Condensed Interim
Consolidated Financial Statements
30 September 2023

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

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Kvika highlights

30.09.2023

Kvika

Kvika offers diversified financial and insurance services through five business segments: Commercial Banking, Corporate Banking & Capital Markets, Insurance, Asset Management and UK operations. The business segments Insurance, Asset Management and UK are operated in the subsidiaries TM tryggingar hf., Kvika eignastýring hf. and Kvika Securities Ltd.

Kvika's purpose is to increase competition and simplify customers' finances by utilizing its infrastructure and financial strength. Kvika's vision is to transform financial services in Iceland with mutual benefits in mind. On that journey, Kvika is guided by its values that contribute to the development of robust business relationships, long-term results, and active innovation.

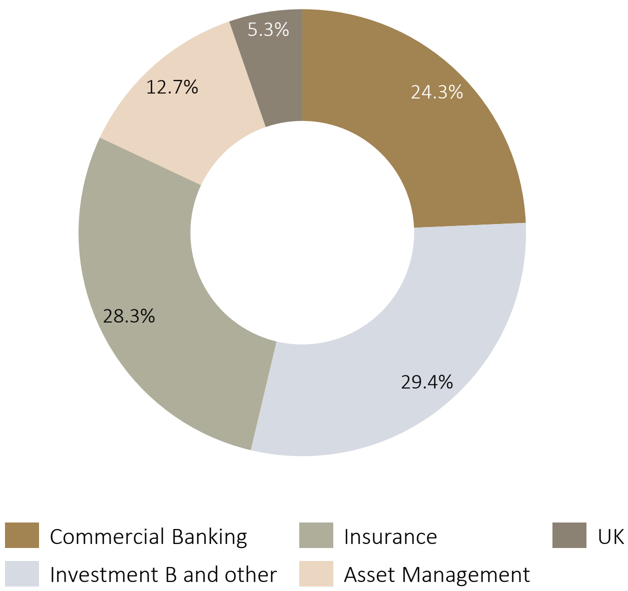
Kvika has grown considerably in recent years, both through M&A activity as well as through organic growth in all operating segments.

Key figures

ISK m.	9M 2023*	9M 2022*
Net operating income	15,203	13,694
Profit before taxes	3,742	4,007
RoTE	11.5%	12.3%
	30.09.2023	**31.12.2022***
Total Assets	328,275	299,670
Loans to customers	123,721	107,139
Deposits	129,016	112,245
LCR	301%	320%
NSFR	145%	140%
Group Solvency	1.24	1.36

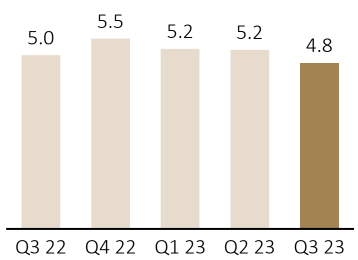
Diversified operations

Revenues by segment / 9M 2023



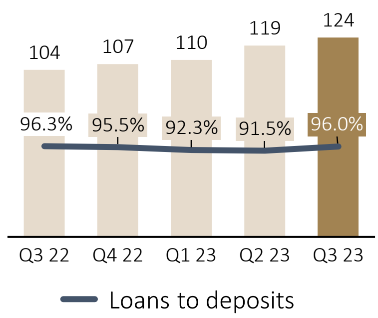
Net operating income*

ISK bn.



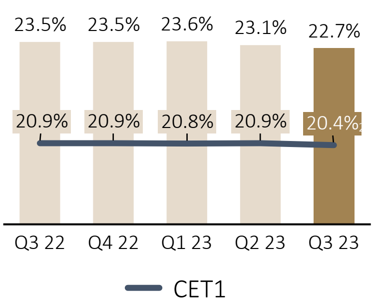
Loans to customers

ISK bn.



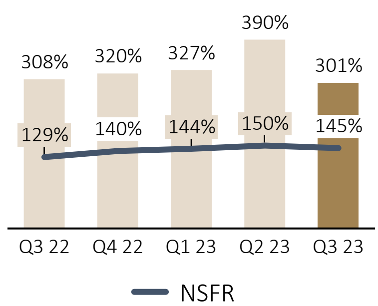
Total capital ratio

(%)



LCR ratio

(%)



Exemplary

Corporate Governance

86/100

Reitun ESG score

Reitun

Baa2/Prime-2

Stable

Moody's

**Adoption of IFRS17 results in changed presentation of insurance income. In the key figures in the table, net operating income is presented excluding insurance service administrative expenses as previously. Comparative information has been restated, see note 3 in the Condensed Interim Consolidated Financial Statements 30 Sept 2023*

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 2023. The Condensed Interim Consolidated Financial Statements have not been audited or reviewed by the Bank's independent auditors.

About the Bank

Kvika's core values are long-term thinking, simplicity, and courage. The Group fosters long-term customer relationships by providing high-quality and efficient financial services in core areas.

Kvika has grown significantly in recent years and operates under several brands. Apart from Kvika, the main brands are TM, Kvika Asset Management, Lykill, Auður, Netgíró, Aur and Ortus Secured Finance. Kvika's subsidiary, Straumur, has now migrated its whole merchant portfolio from Rapyd and has, therefore, around 25% market share in the Icelandic acquiring market. The establishment of Straumur is an exciting addition to Kvika's operations. Straumur offers all the main solutions for payment processing, including in-store and web solutions, and will introduce innovations in the payment processing market in the near to medium term. Launched as a mobile bank in August, our retail banking brand AUR now offers consumer banking services, including current accounts, credit cards, and loyalty services to its 125,000 users, of which 16,500 customers have already opted for a new current account and a Visa debit or credit card.

The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services, asset management services, and selected banking services. At the end of September 2023, the Group had ISK 449 billion of assets under management, compared to ISK 462 billion at year-end 2022. The Bank is listed on the main list of Nasdaq OMX Iceland.

Operations during the first nine months of 2023

Profit before taxes for the period amounted to ISK 3,742 million (9m 2022: ISK 4,007 million), corresponding to an annualised 11.5% 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 Group's net operating income during the period was ISK 12,403 million (9m 2022: ISK 11,136 million). Net interest income amounted to ISK 6,469 million (9m 2022: ISK 5,764 million). Net fee income amounted to ISK 4,423 million (9m 2022: ISK 4,905 million). Insurance service results amounted to ISK 873 million (9m 2022: ISK 549 million). Other operating income amounted to ISK 639 million (9m 2022: negative ISK 83 million). Administrative expenses during the period amounted to ISK 8,471 million (9m 2022: ISK 6,934 million). During the period, the Group had a net impairment charge of ISK 193 million (9m 2022: ISK 171 million). The Group initially adopted IFRS 17 on 1 January 2023. Reference is made to note 3 for information on the impact of the standard on the Consolidated Financial Statements.

The figures in the consolidated income statement for the period in 2022 do not include the operations of Ortus Secured Finance Ltd. ("Ortus") for January and February 2022, as the business combination took place at the end of February. Reference is made to the Consolidated Financial Statements for 2022 for further information on the business combination.

Financial position

According to the Consolidated Statement of Financial Position, equity at the end of the period amounted to ISK 79,783 million (31.12.2022: ISK 81,089 million), and total assets amounted to ISK 328,273 million (31.12.2022: ISK 299,670 million).

The Group's statement of financial position grew by ISK 28 billion or 9.5% in the period in 2023. Loans to customers grew by ISK 16.6 billion or 15.5% during the period. Liquid assets amounted to ISK 141 billion at the end of the period in 2023, or 43% of total assets.

Change of CEO

On 20 August 2023, the Bank announced that the Board of Directors ("BOD") of Kvika and Marinó Örn Tryggvason had reached an agreement on the terms of the CEO's retirement. The CEO initiated discussions regarding retirement. The retirement became effective on the aforementioned date. The BOD of Kvika has engaged Ármann Þorvaldsson as the Bank's CEO, effective as of that same date. Ármann previously held the position of CEO of Kvika in 2017-2019 and was deputy CEO between 2019-2022.

TM Insurance to be sold or listed

In early October 2023, the Bank announced that following a strategic review at Kvika, the BOD has decided to initiate a process for selling or listing of its insurance subsidiary TM tryggingar hf. ("TM"). The decision is in line with the Bank's vision, where emphasis is placed on simplifying the Group's operations and strengthening Kvika's traditional banking activities, in accordance with the Bank's goal to increase competition and simplify its customers' finances. Following the divestment of TM, Kvika's main operations will be focused on commercial- and investment banking, along with asset management. Kvika's capital base is expected to grow significantly following TM's divestment, enabling the Bank to pursue internal growth opportunities across Kvika's business segments. Increased capital will, among other things, enable the Bank to strengthen its market position, in both retail and corporate lending, and increase the risk diversification of its loan book. Furthermore, it is expected that a considerable part of the sales proceeds will be paid to shareholders in the form of dividends and/or buyback of own shares.

Endorsement and Statement
by the Board of Directors and the CEO

Capital adequacy and dividends

Kvika's total capital requirement at 30.09.2023, taking into account all capital buffers, amounted to 18.7%. Kvika's capital adequacy ratio was 22.7% at the end of September 2023 (31.12.2022: 23.5%). Kvika's CET1 requirement was 13.5% compared to a CET1 ratio of 20.4% at the end of September 2023.

The Group's solvency ratio at 30.09.2023 was 1.24 (31.12.2022: 1.36) with a regulatory minimum requirement of 1.0.

The Bank's 2023 Annual General Meeting ("AGM") approved a motion from the 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 2024. In June, the BOD decided to exercise a part of that authorisation and established a buy-back programme to carry out the purchase of shares for a total consideration amount of ISK 1 billion but for no higher nominal amount than 60,000,000 shares. In September 2023, the Bank announced that the buy-back programme had been completed, as shares for ISK 1 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 147,871,265 shares by cancelling treasury shares held by the Bank. Furthermore, the AGM also approved a motion from the BOD to pay a dividend to shareholders of 0.4 ISK per share or ISK 1,912 million, taking into account treasury shares held by the Group. In April 2023, the share capital reduction and the dividend payment were carried out.

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 faces various risks associated with its operations as a financial conglomerate that arise from its day-to-day operations. 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 main operations are described in the notes accompanying the Consolidated Financial Statements. Refer to notes 41-57 on the 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 2023 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 2023 and the financial performance of the Group and changes of cash flows for the period 1 January to 30 September 2023. 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 2023 and confirmed them by the means of their signatures.

Reykjavík, 2 November 2023.

Board of Directors

Sigurður Hannesson, Chairman

Guðmundur Þórðarson, Deputy Chairman

Helga Kristín Auðunsdóttir

Ingunn Svala Leifsdóttir

Guðjón Reynisson

Chief Executive Officer

Ármann Þorvaldsson

The Condensed Interim Consolidated Financial Statements of Kvika banki hf. for the period ended 30 September 2023 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 2023 to 30 September 2023

	Notes	9m 2023	9m 2022 *
Interest income		17,018,338	10,915,382
Interest expense		(10,549,727)	(5,151,090)
Net interest income	5	6,468,611	5,764,292
Fee and commission income		4,847,612	5,248,161
Fee and commission expense		(424,810)	(343,227)
Net fee and commission income	6	4,422,802	4,904,935
Insurance revenue		14,505,033	13,060,100
Incurred claims and net expense from reinsurance contract held		(10,831,511)	(9,952,799)
Administrative expenses related to insurance service	10	(2,800,543)	(2,558,022)
Insurance service results	7	872,979	549,279
Net financial income (expense)	8	169,616	(659,623)
Share in profit of associates, net of income tax	24	17,522	0
Other operating income		451,566	577,001
Other net operating income (expense)		638,704	(82,622)
Net operating income		12,403,096	11,135,883
Administrative expenses	10	(8,470,942)	(6,934,168)
Net impairment	12	(192,670)	(171,180)
Revaluation of contingent consideration		2,665	(23,083)
Profit before taxes		3,742,149	4,007,453
Income tax	13	(1,010,001)	(467,492)
Special tax on financial activity	14	(114,944)	(211,113)
Special tax on financial institutions	15	(161,426)	(126,676)
Profit for the period		2,455,778	3,202,172

	Notes	9m 2023	9m 2022
Attributable to the shareholders of Kvika banki hf.		2,436,828	3,171,216
Attributable to non-controlling interest	23	18,950	30,957
Profit for the period		2,455,778	3,202,172
Earnings per share	16		
Basic earnings per share (ISK per share)		0.51	0.66
Diluted earnings per share (ISK per share)		0.51	0.66

** Comparative information has been restated, reference is made to note 3 for further information.*

The notes on pages 11 to 49 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 2023 to 30 September 2023

	Notes	9m 2023	9m 2022
Profit for the period		2,455,778	3,202,172
Changes in fair value of financial assets through OCI, net of tax		(936,665)	(619,990)
Realized net loss transferred to the Income Statement, net of tax		48,468	73,008
Changes to reserve for financial assets at fair value through OCI		(888,197)	(546,981)
Exchange difference on translation of foreign operations		(19,551)	(321,031)
Other comphrehensive income that is or may be reclassified subsequently to profit and loss		(907,749)	(868,013)
Total comprehensive income for the period		1,548,029	2,334,160

