Condensed Interim
Consolidated Financial Statements
30 September 2022

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

These are the Condensed Interim Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") and its subsidiaries (together the "Group") for the period 1 January to 30 September 2022. The Condensed Interim Consolidated Financial Statements have not been audited or reviewed by the Bank's independent auditors.

Following the acquisition of Ortus Secured Finance ltd. ("Ortus"), the Group operates five business segments, Insurance, Asset Management, Commercial Banking, Investment Banking and UK operations. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services, as well as selected banking services. At the end of September 2022 the Group had ISK 460 billion of assets under management, compared to ISK 528 billion at year end 2021. The decrease is mainly caused by divestments of funds (ISK 38 bn.) and poor market performance in the period. The Bank is listed on the main list of Nasdaq OMX Iceland.

The Bank's Annual General Meeting ("AGM") approved a motion from the Board of Directors ("BOD") permitting the Bank to purchase up to 10% of own shares subject to regulatory approvals. This authorisation applies until the next annual general meeting in 2023. In May, the BOD authorised a buy-back programme for the repurchase of up to 418,730,531 shares, or up to ISK 3 billion in total consideration. In September 2022, the Bank announced that the buy-back programme had been completed, as shares for ISK 3 billion had been bought. The AGM also approved a motion from the BOD to, subject to approval from the Financial Supervisory Authority of the Central Bank of Iceland, decrease the share capital of the Bank by 117,256,300 shares by cancelling treasury shares held by the Bank. In April, the share capital reduction was carried out.

Acquisition of Ortus Secured Finance ltd.

In February 2022, the Group concluded the acquisition of Ortus. Ortus is a British alternative credit provider specialising in property backed lending to borrowers in the United Kingdom. Ortus' headquarters are in London, where it shares an office with Kvika Securities Ltd. The company also operates offices in Belfast, N-Ireland and in Glasgow, Scotland. The transaction is a good strategic fit and allows for significant diversification of the Group's loan portfolio, as well as opportunities to generate synergies in terms of improved funding costs.

Deposit and issuer ratings assigned to Kvika

In May 2022 the international ratings agency Moody's Investors Service ("Moody's") assigned a first time Baa2 long-term and Prime-2 short-term foreign and local currency bank deposit and issuer ratings to Kvika. The assigned long-term deposit and issuer ratings carry a stable outlook. In June 2022 Moody's upgraded the Bank's long-term deposit rate to Baa1 from Baa2 and affirmed Kvika's long-term issuer ratings of Baa2, the Baa1 long-term and P-2 short-term Counterparty Risk Ratings (CRRs) and Baa1(cr) long-term and P-2(cr) short-term Counterparty Risk (CR) Assessment. The outlook on the deposit and issuer ratings remains stable.

The ratings reflect Kvika's robust capitalisation coupled with strong profitability and liquidity, reflective of the Group's diversified revenue streams and the increasing importance of non-capital-intensive banking operations as well as the profit contribution from its insurance operations via TM tryggingar hf. Kvika initiated the rating process in early 2022, following the publication of the Group's first EMTN Programme and inaugural foreign debt issuance, to support the Group's issuance of bonds and other funding efforts.

Decision to enter the acquiring market in Iceland

In May 2022, it was announced that the Group had signed an asset purchase agreement stating that Group will acquire part of Valitor hf.'s ("Valitor") merchant agreements. The Group will enjoy approx. 25% market share and will be a new and strong competitor on the acquiring market in Iceland. The Group currently provides various services with payment solutions and this agreement will further strengthen the Group's position in payment services in Iceland. According to the agreement it is envisaged that the Group will become a Payment Facilitator and will, in the coming months, acquire agreements with the relevant merchants according to provisions of the agreement, which from that point will become customers of the Group. The effects of the agreement on the Bank's capital base are negligible and the effect on this year's operating results is minor. Refer to note 62 for further information.

Results of a Supervisory Review and Evaluation Process of Kvika's capital requirement

In October 2022, Kvika was notified of the draft results of the Supervisory Review and Evaluation Process (SREP) carried out by the Financial Supervisory Authority of the Central Bank of Iceland on the assessment of the risk in Kvika's operations and capital requirements. Kvika has not objected to the results regarding capital requirements and therefore considers them final. Key conclusions of the assessment are that Kvika's total capital requirement, taking into account all capital buffers, will decrease from the current 22.6% to 17.7%, a 4.9% decrease from Kvika's last assessment which was completed in 2019. The decrease is mostly caused by the fact that the minimum capital requirement (Pillar 1 and 2) will amount to 11.5% of risk weighted exposures at any given time instead of 15.1%.

Operations during the first nine months of 2022

Profit before taxes for the period amounted to ISK 4,007 million (9m 2021: ISK 7,857 million), corresponding to an annualised 12.3% return on weighted tangible equity, based on the tangible equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. The Russian Federation's invasion into Ukraine has had a considerable global impact on the prices of securities, and as a result, it effected a number of assets held by the Group. The Group's net operating income during the period was ISK 13,694 million (9m 2021: ISK 15,423 million). Net interest income amounted to ISK 5,764 million (9m 2021: ISK 2,928 million). Net fee income amounted to ISK 4,905 million (9m 2021: ISK 5,094 million). Net premiums and claims amounted to ISK 3,026 million (9m 2021: ISK 2,922 million. Other operating expense amounted to ISK 2 million (9m 2021: income of ISK 4,479 million). Administrative expenses during the period amounted to ISK 9,492 million (9m 2021: ISK 7,686 million). The figures in the consolidated income statement for the period do not include the operations of Ortus for January and February as the business combination took place at end of February. Further, the figures in the consolidated income statement for the comparison period in 2021 are not directly comparable due to the number of business combinations which were effected during that period. Reference is made to the Consolidated Financial Statements for 2021 for further information on those business combinations.

According to the Consolidated Statement of Financial Position, equity at the end of the period amounted to ISK 78,843 million (31.12.2021: ISK 78,368 million) and total assets amounted to ISK 297,571 million (31.12.2021: ISK 246,240 million).

The Group's solvency ratio at 30.09.2022 was 1.34, (31.12.2021: 1.57) with a regulatory minimum requirement of 1.0.

Endorsement and Statement
by the Board of Directors and the CEO

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 conglomerate 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 across the Group. The Group's risk management, and its main operations, are described in the notes accompanying the Consolidated Financial Statements. Refer to notes 42-57 on analysis of exposure to various types of risk.

Statement by the Board of Directors and the CEO

The Condensed Interim Consolidated Financial Statements of Kvika banki hf. for the period 1 January to 30 September 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, and additional requirements, as applicable, in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions no. 834/2003.

To the best of our knowledge these Condensed Interim Consolidated Financial Statements give a true and fair view of the Group's assets, liabilities and financial position as at 30 September 2022 and the financial performance of the Group and changes of cash flows for the period 1 January to 30 September 2022. Furthermore, in our opinion the Condensed Interim Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO of the Bank have today discussed the Condensed Interim Consolidated Financial Statements for the period 1 January to 30 September 2022, and confirm them by the means of their signatures.

Reykjavík, 10 November 2022.

Board of Directors

Sigurður Hannesson
Chairman

Guðmundur Þórðarson
Deputy Chairman

Helga Kristín Auðunsdóttir

Ingunn Svala Leifsdóttir

Guðjón Reynisson

Chief Executive Officer

Marinó Örn Tryggvason

The condensed interim consolidated financial statements of Kvika banki hf. for the period ended 30 September 2022 are electronically certificated by the Board of Directors and the CEO.

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Income Statement
For the period 1 January 2022 to 30 September 2022

	Notes	9m 2022	9m 2021
Interest income		10,915,382	4,803,149
Interest expense		(5,151,090)	(1,874,930)
Net interest income	5	5,764,292	2,928,218
Fee and commission income		5,248,161	5,390,197
Fee and commission expense		(343,227)	(295,782)
Net fee and commission income	6	4,904,935	5,094,415
Earned premiums, net of reinsurers' share		12,325,037	7,929,755
Claims incurred, net of reinsurers' share		(9,298,811)	(5,008,036)
Net premiums and claims	7	3,026,226	2,921,720
Net financial (expense) income	8	(659,623)	4,110,036
Share in profit (loss) of associates, net of income tax	24	0	(27,566)
Other operating income		658,076	396,365
Other operating (expense) income		(1,546)	4,478,835
Net operating income		13,693,906	15,423,188
Administrative expenses	10	(9,492,190)	(7,685,669)
Net impairment	12	(171,180)	160,103
Revaluation of contingent consideration		(23,083)	(40,419)
Profit before taxes		4,007,453	7,857,203
Income tax	13	(467,492)	198,272
Special tax on financial activity	14	(211,113)	(1,182)
Special tax on financial institutions	15	(126,676)	(89,425)
Profit for the period		3,202,172	7,964,869

	Notes	9m 2022	9m 2021
Attributable to the shareholders of Kvika banki hf.		3,171,216	8,027,427
Attributable to non-controlling interest	23	30,957	(62,558)
Profit for the period		3,202,172	7,964,869
Earnings per share	16		
Basic earnings per share (ISK per share)		0.66	2.07
Diluted earnings per share (ISK per share)		0.66	2.01

The notes on pages 10 to 47 are an integral part of these Condensed Interim Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Comprehensive Income

For the period 1 January 2022 to 30 September 2022

	Notes	9m 2022	9m 2021
Profit for the period		3,202,172	7,964,869
Changes in fair value of financial assets through OCI, net of tax		(619,990)	(67,868)
Realized net gain transferred to the Income Statement, net of tax		73,008	14,344
Changes to reserve for financial assets at fair value through OCI		(546,981)	(53,524)
Exchange difference on translation of foreign operations		(321,031)	5,503
Other comphrehensive income that is or may be reclassified subsequently to profit and loss		(868,013)	(48,020)
Total comprehensive income for the period		2,334,160	7,916,849

	Notes	9m 2022	9m 2021
Attributable to the shareholders of Kvika banki hf.		2,303,203	7,979,407
Attributable to non-controlling interest		30,957	(62,558)
Total comprehensive income for the period		2,334,160	7,916,849

The notes on pages 10 to 47 are an integral part of these Condensed Interim Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Financial Position
As at 30 September 2022

Assets	Notes	30.9.2022	31.12.2021
Cash and balances with Central Bank	17	23,802,444	38,645,894
Fixed income securities	18	60,194,563	40,046,651
Shares and other variable income securities	19	18,992,044	22,683,295
Securities used for hedging	20	21,524,837	22,085,696
Loans to customers	21	103,505,196	71,587,646
Derivatives	22	5,127,959	2,734,216
Investment in associates	24	57,778	67,000
Investment properties	25	1,100,000	1,100,000
Intangible assets	26	33,845,139	31,455,409
Operating lease assets	27	943,984	1,458,621
Property and equipment		431,528	405,695
Deferred tax assets	13	3,044,261	3,177,763
Reinsurance assets	30	892,337	749,383
Other assets	28	24,109,169	10,042,553
Total assets		297,571,238	246,239,821

Liabilities			
Deposits	29	107,521,738	78,669,807
Technical provision	30	26,218,685	22,434,447
Borrowings	31	24,427,008	17,261,048
Issued bonds	32	36,392,657	32,597,716
Subordinated liabilities	33	3,663,678	3,371,766
Short positions held for trading	34	1,933,041	1,323,631
Short positions used for hedging	35	294,895	1,280,868
Derivatives	22	1,730,682	3,008,401
Current tax liabilities		351,555	347,068
Deferred tax liabilities		1,101,360	899,942
Other liabilities	36	15,093,432	6,677,507
Total liabilities		218,728,731	167,872,201

Equity			
Share capital	37	4,770,851	4,790,139
Share premium		48,447,981	50,316,002
Other reserves		2,135,222	9,613,793
Retained earnings		23,410,647	13,696,745
Total equity attributable to the shareholders of Kvika banki hf.		78,764,702	78,416,678
Non-controlling interest	23	77,805	(49,058)
Total equity		78,842,506	78,367,620
Total liabilities and equity		297,571,238	246,239,821

The notes on pages 10 to 47 are an integral part of these Condensed Interim Consolidated Financial Statements.

Kvika banki hf.   Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2022 to 30 September 2022

1 January 2022 to 30 September 2022	Notes	Share capital	Share premium	Other reserves: Option reserve	Other reserves: Warrants reserve	Other reserves: Deficit reduction reserve	Other reserves: Fair value reserve	Other reserves: Translation reserve	Other reserves: Restricted retained earnings	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2022		4,790,139	50,316,002	4,430	56,468	3,103,697	(74,823)	66,109	6,457,912	13,696,745	78,416,678	(49,058)	78,367,620
Profit for the period										3,171,216	3,171,216	30,957	3,202,172
Changes in fair value of financial assets through OCI							(619,990)				(619,990)		(619,990)
Realized net gain transferred to the Income Statement							73,008				73,008		73,008
Translation of foreign operations													
Exchange difference on translation of foreign operations								(326,097)			(326,097)	5,066	(321,031)
Total comprehensive income for the period		0	0	0	0	0	(546,981)	(326,097)	0	3,171,216	2,298,137	36,022	2,334,160
Restricted retained earnings									(4,733,528)	4,733,528	0		0
Transfer from deficit reduction reserve						(1,900,000)				1,900,000	0		0
Transactions with owners of the Bank													
Capital increase		128,583	941,244								1,069,827	0	1,069,827
Treasury shares acquired as part of a buy-back programme		(147,871)	(2,856,127)								(3,003,998)		(3,003,998)
Stock options				74,898							74,898		74,898
Warrants exercised	38		46,863		(46,863)						0		0
Other transactions													
Acquisition of non-controlling interest via purchase										(90,841)	(90,841)	90,841	0
Equity as at 30 September 2022		4,770,851	48,447,981	79,327	9,605	1,203,697	(621,804)	(259,988)	1,724,385	23,410,647	78,764,702	77,805	78,842,506

The notes on pages 10 to 47 are an integral part of these Condensed Interim Consolidated Financial Statements.

Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2021 to 30 September 2021

1 January 2021 to 30 September 2021	**Notes**	**Share capital**	**Share premium**	**Other reserves: Option reserve**	**Other reserves: Warrants reserve**	**Other reserves: Deficit reduction reserve**	**Other reserves: Fair value reserve**	**Other reserves: Translation reserve**	**Other reserves: Restricted retained earnings**	**Retained earnings**	**Total share-holders' equity**	**Non-controlling interest**	**Total equity**
Equity as at 1 January 2021		2,141,002	4,290,521	0	149,462	3,103,697	27,293	54,520	1,679,930	7,740,546	19,186,971	21,030	19,208,001
Profit for the period										8,027,427	8,027,427	(62,558)	7,964,869
Changes in fair value of financial assets through OCI							(66,904)				(66,904)		(66,904)
Realized net gain transferred to the Income Statement							17,930				17,930		17,930
Translation of foreign operations													
Exchange difference on translation of foreign operations								5,503			5,503	(158)	5,346
Total comprehensive income for the period		0	0	0	0	0	(48,974)	5,503	0	8,027,427	7,983,956	(62,716)	7,921,240
Restricted retained earnings									1,302,854	(1,302,854)	0		0
Transactions with owners of the Bank													
Capital increase		2,724,342	48,391,899								51,116,241	0	51,116,241
Own shares aquired through business combination		(6,400)	(151,680)								(158,080)		(158,080)
Treasury shares acquired as part of a buy-back programme ..		(97,500)	(2,242,788)								(2,340,288)		(2,340,288)
Warrants exercised			78,948		(78,948)						0		0
Equity as at 30 September 2021		4,761,445	50,366,900	0	70,515	3,103,697	(21,681)	60,024	2,982,784	14,465,119	75,788,801	(41,686)	75,747,115

The notes on pages 10 to 47 are an integral part of these Condensed Interim Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Cash Flows

For the period 1 January 2022 to 30 September 2022

Cash flows from operating activities	**Notes**	**9m 2022**	**9m 2021**
Profit for the period		3,202,172	7,964,869
Adjustments for:			
Indexation and exchange rate difference		1,443,889	88,277
Share loss of associates, net of income tax		0	27,566
Depreciation and amortisation		1,031,658	742,994
Net interest income		(5,764,292)	(2,928,218)
Net impairment		171,180	(160,103)
Income tax		467,492	(198,272)
Other adjustments		(239,585)	5,545
		312,514	5,542,657
Changes in:			
Fixed income securities		(20,694,894)	3,297,220
Shares and other variable income securities		2,512,028	(3,772,540)
Securities used for hedging		560,859	(8,485,062)
Loans to customers		(19,235,221)	332,276
Derivatives - assets		(2,393,743)	(611,834)
Other assets		(10,650,886)	(3,645,538)
Deposits		27,222,687	8,020,702
Technical provision		1,557,903	(125,619)
Short positions		(376,563)	(660,356)
Derivatives - liabilities		(1,930,768)	1,145,315
Other liabilities		7,219,016	5,637,385
		(16,209,581)	1,131,947
Interest received		9,993,150	4,486,280
Interest paid		(4,108,143)	(1,431,706)
Net cash (to) from operating activities		(10,012,060)	9,729,179
Cash flows from investing activities			
Acquisition of intangible assets	26	(454,531)	(335,959)
Net sale (acquisition) of property and equipment		212,445	(43,816)
Dividend from associates		6,087	3,750
Acquisition of subsidiary and associates, net of cash		(3,686,200)	(653,239)
Lease receivable payments		0	25,460
Net cash to investing activities		(3,922,198)	(1,003,804)
Cash flows from financing activities			
Borrowings		(5,236,573)	(19,461,076)
Issued bills		0	(5,291,000)
Issued bonds		3,794,941	0
Subordinated liabilities		0	(1,258,799)
Increase (decrease) in share capital and share premium		(1,934,171)	(590,800)
Decrease in warrants		0	(78,948)
Lease payments		(282,782)	(225,825)
Net cash to financing activities		(3,658,585)	(26,906,448)
Net change in cash and balances with Central Bank		(17,592,843)	(18,181,073)
Cash and balances with Central Bank at the beginning of the year		38,645,894	28,945,030
Change in cash and cash equivalents due to acquisition of subsidiary		3,367,206	4,586,419
Effects of exchange rate fluctuations on cash and balances with Central Bank		(617,813)	(84,459)
Cash and balances with Central Bank at the end of the period	17	23,802,444	15,265,917

The notes on pages 10 to 47 are an integral part of these Condensed Interim Consolidated Financial Statements.

Notes to the Condensed Interim Consolidated Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

General information

1. Reporting entity

Kvika banki hf. ("Kvika" or the "Bank") is a limited liability company incorporated and domiciled in Iceland, with its registered office at Katrínartún 2, Reykjavík. The Bank operates as a bank based on Act No. 161/2002, on Financial Undertakings, and is supervised by the Financial Supervisory Authority of the Central Bank ("FME"). The Group, comprised of Kvika and its subsidiaries, has been designated by the FME as a financial conglomerate as defined in Article no. 3 of Act no. 61/2017 on Additional Supervision of Financial Conglomerates.

The Condensed Interim Consolidated Financial Statements for the period ended 30 September 2022 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). The Group operates five business segments, Asset Management, Corporate Banking, Insurance Services, Investment Banking and UK operations. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services as well as selected banking services.

The Condensed Interim Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 10 November 2022.

2. Basis of preparation

a. Statement of compliance

The Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting, as adopted by the European Union and additional requirements, as applicable, in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions no. 834/2003.

The Condensed Interim Consolidated Financial Statements do not include all of the information required for full Consolidated Financial Statements, and should be read in conjunction with the Group's Consolidated Financial Statements for the financial year ending 31 December 2021, which are available at www.kvika.is.

b. Basis of measurement

The Condensed Interim Consolidated Financial Statements have been prepared using the historical cost basis except for the following:
- fixed income securities are measured at fair value;
- shares and other variable income securities are measured at fair value;
- securities used for hedging are measured at fair value;
- certain loans to customers which are measured at fair value;
- derivatives are measured at fair value;
- investment properties are measured at fair value;
- certain receivables are measured at fair value;
- shared based payment is accounted for in accordance with IFRS 2;
- contingent consideration is measured at fair value;
- short positions are measured at fair value; and
- technical provision is measured in accordance with IFRS 4.

c. Functional and presentation currency

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

The Group's assets and liabilities which are denominated in other currency than ISK are translated to ISK using the exchange rate as at the end of day 30 September 2022.

d. Going concern

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

e. Estimates and judgements

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

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

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

Information about areas of estimation uncertainty and critical judgements made by management in applying accounting policies that can have a significant effect on the amounts recognised in the Condensed Interim Consolidated Financial Statements, is provided in the Consolidated Financial Statements as at and for the year ended 31 December 2021.

f. Relevance and importance of notes to the reader

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

Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

3. Business combinations

Acquisition of Ortus Secured Finance ltd.

In February 2022, the Group acquired a majority shareholding in Ortus Secured Finance Ltd ("Ortus"), by purchasing an additional 63.1% of the ordinary shares and 70% of the preference shares. The Group first acquired 15.1% of the ordinary shares and 30% of the preference shares in 2018, which were held at fair value at the acquisition date.

Ortus is a British alternative credit provider specialising in property backed lending to borrowers in the United Kingdom. Ortus' headquarters are in London, where it shares an office with Kvika Securities Ltd. The company also operates offices in Belfast, N-Ireland and in Glasgow, Scotland. The transaction is a good strategic fit and allows for significant diversification of the Group´s loan portfolio, as well as opportunities to generate synergies in terms of improved funding costs.

The total valuation of the preference and ordinary shares was ISK 5,572 million at the acquisition date. The purchase price will be paid by cash. A contingent consideration, which is conditional on the performance of a loan to a customer, is a part of the acquisition price. The Group paid ISK 3,686 million for the ordinary and preference shares it acquired at the acquisition date.

The Group has a contractual agreement to acquire the remaining 21.8% of shareholding in 2024 and 2026. As a result of this, there is no non-controlling interest recognised in the Group. At the acquisition date, this item was recorded as a derivative liability with at fair value of ISK 646 million. It will be reassessed on a quarterly basis for further fair value adjustments, which will be recognised through the Consolidated Income Statement.

During the years 2021 and 2022, the Group incurred transaction costs related to the acquisition amounting to ISK 34 million which were expensed as operating expenditure.

In accordance with IFRS 3, Business Combinations, the total consideration will be allocated to Ortus' identifiable assets and liabilities acquired, that have been re-measured to fair value at the acquisition date. The purchase price allocation exercise has not been finalised and the preliminary goodwill amounts to ISK 2,668 million. The following table summarises the consideration paid for Ortus and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 28 February 2022.

Identifiable assets acquired and liabilities assumed

Assets	**Fair value**
Cash and cash equivalents	3,367,206
Loans to customers	11,598,808
Other assets	554,825
Total	15,520,839
Liabilities	
Borrowings	12,402,533
Other liabilities	214,589
Total	12,617,122
Total identifiable net assets	2,903,717
Acquisition price	5,572,004
Calculated goodwill on acquisition	2,668,287

The figures in the consolidated income statement for the period in 2022 do not include the operations of Ortus during January and February as the acquisition took place at end of February. If the acquisition had occurred on 1 January 2022, it is estimated that the consolidated net operating income would have been ISK 13,832 million and the consolidated profit before tax for the period would have been ISK 4,031 million.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Segment information

4. Business segments

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

Reportable segments

Following business combinations during the year 2022, the Group has changed the structure of its internal reporting and reportable segments. The Group now defines five reportable operating segments; Insurance, Asset Management, Commercial Banking, Investment Banking and UK operations. The figures for the year 2022 reflect the current operating segment structure for the period and comparison amounts for the previous period have been restated accordingly.

- Insurance
  The TM insurance group offers its customers comprehensive insurance services, including life insurance.
- Asset Management
  Products and services offered include asset management involving both domestic and foreign assets, private banking, and private pension plans. The management of a broad range of mutual funds, investment funds and institutional investor funds is include in this segment through the operations of Kvika eignastýring hf. and Gamma Capital Management hf.
- Commercial Banking
  Commercial Banking offers various forms of banking services and related advisory services, in addition to providing specialised lending services. Included in this operating segment is Lykill, the leasing operations of the Group, and the Group's fintech operations, such as Auður, Netgíró and Aur.
- Investment Banking
  Investment Banking consists of Capital Markets and Corporate Finance. The functions of Market Making and Treasury are also included in the segment although they are a part of Kvika's Finance division.
- UK operations
  The UK operations consist of asset management and corporate finance services through Kvika Securities Ltd. and specialised lending services through Ortus Secured Finance Ltd.

Supporting units consist of the functions carried out by the Bank's support divisions, such as Risk Management, Finance, IT and Operations, etc. The information presented relating to the supporting units does not represent an operating segment.

