighted average number of outstanding shares | 3,458,180 | 1,984,757 |
| Adjustments for warrants and stock options | 186,876 | 163,723 |
| **Total** | 3,645,056 | 2,148,480 |
| Basic earnings per share (ISK) | 1.48 | 0.47 |
| Diluted earnings per share (ISK) | 1.40 | 0.44 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## Statement of Financial Position

### 16. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Deposits with Central Bank | 7,733,727 | 21,379,857 |
| Cash on hand | 17,537 | 11,649 |
| Balances with banks | 7,312,133 | 3,405,876 |
| Foreign treasury bills | 1,964,725 | 1,739,281 |
| **Included in cash and cash equivalents** | 17,028,122 | 26,536,663 |
| Restricted balances with Central Bank - average maintenance level | 0 | 0 |
| Restricted balances with Central Bank - fixed reserve requirement | 1,332,460 | 952,636 |
| Receivables from Central Bank | 142,439 | 1,455,730 |
| **Total** | 18,503,021 | 28,945,030 |

The Bank holds mandatory reserve deposit accounts with the Central Bank of Iceland in compliance with the Central Bank's Rules on Minimum Reserve Requirements No. 585/2018. Under these rules the reserve requirement is divided into two parts: a fixed reserve requirement bearing no interest and an average maintenance level requirement bearing the same interest as that on deposit-taking institutions' current accounts with the Central Bank. The mandatory reserve deposit with the Central Bank and the receivables from the Central Bank are not available for the Group to use in its daily operations.

### 17. Fixed income securities

Fixed income securities are specified as follows:

| Mandatorily measured at fair value through profit or loss | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Listed government bonds and bonds with government guarantees | 7,004,974 | 2,890,226 |
| Listed bonds | 6,712,515 | 1,412,239 |
| Unlisted bonds | 6,629,995 | 1,535,801 |
| Measured at fair value through other comprehensive income | | |
| Listed government bonds and bonds with government guarantees | 25,034,072 | 18,962,079 |
| Listed treasury bills | 0 | 3,984,688 |
| **Total** | 45,381,555 | 28,785,033 |

### 18. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

| Mandatorily measured at fair value through profit or loss | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Listed shares | 4,020,454 | 892,423 |
| Unlisted shares | 7,557,839 | 2,338,138 |
| Unlisted unit shares in bond funds | 5,949,030 | 1,448,126 |
| Unlisted unit shares in other funds | 3,470,562 | 394,143 |
| **Total** | 20,997,884 | 5,072,830 |

### 19. Securities used for hedging

Securities used for hedging are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Listed government bonds and bonds with government guarantees | 7,048,239 | 7,115,854 |
| Listed bonds | 4,161,384 | 2,147,393 |
| Listed shares | 14,993,419 | 9,890,103 |
| Unlisted unit shares | 868,225 | 466,891 |
| **Total** | 27,071,266 | 19,620,240 |

### 20. Loans to customers

The breakdown of the loan portfolio by individuals and corporates is specified as follows:

| | **Individuals** | | **Corporates** | | **Total** | |
|---|---|---|---|---|---|---|
| **30.6.2021** | Gross carrying amount | Book value | Gross carrying amount | Book value | Gross carrying amount | Book value |
| Loans to customers at amortised cost | 27,805,977 | 27,354,338 | 39,243,055 | 38,288,911 | 67,049,032 | 65,643,249 |
| Loans to customers at fair value through profit or loss | 603,584 | 603,584 | 1,593,866 | 1,593,866 | 2,197,450 | 2,197,450 |
| **Total** | 28,409,561 | 27,957,922 | 40,836,921 | 39,882,777 | 69,246,481 | 67,840,699 |

| | **Individuals** | | **Corporates** | | **Total** | |
|---|---|---|---|---|---|---|
| **31.12.2020** | Gross carrying amount | Book value | Gross carrying amount | Book value | Gross carrying amount | Book value |
| Loans to customers at amortised cost | 5,015,213 | 4,992,943 | 22,100,559 | 21,586,179 | 27,115,772 | 26,579,121 |
| Loans to customers at fair value through profit or loss | 608,034 | 608,034 | 2,135,817 | 2,135,817 | 2,743,851 | 2,743,851 |
| **Total** | 5,623,247 | 5,600,976 | 24,236,376 | 23,721,996 | 29,859,623 | 29,322,972 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## 21. Derivatives

Derivatives are specified as follows:

| | Notional | | Carrying value | |
|---|---|---|---|---|
| **30.6.2021** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Interest rate derivatives | 10,974,727 | 9,877,965 | 1,600,001 | 0 |
| Currency forwards | 5,209,004 | 5,215,579 | 5,688 | 12,263 |
| Bond and equity total return swaps | 27,808,073 | 30,183,903 | 154,320 | 2,530,499 |
| Equity options | 445,343 | 3,860 | 402,017 | 204,996 |
| **Total** | 44,437,147 | 45,281,306 | 2,162,027 | 2,747,758 |

| | Notional | | Carrying value | |
|---|---|---|---|---|
| **31.12.2020** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Interest rate derivatives | 3,176,798 | 3,102,368 | 74,429 | 0 |
| Currency forwards | 2,698,140 | 2,740,401 | | 42,261 |
| Bond and equity total return swaps | 21,918,514 | 23,386,919 | 108,771 | 1,577,177 |
| Equity options | 130,343 | 3,860 | 206,470 | 130,909 |
| **Total** | 27,923,795 | 29,233,548 | 389,671 | 1,750,346 |

## 22. Group entities

The main subsidiaries held directly or indirectly by the Group are listed in the table below.

| **Entity** | **Nature of operations** | **Domicile** | **Share 30.6.2021** | **Share 31.12.2020** |
|---|---|---|---|---|
| Aur app ehf. | Financial technology services | Iceland | 100% | - |
| FÍ Fasteignafélag GP ehf. | Real estate fund management | Iceland | 100% | 100% |
| GAMMA Capital Management hf. | Fund management | Iceland | 100% | 100% |
| Kvika eignastýring hf. | Asset management | Iceland | 100% | 100% |
| M-Investments ehf. | Holding company | Iceland | 100% | 100% |
| Netgíró hf. | Consumer lending operations | Iceland | 100% | 20% |
| Rafklettur ehf. | Holding company | Iceland | 100% | 100% |
| TM líftryggingar hf. | Insurance services | Iceland | 100% | - |
| TM tryggingar hf. | Insurance services | Iceland | 100% | - |
| AC GP 3 ehf. | Fund management | Iceland | 80% | 80% |
| Kvika Securities ltd. | Business consultancy services | UK | 100% | 100% |

During the first quarter of 2021, the Group acquired a number of new subsidiaries. Refer to note 3 for more information on the acquisitions.

## 23. Investment in associates

a. Investment in associates is accounted for using the equity method and is specified as follows:

| **Entity** | **Nature of operations** | **Domicile** | **Share 30.6.2021** | **Share 31.12.2020** |
|---|---|---|---|---|
| Kjölfesta GP ehf. | Holding company | Iceland | - | 50% |
| Gláma fjárfestingar slhf. | Holding company | Iceland | 24% | 24% |

The Group does not consider its associates material, neither individually nor as a group. During the second quarter of 2021, the Group sold all its shareholding in Kjölfesta GP ehf.

b. Changes in investments in associates are specified as follows:

| | **30.6.2021** | **31.12.2020** |
|---|---|---|
| Balance at the beginning of the year | 42,240 | 776,490 |
| Dividend received | 0 | (7,500) |
| Disposal of shares in associates | (14,674) | (719,323) |
| Share in (loss) profit of associates, net of income tax | (27,566) | (7,427) |
| **Total** | 0 | 42,240 |

## 24. Investment properties

Investment properties are specified as follows:

| | **30.6.2021** | **31.12.2020** |
|---|---|---|
| Balance at the beginning of the year | 1,016,905 | 1,016,553 |
| Additions | 0 | 352 |
| **Total** | 1,016,905 | 1,016,905 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## 25. Intangible assets

Intangible assets are specified as follows:

| 30.6.2021 | Goodwill | Software | Other | Total |
|---|---|---|---|---|
| Balance as at 1 January 2021 | 2,943,881 | 418,830 | 199,910 | 3,562,621 |
| Additions during the period | 0 | 143,919 | 95,903 | 239,822 |
| Additions through business combinations | 27,228,005 | 1,053,782 | 97,887 | 28,379,674 |
| Amortisation | 0 | (99,987) | (120,469) | (220,456) |
| **Balance as at 30 June 2021** | 30,171,886 | 1,516,545 | 273,231 | 31,961,662 |
| Gross carrying amount | 30,171,886 | 1,705,373 | 480,458 | 32,357,717 |
| Accumulated amortisation and impairment losses | 0 | (188,828) | (207,227) | (396,056) |
| **Balance as at 30 June 2021** | 30,171,886 | 1,516,545 | 273,231 | 31,961,662 |

| 31.12.2020 | Goodwill | Software | Other | Total |
|---|---|---|---|---|
| Balance as at 1 January 2020 | 2,943,881 | 175,256 | 164,118 | 3,283,256 |
| Additions during the period | 0 | 279,867 | 74,186 | 354,053 |
| Amortisation | 0 | (36,293) | (38,395) | (74,688) |
| **Balance as at 31 December 2020** | 2,943,881 | 418,830 | 199,910 | 3,562,621 |
| Gross carrying amount | 2,943,881 | 507,672 | 286,668 | 3,738,221 |
| Accumulated amortisation and impairment losses | 0 | (88,842) | (86,759) | (175,600) |
| **Balance as at 31 December 2020** | 2,943,881 | 418,830 | 199,910 | 3,562,621 |

Acquisitions by the Group during the first quarter of 2021 as a part of business combinations resulted in the recognition of goodwill. Preliminary purchase price allocation ("PPA") was prepared as part of the Condensed Interim Consolidated Financial Statements for the period ended 30 June 2021. As the PPA has not been concluded, the goodwill that has been recognised is preliminary. Refer to note 3 for more information on the acquisitions.

## 26. Operating lease assets

Operating lease assets are specified as follows:

| | 30.6.2021 |
|---|---|
| Balance as at 1 January 2021 | 0 |
| Additions through business combinations | 1,784,025 |
| Additions | 67,761 |
| Disposals | (89,500) |
| Depreciation | (82,914) |
| **Balance as at 30 June 2021** | 1,679,372 |
| Gross carrying amount | 2,479,736 |
| Accumulated depreciation | (800,364) |
| **Balance as at 30 June 2021** | 1,679,372 |

There are no comparative figures as operating lease assets were part of business combinations during the period. Reference is made to note 3 for more information on business combinations.

## 27. Other assets

Other assets are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Unsettled transactions | 10,536,952 | 630,192 |
| Accounts receivable | 11,297,731 | 3,646,962 |
| Right of use asset and lease receivables | 629,591 | 478,995 |
| Receivables at fair value | 28,544 | 327,210 |
| Investment where investment risk is borne by life-insurance policyholders | 103,202 | 0 |
| Sundry assets | 572,637 | 356,733 |
| **Total** | 23,168,657 | 5,440,092 |

Right of use asset and lease receivables are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Right of use asset and lease receivables at the beginning of the year | 478,995 | 622,415 |
| Additions during the period | 0 | 11,152 |
| Additions through business combinations | 301,665 | 0 |
| Indexation | 14,364 | 18,023 |
| Depreciation and lease receivable installment | (165,433) | (172,596) |
| **Total** | 629,591 | 478,995 |

Right of use asset and lease receivables mostly consist of real estates for the Group's own use. The Group has entered into sublease contracts for parts of the real estates which it does not use for its operations.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## 28. Deposits

Deposits are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Demand deposits | 53,021,159 | 46,775,812 |
| Time deposits | 13,530,675 | 13,148,871 |
| **Total** | 66,551,833 | 59,924,683 |

## 29. Technical provision

The technical provision in the Condensed Interim Consolidated Financial Statements represents the Group's liability as a result of insurance contracts made and consists of the best estimate of the claims provision, the premium provision and the risk margin.

The core of the claims provisions is an actuarial estimate of payments of incurred claims until they will be settled less what has already been paid. According to Act on Insurance No. 100/2016 and related legislation, margins are added to the core of the claim’s provision. The margins are:

- Expected settlement expenses not allocated to specific claims. This cost is recognized among operating expenses when it is due.
- The effect of future inflation from the date of accounts to payment.
- The effect of discounting the future payments using a risk-free interest rate curve.

The premium provision is the part of the premiums already written that cover insurance protection against events happening after the date of the financial statements, taking into account expected cancellation of premiums. The premium provision is therefore the value of the insurance protection that the Group is obligated to fulfil after the date of the financial statements.

The risk margin represents the cost of capital that an insurance company would require to take on the obligations of the company. The risk margin will not be paid unless the Group or part of it will be sold.

The Group has used the same method to estimate claims provision since 2014. The method is in accordance with IFRS 4 and Act on Insurance No. 100/2016. The claims provision is the same as used in the Solvency calculations, but the estimates of the premium provision and risk margin are not.

Technical provision is specified as follows:

| | 30.6.2021 |
|---|---|
| Technical provision: | |
| Claims provision | 16,430,448 |
| Premium provision | 8,514,633 |
| Risk margin | 637,206 |
| Total | 25,582,287 |

The Group buys reinsurance primarily as excess of loss treaties to protect itself against extreme events, but certain lines are protected by quota share treaties.

| | |
|---|---|
| Reinsurer's share: | |
| Claims provision | 803,074 |
| Premium provision | 383,749 |
| Total | 1,186,823 |

| | |
|---|---|
| Own technical provision: | |
| Claims provision | 15,627,373 |
| Premium provision | 8,130,884 |
| Risk margin | 637,206 |
| Total | 24,395,464 |

The estimated claims provisions are reported less estimated salvage value of the assets that were damaged. The total salvage value at end of June 2021 is immaterial.
There are no comparative figures as the technical provision was a part of business combinations during the period. Reference is made to note 3 for more information on business combinations.

## 30. Borrowings

Borrowings are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Loans from credit institutions | 2,732,270 | 0 |
| Money market deposits | 20,261,541 | 26,424,340 |
| Other borrowings | 316,105 | 0 |
| **Total** | 23,309,916 | 26,424,340 |

Money market deposits typically have a principal of ISK 5-500 million and maturity between 1 day and 6 months and pay fixed interest rates.