	Notes	9m 2023	9m 2022
Attributable to the shareholders of Kvika banki hf.		1,529,079	2,303,203
Attributable to non-controlling interest		18,950	30,957
Total comprehensive income for the period		1,548,029	2,334,160

The notes on pages 11 to 49 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 2023

Assets	Notes	30.9.2023	31.12.2022*
Cash and balances with Central Bank	17	36,866,605	36,670,586
Fixed income securities	18	74,992,709	65,160,407
Shares and other variable income securities	19	19,316,557	19,410,508
Securities used for hedging	20	10,031,978	13,841,853
Loans to customers	21	123,720,513	107,139,227
Derivatives	22	3,814,398	4,940,738
Investment in associates	24	88,462	88,988
Investment properties	25	1,165,398	1,165,398
Intangible assets	26	34,545,578	34,079,900
Operating lease assets	27	626,857	884,222
Property and equipment		663,399	480,706
Deferred tax assets	13	2,803,166	3,232,933
Reinsurance contract assets	30	688,271	691,239
Other assets	28	18,948,871	11,883,489
Total assets		328,272,761	299,670,195

Liabilities	Notes	30.9.2023	31.12.2022*
Deposits	29	129,012,762	112,245,198
Insurance contract liabilities	30, 48	23,315,263	21,101,090
Borrowings	31	23,529,638	28,120,009
Issued bonds	32	42,740,207	38,103,414
Subordinated liabilities	33	3,946,067	3,686,451
Short positions held for trading	34	944,504	1,486,107
Short positions used for hedging	35	0	1,343,186
Derivatives	22	1,544,345	1,609,537
Current tax liabilities		205,244	203,214
Deferred tax liabilities		965,199	944,274
Other liabilities	36	22,287,009	9,738,535
Total liabilities		248,490,238	218,581,015

Equity	Notes	30.9.2023	31.12.2022*
Share capital	37	4,722,073	4,781,026
Share premium		47,661,777	48,602,825
Other reserves		2,450,665	3,068,159
Retained earnings		24,851,773	24,559,886
Total equity attributable to the shareholders of Kvika banki hf.		79,686,288	81,011,895
Non-controlling interest	23	96,235	77,285
Total equity		79,782,523	81,089,180
Total liabilities and equity		328,272,761	299,670,195

** Comparative information has been restated, reference is made to note 3 for further information.*

The notes on pages 11 to 49 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 2023 to 30 September 2023

				Other reserves									
1 January 2023 to 30 September 2023	**Notes**	**Share capital**	**Share premium**	**Option reserve**	**Warrants reserve**	**Deficit reduction reserve**	**Fair value reserve**	**Trans-lation reserve**	**Restricted retained earnings**	**Retained earnings**	**Total share-holders' equity**	**Non-controlling interest**	**Total equity**
Equity as at 1 January 2023		4,781,026	48,602,825	155,951	0	1,203,697	(574,319)	57,338	2,225,492	24,559,886	81,011,895	77,285	81,089,180
Profit for the period										2,436,828	2,436,828	18,950	2,455,778
Changes in fair value of financial assets through OCI							(936,665)				(936,665)		(936,665)
Realized net loss transferred to the Income Statement							48,468				48,468		48,468
Translation of foreign operations													
Exchange difference on translation of foreign operations								(19,551)			(19,551)	0	(19,551)
Total comprehensive income for the period		0	0	0	0	0	(888,197)	(19,551)	0	2,436,828	1,529,079	18,950	1,548,029
Restricted due to subsidiaries and associates									105,646	(105,646)	0		0
Restricted due to development costs									126,885	(126,885)	0		0
Transactions with owners of the Bank													
Treasury shares acquired as part of a buy-back programme ..		(58,952)	(941,048)								(1,000,000)		(1,000,000)
Dividend paid to shareholders										(1,912,410)	(1,912,410)		(1,912,410)
Stock options				57,725							57,725		57,725
Equity as at 30 September 2023		4,722,073	47,661,777	213,676	0	1,203,697	(1,462,516)	37,786	2,458,022	24,851,773	79,686,288	96,235	79,782,523

The notes on pages 11 to 49 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

				Other reserves									
1 January 2022 to 30 September 2022	Notes	Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Fair value reserve	Trans-lation reserve	Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
Equity as at 1 January 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
Impact of adopting IFRS 17	3									(101,285)	(101,285)		(101,285)
Restated opening balance under IFRS 17		4,790,139	50,316,002	4,430	56,468	3,103,697	(74,823)	66,109	6,457,912	13,595,460	78,315,393	(49,058)	78,266,335
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 loss 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 due to subsidiaries and associates									(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		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			46,863		(46,863)						0		0
Other transactions													
Acquisition of non-controlling interest via merger										(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	23,309,362	78,663,416	77,805	78,741,221

The notes on pages 11 to 49 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 2023 to 30 September 2023

Cash flows from operating activities	Notes	9m 2023	9m 2022 *
Profit for the period		2,455,778	3,202,172
Adjustments for:			
Indexation and exchange rate difference		393,088	1,443,889
Share in profit of associates, net of income tax		(17,522)	0
Depreciation and amortisation		1,231,251	1,031,658
Net interest income		(6,468,611)	(5,764,292)
Net impairment		192,670	171,180
Income tax		1,286,371	467,492
Other adjustments		57,725	(239,585)
		(869,250)	312,514
Changes in:			
Fixed income securities		(10,942,549)	(20,694,894)
Shares and other variable income securities		39,519	2,512,028
Securities used for hedging		3,809,875	560,859
Loans to customers		(15,640,377)	(19,235,221)
Derivatives - assets		1,126,340	(2,393,743)
Operating lease assets		132,824	336,993
Other assets		(7,192,594)	(10,222,322)
Deposits		15,230,428	27,222,687
Insurance contract liabilities		2,214,173	1,133,319
Short positions		(1,884,789)	(376,563)
Derivatives - liabilities		(19,370)	(1,930,768)
Other liabilities		12,530,245	7,215,036
		(596,275)	(15,872,588)
Interest received		16,222,131	9,993,150
Interest paid		(8,902,988)	(4,108,143)
Income tax paid		(284,653)	0
Net cash from (to) operating activities		5,568,965	(9,675,067)
Cash flows from investing activities			
Acquisition of intangible assets	26	(1,294,849)	(454,531)
Net acquisition of property and equipment		(272,605)	(124,548)
Dividend from associates		13,701	6,087
Acquisition of subsidiary and associates, net of cash		0	(318,994)
Lease receivable payments		2,386	0
Net cash to investing activities		(1,551,367)	(891,986)
Cash flows from financing activities			
Borrowings		(11,538,605)	(5,236,573)
Issued bonds		10,821,525	3,794,941
Increase in share capital and share premium		0	1,069,827
Aquired own shares		(1,000,000)	(3,003,998)
Dividend paid to shareholders		(1,912,410)	0
Repayment of lease liabilities		(397,669)	(282,782)
Net cash to financing activities		(4,027,160)	(3,658,585)
Net change in cash and balances with Central Bank		(9,561)	(14,225,638)
Cash and balances with Central Bank at the beginning of the year		36,670,586	38,645,894
Effects of exchange rate fluctuations on cash and balances with Central Bank		205,580	(617,813)
Cash and balances with Central Bank at the end of the period	17	36,866,605	23,802,444

** Comparative information has been restated, reference is made to note 3 for further information.*

The notes on pages 11 to 49 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 2023 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). As disclosed in December 2022, and discussed in the Consolidated Financial Statements for 2022, changes were made to the Group's operating segments which took effect on 1 January 2023. The Group operates five business segments, Asset Management, Corporate Banking, Insurance Services, Corporate Banking and Capital Markets and UK operations. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services, asset management services, and selected banking services.

The Condensed Interim Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 2 November 2023.

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 Statement, and should be read in conjunction with the Group's Consolidated Financial Statements for the financial year ending 31 December 2022, 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
- insurance contract liabilities are measured in accordance with IFRS 17.

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 2023.

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 results 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 2022.

f. Relevance and importance of notes to the reader

In order to enhance the informational value of the 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 nor relevant for the reader, not being presented in the notes.

Notes to the Condensed Interim Consolidated Financial Statements

3. Changes in accounting policies

On 1 January 2023 the Group adopted IFRS 17 and hedge accounting according to IFRS 9 and IAS 39. The sections below explain in further details the change for both adoptions.

Hedge accounting
The Group adopted hedge accounting according to IAS 39, in line with exemption from IFRS 9. The purpose of the hedge accounting is to hedge against exchange difference on translation of foreign operations. Derivatives are used as a hedging instrument against translation of foreign operations in equity.

The Group documents the relationship between the hedge instrument and hedged item on initial recognition. An efficiency test is performed according to IAS 39 to determine if the hedge relationship is effective. The results of the efficiency test must be in the range of 80-125% to be considered effective.

If the hedge relationship does not meet the above criteria due to inefficiency, the foreign currency exchange difference is recognised in the consolidated income statement instead of equity. If the derivative instrument is sold, expires, terminated or exercised in the period that the hedge relationship is in place, the hedge relationship becomes ineffective and hedge accounting is ceased.

IFRS 17, Insurance contracts
The Group has initially applied IFRS 17, including any consequential amendments to other standards, from 1 January 2023, replacing IFRS 4 Insurance contracts. This standard has brought changes to the accounting for insurance and reinsurance contracts. As a result, the Group has restated certain comparative amounts.

The nature and effects of the key changes in the Group's accounting policies resulting from its adoption of IFRS 17 is summarised below.

Recognition, measurement and presentation of insurance contracts
IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk.

Under IFRS 17, insurance revenue in each reporting period represents the changes in the liabilities for remaining coverage that relate to services for which the Group expects to receive consideration and an allocation of premiums that relate to recovering insurance acquisition cash flows. In addition, investment components are no longer included in insurance revenue and insurance service expenses.

As the Group insurance service is mainly based on non-life insurance and term life, which is relatively short-tailed, the Group applies the premium allocation approach (PAA) to simplify the measurement of contracts. The PAA is similar to previous accounting apart from liability arising from premiums, which is now only due to prepaid premiums and will be denoted as liability for remaining coverage. Liability for incurred claims is based on the best estimate of incurred claims as before in addition to a liability due to premium discounts and unpaid operational expenses allocated to insurance. Risk adjustment replaces the previous risk margin in IFRS 4 and represents the uncertainty about the amount and timing of cash flow from incurred but unpaid insurance expenses. The Group will maintain a confidence level of around 75% on the best estimate of claims incurred. Insurance contract liabilities under IFRS 17 consists of the liability of remaining coverage, liability of incurred claims and a risk adjustment. Reinsurance contract assets under IFRS 17 consists of reinsurance contract assets for remaining coverage (pre-paid reinsurance premium), amounts recoverable from reinsurers on incurred claims and the reinsurance share in the risk adjustment.
IFRS 17 introduces a different presentation of the income statement compared to IFRS 4. Insurance revenue is the amount recognised for insurance services in the period and is similar to the previous measurement of gross unearned premium except that discounts and rebates are now included in the insurance service expenses which includes both the claims' costs and operational expenses attributable to insurance operations. Insurance service expenses also includes acquisition costs, which are expensed as they occur, as well as premium discounts.
Net expenses from reinsurance contracts include reinsurance premiums, recoveries from reinsurance contracts and contractual rebates from reinsurers.

The insurance service result is the result of insurance revenue, insurance service expenses and net expenses from reinsurance contracts.

Transition
Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach. Under the full retrospective approach, at 1 January 2022 the Group:

- Identified, recognised and measured each group of insurance and reinsurance contracts as if IFRS 17 had always been applied;
- recognised any resulting net difference in equity. The carrying amount of goodwill from previous business combinations was not adjusted.

Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Effect on the statement of financial position

The largest change to the Group's statement of financial position is that instead of the current premium provision, which is a large part of the insurance provision, there is now only a liability equal to premiums received, i.e. liability for remaining coverage. The Group has decided to charge acquisition costs as they occur instead of amortising over the contract period. The provision only applies to premiums received and therefore no accounts receivables are formed on the asset side of the statement of financial position (a part of the Group's other assets) related to the premiums for the remaining period of the contracts. The effects of this are similar to the effects of subtracting accounts receivables for premiums from the current premium reserve.

Other changes include the inclusion of liability for unpaid operational expenses allocated to insurance in the liability of incurred claims and the evaluation of the Risk Adjustment, both gross and reinsurers share, which is different to the previous calculation of Risk Margin in IFRS4.

