Consolidated Financial Statements

31 December 2020

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 Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") for the year 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and additional requirements in the Icelandic Financial Statement Act. The Consolidated Financial Statements comprise Kvika and its subsidiaries (together the "Group").

Kvika is a specialized bank focusing on asset management and investment services. The Bank operates four business segments, Asset Management, Corporate Finance, Corporate Banking and Capital Markets. Kvika provides businesses, investors and individuals with comprehensive investment banking and asset management services, as well as selected banking services. Kvika's Asset Management has an established reputation and offers solutions covering all major asset classes, including fixed-income securities, equities, and alternative investments in both domestic and international markets. At the end of December 2020 the Group had ISK 527 billion of assets under management, compared to ISK 426 billion at year end 2019. The Bank is listed on the main list of Nasdaq OMX Iceland.

Operations during 2020

Profit for the year amounted to ISK 2,273 million (2019: ISK 2,660 million), corresponding to an annualised 14.2% return on equity based on the equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. The Group's net operating income during the year was ISK 8,666 million (2019: ISK 7,426 million). Net interest income amounted to ISK 1,800 million (2019: ISK 1,776 million). Net fee income amounted to ISK 5,956 million (2019: ISK 4,804 million). Other operating income amounted to ISK 910 million (2019: ISK 846 million). Administrative expenses during the period amounted to ISK 5,724 million (2019: ISK 5,059 million).

The COVID-19 pandemic, and the uncertainty related to it, had a considerable impact on the Bank's operations and the global economy in general during 2020. The impact of the pandemic on the Bank falls into various categories, the most significant being increased operational complexity, lost opportunities and increased impairment of loans to customers. The pandemic caused operational complications, inconveniences and expenses as a result of restrictions on the number of employees that can share facilities at the same time. One positive effect of this is that the implementation of planned operational improvements was accelerated, especially in information technology. It is likely that the pandemic has caused some lost opportunities in lending and derivative contracts in particular. This effect has not been quantified and is possibly offset by opportunities that have arisen as a result of the pandemic, for example in asset management.

The expected economic impact of the pandemic is reflected in the economic scenarios that are used in the Expected Credit Loss calculation. Accumulated impairment due to expected credit losses in the loan portfolio has increased by approximately 40% since end of 2019. It is difficult to quantify exactly how much of this increase can be attributed only to the pandemic but in the Bank’s opinion it is the greater portion of the increase. 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 that while the Bank still expects to have to write off losses as the pandemic unwinds, these losses have already been reported in this year’s income statement. Asset value has not been impacted to any large extent and consequently collateral quality is in general considered to have remained strong.

During the year, the Group had a negative net impairment charge of ISK 317 million (2019: 314 million). The Group's income from loans to customers at

According to the Consolidated Statement of Financial Position, equity at the end of the period amounted to ISK 19,208 million (31.12.2019: ISK 15,515 million) and total assets amounted to ISK 123,335 million (31.12.2019: ISK 105,584 million).

The Group's total capital ratio at 31.12.2020 is 28.3% (31.12.2019: 24.1%). The Bank's minimum regulatory capital requirement based on Financial Supervisory Authority's Supervisory Review and Evaluation Process (SREP) is 15.1%. In March 2020, the Central Bank of Iceland lowered the countercyclical capital buffer to zero. The minimum regulatory capital requirement including the additional capital requirements imposed following the implementation of CRD IV is 20.6% as at 31 December 2020.

The Bank maintains a strong liquidity position. The Bank's assets are liquid and its access to funding is good, reflected in ample liquidity position. At the end of December 2020 the Group's 30 day liquidity coverage ratio (LCR) was 266%, well above the minimum level of 100%.

The Bank's Board of Directors propose that no dividend will be paid in the year 2021 on 2020 operations.

Discussions on the proposed merger of Kvika banki hf. and TM hf.

In November 2020 the Boards of Directors of Kvika banki hf., TM hf. and Lykill fjármögnun hf. approved the merger of the three companies, following the conduction of mutual due diligence. According to the merger agreement, TM will transfer its insurance operations to its subsidiary, TM tryggingar hf. This will be followed by a tripartite merger of Kvika, TM and Lykill. TM tryggingar hf. will subsequently become a subsidiary of the merged company. The merger agreement contains conditions of regulatory approval as well as shareholder approval and that the transfer of TM's insurance portfolio to TM tryggingar will be carried out in accordance with the merging parties' existing proposals. According to the merger agreement, TM's shareholders will receive, in return for their shares in TM, 2,509,934,076 shares in Kvika; this payment will be made with the issuance of new share capital. The number of issued shares in Kvika was 2,103,635,839 on the merger agreement date and therefore TM's shareholders will receive a 54.4% share of the issued share capital in Kvika, based on the issued share capital on that date. Kvika may issue new share capital until the delivery date on the basis of the current contractual obligations which apply thereto and as a result this ratio may change prior to the delivery date. The merged company will be a financially strong undertaking with a broad revenue base, that will be able to offer its customers a wide range of services in all major areas of financial and insurance services. The companies' Boards consider it realistic to expect that the conditions of the merger agreement will be satisfied and that the companies will in fact be merged in the first quarter of 2021.

Endorsement and Statement
by the Board of Directors and the CEO

Operational outlook

The Bank is well funded and has ample liquidity in both ISK and foreign currencies. Successfully executed mergers have increased recurring revenues and reduced fluctuations in operations, in addition to the fact that various opportunities accompany Kvika's unique position as the only bank that does not operate a network of branches and enjoys an efficient operational structure. The emphasis will continue to be on strengthening the Bank's foundations in order to enable it to seize those opportunities that exist and, as before, the emphasis will be on operations that are not capital intensive, carry less risk and result in higher returns on equity. It is anticipated that the balance sheet will grow and that the loan portfolio will continue to be diversified with regards to its risk profile.

Kvika is faced with numerous opportunities in the coming year, the most significant of which are the strengthening and integration of the Group's fintech solutions, e.g. Netgíró hf., which was acquired in January 2021. Emphasis will be placed on investments in the Group's infrastructure and human resources, as well as continuing the build-up of the operations in London. The objectives for the next three years are for Kvika's asset management to be the highest grossing asset management operations in the country, to have the highest grossing corporate finance operations, one of the two capital markets operations with the highest turnover and the most profitable banking division in the country.

Economic outlook

The Icelandic economy is currently operating under significant slack as most forecasts indicate that GDP contracted by 8% last year. The tourism sector has witnessed a dramatic reduction in turnover due to the COVID-19 pandemic, as well as most businesses and operations requiring in-person services. High unemployment and the ability of affected businesses to reboot after massive shortfalls in income are the main points of concern going forward. Government measures have managed to mitigate some of the effects of the economic shock, but private investment has been at a standstill despite measures meant to induce bank lending and the lowering of policy rates. The housing market has been supported by Central Bank action and remains relatively robust, although increased household debt is being closely followed. The economy is severely tainted by uncertainty and social restrictions have significantly reduced the ability of labour to flow between sectors as a response to layoffs. The effects of this crisis are not equally shared, however. Households unaffected by widespread layoffs have not experienced a fall in disposable income due to modest inflation, and asset prices have risen across the board. Those without work and businesses in certain sectors of the economy are thus disproportionately affected. An unbalanced recovery is the biggest risk, if imbalances start building up under these circumstances, as well as the spread throughout the economy of the currently contained income problem among certain households and businesses. Limited private investment and a slow job recovery, alongside increased household lending and pent up consumer demand released post-restrictions, could have overheating effects on the economy if demand is in excess of supply. Most forecasts assume a bounce-back in economic output amounting to a third of last year's shock, however, the recovery is fragile as social restrictions are now expected to weigh on the economy throughout the summer.

Share capital and shareholders

The Bank's issued share capital amounted to ISK 2,141 million as at 31 December 2020 (31.12.2019: ISK 1,995 million). At the end of the year the Bank held no treasury shares (31.12.2019: ISK 50 million). The Bank's share capital was increased by a nominal value of ISK 146 million during the year.

At the Bank's annual general meeting, which was held on 26 March 2020, the shareholders approved a resolution permitting the Bank to purchase up to 10% of own shares subject to regulatory approvals. This authorisation applies until the Bank´s annual general meeting in 2021. No shares have been purchased pursuant to this authorisation to date.

The Bank had 990 shareholders at year-end 2020 (2019: 826), none of which held more than 10% of shares in the Bank (2019: 0). The ten largest shareholders are as follows:

Shareholder	31.12.2020	31.12.2019
Stoðir hf.	8.24%	-
Lífeyrissjóður verzlunarmanna	7.57%	8.77%
SNV holding ehf.	6.24%	6.69%
Lífeyrissj.starfsm.rík. A-deild	5.86%	2.19%
Vátryggingafélag Íslands hf.	4.32%	4.71%
Lífsverk lífeyrissjóður	2.89%	3.11%
Sindrandi ehf.	2.88%	3.10%
Almenni lífeyrissjóðurinn	2.64%	2.54%
Gani ehf.	2.45%	-
Birta lífeyrissjóður	2.30%	1.48%
	45.40%	32.58%

Further information about the shareholders of the Bank is provided in note 66.

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 Consolidated Financial Statements. Refer to notes 40-56 on analysis of exposure to various types of risk.

Endorsement and Statement
by the Board of Directors and the CEO

Corporate governance

Kvika is obliged to observe recognised corporate governance guidelines, pursuant to Par. 7 of Article 54 of Act No. 161/2002, on Financial Undertakings. The Bank complies with the Guidelines on Corporate Governance issued jointly in 2015 by the Chamber of Commerce, NASDAQ Iceland and the Confederation of Icelandic Employers in most respects. The only deviation from the guidelines is that Kvika has not appointed a nomination committee nor decided how one should be appointed as further discussed in an appendix to these financial statements, which contains a corporate governance statement. In 2018 Kvika was recognized as a company which has achieved excellence in corporate governance following a formal assessment based on the Icelandic Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, SA – Business Iceland and Nasdaq Iceland. The recognition applies for three years at a time unless there have been significant changes to the Board of Directors or the ownership of the Bank. The Board of Directors intends to have such an assessment carried out on a regular basis and maintain the aforementioned recognition.

In accordance with the Bank´s articles of association, five members and two alternate members are elected to the Board of Directors each year at the Annual General Meeting. The eligibility of members of the Board is subject to statutory law. It is the Bank´s policy concerning election of the Board of Directors that the Board collectively has sufficient knowledge, competency and experience to understand the Bank´s operations, including the main risk factors. The ratio of each gender of members of the Board and alternate members shall be at least 40%. The election of Board members is furthermore governed by the provisions of the Act on Public Limited Liability Companies No. 2/1995 and the Act on Financial Undertakings No. 161/2002.

The Bank´s articles of association may be amended at lawfully convened shareholders´ meetings, provided that the notice of the meeting specifies that proposals for such amendments are scheduled and outlines the main substance of the amendments. An amendment takes effect only if approved by at least 2/3 of the votes cast and by shareholders controlling at least 2/3 of the shares represented at the meeting. However, the provisions of the articles of association regarding the voting rights of shareholders and equality among them cannot be amended except with the consent of all the shareholders who are subject to the curtailment of rights, cf. paragraph 3 of Article 94 of the Act on Public Limited Liability Companies No. 2/1995.

The Board of Directors emphasizes good corporate governance and adherence to accepted guidelines on corporate governance. The Board has laid down comprehensive rules in which the authority of the Board is defined and its scope of work in conjunction with the CEO. They address e.g. competence of Board members to participate in individual decisions, confidentiality and information disclosure between the CEO and the Board. The majority of Board members are independent of the Bank and there are no executive directors on the Board. The Bank aims to promote gender equality and two out of five board members are women.

The Board determines compensation for the CEO. The Board of Directors has delegated certain tasks to three separate subcommittees, the Risk Committee, Audit Committee and Remuneration Committee. In accordance with the Bank's articles of association, three members have been appointed to each committee, thereof at least two Board members. It is not permitted to appoint employees of the Bank to any subcommittee. Members shall have the necessary experience and knowledge for each committee's tasks according to applicable laws and rules. Each committee has incorporated procedural rules which have been confirmed by the Board of Directors.

Further information about the Bank's corporate governance can be found in an appendix to these financial statements which contains a corporate governance statement. A signed copy of the statement is available on the Bank's website, www.kvika.is.

Corporate social responsibility and non-financial reporting

Kvika's value is long-term thinking and the Bank's policy is to have a positive long-term impact on the community that supports sustainability. This means that when decisions are made their long-term effect are always taken into consideration, equally whether they concern internal matters of the Bank or its customers or community matters. Kvika has approved a CSR policy that covers shared vision for the Bank's priorities and emphasis in social matters, where the Bank is headed, and Kvika's obligations and commitments.

Responsible decision making is discussed in the Bank's code of ethics, which reflects its values and policy. The code of ethics applies to the Bank's employees and contains instructions and criteria that employees can follow when making decisions. The code of ethics is approved by the Bank's board of directors.

Kvika became a signatory and adopted the United Nations Principles for Responsible Investment (UN PRI) in the autumn of 2020. The UN PRI is an independent organization that promotes responsible investments. The UN PRI's principles aim to promote sustainable long-term thinking when making investment decisions. In December 2020, Kvika approved a policy on responsible lending and investment, taking into account the principles of UN PRI.

In accordance with the provisions of the Icelandic Financial Statement Act on non-financial disclosure, Kvika discusses the Bank's status with regard to its development, scope and impact, in connection with environmental, social and employee matters, in an unaudited appendix to this financial statement, along with information regarding human rights and how the Bank counteracts corruption and bribery. It also discusses other relevant factors of Kvika's CSR.

Kvika's non-financial reporting is supported by key indicators that comply with Nasdaq's ESG reporting guide for Iceland and the Nordic countries. Kvika has in the year 2020 put great emphasis on shaping the ESG aspects of its operations with policies and procedures. The results of that work is reflected in Kvika's ESG report for the operating year 2020, which will be published on the Bank's website.

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 Consolidated Financial Statements of Kvika banki hf. for the year 2020 comply with International Financial Reporting Standards 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 31 December 2020 and the financial performance of the Group and changes of cash flows for the year 2020.

Further, in our opinion the 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 Consolidated Financial Statements for the year 2020, and confirm them by the means of their signatures.

Reykjavík, 17 February 2021.

Board of Directors

Sigurður Hannesson
Chairman

Guðmundur Þórðarson
Deputy Chairman

Hrönn Sveinsdóttir

Inga Björg Hjaltadóttir

Guðjón Reynisson

Chief Executive Officer

Marinó Örn Tryggvason

The consolidated financial statements of Kvika banki hf. for the year ended 31 December 2020 is electronically certificated by the Board of Directors and the CEO.

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Kvika banki hf. for the year ended December 31, 2020 which comprise, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Kvika banki hf. as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Our opinion in this report on the consolidated financial statements is consistent with the content of the additional report that has been submitted to the company´s audit committee in accordance with the EU Audit Regulation 537/2014 Article 11.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Kvika banki hf. in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	**How the matter was addressed in our audit**
Impairment charges for loans	
Loans for the group amounted to ISK 29,860 million at year end and the total allowance account for the group amounted to ISK 568 million against loans at amortized cost, unused credit facilities and guarantees at 31 December 2020. Measurement of loan impairment charges is considered a key audit matter as the determination of assumptions for expected credit losses is highly subjective due to the level of judgement applied by management. The most significant judgements are: • Assumptions used in the expected credit loss models to incorporate future looking information. • Timely identification of exposures with significant increase in credit risk and credit impaired exposures. • Valuation of collateral and assumptions of future cash flows on manually assessed credit-impaired exposures. • Management overlays for particular exposures, which are not appropriately captured in the expected credit loss model. Management has provided further information about the loan impairment charges and provisions for guarantees in notes 20, 44 and 80 to the consolidated financial statements.	Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans and provisions for undrawn loan commitments and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter. During our audit we have evaluated whether the groups expected credit loss models are compliant to IFRS 9. Our examination included the following elements: • Testing of key controls over assumptions used in the expected credit loss models. • Substantively testing the valuation of collateral with particular focus on management overlays applied to collateral value. • Substantively testing the PD model from Credit Info and how it has been calibrated to represent the banks portfolio. • Testing the appropriateness of forward looking information and how they have been applied in the expected credit loss models. • We have reviewed the disclosures to the consolidated financial statements to confirm compliance with IFRS.

Independent Auditors' Report

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the report of board of directors, appendixes with Statement of the Corporate Governance and Non-Financial information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing Kvika banki hf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kvika banki hf.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

In addition to our work as the auditors of Kvika banki hf., Deloitte has provided the firm with permitted additional services such as review of interim financial statements, other assurance engagements and consultation on tax matters. Deloitte has in place internal procedures in order to ensure its independence before acceptance of additional services. Deloitte has provided to the audit committee written confirmation that Deloitte is independent of Kvika banki hf.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte was appointed auditor of Kvika banki hf. by the general meeting of shareholders on 26 March. 2020. Deloitte have been elected since the general meeting 2016.

Kópavogur, 17 February 2021.

Deloitte ehf.

Pálína Árnadóttir	Guðmundur Ingólfsson
State Authorized Public Accountant	State Authorized Public Accountant

The consolidated financial statements of Kvika banki hf. for the year ended December 31, 2020 is electronically certificated by the auditors.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Income Statement
For the year 2020

	Notes	2020	2019
Interest income		3,719,984	4,977,846
Interest expense		(1,919,810)	(3,201,925)
Net interest income	3	1,800,174	1,775,921
Fee and commission income		6,149,794	5,009,174
Fee and commission expense		(194,136)	(204,952)
Net fee and commission income	4	5,955,659	4,804,222
Net financial income	5	832,595	668,199
Share in (loss) profit of associates, net of income tax	23	(7,427)	31,982
Other operating income		85,048	145,313
Other operating income		910,215	845,494
Net operating income		8,666,048	7,425,637
Administrative expenses	7-10	(5,723,554)	(5,058,704)
Net impairment	11	(317,468)	(313,548)
Revaluation of contingent consideration		(286,058)	447,463
Profit before taxes		2,338,969	2,500,848
Income tax	12	28,277	361,911
Special tax on financial activity	13	(16,613)	(57,141)
Special tax on financial institutions	14	(77,402)	(145,166)
Profit for the year		2,273,231	2,660,451

	Notes	2020	2019
Attributable to the shareholders of Kvika banki hf.		2,348,621	2,662,021
Attributable to non-controlling interest	22	(75,390)	(1,570)
Profit for the year		2,273,231	2,660,451
Earnings per share	15		
Basic earnings per share (ISK per share)		1.10	1.41
Diluted earnings per share (ISK per share)		1.02	1.27

The notes on pages 15 to 65 are an integral part of these Consolidated Financial Statements.

Amounts are in ISK thousands

Consolidated Statement of Comprehensive Income

For the year 2020

	Notes	2020	2019
Profit for the year		2,273,231	2,660,451
Changes in fair value of financial assets through OCI, net of tax		20,887	0
Realized net gain transferred to the Income Statement, net of tax		948	0
Changes to reserve for financial assets at fair value through OCI		21,834	0
Exchange difference on translation of foreign subsidiaries		48,935	17,609
Other Comphrehensive income that is or may be reclassified subsequently to profit and loss		70,769	17,609
Total comprehensive income for the year		2,344,000	2,678,060

	Notes	2020	2019
Attributable to the shareholders of Kvika banki hf.		2,419,390	2,679,630
Attributable to non-controlling interest		(75,390)	(1,570)
Total comprehensive income for the year		2,344,000	2,678,060

The notes on pages 15 to 65 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Financial Position

As at 31 December 2020

Assets	Notes	31.12.2020	31.12.2019
Cash and balances with Central Bank	16	28,945,030	26,818,231
Fixed income securities	17	28,785,033	8,097,169
Shares and other variable income securities	18	5,072,830	3,659,208
Securities used for hedging	19	19,620,240	24,274,769
Loans to customers	20	29,322,972	30,105,643
Derivatives	21	389,671	1,259,833
Investment in associates	23	42,240	776,490
Investment properties	24	1,016,905	1,016,553
Intangible assets	26	3,562,621	3,283,256
Property and equipment		162,373	596,336
Deferred tax assets	27	835,816	872,972
Other assets	28	5,440,092	4,823,577
Total assets		123,195,821	105,584,035

Liabilities			
Deposits	29	59,924,683	51,479,732
Borrowings	30	26,424,340	22,058,747
Issued bills	31	2,003,608	3,945,306
Issued bonds	32	5,568,085	4,261,308
Subordinated liabilities	33	2,077,225	1,999,530
Short positions held for trading	34	1,520,547	1,239,916
Short positions used for hedging	35	731,987	0
Derivatives	21	1,750,346	1,282,341
Current tax liabilities		341	136,395
Deferred tax liabilities	27	236,186	268,613
Other liabilities	36	3,750,472	3,396,965
Total liabilities		103,987,820	90,068,852

Equity			
Share capital	37	2,141,002	1,945,366
Share premium		4,290,521	3,115,992
Other reserves		5,014,902	4,101,662
Retained earnings		7,740,546	6,292,189
Total equity attributable to the shareholders of Kvika banki hf.		19,186,971	15,455,209
Non-controlling interest		21,030	59,974
Total equity		19,208,001	15,515,183
Total liabilities and equity		123,195,821	105,584,035

The notes on pages 15 to 65 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Changes in Equity

For the year 2020

				Other reserves									
1 January 2020 to 31 December 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 year										2,348,621	2,348,621	(75,390)	2,273,231
Changes in fair value through OCI							26,108				26,108		26,108
Realized net gain transferred to the Income Statement							1,185				1,185		1,185
Translation of foreign operations													
Exchange difference on translation of foreign subsidiaries								48,935			48,935		48,935
Total comprehensive income for the year		0	0	0	0	0	27,293	48,935	0	2,348,621	2,424,848	(75,390)	2,349,458
Restricted retained earnings									901,739	(901,739)	0		0
Transactions with owners of the Bank													
Capital increase		195,637	1,108,806								1,304,443	36,446	1,340,889
Stock options				2,471							2,471		2,471
Stock options excercised			8,683	(10,158)						1,475	0		0
Warrants exercised	38		57,038		(57,038)						0		0
Equity as at 31 December 2020		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

The notes on pages 15 to 65 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Changes in Equity