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt issued and other borrowed funds.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**31. Issued bills**

Issued bills are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| KVB 21 0322 | 0 | 598,488 |
| LYKILL210915 | 1,533,000 | 0 |
| KVB 21 0621 | 0 | 595,587 |
| KVB 21 0921 | 816,922 | 809,534 |
| **Total** | 2,349,922 | 2,003,608 |

**32. Issued bonds**

Issued bonds are specified as follows:

| Currency, nominal value | First issued | Maturity | Maturity type | Terms of interest | 30.6.2021 | 31.12.2020 |
|---|---|---|---|---|---|---|
| **Unsecured bonds:** | | | | | | |
| KVB 20 01, ISK 1,500 million | 2020 | 2023 | At maturity | Floating, 1 month REIBOR + 0.85% | 4,604,167 | 1,763,538 |
| KVB 19 01, ISK 3,640 million | 2019 | 2024 | Amortizing | Floating, 1 month REIBOR + 1.50% | 3,502,941 | 3,474,842 |
| KVB 21 01, GBP 12 million | 2021 | 2023 | At maturity | Floating, LIBOR + 2.5% | 2,056,323 | 0 |
| KVB 21 02, ISK 2,180 million | 2021 | 2027 | Amortizing | CPI-indexed, fixed 1% | 2,194,374 | 0 |
| Lykill 23 11, ISK 3,010 million | 2020 | 2023 | At maturity | Floating, 1 month REIBOR + 1.10% | 3,010,393 | 0 |
| **Asset backed bonds:** | | | | | | |
| Lykill 16 01, ISK 10,870 million | 2016 | 2023 | Amortizing | Floating, 1 month REIBOR + 1.10% | 3,701,629 | 0 |
| Lykill 26 05, ISK 5,130 million | 2019 | 2026 | Amortizing | CPI-indexed, fixed 3.30% | 4,085,947 | 0 |
| Lykill 24 06, ISK 1,570 million | 2020 | 2024 | Amortizing | Fixed 2.8% | 1,195,164 | 0 |
| Lykill 23 09, ISK 1,000 million | 2019 | 2023 | Amortizing | Fixed 5.2% | 589,071 | 0 |
| **Total** | | | | | 24,940,008 | 5,238,381 |
| Unlisted senior unsecured bonds, total | | | | | 325,534 | 329,704 |
| **Total** | | | | | 25,265,542 | 5,568,085 |

Unlisted senior unsecured bonds are composed of KVB 18 03 and KVB 18 04 which were issued in 2018 and mature in 2021. For further information on the bonds, refer to the issue descriptions which are available on Nasdaq CSD Iceland's website.

**33. Subordinated liabilities**

a. Subordinated liabilities:

| Currency, nominal value | First issued | Maturity | Maturity type | Terms of interest | 30.6.2021 | 31.12.2020 |
|---|---|---|---|---|---|---|
| KVB 15 01, ISK 1,000 million | 2015 | 2025 | At maturity | CPI-Indexed, fixed 7.50% | 1,242,161 | 1,169,444 |
| KVB 18 02, ISK 800 million | 2018 | 2028 | At maturity | CPI-Indexed, fixed 7.50% | 896,585 | 907,781 |
| TM 15 1, ISK 2,000 million | 2015 | 2045 | At maturity | CPI-Indexed, fixed 5.25% | 2,364,977 | 0 |
| **Total** | | | | | 4,503,723 | 2,077,225 |

At the interest payment date in August 2020 for KVB 15 01, the annual interest rate increased from 5.50% p.a. to 7.50% p.a. The Group has the right to repay the subordinated bond on any subsequent interest payment dates until maturity. The FME has granted the Group authorisation to redeem KVB 15 01, and accordingly the Group will repay the bond on the interest payment date in August 2021.
At the interest payment date in the year 2023 for KVB 18 02, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.
At the interest payment date in May 2025 for TM 15 01, the annual interest rate increases from 5.25% p.a. to 6.25% p.a. At the interest payment date in May 2025 for TM 15 01, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.

Subordinated liabilities are financial liabilities in the form of subordinated capital which, in case of the Group's voluntary or compulsory winding-up, will not be repaid until after the claims of ordinary creditors have been met. In the calculation of the capital ratio, they are included within Tier 2 and are a part of the equity base. The amount eligible for Tier 2 capital treatment is amortised on a straight-line basis over the final 5 years to maturity or up to 20% a year. The Group may only retire subordinated liabilities with the permission of the FME.

b. Subordinated liabilities are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Balance at the beginning of the year | 2,077,225 | 1,999,530 |
| Additions through business combinations | 2,358,610 | 0 |
| Paid interest | (113,125) | (115,000) |
| Paid interests due to indexation | (14,763) | (9,922) |
| Accrued interests and indexation | 195,776 | 202,617 |
| **Total** | 4,503,723 | 2,077,225 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**34. Short positions held for trading**

Short positions held for trading are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Listed government bonds and bonds with government guarantees | 77,797 | 559,382 |
| Listed bonds | 246,300 | 961,165 |
| Listed shares | 17,211 | 0 |
| **Total** | 341,308 | 1,520,547 |

**35. Short positions used for hedging**

Short positions used for hedging are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Listed government bonds and bonds with government guarantees | 0 | 731,987 |
| **Total** | 0 | 731,987 |

**36. Other liabilities**

Other liabilities are specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Unsettled transactions | 11,919,973 | 1,217,659 |
| Expected credit loss allowance for loan commitments, guarantees and unused credit facilities | 21,057 | 31,371 |
| Accounts payable and accrued expenses | 2,461,397 | 324,385 |
| Special taxes on financial institutions and financial activities | 104,613 | 97,664 |
| Withholding taxes | 498,234 | 361,088 |
| Salaries and salary related expenses | 1,473,922 | 490,576 |
| Technical provision for life-insurance policies where investment risk is borne by policyholders | 103,202 | 0 |
| Lease liability | 702,366 | 477,691 |
| Contingent consideration | 426,357 | 386,001 |
| Reinsurance liabilities | 278,227 | 0 |
| Other liabilities | 407,965 | 364,037 |
| **Total** | 18,397,312 | 3,750,472 |

Lease liability is specified as follows:

| | 30.6.2021 | 31.12.2020 |
|---|---|---|
| Lease liability at the beginning of the year | 477,691 | 616,521 |
| Additions during the period | 0 | 39,449 |
| Additions through business combinations | 373,413 | 0 |
| Installment | (163,103) | (197,076) |
| Indexation | 14,364 | 18,796 |
| **Total** | 702,366 | 477,691 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**37. Share capital**

a. Share capital

The nominal value of shares issued by the Bank is ISK 1 per share. All currently issued shares have a nominal value of ISK 1 per share, and are fully paid. The holders of shares are entitled to receive dividends as approved by the general meeting and are entitled to one vote per nominal value of ISK 1 at shareholders' meetings. Reference is made to the Bank's Articles of Association for more information about the share capital.

| | **30.6.2021** | **31.12.2020** |
|---|---|---|
| Share capital according to the Bank's Articles of Association | 4,750,378 | 2,141,002 |
| Nominal amount of treasury shares | 6,400 | 0 |
| Authorised but not issued shares | 520,342 | 546,480 |

b. Changes made to the nominal amount of share capital

The Bank's share capital was increased by ISK 99,441,664 in nominal value during the period 1 January to 30 June 2021 in order to serve the exercising of issued warrants. In addition to that, the share capital was increased by ISK 2,509,934,076 in nominal value in relation to the merger with TM hf. and Lykill fjármögnun hf.

c. Share capital increase authorisations

According to the Bank's Articles of Association dated 24 June 2021, the Board of Directors is authorised to increase the share capital of the Bank by up to ISK 100 million through subscription for new shares. This authorisation is based on temporary provision I to the Articles of Association and is valid until 15 March 2022.

Temporary provision II to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. Pursuant to this temporary provision the Board of Directors is authorised to increase share capital by up to ISK 78,625,000 to serve warrants issued under this provision.

Temporary provision IV to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. According to section A of temporary provision IV the Board of Directors is authorised to increase share capital by up to ISK 122 million to serve issued warrants. According to section B of temporary provision IV the Board of Directors is furthermore granted a conditioned authorisation to increase the share capital by an additional amount of ISK 200 million to serve issued warrants. The authorisation under section B of temporary provision IV is directly linked to the Board of Directors' authorisation under section A of temporary provision I.

The aforementioned authorisation under section B of temporary provision IV currently stands at ISK 150 million. However, should the Board of Directors utilise its authorisation according to section A of temporary provision I and increase the Bank's share capital by ISK 100 million, the authorisation under section B of temporary provision IV will increase from ISK 150 million to ISK 200 million, as stipulated in the provision. The Board of Directors' authorisation under temporary provision IV to increase share capital thus currently totals ISK 272 million but can increase to ISK 322 million by the usage by the Board of Directors of its authorisation pursuant to section A of temporary provision I. This authorisation is valid until 31 December 2022.

Temporary provision IV to the Articles of Association authorises the Board of Directors to increase the share capital of the Bank in stages by up to ISK 70,000,000 in nominal value, for the purposes of fulfilling stock option agreements in accordance with the Bank'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. This authorisation is valid until 31 December 2024.

A copy of the Bank's Articles of Association, including the temporary provisions, is available on the Bank's website, www.kvika.is, reference is made to them for more information.

**38. Warrants**

The Bank has issued warrants for shares in the total nominal amount of ISK 295,775,017 as at 30 June 2021. The number of owners of these warrants is 114 and they purchased the warrants for a total consideration of ISK 105,280,155. The purchase price of the warrants was determined using market standard methodology and a valuation from an independent appraiser as applicable. Should the owners of the warrants exercise their warrants, the Bank is obliged to issue new shares and sell to the warrant owners at a predefined price, usually referred to as strike price. If all the warrants would be exercised, the Bank's share capital would increase to 5,046,153,255, and the newly issued shares would represent 5.9% of the Bank's total issued capital, post dilution.

| **Issue Date** | **Nominal amount** | **Purchase price of warrants** | **Annual increase of strike price** | **Strike price at expiry date** | **Exercise period** |
|---|---|---|---|---|---|
| September 2017 | 61,316,684 | 18,456,322 | 7.5% | 7.74 | Sept. 2020 - Sept. 2022 |
| September 2017 | 201,333,333 | 60,601,333 | 7.5% | 7.74 | Sept. 2021 - Sept. 2022 |
| December 2017 | 7,333,334 | 2,471,333 | 7.5% | 8.80 | Dec. 2021 - Dec. 2022 |
| May 2018 | 1,166,667 | 505,167 | 7.5% | 10.75 | Dec. 2021 - Dec. 2022 |
| April 2019 | 1,625,000 | 1,534,000 | 7.5% | 15.36 | Dec. 2020 - Dec. 2022 |
| April 2019 | 17,500,000 | 16,520,000 | 7.5% | 15.36 | Dec. 2020 - Dec. 2022 |
| August 2019 | 5,500,000 | 5,192,000 | 7.5% | 15.36 | Dec. 2021 - Dec. 2022 |
| **Total** | 295,775,018 | 105,280,155 | | | |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**39. Solvency of a financial conglomerate**

The FME has designated the Group as a financial conglomerate as defined in Article no. 3 of Act no. 61/2017 on Additional Supervision of Financial Conglomerates. As a result of this designation, the Group's capital adequacy is now calculated as the solvency ratio of a financial conglomerate. The Group furthermore calculates the consolidated capital adequacy ratio for entities not belonging to the insurance sector by excluding the insurance activities from calculation of risk weighted assets and capital base. The Group similarly calculates the solvency ratio of entities solely belonging to the insurance sector.

Solvency measures the Group's ability to take on setbacks, thus indicating its financial strength. The available capital and capital requirements of the Group is calculated as a financial conglomerate according to Articles 16, 17 and 18 of Act on Additional Supervision of Financial Conglomerates No. 61/2017. The Group's solvency ratio is 1.48, with a regulatory minimum requirement of 1.0.

Solvency ratio of the Group as a financial conglomerate is specified as follows:

| | 30.6.2021 |
|---|---|
| **Available capital** | |
| Own Funds eligible for non insurance activities | 28,161,540 |
| Own Funds eligible for insurance activities | 13,196,854 |
| **Total** | 41,358,394 |
| | |
| **Solvency requirement for insurance activities** | |
| Solvency Capital Requirements (SCR) | 9,093,286 |
| | |
| **Own funds requirement for non insurance activities** | |
| Statutory minimum capital requirement (Pillar I) | 7,308,516 |
| Additional capital requirements (Pillar II) | 6,486,308 |
| Minimum capital requirement for non insurance activities | 13,794,824 |
| Additional capital protection buffers | 5,024,605 |
| **Total** | 18,819,429 |
| | |
| Solvency | 41,358,394 |
| Solvency requirement (SCR) | 9,093,286 |
| Own funds requirement for non insurance activities | 18,819,429 |
| Minimum solvency of financial conglomerate | 27,912,716 |
| Solvency ratio | 1.48 |

There are no comparative figures as the Group has not previously been required to calculate the solvency ratio for as a financial conglomerate.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**40. Capital adequacy ratio (CAR)**

The capital adequacy ratio of the Group, excluding entities which belong to the insurance sector, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 30.8%. The minimum requirement from the FME is 15.1%. The ratio is calculated as follows:

| **Own funds eligible for non insurance activities** | **30.6.2021** | **31.12.2020** |
|---|---|---|
| Total equity | 55,213,875 | 19,208,001 |
| Expected dividends according to Dividend Policy | (1,277,373) | 0 |
| **Capital eligible as CET1 Capital** | 53,936,502 | 19,208,001 |
| | | |
| Goodwill and intangibles | (26,075,416) | (3,562,621) |
| Shares in other financial institutions | 0 | (259,829) |
| Subordinated fixed income securities | 0 | (117,250) |
| Deferred tax asset | (2,937,127) | (835,816) |
| **Common equity Tier 1 capital (CET 1)** | 24,923,959 | 14,432,485 |
| | | |
| Tier 2 capital | 4,405,529 | 2,012,387 |
| Deductions from Tier 2 capital | (1,167,948) | (227,952) |
| **Total own funds** | 28,161,540 | 16,216,919 |
| | | |
| **Risk weighted exposures** | | |
| Credit risk | 69,195,361 | 40,070,248 |
| Market risk | 4,152,857 | 3,617,483 |
| Operational risk | 18,008,234 | 13,621,015 |
| **Total risk weighted exposures** | 91,356,453 | 57,308,746 |
| | | |
| **Capital ratios** | | |
| Capital adequacy ratio (CAR) | 30.8% | 28.3% |
| CET1 ratio | 27.3% | 25.2% |
| | | |
| Minimum Capital adequacy ratio requirement | 15.1% | 15.1% |
| Minimum Capital adequacy ratio requirement including supervisory buffers | 20.6% | 20.6% |
| Minimum CET 1 ratio requirement including supervisory buffers | 14.0% | 14.0% |

The FME supervises the Bank on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Bank as a whole. The Bank's regulatory capital calculations for credit risk and market risk are based on the standardised approach and the capital calculations for operational risk are based on the basic indicator approach.