The table below shows the effect of implementation on the Consolidated Statement of Financial Position at 1 January 2022:

	31.12.2021 IFRS 4	Impact of IFRS 17	01.01.2022 IFRS 17
Assets:			
Reinsurance assets	749,383	(749,383)	0
Reinsurance contract assets	0	806,442	806,442
Other assets	10,042,553	(3,147,087)	6,895,466
All other assets	235,447,885	0	235,447,885
Total assets	246,239,821	(3,090,028)	243,149,793
Liabilities and Equity:			
Technical provisions	22,434,447	(22,434,447)	0
Insurance contract liabilities	0	19,597,840	19,597,840
Other liabilities	6,677,507	(152,135)	6,525,372
Retained earnings	13,696,745	(101,285)	13,595,460
All other liabilities and equity	203,431,121	0	203,431,121
Total liabilities and equity	246,239,821	(3,090,028)	243,149,793

Effect on the income statement

IFRS 17 for insurance contracts states that insurance service expense should include incurred claims and other incurred insurance service expenses which include overheads classified as operating cost in the Group's income statement. The Group presents insurance revenue in accordance with IFRS 17 in the consolidated income statement.

The below line items have been restated in the Condensed Interim Consolidated Income Statement:

	9m 2022 IFRS 4	Impact of IFRS 17	9m 2022 IFRS 17
Net premiums and claims	3,026,226	(3,026,226)	0
Insurance service results	0	549,279	549,279
Other operating income	658,076	(81,075)	577,001
Administrative expenses	(9,492,190)	2,558,022	(6,934,168)
All other line items on the consolidated income statement	9,010,060	0	9,010,060
Profit for the period	3,202,172	0	3,202,172

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

As disclosed in December 2022, and discussed in the Consolidated Financial Statements for 2022, changes were made to the Group's operating segments which took effect on 1 January 2023. The specialised financing operations of the Commercial Banking division, along with the Investment Banking division, now form a new revenue division, Corporate Banking and Capital Markets. During the period 1 January to 30 September 2023, the Group defined five reportable operating segments; Insurance, Asset Management, Commercial Banking, Corporate Banking and Capital Markets and UK operations. The figures for the period in 2023 reflect the operating segment structure that was in place during that 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 included 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. 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, as well as the payment facilitation operations of Straumur greiðslumiðlun hf.
- Corporate Banking and Capital Markets
  Corporate Banking & Capital Markets provide a range of professional services in the fields of specialised financing, securities and foreign exchange transactions and corporate finance services. 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.
  UK operations is the only geographic area outside of Iceland and for the period 2023 it accounts for 5.3% (9m 2022: 5.4%) of net operating income.

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 2023	Insurance	Asset Management	Commercial Banking	Corporate Banking & Capital Markets	UK operations	Supporting units	Total
Net interest income	778,972	7,554	2,492,250	2,822,182	409,785	(42,131)	6,468,611
Net fee and commission income	29,670	1,838,131	953,285	1,288,188	299,636	13,892	4,422,802
Insurance service, excl. administrative exp.	3,634,741	-	-	-	-	-	3,634,741
Net financial income (expense)	(283,386)	44,014	684	317,452	90,851	0	169,616
Share in profit of associates	(0)	198	17,323	-	1	-	17,522
Other operating income	141,274	35,294	237,617	(6,252)	-	82,414	490,347
Net operating income	4,301,270	1,925,191	3,701,160	4,421,570	800,272	54,174	15,203,639
Salaries and related expenses	(1,286,695)	(790,894)	(610,030)	(774,610)	(401,662)	(2,516,205)	(6,380,097)
Other operating expenses	(1,214,615)	(73,541)	(1,143,647)	(243,147)	(411,319)	(1,805,119)	(4,891,388)
Administrative expenses	(2,501,310)	(864,435)	(1,753,677)	(1,017,757)	(812,981)	(4,321,324)	(11,271,484)
Net impairment	8,001	-	(147,639)	(12,272)	(40,760)	-	(192,670)
Revaluation of contingent consideration	-	2,665	-	-	-	-	2,665
Cost allocation	(897,043)	(725,093)	(1,204,615)	(1,061,310)	(258,625)	4,146,686	-
Profit (loss) before tax	910,919	338,328	595,229	2,330,231	(312,094)	(120,464)	3,742,149
Net segment revenue from external customers	4,200,777	1,932,477	1,174,632	5,857,570	1,974,005	64,179	15,203,639
Net segment revenue from other segments	100,493	(7,286)	2,526,528	(1,435,999)	(1,173,732)	(10,004)	(0)

In its internal reporting, the Group presents the sum of insurance revenue, incurred claims and net expense from reinsurance contracts held as part of its net operating income, while administrative expenses related to insurance service are presented along with administrative expenses of other business segments.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

4. Business segments (cont.)

9m 2022 *	Insurance	Asset Management	Commercial Banking	Corporate Banking & Capital Markets	UK operations	Supporting units	Total
Net interest income	357,414	1,985	2,679,520	2,397,450	414,084	(86,161)	5,764,292
Net fee and commission income	(84)	2,405,791	706,368	1,493,552	265,255	34,052	4,904,935
Insurance service, excl. administrative exp.	3,026,226	-	-	-	-	-	3,026,226
Net financial income	(905,230)	40,002	(73,084)	223,866	54,650	172	(659,623)
Share in profit of associates	-	(2,275)	2,275	-	-	-	-
Other operating income	127,118	3,982	457,676	-	(823)	70,124	658,076
Net operating income	2,605,443	2,449,486	3,772,755	4,114,868	733,166	18,188	13,693,906
Salaries and related expenses	(1,175,995)	(765,308)	(487,211)	(666,625)	(273,987)	(1,831,341)	(5,200,468)
Other operating expenses	(1,140,264)	(59,542)	(1,155,733)	(237,741)	(290,679)	(1,407,763)	(4,291,722)
Administrative expenses	(2,316,259)	(824,850)	(1,642,945)	(904,366)	(564,665)	(3,239,104)	(9,492,190)
Net impairment	7,429	-	(35,414)	(57,769)	(85,427)	-	(171,180)
Revaluation of contingent consideration	-	(23,083)	-	-	-	-	(23,083)
Cost allocation	(798,793)	(641,976)	(728,817)	(907,853)	(143,187)	3,220,627	-
Profit (loss) before cost allocation and tax	(502,180)	959,576	1,365,580	2,244,880	(60,114)	(290)	4,007,453
Net segment revenue from external customers	2,551,498	2,460,173	3,242,622	4,424,802	1,000,303	14,507	13,693,905
Net segment revenue from other segments	53,945	(10,688)	530,133	(309,934)	(267,137)	3,681	0

The figures for the period in 2022 have been restated to reflect changes made in the presentation of internal reporting and reportable segments as of 1 January 2023.

** Comparative information has been restated, reference is made to note 3 for further information.*

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 2023	9m 2022
Cash and balances with Central Bank	1,188,826	662,576
Derivatives	1,173,126	1,927,859
Loans to customers	11,080,991	6,862,145
Fixed income securities (FVOCI)	3,355,226	1,265,627
Other interest income	220,168	197,175
Total	17,018,338	10,915,382

Interest expense is specified as follows:

	9m 2023	9m 2022
Deposits	5,868,008	1,802,417
Borrowings	1,534,818	927,810
Issued bonds	2,540,764	1,837,569
Subordinated liabilities	408,600	427,973
Derivatives	130,880	37,939
Other interest expense*	66,656	117,382
Total	10,549,727	5,151,090
Net interest income	6,468,611	5,764,292

* Thereof are lease liabilities' interest expense amounting to ISK 51 million (9m 2022: ISK 81 million).

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 12,356 million (9m 2022: ISK 7,539 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 10,419 million (9m 2022: ISK 5,113 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, taking effect on 1 January 2023. The figures for the period in 2023 reflect this structure and the comparison amounts have been restated accordingly.

Net fee and commission income by business segment	9m 2023	9m 2022
Insurance	29,670	(84)
Asset Management	1,838,131	2,405,791
Commercial Banking	953,285	706,368
Corporate Banking & Capital Markets	1,288,188	1,493,552
UK operations	299,636	265,255
Supporting units	13,892	34,052
Total	4,422,802	4,904,935

7. Insurance service results

Insurance service results are specified as follows:

	9m 2023	9m 2022 *
Insurance revenue	14,505,033	13,060,100
Incurred claims	(10,339,021)	(9,727,645)
Net expense from reinsurance contracts held	(492,491)	(225,154)
Administrative expenses related to insurance service	(2,800,543)	(2,558,022)
Total	872,979	549,279
Combined ratio	94.0%	95.8%

** Comparative information has been restated, reference is made to note 3 for further information.*

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

8. Net financial income (expense)

Net financial income (expense) is specified as follows:

	9m 2023	9m 2022
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities	300,506	549,565
Financial assets at fair value through OCI	(60,744)	(99,294)
Shares and other variable income securities	(137,209)	(871,047)
Derivatives	425,661	(673,494)
Loans to customers	(158,880)	(58,020)
Net finance income from insurance contracts	(170,657)	46,737
Foreign currency exchange difference	(29,062)	445,931
Total	169,616	(659,623)

9. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	9m 2023	9m 2022
(Loss) gain on financial instruments at fair value through profit and loss	(562,999)	586,477
Gain (loss) on other financial instruments	533,937	(140,546)
Total	(29,062)	445,931

10. Administrative expenses

Administrative expenses are specified as follows:	9m 2023	9m 2022 *
Salaries and related expenses	6,380,097	5,200,468
Other operating expenses	3,660,136	3,249,247
Depositors' and Investors' Guarantee Fund contributions	0	10,817
Depreciation and amortisation	983,618	850,855
Depreciation of right of use asset	247,633	180,803
Total	11,271,484	9,492,190
Administrative expenses allocated to insurance operations	(2,800,543)	(2,558,022)
Total administrative expenses according to the Consolidated Income Statement	8,470,942	6,934,168

During the period in 2023, ISK 197 million in one-off costs were incurred by the Group due to the resignation of the chief executive officer, the chief risk officer and redundancies. The figure is included in the line salaries and related expenses in the table above.

** Comparative information has been restated, reference is made to note 3 for further information.*

11. Salaries and related expenses

Salaries and related expenses are specified as follows:	9m 2023	9m 2022
Salaries	4,797,426	4,026,111
Performance based payments excluding share-based payments	142,966	(3,608)
Share-based payment expenses	57,698	74,691
Pension fund contributions	649,338	545,521
Tax on financial activity	282,430	239,023
Other salary related expenses	450,239	318,729
Total	6,380,097	5,200,468
Average number of full time employees during the period	378	343
Total number of full time employees at the end of the period	371	350

The figures for 2022 average number of full time employees do not include employees of Ortus Secured Finanace ltd. during January and February 2022. At the beginning of 2022, Ortus had 18 full time employees and Kvika and its subsidiaries had 331, or 349 in total.

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a tax based on salary payments, called tax on financial activity. The current tax rate is 5.50% (2022: 5.50%).

The amount of performance based payments that has been expensed is based on the results for the period in 2023 and the guidelines on performance based payments set forth in the Group’s remuneration policy. The performance based payments have not been allocated to any employees or business segments and are subject to approval by the Board of Directors.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

12. Net impairment

	9m 2023	9m 2022
Net change in impairment of loans	(198,579)	(145,236)
Net change in impairment of other assets	8,067	(20,946)
Net change in impairment of loan commitments, guarantees and unused credit facilities	(2,158)	(4,997)
Total	(192,670)	(171,180)

13. Income tax

The Bank and some of its subsidiaries will not pay income tax on its profit for 2023 due to the fact that Group has a tax loss carry forward that offsets the calculated income tax. At yearend 2022, the tax loss carry forward of the Group amounted to ISK 16 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 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% (2022: 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% (2022: 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% (2022: 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 2023	9m 2022
Net earnings attributable to equity holders of the Bank	2,436,828	3,171,216
Weighted average number of outstanding shares	4,769,762	4,790,362
Adjustments for warrants and stock options	0	3,489
Total	4,769,762	4,793,851
Basic earnings per share (ISK)	0.51	0.66
Diluted earnings per share (ISK)	0.51	0.66

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:

	30.9.2023	31.12.2022
Deposits with Central Bank	18,303,584	24,718,270
Cash on hand	11,326	22,822
Balances with banks	9,447,713	7,391,501
Foreign treasury bills	5,325,587	2,831,108
Included in cash and cash equivalents	33,088,210	34,963,701
Restricted balances with Central Bank - fixed reserve requirement	3,778,395	1,706,885
Total	36,866,605	36,670,586

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	30.9.2023	31.12.2022
Listed government bonds and bonds with government guarantees	7,344,947	2,867,887
Listed bonds	6,307,297	3,456,180
Unlisted bonds	3,376,330	3,901,728
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees	45,154,645	38,347,272
Listed treasury bills	7,770,218	12,864,314
Listed bonds	5,039,272	3,723,026
Total	74,992,709	65,160,407

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	30.9.2023	31.12.2022
Listed shares	4,823,936	4,879,257
Unlisted shares	6,227,481	7,325,211
Unlisted unit shares in bond funds	5,342,244	3,040,899
Unlisted unit shares in other funds	2,922,896	4,165,141
Total	19,316,557	19,410,508

20. Securities used for hedging

Securities used for hedging are specified as follows:

	30.9.2023	31.12.2022
Listed government bonds and bonds with government guarantees	779,748	3,852,697
Listed bonds	813,653	896,385
Listed shares	8,433,894	8,925,858
Unlisted unit shares	4,684	166,914
Total	10,031,978	13,841,853

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	
30.9.2023	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	39,005,229	38,118,583	85,693,400	84,952,681	124,698,629	123,071,264
Loans to customers at FV through profit or loss	49,033	49,033	600,216	600,216	649,249	649,249
Total	39,054,261	38,167,616	86,293,616	85,552,897	125,347,877	123,720,513

	Individuals		Corporates		Total	
31.12.2022	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	38,691,137	37,938,073	69,891,033	67,990,764	108,582,170	105,928,837
Loans to customers at FV through profit or loss	46,291	46,291	1,164,100	1,164,100	1,210,390	1,210,390
Total	38,737,428	37,984,363	71,055,132	69,154,864	109,792,560	107,139,227

The Group presents finance lease receivables as part of loans to customers at amortised cost. As at 30 September 2023, the book value of finance lease receivables amounted to ISK 21,360 million (31.12.2022: ISK 18,604 million).

