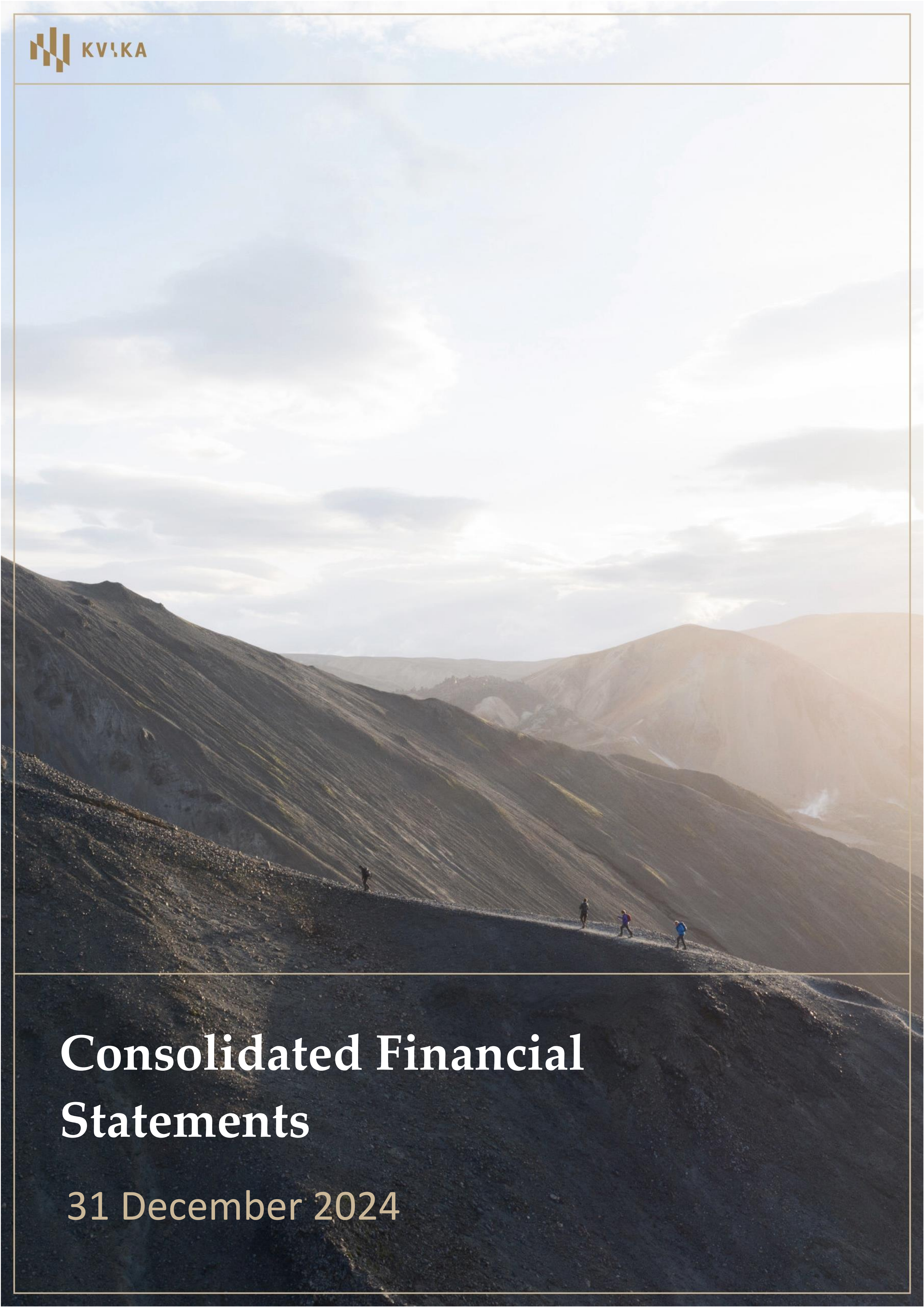

KVIKA

Consolidated Financial Statements

31 December 2024

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31 December 2024

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

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Kvika highlights

31.12.2024

Kvika

Kvika is a specialized financial institution strategically positioned to increase competition and transform financial services in Iceland. Kvika provides businesses, investors, and individuals with investment banking, asset management, payment, and banking services. The Bank is listed on Nasdaq Iceland.

Kvika operates in four business segments, Commercial banking and Investment Banking as well as Asset Management and UK operations through subsidiaries Kvika Asset Management and Kvika Securities Ltd. Kvika's insurance segment, operated through the subsidiary TM tryggingar hf., is currently in a divestment process.

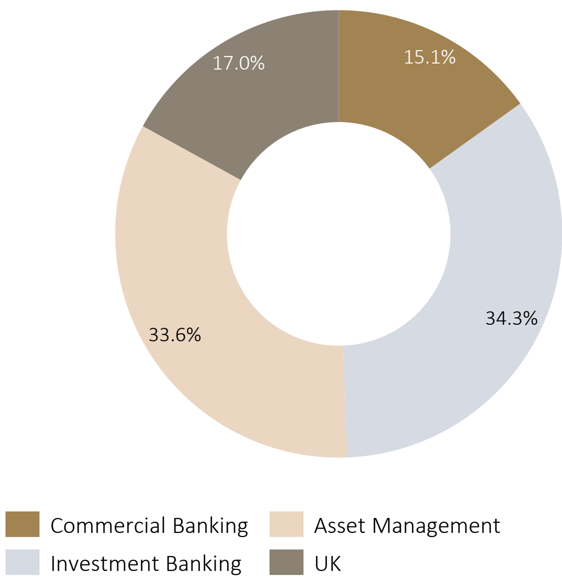
Kvika operates several brands that are highly focused and excel in their field. The main brands are Kvika, Kvika Asset Management, Auður, Aur, Lykill, Netgíró, and Straumur, as well as Ortus Secured Finance in the UK.

Key figures

ISK m.	12M 2024	12M 2023
Net operating income	17,184	14,852
Profit before taxes,continuing operations	5,817	3,009
RoTE, continuing operations	18.8%	10.2%
	31.12.2024	**31.12.2023**
Total Assets	354,594	335,397
Loans to customers	150,203	136,323
Deposits*	163,377	142,516
LCR	360%	247%
NSFR	144%	141%
Group Solvency	1.33	1.25

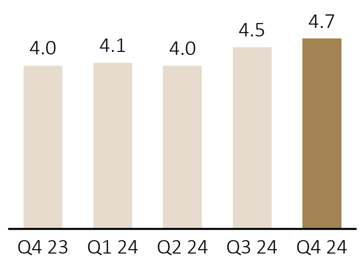
Diversified operations

Revenues by segment / 12M 2024



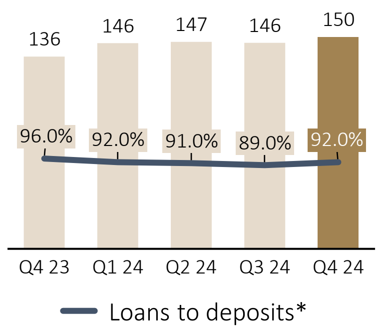
Net operating income

ISK bn.



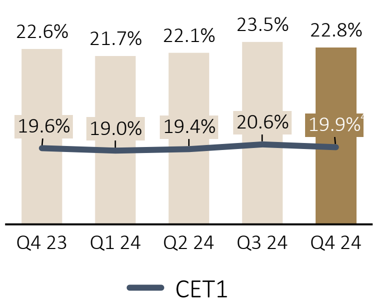
Loans to customers

ISK bn.



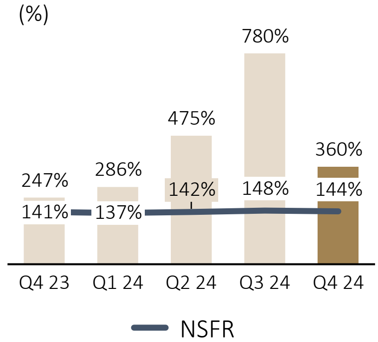
Total capital ratio

(%)



LCR ratio

(%)



Exemplary

Corporate Governance

87/100

Reitun ESG score

Reitun

Baa2/Prime-2

Stable

Moody's

*Money market deposits were previously presented as part of borrowings but are now presented as part of deposits. Comparative figures have been restated. Reference is made to note 2 in Kvika's Consolidated Financial Statements dated 31.12.2024 for further information

Endorsement and Statement
by the Board of Directors and the CEO

These are the Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") and its subsidiaries (together the "Group") for the year 2024.

About the Bank

Kvika is a specialized financial institution strategically positioned to increase competition and transform financial services in Iceland. Operating without a branch network, Kvika provides businesses, investors, and individuals with investment banking, insurance, asset management, payment, and banking services. The Bank is listed on the main list of Nasdaq OMX Iceland.

Kvika operates in four business segments, two which are operated under the Kvika Bank brand, Commercial Banking and Investment Banking, and two in own-brand subsidiaries, Kvika Asset Management and Kvika Securities Ltd., the Group's operations in the UK. The insurance segment, operated through the subsidiary TM tryggingar hf. ("TM") has been sold to Landsbankinn hf. This transaction is currently pending approval from the Icelandic Competition Authority.

Kvika operates as well as a house of brands that are highly focused and excel in their field. The main brands are Kvika, Kvika Asset Management, Auður, Aur, Lykill, Netgíró, and Straumur, as well as Ortus Secured Finance in the UK.

Operations during the year 2024

Profit before taxes from continuing operations for the fourth quarter amounted to ISK 1,601 million (Q4 2023: ISK 363 million) and for the year it amounted to ISK 5,817 million (2023: ISK 3,009 million). Pre-tax annualised return on weighted tangible equity (RoTE) from continuing operations was 18.5% for the quarter and 18.8% for the full year compared to 10.2% in 2023, based on the tangible equity position of Kvika, net of TM, at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the year. Profit after taxes, including discontinued operations, for the fourth quarter amounted to ISK 3,447 million (Q4 2023: ISK 1,578 million) and for the year it amounted to ISK 8,150 million (2023: ISK 4,034 million).

The Group's net operating income during the year was ISK 17,184 million (2023: ISK 14,852 million). Net interest income amounted to ISK 9,681 million (2023: ISK 8,021 million). Net fee income amounted to ISK 6,137 million (2023: ISK 5,916 million). Other operating income amounted to ISK 1,367 million (2023: ISK 915 million). Administrative expenses during the period amounted to ISK 10,608 million (2023: ISK 10,785 million). During the period, the Group had a net impairment charge of ISK 605 million (2023: ISK 1,027 million).

Financial position

According to the Consolidated Statement of Financial Position, equity at the end of the year amounted to ISK 89,517 million (31.12.2023: ISK 81,958 million), and total assets amounted to ISK 354,594 million (31.12.2023: ISK 335,397 million).

The Group's statement of financial position grew by ISK 19 billion or 5.7% during the year 2024. Loans to customers grew by ISK 14.0 billion or 10.3% during the year. Liquid assets amounted to ISK 105.7 billion at end of December 2024, which is equal to 28.9% of total assets and 70.3% of loans to customers.

In mid-January 2025, Kvika completed the sale of 3.25-year floating-rate bonds totalling SEK 600 million and NOK 400 million. These bonds were priced at a spread of 200 basis points over 3-month STIBOR (for the SEK tranche) and 3-month NIBOR (for the NOK tranche). With over 20 investors participating, it marked Kvika's largest international bond issuance to date.

Previously, in May 2024, Kvika tapped an additional SEK 500 million in floating-rate bonds, priced at a 240-basis-point spread over the 3-month STIBOR. Compared to the 410-basis-point spread on issuances in 2023, both the May 2024 and the January 2025 transactions represent a significant improvement in Kvika's bond pricing.

Additionally, in July 2024, Kvika issued ISK 500 million in Tier-2 subordinated bonds to further strengthen the Bank's capital base. This issuance was a tap on subordinated bonds originally issued in December 2023.

Status of the TM sales process

On 30 May 2024 the Bank announced that it had signed a purchase agreement with Landsbankinn hf., in which Landsbankinn hf. purchased 100% of the share capital in TM. On 17 March 2024, the Bank announced that it had received binding offers for the purchase of the share capital of TM. Due diligence review has been completed, and the purchase agreement has been signed with standard conditions of approval from The Financial Supervisory Authority of the Central Bank of Iceland and the Icelandic Competition Authority ("ICA"). On 26 September 2024, the Financial Supervisory Authority of the Central Bank of Iceland has published the results of its assessment, finding that Landsbankinn is eligible to control a qualifying holding in TM. The ICA has yet to conclude its review of the transaction. The purchase price according to the purchase agreement is ISK 28.6 billion and Landsbankinn hf. will pay for the share capital in cash. The purchase price is based on TM's balance sheet at the end of 2023. The final purchase price will be adjusted for changes in TM's tangible equity from the beginning of the year 2024 to the completion date, and the amount of the change will be added to or subtracted from the price according to the purchase agreement.

Operational outlook

The outlook for Kvika in 2025 is positive, underpinned by Kvika's multiple operating segments across its key markets in Iceland and the UK, which provide a diversified source of income. Kvika aims to build on its success in 2024, having already achieved revenue growth driven by loan book expansion, improved interest margins and a recovery in fees and commissions, while managing costs.

Kvika's financial position remains strong, with robust liquidity and capital buffers well above regulatory requirements. It is expected to strengthen further following the sale of its insurance business, TM. The divestment will transform Kvika's capital position, allowing it to retain significant capital to take advantage of growth opportunities by expanding its loan book across all business units, while utilising internal infrastructure more efficiently. Growth in mortgage lending is expected to reduce the average risk weight of the loan book and positively impact NPL ratios in the coming year.

The Group's external environment is expected to turn increasingly supportive. Growth is likely to recover in key markets, while market pricing suggests that nascent rate cutting cycles will continue throughout 2025 both in Iceland and the UK, which we expect to provide a further tailwind to the Group's operations via continued loan book growth, improved net interest margins and increased market activity.

Endorsement and Statement
by the Board of Directors and the CEO

Asset markets have already seen a degree of recovery, with equities delivering strong returns towards the end of 2024, expected to drive increased trading volumes and rebounding performance-related fees in asset management. Furthermore, spreads on peers' Eurobonds have tightened markedly in the last year, potentially offering opportunities to lower funding costs by refinancing non-ISK debt in international markets in the coming year. Declining inflation is expected to allow the Group to maintain a lean cost base even as its operations grows, and balance sheet expands.

Economic outlook

The Icelandic economy enters the coming year at an inflection point in the business cycle. The economy has remained resilient throughout a challenging period of disinflation and is on track to achieve a soft landing. Although growth has slowed markedly in the last year as restrictive monetary policy has weighed on domestic demand, Iceland is widely expected to avoid a recession and enter recovery from this year onward. Recent developments point to an encouraging trajectory for disinflation, setting the stage for greater economic stability, lower interest rates, and a more supportive backdrop for the financial sector.

Iceland's inflationary pressures have eased significantly over the past year. Headline inflation measured 4.8% in December, reflecting a three-percentage-point decline compared to the previous year. This progress has been broad-based, supported by slowing pressures on housing and goods prices. Encouragingly, inflation expectations have also moderated across various horizons. The outlook suggests a continued deceleration, with inflation expected to approach the Central Bank's 2.5% target by mid-2026. This environment is expected to support growth in purchasing power and provide a stronger foundation for economic growth and financial stability.

A milestone was reached as the Central Bank initiated its first rate cut in over four years in October. With the key interest rate now at 8.0%, monetary policy has entered a phase of gradual easing. This shift marks a response to declining inflation and an evolving economic landscape. A downward sloping yield curve anticipates further rate reductions over the coming year, signalling optimism about a more accommodative monetary environment. These changes bode well for the Bank's lending and investment activities, as headwinds from restrictive policy subside.

Growth in the Icelandic economy slowed markedly in 2024, with the economy unlikely to expand meaningfully for the year as a whole. Tight monetary policy has curbed domestic demand while exporting sectors have faced challenges due to slowing growth in tourism, weak capelin stocks and electricity rationing to heavy industry. However, the slowdown is expected to give way to a robust recovery, with growth projected to reach nearly 2% in 2025 and average 2.5% annually in subsequent years. Key drivers include a rebound in private consumption supported by stronger real wage growth and interest rate cuts, continued growth in tourism and green shoots in nascent exporting sectors.

While global economic conditions remain uncertain, Iceland's economic outlook stands out favourably. Among advanced economies, growth prospects for Iceland compare positively, particularly against the backdrop of muted performance in the euro area. Iceland's energy independence, underpinned by its reliable renewable base load power, provides a significant competitive advantage. This stability has facilitated large investments in export-oriented sectors, particularly pharmaceuticals and land-based fish farming, which are expected to yield meaningful growth over a medium-term horizon. These developments underscore Iceland's strong positioning for sustainable growth and resilience in the face of global challenges.

Additionally, the Icelandic labour market has shown remarkable resilience amid the economic slowdown. While growth in employment has moderated compared to recent years, job creation remains positive, and unemployment seems to be stabilising at relatively low levels. This reflects the flexibility of the Icelandic labour market, which has benefitted from migration flows and close integration with the European labour market.

Despite the benign outlook, several risks warrant vigilance. Externally, geopolitical tensions, increased trade fragmentation, weak growth in key trading partners and the potential for renewed global inflationary pressures could pose challenges. Domestically, the labour market's response to evolving economic conditions, coupled with the pace of disinflation, will be critical. Additionally, fluctuations in tourism activity and global commodity prices remain pivotal factors influencing Iceland's economic trajectory. The Bank remains committed to monitoring these dynamics and ensuring preparedness to navigate any headwinds effectively.

As Iceland hopefully enters a new period of growth, its disinflationary progress, the onset of monetary easing, and the anticipated economic recovery present opportunities for the Bank to continue driving value for stakeholders.

Capital adequacy and dividends

The Financial Supervisory Authority of the Central Bank published the results of the Supervisory Review and Evaluation Process ("SREP") for Kvika based on financial information at year-end 2023 on 10 July 2024. The capital requirement under Pillar II changed to 3.6% of total risk-weighted exposures amount ("RWEA"), a decrease of 0.4pp from the year before. On 4 December 2024 the systemic risk buffer decreased by 0.8pp due to a decrease by the Central Bank of Iceland. As of 31 December 2024, the systemic risk buffer decreased by a further 0.1pp due to changes in composition of risk weighted exposure amount between Iceland and UK. Hence Kvika's total capital requirement at 31.12.2024, taking into account all capital buffers, amounted to 18.0%. Kvika's capital adequacy ratio was 22.8% at the end of December 2024 (31.12.2023: 22.6%). Kvika's CET1 requirement was 12.9% compared to a CET1 ratio of 19.9% at the end of December 2024.

The Group's solvency ratio at 31.12.2024 was 1.33 (31.12.2023: 1.25) with a regulatory minimum requirement of 1.0.

The Central Bank's Resolution Authority presented the Group with their first minimum requirement for own funds and eligible liabilities (MREL) in January 2025. The MREL requirements, including the combined buffer requirement, are 28.4% of RWEA and 6.0% of total exposure amount ("TEM"). At the end of 2024 these ratios were 41.1% and 31.1% respectively.

The Bank's 2024 Annual General Meeting ("AGM") approved a motion from the Board of Directors ("BOD") permitting the Bank to purchase up to 10% of own shares subject to regulatory approvals. This authorisation applies until the next annual general meeting in 2025. In July 2024, 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 100,000,000 shares. The buy-back programme was completed in September 2024 when the Bank had purchased shares for ISK 1 billion.

Endorsement and Statement
by the Board of Directors and the CEO

The 2024 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 58,952,375 shares by cancelling treasury shares held by the Bank. In March 2024, the share capital reduction was carried out. Furthermore, the 2024 AGM approved a motion from the BOD that no dividend will be paid in the year 2024 on 2023 operations. Through the purchase of own shares in 2024, the Bank's dividend policy was met. The dividend policy states that the aim is for shareholders to be returned an annual dividend of at least 25% of last year's profit after taxes, whether in the form of dividends or through the purchase of own shares.

The BOD proposes that a dividend of 0.44 ISK per share for a total amount of ISK 2,050 million, taking into account treasury shares held by the Group, will be paid in the year 2025 on 2024 operations. The dividend payment amounts to 25% of Profit after tax for the year, which is in line with the Bank's dividend policy. Additionally, the BOD will decide on a extraordinary dividend upon receipt of the purchase price for TM as well as initiating a share buy back programme, for which the Bank has received an approval from the Central Bank of Iceland that is contingent on the finalisation of the TM sale.

Share capital and shareholders

The Bank's issued share capital amounted to ISK 4,722 million as at 31 December 2024 (31.12.2023: ISK 4,781 million). At the end of the year the Bank held ISK 62 million treasury shares (31.12.2023: ISK 59 million). The shares were acquired through a share buy-back programme. The net change in the Bank's issued share capital amounted to a reduction in nominal value of ISK 59 million during the year (ISK 148 million reduction during the year 2023).

The Bank had 2,741 shareholder at year-end 2024 (2023: 2,876), none of which held more than 10% of shares in the Bank (2023: 0). The ten largest shareholders are as follows:

Shareholder	31.12.2024	31.12.2023
Lífeyrissjóður verzlunarmanna	9.17%	9.56%
Lífeyrissjóður starfsmanna ríkisins A-deild	7.93%	7.89%
Stoðir hf.	7.09%	7.01%
Gildi - lífeyrissjóður	5.64%	5.43%
Birta lífeyrissjóður	5.58%	6.00%
Lífsverk lífeyrissjóður	2.59%	2.55%
Stapi lífeyrissjóður	2.55%	3.54%
Landsbankinn hf.	2.39%	1.28%
Almenni lífeyrissjóðurinn	2.33%	2.30%
Frjálsi lífeyrissjóðurinn	2.32%	2.31%
	47.60%	47.86%

Further information about the shareholders of the Bank is provided in note 67.

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 42-58 on the analysis of exposure to various types of risk.

In 2024, changes were made to the risk management framework regarding sustainability risk. Previously, sustainability risk was categorized under operational risk, but it has now been elevated within the risk management framework and is considered an independent risk factor.

Corporate governance

Kvika is obliged to observe recognised corporate governance guidelines, pursuant to Par. 7 of Article 54 of Act No. 161/2002, on Financial Undertakings. The Bank complies with chapter VII of Act No. 161/2002 and in most respects with the Guidelines on Corporate Governance issued jointly in February 2021 by the Chamber of Commerce, Confederation of Icelandic Enterprise (SA) and Nasdaq Iceland. The Bank's annual general meeting in March 2024 approved a proposal to establish a Nomination Committee. The committee serves as an advisory role to facilitate informed decision-making be shareholders when selecting board members. Kvika has three times been recognized as a company which has achieved excellence in corporate governance following a formal assessment based on the Icelandic Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, Confederation of Icelandic Enterprise (SA) and Nasdaq Iceland, first in 2018, in 2021 and in 2024. The recognition applies for three years at a time unless there have been significant changes to the BOD or the ownership of the Bank. The BOD intends to have such an assessment carried out on a regular basis and maintain the aforementioned recognition. Additionally, Kvika complies with Guidelines of the European Banking Authority (EBA) on Internal Governance (EBA/GL/2021/05), cf. Art. 15 of Regulation of the European Parliament and of the Council no. 1093/2010, which was incorporated into Icelandic law with Act no. 24/2017 on European Supervisory System on the Financial Market.

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

Endorsement and Statement
by the Board of Directors and the CEO

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

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

The BOD has delegated certain tasks to three separate subcommittees, the Risk Committee, Audit Committee and Remuneration Committee. The appointment of committee members shall always comply with currently applicable law. It is not permitted to appoint employees of the Bank to any subcommittee. Members shall have the necessary experience and knowledge for each committee's tasks according to applicable laws and rules. Each committee has incorporated procedural rules which have been confirmed by the BOD.

The BOD is responsible for the Group's risk management framework. It approves the Kvika Banki Group risk policy, which provides an efficient and transparent framework for managing risk and risk appetite in relation to identified risk factors.

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

The Risk Committee has an advisory and supervisory role for the Bank's BOD, among other things, in determining its risk policy and risk appetite. The Audit Committee is intended to play an advisory and supervisory role for the Bank's BOD by, among other things, ensuring the quality of financial statements and other financial information from the Bank and the independence of its auditors. The Audit Committee supervises accounting procedures and the effectiveness of internal controls as well as internal and external auditing. The Remuneration Committee has an advisory and monitoring role for the BOD in relation to remuneration at the company and its Group and that they support its goals and interests.

The main aspects of internal and external control and the Bank's management in connection with the accounting process are described in detail in the Statement on the Corporate Governance of Kvika.

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

Sustainability and non-financial reporting

Kvika's strategy is to increase competition in financial services and simplify customers' financial affairs. Its core values are long-term thinking, simplicity, and courage. One of the guiding principles of the Group is to be a responsible participant in society and in 2022 a sustainability policy was issued, which remains in effect for Kvika Bank and the Group based on Kvika's ownership policy for key subsidiaries. Relevant supporting policies were subsequently developed or updated, such as policies on education and career development, equality, health, and human resources, as well as a response plan against bullying, harassment, and violence. There has been no need for a separate human rights policy at Kvika, given that the Group primarily operates in Iceland, where there is a clear legal framework for human rights issues.

A new sustainability risk policy for Kvika was approved by the Bank's BOD in the year that aligns with the guidelines from the Financial Supervisory Authority of the Central Bank of Iceland and the draft regulatory framework of the European Banking Authority (EBA) on sustainability risk (EBA/CP/2024/02). Sustainability risk according to the policy includes both Kvika's external risk exposure to various stakeholders and sustainability risk factors (inside-out risk) as well as the risk posed to Kvika by sustainability factors (outside-in risk). Sustainability risk may impact other risk categories within the Bank. No changes have been made to the sustainability risk policies of Kvika Asset Management and TM since 2023.

The first step in the risk management process for monitoring sustainability risk is identifying key sustainability topics within Kvika's operations. This was achieved through a double materiality assessment (DMA) conducted in 2024, marking the first time Kvika has undergone such a process. The DMA is currently voluntary in Iceland as the analysis follows the requirements of the Corporate Sustainability Reporting Directive (CSRD), which is expected to be transposed into Icelandic law in the near future. The findings highlight the most significant sustainability topics for Kvika's operations and shape Kvika's approach to sustainability reporting.

In line with these findings, Kvika is now publishing its first sustainability report considering the European Financial Reporting Advisory Group´s (EFRAG) standards known as the European Sustainability Reporting Standards (ESRS). These standards align with the CSRD and define rules for sustainability disclosures. Kvika aims to fully comply with all relevant data points in the ESRS when the CSRD becomes legally binding in Iceland. Kvika's sustainability disclosures under these requirements supplements the current legal requirements for non-financial reporting as outlined in Article 66 d of the Act on Annual Accounts no. 3/2006.

Kvika supports the UN Sustainable Development Goals (SDGs) and has selected six as priority areas: goal no. 3 – good health and well-being; goal no. 4 – quality education; goal no. 5 – gender equality; goal no. 9 – industry, innovation, and infrastructure; goal no. 13 – climate action; and goal 17 – partnerships for the goals. The Bank monitors progress on initiatives within the Group that align with these goals.

Kvika is committed to reducing its carbon footprint and progress was made in the year 2024 in reducing greenhouse gas (GHG) emissions. Scope 1 emissions decreased by 38% year-over-year and Scope 3 by 51%. These reductions are attributed to initiatives such as transitioning from fossil-fuel-powered to electric vehicles, reducing employee flights and other measures. Overall, Kvika's total GHG emissions for 2024 were 282 tCO_2e.