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). The Bank's minimum regulatory capital requirement, based on the SREP from 2019, is 15.1%. The FME has notified the Bank that a new SREP process will be conducted in the latter half of 2021. The minimum regulatory capital requirement including the additional capital buffers is 20.6% as at 30 June 2021.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**41. Solvency of insurance activities**

The Group calculates solvency capital and capital requirements for entities which belong to the insurance sector. The available capital and required capital is calulated in accordance with Articles 88 and 96 of the Act on Insurance Activity No. 100/2016. This brings the solvency ratio for entities which belong to the insurance sector to 1.45. Solvency capital requirements according to law is the minimum insurance companies have to meet.

| | 30.6.2021 |
|---|---|
| **Own funds eligible for insurance activities solvency** | |
| Equity eligible for insurance activities | 19,215,041 |
| Goodwill and intangibles | (5,886,246) |
| Own shares | (149,440) |
| Difference between net technical provision in the financial statements and solvency rules | 17,499 |
| **Total** | 13,196,854 |
| | |
| **Solvency requirement** | |
| Life insurance risk | 298,885 |
| Health insurance risk | 1,477,584 |
| Non-life insurance risk | 4,746,549 |
| Market risk | 6,013,805 |
| Counterparty default risk | 1,574,755 |
| Multifaceted effects | (4,268,233) |
| Base Solvency Capital Requirements (Basic SCR) | 9,843,345 |
| Operational risk | 723,871 |
| Adjustment for the loss-absorbing capacity of deferred taxes | (1,473,930) |
| Solvency Capital Requirements (SCR) | 9,093,286 |
| | |
| Solvency | 13,196,854 |
| Solvency requirement (SCR) | 9,093,286 |
| Solvency ratio | 1.45 |
| Eligible items to meet the minimum capital | 13,196,854 |
| Minimum required capital (MRC) | 4,167,862 |
| Minimum required capital ratio | 3.17 |

There are no comparative figures as insurance services became a part of the Group's operations through business combinations during the period. Reference is made to note 3 for more information on business combinations.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## Risk management

**42. Insurance risk**

As discussed in note 3, the Group acquired TM hf., an insurance company, during the first quarter of 2021. As a result of the acquisition, insurance risk is now a key risk which is actively monitored and measured by the Group's risk management division. Reference is made to the 2020 financial statements of TM hf. for more information on insurance risk.

**Insurance contracts**

As part of its insurance operations the Group's entities issue contracts that transfer insurance risk from the customers to the Group. Insurance contracts are contracts under which the insurer accepts insurance risk from policyholders by agreeing to compensate the policyholders if a specified uncertain future event would occur. The Group's insurance contracts are categorised in Non-life insurance and Life and health insurance contracts.

*Non-Life insurance*

Insurance contracts that are categorised as in this section are liability insurance, casualty insurance and property insurance. Liability insurance contracts protect the customers against the risk of causing harm to third parties. Casualty insurance compensates harm that the customer suffers because of an accident. Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties. Customers who undertake commercial activities on their premises could also receive compensation of the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

*Life and Health insurance*

These contracts insure events associated with human life, for example death or critical illness.

**Insurance risk**

Insurance risk is a risk, other than financial risk, transferred from the holder of a contract to the issuer, such as financial loss due to accident, damage, theft, illness, disability or death. The Group compensates certain losses of customers against payment of a premium. A premium is paid at the beginning of the period covered by the insurance protection, the loss is incurred at a later point and settlement can then take some time, which varies based on the nature of the loss and the circumstances. Premium and estimated indemnity must be secured until payment takes place. Premiums must cover all claim cost, operating cost and reasonable mark-up taking into account yield. Specific risk arises as premiums are predetermined but the service is provided at a later point and is undefined at the beginning. This risk is specific for insurance operation and is defined as insurance risk.

Insurance risk is divided into two groups, premium risk and risk of claims outstanding in order to segregate between incurred and future claims.

Premium risk is the risk that future claims, in addition to related expenses, will be higher than anticipated at the time premiums for current insurance contracts were decided and the insurance cover the Group guaranteed thus underestimated. The risk consists in main respect in that the frequency or severity of claims and benefits are greater than estimated. This may be caused by inaccurate assumptions but also temporary effect from individual large claims. Nature of claims can be different from expected or have changed due to developments in society.

The Group monitors frequency of claims and distribution of single claims amounts within each category and responds to changes in pricing or product development if necessary. Premium risk is reduced by distributing the risk between insurance groups and by making reinsurance contracts for significant claims.

Outstanding claim risk is the risk that existing but not settled claims will be higher than estimated. Negative development can be caused by the fact that notified but unsettled claims have been undervalued and that claims not yet notified prove to be higher or more than estimated. This applies to both actual indemnification to the claimant and related expenses, such as clearance of ruins and cost of expert services in evaluations and settlements of claims.

The Group's outstanding claims is based on the evaluation of final cost of all unsettled claims. Significant uncertainty in that evaluation is inevitable. A period of time can pass from when a loss incurs until a claim is notified to the Group as the loss had not been discovered or the claimant was not aware of its right to compensation. Though a damage is known its consequences can remain unknown until later, it is not completely clear what is damaged in an asset damage until repair has begun and permanent consequences of accidents are unclear until long after the accident. Consequences of a damage may at first have been under or overestimated. There are also some cases where notified claims do not end in compensation by the Group, either because no loss was incurred, the claim did not fall under the terms of the insurance contract or that the claim did not reach the minimum own risk of the insured.

| **Own technical provision classified to line of insurance operations** | **30.6.2021** |
|---|---|
| Fire and other damage to property insurance | 2,617,799 |
| Marine, aviation and transport insurance | 1,404,210 |
| Motor vehicle liability insurance | 10,934,454 |
| Other motor insurance | 1,458,775 |
| General liability, credit and suretyship insurance | 2,880,590 |
| Income Protection Insurance | 1,335,872 |
| Workers' compensation insurance | 3,327,277 |
| Medical Expense Insurance | 1,992 |
| Life insurance | 386,576 |
| Sold reinsurances | 47,917 |
| **Own technical provision total** | 24,395,464 |

There are no comparative figures as insurance services became a part of the Group's operations through business combinations during the period. Reference is made to note 3 for more information on business combinations.

Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**43. Maximum exposure to credit risk**

The maximum exposure to credit risk for on-balance sheet and off-balance sheet items, before taking into account any collateral held or other credit enhancements, is specified as follows:

| **30.6.2021** | **Public** | **Financial** | **Corporate** | | |
|---|---|---|---|---|---|
| **On-balance sheet exposure** | **entities** | **institutions** | **customers** | **Individuals** | **30.6.2021** |
| Cash and balances with Central Bank | 11,190,889 | 7,312,133 | | | 18,503,021 |
| Fixed income securities | 33,549,160 | 4,393,487 | 7,438,908 | | 45,381,555 |
| Loans to customers | 16,526 | 238 | 39,866,014 | 27,957,922 | 67,840,699 |
| Derivatives | | 1,575,583 | 579,585 | 6,859 | 2,162,027 |
| Other assets | 759,306 | 819,293 | 18,278,043 | 2,682,424 | 22,539,066 |
| | 45,515,880 | 14,100,734 | 66,162,549 | 30,647,205 | 156,426,369 |
| **Off-balance sheet exposure** | | | | | |
| Loan commitments | | | 3,149,014 | 374,279 | 3,523,293 |
| Financial guarantee contracts | | | 537,375 | | 537,375 |
| **Maximum exposure to credit risk** | 45,515,880 | 14,100,734 | 69,848,938 | 31,021,484 | 160,487,037 |

| **31.12.2020** | **Public** | **Financial** | **Corporate** | | |
|---|---|---|---|---|---|
| **On-balance sheet exposure** | **entities** | **institutions** | **customers** | **Individuals** | **31.12.2020** |
| Cash and balances with Central Bank | 25,539,154 | 3,405,876 | | | 28,945,030 |
| Fixed income securities | 26,040,694 | 1,685,377 | 1,058,961 | | 28,785,033 |
| Loans to customers | | | 23,721,996 | 5,600,976 | 29,322,972 |
| Derivatives | | 130,709 | 258,962 | | 389,671 |
| Other assets | 364,393 | 2,105,031 | 2,491,673 | | 4,961,097 |
| | 51,944,241 | 7,326,993 | 27,531,592 | 5,600,976 | 92,403,802 |
| **Off-balance sheet exposure** | | | | | |
| Loan commitments | | | 1,771,209 | 366,050 | 2,137,260 |
| Financial guarantee contracts | | | 1,245,885 | | 1,245,885 |
| **Maximum exposure to credit risk** | 51,944,241 | 7,326,993 | 30,548,685 | 5,967,027 | 95,786,947 |

**44. Credit quality of financial assets**

The book value of financial assets which fall under the impairment requirements of IFRS 9 are presented net of expected credit losses ("ECL") in the statement of financial position. The ECL are recalculated for each asset on at least a quarterly basis. The assessment of ECL is based upon calculations being derived from models on PD, LGD and EAD. Furthermore, the assessment is based upon management's assumptions regarding the development of macroeconomic factors over the coming year. The assumptions for macroeconomic development are decided for three scenarios: a base case, an upside case and a downside case, including a probability weight for each scenario. The assumptions are used for calculations of the probability weighted ECLs. The amount of ECL to be recognized is dependent on the Group's definition of significant increase in credit risk, which controls the impairment stage each asset is allocated to. The factors that are used to measure significant increase in credit risk include comparison of changes in PD values, annualized lifetime PD values, days past due and watch list.

The COVID-19 pandemic had an impact on the Group's loan portfolio during 2020 and the first half of 2021. This is mainly reflected in the effect of macro-economic variables on the probability of default and has therefore a homogenous impact on the whole portfolio. All scenarios were negatively impacted when the pandemic started. The negative impact has however reduced during the first half of 2021 while the scenario weights are still shifted towards a more negative outlook. The negative outlook economic scenario now weighs 40% and the positive outlook only weighs 10% in the total outcome. However, the pandemic has not had a significant effect on asset value. Due to the fact that the loan portfolio is in general well secured, changes to loss given default are minimal, which offsets the negative effect of increased probability of default.

Economic measures by the Icelandic government have softened and delayed the impact of the pandemic. This means that borrower defaults which would otherwise have occurred already, have been delayed and possibly avoided. This is accounted for in the expected credit loss approach mandated in IFRS 9, meaning the Group does not expect to incur further significant losses due to impairments and write offs as the pandemic unwinds, all other things being equal.

In general, the Group’s debtors have been able to adapt to the changes in the economic reality due to COVID-19 and have been able to source revenue from local customers and reduce operating costs in a controlled manner.

Because the economic scenario driven changes in the probability of default has a significant and homogenous impact on all customers and as the adaptability of debtors varies, the Group has put a greater emphasis on expert review to counter the effect of the pandemic's amplification of the inherent homogeneity prediction error in the model, i.e. to better reflect the heterogeneity of the Group's debtors.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**44. Credit quality of financial assets (cont.)**

The following table shows the macro economic values for the variables used in the expected credit loss model. The Group utilises an economic forecast which is aligned with requirements for the calculation of expected credit loss. In particular, this means that it accounts for the lag experienced by the Group in the impact of diminished GDP in 2020. Covid-19 related economic measures have delayed and softened this impact. Therefore, the GDP growth values used are based on assumptions on where the economy and the Group in particular is situated in this economic cycle. It must therefore be interpreted as a lagged (post-hoc) forecast of GDP growth.

| | | Scenarios | |
|---|---|---|---|
| **Model parameters 30.06.2021** | **Base case** | **Upside** | **Downside** |
| GDP growth | 3.4% | 6.7% | 3.1% |
| Unemployment rate | 7.3% | 7.0% | 7.8% |
| Foreign exchange rate | 0.2% | -0.4% | 2.0% |
| Assigned weight | 50.0% | 10.0% | 40.0% |

| | | Scenarios | |
|---|---|---|---|
| **Model parameters 31.12.2020** | **Base case** | **Upside** | **Downside** |
| GDP growth | -5.5% | -3.0% | -9.5% |
| Unemployment rate | 10.0% | 7.5% | 11.0% |
| Assigned weight | 50.0% | 5.0% | 45.0% |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**44. Credit quality of financial assets (cont.)**

a. Breakdown of loans to customers by industry and information on collateral and other credit enhancements

The Group applies the same valuation methods to collateral held as other comparable assets held by the Group. For other types of assets the Group uses third party valuation where possible. Haircuts are applied to account for liquidity and other factors which may affect the collateral value of the asset or other credit enhancement.