For the year 2019

				Other reserves									
1 January 2019 to 31 December 2019	**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 2019		1,844,996	2,881,165	4,297	202,527	3,103,697	0	(12,023)	506,896	4,376,900	12,908,454	61,544	12,969,998
Impact of adopting IFRS 16										(32,637)	(32,637)		(32,637)
Restated opening balance under IFRS 16		1,844,996	2,881,165	4,297	202,527	3,103,697	0	(12,023)	506,896	4,344,263	12,875,818	61,544	12,937,362
Profit for the year										2,662,021	2,662,021	(1,570)	2,660,451
Translation of foreign operations													
Exchange difference on translation of foreign subsidiaries								17,609			17,609		17,609
Total comprehensive income for the year		0	0	0	0	0	0	17,609	0	2,662,021	2,679,630	(1,570)	2,678,060
Restricted retained earnings									271,296	(271,296)	0		0
Transactions with owners of the Bank													
Capital increase		150,369	705,149								855,518		855,518
Transactions with own shares		(50,000)	(470,322)								(520,322)		(520,322)
Dividend paid to shareholders										(442,799)	(442,799)		(442,799)
Stock options				3,390							3,390		3,390
Warrants sold					43,424						43,424		43,424
Warrants exercised					(39,450)						(39,450)		(39,450)
Equity as at 31 December 2019		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

The notes on pages 15 to 65 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Cash Flows
For the year 2020

Cash flows from operating activities	Notes	2020	2019
Profit for the year		2,273,231	2,660,451
Adjustments for:			
Indexation and exchange rate difference		(1,458,673)	(12,337)
Share in (profit) loss of associates, net of income tax	23	7,427	(31,982)
Depreciation and amortisation		301,238	155,809
Net interest income		(1,800,174)	(1,775,921)
Net impairment		334,773	313,548
Income tax		(28,277)	(361,911)
Other adjustments		87,851	(454,306)
		(282,605)	493,351
Changes in:			
Fixed income securities		(20,660,571)	(2,969,834)
Shares and other variable income securities		(1,413,622)	(337,231)
Securities used for hedging		4,654,529	(2,747,975)
Loans to customers		1,109,130	(585,063)
Derivatives - assets		870,162	(46,567)
Other assets		(500,618)	(430,794)
Deposits		8,255,394	2,796,289
Short positions		1,012,619	434,582
Derivatives - liabilities		468,005	688,407
Other liabilities		538,821	613,927
		(5,666,153)	(2,584,258)
Interest received		3,440,541	4,731,940
Interest paid		(1,653,626)	(3,011,540)
Net cash to operating activities		(4,161,843)	(370,506)
Cash flows from investing activities			
Acquisition of intangible assets	26	(354,053)	(195,634)
Proceeds from the sale of property and equipment		169,536	(108,960)
Dividend from assoiciates		7,500	7,500
Acquisition of subsidiary, net of cash		0	(1,055,505)
Net sale (investment) in associates		363,000	0
Lease receivable payments		28,430	26,514
Net cash from (to) investing activities		214,413	(1,326,085)
Cash flows from financing activities			
Borrowings		5,672,370	6,365,359
Issued bills		(1,941,697)	367,588
Increase in share capital		1,361,462	335,197
Increase (decrease) in warrants		(57,018)	3,973
Dividend paid to shareholders		0	(442,799)
Lease payments		(197,076)	(84,119)
Net cash from financing activities		4,838,040	6,545,198
Net increase in cash and balances with Central Bank		890,610	4,848,607
Cash and balances with Central Bank at the beginning of the year		26,818,231	21,339,185
Change in cash and cash equivalents due to acquisition of subsidiary		0	20,538
Effects of exchange rate fluctuations on cash and balances with Central Bank		1,236,189	609,901
Cash and balances with Central Bank at the end of the year	16	28,945,030	26,818,231

The notes on pages 15 to 65 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Notes to the 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").

The Consolidated Financial Statements for the year ended 31 December 2020 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). Kvika is a specialized bank focusing on asset management and investment services. The Bank operates four business segments, Asset Management, Corporate Finance, Corporate Banking and Capital Markets. Kvika provides businesses, investors and individuals with comprehensive investment banking and asset management services as well as selected banking services.

The Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 17 February 2021.

2. Basis of preparation

a. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act.

b. Basis of measurement

The 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; and
- short positions are measured at fair value.

c. Functional and presentation currency

The 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 31 December 2020.

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 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 Consolidated Financial Statements is provided in note 106.

f. Relevance and importance of notes to the reader

In order to enhance the informational value of the 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.

g. Relevance and importance of notes to the reader

The COVID-19 pandemic and the extraordinary challenges it has created had an impact on the operation and assets of the Bank. This impact is best quantified in its effect on the Bank's loan portfolio. For further details see notes 44 and 80.

Kvika banki hf.	Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Income statement

3. Net interest income

Interest income is specified as follows:

	2020	2019
Cash and balances with Central Bank	394,169	817,716
Derivatives	638,724	1,488,360
Loans to customers	2,433,211	2,561,705
Fixed income securities (FVOCI)	140,067	0
Other interest income	113,813	110,064
Total	3,719,984	4,977,846

Interest expense is specified as follows:

	2020	2019
Deposits	763,176	1,496,257
Borrowings	647,679	1,068,823
Issued bills	73,266	189,208
Issued bonds	134,078	168,677
Subordinated liabilities	206,285	178,985
Derivatives	6,175	14,700
Other interest expense*	89,150	85,274
Total	1,919,810	3,201,925

* Thereof are lease liabilities' interest expense amounting to ISK 22 million (2019: ISK 16 million)

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 2,731 million (2019: ISK 3,304 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 1,913 million (2019: ISK 3,187 million).

4. 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 60.

Net fee and commission income by business segment	2020	2019
Corporate Banking	639,258	598,836
Corporate Finance	381,015	462,903
Capital Markets	920,269	825,149
Proprietary trading and Treasury	150,015	120,504
Asset Management	3,801,907	2,925,112
Support functions and eliminations	63,194	(128,282)
Total	5,955,659	4,804,222

5. Net financial income

Net financial income is specified as follows:

	2020	2019
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities	399,893	142,123
Shares and other variable income securities	474,696	509,755
Derivatives	28,163	(48,914)
Loans to customers	6,684	49,118
Foreign currency exchange difference	(76,841)	16,118
Total	832,595	668,199

6. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	2020	2019
Gain on financial instruments at fair value through profit and loss	228,247	325,719
Loss on other financial instruments	(305,088)	(309,602)
Total	(76,841)	16,118

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

7. Administrative expenses

Administrative expenses are specified as follows:	2020	2019
Salaries and related expenses	3,622,983	3,336,695
Other operating expenses	1,758,834	1,483,029
Depositors' and Investors' Guarantee Fund contributions	35,366	83,171
Depreciation and amortisation	133,907	138,138
Depreciation of right of use asset	172,463	17,671
Total	5,723,554	5,058,704

8. Salaries and related expenses

Salaries and related expenses are specified as follows:	2020	2019
Salaries	2,816,240	2,504,339
Performance based payments excluding share-based payments	34,175	96,755
Share-based payment expenses	2,471	3,390
Pension fund contributions	380,309	349,371
Tax on financial activity	162,627	177,827
Other salary related expenses	227,161	205,013
Total	3,622,983	3,336,695
Average number of full time employees during the year	144	130
Total number of full time employees at year-end	160	132

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% (2019: 5.50%).

9. Employment terms of the Board of Directors and management

Salaries and benefits paid to the Board of Directors, the CEO and Managing Directors, including the Deputy CEO, of the Bank for their work for companies within the Group, and their shareholding in the Bank, are specified as follows:

			31.12.2020			31.12.2019
	Salaries and benefits	Number of shares	Warrants & options	Salaries and benefits	Number of shares	Warrants & options
Marinó Örn Tryggvason, CEO (from 01.06.2019)*	51,397	2,093	14,667	30,655	0	22,093
Ármann Þorvaldsson, former CEO (until 31.05.2019)*	0			17,438	0	0
Sigurður Hannesson, Chairman of the Board and member of the Risk and Remuneration committees	11,673	8,550	0	0	0	0
Guðmundur Þórðarson, Deputy Chairman of the Board and chairperson of the Risk committee	8,299	133,500	0	8,986[2]	133,500	0
Inga Björg Hjaltadóttir, Board member and member of the Remuneration and Audit committees	10,163	0	0	12,616[3]	0	0
Hrönn Sveinsdóttir, Board member and chairperson of the Audit committee	8,299	500	0	9,151[4]	500	0
Guðjón Karl Reynisson, Board member and chairperson of the Remuneration committee	8,472	10,411	0	10,306[5]	10,166	0
Albert Þór Jónsson, alternate Board member	489	0	0	0	0	0
Kristín Pétursdóttir, former Board member and former member of the Risk and Remuneration committees	3,968	0	0	18,545[1]	7,900	0
Kristín Guðmundsdóttir, former alternate Board member and former member of the Risk and Audit committees	1,755	0	0	5,049	419	0
Managing Directors (2020: 6 (on average: 6), 2019: 6 (on average: 5.3))	283,518	31,804	73,333	229,584	27,138	103,966
Former Managing Directors	0	0	0	59,130	0	0
Total	388,032	186,858	88,000	401,458	179,622	126,059

* *Figures for salaries and benefits relate to the period as CEO during the year.*

In January 2019, ISK 11 million in compensation for participation in Board committees for the year 2018 were expensed and paid which should have been included in the 2018 Consolidated Financial Statements. Due to the aforementioned the salaries and benefits figures for members of the Board of Director's for 2019 and 2020 are not directly comparable.

1) Of which, ISK 3,024 thousand relate to compensation for participation in Board committees for the year 2018, 2) of which ISK 1,458 thousand relate to compensation for participation in Board committees for the year 2018, 3) of which ISK 2,970 thousand relate to compensation for participation in Board committees for the year 2018, 4) of which ISK 1,458 thousand relate to compensation for participation in Board committees for the year 2018 and, 5) of which ISK 1,980 thousand relate to compensation for participation in Board committees for the year 2018.

Notes to the Consolidated Financial Statements

9. Employment terms of the Board of Directors and management (cont.)

Salaries and benefits are substantially all short-term employee benefits. Salaries and benefits paid to members of the Board of Directors include compensation for their participation in Board committees.

The CEO and the managing directors received performance based payments in 2020. Changes were made to the senior management of the Bank in 2019, and as a result the salaries and benefits figures for managing directors for 2020 and 2019 are not directly comparable.

Figures for shares, share options and warrants are in thousands and include shares held by companies owned by or under the control of the respective parties as at 31 December 2020 and 31 December 2019. If the holdings are held indirectly through companies, then the pro rata ownership of the aforementioned persons has been included.

The Bank has defined the Deputy CEO and two Managing Directors as Key Employees, as defined in Act No. 161/2002 on Financial Undertakings. Furthermore the Bank has approved and published internal rules covering the qualification requirements, evaluation process and conduct of Key Employees, in accordance with requirements set forth by the Financial Supervisory Authority of the Central Bank.

The Bank has adopted a remuneration policy which covers three remuneration components, base pay, performance based incentive scheme and other benefits, including pension fund contributions. Further information about the remuneration policy is provided in notes 63-65.

10. Auditor's fees

Remuneration to the Group's auditors is specified as follows:

	2020	2019
Audit of annual accounts	67,009	46,859
Review of interim accounts	11,180	12,659
Other audit related services	3,436	4,211
Total	81,625	63,729
Thereof to the auditors of the Bank	50,320	48,095

11. Net impairment

	2020	2019
Net change in impairment of loans	158,956	178,417
Net change in impairment of other assets	147,346	131,507
Net change in impairment of loan commitments, guarantees and unused credit facilities	11,166	3,625
Total	317,468	313,548

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

12. Income tax

The Bank and most of its subsidiaries will not pay income tax on its profit for 2020 due to the fact that it has a tax loss carry forward that offsets the calculated income tax. At year end 2020, the tax loss carry forward of the Group amounted to ISK 6.6 billion. A substantial part of the tax loss carry forward is utilisable until end of year 2025. 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. The deferred tax asset is recognised only to the extent that it is probable to be utilisable against future taxable profits. The deferred tax asset is reviewed at each reporting date. Refer to note 27 for more information on the deferred tax asset.

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%)

Reconciliation of effective tax rate:

		2020		2019
Profit before tax		2,338,969		2,500,848
Income tax using the domestic corporation tax rate	20.0%	(467,794)	20.0%	(500,170)
Non-deductible expenses	0.0%	(1,137)	0.1%	(1,604)
Non-taxable income	(12.6%)	293,712	(13.6%)	340,453
Recognition of tax losses	(10.8%)	252,325	(29.6%)	739,948
Other changes	2.1%	(48,830)	8.7%	(216,716)
Effective income tax	(1.2%)	28,277	(14.5%)	361,911

Profit before tax amounts to ISK 2,339 million. Income tax amounts to ISK 28 million, resulting in an effective tax rate of -1.2%. This is substantially different from the Icelandic corporate tax rate of 20%, mainly due to non-taxable income from shares and revaluation of the deferred tax asset.

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% (2019: 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% (2019: 0.376%) 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.

	2020	2019
Net earnings attributable to equity holders of the Bank	2,348,621	2,662,021
Weighted average number of outstanding shares	2,141,002	1,883,931
Adjustments for warrants and stock options	161,879	217,212
Total	2,302,882	2,101,142
Basic earnings per share (ISK)	1.10	1.41
Diluted earnings per share (ISK)	1.02	1.27

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Statement of Financial Position

16. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

	31.12.2020	31.12.2019
Deposits with Central Bank	21,379,857	19,106,515
Cash on hand	11,649	6,845
Balances with banks	3,405,876	2,268,540
Foreign treasury bills	1,739,281	2,956,550
Included in cash and cash equivalents	26,536,663	24,338,450
Restricted balances with Central Bank - average maintenance level	0	853,192
Restricted balances with Central Bank - fixed reserve requirement	952,636	853,192
Receivables from Central Bank	1,455,730	773,398
Total	28,945,030	26,818,231

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	31.12.2020	31.12.2019
Listed government bonds and bonds with government guarantees	2,890,226	3,434,851
Listed bonds	1,412,239	3,700,392
Unlisted bonds	1,535,801	961,925
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees	22,238,024	0
Listed treasury bills	708,743	0
Total	28,785,033	8,097,169

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	31.12.2020	31.12.2019
Listed shares	892,423	1,271,325
Unlisted shares	2,338,138	1,694,493
Unlisted unit shares	1,842,269	693,390
Total	5,072,830	3,659,208

19. Securities used for hedging

Securities used for hedging are specified as follows:

	31.12.2020	31.12.2019
Listed government bonds and bonds with government guarantees	7,115,854	8,006,643
Listed bonds	2,147,393	2,366,621
Listed shares	9,890,103	13,822,091
Unlisted unit shares	466,891	79,414
Total	19,620,240	24,274,769

20. Loans to customers

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

	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

	Individuals		**Corporates**		**Total**	
31.12.2019	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	4,790,146	4,780,053	23,365,514	22,978,928	28,155,660	27,758,981
Loans to customers at fair value through profit or loss	0	0	2,346,662	2,346,662	2,346,662	2,346,662
Total	4,790,146	4,780,053	25,712,176	25,325,590	30,502,322	30,105,643

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

21. Derivatives

Derivatives are specified as follows:

	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	0	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

	Notional		Carrying value	
31.12.2019	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	3,342,934	3,103,868	239,066	0
Currency forwards	1,963,733	1,938,785	29,636	4,688
Bond and equity total return swaps	27,091,699	27,396,373	727,855	1,033,599
Equity options	326,762	11,760	263,275	244,054
Total	32,725,127	32,450,786	1,259,833	1,282,341

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 31.12.2020**	**Share 31.12.2019**
FÍ Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf.	Fund management	Iceland	100%	100%
Kvika eignastýring hf.	Fund management	Iceland	100%	100%
M-Investments ehf.	Holding company	Iceland	100%	100%
Netgíró reikningar ehf.	Holding company	Iceland	100%	100%
Netgíró lán ehf.	Holding company	Iceland	100%	100%
Netgíró lán II ehf.	Holding company	Iceland	100%	100%
Rafklettur ehf.	Holding company	Iceland	100%	100%
AC GP 3 ehf.	Fund management	Iceland	80%	80%
Kvika Securities ltd.	Business consultancy services	UK	100%	100%

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 31.12.2020**	**Share 31.12.2019**
Akta sjóðir hf.	Fund management	Iceland	19%	34%
Kjölfesta GP ehf.	Holding company	Iceland	50%	50%
KORTA hf.	Payment Institution	Iceland	-	41%
Gláma fjárfestingar slhf.	Holding company	Iceland	24%	24%

The Group does not consider its associates material, neither individually nor as a group. During the first half of the year, the Group sold all its shareholding in Korta hf. Furthermore, the Group sold a part of its shareholding in Akta sjóðir hf., resulting in it no longer being classified as an investment in associates.

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

	31.12.2020	**31.12.2019**
Balance at the beginning of the year	776,490	774,832
Acquisition of shares in associates	0	47,201
Dividend received	(7,500)	(7,500)
Disposal of shares in associates	(719,323)	(70,025)
Share in (loss) profit of associates, net of income tax	(7,427)	31,982
Total	42,240	776,490

24. Investment properties

Investment properties are specified as follows:	**31.12.2020**	**31.12.2019**
Balance at year beginning	1,016,553	950,000
Additions	352	66,553
Total	1,016,905	1,016,553

In October 2017, the Group acquired investment properties through one of its subsidiaries, Rafklettur ehf. The intention is to either earn rental income or capital appreciation or both. The book value of investment properties is based on the most recent appraisal values by licensed real estate agents, current listing prices and/or recent transactions for comparable real estates or valuation models based on gross income multipliers. The Group received rental income amounting to ISK 77 million (2019: ISK 73 million) and incurred direct operating expenses of ISK 15 million (2019: ISK 32 million).

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

25. Unconsolidated structured entities

Where the Group acts as an agent for the investor, it does not consolidate the investment funds. When the Group holds investments in unconsolidated investment funds they are classified as mandatorily measured at fair value through profit or loss. The fair value of these instruments represents the Group's maximum exposure to loss from its investments in such unconsolidated investment funds.

The nature and purpose of Investment funds is to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issuance of units to investors.

	31.12.2020	**31.12.2019**
Investment funds	331,023,000	242,001,053

The following table shows an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The Group's maximum exposure to loss is the carrying amount of the assets held.

	Carrying amount	
	31.12.2020	**31.12.2019**
Investment funds	1,975,393	645,817

The Group received management fees during the year:	**2020**	**2019**
Investment funds	2,751,169	1,647,064

26. Intangible assets

Intangible assets are specified as follows:

31.12.2020	**Goodwill**	**Software**	**Other**	**Total**
Balance as at 1 January 2020	2,943,881	175,256	164,118	3,283,256
Acquisitions	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	290,789	3,742,342
Accumulated amortisation and impairment losses	0	(88,842)	(90,880)	(179,721)
Balance as at 31 December 2020	2,943,881	418,830	199,910	3,562,621

31.12.2019	**Goodwill**	**Software**	**Other**	**Total**
Balance as at 1 January 2019	2,244,521	118,428	16,332	2,379,281
Acquisitions	0	76,467	119,167	195,634
Additions through business combinations	699,360	0	46,586	745,946
Disposals	0	(3,244)	(3,301)	(6,545)
Amortisation	0	(16,396)	(14,664)	(31,060)
Balance as at 31 December 2019	2,943,881	175,256	164,118	3,283,256
Gross carrying amount	2,943,881	227,805	216,603	3,388,289
Accumulated amortisation and impairment losses	0	(52,549)	(52,484)	(105,033)
Balance as at 31 December 2019	2,943,881	175,256	164,118	3,283,256

b. Impairment testing

Assets with indefinite useful life, such as goodwill, are not amortised but are subject to annual impairment testing as described in note 88. Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combinations in which the goodwill arose. The goodwill was allocated to the Asset Management business segment as the acquistions in 2017 and 2019 were made to strengthen those operations of the Group and to realise synergies.

The purpose of impairment testing is to determine whether the recoverable amount exceeds the carrying amount of the above mentioned business segment. The recoverable amount of an operating segment is the higher of its value in use or fair value less costs to of sell. Value in use is determined as the present value of the future cash flows expected to be derived from a CGU, based on amongst others:

- the expected future cash flows from the CGU
- the time value of money, which is reflected by using a discount rate based on the current market risk-free rate of interest
- the price for the uncertainty inherent in the CGU

The estimated future cash flows are based on a budget for the CGU for the coming three years and a further four years using extrapolated figures based on estimated growth rates (3.5%) in assets under management. The time value of money and price of uncertainty, calculated as the weighted average cost of capital ("WACC"), are based on external market information about market risk, interest rates and CGU specific elements like country risk. The discount rate is calculated at CGU level and equals 9.4%.

The goodwill impairment test was performed at the end of 2020. Its results show that the recoverable value exceeds the carrying value of goodwill. In addition to the base case testing, additional scenarios were tested where some key inputs had been stressed. In all scenarios tested the results show that there is sufficient headroom and that there are no triggers indicating that impairment is necessary.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

27. Deferred tax assets and liabilities

Change in deferred tax is specified as follows:

	31.12.2020	31.12.2019
Deferred tax assets	835,816	872,972
Deferred tax liabilities	(236,186)	(268,613)
Net	599,630	604,359

The Group's deferred tax assets (liabilities) are attributable to the following items:

	31.12.2020	31.12.2019
Property and equipment	(56,575)	(1,429)
Assets and liabilities denominated in foreign currencies	9,265	(5,390)
Other items	(181,279)	(266,109)
Tax losses carried forward	828,219	877,287
Total	599,630	604,359

At year end 2020, tax losses carried forward amount to ISK 6.6 billion, and are set to expire as follows:

	Tax losses
Tax losses 2010, expiring in 2020	66,358
Tax losses 2011, expiring in 2021	764,208
Tax losses 2012, expiring in 2022	640,623
Tax losses 2013, expiring in 2023	1,511,014
Tax losses 2014, expiring in 2024	562,568
Tax losses 2015, expiring in 2025	3,030,425
Total	6,575,197

28. Other assets

Other assets are specified as follows:

	31.12.2020	31.12.2019
Unsettled transactions	630,192	162,007
Accounts receivable	3,646,962	3,193,923
Right of use asset and lease receivables	478,995	622,415
Receivables at fair value	327,210	0
Sundry assets	356,733	845,232
Total	5,440,092	4,823,577

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

	31.12.2020	31.12.2019
Right of use asset and lease receivables at the beginning of the year	622,415	353,811
Additions	11,152	541,118
Disposal	0	(189,692)
Indexation	18,023	3,254
Depreciation and lease receivable installment	(172,596)	(86,076)
Total	478,995	622,415

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

29. Deposits

Deposits are specified as follows:

	31.12.2020	31.12.2019
Demand deposits	46,775,812	37,487,799
Time deposits	13,148,871	13,991,933
Total	59,924,683	51,479,732

30. Borrowings

Borrowings are specified as follows:

	31.12.2020	31.12.2019
Loans from credit institutions	0	803,052
Money market deposits	26,424,340	21,255,695
Total	26,424,340	22,058,747

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 Consolidated Financial Statements

31. Issued bills

Issued bills are specified as follows:

	31.12.2020	31.12.2019
Issued bills	2,003,608	3,945,306
Total	2,003,608	3,945,306

32. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.12.2020	31.12.2019
KVB 20 01, ISK 1,500 million	2020	2023	At maturity	Floating, 1 month REIBOR + 0.85%	1,763,538	0
KVB 19 01, ISK 3,640 million	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	3,474,842	1,522,432
KVB 17 02, ISK 2,160 million	2017	2020	At maturity	Floating, 1 month REIBOR + 1.25%	0	1,881,675
Total					5,238,381	3,404,107
Unlisted senior unsecured bonds, total					329,704	857,201
Total					5,568,085	4,261,308

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	31.12.2020	31.12.2019
KVB 15 01, ISK 1,000 million	2015	2025	At maturity	CPI-Indexed, fixed 7.50%	1,169,444	1,122,360
KVB 18 02, ISK 800 million	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	907,781	877,170
Total					2,077,225	1,999,530

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.