Endorsement and Statement
by the Board of Directors and the CEO

Kvika's Green Funding Framework was updated in 2024 to better align with the European Union's Taxonomy Regulation. By year-end 2024 Kvika's total green commitments amounted to ISK 8,526 million, covering issued green bonds and green deposits offered by the Bank. The Green Funding Framework enables Kvika to direct capital towards sustainable development and support the green transition in the economy. So far, all green commitments have been allocated within the asset category of clean transportation, specifically to Lykill's green car loans. Kvika's green assets at the end of 2024 amounted to ISK 10,530 million.

At Kvika, work has been carried out to implement the requirements of the Taxonomy Regulation and the Group publishes now for the second time information in accordance with Article 8 of the Taxonomy Regulation. To comply with the regulation's provisions, an analysis of the Group's assets was conducted with regards to the Taxonomy Regulation's technical criteria, and the proportion of green assets (Green Asset Ratio or GAR) was calculated. This ratio represents the Group's assets that involve financing and investment in environmentally sustainable economic activities according to the criteria of the Taxonomy Regulation. Information on Kvika´s GAR can be found in an unedited appendix to this annual report.

The Bank has established a policy on measures against financial crime, rules on managing conflicts of interest, regulations on gifts, rewards, and incentive payments, as well as policies concerning reputational and conduct risk. They state that no employee or third party acting on behalf of the Group shall give, promise, request, accept, or receive bribes or other undue benefits intended to influence decision-making in their professional capacity. Kvika has also implemented internal rules and procedures to strengthen its defences against bribery and corruption. Additionally, rules have been set regarding the segregation of duties, personal trading by employees, and whistleblower protection. These rules and policies, largely established at the Group level, form the foundation—along with the Bank's code of ethics—of Kvika's anti-corruption and anti-bribery measures.

Through these measures Kvika seeks to prevent its operations and those of its subsidiaries from being used for financial or economic crimes. The Bank regularly conducts and reviews risk assessments related to money laundering across its operations and business relationships, utilizing the information technology system Lucinity, which employs modern technology and artificial intelligence to detect suspicious behaviour.

Further information on sustainability and non-financial disclosures can be found in Kvika's 2024 Sustainability Report, which accompanies this annual account and is available on the Bank's website, www.kvika.is. Deloitte provides a limited assurance on selected data points in Kvika´s Sustainability Report for 2024 and on the disclosure in Kvika´s impact and allocation report that is a part of the Sustainability Report.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Kvika banki hf. for the year 2024 have been prepared in accordance with International Financial Reporting Standards 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 Consolidated Financial Statements give a true and fair view of the Group's assets, liabilities and financial position as at 31 December 2024 and the financial performance of the Group and changes of cash flows for the year 2024. Furthermore, in our opinion the Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

In our opinion, the Consolidated Financial Statements of Kvika banki hf. for the year 2024 identified as "254900WR3I1Z9NPC7D84-2024-12-31-en" are prepared in all material respects, in compliance with the European Single Electronic Format Regulation (ESEF).

The Board of Directors and the CEO of the Bank have today discussed the Consolidated Financial Statements for the year 2024 and confirmed them by the means of their signatures.

Reykjavík, 12 February 2025.

Board of Directors

Sigurður Hannesson, Chairman

Helga Kristín Auðunsdóttir, Deputy Chairman

Ingunn Svala Leifsdóttir

Guðjón Reynisson

Sigurgeir Guðlaugsson

Chief Executive Officer

Ármann Þorvaldsson

The Consolidated Financial Statements of Kvika banki hf. for the year ended 31 December 2024 are electronically certificated by the Board of Directors and the CEO.

Independent Auditor's Report

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

Opinion

We have audited the Consolidated Financial Statements of Kvika banki hf. for the year ended December 31, 2024 which comprise, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of Kvika banki hf. as at December 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements, as applicable, in the Act on Annual Accounts, the Act on Financial Undertakings and rules on accounting for credit institutions.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of Kvika banki hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA.

Based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters	How the matter was addressed in our audit
Impairment charges for loans	
Book value of loans to customers amounted to ISK 150,203 million at year end (2023: ISK 136,323 million) and the total expected credit loss for the group amounted to ISK 2,345 million (2023: ISK 2,234 million) against loans at amortized cost, unused credit facilities and guarantees at 31 December 2024. Measurement of loan impairment charges for loans and provisions for guarantees is deemed a key audit matter as the determination of assumptions for expected credit losses is highly subjective due to the level of judgement applied by Management. The most significant judgements are: • Timely identification of exposures with significant increase in credit risk and credit impaired exposures. • Valuation of collateral and assumptions of future cash flows on manually assessed credit-impaired exposures. • Post-model adjustments for particular high-risk exposures, which are not appropriately captured in the expected credit loss model. • Assumptions used in the expected credit loss models to incorporate macroeconomic uncertainties. Management has provided further information about expected credit losses and provisions for guarantees in notes 22, 46 and 82 to the Consolidated Financial Statements.	Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans and provisions for undrawn loan commitments and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter. During our audit we have evaluated whether the Groups expected credit loss models are compliant to IFRS 9. Our examination included the following elements: • Testing of key controls over assumptions used in the expected credit loss models. • Obtaining and substantively testing the evidence behind valuation of collateral with particular focus on post-model adjustments applied to collateral value. • Substantively testing the PD models, related methodology and how they have been applied in the expected credit loss models. • Testing the appropriateness of forward looking information and how they have been applied in the expected credit loss models. We have reviewed the disclosures to the Consolidated Financial statements to confirm compliance with IFRS.

Independent Auditor's Report

Other information

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

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

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

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

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

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

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

The board of directors and the audit committee are responsible for overseeing the Kvika banki hf. financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

Independent Auditor's Report

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

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

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

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

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the Consolidated Financial Statements of Kvika banki hf. we performed procedures to be able to issue an opinion on whether the Consolidated Financial Statements of Kvika banki hf. for the year 2024 with the file name „254900WR3I1Z9NPC7D84-2024-12-31-en.zip"is prepared, in all material respects, in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the Consolidated Financial Statements in XHTML format and iXBRL markup.

Management is responsible for preparing the Consolidated Financial Statements in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag. This responsibility includes preparing the Consolidated Financial Statements in a XHTML format in accordance to EU regulation 2019/815 on the European single electronic format (ESEF regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the Consolidated Financial Statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF regulation, whether due to fraud or error.

In our opinion, the Consolidated Financial Statements of Kvika banki hf. for the 2024 with the file name „254900WR3I1Z9NPC7D84-2024-12-31-en.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

Deloitte was appointed auditor of Kvika banki hf. by the general meeting of shareholders on March 21st 2024. Deloitte have been elected since the general meeting 2016.

Kópavogur, 12 February 2025.

Deloitte ehf.

Guðmundur Ingólfsson

State Authorized Public Accountant

The Consolidated Financial Statements of Kvika banki hf. for the year ended 31 December 2024 are electronically certificated by the auditor.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Income Statement
For the year 2024

	Notes	Q4 2024	Q4 2023	2024	2023
Interest income		6,804,898	6,086,605	28,864,791	22,425,240
Interest expense		(4,307,148)	(3,755,508)	(19,183,996)	(14,404,510)
Net interest income	5	2,497,750	2,331,096	9,680,795	8,020,729
Fee and commission income		1,765,252	1,692,180	6,787,614	6,455,647
Fee and commission expense		(164,320)	(114,583)	(651,104)	(539,199)
Net fee and commission income	6	1,600,932	1,577,597	6,136,510	5,916,447
Net financial income (expense)	7	507,425	(10,613)	1,054,384	442,389
Share in profit of associates, net of income tax	25	15,770	18,234	41,350	35,756
Other operating income		43,914	86,427	271,401	436,900
Other net operating income		567,109	94,048	1,367,135	915,045
Net operating income		4,665,791	4,002,741	17,184,440	14,852,222
Administrative expenses	9-12	(2,864,054)	(2,778,784)	(10,607,762)	(10,784,684)
Net impairment	13	(91,084)	(826,818)	(604,972)	(1,027,489)
Revaluation of contingent consideration		(109,927)	(33,713)	(154,247)	(31,048)
Profit before taxes from continuing operations		1,600,727	363,427	5,817,459	3,009,001
Income tax	14	(45,016)	264,324	(766,485)	(389,673)
Special tax on financial activity	15	18,919	32,918	(109,019)	(82,026)
Special tax on financial institutions	16	(46,816)	(71,988)	(252,056)	(233,414)
Profit for the year from continuing operations		1,527,814	588,681	4,689,899	2,303,887
Discontinued operations					
Profit after tax from discontinued operations	3	1,918,966	989,816	3,460,071	1,730,389
Profit for the year		3,446,780	1,578,498	8,149,970	4,034,276

	Notes	Q4 2024	Q4 2023	2024	2023
Attributable to the shareholders of Kvika banki hf.		3,446,783	1,581,676	8,143,442	4,018,503
Attributable to non-controlling interest	24	(3)	(3,178)	6,527	15,772
Profit for the year		3,446,780	1,578,498	8,149,970	4,034,276
Earnings per share	17				
Basic earnings per share (ISK per share)		0.74	0.33	1.73	0.84
Diluted earnings per share (ISK per share)		0.74	0.33	1.73	0.84

Quarterly information is unreviewed.

The notes on pages 17 to 76 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Comprehensive Income
For the year 2024

	Notes	Q4 2024	Q4 2023	2024	2023
Profit for the year		3,446,780	1,578,498	8,149,970	4,034,276
Changes in fair value of financial assets through OCI, net of tax		241,297	503,664	346,520	(433,002)
Realized net (gain) loss transferred to the Income Statement, net of tax		(13,951)	28,621	893	77,089
Changes to reserve for financial assets at fair value through OCI		227,346	532,285	347,413	(355,912)
Exchange difference on translation of foreign operations		(59,381)	48,359	(7,055)	28,808
Other comprehensive income that is or may be reclassified subsequently to profit and loss		167,965	580,644	340,358	(327,105)
Total comprehensive income for the year		3,614,745	2,159,142	8,490,328	3,707,171

	Notes	Q4 2024	Q4 2023	2024	2023
Attributable to the shareholders of Kvika banki hf.		3,614,748	2,162,320	8,483,800	3,691,399
Attributable to non-controlling interest		(3)	(3,178)	6,527	15,772
Total comprehensive income for the year		3,614,745	2,159,142	8,490,328	3,707,171

Quarterly information is unreviewed.

The notes on pages 17 to 76 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Financial Position
As at 31 December 2024

Assets	Notes	31.12.2024	31.12.2023
Cash and balances with Central Bank	18	28,319,192	23,681,453
Fixed income securities	19	64,794,561	64,977,406
Shares and other variable income securities	20	5,432,254	3,857,480
Securities used for hedging	21	12,601,026	16,852,313
Loans to customers	22	150,202,696	136,323,481
Derivatives	23	1,196,744	2,497,877
Investment in associates	25	112,855	96,194
Intangible assets	26	21,693,399	21,906,363
Operating lease assets	27	215,168	530,144
Property and equipment		543,413	618,361
Deferred tax assets	14, 28	2,273,265	2,902,580
Other assets	29	9,507,492	10,401,128
Assets classified as held for sale	3	57,702,377	50,752,652
Total assets		354,594,442	335,397,432

Liabilities	Notes	31.12.2024	31.12.2023
Deposits	50	163,377,879	142,565,905
Borrowings	30	14,389,515	15,024,098
Issued bonds	31	37,123,285	45,715,427
Subordinated liabilities	32	5,628,982	5,993,084
Short positions held for trading	33	153,001	131,745
Short positions used for hedging	34	42,035	4,230
Derivatives	23	2,932,429	2,196,904
Deferred tax liabilities	28	466,096	272,615
Other liabilities	35	13,634,905	16,594,010
Liabilities associated with assets classified as held for sale	3	27,329,028	24,941,611
Total liabilities		265,077,155	253,439,628

Equity	Notes	31.12.2024	31.12.2023
Share capital	36	4,660,180	4,722,073
Share premium		46,750,093	47,661,777
Other reserves		9,356,543	4,330,081
Retained earnings		28,671,825	25,171,754
Total equity attributable to the shareholders of Kvika banki hf.		89,438,641	81,885,685
Non-controlling interest	24	78,646	72,119
Total equity		89,517,287	81,957,804
Total liabilities and equity		354,594,442	335,397,432

The notes on pages 17 to 76 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Changes in Equity

For the year 2024

1 January 2024 to 31 December 2024	Notes	Share capital	Share premium	Other reserves: Option reserve	Other reserves: Deficit reduction reserve	Other reserves: Fair value reserve	Other reserves: Translation reserve	Other reserves: Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2024		4,722,073	47,661,777	173,605	1,203,697	(930,231)	86,145	3,796,865	25,171,754	81,885,685	72,119	81,957,804
Profit for the year									8,143,442	8,143,442	6,527	8,149,970
Changes in fair value of financial assets through OCI						346,520				346,520		346,520
Realized net loss transferred to the Income Statement						893				893		893
Translation of foreign operations												
Exchange difference on translation of foreign operations							(7,055)			(7,055)	0	(7,055)
Total comprehensive income for the year		0	0	0	0	347,413	(7,055)	0	8,143,442	8,483,800	6,527	8,490,328
Restricted due to subsidiaries and associates								4,744,782	(4,744,782)	0		0
Restricted due to development costs								5,795	(5,795)	0		0
Transactions with owners of the Bank												
Treasury shares acquired as part of a buy-back programme		(63,624)	(936,376)							(1,000,000)		(1,000,000)
Share options	66			(59,921)					102,654	42,733		42,733
Share options exercised		1,730	24,692	(4,553)					4,553	26,422		26,422
Equity as at 31 December 2024		4,660,180	46,750,093	109,131	1,203,697	(582,818)	79,090	8,547,443	28,671,825	89,438,641	78,646	89,517,287

The notes on pages 17 to 76 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Changes in Equity
For the year 2023

				Other reserves								
1 January 2023 to 31 December 2023	**Notes**	**Share capital**	**Share premium**	**Option 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	1,203,697	(574,319)	57,338	2,225,492	24,559,886	81,011,895	77,285	81,089,180
Profit for the year									4,018,503	4,018,503	15,772	4,034,276
Changes in fair value of financial assets through OCI						(433,002)				(433,002)		(433,002)
Realized net loss transferred to the Income Statement						77,089				77,089		77,089
Translation of foreign operations												
Exchange difference on translation of foreign operations							28,808			28,808	0	28,808
Total comprehensive income for the year		0	0	0	0	(355,912)	28,808	0	4,018,503	3,691,399	15,772	3,707,171
Restricted due to subsidiaries and associates								1,443,488	(1,443,488)	0		0
Restricted due to development costs								127,884	(127,884)	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)
Share options	66			17,654					73,997	91,651		91,651
Other transactions												
Acquisition of non-controlling interest via merger									3,150	3,150	(20,938)	(17,788)
Equity as at 31 December 2023		4,722,073	47,661,777	173,605	1,203,697	(930,231)	86,145	3,796,865	25,171,754	81,885,685	72,119	81,957,804

The notes on pages 17 to 76 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Cash Flows
For the year 2024

Cash flows from operating activities	Notes	2024	2023
Profit for the year		8,149,970	4,034,276
Adjustments for:			
Indexation and exchange rate difference		6,446	(188,114)
Share in profit of associates, net of income tax		(41,350)	(35,756)
Depreciation and amortisation		1,106,068	1,109,490
Net interest income		(9,680,795)	(8,020,729)
Net impairment		604,972	1,027,489
Income tax and special tax on financial activity and institutions		1,127,560	705,114
Adjustment relating to assets held for sale		(3,488,141)	445,029
Other adjustments		42,733	94,801
		(2,172,537)	(828,401)
Changes in:			
Fixed income securities		750,211	(21,211,295)
Shares and other variable income securities		(5,246,477)	227,425
Securities used for hedging		4,251,287	(3,010,460)
Loans to customers		(11,224,223)	(29,420,426)
Derivatives - assets		1,301,132	2,442,861
Operating lease assets		225,235	194,187
Other assets		772,611	484,156
Deposits		20,413,165	19,684,527
Insurance contract liabilities		2,360,802	2,166,335
Short positions		59,062	(2,693,319)
Derivatives - liabilities		713,124	529,292
Other liabilities		(2,689,526)	8,286,647
		11,686,403	(22,320,069)
Interest received		27,993,291	21,389,947
Interest paid		(18,851,441)	(13,561,855)
Income tax paid		(614,333)	(494,455)
Net cash from (to) operating activities		18,041,384	(15,814,832)
Cash flows from investing activities			
Additions of intangible assets	26	(608,412)	(1,539,716)
Net acquisition of property and equipment		(90,974)	(342,664)
Dividend from associates		19,806	27,493
Disposal (Acquisition) of subsidiary and associates, net of cash		1,237,755	(20,938)
Net cash from (to) investing activities		558,174	(1,875,826)
Cash flows from financing activities			
Borrowings		(2,072,443)	(4,191,498)
Issued bonds		(8,592,142)	10,821,525
Subordinated loans		(300,000)	2,000,000
Acquired own shares		(1,000,000)	(1,000,000)
Sale of own shares due to share options		26,422	0
Dividend paid to shareholders		0	(1,912,410)
Repayment of lease liabilities		(407,716)	(424,085)
Net cash (to) from financing activities		(12,345,879)	5,293,532
Net change in cash and balances with Central Bank		6,253,679	(12,397,126)
Cash and balances with Central Bank at the beginning of the year, including assets held for sale		24,677,014	36,670,586
Effects of exchange rate fluctuations on cash and balances with Central Bank		(539,354)	403,554
Cash and balances with Central Bank at the end of the year, including asset held for sale		30,391,339	24,677,014
Cash and cash equivalents due to assets held for sale		(2,072,147)	(995,561)
Cash and balances with Central Bank at the end of the year	18	28,319,192	23,681,453

The notes on pages 17 to 76 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

General information

1. Reporting entity

Kvika banki hf. ("Kvika" or the "Bank") is a limited liability company incorporated and domiciled in Iceland, with its registered office at Katrínartún 2, Reykjavík. The Bank operates as a bank based on Act No. 161/2002, on Financial Undertakings, and is supervised by the Financial Supervisory Authority of the Central Bank ("FME"). The 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 Consolidated Financial Statements for the year ended 31 December 2024 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). The subsidiary TM tryggingar hf. has been classified as a disposal group held for sale, insurance operations are therefore a discontinued operation and are no longer reported as an operating segment. The Group operates four business segments, Asset Management, Commercial Banking, Investment Banking and UK operations. Operating without a branch network, Kvika provides businesses, investors, and individuals with investment banking, insurance, asset management, payment, and banking services.

The Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 12 February 2025.

2. Basis of preparation

a. Statement of compliance

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

b. Basis of measurement

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

- fixed income securities are measured at fair value;
- shares and other variable income securities are measured at fair value;
- securities used for hedging are measured at fair value;
- certain loans to customers which are measured at fair value;
- derivatives are measured at fair value;
- investment properties are measured at fair value;
- shared based payment is accounted for in accordance with IFRS 2;
- contingent consideration is measured at fair value; and
- short positions are measured at fair value.

c. Functional and presentation currency

The Consolidated Financial Statements are prepared in Icelandic krona (ISK), which is the 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 31 December 2024.

d. Going concern

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

e. Estimates and judgements

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

The estimates and underlying assumptions are based on historical 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 Consolidated Financial Statements is provided in note 108.

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.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

g. Change in presentation

As at 31 December 2024 the Group has changed where in the statement of financial position it presents money market deposits. It now presents them as a part of deposits, whereas they were previously presented as part of borrowings. The change has been made as the nature and type of the liabilities that money market deposits represent are more in line with deposits then borrowings. The comparative figures for 31 December 2023 in the statement of financial position and in the notes have been restated.

The table below shows the effect of the reclassification on the Consolidated Statement of Financial Position at 31 December 2023:

	31.12.2023	Reclassified	Restated 31.12.2023
Assets:			
All assets	335,397,432	0	335,397,432
Total assets	335,397,432	0	335,397,432
Liabilities and Equity:			
Deposits	133,772,941	8,792,963	142,565,905
Borrowings	23,817,062	(8,792,963)	15,024,098
All other liabilities and equity	177,807,429	0	177,807,429
Total liabilities and equity	335,397,432	0	335,397,432
Lines in the Consolidated Statement of Cash Flows			
Deposits	20,669,844	(985,317)	19,684,527
Borrowings	(5,176,815)	985,317	(4,191,498)

3. Discontinued operations

At year-end 2023, TM was classified as a disposal group held for sale and as a discontinued operation. TM is measured at the lower of carrying amount upon the date of reclassification and fair value less costs to sell.

The results of the discontinued operations for the year are presented below:

	2024	2023
Net interest income	705,744	896,360
Net fee and commission income	(9,082)	24,243
Insurance revenue	20,860,983	19,582,351
Incurred claims and net expense from reinsurance contract held	(15,549,061)	(14,859,842)
Net financial income	2,401,751	799,836
Other operating income	117,128	133,484
Administrative expenses	(4,799,240)	(4,523,638)
Net impairment	(2,976)	20,893
Revaluation of investment properties	0	59,602
Income tax	(403,858)	(483,429)
	3,321,389	1,649,861
Gain on the sale of a subsidiary	94,854	0
Administrative expenses, stranded costs	54,785	102,402
Income tax	(10,957)	(21,874)
Profit for the year from discontinued operations	3,460,071	1,730,389

The major classes of assets and liabilities of the discontinued operations are as follows:

Assets	**31.12.2024**	**31.12.2023**
Cash and balances with Central Bank	2,072,147	995,561
Fixed income securities	21,065,333	19,824,505
Shares and other variable income securities	20,607,557	14,543,128
Investment properties	0	1,240,135
Intangible assets	12,349,767	12,615,362
Other assets	1,607,573	1,533,960
Assets classified as held for sale	57,702,377	50,752,652
Liabilities		
Insurance contract liabilities	25,301,763	23,267,425
Deferred tax liabilities	605,187	629,063
Other liabilities	1,422,078	1,045,123
Liabilities associated with assets classified as held for sale	27,329,028	24,941,611
Eliminations with the Group	(55,207)	1,018,962
Net assets directly associated with disposal group	30,318,142	26,830,002

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

3. Discontinued operations (cont.)

Amounts included in accumulated OCI:	31.12.2024	31.12.2023
Fair value of financial assets through OCI	(274,943)	(387,416)
Deferred tax on fair value reserve	54,989	77,483
Reserve of disposal group classified as held for sale	(219,955)	(309,933)

The net cash flows incurred by the discontinued operations are as follows:

	2024	2023
Operating	5,160,908	4,779,187
Investing	(4,077,085)	(6,207,467)
Financing	(605)	(6,980)
Net cash inflow/(outflow)	1,083,218	(1,435,260)

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 and excludes income from discontinued operations.

Reportable segments
The subsidiary TM tryggingar hf. has been classified as a disposal group held for sale. Insurance operation are therefore a discontinued operations and are no longer reported as an operating segment. During the year 2024, the Group defined four reportable operating segments; Asset Management, Commercial Banking, Investment Banking, previously called Corporate Banking and Capital Markets, and UK operations.

- 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.
- 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.
- Investment Banking
  Investment Banking 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 year 2024 it accounts for 17.0% (2023: 9.5%) 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.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

4. Business segments (cont.)

2024	Asset Management	Commercial Banking	Investment Banking	UK operations	Supporting units	Total
Net interest income	11,406	4,102,924	3,867,666	1,736,526	(37,727)	9,680,795
Net fee and commission income	2,457,473	1,536,044	1,519,716	623,096	181	6,136,510
Net financial income (expense)	95,578	(5,737)	414,078	554,025	(3,560)	1,054,384
Share in profit of associates	-	41,350	-	-	-	41,350
Other operating income	33,036	217,339	-	13,956	7,070	271,401
Net operating income	2,597,493	5,891,920	5,801,460	2,927,603	(34,037)	17,184,440
Salaries and related expenses	(1,029,910)	(978,785)	(1,100,349)	(748,253)	(2,588,172)	(6,445,469)
Other operating expenses	(77,761)	(1,694,520)	(287,696)	(414,476)	(1,687,841)	(4,162,293)
Administrative expenses	(1,107,670)	(2,673,305)	(1,388,046)	(1,162,729)	(4,276,013)	(10,607,762)
Net impairment	(2,597)	(342,568)	(90,606)	(169,200)	-	(604,972)
Revaluation of contingent consideration	(5,288)	-	-	(148,959)	-	(154,247)
Cost allocation	(730,042)	(1,548,425)	(1,129,795)	(161,766)	3,570,029	-
Profit (loss) before tax from continuing operations	751,895	1,327,622	3,193,013	1,284,950	(740,021)	5,817,459
Net segment revenue from external customers	2,609,653	158,213	9,897,054	4,535,057	(15,537)	17,184,440
Net segment revenue from other segments	(12,159)	5,733,708	(4,095,595)	(1,607,454)	(18,500)	-

2023	Asset Management	Commercial Banking	Investment Banking	UK operations	Supporting units	Total
Net interest income	10,189	3,376,880	3,883,048	802,850	(52,238)	8,020,729
Net fee and commission income	2,475,130	1,373,071	1,577,910	474,892	15,445	5,916,447
Net financial income	70,982	1,666	242,588	127,153	0	442,389
Share in profit of associates	(215)	35,732	239	0	-	35,756
Other operating income	52,127	281,480	13,757	-	89,536	436,900
Net operating income	2,608,213	5,068,829	5,717,542	1,404,895	52,743	14,852,222
Salaries and related expenses	(1,099,077)	(863,879)	(1,078,325)	(612,421)	(2,799,897)	(6,453,599)
Other operating expenses	(101,411)	(1,628,797)	(302,209)	(521,573)	(1,777,095)	(4,331,085)
Administrative expenses	(1,200,488)	(2,492,676)	(1,380,534)	(1,133,994)	(4,576,991)	(10,784,684)
Net impairment	-	(312,534)	(510,900)	(204,496)	440	(1,027,489)
Revaluation of contingent consideration	(31,048)	-	-	-	-	(31,048)
Cost allocation	(944,653)	(1,649,936)	(1,405,737)	(328,058)	4,328,384	-
Profit (loss) before tax from continuing operations	432,024	613,684	2,420,371	(261,654)	(195,424)	3,009,001
Net segment revenue from external customers	2,618,572	1,311,187	8,389,039	2,465,677	67,748	14,852,222
Net segment revenue from other segments	(10,359)	3,757,642	(2,671,496)	(1,060,782)	(15,005)	-

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Income statement

5. Net interest income

Interest income is specified as follows:

	Q4 2024	Q4 2023	2024	2023
Cash and balances with Central Bank	424,721	509,132	2,351,977	1,697,958
Derivatives	391,509	398,514	2,779,205	1,571,640
Loans to customers	4,691,963	4,250,260	19,537,955	15,315,986
Fixed income securities (FVOCI)	1,288,349	927,919	4,186,459	3,837,064
Other interest income	8,356	780	9,194	2,593
Total	6,804,898	6,086,605	28,864,791	22,425,240

Interest expense is specified as follows:

	Q4 2024	Q4 2023	2024	2023
Deposits	2,689,830	2,553,795	11,058,951	8,442,963
Borrowings	678,260	271,473	2,743,783	1,885,625
Issued bonds	696,100	789,220	3,331,894	3,329,984
Subordinated liabilities	87,999	121,037	597,162	529,637
Derivatives	141,922	13,150	1,395,636	144,031
Other interest expense*	13,038	6,833	56,570	72,271
Total	4,307,148	3,755,508	19,183,996	14,404,510
Net interest income	2,497,750	2,331,096	9,680,795	8,020,729

* Thereof are lease liabilities' interest expense amounting to ISK 54 million (2023: ISK 65 million).