22. Derivatives

Derivatives are specified as follows:

	Notional		Carrying amount	
30.9.2023	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	22,062,629	20,930,048	1,455,376	0
Currency forwards	18,662,289	14,366,486	463,641	190,248
Currency forwards used for hedge accounting	0	4,688,497	0	345,305
Bond and equity total return swaps	13,290,064	11,887,543	1,588,692	1,008,791
Equity options	4,482	0	306,689	0
Total	54,019,464	51,872,575	3,814,398	1,544,345

	Notional		Carrying amount	
31.12.2022	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	9,494,772	7,722,424	1,774,759	0
Currency forwards	25,007,309	25,007,681	282,893	360,113
Bond and equity total return swaps	29,475,867	28,082,769	2,637,546	1,249,424
Equity options	104,499	0	245,539	0
Total	64,082,448	60,812,874	4,940,738	1,609,537

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 30.9.2023**	**Share 31.12.2022**
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%
Rafklettur ehf.	Holding company	Iceland	100%	100%
Skilum ehf.	Debt Collection	Iceland	100%	100%
Straumur greiðslumiðlun hf.	Payment facilitator	Iceland	100%	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%	78%

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 30.9.2023	Share 31.12.2022
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:

	30.9.2023	31.12.2022
Balance at the beginning of the year	88,988	67,000
Dividend received	(13,701)	(6,087)
Share in profit of associates, net of income tax	17,522	26,725
Exchange rate difference	(4,347)	1,350
Total	88,462	88,988

25. Investment properties

Investment properties are specified as follows:	30.9.2023	31.12.2022
Balance at the beginning of the year	1,165,398	1,100,000
Revaluation of investment properties	0	65,398
Total	1,165,398	1,165,398

26. Intangible assets

Intangible assets are specified as follows:

30.9.2023	Goodwill	Customer relationships	Brands	Software and other	Total
Balance as at 1 January 2023	26,041,926	2,838,993	2,276,484	2,922,498	34,079,900
Additions during the period	0	315,579	0	973,561	1,289,140
Discontinued	0	0	0	(20,338)	(20,338)
Amortisation	0	(194,579)	(114,706)	(454,171)	(763,457)
Currency adjustments	(25,571)	(13,056)	(911)	(130)	(39,668)
Balance as at 30 September 2023	26,016,355	2,946,937	2,160,867	3,421,420	34,545,578
Gross carrying amount	26,016,355	3,512,962	2,523,857	5,078,917	37,132,091
Accumulated amortisation and impairment losses	0	(566,024)	(362,990)	(1,657,497)	(2,586,512)
Balance as at 30 September 2023	26,016,355	2,946,937	2,160,867	3,421,420	34,545,578

31.12.2022	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	835,246	835,246
Additions through business combinations	1,771,221	812,437	84,629	0	2,668,287
Discontinued	0	0	0	(7,737)	(7,737)
Amortisation	0	(235,264)	(148,761)	(506,374)	(890,399)
Currency adjustments	12,732	6,011	351	0	19,095
Balance as at 31 December 2022	26,041,926	2,838,993	2,276,484	2,922,497	34,079,900
Gross carrying amount	26,041,926	3,210,439	2,524,768	4,105,486	35,882,618
Accumulated amortisation and impairment losses	0	(371,446)	(248,284)	(1,182,988)	(1,802,718)
Balance as at 31 December 2022	26,041,926	2,838,993	2,276,484	2,922,498	34,079,900

Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

27. Operating lease assets

Operating lease assets are specified as follows:

	30.9.2023	31.12.2022
Balance as at 1 January	884,222	1,458,621
Additions	58,209	133,883
Disposals	(191,033)	(470,876)
Depreciation	(124,541)	(237,406)
Total	626,857	884,222
Gross carrying amount	1,218,760	1,505,807
Accumulated depreciation	(591,903)	(621,585)
Total	626,857	884,222

28. Other assets

Other assets are specified as follows:

	30.9.2023	31.12.2022*
Unsettled transactions	9,826,956	4,443,719
Accounts receivable	6,726,776	4,675,780
Right of use asset and lease receivables	1,420,155	1,576,582
Investments where investment risk is borne by life-insurance policyholders	124,131	121,906
Sundry assets	850,852	1,065,503
Total	18,948,871	11,883,489

** Comparative information has been restated, reference is made to note 3 for further information.*

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

	30.9.2023	31.12.2022
Right of use asset and lease receivables as at 1 January	1,576,582	800,087
Additions during the period	0	935,915
Termination of lease agreements	0	(26,458)
Indexation	89,462	128,709
Currency adjustments	4,130	5,247
Depreciation and lease receivable installment	(250,019)	(266,917)
Total	1,420,155	1,576,582

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:

	30.9.2023	31.12.2022
Demand deposits	107,226,181	91,504,652
Time deposits	21,786,581	20,740,545
Total	129,012,762	112,245,198

30. Insurance contract liabilities and reinsurance contract assets

Insurance contract liabilities and reinsurance contract assets are specified as follows:

Reinsurance contract assets:	30.9.2023	31.12.2022*
Reinsurance contract assets for remaining coverage	137,692	126,913
Amounts recoverable on incurred claims	496,249	494,617
Risk Adjustment, reinsurance share	54,329	69,709
Reinsurance contract assets	688,271	691,239
Insurance contract liabilities:		
Liabilities for remaining coverage	2,286,159	1,940,406
Liabilities for incurred claims	20,154,217	18,261,793
Risk Adjustment	874,887	898,891
Insurance contract liabilities	23,315,263	21,101,090

** Comparative information has been restated, reference is made to note 3 for further information.*

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

31. Borrowings

Borrowings are specified as follows:

	30.9.2023	31.12.2022
Money market deposits	7,364,722	9,778,280
Secured borrowings	13,258,931	15,674,280
Other borrowings	2,905,985	2,667,449
Total	23,529,638	28,120,009

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. Secured borrowings are in GBP and are to be paid at maturity. The borrowings mature in 2024 as well as 2028.

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	30.9.2023	31.12.2022
Unsecured bonds:						
KVB 21 01, GBP 12 million	2021	2023	At maturity	Floating, 3 month LIBOR + 2.50%	0	2,067,377
KVB 20 01, ISK 5,000 million	2020	2023	At maturity	Floating, 1 month REIBOR + 0.85%	4,658,408	4,632,806
Lykill 23 11, ISK 3,010 million	2020	2023	At maturity	Floating, 1 month REIBOR + 1.10%	2,631,100	2,600,598
EMTN 24 0131, SEK 500 million	2022	2024	At maturity	Floating, 3 month STIBOR + 2.80%	4,892,432	6,866,708
EMTN 24 0204, EUR 8.5 million	2022	2024	At maturity	Floating, 3 month EURIBOR + 2.80	1,244,390	1,296,978
KVIKA 24 1119, GBP 11.4 million	2021	2024	At maturity	Floating, 3 month LIBOR + 1.75%	1,926,715	1,959,110
KVIKA 24 1216 GB, ISK 4,500 million	2021	2024	At maturity	Floating, 3 month REIBOR + 0.90%	4,515,923	4,513,777
KVB 19 01, ISK 5,000 million	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	1,254,211	2,005,242
KVIKA 25 1201 GB ISK 1,660 million	2022	2025	At maturity	Floating, 3 month REIBOR + 1.25%	1,674,827	1,670,790
EMTN 26 0511, SEK 275 million	2023	2026	At maturity	Floating, 3 month STIBOR + 4.10%	3,494,051	0
EMTN 26 0511, NOK 550 million	2023	2026	At maturity	Floating, 3 month NIBOR + 4.10%	7,168,552	0
KVB 21 02, ISK 5,400 million	2021	2027	At maturity	CPI-indexed, fixed 1.0%	6,496,124	6,110,428
KVIKA 32 0112, ISK 2,000 million	2022	2032	At maturity	CPI-indexed, fixed 1.40%	2,333,592	2,197,224
Asset backed bonds:						
Lykill 16 01, ISK 10,870 million	2016	2023	Amortizing	Floating, 1 month REIBOR + 1.10%	141,646	1,368,276
Lykill 23 09, ISK 1,000 million	2019	2023	Amortizing	Fixed, 5.20%	0	204,013
Lykill 24 06, ISK 1,570 million	2020	2024	Amortizing	Fixed, 2.80%	308,235	610,086
Total					42,740,207	38,103,414

33. Subordinated liabilities

a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2023	31.12.2022
KVB 18 02, ISK 800 million	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	1,089,120	1,040,313
TM 15 1, ISK 2,000 million	2015	2045	At maturity	CPI-Indexed, fixed 5.25%	2,856,948	2,646,139
Total					3,946,067	3,686,451

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:

	30.9.2023	31.12.2022
Balance at the beginning of the year	3,686,451	3,371,766
Paid interest	(112,333)	(164,833)
Paid interests due to indexation	(36,651)	(39,421)
Accrued interests and indexation	408,600	518,940
Total	3,946,067	3,686,451

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

34. Short positions held for trading

Short positions held for trading are specified as follows:

	30.9.2023	31.12.2022
Listed government bonds and bonds with government guarantees	723,116	970,178
Listed bonds	221,388	515,929
Total	944,504	1,486,107

35. Short positions used for hedging

Short positions used for hedging are specified as follows:

	30.9.2023	31.12.2022
Listed government bonds and bonds with government guarantees	0	1,343,186
Total	0	1,343,186

36. Other liabilities

Other liabilities are specified as follows:

	30.9.2023	31.12.2022*
Unsettled transactions	9,822,282	1,970,758
Accounts payable and accrued expenses	7,682,012	2,116,731
Lease liability	1,518,864	1,827,582
Salaries and salary related expenses	1,322,088	1,265,867
Withholding taxes	560,997	781,845
Special taxes on financial institutions and financial activities	489,191	494,455
Contingent consideration	371,050	373,715
Insurance contracts for life-insurance policies where investment risk is borne by policyholders	124,131	121,906
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities	15,091	12,935
Other liabilities	381,302	772,743
Total	22,287,009	9,738,535

** Comparative information has been restated, reference is made to note 3 for further information.*

Lease liability is specified as follows:

	30.9.2023	31.12.2022
Lease liability as at 1 January	1,827,582	1,041,121
Additions during the period	0	1,054,121
Termination of lease agreements	0	(14,428)
Currency adjustments	(5,219)	7,554
Installment	(397,669)	(410,412)
Indexation	94,172	149,626
Total	1,518,864	1,827,582

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

37. Share capital

a. Share capital

The nominal value of shares issued by the Bank is ISK 1 per share. All currently issued shares 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.

	30.9.2023	**31.12.2022**
Share capital according to the Bank's Articles of Association	4,781,026	4,928,897
Nominal amount of treasury shares	58,952	147,871
Authorised but not issued shares	310,000	310,000

b. Changes made to the nominal amount of share capital

During the period 1 January to 30 September 2023 the Bank's share capital was decreased by ISK 148 million 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 59 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 30 March 2023, the Board of Directors is authorised to increase the share capital as follows:

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 II 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.

38. 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 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. In 2023, the Group introduced a change in treatment of deductions from capital base due to significant holdings in financial institutions and deferred tax assets. The deduction is now according to article 48 of the Capital Requirements Regulation no. 575/2013 of the EU.

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 1.24, with a regulatory minimum requirement of 1.0.