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.

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:

	31.12.2020	31.12.2019
Balance at the beginning of the year	1,999,530	1,947,511
Paid interest	(115,000)	(115,000)
Paid interests due to indexation	(9,922)	(7,000)
Accrued interests and indexation	202,617	174,019
Total	2,077,225	1,999,530

34. Short positions held for trading

Short positions held for trading are specified as follows:

	31.12.2020	31.12.2019
Listed government bonds and bonds with government guarantees	559,382	632,124
Listed bonds	961,165	607,792
Total	1,520,547	1,239,916

Short positions held for trading are classified as mandatorily measured at fair value through profit or loss. Further discussion about the accounting classification of financial liabilites is provided in notes 57-59.

35. Short positions used for hedging

Short positions used for hedging are specified as follows:

	31.12.2020	31.12.2019
Listed government bonds and bonds with government guarantees	731,987	0
Total	731,987	0

Short positions used for hedging are classified as mandatorily measured at fair value through profit or loss. Further discussion about the accounting classification of financial liabilites is provided in notes 57-59.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

36. Other liabilities

Other liabilities are specified as follows:

	31.12.2020	31.12.2019
Unsettled transactions	1,217,659	487,683
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities	31,371	21,092
Accounts payable and accrued expenses	324,385	401,230
Special taxes on financial institutions and financial activities	97,664	202,307
Withholding taxes	361,088	459,251
Salaries and salary related expenses	490,576	541,401
Lease liability	477,691	616,521
Contingent consideration	386,001	494,991
Other liabilities	364,037	172,489
Total	3,750,472	3,396,965

Lease liability is specified as follows:

	31.12.2020	31.12.2019
Lease liability at the beginning of the year	616,521	386,455
Addition	39,449	541,118
Disposal	0	(217,535)
Installment	(197,076)	(98,493)
Indexation	18,796	4,976
Total	477,691	616,521

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.

	31.12.2020	31.12.2019
Share capital according to the Bank's Articles of Association	2,141,002	1,995,366
Nominal amount of treasury shares	0	50,000
Authorised but not issued shares	546,480	742,117

b. Changes made to the nominal amount of share capital

The Bank's share capital was increased by ISK 188,333,306 in nominal value during the period 1 January to 31 December 2020 in order to serve the exercising of issued warrants. In addition to that, the share capital was increased by ISK 7,303,425 in nominal value in order to fulfill the Bank's obligations related to share option agreements. Furthermore, the share capital was decreased by ISK 50,000,000 in nominal value by cancellation of own shares following a resolution passed by the Annual General Meeting.

c. Share capital increase authorisations

According to the Bank's Articles of Association dated 14 December 2020, 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.

The Board of Directors is furthermore authorised to increase the share capital of the Bank in stages by up to ISK 42,696,575 in nominal value, for the purposes of fulfilling share option agreements in accordance with the Bank's share incentive scheme. This authorisation is based on temporary provision I, cf. paragraph B of the provision, to the Articles of Association and is valid until 30 November 2021. There are, however, no further share option schemes or option contracts obligations for the Bank for which this authorisation may be utilised.

The Board of Directors is, according to temporary provision II to the Bank‘s Articles of Association, authorised to issue warrants for 54 million new shares until the Bank‘s annual general meeting in 2021, in addition to warrants for 46 million new shares already issued pursuant to authorisation under temporary provision II. The Board is furthermore, until 26 March 2025, authorised to increase share capital to serve warrants issued under the aforementioned authorisation.

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 200 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 350 million but can increase to ISK 400 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.

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.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

38. Warrants

The Bank has issued warrants for shares in the total nominal amount of ISK 395,216,682 as at 31 December 2020. The number of owners of these warrants is 116 and they purchased the warrants for a total consideration of ISK 149,462,211. 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 2,536,219,179, and the newly issued shares would represent 15.6% 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	130,216,682	39,195,221	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	7,333,333	2,471,333	7.5%	8.80	Dec. 2020 - Dec. 2022
December 2017	7,333,333	2,471,333	7.5%	8.80	Dec. 2021 - Dec. 2022
May 2018	666,667	288,667	7.5%	9.27	Dec. 2019 - Dec. 2020
May 2018	1,166,667	505,167	7.5%	10.75	Dec. 2020 - Dec. 2022
May 2018	1,166,667	505,167	7.5%	10.75	Dec. 2021 - Dec. 2022
April 2019	17,500,000	16,520,000	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. 2020 - Dec. 2022
August 2019	5,500,000	5,192,000	7.5%	15.36	Dec. 2021 - Dec. 2022
Total	395,216,682	149,462,221			

39. Capital adequacy ratio (CAR)

Equity at the end of the year was ISK 19,208 million (31.12.2019: 15,515 million), equivalent to 15.6% of total assets according to the statement of financial position (31.12.2019: 14.7%). The capital adequacy ratio of the Group, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 28.3% (31.12.2019: 24.1%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

Own funds	**31.12.2020**	**31.12.2019**
Total equity	19,208,001	15,515,183
Capital eligible as CET1 Capital	19,208,001	15,515,183
Goodwill and intangibles	(3,562,621)	(3,283,256)
Shares in financial institutions	(259,829)	(146,401)
Subordinated fixed income securities	(117,250)	(102,999)
Deferred tax asset	(835,816)	(872,972)
Common equity Tier 1 capital (CET 1)	14,432,485	11,109,555
Tier 2 capital	2,012,387	1,941,695
Deductions from Tier 2 capital	(227,952)	0
Total own funds	16,216,919	13,051,251
Risk weighted exposures		
Credit risk	40,070,248	37,614,747
Market risk	3,617,483	5,246,577
Operational risk	13,621,015	11,336,890
Total risk weighted exposures	57,308,746	54,198,213
Capital ratios		
Capital adequacy ratio (CAR)	28.3%	24.1%
CET1 ratio	25.2%	20.5%
Minimum Capital adequacy ratio requirement	15.1%	15.1%
Minimum Capital adequacy ratio requirement including supervisory buffers	20.6%	22.4%
Minimum CET 1 ratio requirement including supervisory buffers	14.0%	15.7%

The Icelandic Financial Supervisory Authority (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 minimum regulatory capital requirement including the additional capital buffers is 20.6% as at 31 December 2020.

Notes to the Consolidated Financial Statements

Risk management

40. Risk management framework

a. Board of Directors

The Bank's Board of Directors is responsible for the Group's corporate governance, including the establishment and oversight of the Group's risk management framework and risk appetite setting. In that respect, the Board of Director has set a policy on the Group's corporate governance. In order to ensure harmonized and good governance on a consolidated basis, the Bank's Board of Directors further sets out ownership policies for subsidiaries that are considered an important part of the Group's operations. According to the ownership policies, the Boards of Directors of the relevant subsidiaries shall always provide the Bank with all information necessary for it to carry out its supervisory role and the services that the Bank provides to the relevant subsidiaries. Further, as risk management must be co-ordinated on a group-wide basis, those subsidiaries, shall provide risk management with all necessary information to enable the Bank to be able to fulfil its obligations as parent company of the Group. The head of risk management and the Bank's compliance officer can request a direct audience with the Boards of Directors of those subsidiaries. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through training and management standards and procedures, continuously aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

b. Board of Directors sub-committees

The Bank's Board of Directors has established three sub-committees, the Risk Committee, Audit Committee and Remuneration Committee. In accordance with the Bank´s articles of association, three members have been appointed to each committee, thereof at least two Board members. It is not permitted to appoint employees of the Bank to any committee. Members shall have the necessary experience and knowledge for each committee´s tasks according to applicable laws and rules. Each committee has incorporated procedural rules which have been confirmed by the Board of Directors.

The Risk Committee is intended to perform a consultative and supervisory role for the Bank’s Board of Directors, including for the formation of the Bank’s risk policy and risk appetite. The Risk Committee supervises the arrangement and activity of risk management, credit risk, market risk, liquidity risk, operational risk, reputational risk and other risk as applicable.

The Audit Committee is intended to perform a consultative and supervisory role for the Bank’s Board of Directors, including to ensure the quality of the annual accounts and other financial information of the Bank and the independence of the Bank’s audit. The Audit Committee monitors the work process for the preparation of financial statements, the functioning of internal controls as well as internal and external auditing.

The Remuneration Committee is intended to perform a consultative and supervisory role for the Bank’s Board of Directors in connection with the Bank’s remuneration and that they support the objectives and interests of the Bank.

c. CEO

The CEO is responsible for the effective implementation through the corporate governance structure and committees. The CEO has established three committees, which are responsible for developing and monitoring risk management policies in their specified areas.

d. Committees

The Bank operates three committees that are involved in risk management: an Asset and Liability Committee (ALCO), a Credit Committee and an Operations Committee.

ALCO supervises the management of the Bank's balance sheet, assets and liabilities. This involves determining the most efficient division between returns and risk and allocating funds to the Bank's business units.

The Credit Committee addresses matters regarding the Bank's loan activities and is responsible for and makes decisions on the investments and sale of unlisted assets, such as unlisted securities and financial instruments, shares in private limited companies and other companies, and as regards other divisions than Treasury and Proprietary Trading, the investment and sale of unit share certificates in funds for collective investment. The committee is responsible for the approval of larger loans and is the primary forum for the discussion of the Bank's credit rules, including credit limits for relevant divisions of the Bank.

The Operations Committee is responsible for supervision and implementation of the Bank's security and quality policies. The security policy mainly addresses data security and operational security in IT systems, physical security for the personnel and proper access controls and monitoring in the Bank's premises. The quality work is aimed at upholding proper quality in work processes, IT systems and services to support performance and profitability, lower operational risk and increase the customer experience.

e. Risk management

The purpose of the Bank's risk management unit is to identify, quantify, control and report on the risks that the Group is exposed to in its daily activities. The unit also participates in drafting the overall risk policy and has representatives on the ALCO committee, Credit committee and the Operations committee. The unit’s main activities include monitoring and managing credit risk, market risk, liquidity risk and operational risk. The Board of Directors sets the rules and guidelines regarding the Group's risk policy and the obligations of risk management and credit control. The division reports regularly on the Group’s positions and exposure to risk to the Board of Directors, the CEO and to the ALCO committee.

f. Compliance Officer

The Compliance Unit is responsible for the supervision of securities transactions within the Bank, i.e. monitoring and assessing the adequacy and effectiveness of measures and procedures put in place to detect and minimise any risk of failure by the Bank to comply with its obligations under the Act on Securities Transactions. The compliance officer is also responsible for coordinating and monitoring the Bank’s compliance with applicable anti-money laundering and terrorist financing laws and regulations. The Compliance Unit also assesses and manages the Bank´s compliance risk.

Notes to the Consolidated Financial Statements

40. Risk management framework (cont.)

g. Internal Audit

Internal Audit is responsible for providing an objective opinion on the Group’s operations, as well as advice which aims to increase the Group’s value and to strengthen risk management and internal control. The Internal Audit’s main task, is to estimate whether adequate processes and systems are in place, and whether they are relevant and efficient. The Internal Auditor is recruited by the Board of Directors and is located accordingly in the hierarchy. Its operations cover all units of operations, including the subsidiaries Kvika eignastýring hf., Gamma Capital Management hf. and Kvika Securities Ltd. According to the letter of appointment, the internal auditor has direct access to the Boards' of Directors of the Bank's subsidiaries.

41. Hedging

Securities held as a hedge against derivatives positions of customers make up a part of the Group's portfolio of assets. The Group hedges currency exposure between the Group's loan portfolio and debts to the extent possible, but does not apply hedge accounting.

42. Credit risk - overview

a. Definition

One of the Group's primary sources of risk is counterparty credit risk. Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

b. Management

The risk management unit is responsible for managing and reporting on credit risk. The Group uses a variety of tools and processes to manage credit risk, including collaterals, hedges and loan portfolio management.

c. Credit approval process

The originating department prepares a proposal for each loan or credit line which is presented to the credit committee for approval. The proposal consists of a basic description of the client, the purpose of the loan, a simple credit assessment and arguments for or against granting the loan. The committee decides whether there is need for further credit assessment and on what terms the loan may be granted.

A more thorough credit assessment may be conducted if considered appropriate and can include an assessment of a borrower's fundamental credit strength as well as the value of any collateral. To assess the borrower's capacity to meet his or her obligations the committee can request stress test analysis of the borrower's cash flow or call for third party assessments.

d. Collateral

Securing loans with collateral is a traditional method to reduce credit risk. The Group uses different methods to reduce credit risk by obtaining collateral from customers where appropriate. Such collateral gives the Group right to the collateralised assets for current and future obligations incurred by the customer.

The Group places emphasis on pricing loans according to the value and quality of pledged collateral. The Group applies appropriate haircuts on all collateral in order to ensure proper risk mitigation. For all collateral in listed securities, the Group maintains the right to liquidate collateral in case its market value falls below a predefined limit.

To a very large extent the Group's loan portfolio consists of senior loans, most of which are highly collateralised.

e. Credit rating, control and provisioning

The risk management unit is responsible for credit rating and reviewing the loan portfolio. In case of any significant delay of payments or defaults the unit carefully analyses the underlying assets and loan documents and organizes the process of collection.

The Group monitors the value of collateral by listed securities on a real time basis, and takes prompt action when necessary.

f. Loan portfolio management

To ensure an effective diversification of the loan portfolio the board has set a limit framework defining maximum exposure as a ratio of the Group’s equity and/or the total size of the loan portfolio. These limits include limitation on joint exposure to associated clients, exposure to individual and associated industries, single regions and countries etc. It is the responsibility of risk management to monitor that these limits are not being violated and to report discrepancies to the credit committee.

g. Impairment

Provisioning for loan impairments is estimated on the basis of expected loss models assessing the portfolio as a whole as well as individual lending. Risk management suggest a level of provisioning for the portfolio, based on the expected loss assessment. Risk management reassess impairments in the event of collateral decay, delayed payments, indication of increased risk, or other early warning signs. Provisions require approval from the credit committee. Refer to note 80 for more information on the Group's impairment policy.

h. Derivatives

The Group offers derivative contracts in the form of swap contracts on highly liquid securities. On the day when the contract is entered into, the Group purchases the underlying security and hedges its exposure to price changes. Collateral is in the form of cash or listed, highly liquid securities. The risk management sets rules about the level of collateralisation and monitors the compliance to these rules. Contracts are closed if required levels of collateralisation are not met.

i. Securities used for hedging

The Group hedges itself for market risk of derivative contracts by purchasing the underlying securities at the commencement of the contract. Since the contracts require delivery of the underlying securities to the customer on the settlement day, the credit risk towards the issuer is immaterial.

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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:

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

31.12.2019	**Public**	**Financial**	**Corporate**		
On-balance sheet exposure	**entities**	**institutions**	**customers**	**Individuals**	**31.12.2019**
Cash and balances with Central Bank	24,549,691	2,268,540			26,818,231
Fixed income securities	4,306,557	2,782,322	1,008,289		8,097,169
Loans to customers		258,556	25,072,034	4,775,053	30,105,643
Derivatives		404,345	811,802	43,686	1,259,833
Other assets	67,451	230,117	3,903,594		4,201,162
	28,923,699	5,943,881	30,795,719	4,818,739	70,482,037
Off-balance sheet exposure					
Loan commitments		2,073,113	1,258,009	336,493	3,667,615
Financial guarantee contracts		197,415	642,515		839,930
Maximum exposure to credit risk	28,923,699	8,214,408	32,696,243	5,155,232	74,989,582

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 Bank'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 Bank's loan portfolio during 2020. Accumulated impairment due to expected credit losses in the loan portfolio increased by approximately 40% since end of 2019. It is difficult to quantify exactly how much of this increase can be attributed only to the pandemic but in the Bank's opinion it is the greater portion of the increase. The increase in accumulated impairment can mainly be attributed to changes to economic outlook due to COVID-19. This is 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 are negatively impacted and in addition scenario weights have shifted towards a more negative outlook. The negative outlook economic scenario now weighs 45% and the positive outlook only weighs 5% in the total outcome. In general it is the increase in the probability of default, due to a more negative outlook, which drives the increase in expected credit loss. 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 Bank does not expect to incur further significant losses due to impairments and write offs as the pandemic unwinds, all other things being equal.

The Bank has followed government guidelines for granting moratorium on loans to borrowers that have been significantly impacted by the pandemic. The claim value of loans in moratorium peaked at the end of Q2 at ISK 3,097 million. At the end of Q3 claim value of loans in moratorium was ISK 2,673 million and at year end 2020 it was only ISK 800 million. The first moratorium took effect on 1 March, the last granted moratorium currently in effect was granted 5 November. At year end only 7 borrowers were in moratorium due to the pandemic. 25% of moratoriums will expire in the second quarter of 2021 and 75% in the third quarter of 2021. Loans to restaurants and hotels account for 85% of the claim value of loans in moratorium, the remaining 15% are attributable to real estate development.

The Bank has originated one loan to the amount of ISK 75 million under the public guarantee scheme. In general, the Bank's debtors have been able to adapt to the changes in the economic reality and have been able to source revenue from local customers and reduce operating costs in a controlled manner. This is another reason why the Bank is not experiencing a greater increase in accumulated impairment.
Because the economic scenario driven increase in the probability of default has a significant and homogenous impact on all customers and as the adaptability of debtors varies, the Bank 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 Bank's debtors.

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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. Reference is made to note 80 for further information about the Group‘s impairment methodology.

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 Bank 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 Bank in particular is situated in this economic cycle. It must therefore be interpreted as a lagged (post-hoc) forecast of GDP growth.

		Scenarios	
2021	**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%

		Scenarios	
2020	**Base case**	**Upside**	**Downside**
GDP growth	1.5%	4.1%	0.6%
Inflation	2.5%	3.5%	3.0%
Unemployment rate	4.0%	3.2%	4.5%
Assigned weight	50.0%	5.0%	45.0%

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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. The methods used for financial assets are outlined in note 58. 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							
31.12.2020	**Claim value**	**Impairment due to expected credit loss**	**Carrying amount**	**%**	**Total**	**Deposits**	**Listed securities and liquid funds**	**Unlisted securities and other funds**	**Residential real estate**	**Commercial real estate**	**Guarantees**	**Other**	**Unsecured claim value**
Financial institutions	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	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	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	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	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	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	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	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	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	535,810	4,339,851	2,219,674

						Allocated collateral							
31.12.2019	**Claim value**	**Impairment due to expected credit loss**	**Carrying amount**	**%**	**Total**	**Deposits**	**Listed securities and liquid funds**	**Unlisted securities and other funds**	**Residential real estate**	**Commercial real estate**	**Guarantees**	**Other**	**Unsecured claim value**
Financial institutions	0	0	0	0.0%	0	0	0	0	0	0	0	0	0
Corporate													
Construction	7,887,641	150,434	7,737,206	25.7%	11,423,531	11,227	0	3,523	5,376,654	6,022,127	10,000	0	1,085,351
Financial activities	2,294,324	50,106	2,244,218	7.5%	1,987,122	306,173	74,958	765,737	38,300	0	0	801,953	1,258,586
Real estate activities	4,436,806	72,276	4,364,530	14.5%	6,482,037	59,774	181,856	257,771	2,582,380	3,005,729	10,000	384,527	1,501,234
Activities of holding companies - Securities	4,402,185	8,250	4,393,935	14.6%	12,742,901	95,058	10,672,794	539,338	65,000	0	0	1,370,712	67,324
Activities of holding companies	2,932,022	37,595	2,894,427	9.6%	10,873,296	56,955	211,283	8,125,520	389,746	1,806,654	200,000	83,138	48,258
Service activities	1,295,747	11,820	1,283,927	4.3%	3,118,695	14,629	38,881	2,469,318	178,624	113,000	148,891	155,352	31,701
Other	2,463,452	51,105	2,412,348	8.0%	6,362,360	142,643	9,977	2,253,592	226,841	2,535,940	26,000	1,167,367	498,788
Individual	4,790,146	15,093	4,775,053	15.9%	6,032,827	36,032	1,971,245	1,159,201	2,613,997	82,000	0	170,352	321,475
Total	30,502,322	396,679	30,105,643	100.0%	59,022,768	722,490	13,160,994	15,574,001	11,471,542	13,565,449	394,891	4,133,400	4,812,718

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. The presentation of this note has changed from the 2019 financial statements to better reflect exposure to different counterparty types, the quality of allocated collateral and possible lack of collateral as applicable.

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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.