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 21,772 million (2023: ISK 16,840 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 17,788 million (2023: ISK 14,260 million).

6. Net fee and commission income

Fee income is disclosed based on the nature and type of fee income generated across business segments. Information on net fee and commission income by segment is disclosed in note 4.

	Q4 2024	Q4 2023	2024	2023
Asset Management	659,447	661,215	2,401,033	2,464,992
Capital markets and corporate finance	393,813	348,670	1,419,231	1,610,664
Cards and payment solutions	159,038	68,483	602,445	200,907
Loans and guarantees	463,713	453,296	2,084,088	1,777,128
Other fee and commission income	89,241	160,515	280,817	401,957
Total fee income	1,765,252	1,692,180	6,787,614	6,455,647
Fee and commission expense	(164,320)	(114,583)	(651,104)	(539,199)
Net fee and commission income	1,600,932	1,577,597	6,136,510	5,916,447

Asset management fees are earned by the Group for trust and fiduciary activities where the Group holds or invests assets on behalf of the customers.

Fee and commission income from capital markets and corporate finance include fees and commissions generated by miscellaneous corporate finance service, securities, derivatives and FX brokerage as well as market making.

Fee and commission income from cards and payment solutions relate to the Group's payment facilitations services as well as the issuance of debit and credit cards.

Fee and commission income from loans and guarantees include the Group's lending operations, notification and collection fees, as well as fees from issuing guarantees.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

7. Net financial income (expense)

Net financial income (expense) is specified as follows:

	Q4 2024	Q4 2023	2024	2023
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss				
Fixed income securities	86,802	124,431	309,546	(5,613)
Financial assets at fair value through OCI	17,439	(35,735)	(1,116)	(96,479)
Shares and other variable income securities	356,449	(26,331)	354,232	397,168
Derivatives	7,477	6,069	460,248	431,731
Loans to customers	4,986	(12,002)	(62,080)	(170,882)
Foreign currency exchange difference	34,273	(67,045)	(6,446)	(113,536)
Total	507,425	(10,613)	1,054,384	442,389

8. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	2024	2023
(Loss) gain on financial instruments at fair value through profit and loss	(1,325,739)	49,333
Gain (loss) on other financial instruments	1,319,292	(162,869)
Total	(6,446)	(113,536)

9. Administrative expenses

Administrative expenses are specified as follows:

	Q4 2024	Q4 2023	2024	2023
Salaries and related expenses	1,705,064	1,635,531	6,445,469	6,453,599
Other operating expenses	871,414	825,580	3,056,225	3,221,595
Depreciation and amortisation	230,642	261,601	871,976	900,191
Depreciation of right of use asset	56,933	56,072	234,091	209,299
Total	2,864,054	2,778,784	10,607,762	10,784,684

10. Salaries and related expenses

Salaries and related expenses are specified as follows:

	Q4 2024	Q4 2023	2024	2023
Salaries	1,170,242	1,267,446	4,573,599	4,862,337
Performance based payments excluding share-based payments	170,485	32,360	477,506	175,326
Share-based payment expenses	7,015	15,032	32,510	59,004
Pension fund contributions	185,534	172,297	641,964	655,913
Tax on financial activity	78,900	71,482	272,526	277,969
Other salary related expenses	92,887	76,915	447,364	423,050
Total	1,705,064	1,635,531	6,445,469	6,453,599
Average number of full time employees during the year	251	267	247	280
- Thereof full time equivalents outsourced to discontinued operations during the year	9	14	9	16
Total number of full time employees at year-end	253	270	253	270

The figures for number of employees exclude employees of TM as a result of the reclassification of TM as a discontinued operation and an asset held for sale.

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% (2023: 5.50%).

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

11. Employment terms of the Board of Directors and management

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

Remuneration to the Board of Directors	2024			2023		
	Board and committee remunerat.	Pension contribut-ion	Total	Board and committee remunerat.	Pension contribut-ion	Total
Sigurður Hannesson, Chairman of the Board and member of the Risk and Remuneration committees	21,075	3,161	24,237	18,709	2,806	21,516
Helga Kristín Auðunsdóttir, Deputy Chairman of the Board, chairperson of the Audit committee and member of the Remuneration committee	21,165	3,094	24,259	16,124	2,366	18,489
Guðjón Karl Reynisson, Board member and chairperson of the Remuneration committee	12,659	1,899	14,558	10,684	1,603	12,287
Ingunn Svala Leifsdóttir, Board member, chairperson of the Risk committee and member of the Audit committee	15,528	2,329	17,857	13,437	1,814	15,251
Sigurgeir Guðlaugsson, Board member and member of the Risk committee	4,026	403	4,429	485	49	534
Helga Jóhanna Oddsdóttir, alternate Board member	518	52	570	485	49	534
Guðmundur Þórðarson, former Board member and former chairperson of the Risk committee	13,431	1,995	15,426	14,382	2,140	16,521
Total	88,403	12,933	101,336	74,306	10,826	85,132

Remuneration to the CEO, executive committee and other key employees	2024				2023			
	Salaries and benefits	Performance based payments	Pension contribut-ion	Total	Salaries and benefits	Performance based payments	Pension contribut-ion	Total
Ármann Þorvaldsson, CEO	60,000	9,450	10,469	79,919	20,685	2,000	3,051	25,735
Marinó Örn Tryggvason, former CEO	0	0	0	0	32,653	0	4,870	37,524
Managing Directors (2024: 8 (on average 7.6), 2023: 6 (on average: 7.0))	258,509	33,022	39,874	331,404	273,049	10,000	39,241	322,290
Former Managing Directors (2024: 1 (on average 0.5), 2023: 1 (on average: 0.8))	24,956	0	3,805	28,761	28,325	0	3,810	32,135
Other key employees (2024:2, 2023:2)	49,074	0	7,350	56,423	48,893	0	10,300	59,193
Expensed notice payments	59,935	0	8,990	68,925	86,700	0	12,420	99,120
Total	452,473	42,472	70,488	565,433	490,305	12,000	73,692	575,997

Besides the CEO, the following were a part of the Bank's executive committee during 2024: i) Sigurður Viðarson, Deputy CEO, (until June), ii) Eiríkur Magnús Jensson, CFO, iii) Halldór Snæland, MD of Commercial Banking (from February), iv) Bjarni Eyvinds, MD Investment Banking, v) Lilja Jensen, General Counsel, vi) Anna Rut Ágústsdóttir, MD Operations and Development, vii) Elísabet G. Björnsdóttir, MD Risk Management and viii) Guðmundur Þórðarson, MD Business Development (from September).

Expensed notice payments include payments during notice period for the CEO, members of executive committee and other key employees, as applicable, which left the Group during the respective year.

The Bank has adopted a remuneration policy which covers three remuneration components, base pay, performance based incentive scheme and other benefits, including pension fund contributions. Further information about the remuneration policy is provided in notes 64-66.

The members of the BOD owned, or controlled, 18,961 thousand shares at year-end 2024. The CEO owned, or controlled, 4,842 thousand shares and options for 1,517 thousand shares in the Bank at year-end 2024. The members of the executive committee owned, or controlled, 67,467 thousand shares and options for 6,251 thousand shares at year-end 2024.

12. Auditor's fees

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

	2024	2023
Audit of annual accounts	188,678	184,627
Review of interim accounts	30,626	27,130
Other audit related services	25,101	18,734
Total	244,406	230,491
Thereof to the auditors of the Bank	179,838	174,166

The table above shows fees paid to Deloitte and other component auditors. Total fee paid to other component auditors for the year 2024 amounts to ISK 65 million (2023: ISK 56 million).

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

13. Net impairment

	Q4 2024	Q4 2023	2024	2023
Net change in impairment of loans	(91,060)	(826,687)	(598,938)	(1,025,266)
Net change in impairment of other assets	(795)	440	(3,960)	506
Net change in impairment of loan commitments, guarantees and unused credit facilities	772	(571)	(2,073)	(2,729)
Total	(91,084)	(826,818)	(604,972)	(1,027,489)

14. Income tax

The Bank and some of its subsidiaries will not pay income tax on its profit for 2024 due to the fact that Group has a tax loss carry forward that offsets the calculated income tax. At year-end 2024, the tax loss carry forward of the Group amounted to ISK 9.7 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 21.0% (2023: 20.0%). The temporary provision of the tax law to increase income tax to 21.0% on the tax base for the year 2024 had an insignificant impact on the Group due to loss carry forwards. Companies within the Group, which operate outside of Iceland, recognise income tax in accordance with the applicable tax laws in the country where they reside.

Income tax recognized in the income statement is specified as follows:

Reconciliation of effective tax rate:

		2024		2023
Profit before tax		5,817,459		3,009,001
Income tax using the domestic corporation tax rate	21.0%	(1,221,666)	20.0%	(601,800)
Effect of tax rates change reversed due to loss carry forwards	(0.9%)	53,085	0.0%	0
Non-deductible expenses	0.4%	(21,148)	1.0%	(29,372)
Tax exempt revenues / loss	(4.5%)	260,266	(7.5%)	225,272
Other changes	(2.8%)	162,979	(0.5%)	16,226
Effective income tax	13.2%	(766,485)	13.0%	(389,673)

Profit before tax amounts to ISK 5,817 million. Income tax amounts to ISK -766 million, resulting in an effective tax rate of 13.2%. This is substantially different from the Icelandic corporate tax rate of 21%, mainly due to non-taxable income from shares.

15. 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% (2023: 6.0%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

16. 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% (2023: 0.145%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

17. 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 year. 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 stock options that have a dilutive effect.

	Continuing operations		Discontinued operations		Continuing and discontinued operations	
	2024	**2023**	**2024**	**2023**	**2024**	**2023**
Net earnings attributable to equity holders of the Bank	4,683,371	2,288,115	3,460,071	1,730,389	8,143,442	4,018,503
Weighted average number of outstanding shares	4,698,307	4,757,742	4,698,307	4,757,742	4,698,307	4,757,742
Adjustments for stock options	0	279	0	279	0	279
Total	4,698,307	4,758,021	4,698,307	4,758,021	4,698,307	4,758,021
Basic earnings per share (ISK)	1.00	0.48	0.74	0.36	1.73	0.84
Diluted earnings per share (ISK)	1.00	0.48	0.74	0.36	1.73	0.84
	Q4 2024	**Q4 2023**	**Q4 2024**	**Q4 2023**	**Q4 2024**	**Q4 2023**
Net earnings attributable to equity holders of the Bank	1,527,817	591,859	1,918,966	989,816	3,446,783	1,581,676
Weighted average number of outstanding shares	4,658,450	4,722,073	4,658,450	4,722,073	4,658,450	4,722,073
Adjustments for stock options	0	0	0	0	0	0
Total	4,658,450	4,722,073	4,658,450	4,722,073	4,658,450	4,722,073
Basic earnings per share (ISK)	0.33	0.13	0.41	0.21	0.74	0.33
Diluted earnings per share (ISK)	0.33	0.13	0.41	0.21	0.74	0.33

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Statement of Financial Position

18. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

	31.12.2024	31.12.2023
Deposits with Central Bank	12,758,682	13,479,131
Cash on hand	15,737	20,055
Balances with banks	9,725,772	6,356,998
Included in cash and cash equivalents	22,500,191	19,856,184
Restricted balances with Central Bank - fixed reserve requirement	5,819,001	3,825,269
Total	28,319,192	23,681,453

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.

19. Fixed income securities

Fixed income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	31.12.2024	31.12.2023
Listed government bonds and bonds with government guarantees	2,713,853	2,515,820
Listed bonds	2,189,075	1,053,955
Unlisted bonds	722,405	114,075
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees	54,256,365	45,067,483
Listed treasury bills	3,453,441	14,675,118
Listed bonds	1,459,422	1,550,955
Total	64,794,561	64,977,406

20. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	31.12.2024	31.12.2023
Listed shares	1,100,609	512,703
Unlisted shares	3,069,376	2,027,673
Unlisted unit shares	1,262,269	1,317,103
Total	5,432,254	3,857,480

21. Securities used for hedging

Securities used for hedging are specified as follows:

	31.12.2024	31.12.2023
Listed government bonds and bonds with government guarantees	1,904,937	1,201,377
Listed bonds	584,432	955,948
Listed shares	9,669,279	14,258,492
Listed unit shares	0	7,501
Unlisted unit shares	442,377	428,995
Total	12,601,026	16,852,313

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

22. Loans to customers

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

	Individuals		Corporates		Total	
31.12.2024	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	40,608,567	39,736,334	111,047,378	109,592,569	151,655,945	149,328,903
Loans to customers at FV through profit or loss	0	0	873,794	873,794	873,794	873,794
Total	40,608,567	39,736,334	111,921,172	110,466,363	152,529,739	150,202,696

	Individuals		Corporates		Total	
31.12.2023	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	39,375,650	38,386,498	98,484,058	97,254,551	137,859,708	135,641,049
Loans to customers at FV through profit or loss	58,634	58,634	623,799	623,799	682,433	682,433
Total	39,434,283	38,445,131	99,107,858	97,878,350	138,542,141	136,323,481

The Group presents finance lease receivables as part of loans to customers at amortised cost. As at 31 December 2024, the book value of finance lease receivables amounted to ISK 22,866 million (31.12.2023: ISK 21,504 million).

23. Derivatives

Derivatives are specified as follows:

	Notional		Carrying amount	
31.12.2024	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	159,361	107,143	55,954	0
Cross - currency interest rate swaps	34,754,643	35,671,836	455,496	1,321,348
Currency forwards	13,022,277	13,000,436	40,291	18,480
Currency forwards used for hedge accounting	0	7,386,404	0	282,967
Bond and equity total return swaps	13,586,028	14,533,627	645,003	1,309,635
Total	61,522,310	70,699,445	1,196,744	2,932,429

	Notional		Carrying amount	
31.12.2023	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	22,573,886	21,401,149	940,860	0
Currency forwards	38,881,527	34,034,527	461,388	121,213
Currency forwards used for hedge accounting	0	4,855,756	0	152,182
Bond and equity total return swaps	17,837,698	18,895,783	880,434	1,923,509
Equity options	0	0	215,196	0
Total	79,293,112	79,187,216	2,497,877	2,196,904

The hedging gain recognised in OCI before tax is equal to the change in fair value used for measuring effectiveness. There is no ineffectiveness recognised in profit or loss.

Set out below is the reconciliation of foreign currency translation reserve component of equity due to hedge accounting and the analysis of other comprehensive income:

	31.12.2024	**31.12.2023**
Balance at the beginning of the year	(52,556)	0
Foreign currency revaluation of the net foreign operations	39,057	(65,695)
Tax effect	(7,811)	13,139
Total	(21,310)	(52,556)

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

24. Group entities

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

Entity	Nature of operations	Domicile	Share 31.12.2024	Share 31.12.2023
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%
Skilum ehf.	Debt Collection	Iceland	100%	100%
Straumur greiðslumiðlun hf.	Payment facilitator	Iceland	100%	100%
* TM líftryggingar hf.	Insurance company	Iceland	100%	100%
* TM tryggingar hf.	Insurance company	Iceland	100%	100%
AC GP 3 ehf.	Fund management	Iceland	85%	85%
Kvika Securities ltd.	Business consultancy services	UK	100%	100%
Ortus Secured Finance ltd.	Lending operations	UK	80%	78%

* At 31 December 2023 TM tryggingar hf., Rafklettur ehf. and TM líftryggingar were classified as a disposal group held for sale in accordance with IFRS 5. Rafklettur ehf. was sold during the year 2024.

25. Investment in associates

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

Entity	Nature of operations	Domicile	Share 31.12.2024	Share 31.12.2023
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:

	31.12.2024	31.12.2023
Balance at the beginning of the year	96,194	88,988
Dividend received	(19,806)	(27,493)
Share in profit of associates, net of income tax	41,350	35,756
Exchange rate difference	(4,884)	(1,057)
Total	112,855	96,194

26. Intangible assets

Intangible assets are specified as follows:

31.12.2024	Goodwill	Customer relationships	Brands	Software and other	Total
Balance as at 1 January 2024	17,782,646	1,731,905	264,327	2,127,485	21,906,363
Additions during the year	0	0	0	476,137	476,137
Discontinued	0	0	0	(3,973)	(3,973)
Amortisation	0	(166,603)	(45,805)	(476,254)	(688,662)
Currency adjustments	1,256	1,829	430	19	3,534
Balance as at 31 December 2024	17,783,902	1,567,131	218,952	2,123,415	21,693,400
Gross carrying amount	17,783,902	2,097,644	369,526	4,021,898	24,272,969
Accumulated amortisation and impairment losses	0	(530,512)	(150,573)	(1,898,484)	(2,579,569)
Balance as at 31 December 2024	17,783,902	1,567,131	218,952	2,123,415	21,693,400

31.12.2023	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 year	0	315,558	0	1,224,158	1,539,716
Discontinued	0	0	0	(20,338)	(20,338)
Amortisation	0	(262,726)	(152,986)	(700,617)	(1,116,329)
Reclassified as assets held for sale	(8,300,327)	(1,160,429)	(1,859,875)	(1,294,732)	(12,615,363)
Currency adjustments	41,046	509	705	(3,484)	38,776
Balance as at 31 December 2023	17,782,646	1,731,905	264,327	2,127,485	21,906,363
Gross carrying amount	17,782,646	2,095,815	369,096	3,617,923	23,865,479
Accumulated amortisation and impairment losses	0	(363,910)	(104,769)	(1,490,438)	(1,959,116)
Balance as at 31 December 2023	17,782,646	1,731,905	264,327	2,127,485	21,906,363

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

26. Intangible assets (cont.)

b. Impairment testing

Assets with indefinite useful life, such as goodwill, are not amortised but are subject to annual impairment testing as described in note 90. Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combinations in which the goodwill arose. Goodwill has been allocated to four CGUs, Asset Management, Commercial Banking, Investment Banking and UK operations.

The goodwill impairment tests were performed at the end of 2024. Their results show that the recoverable values exceed the carrying values of goodwill. In addition to the base case testing, additional scenarios were tested where some key inputs had been stressed. In all scenarios tested the results show that there is sufficient headroom and that there are no triggers indicating that impairment is necessary.

The cash flow projections for 2024 are derived from the Group's three year business plan which has been approved by the Board of Directors. In some instances, the Group's subsidiaries have prepared a three year business plan which has been approved by the Board of Directors of those companies. Management prepares a five year cash flow projection for each CGU, which is derived from the three year business plan and is also based on management assumptions. The following table shows the key assumptions used in the estimation of the recoverable amount. The recoverable amounts are calculated by discounting the estimated future cash flow of the CGUs. The time value of money and price of uncertainty are based on external market information about market risk, interest rates and CGU specific elements like country risk.

31.12.2024	**Future growth rate**	**Discount rate**	**Book value**
Asset Management	3.5%	11.2%	2,943,881
Commercial Banking	3.9%	11.3%	11,826,735
Investment Banking	3.5%	11.2%	1,199,761
UK operations	3.5%	9.2%	1,813,524
Total goodwill			17,783,902

31.12.2023	**Future growth rate**	**Discount rate**	**Book value**
Asset Management	3.5%	12.1%	2,943,881
Commercial Banking	3.5%	11.3%	11,826,735
Investment Banking	3.5%	12.1%	1,199,761
UK operations	3.5%	9.4%	1,812,268
Total goodwill			17,782,646

27. Operating lease assets

Operating lease assets are specified as follows:

	31.12.2024	**31.12.2023**
Balance as at 1 January	530,144	884,222
Additions	35,693	63,792
Disposals	(260,928)	(257,979)
Depreciation	(89,741)	(159,891)
Total	215,168	530,144
Gross carrying amount	465,429	1,116,581
Accumulated depreciation	(250,261)	(586,437)
Total	215,168	530,144

28. Deferred tax assets and liabilities

	31.12.2024	**31.12.2023**
Deferred tax assets	2,273,265	2,902,580
Deferred tax liabilities	(466,096)	(272,615)
Net	1,807,169	2,629,966

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

	31.12.2024	**31.12.2023**
Property and equipment	41,393	71,166
Intangible assets	(78,674)	(2,302)
Other items	(87,014)	(30,814)
Tax losses carried forward	1,931,464	2,591,916
Total	1,807,169	2,629,966

At year end 2024, tax losses carried forward amount to ISK 9.7 billion, and are set to expire as follows:

	Tax losses
Tax losses 2018, expiring in 2028	8,748,112
Tax losses 2020, expiring in 2030	909,209
Total	9,657,320

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

29. Other assets

Other assets are specified as follows:

	31.12.2024	31.12.2023
Accounts receivable	5,010,497	6,342,227
Unsettled transactions	2,860,925	2,262,226
Right of use asset and lease receivables	1,023,804	1,320,983
Sundry assets	612,265	475,693
Total	9,507,492	10,401,128

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

	31.12.2024	31.12.2023
Right of use asset and lease receivables as at 1 January	1,320,983	1,576,582
Additions during the period	13,249	0
Termination of lease agreements	(14,968)	0
Indexation	56,010	77,713
Currency adjustments	755	2,655
Depreciation and lease receivable instalment	(352,225)	(335,967)
Total	1,023,804	1,320,983

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. The lease receivables are immaterial at year end. Lease liability is specified in note 35.

30. Borrowings

Borrowings are specified as follows:

	31.12.2024	31.12.2023
Secured borrowings	13,809,473	13,691,834
Other borrowings	580,042	1,332,264
Total	14,389,515	15,024,098

The Group has not had any defaults of principal, interest or other breaches with respect to its debt issued and other borrowed funds. Money market deposits were previously presented as part of borrowings but are now presented as part of deposits. Comparative figures have been restated. Reference is made to note 2 for further information.

31. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.12.2024	31.12.2023
Unsecured bonds:						
EMTN 24 0131, SEK 500 million	2022	2024	At maturity	Floating, 3 month STIBOR + 2.80%	0	4,610,572
EMTN 24 0204, EUR 8.5 million	2022	2024	At maturity	Floating, 3 month EURIBOR + 2.80%	0	1,292,489
KVIKA 24 1119, GBP 11.4 million	2021	2024	At maturity	Float., 3 mon. ICE term SONIA+1.90%	0	1,990,376
KVIKA 24 1216 GB, ISK 4,500 million	2021	2024	At maturity	Floating, 3 month REIBOR + 0.90%	0	4,517,330
KVB 19 01, ISK 5,000 million	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	0	1,003,675
KVIKA 25 1201 GB ISK 1,660 million	2022	2025	At maturity	Floating, 3 month REIBOR + 1.25%	1,673,799	1,675,442
EMTN 26 0511, SEK 775 million *	2023	2026	At maturity	Floating, 3 month STIBOR + 4.10%	9,832,220	3,770,724
EMTN 26 0511, NOK 800 million	2023	2026	At maturity	Floating, 3 month NIBOR + 4.10%	9,890,897	10,837,164
EMTN 26 1123 GB, SEK 500 m.	2023	2026	At maturity	Floating, 3 month STIBOR + 4.0%	6,325,047	6,839,052
KVB 21 02, ISK 5,400 million	2021	2027	At maturity	CPI-indexed, fixed 1.0%	6,914,842	6,599,359
KVIKA 32 0112, ISK 2,000 million	2022	2032	At maturity	CPI-indexed, fixed 1.40%	2,486,481	2,373,037
Asset backed bonds:						
Lykill 24 06, ISK 1,570 million	2020	2024	Amortizing	Fixed, 2.80%	0	206,206
Total					37,123,285	45,715,427

* Bond issued in two tranches, first tranche SEK 275 million was issued in May 2023 at a spread of STIBOR + 410 bps, the second tranche amounting to SEK 500 million was issued in May 2024 at a price corresponding to a spread of STIBOR + 240 bps.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

32. Subordinated liabilities

a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.12.2024	31.12.2023
KVB 18 02, ISK 800 million	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	0	1,123,778
KVIKA 34 1211 T2i, ISK 2,500 m.	2023	2034	At maturity	CPI-Indexed, fixed 6.25%	2,634,489	2,011,434
TM 15 1, ISK 2,000 million	2015	2045	At maturity	CPI-Indexed, fixed 5.25%	2,994,493	2,857,872
Total					5,628,982	5,993,084

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.

At the interest payment date in the year 2029 for KVIKA 34 1211 T2i, the Group has the right to repay the subordinated bond and on any

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

b. Subordinated liabilities are specified as follows:

	31.12.2024	31.12.2023
Balance at the beginning of the year	5,993,084	3,686,451
Redemption of KVB 18 02	(800,000)	0
Additions	500,000	2,000,000
Paid interest	(112,500)	(164,833)
Paid interests due to indexation	(345,623)	(58,171)
Accrued interests and indexation	394,021	529,637
Total	5,628,982	5,993,084

33. Short positions held for trading

Short positions held for trading are specified as follows:

	31.12.2024	31.12.2023
Listed government bonds and bonds with government guarantees	127,976	60,081
Listed bonds	25,025	71,664
Total	153,001	131,745

34. Short positions used for hedging

Short positions used for hedging are specified as follows:

	31.12.2024	31.12.2023
Listed government bonds and bonds with government guarantees	0	4,230
Listed bonds	42,035	0
Total	42,035	4,230

35. Other liabilities

Other liabilities are specified as follows:

	31.12.2024	31.12.2023
Accounts payable and accrued expenses	7,531,359	9,326,840
Unsettled transactions	1,565,311	2,396,243
Salaries and salary related expenses	1,259,035	1,136,312
Lease liability	1,158,332	1,510,333
Withholding taxes	1,110,946	1,130,048
Special taxes on financial institutions and financial activities	376,753	304,045
Contingent consideration	319,660	404,762
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities	17,681	15,673
Other liabilities	295,828	369,753
Total	13,634,905	16,594,010

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

35. Other liabilities (cont.)

Lease liability is specified as follows:

	31.12.2024	31.12.2023
Lease liability as at 1 January	1,510,333	1,827,582
Additions during the period	13,249	0
Termination of lease agreements	(14,629)	0
Currency adjustments	1,861	4,639
Instalment	(408,492)	(424,085)
Indexation	56,010	102,198
Total	1,158,332	1,510,333

The lease liability in mostly consist of real estates for the Group's own use. The end date of the lease agreement of the headquarter is November 2031 but with an exit clause in September 2027. The lease is linked to the Icelandic consumer price index. Right of use asset and lease receivables are specified in note 29.

36. 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.

	31.12.2024	31.12.2023
Share capital according to the Bank's Articles of Association	4,722,073	4,781,026
Nominal amount of treasury shares	61,893	58,952
Authorised but not issued shares	310,000	310,000

b. Changes made to the nominal amount of share capital

During the year in 2024 the Bank's share capital was decreased by ISK 59 million in nominal value following a resolution by the AGM to cancel treasury shares. Furthermore, during the year, the Bank acquired treasury shares amounting to ISK 64 million in nominal value as a result of a share buy-back plan. Finally, the Bank sold treasury shares amounting to ISK 2 million in nominal value to fulfill its obligations related to the excercise of options.

c. Share capital increase authorisations

According to the Bank's Articles of Association dated 21 March 2024, the Board of Directors is authorised to increase the share capital as follows:

Temporary provision I 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 was valid until 31 December 2024.