| | | | | | Allocated collateral | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **30.6.2021** | **Claim value** | **Impairment due to expected credit loss** | **Carrying amount** | **%** | **Total collateral** | **Deposits** | **Listed securities and liquid funds** | **Unlisted securities and other funds** | **Residential real estate** | **Commercial real estate** | **Automobiles** | **Industrial equipment** | **Guarantees** | **Other** | **Unsecured claim value** |
| Public entities | 17,029 | (503) | 16,526 | 0.0% | 14,576 | 0 | 0 | 0 | 0 | 0 | 7,476 | 0 | 0 | 7,100 | 2,911 |
| Financial institutions | 397 | (159) | 238 | 0.0% | 1,042 | 0 | 0 | 0 | 0 | 0 | 1,042 | 0 | 0 | 0 | 0 |
| Corporate | | | | | | | | | | | | | | | |
| Service activities | 8,970,745 | (290,869) | 8,679,876 | 12.8% | 13,792,337 | 635,797 | 153,692 | 1,706,604 | 11,943 | 377,743 | 7,593,515 | 1,991,812 | 0 | 1,321,231 | 514,988 |
| Construction | 7,730,888 | (362,800) | 7,368,088 | 10.9% | 16,498,549 | 5,876 | 0 | 500 | 2,236,627 | 8,653,749 | 2,430,701 | 2,290,051 | 0 | 881,045 | 417,966 |
| Activities of holding companies | 5,998,607 | (43,386) | 5,955,220 | 8.8% | 18,975,994 | 18,073 | 212,382 | 12,718,147 | 835,485 | 4,507,939 | 129,015 | 73,824 | 434,218 | 46,911 | 543,525 |
| Real estate activities | 5,999,758 | (44,385) | 5,955,373 | 8.8% | 13,947,775 | 120,574 | 1,699,477 | 2,311,938 | 4,141,345 | 5,032,279 | 496,809 | 129,352 | 16,000 | 0 | 379,925 |
| Activities of holding companies - Securities | 2,868,322 | (3,338) | 2,864,984 | 4.2% | 8,392,439 | 20,484 | 7,749,493 | 622,463 | 0 | 0 | 0 | 0 | 0 | 0 | 42,618 |
| Wholesale and Retail Trade | 2,597,703 | (31,725) | 2,565,978 | 3.8% | 5,372,734 | 17,130 | 0 | 712,157 | 0 | 575,603 | 1,885,722 | 790,263 | 67,500 | 1,324,360 | 65,377 |
| Other | 6,653,473 | (176,978) | 6,476,495 | 9.5% | 10,764,301 | 5,271 | 414,395 | 339,999 | 311,950 | 2,843,063 | 1,730,543 | 2,449,130 | 632,218 | 2,037,731 | 3,363,315 |
| Individual | 28,409,561 | (451,639) | 27,957,922 | 41.2% | 42,022,502 | 19,282 | 2,422,344 | 47,821 | 6,793,196 | 416,427 | 31,118,963 | 35,123 | 0 | 1,169,345 | 3,291,507 |
| **Total** | 69,246,481 | (1,405,782) | 67,840,699 | 100.0% | 129,782,248 | 842,487 | 12,651,784 | 18,459,629 | 14,330,546 | 22,406,803 | 45,393,786 | 7,759,554 | 1,149,937 | 6,787,723 | 8,622,133 |

| | | | | | Allocated collateral | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **31.12.2020** | **Claim value** | **Impairment due to expected credit loss** | **Carrying amount** | **%** | **Total collateral** | **Deposits** | **Listed securities and liquid funds** | **Unlisted securities and other funds** | **Residential real estate** | **Commercial real estate** | **Automobiles** | **Industrial equipment** | **Guarantees** | **Other** | **Unsecured claim value** |
| Financial institutions | 0 | 0 | 0 | 0.0% | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corporate | | | | | | | | | | | | | | | |
| Activities of holding companies | 5,028,991 | (91,502) | 4,937,489 | 16.8% | 14,109,569 | 9,899 | 168,644 | 9,471,872 | 734,690 | 3,282,905 | 0 | 0 | 441,560 | 0 | 128,644 |
| Construction | 5,778,115 | (212,899) | 5,565,216 | 19.0% | 9,133,191 | 37 | 0 | 0 | 4,035,845 | 5,057,309 | 0 | 0 | 0 | 40,000 | 81,946 |
| Financial activities | 1,717,763 | (50,193) | 1,667,570 | 5.7% | 744,727 | 90,343 | 81,632 | 228,239 | 32 | 0 | 0 | 0 | 0 | 344,480 | 1,228,197 |
| Real estate activities | 3,669,211 | (39,552) | 3,629,659 | 12.4% | 8,110,745 | 3,711 | 145,905 | 1,626,221 | 2,486,304 | 3,821,735 | 0 | 0 | 26,750 | 120 | 234,779 |
| Activities of holding companies - Securities | 2,997,582 | (2,355) | 2,995,226 | 10.2% | 10,623,797 | 280,488 | 9,440,256 | 903,054 | 0 | 0 | 0 | 0 | 0 | 0 | 10,952 |
| Service activities | 2,012,081 | (33,463) | 1,978,618 | 6.7% | 5,078,184 | 136,242 | 42,470 | 3,979,506 | 0 | 365,769 | 0 | 0 | 0 | 554,197 | 76,211 |
| Other | 3,032,633 | (84,414) | 2,948,219 | 10.1% | 8,707,910 | 29,267 | 36,825 | 2,597,023 | 385,150 | 2,268,093 | 0 | 0 | 67,500 | 3,324,053 | 150,248 |
| Individual | 5,623,247 | (22,271) | 5,600,976 | 19.1% | 9,747,097 | 24,298 | 2,842,506 | 33,032 | 6,688,262 | 82,000 | 0 | 0 | 0 | 77,000 | 308,698 |
| **Total** | 29,859,623 | (536,650) | 29,322,972 | 100.0% | 66,255,220 | 574,284 | 12,758,237 | 18,838,945 | 14,330,282 | 14,877,811 | 0 | 0 | 535,810 | 4,339,851 | 2,219,674 |

Collatarel value is shown as the market- or accounting value of collateral allocated to exposures. Other collateral includes financial claims, inventories and receivables. For larger unsecured claim values, the Bank is in general covered by covenants in the loan agreement, e.g. with a negative pledge or other ring fencing.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**44. Credit quality of financial assets (cont.)**

b. Credit quality of financial assets by credit quality band

The following tables show financial assets subject to the impairment requirements of IFRS 9 broken down by credit quality bands where band i denotes the lowest and iv the highest credit risk. Assets serviced by debtors already recognised as being in default by the rating agency are shown outside credit quality bands. Assets measured at fair value through profit or loss are not subject to the impairment requirements of IFRS 9 but are nevertheless included in the tables in order to give a more complete picture of the credit quality of loans to customers and reconcile the tables to the carrying amount on the balance sheet. Exposures which are non-rated relate to Legal Entities not rated by rating agency or Individuals where individual rating has not been obtained. Probability of default for these exposures is based on average probability for similar exposures and is furthermore individually assessed by credit specialists.

**30.6.2021**

| *Loans to customers:* | **Stage 1** | **Stage 2** | **Stage 3** | **FVTPL** | **Total** |
|---|---|---|---|---|---|
| Credit quality band I | 36,475,528 | 154,274 | 26,918 | 422,627 | 37,079,347 |
| Credit quality band II | 12,803,451 | 1,050,696 | 16,670 | 246,742 | 14,117,559 |
| Credit quality band III | 3,541,397 | 3,843,775 | 81,683 | 21,057 | 7,487,912 |
| Credit quality band IV | 102,692 | 2,176,292 | 2,687 | | 2,281,670 |
| In default | 31,304 | 511,011 | 1,846,100 | 178,801 | 2,567,215 |
| Non-rated | 3,386,505 | 835,821 | 162,229 | 1,328,223 | 5,712,778 |
| **Gross carrying amount** | 56,340,876 | 8,571,870 | 2,136,286 | 2,197,450 | 69,246,481 |
| Expected credit loss | (243,978) | (387,709) | (774,095) | | (1,405,782) |
| **Book value** | 56,096,897 | 8,184,161 | 1,362,191 | 2,197,450 | 67,840,699 |

| *Loan commitments, guarantees and unused credit facilities:* | **Stage 1** | **Stage 2** | **Stage 3** | **FVTPL** | **Total** |
|---|---|---|---|---|---|
| Credit quality band I | 2,206,010 | 486 | 1,456 | | 2,207,952 |
| Credit quality band II | 358,543 | 9,100 | | | 367,643 |
| Credit quality band III | 18,883 | 3,714 | | | 22,597 |
| Credit quality band IV | 10,738 | 184,425 | | | 195,163 |
| In default | 8,331 | | 11,210 | | 19,541 |
| Non-rated | 1,170,572 | | | 77,200 | 1,247,772 |
| **Total off-balance sheet amount** | 3,773,077 | 197,725 | 12,666 | 77,200 | 4,060,668 |
| Expected credit loss | (13,272) | (4,501) | (3,284) | | (21,057) |
| **Net off-balance sheet amount** | 3,759,805 | 193,224 | 9,382 | 77,200 | 4,039,611 |

**31.12.2020**

| *Loans to customers:* | **Stage 1** | **Stage 2** | **Stage 3** | **FVTPL** | **Total** |
|---|---|---|---|---|---|
| Credit quality band I | 14,899,136 | 436,960 | 20,849 | 1,022,457 | 16,379,402 |
| Credit quality band II | 3,859,240 | 389,944 | | 233,126 | 4,482,310 |
| Credit quality band III | 1,161,890 | 555,021 | 229,771 | 17,999 | 1,964,680 |
| Credit quality band IV | 1,740,690 | 393,737 | 1,285 | | 2,135,712 |
| In default | 28,455 | 2,676 | 552,915 | 862,234 | 1,446,280 |
| Non-rated | 2,824,445 | 14,311 | 4,448 | 608,034 | 3,451,238 |
| **Gross carrying amount** | 24,513,856 | 1,792,649 | 809,267 | 2,743,851 | 29,859,623 |
| Expected credit loss | (306,203) | (72,222) | (158,226) | | (536,650) |
| **Book value** | 24,207,653 | 1,720,426 | 651,042 | 2,743,851 | 29,322,972 |

| *Loan commitments, guarantees and unused credit facilities:* | **Stage 1** | **Stage 2** | **Stage 3** | **FVTPL** | **Total** |
|---|---|---|---|---|---|
| Credit quality band I | 2,417,243 | 0 | 39,771 | | 2,457,014 |
| Credit quality band II | 331,257 | 155,937 | | | 487,193 |
| Credit quality band III | 56,703 | 40,276 | 8,000 | | 104,979 |
| Credit quality band IV | 1,089 | 4,709 | | | 5,798 |
| In default | 2,591 | | 10,689 | 2,801 | 16,081 |
| Non-rated | 80,827 | 154,053 | | 77,200 | 312,080 |
| **Total off-balance sheet amount** | 2,889,709 | 354,974 | 58,460 | 80,001 | 3,383,144 |
| Expected credit loss | (14,830) | (13,631) | (2,911) | | (31,371) |
| **Net off-balance sheet amount** | 2,874,879 | 341,344 | 55,548 | 80,001 | 3,351,773 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**44. Credit quality of financial assets (cont.)**

c. Breakdown of loans to customers into not past due and past due

| **30.6.2021** | **Claim value** | **Expected credit loss** | **Carrying amount** |
|---|---|---|---|
| Not past due | 64,035,494 | (902,321) | 63,133,172 |
| Past due 1-30 days | 3,227,839 | (168,766) | 3,059,073 |
| Past due 31-60 days | 603,018 | (17,555) | 585,463 |
| Past due 61-90 days | 742,667 | (55,168) | 687,499 |
| Past due 91-180 days | 140,308 | (34,822) | 105,486 |
| Past due 181-360 days | 256,314 | (83,192) | 173,122 |
| Past due more than 360 days | 240,843 | (143,958) | 96,884 |
| **Total** | 69,246,481 | (1,405,782) | 67,840,699 |

| **31.12.2020** | **Claim value** | **Expected credit loss** | **Carrying amount** |
|---|---|---|---|
| Not past due | 28,909,071 | (442,622) | 28,466,450 |
| Past due 1-30 days | 537,707 | (9,705) | 528,002 |
| Past due 31-60 days | 32,831 | (71) | 32,760 |
| Past due 61-90 days | 71,310 | (2,416) | 68,894 |
| Past due 91-180 days | 49,403 | (2,443) | 46,959 |
| Past due 181-360 days | 17,012 | (15,472) | 1,541 |
| Past due more than 360 days | 242,288 | (63,922) | 178,366 |
| **Total** | 29,859,623 | (536,650) | 29,322,972 |

d. Allowance for expected credit loss on loans to customers and loan commitments, guarantees and unused credit facilities

The following tables show changes in the expected credit loss allowance of loans to customers and for loan commitments, guarantees and unused credit facilities during the period.