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

	30.9.2023	**31.12.2022**
Available capital		
Own Funds eligible for non insurance activities	36,084,240	32,456,104
Own Funds eligible for insurance activities	13,555,017	13,094,779
Deduction from own funds not eligble	(2,978,316)	0
Total	46,660,941	45,550,883
Solvency requirement for insurance activities		
Solvency Capital Requirements (SCR)	9,209,719	8,772,791
Own funds requirement for non insurance activities		
Statutory minimum capital requirement (Pillar I)	12,710,488	11,037,600
Additional capital requirements (Pillar II)	6,355,244	4,828,950
Minimum capital requirement for non insurance activities	19,065,731	15,866,550
Additional capital protection buffers	10,645,033	8,830,080
Adjustments to capital requirements in conglomerate	(1,392,363)	0
Total	28,318,402	24,696,631
Solvency	46,660,941	45,550,883
Solvency requirement (SCR)	9,209,719	8,772,791
Own funds requirement for non insurance activities	28,318,402	24,696,631
Minimum solvency of financial conglomerate	37,528,121	33,469,422
Solvency ratio	1.24	1.36

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

39. 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 22.7%. The minimum requirement from the FME is 12.0%. The ratio is calculated as follows:

Own funds eligible for non insurance activities	**30.9.2023**	**31.12.2022***
Total equity	79,782,523	81,089,180
Unaudited retained (positive) earnings from current period	(541,730)	0
Other unaudited (positive) changes to total equity in current period	(17,475)	0
Expected dividends and buy-back according to dividend policy	0	(1,912,410)
Capital eligible as CET1 Capital	79,223,318	79,176,769
Goodwill and intangibles	(28,976,115)	(28,380,760)
Shares in other financial institutions	(16,041,691)	(18,728,749)
Deferred tax asset	(1,769,727)	(3,232,933)
Common equity Tier 1 capital (CET 1)	32,435,785	28,834,327
Tier 2 capital	3,860,044	3,621,777
Deductions from Tier 2 capital	(211,589)	0
Total own funds	36,084,240	32,456,104
Risk weighted exposures		
Credit risk	129,879,233	109,104,748
Market risk	4,225,866	4,091,761
Operational risk	24,775,995	24,773,495
Total risk weighted exposures	158,881,095	137,970,004
Capital ratios		
Capital adequacy ratio (CAR)	22.7%	23.5%
CET1 ratio	20.4%	20.9%
Total own funds including unaudited (positive) retained earnings and expected dividends	36,643,445	
Capital adequacy ratio, adjusted	23.1%	
CET1 ratio, adjusted	20.8%	
Minimum Capital adequacy ratio requirement	12.0%	11.5%
Minimum Capital adequacy ratio requirement including supervisory buffers	18.7%	17.9%
Minimum CET 1 ratio requirement including supervisory buffers	13.5%	12.9%

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

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). The Bank's minimum regulatory capital requirement, based on SREP from 2023 is 12.0%. The minimum regulatory capital requirement including the additional capital buffers is 18.7% as at 30 September 2023.

** Comparative information has been restated, reference is made to note 3 for further information.*

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

40. 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 1.47. Solvency capital requirements according to law is the minimum insurance companies have to meet.

	30.9.2023	**31.12.2022***
Own funds eligible for insurance activities solvency		
Equity eligible for insurance activities	18,743,272	18,268,799
Goodwill and intangibles	(5,563,223)	(5,699,140)
Difference between net technical provision in the financial statements and solvency rules	374,968	525,120
Total	13,555,017	13,094,779
Solvency requirement		
Life insurance risk	478,773	425,729
Health insurance risk	1,663,623	1,475,602
Non-life insurance risk	5,936,664	5,484,355
Market risk	5,049,851	5,336,721
Counterparty default risk	1,489,129	1,117,766
Multifaceted effects	(4,570,544)	(4,229,553)
Base Solvency Capital Requirements (Basic SCR)	10,047,496	9,610,620
Operational risk	816,276	680,934
Adjustment for the loss-absorbing capacity of deferred taxes	(1,654,053)	(1,518,763)
Solvency Capital Requirements (SCR)	9,209,719	8,772,791
Solvency	13,555,017	13,094,779
Solvency requirement (SCR)	9,209,719	8,772,791
Solvency ratio after dividend	1.47	1.49
Eligible items to meet the minimum capital	13,555,017	13,094,779
Minimum required capital (MRC)	4,400,503	4,057,090
Minimum required capital ratio after dividend	3.08	3.23

** Comparative information has been restated, reference is made to note 3 for further information.*

Notes to the Condensed Interim Consolidated Financial Statements

Risk management

41. Hedging

Securities held as a hedge against derivatives positions of customers make up a part of the Group's portfolio of assets. The Group hedges currency exposure between the Group's asset portfolio and its liabilities to the extent possible as part of managing its balance and keeping it within approved limits. The Group applies hedge accounting according to IAS 39 against translation of foreign operations. Currency swap agreements are used as a hedge instrument against translation difference arising from foreign operations.

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 obtains 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 88 in the 2022 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.

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:

30.9.2023 **On-balance sheet exposure**	**Public entities**	**Financial institutions**	**Corporate customers**	**Individuals**	**30.9.2023**
Cash and balances with Central Bank	27,418,891	9,447,713			36,866,605
Fixed income securities	62,573,087	7,199,477	5,220,145		74,992,709
Loans to customers	12,143		85,540,754	38,167,616	123,720,513
Derivatives		2,981,899	792,151	40,348	3,814,398
Other assets	393,380	1,394,847	14,453,384	1,289,945	17,531,555
	90,397,502	21,023,936	106,006,434	39,497,909	256,925,781
Off-balance sheet exposure					
Loan commitments			2,513,636	1,049,382	3,563,018
Financial guarantee contracts			214,657		214,657
Maximum exposure to credit risk	90,397,502	21,023,936	108,734,727	40,547,291	260,703,456

31.12.2022* **On-balance sheet exposure**	**Public entities**	**Financial institutions**	**Corporate customers**	**Individuals**	**31.12.2022**
Cash and balances with Central Bank	29,279,085	7,391,501			36,670,586
Fixed income securities	54,989,042	5,309,011	4,862,354		65,160,407
Loans to customers	15,103		69,139,761	37,984,363	107,139,227
Derivatives		3,955,424	917,391	67,923	4,940,738
Other assets	1,013,523	1,432,807	7,793,876	66,701	10,306,907
	85,296,753	18,088,743	82,713,382	38,118,988	224,217,865
Off-balance sheet exposure					
Loan commitments			1,955,620	725,755	2,681,375
Financial guarantee contracts			261,861		261,861
Maximum exposure to credit risk	85,296,753	18,088,743	84,930,863	38,844,743	227,161,102

** Comparative information has been restated, reference is made to note 3 for further information.*

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

The following table shows the first 12 month 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. Following the Group's acquisition of Ortus Secured Finance ltd., the Group owns loan portfolios in two geographical segments, i.e. Iceland and the United Kingdom ("UK"). In general, the Group utilises the same ECL methodology for the portfolios in both segments, although in the UK it is to a larger extent based on an individual assessment by credit specialists. Reference is made to note 88 in the 2022 Consolidated Financial Statements for further information about the Group's impairment methodology.

		Scenarios	
Model parameters 30.09.2023	**Base case**	**Upside**	**Downside**
Unemployment rate	4.3%	3.3%	4.3%
Inflation CPI index	5.0%	5.1%	4.4%
Assigned weight	60.0%	10.0%	30.0%

		Scenarios	
Model parameters 31.12.2022	**Base case**	**Upside**	**Downside**
Unemployment rate	3.8%	3.2%	4.6%
Inflation CPI index	4.4%	4.8%	6.7%
Assigned weight	60.0%	10.0%	30.0%

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

44. Credit quality of financial assets (cont.)

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

The Group applies the same valuation methods to collateral held as other comparable assets held by the Group. For other types of assets the Group uses third party valuation where possible.

					Allocated collateral										
30.9.2023	**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	12,217	(74)	12,143	0.0%	11,970	0	0	0	0	0	11,647	0	0	323	3,607
Financial institutions	0	0	0	0.0%	0	0	0	0	0	0	0	0	0	0	0
Corporate															
Real estate activities	23,431,578	(221,240)	23,210,338	18.8%	42,040,761	56,402	0	324,983	17,780,048	22,320,687	825,875	194,233	0	538,531	420,561
Construction	19,249,198	(65,974)	19,183,223	15.5%	35,657,434	4,419	0	0	12,434,231	14,529,068	4,290,162	3,807,686	0	591,868	134,105
Service Activities	13,661,765	(228,142)	13,433,623	10.9%	25,697,477	12,370	97,798	3,490,874	196,490	1,180,176	15,613,290	2,645,225	1,500	2,459,755	383,384
Activities of Holding Companies	10,692,022	(42,632)	10,649,390	8.6%	23,951,273	2,062	412,140	7,994,444	8,770,625	5,866,507	191,408	206,528	482,714	24,845	319,647
Accommodat. and Food Service Activit.	5,738,442	(3,683)	5,734,759	4.6%	11,775,663	49,069	0	0	2,663,187	8,549,841	449,149	0	0	64,415	67,442
Wholesale and Retail Trade	4,615,998	(54,017)	4,561,981	3.7%	7,331,967	22,234	0	0	173,000	1,299,571	3,134,071	1,554,715	100,000	1,048,376	76,004
Other	8,892,395	(121,289)	8,771,106	7.1%	20,534,020	109,610	6,213,955	826,686	2,450,114	2,517,664	2,259,721	3,473,078	1,224,393	1,458,799	193,922
Individual	39,054,261	(890,312)	38,163,949	30.8%	55,563,963	28,982	962,168	642,110	9,477,598	3,047,108	39,273,379	1,788,217	0	344,402	7,962,539
Total	125,347,877	(1,627,364)	123,720,513	100.0%	222,564,528	285,149	7,686,062	13,279,096	53,945,294	59,310,622	66,048,702	13,669,682	1,808,607	6,531,313	9,561,213

					Allocated collateral										
31.12.2022	**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	15,205	(101)	15,103	0.0%	13,283	0	0	0	0	0	12,571	0	0	712	5,298
Financial institutions	0	0	0	0.0%	0	0	0	0	0	0	0	0	0	0	0
Corporate															
Real estate activities	25,345,063	(851,711)	24,493,352	22.9%	64,676,404	10,455	15,979	3,585,720	27,853,966	32,110,347	719,242	167,171	10,000	203,524	627,578
Construction	10,270,953	(257,339)	10,013,615	9.3%	19,746,074	5,538	368,182	0	7,035,420	4,913,005	3,593,914	3,281,321	0	548,694	338,057
Activities of Holding Companies	9,722,282	(31,475)	9,690,807	9.0%	22,428,613	36,857	363,192	11,217,850	7,467,709	2,594,675	159,892	86,548	476,455	25,436	1,161,514
Service Activities	9,580,738	(180,993)	9,399,745	8.8%	18,488,730	14,912	88,391	3,045,055	316,519	830,661	10,169,808	2,326,169	0	1,697,215	288,971
Activit. of Holding Comp. - Sec. Financing	4,250,532	(2,665)	4,247,868	4.0%	7,810,464	48,600	0	260,499	2,949,673	4,108,349	376,230	0	0	67,113	582,359
Wholesale and Retail Trade	3,702,513	(53,119)	3,649,393	3.4%	6,075,435	101,455	70,278	0	0	1,234,684	2,280,567	1,282,092	100,000	1,006,358	236,447
Other	8,167,845	(522,864)	7,644,981	7.1%	14,167,010	310,042	3,414,030	581,856	1,489,635	1,740,913	2,158,699	3,012,388	854,054	605,394	1,210,526
Individual	38,737,428	(753,064)	37,984,363	35.5%	56,036,869	47,136	1,332,491	782,099	12,114,940	2,913,038	37,087,081	1,445,293	0	314,790	7,831,670
Total	109,792,560	(2,653,333)	107,139,227	100.0%	209,442,883	574,996	5,652,543	19,473,080	59,227,861	50,445,672	56,558,004	11,600,982	1,440,509	4,469,236	12,282,420

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 stage classification 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 furthermore individually assessed by credit specialists. Exposures which are non-rated relate mostly to retail portfolios where individual rating has not been obtained.