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

37. Solvency of 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 amount 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 calculations now take into account 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 1.33, with a regulatory minimum requirement of 1.0.

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

Own funds	**31.12.2024**	**31.12.2023**
Own Funds eligible for non insurance activities	44,268,087	39,117,918
Own Funds eligible for insurance activities	18,531,702	14,754,678
Deduction from own funds not eligible	(4,551,933)	(3,687,860)
Total own funds	58,247,856	50,184,737
Capital requirements for insurance activities		
Solvency capital requirements (SCR)	10,930,329	9,622,063
Capital requirements for non insurance activities		
Statutory minimum capital requirement (Pillar I)	15,507,507	13,826,577
Additional capital requirements (Pillar II)	6,978,378	6,913,288
Minimum capital requirement for non insurance activities	22,485,885	20,739,865
Additional capital protection buffers	12,386,621	11,579,758
Adjustments to capital requirements in conglomerate	(2,047,232)	(1,724,074)
Total capital requirements for non insurance activities	32,825,273	30,595,549
Total solvency capital requirements	43,755,602	40,217,612
Solvency ratio	1.33	1.25

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

38. 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 22.8%. The minimum requirement from the FME is 11.6%. The ratio is calculated as follows:

Own funds eligible for non insurance activities	**31.12.2024**	**31.12.2023**
Total equity	89,517,287	81,957,804
Proposed dividend	(2,050,479)	(1,004,626)
Goodwill and intangibles	(28,827,742)	(29,040,706)
Shares in other financial institutions	(18,895,332)	(16,420,475)
Deferred tax asset	(1,076,620)	(1,559,045)
Common equity Tier 1 capital (CET 1)	38,667,113	33,932,952
Tier 2 capital	5,600,973	5,915,278
Deductions from Tier 2 capital	0	(730,312)
Total own funds	44,268,087	39,117,918
Risk-weighted exposure amount (RWEA)		
Credit risk	158,177,636	142,648,209
Market risk	7,586,080	3,082,235
Operational risk	28,080,116	27,101,765
Total risk-weighted exposure amount	193,843,832	172,832,209
Capital ratios		
Capital adequacy ratio (CAR)	22.8%	22.6%
CET1 ratio	19.9%	19.6%
Minimum Capital adequacy ratio requirement	11.6%	12.0%
Minimum Capital adequacy ratio requirement including supervisory buffers	18.0%	18.7%
Minimum CET 1 ratio requirement including supervisory buffers	12.9%	13.5%

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 2024 is 11.6%. The minimum regulatory capital requirement including the additional capital buffers is 18.0% as at 31 December 2024.

TM tryggingar hf. has been classified as a disposal group held for sale and as a discontinued operation. This does not affect the Group‘s capital adequacy calculation. Nonetheless, assuming a cash sale of the subsidiary, the Bank’s capital would increase. To what extent the capital adequacy ratio would increase depends on the final sale price as well as other factors, such as a potential special dividend payment or share buy-back following the sale.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

39. 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 calculated 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 1.70. Solvency capital requirements according to law is the minimum insurance companies have to meet.

Own funds eligible for insurance activities	**31.12.2024**	**31.12.2023**
Equity eligible for insurance activities	23,232,582	19,811,796
Goodwill and intangibles	(5,131,678)	(5,527,999)
Difference between net technical provision in the financial statements and solvency rules	430,798	470,881
Total own funds	18,531,702	14,754,678
Solvency capital requirements (SCR)		
Life insurance risk	459,024	536,675
Health insurance risk	1,723,332	1,656,139
Non-life insurance risk	6,527,974	6,108,228
Market risk	7,088,319	5,770,238
Counterparty default risk	998,278	1,169,357
Multifaceted effects	(4,988,191)	(4,695,651)
Basic Solvency capital requirements	11,808,737	10,544,986
Operational risk	819,301	754,058
Adjustment for the loss-absorbing capacity of deferred taxes	(1,697,709)	(1,676,980)
Total solvency capital requirements	10,930,329	9,622,063
Solvency ratio after dividend	1.70	1.53
Eligible items to meet the minimum capital	18,531,702	14,754,678
Minimum required capital (MRC)	4,778,469	4,520,510
Minimum required capital ratio after dividend	3.88	3.26

At 31 December 2023, the insurance operation was classified as a disposal group held for sale and as a discontinued operation.

40. Leverage ratio

The leverage ratio is calculated on the basis of the Group's consolidated numbers as per regulation no. 575/2013 of the EU, which excludes the Group's insurance subsidiary. According to Act no. 161/2002 on Financial Undertakings the minimum leverage ratio requirement is 3%.

	31.12.2024	**31.12.2023**
On-balance sheet exposures	253,116,968	243,721,442
Derivative exposures*	2,533,012	1,187,911
Off - balance sheet exposures	800,313	210,534
Total exposure measure	256,450,293	245,119,887
Tier 1 capital	38,667,113	33,932,952
Leverage ratio	15.1%	13.8%

*The Group has revised the methodology it uses to calculate derivative exposures to better align with regulation no. 575/2013. The figure for 31.12.2023 has not been restated. The impact of the revised methodology on the leverage ratio for 31.12.24 is immaterial.

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

41. Minimum requirements for own funds and eligible liabilities (MREL)

The Central Bank of Iceland's Resolution Authority presented the Group their first minimum requirement for own funds and eligible liabilities (MREL) in January 2025. According to Act No. 70/2020 on Resolution of Credit Institutions and Investment Firms, the Bank shall at all times meet the MREL funds as a percentage to the Group's total risk-weighted exposure amount (MREL-RWEA). The MREL-RWEA requirement must be met parallel to the combined buffer requirement (CBR). The Group must also meet a requirement of MREL funds as a percentage of the Group's total exposure amount (MREL-TEM). The decision of the Resolution Authority entails that the Bank must at all times maintain a minimum of 22% of MREL-RWEA and 6% of MREL-TEM.

Own funds and eligible liabilities	**31.12.2024**	**31.12.2023**
Common equity Tier 1 capital (CET 1)	38,667,113	33,932,402
Tier 2 capital	5,600,973	5,915,278
Eligible liabilities	35,449,487	32,094,778
Total own funds and eligible liabilities	79,717,574	71,942,458
MREL-RWEA and CBR		
Risk-weighted exposure amount (RWEA)	193,843,833	172,832,209
Own funds and eligible liabilities as % of RWEA	41.1%	-
Minimum requirements for own funds (MREL)*	22.0%	-
Combined buffer requirement (CBR)	6.4%	-
MREL-RWEA requirement including CBR*	28.4%	-
MREL-TEM		
Total exposure amount	256,450,293	245,119,887
Own funds and eligible liabilities as % of TEM	31.1%	-
MREL-TEM requirement*	6.0%	-

*Requirements were first set in January 2025

Notes to the Consolidated Financial Statements

Risk management

42. Risk management framework

a. Board of Directors

The Board of Directors is responsible for the governance of the Bank's Group, including determining the risk management framework. In this regard, the Board of Directors has, among other things, set a Group Governance Policy and approved a Group Risk Policy, which describes the framework that the Board of Directors has set for risk management and the Group's risk appetite. The Board of Directors is responsible for the framework for identifying, assessing, monitoring, managing and disclosing the Group's identified risk factors. The Board of Directors is also responsible for ensuring that the policy is implemented and instructs the CEO to implement and elaborate on its implementation in more detail. The Board of Directors defines the risk appetite, including in the form of the Group's key risk indicators, and defines risk tolerance and risk capacity. The Board of Directors also sets policies for the Bank's main risk factors. In order to ensure consistent and good governance on a consolidated basis, the Board of Directors has also set out ownership policies for those subsidiaries that are considered an important part of the Group's operations. According to the ownership policies, the boards of the relevant subsidiaries shall always provide the Bank with all necessary information to enable it to perform its supervisory role and the services provided by the Bank to the companies. As it is necessary to coordinate risk management on a consolidated basis, the relevant companies shall provide the Bank's risk management with all necessary information to enable the Bank to fulfil its obligations as a parent company in a group. The Bank's Chief Risk Officer and the Compliance Officer may request an direct audience of the boards of the relevant subsidiaries. The risk policy and the entire risk management framework are reviewed regularly with a view to adapting the framework to changes in market conditions and the Group's operations. The Group, through training and management standards and procedures, continuously aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

b. Board of Directors sub-committees

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

The Risk Committee has an advisory and supervisory role for the Bank´s Board of Directors, including in formulating the Group's risk policy and risk appetite, and acts on behalf of the Bank's Board of Directors in supervising the implementation of the Group's Risk Policy. The Committee supervises the management of the Group's risk factors and the arrangement and effectiveness of risk management. The Committee shall discuss the Bank's risk culture and risk appetite.

The Audit Committee has an advisory and supervisory role for the Bank's Board of Directors, including in ensuring the quality of the Bank's annual accounts and other financial information and the independence of the Bank's auditor. The Committee oversees the work process for preparing financial statements, the effectiveness of internal controls, and internal and external audits.

The Remuneration Committee has an advisory and supervisory role for the Bank´s Board of Directors in relation to remuneration and shall advise the Board on the Company's remuneration policy and independently assess the policy and its implementation. This includes, among other things, ensuring that bonuses support sound risk management and do not encourage excessive risk-taking. The committee also oversees the remuneration of the heads of internal audit, risk management and compliance.

c. CEO and the Executive Committee

The CEO is responsible for the effective implementation risk management through the corporate governance structure and committees. The CEO appoints Managing Directors which, together with the CEO, form the Bank's Executive Committee. Each Managing Director heads individual divisions within the Bank at any given time. The Bank's Executive Committee together with the CEO of Kvika eignastýring hf. form the Group Executive Committee.

The Executive Committee manages and supervises, as decided by the CEO, the day-to-day operations of the Bank in accordance with the policy formulated by the Bank's Board of Directors in collaboration with the CEO. The managing directors of subsidiaries and the managing directors/directors of individual units of the Bank are each responsible to their CEO/managing director and the boards of each company for risk-taking and risk management in the daily operations of their units.

Furthermore, the CEO has established five committees within the Bank, which are, responsible to the CEO for, among other things, risk management of different risk factors and that the implementation of risk management is in accordance with the Board of Directors' risk appetite. These committees are composed of the Bank's employees.

Notes to the Consolidated Financial Statements

42. Risk management framework (cont.)

d. Committees

The Bank operates five committees that deal with the Bank’s risk management: the Group Risk Committee, the Asset and Liability Committee (ALCO), the Credit Committee, the Operations Committee and the Sustainability Committee.

The Group Risk Committee oversees the implementation of and compliance with the Group’s risk policy and risk management framework. The committee has a comprehensive overview of the main risks faced by the Group and monitor that risk-taking is in accordance with the Board of Directors’ risk appetite. The Committee reviews the rules of procedure of other committees and ensures that procedures are coordinated between different committees and companies.

ALCO, as a professional committee for the management of the balance sheet as well as capital, liquidity and funding, and market risks, is responsible for the implementation and execution of the part of the Group's risk policy that relates to capital, liquidity, funding and market risks. ALCO informs the Group's Risk Committee on the status of these risk factors on a regular basis.

The Credit Committee, as a professional committee for the Bank's lending and credit risk, is responsible for the implementation and execution of that part of the Group's risk policy that relates to credit risk. The Credit Committee informs the Group's Risk Committee on the status of credit risk on a regular basis.

The Operations Committee, as a professional committee for operations and operational risk, is responsible for the implementation and execution of the part of the Group's risk policy that relates to operational risk. The Operations Committee informs the Group's Risk Committee on the status of operational risk on a regular basis.

The Sustainability Committee, as a professional committee on sustainability and sustainability risk, is responsible for the implementation and execution of the part of the Group's risk policy that relates to sustainability risk. The Sustainability Committee informs the Group Risk Committee on the status of sustainability risk on a regular basis.

e. Risk management

The Risk Management department is an independent unit reporting to the CEO. It simultaneously fulfils the risk management functions of both the Bank and the entire Group. It monitors the identified risk factors across the Group and develops methods for systematically identifying, assessing, monitoring, and managing them. Risk Management supports other units in identifying and managing risks, ensuring compliance with internal and external regulations. The Risk Management department prepares reports for relevant professional committees and supervisory bodies, including compliance with the defined risk appetite. It provides direct information to the Group's Board and participates in shaping the Group Risk Policy.

f. Compliance Officer

The compliance function is an independent function that operates under the CEO, and the appointment of the Compliance Officer and his deputy is confirmed by the Board. The compliance function monitors the Bank's compliance risk on a permanent basis and that the measures, policies and procedures that have been put in place so that the Bank complies with its obligations are adequate and effective. The Compliance Officer is also responsible for coordinating and monitoring the Bank's compliance with applicable anti-money laundering and terrorist financing laws and regulations. The Compliance officer, further, manages provisions of applicable market abuse laws and regulations, regarding the handling of inside information and PDMR transactions, and oversees the complaints managements process. Compliance is operated on a consolidated basis and the employees responsible for compliance in the Bank’s subsidiaries report to and receive support from the Compliance Officer and the parent entity’s compliance function.

g. Internal Audit

The internal audit (IA) activity of Kvika bank hf. operates according to Article 16 on the Act on financial companies no. 161/2002 and guiding recommendations of the Financial Supervisory Authority of the Central Bank of Iceland regarding the work of the audit activity of financial companies no. 3/2008. The IA department operates in accordance with the International Professional Practices Framework (IPPF standards). The position of IA in the organizational chart demonstrates the independence of the department. In accordance with the Internal Auditor's charter, the internal auditor has direct and unrestricted access to the Board and managers of the Bank and its subsidiaries. Kvika's IA activity must provide independent and objective assurance and advisory services on the Bank's activities on a consolidated basis, aimed at increasing its value. The department's activities assess and improve the effectiveness of risk management, control methods and governance through a systematic and disciplined way, thus contributing to Kvika group´s achieving its key goals. The Internal Auditor is responsible for effectively managing the IA activity in accordance with the audit charter and the IPPF standards.

43. 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.

Notes to the Consolidated Financial Statements

44. Credit risk - overview

a. Definition

One of the Group's primary sources of risk is 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 monitors credit risk and is responsible for developing methodologies to systematically identify, assess, monitor, and manage it. 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 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 ensures that loans have a credit rating and is responsible for reviewing the loan portfolio. 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 unit suggest a level of provisioning for the portfolio, based on the expected loss assessment. Risk management unit 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 82 in the 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 or currencies. On the day when the contract is entered into, the Group purchases the underlying asset and hedges its exposure to price changes. Collateral is primarily in the form of cash or listed, highly liquid securities. The risk management unit and ALCO set rules about the level of collateralisation and the risk management unit monitors the compliance to these rules. Contracts are closed if required levels of collateralisation are not met.

i. Securities used for hedging

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

45. Maximum exposure to credit risk

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

31.12.2024 On-balance sheet exposure	Public entities	Financial institutions	Corporate customers	Individuals	31.12.2024
Cash and balances with Central Bank	18,593,420	9,725,772			28,319,192
Fixed income securities	62,660,260	1,888,815	245,486		64,794,561
Loans to customers	6,972	1,665	110,457,726	39,736,334	150,202,696
Derivatives		1,000,775	144,011	51,958	1,196,744
Other assets	549	1,114,688	7,226,916	141,535	8,483,688
	81,261,202	13,731,715	118,074,138	39,929,827	252,996,882
Off-balance sheet exposure					
Loan commitments	7,000	2,331	5,037,623	1,013,114	6,060,067
Financial guarantee contracts			801,065		801,065
Maximum exposure to credit risk	81,268,202	13,734,046	123,912,826	40,942,941	259,858,014

31.12.2023 On-balance sheet exposure	Public entities	Financial institutions	Corporate customers	Individuals	31.12.2023
Cash and balances with Central Bank	17,324,455	6,356,998			23,681,453
Fixed income securities	63,928,567	944,255	104,584		64,977,406
Loans to customers	11,127		97,867,223	38,445,131	136,323,481
Derivatives		1,981,114	466,082	50,680	2,497,877
Other assets	394,137	1,184,368	5,179,519	2,322,122	9,080,146
	81,658,286	10,466,735	103,617,408	40,817,934	236,560,362
Off-balance sheet exposure					
Loan commitments			4,175,306	1,029,698	5,205,004
Financial guarantee contracts			211,940		211,940
Maximum exposure to credit risk	81,658,286	10,466,735	108,004,653	41,847,632	241,977,306

46. Credit quality of financial assets

The book value of financial assets which fall under the impairment requirements of IFRS 9 are presented as 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 on calculations from PD, LGD and EAD models. 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, a downside scenario and for the UK portfolio there is a fourth scenario, severe downturn. Each scenario includes a probability weight, and the ECL is derived as a weighted average. 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 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 and a separate macroeconomic forecast is used to reflect the UK economy. The following tables shows the first 12 month macro economic values for the variables used in the expected credit loss model. For the UK portfolio 24 month values are used.Reference is made to note 82 in the Consolidated Financial Statements for further information about the Group's impairment methodology.

Model parameters for Icelandic portfolio	31.12.2024			31.12.2023		
Scenarios	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**
Unemployment rate	4.2%	3.7%	4.9%	4.8%	4.4%	5.0%
Inflation CPI index	3.7%	3.4%	5.5%	5.7%	6.0%	6.7%
Assigned weight	50.0%	15.0%	35.0%	60.0%	10.0%	30.0%

Model parameters for UK portfolio		31.12.2024		
Scenarios	**Base case**	**Upside**	**Downside**	**Severe**
Unemployment rate (2 years)	4.1%	3.9%	5.8%	7.5%
Inflation CPI index (2 years)	5.0%	4.7%	8.3%	16.4%
Assigned weight	50.0%	20.0%	25.0%	5.0%

There are no comparative figures available as the Group first implemented a formal economic forecast for its UK operations in 2024.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

46. 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										
31.12.2024	**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	6,982	(10)	6,972	0.0%	10,303	0	0	0	0	0	9,994	0	0	308	201
Financial institutions	1,669	(4)	1,665	0.0%	0	0	0	0	0	0	0	0	0	0	1,665
Corporate															
Real estate activities	45,564,368	(339,001)	45,225,367	30.1%	84,189,303	31,404	49,689	30,889	41,523,277	41,133,852	973,934	239,779	0	206,478	490,706
Construction	16,412,343	(92,416)	16,319,928	10.9%	32,487,287	387	36	0	12,425,532	9,668,472	5,260,413	4,425,735	0	706,712	255,535
Service Activities	16,067,877	(162,054)	15,905,824	10.6%	29,301,983	25,792	122,473	577,035	1,020,336	2,522,528	19,253,086	3,815,059	0	1,965,674	317,031
Accommodat. and Food Service Activit.	11,491,746	(85,812)	11,405,934	7.6%	22,151,366	104,664	0	0	1,367,345	20,068,668	528,029	46,852	0	35,810	8,285
Activities of Holding Companies	7,142,676	(653,572)	6,489,105	4.3%	20,066,039	13,417	201,232	9,761,948	4,863,693	3,343,574	216,524	183,137	1,467,788	14,726	1,434,099
Wholesale and Retail Trade	4,930,289	(55,744)	4,874,545	3.2%	7,473,811	24,075	0	0	246,700	913,378	3,601,133	1,952,169	100,000	636,356	383,870
Other	10,303,221	(66,197)	10,237,024	6.8%	29,558,579	342,028	7,208,007	162,634	3,389,662	11,277,426	2,176,217	2,189,640	21,500	2,791,466	415,340
Individual	40,608,567	(872,233)	39,736,334	26.5%	57,599,454	32,933	793,062	654,647	11,886,283	1,815,160	40,060,219	1,031,750	0	1,325,401	8,312,050
Total	152,529,739	(2,327,042)	150,202,696	100.0%	282,838,124	574,701	8,374,499	11,187,152	76,722,826	90,743,056	72,079,550	13,884,121	1,589,288	7,682,932	11,618,783

					Allocated collateral										
31.12.2023	**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	11,188	(61)	11,127	0.0%	11,553	0	0	0	0	0	11,226	0	0	327	2,917
Financial institutions	0	0	0	0.0%	0	0	0	0	0	0	0	0	0	0	0
Corporate															
Real estate activities	31,508,020	(234,278)	31,273,742	22.9%	59,514,931	25,414	0	54,180	28,804,369	29,574,694	797,093	205,458	0	53,722	457,258
Construction	20,585,501	(82,066)	20,503,434	15.0%	45,467,134	158,988	0	0	17,773,191	18,323,454	4,611,641	3,990,110	0	609,751	243,654
Service Activities	14,131,242	(148,035)	13,983,207	10.3%	25,910,745	45,492	79,577	2,228,442	270,692	1,306,517	16,455,917	2,742,679	0	2,781,430	380,611
Activities of Holding Companies	7,975,924	(576,301)	7,399,624	5.4%	23,080,630	48,409	347,097	10,610,025	7,001,067	3,572,982	219,871	200,625	805,971	274,582	123,335
Wholesale and Retail Trade	7,974,891	(55,417)	7,919,474	5.8%	12,230,309	23,658	312,321	0	4,660,937	1,330,258	3,447,895	1,502,756	100,000	852,484	53,298
Accommodat. and Food Service Activit.	6,180,590	(11,206)	6,169,384	4.5%	12,829,867	73,657	0	0	2,887,040	9,307,016	504,811	0	0	57,343	24,105
Other	10,740,500	(122,143)	10,618,358	7.8%	23,724,577	267,508	6,391,784	939,372	4,084,596	4,721,067	2,312,012	3,488,403	693,755	826,082	524,143
Individual	39,434,283	(989,152)	38,445,131	28.2%	55,469,271	13,328	1,023,000	601,250	9,311,354	2,961,368	39,589,466	1,760,237	0	209,268	8,918,673
Total	138,542,141	(2,218,660)	136,323,481	100.0%	258,239,017	656,453	8,153,779	14,433,268	74,793,246	71,097,357	67,949,932	13,890,267	1,599,726	5,664,989	10,727,994

Collateral value is shown as the market- or accounting value of collateral allocated to exposures. Other collateral includes financial claims, inventories and receivables.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

46. 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 credit risk 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 has primarily used calibrated external credit ratings to assess the default probability of its customers. Some of the larger borrowers are furthermore individually assessed by credit specialists. The Bank has implemented internal credit rating models for part of the loan portfolio and intends to continue this development in 2025.

31.12.2024

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	89,427,181	1,265,779		16,862	90,709,821
Credit quality band II	40,153,181	3,159,469			43,312,650
Credit quality band III	6,609,379	2,003,621			8,613,000
Credit quality band IV	226,827	380,710			607,537
In default	572	0	7,940,092	114,000	8,054,664
Non-rated	286,623	202,511		742,932	1,232,066
Gross carrying amount	136,703,762	7,012,091	7,940,092	873,794	152,529,739
Expected credit loss	(366,642)	(189,275)	(1,771,126)		(2,327,042)
Book value	136,337,121	6,822,816	6,168,967	873,794	150,202,696

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	4,675,341	2,690			4,678,031
Credit quality band II	1,567,638	464			1,568,102
Credit quality band III	562,954	5,839			568,793
Credit quality band IV	1,821	542			2,363
In default			33,741	10,048	43,790
Non-rated		53			53
Total off-balance sheet amount	6,807,754	9,589	33,741	10,048	6,861,132
Expected credit loss	(10,716)	(149)	(6,837)		(17,701)
Net off-balance sheet amount	6,797,038	9,440	26,905	10,048	6,843,431

31.12.2023

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	84,252,096	744,843		427,849	85,424,788
Credit quality band II	33,627,994	2,687,909		39,319	36,355,221
Credit quality band III	6,503,029	1,977,002			8,480,030
Credit quality band IV	769,496	485,101			1,254,597
In default	70,248	118,140	5,999,315	215,265	6,402,968
Non-rated	624,537	0			624,537
Gross carrying amount	125,847,398	6,012,995	5,999,315	682,433	138,542,141
Expected credit loss	(367,895)	(127,520)	(1,723,244)		(2,218,660)
Book value	125,479,503	5,885,474	4,276,072	682,433	136,323,481

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	3,773,821				3,773,821
Credit quality band II	920,679	1,211			921,890
Credit quality band III	586,052	41,972			628,024
Credit quality band IV	3,407	1,594			5,002
In default	351	1	87,855		88,207
Non-rated	0				0
Total off-balance sheet amount	5,284,311	44,778	87,855	0	5,416,944
Expected credit loss	(13,897)	(538)	(1,253)		(15,688)
Net off-balance sheet amount	5,270,413	44,240	86,602	0	5,401,255

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

46. Credit quality of financial assets (cont.)

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

31.12.2024	**Claim value**	**Expected credit loss**	**Carrying amount**
Not past due	137,349,325	(624,970)	136,724,356
Past due 1-30 days	7,723,558	(104,273)	7,619,285
Past due 31-60 days	2,321,498	(72,912)	2,248,585
Past due 61-90 days	697,974	(16,044)	681,930
Past due 91-180 days	2,179,700	(820,218)	1,359,481
Past due 181-360 days	809,344	(248,026)	561,318
Past due more than 360 days	1,448,340	(440,599)	1,007,741
Total	152,529,739	(2,327,042)	150,202,696

31.12.2023	**Claim value**	**Expected credit loss**	**Carrying amount**
Not past due	127,943,377	(571,621)	127,371,756
Past due 1-30 days	2,443,573	(50,506)	2,393,067
Past due 31-60 days	1,933,845	(195,102)	1,738,744
Past due 61-90 days	1,757,416	(74,920)	1,682,496
Past due 91-180 days	1,494,409	(601,446)	892,963
Past due 181-360 days	1,912,571	(197,428)	1,715,143
Past due more than 360 days	1,056,951	(527,638)	529,313
Total	138,542,141	(2,218,660)	136,323,481

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 year.