**30.6.2021**

*Expected credit loss allowance total*

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| **Transfers of financial assets:** | | | | |
| **Balance as at 1 January 2021** | 321,032 | 85,853 | 161,137 | 568,022 |
| Transfer to Stage 1 - (Initial recognition) | 18,378 | (17,667) | (710) | 0 |
| Transfer to Stage 2 - (significantly increased credit risk) | (47,928) | 73,141 | (25,213) | 0 |
| Transfer to Stage 3 - (credit impaired) | (40,456) | (6,164) | 46,620 | 0 |
| Net remeasurement of loss allowance | (139,559) | 30,589 | 962 | (108,008) |
| New financial assets, originated or purchased | 174,859 | 248,079 | 692,620 | 1,115,559 |
| Derecognitions and maturities | (29,075) | (21,621) | (18,187) | (68,883) |
| Write-offs | | | (79,850) | (79,850) |
| **Balance as at 30 June 2021** | 257,250 | 392,210 | 777,379 | 1,426,840 |

*Expected credit loss allowance for loans to customers*

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| **Transfers of financial assets:** | | | | |
| **Balance as at 1 January 2021** | 306,203 | 72,222 | 158,226 | 536,650 |
| Transfer to Stage 1 - (Initial recognition) | 7,261 | (6,551) | (710) | 0 |
| Transfer to Stage 2 - (significantly increased credit risk) | (47,878) | 72,238 | (24,359) | 0 |
| Transfer to Stage 3 - (credit impaired) | (40,454) | (5,935) | 46,389 | 0 |
| Net remeasurement of loss allowance | (127,850) | 31,254 | (38) | (96,634) |
| New financial assets, originated or purchased | 173,751 | 245,264 | 692,620 | 1,111,635 |
| Derecognitions and maturities | (27,055) | (20,782) | (18,183) | (66,020) |
| Write-offs | | | (79,850) | (79,850) |
| **Balance as at 30 June 2021** | 243,978 | 387,709 | 774,095 | 1,405,782 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**44. Credit quality of financial assets (cont.)**

*Expected credit loss allowance for loan commitments, guarantees and unused credit facilities*

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Transfers of financial assets:** | | | | |
| **Balance as at 1 January 2021** | 14,830 | 13,631 | 2,911 | 31,371 |
| Transfer to Stage 1 - (Initial recognition) | 11,116 | (11,116) | | 0 |
| Transfer to Stage 2 - (significantly increased credit risk) | (50) | 903 | (853) | 0 |
| Transfer to Stage 3 - (credit impaired) | (2) | (228) | 230 | 0 |
| Net remeasurement of loss allowance | (11,710) | (665) | 1,000 | (11,374) |
| New financial assets, originated or purchased | 1,108 | 2,816 | | 3,924 |
| Derecognitions and maturities | (2,020) | (839) | (4) | (2,864) |
| **Balance as at 30 June 2021** | 13,272 | 4,501 | 3,284 | 21,057 |

**31.12.2020**

*Expected credit loss allowance total*

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Transfers of financial assets:** | | | | |
| **Balance as at 1 January 2020** | 182,670 | 102,932 | 132,170 | 417,771 |
| Transfer to Stage 1 - (Initial recognition) | 12,232 | (10,477) | (1,755) | 0 |
| Transfer to Stage 2 - (significantly increased credit risk) | (16,824) | 16,824 | | 0 |
| Transfer to Stage 3 - (credit impaired) | (6,259) | (6,410) | 12,669 | 0 |
| Net remeasurement of loss allowance | (17,377) | 16,843 | 2,269 | 1,735 |
| New financial assets, originated or purchased | 244,086 | 46,596 | 33,894 | 324,576 |
| Derecognitions and maturities | (77,496) | (80,455) | (8,110) | (166,061) |
| Write-offs | | | (10,000) | (10,000) |
| **Balance as at 31 December 2020** | 321,032 | 85,853 | 161,137 | 568,022 |

*Expected credit loss allowance for loans to customers*

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Transfers of financial assets:** | | | | |
| **Balance as at 1 January 2020** | 167,078 | 100,185 | 129,416 | 396,679 |
| Transfer to Stage 1 - (Initial recognition) | 11,599 | (10,020) | (1,579) | 0 |
| Transfer to Stage 2 - (significantly increased credit risk) | (11,256) | 11,256 | | 0 |
| Transfer to Stage 3 - (credit impaired) | (5,965) | (6,410) | 12,375 | 0 |
| Net remeasurement of loss allowance | (17,562) | 10,944 | 1,598 | (5,019) |
| New financial assets, originated or purchased | 234,351 | 44,753 | 32,486 | 311,589 |
| Derecognitions and maturities | (72,043) | (78,486) | (6,071) | (156,599) |
| Write-offs | | | (10,000) | (10,000) |
| **Balance as at 31 December 2020** | 306,203 | 72,222 | 158,226 | 536,650 |

*Expected credit loss allowance for loan commitments, guarantees and unused credit facilities*

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Transfers of financial assets:** | | | | |
| **Balance as at 1 January 2020** | 15,592 | 2,746 | 2,754 | 21,092 |
| Transfer to Stage 1 - (Initial recognition) | 633 | (457) | (176) | 0 |
| Transfer to Stage 2 - (significantly increased credit risk) | (5,568) | 5,568 | | 0 |
| Transfer to Stage 3 - (credit impaired) | (294) | | 294 | 0 |
| Net remeasurement of loss allowance | 186 | 5,899 | 670 | 6,755 |
| New financial assets, originated or purchased | 9,735 | 1,844 | 1,408 | 12,987 |
| Derecognitions and maturities | (5,453) | (1,970) | (2,039) | (9,462) |
| **Balance as at 31 December 2020** | 14,830 | 13,631 | 2,911 | 31,371 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## 45. Loan-to-value

a. General

The loan-to-value ratio (LTV) is the ratio of the gross amount of the loan to the value of the collateral, if any. The general creditworthiness of a customer is viewed as the most reliable indicator of credit quality of a loan. Besides collateral included in the LTV ratios the Bank uses other risk mitigation measures, such as guarantees, negative pledge, cross-collateral and collateralization of non-quantifiable assets.

b. Breakdown

The breakdown of loans to customers by LTV is specified as follows:

| | 30.6.2021 | % | 31.12.2020 | % |
|---|---|---|---|---|
| Less than 50% | 17,504,253 | 25.8% | 12,579,973 | 42.9% |
| 51-70% | 19,219,245 | 28.3% | 7,450,150 | 25.4% |
| 71-90% | 18,242,095 | 26.9% | 3,101,307 | 10.6% |
| 91-100% | 3,959,558 | 5.8% | 1,870,641 | 6.4% |
| 100-125% | 2,754,825 | 4.1% | 48,476 | 0.2% |
| 125-200% | 79,540 | 0.1% | 13,996 | 0.0% |
| Greater than 200% | 977,066 | 1.4% | 198,961 | 0.7% |
| No or negligible collateral: | | | | |
| Purchased short-term retail claims | 0 | 0.0% | 2,027,605 | 6.9% |
| Other loans with no collateral | 5,104,118 | 7.5% | 2,031,863 | 6.9% |
| **Total** | 67,840,699 | 100.0% | 29,322,972 | 100.0% |

The Group has entered into an agreement to purchase short term consumer credit (the claims) from an originator. The purchase of claims are subject to conditions such as credit rating of the borrower and maximum maturity of 24 months. Further, the originator receives final payment of the purchased claim when the claim is fully repaid, until then a part of the purchase price is held as collateral against defaults.

## 46. Collateral against exposures to derivatives

The Group applies the same valuation methods to collateral held as other comparable assets held by the Group. Haircuts are applied to account for liquidity and other factors which may affect the collateral value of the asset.

| | Deposits | Fixed income securities | Variable income securities | Real estate | Other fixed assets | Other | 30.6.2021 |
|---|---|---|---|---|---|---|---|
| Financial institutions | 338,295 | 834,703 | 3,762 | | | | 1,176,761 |
| Corporate customers | 681,230 | | 1,074,646 | | | | 1,755,876 |
| Individuals | 34,099 | 2,517 | 82,269 | | | | 118,885 |
| **Total** | 1,053,624 | 837,220 | 1,160,677 | 0 | 0 | 0 | 3,051,522 |

| | Deposits | Fixed income securities | Variable income securities | Real estate | Other fixed assets | Other | 31.12.2020 |
|---|---|---|---|---|---|---|---|
| Financial institutions | 587,322 | 413,397 | | | | | 1,000,720 |
| Corporate customers | 176,327 | 121,815 | 640,596 | | | | 938,738 |
| Individuals | 20,164 | 26,064 | 24,598 | | | | 70,825 |
| **Total** | 783,813 | 561,276 | 665,194 | 0 | 0 | 0 | 2,010,283 |

Amounts have been adjusted to exclude collateral in excess of claim value, i.e. overcollateralisation.

Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**47. Large exposures**

In accordance with the Financial Supervisory Authority's regulation no. 625/2013 on financial institutions' large exposures, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the financial institution's capital base (see note 40).

According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base. Single large exposures net of risk adjusted mitigation take into account the effects of collateral and other credit enhancements held by the financial institution, and other credit enhancements, in accordance with the Financial Supervisory Authority's regulation no. 625/2013. At the end of June 2021, and year end 2020, there are no single large exposures.

| | | 30.6.2021 | | 31.12.2020 |
|---|---|---|---|---|
| **Large exposures before risk adjusted mitigation** | **Number** | **Amount** | **Number** | **Amount** |
| 10-20% of capital base | 0 | 0 | 0 | 0 |
| 20-25% of capital base | 0 | 0 | 0 | 0 |
| Exceeding 25% of capital base | 0 | 0 | 0 | 0 |
| **Total** | 0 | 0 | 0 | 0 |
| Thereof nostro accounts with foreign banks with a rating of investment grade or higher | 0 | 0 | 0 | 0 |
| Large exposures net of risk adjusted mitigation | 0 | 0 | 0 | 0 |

No single large exposure net of risk adjusted mitigation exceeds 25% of capital base in accordance with the Financial Supervisory Authority's regulation no. 625/2013.

**48. Liquidity risk**

a. Definition

Liquidity risk is the risk that the Group will encounter difficulty in meeting contractual payment obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. This risk mainly arises from mismatches in the timing of cash flows. The Group has internal rules that require certain matching of the maturities of assets and liabilities. Furthermore, to ensure the ability to meet liquidity needs, the Group maintains a stock of highly liquid unencumbered assets, e.g. cash, treasury bills and treasury bonds.

b. Management

Liquidity is managed by treasury and monitored by risk management. Liquidity position is reported to the ALCO committee. The Central Bank of Iceland sets minimum requirements for the coverage ratio between cash flows of assets and liabilities (LCR) and stable funding in foreign currencies (NSFR). The minimum 30 day LCR regulatory requirement is 100%. The minimum regulatory requirment for foreign currencies NSFR is 100%.

The FME has designated the Group as a financial conglomorate. LCR is not calculated for a financial conglomorate, instead the Group calculates LCR based on the consolidated statement of financial position excluding the insurance operations of TM tryggingar hf. The Group was in compliance with internal and external liquidity requirements throughout the years 2021 and 2020. At the end of June 2021 the LCR was 204% and at year-end 2020 it was 266%.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**48. Liquidity risk (cont.)**

c. Maturity analysis of financial assets and financial liabilities

| **30.6.2021**<br>**Financial assets by type** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Gross inflow/ (outflow)** | **Carrying amount** |
|---|---|---|---|---|---|---|---|
| *Non-derivative assets* | | | | | | | |
| Cash and balances with Central Bank | 17,887,288 | 616,100 | | | | 18,503,388 | 18,503,021 |
| Fixed income securities | 14,424,934 | 10,451,286 | 1,270,323 | 17,146,264 | 2,088,749 | 45,381,555 | 45,381,555 |
| Shares and other variable income securities | 12,488,455 | 3,690,389 | 4,819,006 | 35 | | 20,997,884 | 20,997,884 |
| Securities used for hedging | 27,071,266 | | | | | 27,071,266 | 27,071,266 |
| Loans to customers | 5,762,086 | 4,708,973 | 22,881,189 | 39,113,923 | 6,109,317 | 78,575,489 | 67,840,699 |
| Reinsurance assets | 86,617 | 110,281 | 414,039 | 553,337 | 22,550 | 1,186,823 | 1,186,823 |
| Other assets | 11,136,428 | 6,274,649 | 5,710,401 | 47,179 | | 23,168,657 | 23,168,657 |
| | 88,857,074 | 25,851,678 | 35,094,957 | 56,860,737 | 8,220,616 | 214,885,062 | 204,149,906 |
| *Derivative assets* | | | | | | | |
| Inflow | 7,332,410 | 1,289,900 | | 950,407 | | 9,572,717 | |
| Outflow | (7,135,364) | (1,282,851) | | (8,327) | | (8,426,542) | |
| | 197,046 | 7,049 | 0 | 942,080 | 0 | 1,146,175 | 2,162,027 |

| **Financial liabilities by type** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Gross inflow/ (outflow)** | **Carrying amount** |
|---|---|---|---|---|---|---|---|
| *Non-derivative liabilities* | | | | | | | |
| Deposits | (54,832,561) | (4,887,552) | (5,478,877) | (1,480,451) | (43,971) | (66,723,412) | 66,551,833 |
| Technical provision | (2,457,743) | (2,317,925) | (8,702,420) | (11,630,241) | (473,957) | (25,582,287) | 25,582,287 |
| Borrowings | (6,139,817) | (6,194,741) | (8,772,069) | (2,279,167) | | (23,385,794) | 23,309,916 |
| Issued bills | | (2,353,000) | | | | (2,353,000) | 2,349,922 |
| Issued bonds | (253,712) | (916,914) | (3,849,992) | (20,109,087) | (2,214,104) | (27,343,808) | 25,265,542 |
| Subordinated liabilities | | (1,255,544) | (189,411) | (782,728) | (6,161,591) | (8,389,273) | 4,503,723 |
| Short positions held for trading | (341,308) | | | | | (341,308) | 341,308 |
| Other liabilities | (11,138,043) | (2,575,687) | (4,020,437) | (663,146) | | (18,397,312) | 18,397,312 |
| | (75,163,185) | (20,501,362) | (31,013,205) | (36,944,819) | (8,893,623) | (172,516,194) | 166,301,844 |
| *Derivative liabilities* | | | | | | | |
| Inflow | 19,872,273 | 1,976,173 | 366,250 | | | 22,214,695 | |
| Outflow | (22,357,585) | (2,022,617) | (377,875) | | | (24,758,076) | |
| | (2,485,312) | (46,444) | (11,625) | 0 | 0 | (2,543,381) | 2,747,758 |
| **Unrecognised financial items** | | | | | | | |
| *Loan commitments* | | | | | | | |
| Inflow | 149,652 | 81,100 | 2,689,619 | 781,268 | | 3,701,639 | |
| Outflow | (3,523,293) | | | | | (3,523,293) | |
| *Financial guarantee contracts* | | | | | | | |
| Inflow | | 114,000 | 272,786 | 91,532 | 59,057 | 537,375 | |
| Outflow | (537,375) | | | | | (537,375) | |
| | (3,911,016) | 195,100 | 2,962,405 | 872,799 | 59,057 | 178,346 | |
| **Summary** | | | | | | | |
| Non-derivative assets | 88,857,074 | 25,851,678 | 35,094,957 | 56,860,737 | 8,220,616 | 214,885,062 | |
| Derivative assets | 197,046 | 7,049 | | 942,080 | | 1,146,175 | |
| Non-derivative liabilities | (75,163,185) | (20,501,362) | (31,013,205) | (36,944,819) | (8,893,623) | (172,516,194) | |
| Derivative liabilities | (2,485,312) | (46,444) | (11,625) | | | (2,543,381) | |
| **Net assets (liabilities) excluding unrecognised items** | 11,405,623 | 5,310,921 | 4,070,128 | 20,857,998 | (673,007) | 40,971,663 | |
| Net unrecognised items | (3,911,016) | 195,100 | 2,962,405 | 872,799 | 59,057 | 178,346 | |
| **Net assets (liabilities)** | 7,494,606 | 5,506,021 | 7,032,533 | 21,730,798 | (613,950) | 41,150,008 | |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**48. Liquidity risk (cont.)**