9m 2022	Insurance	Asset Management	Commercial Banking	Investment Banking	UK operations	Supporting units	Total
Net interest income	357,414	1,985	3,535,992	1,540,977	414,084	(86,161)	5,764,292
Net fee and commission income	(84)	2,405,791	860,387	1,339,534	265,255	34,052	4,904,935
Net premiums and claims	3,026,226	-	-	-	-	-	3,026,226
Net financial (expense) income	(905,230)	40,002	538,409	(387,627)	54,650	172	(659,623)
Other operating income	127,118	3,982	457,676	-	(823)	70,124	658,076
Net operating income	2,605,443	2,451,761	5,392,464	2,492,885	733,166	18,188	13,693,906
Salaries and related expenses	(1,175,995)	(765,308)	(618,617)	(535,219)	(273,987)	(1,831,341)	(5,200,468)
Other operating expenses	(1,140,264)	(59,542)	(1,170,649)	(222,825)	(290,679)	(1,407,763)	(4,291,722)
Net impairment	7,429	-	(93,614)	432	(85,427)	-	(171,180)
Revaluation of contingent consideration	-	(23,083)	-	-	-	-	(23,083)
Cost allocation	(798,793)	(641,976)	(995,020)	(641,651)	(143,187)	3,220,627	-
Profit (loss) before tax	(502,180)	961,851	2,514,563	1,093,622	(60,114)	(290)	4,007,453
Net segment revenue from external customers	2,551,498	2,462,448	5,429,946	2,235,204	1,000,303	14,507	13,693,905
Net segment revenue from other segments	53,945	(10,688)	(37,482)	257,681	(267,137)	3,681	0

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

4. Business segments (cont.)

9m 2021	Insurance	Asset Management	Commercial Banking	Investment Banking	UK operations	Supporting units	Total
Net interest income	141,029	(1,072)	2,203,096	645,459	(32,963)	(27,331)	2,928,218
Net fee and commission income	(16,237)	2,840,161	630,471	1,085,188	523,027	31,804	5,094,415
Net premiums and claims	2,921,720	-	-	-	-	-	2,921,720
Net financial income	2,178,212	75,715	635,185	903,445	317,480	-	4,110,036
Share in profit of associates	-	-	(27,566)	-	-	-	(27,566)
Other operating income	14,345	6,867	369,324	2,109	-	3,720	396,365
Net operating income	5,239,069	2,921,670	3,810,510	2,636,201	807,544	8,193	15,423,188
Salaries and related expenses	(715,252)	(800,672)	(439,195)	(505,367)	(380,018)	(1,597,047)	(4,437,551)
Other operating expenses	(577,278)	(44,105)	(890,456)	(138,906)	(451,965)	(1,145,408)	(3,248,118)
Net impairment	10,598	-	149,505	-	-	-	160,103
Revaluation of contingent consideration	-	(40,419)	-	-	-	-	(40,419)
Profit (loss) before cost allocation and tax	3,957,137	2,036,475	2,630,363	1,991,928	(24,438)	(2,734,262)	7,857,203
Net segment revenue from external customers	5,237,855	2,954,237	4,276,101	2,106,264	840,191	8,540	15,423,188
Net segment revenue from other segments	1,214	(32,567)	(465,591)	529,937	(32,647)	(346)	(0)

The figures for the period during 2021 have been restated to reflect changes made in the presentation of internal reporting and reportable segments following business combinations in 2022. Cost allocation was not part of internal reporting during 2021 as a result of the considerable business combinations during that year. As a result, there are no comparison figures available for that line item.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Income statement

5. Net interest income

Interest income is specified as follows:

	9m 2022	9m 2021
Cash and balances with Central Bank	662,576	58,724
Derivatives	1,927,859	930,470
Loans to customers	6,862,145	3,376,626
Fixed income securities (FVOCI)	1,265,627	312,836
Other interest income	197,175	124,492
Total	10,915,382	4,803,149

Interest expense is specified as follows:

	9m 2022	9m 2021
Deposits	1,802,417	467,505
Borrowings	927,810	266,955
Issued bills	0	34,334
Issued bonds	1,837,569	744,250
Subordinated liabilities	427,973	289,939
Derivatives	37,939	3,158
Other interest expense*	117,382	68,790
Total	5,151,090	1,874,930
Net interest income	5,764,292	2,928,218

* Thereof are lease liabilities' interest expense amounting to ISK 81 million (9m 2021: ISK 28 million).

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 7,539 million (9m 2021: ISK 3,368 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 5,113 million (9m 2021: ISK 1,871 million).

6. 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 4. As discussed in that note, the Group changed the structure of its internal reporting and reportable segments during 2022. The figures for the period in 2022 reflect this structure and the comparison amounts have been restated accordingly.

Net fee and commission income by business segment	9m 2022	9m 2021
Insurance	(84)	(16,237)
Asset Management	2,405,791	2,840,161
Commercial Banking	860,387	630,471
Investment Banking	1,339,534	1,085,188
UK operations	265,255	523,027
Supporting units	34,052	31,804
Total	4,904,935	5,094,415

7. Net premiums and claims

Net premiums and claims is specified as follows:

Earned premiums, net of reinsurers' share	9m 2022	9m 2021
Premiums written	15,197,995	5,670,950
Premiums written, reinsurers' share	(778,773)	(244,669)
Change in provision for unearned premiums	(2,230,218)	2,767,474
Change in provision for unearned premiums, reinsurers' share	136,033	(263,999)
Total	12,325,037	7,929,755

Claims incurred, net of reinsurers' share	9m 2022	9m 2021
Claims paid	(8,033,623)	(5,375,471)
Claims paid, reinsurers' share	328,648	829,053
Change in provision for claims due to insurance operations	(1,545,517)	119,394
Change in risk margin	(56,181)	(12,245)
Change in provision for claims, reinsurers' share	7,863	(568,767)
Total	(9,298,811)	(5,008,036)
Net premiums and claims	3,026,226	2,921,720
Combined ratio	95.8%	82.6%

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

8. Net financial (expense) income

Net financial (expense) income is specified as follows:

	9m 2022	9m 2021
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities	450,271	500,616
Shares and other variable income securities	(871,047)	3,193,787
Derivatives	(673,494)	343,719
Loans to customers	(58,020)	(13,242)
Unwinding, interest and exchange rate change of technical provision	46,737	(2,629)
Foreign currency exchange difference	445,931	87,785
Total	(659,623)	4,110,036

9. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	9m 2022	9m 2021
Gain (loss) on financial instruments at fair value through profit and loss	586,477	(121,537)
(Loss) gain on other financial instruments	(140,546)	209,321
Total	445,931	87,785

10. Administrative expenses

Administrative expenses are specified as follows:	9m 2022	9m 2021
Salaries and related expenses	5,200,468	4,437,551
Other operating expenses	3,249,247	2,481,341
Depositors' and Investors' Guarantee Fund contributions	10,817	23,783
Depreciation and amortisation	850,855	545,682
Depreciation of right of use asset	180,803	197,311
Total	9,492,190	7,685,669

11. Salaries and related expenses

Salaries and related expenses are specified as follows:	9m 2022	9m 2021
Salaries	4,026,111	3,250,377
Performance based payments excluding share-based payments	(3,608)	220,056
Share-based payment expenses	74,691	0
Pension fund contributions	545,521	432,238
Tax on financial activity	239,023	190,537
Other salary related expenses	318,729	344,344
Total	5,200,468	4,437,551
Average number of full time employees during the period	343	315
Total number of full time employees at the end of the period	350	322

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% (2021: 5.50%).

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

12. Net impairment

	9m 2022	9m 2021
Net change in impairment of loans	(145,236)	138,383
Net change in impairment of other assets	(20,946)	10,598
Net change in impairment of loan commitments, guarantees and unused credit facilities	(4,997)	11,122
Total	(171,180)	160,103

13. Income tax

The Bank and some of its subsidiaries will not pay income tax on its profit for 2022 due to the fact that Group has a tax loss carry forward that offsets the calculated income tax. At year end 2021, the tax loss carry forward of the Group amounted to ISK 23 billion. A substantial part of the tax loss carry forward is utilisable until end of year 2028. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised a part of the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position.

Income tax is recognised based on the tax rates and tax laws enacted during the current year, according to which the domestic corporate income tax rate was 20.0% (2021: 20.0%). Companies within the Group, which operate outside of Iceland, recognise income tax in accordance with the applicable tax laws in the country where they are resident.

14. 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% (2021: 6.0%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

15. 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% (2021: 0.145%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

16. 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.

	9m 2022	9m 2021
Net earnings attributable to equity holders of the Bank	3,171,216	8,027,427
Weighted average number of outstanding shares	4,790,362	3,880,844
Adjustments for warrants and stock options	3,489	115,480
Total	4,793,851	3,996,324
Basic earnings per share (ISK)	0.66	2.07
Diluted earnings per share (ISK)	0.66	2.01

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Statement of Financial Position

17. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

	30.9.2022	31.12.2021
Deposits with Central Bank	8,845,426	16,611,434
Cash on hand	22,028	14,651
Balances with banks	9,572,618	16,093,533
Foreign treasury bills	3,723,914	2,564,841
Included in cash and cash equivalents	22,163,986	35,284,459
Restricted balances with Central Bank - fixed reserve requirement	1,638,457	1,235,491
Receivables from Central Bank	0	2,125,945
Total	23,802,444	38,645,894

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.

18. Fixed income securities

Fixed income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	30.9.2022	31.12.2021
Listed government bonds and bonds with government guarantees	3,091,723	5,343,444
Listed bonds	3,656,353	8,492,751
Unlisted bonds	4,524,350	4,907,093
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees	33,218,898	18,127,222
Listed treasury bills	11,937,442	2,997,628
Listed bonds	3,765,797	178,512
Total	60,194,563	40,046,651

19. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	30.9.2022	31.12.2021
Listed shares	5,479,299	5,523,914
Unlisted shares	6,668,329	8,907,091
Unlisted unit shares in bond funds	2,580,144	3,824,181
Unlisted unit shares in other funds	4,264,272	4,428,108
Total	18,992,044	22,683,295

20. Securities used for hedging

Securities used for hedging are specified as follows:

	30.9.2022	31.12.2021
Listed government bonds and bonds with government guarantees	6,382,734	126,113
Listed bonds	1,037,809	1,699,621
Listed shares	13,612,214	18,745,871
Listed unit shares	4,432	0
Unlisted unit shares	487,648	1,514,091
Total	21,524,837	22,085,696

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

21. Loans to customers

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

	Individuals		Corporates		Total	
30.9.2022	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	36,934,688	36,282,161	67,221,877	65,474,106	104,156,565	101,756,267
Loans to customers at FV through profit or loss	414,160	414,160	1,334,768	1,334,768	1,748,929	1,748,929
Total	37,348,848	36,696,322	68,556,645	66,808,875	105,905,493	103,505,196

	Individuals		Corporates		Total	
31.12.2021	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	31,285,094	30,771,742	39,114,914	38,291,634	70,400,008	69,063,377
Loans to customers at FV through profit or loss	650,814	650,814	1,873,455	1,873,455	2,524,269	2,524,269
Total	31,935,908	31,422,557	40,988,369	40,165,089	72,924,277	71,587,646

The Group presents finance lease receivables as part of loans to customers at amortised cost. As at 30 September 2022, the book value of finance lease receivables amounted to ISK 17,684 million (31.12.2021: ISK 16,139 million).

22. Derivatives

Derivatives are specified as follows:

	Notional		Carrying value	
30.9.2022	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	19,039,693	17,185,956	1,707,748	0
Currency forwards	23,226,304	23,272,694	416,730	324,182
Bond and equity total return swaps	31,100,728	29,784,860	2,722,368	1,406,500
Equity options	103,735	0	281,114	0
Total	73,470,460	70,243,510	5,127,959	1,730,682

	Notional		Carrying value	
31.12.2021	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	14,353,716	13,087,145	1,799,162	0
Currency forwards	8,260,384	9,306,104	54,740	126,212
Bond and equity total return swaps	23,328,516	25,873,506	336,233	2,882,189
Equity options	453,594	0	544,081	0
Total	46,396,210	48,266,754	2,734,216	3,008,401

23. Group entities

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

Entity	**Nature of operations**	**Domicile**	**Share 30.9.2022**	**Share 31.12.2021**
Aur app ehf.	Financial technology services	Iceland	-	100%
FÍ Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf.	Fund management	Iceland	100%	100%
Kvika eignastýring hf.	Asset management	Iceland	100%	100%
Netgíró hf.	Consumer lending operations	Iceland	-	100%
Rafklettur ehf.	Holding company	Iceland	100%	100%
Skilaráðgjöf ehf.	Debt Collection	Iceland	100%	-
TM líftryggingar hf.	Insurance services	Iceland	100%	100%
TM tryggingar hf.	Insurance services	Iceland	100%	100%
AC GP 3 ehf.	Fund management	Iceland	80%	80%
Kvika Securities ltd.	Business consultancy services	UK	100%	100%
Ortus Secured Finance ltd.	Lending operations	UK	78%	15%

During the first quarter of 2022, the Group acquired a majority stake in Ortus Secured Finance ltd. Reference is made to note 3 for more information on the acquisition. Furthermore, the mergers of Aur app ehf. and Netgíró hf. with Kvika banki hf. were finalised during the first quarter of 2022. Additionally, the Group acquired Skilaráðgjöf ehf. during the second quarter of 2022.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

24. Investment in associates

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

Entity	Nature of operations	Domicile	Share 30.9.2022	Share 31.12.2021
Gláma fjárfestingar slhf.	Holding company	Iceland	24%	24%
Moberg d. o. o.	Digital solutions provider	Croatia	40%	40%

The Group does not consider its associates material, neither individually nor as a group.