31.12.2024

Expected credit loss allowance total

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2024	381,793	128,058	1,724,497	2,234,348
Transfer to Stage 1 - (Initial recognition)	103,709	(21,728)	(81,980)	0
Transfer to Stage 2 - (significantly increased credit risk)	(16,599)	30,091	(13,492)	0
Transfer to Stage 3 - (credit impaired)	(32,445)	(35,343)	67,787	0
Net remeasurement of loss allowance	(174,510)	15,696	844,723	685,909
New financial assets, originated or purchased	270,830	120,489	223,571	614,890
Derecognitions and maturities	(155,102)	(46,969)	(581,259)	(783,330)
Write-offs	(319)	(871)	(405,885)	(407,074)
Balance as at 31 December 2024	377,357	189,424	1,777,962	2,344,743

Expected credit loss allowance for loans to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2024	367,895	127,520	1,723,244	2,218,660
Transfer to Stage 1 - (Initial recognition)	103,031	(21,403)	(81,628)	0
Transfer to Stage 2 - (significantly increased credit risk)	(16,554)	30,023	(13,469)	0
Transfer to Stage 3 - (credit impaired)	(32,223)	(35,288)	67,512	0
Net remeasurement of loss allowance	(173,549)	15,760	843,243	685,453
New financial assets, originated or purchased	267,848	120,449	219,213	607,510
Derecognitions and maturities	(149,489)	(46,916)	(581,102)	(777,507)
Write-offs	(319)	(871)	(405,885)	(407,074)
Balance as at 31 December 2024	366,642	189,275	1,771,126	2,327,042

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

46. 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 2024	13,897	538	1,253	15,688
Transfer to Stage 1 - (Initial recognition)	677	(325)	(352)	0
Transfer to Stage 2 - (significantly increased credit risk)	(45)	68	(23)	0
Transfer to Stage 3 - (credit impaired)	(221)	(54)	276	0
Net remeasurement of loss allowance	(961)	(63)	1,480	456
New financial assets, originated or purchased	2,982	39	4,359	7,380
Derecognitions and maturities	(5,613)	(53)	(156)	(5,823)
Balance as at 31 December 2024	10,716	149	6,837	17,701

31.12.2023

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)	67,581	(51,505)	(16,076)	0
Transfer to Stage 2 - (significantly increased credit risk)	(10,766)	17,183	(6,416)	0
Transfer to Stage 3 - (credit impaired)	(32,752)	(70,485)	103,237	0
Net remeasurement of loss allowance	(93,507)	3,002	840,190	749,685
New financial assets, originated or purchased	284,314	84,645	655,505	1,024,464
Derecognitions and maturities	(102,625)	(111,119)	(881,568)	(1,095,312)
Write-offs	(57)	(471)	(1,110,229)	(1,110,757)
Balance as at 31 December 2023	381,793	128,058	1,724,497	2,234,348

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)	67,521	(51,445)	(16,076)	0
Transfer to Stage 2 - (significantly increased credit risk)	(10,685)	17,102	(6,416)	0
Transfer to Stage 3 - (credit impaired)	(32,750)	(69,985)	102,736	0
Net remeasurement of loss allowance	(91,795)	2,716	840,191	751,112
New financial assets, originated or purchased	278,426	84,474	654,771	1,017,672
Derecognitions and maturities	(100,961)	(110,411)	(881,328)	(1,092,700)
Write-offs	(57)	(471)	(1,110,229)	(1,110,757)
Balance as at 31 December 2023	367,895	127,520	1,723,244	2,218,660

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)	61	(61)		0
Transfer to Stage 2 - (significantly increased credit risk)	(81)	81		0
Transfer to Stage 3 - (credit impaired)	(2)	(500)	502	0
Net remeasurement of loss allowance	(1,712)	286	(1)	(1,427)
New financial assets, originated or purchased	5,888	171	734	6,792
Derecognitions and maturities	(1,664)	(708)	(239)	(2,611)
Balance as at 31 December 2023	13,897	538	1,253	15,688

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

47. 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:

	31.12.2024	**%**	**31.12.2023**	**%**
Less than 50%	41,225,065	27.4%	40,343,153	29.6%
50-70%	57,209,422	38.1%	43,106,020	31.6%
70-90%	33,497,440	22.3%	37,703,829	27.7%
90-100%	2,958,378	2.0%	2,996,007	2.2%
100-125%	3,461,194	2.3%	2,390,159	1.8%
125-200%	1,505,210	1.0%	726,535	0.5%
Greater than 200%	1,378,437	0.9%	493,460	0.4%
No or negligible collateral:				
Other loans with no collateral	8,967,551	6.0%	8,564,319	6.3%
Total	150,202,696	100.0%	136,323,481	100.0%

48. 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**	**31.12.2024**
Financial institutions	548,356	113,888	161,262				823,506
Corporate customers	709,058	27,860	1,401,213				2,138,131
Individuals	61,660	16,377	80,400				158,436
Total	1,319,073	158,125	1,642,874	0	0	0	3,120,073

	Deposits	**Fixed income securities**	**Variable income securities**	**Real estate**	**Other fixed assets**	**Other**	**31.12.2023**
Financial institutions	1,077,011	137,593	710,208				1,924,812
Corporate customers	789,728	70,988	1,812,452				2,673,168
Individuals	66,501		43,028				109,529
Total	1,933,241	208,581	2,565,687	0	0	0	4,707,509

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

49. 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 38).

According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the eligible Tier 1 capital. Based on Icelandic rules no. 789/2022 on the Application of Optional Provisions and Authorisations Pursuant to the Act on Financial Undertakings, the value of exposures towards financial institutions shall not exceed 25% of the eligible Tier 1 capital or 10 bn. ISK, 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.

		31.12.2024		**31.12.2023**
Large exposures before risk adjusted mitigation	**Number**	**Amount**	**Number**	**Amount**
10-20% of capital base	2	11,132,873	3	12,343,465
20-25% of capital base	0	0	0	0
Exceeding 25% of capital base	0	0	0	0
Total	2	11,132,873	3	12,343,465
Thereof nostro accounts with other banks which are part of the Group's liquidity management	1	6,521,624	0	0
Large exposures net of risk adjusted mitigation	1	6,702,213	1	4,002,353

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

50. 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% minimum requirement 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%.

	ISK		Foreign currency		Total	
31.12.2024	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Liquid assets level 1	68,949,963	68,949,963	3,458,943	3,458,943	72,408,906	72,408,906
Liquid assets level 2	823,384	699,877			823,384	699,877
Total liquid assets	69,773,348	69,649,840	3,458,943	3,458,943	73,232,290	73,108,783
Deposits	122,659,515	23,181,070	8,568,256	4,253,944	131,227,770	27,435,014
Other borrowings	17,389	17,389			17,389	17,389
Other outflows	13,201,433	8,729,875	2,471,047	411,573	15,672,480	9,141,447
Total outflows (0-30 days)	135,878,337	31,928,334	11,039,303	4,665,517	146,917,639	36,593,850
Short-term deposits with other banks	691,525	691,525	9,867,085	9,867,085	10,558,610	10,558,610
Other inflows	16,441,026	4,838,298	1,321,647	879,390	17,762,673	5,717,688
Restrictions on inflows				(7,247,337)		
Total inflows (0-30 days)	17,132,551	5,529,823	11,188,731	3,499,138	28,321,283	16,276,298
Liquidity coverage ratio		264%		297%		360%

	ISK		Foreign currency		Total	
31.12.2023	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Liquid assets level 1	61,248,977	61,248,977	14,679,969	14,679,969	75,928,946	75,928,946
Liquid assets level 2	353,146	300,174			353,146	300,174
Total liquid assets	61,602,122	61,549,150	14,679,969	14,679,969	76,282,091	76,229,119
Deposits	111,263,406	27,328,035	6,915,793	3,406,552	118,179,199	30,734,587
Other borrowings	109,333	109,333	1,109	1,109	110,442	110,442
Other outflows	14,896,187	11,083,491	8,222,931	887,195	23,119,118	11,970,686
Total outflows (0-30 days)	126,268,925	38,520,859	15,139,834	4,294,857	141,408,759	42,815,715
Short-term deposits with other banks	196,556	196,556	6,312,949	6,312,949	6,509,505	6,509,505
Other inflows	13,029,061	4,955,339	818,468	473,124	13,847,529	5,428,462
Restrictions on inflows				(3,564,930)		
Total inflows (0-30 days)	13,225,617	5,151,895	7,131,417	3,221,142	20,357,034	11,937,968
Liquidity coverage ratio		184%		1367%		247%

	31.12.2024	**31.12.2023**
NSFR total	144%	141%

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

50. Liquidity risk (cont.)

c. LCR deposit categories

The Group's deposit base is divided into different categories depending on customer type according to the LCR methodology. Different run off rates are applied on each category representing their level of stickiness, which measures the stability of the deposit. Deposits with maturity over 30 days are defined as term deposits within the LCR calculations, other as demand deposits. Run off rates are applied on each category of demand deposits and the expected cash outflow over the next 30 days under stressed conditions calculated. The higher the run off rate, the more high quality liquid assets the Group must hold to ensure it can meet its obligations and maintain stability during a crisis.

The table below shows the Group's deposit base divided into different categories depending on customer type and run off rates according to the LCR methodology.

31.12.2024	Run off date	0-30 days	Over 30 days	Total
Individuals	5%-100%	103,372,251	15,898,871	119,271,122
Small and medium sized corporates	5%-100%	5,807,269	199,576	6,006,845
Large corporates	20%-40%	11,124,000	48,335	11,172,335
Public entities	40%	81,008	82,903	163,911
Financial entities	100%	10,843,243	12,439,204	23,282,447
Other *		3,440,134	41,085	3,481,219
Total		134,667,905	28,709,974	163,377,879

31.12.2023	Run off date	0-30 days	Over 30 days	Total
Individuals	5%-100%	93,213,408	10,902,425	104,115,833
Small and medium sized corporates	5%-100%	4,105,620	263,015	4,368,635
Large corporates	20%-40%	8,642,983	87,667	8,730,650
Public entities	40%	150,408	88,009	238,416
Financial entities	100%	12,066,781	6,888,095	18,954,876
Other *		6,113,855	43,640	6,157,495
Total		124,293,054	18,272,850	142,565,905

*Pledged deposits do not have any run off rate according to liquidity rules.

Money market deposits were previously presented as part of borrowings but are now presented as part of deposits. Comparative figures have been restated. Reference is made to note 2 for further information.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

50. Liquidity risk (cont.)

d. Maturity analysis of financial assets and financial liabilities

31.12.2024 **Financial assets by type**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Gross inflow/ (outflow)**	**Carrying amount**
Non-derivative assets							
Cash and balances with Central Bank	28,320,372					28,320,372	28,319,192
Fixed income securities	17,597,452	10,341,336	7,441,664	25,482,060	3,932,049	64,794,561	64,794,561
Shares and other variable income securities	1,680,808		3,751,446			5,432,254	5,432,254
Securities used for hedging	12,601,026					12,601,026	12,601,026
Loans to customers	10,753,174	13,421,261	52,863,444	98,218,396	4,717,898	179,974,173	150,202,696
Other assets	4,540,215	2,397,217	1,543,015	3,241		8,483,688	9,507,492
	75,493,048	26,159,814	65,599,568	123,703,697	8,649,948	299,606,074	270,857,221
Derivative assets							
Inflow	13,278,709	143,152	2,346,210	919,853	1,035,591	17,723,515	
Outflow	(12,289,408)	(97,836)	(2,328,850)	(796,329)	(940,293)	(16,452,715)	
	989,301	45,317	17,360	123,524	95,298	1,270,801	1,196,744

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	(134,688,378)	(15,129,906)	(10,446,751)	(3,739,302)	(546,778)	(164,551,115)	163,377,879
Borrowings	(1,116)	(300,900)	(1,131,757)	(17,271,191)		(18,704,964)	14,389,515
Issued bonds	(17,389)	(535,356)	(3,318,805)	(34,010,395)	(2,556,883)	(40,438,829)	37,123,285
Subordinated liabilities			(336,219)	(1,399,210)	(9,303,663)	(11,039,092)	5,628,982
Short positions held for trading	(153,001)					(153,001)	153,001
Short positions used for hedging	(42,035)					(42,035)	42,035
Other liabilities	(1,418,300)	(9,218,530)	(1,121,501)	(1,927,215)		(13,685,545)	13,634,905
	(136,320,219)	(25,184,692)	(16,355,033)	(58,347,313)	(12,407,324)	(248,614,581)	234,349,602
Derivative liabilities							
Inflow	12,103,681	142,466	6,321,400	24,413,219		42,980,766	
Outflow	(12,967,739)	(144,687)	(6,240,000)	(26,505,659)		(45,858,085)	
	(864,059)	(2,221)	81,400	(2,092,440)	0	(2,877,319)	2,932,429
Unrecognised financial items							
Loan commitments							
Inflow	147,100	48,777	2,796,249	3,721,970		6,714,096	
Outflow	(6,060,067)					(6,060,067)	
Financial guarantee contracts							
Inflow		1,000	756,021	36,976	7,068	801,065	
Outflow	(801,065)					(801,065)	
	(6,714,033)	49,777	3,552,270	3,758,946	7,068	654,029	

Summary						
Non-derivative assets	75,493,048	26,159,814	65,599,568	123,703,697	8,649,948	299,606,074
Derivative assets	989,301	45,317	17,360	123,524	95,298	1,270,801
Non-derivative liabilities	(136,320,219)	(25,184,692)	(16,355,033)	(58,347,313)	(12,407,324)	(248,614,581)
Derivative liabilities	(864,059)	(2,221)	81,400	(2,092,440)		(2,877,319)
Net assets (liabilities) excluding unrecognised items	(60,701,930)	1,018,218	49,343,296	63,387,468	(3,662,078)	49,384,974
Net unrecognised items	(6,714,033)	49,777	3,552,270	3,758,946	7,068	654,029
Net assets (liabilities)	(67,415,962)	1,067,995	52,895,566	67,146,414	(3,655,010)	50,039,003

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

50. Liquidity risk (cont.)

31.12.2023	**Up to 1**	**1-3**	**3-12**	**1-5**	**Over 5**	**Gross inflow/**	**Carrying**
Financial assets by type	**month**	**months**	**months**	**years**	**years**	**(outflow)**	**amount**
Non-derivative assets							
Cash and balances with Central Bank	23,681,967					23,681,967	23,681,453
Fixed income securities	20,151,355	1,974,339	21,340,000	18,908,801	2,602,910	64,977,406	64,977,406
Shares and other variable income securities	1,222,894	411,609	2,222,977			3,857,480	3,857,480
Securities used for hedging	16,852,313					16,852,313	16,852,313
Loans to customers	7,839,447	10,674,108	47,315,427	90,723,103	6,895,531	163,447,617	136,323,481
Other assets	3,794,043	4,265,609	820,319	200,175		9,080,146	10,401,128
	73,542,019	17,325,666	71,698,723	109,832,080	9,498,441	281,896,929	256,093,262
Derivative assets							
Inflow	8,779,563	12,775,096	6,974,032	58,519		28,587,210	
Outflow	(7,921,683)	(12,310,694)	(5,856,054)	(902)		(26,089,333)	
	857,879	464,402	1,117,978	57,617	0	2,497,877	2,497,877

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	(124,647,550)	(8,418,189)	(5,690,526)	(4,287,362)	(384,513)	(143,428,141)	142,565,905
Borrowings	(7,920)	(347,982)	(2,640,035)	(19,139,199)		(22,135,136)	15,024,098
Issued bonds	(109,333)	(6,881,308)	(9,407,820)	(32,874,868)	(2,457,149)	(51,730,478)	45,715,427
Subordinated liabilities			(354,804)	(2,465,385)	(8,399,596)	(11,219,785)	5,993,084
Short positions held for trading	(71,664)				(60,081)	(131,745)	131,745
Short positions used for hedging					(4,230)	(4,230)	4,230
Other liabilities	(3,308,385)	(11,197,785)	(1,652,495)	(492,619)		(16,651,283)	16,594,010
	(128,144,851)	(26,845,264)	(19,745,680)	(59,259,434)	(11,305,569)	(245,300,798)	226,028,498
Derivative liabilities							
Inflow	15,157,017	1,721,575	4,653,591			21,532,182	
Outflow	(16,222,964)	(1,759,667)	(4,886,823)	(859,631)		(23,729,086)	
	(1,065,948)	(38,092)	(233,233)	(859,631)	0	(2,196,904)	2,196,904
Unrecognised financial items by type							
Loan commitments							
Inflow	211,062	61,502	1,464,611	4,579,989	140,836	6,458,000	
Outflow	(5,205,004)					(5,205,004)	
Financial guarantee contracts							
Inflow			163,896	40,976	7,068	211,940	
Outflow	(211,940)					(211,940)	
	(5,205,882)	61,502	1,628,507	4,620,965	147,905	1,252,996	
Summary							
Non-derivative assets	73,542,019	17,325,666	71,698,723	109,832,080	9,498,441	281,896,929	
Derivative assets	857,879	464,402	1,117,978	57,617		2,497,877	
Non-derivative liabilities	(128,144,851)	(26,845,264)	(19,745,680)	(59,259,434)	(11,305,569)	(245,300,798)	
Derivative liabilities	(1,065,948)	(38,092)	(233,233)	(859,631)		(2,196,904)	
Net assets (liabilities) excluding unrecognised items	(54,810,901)	(9,093,288)	52,837,788	49,770,632	(1,807,128)	36,897,103	
Net unrecognised items	(5,205,882)	61,502	1,628,507	4,620,965	147,905	1,252,996	
Net assets (liabilities)	(60,016,783)	(9,031,786)	54,466,295	54,391,597	(1,659,223)	38,150,099	

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.

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

51. 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 52-57 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.

52. 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.

53. Interest rate risk associated with trading portfolios

a. Breakdown

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2024
Fixed income securities	21,513	54,416	548,207	3,180,837	1,538,440	5,343,413
Short positions - fixed income securities	(676)	(6,875)	(803)	(28,575)	(116,073)	(153,001)
Net imbalance	20,837	47,541	547,404	3,152,263	1,422,367	5,190,412

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2023
Fixed income securities	14,750	36,695	280,459	3,063,674	1,033,718	4,429,295
Short positions - fixed income securities		(3,730)	(5,396)	(32,720)	(89,899)	(131,745)
Net imbalance	14,750	32,964	275,063	3,030,954	943,820	4,297,551

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	31.12.2024 Downward	31.12.2024 Upward	31.12.2023 Downward	31.12.2023 Upward
Indexed	50	53,265	(51,070)	25,032	(24,632)
Non-indexed	100	67,180	(64,264)	41,408	(39,687)
Total		120,445	(115,334)	66,440	(64,319)

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Notes to the Consolidated Financial Statements

54. Interest rate risk associated with non-trading portfolios

a. Breakdown

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

31.12.2024

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	28,319,192					28,319,192
Fixed income securities	11,157,729	10,433,596	9,183,578	25,307,850	3,368,394	59,451,148
Loans to customers	136,380,297	3,761,468	3,954,878	5,748,139	357,915	150,202,696
Financial assets excluding derivatives	175,857,218	14,195,065	13,138,456	31,055,989	3,726,308	237,973,036
Effect of derivatives	23,021,460	23,306,321	8,407,845	927,578	889,917	56,553,122
Total	198,878,678	37,501,386	21,546,301	31,983,567	4,616,225	294,526,157

Financial liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits	135,369,956	14,930,417	9,593,996	3,258,929	224,580	163,377,879
Borrowings	14,389,515					14,389,515
Issued bonds	17,361	28,435,412	84,486	6,500,774	2,085,253	37,123,285
Subordinated liabilities			2,963,334	2,665,648		5,628,982
Financial liabilities excluding derivatives	149,776,832	43,365,829	12,641,816	12,425,350	2,309,833	220,519,661
Effect of derivatives	20,828,415	17,231,242	10,150,728			48,210,385
Total	170,605,247	60,597,072	22,792,544	12,425,350	2,309,833	268,730,046
Total interest repricing gap	28,273,431	(23,095,685)	(1,246,243)	19,558,217	2,306,392	25,796,112

31.12.2023

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	23,681,453					23,681,453
Fixed income securities	13,234,607	2,813,780	22,531,739	18,795,625	3,172,359	60,548,110
Loans to customers	118,422,687	5,472,017	5,631,528	6,488,964	308,287	136,323,481
Financial assets excluding derivatives	155,338,747	8,285,797	28,163,267	25,284,589	3,480,645	220,553,045
Effect of derivatives	24,309,020	33,360,561	13,512,749	945,276	803,219	72,930,826
Total	179,647,767	41,646,358	41,676,016	26,229,865	4,283,865	293,483,870

Financial liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits	125,028,062	8,291,367	5,230,860	3,830,892	184,724	142,565,905
Borrowings	15,024,098					15,024,098
Issued bonds	7,093,090	29,547,945	184,841	6,664,263	2,225,289	45,715,427
Subordinated liabilities			341,008	2,071,885	3,580,191	5,993,084
Financial liabilities excluding derivatives	147,145,250	37,839,312	5,756,708	12,567,040	5,990,203	209,298,514
Effect of derivatives	26,099,269	21,434,697	11,957,255			59,491,221
Total	173,244,520	59,274,009	17,713,963	12,567,040	5,990,203	268,789,735
Total interest repricing gap	6,403,247	(17,627,651)	23,962,053	13,662,825	(1,706,339)	24,694,136

b. Sensitivity analysis

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

	Shift in		31.12.2024		31.12.2023
Currency	**basis points**	**Downward**	**Upward**	**Downward**	**Upward**
ISK, indexed	50	(24,819)	25,519	(245,435)	228,724
ISK, non-indexed	100	450,303	(438,734)	396,558	(385,418)
Other currencies	20	(3,692)	3,693	1,223	(1,215)
Total		421,792	(409,522)	152,346	(157,909)

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

55. 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

	31.12.2024	31.12.2023
Assets	38,425,712	34,860,451
Liabilities	(23,652,914)	(23,177,052)
Total	14,772,798	11,683,398

d. Sensitivity to changes in CPI

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

	31.12.2024		31.12.2023	
	-1%	1%	-1%	1%
Government bonds	(55,330)	55,330	(58,667)	58,667
Other fixed income securities	(30,608)	30,608	(21,561)	21,561
Loans to customers	(277,692)	277,692	(236,126)	236,126
Derivatives	(20,627)	20,627	(32,251)	32,251
Short positions	206	(206)	683	(683)
Deposits	86,020	(86,020)	81,464	(81,464)
Issued bonds	94,013	(94,013)	89,710	(89,710)
Subordinated liabilities	56,290	(56,290)	59,913	(59,913)
	(147,728)	147,728	(116,834)	116,834

The effect on equity would be the same.

56. Currency risk

a. Definition

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

b. Management

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

The Group is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 31 December 2024 and 31 December 2023 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 31.12.2024	Average 2024	Closing 31.12.2023	Average 2023
EUR/ISK	143.9	149.3	150.5	149.2
USD/ISK	138.2	138.0	136.2	137.9
GBP/ISK	173.3	176.4	173.2	171.5

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

56. Currency risk (cont.)

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

31.12.2024

Financial assets	**EUR**	**USD**	**GBP**	**NOK**	**Other currencies**	**Total**
Cash and balances with Central Bank	6,671,025	1,381,888	1,217,366	110,103	340,147	9,720,529
Fixed income securities		3,592,590				3,592,590
Shares and other variable income securities	112,855	936,331	2,752,783	13,954	1,551	3,817,474
Securities used for hedging	35,917	2,186,597	1,553	2,994	79,410	2,306,470
Loans to customers	4,057,957		37,222,091		19,852	41,299,900
Intangible assets			2,450,910			2,450,910
Other assets	712,599	1,601,697	588,647			2,902,943
Financial assets excluding derivatives	11,590,352	9,699,102	44,233,350	127,051	440,960	66,090,816
Derivatives	4,967,412	908,301	1,635,532	9,959,027	16,156,032	33,626,303
Total	16,557,764	10,607,403	45,868,882	10,086,079	16,596,992	99,717,119

Financial liabilities	**EUR**	**USD**	**GBP**	**NOK**	**Other currencies**	**Total**
Deposits	5,162,192	3,580,603	598,790	64,822	200,210	9,606,616
Borrowings			13,700,192			13,700,192
Issued bonds				9,890,897	16,157,267	26,048,164
Other liabilities	200,836	634,341	467,041	4,766	110,017	1,417,002
Financial liabilities excluding derivatives	5,363,028	4,214,944	14,766,024	9,960,485	16,467,493	50,771,974
Derivatives	10,333,424	6,484,604	30,321,700	58,302	17,032	47,215,062
Total	15,696,452	10,699,548	45,087,724	10,018,787	16,484,525	97,987,037

Net currency position	**EUR**	**USD**	**GBP**	**NOK**	**Other currencies**	**Total**
Financial assets	16,557,764	10,607,403	45,868,882	10,086,079	16,596,992	99,717,119
Financial liabilities	(15,696,452)	(10,699,548)	(45,087,724)	(10,018,787)	(16,484,525)	(97,987,037)
Financial guarantee contracts	703,501					703,501
Total	1,564,813	(92,145)	781,158	67,292	112,467	2,433,583

31.12.2023

Financial assets	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Cash and balances with Central Bank	2,922,506	657,800	2,109,634	79,125	255,219	6,024,284
Fixed income securities	1,503,990	13,834,864				15,338,855
Shares and other variable income securities	88,400	242,497	1,539,466	12,880		1,883,243
Securities used for hedging	657,191	1,167,816	1,413	1,656,645	2,703	3,485,768
Loans to customers	2,280,065	478,715	28,876,368		47,414	31,682,562
Intangible assets			2,540,412			2,540,412
Other assets	849,032	1,236,043	718,974		163	2,804,212
Financial assets excluding derivatives	8,301,183	17,617,736	35,786,267	1,748,651	305,498	63,759,336
Derivatives	11,811,725	1,328,055	4,467,242	15,253,051	10,870,463	43,730,536
Total	20,112,909	18,945,791	40,253,509	17,001,701	11,175,962	107,489,872

Financial liabilities	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Deposits	2,409,529	7,888,477	756,682	28,189	281,357	11,364,235
Borrowings			14,816,743			14,816,743
Issued bonds	1,292,489		1,990,376	15,220,348	10,837,164	29,340,377
Other liabilities	527,123	669,394	803,960	5	4,616	2,005,098
Financial liabilities excluding derivatives	4,229,142	8,557,872	18,367,762	15,248,542	11,123,136	57,526,454
Derivatives	15,861,328	10,352,601	22,199,121	1,692,775	105,127	50,210,951
Total	20,090,469	18,910,472	40,566,883	16,941,318	11,228,263	107,737,405

Net currency position	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Financial assets	20,112,909	18,945,791	40,253,509	17,001,701	11,175,962	107,489,872
Financial liabilities	(20,090,469)	(18,910,472)	(40,566,883)	(16,941,318)	(11,228,263)	(107,737,405)
Financial guarantee contracts	75,250					75,250
Total	97,689	35,319	(313,374)	60,384	(52,302)	(172,283)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

56. 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.

		31.12.2024		31.12.2023
Assets and liabilities denominated in foreign currencies	**-10%**	**+10%**	**-10%**	**+10%**
EUR	156,481	(156,481)	9,769	(9,769)
USD	(9,215)	9,215	3,532	(3,532)
GBP	78,116	(78,116)	(31,337)	31,337
NOK	6,729	(6,729)	(2,537)	2,537
SEK	3,554	(3,554)	6,038	(6,038)
Other currencies	7,692	(7,692)	(2,693)	2,693
Total	243,358	(243,358)	(17,228)	17,228

57. Equity risk

a. Definition

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

b. Sensitivity 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.