30.9.2023

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	95,042,653	272,073		449,593	95,764,319
Credit quality band II	13,450,668	2,064,786			15,515,455
Credit quality band III	3,825,470	1,325,496		49,033	5,199,998
Credit quality band IV	1,116,335	1,618,574			2,734,909
In default	128,704	571,190	4,795,211	150,623	5,645,728
Non-rated	482,905	4,563			487,468
Gross carrying amount	114,046,735	5,856,683	4,795,211	649,249	125,347,877
Expected credit loss	(278,029)	(272,681)	(1,076,654)		(1,627,364)
Book value	113,768,706	5,584,002	3,718,556	649,249	123,720,513

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	1,816,741	1			1,816,742
Credit quality band II	884,112	56,167			940,279
Credit quality band III	667,843	3,273		220,500	891,616
Credit quality band IV	16,292	1,415			17,708
In default	524	1,000	109,806		111,331
Non-rated					0
Total off-balance sheet amount	3,385,512	61,857	109,806	220,500	3,777,675
Expected credit loss	(13,952)	(963)	(176)		(15,091)
Net off-balance sheet amount	3,371,560	60,894	109,631	220,500	3,762,585

31.12.2022

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	80,658,854	600,058		1,036,459	82,295,371
Credit quality band II	11,518,509	2,774,574			14,293,083
Credit quality band III	2,569,408	2,594,665		46,291	5,210,364
Credit quality band IV	795,448	642,777			1,438,225
In default	56,257	528,954	5,313,498	127,641	6,026,351
Non-rated	506,757	22,410			529,166
Gross carrying amount	96,105,233	7,163,439	5,313,498	1,210,390	109,792,560
Expected credit loss	(258,197)	(255,541)	(2,139,595)		(2,653,333)
Book value	95,847,035	6,907,898	3,173,904	1,210,390	107,139,227

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	1,839,673	3,595		27,460	1,870,728
Credit quality band II	217,400				217,400
Credit quality band III	274,343	318,188		236,380	828,910
Credit quality band IV	14,097	225			14,322
In default	402	1,000	10,474		11,876
Non-rated					0
Total off-balance sheet amount	2,345,915	323,008	10,474	263,840	2,943,236
Expected credit loss	(11,408)	(1,269)	(258)		(12,935)
Net off-balance sheet amount	2,334,507	321,739	10,216	263,840	2,930,302

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

30.9.2023	**Claim value**	**Expected credit loss**	**Carrying amount**
Not past due	114,980,031	(562,295)	114,417,736
Past due 1-30 days	4,339,799	(193,523)	4,146,276
Past due 31-60 days	1,142,517	(43,331)	1,099,186
Past due 61-90 days	1,199,624	(74,124)	1,125,500
Past due 91-180 days	1,573,852	(84,565)	1,489,287
Past due 181-360 days	803,991	(169,973)	634,018
Past due more than 360 days	1,308,063	(499,553)	808,510
Total	125,347,877	(1,627,364)	123,720,513

31.12.2022	**Claim value**	**Expected credit loss**	**Carrying amount**
Not past due	99,766,659	(535,445)	99,231,215
Past due 1-30 days	3,080,787	(77,173)	3,003,615
Past due 31-60 days	2,559,244	(519,905)	2,039,339
Past due 61-90 days	968,329	(39,792)	928,538
Past due 91-180 days	381,807	(65,948)	315,859
Past due 181-360 days	629,617	(146,403)	483,214
Past due more than 360 days	2,406,115	(1,268,667)	1,137,448
Total	109,792,560	(2,653,333)	107,139,227

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

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

30.9.2023

Expected credit loss allowance total

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2023	269,605	256,810	2,139,852	2,666,267
Transfer to Stage 1 - (Initial recognition)	40,478	(28,692)	(11,785)	0
Transfer to Stage 2 - (significantly increased credit risk)	(27,409)	43,711	(16,302)	0
Transfer to Stage 3 - (credit impaired)	(11,642)	(69,439)	81,081	0
Net remeasurement of loss allowance	(108,744)	26,645	340,813	258,713
New financial assets, originated or purchased	210,006	139,259	442,865	792,131
Derecognitions and maturities	(80,265)	(94,650)	(838,613)	(1,013,528)
Write-offs	(47)	(0)	(1,061,081)	(1,061,129)
Balance as at 30 September 2023	291,982	273,643	1,076,830	1,642,455

Expected credit loss allowance for loans to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2023	258,197	255,541	2,139,595	2,653,333
Transfer to Stage 1 - (Initial recognition)	40,408	(28,622)	(11,785)	0
Transfer to Stage 2 - (significantly increased credit risk)	(27,354)	43,657	(16,302)	0
Transfer to Stage 3 - (credit impaired)	(11,641)	(69,439)	81,080	0
Net remeasurement of loss allowance	(109,307)	26,384	340,814	257,891
New financial assets, originated or purchased	207,120	139,172	442,708	789,001
Derecognitions and maturities	(79,347)	(94,012)	(838,374)	(1,011,732)
Write-offs	(47)	(0)	(1,061,081)	(1,061,129)
Balance as at 30 September 2023	278,029	272,681	1,076,654	1,627,364

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 2023	11,408	1,269	258	12,935
Transfer to Stage 1 - (Initial recognition)	70	(70)		0
Transfer to Stage 2 - (significantly increased credit risk)	(54)	54		0
Transfer to Stage 3 - (credit impaired)	(2)		2	0
Net remeasurement of loss allowance	563	261	(1)	822
New financial assets, originated or purchased	2,886	87	157	3,130
Derecognitions and maturities	(918)	(638)	(239)	(1,796)
Balance as at 30 September 2023	13,952	963	176	15,091

31.12.2022

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)	51,349	(40,605)	(10,744)	0
Transfer to Stage 2 - (significantly increased credit risk)	(7,894)	23,377	(15,483)	0
Transfer to Stage 3 - (credit impaired)	(9,714)	(125,921)	135,635	0
Net remeasurement of loss allowance	(63,511)	(3,464)	450,319	383,343
New financial assets, originated or purchased	202,002	177,845	1,317,950	1,697,797
Derecognitions and maturities	(118,478)	(66,385)	(413,543)	(598,406)
Write-offs	(172)	(1,832)	(157,814)	(159,818)
Balance as at 31 December 2022	269,605	256,810	2,139,852	2,666,267

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)	51,041	(40,550)	(10,491)	0
Transfer to Stage 2 - (significantly increased credit risk)	(6,795)	22,279	(15,483)	0
Transfer to Stage 3 - (credit impaired)	(9,714)	(125,921)	135,635	0
Net remeasurement of loss allowance	(67,769)	(3,588)	450,570	379,213
New financial assets, originated or purchased	197,246	177,845	1,317,710	1,692,801
Derecognitions and maturities	(116,723)	(66,356)	(412,417)	(595,495)
Write-offs	(172)	(1,832)	(157,814)	(159,818)
Balance as at 31 December 2022	258,197	255,541	2,139,595	2,653,333

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)	307	(55)	(253)	0
Transfer to Stage 2 - (significantly increased credit risk)	(1,098)	1,098		0
Transfer to Stage 3 - (credit impaired)				0
Net remeasurement of loss allowance	4,258	124	(252)	4,130
New financial assets, originated or purchased	4,756		239	4,996
Derecognitions and maturities	(1,755)	(29)	(1,127)	(2,911)
Balance as at 31 December 2022	11,408	1,269	258	12,935

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:

	30.9.2023	%	31.12.2022	%
Less than 50%	29,311,518	23.7%	29,001,396	27.1%
51-70%	46,922,972	37.9%	36,654,281	34.2%
71-90%	33,642,973	27.2%	22,168,930	20.7%
91-100%	2,497,691	2.0%	3,027,670	2.8%
100-125%	3,198,789	2.6%	3,880,228	3.6%
125-200%	207,118	0.2%	511,406	0.5%
Greater than 200%	522,479	0.4%	2,704,141	2.5%
No or negligible collateral:				
Other loans with no collateral	7,416,973	6.0%	9,191,175	8.6%
Total	123,720,513	100.0%	107,139,227	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	30.9.2023
Financial institutions	2,610,184	146,403	839,921				3,596,508
Corporate customers	1,023,394	169,712	1,822,504				3,015,610
Individuals	46,100		33,024				79,125
Total	3,679,679	316,114	2,695,450	0	0	0	6,691,243

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2022
Financial institutions	2,984,076	8,498					2,992,574
Corporate customers	2,078,835	347,669	1,666,005				4,092,509
Individuals	61,211	34,926	47,221				143,357
Total	5,124,122	391,093	1,713,226	0	0	0	7,228,441

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 39).

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.

		30.9.2023		31.12.2022
Large exposures before risk adjusted mitigation	Number	Amount	Number	Amount
10-20% of capital base	3	12,031,049	2	7,009,093
20-25% of capital base	0	0	0	0
Exceeding 25% of capital base	0	0	0	0
Total	3	12,031,049	2	7,009,093
Thereof nostro accounts with other banks which are part of the Group's liquidity management	1	4,677,899	0	0
Large exposures net of risk adjusted mitigation	2	8,233,092	1	2,980,320

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

48. Insurance risk

Breakdown of insurance contract liabilities by lines of business:

Insurance contract liabilities	30.9.2023	31.12.2022*
Fire and other damage to property insurance	2,190,743	1,801,894
Marine, aviation and transport insurance	904,806	754,181
Motor vehicle liability insurance	11,481,387	10,609,246
Other motor insurance	1,003,286	962,704
General liability, credit and suretyship insurance	3,106,970	2,771,618
Income protection and medical expense insurance	1,040,931	1,085,003
Workers' compensation insurance	2,999,393	2,611,997
Life insurance	552,427	467,292
Sold reinsurances	35,319	37,156
Total	23,315,263	21,101,090

** Comparative information has been restated, reference is made to note 3 for further information.*

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 LCR total, 50% for LCR in ISK and 80% minimum requirement for LCR in EUR. The minimum requirement for LCR EUR only applies when the Group‘s commitments in EUR represent 10% or more of the Group´s total commitments. 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 2023 and during the year 2022.

	ISK		Foreign currency		Total	
30.9.2023	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Liquid assets level 1	71,625,748	71,625,748	5,330,438	5,330,438	76,956,186	76,956,186
Liquid assets level 2	454,941	386,700			454,941	386,700
Total liquid assets	72,080,689	72,012,448	5,330,438	5,330,438	77,411,127	77,342,886
Deposits*	101,919,447	22,852,344	8,969,923	4,710,532	110,889,370	27,562,876
Other borrowings	4,919,275	4,919,275	24,714	24,714	4,943,988	4,943,988
Other outflows	18,080,607	15,980,279	2,013,619	298,587	20,094,225	16,278,866
Total outflows (0-30 days)	124,919,328	43,751,898	11,008,256	5,033,832	135,927,584	48,785,730
Short-term deposits with other banks	780,143	780,143	8,835,775	8,835,775	9,615,918	9,615,918
Other inflows	20,721,018	12,579,285	1,725,220	923,600	22,446,238	13,502,885
Restrictions on inflows				(5,984,001)		
Total inflows (0-30 days)	21,501,161	13,359,428	10,560,995	3,775,374	32,062,156	23,118,803
Liquidity coverage ratio		237%		424%		301%

	ISK		Foreign currency		Total	
31.12.2022	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Liquid assets level 1	75,123,792	75,123,792	2,835,959	2,835,959	77,959,751	77,959,751
Liquid assets level 2	1,149,243	976,856			1,149,243	976,856
Total liquid assets	76,273,034	76,100,648	2,835,959	2,835,959	79,108,993	78,936,607
Deposits*	85,058,224	27,084,330	8,978,550	4,289,645	94,036,775	31,373,975
Other borrowings	315,021	315,021	11,080	11,080	326,101	326,101
Other outflows	5,008,349	3,358,604	3,473,773	275,923	8,482,123	3,634,527
Total outflows (0-30 days)	90,381,595	30,757,955	12,463,404	4,576,647	102,844,999	35,334,602
Short-term deposits with other banks	114,113	114,113	3,483,111	3,483,111	3,597,224	3,597,224
Other inflows	12,762,268	6,379,561	1,157,700	678,050	13,919,968	7,057,612
Restrictions on inflows				(728,675)		
Total inflows (0-30 days)	12,876,381	6,493,675	4,640,811	3,432,486	17,517,192	10,654,835
Liquidity coverage ratio		314%		248%		320%

* Deposits include Money market deposits which are classified as Borrowings in the Consolidated Statement of Financial Position.