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

	30.9.2022	31.12.2021
Balance at the beginning of the year	67,000	42,240
Acquisition of shares in associates	0	67,000
Dividend received	(6,087)	(3,750)
Disposal of shares in associates	0	(10,924)
Share in (loss) profit of associates, net of income tax	0	(27,566)
Exchange rate difference	(3,134)	0
Total	57,778	67,000

25. Investment properties

Investment properties are specified as follows:

	30.9.2022	31.12.2021
Balance at the beginning of the year	1,100,000	1,016,905
Revaluation of investment properties	0	83,095
Total	1,100,000	1,100,000

26. Intangible assets

Intangible assets are specified as follows:

30.9.2022	Goodwill	Customer relationships	Brands	Software and other	Total
Balance as at 1 January 2022	24,257,972	2,255,810	2,340,265	2,601,362	31,455,409
Additions during the period	0	0	0	454,531	454,531
Additions through business combinations	2,668,287	0	0	0	2,668,287
Amortisation	0	(130,333)	(97,965)	(349,611)	(577,909)
Currency adjustments	(155,179)	0	0	0	(155,179)
Balance as at 30 September 2022	26,771,080	2,125,477	2,242,300	2,706,282	33,845,139
Gross carrying amount	26,771,080	2,391,991	2,439,788	3,724,771	35,327,629
Accumulated amortisation and impairment losses	0	(266,514)	(197,488)	(1,018,489)	(1,482,491)
Balance as at 30 September 2022	26,771,080	2,125,477	2,242,300	2,706,282	33,845,139

31.12.2021	Goodwill	Customer relationships	Brands	Software and other	Total
Balance as at 1 January 2021	2,943,881	0	0	618,740	3,562,621
Additions during the period	0	0	0	458,271	458,271
Additions through business combinations	21,314,091	2,391,991	2,439,788	2,017,629	28,163,498
Amortisation	0	(136,181)	(99,523)	(493,278)	(728,982)
Balance as at 31 December 2021	24,257,972	2,255,810	2,340,265	2,601,362	31,455,409
Gross carrying amount	24,257,972	2,391,991	2,439,788	3,270,240	32,359,991
Accumulated amortisation and impairment losses	0	(136,181)	(99,523)	(668,878)	(904,582)
Balance as at 31 December 2021	24,257,972	2,255,810	2,340,265	2,601,362	31,455,409

Acquisitions by the Group during the first half of 2022 as a part of business combinations resulted in the recognition of goodwill. Preliminary purchase price allocation ("PPA") was prepared as part of the Condensed Interim Consolidated Financial Statements for the period ended 30 September 2022. As the PPA has not been concluded, the goodwill that has been recognised is preliminary. Refer to note 3 for more information on the acquisitions.

Intangible assets are tested annually for impairment. At each reporting date, they are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, then the asset's recoverable amount is estimated. No such indications exist as at 30 September 2022.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

27. Operating lease assets

Operating lease assets are specified as follows:

	30.9.2022	31.12.2021
Balance as at 1 January	1,458,621	0
Additions through business combinations	0	1,784,025
Additions	80,610	233,914
Disposals	(405,172)	(319,763)
Depreciation	(190,076)	(239,555)
Total	943,984	1,458,621
Gross carrying amount	1,579,034	2,226,907
Accumulated depreciation	(635,050)	(768,286)
Total	943,984	1,458,621

28. Other assets

Other assets are specified as follows:

	30.9.2022	31.12.2021
Accounts receivable	9,775,251	7,599,584
Unsettled transactions	11,705,646	984,264
Right of use asset and lease receivables	1,571,838	800,087
Investment where investment risk is borne by life-insurance policyholders	114,461	111,172
Receivables at fair value	0	30,202
Sundry assets	941,972	517,245
Total	24,109,169	10,042,553

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

	30.9.2022	31.12.2021
Right of use asset and lease receivables as at 1 January	800,087	478,995
Additions during the period	865,584	453,937
Additions through business combinations	0	301,665
Termination of lease agreements	(46,863)	0
Disposal	0	(175,404)
Indexation	104,009	37,716
Currency adjustments	(14,678)	0
Depreciation and lease receivable installment	(136,300)	(296,822)
Total	1,571,838	800,087

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

29. Deposits

Deposits are specified as follows:

	30.9.2022	31.12.2021
Demand deposits	89,964,130	63,858,051
Time deposits	17,557,608	14,811,756
Total	107,521,738	78,669,807

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

30. Technical provision

Technical provision is specified as follows:

	30.9.2022	31.12.2021
Claims provision	17,994,716	16,492,994
Premium provision	7,537,459	5,311,124
Risk margin	686,510	630,329
Technical provisions, total	26,218,685	22,434,447

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

Reinsurer's share:		
Claims provision	643,281	635,419
Premium provision	249,055	113,964
Reinsurer's share, total	892,337	749,383
Own technical provision:		
Claims provision	17,351,435	15,857,575
Premium provision	7,288,404	5,197,160
Risk margin	686,510	630,329
Own technical provision (net), total	25,326,349	21,685,065

31. Borrowings

Borrowings are specified as follows:

	30.9.2022	31.12.2021
Money market deposits	7,317,788	15,650,931
Secured borrowings	14,855,513	0
Other borrowings	2,253,706	1,610,117
Total	24,427,008	17,261,048

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

32. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2022	31.12.2021
Unsecured bonds:						
KVB 21 01, GBP 12 million	2021	2023	At maturity	Floating, 3 month LIBOR + 2.50%	1,925,705	2,117,105
KVB 20 01, ISK 5,000 million	2020	2023	At maturity	Floating, 1 month REIBOR + 0.85%	4,625,416	4,609,836
Lykill 23 11, ISK 3,010 million	2020	2023	At maturity	Floating, 1 month REIBOR + 1.10%	2,591,870	2,575,197
EMTN 24 0131, SEK 500 million	2022	2024	At maturity	Floating, 3 month STIBOR + 2.80%	6,511,216	0
EMTN 24 0204, EUR 8.5 million	2022	2024	At maturity	Floating, 3 month EURIBOR + 2.80%	1,203,453	0
KVIKA 24 1119, GBP 11.4 million	2021	2024	At maturity	Floating, 3 month LIBOR + 1.75%	1,825,875	2,007,693
KVIKA 24 1216 GB, ISK 4,500 mil.	2021	2024	At maturity	Floating, 3 month REIBOR + 0.90%	4,512,364	4,506,565
KVB 19 01, ISK 5,000 million	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	2,255,045	3,003,775
KVB 21 02, ISK 5,400 million	2021	2027	At maturity	CPI-indexed, fixed 1.0%	6,032,208	5,589,138
KVIKA 32 0112, ISK 2,000 million	2022	2032	At maturity	CPI-indexed, fixed 1.40%	2,166,940	0
Asset backed bonds:						
Lykill 16 01, ISK 10,870 million	2016	2023	Amortizing	Floating, 1 month REIBOR + 1.10%	1,762,978	2,928,877
Lykill 23 09, ISK 1,000 million	2019	2023	Amortizing	Fixed, 5.20%	270,279	464,019
Lykill 24 06, ISK 1,570 million	2020	2024	Amortizing	Fixed, 2.80%	709,307	1,002,853
Lykill 26 05, ISK 5,130 million	2019	2026	Amortizing	CPI-indexed, fixed 3.30%	0	3,792,658
Total					36,392,657	32,597,716

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

33. Subordinated liabilities

a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2022	31.12.2021
KVB 18 02, ISK 800 million	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	1,011,137	960,156
TM 15 1, ISK 2,000 million	2015	2045	At maturity	CPI-Indexed, fixed 5.25%	2,652,542	2,411,610
Total					3,663,678	3,371,766

At the interest payment date in the year 2023 for KVB 18 02, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.
At the interest payment date in May 2025 for TM 15 01, the annual interest rate increases from 5.25% p.a. to 6.25% p.a. At the interest payment date in May 2025 for TM 15 01, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.

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

b. Subordinated liabilities are specified as follows:

	30.9.2022	31.12.2021
Balance at the beginning of the year	3,371,766	2,077,225
Redemption of KVB 15 01	0	(1,258,799)
Additions through business combinations	0	2,358,610
Paid interest	(112,625)	(113,125)
Paid interests due to indexation	(23,435)	(14,763)
Accrued interests and indexation	427,972	322,618
Total	3,663,678	3,371,766

34. Short positions held for trading

Short positions held for trading are specified as follows:

	30.9.2022	31.12.2021
Listed government bonds and bonds with government guarantees	869,066	608,965
Listed bonds	1,063,975	714,665
Total	1,933,041	1,323,631

35. Short positions used for hedging

Short positions used for hedging are specified as follows:

	30.9.2022	31.12.2021
Listed government bonds and bonds with government guarantees	294,895	1,280,868
Total	294,895	1,280,868

36. Other liabilities

Other liabilities are specified as follows:

	30.9.2022	31.12.2021
Salaries and salary related expenses	972,532	1,481,030
Lease liability	1,854,460	1,041,121
Accounts payable and accrued expenses	1,982,131	974,515
Unsettled transactions	8,236,488	875,985
Withholding taxes	554,856	694,281
Contingent consideration	409,267	483,486
Special taxes on financial institutions and financial activities	451,183	170,753
Reinsurance liabilities	75,975	142,407
Technical provision for life-insurance policies where investment risk is borne by policyholders	114,461	111,172
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities	12,107	6,720
Other liabilities	429,972	696,038
Total	15,093,432	6,677,507

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

36. Other liabilities (cont.)

Lease liability is specified as follows:

	30.9.2022	31.12.2021
Lease liability as at 1 January	1,041,121	477,691
Additions during the period	1,001,522	452,001
Additions through business combinations	0	373,413
Termination of lease agreements	(14,428)	0
Currency adjustments	(13,857)	0
Installment	(282,782)	(299,701)
Indexation	122,885	37,716
Total	1,854,460	1,041,121

37. Share capital

a. Share capital

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

	30.9.2022	31.12.2021
Share capital according to the Bank's Articles of Association	4,918,722	4,907,395
Nominal amount of treasury shares	147,871	117,256
Authorised but not issued shares	320,742	413,325

b. Changes made to the nominal amount of share capital

The Bank's share capital was increased by ISK 129 million in nominal value during the period 1 January to 30 September 2022 in order to serve the exercising of issued warrants. During the period, the share capital was decreased by ISK 117 millon in nominal value following a resolution by the AGM to cancel treasury shares. Furthermore, during the period, the Bank has acquired treasury shares amounting to ISK 148 million in nominal value as a result of a share buy-back plan.

c. Share capital increase authorisations

According to the Bank's Articles of Association dated 21 September 2022, the Board of Directors is authorised to increase the share capital as follows:

Temporary provision II to the Articles of Association authorises the Board of Directors to increase share capital by up to ISK 10 million in nominal value to serve warrants issued pursuant to that provision. This authorisation is valid until 21 April 2026.

Temporary provision III to the Articles of Association authorises the Board of Directors to issue options or warrants for up to ISK 240 million in nominal value. To serve such instruments the Board of Directors is authorised to either increase the share capital accordingly or purchase own shares, as permitted by law. This authorisation is valid until 31 March 2027.

Temporary provision IV to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. According to temporary provision IV the Board of Directors is authorised to increase share capital by up to a total of ISK 0.6 million in nominal value to serve issued warrants. This authorisation is valid until 31 December 2022.

Temporary provision V to the Articles of Association authorises the Board of Directors to increase the share capital of the Bank in stages by up to ISK 70 million in nominal value, for the purposes of fulfilling stock option agreements in accordance with the Bank's stock option plan which has been approved by Iceland Revenue and Customs as provided for in Art. 10 of the Income Tax Act, No. 90/2003. This authorisation is valid until 31 December 2024.

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

38. Warrants

The Bank has issued warrants for shares in the total nominal amount of ISK 10,175,000 as at 30 September 2022. The number of owners of these warrants is 10 and they purchased the warrants for a total consideration of ISK 9,605,193. 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 4,928,896,980, and the newly issued shares would represent 0.2% 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
April 2019	1,000,000	944,000	7.5%	15.36	Dec. 2020 - Dec. 2022
April 2019	9,175,000	8,661,200	7.5%	15.36	Dec. 2020 - Dec. 2022
Total	10,175,000	9,605,200			

39. Solvency of a financial conglomerate

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

Solvency measures the Group's ability to take on setbacks, thus indicating its financial strength. The available capital and capital requirements of the Group is calculated as a financial conglomerate according to Articles 16, 17 and 18 of Act on Additional Supervision of Financial Conglomerates No. 61/2017. The Group's solvency ratio is 1.34, with a regulatory minimum requirement of 1.0.