		31.12.2024		31.12.2023
	-10%	**+10%**	**-10%**	**+10%**
Listed shares	(110,061)	110,061	(51,270)	51,270
Unlisted shares	(306,938)	306,938	(202,767)	202,767
Unlisted unit shares in funds	(126,227)	126,227	(131,710)	131,710
Total	(543,225)	543,225	(385,748)	385,748

58. Operational risk

a. Definition

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

b. Management

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Financial assets and financial liabilities

59. Accounting classification of financial assets and financial liabilities

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

31.12.2024 **Financial assets**	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Cash and balances with Central Bank	28,319,192			28,319,192
Fixed income securities		59,169,229	5,625,332	64,794,561
Shares and other variable income securities			5,432,254	5,432,254
Securities used for hedging			12,601,026	12,601,026
Loans to customers	149,328,903		873,794	150,202,696
Derivatives			1,196,744	1,196,744
Other assets	9,507,492			9,507,492
Total	187,155,586	59,169,229	25,729,150	272,053,965

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	163,377,879			163,377,879
Borrowings	14,389,515			14,389,515
Issued bonds	37,123,285			37,123,285
Subordinated liabilities	5,628,982			5,628,982
Short positions held for trading			153,001	153,001
Short positions used for hedging			42,035	42,035
Derivatives			2,649,463	2,649,463
Derivatives used for hedge accounting		282,967		282,967
Other liabilities	13,315,245		319,660	13,634,905
Total	233,834,906	282,967	3,164,159	237,282,032

31.12.2023 **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	23,681,453			23,681,453
Fixed income securities		61,293,556	3,683,849	64,977,406
Shares and other variable income securities			3,857,480	3,857,480
Securities used for hedging			16,852,313	16,852,313
Loans to customers	135,641,049		682,433	136,323,481
Derivatives			2,497,877	2,497,877
Other assets	10,401,128			10,401,128
Total	169,723,630	61,293,556	27,573,952	258,591,138

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	142,565,905			142,565,905
Borrowings	15,024,098			15,024,098
Issued bonds	45,715,427			45,715,427
Subordinated liabilities	5,993,084			5,993,084
Short positions held for trading			131,745	131,745
Short positions used for hedging			4,230	4,230
Derivatives			2,044,723	2,044,723
Derivatives used for hedge accounting		152,182		152,182
Other liabilities	16,189,247		404,762	16,594,010
Total	225,487,761	152,182	2,585,460	228,225,403

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

60. 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.

d. Fair value hierarchy classification

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

31.12.2024

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	4,907,870	106,337	611,126	5,625,332
Shares and other variable income securities	1,922,016	54,674	3,455,564	5,432,254
Securities used for hedging	12,601,026			12,601,026
Loans to customers			873,794	873,794
Derivatives		1,196,744		1,196,744
Measured at fair value through other comprehensive income				
Fixed income securities	59,169,229			59,169,229
Total	78,600,141	1,357,755	4,940,483	84,898,379

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

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

31.12.2024

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	153,001			153,001
Short positions used for hedging	42,035			42,035
Derivatives		1,710,389	939,074	2,649,463
Other liabilities			319,660	319,660
Measured at fair value through other comprehensive income				
Derivatives used for hedge accounting		282,967		282,967
Total	195,036	1,993,356	1,258,734	3,447,126

31.12.2023

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	3,465,191	104,584	114,075	3,683,849
Shares and other variable income securities	1,237,775	102,362	2,517,343	3,857,480
Securities used for hedging	16,852,313			16,852,313
Loans to customers			682,433	682,433
Derivatives		2,497,877		2,497,877
Measured at fair value through other comprehensive income				
Fixed income securities	61,293,556			61,293,556
Total	82,848,836	2,704,822	3,313,851	88,867,508

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	131,745			131,745
Short positions used for hedging	4,230			4,230
Derivatives		1,185,091	859,631	2,044,723
Other liabilities			404,762	404,762
Measured at fair value through other comprehensive income				
Derivatives used for hedge accounting		152,182		152,182
Total	135,975	1,337,273	1,264,394	2,737,641

e. Reconciliation of changes in Level 3 fair value measurements

31.12.2024	**Fixed income securities**	**Shares and other var. income securities**	**Loans to customers**	**Derivatives**	**Other liabilities**	**Total**
Balance as at 1 January 2024	114,075	2,517,343	682,433	(859,631)	(404,762)	2,049,457
Total gains and losses in profit or loss	6,829	362,034	69,096	(168,150)	(5,288)	264,521
Additions	604,297	612,349				1,216,646
Repayments			(620,667)	88,707	90,391	(441,569)
Disposals		(36,162)				(36,162)
Reclassification	(114,075)		742,932			628,857
Balance as at 31 December 2024	611,126	3,455,564	873,794	(939,074)	(319,660)	3,681,749

31.12.2023	**Fixed income securities**	**Shares and other var. income securities**	**Loans to customers**	**Derivatives**	**Other liabilities**	**Total**
Balance as at 1 January 2023	615,304	7,437,283	1,210,390	(691,713)	(373,715)	8,197,550
Total gains and losses in profit or loss	130,943	987,969	10,173	(11,159)	(31,048)	1,086,879
Additions	380,542	1,085,457	40,000	(156,759)		1,349,240
Repayments	(162,024)		(578,130)			(740,155)
Disposals		(2,246,400)				(2,246,400)
Reclassified as assets held for sale	(850,690)	(4,746,966)				(5,597,656)
Balance as at 31 December 2023	114,075	2,517,343	682,433	(859,631)	(404,762)	2,049,457

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

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

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 31.12.2024
Unlisted bonds	Expected recovery	Value of assets	0-95%	611,126
Unlisted variable income securities	Market price	Recent trades	-	3,455,564
Loans to customers	Expert model	Value of assets and collateral	-	873,794
Total				4,940,483

Asset class	Method	Significant unobservable input	Range	Book value 31.12.2023
Unlisted bonds	Expected recovery	Value of assets	0-95%	114,075
Unlisted variable income securities	Market price	Recent trades	-	2,517,343
Loan to customers	Expert model	Value of assets and collateral	-	682,433
Total				3,313,851

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	61,113	(61,113)
Shares and other variable income securities	345,556	(345,556)
Loans to customers	87,379	(87,379)
Total	494,048	(494,048)

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

The Group holds financial instruments which are not measured at fair value. Except for loans to customers, the Group believes that the best estimate of the fair value of these financial instruments is equal to the carrying amount at the reporting date and does therefore not report a fair value for these financial instruments. Loans to customers measured at amortised cost are classified as level 3, in the fair value hierarchy, and have a book value of ISK 149,329 million at end of December 2024. The estimated fair value of loans to customers measured at amortised cost at end of December 2024 is ISK 149,121 million.

Cash and balances with Central Bank includes several components as detailed in note 18. These assets are either balances available on-demand or on very short notice, or other assets easily converted to cash. Other financial assets consist primarily of short-term receivables. The carrying amount of these assets is therefore a reasonable approximation of their fair value.

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Other information

62. Pledged assets

31.12.2024	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
Cash and balances with Central Bank	0	1,773,821	0	1,773,821
Fixed income securities	10,263,379	93,500	0	10,356,879
Loans to customers	21,053,056	0	0	21,053,056
Other assets	0	29,978	0	29,978
Total	31,316,435	1,897,299	0	33,213,734

31.12.2023	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
Cash and balances with Central Bank	0	973,538	27,853	1,001,391
Fixed income securities	6,392,856	249,194	0	6,642,050
Loans to customers	21,340,531	0	1,118,990	22,459,521
Other assets	0	52,979	0	52,979
Total	27,733,387	1,275,711	1,146,843	30,155,941

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.

63. 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 25, 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

31.12.2024	Assets	Liabilities
Management	2,231	124,252
Associates	0	40,605
Total	2,231	164,857
31.12.2023	**Assets**	**Liabilities**
Management	5,861	77,974
Associates	0	28,639
Total	5,861	106,613

d. Transactions with related parties

2024	Interest income	Interest expense	Other income	Other expense
Management	0	5,886	599	1,296
Associates	0	0	0	340,921
Total	0	5,886	599	342,217

2023	Interest income	Interest expense	Other income	Other expense
Management	0	2,836	9,122	4,981
Associates	0	0	0	251,998
Total	0	2,836	9,122	256,979

Further information about salaries and benefits paid to the Board of Directors, the CEO and Managing Directors is provided in note 11.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

64. Remuneration policy

The Board of Directors has adopted a remuneration policy at the proposal of the Remuneration Committee. The Bank's Annual General Meeting approved the Bank's current remuneration policy in March 2024. The Board of Directors will submit an updated remuneration policy for approval at the Bank's Annual General Meeting in 2025. The remuneration policy applies on a consolidated basis. However, it does not apply to the Bank's subsidiaries that, based on the activities carried out by the subsidiaries, are subject to independent legal requirements regarding remuneration policies and/or the granting of bonuses, except to the extent required by law. Kvika shall strive to ensure that the remuneration policies of subsidiaries take into account the Bank's remuneration policy as possible. The Bank's subsidiaries subject to independent legal requirements have, thus, each implemented own remuneration policies.

The remuneration policy conforms to Articles 57 a and 57 b of Act No. 161/2002 on Financial Undertakings, Act No. 2/1995 on Public Limited Companies and other applicable rules and guidelines, as well as Act No. 25/2023 on Sustainable Finance Disclosure. A more detailed description of the policy can be found on the Bank's website, www.kvika.is.

65. Incentive scheme

The Board of Directors has approved a performance based incentive scheme at the proposal of the Remuneration Committee. The scheme forms a part of the remuneration policy adopted by the Bank. As described above it does not apply to the Bank's subsidiaries that are subject to independent legal requirements regarding remuneration policies and/or granting of bonuses. The Bank's subsidiaries subject to independent legal requirements have, thus, each implemented own incentive schemes.

a. Description

The Bank's incentive scheme is set forth in accordance with Article 57 b of Act No. 161/2002 on Financial Undertakings. Performance based payments may consist, in part or in full, of shares or share-linked instruments, such as warrants or stock options for shares in the Bank. Payments according to the scheme are based on key performance indicators (KPIs) that reflect the goals of the Bank, the division and the employee. The basis for performance based pay reflects sound risk management and does not induce excessive risk taking. Performance based pay to individual employees shall not exceed 25% of their annual salary and 40% of the performance based pay shall be deferred for three years. Performance based pay that does not exceed 10% of annual salary is not subject to deferral. A more detailed description of the scheme can be found in the Bank's remuneration policy on it's website, www.kvika.is. Incentive schemes of the Icelandic subsidiaries are similar to the Bank's due to specific Icelandic legal requirements that are similar for the operations of the Bank and these subsidiaries. UK law has not implemented similar restrictions for incentive schemes and, therefore, the incentive scemes of the UK subsidiaries differ from the Bank and the Icelandic subsidiaries.

b. Performance based payments through profit and loss

	2024 Cash	2023 Cash
Non-deferred	398,533	157,334
Deferred	78,974	17,992
Salary related expenses	69,375	38,269
Total	546,881	213,595

c. On-balance sheet deferred performance based payments

	31.12.2024	31.12.2023
Deferred cash payments	129,619	37,016
Total	129,619	37,016

66. Share-based payments

a. Description

The Bank has issued share options in accordance with authorisations of its annual general meeting, the Group's remuneration policy and incentive scheme. At year end 2024, there were outstanding share options based on the Bank's incentive scheme.

In 2022, the Bank, on the basis of an authorisation by the Annual General Meeting of Kvika banki hf., held on 31 March 2022, granted share options to certain employees of the Group on the basis of the Bank´s incentive scheme. The share options were granted in order to align the long-term interests of the Group and said employees. The employees paid for the share options with a deferred part of performance based payments. For the share options the employees paid a total of ISK 94.5 million by using deferred performance based payments. The cost of these share option agreements is ISK 94.5 million based on the Black-Scholes calculation model but in return previously expensed performance based payments were cancelled.

The main terms of the share options from 2022 are as follows:

- The exercise price of the share options is ISK 22.495 per share, which is equivalent to the weighted average price in transactions with shares of the company on Nasdaq OMX Iceland for ten business days prior to the contract date, with 7.5% annual interest over the period, and the exercise price shall be adjusted for dividends that may be decided until the exercise period begins.
- The options do not allow for cash settlement.
- The share options may be exercised in 2025, during an exercise period of three months where in that period the strike continues to accrue with 7.5% annual interest until the option is exercised.
- In general, share options shall lapse if the share option holder's employment relationship with the company is terminated until the beginning of the exercise period.

Notes to the Consolidated Financial Statements

66. Share-based payments (cont.)

- The Bank's CEO, deputy CEO and the executive management of the group commit to retain, until the end of their employment, shares which market value correspond to profit after taxes of utilised share options until the value of the shares owned by those individuals is equivalent to 12 months' salary for Kvika´s CEO and deputy CEO and six months' salary for other members of the executive management.
- The value of the share options was determined by an independent specialist and the value is in line with the laws and rules applicable to bonus payments of financial undertakings.
- In certain instances, the Group is entitled to revoke the share options in part or in whole in line with applicable rules.

In 2023, the Bank, on the basis of the same authorisation from the Annual General Meeting in 2022, granted share options to four employees of the Group on the basis of the Bank´s incentive scheme. The share options were assigned as a a deferred part of recruitment bonuses that were granted between December 2022 to April 2023. The stock options are granted in order to align the long-term interests of the company and said employees. The cost of these share option agreements is ISK 14.7 million based on the Black-Scholes calculation model.

The main terms of the share options from 2023 are as follows:
- The exercise price of the share options is ISK 20.107 per share, which is equivalent to the weighted average price in transactions with shares of the company on Nasdaq OMX Iceland for ten business days prior to the contract date, with 7.5% annual interest over the period, and the exercise price shall be adjusted for dividends that may be decided during the vesting period.
- The options do not allow for cash settlement.
- The vesting period of the share options is 36 months from grant date of the share options. Following that the share options may be exercised for a period of three months where in that period the strike continues to accrue with 7.5% annual interest until the option is exercised. However, in the event of a merger involving a dissolution of the company or if there is a change in the company's control, the share options will become fully vested.
- In general, share options shall lapse if the share option holder's employment relationship with the company is terminated before the end of the vesting period.
- Executive managers within the Group commit to retain, until the end of their employment, shares which market value correspond to profit after taxes of utilised share options until the value of the shares owned by those individuals is equivalent to six months' salary.
- The value of the share options was determined by an independent specialist and the value is in line with the laws and rules applicable to bonus payments of financial undertakings.
- In certain instances, the Group is entitled to revoke the share options in part or in whole in line with applicable rules.

As of December 2024, a three year general share option plan, set forth in accordance with Article 10 of the Income Tax Act No. 90/2003, has lapsed. There are thus no share options outstanding on the basis of said general share option plan. No decision has been made whether or not another general stock option plan, cf. Art. 10 of Act No. 90/2003, will be implemented.

b. The following share options are in existence at year end

Share options	**Number of shares**	**Exercise year**	**Exercise price**
Issued in 2022 - Other share options, cf. the Bank´s incentive scheme	37,292	2025	21.69
Issued in 2023 - Other share options, cf. the Bank´s incentive scheme	5,059	2026	20.17
	42,350		

c. Movements in the number of share options outstanding and their related weighted average exercise prices

	Average exercise price per share	Share options (thousands)
At 1 January 2023	23.85	88,099
Granted in 2023	18.00	9,086
Forfeited in 2023	24.81	(27,707)
At 31 December 2023	22.24	69,478
Exercised in 2024	15.27	(1,730)
Forfeited in 2024	23.93	(25,397)
At 31 December 2024	21.51	42,350
Exercisable share options at 31 December 2024		0

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

67. Shareholders of the Bank

Shareholder	Country	31.12.2024 %	31.12.2023 %	Beneficial owners
Lífeyrissjóður verzlunarmanna	Iceland	9.17%	9.56%	
Lífeyrissjóður starfsmanna ríkisins A-deild	Iceland	7.93%	7.89%	
Stoðir hf.	Iceland	7.09%	7.01%	
Gildi - lífeyrissjóður	Iceland	5.64%	5.43%	
Birta lífeyrissjóður	Iceland	5.58%	6.00%	
Lífsverk lífeyrissjóður	Iceland	2.59%	2.55%	
Stapi lífeyrissjóður	Iceland	2.55%	3.54%	
Landsbankinn hf.	Iceland	2.39%	1.28%	
Almenni lífeyrissjóðurinn	Iceland	2.33%	2.30%	
Frjálsi lífeyrissjóðurinn	Iceland	2.32%	2.31%	
Arion banki hf.	Iceland	1.96%	1.92%	
Lífeyrissjóður starfsmanna ríkisins B-deild	Iceland	1.71%	1.78%	
Íslandsbanki hf.	Iceland	1.70%	0.41%	
Sigla ehf.	Iceland	1.45%	1.43%	Tómas Kristjánsson (100%)
Vanguard Total International S	USA	1.36%	1.21%	Investment fund managed by The Vanguard Group, Inc.
Fossar fjárfestingarbanki hf.	Iceland	1.30%	1.45%	
Vanguard Emerging Markets Stock	USA	1.30%	1.25%	Investment fund managed by The Vanguard Group, Inc.
SNV Holding ehf.	Iceland	1.29%	1.27%	Svanhildur Nanna Vigfúsdóttir (100%)
Stefnir - Innlend hlutabréf hs.	Iceland	1.03%	1.60%	Investment fund managed by Stefnir hf.
Others, each less than 1%		37.98%	38.57%	2024: 2722, 2023: 2857
		98.69%	98.77%	
Treasury shares		1.31%	1.23%	
Total		100%	100%	

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

68. Other matters

Status of TM sales process

On 30 May 2024 the Bank announced that it had signed a purchase agreement with Landsbankinn hf., in which Landsbankinn hf. purchased 100% of the share capital in TM. On 17 March 2024, the Bank announced that it had received binding offers for the purchase of the share capital of TM. Due diligence review has been completed, and the purchase agreement has been signed with standard conditions of approval from The Financial Supervisory Authority of the Central Bank of Iceland and the Icelandic Competition Authority ("ICA"). On 26 September 2024, the Financial Supervisory Authority of the Central Bank of Iceland has published the results of its assessment, finding that Landsbankinn is eligible to control a qualifying holding in TM. The ICA has yet to conclude its review of the transaction. The purchase price according to the purchase agreement is ISK 28.6 billion and Landsbankinn hf. will pay for the share capital in cash. The purchase price is based on TM's balance sheet at the end of 2023. The final purchase price will be adjusted for changes in TM's tangible equity from the beginning of the year 2024 to the completion date, and the amount of the change will be added to or subtracted from the price according to the purchase agreement.

Tax treatment of warrants sold by the Bank

The Bank is aware of that the Iceland revenue and customs ("Skatturinn") is currently reviewing the tax treatment of warrants that the Bank sold during the years 2017 to 2019. The Iceland revenue and customs 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 Iceland revenue and customs 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.

69. Events after the reporting date

There are no material events after the reporting date.

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Significant accounting policies

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

70. Basis of consolidation

a. Subsidiaries

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

b. Business combinations

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

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

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

c. Non-controlling interest

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

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

d. Fiduciary services

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

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

e. Transactions eliminated on consolidation

Intra-group balances, income and expenses, and unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. This also applies to subsidiaries classified as disposal groups held for sale.

f. Structured entities

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

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

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

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

Notes to the Consolidated Financial Statements

71. Foreign currency

a. Foreign currency transactions

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

Foreign currency differences are posted as a separate line item under net financial income as disclosed in notes 7 and 74.

b. Foreign operations

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

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

72. Interest income and expense

Effective interest rate

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

Amortised cost and gross carrying amount

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

Presentation

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

73. Fee and commission income and expense

The Group earns income from providing various services to its customers. This includes fees for managing assets on behalf of customers, commissions received for equity and bond transactions and fees and commissions for various other financial services. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
Fee and commission income and expense are recognised in the income statement when an agreement with a customer meets all of the following criteria:
- the parties to the contract have approved the contract and are committed to perform their respective obligations
- performance obligations have been established for services to be transferred
- the payment terms have been established for the services to be transferred
- the transaction price can be allocated to each individual service in the agreement
- it is probable that a consideration will be collected in exchange for the services that will be transferred to the customer

The following applies to recognition of income for various types of fees and charges:

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

Notes to the Consolidated Financial Statements

74. Net financial income (expense)

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

75. Dividend income

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

76. Administrative expenses

Administrative expenses comprise expenses other than interest expenses, fee and commission expenses and expenses related to fair value changes. A breakdown of administrative expenses is provided in note 9.

77. Employee benefits

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

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

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

78. Income tax

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

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

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

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

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

Notes to the Consolidated Financial Statements

79. Financial assets and financial liabilities

a. Recognition

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

b. Classification

Financial assets

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

Financial assets at amortised cost

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

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

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

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

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

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

Financial assets at fair value through profit or loss are measured in the Consolidated Statement of Financial Position at fair value. Loans to customers which are measured at fair value through profit or loss are assets whose cash flows do not represent payments that are solely payments of principal and interest but are non-trading assets. Interest on loans to customers measured at fair value through profit or loss is recognised as interest income. Changes in fair value, as well as any gains or losses realised on disposal, are recognised in the line item Net financial income (expense) in the Consolidated Income Statement.

Business model assessment

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

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

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

Notes to the Consolidated Financial Statements

79. Financial assets and financial liabilities (cont.)

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

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

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

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

Derecognition

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

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

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

80. Offsetting

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

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

81. Determination of fair value

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. For further information on valuation techniques, refer to notes 60 - 61.

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

Notes to the Consolidated Financial Statements

82. Impairment

Expected Credit Loss

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

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

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

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

The general approach

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

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

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

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

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

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

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

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

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

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

Expected credit losses

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

12 month expected credit losses

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

Lifetime expected credit losses

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

Notes to the Consolidated Financial Statements

82. Impairment (cont.)

Definition of default

The Group considers a financial asset to be in default if one of the following applies:

- the borrower is more than 90 days past due of one of his exposures with the Bank;
- the borrower is registered as in delinquency by Creditinfo (Icelandic: vanskilaskrá) and has payment more than 30 days delinquency with the Group;
- the borrower is considered to be unlikely to pay as determined by the Bank's Risk Management department. Events that are likely to lead to default as determined by the Risk Management department include the following:
  - breach of covenants of loan commitments;
  - loan concessions or stressed restructuring; or
  - High risk classification based on Risk Management's internal risk assessment.
- the borrower has been in default in accordance with above at any point for the previous three months or previous 12 months if loan was granted forbearance measures while being classified in default.

The Risk Management department can manually override automatic default triggers if the following applies:

- the reason for reported default triggers is known to the Bank and not considered to be lack of willingness or ability to pay.
- re-financing of borrower’s exposures is expected and has been confirmed.

Probability of default and credit risk rating

The Group utilises internal and external Probability of Default models (PD models). Internal models are developed using internal default data along with demographic and other explanatory variables. External models are developed by Creditinfo, an Icelandic credit bureau, for the domestic corporate and invidiual portfolios. The Creditinfo PD models are calibrated to the default rate of the underlying portfolios. The PD models calculate a 12 month PD and a lifetime PD is calculated for stage 2 loans. All PD models use an economic regression model which uses forecasted macro variables to adjust the PD values for economic scenarios.

The Group utilises an economic forecast and the current 12 month PD for the purpose of estimating lifetime PD for loans in stage 2. The 12 month PD is adjusted with a survival rate for each year until maturity with the following formula: $PD_t = PD_{12} * SR_t$ where PD_{12} is the 12 month PD from the credit rating model and SR_t is the survival rate at time t, which is calculated recursively as $SR_t = SR_{t-1} * (1-PD_t)$. The Group monitors the appropriateness of the assumption as a part of it’s yearly validation and monitoring process. The PD assessment for portfolios in the UK is primarily individually assessment done by credit specialists based on payment history and general creditworthiness where performing customers are ranked in three different risk classes.

Significant increase in credit risk

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

Quantitative SICR assessment

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

1. Over 30 days past due of any of the client's exposures or client is in Creditinfo's default registry
2. Grading migrations – SICR has occurred if the current grade has increased compared to the origination grade. For the domestic portfolio, more or equal to the following thresholds are considered to be significant increase in credit risk:

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

Migration of corporations by one or two risk grades in the PD model is considered to be a significant increase in risk and therefore warrant a transfer to stage 2, depending on the origination grade. However, the Group considers risk grade 6 and lower for corporations to be low risk and therefore excludes any movement between categories that does not result in a rating above that level. If the borrower is in Creditinfo's default registry then he moves to stage 3 if he is more than 30 days delinquent but stage 2 otherwise.

Qualitative SICR assessment

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

Notes to the Consolidated Financial Statements

82. Impairment (cont.)

Exposure at default

Lifetime definition

The Group considers the lifetime of each exposure to be the contractual maturity of each loan. The Group considers this to be the case as any lending subsequent to that period would be based on an independent lending decision at that time based on the prevailing market terms. The Group only considers contractual cash flows when estimating exposure at default. The average lifetime of the Group's exposures is relatively short and it does therefore not consider the likelihood of prepayment when concluding on the lifetime of the assets.

Committed facilities

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

Expected credit loss measurement

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

Probability of Default (PD). This is an estimate of the likelihood of default over a given time horizon. The Bank uses an external PD model developed by CreditInfo for the domestic portfolio and individual assessment done by credit specialists in special cases and for the UK portfolio.

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

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

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

Forward looking probability weighted scenarios

The Group's management has identified and probability weighted three macro-economic scenarios for the purpose of calculating expected credit loss. The medium term domestic forecasts of macro-economic variables and scenario weights are based on the Group's management judgement and are applied for the loan portfolios that are affected by the macro-economic variables. The Group incorporates the following forward-looking macro- economic variables into its probability weighted expected credit loss calculations: (i) unemployment rate and (ii) inflation rate. The Group has not developed macro-economic forecasts for the UK portfolio, but macro-economic forecasts effect the LGD assessment.

83. Cash and balances with Central Bank

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

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

84. Fixed income securities

Fixed income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 79.

85. Shares and other variable income securities

Shares and other variable income securities consist of equity investments and unit shares in mutual funds. Shares and other variable income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 79.

86. Securities used for hedging

Securities used for hedging consist of non-derivative financial assets that are used to hedge the Group's exposure arising from derivative contracts with customers. Securities used for hedging are measured at fair value as discussed in note 79.

Notes to the Consolidated Financial Statements

87. Loans to customers

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

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

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

88. Derivatives

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

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

The Group uses derivatives for trading purposes and to hedge its exposure to market price risk, foreign exchange risk and inflation and interest risk arising from operating, financing and investing activities.

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

89. Investments in associates

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

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

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

90. Intangible assets

a. Asset categories

The Group groups intangible assets into four categories:

- Goodwill
  Goodwill arises in business combinations. It is recognised as of the acquisition date and measured as the aggregate of (a) the fair value of the consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) the fair value of any previously held equity interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. The consideration transferred includes the fair value of assets transferred, liabilities incurred and equity interests issued by the Group. In addition, consideration transferred includes the fair value of any contingent consideration.
- Customer relationships

  Customer relationships have been acquired as part of recent acquisitions and are capitalised and amortised using the straight line method over their useful life of maximum 16 years.
- Brands
  Brands have been acquired as part of recent acquisitions and are capitalised and amortised using the straight line method over their useful life, but not exceeding 20 years.
- Software and other
  Software comprise acquired software licences and external costs associated with the development of bespoke applications.
- Development cost that has been capitalised is amortized on the day that the product is launched using the straight line method over their useful life, but not exceeding 14 years.

Notes to the Consolidated Financial Statements

90. Intangible assets (cont.)

b. Initial recognition
Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

Customer relationships	7-16 years
Brands	4-20 years
Software and other	3-14 years

Depreciation of property and equipment and amortisation of intangible assets are presented together as a separate line item in administrative expenses as disclosed in note 9. Further breakdown on depreciation of intangible assets is provided in note 26.

91. Operating lease assets

Operating lease assets are rental agreements on vehicles and heavy equipments where the bank is the lessor. Operating lease assets are recognised at cost less depreciation and impairment. Depreciation is calculated and recognised in the income statement on a straight-line basis based on estimated useful life, taking into account the residual value.

92. Property and equipment

a. Asset categories
The Group groups tangible assets into two categories:

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

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

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

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

Notes to the Consolidated Financial Statements

92. Property and equipment (cont.)

e. Depreciation

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

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

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

93. Other assets

Other assets are measured at amortised cost.