| **31.12.2020** **Financial assets by type** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Gross inflow/ (outflow)** | **Carrying amount** |
|---|---|---|---|---|---|---|---|
| *Non-derivative assets* | | | | | | | |
| Cash and balances with Central Bank | 28,059,712 | 890,470 | | | | 28,950,182 | 28,945,030 |
| Fixed income securities | 5,600,838 | 117,250 | 19,802,625 | 3,264,320 | | 28,785,033 | 28,785,033 |
| Shares and other variable income securities | 1,464,966 | | 3,607,863 | | | 5,072,830 | 5,072,830 |
| Securities used for hedging | 19,620,240 | | | | | 19,620,240 | 19,620,240 |
| Loans to customers | 2,017,619 | 3,403,967 | 16,159,918 | 8,581,843 | 3,504,320 | 33,667,667 | 29,322,972 |
| Other assets | 1,474,195 | 1,027,270 | 715,537 | 2,223,090 | | 5,440,092 | 5,440,092 |
| | 58,237,570 | 5,438,957 | 40,285,943 | 14,069,253 | 3,504,320 | 121,536,043 | 117,186,196 |
| *Derivative assets* | | | | | | | |
| Inflow | 1,056,236 | 778,870 | | 76,798 | | 1,911,904 | |
| Outflow | (979,810) | (746,525) | | (2,368) | | (1,728,703) | |
| | 76,426 | 32,345 | 0 | 74,429 | 0 | 183,200 | 389,671 |

| **Financial liabilities by type** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Gross inflow/ (outflow)** | **Carrying amount** |
|---|---|---|---|---|---|---|---|
| *Non-derivative liabilities* | | | | | | | |
| Deposits | (48,383,678) | (5,944,107) | (3,993,981) | (1,664,675) | (47,976) | (60,034,418) | 59,924,683 |
| Borrowings | (6,789,566) | (9,747,775) | (10,001,623) | | | (26,538,964) | 26,424,340 |
| Issued bills | | (600,000) | (1,420,000) | | | (2,020,000) | 2,003,608 |
| Issued bonds | (82,395) | (164,111) | (1,073,859) | (4,529,066) | | (5,849,431) | 5,568,085 |
| Subordinated liabilities | | | (150,788) | (1,741,109) | (1,060,762) | (2,952,658) | 2,077,225 |
| Short positions held for trading | (1,520,547) | | | | | (1,520,547) | 1,520,547 |
| Short positions used for hedging | (731,987) | | | | | (731,987) | 731,987 |
| Other liabilities | (923,315) | (1,317,466) | (1,098,735) | (410,956) | | (3,750,472) | 3,750,472 |
| | (58,431,489) | (17,773,459) | (17,738,985) | (8,345,806) | (1,108,738) | (103,398,478) | 102,000,947 |
| *Derivative liabilities* | | | | | | | |
| Inflow | 17,286,909 | 2,315,614 | 390,250 | | | 19,992,773 | |
| Outflow | (18,111,337) | (3,092,010) | (411,675) | | | (21,615,021) | |
| | (824,428) | (776,395) | (21,425) | 0 | 0 | (1,622,248) | 1,750,346 |
| **Unrecognised financial items by type** | | | | | | | |
| *Loan commitments* | | | | | | | |
| Inflow | 107,445 | 264,951 | 1,108,702 | 733,780 | | 2,214,878 | |
| Outflow | (2,137,260) | | | | | (2,137,260) | |
| *Financial guarantee contracts* | | | | | | | |
| Inflow | 711,288 | 114,000 | 297,639 | 63,901 | 59,057 | 1,245,885 | |
| Outflow | (1,245,885) | | | | | (1,245,885) | |
| | (2,564,411) | 378,951 | 1,406,341 | 797,681 | 59,057 | 77,619 | |
| **Summary** | | | | | | | |
| Non-derivative assets | 58,237,570 | 5,438,957 | 40,285,943 | 14,069,253 | 3,504,320 | 121,536,043 | |
| Derivative assets | 76,426 | 32,345 | | 74,429 | | 183,200 | |
| Non-derivative liabilities | (58,431,489) | (17,773,459) | (17,738,985) | (8,345,806) | (1,108,738) | (103,398,478) | |
| Derivative liabilities | (824,428) | (776,395) | (21,425) | | | (1,622,248) | |
| **Net assets (liabilities) excluding unrecognised items** | (941,921) | (13,078,552) | 22,525,533 | 5,797,876 | 2,395,581 | 16,698,518 | |
| Net unrecognised items | (2,564,411) | 378,951 | 1,406,341 | 797,681 | 59,057 | 77,619 | |
| **Net assets (liabilities)** | (3,506,331) | (12,699,601) | 23,931,874 | 6,595,557 | 2,454,639 | 16,776,137 | |

Maturity analysis of financial assets and financial liabilities is based on contractual cash flows or, in the case of held for trading securities, expected cash flows. If an amount receivable or payable is not fixed, e.g. for inflation indexed assets and liabilities, the maturity analysis uses estimates based on current conditions.

Cash flows relating to unrecognised balance sheet items (unused loan commitments and financial guarantee contracts) are presented separately from financial assets and financial liabilities. Both contractual outflows and inflows are shown, to fully reflect the nature of these items.

It should be noted that the Group's expected cash flows sometimes vary considerably from the contractual cash flows, most significantly in that demand deposits from customers are expected to remain stable or increase in the long term. In this case the presentation used reflects the worst case scenario from the Group's perspective. Furthermore, the analysis does not consider any measures that could be taken to convert long-term assets to cash through sale.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**49. Market risk**

a. Definition

Market risk constitutes risk due to changes in the market prices of financial instruments and comprises interest rate risk, currency risk and other price risk. Notes 50-55 relate to market risk exposure.

b. Management

The Group has a strict policy on controlling market risk and to keep the exposure within set limits. The risk management unit monitors market risk limits on a daily basis and reports regularly to the ALCO committee and to the CEO.

**50. Interest rate risk**

a. Definition

The Group's exposure to interest rate risk is twofold. On the one hand, the Group has a proprietary portfolio of bonds, where market rates affect prices and any fluctuations are recognised in the income statement. On the other hand, the Group has mismatch in assets and liabilities with fixed interest terms. These include loans and swap contracts for securities on the asset side and borrowings and deposits on the liability side. This mismatch does not create an immediate effect on the income statement but nevertheless affects the Group's economic value.

Proprietary positions which are subject to interest rate risk fall under the scope of the Group's market risk management.

b. Management

The Group takes measures to minimise interest rate risk by matching the interest rate profile and duration of assets with the Group's liabilities as well as using derivative and non-derivative financial instruments to manage effectively the risk of an adverse impact on the Group's earnings.

**51. Interest rate risk associated with trading portfolios**

a. Breakdown

The breakdown of financial assets and liabilities in trading portfolios by the earlier of interest repricing time or maturity is specified as follows:

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | 30.6.2021 |
|---|---|---|---|---|---|---|
| Fixed income securities ......................................................... | | 61,622 | | 3,171,373 | 1,226,897 | 4,459,892 |
| Short positions - fixed income securities ............................... | | | (87,323) | (39,987) | (196,787) | (324,097) |
| **Net imbalance** | 0 | 61,622 | (87,323) | 3,131,386 | 1,030,110 | 4,135,796 |

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | 31.12.2020 |
|---|---|---|---|---|---|---|
| Fixed income securities ......................................................... | | | 995,943 | 2,512,237 | 193,801 | 3,701,981 |
| Short positions - fixed income securities ............................... | | | | (127,198) | (1,393,349) | (1,520,547) |
| **Net imbalance** | 0 | 0 | 995,943 | 2,385,039 | (1,199,548) | 2,181,434 |

b. Sensitivity analysis

The Group performs monthly sensitivity analysis on financial assets and liabilities in trading portfolios that are subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Group's pre-tax profit and equity, assuming all other risk factors remain constant:

| | Shift in basis points | 30.6.2021 Downward | 30.6.2021 Upward | 31.12.2020 Downward | 31.12.2020 Upward |
|---|---|---|---|---|---|
| Indexed ........................................................................................ | 50 | (14,800) | 14,800 | 5,620 | (5,620) |
| Non-indexed ................................................................................ | 100 | (64,816) | 64,816 | 31,700 | (31,700) |
| **Total** | | (79,616) | 79,616 | 37,321 | (37,321) |

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# Notes to the Condensed Interim Consolidated Financial Statements

**52. Interest rate risk associated with non-trading portfolios**

a. Breakdown

The breakdown of financial assets and liabilities in non-trading portfolios by the earlier of interest repricing time or maturity is specified as follows:

**30.6.2021**

| **Financial assets** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Cash and balances with Central Bank | 16,538,296 | 1,964,725 | | | | 18,503,021 |
| Fixed income securities | 292,721 | 7,027,758 | 3,198,127 | 23,295,327 | 7,107,729 | 40,921,663 |
| Loans to customers | 57,650,192 | 1,682,430 | 3,884,416 | 4,204,017 | 419,644 | 67,840,699 |
| Financial assets excluding derivatives | 74,481,210 | 10,674,914 | 7,082,543 | 27,499,344 | 7,527,373 | 127,265,383 |
| Effect of derivatives | 21,194,421 | 1,364,282 | | 15,129,226 | | 37,687,929 |
| **Total** | 95,675,631 | 12,039,195 | 7,082,543 | 42,628,570 | 7,527,373 | 164,953,312 |

| **Financial liabilities** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Deposits | 66,551,833 | | | | | 66,551,833 |
| Borrowings | 6,137,248 | 8,059,223 | 8,784,800 | 328,645 | | 23,309,916 |
| Issued bills | | 2,349,922 | | | | 2,349,922 |
| Issued bonds | 253,419 | 912,455 | 3,768,019 | 18,243,872 | 2,087,777 | 25,265,542 |
| Subordinated liabilities | 1,241,690 | | 181,529 | 1,015,889 | 2,064,616 | 4,503,723 |
| Financial liabilities excluding derivatives | 74,184,189 | 11,321,600 | 12,734,348 | 19,588,406 | 4,152,393 | 121,980,937 |
| Effect of derivatives | | | | 12,339,360 | | 12,339,360 |
| **Total** | 74,184,189 | 11,321,600 | 12,734,348 | 31,927,766 | 4,152,393 | 134,320,296 |
| **Total interest repricing gap** | 21,491,441 | 717,595 | (5,651,805) | 10,700,804 | 3,374,980 | 30,633,015 |

**31.12.2020**

| **Financial assets** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Cash and balances with Central Bank | 27,205,748 | 1,739,281 | | | | 28,945,030 |
| Fixed income securities | 17 | 99,156 | 17,593,356 | 7,297,972 | 92,550 | 25,083,052 |
| Loans to customers | 24,457,207 | 793,533 | 2,815,576 | 1,287,973 | (31,316) | 29,322,972 |
| Financial assets excluding derivatives | 51,662,972 | 2,631,970 | 20,408,932 | 8,585,946 | 61,234 | 83,351,054 |
| Effect of derivatives | 18,597,318 | 3,397,994 | | 3,100,000 | | 25,095,311 |
| **Total** | 70,260,290 | 6,029,964 | 20,408,932 | 11,685,946 | 61,234 | 108,446,365 |

| **Financial liabilities** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Deposits | 59,924,683 | | | | | 59,924,683 |
| Borrowings | 6,797,253 | 9,715,286 | 9,911,801 | | | 26,424,340 |
| Issued bills | | 598,592 | 1,405,016 | | | 2,003,608 |
| Issued bonds | 82,908 | 164,653 | 640,449 | 4,680,075 | | 5,568,085 |
| Subordinated liabilities | 1,168,852 | | 64,711 | 843,662 | | 2,077,225 |
| Financial liabilities excluding derivatives | 67,973,696 | 10,478,531 | 12,021,977 | 5,523,737 | 0 | 95,997,940 |
| Effect of derivatives | 3,102,368 | | | | | 3,102,368 |
| **Total** | 71,076,064 | 10,478,531 | 12,021,977 | 5,523,737 | 0 | 99,100,309 |
| **Total interest repricing gap** | (815,774) | (4,448,567) | 8,386,956 | 6,162,209 | 61,234 | 9,346,056 |

b. Sensitivity analysis

The Group performs monthly sensitivity analysis on financial assets and liabilities in non-trading portfolios subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Group's pre-tax profit and equity, assuming all other risk factors remain constant:

| **Currency** | **Shift in basis points** | **30.6.2021 Downward** | **30.6.2021 Upward** | **31.12.2020 Downward** | **31.12.2020 Upward** |
|---|---|---|---|---|---|
| ISK, indexed | 50 | 86,811 | (95,660) | 62,022 | (60,635) |
| ISK, non-indexed | 100 | 188,622 | (192,872) | 24,517 | (36,416) |
| Other currencies | 20 | 846 | (836) | 980 | (1,139) |
| **Total** | | 276,280 | (289,368) | 87,519 | (98,190) |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**53. Exposure towards changes in the CPI**

a. Definition

Exposure towards changes in CPI is the risk that fluctuations in the Icelandic Consumer Price Index (CPI) will affect the balance and cash flow of indexed financial instruments.

The Group is exposed to inflation indexation of assets and liabilities denominated in ISK. All indexed assets and liabilities are valued according to the CPI measure at any given time and changes in CPI are recognised in the income statement.

b. Management

The Group controls its indexation risk through derivatives contracts and sales and purchases of indexed bonds, mostly government bonds, and thus keeps its exposure to the CPI within the limits set by the ALCO committee.

c. Balance of CPI linked assets and liabilities

The net balance of CPI linked assets and liabilities is specified as follows:

| | **30.6.2021** | **31.12.2020** |
|---|---|---|
| Assets | 28,594,580 | 11,877,087 |
| Liabilities | (15,636,202) | (8,311,283) |
| **Total** | 12,958,377 | 3,565,804 |

d. Sensitivity to changes in CPI

Given the net balance of CPI linked assets and liabilities, a 1% change in the CPI would, with other things constant, result in the following changes to the Group's pre-tax profit.

| | | **30.6.2021** | | **31.12.2020** |
|---|---|---|---|---|
| | -1% | 1% | -1% | 1% |
| Government bonds | (46,927) | 46,927 | (14,006) | 14,006 |
| Other fixed income securities | (46,884) | 46,884 | (6,810) | 6,810 |
| Loans to customers | (93,273) | 93,273 | (66,955) | 66,955 |
| Derivatives | (98,862) | 98,862 | (31,000) | 31,000 |
| Short positions | 2,554 | (2,554) | 9,484 | (9,484) |
| Deposits | 56,181 | (56,181) | 55,629 | (55,629) |
| Issued bonds | 59,626 | (59,626) | 0 | 0 |
| Subordinated liabilities | 38,000 | (38,000) | 18,000 | (18,000) |
| | (129,584) | 129,584 | (35,658) | 35,658 |

The effect on equity would be the same.