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

31.12.2019

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	16,746,578	542,505	17,566	890,560	18,197,209
Credit quality band II	2,517,738	2			2,517,740
Credit quality band III	1,105,650	1,370,939		812,293	3,288,882
Credit quality band IV	1,793,786	1,137,340		643,809	3,574,935
In default	35,037	0	297,331		332,369
Non-rated	2,591,158	29			2,591,186
Gross carrying amount	24,789,948	3,050,814	314,898	2,346,662	30,502,322
Expected credit loss	(167,078)	(100,185)	(129,416)		(396,679)
Book value	24,622,870	2,950,629	185,482	2,346,662	30,105,643

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	2,140,892	6,283		11,215	2,158,389
Credit quality band II	484,628	0			484,628
Credit quality band III	38,059	176,503		149,929	364,491
Credit quality band IV	56,437	36,459			92,896
In default	100,000		9,739		109,739
Non-rated	1,297,403				1,297,403
Total off-balance sheet amount	4,117,418	219,245	9,739	161,143	4,507,545
Expected credit loss	(15,592)	(2,746)	(2,754)		(21,092)
Net off-balance sheet amount	4,101,826	216,499	6,985	161,143	4,486,453

Kvika banki hf. Amounts are in ISK thousands

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44. Credit quality of financial assets (cont.)

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

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

31.12.2019	**Claim value**	**Expected credit loss**	**Carrying amount**
Not past due	28,752,106	(297,606)	28,454,500
Past due 1-30 days	1,168,884	(2,705)	1,166,179
Past due 31-60 days	417,918	(95,485)	322,433
Past due 61-90 days	141,431	(543)	140,888
Past due 91-180 days	21,492	(95)	21,397
Past due 181-360 days	492	(246)	246
Past due more than 360 days			0
Total	30,502,322	(396,679)	30,105,643

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.

31.12.2020
Expected credit loss allowance total

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 31 December 2019	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 31 December 2019	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

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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 31 December 2019	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

31.12.2019

Expected credit loss allowance total

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 31 December 2018	176,146	28,614	33,657	238,416
Transfer to Stage 1 - (Initial recognition)	5,847	(438)	(5,410)	0
Transfer to Stage 2 - (significantly increased credit risk)	(22,672)	22,672		0
Transfer to Stage 3 - (credit impaired)	(2,701)	(19)	2,719	0
Net remeasurement of loss allowance	(13,866)	45,580	10,318	42,032
New financial assets, originated or purchased	127,749	26,700	113,056	267,505
Derecognitions and maturities	(86,640)	(20,178)	(19,922)	(126,739)
Write-offs	(1,194)		(2,249)	(3,443)
Balance as at 31 December 2019	182,670	102,932	132,170	417,771

Expected credit loss allowance for loans to customers

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 31 December 2018	160,684	27,930	32,363	220,977
Transfer to Stage 1 - (Initial recognition)	5,844	(434)	(5,410)	0
Transfer to Stage 2 - (significantly increased credit risk)	(22,404)	22,404		0
Transfer to Stage 3 - (credit impaired)	(2,677)	(19)	2,695	0
Net remeasurement of loss allowance	(13,575)	43,767	8,912	39,103
New financial assets, originated or purchased	120,333	26,468	112,592	259,393
Derecognitions and maturities	(79,932)	(19,931)	(19,488)	(119,351)
Write-offs	(1,194)		(2,249)	(3,443)
Balance as at 31 December 2019	167,078	100,185	129,416	396,679

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 31 December 2018	15,462	683	1,293	17,439
Transfer to Stage 1 - (Initial recognition)	4	(4)		0
Transfer to Stage 2 - (significantly increased credit risk)	(268)	268		0
Transfer to Stage 3 - (credit impaired)	(24)		24	0
Net remeasurement of loss allowance	(290)	1,813	1,407	2,929
New financial assets, originated or purchased	7,417	232	464	8,113
Derecognitions and maturities	(6,708)	(246)	(434)	(7,388)
Balance as at 31 December 2019	15,592	2,746	2,754	21,092

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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.

This presentation of this note is changed from the 2019 financial statements to align with note 44a. and to provide better information on loans with high loan-to-value and to report loans that have very limited collateral (where less than 10% of book value is secured with collateral) as having no collateral.

b. Breakdown

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

	31.12.2020	%	31.12.2019	%
Less than 50%	12,579,973	42.9%	12,784,235	42.5%
51-70%	7,450,150	25.4%	4,655,736	15.5%
71-90%	3,101,307	10.6%	2,440,778	8.1%
91-100%	1,870,641	6.4%	673,622	2.2%
100-125%	48,476	0.2%	1,587,389	5.3%
125-200%	13,996	0.0%	797,729	2.6%
Greater than 200%	198,961	0.7%	1,018,991	3.4%
No or negligible collateral:				
Purchased short-term retail claims	2,027,605	6.9%	2,763,584	9.2%
Other loans with no collateral	2,031,863	6.9%	3,383,579	11.2%
Total	29,322,972	100.0%	30,105,643	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. The methods used for financial assets are outlined in note 58. 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	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

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2019
Financial institutions	776,901	469,180	709,118				1,955,199
Corporate customers	499,619	13,234	1,463,259				1,976,112
Individuals	81,341		72,169				153,510
Total	1,357,861	482,414	2,244,546	0	0	0	4,084,821

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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 Bank's capital base (see note 39).

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 held by the Bank, and other credit enhancements, in accordance with the Financial Supervisory Authority's regulation no. 625/2013.

		31.12.2020		31.12.2019
Large exposures before risk adjusted mitigation	**Number**	**Amount**	**Number**	**Amount**
10-20% of capital base	0	0	6	8,518,292
20-25% of capital base	0	0	0	0
Exceeding 25% of capital base	0	0	0	0
Total	0	0	6	8,518,292
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	1	1,725,329

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.

Foreign government and central bank exposures are no longer included in calculations of large exposures, prior year figures have been adjusted accordingly.

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 Group was in compliance with internal and external liquidity requirements throughout the years 2020 and 2019. At end of December 2020 the LCR was 266% and at year-end 2019 it was 246%.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

48. Liquidity risk (cont.)

c. Maturity analysis of financial assets and financial liabilities

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							
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	

* At end of June 2020, the Bank reclassified a part of its fixed income securities. Previously they were classified as measured at fair value through profit or loss but are now classified as financial instruments measured at fair value through other comprehensive income. The maturity analysis for those financial instruments is based on their contractual cash flows. This results in a considerable increase in the amounts in the categories for 3-12 months and 1-5 years from year end 2019. The vast majority of the amount which falls into the 1-5 years category will mature in October 2022.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

48. Liquidity risk (cont.)

31.12.2019 **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	25,773,296	968,800				26,742,096	26,818,231
Fixed income securities	7,902,293	102,999	91,876			8,097,169	8,097,169
Shares and other variable income securities	1,528,914		2,130,294			3,659,208	3,659,208
Securities used for hedging	24,274,769					24,274,769	24,274,769
Loans to customers	3,066,655	6,490,086	14,211,455	6,443,200	984,383	31,195,778	30,105,643
Other assets	1,629,388	535,529	517,497	2,141,163		4,823,577	4,823,577
	64,175,315	8,097,414	16,951,122	8,584,364	984,383	98,792,597	97,778,596
Derivative assets							
Inflow	10,272,921		205,885	37,050		10,515,855	
Outflow	(9,515,478)		(2,658)	(1,210)		(9,519,347)	
	757,442	0	203,226	35,840	0	996,508	1,259,833

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	(38,047,222)	(8,851,313)	(2,813,005)	(1,905,846)	(122,169)	(51,739,556)	51,479,732
Borrowings	(2,419,498)	(7,505,617)	(12,417,607)			(22,342,722)	22,058,747
Issued bills		(2,000,000)	(2,000,000)			(4,000,000)	3,945,306
Issued bonds	(40,079)	(636,625)	(2,209,392)	(1,671,961)		(4,558,057)	4,261,308
Subordinated liabilities			(123,396)	(493,584)	(2,250,952)	(2,867,933)	1,999,530
Short positions held for trading	(1,239,916)					(1,239,916)	1,239,916
Other liabilities	(955,774)	(917,995)	(973,396)	(549,800)		(3,396,965)	3,396,965
	(42,702,489)	(19,911,550)	(20,536,797)	(4,621,191)	(2,373,122)	(90,145,149)	88,381,503
Derivative liabilities							
Inflow	15,612,704		339,575			15,952,279	
Outflow	(16,645,233)		(349,300)			(16,994,533)	
	(1,032,529)	0	(9,725)	0	0	(1,042,254)	1,282,341
Unrecognised financial items by type							
Loan commitments							
Inflow	212,618	442,930	2,307,256	776,847		3,739,651	
Outflow	(3,667,615)					(3,667,615)	
Financial guarantee contracts							
Inflow	103,265	63,000	222,017	417,808	33,840	839,930	
Outflow	(839,930)					(839,930)	
	(4,191,662)	505,930	2,529,273	1,194,655	33,840	72,036	
Summary							
Non-derivative assets	64,175,315	8,097,414	16,951,122	8,584,364	984,383	98,792,597	
Derivative assets	757,442		203,226	35,840		996,508	
Non-derivative liabilities	(42,702,489)	(19,911,550)	(20,536,797)	(4,621,191)	(2,373,122)	(90,145,149)	
Derivative liabilities	(1,032,529)		(9,725)			(1,042,254)	
Net assets (liabilities) excluding unrecognised items	21,197,739	(11,814,136)	(3,392,173)	3,999,012	(1,388,739)	8,601,702	
Net unrecognised items	(4,191,662)	505,930	2,529,273	1,194,655	33,840	72,036	
Net assets (liabilities)	17,006,077	(11,308,207)	(862,901)	5,193,667	(1,354,899)	8,673,738	

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 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	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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2019
Fixed income securities		2,832,280	22,712	2,533,636	2,708,542	8,097,169
Short positions - fixed income securities				(1,137,103)	(102,813)	(1,239,916)
Net imbalance	0	2,832,280	22,712	1,396,533	2,605,729	6,857,253

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	Downward	31.12.2020 Upward	Downward	31.12.2019 Upward
Indexed	50	9,664	(9,664)	117,650	(117,650)
Non-indexed	100	(9,434)	9,434	64,121	(64,121)
Total		231	(231)	181,771	(181,771)

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Notes to the 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:

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

31.12.2019

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	23,861,681	2,956,550				26,818,231
Loans to customers	23,951,507	1,148,549	3,010,619	647,975	1,346,993	30,105,643
Financial assets excluding derivatives	47,813,188	4,105,100	3,010,619	647,975	1,346,993	56,923,874
Effect of derivatives	27,334,633		2,500,000	600,000		30,434,633
Total	75,147,821	4,105,100	5,510,619	1,247,975	1,346,993	87,358,507

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	51,479,732					51,479,732
Borrowings	2,417,672	7,463,302	12,177,773			22,058,747
Issued bills		1,982,430	1,962,876			3,945,306
Issued bonds	39,974	633,194	2,124,611	1,463,529		4,261,308
Subordinated liabilities			1,184,146	815,383		1,999,530
Financial liabilities excluding derivatives	53,937,378	10,078,925	17,449,406	2,278,912	0	83,744,622
Effect of derivatives	3,104,224					3,104,224
Total	57,041,603	10,078,925	17,449,406	2,278,912	0	86,848,846
Total interest repricing gap	18,106,219	(5,973,826)	(11,938,788)	(1,030,938)	1,346,993	509,660

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:

	Shift in		**31.12.2020**		**31.12.2019**
Currency	**basis points**	**Downward**	**Upward**	**Downward**	**Upward**
ISK, indexed	50	62,022	(60,635)	26,255	(24,900)
ISK, non-indexed	100	24,517	(36,416)	(85,240)	78,636
Other currencies	20	980	(1,139)	(1,141)	175
Total		87,519	(98,190)	(60,126)	53,912

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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:

	31.12.2020	31.12.2019
Assets	11,877,087	10,676,860
Liabilities	(8,311,283)	(7,620,546)
Total	3,565,804	3,056,314

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.

	31.12.2020		31.12.2019	
	-1%	1%	-1%	1%
Government bonds	(14,006)	14,006	(11,095)	11,095
Other fixed income securities	(6,810)	6,810	(25,248)	25,248
Loans to customers	(66,955)	66,955	(39,425)	39,425
Derivatives	(31,000)	31,000	(31,000)	31,000
Short positions	9,484	(9,484)	3,737	(3,737)
Deposits	55,629	(55,629)	54,469	(54,469)
Subordinated debt	18,000	(18,000)	18,000	(18,000)
	(35,658)	35,658	(30,563)	30,563

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 31 December 2020 and 31 December 2019 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 31.12.2020	Average 2020	Closing 31.12.2019	Average 2019
EUR/ISK	156.1	154.5	135.8	137.3
USD/ISK	127.2	135.3	121.1	122.7
GBP/ISK	173.6	173.6	159.4	156.5

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

54. Currency risk (cont.)

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

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

31.12.2019

Financial assets	**EUR**	**USD**	**GBP**	**CAD**	**Other currencies**	**Total**
Cash and balances with Central Bank	726,348	277,004	195,341	322,278	665,077	2,186,049
Fixed income securities	543,483	2,413,067				2,956,550
Shares and other variable income securities		181,624	1,020,161		1	1,201,786
Securities used for hedging	1,297,948					1,297,948
Loans to customers	444,945	106,074	863,985		16,616	1,431,619
Other assets	946,260	181,361	299,735		57,397	1,484,753
Financial assets excluding derivatives	3,958,984	3,159,129	2,379,222	322,278	739,091	10,558,704
Derivatives	1,319,461	888,608	19,221			2,227,290
Total	5,278,445	4,047,737	2,398,443	322,278	739,091	12,785,994

Financial liabilities	**EUR**	**USD**	**GBP**	**CAD**	**Other currencies**	**Total**
Deposits	3,526,958	3,459,182	690,839	294,344	670,179	8,641,502
Borrowings	40,079					40,079
Issued bonds		301,738				301,738
Other liabilities	1,498,474	136,045	42,103		1,264	1,677,887
Financial liabilities excluding derivatives	5,065,512	3,896,965	732,942	294,344	671,443	10,661,206
Derivatives	165,895	78,811	1,594,200			1,838,907
Total	5,231,407	3,975,777	2,327,142	294,344	671,443	12,500,113

Net currency position	**EUR**	**USD**	**GBP**	**CAD**	**Other currencies**	**Total**
Financial assets	5,278,445	4,047,737	2,398,443	322,278	739,091	12,785,994
Financial liabilities	(5,231,407)	(3,975,777)	(2,327,142)	(294,344)	(671,443)	(12,500,113)
Financial guarantee contracts	67,915					67,915
Total	114,953	71,960	71,301	27,935	67,648	353,796

Kvika banki hf. Amounts are in ISK thousands

Notes to the 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.

	31.12.2020		31.12.2019	
Assets and liabilities denominated in foreign currencies	**-10%**	**+10%**	**-10%**	**+10%**
EUR	30,571	(30,571)	11,495	(11,495)
USD	13,052	(13,052)	7,196	(7,196)
GBP	26,959	(26,959)	7,130	(7,130)
NOK	2,594	(2,594)	2,651	(2,651)
CAD	1,579	(1,579)	2,793	(2,793)
Other currencies	1,439	(1,439)	4,114	(4,114)
Total	76,194	(76,194)	35,380	(35,380)

The effect on equity would be the same.

55. Other price risk

Other price risk arises from changes in the market prices of shares and other variable income securities in the Group’s portfolio. The Group directly holds listed and unlisted shares and other variable income securities, while also gaining exposure to listed shares through portfolio options trading. The table below shows the Group's net exposure, including delta-adjusted options exposure.

			31.12.2020			31.12.2019
	Average	**Max**	**Exposure**	**Average**	**Max**	**Exposure**
Listed shares	1,179,515	2,015,878	892,423	927,255	1,352,589	1,271,325
Unlisted shares	1,958,075	2,338,138	2,338,138	1,657,393	1,863,076	1,694,493
Unlisted unit shares	1,238,391	1,941,619	1,842,269	773,771	998,994	693,390
Total			5,072,830			3,659,208

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 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:

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

31.12.2019 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	26,818,231			26,818,231
Fixed income securities			8,097,169	8,097,169
Shares and other variable income securities			3,659,208	3,659,208
Securities used for hedging			24,274,769	24,274,769
Loans to customers	27,758,981		2,346,662	30,105,643
Derivatives			1,259,833	1,259,833
Other assets	4,823,577			4,823,577
Total	59,400,789	0	39,637,640	99,038,429

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	51,479,732			51,479,732
Borrowings	22,058,747			22,058,747
Issued bills	3,945,306			3,945,306
Issued bonds	4,261,308			4,261,308
Subordinated liabilities	1,999,530			1,999,530
Short positions held for trading			1,239,916	1,239,916
Short positions used for hedging				0
Derivatives			1,282,341	1,282,341
Other liabilities	2,901,973		494,991	3,396,965
Total	86,646,596	0	3,017,248	89,663,844

Notes to the Consolidated Financial Statements

58. Financial assets and financial liabilities measured at fair value

a. Fair value hierarchy

The fair value of financial assets and liabilities that are traded in active markets are based on quoted market prices. For other financial instruments the Bank determines fair value using various valuation techniques. IFRS 13 specifies a fair value hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources whereas unobservable inputs reflect the Bank's market assumptions. These two types of inputs result in the following fair value hierarchy:

- Level 1
  Inputs are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2
  Inputs are not quoted market prices but are observable either directly, i.e. as prices, or indirectly, i.e. derived from prices. This category includes financial instruments valued using quoted prices in active markets for similar instruments, quoted prices for similar or identical instruments in markets that are considered less than active and other instruments which are valued using techniques which rely primarily on inputs that are directly or indirectly observable from market data.
- Level 3
  Inputs are not observable or unobservable inputs have a significant effect on the valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments are required to reflect the differences between the instruments.

b. Valuation process

The Bank's ALCO committee is responsible for fair value measurements of financial assets and financial liabilities classified as level 2 or level 3 instruments. The valuation is carried out by personnel from Risk and Treasury and is revised at least quarterly, or when there are indications of significant changes in the underlying inputs.

c. Valuation techniques

The Group uses widely recognised valuation techniques, including net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and other valuation models.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase in fair value, indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and no later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

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

d. 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:

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 year 2020.

31.12.2019

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	8,095,688		1,480	8,097,169
Shares and other variable income securities	1,665,665	227,472	1,766,071	3,659,208
Securities used for hedging	24,195,355	79,414		24,274,769
Loans to customers			2,346,662	2,346,662
Derivatives		1,259,833		1,259,833
Total	33,956,707	1,566,719	4,114,214	39,637,640

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	1,239,916			1,239,916
Short positions used for hedging				0
Derivatives		1,282,341		1,282,341
Other liabilities			494,991	494,991
Total	1,239,916	1,282,341	494,991	3,017,248

Transfers from Level 3 to Level 1 amounted to ISK 360 million during the year 2019 due to listing of a company on Nasdaq First North Growth Market.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

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

e. Reconciliation of changes in Level 3 fair value measurements

31.12.2020	**Fixed income securities**	**Shares and other var. income securities**	**Loans to customers**	**Other assets**	**Other liabilities**	**Total**
Balance as at 31 December 2019	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		(286,058)	198,023
Additions		298,594	1,539,245	327,210		2,165,049
Repayments			(1,377,411)		395,048	(982,363)
Disposals		(32,234)				(32,234)
Transfers in (out) of Level 3	199,337					199,337
Balance as at 31 December 2020	200,799	2,281,174	2,743,851	327,210	(386,001)	5,167,034

31.12.2019	**Fixed income securities**	**Shares and other var. income securities**	**Loans to customers**	**Other assets**	**Other liabilities**	**Total**
Balance as at 31 December 2018	134,944	864,180	2,160,522			3,159,646
Reclassification into Level 3 in accordance with IFRS 9			150,865			150,865
Total gains and losses in profit or loss	(133,463)	212,897	95,505		447,463	622,401
Additions		1,652,385	592,385			2,244,770
Repayments			(652,615)		1,599,864	947,249
Acquisition of subsidiary		928,327			(2,542,318)	(1,613,991)
Disposals		(1,531,253)				(1,531,253)
Transfers in (out) Level 3		(360,466)				(360,466)
Balance as at 31 December 2019	1,480	1,766,071	2,346,662	0	(494,991)	3,619,222

f. 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 2020:

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
Loans 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

Asset class	**Method**	**Significant unobservable input**	**Range**	**Book value 31.12.2019**
Unlisted bonds	Expected recovery	Value of assets	0-5%	1,480
Unlisted variable income securities	Market price	Recent trades	-	1,766,071
Loan to customers	Expert model	Value of assets and collateral	-	2,346,662
Total				4,114,214

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.

g. 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	228,117	(228,117)
Loans to customers	274,385	(274,385)
Unlisted bonds	20,080	(20,080)
Receivables at fair value	32,721	(32,721)
Total	555,303	(555,303)

Notes to the Consolidated Financial Statements

59. Financial assets and financial liabilities not measured at fair value

The Group holds financial instruments which are not measured at fair value. Except for loans to customers, the Group believes that the best estimate of the fair value of these financial instruments is equal to the carrying amount at the reporting date and does therefore not report a fair value for these financial instruments. Loans to customers measured at amortised cost are classified as level 3, in the fair value hierarchy, and have a book value of ISK 26,579 million at end of December 2020. The estimated fair value of loans to customers measured at amortised cost at end of December 2020 is ISK 27,412 million.

Cash and balances with Central Bank includes several components as detailed in note 16. These assets are either balances available on-demand or on very short notice, or other assets easily converted to cash. Other financial assets consist primarily of short-term receivables. The carrying amount of these assets is therefore a reasonable approximation of their fair value.

Deposits and other borrowings are typically either short-term or have variable interest rates. Other liabilities consist primarily of accounts payables, withholding taxes and other short-term payables. The carrying amount of these liabilities is therefore considered a reasonable approximation of their fair value.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Segment information

60. 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 defines five reportable segments which reflect the reporting structure of the Bank.

- 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.