94. Deposits

Deposits consist of time deposits and demand deposits, as well as money market deposits. They are recognised at amortised cost, including accrued interest.

95. Borrowings

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

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

96. Issued bonds

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

97. Subordinated liabilities

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

98. Short positions held for trading

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

99. Short positions used for hedging

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

100. Other liabilities

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

101. Assets and disposal groups held for sale

The Group classifies an asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and the sale must be highly probable.

Immediately before classification as held for sale, the measurement of the qualifying assets and all assets and liabilities in a disposal group is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held for sale, assets and disposal groups are recognized at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the Income Statement, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement. Revaluation through the reversal of impairment in subsequent periods is limited so that the carrying amount of the held for sale, assets or disposal groups does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

Notes to the Consolidated Financial Statements

102. Right of use asset and lease liability

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

103. Financial guarantees

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

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

104. Share capital

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

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

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

105. Nature and purpose of equity reserves

a. Option reserve
The option reserve represents the cumulative charge to the income statement for options to purchase shares in the Bank granted under the Bank's Remuneration policy, which is discussed in notes 64-66.

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

c. Fair value reserve
The fair value reserve represents fair value changes, net of tax, for assets held at fair value through other comprehensive income. The reserve is released in correlation with realization of gains or losses of financial assets upon sale or derecognition.

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

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

When development cost is capitalized a corresponding amount is transferred from retained earnings to restricted retained earnings according to the Financial Statements Act No. 3/2006. The reserve is then transferred back to retained earnings in line with amortization of the asset through income statement.

f. Retained earnings - accumulated deficit
Retained earnings (accumulated deficit if negative) consists of undistributed profits and losses accumulated, less transfers to other reserves.

106. Earnings per share

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

Notes to the Consolidated Financial Statements

107. New standards and interpretations

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2024 and have not been applied in the preparation of these financial statements. Early adoption of new standards and amendments is not planned.

108. Use of estimates and judgements

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

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

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

a. Fair value of financial instruments
The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques which are reviewed regularly as discussed in note 60.

b. Impairment of financial assets
As outlined in note 82, the use of estimates and judgement is an important component of the calculation of impairment losses. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Unforeseen events could, however, result in further impairment losses which would have a material effect on the income statement and statement of financial position.

c. Impairment of intangible assets
The carrying amount of intangible assets are reviewed annually to determine whether there is indication of impairment as disclosed in note 90. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

d. Assets and disposal groups held for sale
Assets and discontinued operations held for sale are measured at the lower of carrying amount and fair value, less cost to sell. As outlined in note 3, this applies to a subsidiary of the Group. The fair value at the date of classification of the subsidiary was calculated using valuation models based on discounted future cash flows that incorporated significant non-market observable inputs and assumptions. The use of reasonably possible alternative inputs and assumptions to these models, in particular changes to the discount rate employed (representing the required rate of return on equity), could have an impact on the value of these disposal groups.

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

Appendix 1:

Statement on the Corporate Governance of Kvika banki hf. 2024

Unaudited

Statement on the Corporate Governance of Kvika banki hf. 2024

Business strategy and values

Kvika banki hf. (hereinafter referred to as "Kvika" or the "Bank") is categorized as a financial conglomerate by the Financial Supervision of the Central Bank of Iceland (hereinafter referred to as "FME"). Kvika's purpose is to increase competition and simplify customers' finances by utilizing 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 three values that contribute to the development of robust business relationships, long-term results, and active innovation. Kvika's values are long-term thinking, simplicity, and courage. In accordance with those values the Bank places emphasis on thinking of the future and contributing to a sustainable community through active participation. Emphasis is placed on putting ourselves in the customer's shoes, rethinking things and selecting projects that provide the most long-term value for customers and the Bank.

Kvika offers its customers diversified financial services through four business segments: Commercial Banking, Investment Banking, Asset Management and UK operations. The business segments Asset Management and the UK operations are operated in the subsidiaries Kvika eignastýring hf. and Kvika Securities Ltd. Kvika is also the owner of the insurance company TM tryggingar hf. In May 2024 the company was sold to Landsbankinn hf. and the company is treated as an asset held for sale until the sales process is concluded.

Commercial Banking provides businesses, institutions, and investors with general banking services. Customer's daily banking transactions are handled mostly via Kvika's online banking system. Kvika's specialized brands provide diverse financial services to customers. Aur provides individuals with access to a variety of banking services and Auður offers the same group with a selection of savings accounts. In 2024, Auður also began offering corporate accounts for legal entities and announced plans to start mortgage lending under the Auður brand in 2025. Lykill makes financing in the form of loan and lease agreements for cars, machinery, and equipment available for individuals and companies. Kvika also operates the brand Framtíðin exclusively online and provides mortgages to individuals in the form of secondary mortgages. Lastly, Kvika provides payment services to customers through its brands Netgíró and Straumur.

Investment Banking provides a range of professional services in the fields of specialised financing, securities and foreign exchange transactions and corporate finance services. Capital Markets provide customers with comprehensive services in securities and foreign exchange brokerage. The Corporate Finance segment provides advice on the acquisition, sale and merger of companies and business entities, financing businesses via stock or bond auctions, listing and delisting stocks and bonds. The Corporate Lending segment provides businesses, institutions, and investors with specialised lending to finance such things as real estate, real estate development, securities transactions and other investments. The division also uses the Bank's infrastructure to distribute loans to other institutional investors.

Asset Management emphasises on offering clients a broad range of services for investing in Iceland as well as in foreign markets. Its aim is to provide the best asset and fund management services, guided by clients' long-term interests. Asset and fund management operations are mostly handled by Kvika's subsidiary, Kvika eignastýring hf. (hereinafter referred to as "KES").

Kvika's **UK operations** are operated through the subsidiary Kvika Securities Ltd. (hereinafter referred to as "KSL"). KSL, established in 2017, is a subsidiary regulated in the United Kingdom by the Financial Supervisory Authority. KSL's focus is on corporate finance, as well as fund and asset management services. Further, the property lender Ortus Secured Finance Lmited, is a subsidiary of KSL and specializes in property backed lending in the UK.

Kvika takes the independence of its licenced subsidiaries, both with regards to management and day-to-day operations, seriously. However, Kvika, as a parent company, is responsible for internal governance on a consolidated basis. In that context Kvika has laid down ground rules for its subsidiaries, both in terms of administrative structure and internal governance, through ownership policies for its significant subsidiaries and requires regular and ad hoc information from the subsidiaries to the parent company. Kvika requires harmonized and professional work ethics within the Kvika group, harmonized corporate culture, coordinated human resources working under the same conditions and that Kvika's values are maintained within the group to the extent allowed by law. Further reference is made to annual reports of the Bank's subsidiaries, available at www.skatturinn.is.

Return on equity is determined by decisions made in accordance with the Bank's risk appetite, which reflects its profitability targets. Consequently, decisions regarding the optimal composition of the balance sheet to generate income are restricted by risk appetite. Kvika's target is a return on tangible equity of at least 20% and keeping the capital adequacy ratio (CAR) 2-4% above legal and regulatory requirements set by FME.

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

Sustainability

Kvika's purpose, as previously stated, is to increase competition in financial services and simplify customers' finances. The Bank emphasizes long-term thinking and promoting a sustainable society through active participation. In 2022, a specific sustainability policy was established, and relevant supporting policies formulated or updated, such as education and professional development policy, gender equality, health, and human resources policy.

The Sustainability policy adopts six of the United Nations Sustainable Development Goals (SDGs) to focus on in Kvika's operations: SDG 3 on good health and safety; SDG 4 on quality education; SDG 5 on gender equality; SDG 9 on industry, innovations, and infrastructure; SDG 13 on climate action and SDG 17 on partnership for the goals.

A special sustainability committee is in place at Kvika and is now composed of the CEO, CFO and managing directors of most divisions of the bank and KES, as well as the Director of Sustainability. The subject area falls under the Operation and Development Division.

In 2024, a sustainability risk policy for the Kvika group was approved by the BOD, replacing the sustainability risk framework for the Kvika group from 2023. The policy forms part of the Bank's overall risk management framework, with the Risk Management Division overseeing sustainability risk. As part of the updates to the risk management framework in 2024, a position of a specialist in sustainability risk was added to the Risk Management Division. Additionally, sustainability risk was elevated within the framework, becoming an independent risk factor and one of the Bank's key risk factors.

Statement on the Corporate Governance of Kvika banki hf. 2024

In 2024, work began with external consultants on a double materiality assessment, which is the first step in the Risk Management Division's risk management process for monitoring sustainability risk. The result of the double materiality assessment will form the foundation for further work in the sustainability area in the coming year and will also serve as the basis for Kvika's sustainability reporting for 2024.

Kvika is a member of the United Nations Principles for Responsible Investment (UN PRI) and is working on integrating the principles of the UN PRI into it's operations, particularly within KES. Kvika is one of the founding members of IcelandSIF, an organisation for responsible investments, is a member of Festa Centre for Sustainability and supports Grænvangur, which is a co-operation forum between industry and government on climate issues and green solutions. Kvika is a member of the Partnership for Carbon Accounting Financials (PCAF), an industry-led initiative to enable financial institutions to consistently measure and disclose GHG emissions financed by their loans and investments. In 2024, Kvika conducted its second assessment of estimated financed emission using the PCAF methodology and, for the first time, released a report detailing greenhouse emissions financed through its loans and investments for the years 2021 and 2022.

Kvika awards a variety of grants that have a positive social impact, and the selection of projects reflects the six UN SDGs that have been adopted. In recent years, support has been provided to UNICEF in Iceland; women and innovation with FrumkvöðlaAuður, and industrial studies and teacher training with allocations from Kvika's Incentive Fund. Educational support is considered to be one of the best long-term investments for both societies and individuals. The year 2024 marked the final round of grants awarded by Kvika's Incentive Fund, as applications for industrial studies and teacher training programs have increased significantly since the fund's establishment, achieving the objective for its founding.

A more detailed discussion of the scope, position, and impact of the group regarding environmental, social and governance matters (also known as "ESG factors") can be found in Kvika's sustainability report, which is published together with Kvika's annual financial statement. The report is largely based on the European Sustainability Reporting Standards of the CSRD legislation (Corporate Sustainability Reporting Directive), which has not yet been implemented in Iceland.

Compliance with corporate governance guidelines

Kvika is obliged to observe recognised corporate governance guidelines, pursuant to Par. 7 of Article 54 of Act No. 161/2002, on Financial Undertakings. The Bank complies with chapter VII of Act No. 161/2002, on Financial Undertakings, and with the Guidelines on Corporate Governance issued jointly in February 2021 by the Chamber of Commerce, NASDAQ Iceland, and SA – Business Iceland. The Guidelines are available on the website of the Chamber of Commerce www.vi.is.

A proposal to create a Nomination Committee was accepted at the Bank's annual general meeting in March 2024. The committee's rules of procedure were also adopted, and the Bank's Articles of Association were amended to reflect the decision. The Nomination Committee serves as an advisory body to help shareholders make well-informed decisions when choosing board members. The goal is to guarantee that board members have a wide range of experience and knowledge that can help the business in its strategic planning and management, taking into account the operating environment. The majority of the three members of the Nomination Committee must be independent of the business and its top executives. They are selected to one-year terms. Helga Melkorka Óttarsdóttir and Jóhann Ásgeir Baldurs were elected to the Nomination Committee at the Annual General Meeting. According to the rules of procedure, the newly elected board also appointed Jakobína Hólmfríður Árnadóttir.

In 2024, as part of the Model Company in Corporate Governance ("Fyrirmyndarfyrirtæki í stjórnarháttum"), the bank hired consultants to conduct a corporate governance review. Based on the review's findings, Kvika was recognized in August for good corporate governance.

Furthermore, Kvika's activities comply with the recognised standards and rules of the European Banking Authority (EBA), including guidelines on internal governance (EBA/GL/2021/05), cf. Article 15 of regulation of the European Parliament and of the Council No. 1093/2010, which was incorporated into Icelandic law with act no. 24/2017 on a European Financial Supervisory System (hereinafter "EBA Guidelines"). The EBA Guidelines can be found on FME's website www.fme.is and on EBA's website https://www.eba.europa.eu/homepage.

Regulatory framework

Kvika is a financial undertaking subject to provisions of Act No. 161/2002, on Financial Undertakings, Act No 61/2017, on Additional Supervision of Financial Conglomerates, Act No. 115/2021, on The Market for Financial Instruments, Act No. 60/2021, on Measures against Market Abuse, Act No. 108/2007, on takeovers, Act No. 45/2020, on Alternative Investment Funds, Act No. 116/2021 on undertakings for collective investment in transferable securities, Act No. 14/2020, on Prospectus for Public Offering or Admission to Trading on a Regulated Market, Act No. 33/2013, on Consumer Lending, Act No. 118/2016, on mortgage lending to consumers, Act No. 100/2016 on Insurance Activity, Act No. 2/1995 on Limited Liability Companies, the Competition Act, No. 44/2005, Act No. 114/2021, on Payment Services, Act No. 3/2006, on Annual Financial Statements, Act No. 140/2018, on Measures against Money Laundering and Terrorist Financing and others. Moreover, Kvika is obliged to guarantee the safety of the personal data it processes in its activities, in accordance with Act No. 90/2018, on the Protection of Privacy as regards the Processing of Personal Data and follows Act No. 25/2023 on Sustainable Finance Disclosure. Kvika has an operating licence from FME, which supervises the activities of the Bank. Kvika's activities are therefore governed by the rules and instructions of the FME and Central Bank of Iceland. Kvika is also subjective to further extensive legislation and secondary acts that apply to the financial market, mostly originated from Europe, and incorporated in Icelandic law through various means. More details about FME and an overview of the principal legislation and rules that apply to the Bank at any given time can be found on the website of FME www.fme.is.

Statement on the Corporate Governance of Kvika banki hf. 2024

The main elements of internal control, risk management and accounting

The BOD is responsible for ensuring that an active system of internal control is in place within the Bank, which is based on three lines of defence. The first line of defence consists of the management and the employees of business and supporting units in charge of the Bank's daily management and organization. The main responsibility of the first line of defence is to ensure the functionality and implementation of internal control measures in daily operations. The second line of defence is comprised of the internal control units of the Bank, principally the Compliance Officer and Risk Management. The Compliance Officer is responsible for the training of employees and the BOD, monitors and regularly assesses compliance with relevant legislation, monitors compliance risk, as well as consulting on implementation of laws and regulations in Kvika's operations. Risk Management, among other things, measures and assesses risk according to the Bank's risk appetite and carries out regular reporting to supervisory entities. Other units may also be assigned a supervisory role in the second line of defence, in line with Kvika's policy on internal control. The third line of defence is the internal auditor, operating independently from other units within Kvika's organization and directly under the control of the BOD, according to a formal statement of duties and job description of the internal audit function. The internal audit function assesses the effectiveness of risk management, control methods and internal governance in an independent and objective manner and in accordance with internal auditing standards. Among other things, the function prepares independent audits, verifications, and advice to the BOD and the Audit Committee.

The implementation and functioning of internal control are the responsibility of the management of the Bank. Internal control is based on risk assessments and control measures intended to reduce risk factors in the operations of the Bank. Internal control includes documented and formal procedures which Kvika's employees follow in their daily work, and which are reviewed by the control units.

The BOD determines the risk policy and risk appetite of the group within Kvika Group's Risk Policy, which also defines main risk factors in Kvika's operations, including their nature and acceptable volume. The purpose of the policy is to establish an effective and transparent framework for managing the group's risk and risk appetite, ensuring that risk management is aligned across the group on a consolidated basis. The Kvika Group Risk Policy stipulates that the Bank and its subsidiaries must ensure that the policy is implemented in their daily operations where applicable. It further states that Kvika and its subsidiaries shall establish risk policies addressing the main risk factors relevant to their activities. These policies must define a risk appetite within the framework of the risk appetite outlined in the Kvika Group Risk Policy.

The BOD hires an Internal Auditor, signs his/her formal statement of duties, and annually approves the internal audit plan. The CEO appoints the Compliance Officer, and the BOD confirms the appointment. The CEO appoints the Managing Director of the Risk Management function. The reports and findings of the internal control function are presented directly to the BOD.

Kvika's Finance division prepares annual financial statements in accordance with International Financial Reporting Standards (IFRS) 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. The annual financial statements are audited by Kvika's external auditors, Deloitte.

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

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

Composition and activities of the BOD, Executive Committee, and sub-committees

Each year Kvika's annual general meeting elects the BOD consisting of five board members and two alternates.

Board members come from varied backgrounds, and all possess extensive experience and expertise. In accordance with the Act on Limited Liability Companies No. 2/1995, the Bank's Articles of Association and Kvika's policy for assessing the eligibility of its board members and CEO care is taken to ensure at least 40% representation of each gender on the BOD and mong the alternates. The BOD is currently comprised of three men and two women. In 2024, Guðmundur Örn Þórðarson, deputy chairman of the BOD, was appointed to the new position of Managing Director of Business Development and stepped down as board member simultaneously. Sigurgeir Guðlaugsson, alternate board member, assumed his position as board member and Helga Kristín Auðunsdóttir was elected deputy chairperson of the BOD.

Regular board meetings are generally held once a month and, as the case may be, additional meetings in between to discuss specific matters. In 2024, 21 board meetings were held and all current board members attended all board meetings, except for two meetings where one board member was absent in each instance. The Chairman attended all meetings of the BOD.

The BOD is the supreme authority in the affairs of the Bank between shareholders' meetings. Its main duties are to supervise all of Kvika's operations and ensure that they are in good order at all times. The BOD is responsible for Kvika's policy making and shall ensure that the accounting and handling of the Bank's assets is properly supervised. The BOD prepares plans for Kvika in line with the Bank's objectives and in accordance with its Articles of Association and determines the strategies to be followed to achieve the objectives set. The BOD appoints the CEO and supervises his work, e.g., by receiving regular reports from the CEO at board meetings. The BOD annually evaluates the CEO's work in a documented manner. The BOD also represents the Bank before courts and government authorities and allocates authority to sign and to commit the Bank.

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

The members of the Audit Committee are Helga Kristín Auðunsdóttir, as chairperson, Ingunn Svala Leifsdóttir and Margrét G. Flóvenz. The committee is intended to play an advisory and supervisory role for Kvika's BOD by, among other things, ensuring the quality of financial statements and other financial information from the Bank and the independence of its auditors. The committee supervises accounting procedures and the effectiveness of internal controls as well as internal and external auditing. The committee met nine times in 2024 and all members attended all meetings .

The members of the Risk Committee are Ingunn Svala Leifsdóttir, as chairperson, Sigurgeir Guðlaugsson, which assumed a seat in the committee after he became board member in August 2024, and Sigurður Hannesson. The committee has an advisory and supervisory role for the Bank's BOD, among other things, in determining its risk policy and risk appetite. The committee also monitors the organisation and effectiveness of risk management, management of credit risk, market risk, liquidity risk, operating risk, reputational risk, and other risks, as the case may be. The committee met 11 times in 2024 and all members attended all meetings. Guðmundur Þórðarson, previous committee member and chairman, attended seven meetings and Sigurgeir Guðlaugsson attended four meetings.

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The members of the Remuneration Committee are Guðjón Reynisson, as chairperson, Sigurður Hannesson, and Helga Kristín Auðunsdóttir. The committee has an advisory and supervisory role for the Bank's BOD regarding salaries and other remuneration, ensuring that this supports the Bank's objectives and interests. The committee met eight times in 2024 and all members attended all meetings.

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

The members of Kvika's Executive Committee, in addition to the CEO are the following employees: Anna Rut Ágústsdóttir, Managing Director of Operations and Development, Bjarni Eyvinds Þrastarson, Managing Director of Investment Banking, Elísabet Guðrún Björnsdóttir, Managing Director of Risk Management, Eiríkur Magnús Jensson, CFO, Guðmundur Þórðarson, Managing Director of Business Development, Halldór Snæland, Managing Director of Commercial Banking, and Lilja Jensen, General Counsel. Additionally in the group's Executive Committee is Hannes Frímann Hrólfsson, CEO of KES. More details about the Executive Committee are accessible on Kvika's website www.kvika.is.

Kvika has adopted a policy for assessing the eligibility of its board members and CEO as provided for in EBA guidelines and pursuant to Art. 52 of Act No. 161/2002 on Financial Undertakings, provisions of Rules No. 150/2017 on assessment of eligibility of managing directors and directors of financial undertakings and the guidelines. It addresses, inter alia, Kvika's policy on the diversity of its BOD, Executive Committee, and senior management with regard to age, gender and educational and professional background. The composition of the BOD is also dealt with in Kvika's Articles of Association, which state, among other things, that its BOD shall be so comprised that its members jointly possess adequate expertise, skills, and experience to understand the activities of the Bank, including key risk factors. Kvika has also adopted a Human Resources Policy and Equality Policy. According to the Bank's Equality Policy, non-discrimination and diversity shall characterise all its operations. All employees should have the opportunity to make good use of their abilities at work and be valued on their own merit, have equal opportunities, and enjoy the same rights in their work and for career advancement, regardless of gender, age and origin. The status and opportunities of individuals shall be equal regardless of gender, race, nationality, religion, age, or other irrelevant factors when it comes to employment in management positions and participation in working groups, boards and committees.

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

Information on Board members

Sigurður Hannesson is the chairman of the BOD. He was appointed to Kvika's BOD in March 2020. He was born in 1980 and is currently the Director General of the Federation of Icelandic Industries. From 2013-2017, Sigurdur worked as a managing director of Kvika's (previously MP Bank's) asset management division. In 2015, Sigurdur was the Vice-Chairman of the Government Task Force on lifting of capital controls and in 2013 the Chairman of the Expert Group on household debt relief. From 2010-2013, Sigurdur worked as CEO of Jupiter fund management company, now Kvika eignastýring, and in Capital Markets at Straumur Investment Bank from 2007-2010. Sigurdur holds a DPhil degree in mathematics from the University of Oxford, a BS degree in mathematics from the University of Iceland and is a certified securities broker. Sigurður also sits on the boards of Iceland Symphony Orchestra, Grænvangur (Green by Iceland), Reykjavík University, Skólastræti and the Icelandic Cancer Society. Sigurður owns 8,550,107 shares in the Bank through shareholding in the private limited company BBL 39 ehf., but does not have interest links with major clients, competitors, or big shareholders in the sense of the corporate governance guidelines and is also independent from the bank in sense of the guidelines.

Helga Kristín Auðunsdóttir is the deputy chairperson of the BOD. She was appointed to Kvika's BOD in April 2021. She was born in 1980. Helga Kristín is a doctor in Law from Fordham University in New York. In her doctoral studies at Fordham University she researched corporate governance and hedge fund investments. Helga Kristín graduated with BS in Business Law from Bifröst University in 2004 and with a master's degree in law from the same university in 2006. She graduated with an LL.M degree in law from the University of Miami, with a focus on international business law and contracts in 2010. Helga Kristín is an assistant professor at the Department of Law at Reykjavík University. Before that, she worked as a director and assistant professor at Bifröst University, as a lawyer for Stoðir hf., as a lawyer for FGM/Auðkenni, now part of the Central Bank of Iceland and as a lecturer at the faculty of law at University of Miami. Helga Kristín has been a member of the board of directors of TM tryggingar hf. from 2023 and in the years 2020-2021. She was also an appointed alternate on the board of directors of Tryggingamiðstöðin hf. in 2012-2015. Helga Kristín does not own shares in the Bank and does not have interest links with major clients, competitors, or big shareholders in the sense of the corporate governance guidelines and is also independent from the bank in sense of the guidelines.

Guðjón Reynisson was appointed to Kvika's BOD in March 2018. He was born in 1963 and works as an independent investor and board member. Between 2008 and 2017 he served as CEO of Hamleys of London. From 2003 to 2008, he served as managing director of the 10-11 stores. From 1998 to 2003 he was the managing director of the sales division of Tal, an Icelandic phone company. He graduated with an MBA degree from the University of Iceland in 2002. He graduated with an Operations and Business degree from the Continuing Education Study of the University of Iceland in 1999 and graduated with a degree as a licensed physical education teacher from the University of Iceland in 1986. Guðjón has been on the board of directors of Festi hf. since 2014, of Securitas hf. since 2018 and of Dropp ehf. since 2020. In 2024 Guðjón also took seat on the board of the private equity fund Harpa Capital Partners II. Guðjón controls 10,410,789 shares in Kvika through his private limited company, Hakk ehf., but does not have interest links with major clients, competitors, or big shareholders in the sense of the corporate governance guidelines and is also independent from the bank in sense of the guidelines.

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Ingunn Svala Leifsdóttir was appointed to Kvika's BOD in September 2021. Ingunn was born in 1976. She graduated with a BS degree in Business from the University of Iceland in 1999, with a focus on accounting and finance, and with a Cand. Oecon business degree from the same University in 2001, with a focus on accounting and management. Ingunn Svala completed the Advanced Management program (AMP) from the IESE Business School in New York in 2018. Ingunn Svala currently works as a chief executive officer at Olís. Prior to that she worked as a COO for Dohop and as an executive director of operations at Reykjavík University. Ingunn Svala also has extensive experience from the financial sector. She worked for the Kaupthing's Resolution Committee as Chief Financial Officer from 2009 to 2011 as well as working as a Global Business Controller in Investment Banking at Kaupþing bank in 2007 to 2009. Ingunn Svala also worked within the Actavis Group PTC consolidation in 2006 to 2007 as a CFO for four subsidiaries, namely Actavis hf., Medís ehf., Actavis Group hf. and Actavis Group PTC ehf. Ingunn Svala has extensive experience of serving as a board member and has previously served on the boards of Ósar – lifeline of health hf. and of its subsidiary, Parlogis ehf., as well as Slippurinn Akureyri and Lífís, a subsidiary of VÍS. Ingunn Svala does not own shares in the Bank and does not have interest links with major clients, competitors, or big shareholders in the sense of the corporate governance guidelines and is also independent from the bank in sense of the guidelines.

Sigurgeir Guðlaugsson, who was elected as an alternate board member at Kvika's AGM in 2024, joined Kvika's BOD in August 2024. Sigurgeir was born in 1976. He graduated with a B.Sc. degree in international business from the Copenhagen Business School in 1999 and was CEO of biotechnology company Genís hf. until at year-end 2024. Sigurgeir worked for the corporate banking division of Fjárfestingabanki atvinnulífsins, later Íslandsbanki, between 1999-2003. He also worked for Actavis Group between 2003-2006 where he was head of global mergers and acquisitions. Sigurgeir was managing director of investments in the healthcare industry for Novator between 2006-2009. He founded the consulting company Citalfort Consulting slf. at year-end 2009 and worked for the company until year-end 2021, when he assumed the position of CEO of Genís, excluding the years between 2013-2016, when he was partner and employee of H.F. Verðbréf hf. in the year 2013, and CEO of biotechnology company Zymetech ehf. between 2014-2016. Sigurgeir has, among others, been a member of the board of directors of Straumur fjárfestingarbanki hf., Coripharma Holding hf., Actavis Group hf., Actavis Inc., Enzymatica AB, 3Z ehf., FlyOver Iceland ehf. and Scandinavian Biogas AB. Today Sigurgeir is the chairman of the board of directors of Citalfort Consulting slf., Altius ehf., Citius ehf. and Ögurás ehf. Sigurgeir does not own any shares in the Bank and does not have interest links with major clients, competitors, or big shareholders in the sense of the corporate governance guidelines and is also independent from the bank in sense of the guidelines.