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

	30.9.2022	31.12.2021
Available capital		
Own Funds eligible for non insurance activities	31,833,883	32,496,219
Own Funds eligible for insurance activities	11,673,648	14,121,233
Total	43,507,530	46,617,452
Solvency requirement for insurance activities		
Solvency Capital Requirements (SCR)	8,533,533	9,986,019
Own funds requirement for non insurance activities		
Statutory minimum capital requirement (Pillar I)	10,826,074	7,680,858
Additional capital requirements (Pillar II)	4,736,407	6,816,762
Minimum capital requirement for non insurance activities	15,562,481	14,497,620
Additional capital protection buffers	8,390,207	5,280,590
Total	23,952,688	19,778,210
Solvency	43,507,530	46,617,452
Solvency requirement (SCR)	8,533,533	9,986,019
Own funds requirement for non insurance activities	23,952,688	19,778,210
Minimum solvency of financial conglomerate	32,486,221	29,764,229
Solvency ratio	1.34	1.57

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

40. Capital adequacy ratio (CAR)

The capital adequacy ratio of the Group, excluding entities which belong to the insurance sector, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 23.5%. The minimum requirement from the FME is 11.5%. The ratio is calculated as follows:

Own funds eligible for non insurance activities	**30.9.2022**	**31.12.2021**
Total equity	78,842,506	78,367,620
Unaudited retained (positive) earnings from current period	(1,420,535)	0
Other unaudited (positive) changes to total equity in current period	(77,480)	0
Capital eligible as CET1 Capital	77,344,492	78,367,620
Goodwill and intangibles	(28,134,198)	(25,564,998)
Shares in other financial institutions	(17,916,476)	(20,441,123)
Deferred tax asset	(3,044,261)	(3,177,763)
Common equity Tier 1 capital (CET 1)	28,249,556	29,183,736
Tier 2 capital	3,584,326	3,312,483
Total own funds	31,833,883	32,496,219
Risk weighted exposures		
Credit risk	105,277,504	70,135,184
Market risk	8,224,366	4,051,492
Operational risk	21,824,053	21,824,053
Total risk weighted exposures	135,325,922	96,010,729
Capital ratios		
Capital adequacy ratio (CAR)	23.5%	33.8%
CET1 ratio	20.9%	30.4%
Total own funds including unaudited (positive) retained earnings and expected dividends	33,338,050	
Capital adequacy ratio, adjusted	24.6%	
CET1 ratio, adjusted	22.0%	
Minimum Capital adequacy ratio requirement	11.5%	15.1%
Minimum Capital adequacy ratio requirement including supervisory buffers	17.7%	20.6%
Minimum CET 1 ratio requirement including supervisory buffers	12.7%	14.0%

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). In October 2022, the FME notified Kvika of the draft SREP results on the assessment of the risk in Kvika’s operations and capital requirements. Kvika has not objected to the results regarding capital requirements and therefore considers them final. The Bank's minimum regulatory capital requirement, based on the aforementioned draft SREP results, is 11.5%. The FME has notified the Bank that a new SREP process will be conducted in 2023. The minimum regulatory capital requirement including the additional capital buffers is 17.7% as at 30 September 2022.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

41. Solvency of insurance activities

The Group calculates solvency capital and capital requirements for entities which belong to the insurance sector. The available capital and required capital is calulated in accordance with Articles 88 and 96 of the Act on Insurance Activity No. 100/2016. This brings the solvency ratio for entities which belong to the insurance sector to 1.37. Solvency capital requirements according to law is the minimum insurance companies have to meet.

	30.9.2022	31.12.2021
Own funds eligible for insurance activities solvency		
Equity eligible for insurance activities	17,422,599	22,163,820
Goodwill and intangibles	(5,779,802)	(5,888,497)
Difference between net technical provision in the financial statements and solvency rules	30,851	350,979
Proposed dividend payment	0	(2,500,000)
Non-controlling interest	0	(5,069)
Total	11,673,648	14,121,233
Solvency requirement		
Life insurance risk	369,016	326,634
Health insurance risk	1,401,396	1,390,074
Non-life insurance risk	5,504,187	4,956,453
Market risk	4,909,659	7,478,337
Counterparty default risk	1,233,600	962,624
Multifaceted effects	(4,087,832)	(4,259,005)
Base Solvency Capital Requirements (Basic SCR)	9,330,026	10,855,118
Operational risk	739,541	627,562
Adjustment for the loss-absorbing capacity of deferred taxes	(1,536,034)	(1,496,661)
Solvency Capital Requirements (SCR)	8,533,533	9,986,019
Solvency	11,673,648	14,121,233
Solvency requirement (SCR)	8,533,533	9,986,019
Solvency ratio after dividend	1.37	1.41
Eligible items to meet the minimum capital	11,673,648	14,121,233
Minimum required capital (MRC)	4,195,714	3,818,920
Minimum required capital ratio after dividend	2.78	3.70

Notes to the Condensed Interim Consolidated Financial Statements

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 larger 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. For smaller loans the originating department optains a general credit approval from the credit committee with respect to the process, terms, credit limits and total amount of the specific lending type.

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 16 in the 2021 financial statements 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 Condensed Interim Consolidated Financial Statements

43. Maximum exposure to credit risk

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

30.9.2022 On-balance sheet exposure	Public entities	Financial institutions	Corporate customers	Individuals	30.9.2022
Cash and balances with Central Bank	14,229,826	9,572,618			23,802,444
Fixed income securities	49,062,255	5,201,823	5,930,485		60,194,563
Loans to customers	16,049		66,792,826	36,696,322	103,505,196
Derivatives		4,378,254	684,720	64,985	5,127,959
Other assets	1,604,752	1,957,219	18,400,033	2,147,164	24,109,169
	64,912,882	21,109,915	91,808,064	38,908,471	216,739,331
Off-balance sheet exposure					
Loan commitments			2,996,425	629,087	3,625,513
Financial guarantee contracts			315,359		315,359
Maximum exposure to credit risk	64,912,882	21,109,915	95,119,848	39,537,558	220,680,202

31.12.2021 On-balance sheet exposure	Public entities	Financial institutions	Corporate customers	Individuals	31.12.2021
Cash and balances with Central Bank	22,552,361	16,093,533			38,645,894
Fixed income securities	27,881,492	5,800,281	6,364,877		40,046,651
Loans to customers	14,708	150	40,150,231	31,422,557	71,587,646
Derivatives		2,131,645	595,510	7,061	2,734,216
Other assets	541,252	2,395,982	4,182,883	2,122,349	9,242,466
	50,989,813	26,421,592	51,293,502	33,551,966	162,256,873
Off-balance sheet exposure					
Loan commitments			2,819,754	333,034	3,152,788
Financial guarantee contracts			512,901		512,901
Maximum exposure to credit risk	50,989,813	26,421,592	54,626,156	33,885,000	165,922,562

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 twelve months. The assumptions for macroeconomic development are decided for three scenarios: a base case, an upside case and a downside case, including a probability weight for each scenario. The assumptions are used for calculations of the probability weighted ECLs. The amount of ECL to be recognized is dependent on the Group's definition of significant increase in credit risk, which controls the impairment stage each asset is allocated to. The factors that are used to measure significant increase in credit risk include comparison of changes in PD values, annualized lifetime PD values, days past due and watch list.

Based on Kvika's risk assessment, the Group does not expect that the Russian Federation's invasions into Ukraine will have a direct impact on the Group's credit risk or operations. The secondary impact on the credit risk could be through its impact on the general economic outlook, such as inflation, interest rates and global GDP growth.

The following table shows the macro economic values for the variables used in the expected credit loss model. The Group utilises an economic forecast which is aligned with requirements for the calculation of expected credit loss.

		Scenarios	
Model parameters 30.09.2022	**Base case**	**Upside**	**Downside**
Unemployment rate	4.3%	3.6%	5.0%
Inflation CPI index	5.7%	5.4%	5.8%
Assigned weight	60.0%	10.0%	30.0%

		Scenarios	
Model parameters 31.12.2021	**Base case**	**Upside**	**Downside**
Unemployment rate	4.3%	3.6%	5.0%
Inflation CPI index	5.7%	5.4%	5.8%
Assigned weight	60.0%	10.0%	30.0%

Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

44. Credit quality of financial assets (cont.)

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

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

					Allocated collateral										
30.9.2022	**Claim value**	**Impairment due to expected credit loss**	**Carrying amount**	**%**	**Total collateral**	**Deposits**	**Listed securities and liquid funds**	**Unlisted securities and other funds**	**Residential real estate**	**Commercial real estate**	**Automobiles**	**Industrial equipment**	**Guarantees**	**Other**	**Unsecured claim value**
Public entities	16,176	(127)	16,049	0.0%	14,881	0	0	0	0	0	13,048	0	0	1,833	4,834
Financial institutions	0	0	0	0.0%	0	0	0	0	0	0	0	0	0	0	0
Corporate															
Real estate activities	26,143,179	(731,765)	25,411,414	24.6%	62,357,400	29,420	12,481	4,226,208	30,787,211	26,205,566	717,310	148,730	90,000	140,472	801,811
Construction	9,570,597	(429,538)	9,141,059	8.8%	17,043,553	48,683	368,182	0	6,230,074	3,342,136	3,325,692	3,186,474	0	542,313	152,759
Service Activities	9,034,555	(236,331)	8,798,224	8.5%	17,737,753	139,472	113,507	3,508,821	151,273	472,130	9,607,189	2,179,677	0	1,565,683	328,874
Activities of Holding Companies	7,463,192	(14,200)	7,448,992	7.2%	20,607,687	103,941	172,160	9,352,352	7,811,557	2,448,848	176,866	58,380	453,594	29,990	124,449
Activit. of Holding Comp. - Sec. Financing	3,316,270	(19,558)	3,296,712	3.2%	6,522,331	393,851	5,543,437	565,043	0	20,000	0	0	0	0	313,852
Accommodat. and Food Service Activit.	3,264,163	(9,679)	3,254,485	3.1%	6,394,554	23,651	0	260,499	1,331,964	4,335,953	403,180	0	0	39,308	16,432
Other	9,748,512	(306,572)	9,441,940	9.1%	14,541,269	163,525	17,037	201,548	1,617,853	2,542,722	4,235,455	2,852,389	733,655	2,177,085	1,372,331
Individual	37,348,848	(652,527)	36,696,322	35.5%	56,093,998	18,411	1,351,339	1,345,245	12,488,995	2,553,383	36,554,902	1,438,488	0	343,234	6,654,297
Total	105,905,493	(2,400,297)	103,505,196	100.0%	201,313,426	920,952	7,578,143	19,459,715	60,418,927	41,920,739	55,033,643	9,864,139	1,277,249	4,839,919	9,769,639

					Allocated collateral										
31.12.2021	**Claim value**	**Impairment due to expected credit loss**	**Carrying amount**	**%**	**Total collateral**	**Deposits**	**Listed securities and liquid funds**	**Unlisted securities and other funds**	**Residential real estate**	**Commercial real estate**	**Automobiles**	**Industrial equipment**	**Guarantees**	**Other**	**Unsecured claim value**
Public entities	14,863	(155)	14,708	0.0%	12,094	0	0	0	0	0	7,109	0	0	4,985	3,578
Financial institutions	186	(35)	150	0.0%	947	0	0	0	0	0	947	0	0	0	0
Corporate															
Service activities	8,456,811	(247,535)	8,209,276	11.5%	15,651,650	14,947	174,157	4,014,414	0	357,702	7,981,939	1,901,548	0	1,206,943	938,771
Construction	7,917,387	(322,606)	7,594,781	10.6%	15,033,846	72,849	0	0	5,273,648	3,604,444	2,805,676	2,641,503	0	635,726	137,565
Activities of Holding Companies	6,139,170	(12,842)	6,126,328	8.6%	17,448,909	33,420	1,159	10,009,915	2,057,402	4,552,973	109,251	102,295	178,500	403,993	382,487
Real estate activities	5,672,433	(23,272)	5,649,161	7.9%	14,962,837	123,210	1,281,231	2,620,852	4,748,147	5,557,610	522,141	75,810	16,000	17,835	109,875
Activit. of Holding Comp. - Sec. Financing	2,692,571	(330)	2,692,241	3.8%	7,278,984	192,983	6,781,355	304,646	0	0	0	0	0	0	10,337
Wholesale and Retail Trade	3,266,183	(39,934)	3,226,249	4.5%	5,808,339	428,926	0	680,000	0	483,601	2,153,630	1,050,763	0	1,011,419	523,089
Other	6,828,764	(176,570)	6,652,195	9.3%	12,894,412	5,652	450,718	1,427,675	212,449	3,071,002	1,981,879	2,249,651	194,500	3,300,888	3,253,774
Individual	31,935,908	(513,375)	31,422,557	43.9%	44,164,668	41,690	2,221,224	823,646	6,589,474	402,206	32,743,905	1,157,983	0	184,542	6,215,381
Total	72,924,277	(1,336,655)	71,587,646	100.0%	133,256,687	913,676	10,909,844	19,881,148	18,881,119	18,029,538	48,306,477	9,179,552	389,000	6,766,330	11,574,857

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 Group is in general covered by covenants in the loan agreement, e.g. with a negative pledge or other ring fencing.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

44. Credit quality of financial assets (cont.)

b. Credit quality of financial assets by credit quality band

The following tables show financial assets subject to the impairment requirements of IFRS 9 broken down by credit quality bands where band i denotes the lowest and band iv the highest credit risk. 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. The bank uses primarily adjusted external credit ratings to assess the default probability of its customers and some larger borrowers are individually assessed by credit specialists. Exposures which are non-rated relate mostly to retail portfolios where individual rating has not been obtained.