**54. Currency risk**

a. Definition

Currency risk arises when financial instruments are not denominated in the functional currency of the respective Group entity and can affect both the Group's income statement and statement of financial position. A part of the Group's financial assets and liabilities is denominated in foreign currencies.

b. Management

Currency positions are monitored by risk management and reported to the ALCO committee. Any mismatch between assets and liabilities in each currency is monitored closely and managed within limits.

The Group is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 30 June 2021 and 31 December 2020 the Group's position in foreign currencies was within those limits.

c. Exchange rates

The following exchange rates have been used by the Group in the preparation of these financial statements:

| | **Closing 30.6.2021** | **Average 6m 2021** | **Closing 31.12.2020** | **Average 6m 2020** |
|---|---|---|---|---|
| EUR/ISK | 146.5 | 151.7 | 156.1 | 141.5 |
| USD/ISK | 123.2 | 125.9 | 127.2 | 128.4 |
| GBP/ISK | 170.7 | 174.7 | 173.6 | 164.1 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**54. Currency risk (cont.)**

d. Breakdown of financial assets and financial liabilities denominated in foreign currencies

**30.6.2021**

| Financial assets | EUR | USD | GBP | DKK | Other currencies | Total |
|---|---|---|---|---|---|---|
| Cash and balances with Central Bank | 1,827,957 | 3,007,145 | 560,895 | 100,278 | 1,269,951 | 6,766,226 |
| Fixed income securities | 732,567 | | 541,964 | | | 1,274,531 |
| Shares and other variable income securities | 47,175 | 1,206,140 | 1,568,158 | | | 2,821,473 |
| Securities used for hedging | 809,917 | 62,474 | | | 224,431 | 1,096,823 |
| Loans to customers | 1,231,356 | | 1,702,805 | | 130,682 | 3,064,844 |
| Reinsurance assets | 50,370 | 16,760 | | 18,395 | 9,313 | 94,838 |
| Other assets | 637,291 | 238,072 | 338,243 | 128,670 | 298,554 | 1,640,831 |
| Financial assets excluding derivatives | 5,336,635 | 4,530,592 | 4,712,065 | 247,343 | 1,932,932 | 16,759,566 |
| Derivatives | 1,388,831 | 1,858,366 | 63,252 | | 0 | 3,310,449 |
| **Total** | 6,725,465 | 6,388,958 | 4,775,318 | 247,343 | 1,932,932 | 20,070,015 |

| Financial liabilities | EUR | USD | GBP | DKK | Other currencies | Total |
|---|---|---|---|---|---|---|
| Deposits | 2,683,802 | 4,141,044 | 444,420 | 106,482 | 1,297,670 | 8,673,418 |
| Borrowings | 116,511 | | | | | 116,511 |
| Issued bonds | | 325,534 | 2,056,323 | | | 2,381,857 |
| Technical provision | 381,596 | 228,431 | 1,452 | 121,884 | 134,936 | 868,300 |
| Other liabilities | 1,006,870 | 930,505 | 305,671 | 4,425 | 373,812 | 2,621,283 |
| Financial liabilities excluding derivatives | 4,188,779 | 5,625,515 | 2,807,865 | 232,792 | 1,806,419 | 14,661,369 |
| Derivatives | 2,982,503 | 204,996 | 1,536,480 | | 144,030 | 4,868,009 |
| **Total** | 7,171,282 | 5,830,511 | 4,344,345 | 232,792 | 1,950,449 | 19,529,377 |

| Net currency position | EUR | USD | GBP | DKK | Other currencies | Total |
|---|---|---|---|---|---|---|
| Financial assets | 6,725,465 | 6,388,958 | 4,775,318 | 247,343 | 1,932,932 | 20,070,015 |
| Financial liabilities | (7,171,282) | (5,830,511) | (4,344,345) | (232,792) | (1,950,449) | (19,529,377) |
| Financial guarantee contracts | 207,913 | | | | | 207,913 |
| **Total** | (237,903) | 558,447 | 430,973 | 14,551 | (17,517) | 748,550 |

**31.12.2020**

| Financial assets | EUR | USD | GBP | NOK | Other currencies | Total |
|---|---|---|---|---|---|---|
| Cash and balances with Central Bank | 1,448,060 | 1,781,860 | 93,064 | 45,420 | 1,230,660 | 4,599,063 |
| Fixed income securities | 468,294 | (0) | 244,143 | | | 712,436 |
| Shares and other variable income securities | | 230,685 | 1,364,787 | | 1 | 1,595,473 |
| Securities used for hedging | 302,728 | 9,541 | | 143,181 | | 455,449 |
| Loans to customers | 629,567 | | 1,221,891 | | 0 | 1,851,457 |
| Other assets | 316,061 | 552,657 | 321,743 | 150,022 | 1,654 | 1,342,137 |
| Financial assets excluding derivatives | 3,164,709 | 2,574,743 | 3,245,627 | 338,622 | 1,232,315 | 10,556,016 |
| Derivatives | 390,250 | 2,551,251 | 20,925 | | 0 | 2,962,425 |
| **Total** | 3,554,959 | 5,125,993 | 3,266,551 | 338,622 | 1,232,315 | 13,518,441 |

| Financial liabilities | EUR | USD | GBP | NOK | Other currencies | Total |
|---|---|---|---|---|---|---|
| Deposits | 3,076,426 | 4,311,550 | 520,743 | 94,862 | 933,540 | 8,937,121 |
| Borrowings | 45,990 | | | | | 45,990 |
| Issued bonds | | 329,704 | | | | 329,704 |
| Other liabilities | 303,224 | 223,311 | 220,068 | 143,181 | 268,601 | 1,158,384 |
| Financial liabilities excluding derivatives | 3,425,640 | 4,864,565 | 740,811 | 238,042 | 1,202,141 | 10,471,199 |
| Derivatives | | 130,909 | 2,256,150 | 74,640 | | 2,461,699 |
| **Total** | 3,425,640 | 4,995,474 | 2,996,961 | 312,682 | 1,202,141 | 12,932,898 |

| Net currency position | EUR | USD | GBP | NOK | Other currencies | Total |
|---|---|---|---|---|---|---|
| Financial assets | 3,554,959 | 5,125,993 | 3,266,551 | 338,622 | 1,232,315 | 13,518,441 |
| Financial liabilities | (3,425,640) | (4,995,474) | (2,996,961) | (312,682) | (1,202,141) | (12,932,898) |
| Financial guarantee contracts | 176,393 | | | | | 176,393 |
| **Total** | 305,712 | 130,519 | 269,590 | 25,940 | 30,174 | 761,936 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**54. Currency risk (cont.)**

e. Sensitivity to currency risk

Given the net currency position, a 10% change in the value of the ISK would, with other things constant, result in the following changes to the Group's pre-tax profit.

| | 30.6.2021 | | 31.12.2020 | |
|---|---|---|---|---|
| **Assets and liabilities denominated in foreign currencies** | **-10%** | **+10%** | **-10%** | **+10%** |
| EUR | (23,790) | 23,790 | 30,571 | (30,571) |
| USD | 55,845 | (55,845) | 13,052 | (13,052) |
| GBP | 43,097 | (43,097) | 26,959 | (26,959) |
| DKK | 1,455 | (1,455) | (1,201) | 1,201 |
| NOK | 668 | (668) | 2,594 | (2,594) |
| Other currencies | (2,420) | 2,420 | 4,219 | (4,219) |
| **Total** | 74,855 | (74,855) | 76,194 | (76,194) |

The effect on equity would be the same.

**55. Equity risk**

a. Definition

Equity risk is the risk that the fair value of equties decreases as the result of changes in the value of shares and other variable income securities in the Group’s portfolio.

b. Sesitivity analysis of equity risk

The analysis below calculates the effect of possible movements in equity prices that affect the Consolidated Financial Statements. A negative amount in the table reflects a potential net reduction in the Consolidated Income Statement or equity, while a positive amount reflects a potential net increase. Investments in associates are excluded.

| | 30.6.2021 | | 31.12.2020 | |
|---|---|---|---|---|
| | **-10%** | **+10%** | **-10%** | **+10%** |
| Listed shares | (402,045) | 402,045 | (89,242) | 89,242 |
| Unlisted shares | (755,784) | 755,784 | (233,814) | 233,814 |
| Unlisted unit shares in other funds | (941,959) | 941,959 | (184,227) | 184,227 |
| **Total** | (2,099,788) | 2,099,788 | (507,283) | 507,283 |

**56. Operational risk**

a. Definition

Operational risk is the risk of direct or indirect loss from inadequate or failed internal processes or systems, from human error or external events that affect the Group's reputation and operational earnings.

b. Management

The individual business units within the Group are primarily responsible for managing their respective operational risk. The risk management unit is furthermore responsible for identifying, monitoring and reporting the Group's operational risk. Operational risk can be reduced through staff training, process re-design and enhancement of the control environment. The risk management unit monitors operational risk by tracking loss events, quality deficiencies, potential risk indicators and other early-warning signals. The unit takes an active role in internal control and quality management.

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## Financial assets and financial liabilities

**57. Accounting classification of financial assets and financial liabilities**

The accounting classification of financial assets and financial liabilities is specified as follows:

| **30.6.2021** **Financial assets** | **Amortised cost** | **Fair value through OCI** | **Manda-torily at fair value through P/L** | **Total carrying amount** |
|---|---|---|---|---|
| Cash and balances with Central Bank | 18,503,021 | | | 18,503,021 |
| Fixed income securities | | 25,034,072 | 20,347,483 | 45,381,555 |
| Shares and other variable income securities | | | 20,997,884 | 20,997,884 |
| Securities used for hedging | | | 27,071,266 | 27,071,266 |
| Loans to customers | 65,643,249 | | 2,197,450 | 67,840,699 |
| Derivatives | | | 2,162,027 | 2,162,027 |
| Other assets | 23,140,113 | | 28,544 | 23,168,657 |
| **Total** | 107,286,384 | 25,034,072 | 72,804,655 | 205,125,110 |

| **Financial liabilities** | **Amortised cost** | **Fair value through OCI** | **Manda-torily at fair value through P/L** | **Total carrying amount** |
|---|---|---|---|---|
| Deposits | 66,551,833 | | | 66,551,833 |
| Borrowings | 23,309,916 | | | 23,309,916 |
| Issued bills | 2,349,922 | | | 2,349,922 |
| Issued bonds | 25,265,542 | | | 25,265,542 |
| Subordinated liabilities | 4,503,723 | | | 4,503,723 |
| Short positions held for trading | | | 341,308 | 341,308 |
| Derivatives | | | 2,747,758 | 2,747,758 |
| Other liabilities | 17,970,956 | | 426,357 | 18,397,312 |
| **Total** | 139,951,893 | 0 | 3,515,423 | 143,467,315 |

| **31.12.2020** **Financial assets** | **Amortised cost** | **Fair value through OCI** | **Manda-torily at fair value through P/L** | **Total carrying amount** |
|---|---|---|---|---|
| Cash and balances with Central Bank | 28,945,030 | | | 28,945,030 |
| Fixed income securities | | 22,946,767 | 5,838,266 | 28,785,033 |
| Shares and other variable income securities | | | 5,072,830 | 5,072,830 |
| Securities used for hedging | | | 19,620,240 | 19,620,240 |
| Loans to customers | 26,579,121 | | 2,743,851 | 29,322,972 |
| Derivatives | | | 389,671 | 389,671 |
| Other assets | 5,112,881 | | 327,210 | 5,440,092 |
| **Total** | 60,637,033 | 22,946,767 | 33,992,067 | 117,575,867 |

| **Financial liabilities** | **Amortised cost** | **Fair value through OCI** | **Manda-torily at fair value through P/L** | **Total carrying amount** |
|---|---|---|---|---|
| Deposits | 59,924,683 | | | 59,924,683 |
| Borrowings | 26,424,340 | | | 26,424,340 |
| Issued bills | 2,003,608 | | | 2,003,608 |
| Issued bonds | 5,568,085 | | | 5,568,085 |
| Subordinated liabilities | 2,077,225 | | | 2,077,225 |
| Short positions held for trading | | | 1,520,547 | 1,520,547 |
| Short positions used for hedging | | | 731,987 | 731,987 |
| Derivatives | | | 1,750,346 | 1,750,346 |
| Other liabilities | 3,364,471 | | 386,001 | 3,750,472 |
| **Total** | 99,362,412 | 0 | 4,388,881 | 103,751,293 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**58. Financial assets and financial liabilities measured at fair value**

a. Fair value hierarchy classification

The fair value of financial assets and financial liabilities measured at fair value in the statement of financial position is classified into the fair value hierarchy as follows:

**30.6.2021**

| **Financial assets** | **Level 1** | **Level 2** | **Level 3** | **Carrying amount** |
|---|---|---|---|---|
| Mandatorily measured at fair value through profit and loss | | | | |
| Fixed income securities | 14,762,770 | 4,917,535 | 667,179 | 20,347,483 |
| Shares and other variable income securities | 10,965,133 | 4,968,030 | 5,064,722 | 20,997,884 |
| Securities used for hedging | 27,071,266 | | | 27,071,266 |
| Loans to customers | | | 2,197,450 | 2,197,450 |
| Derivatives | | 2,162,027 | | 2,162,027 |
| Other assets | | | 28,544 | 28,544 |
| Measured at fair value through other comprehensive income | | | | |
| Fixed income securities | 25,034,072 | | | 25,034,072 |
| **Total** | 77,833,241 | 12,047,592 | 7,957,894 | 97,838,726 |

| **Financial liabilities** | **Level 1** | **Level 2** | **Level 3** | **Carrying amount** |
|---|---|---|---|---|
| Mandatorily measured at fair value through profit and loss | | | | |
| Short positions held for trading | 341,308 | | | 341,308 |
| Short positions used for hedging | | | | 0 |
| Derivatives | | 2,747,758 | | 2,747,758 |
| Other liabilities | | | 426,357 | 426,357 |
| **Total** | 341,308 | 2,747,758 | 426,357 | 3,515,423 |

**31.12.2020**

| **Financial assets** | **Level 1** | **Level 2** | **Level 3** | **Carrying amount** |
|---|---|---|---|---|
| Mandatorily measured at fair value through profit and loss | | | | |
| Fixed income securities | 5,637,466 | | 200,799 | 5,838,266 |
| Shares and other variable income securities | 2,406,085 | 385,570 | 2,281,174 | 5,072,830 |
| Securities used for hedging | 19,620,240 | | | 19,620,240 |
| Loans to customers | | | 2,743,851 | 2,743,851 |
| Derivatives | | 389,671 | | 389,671 |
| Other assets | | | 327,210 | 327,210 |
| Measured at fair value through other comprehensive income | | | | |
| Fixed income securities | 22,946,767 | | | 22,946,767 |
| **Total** | 50,610,558 | 775,241 | 5,553,035 | 56,938,834 |

| **Financial liabilities** | **Level 1** | **Level 2** | **Level 3** | **Carrying amount** |
|---|---|---|---|---|
| Mandatorily measured at fair value through profit and loss | | | | |
| Short positions held for trading | 1,520,547 | | | 1,520,547 |
| Short positions used for hedging | 731,987 | | | 731,987 |
| Derivatives | | 1,750,346 | | 1,750,346 |
| Other liabilities | | | 386,001 | 386,001 |
| **Total** | 2,252,534 | 1,750,346 | 386,001 | 4,388,881 |

Transfers of fixed income securities from Level 1 to level 3 amounted to ISK 199 million during the period 2020.

Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

**58. Financial assets and financial liabilities measured at fair value (cont.)**

b. Reconciliation of changes in Level 3 fair value measurements

| **30.6.2021** | **Fixed income securities** | **Shares and other var. income securities** | **Loans to customers** | **Other assets** | **Other liabilities** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2021** | 200,799 | 2,281,174 | 2,743,851 | 327,210 | (386,001) | 5,167,034 |
| Total gains and losses in profit or loss | 28,631 | 357,806 | (12,351) | | (40,419) | 333,667 |
| Additions through a business combination | 227,182 | 2,715,968 | | | | 2,943,150 |
| Additions | 210,566 | 270,022 | 1,229,000 | | | 1,709,589 |
| Repayments | | | (1,763,050) | (298,667) | 63 | (2,061,653) |
| Disposals | | (560,249) | | | | (560,249) |
| Transfers in (out) of Level 3 | | | | | | 0 |
| **Balance as at 30 June 2021** | 667,179 | 5,064,722 | 2,197,450 | 28,544 | (426,357) | 7,531,537 |

| **31.12.2020** | **Fixed income securities** | **Shares and other var. income securities** | **Loans to customers** | **Other assets** | **Other liabilities** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | 1,480 | 1,766,071 | 2,346,662 | | (494,991) | 3,619,222 |
| Total gains and losses in profit or loss | (18) | 248,743 | 235,355 | 0 | (286,058) | 198,023 |
| Additions | | 298,594 | 1,539,245 | 327,210 | 0 | 2,165,049 |
| Repayments | | 0 | (1,377,411) | | 395,048 | (982,363) |
| Disposals | | (32,234) | | | | (32,234) |
| Transfers in (out) Level 3 | 199,337 | 0 | | | | 199,337 |
| **Balance as at 31 December 2020** | 200,799 | 2,281,174 | 2,743,851 | 327,210 | (386,001) | 5,167,034 |

c. Fair value measurements for Level 3 financial assets and liabilities

Level 3 assets consist primarily of illiquid, unlisted bonds, shares and share certificates and loans measured at fair value. Each asset is evaluated separately but assets within an asset group share a valuation method. The following valuation methods are in use in 2021:

| **Asset class** | **Method** | **Significant unobservable input** | **Range** | **Book value 30.6.2021** |
|---|---|---|---|---|
| Unlisted bonds | Expected recovery | Value of assets | 0-95% | 667,179 |
| Unlisted variable income securities | Market price | Recent trades | - | 5,064,722 |
| Loans to customers | Expert model | Value of assets and collateral | - | 2,197,450 |
| Receivables at fair value | Expert model | Information on turnover | - | 28,544 |
| **Total** | | | | 7,957,894 |

| **Asset class** | **Method** | **Significant unobservable input** | **Range** | **Book value 31.12.2020** |
|---|---|---|---|---|
| Unlisted bonds | Expected recovery | Value of assets | 0-95% | 200,799 |
| Unlisted variable income securities | Market price | Recent trades | - | 2,281,174 |
| Loan to customers | Expert model | Value of assets and collateral | - | 2,743,851 |
| Receivables at fair value | Expert model | Information on turnover | - | 327,210 |
| **Total** | | | | 5,553,035 |

Given the methods used, the possible range of the significant unobservable inputs is wide. When determining the values used the Group considers the financial strength of the entity in question, recent trades if any and multipliers for comparable instruments.

d. The effect of unobservable inputs in Level 3 fair value measurements

The Group believes its estimates represent appropriate approximations of fair value and that the use of different valuation methodologies and reasonable changes in assumptions or unobservable inputs would not significantly change the estimates.

A 10% change in the estimates would have the following effect on profit before taxes:

| | **+10%** | **-10%** |
|---|---|---|
| Shares and other variable income securities | 506,472 | (506,472) |
| Loans to customers | 219,745 | (219,745) |
| Unlisted bonds | 66,718 | (66,718) |
| Receivables at fair value | 2,854 | (2,854) |
| **Total** | 795,789 | (795,789) |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## Segment information

**59. Business segments**

Segment reporting is based on the same principles and structure as internal reporting to senior management and the Board of Directors. Segment performance is evaluated on profit before cost allocation and tax.

Reportable segments
The Group is reviewing its internal reporting and reportable segments following business combinations during the period and expects to make changes to it later during the year. The current segment reporting is based on the same setup as before the business combinations with the addition of TM tryggingar.

- Corporate Banking
  Corporate Banking offers various forms of banking services and related advisory services, in addition to providing specialised lending services.
- Corporate Finance
  Corporate Finance provides its customers with impartial and independent advice concerning purchases, sales and mergers and acquisitions of companies.
- Capital Markets
  Capital Markets offers securities and foreign currency brokerage, derivatives brokerage and forward contracts to clients, which include institutional investors, corporates and high net worth individuals.
- Proprietary Trading and Treasury
  Proprietary Trading and Treasury provide market making services to its clients as well as providing the Bank with treasury services.
- Asset Management
  Products and services offered include asset management involving both domestic and foreign assets, private banking, and private pension plans.
- TM tryggingar
  TM tryggingar offers its customers comprehensive insurance services, including life insurance.

Information about other divisions of the Group, e.g. non-revenue generating divisions, is presented under the heading Support functions and eliminations.

| 6m 2021 | Corporate Banking | Corporate Finance | Capital Markets | Proprietary trading and Treasury | Asset Management | TM tryggingar | Support functions and eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Net interest income ...................... | 1,316,220 | (10) | 122,966 | 189,300 | (16,822) | 191,859 | (28,397) | 1,775,116 |
| Net fee and commission income ... | 393,845 | 320,743 | 422,038 | 57,746 | 2,278,515 | (30,689) | 71,344 | 3,513,541 |
| Net premiums and claims ............. | 0 | 0 | 0 | 0 | 0 | 1,529,189 | 0 | 1,529,189 |
| Net financial income ..................... | 405,651 | (0) | (37) | 834,995 | 51,280 | 1,007,434 | 258,778 | 2,558,101 |
| Share in profit of associates .......... | (27,788) | 0 | 0 | 0 | 222 | 0 | 0 | (27,566) |
| Other operating income ............... | 200,929 | 0 | 2 | 1,807 | 45,924 | 10,791 | (41,997) | 217,456 |
| Net operating income | 2,288,858 | 320,732 | 544,969 | 1,083,847 | 2,359,118 | 2,708,584 | 259,729 | 9,565,837 |
| Salaries and related expenses ....... | (287,578) | (124,816) | (132,465) | (85,605) | (562,229) | (394,116) | (1,369,315) | (2,956,126) |
| Other operating expenses ............ | (550,317) | (8,364) | (50,864) | (33,554) | (521,541) | (454,821) | (427,842) | (2,047,302) |
| Net impairment ............................. | 99,802 | 0 | 0 | 0 | 0 | 12,625 | (8,600) | 103,827 |
| Reval. of contingent consideration | 0 | 0 | 0 | 0 | (40,419) | 0 | 0 | (40,419) |
| Profit (loss) before cost allocation a | 1,550,764 | 187,552 | 361,641 | 964,688 | 1,234,930 | 1,872,272 | (1,546,028) | 4,625,818 |
| Net segment revenue from external customers ................................ | 2,550,803 | 312,982 | 765,060 | 601,260 | 2,367,420 | 2,708,584 | 259,729 | 9,565,837 |
| Net segment revenue from other segments .................................. | (261,945) | 7,750 | (220,091) | 482,588 | (8,302) | 0 | 0 | 0 |

| 6m 2020 | Corporate Banking | Corporate Finance | Capital Markets | Proprietary trading and Treasury | Asset Management | TM tryggingar | Support functions and eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| Net interest income ...................... | 780,836 | (66) | 120,300 | (7,990) | (27,131) | - | 1,802 | 867,751 |
| Net fee and commission income ... | 269,222 | 166,770 | 491,800 | 84,473 | 2,010,329 | - | (8,950) | 3,013,644 |
| Net financial income ..................... | (77,354) | (0) | (2,636) | 220,099 | 25,462 | - | 56,392 | 221,963 |
| Share in profit of associates .......... | (17,764) | 0 | 0 | 0 | 6,456 | - | 0 | (11,308) |
| Other operating income ............... | 78,788 | 0 | 12 | 1,053 | 26,028 | - | (50,605) | 55,276 |
| Net operating income | 1,033,729 | 166,704 | 609,476 | 297,635 | 2,041,143 | - | (1,361) | 4,147,327 |
| Salaries and related expenses ....... | (139,238) | (129,003) | (143,067) | (108,539) | (578,654) | - | (673,092) | (1,771,594) |
| Other operating expenses ............ | (243,501) | (11,085) | (36,314) | (27,941) | (209,845) | - | (370,383) | (899,069) |
| Net impairment ............................. | (158,574) | (1,108) | 0 | 0 | (53,757) | - | 4,649 | (208,790) |
| Reval. of contingent consideration | 0 | 0 | 0 | 0 | (251,520) | - | 0 | (251,520) |
| Profit (loss) before cost allocation a | 492,417 | 25,508 | 430,095 | 161,155 | 947,367 | - | (1,040,187) | 1,016,354 |
| Net segment revenue from external customers .................................. | 1,015,326 | 110,614 | 889,919 | 59,185 | 2,041,143 | - | 31,139 | 4,147,327 |
| Net segment revenue from other segments .................................... | 18,403 | 56,090 | (280,443) | 238,449 | 1 | - | (32,500) | 0 |

Kvika banki hf. Amounts are in ISK thousands

# Notes to the Condensed Interim Consolidated Financial Statements

## Other information

### 60. Pledged assets

| 30.6.2021 | Settlement and committed facilities | Securities borrowing | Asset backed securities | Total |
|---|---|---|---|---|
| Cash and balances with Central Bank | 107,868 | 142,437 | 301,712 | 552,017 |
| Fixed income securities | 4,067,593 | 1,168,136 | 0 | 5,235,728 |
| Loans to customers | 8,765,437 | 0 | 11,105,231 | 19,870,668 |
| Other assets | 0 | 161,157 | 0 | 161,157 |
| **Total** | 12,940,897 | 1,471,729 | 11,406,943 | 25,819,570 |

| 31.12.2020 | Settlement and committed facilities | Securities borrowing | Asset backed securities | Total |
|---|---|---|---|---|
| Cash and balances with Central Bank | 0 | 1,457,323 | 0 | 1,457,323 |
| Fixed income securities | 3,984,688 | 906,073 | 0 | 4,890,761 |
| Other assets | 0 | 96,102 | 0 | 96,102 |
| **Total** | 3,984,688 | 2,459,498 | 0 | 6,444,186 |

The Group has pledged assets, in the ordinary course of banking business, to the Central Bank of Iceland to secure general settlement in the Icelandic clearing system and to secured committed facilities. Cash pledged to secure the borrowing of securities from other counterparties than the Central Bank of Iceland is classified as other assets. Furthermore, the Group has pledged loans to customers as collateral against asset backed bonds that it has issued.

### 61. Related parties

a. Definition of related parties

The Group has a related party relationship with the board members of the Bank, the CEO of the Bank and key employees (together referred to as management), associates as disclosed in note 23, shareholders with significant influence over the Bank, close family members of individuals identified as related parties and entities under the control or joint control of related parties.

b. Arm's length

Transactions with related parties are carried out at arm's length and subject to an annual review by the Bank's internal auditor.

c. Effects on statement of financial position

| 30.6.2021 | Loans & receivables | Deposits & payables |
|---|---|---|
| Management | 3 | 151,310 |
| Associates | 0 | 0 |
| **Total** | 3 | 151,310 |

| 31.12.2020 | Loans & receivables | Deposits & payables |
|---|---|---|
| Management | 1,851 | 83,166 |
| Associates | 0 | 0 |
| **Total** | 1,851 | 83,166 |

d. Effects on income statement

| 6m 2021 | Interest income | Interest expense | Fees received | Fees paid |
|---|---|---|---|---|
| Management | 56 | 13 | 567 | 6,886 |
| Associates | 0 | 0 | 0 | 0 |
| **Total** | 56 | 13 | 567 | 6,886 |

| 6m 2020 | Interest income | Interest expense | Fees received | Fees paid |
|---|---|---|---|---|
| Management | 0 | 487 | 1,362 | 10,560 |
| Associates | 10,379 | 209 | 26,279 | 0 |
| **Total** | 10,379 | 696 | 27,641 | 10,560 |

### 62. Events after the reporting date

There are no material events after the reporting date.