	30.9.2023	**31.12.2022**
NSFR total	145%	140%

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

49. Liquidity risk (cont.)

c. Maturity analysis of financial assets and financial liabilities

30.9.2023 **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	36,875,084					36,875,084	36,866,605
Fixed income securities	30,300,046		23,229,585	17,552,870	3,910,208	74,992,709	74,992,709
Shares and other variable income securities	13,033,596	457,098	5,825,863			19,316,557	19,316,557
Securities used for hedging	10,031,978					10,031,978	10,031,978
Loans to customers	7,997,783	11,285,773	44,705,823	78,559,064	7,001,123	149,549,564	123,720,513
Reinsurance contract assets	32,956	50,948	328,091	218,596	57,680	688,271	688,271
Other assets	12,025,821	3,943,269	1,247,523	190,811	124,131	17,531,555	18,948,871
	110,297,264	15,737,088	75,336,884	96,521,341	11,093,142	308,985,718	284,565,503
Derivative assets							
Inflow	16,954,365	3,882,915	4,652,780	11,946,058		37,436,119	
Outflow	(15,055,450)	(3,306,697)	(3,773,969)	(11,507,831)		(33,643,947)	
	1,898,915	576,218	878,811	438,227	0	3,792,172	3,814,398

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	(109,698,285)	(8,588,864)	(6,924,947)	(4,302,410)	(355,956)	(129,870,462)	129,012,762
Insurance contract liabilities	(2,065,916)	(2,824,403)	(8,430,119)	(10,954,086)	(1,249,225)	(25,523,749)	23,315,263
Borrowings	(7,034,014)	(1,031,779)	(2,922,586)	(18,849,068)	(1,006,627)	(30,844,073)	23,529,638
Issued bonds	(5,319,515)	(3,865,117)	(8,595,173)	(27,643,271)	(2,440,807)	(47,863,884)	42,740,207
Subordinated liabilities		(73,555)	(152,901)	(2,047,831)	(5,779,331)	(8,053,618)	3,946,067
Short positions held for trading	(944,504)					(944,504)	944,504
Other liabilities	(11,125,422)	(8,841,406)	(1,673,608)	(587,744)	(124,131)	(22,352,311)	22,287,009
	(136,187,657)	(25,225,124)	(28,699,334)	(64,384,409)	(10,956,077)	(265,452,602)	245,775,450
Derivative liabilities							
Inflow	5,758,053	574,002	10,104,788	1,867,729		18,304,573	
Outflow	(5,976,948)	(621,698)	(10,706,550)	(2,757,966)		(20,063,162)	
	(218,896)	(47,695)	(601,762)	(890,236)	0	(1,758,589)	1,544,345
Unrecognised financial items							
Loan commitments							
Inflow	927,809	96,079	1,997,053	793,398	7,548	3,821,887	
Outflow	(3,563,018)					(3,563,018)	
Financial guarantee contracts							
Inflow	10,000	2,000	83,163	103,486	16,008	214,657	
Outflow	(214,657)					(214,657)	
	(2,839,866)	98,079	2,080,216	896,884	23,557	258,869	
Summary							
Non-derivative assets	110,297,264	15,737,088	75,336,884	96,521,341	11,093,142	308,985,718	
Derivative assets	1,898,915	576,218	878,811	438,227		3,792,172	
Non-derivative liabilities	(136,187,657)	(25,225,124)	(28,699,334)	(64,384,409)	(10,956,077)	(265,452,602)	
Derivative liabilities	(218,896)	(47,695)	(601,762)	(890,236)		(1,758,589)	
Net assets (liabilities) excluding unrecognised items	(24,210,373)	(8,959,513)	46,914,599	31,684,922	137,065	45,566,699	
Net unrecognised items	(2,839,866)	98,079	2,080,216	896,884	23,557	258,869	
Net assets (liabilities)	(27,050,240)	(8,861,434)	48,994,815	32,581,806	160,621	45,825,568	

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

49. Liquidity risk (cont.)

31.12.2022* **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	34,556,826	2,121,760				36,678,586	36,670,586
Fixed income securities	14,752,525	27,873,149	3,907,528	18,627,205		65,160,407	65,160,407
Shares and other variable income securities	11,424,516	2,702,765	5,283,228			19,410,508	19,410,508
Securities used for hedging	13,841,853					13,841,853	13,841,853
Loans to customers	7,224,508	8,148,187	32,600,452	73,801,224	6,773,201	128,547,573	107,139,227
Reinsurance contract assets	46,290	63,319	294,148	214,844	72,638	691,239	691,239
Other assets	5,276,555	2,883,802	1,990,869	33,776	121,906	10,306,907	11,883,489
	87,123,073	43,792,982	44,076,226	92,677,048	6,967,745	274,637,074	254,797,310
Derivative assets							
Inflow	25,202,434	2,962,372	6,485,242	2,981,751		37,631,799	
Outflow	(22,308,183)	(2,829,323)	(5,401,381)	(2,215,601)		(32,754,488)	
	2,894,251	133,049	1,083,861	766,150	0	4,877,311	4,940,738
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	(94,506,439)	(8,882,306)	(5,198,432)	(4,121,200)	(225,740)	(112,934,118)	112,245,198
Insurance contract liabilities	(2,132,094)	(2,388,608)	(7,185,201)	(9,631,606)	(1,231,551)	(22,569,060)	21,101,090
Borrowings	(6,725,800)	(2,647,846)	(1,735,135)	(18,759,487)		(29,868,267)	28,120,009
Issued bonds	(315,021)	(3,088,061)	(11,577,901)	(24,716,516)	(2,320,710)	(42,018,209)	38,103,414
Subordinated liabilities			(212,271)	(916,053)	(6,571,430)	(7,699,754)	3,686,451
Short positions held for trading	(1,486,107)					(1,486,107)	1,486,107
Short positions used for hedging	(1,343,186)					(1,343,186)	1,343,186
Other liabilities	(3,344,393)	(3,584,999)	(2,188,492)	(527,067)	(121,906)	(9,766,858)	9,738,535
	(109,853,041)	(20,591,820)	(28,097,433)	(58,671,929)	(10,471,336)	(227,685,559)	215,823,990
Derivative liabilities							
Inflow	(123,731)	1,629,989	3,340,763	6,866,708		11,713,728	
Outflow	(526,350)	(1,761,200)	(3,394,813)	(7,649,561)		(13,331,924)	
	(650,081)	(131,212)	(54,050)	(782,853)	0	(1,618,196)	1,609,537
Unrecognised financial items by type							
Loan commitments							
Inflow	192,918	247,571	1,188,493	1,284,906		2,913,888	
Outflow	(2,681,375)					(2,681,375)	
Financial guarantee contracts							
Inflow		5,800	87,750	102,186	66,126	261,861	
Outflow	(261,861)					(261,861)	
	(2,750,318)	253,371	1,276,243	1,387,091	66,126	232,513	
Summary							
Non-derivative assets	87,123,073	43,792,982	44,076,226	92,677,048	6,967,745	274,637,074	
Derivative assets	2,894,251	133,049	1,083,861	766,150		4,877,311	
Non-derivative liabilities	(109,853,041)	(20,591,820)	(28,097,433)	(58,671,929)	(10,471,336)	(227,685,559)	
Derivative liabilities	(650,081)	(131,212)	(54,050)	(782,853)		(1,618,196)	
Net assets (liabilities) excluding unrecognised items	(20,485,798)	23,202,999	17,008,605	33,988,415	(3,503,591)	50,210,630	
Net unrecognised items	(2,750,318)	253,371	1,276,243	1,387,091	66,126	232,513	
Net assets (liabilities)	(23,236,116)	23,456,371	18,284,848	35,375,506	(3,437,466)	50,443,143	

** Comparative information has been restated, reference is made to note 3 for further information.*

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	30.9.2023
Fixed income securities	70,662	35,453	363,011	5,252,283	1,118,053	6,839,462
Short positions - fixed income securities	(2,393)	(457)	(130,254)	(202,816)	(608,585)	(944,504)
Net imbalance	68,269	34,996	232,757	5,049,467	509,468	5,894,958

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2022
Fixed income securities	3,782	39,690	181,326	1,921,871	677,057	2,823,726
Short positions - fixed income securities	(9,447)	(37,185)	(1,656,872)	1,204,062	(986,665)	(1,486,107)
Net imbalance	(5,665)	2,505	(1,475,545)	3,125,932	(309,608)	1,337,619

b. Sensitivity analysis

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

	Shift in basis points	30.9.2023 Downward	30.9.2023 Upward	31.12.2022 Downward	31.12.2022 Upward
Indexed	50	6,045	(5,528)	17,328	(17,206)
Non-indexed	100	69,235	(72,583)	(65,251)	54,360
Total		75,279	(78,111)	(47,923)	37,154

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:

30.9.2023

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	36,866,605					36,866,605
Fixed income securities	9,018,900	1,286,574	26,484,798	26,222,097	5,140,878	68,153,248
Loans to customers	105,114,047	5,109,455	5,628,411	7,562,449	306,152	123,720,513
Financial assets excluding derivatives	150,999,551	6,396,029	32,113,209	33,784,546	5,447,030	228,740,366
Effect of derivatives	20,374,428	12,854,183	6,537,639	249,157		40,015,405
Total	171,373,979	19,250,212	38,650,848	34,033,702	5,447,030	268,755,771

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	110,145,375	8,461,692	6,444,751	3,793,208	170,576	129,015,602
Borrowings	23,053,380	469,962	3,201	3,095		23,529,638
Issued bonds	15,569,257	18,120,058	301,799	6,560,141	2,188,953	42,740,207
Subordinated liabilities		73,072	147,119	1,616,714	2,109,163	3,946,067
Financial liabilities excluding derivatives	148,768,012	27,124,784	6,896,869	11,973,157	4,468,692	199,231,514
Effect of derivatives	18,847,051	10,005,886	8,776			28,861,713
Total	167,615,062	37,130,669	6,905,646	11,973,157	4,468,692	228,093,227
Total interest repricing gap	3,758,916	(17,880,457)	31,745,202	22,060,545	978,338	40,662,544

31.12.2022

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	33,839,478	2,831,108				36,670,586
Fixed income securities	4,853,617	11,997,237	20,978,404	19,745,282	4,762,141	62,336,681
Loans to customers	77,638,422	6,912,847	8,579,333	13,522,931	485,694	107,139,227
Financial assets excluding derivatives	116,331,518	21,741,191	29,557,737	33,268,213	5,247,836	206,146,495
Effect of derivatives	27,714,400	3,350,170	3,650,430	5,583,880		40,298,880
Total	144,045,918	25,091,361	33,208,167	38,852,093	5,247,836	246,445,375

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	94,808,020	8,818,784	4,896,286	3,579,710	142,397	112,245,198
Borrowings	9,620,237	16,891,542	815,369	792,861		28,120,009
Issued bonds	11,554,059	17,595,928	517,012	6,373,228	2,063,188	38,103,414
Subordinated liabilities			206,026	766,468	2,713,957	3,686,451
Financial liabilities excluding derivatives	115,982,317	43,306,254	6,434,693	11,512,266	4,919,542	182,155,072
Effect of derivatives	14,399,102	10,483,122	1,168			24,883,392
Total	130,381,419	53,789,376	6,435,861	11,512,266	4,919,542	207,038,464
Total interest repricing gap	13,664,499	(28,698,015)	26,772,306	27,339,827	328,293	39,406,911

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		**30.9.2023**		**31.12.2022**
Currency	**basis points**	**Downward**	**Upward**	**Downward**	**Upward**
ISK, indexed	50	(105,537)	94,033	222,350	(216,040)
ISK, non-indexed	100	573,923	(555,652)	85,251	(92,544)
Other currencies	20	11,820	(11,767)	(7,936)	7,901
Total		480,205	(473,386)	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

	30.9.2023	**31.12.2022**
Assets	32,085,036	30,670,431
Liabilities	(21,846,539)	(19,761,019)
Total	10,238,497	10,909,412

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.

		30.9.2023		**31.12.2022**
	-1%	1%	-1%	1%
Government bonds	(82,763)	82,763	(74,357)	74,357
Other fixed income securities	(53,878)	53,878	(42,622)	42,622
Loans to customers	(121,346)	121,346	(95,730)	95,730
Derivatives	(62,863)	62,863	(93,995)	93,995
Short positions	11,212	(11,212)	4,064	(4,064)
Deposits	79,519	(79,519)	73,605	(73,605)
Issued bonds	88,285	(88,285)	83,077	(83,077)
Subordinated liabilities	39,450	(39,450)	36,865	(36,865)
	(102,385)	102,385	(109,094)	109,094

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 2023 and 31 December 2022 the Group's position in foreign currencies was within those limits.

c. Hedge accounting

The Group applies hedge accounting according to IAS 39 against translation of foreign operations. Currency swap agreements are used as a hedge instrument against translation difference arising from foreign operations.

d. Exchange rates

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

	Closing 30.9.2023	**Average 9m 2023**	**Closing 31.12.2022**	**Average 9m 2022**
EUR/ISK	144.9	149.1	151.5	140.9
USD/ISK	136.8	137.6	142.0	132.5
GBP/ISK	167.6	171.1	170.8	166.4

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

55. Currency risk (cont.)

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

30.9.2023

Financial assets	**EUR**	**USD**	**GBP**	**DKK**	**Other currencies**	**Total**
Cash and balances with Central Bank	2,148,157	1,656,744	3,852,391	73,218	177,165	7,907,675
Fixed income securities	0	5,908,201				5,908,201
Shares and other variable income securities	484,874	1,649,031	1,713,811		29,370	3,877,086
Securities used for hedging	271,562	337,219	1,146		15,273	625,200
Loans to customers	1,473,029	467,536	27,783,295		45,273	29,769,133
Intangible assets			2,502,331			2,502,331
Other assets	1,984,514	2,395,598	629,804	176,014	150,913	5,336,843
Financial assets excluding derivatives	6,362,135	12,414,328	36,482,778	249,233	417,994	55,926,468
Derivatives	8,414,773	1,590,253	1,521,944		16,972,979	28,499,949
Total	14,776,908	14,004,581	38,004,722	249,233	17,390,973	84,426,417

Financial liabilities	**EUR**	**USD**	**GBP**	**DKK**	**Other currencies**	**Total**
Deposits	2,951,675	7,644,963	708,456	24,163	146,480	11,475,736
Borrowings	117,460	1,990,714	13,257,305			15,365,480
Issued bonds	1,244,390		1,926,715		15,555,036	18,726,141
Insurance contract liabilities		47,090	3,223		24,378	74,691
Other liabilities	1,660,966	2,091,450	501,375	11,617	99,477	4,364,886
Financial liabilities excluding derivatives	5,974,491	11,774,217	16,397,075	35,781	15,825,370	50,006,934
Derivatives	9,013,772	1,166,779	21,708,484	97,155	1,552,351	33,538,540
Total	14,988,263	12,940,997	38,105,559	132,936	17,377,721	83,545,475