30.9.2022

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	79,216,841	2,266,585	102,123	1,265,665	82,851,214
Credit quality band II	10,262,158	948,156	1,742		11,212,056
Credit quality band III	3,127,841	1,776,348	11,271	207,323	5,122,783
Credit quality band IV	134,181	901,301	14,676		1,050,158
In default	312,121	288,266	4,566,791	127,641	5,294,819
Non-rated	182,706	23,111	168,647		374,464
Gross carrying amount	93,235,848	6,203,767	4,865,249	1,600,629	105,905,493
Expected credit loss	(281,829)	(487,090)	(1,631,379)		(2,400,297)
Book value	92,954,020	5,716,677	3,233,870	1,600,629	103,505,196

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	2,619,944		3,657	36,004	2,659,606
Credit quality band II	492,126				492,126
Credit quality band III	254,278	207,812	1,454	30,498	494,042
Credit quality band IV	3,719	278,370			282,088
In default	1,000		12,009		13,009
Non-rated					0
Total off-balance sheet amount	3,371,066	486,182	17,121	66,503	3,940,871
Expected credit loss	(10,589)	(450)	(1,067)		(12,107)
Net off-balance sheet amount	3,360,477	485,731	16,054	66,503	3,928,764

31.12.2021

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	47,608,198	527,551	5,254	995,247	49,136,251
Credit quality band II	6,501,676	649,356	408		7,151,440
Credit quality band III	2,726,307	3,561,501	4,480		6,292,288
Credit quality band IV	386,107	1,167,598	1,897		1,555,602
In default	62,259	269,872	1,959,308	127,217	2,418,657
Non-rated	3,748,503	1,003,618	216,115	1,401,804	6,370,040
Gross carrying amount	61,033,049	7,179,496	2,187,463	2,524,269	72,924,277
Expected credit loss	(211,083)	(293,663)	(831,885)		(1,336,631)
Book value	60,821,966	6,885,833	1,355,578	2,524,269	71,587,646

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	1,808,577				1,808,577
Credit quality band II	87,689				87,689
Credit quality band III	1,029,809	1,000	10		1,030,819
Credit quality band IV	44,741	134,415			179,156
In default	1,000		2,636		3,636
Non-rated	470,753	828	7,535	76,694	555,811
Total off-balance sheet amount	3,442,569	136,243	10,182	76,694	3,665,688
Expected credit loss	(4,940)	(130)	(1,649)		(6,720)
Net off-balance sheet amount	3,437,629	136,113	8,533	76,694	3,658,969

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

44. Credit quality of financial assets (cont.)

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

30.9.2022	**Claim value**	**Expected credit loss**	**Carrying amount**
Not past due	97,210,282	(731,040)	96,479,242
Past due 1-30 days	2,669,332	(103,763)	2,565,570
Past due 31-60 days	474,877	(20,728)	454,149
Past due 61-90 days	644,243	(40,120)	604,123
Past due 91-180 days	1,356,560	(89,838)	1,266,722
Past due 181-360 days	304,676	(139,462)	165,214
Past due more than 360 days	3,245,523	(1,275,345)	1,970,178
Total	105,905,493	(2,400,297)	103,505,196

31.12.2021	**Claim value**	**Expected credit loss**	**Carrying amount**
Not past due	69,602,189	(727,673)	68,874,516
Past due 1-30 days	1,362,406	(96,311)	1,266,095
Past due 31-60 days	797,031	(19,728)	777,303
Past due 61-90 days	76,257	(13,221)	63,036
Past due 91-180 days	209,085	(44,399)	164,687
Past due 181-360 days	627,918	(251,984)	375,935
Past due more than 360 days	249,390	(183,316)	66,074
Total	72,924,277	(1,336,631)	71,587,646

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.

Pursuant to the due diligence that was performed on the loan book of Ortus Secured Finance ltd. prior to the Group's acquisition of the company in February 2022, it was agreed with the sellers of shares that a pro-rata indemnity against losses on a specific loan exposure would be provided. This indemnity totals GBP 2.29 million.

30.9.2022

Expected credit loss allowance total

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2022	216,023	293,794	833,534	1,343,351
Transfer to Stage 1 - (Initial recognition)	115,036	(54,658)	(60,379)	0
Transfer to Stage 2 - (significantly increased credit risk)	(6,406)	18,841	(12,435)	0
Transfer to Stage 3 - (credit impaired)	(8,848)	(23,585)	32,434	0
Net remeasurement of loss allowance	(137,395)	189,080	(43,134)	8,550
New financial assets, originated or purchased	199,585	97,339	1,206,891	1,503,815
Derecognitions and maturities	(85,544)	(33,219)	(320,014)	(438,778)
Write-offs	(33)	(51)	(4,450)	(4,534)
Balance as at 30 September 2022	292,418	487,540	1,632,446	2,412,404

Expected credit loss allowance for loans to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2022	211,083	293,663	831,885	1,336,631
Transfer to Stage 1 - (Initial recognition)	115,030	(54,653)	(60,377)	0
Transfer to Stage 2 - (significantly increased credit risk)	(5,379)	17,812	(12,433)	0
Transfer to Stage 3 - (credit impaired)	(8,843)	(23,585)	32,428	0
Net remeasurement of loss allowance	(142,938)	189,755	(43,193)	3,624
New financial assets, originated or purchased	196,749	97,339	1,206,879	1,500,967
Derecognitions and maturities	(83,842)	(33,190)	(319,360)	(436,392)
Write-offs	(33)	(51)	(4,450)	(4,534)
Balance as at 30 September 2022	281,829	487,090	1,631,379	2,400,297

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

44. Credit quality of financial assets (cont.)

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

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 1 January 2022	4,940	130	1,649	6,720
Transfer to Stage 1 - (Initial recognition)	7	(5)	(2)	0
Transfer to Stage 2 - (significantly increased credit risk)	(1,028)	1,030	(2)	0
Transfer to Stage 3 - (credit impaired)	(6)		6	0
Net remeasurement of loss allowance	5,543	(676)	59	4,926
New financial assets, originated or purchased	2,836		12	2,848
Derecognitions and maturities	(1,703)	(29)	(654)	(2,386)
Balance as at 30 September 2022	10,589	450	1,067	12,107

31.12.2021

Expected credit loss allowance total

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 1 January 2021	321,032	85,853	161,137	568,022
Transfer to Stage 1 - (Initial recognition)	34,178	(29,997)	(4,181)	0
Transfer to Stage 2 - (significantly increased credit risk)	(47,041)	47,041		0
Transfer to Stage 3 - (credit impaired)	(40,441)		40,441	0
Net remeasurement of loss allowance	(96,561)	70,239	(5,768)	(32,090)
New financial assets, originated or purchased	191,888	161,773	764,301	1,117,962
Derecognitions and maturities	(147,031)	(41,115)	(42,547)	(230,693)
Write-offs			(79,850)	(79,850)
Balance as at 31 December 2021	216,023	293,794	833,534	1,343,351

Expected credit loss allowance for loans to customers

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 1 January 2021	306,203	72,222	158,226	536,650
Transfer to Stage 1 - (Initial recognition)	22,686	(18,946)	(3,740)	0
Transfer to Stage 2 - (significantly increased credit risk)	(47,022)	47,022		0
Transfer to Stage 3 - (credit impaired)	(40,439)		40,439	0
Net remeasurement of loss allowance	(80,142)	70,417	(6,232)	(15,958)
New financial assets, originated or purchased	190,271	161,773	763,828	1,115,872
Derecognitions and maturities	(140,474)	(38,824)	(40,786)	(220,084)
Write-offs			(79,850)	(79,850)
Balance as at 31 December 2021	211,083	293,663	831,885	1,336,631

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

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 1 January 2021	14,830	13,631	2,911	31,371
Transfer to Stage 1 - (Initial recognition)	11,492	(11,051)	(440)	0
Transfer to Stage 2 - (significantly increased credit risk)	(19)	19		0
Transfer to Stage 3 - (credit impaired)	(3)		3	0
Net remeasurement of loss allowance	(16,419)	(178)	464	(16,132)
New financial assets, originated or purchased	1,617		472	2,089
Derecognitions and maturities	(6,558)	(2,291)	(1,761)	(10,609)
Balance as at 31 December 2021	4,940	130	1,649	6,720

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

45. Loan-to-value

a. General

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

b. Breakdown

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

	30.9.2022	%	31.12.2021	%
Less than 50%	25,347,213	24.5%	20,182,991	28.2%
51-70%	39,084,068	37.8%	18,411,393	25.7%
71-90%	23,512,035	22.7%	18,175,877	25.4%
91-100%	2,991,462	2.9%	3,063,469	4.3%
100-125%	2,970,249	2.9%	2,706,342	3.8%
125-200%	683,960	0.7%	201,953	0.3%
Greater than 200%	916,728	0.9%	670,667	0.9%
No or negligible collateral:				
Other loans with no collateral	7,999,481	7.7%	8,174,954	11.4%
Total	103,505,196	100.0%	71,587,646	100.0%

46. Collateral against exposures to derivatives

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

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	30.9.2022
Financial institutions	2,732,089	26,701	8,893				2,767,683
Corporate customers	2,341,995	229,474	1,912,852				4,484,321
Individuals	49,714	35,842	53,030				138,586
Total	5,123,798	292,017	1,974,775	0	0	0	7,390,590

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2021
Financial institutions	2,201,519	118,222	737,598				3,057,340
Corporate customers	715,724	19,382	907,511				1,642,617
Individuals	79,757	5,307	22,613				107,678
Total	2,997,001	142,911	1,667,723	0	0	0	4,807,635

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

47. Large exposures

In accordance with regulation no. 575/2013 of the European Union on prudential requirements for credit institutions, which was incorporated into Icelandic law with Act No. 38/2022, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the financial institution's Tier 1 capital (see note 40).

According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the eligible Tier 1 capital. Where the exposure is towards a financial institution the value shall not exceed 25% of the eligible Tier 1 capital or EUR 150 million, whichever is higher. Single large exposures net of risk adjusted mitigation take into account the effects of collateral and other credit enhancements held by the financial institution, and other credit enhancements, in accordance with regulation no. 575/2013.

		30.9.2022		31.12.2021
Large exposures before risk adjusted mitigation	**Number**	**Amount**	**Number**	**Amount**
10-20% of capital base	2	7,796,721	2	8,732,707
20-25% of capital base	0	0	0	0
Exceeding 25% of capital base	0	0	0	0
Total	2	7,796,721	2	8,732,707
Thereof nostro accounts with other banks which are part of the Group's liquidity management	1	3,500,066	2	8,732,707
Large exposures net of risk adjusted mitigation	1	3,771,069	2	8,732,707

Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

48. Insurance risk

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

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

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

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

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

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

Own technical provision classified to line of insurance operations	**30.9.2022**	**31.12.2021**
Fire and other damage to property insurance	2,670,536	2,105,022
Marine, aviation and transport insurance	1,255,647	847,645
Motor vehicle liability insurance	11,960,146	10,639,438
Other motor insurance	1,665,297	1,199,425
General liability, credit and suretyship insurance	3,083,394	2,701,425
Income Protection Insurance	1,236,322	1,058,845
Workers' compensation insurance	2,894,760	2,717,221
Medical Expense Insurance	4,615	6,104
Life insurance	516,892	360,402
Sold reinsurances	38,738	49,539
Own technical provision total	25,326,349	21,685,065

49. 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 liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The minimum 30 day LCR regulatory requirement is 100% for both LCR total and LCR in foreign currencies. For LCR in ISK the minimum requirement is 30% as of 1 January 2020, 40% as of 1 January 2022 and 50% as of 1 January 2023. The minimum regulatory requirement for NSFR total is 100%.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

49. Liquidity risk (cont.)

b. Management (cont.)

The FME has designated the Group as a financial conglomerate. LCR is not calculated for a financial conglomerate, instead the Group calculates LCR based on the consolidated statement of financial position excluding the insurance operations of TM tryggingar hf. The Group was in compliance with internal and external liquidity requirements throughout the period in 2022 and during the year 2021.