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

2020	**Corporate Banking**	**Corporate Finance**	**Capital Markets**	**Proprietary trading and Treasury**	**Asset Management**	**Support functions and eliminations**	**Total**
Net interest income	1,638,335	65	204,827	50,599	(58,208)	(35,443)	1,800,174
Net fee and commission income	639,258	381,015	920,269	150,015	3,801,907	63,194	5,955,659
Net financial income	91,400	(0)	(885)	486,931	44,368	210,780	832,595
Share in profit of associates	(17,855)	0	0	0	10,428	0	(7,427)
Other operating income (expense)	123,041	0	14	1,921	72,058	(111,986)	85,048
Net operating income	2,474,180	381,080	1,124,225	689,466	3,870,553	126,545	8,666,048
Salaries and related expenses	(269,758)	(245,873)	(267,448)	(183,955)	(1,099,252)	(1,576,949)	(3,643,236)
Other operating expenses	(453,196)	(25,648)	(80,121)	(51,719)	(670,109)	(799,525)	(2,080,317)
Net impairment	(190,877)	(1,108)	0	0	(142,069)	16,587	(317,468)
Revaluation of contingent consideration	0	0	0	0	(286,058)	0	(286,058)
Profit (loss) before cost allocation and tax	1,560,348	108,450	776,656	453,792	1,673,065	(2,233,342)	2,338,969
Net segment revenue from external customers	2,466,427	281,940	1,551,502	291,575	3,870,559	204,045	8,666,048
Net segment revenue from other segments	7,753	99,140	(427,278)	397,890	(6)	(77,500)	0

2019	**Corporate Banking**	**Corporate Finance**	**Capital Markets**	**Proprietary trading and Treasury**	**Asset Management**	**Support functions and eliminations**	**Total**
Net interest income	1,581,631	(232)	242,195	36,511	(106,745)	22,561	1,775,921
Net fee and commission income	598,836	462,903	825,149	120,504	2,925,112	(128,282)	4,804,222
Net financial income	79,693	0	(11,276)	393,708	(16,283)	222,357	668,199
Share in profit of associates	(6,586)	0	0	0	38,568	0	31,982
Other operating income (expense)	90,720	0	187	2,521	202,429	(150,545)	145,313
Net operating income	2,344,294	462,671	1,056,254	553,244	3,043,082	(33,908)	7,425,637
Salaries and related expenses	(246,380)	(232,412)	(247,806)	(171,887)	(1,139,688)	(1,298,522)	(3,336,695)
Other operating expenses	(411,951)	(26,338)	(79,111)	(63,534)	(576,804)	(564,271)	(1,722,009)
Net impairment	(204,782)	(23,145)	(22)	0	(124,548)	38,948	(313,548)
Revaluation of contingent consideration	0	0	0	0	447,463	0	447,463
Profit (loss) before cost allocation and tax	1,481,181	180,776	729,316	317,823	1,649,505	(1,857,753)	2,500,848
Net segment revenue from external customers	1,753,749	403,238	2,305,225	(76,473)	3,034,806	5,092	7,425,637
Net segment revenue from other segments	590,544	59,433	(1,248,971)	629,717	8,276	(39,000)	0

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Other information

61. Pledged assets

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

31.12.2019	Settlement and committed facilities	Securities borrowing	Total
Cash and balances with Central Bank	2,656,917	689,393	3,346,310
Total	2,656,917	689,393	3,346,310

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.

62. 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

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

31.12.2019	Loans & receivables	Deposits & payables
Management	354	40,296
Associates	208,278	2,995,554
Total	208,632	3,035,851

d. Effects on income statement

2020	Interest income	Interest expense	Fees received	Fees paid
Management	43	584	1,941	19,463
Associates	10,380	136	23,109	0
Total	10,422	720	25,050	19,463

2019	Interest income	Interest expense	Fees received	Fees paid
Management	4,095	2,784	2,712	15,705
Associates	1,972	53,424	53,480	0
Total	6,067	56,208	56,192	15,705

Further information about salaries and benefits paid to the Board of Directors, the CEO and Managing Directors is provided in note 9.

Notes to the Consolidated Financial Statements

63. Remuneration policy

The Board of Directors has adopted a remuneration policy at the proposal of the Remuneration Committee. The Bank's Annual General Meeting approved the Bank's current remuneration policy in March 2020. The Board of Directors will submit an updated remuneration policy for approval at the Bank's Annual General Meeting in 2021.

The remuneration policy conforms to Article 57 of Act No. 161/2002 on Financial Undertakings, Act No. 2/1995 on Public Limited Companies and the Icelandic FSA's rules No. 388/2016 on Incentive Schemes. A more detailed description of the policy can be found on the Bank's website, www.kvika.is.

64. Incentive scheme

The Board of Directors has approved a performance based incentive scheme at the proposal of the Remuneration Committee. The scheme forms a part of the remuneration policy adopted by the Bank.

a. Description

The incentive scheme conforms to the Icelandic FSA's rules No. 388/2016 on Incentive Schemes. Payments according to the scheme are based on key performance indicators (KPIs) that reflect the goals of the Bank, the division and the employee. The basis for performance based pay reflects sound risk management and does not induce excessive risk taking. Performance based pay to individual employees shall not exceed 25% of their annual salary and 40% of the performance based pay shall be deferred for three years. Performance based pay that does not exceed 10% of annual salary is not subject to deferral. A more detailed description of the scheme can be found in the Bank's remuneration policy on it's website, www.kvika.is.

b. Performance based payments through profit and loss

	2020 Cash	2019 Cash
Non-deferred	64,818	92,635
Deferred	2,640	4,120
Salary related expenses	18,387	26,986
Cancelled deferred performance based payments	(33,283)	0
Total	52,563	123,741

c. On-balance sheet deferred performance based payments

	31.12.2020	31.12.2019
Deferred cash payments	24,955	24,652
Deferred cash payments, acquired via business combinations	0	68,743
Total	24,955	93,395

65. Share-based payments

During 2017, in accordance with a remuneration policy from that year, the Bank granted stock options based on a stock options plan which was set up in accordance with article 10 in law 90/2003 on income tax. The Board of Directors is authorised to increase the share capital of the Bank, in accordance with the Articles of Association, to fulfil any obligations arising from the scheme. No further stock options have been granted based on the aforementioned plan and the current remuneration policy does not include provision for such stock options.

a. Description

The average weighted exercise price was equal to 5.58 per share with a per annum increase of 5%. The options were issued to most employees, taking into consideration the conditions set out in the Bank's remuneration policy at the time, and the total nominal amount issued amounts to 8,543,799 shares. The options did not allow for cash settlement and vested evenly over 36 months following signing. The options were conditional on the employee remaining employed by the Bank and various other conditions which meet demands set by the Financial Supervisory Authority. In September 2020, the majority of the stock options were exercised while the remainder of them was forfeited. No further stock options have been granted or remain outstanding.

b. Movements in the number of stock options outstanding and their related weighted average exercise prices

The grant date fair value of the options granted through the scheme was as follows:

	Average exercise price per share	Stock options (thousands)
At 1 January 2019	5.94	8,544
Granted in 2019	0.00	0
Exercised in 2019	0.00	0
At 31 December 2019	6.24	8,544
Granted in 2020	0.00	0
Exercised in 2020	6.46	(7,303)
Forfeited in 2020	0.00	(1,240)
At 31 December 2020	0.00	0

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

66. Shareholders of the Bank

Shareholder	Country	31.12.2020 %	31.12.2019 %	Beneficial owners
Stoðir hf.	Iceland	8.24%	-	
Lífeyrissjóður verzlunarmanna	Iceland	7.57%	8.77%	
SNV holding ehf.	Iceland	6.24%	6.69%	Svanhildur Nanna Vigfúsdóttir (100%)
Lífeyrissj.starfsm.rík. A-deild	Iceland	5.86%	2.19%	
Vátryggingafélag Íslands hf.	Iceland	4.32%	4.71%	
Lífsverk lífeyrissjóður	Iceland	2.89%	3.11%	
Sindrandi ehf.	Iceland	2.88%	3.10%	Bogi Þór Siguroddsson (50%), Linda Björk Ólafsdóttir (50%)
Almenni lífeyrissjóðurinn	Iceland	2.64%	2.54%	
Gani ehf.	Iceland	2.45%	-	Tómas Kristjánsson (100%)
Birta lífeyrissjóður	Iceland	2.30%	1.48%	
Arion banki hf.	Iceland	2.18%	6.40%	
Eignarhaldsfélagið VGJ ehf.	Iceland	2.07%	1.66%	Eiríkur Vignisson (90%), Sigríður Eiríksdóttir (10%)
Landsbréf - Úrvalsbréf	Iceland	2.07%	1.56%	Investement fund managed by Landsbréf hf.
Íslandsbanki hf.	Iceland	1.87%	5.22%	
Jasnik ehf.	Iceland	1.76%	0.99%	Höskuldur Tryggvason (100%)
Lífeyrissj.starfsm.rík. B-deild	Iceland	1.60%	0.73%	
MK 4 ehf.	Iceland	1.47%	1.55%	Sigfinna Lóa Skarphéðinsdóttir (26%),Magnús Kristinsson (26%), Elfa Ágústa Magnúsdóttir (12%), Héðinn Karl Magnússon (12%), Magnús Berg Magnússon (12%), Þóra Magnúsdóttir (12%)
Stefnir - ÍS 15	Iceland	1.42%	-	Investement fund managed by Stefnir hf.
Titania ehf.	Iceland	1.30%	1.49%	Berglind Björk Jónsdóttir (100%)
Kvika - IHF hs.	Iceland	1.25%	1.25%	Investement fund managed by Kvika eignastýring hf.
Stefnir - ÍS 5	Iceland	1.19%	-	Investement fund managed by Stefnir hf.
IS Hlutabréfasjóðurinn	Iceland	1.14%	0.65%	Investement fund managed by Íslandssjóðir hf.
Landsbankinn hf.	Iceland	1.11%	3.78%	
Akta Stokkur	Iceland	1.06%	-	Investement fund managed by Akta sjóðir hf.
Kvika - Innlend hlutabréf	Iceland	1.02%	1.03%	Investement fund managed by Kvika eignastýring hf.
Stekkur fjárfestingarfélag ehf	Iceland	1.00%	1.03%	Kristinn Aðalsteinsson (100%)
Others, each less than 1%		31.09%	37.56%	2020: 964, 2019: 805
		100.00%	97.49%	
Treasury shares		0.00%	2.51%	
Issued share capital		100.00%	100.00%	

Beneficial owners are defined as owners holding a share of 10% or greater, directly or indirectly. The information presented is, among other things, based on publicly available information.

67. Events after the reporting date

Acquisition of Netgíró hf.

On 22 January 2021, the Bank announced that it has completed the acquisition of 80% of all shares in Netgíró hf. ("Netgíró") from Alva Capital ehf., following the signing of a Letter of Intent for the acquisition, which was announced on 16 July 2020. The Bank, which previously owned a stake close to 20% in Netgíró, will now be sole owner of the company. The acquisition of Netgíró is in line with the Bank's policy of utilising technological solutions to modernize financial services. Netgíró has developed an advanced credit rating system and offered its customers “buy now pay later” services.

Notes to the Consolidated Financial Statements

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities.

68. Basis of consolidation

a. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses its relationship with an entity when there is a change in one or more of the elements of control.

b. Business combinations

The Group uses the acquisition method to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is account for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit and loss.

c. Non-controlling interest

Non-controlling interest represent the portion of profit or loss and equity not owned, directly or indirectly, by the Bank. Non-controlling interest is presented separately in the income statement and is included in equity in the statement of financial position, separately from equity attributable to owners of the Bank.

The Group chooses on an acquisition-by-acquisition basis whether to measure non-controlling interest in an acquiree at fair value or according to the proportion of non-controlling interests in the acquiree's net assets. Changes in the Bank's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

d. Fiduciary services

The Group provides custody services, fund management and discretionary and advisory investment management services which require the Group to make decisions on the handling, acquisition or disposal of financial instruments on behalf of its clients.

The financial statements of managed funds and investment portfolios managed by the Group on behalf of customers are not included in the financial statements, as they do not constitute assets or liabilities of the Group.

e. Transactions eliminated on consolidation

Intra-bank balances, income and expenses, and unrealised gains and losses arising from intra-bank transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

f. Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The Group acts as investment manager or investment advisor, for example, to a number of investment funds operated by the fund management companies Kvika eignastýring hf. and Gamma Capital Management hf. The purpose of these fund management companies is to generate fees from managing assets on behalf of third-party investors by providing investment strategies. These investment funds are financed through the issue of units to investors. The Group has no contractual obligation to provide financial support to these structured entities.

From time to time, the Group makes seed capital investments in certain fund products in order to establish track records for new products, to test new investment strategies or to launch new products at a viable minimum size.

The Group has set up a formal procedure to assess whether or not to consolidate investment funds managed and administered by the Group on behalf of its customers and other investors in the consolidated financial statements. As part of this assessment, the Group reviews all facts and circumstances including the purpose and design of the investment fund, to determine whether the Group, as fund manager, is acting as agent or principal. The Group is deemed to be a principal when the Group acts as fund manager and cannot be removed without cause, has variable returns through significant holdings and is able to influence the returns of the funds by exercising its power.

Notes to the Consolidated Financial Statements

69. Foreign currency

a. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the respective Group's entity using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rate at the date the fair value was determined.

Foreign currency differences are posted as a separate line item under net financial income as disclosed in notes 5 and 72.

b. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency at spot exchange rate current at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the spot exchange rates at the dates of the transactions.

Translation differences on foreign operations are presented as a separate category in the statement of changes in equity.

70. Interest income and expense

Effective interest rate

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability. When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Presentation

Interest income and expense presented in the income statement includes interest on:
- financial assets and liabilities measured at amortised cost
- financial assets at fair value through other comprehensive income (FVOCI)
- financial assets at fair value through profit and loss
- derivatives

71. Fee and commission income and expense

The Group earns income from providing various services to its customers. This includes fees for managing assets on behalf of customers, commissions received for equity and bond transactions and fees and commissions for various other financial services. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income and expense are recognised in the income statement when an agreement with a customer meets all of the following criteria:
- the parties to the contract have approved the contract and are committed to perform their respective obligations
- performance obligations have been established for services to be transferred
- the payment terms have been established for the services to be transferred
- the transaction price can be allocated to each individual service in the agreement
- it is probable that a consideration will be collected in exchange for the services that will be transferred to the customer

The following applies to recognition of income for various types of fees and charges:
- Fees that are earned gradually as the services are performed, such as management fees in asset management, are recognised as income at the rate these services are delivered. In practice, these are on a straight line basis
- Fees attributable to a specific service or action are recognised as income when the service has been performed. Examples of such fees are brokerage and payment commissions

Notes to the Consolidated Financial Statements

72. Net financial income

Net financial income comprises the following:
- Realised and unrealised gains or losses from price changes of fixed income securities measured at fair value
- Realised and unrealised gains or losses from price changes of variable income securities
- Interest income from fixed income securities carried at fair value through profit or loss
- Dividends
- Fair value changes in derivatives
- Foreign exchange difference

73. Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented as a component of net financial income.

74. Administrative expenses

Administrative expenses comprise expenses other than interest expenses, fee and commission expenses and expenses related to fair value changes. A breakdown of administrative expenses is provided in note 7.

75. Employee benefits

a. Short-term employee benefits
Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

b. Defined contribution plans
Obligations for contributions to defined contribution plans are expensed in profit or loss as the related service is provided. The Group has no further obligations once those contributions have been paid.

c. Share-based payments
Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The grant date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

76. Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised there.

Current tax liabilities include the estimated tax payable next year on current year's profit according to the tax rates prevailing at reporting date, in addition to corrections on tax from previous years.

The deferred income tax asset and/or liability has been calculated and recognised in the statement of financial position. The calculation is based on the difference between assets and liabilities as presented in the tax return on the one hand, and in the consolidated financial statements on the other, taking into consideration tax losses carried forward. This difference is due to the fact that the tax assessment is based on premises that differ from those governing the financial statements, mostly due to temporary differences arising from the recognition of revenue and expense in the tax returns and in the financial statements.

Deferred tax assets and tax liabilities are offset in the statement of financial position when there is a legal right to settle on a net basis and they are levied by the same taxing authority on the same entity or on different entities subject to joint taxation.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Consolidated Financial Statements

77. Financial assets and financial liabilities

a. Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial assets and liabilities are initially recognised on the trade date, which is the date when the Group becomes a party to the contractual provisions of the instrument.

b. Classification

Financial assets

The Group's financial assets are classified into one of three measurement categories, i.e. i) at amortised cost, ii) at fair value through other comprehensive income or iii) at fair value through profit or loss. The measurement basis of individual financial assets is determined based on an assessment of the cash flow characteristics of the assets and the business models under which they are managed.

Financial assets at amortised cost

A financial asset is measured at amortised cost if the contractual terms of the financial asset give rise to cash flows that are solely payment of principal and interest and the asset is held within a business model whose objective is to collect contractual cash flows, i.e. Held to collect. After initial measurement, financial assets in this category are carried at amortised cost using the effective interest rate method. Amortisation is included in interest income in the Consolidated Statement of Comprehensive Income. The majority of the Group's loans to customers are carried at amortised cost using the effective interest rate method. Interest on loans to customers is recognised as interest income.

Impairment on financial assets measured at amortised cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortised cost are presented net of allowance for credit losses in the Consolidated Statement of Financial Position.

Financial assets at fair value through other comprehensive income (FVOCI)

Fixed income securities may be classified as financial instruments measured at fair value through other comprehensive income ("FVOCI") when they meet the classification criteria. Interest income is calculated using the effective interest rate. Interest income and foreign exchange gains or losses are recognised in the Consolidated Statement of Comprehensive Income. Fixed income securities classified as FVOCI are subject to impairment measurement using the expected credit loss approach. Fair value measurements are recognised in Other Comprehensive Income while on derecognition, cumulative gains (losses) recognised in Other Comprehensive Income are reclassified to the Consolidated Statement of

Financial assets at fair value through profit or loss (FVTPL)

Financial assets classified at fair value through profit or loss are all other financial assets which are not classified at amortised cost or at fair value through other comprehensive income. This includes financial assets classified mandatorily at fair value through profit or loss and financial assets which are irrevocably designated by the Group at initial recognition as at fair value through profit or loss that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income. The Group may designate financial assets as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at fair value through profit or loss are measured in the Consolidated Statement of Financial Position at fair value. Loans to customers which are measured at fair value through profit or loss are assets whose cash flows do no represent payments that are solely payments of principal and interest but are non-trading assets. Interest on loans to customers measured at fair value through profit or loss is recognised as interest income. Changes in fair value, as well as any gains or losses realised on disposal, are recognised in the line item Net financial income (expense) in the Consolidated Statement of Comprehensive Income.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss because they are neither held to collect contractual cash flows nor held to both collect contractual cash flows and to sell financial assets.

Notes to the Consolidated Financial Statements

77. Financial assets and financial liabilities (cont.)

Cash flow characteristics assessment

Financial assets held within the business models Held to collect and Held to collect and sell are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest (SPPI). SPPI payments are those which are consistent with a basic lending arrangement. Principal is the fair value of the financial asset at initial recognition and may change over the life of the instruments, e.g. due to repayments. Interest relates to basic lending returns, including compensation for the time value of money and credit risk associated with the principal amount outstanding and for other basic lending risks (expected losses, liquidity risks and administrative costs), as well as a profit

Where the contractual terms introduce exposure to other risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model and if the change is significant to the Group's operations.

Financial liabilities

The Group's financial liabilities are classified into one of two measurement categories, i.e. at amortised cost or at fair value through profit or loss. Financial liabilities held for trading are measured at fair value through profit or loss, all other financial liabilities are measured at amortised cost. Financial liabilities measured at amortised cost are initially recognised at fair value, which is typically equal to cost, i.e. cash advanced less any transaction costs. They are subsequently measured at amortised cost using the effective interest method. Accrued interest, in the case of interest bearing liabilities is included in the carrying amount. Interest expense is recognised in net interest income.

Derecognition

Financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or when the Group enters into a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase agreements.

Financial liabilities

Financial liabilities are derecognised when the obligation of the Group is discharged, cancelled or expires.

78. Offsetting

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability

Income and expenses are presented on a net basis for gains and losses arising from a group of similar transactions, such as in the Group's trading activity, or other circumstances permitted by International Financial Reporting Standards.

79. Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. For further information on valuation techniques, refer to notes 58 - 59.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Notes to the Consolidated Financial Statements

80. Impairment

Expected Credit Loss

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- debt instruments measured at amortised cost;
- debt instruments measured at fair value through other comprehensive income;
- contract assets;
- loan commitments issued; and
- financial guarantee contracts issued.

The Group estimates an ECL for each of these types of assets or exposures. However, IFRS 9 specifies three different approaches depending on the type of asset or exposure:

1. For trade receivables and contract assets without a significant financing component a simplified (lifetime expected loss) approach can be applied.
2. For assets that are credit-impaired at purchase or origination lifetime expected loss approach shall be applied.
3. For other assets/exposures a general (or three-stage) approach shall be applied.

The general approach

The Group measures the ECL on each balance sheet date according to a three-stage expected credit loss impairment model.

Stage 1 covers financial assets that have not deteriorated significantly in credit quality since initial recognition or (where the optional low credit risk simplification is applied) have low credit risk.

Stage 2 covers financial assets that have deteriorated significantly in credit quality since initial recognition (unless the low credit risk simplification has been applied and is relevant) but that do not have objective evidence of a credit loss event.

Stage 3 covers financial assets that have objective evidence of a credit loss event at the reporting date.

12-month expected credit losses are recognised in stage 1, while lifetime expected credit losses are recognised in stages 2 and 3. IFRS 9 draws a distinction between financial instruments that have not deteriorated significantly in credit quality since initial recognition and those that have. '12-month expected credit losses' are recognised for the first of these two categories. 'Lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

An asset moves from 12-month expected credit losses to lifetime expected credit losses when there has been a significant deterioration in credit quality since initial recognition. Hence the 'boundary' between 12-month and lifetime losses is based on the change in credit risk not the absolute level of risk at the reporting date.

There is also an important operational simplification that permits companies to stay in '12-month expected credit losses' if the absolute level of credit risk is 'low'. This applies even if the level of credit risk has increased significantly.

There is also a third stage. This applies to assets for which there is objective evidence of impairment. In Stage 3 the credit loss allowance is still based on lifetime expected losses but the calculation of interest income is different.

In the periods subsequent to initial recognition, interest is calculated based on the amortised cost net of the loss provision, whereas the calculation is based on the gross carrying value in Stages 1 and 2.

Finally, it is possible for an instrument for which lifetime expected credit losses have been recognised to revert to 12-month expected credit losses should the credit risk of the instrument subsequently improve so that the requirement for recognising lifetime expected credit losses is no longer met.

Expected credit losses

Expected credit losses are defined as the difference between all the contractual cash flows that are due to an entity and the cash flows that it actually expects to receive ('cash shortfalls'). This difference is discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

12 month expected credit losses

12-month expected credit losses are a portion of the lifetime expected credit losses. They are calculated by multiplying the probability of a default occurring on the instrument in the next 12 months by the total (lifetime) expected credit losses that would result from that default. They are not the expected cash shortfalls over the next 12 months. They are also not the credit losses on financial instruments that are forecast to actually default in the next 12 months.