Net currency position	**EUR**	**USD**	**GBP**	**DKK**	**Other currencies**	**Total**
Financial assets	14,776,908	14,004,581	38,004,722	249,233	17,390,973	84,426,417
Financial liabilities	(14,988,263)	(12,940,997)	(38,105,559)	(132,936)	(17,377,721)	(83,545,475)
Financial guarantee contracts	72,450					72,450
Total	(138,905)	1,063,585	(100,837)	116,297	13,252	953,392

31.12.2022*

Financial assets	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Cash and balances with Central Bank	374,239	2,088,077	2,898,400	65,546	427,832	5,854,094
Fixed income securities	0	3,080,348				3,080,348
Shares and other variable income securities	217	2,543,043	1,201,003	28,692	88,988	3,861,943
Securities used for hedging	290,170	195,634	887	16,111	78,795	581,598
Loans to customers	1,359,546		28,619,678		69,092	30,048,316
Intangible assets			2,611,243			2,611,243
Other assets	690,326	774,579	794,141	30	12,036	2,271,112
Financial assets excluding derivatives	2,714,498	8,681,681	36,125,352	110,379	676,742	48,308,653
Derivatives	7,720,865	3,154,406	1,252	6,866,708	127,232	17,870,463
Total	10,435,363	11,836,088	36,126,604	6,977,087	803,974	66,179,115

Financial liabilities	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Deposits	3,525,844	8,044,039	1,189,823	169,010	329,463	13,258,178
Borrowings	120,959	718,232	15,674,280			16,513,471
Issued bonds	1,296,978		4,026,488	6,866,708		12,190,174
Insurance contract liabilities	68,475	119,567	1,258	3,945	83,301	276,547
Other liabilities	234,879	1,030,777	1,182,692	28,925	82,961	2,560,234
Financial liabilities excluding derivatives	5,247,135	9,912,615	22,074,541	7,068,588	495,726	44,798,604
Derivatives	5,709,257	73,919	14,749,424	5,657	248,976	20,787,234
Total	10,956,393	9,986,534	36,823,965	7,074,245	744,701	65,585,838

Net currency position	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Financial assets	10,435,363	11,836,088	36,126,604	6,977,087	803,974	66,179,115
Financial liabilities	(10,956,393)	(9,986,534)	(36,823,965)	(7,074,245)	(744,701)	(65,585,838)
Financial guarantee contracts	119,564					119,564
Total	(401,465)	1,849,553	(697,361)	(97,159)	59,273	712,841

** Comparative information has been restated, reference is made to note 3 for further information.*

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

55. Currency risk (cont.)

f. 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.

	30.9.2023		31.12.2022	
Assets and liabilities denominated in foreign currencies	**-10%**	**+10%**	**-10%**	**+10%**
EUR	(13,890)	13,890	(40,147)	40,147
USD	106,358	(106,358)	184,955	(184,955)
GBP	(10,084)	10,084	(69,736)	69,736
DKK	11,630	(11,630)	7,644	(7,644)
SEK	(900)	900	(9,716)	9,716
Other currencies	2,226	(2,226)	(1,717)	1,717
Total	95,339	(95,339)	71,284	(71,284)

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.

	30.9.2023		31.12.2022	
	-10%	**+10%**	**-10%**	**+10%**
Listed shares	(482,394)	482,394	(487,926)	487,926
Unlisted shares	(622,748)	622,748	(732,521)	732,521
Unlisted unit shares in funds	(826,514)	826,514	(720,604)	720,604
Total	(1,931,656)	1,931,656	(1,941,051)	1,941,051

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:

30.9.2023 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	36,866,605			36,866,605
Fixed income securities		57,964,135	17,028,575	74,992,709
Shares and other variable income securities			19,316,557	19,316,557
Securities used for hedging			10,031,978	10,031,978
Loans to customers	123,071,264		649,249	123,720,513
Derivatives			3,814,398	3,814,398
Other assets	18,948,871			18,948,871
Total	178,886,740	57,964,135	50,840,756	287,691,630

Financial liabilities	Amortised cost	Fair value through OCI	Manda-torily at fair value through P/L	Total carrying amount
Deposits	129,012,762			129,012,762
Borrowings	23,529,638			23,529,638
Issued bonds	42,740,207			42,740,207
Subordinated liabilities	3,946,067			3,946,067
Short positions held for trading			944,504	944,504
Short positions used for hedging				0
Derivatives			1,199,040	1,199,040
Derivatives used for hedge accounting		345,305		345,305
Other liabilities	21,915,959		371,050	22,287,009
Total	221,144,633	345,305	2,514,594	224,004,532

31.12.2022* 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	36,670,586			36,670,586
Fixed income securities		54,934,612	10,225,796	65,160,407
Shares and other variable income securities			19,410,508	19,410,508
Securities used for hedging			13,841,853	13,841,853
Loans to customers	105,928,837		1,210,390	107,139,227
Derivatives			4,940,738	4,940,738
Other assets	11,883,489			11,883,489
Total	154,482,912	54,934,612	49,629,285	259,046,809

Financial liabilities	Amortised cost	Fair value through OCI	Manda-torily at fair value through P/L	Total carrying amount
Deposits	112,245,198			112,245,198
Borrowings	28,120,009			28,120,009
Issued bonds	38,103,414			38,103,414
Subordinated liabilities	3,686,451			3,686,451
Short positions held for trading			1,486,107	1,486,107
Short positions used for hedging			1,343,186	1,343,186
Derivatives			1,609,537	1,609,537
Other liabilities	9,364,820		373,715	9,738,535
Total	191,519,893	0	4,812,545	196,332,437

** Comparative information has been restated, reference is made to note 3 for further information.*

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

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

d. Fair value hierarchy classification

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

30.9.2023

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	12,841,370	3,293,184	894,020	17,028,575
Shares and other variable income securities	9,991,740	2,312,373	7,012,444	19,316,557
Securities used for hedging	10,031,978			10,031,978
Loans to customers			649,249	649,249
Derivatives		3,814,398		3,814,398
Measured at fair value through other comprehensive income				
Fixed income securities	57,964,135			57,964,135
Total	90,829,223	9,419,955	8,555,713	108,804,890

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	944,504			944,504
Derivatives		372,028	827,012	1,199,040
Other liabilities			371,050	371,050
Measured at fair value through other comprehensive income				
Derivatives used for hedge accounting		345,305		345,305
Total	944,504	717,333	1,198,062	2,859,898

31.12.2022

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	5,524,639	4,085,852	615,304	10,225,796
Shares and other variable income securities	8,723,913	3,249,312	7,437,283	19,410,508
Securities used for hedging	13,841,853			13,841,853
Loans to customers			1,210,390	1,210,390
Derivatives		4,940,738		4,940,738
Measured at fair value through other comprehensive income				
Fixed income securities	54,934,612			54,934,612
Total	83,025,017	12,275,902	9,262,978	104,563,897

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	1,486,107			1,486,107
Short positions used for hedging	1,343,186			1,343,186
Derivatives		917,824	691,713	1,609,537
Other liabilities			373,715	373,715
Total	2,829,293	917,824	1,065,428	4,812,545

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 year 2022.

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.)

e. Reconciliation of changes in Level 3 fair value measurements

30.9.2023	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Derivatives	Other liabilities	Total
Balance as at 1 January 2023	615,304	7,437,283	1,210,390	0	(691,713)	(373,715)	8,197,550
Total gains and losses in profit or loss	78,504	903,753	(23,011)		16,122	2,665	978,032
Additions	357,206	880,583	40,000				1,277,789
Repayments			(578,130)		(151,421)		(729,551)
Disposals	(156,993)	(2,209,176)					(2,366,169)
Balance as at 30 September 2023	894,020	7,012,444	649,249	0	(827,012)	(371,050)	7,357,651

31.12.2022	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	(33,760)	1,979,597	208,872	1,939	(4,532)	(17,646)	2,134,470
Additions	581,656	1,096,404	245,626		(687,181)		1,236,505
Repayments			(1,768,377)	(29,480)		127,417	(1,670,440)
Disposals	(864,483)	(3,193,004)		(2,661)			(4,060,148)
Reclassification	137,353	(137,353)					0
Transfers in (out) Level 3	0	(691,779)					(691,779)
Balance as at 31 December 2022	615,304	7,437,283	1,210,390	0	(691,713)	(373,715)	8,197,550

f. 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 30.9.2023
Unlisted bonds	Expected recovery	Value of assets	0-95%	894,020
Unlisted variable income securities	Market price	Recent trades	-	7,012,444
Loans to customers	Expert model	Value of assets and collateral	-	649,249
Total				8,555,713

Asset class	Method	Significant unobservable input	Range	Book value 31.12.2022
Unlisted bonds	Expected recovery	Value of assets	0-95%	615,304
Unlisted variable income securities	Market price	Recent trades	-	7,437,283
Loan to customers	Expert model	Value of assets and collateral	-	1,210,390
Total				9,262,978

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

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

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

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

	+10%	-10%
Fixed income securities	89,402	(89,402)
Shares and other variable income securities	701,244	(701,244)
Loans to customers	64,925	(64,925)
Total	855,571	(855,571)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Other information

60. Pledged assets

30.9.2023	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
Cash and balances with Central Bank	0	1,721,456	589,300	2,310,756
Fixed income securities	6,239,485	441,197	0	6,680,682
Loans to customers	19,999,578	0	1,383,084	21,382,662
Other assets	0	94,239	0	94,239
Total	26,239,063	2,256,891	1,972,384	30,468,338

31.12.2022	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
Cash and balances with Central Bank	144,695	1,041,158	0	1,185,853
Fixed income securities	4,215,900	469,862	0	4,685,761
Loans to customers	20,691,396	0	2,519,168	23,210,564
Other assets	0	0	0	0
Total	25,051,992	1,511,020	2,519,168	29,082,179

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

30.9.2023	Assets	Liabilities
Management	1,690	111,385
Associates	0	25,538
Total	1,690	136,923
31.12.2022	**Assets**	**Liabilities**
Management	0	44,424
Associates	0	7,408
Total	0	51,832

d. Transactions with related parties

9m 2023	Interest income	Interest expense	Other income	Other expense
Management	0	872	641	1,892
Associates	0	0	0	185,550
Total	0	872	641	187,443
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

Notes to the Condensed Interim Consolidated Financial Statements

62. Other matters

On-site inspection by the Financial Supervisory Authority of the Central Bank

As a part of its supervisory role the FME regularly conducts on-site inspections on the Bank's operations, either theme based or circumstantial. The FME conducted such an inspection of the Bank’s anti money laundering measures in the first quarter of 2023 and the Bank received a report with draft findings towards the end of the third quarter of 2023. The draft findings indicate some deficiencies in the Bank's compliance with the relevant legal framework. When the FME issues final reports on its inspections, the findings are usually made public by the FME and, depending on the circumstances, the Bank. The Bank takes its legal obligations very seriously and has already started working on the detected findings in the draft report.

Discontinuation of merger negotiations with Íslandsbanki hf.

In June 2023 the board of directors of Kvika announced that it had decided to discontinue the merger negotiations with Íslandsbanki hf. The decision was taken in light of the events which followed the publication of a report from the FME on its inspection into the execution of the offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki hf. and the fact that it was decided to call for a shareholder meeting at Íslandsbanki hf., where an election for the board of directors would take place. However, it is the opinion of the board of directors of Kvika that the benefits of a merger of the companies could be significant. Kvika's board will continue to keep an eye out for opportunities in the financial market.

Tax treatment of warrants sold by the Bank

The Bank is aware of that the Iceland revenue and customs ("RSK") is currently reviewing the tax treatment of warrants that the Bank sold during the years 2017 to 2019. The RSK is looking into whether the warrants should be taxed as perquisites instead of as a financial instruments. Should that be the case, then the Bank would be required to pay the respective social security tax and tax on financial activity. The Bank would however be able to deduct the amount of salary related expenses, as well as the amount of the perquisites, from its tax base for the respective years in question, and thereby increase its deferred tax losses.

As the RSK has not yet concluded its review, the Bank has not charged any amount to its income statement nor made any changes to the tax returns for the respective years.

63. Events after the reporting date

TM Insurance to be sold or listed

In early October 2023, the Bank announced that following a strategic review at Kvika, the BOD has decided to initiate a process for selling or listing of its insurance subsidiary TM tryggingar hf. ("TM"). The decision is in line with the Bank's vision, where emphasis is placed on simplifying the Group's operations and strengthening Kvika's traditional banking activities, in accordance with the Bank's goal to increase competition and simplify its customers' finances. Following the divestment of TM, Kvika's main operations will be focused on commercial- and investment banking, along with asset management. Kvika's capital base is expected to grow significantly following TM's divestment, enabling the Bank to pursue internal growth opportunities across Kvika's business segments. Increased capital will, among other things, enable the Bank to strengthen its market position, in both retail and corporate lending, and increase the risk diversification of its loan book. Furthermore, it is expected that a considerable part of the sales proceeds will be paid to shareholders in the form of dividends and/or buyback of own shares.