	30.9.2022	31.12.2021
NSFR total	129%	130%

	30.9.2022	31.12.2021
LCR total	308%	290%
LCR in ISK	252%	182%
LCR in foreign currencies	317%	219%

c. Maturity analysis of financial assets and financial liabilities

30.9.2022 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	22,934,022	871,811				23,805,833	23,802,444
Fixed income securities	22,994,565	9,385,130	19,194,585	8,620,283		60,194,563	60,194,563
Shares and other variable income securities	11,870,319	2,466,936	4,654,789			18,992,044	18,992,044
Securities used for hedging	21,524,837					21,524,837	21,524,837
Loans to customers	6,240,608	6,492,358	22,313,679	80,116,107	6,580,877	121,743,629	103,505,196
Reinsurance assets	72,285	102,447	295,439	409,798	12,369	892,337	892,337
Other assets	14,129,902	4,840,465	4,818,891	205,451	114,461	24,109,169	24,109,169
	99,766,537	24,159,145	51,277,383	89,351,639	6,707,707	271,262,411	253,020,589
Derivative assets							
Inflow	23,869,079	3,809,015	6,910,916	12,327,520		46,916,530	
Outflow	(21,529,124)	(3,371,663)	(5,997,120)	(11,082,731)		(41,980,638)	
	2,339,955	437,352	913,797	1,244,789	0	4,935,892	5,127,959

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	(92,580,895)	(8,655,486)	(4,282,766)	(2,151,052)	(200,940)	(107,871,138)	107,521,738
Technical provision	(2,068,271)	(2,931,276)	(8,453,308)	(11,725,422)	(1,040,408)	(26,218,685)	26,218,685
Borrowings	(4,992,299)	(2,773,969)	(871,182)	(17,626,906)		(26,264,356)	24,427,008
Issued bonds	(295,575)	(967,156)	(5,776,039)	(30,908,686)	(2,296,712)	(40,244,167)	36,392,657
Subordinated liabilities		(67,922)	(141,775)	(894,926)	(6,583,434)	(7,688,056)	3,663,678
Short positions held for trading	(1,933,041)					(1,933,041)	1,933,041
Short positions used for hedging	(294,895)					(294,895)	294,895
Other liabilities	(9,989,592)	(2,639,320)	(1,754,333)	(595,726)	(114,461)	(15,093,432)	15,093,432
	(112,154,567)	(18,035,129)	(21,279,403)	(63,902,717)	(10,235,955)	(225,607,770)	215,545,134
Derivative liabilities							
Inflow	16,729,247	2,043,316				18,772,563	
Outflow	(17,600,101)	(2,169,498)		(645,518)		(20,415,116)	
	(870,854)	(126,182)	0	(645,518)	0	(1,642,554)	1,730,682
Unrecognised financial items							
Loan commitments							
Inflow	882,922	62,269	1,655,867	1,159,080		3,760,138	
Outflow	(3,625,513)					(3,625,513)	
Financial guarantee contracts							
Inflow		5,711	5,800	237,722	66,126	315,359	
Outflow	(315,359)					(315,359)	
	(3,057,949)	67,979	1,661,667	1,396,803	66,126	134,626	
Summary							
Non-derivative assets	99,766,537	24,159,145	51,277,383	89,351,639	6,707,707	271,262,411	
Derivative assets	2,339,955	437,352	913,797	1,244,789		4,935,892	
Non-derivative liabilities	(112,154,567)	(18,035,129)	(21,279,403)	(63,902,717)	(10,235,955)	(225,607,770)	
Derivative liabilities	(870,854)	(126,182)		(645,518)		(1,642,554)	
Net assets (liabilities) excluding unrecognised items	(10,918,928)	6,435,186	30,911,777	26,048,192	(3,528,248)	48,947,979	
Net unrecognised items	(3,057,949)	67,979	1,661,667	1,396,803	66,126	134,626	
Net assets (liabilities)	(13,976,877)	6,503,165	32,573,445	27,444,995	(3,462,123)	49,082,605	

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

49. Liquidity risk (cont.)

31.12.2021 **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	36,735,621	1,173,420	738,000			38,647,041	38,645,894
Fixed income securities	18,391,127	3,115,221	10,453,037	7,127,439	959,827	40,046,651	40,046,651
Shares and other variable income securities	15,278,393	2,948,677	4,230,156	226,069		22,683,295	22,683,295
Securities used for hedging	22,085,696					22,085,696	22,085,696
Loans to customers	5,009,571	5,730,923	27,168,009	39,368,877	5,872,898	83,150,279	71,587,646
Reinsurance assets	66,660	78,751	240,729	351,169	12,073	749,383	749,383
Other assets	3,546,888	4,508,101	1,830,359	157,206		10,042,553	10,042,553
	101,113,957	17,555,093	44,660,289	47,230,760	6,844,798	217,404,897	205,841,117
Derivative assets							
Inflow	8,495,539	1,340,505	3,001,987	8,957,388		21,795,420	
Outflow	(8,151,488)	(1,350,233)	(1,162,801)	(8,648,207)		(19,312,729)	
	344,052	(9,728)	1,839,186	309,181	0	2,482,690	2,734,216

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	(65,385,245)	(6,620,835)	(5,409,417)	(1,369,701)	(58,840)	(78,844,038)	78,669,807
Technical provision	(2,569,878)	(2,291,356)	(7,004,287)	(10,217,641)	(351,284)	(22,434,447)	22,434,447
Borrowings	(2,975,625)	(9,783,251)	(2,955,884)	(1,619,785)		(17,334,545)	17,261,048
Issued bonds	(264,524)	(989,290)	(3,810,121)	(25,064,483)	(5,611,362)	(35,739,780)	32,597,716
Subordinated liabilities			(194,143)	(813,627)	(6,228,579)	(7,236,350)	3,371,766
Short positions held for trading	(1,323,631)					(1,323,631)	1,323,631
Short positions used for hedging	(1,280,868)					(1,280,868)	1,280,868
Other liabilities	(1,773,454)	(2,538,572)	(741,858)	(1,511,952)	(111,672)	(6,677,507)	6,677,507
	(75,573,225)	(22,223,304)	(20,115,711)	(40,597,189)	(12,361,737)	(170,871,167)	163,616,790
Derivative liabilities							
Inflow	12,935,075	3,788,518		3,167,699		19,891,293	
Outflow	(15,073,201)	(4,594,592)		(3,233,330)		(22,901,123)	
	(2,138,125)	(806,074)	0	(65,631)	0	(3,009,830)	3,008,401
Unrecognised financial items by type							
Loan commitments							
Inflow	265,888	621,243	1,958,828	369,626		3,215,585	
Outflow	(3,152,788)					(3,152,788)	
Financial guarantee contracts							
Inflow		49,798	87,475	316,571	59,057	512,901	
Outflow	(512,901)					(512,901)	
	(3,399,800)	671,041	2,046,302	686,196	59,057	62,797	
Summary							
Non-derivative assets	101,113,957	17,555,093	44,660,289	47,230,760	6,844,798	217,404,897	
Derivative assets	344,052	(9,728)	1,839,186	309,181		2,482,690	
Non-derivative liabilities	(75,573,225)	(22,223,304)	(20,115,711)	(40,597,189)	(12,361,737)	(170,871,167)	
Derivative liabilities	(2,138,125)	(806,074)		(65,631)		(3,009,830)	
Net assets (liabilities) excluding unrecognised items	23,746,658	(5,484,014)	26,383,765	6,877,120	(5,516,939)	46,006,589	
Net unrecognised items	(3,399,800)	671,041	2,046,302	686,196	59,057	62,797	
Net assets (liabilities)	20,346,858	(4,812,972)	28,430,067	7,563,316	(5,457,882)	46,069,386	

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

50. 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 51-56 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.

51. 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.

52. Interest rate risk associated with trading portfolios

a. Breakdown

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	30.9.2022
Fixed income securities	21,159	10,888	181,529	1,657,112	2,268,986	4,139,673
Short positions - fixed income securities	(8,282)	(8,444)	(99,256)	(1,405,137)	(411,922)	(1,933,041)
Net imbalance	12,877	2,444	82,273	251,976	1,857,064	2,206,633

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2021
Fixed income securities			91,531	894,288	1,446,062	2,431,880
Short positions - fixed income securities			(24,979)	(514,176)	(784,475)	(1,323,631)
Net imbalance	0	0	66,552	380,111	661,587	1,108,250

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	30.9.2022 Upward	Downward	31.12.2021 Upward
Indexed	50	26,994	(24,918)	42,091	(42,091)
Non-indexed	100	109,604	(98,494)	(35,656)	35,656
Total		136,598	(123,412)	6,436	(6,436)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

53. Interest rate risk associated with non-trading portfolios

a. Breakdown

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

30.9.2022

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	20,078,529	3,723,914				23,802,444
Fixed income securities	11,131,820	9,150,111	20,626,101	10,596,475	4,550,382	56,054,890
Loans to customers	75,043,325	6,575,106	9,848,504	11,768,653	269,609	103,505,196
Financial assets excluding derivatives	106,253,674	19,449,131	30,474,605	22,365,128	4,819,991	183,362,530
Effect of derivatives	21,722,391	14,537,323	733,156	8,316,857		45,309,726
Total	127,976,065	33,986,454	31,207,761	30,681,984	4,819,991	228,672,256

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	92,717,471	8,581,985	4,241,154	1,851,874	129,254	107,521,738
Borrowings	8,122,131	15,494,587	71,256	739,035		24,427,008
Issued bonds	13,014,483	14,369,970	597,469	6,388,918	2,021,816	36,392,657
Subordinated liabilities		67,485	136,502	743,034	2,716,658	3,663,678
Financial liabilities excluding derivatives	113,854,085	38,514,027	5,046,380	9,722,861	4,867,728	172,005,081
Effect of derivatives	3,409,327	18,187,762				21,597,089
Total	117,263,412	56,701,789	5,046,380	9,722,861	4,867,728	193,602,170
Total interest repricing gap	10,712,653	(22,715,335)	26,161,380	20,959,124	(47,736)	35,070,086

31.12.2021

Financial assets	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash and balances with Central Bank	36,081,053	2,564,841				38,645,894
Fixed income securities	4,059,204	317,875	15,430,656	9,986,479	7,820,556	37,614,770
Loans to customers	59,696,220	2,603,372	4,651,287	4,285,008	351,759	71,587,646
Financial assets excluding derivatives	99,836,478	5,486,088	20,081,943	14,271,487	8,172,316	147,848,311
Effect of derivatives	23,328,516			15,129,226		38,457,742
Total	123,164,994	5,486,088	20,081,943	29,400,713	8,172,316	186,306,053

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	78,669,807					78,669,807
Borrowings	3,431,363	10,955,347	2,861,690	12,648		17,261,048
Issued bills						0
Issued bonds	264,089	983,646	3,707,789	22,324,381	5,317,811	32,597,716
Subordinated liabilities			174,493	1,245,104	1,952,168	3,371,766
Financial liabilities excluding derivatives	82,365,260	11,938,993	6,743,972	23,582,133	7,269,979	131,900,336
Effect of derivatives		12,339,360				12,339,360
Total	82,365,260	24,278,353	6,743,972	23,582,133	7,269,979	144,239,696
Total interest repricing gap	40,799,734	(18,792,265)	13,337,971	5,818,580	902,337	42,066,357

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		**30.9.2022**		**31.12.2021**
Currency	**basis points**	**Downward**	**Upward**	**Downward**	**Upward**
ISK, indexed	50	(65,736)	54,387	222,350	(216,040)
ISK, non-indexed	100	263,846	(256,003)	85,251	(92,544)
Other currencies	20	32,836	(32,611)	(7,936)	7,901
Total		230,946	(234,226)	299,665	(300,683)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

54. Exposure towards changes in the CPI

a. Definition

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

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

b. Management

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

c. Balance of CPI linked assets and liabilities

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

	30.9.2022	31.12.2021
Assets	33,296,536	36,414,405
Liabilities	(20,872,329)	(18,295,156)
Total	12,424,206	18,119,249

d. Sensitivity to changes in CPI

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

	30.9.2022		31.12.2021	
	-1%	1%	-1%	1%
Government bonds	(83,930)	83,930	(97,037)	97,037
Other fixed income securities	(54,508)	54,508	(87,163)	87,163
Loans to customers	(100,968)	100,968	(81,424)	81,424
Derivatives	(93,560)	93,560	(98,520)	98,520
Short positions	18,395	(18,395)	8,476	(8,476)
Deposits	71,700	(71,700)	58,158	(58,158)
Issued bonds	108,517	(108,517)	88,317	(88,317)
Subordinated liabilities	10,111	(10,111)	28,000	(28,000)
	(124,242)	124,242	(181,192)	181,192

The effect on equity would be the same.

55. Currency risk

a. Definition

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

b. Management

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

The Group is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 30 September 2022 and 31 December 2021 the Group's position in foreign currencies was within those limits.

c. Exchange rates

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

	Closing 30.9.2022	Average 9m 2022	Closing 31.12.2021	Average 9m 2021
EUR/ISK	140.9	140.9	147.6	150.7
USD/ISK	144.6	132.5	130.4	126.0
GBP/ISK	159.4	166.4	175.7	174.5

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

55. Currency risk (cont.)

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

30.9.2022

Financial assets	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Cash and balances with Central Bank	3,755,706	657,341	2,968,097	486,131	652,755	8,520,029
Fixed income securities	1,408,828	2,321,001	2,620,509			6,350,338
Shares and other variable income securities	23,588	1,840,804	969,158	27,230	63,882	2,924,662
Securities used for hedging	285,851	260,698	756		128,387	675,692
Loans to customers	1,382,072		25,726,036		85,452	27,193,560
Intangible assets			2,514,850			2,514,850
Other assets	1,810,188	2,162,167	893,211		110,499	4,976,064
Financial assets excluding derivatives	8,666,233	7,242,010	35,692,617	513,361	1,040,974	53,155,195
Derivatives	22,934,125	8,777,168	1,914,356	6,511,216	357,145	40,494,010
Total	31,600,357	16,019,178	37,606,974	7,024,578	1,398,119	93,649,206

Financial liabilities	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Deposits	4,080,903	8,564,226	1,408,892	440,909	393,034	14,887,964
Borrowings	112,293	730,162	15,347,728			16,190,183
Issued bonds	1,203,453		3,751,580	6,511,216		11,466,249
Technical provision	152,672	150,995	1,174	3,744	148,089	456,674
Other liabilities	2,800,386	825,746	1,506,956	115,888	301,069	5,550,045
Financial liabilities excluding derivatives	8,349,707	10,271,129	22,016,330	7,071,757	842,193	48,551,116
Derivatives	23,636,384	5,491,425	13,781,442		403,764	43,313,016
Total	31,986,091	15,762,554	35,797,773	7,071,757	1,245,957	91,864,132

Net currency position	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Financial assets	31,600,357	16,019,178	37,606,974	7,024,578	1,398,119	93,649,206
Financial liabilities	(31,986,091)	(15,762,554)	(35,797,773)	(7,071,757)	(1,245,957)	(91,864,132)
Financial guarantee contracts	111,198					111,198
Total	(274,536)	256,624	1,809,201	(47,179)	152,162	1,896,272