Lifetime expected credit losses

Lifetime expected credit losses are the expected shortfalls in contractual cash flows, taking into account the potential for default at any point during the life of the financial instrument.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

80. Impairment (cont.)

Definition of default

The Group considers a financial asset to be in default if one of the following applies:
- the borrower is 90 days past due of one of his exposures with the Bank;
- the borrower is registered as in delinquency by Creditinfo (Icelandic: vanskilaskrá);
- the borrower is registered in public records as filed for bankruptcy, has terminated his business or is no longer a going concern;
- the borrower is considered to be unlikely to pay as determined by the Bank's Risk Management department. Events that are likely to lead to default as determined by the Risk Management department include the following:
  - breach of covenants of loan commitments;
  - loan concessions or stressed restructuring; or
  - Risk Management's internal risk assessment is 4 or 5.
- the borrower has been in default in accordance with above at any point for the previous three months.

The Risk Management department can manually override automatic default triggers if the following applies:
- the reason for reported default triggers is known to the Bank and not considered to be lack of willingness or ability to pay.
- re-financing of borrower's exposures is expected and has been confirmed.

Probability of default and credit risk rating

The Group utilises an external Probability of Default model (PD model) developed and maintained by Creditinfo Iceland, an Icelandic credit bureau, for the Group. The PD model is based on information compiled by Creditinfo on the creditworthiness of corporates and individuals in Iceland based both on personal and demographic factors. It predicts the probability of default in the next 12 months. The model has been calibrated to using historical default rate information representative of the Group's portfolio. The model is designed as a point in time model and correlation between forecasted and actual default rates and macroeconomic forecasts has been identified. This enables the Group to calculate different forward looking probabilities of default given different forecasts for changes in gross domestic product, inflation rate and unemployment rate. Lifetime PD for loans in stage 3 is 100% as by definition they are already in default.

For the purpose of estimating lifetime PD for loans in stage 2 the Group has determined that 12 month PD is an appropriate proxy for marginal PD over the lifetime of the loan. The 12 month PD is adjusted with a survival rate for each year until maturity with the following formula: $PD_t = PD_{12} * SR_t$ where PD_{12} is the 12 month PD from the credit rating model and SR_t is the survival rate at time t, which is calculated recursively as $SR_t = SR_{t-1} * (1-PD_t)$. The Group monitors the appropriateness of the assumption as a part of it's yearly validation and monitoring process.

Significant increase in credit risk

When considering whether a significant increase in credit risk (SICR) has occurred the Group considers both quantitative and qualitative factors. In general the Group will rely on a quantitative analysis based on the PD model but will additionally consider qualitative factors based on the information available to the Group.

Quantitative SICR assessment

The Group has defined the following criteria's for SICR:

1. 30 days past due of any of the client's exposures
2. Grading migrations – SICR has occurred if the current grade has increased compared to the origination grade more or equal to the following thresholds:

Origination grade	Threshold grade
1	7
2	7
3	7
4	7
5	7
6	8
7	8
8	9
9	10

Migration of one or two risk grading in the PD model is considered to be a significant increase in risk and therefore warrant a transfer to stage 2, depending on the origination grade. However, the Group considers risk grades less than 5 for corporations to be low risk and therefore excludes any movement between categories that does not result in a rating above that level. Ratings above 10 are considered to indicative of default and therefore warrant elevation to stage 3 unless overridden based on other available information or expert judgement.

Qualitative SICR assessment

Risk Management is responsible for managing the credit risk of the Group which includes a qualitative SICR assessment. Risk Management reviews on a monthly basis large exposures, unsecured loans and loans that are past due on a loan by loan basis.

Notes to the Consolidated Financial Statements

80. Impairment (cont.)

Exposure at default

Lifetime definition

The Group considers the lifetime of each exposure to be the contractual maturity of each loan. The Group considers this to be the case as any lending subsequent to that period would be based on an independent lending decision at that time based on the prevailing market terms. The Group only considers contractual cash flows when estimating exposure at default. The average lifetime of the Group's exposures is short and historically the Group has had few prepayments and no changes in that pattern are foreseen. It does therefore not consider the likelihood of prepayment when concluding on the lifetime of the assets.

Committed facilities

The Group considers the off-balance portion of exposure at default to be 50% (credit conversion factor) of any facilities not drawn upon that are considered committed. Such facilities include overdrafts, credit cards and guarantees. The credit conversion factor is subject to expert review on a case by case basis. The Bank does not consider credit line facilities to be committed facilities as disbursements are subject to predetermined conditions and constitute a separate credit review. These predetermined conditions will in most cases lead directly to an increase in posted collateral and disbursements therefore stay within acceptable collateral coverage.

Expected credit loss measurement

IFRS 9 requires the Group to determine an expected credit loss (ECL) amount on a probability-weighted basis as the difference between the cash flows that are due to the Group in accordance with the contractual terms of a financial instrument and the cash flows that the Group expects to receive. The Group has implemented an ECL model which is consistent with regulatory and best practices. The model is based on four components.

Probability of Default (PD). This is an estimate of the likelihood of default over a given time horizon. The Bank uses an external PD model developed by CreditInfo for the Group.

Exposure at Default (EAD). This is an estimate of the exposure at a future date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Loss Given Default (LGD). This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is expressed as a percentage of EAD and derived from value of underlying collaterals.

Discount rate. This is used to discount an expected loss to present value at the reporting date using the effective interest rate (EIR) at initial recognition.

Forward looking probability weighted scenarios

As mandated by IFRS 9 the Group's management has identified and probability weighted three macro-economic scenarios for the purpose of calculating expected credit loss. Forecasts of macro-economic variables and scenario weights are based on the Group‘s management judgement. The Group incorporates the following forward-looking macro- economic variables into its probability weighted expected credit loss calculations: (i) gross domestic product and (ii) unemployment rate.

81. Cash and balances with Central Bank

Cash and balances with Central Bank include notes and coins on hand, balances held with the Central Bank and other financial institutions, and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and balances with Central Bank are carried at amortised cost in the statement of financial position.

82. Fixed income securities

Fixed income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 77.

83. Shares and other variable income securities

Shares and other variable income securities consist of equity investments and unit shares in mutual funds. Shares and other variable income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 77.

84. Securities used for hedging

Securities used for hedging consist of non-derivative financial assets that are used to hedge the Group's exposure arising from derivative contracts with customers. Securities used for hedging are measured at fair value as discussed in note 77.

Notes to the Consolidated Financial Statements

85. Loans to customers

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include loans provided by the Group to its customers, participation in loans from other lenders and purchased loans that are not quoted in an active market and which the Group has no intention of selling immediately or in the near future.

Loans are initially recognised at fair value, which is the cash advanced, plus any transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the loans and advances. The carrying amount of impaired loans is reduced through the use of an allowance account.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset, or a substantially similar asset, at a fixed price at a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and the underlying asset is not recognised in the Group's statement of financial position.

86. Derivatives

A derivative is a financial instrument or another contract that falls under the scope of IFRS 9 and generally has the following three

- Its value changes due to changes in an underlying variable, such as bond price, share price, security or price index (including CPI), foreign currency exchange rate or interest rate
- The contract requires no initial investment or an initial investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors
- Settlement takes place at a future date

The Group uses derivatives for trading purposes and to hedge its exposure to market price risk, foreign exchange risk and inflation and interest risk arising from operating, financing and investing activities. The Group does not apply hedge accounting.

Derivative assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position. Derivatives with positive fair values are classified as financial assets and derivatives with negative fair values as financial liabilities. Revenue from derivatives is split into interest income and net income from financial instruments at fair value and presented in the corresponding line items in the income statement.

87. Investment properties

An investment property is an asset which is specified for leasing to third parties, for returns or for both purposes. Investment properties are initially recognised at cost and subsequently measured at fair value. Changes in fair value are recognised as gains or loss in the income statement.

88. Intangible assets

a. Asset categories

The Group groups intangible assets into three categories:

- Software
  Software comprise acquired software licences and external costs associated with the development of bespoke applications.
- Goodwill
  Goodwill arises in business combinations. It is recognised as of the acquisition date and measured as the aggregate of (a) the fair value of the consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) the fair value of any previously held equity interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. The consideration transferred includes the fair value of assets transferred, liabilities incurred and equity interests issued by the Group. In addition, consideration transferred includes the fair value of any contingent consideration.
- Other intangible assets
  Other intangible assets comprise licences and acquired trademarks used in the operation of the Group.

The Group has not defined any internally generated intangible assets.

b. Initial recognition

Intangible assets are initially recognised at cost.

Notes to the Consolidated Financial Statements

88. Intangible assets (cont.)

c. Subsequent measurement

The Group uses the cost model for measurement after recognition and intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits at each reporting date. If such indications exist, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

d. Amortisation

Intangible assets with finite useful life are amortised using the straight-line method over their estimated useful economic life, with the amortisation recognised in the income statement. The estimated useful life of intangible assets is as follows:

Software	5-10 years
Other intangible assets with finite useful life	10 years

Depreciation of property and equipment and amortisation of intangible assets are presented together as a separate line item in administrative expenses as disclosed in note 7. Further breakdown on depreciation of intangible assets is provided in note 26.

89. Property and equipment

a. Asset categories

The Group groups tangible assets into two categories:

- Real estate, which includes office and residential buildings, land and building rights
- Other property and equipment, which includes automobiles, furniture and fixtures, computers and other office equipment

b. Initial recognition

Property and equipment is initially recognised at cost, which includes direct expenses related to the purchase.

c. Subsequent measurement

The Group uses the cost model for the measurement after recognition and property and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. Property and equipment is reviewed for indications of impairment or changes in estimated future economic benefits at each reporting date. If such indications exist, the assets are analysed to assess whether their carrying amount is fully recoverable.

d. Subsequent cost

The Group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The decision, if subsequent costs are added to the acquisition cost of property and equipment, is based on whether an identified component, or part of such component, has been replaced or not, or if the nature of the subsequent cost means a contribution of a new component. All other costs are expensed in the income statement when incurred.

e. Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. The estimated useful lives are as follows:

Real estate	15-50 years
Other property and equipment	3-5 years

Where parts of an item of property and equipment have different useful lives, those components are accounted for separately.

Notes to the Consolidated Financial Statements

90. Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence generally exists when the Group holds between 20% and 50% of the voting power, including potential voting rights, if any. Investments in associates are initially recognised at cost.

The Group's share of the total recognised gains and losses of associates is included in the financial statements of the Group on an equity accounted basis, from the date the significant influence commences until the date it ceases.

If the Group's share of loss exceeds its interest in an associate, the Group's carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

91. Other assets

Other assets are measured at amortised cost, except for certain receivables which are measured at fair value.

92. Deposits

Deposits consist of time deposits and demand deposits. Money market deposits are included in borrowings. Deposits are recognised at amortised cost, including accrued interest.

93. Borrowings

Borrowings are mostly comprised of money market deposits. They are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in their carrying amount.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset, or a substantially similar asset, at a fixed price at a future date ("repo" or "stock lending"), the arrangement is accounted for as a borrowing and the underlying asset continues to be recognised in the Group’s statement of financial position.

94. Issued bills

Issued bills are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in their carrying amount.

95. Issued bonds

Issued bonds are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in their carrying amount.

96. Subordinated liabilities

Subordinated liabilities are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in their carrying amount.

97. Short positions held for trading

Short positions are obligations of the Group to deliver financial assets borrowed by the Group and sold to third parties. Short positions are carried at fair value through profit or loss with all fair value changes recognised in the income statement under net financial income.

98. Short positions used for hedging

Short positions used for hedging are obligations of the Group to deliver financial assets borrowed by the Group and sold to third parties. Short positions used for hedging consist of non-derivative financial liabilities that are used to hedge the Group's risk exposure arising from derivative contracts with customers. Short positions used for hedging are carried at fair value through profit or loss with all fair value changes recognised in the income statement under net financial income.

99. Other liabilities

Other liabilities are measured at amortised cost, except for the contingent consideration which is measured at fair value.

100. Right of use asset and lease liability

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the Group's incremental borrowing rate. The right-of-use assets comprise the initial measurement of the corresponding lease liability. They are subsequently measured at cost less accumulated depreciation.

Notes to the Consolidated Financial Statements

101. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value. The guarantee liability is subsequently measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Liabilities arising from financial guarantees are included with provisions.

102. Share capital

a. Treasury shares

Acquired own shares and other equity instruments (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of treasury shares. Consideration paid or received is recognised directly in equity. Incremental transaction costs of treasury share transactions are accounted for as a deduction from equity, net of any related income tax benefit.

b. Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Group.

c. Dividends on share capital

Dividends on share capital are deducted from equity in the period in which they are approved by the Group's shareholders meetings.

103. Nature and purpose of equity reserves

a. Option reserve

The option reserve represents the cumulative charge to the income statement for options to purchase shares in the Bank granted under the Bank's Remuneration policy, which is discussed in notes 63-65.

b. Warrants reserve

The warrants reserve represents the consideration received for outstanding warrants, as disclosed in note 38.

c. Deficit reduction reserve

The deficit reduction reserve was created as a part of a share capital reduction approved by the Bank's Annual General Meeting in April 2014. The reserve has no specified purpose and can only be used with the approval of a shareholders' meeting.

d. Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, until the operations are sold, dissolved or abandoned.

e. Restricted retained earnings

According to the Financial Statements Act No. 3/2006 the difference between share of profit of subsidiary or associate in excess of dividend payment or dividend payment pending, shall be transferred to a restricted retained earnings reserve, net of tax, which is not subject to dividend payments. When shareholding in subsidiary or associate is sold or written off the restricted retained earnings reserve shall be released and the amount transferred to retained earnings.

f. Accumulated deficit - retained earnings

Accumulated deficit (retained earnings if positive) consists of undistributed profits and losses accumulated, less transfers to other reserves.

104. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, which comprise share options granted to employees and issued warrants.

105. New standards and interpretations

The Group has adopted amendments to existing standards which became effective for the first time in 2020. The amendments did not have a material effect on these financial statements.

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2020 and have not been applied in the preparation of these financial statements. Early adoption of new standards and amendments is not planned.

No new standards, amendments or implementations with significant relevance to the Group will become effective during the next financial year.

Notes to the Consolidated Financial Statements

106. Use of estimates and judgements

In the process of applying the Group's accounting policies, management makes use of judgements and estimates which are based on various assumptions. These judgements and estimates can affect the reported amounts of assets and liabilities, income and expense.

Assumptions and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are reviewed on an on-going basis. The estimates form the basis for judgements about the carrying value of assets and liabilities that are not readily available from other sources and actual results may differ. Judgement may also be required in circumstances not involving estimates, e.g. when determining the substance of a particular transaction, contract or relationship.

The areas where the use of judgements and estimates has the most significant effect on the amounts recognised in the statement of financial position or the income statement are disclosed in this note.

a. Fair value of financial instruments
The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques which are reviewed regularly as discussed in note 58.

b. Impairment of financial assets
As outlined in note 80, the use of estimates and judgement is an important component of the calculation of impairment losses. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Unforeseen events could, however, result in further impairment losses which would have a material effect on the income statement and statement of financial position.

c. Impairment of intangible assets
The carrying amount of intangible assets are reviewed annually to determine whether there is indication of impairment as disclosed in note 88. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

d. Deferred tax assets
Judgement is required to determine the extent to which deferred tax assets are recognised in the statement of financial position, based on the likely timing and level of future taxable profits.

Appendixes:

1. Statement on the Corporate Governance of Kvika banki hf. 2020
2. Non-Financial Information regarding Kvika banki hf. 2020

Unaudited

Statement on the Corporate Governance of Kvika banki hf. 2020

Business strategy and values

Kvika banki hf. (hereinafter referred to as “Kvika”, “the bank” or the “Company”) is a specialised bank focusing on asset management and investment services. Kvika’s values are based on long-term thinking and accordingly its business strategy is to develop solid business relationships and long-term results. The bank serves a specific target group and emphasising high-quality, personalised service for clients. The bank’s size enables it to adapt to its environment with the aim of maintaining good profitability and customer service. Based on robust infrastructure and exceptional talent, Kvika generates income through three business segments.

The Banking division finances enterprises and the investments of the bank’s clients. Banking also utilises the bank’s infrastructure and network to broker loans to other institutional investors.

Asset Management emphasises offering clients a broad range of services for investing in Iceland as well as on foreign markets. Its aim is to provide the best asset and fund management services, guided by clients’ long-term interests. Asset and fund management operations are handled by Kvika’s subsidiaries.

Capital Markets offers clients comprehensive securities brokerage and FX market services.

The Corporate Finance division provides various types of advisory services in connection with investments and financing. Emphasis is placed on corporate acquisitions and divestments, as well as initial public offerings.

Return on equity is determined by decisions made in accordance with the bank’s risk appetite, which reflects its profitability targets. The emphasis is placed on utilising equity as efficiently as possible with regard to risk. Consequently, decisions regarding the optimal composition of the balance sheet to generate income are restricted by risk appetite and funding at any given time. The bank’s target is a return on equity of at least 15% before tax.

Kvika’s objective is to deliver to shareholders an annual compensation equivalent to a minimum of 25% of profit, whether in the form of dividend payments or share repurchases, under a formal buy-back programme, as authorised by applicable laws and decisions made at shareholders’ meetings. When deciding on the amount of dividends or, as the case may be, the funds allocated for share buy-backs, care is taken to maintain the bank’s strong financial position, bearing in mind risks in the internal and external environment and growth prospects, to ensure that the company maintains a solid capital ratio and liquidity for the future. Dividend payments are always subject to assessments of the opportunities offered by reinvesting profits in the bank's operations and growth.

Corporate Social Responsibility and ethics

Kvika has established a CSR policy which promotes sustainability, particularly in the bank’s operations, in the community and environment. In accordance with the values of the bank, emphasis is placed on long-term decisions, whether they concern the internal matters of the bank or customers.

Kvika prioritises good corporate governance, corporate social responsibility and sustainable development in part through significant strategic investments by Kvika’s equity funds. The bank also endeavours to have a positive impact on the development and functionality of the Icelandic financial market. Given that education is one of the best long-term investments for individuals and society, Kvika places particular emphasis on education issues. Further, Kvika places an emphasis on minimising the negative effects which the operations of the bank may have on the environment.

In accordance with the above, the Board of Directors has established codes of conduct and conflicts of interest rules to support good working and business practices. Kvika also offers its employees a healthy, sound and positive working environment, characterised by equal opportunity. The focus is on professionalism and ensuring that decisions take into account the values of the bank regarding long-term thinking.

Compliance with corporate governance guidelines

Kvika is obliged to observe recognised corporate governance guidelines, pursuant to Par. 7 of Article 54 of Act No. 161/2002, on Financial Undertakings. The bank complies with the Guidelines on Corporate Governance issued jointly in 2015 by the Chamber of Commerce, NASDAQ Iceland and the Confederation of Icelandic Employers in most respects. The Guidelines are available on the website of the Chamber of Commerce www.vi.is. Kvika’s only deviation from the guidelines is that it has not appointed a nomination committee nor decided how one should be appointed.

At the bank's AGM in 2019, shareholders agreed to entrust the Board of Directors with analysing the advantages and disadvantages of appointing a nomination committee for the company, inviting shareholders to express their views on the question and draft a proposal if this was considered advisable. The Board subsequently examined the matter and announced the results of its assessment to shareholders at the Bank's 2020 AGM. Part of the analysis involved a review of actions taken by other companies and discussing the matter with shareholders and representatives of companies where nomination committees operate. In this connection, it should be mentioned that special rules apply to financial undertakings regarding assessment of the composition of their boards. Each year, the Board of Directors carries out a self-assessment with regard to its composition, assisted by external consultants. Bearing this in mind, the Board was of the opinion that the need for a nomination committee was not as great as might exist in other companies.

Furthermore, Kvika’s activities comply with the recognised standards and rules of the European Banking Authority (EBA) regarding the internal governance of financial undertakings.

Regulatory framework

Kvika is a financial undertaking subject to provisions of Act No. 161/2002, on Financial Undertakings, Act No. 108/2007, on Securities Transactions, Act No. 2/1995 on Limited Liability Companies, the Competition Act, No. 44/2005, Act No. 120/2011, on Payment Services, Act No. 3/2006, on Annual Financial Statements, Act No.140/2018, on Measures against Money Laundering and Terrorist Financing and others. Moreover, Kvika is obliged to guarantee the safety of the personal data it processes in its activities, in accordance with Act No. 90/2018, on the Protection of Privacy as regards the Processing of Personal Data. Kvika has an operating licence from the Financial Supervisory Authority of the Central Bank of Iceland (“FME“), which supervises the activities of the bank. Kvika’s activities are therefore governed by the rules and instructions of the FME and Central Bank of Iceland as well as other legal provisions regarding the financial market. More details about FME and an overview of the principal legislation and rules that apply to the bank at any given time can be found on the website of FME www.en.fme.is.

Statement on the Corporate Governance of Kvika banki hf. 2020

The main elements of internal control, risk management and accounting

The Board of Directors is responsible for ensuring that an active system of internal controls is in place within the bank, based on three lines of defence: The first line of defence consists of the management and the employees of business and principal units in charge of the bank's daily management and organization. Their main responsibility is to ensure the functionality and implementation of internal control measures in daily operations. The second line of defence is comprised of the internal control units of the bank, principally the Compliance Officer, who is in charge of ensuring that laws and regulations are observed, and Risk Management, which measures and assesses risk according to the bank's criteria. Other units may also be given control functions. The third line of defence are the internal auditor and sub-committees, which ensure internal auditing is in place and functioning. Among other things, they prepare independent surveys and reports for the Board of Directors and Audit Committee.

The implementation and functioning of internal controls is the responsibility of the management of the bank and its control units. Internal control is founded on risk assessment and control measures intended to reduce risk factors in the operations of the bank. Internal control includes documented and formal procedures which bank employees follow in their daily work and which are examined by the control units.

The Board of Directors determines the risk policy and risk appetite of the bank. It defines the risk factors which the bank has to address each year, including their nature and extent, together with responses to the risk in question. The Board hires an Internal Auditor, signs his/her formal statement of duties and annually approves the audit plan. The CEO appoints the Compliance Officer with the approval of the Board and signs his/her formal statement of duties. The reports and findings of the Internal Auditor and Compliance Officer are presented directly to the Board.

The Board has established rules regarding Kvika's risk management and risk policy. The purpose of the risk policy is to ensure the bank's risk management is systematic and effective and geared to enhance transparency in the bank's risk taking at all levels of management, from the Board to the operating units and individuals who directly participate in daily management and decision-making regarding risk.

Kvika's Finance and Operations division prepares annual financial statements in accordance with international financial reporting standards (IFRS) and additional requirements of the Icelandic Financial Statements Act. The Consolidated Financial Statements are audited by the bank's external auditors, Deloitte.

The CEO reports to the Board and verifies the effectiveness of internal controls and risk management in the Consolidated Financial Statements. Internal controls and risk management applied in the preparation of the Consolidated Financial Statements are organised with a view to preventing any significant deficiencies in the accounting process.

Kvika's Board of Directors and control units regularly verify the effectiveness of internal controls and risk management.

Composition and activities of the Board of Directors, Executive Committee and sub-committees

Each year Kvika's AGM elects a Board of Directors consisting of five board members and two alternates for a one-year term.

Directors come from varied backgrounds and all possess extensive experience and expertise. In accordance with the bank's gender equality policy and the Act on Limited Liability Companies, care is taken to ensure at least 40% representation of each gender on the Board, which is currently comprised of three men and two women. The CEO is appointed by the Board of Directors. Board meetings are generally held once a month. In 2020, 34 board meetings were held and were well attended by directors.

The Board of Directors is the supreme authority in the affairs of the bank between shareholders' meetings. Its main duties are to supervise all the bank's operations and ensure that they are in good order at all times. The Board is responsible for Kvika's policy making and shall ensure that the accounting and handling of the bank's assets are properly supervised. The Board prepares plans for Kvika in line with its objectives and in accordance with its Articles of Association and determines the strategies to be followed to achieve the objectives set, as well as supervising the CEO's work. The Board also represents the bank before courts and government authorities and allocates authority to sign and to commit the bank.

Kvika's Board of Directors has three sub-committees, the Audit Committee, Risk Committee and Remuneration Committee.

The members of the Audit Committee are Hrönn Sveinsdóttir, as chairperson, Inga Björg Hjaltadóttir and Hafdís Böðvarsdóttir. The committee is intended to play an advisory and supervisory role for the bank's Board of Directors by, among other things, ensuring the quality of financial statements and other financial information from the bank and the independence of its auditors. The committee supervises accounting procedures and the effectiveness of internal controls as well as internal and external auditing. The committee met eleven times in 2020.

The members of the Risk Committee are Guðmundur Þórðarson, who is chairperson, Sigurður Hannesson and Sigríður Mogensen. The committee's role has an advisory and supervisory role for the bank's Board of Directors, among other things, in determining its risk policy and risk appetite. The committee also monitors the organisation and effectiveness of risk management, management of credit risk, market risk, liquidity risk, operating risk, reputational risk and other risks, as the case may be. The committee met nine times in 2020.

The members of the Remuneration Committee are Guðjón Reynisson, who is chairperson, Sigurður Hannesson and Inga Björg Hjaltadóttir. The committee has an advisory and supervisory role for the bank's Board of Directors regarding salaries and other remuneration, ensuring that this supports its objectives and interests. The committee met four times in 2020.

All the Board's sub-committees have established rules of procedure prescribing the implementation of their tasks in detail and endorsed by the Board. The Board appoints sub-committee members by majority vote from its own ranks and nominates the chairpersons. Because of the nature of the committees, neither the CEO nor other employees can serve on them. The rules of procedure of the committees and the Board are accessible on Kvika's website www.kvika.is.

The members of Kvika's Executive Committee, in addition to the CEO are the following employees: Ármann Þorvaldsson, Deputy CEO; Ragnar Páll Dyer, Managing Director of Finance and Operations; Magnús Ingi Einarsson, Managing Director of Banking; Bjarni Eyvinds, Managing Director of Capital Markets; Lilja Jensen, General Counsel; and Baldur Stefánsson, Managing Director of Corporate Finance. More details about the Executive Committee are accessible on Kvika's website www.kvika.is.

Statement on the Corporate Governance of Kvika banki hf. 2020

Kvika has not established a specific policy on the diversity of its Board of Directors, Executive Committee and senior management with regard to age, gender or educational and professional background. However, the bank has adopted a policy for assessing the eligibility of its directors and CEO as provided for in EBA guidelines and pursuant to Art. 52 of Act No. 161/2002, on Financial Undertakings, provisions of Rules No. 150/2017, on assessment of eligibility of managing directors and directors of financial undertakings and the guidelines. The composition of the Board is also dealt with in Kvika's Articles of Association, which state, among other things, that its Board shall be so comprised that its members jointly possess adequate expertise, skills and experience to understand the activities of the company, including key risk factors. The Articles also state that the proportion of each gender on the Board and among alternates shall not be lower than 40%. Kvika has also adopted a Human Resources and Equality Policy. According to the bank's equality policy, non-discrimination and diversity shall characterise all its operations. All employees should have the opportunity to make good use of their abilities at work and be valued on their own merit, have equal opportunities and enjoy the same rights in their work and for career advancement, regardless of gender, age and origin.

The CEO can provide more detailed information on the rules of procedure and the operations of the board and sub-committees.

Information on Board members

Sigurður Hannesson is the chairman of the Board. He was appointed to the bank's Board of Directors in March 2020. He was born in 1980 and is currently the Director General of the Federation of Icelandic Industries. From 2013-2017, Sigurdur worked as a managing director of Kvika asset management (previously MP Bank). In 2015, Sigurdur was the Vice-Chairman of the Government Task Force on lifting of capital controls and in 2013 the Chairman of the Expert Group on household debt relief. From 2010-2013, Sigurdur worked as CEO of Jupiter fund management company, now Kvika Asset Management, and in Capital Markets at Straumur Investment Bank from 2007-2010. Sigurdur holds a DPhil degree in mathematics from the University of Oxford, a BS degree in mathematics from the University of Iceland and is a certified securities broker. He holds a 0.40% stake in the bank, equalling 8,550,107 shares, through a nominee account, but does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

Guðmundur Þórðarson is the deputy chairperson of the Board. He was appointed to the bank's Board of Directors in March 2017. Guðmundur was born in 1972. He graduated from the University of Iceland with a Cand. oecon business degree in 1997. He has also completed a securities brokerage and asset management exam in the UK. Guðmundur's main focus is on managing his own investments. From 1997 to 2000 he worked in Asset Management at Landsbréf hf. From 2000 to 2003, he worked as a specialist in the development and corporate advisory division of Íslandsbanki hf. From 2003 to 2007 he worked as Managing Director of Corporate Finance at Straumur fjárfestingarbanki hf. A party, financially connected to Guðmundur, holds a 6.24% stake in Kvika and controls 133,500,000 shares.

Inga Björg Hjaltadóttir , the Managing Director, consultant and co-owner of Attentus Human Resources and attorney and co-owner of the Reykjavik Law Firm, was appointed to the Board of Directors in April 2013. Inga Björg was born in 1970. She graduated from the University of Iceland in 1995 with a law degree, and obtained a licence to plead cases before the District Courts of Iceland in 2003. She is one of the founders of Attentus Human Resources and has worked there since 2007, while also working as an attorney at the Reykjavik Law Firm from 2016 and previously at the Acta Law Firm from 2006 to 2016, as well as at DP Lögmenn between 2003-2006 and was Department Manager at Eimskipafélag Íslands hf. from 1999 to 2003. From 1996 to 1999 she was a lawyer and later Deputy Head of Human Resources for the City of Reykjavik. She has previously served on the boards of Límtré Vírnet hf., E-Farice ehf., eignarhaldsfélagið Smellinn hf. and the audit committee of the City of Reykjavík, Reykjavík Energy, Strætó BS, Malbikunarstöðinn Höfði, the Associated Icelandic Ports network, Sorpa BS., Reykjavík Social Housing and the Reykjavík Fire Department. Inga is a member of a board sub-committee of Kvika eignastýring hf. She also serves as a judge on the Labour Court, and chairs the Remuneration Committee of the City of Reykjavík. Inga does not own shares in the bank and she does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

Hrönn Sveinsdóttir was appointed to the Board of Directors of the bank in March 2017. Hrönn was born in 1967. She graduated from the University of Iceland with a Cand. Oecon business degree in 1992. Hrönn works independently as co-owner and board member of Smart Finance ehf. and co-owner of Íslandskróna ehf. She previously served as Managing Director of Finance and Operations of Sýn hf. Hrönn joined Sýn hf. in 2005 as Managing Director of Finance. Prior to that she worked for P. Samúelsson hf. where she was also the director of human resources. Hrönn has served on the boards of various firms such as Almenni lífeyrissjóðurinn, Húsasmiðjan hf., Farice ehf., P/F Kall in the Faroe Islands, ISNIC, Mamma ehf., Ódýra símafélagið and P. Samúelsson hf. Hrönn holds a 0.02% stake in the bank and controls 500,000 shares in Kvika, but does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

Guðjón Reynisson was appointed to the bank's Board of Directors in March 2018. He was born in 1963 and works as an independent investor and board member. Between 2008 and 2017 he served as CEO of Hamleys of London. From 2003 to 2008, he served as managing director of the 10-11 stores. From 1998 to 2003 he was the managing director of the sales division of Tal, an Icelandic phone company. He graduated with an MBA degree from the University of Iceland in 2002. He graduated with an Operations and Business degree from the Continuing Education Study of the University of Iceland in 1999 and also graduated with a degree as a licensed physical education teacher from the University of Iceland in 1986. Guðjón has been on the board of directors of Festi hf. since 2014 and Securitas hf. from 2018. He holds a 0.49% stake in the bank and controls 10,410,789 shares in Kvika through his private limited company, Hakk ehf., but does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines. The Board of Directors considers Sigurður, Guðjón, Inga and Hrönn to be independent directors as defined by the Corporate Governance Guidelines. Albert Þór Jónsson is an alternate members of Kvika's Board of Directors. In the opinion of the Board, Albert Þór is independent of the bank.

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Main factors in the Board's performance evaluation

The Board of Kvika annually evaluates its performance. It evaluates the performance of tasks and work of the Board for the previous year. The focus of the assessment is on strategic planning, disclosure and future vision, the size and composition of the Board, performance of Board members, the work of sub-committees and performance of the CEO. The development of the bank is examined with a view to assessing whether it is line with objectives. Following the annual performance assessment, the Board defines tasks in areas where improvements are needed. The last performance assessment was conducted in January 2020. The Board also regularly conducts special self-assessments on its composition in accordance with the guidelines of the European Banking Authority (EBA), and last did so in January 2020.

Information on the CEO of Kvika and his main duties

Marinó Örn Tryggvason became CEO of Kvika in May 2019. Marinó was born in 1978 and from August 2017 acted as Kvika's Deputy CEO. Prior to this, Marinó worked in asset management at Arion banki and the bank's forerunner from 2002. Between 2014-2017, Marinó was the Deputy Managing Director of Asset Management at Arion banki and between 2007 and 2014 was the head of institutional asset management. Marinó sat on the board of the Vörður insurance company between 2016-2017. Marinó holds a BSc in business studies from the University of Iceland and possesses a diploma in securities trading. Marinó holds 0.1% stake in the bank and controls 2,093,225 shares in Kvika, and he has also subscription rights for shares in the bank. He does not have interest links with major clients, competitors or major shareholders as defined by the Corporate Governance Guidelines.

The CEO oversees the daily operations of Kvika and in so doing follows the policies and instructions which have been laid down by the bank's Board of Directors. Daily operations do not include unusual or major arrangements. The CEO shall ensure that the bank's accounts are kept in accordance with laws and customs and that the bank's assets are handled in a secure manner. The CEO appoints and dismisses employees of the bank. Furthermore, he is obliged to follow all of the Board's instructions. The CEO shall provide the bank's external auditors with all requested information.

Information on violations of laws and regulations, determined by the relevant supervisory body or adjudicating entity

Kvika has not been subject to withdrawal, revocation or dismissal of registration, authorization, membership or permissions to perform certain trades, operations or work. No legal or arbitration proceedings which may have significant effects on the Bank or the Group were ongoing or pending at the end of the year.

Communications between shareholders and the Board

Information is provided to shareholders on a non-discriminatory basis and is mainly limited to shareholders' meetings or the communication of harmonised information to all shareholders simultaneously. News of the bank's operations is posted on the bank's website and press releases are issued when newsworthy events in the bank's operations take place. A detailed presentation of the bank's operations over the past year is also provided at its AGM and information on the bank's operations is published in the bank's annual report and financial statements.

This statement on the corporate governance practices of Kvika banki hf. was reviewed and approved by the Board of Directors on 17 February 2021.

Non-Financial Information regarding Kvika banki hf.

Business Model

Kvika is a specialised bank focusing on asset management and investment activities. The bank serves specific target groups, emphasising high-quality, personalised service for its clients. The bank's size enables it to adapt to its environment with the aim of maintaining good profitability and customer service. Emphasis on long-term thinking is a core company value and Kvika's aim is to have a long-term, positive impact on the community.

In 2020, efforts were directed at restructuring the Kvika Group's asset and fund management operations. In August, the Financial Supervisory Authority of the Central Bank of Iceland (FME) approved a request from Kvika and the fund management company Júpíter rekstrarfélag hf., a subsidiary of the bank, for the transfer of Kvika's asset management operations to Júpíter. In parallel with these changes, it was decided to change the company's name from Júpíter to Kvika eignastýring hf. The employees who previously worked for Kvika in asset management now work for Kvika eignastýring hf. FME approved the transfer of Kvika's private banking services, which include asset management, investment advice and the receipt and transmission of instructions regarding financial instruments for individuals, companies, funds and institutions; institutional investor services, which include asset management, investment advice and the receipt and transmission of instructions regarding financial instruments to institutional investors; and the operation of the funds Auður I fagfjárfestasjóður slf. (an institutional investor fund), Edda slhf. and FREYJA framtakssjóður slhf. (a private equity fund). Following this change, three main revenue divisions operate within Kvika, i.e., Banking, Corporate Finance and Capital Markets.
Kvika's Banking division finances enterprises and the investments of the bank's clients. Banking also utilises the bank's infrastructure and network to broker loans to other institutional investors. Capital Markets provides clients with comprehensive securities brokerage and FX market services. Corporate Finance provides various types of advisory services related to investments and financing, with an emphasis on the acquisition and sale of companies and the listing of securities.

Kvika operates two companies in the UK, Kvika Securities Ltd. and Kvika Advisory Ltd., which are regulated by the British Financial Conduct Authority and are licensed to manage specialised funds and provide asset management and corporate advisory services. The bank's objective with offices both in Iceland and the UK is to link Iceland with Europe and international markets by providing Icelandic investors with advice on investing abroad and international investors with advice on investing in Iceland.

Kvika has several other subsidiaries and places major emphasis on the independence of their management and daily operations. At the same time, Kvika emphasises co-ordinated and professional work procedures throughout the Group, that the Group's employees work closely together and share the same terms of employment, and that Kvika's values of long-term thinking and aim of having a positive long-term impact are practised throughout the Group. The bank's emphases in these areas are set out, for instance, in its ownership policies, which were adopted in 2020 for those subsidiaries, which are of key significance for its operations.

Disclosure, Development and Status of ESG Issues

At the beginning of 2020, Kvika published its first ESG report for the 2019 operating year. In December 2020 the bank underwent a risk assessment of non-financial factors. The result of this risk assessment is that Kvika ranks well above average compared to other domestic issuers that have been rated, as it received 78 points out of a possible 100 in the overall rating and a rating of B2, while the average on the market is 63 points. Further information on the risk assessment is provided in a summary of the results, which is available on Kvika's website, www.kvika.is.

In recent months, considerable effort has been directed within Kvika at specifying and integrating ESG factors better into its operations, in part by providing the bank with a formal framework for these issues. The policies and rules referred to and discussed in this disclosure have been approved either by the bank's Board of Directors or its CEO.

Kvika will publish an ESG report for the 2020 operating year, which will be more detailed than the previous year, and includes a validation by a third party, Klappir Green Solutions hf. ("Klappir"). The environmental assessment, which is part of the report, is based, among other things, on quantitative data obtained through the environmental software Klappir EnviroMaster for the period 2019-2020. This software uses digital technology to ensure traceability, transparency, and efficiency in gathering data and dissemination of information. It enables the tracing of the origin of data from the supplier.

Kvika became a signatory of the UN Principles for Responsible Investment (UN PRI) in the autumn of 2020. As part of its obligations, Kvika must deliver a progress report to the organisation on its investments, in addition to Kvika's ESG report and disclosures in its annual financial statements as provided for by law.

Main Operating Risks

The main risks in Kvika's operations in connection with ESG factors are operational risks, which are risks of financial loss due to unacceptable internal processes, systems, and employee error, or due to external events.

Kvika has adopted a risk policy and rules on risk management, as well as procedures for managing operational risk to keep track of and manage operational risk. The bank's operational risks include legal risk, compliance risk, political and regulatory risk, reputation risk, risks arising from contracts and other risks, such as business and strategic risk.

All the bank's divisions are subject to operational risk in their operations. The risk arises both from their individual activities and as shared risk, i.e., the risk of the bank's operations.

The Operations Committee regularly submits proposals to the bank's Executive Committee for adjustments and/or improvement projects to reduce Kvika's operational risk and follows up on improvement projects. Risk Management, in collaboration with the Operations Committee, sees to the collection, classification and documentation of operating incidents, together with an evaluation of their severity and possible financial loss. Kvika emphasises that key processes in connection with operational risk are documented and reviewed regularly.

The IT division also carries out regular tests on system security and access controls, data integrity, new systems, and back-ups. Employees also receive instruction on this issue and how they should respond to cyber security threats, for instance, with security videos and other training.

Non-Financial Information regarding Kvika banki hf.

Key Indicators

The key metrics used in Kvika's ESG Report for the 2020 operating year comply with ESG guidelines issued by NASDAQ in Iceland and the Nordic countries in 2019. These guidelines are based on recommendations issued in 2015 by the United Nations, the Sustainable Stock Exchange Initiative, and a working group of the World Federation of Exchanges.

The report also refers to the relevant criteria of the Global Reporting Initiative (GRI100-400) and Reporting Principles (P1-10) of the United Nations Global Compact (UNGC). It is also based on the principles of the Greenhouse Gas Protocol methodology (Relevance, Accuracy, Completeness, Consistency, Transparency).

Kvika's ESG report contains all the main information on the environmental footprint of the bank’s activities, its impact on social issues and its governance. The reference year for the 2020 ESG report includes 2019, when Kvika published its first ESG report.

Further information and an explanation of the key non-financial indicators used in Kvika's report can be found in the report itself, which is available on Kvika's website, and in those parts of it included in this disclosure.

Business Practices and Investment

Long-term thinking is important, as it takes time for solid business relationships to develop. Kvika emphasises providing comprehensive services to existing customers and puts their interests at the forefront.

The bank makes a major effort to work in harmony with the community, among other things by considering environmental and social issues and good corporate governance. Long-term thinking contributes to a positive impact on the community and specifically supports sustainability. Emphasis is placed on ensuring professionalism in all areas and taking decisions that reflect the bank's values and policies. As a member of the UN-PRI, Kvika is furthermore obliged to comply with the organisation’s six principles of responsible investment.

Kvika has adopted a policy on responsible lending and investment. Kvika eignastýring has also established a policy on responsible investment. Kvika's policy on responsible lending and investment sets objectives which provide for the inclusion of ESG factors when decisions are made on lending, changes to loan terms, refinancing and investments.

Work is underway on integrating the policy, which was approved in December 2020 in Kvika's operations. Among other things, the relevant processes and rules will be updated to take the objectives of the policy into account. The bank’s application of its responsible lending and investment policy and its success will be discussed in information disclosure, for instance, in the annual ESG report and in the conclusion of Kvika´s progress reports that will be submitted to UN PRI.

In 2020, Kvika approved a policy on responsible product and service provision, the main objective of which is to support and further develop product and service offerings aimed at sustainability and the bank's value of long-term thinking. Work is underway on drafting rules and processes to apply and integrate the policy into Kvika's operations.

The private equity funds managed by the Group are strategic investors that emphasise encouraging executives to improve the operations and performance of companies owned by the funds. Kvika encourages the companies to exercise corporate social responsibility, adhere to good business practices and corporate governance, ensure diversity in their management, and take environmental issues into account to lead the way in providing sustainable investment opportunities to clients.

In addition to the above, Kvika signed a joint Memorandum of Understanding for investment to support sustainable development in September 2020, which the government and parties controlling close to 80% of assets in the Icelandic financial market have adopted. The Memorandum is a joint initiative of private parties in the financial market and government in an international context, which focuses on developing investment, financing and lending activities towards sustainability and social responsibility, and the criteria which are used as guidelines. The Memorandum fits well with Kvika's values and policy on responsible investment and lending.

The Community

Future prosperity relies on robust education, which explains the growing focus on education as among the best investments’ states can make. Communities driven by ingenuity and innovation are expected to be at the forefront in the years to come. Education is also regarded as fundamental to women’s ongoing struggle for equality, in protecting children from forced child labour and sexual abuse, as well as in promoting human rights and democracy and supporting environmental protection. Kvika aims to have a positive, long-term impact on the community, emphasising education especially. With the aim of promoting education, Kvika has established an Incentive Fund, which provides grants for vocational and teacher education.

Furthermore, the bank realises that the Group can have the greatest impact on society through actions in areas related to its operations. Kvika's ESG policy therefore also places special focus on having a positive influence on the structure and functioning of financial markets. The Group strives to find ways to better mobilise investors in Iceland by developing more diversified investment options, both for those who are already involved in the securities market as well as new investors.

Kvika is UNICEF's main partner in Iceland in the field of banking services and a benefactor of its World Parents. Kvika also operates the grant fund FrumkvöðlaAuður, the main aim of which is to encourage young women to show initiative and enterprise. In addition to the above, Kvika supports various other issues that contribute to positive social development with smaller grants. During the corona virus epidemic, Kvika worked pro bono as a consultant to Icelandair when the airline sought, among others, Kvika’s advice on how to secure its long-term liquidity position and thus strengthen the company's operating basis. Kvika is also a founding member of IcelandSIF, an organisation for responsible investment, which contributes to increasing investors' knowledge of the methodology of sustainable and responsible investments, and is a member of Festa, the Icelandic Centre for Corporate Social Responsibility.

Although Kvika has not formally incorporated the UN Sustainable Development Goals into its activities, it is evident that various aspects of Kvika's activities support important SDGs, most notably promoting education, women’s entrepreneurship, and innovation.

Kvika has adopted a corporate social responsibility policy (CSR) discussing the above factors in more detail, which is accessible on its website.