31.12.2021

Financial assets	**EUR**	**USD**	**GBP**	**DKK**	**Other currencies**	**Total**
Cash and balances with Central Bank	2,277,825	5,680,299	3,146,054	1,241,355	340,352	12,685,883
Fixed income securities	739,569	1,825,272	247,114			2,811,955
Shares and other variable income securities	1,670	1,907,258	2,368,725	834	101,149	4,379,636
Securities used for hedging	560,656	32,740	1,563		200,745	795,704
Loans to customers	1,432,801	64,955	1,886,376	23,274	132,863	3,540,269
Other assets	285,729	59,975	33,389	50,984	33,663	463,739
Financial assets excluding derivatives	5,298,251	9,570,499	7,683,221	1,316,446	808,771	24,677,187
Derivatives	3,764,406	491,375	422,187		19,266	4,697,234
Total	9,062,656	10,061,875	8,105,408	1,316,446	828,037	29,374,421

Financial liabilities	**EUR**	**USD**	**GBP**	**DKK**	**Other currencies**	**Total**
Deposits	3,330,163	7,437,554	1,320,108	1,201,927	246,671	13,536,423
Borrowings	43,260	652,726				695,986
Issued bonds			4,124,798			4,124,798
Technical provision	88,442	133,707	1,298	32,113	82,004	337,563
Other liabilities	383,973	96,248	49,046	1,754	98,030	629,052
Financial liabilities excluding derivatives	3,845,838	8,320,236	5,495,250	1,235,793	426,705	19,323,822
Derivatives	5,657,882	1,172,600	2,135,377			8,965,859
Total	9,503,721	9,492,836	7,630,627	1,235,793	426,705	28,289,682

Net currency position	**EUR**	**USD**	**GBP**	**DKK**	**Other currencies**	**Total**
Financial assets	9,062,656	10,061,875	8,105,408	1,316,446	828,037	29,374,421
Financial liabilities	(9,503,721)	(9,492,836)	(7,630,627)	(1,235,793)	(426,705)	(28,289,682)
Financial guarantee contracts	116,486					116,486
Total	(324,579)	569,039	474,781	80,652	401,332	1,201,226

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

55. 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 Consolidated Income Statement or equity.

	30.9.2022		31.12.2021	
Assets and liabilities denominated in foreign currencies	**-10%**	**+10%**	**-10%**	**+10%**
EUR	(27,454)	27,454	(32,458)	32,458
USD	25,662	(25,662)	56,904	(56,904)
GBP	180,920	(180,920)	47,478	(47,478)
SEK	(4,718)	4,718	(7,631)	7,631
DKK	6,090	(6,090)	8,065	(8,065)
Other currencies	9,126	(9,126)	47,764	(47,764)
Total	189,627	(189,627)	120,123	(120,123)

56. Equity risk

a. Definition

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

b. Sesitivity analysis of equity risk

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

	30.9.2022		31.12.2021	
	-10%	**+10%**	**-10%**	**+10%**
Listed shares	(547,930)	547,930	(552,391)	552,391
Unlisted shares	(666,833)	666,833	(890,709)	890,709
Unlisted unit shares in funds	(684,442)	684,442	(825,229)	825,229
Total	(1,899,204)	1,899,204	(2,268,329)	2,268,329

57. Operational risk

a. Definition

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

b. Management

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Financial assets and financial liabilities

58. Accounting classification of financial assets and financial liabilities

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

30.9.2022 **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	23,802,444			23,802,444
Fixed income securities		48,922,137	11,272,426	60,194,563
Shares and other variable income securities			18,992,044	18,992,044
Securities used for hedging			21,524,837	21,524,837
Loans to customers	101,756,267		1,748,929	103,505,196
Derivatives			5,127,959	5,127,959
Other assets	24,109,169			24,109,169
Total	149,667,880	48,922,137	58,666,195	257,256,212

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	107,521,738			107,521,738
Borrowings	24,427,008			24,427,008
Issued bonds	36,392,657			36,392,657
Subordinated liabilities	3,663,678			3,663,678
Short positions held for trading			1,933,041	1,933,041
Short positions used for hedging			294,895	294,895
Derivatives			1,730,682	1,730,682
Other liabilities	14,684,165		409,267	15,093,432
Total	186,689,246	0	4,367,885	191,057,131

31.12.2021 **Financial assets**	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Cash and balances with Central Bank	38,645,894			38,645,894
Fixed income securities		21,303,362	18,743,288	40,046,651
Shares and other variable income securities			22,683,295	22,683,295
Securities used for hedging			22,085,696	22,085,696
Loans to customers	69,063,377		2,524,269	71,587,646
Derivatives			2,734,216	2,734,216
Other assets	10,012,351		30,202	10,042,553
Total	117,721,622	21,303,362	68,800,966	207,825,950

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	78,669,807			78,669,807
Borrowings	17,261,048			17,261,048
Issued bonds	32,597,716			32,597,716
Subordinated liabilities	3,371,766			3,371,766
Short positions held for trading			1,323,631	1,323,631
Short positions used for hedging			1,280,868	1,280,868
Derivatives			3,008,401	3,008,401
Other liabilities	6,194,021		483,486	6,677,507
Total	138,094,357	0	6,096,387	144,190,744

Notes to the Condensed Interim Consolidated Financial Statements

59. 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 Group 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 Group'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 Credit 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 respective departments under supervision from Risk. The valuations are 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 Condensed Interim Consolidated Financial Statements

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:

30.9.2022

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	5,735,304	4,938,377	598,745	11,272,426
Shares and other variable income securities	9,025,888	3,361,475	6,604,681	18,992,044
Securities used for hedging	21,524,837			21,524,837
Loans to customers			1,748,929	1,748,929
Derivatives		5,127,959		5,127,959
Other assets				0
Measured at fair value through other comprehensive income				
Fixed income securities	48,922,137			48,922,137
Total	85,208,165	13,427,812	8,952,355	107,588,332

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	1,933,041			1,933,041
Short positions used for hedging	294,895			294,895
Derivatives		1,085,164	645,518	1,730,682
Other liabilities			409,267	409,267
Total	2,227,936	1,085,164	1,054,785	4,367,885

Shares and other variable income securities amounting to ISK 692 million were reclassified from Level 3 following the acquisition of a majority shareholding in Ortus Secured Finance ltd. during the period in 2022.

31.12.2021

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	13,186,221	4,762,529	794,538	18,743,288
Shares and other variable income securities	10,222,396	4,077,480	8,383,419	22,683,295
Securities used for hedging	22,085,696			22,085,696
Loans to customers			2,524,269	2,524,269
Derivatives		2,734,216		2,734,216
Other assets			30,202	30,202
Measured at fair value through other comprehensive income				
Fixed income securities	21,303,362			21,303,362
Total	66,797,675	11,574,225	11,732,428	90,104,329

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	1,323,631			1,323,631
Short positions used for hedging	1,280,868			1,280,868
Derivatives		3,008,401		3,008,401
Other liabilities			483,486	483,486
Total	2,604,499	3,008,401	483,486	6,096,387

Transfers of fixed income securities and transfer of shares and other variable income securities from Level 1 to level 3 amounted to ISK 247 million and ISK 735 million, respectively, during the year 2021.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

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

f. Reconciliation of changes in Level 3 fair value measurements

30.9.2022	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Derivatives	Other liabilities	Total
Balance as at 1 January 2022	794,538	8,383,419	2,524,269	30,202	0	(483,486)	11,248,942
Total gains and losses in profit or loss	(50,319)	1,207,727	124,739	1,939	41,663	(23,083)	1,302,667
Additions	581,656	594,530	245,626		(687,181)		734,630
Repayments	0	0	(1,145,706)	(29,480)		97,302	(1,077,884)
Disposals	(864,483)	(2,751,862)		(2,661)			(3,619,006)
Reclassifacation	137,353	(137,353)					0
Transfers in (out) of Level 3		(691,779)					(691,779)
Balance as at 30 September 2022	598,745	6,604,681	1,748,929	0	(645,518)	(409,267)	7,897,570

31.12.2021	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Derivatives	Other liabilities	Total
Balance as at 1 January 2021	200,799	2,281,174	2,743,851	327,210	0	(386,001)	5,167,034
Total gains and losses in profit or loss	(361,080)	1,570,435	185,667			(97,548)	1,297,473
Additions through a business combination	290,553	4,357,464	0			0	4,648,017
Additions	417,151	698,907	1,889,964	0			3,006,022
Repayments		0	(2,295,212)	(297,008)		63	(2,592,157)
Disposals		(1,259,488)					(1,259,488)
Transfers in (out) Level 3	247,114	734,927					982,041
Balance as at 31 December 2021	794,538	8,383,419	2,524,269	30,202	0	(483,486)	11,248,942

g. Fair value measurements for Level 3 financial assets

Level 3 assets consist primarily of 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:

Asset class	Method	Significant unobservable input	Range	Book value 30.9.2022
Unlisted bonds	Expected recovery	Value of assets	0-95%	598,745
Unlisted variable income securities	Market price	Recent trades	-	6,604,681
Loans to customers	Expert model	Value of assets and collateral	-	1,748,929
Receivables at fair value	Expert model	Information on turnover	-	
Total				8,952,355

Asset class	Method	Significant unobservable input	Range	Book value 31.12.2021
Unlisted bonds	Expected recovery	Value of assets	0-95%	794,538
Unlisted variable income securities	Market price	Recent trades	-	8,383,419
Loan to customers	Expert model	Value of assets and collateral	-	2,524,269
Receivables at fair value	Expert model	Information on turnover	-	30,202
Total				11,732,428

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.

h. 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%
Fixed income securities	59,875	(59,875)
Shares and other variable income securities	660,468	(660,468)
Loans to customers	174,893	(174,893)
Receivables at fair value	0	0
Total	895,235	(895,235)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Other information

60. Pledged assets

30.9.2022	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
Cash and balances with Central Bank	0	164,834	0	164,834
Fixed income securities	4,160,051	1,366,756	0	5,526,808
Loans to customers	15,821,010	0	2,974,644	18,795,654
Other assets	0	236,759	0	236,759
Total	19,981,061	1,768,350	2,974,644	24,724,055

31.12.2021	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
Cash and balances with Central Bank	1	2,126,209	1,409	2,127,620
Fixed income securities	4,088,885	1,454,453	0	5,543,338
Loans to customers	6,498,490	0	9,372,337	15,870,827
Other assets	0	46,704	0	46,704
Total	10,587,377	3,627,366	9,373,746	23,588,489

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. Cash pledged to secure the borrowing of securities from other counterparties than the Central Bank of Iceland is classified as other assets. Furthermore, the Group has pledged loans to customers as collateral against asset backed bonds that it has issued.

61. Related parties

a. Definition of related parties
The Group has a related party relationship with the board members of the Bank, the CEO of the Bank and key employees (together referred to as management), associates as disclosed in note 24, 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. Balances with related parties

30.9.2022	Assets	Liabilities
Management	1,775	119,057
Associates	0	1,642
Total	1,775	120,699

31.12.2021	Assets	Liabilities
Management	0	128,067
Associates	0	0
Total	0	128,067

d. Transactions with related parties

9m 2022	Interest income	Interest expense	Other income	Other expense
Management	0	242	888	618
Associates	0	0	0	56,440
Total	0	242	888	57,059

9m 2021	Interest income	Interest expense	Other income	Other expense
Management	34	37	0	1,962
Associates	0	0	0	0
Total	34	37	0	1,962

Notes to the Condensed Interim Consolidated Financial Statements

62. Other matters

Acquisition of a merchant agreements

In May 2022, it was announced that the Group had signed an asset purchase agreement stating that Group will acquire part of Valitor hf.'s merchant agreements. According to the agreement it is envisaged that the Group will become a Payment Facilitator and will, in the coming months, acquire agreements with the relevant merchants according to provisions of the agreement, which from that point will become customers of the Group. The Group will capitalize the merchant agreements concurrent to the handover of the agreements to the Group. The Group expects that the handover will take place in steps during the first half of 2023. The purchase price for the merchant agreements is based on turnover over a certain point in time. The Group will utilise judgement when estimating the purchase price of the agreements, and record subsequent fair value adjustments of the contingent consideration in the Consolidated Income Statement.

63. Events after the reporting date

Results of a Supervisory Review and Evaluation Process of Kvika‘s capital requirement

In October 2022, Kvika was notified of the draft results of the Supervisory Review and Evaluation Process (SREP) carried out by the Financial Supervisory Authority of the Central Bank of Iceland on the assessment of the risk in Kvika’s operations and capital requirements. Kvika has not objected to the results regarding capital requirements and therefore considers them final. Key conclusions of the assessment are that Kvika‘s total capital requirement, taking into account all capital buffers, will decrease from the current 22.6% to 17.7%, a 4.9% decrease from Kvika‘s last assessment which was completed in 2019. The decrease is mostly caused by the fact that the minimum capital requirement (Pillar 1 and 2) will amount to 11.5% of risk weighted exposures at any given time instead of 15.1%.