Non-Financial Information regarding Kvika banki hf.

The Environment

Kvika devotes efforts to minimise the negative effects its operations may have on the environment, employing various measures to reduce greenhouse gas emissions as much as possible.

The bank has established an environmental and transport policy providing for the bank to assess the environmental impact of its operations and to seek to reduce negative impacts they may have. In addition, that environmental issues are among the sustainability factors considered when making decisions. In the autumn of 2020 Kvika implemented an environmental management software, enabling the bank to monitor and manage its overall environmental impact.

The policy stipulates what criteria must be satisfied in any activities undertaken to ensure oversight and management of environmental impact. Among other things, it provides for measurement of the environmental effects of activities, minimising waste and ensuring recycling, implementing mitigating measures, encouraging dialogue with stakeholders to protect the environment, having employees prioritise digital technology instead of travel, as well as using environmentally friendly, cost-efficient, and healthy modes of transport.

Kvika offers employees transport subsidies that can be used for environmentally friendly transport and public transport passes. The policy also provides for Kvika to set targets for environmental performance and to make public each year information on this performance, in part in an annual ESG assessment.

In the year 2020 it was decided that Kvika's Board of Directors and Executive Committee should aim at placing climate-related risks on their agenda.

Human Resources and Human Rights

Kvika aims to be an attractive workplace where all employees are given equal opportunities. Reflecting Kvika’s value of long-term thinking, the bank prioritises professionalism in all dealings and ensuring that all decisions take its values into account. Kvika's work culture is characterised by flexibility, good management, co-operation, team spirit, employee initiative, equal opportunities, trust, and a healthy and positive environment.

Emphasis is placed on respecting human rights in the bank’s operations and Kvika meets statutory requirements for the protection of human rights. Kvika also encourages its partners, such as suppliers, to respect human rights and promote ESG factors in their operations.

To this end Kvika has adopted a policy on human resources, equality, and health, as well as rules on supplementary contributions during maternity/paternity leave and a policy and response plan regarding bullying, harassment, and violence. Kvika collaborates with a third party which receives anonymous tips on such issues that may arise. Kvika's response plan in this area is followed-up on with an annual opinion poll, to measure the effects of the actions.

The bank has also established, documented, and implemented an equal pay system, and received equal pay certification in 2020. Kvika respects employees’ right to join a union and endeavours to maintain positive communications and co-operation with trade unions.

Kvika also encourages and supports its staff in lifelong learning and regular exercise, among other things through sports grants and an annual health check for those who wish. Special emphasis is placed on continuing education and training of managers, to increase their ability to cope with different situations and achieve better results in their work.

In 2020, the bank established a formal framework for employee health and safety by implementing a health policy, which is part of Kvika's human resources, equality, and health policy. The policy has been made public and accessible on Kvika's website.

Every year a survey is conducted among employees, which examines, among other things, job satisfaction, stress, equality, work-life balance, bullying, harassment and violence. These surveys enable Kvika to assess the above factors and monitor changes from one year to the next. Following such surveys, the results are reviewed, and an action plan drafted, as appropriate in each instance. In such a survey of employees at year-end 2020 the response was 93.8%. The results of the survey showed, among other things, that on average employee job satisfaction measured 4,32 of a possible 5.

The Group's full-time employee turnover in 2020 was 6.9%, most of which is related to changes in Kvika's operations and mergers in during the year.

Data Security

Kvika follows an approved personal data protection and information security policy, as well as general statutory requirements for these aspects. Emphasis is placed on complying with certified security standards and ensuring Internet security through systems upgrades and improved processes. Through its membership of the Icelandic Financial Services Association (SFF) and the Computer Emergency Response Team (CERT-IS) Kvika keeps up to date with cyber security expertise. Training is available to employees in this area and there is constant monitoring of any abnormal conduct, with suitable response, as necessary. Ways are constantly being sought to further ensure security in an ever-changing digital environment.

Code of Conduct for Suppliers

In November 2020, Kvika approved a Code of Conduct for Suppliers, aimed at expanding the chain of responsibility in its activities. The Code aims to ensure that Kvika's suppliers take ESG issues into consideration in their operations and respect human rights.

All Kvika's important suppliers are requested to adopt the Code of Conduct, and Kvika also conducts due diligence on them, asking questions, for instance, about the status of ESG issues in the operations of the respective suppliers. The Code of Conduct is also sent to other suppliers, who have the option of adopting it voluntarily. Processes exist to respond to non-compliance with the Code, or in the case a supplier refuses to adopt it. An analysis and risk assessment are then carried out with regard to possible collaboration with the relevant supplier.

In addition to the above, Kvika's outsourcing agreements with service providers and suppliers were reviewed during the year, in accordance with the increased requirements of FME and guidelines of the European Banking Authority (EBA/GL/2019/02).

Corruption and Bribery

Because Kvika is a financial undertaking, as are a number of its subsidiaries, there is a considerable risk that attempts may be made to use companies within the Group for money laundering and terrorist financing. Kvika has established rules on actions against money laundering and terrorist financing, which fulfil the requirements made of financial undertakings in this respect, both domestically and globally.

The Compliance Officer monitors customers on a regular and case-by-case basis and keeps track of their transfers, cash withdrawals etc. to detect any abnormal conduct and thus reveal any money laundering and terrorist financing which could occur. Kvika recently acquired the Lucinity Intelligent AML solution with a view to strengthening the bank’s defences, particularly in connection with the risk-based supervision provided for in new statutory requirements.

Non-Financial Information regarding Kvika banki hf.

Kvika employees are not permitted, without specific authorisation, to accept or give any gifts, incentives, or other type of compensation, which could undermine the bank's credibility or lead to conflicts of interest. The bank has adopted rules regarding gifts, incentives, and other compensation, stipulating that authorisation must be sought from a managing director or the CEO for any benefits of this kind, and that the Compliance Officer must be notified. The Compliance Officer keeps a record of any such notifications. Violation of the rules may be liable to reprimand or dismissal.

Kvika's Code of Conduct is published on its website and sent to all employees for electronic confirmation. Processes are in place enabling anonymous reporting of any breaches of the Code and providing protection for whistle-blowers, as well as for dealing with offenders.

Impact of COVID-19 on Non-Financial Aspects

During the corona virus epidemic that characterised 2020, Kvika has responded by following the recommendations of the epidemiology authorities and the government to the letter. A special working group was appointed immediately upon the outbreak of the epidemic to oversee and direct Kvika's response. Rules were set in accordance with the authorities' recommendations and the bank's operations were divided into several quarantine compartments.

The majority of employees have also worked remotely for much of the year using teleconferencing equipment for communication and meetings. Kvika has provided all employees who are teleworking with the necessary computer equipment and ensured the security of their work facilities regarding cyber security.

The safety and health of employees has been monitored more closely during the corona virus period, as managers have been in frequent communication with their teams through teleconferencing equipment. Information disclosure has been increased through regular digital staff meetings. Furthermore, online seminars have been held for employees on mental and physical health in the corona virus era.

By employing the above-mentioned measures, the bank's activities have continued successfully despite the impact of the corona virus pandemic. Because of the pandemic, the environmental impact of Kvika's operations has decreased, as air travel, for instance, has been at a minimum, as has employees' automobile use. Kvika has also provided support for the community in the form of actions providing for temporary freezing of household and corporate debt, accepted as lower lienholder changes in terms resulting from the corona virus epidemic, and taken part in measures announced by the Icelandic government to mitigate its negative impact on borrowers.

Main results from the ESG report for the operating year 2020

Operational Parameters

Operational Parameters	Unit	2019	2020
Total Revenue	thousand ISK	7,062,999	9,061,162
Total Assets	thousand ISK	108,427,903	129,472,390
Total Equity	thousand ISK	15,548,916	19,181,465
Number of full time equivalent employee	FTEs	128	136
Total space for own operation	m²	2,099	3,554

Key performance indicators	Unit	2019	2020
GHG emissions per FTE	kgCO$_2$e/FTEs	438.3	187.6

Environmental

Greenhouse Gas Emissions	Unit	2019	2020
Scope 1	tCO$_2$e	17.5	11.1
Scope 2 (location-based)	tCO$_2$e	7.1	11.0
Scope 3	tCO$_2$e	31.5	3.4
Gross operational carbon emission	tCO$_2$e	56.1	25.5
Total emissions neutralized by carbon offset projects	tCO$_2$e	26.6	15.4
Net operational carbon emissions	tCO$_2$e	29.5	10.1
E1|UNGC: P7|GRI 305-1,305-2,305-3|SASB: General Issue / GHG Emissions|TCFD: Metrics & Targets			

Emissions Intensity	Unit	2019	2020
GhG emissions per megawatt-hour consumed	kgCO$_2$e/MWh	66.1	20.1
GhG emissions per full-time equivalent (FTEe) employee	tCO$_2$e/FTEs	0.4	0.2
GhG emissions per unit of revenue	kgCO$_2$e/thous	0.01	0
GhG emissions per unit of space (m²)	kgCO$_2$e/m²	26.7	7.2
E2|UNGC: P7, P8|GRI 305-4 |SDG: 13|SASB: General Issue / GHG Emissions, Energy Management			

Energy Usage	Unit	2019	2020
Total energy consumption	kWh	848,226	1,266,882
Of which energy from bio fuel	kWh	0	0
Of which energy from fossil fuel	kWh	68,302	43,792
Of which energy from electricity	kWh	251,139	194,133
Of which energy from hot water	kWh	528,785	1,028,957
Of which energy from heating	kWh	-	-
Direct Energy Consumption	kWh	68,302	43,792
Indirect Energy Consumption	kWh	779,924	1,223,090
E3|UNGC: P7, P8|GRI 302-1, 302-2|SDG: 12|SASB: General Issue / Energy Management			

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Energy Intensity	Unit	2019	2020
Energy per full-time equivalent (FTEe) employee	kWh/FTEs	6,627	9,315
Energy per unit of revenue	kWh/thousan	0.1	0.1
Energy per square meter	kWh/m²	404	356
Energy per cubic meter	kWh/m³	-	-
E4|UNGC: P7, P8|GRI 302-3|SDG: 12|SASB: General Issue / Energy Management			

Energy Mix	Unit	2019	2020
Fossil Fuel	%	8.1%	3.5%
Nuclear Energy	%	-	-
Renewable Energy	%	91.9%	96.5%
E5|GRI 302-1|SDG: 7|SASB: General Issue / Energy Management			

Water Usage	Unit	2019	2020
Total water consumption	m³	16,877	35,146
Cold water	m³	7,760	17,405
Hot water	m³	9,117	17,741
Recycled water (if applicable)	m³	-	-
Reclaimed water (if applicable)	m³	-	-
E6|GRI: 303-5|SDG: 6|SASB: General Issue / Water & Wastewater Management			

Environmental Operations	Unit	2019	2020
Does your company follow a formal Environmental Policy?	yes/no	No	Yes
Does your company follow specific waste, water, energy, and/or recycling policies?	yes/no	No	Yes
Does your company use a recognized energy management system?	yes/no	No	Yes
E7|GRI: 103-2|SASB: General Issue / Waste & Hazardous Materials Management			

Climate Oversight / Board	Unit	2019	2020
Does your Board of Directors oversee and/or manage climate-related risk?	yes/no	No	Yes
E8|GRI: 102-19, 102-20, 102-29, 102-30, 102-31|SASB: General Issue / Business Model Resilience, Systematic Risk Management|TCFD: Governance			

Climate Oversight / Management	Unit	2019	2020
Does your Senior Management Team oversee and/or manage climate-related risks?	yes/no	No	Yes
E9|GRI: 102-19, 102-20, 102-29, 102-30, 102-31|SASB: General Issue / Business Model Resilience, Systematic Risk Management|TCFD: Governance			

Climate Risk Mitigation	Unit	2019	2020
Total annual investment in climate-related infrastructure, resilience, and product development	thousand ISK	-	-
E10|UNGC: P9|SASB: General Issue / Physical Impacts of Climate Change, Business Model Resilience|TCFD: Strategy (Disclosure A)			

Waste Management	Unit	2019	2020
Total waste generated	kg	-	0
Of which sorted waste	kg	-	-
Of which unsorted waste	kg	-	0
Recycled/recovery	kg	-	-
Landfill/disposal	kg	-	0
Percentage of sorted waste	%	-	-
Percentage of recycled waste	%	-	-

Waste Intensity	Unit	2019	2020
Total waste per full-time equivalent (FTEe) employee	kg/FTEs	0	0
Total waste per unit of revenue	kg/thousand I	0	0

Business Trips	Unit	2019	2020
Emissions from business trips	tCO_2e	30.6	2.5
Flights	tCO_2e	30.6	2.5
Taxi	tCO_2e	-	-

Commuting	Unit	2019	2020
Emissions from employee commuting	tCO_2e	-	-
Does your company reimburse eco-friendly commuting?	yes/no	Yes	Yes

Non-Financial Information regarding Kvika banki hf.

Contractors	Unit	2019	2020
Total emissions from contractors	tCO_2e	-	-

Transportation of Goods & Services	Unit	2019	2020
Total emissions from the transportation of goods and services	tCO_2e	0	0
Emissions from air transport	tCO_2e	-	-
Emissions from sea transport	tCO_2e	-	-
Emissions from road transport	tCO_2e	-	-

Primary energy source	Unit	2019	2020
Total fuel consumption in litres	litres	6,895	4,508
Methane	litres	-	-
Petrol	litres	1,399	1,826
Diesel oil	litres	5,496	2,682
Hydrogen	litres	-	-
Biodiesel	litres	-	-
Total fuel consumption in kg	kg	5,722	3,649
Methane	kg	-	-
Petrol	kg	1,050	1,369
Diesel oil	kg	4,672	2,280
Hydrogen	kg	-	-
Biodiesel	kg	-	-

Paper Management	Unit	2019	2020
Total weight of printed papers	kg	903	953
Total amount of printed paper	pages	180,000	190,000
of which color print	pages	138,600	142,500
of which black/white print	pages	41,400	47,500
Duplex	pages	0	0
Color print	%	-	-
Black/white print	%	-	-
Paper emissions	tCO_2e	0.83	0.90

Emissions neutralized by carbon offset projects	Unit	2019	2020
Total emissions offset	tCO_2e	26.6	15.4
Emissions offset by forestry	tCO_2e	26.6	15.4
Emissions offset by wetland restoration	tCO_2e	30.0	10.0
Emissions offset by other means	tCO_2e	-	-

Asset Management	Unit	2019	2020
Number of buildings	no.	1	1
Office space	no.	1	1
Production space	no.	0	0
Number of vehicles and machinery	no.	4	4
Petrol / Diesel	no.	4	4
Electrical vehicles	no.	0	0
Other alternative fuel sources (hybrid, methane, hydrogen, etc)	no.	0	0

Carbon Taxes	Unit	2019	2020
Carbon tax, gas- and diesel oil	ISK/litre	10.4	11.5
Carbon tax, gasoline	ISK/litre	9.1	10.0
Carbon tax, fuel oil	ISK/kg	12.8	14.1
Carbon tax, crude oil, etc	ISK/kg	11.4	12.6
Total Carbon Tax (ESR)	ISK	69,889.3	48,968.9
Total Carbon Tax (ETS)	ISK	-	-

Social

CEO Pay Ratio	Unit	2019	2020
CEO Salary & Bonus (X) to median FTE Salary	X:1	2.65	2.94
Does your company report this metric in regulatory filings?	yes/no	Yes	Yes
S1|UNGC: P6|GRI 102-38			

Non-Financial Information regarding Kvika banki hf.

Gender Pay Ratio	Unit	2019	2020
Median total compensation for men (X) to median total compensation for women	X:1	1.08	1.02
Outcome of equal pay certification	%	-	1.2%
S2|UNGC: P6|GRI: 405-2 | SASB: General Issue / Employee Engagement, Diversity & Inclusion			

Employee Turnover	Unit	2019	2020
Full-time Employees			
Year-over-year change for full-time employees	%	5.8%	6.9%
Dismissal	%	1.4%	2%
Retirement	%	0%	1.5%
Job transition	%	4.4%	2%
Death	%	0%	0%
Part-time Employees			
Year-over-year change for part-time employees	%	0%	0%
Dismissal	%	0%	0%
Retirement	%	0%	0%
Job transition	%	0%	0%
Death	%	0%	0%
Contractors and/or consultants			
Year-over-year change for contractors and/or consultants	%	-	0.6%
Dismissal	%	-	100%
Retirement	%	-	0%
Job transition	%	-	0%
Death	%	-	0%
Gender			
Men	%	37.5%	30%
Women	%	62.5%	70%
Age			
<20	%	0%	0%
20-29	%	25%	10%
30-39	%	37.5%	10%
40-49	%	37.5%	50%
50-59	%	0%	10%
60-69	%	0%	20%
70+	%	0%	0%
S3|UNGC: P6|GRI: 401-1b|SDG: 12|SASB: General Issue / Labor Practices			

Gender Diversity	Unit	2019	2020
Enterprise Headcount			
Percentage of women in enterprise	%	44%	44%
Women	no.	60	62
Men	no.	77	79
Entry- and Mid-level Positions			
Percentage of women in entry- and mid-level position	%	46%	47%
Women	no.	51	54
Men	no.	59	60
Senior- and Executive-level Positions			
Percentage of women in senior- and executive-level positions	%	33.5%	30%
Women	no.	9	8
Men	no.	18	19
S4|UNGC: P6|GRI: 102-8, 405-1|SASB: General Issue / Employee Engagement, Diversity & Inclusion			

Employee Turnover	Unit	2019	2020
Full-time positions	no.	2.9	16.6
Total enterprise headcount held by part-time employees	%	100%	13%
Total enterprise headcount held by contractors and/or consultants	%	-	87%
S5|GRI: 102-8|UNGC: P6			

Non-Discrimination	Unit	2019	2020
Does your company follow a sexual harrassment and/or non-discriminatory policy?	yes/no	Yes	Yes
S6|UNGC: P6|GRI: 103-2 (see also: GRI 406: Non-Discrimination 2016)|SASB: General Issue / Employee Engagement, Diversity & Inclusion			

Injury Rate	Unit	2019	2020
Total number of injuries and fatalities, relative to the total workforce	%	0%	0%
S7|GRI: 403-9|SDG: 3|SASB: General Issue / Employee Health & Safety			

Non-Financial Information regarding Kvika banki hf.

Global Health & Safety	Unit	2019	2020
Does your Company publish and follow an occupational health and/or global health & safety policy	yes/no	No	Yes
Total absence from work (X) to total working hours of all employees	X:1	0.0032	0.003
Absence from work due to long-term illness (X) to total working hours of all employees	X:1	0.0006	0.0004
Absence from work due to short-term illness (X) to total working hours of all employees	X:1	0.0056	0.0034
S8|GRI: 103-2 (See also: GRI 403: Occupational Health & Safety 2018)|SDG: 3|SASB: General Issue / Employee Health & Safety			

Child & Forced Labor	Unit	2019	2020
Does your company follow a child labor policy?	yes/no	No	No
Does your company follow a forced labor policy?	yes/no	No	No
If yes, do your child and/or forced labor policy cover suppliers and vendors?	yes/no	No	No
S9|GRI: 103-2 (See also: GRI 408: Child Labor 2016, GRI 409: Forced or Compulsory Labor, and GRI 414: Supplier Social Assessment 2016)|UNGC: P4,			

Human Rights	Unit	2019	2020
Does your company publish and follow a human rights policy?	yes/no	No	No
If yes, does your human rights policy cover suppliers and vendors?	yes/no	No	No
S10|GRI: 103-2 (See also: GRI 412: Human Rights Assessment 2016 & GRI 414: Supplier Social Assessment 2016)|UNGC: P1, P2|SDG: 4, 10, 16| SASB:			

Governance

Board Diversity	Unit	2019	2020
Total board seats occupied by women (as compared to men)	%	60%	40%
Committee chairs occupied by women (as compared to men)	%	33%	55.6%
G1|GRI 405-1|SDG: 10|SASB: General Issue / Employee Engagement, Diversity & Inclusion (See also: SASB Industry Standards)			

Board Independence	Unit	2019	2020
Does the company prohibit CEO from serving as board chair?	yes/no	Yes	Yes
Total board seats occupied by independents	%	3%	4%
G2|GRI: 102-23, 102-22			

Incentivized Pay	Unit	2019	2020
Are executives formally incentivized to perform on sustainability	yes/no	No	No
G3|GRI: 102-35			

Collective Bargaining	Unit	2019	2020
Total enterprise headcount covered by collective bargaining agreements (X) to the total employee population	%	50	54
G4|UNGC: P3|SDG: 8|GRI: 102-41|SASB: General Issue / Labor Practices (See also: SASB Industry Standards)			

Supplier Code of Conduct	Unit	2019	2020
Are your vendors or suppliers required to follow a Code of Conduct	yes/no	No	Yes
If yes, what percentage of your suppliers have formally certified their compliance with the code	%	-	100%
G5|UNGC: P2, P3, P4, P8|GRI: 102-16, 103-2 (See also: GRI 308: Supplier Environmental Assessment 2016 & GRI 414: Supplier Social Assessment			

Ethics & Anti-Corruption	Unit	2019	2020
Does your company follow an Ethics and/or Anti-Corruption policy?	yes/no	Yes	Yes
If yes, what percentage of your workforce has formally certified its compliance with the policy?	%	-	68.8%
G6|UNGC: P10|SDG: 16|GRI: 102-16, 103-2 (See also: GRI 205: Anti-Corruption 2016)			

Data Privacy	Unit	2019	2020
Does your company follow a Data Privacy policy?	yes/no	Yes	Yes
Has your company taken steps to comply with GDPR rules?	yes/no	Yes	Yes
G7|GRI: 418 Customer Privacy 2016|SASB: General Issue / Customer Privacy, Data Security (See also: SASB Industry Standards)			

ESG Reporting	Unit	2019	2020
Does your company publish a sustainability report?	yes/no	Yes	Yes
Is sustainability data included in your regulatory filings?	yes/no	Yes	Yes
G8|UNGC: P8			

Disclosure Practices	Unit	2019	2020
Does your company provide sustainability data to sustainability reporting frameworks?	yes/no	No	Yes
Does your company focus on specific UN Sustainable Development Goals (SDGs)?	yes/no	No	No
Does your company set targets and report progress on the UN SDGs?	yes/no	No	No
G9|UNGC: P8			

External Assurance	Unit	2019	2020
Are your sustainability disclosures assured or validated by a third party?	yes/no	No	Yes
G10|UNGC: P8|GRI: 102-56			