The BOD considers all board members to be independent as defined by the corporate governance guidelines.

Helga Jóhanna Oddsdóttir is an alternate member of the BOD. In the opinion of the BOD, she is also an independent member of the BOD within the meaning of the corporate governance guidelines.

Main factors in the BOD's performance evaluation

The BOD annually evaluates its performance. It evaluates the performance of tasks and work of the BOD for the previous year. The focus of the assessment is on strategic planning, disclosure and future vision, the size and composition of the BOD, performance of board members, the work of sub-committees and performance of the CEO, the internal auditor, and the secretary of the BOD. The development of the Bank is reviewed to assess whether it is line with objectives. Following the annual performance assessment, the BOD defines tasks in areas where improvements are needed. The last performance assessment was conducted in December 2024. The BOD also regularly conducts special self-assessments on its composition in accordance with the guidelines of the European Banking Authority (EBA), and last did so in December 2024.

Information on the CEO of Kvika and his main duties

Ármann Þorvaldsson became CEO of Kvika in August 2023. Ármann was born in 1968 and previously worked as CEO in the years 2017-2019 and Deputy CEO in the years 2019-2022. Ármann has worked in the financial market for nearly thirty years. From 1997 until 2005 he was Head of Corporate Finance at Kaupthing and in 2005 until 2008 he was CEO of Kaupthing Singer & Friedlander in London. Later he worked at Ortus Secured Finance in London until 2015 when he joined Virðing. Ármann headed up Virðing's Corporate Finance division before joining Kvika. Ármann has an MBA degree from Boston University and a BA degree in history from the University of Iceland. Ármann controls 759.892 shares in Kvika and has also entered into call option agreements with Kvika in accordance with Kvika's remuneration policy and incentive scheme. Further, Ármann and his family own the company BMA ehf. which controls 4,082,158 shares in the Bank. He does not have interest links with major clients, competitors or major shareholders as defined by the corporate governance guidelines.

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

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

Kvika has not been subject to withdrawal, revocation or dismissal of registration, authorization, membership, or permissions to perform certain trades, operations or work. Kvika was not fined by any supervisory body in the year 2023. As per usual the FME performed onsite inspections in 2024. Results are still pending in individual cases. No court cases or arbitration proceedings which may have significant effects on the Bank, or the Group, were ongoing or pending at the end of the year.

Communications between shareholders and the BOD

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

This statement on the corporate governance practices of Kvika banki hf. was reviewed and approved by the BOD on 12 February 2025.

Appendix 2:

EU Taxonomy Regulation

Unaudited

EU Taxonomy Regulation

During the year work continued on implementing Regulation (EU) No. 2020/852 (hereinafter referred to as the "EU Taxonomy") and delegated regulations that have entered into force in Iceland into the Bank's operations. The EU Taxonomy was incorporated into Icelandic law with Act No. 25/2023 on Sustainability Disclosure in Financial Services and the Classification System for Sustainable Investments. According to Article 8 of the EU Taxonomy companies subject to its provisions, including Kvika, are required to disclose how and to what extent their activities are linked to economic activities considered environmentally sustainable.

Kvika is now reporting its Green Asset Ratio (GAR) for the second time in accordance with the requirements of the EU Taxonomy. The information is presented in templates specified in the annexes to the EU's delegated regulations,[1] as provided later in this document for the Bank and Kvika Asset Management. The templates were recently updated and now reflect all six environmental objectives of the EU Taxonomy. However, Kvika is only disclosing information for the first two environmental objectives—climate change mitigation and climate change adaptation—as the remaining four objectives did not take effect in Iceland until January 1, 2025. Information covering all six environmental objectives will be included in the sustainability disclosures for the financial year 2025.

Eligible assets under the EU Taxonomy are assets linked to activities specified in the delegated regulations of the EU Taxonomy, for which technical criteria exist to assess whether the activity is environmentally sustainable and therefor taxonomy aligned. Kvika's eligible assets, as defined by Delegated Regulation (EU) No. 2021/2139,[2] include loans to companies subject to the non-financial reporting obligation under Article 66(d) of the Annual Accounts Act No. 3/2006, as well as loans to households (primarily loans for motor vehicles and residential real estate). For eligible assets to be considered environmentally sustainable and included in Kvika's GAR calculation, they must meet four key criteria.

- The activity related to the loan must significantly contribute to one or more of the environmental objectives of the EU Taxonomy (so far only two of the six objectives have been considered at Kvika, as required by law).
- The activity must comply with the technical screening criteria set out in the delegated regulations.
- The activity must be conducted in accordance with minimum safeguards.
- The activity must not significantly harm other environmental objectives established in the EU Taxonomy.

Loans to companies

Companies subject to the non-financial reporting obligation under Article 66(d) of the Annual Accounts Act are those considered large and of public interest. They are also required by law to disclose information and key performance indicators in accordance with the requirements of the EU Taxonomy. Companies that fall under this definition published such information for the first time in 2024 for the financial year 2023. Financial institutions are required to use counterparty data to calculate their GAR and must therefore rely on the information from such companies that are included in their investment and loan portfolios. Kvika's loan portfolio is structured in such a way that a large portion of its corporate loans are granted to small and medium-sized companies that do not meet the aforementioned criteria. As a result, a very small portion of Kvika´s corporate loans are eligible to be put under the alignment test and Kvika´s GAR calculation.

Loans to individuals

Loans related to motor vehicles (6.5: transport with motorcycles, passenger cars, and light commercial vehicles) are considered eligible activities, as previously mentioned. A significant portion of Kvika's loans to individuals fall under this category. However, not all loans are included, as only those issued after June 1, 2023, qualify, which is when the EU Taxonomy came into effect in Iceland. For a loan for motor vehicles to be classified as environmentally sustainable and as significantly contributing to climate change mitigation, the emissions of the vehicles in question must be below 50g CO_2/km. Additionally, the activity must not cause harm to other environmental objectives. To assess this, information on various aspects of the underlying vehicles, such as their equipment and specifications, must be collected. However, such information is not always readily available. For this reason, Kvika has not classified this type of loan as environmentally sustainable and they are excluded from the Bank´s GAR.

Kvika maintains a relatively modest portfolio of real estate-backed loans. While these loans fall within the scope of the EU Taxonomy as loans related to eligible activities, they are currently not considered environmentally sustainable and taxonomy aligned. For a mortgage to be classified as environmentally sustainable, information on the energy efficiency of the buildings associated with the loan is required. Energy efficiency is based on energy performance certificates as defined in EU Directive No. 2010/31 on the energy performance of buildings. However, Iceland is exempt from implementing this directive. No formal energy performance certificates have therefore been issued for Icelandic buildings. Due to this lack of data, mortgages do not meet the technical screening criteria to be classified as environmentally sustainable and are therefore excluded from Kvika's GAR calculations.

Limitations of the 2024 Reporting

The implementation and follow-up of the EU Taxonomy is still evolving, and it is anticipated it will take time to enhance data flow and develop data collection, analysis, and reporting. As companies gain experience with the disclosure requirements associated with the EU Taxonomy it will become clearer how effective key indicators, such as the GAR, will be. The technical criteria tailored to different industries will also prove useful in considering green financing in the future. Kvika will continue to monitor the development of the EU Taxonomy both in Iceland and in Europe as part of the company's sustainability journey.

[1] The information has been prepared in accordance with the templates in the annexes to Delegated Regulation (EU) No. 2021/2178, which specifies the content and presentation of disclosures that companies must provide regarding environmentally sustainable economic activities and the methodology for complying with this disclosure obligation. Regulation 2021/2178 was implemented in Iceland through Regulation 10/2024 on the classification system for sustainable investments. On January 1, 2024, Regulation 10/2024 was amended by Regulation 1207/2024, which, among other things, incorporated Delegated Regulation (EU) No. 2023/2486 on additions to the EU Taxonomy and Regulation (EU) 2021/2178. Regulation 2023/2486 introduces additions to the EU Taxonomy by establishing technical screening criteria to determine the conditions under which economic activities are considered to contribute significantly to the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, or the protection and restoration of biodiversity and ecosystems. It also defines whether such activities cause significant harm to any other overarching environmental objectives. Additionally, it includes amendments to Regulation (EU) 2021/2178 regarding specific public disclosure requirements for these economic activities. The delegated regulation sets out the technical criteria that economic activities must meet to be considered as significantly contributing to climate change mitigation and adaptation, as well as when an economic activity causes significant harm to one or more of the regulation's objectives.

[2] The delegated regulation on the technical criteria that economic activities must meet to be considered as significantly contributing to climate change mitigation and adaptation, and determining when an economic activity causes significant harm to one or more of the regulation's objectives.

Kvika banki hf.   Amounts are in ISK thousands

Annex VI - Template for the KPIs of credit institutions

Template number	Name
0	Summary of KPIs
1	Assets for the calculation of GAR
2	GAR sector information
3	GAR KPI stock
4	GAR KPI flow
5	KPI off-balance sheet exposures
6**	KPI on fees and commissions income from services other than lending and asset management*
7**	KPI Trading book portfolio*

* For credit institutions that do not meet the conditions of Article 94(1) of the CRR or the conditions set out in Article 325a(1) of the CRR

** Fees and Commissions and Trading Book KPIs shall only apply starting 2026. SMEs´inclusion in these KPI will only apply subject to a positive result of an impact assessment.

0. Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation

			Total environmentally sustainable assets	KPI****	KPI*****	% coverage (over total assets)***	% of assets excluded from the numerator of the GAR (Article 7(2) and (3) and Section 1.1.2. of Annex V)	% of assets excluded from the denominator of the GAR (Article 7(1) and Section 1.2.4 of Annex V)
31.12.2024	**Main KPI**	**Green asset ratio (GAR) stock**	**0**	**0.0%**	**0.0%**	**75.4%**	**65.2%**	**24.6%**
31.12.2023	**Main KPI**	**Green asset ratio (GAR) stock**	**0**	**0.0%**	**0.0%**	**74.8%**	**-**	**-**

		Total environmentally sustainable activities	KPI	KPI	% coverage (over total assets)	% of assets excluded from the numerator of the GAR (Article 7(2) and (3) and Section 1.1.2. of Annex V)	% of assets excluded from the denominator of the GAR (Article 7(1) and Section 1.2.4 of Annex V)
Additional KPIs	*GAR (flow)*	0	**0.0%**	**0.0%**	**38,4%**		
	*Trading book**						
	Financial guarantees	0	**0.0%**	**0.0%**			
	Assets under management	548,621	**0,8%**	**1.0%**			
	*Fees and commissions income***						

* For credit institutions that do not meet the conditions of Article 94(1) of the CRR or the conditions set out in Article 325a(1) of the CRR

**Fees and commissions income from services other than lending and AuM

*** % of assets covered by the KPI over banks´ total assets

****based on the Turnover KPI of the counterparty

*****based on the CapEx KPI of the counterparty, except for lending activities where for general lending Turnover KPI is used

Note 1: Across the reporting templates: cells shaded in black should not be reported.

1. Assets for the calculation of GAR - Turnover-based

	ISK Thousand	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure 31.12.2024															
		Total gross carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which adaptation	Of which enabling			Of which Use of Proceeds	Of which transitional/ adaptation	Of which enabling
	GAR - Covered assets in both numerator and denominator******																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	36,033,801	12,464,828										12,464,828				
2	**Financial undertakings**	1,256,872															
3	Credit institutions	1,665															
4	Loans and advances	1,665															
5	Debt securities, including UoP	0															
6	Equity instruments	0															
7	Other financial corporations	1,255,207															
8	of which investment firms	0															
9	Loans and advances	0															
10	Debt securities, including UoP	0															
11	Equity instruments	0															
12	of which management companies	1,255,207															
13	Loans and advances	1,255,207															
14	Debt securities, including UoP	0															
15	Equity instruments	0															
16	of which insurance undertakings	0															
17	Loans and advances	0															
18	Debt securities, including UoP	0															
19	Equity instruments	0															
20	**Non-financial undertakings**	66,811															
21	Loans and advances	66,811															
22	Debt securities, including UoP	0															
23	Equity instruments	0															
24	**Households***	33,209,208	12,464,828										12,464,828				
25	of which loans collateralised by residential immovable property	1,674,898	1,674,898										1,674,898				
26	of which building renovation loans	0															
27	of which motor vehicle loans**	20,089,250	10,789,929										10,789,929				
28	**Local governments financing**	1,465,916															
29	Housing financing																
30	Other local government financing	1,465,916															
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0															
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)*********	231,175,055															

1. Assets for the calculation of GAR - Turnover-based (cont.)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
			Disclosure 31.12.2024														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
	ISK Thousand	Total gross carrying amount	Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which adaptation	Of which enabling			Of which Use of Proceeds	Of which transitional/ adaptation	Of which enabling
33	**Financial and Non-financial undertakings**	115,644,045															
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	78,017,062															
35	Loans and advances	78,017,062															
36	of which loans collateralised by commercial immovable property	30,408,596															
37	of which building renovation loans	0															
38	Debt securities	0															
39	Equity instruments	0															
40	Non-EU country counterparties not subject to NFRD disclosure obligations	37,626,982															
41	Loans and advances	37,626,982															
42	Debt securities	0															
43	Equity instruments	0															
44	**Derivatives**	13,797,770															
45	**On demand interbank loans**	9,725,772															
46	**Cash and cash-related assets**	15,737															
47	**Other categories of assets (e.g. Goodwill, commodities etc.)**	91,991,731															
48	**Total GAR assets**	267,284,618	12,464,828										12,464,828				
49	**Assets not covered for GAR calculation********	87,339,675															
50	**Central governments and Supranational issuers**	63,335,139															
51	**Central banks exposure**	18,577,682															
52	**Trading book**	5,426,854															
53	**Total assets**	354,594,543	12,464,828										12,464,828				

	Off-balance sheet exposures - Corporates subject to NFRD disclosure obligations																
54	Financial guarantees	33,177	0														
55	Assets under management ***	73,033,583	10,563,881	548,621			468,457						10,563,881	548,621			468,457
56	Of which debt securities	26,444,660	1,619,340	542,001			461,837						1,619,340	542,001			461,837
57	Of which equity instruments	46,588,924	8,944,541	6,620			6,620						8,944,541	6,620			6,620

*Households include all retail loans issued to individuals

**Motor vehicle loans for households include cars in vehicle groups (M1) and (N1)

**For motor vehicle loans, only exposures generated after 1 June 2023 (the date of application of the disclosure) are included

*** Assets held within portfolios managed by Kvika Asset Management that are subject to Non-Financial Reporting Directive (NFRD) disclosure obligations

1) GAR - Covered assets in both numerator and denominator: Accounting categories of financial assets used for the calculation of the green asset ratio.

32) Other assets excluded from the numerator for GAR calculation (covered in the denominator): Certain assets are excluded from the numerator e.g. financial assets held for trading, on-demand interbank loans, derivates and exposures to undertakings that are not obliged to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU.

49) Other assets not covered for GAR calculation: The exposures to central governments, central banks and supranational issuers shall be excluded from the calculation of the numerator and denominator of key performance indicators of financial undertakings.

1. Assets for the calculation of GAR - Turnover-based

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
			Disclosure 31.12.2023														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
	ISK Thousand	Total gross carrying amount	Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which adaptation	Of which enabling			Of which Use of Proceeds	Of which transitional/ adaptation	Of which enabling
	GAR - Covered assets in both numerator and denominator******																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	36,234,799	8,921,941														
2	**Financial undertakings**	1,938,213															
3	Credit institutions	1,819															
4	Loans and advances	1,819															
5	Debt securities, including UoP	0															
6	Equity instruments	0															
7	Other financial corporations	1,936,393															
8	of which investment firms	0															
9	Loans and advances	0															
10	Debt securities, including UoP	0															
11	Equity instruments	0															
12	of which management companies	1,936,393															
13	Loans and advances	1,936,393															
14	Debt securities, including UoP	0															
15	Equity instruments	0															
16	of which insurance undertakings	0															
17	Loans and advances	0															
18	Debt securities, including UoP	0															
19	Equity instruments	0															
20	**Non-financial undertakings**	61,267															
21	Loans and advances	61,267															
22	Debt securities, including UoP	0															
23	Equity instruments	0															
24	**Households***	32,676,440	8,921,941										8,921,941				
25	of which loans collateralised by residential immovable property	1,930,717	1,930,717										1,930,717				
26	of which building renovation loans	0															
27	of which motor vehicle loans**	6,991,224	6,991,224										6,991,224				
28	**Local governments financing**	1,558,880															
29	Housing financing																
30	Other local government financing	1,558,880															
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0															
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)*********	214,574,302															

1. Assets for the calculation of GAR - Turnover-based (cont.)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
			Disclosure 31.12.2023														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
	ISK Thousand	Total gross carrying amount	Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which adaptation	Of which enabling			Of which Use of Proceeds	Of which transitional/ adaptation	Of which enabling
33	**Financial and Non-financial undertakings**																
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	72,202,993															
35	Loans and advances	72,202,993															
36	of which loans collateralised by commercial immovable property	0															
37	of which building renovation loans	0															
38	Debt securities	0															
39	Equity instruments	0															
40	Non-EU country counterparties not subject to NFRD disclosure obligations	29,436,644															
41	Loans and advances	29,436,644															
42	Debt securities	0															
43	Equity instruments	0															
44	**Derivatives**	19,350,190															
45	**On demand interbank loans**	6,356,998															
46	**Cash and cash-related assets**	20,055															
47	**Other categories of assets (e.g. Goodwill, commodities etc.)**	87,207,422															
48	**Total GAR assets**	250,809,101	8,921,941										8,921,941				
49	**Assets not covered for GAR calculation********	84,588,331															
50	**Central governments and Supranational issuers**	63,426,450															
51	**Central banks exposure**	17,304,400															
52	**Trading book**	3,857,480															
53	**Total assets**	335,397,432	8,921,941										8,921,941				

	Off-balance sheet exposures - Corporates subject to NFRD disclosure obligations																
54	Financial guarantees	2,500															
55	Assets under management ***	105,753,957															
56	Of which debt securities	66,417,080															
57	Of which equity instruments	39,336,876															

*Households include all retail loans issued to individuals

**Motor vehicle loans for households include cars in vehicle groups (M1) and (N1)

**For motor vehicle loans, only exposures generated after 1 June 2023 (the date of application of the disclosure) are included

*** Assets held within portfolios managed by Kvika Asset Management that are subject to Non-Financial Reporting Directive (NFRD) disclosure obligations

1) GAR - Covered assets in both numerator and denominator: Accounting categories of financial assets used for the calculation of the green asset ratio.

32) Other assets excluded from the numerator for GAR calculation (covered in the denominator): Certain assets are excluded from the numerator e.g. financial assets held for trading, on-demand interbank loans, derivates and exposures to undertakings that are not obliged to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU.

49) Other assets not covered for GAR calculation: The exposures to central governments, central banks and supranational issuers shall be excluded from the calculation of the numerator and denominator of key performance indicators of financial undertakings.

1. Assets for the calculation of GAR - Cap-Ex based

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure 31.12.2024															
	ISK Thousand	Total gross carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which adaptation	Of which enabling			Of which Use of Proceeds	Of which transitional/ adaptation	Of which enabling
	GAR - Covered assets in both numerator and denominator******																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	36,033,801	12,464,828										12,464,828				
2	**Financial undertakings**	1,256,872															
3	Credit institutions	1,665															
4	Loans and advances	1,665															
5	Debt securities, including UoP	0															
6	Equity instruments	0															
7	Other financial corporations	1,255,207															
8	of which investment firms	0															
9	Loans and advances	0															
10	Debt securities, including UoP	0															
11	Equity instruments	0															
12	of which management companies	1,255,207															
13	Loans and advances	1,255,207															
14	Debt securities, including UoP	0															
15	Equity instruments	0															
16	of which insurance undertakings	0															
17	Loans and advances	0															
18	Debt securities, including UoP	0															
19	Equity instruments	0															
20	**Non-financial undertakings**	66,811	0			0							0				
21	Loans and advances	66,811															
22	Debt securities, including UoP	0															
23	Equity instruments	0															
24	**Households***	33,209,208	12,464,828										12,464,828				
25	of which loans collateralised by residential immovable property	1,674,898	1,674,898										1,674,898				
26	of which building renovation loans	0															
27	of which motor vehicle loans**	20,089,250	10,789,929										10,789,929				
28	**Local governments financing**	1,465,916															
29	Housing financing																
30	Other local government financing	1,465,916															
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0															
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)*********	231,175,055															

1. Assets for the calculation of GAR - Cap-Ex based (cont.)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
			Disclosure 31.12.2024														
			Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**					**TOTAL (CCM + CCA)**				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
	ISK Thousand	Total gross carrying amount		Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which adaptation	Of which enabling			Of which Use of Proceeds	Of which transitional/ adaptation	Of which enabling
33	**Financial and Non-financial undertakings**	115,644,045															
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	78,017,062															
35	Loans and advances	78,017,062															
36	of which loans collateralised by commercial immovable property	30,408,596															
37	of which building renovation loans	0															
38	Debt securities	0															
39	Equity instruments	0															
40	Non-EU country counterparties not subject to NFRD disclosure obligations	37,626,982															
41	Loans and advances	37,626,982															
42	Debt securities	0															
43	Equity instruments	0															
44	**Derivatives**	13,797,770															
45	**On demand interbank loans**	9,725,772															
46	**Cash and cash-related assets**	15,737															
47	**Other categories of assets (e.g. Goodwill, commodities etc.)**	91,991,731															
48	**Total GAR assets**	267,284,618	10,607,330										10,607,330				
49	**Assets not covered for GAR calculation********	87,339,675															
50	**Central governments and Supranational issuers**	63,335,139															
51	**Central banks exposure**	18,577,682															
52	**Trading book**	5,426,854															
53	**Total assets**	354,594,543	12,464,828										12,464,828				

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	Off-balance sheet exposures - Corporates subject to NFRD disclosure obligations																
54	Financial guarantees	33,177	0														
55	Assets under management ***	73,033,583	15,440,240	745,523			745,523						15,440,240	745,523			745,523
56	Of which debt securities	26,444,660	1,966,481	461,837			461,837						1,966,481	461,837			461,837
57	Of which equity instruments	46,588,924	13,473,759	283,686			283,686						13,473,759	283,686			283,686

*Households include all retail loans issued to individuals

**Motor vehicle loans for households include cars in vehicle groups (M1) and (N1)

**For motor vehicle loans, only exposures generated after 1 June 2023 (the date of application of the disclosure) are included

*** Assets held within portfolios managed by Kvika Asset Management that are subject to Non-Financial Reporting Directive (NFRD) disclosure obligations

1) GAR - Covered assets in both numerator and denominator: Accounting categories of financial assets used for the calculation of the green asset ratio.

32) Other assets excluded from the numerator for GAR calculation (covered in the denominator): Certain assets are excluded from the numerator e.g. financial assets held for trading, on-demand interbank loans, derivates and exposures to undertakings that are not obliged to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU.

49) Other assets not covered for GAR calculation: The exposures to central governments, central banks and supranational issuers shall be excluded from the calculation of the numerator and denominator of key performance indicators of financial undertakings.

2. GAR sector information

	a	b	c	d	e	f	g	h	i	j	k	l	m
	Breakdown by sector - NACE 4 digits level (code and label)	Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
		ISK Thousand	Of which environmentally sustainable (CCM)	ISK Thousand	Of which environmentally sustainable (CCM)	ISK Thousand	Of which environmentally sustainable (CCA)	ISK Thousand	Of which environmentally sustainable (CCA)	ISK Thousand	Of which environmentally sustainable (CCM + CCA)	ISK Thousand	Of which environmentally sustainable (CCM + CCA)
	31.12.2024												
1	C2442 - Aluminium production	7,517								7,517			
	31.12.2023												
1	C2442 - Aluminium production	8,902								8,902			

1. Credit institutions shall disclose in this template information on exposures in the banking book towards those sectors covered by the Taxonomy (NACE sectors 4 levels of detail), using the relevant NACE Codes on the basis of the principal activity of the counterparty.

2. The sector breakdown by activity is only applicable to activities covered by the delegated acts that have been adopted in Iceland.

3. The breakdown by sector is based on ISAT 2008 mapping onto NACE codes, by the principal activity of the counterparty available in public records, the Group expects this to possibly change next year as more companies publish their Taxonomy disclosures in 2024.

4. This table only covers exposures to non-financial corporates subject to disclosure obligations according to article 8 of the EU Taxonomy. For the first reporting year the Group cannot disclose which corporates classify as an activity under the objectives of "climate change mitigation" (CCA) og "climate change adaptation" (CCA), as that is dependent on the public disclosures by said corporates, and therefore the results are published as a total for both objectives.

Kvika banki hf. Amounts are in ISK thousands

3. GAR KPI stock - Turnover-based

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	% (compared to total covered assets in the denominator)	Disclosure 31.12.2024															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	34.6%										34.6%					10.2%
2	**Financial undertakings**	0.0%										0.0%					0.4%
3	Credit institutions	0.0%										0.0%					0.0%
4	Loans and advances	0.0%										0.0%					0.0%
5	Debt securities, including UoP	0.0%										0.0%					0.0%
6	Equity instruments	0.0%										0.0%					0.0%
7	Other financial corporations	0.0%										0.0%					0.4%
8	of which investment firms	0.0%										0.0%					0.0%
9	Loans and advances	0.0%										0.0%					0.0%
10	Debt securities, including UoP	0.0%										0.0%					0.0%
11	Equity instruments	0.0%										0.0%					0.0%
12	of which management companies	0.0%										0.0%					0.4%
13	Loans and advances	0.0%										0.0%					0.4%
14	Debt securities, including UoP	0.0%										0.0%					0.0%
15	Equity instruments	0.0%										0.0%					0.0%
16	of which insurance undertakings	0.0%										0.0%					0.0%
17	Loans and advances	0.0%										0.0%					0.0%
18	Debt securities, including UoP	0.0%										0.0%					0.0%
19	Equity instruments	0.0%										0.0%					0.0%
20	**Non-financial undertakings**	0.0%										0.0%					0.0%
21	Loans and advances	0.0%										0.0%					0.0%
22	Debt securities, including UoP	0.0%										0.0%					0.0%
23	Equity instruments	0.0%										0.0%					0.0%
24	**Households**	37.5%										37.5%					9.4%
25	of which loans collateralised by residential immovable property	100.0%										100.0%					0.5%
26	of which building renovation loans	0.0%										0.0%					0.0%
27	of which motor vehicle loans	53.7%										53.7%					5.7%
28	**Local governments financing**	0.0%										0.0%					0.4%
29	Housing financing	0.0%										0.0%					0.0%
30	Other local government financing	0.0%										0.0%					0.4%
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.0%										0.0%					0.0%
32	**Total GAR assets**	4.7%										4.7%					75.4%

Kvika banki hf. Amounts are in ISK thousands

3. GAR KPI stock - Turnover-based

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure 31.12.2023															
	% (compared to total covered assets in the denominator)	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					Proportion of total assets covered
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	24.6%										24.6%					10.8%
2	**Financial undertakings**	0.0%										0.0%					0.6%
3	Credit institutions	0.0%										0.0%					0.0%
4	Loans and advances	0.0%										0.0%					0.0%
5	Debt securities, including UoP	0.0%										0.0%					0.0%
6	Equity instruments	0.0%										0.0%					0.0%
7	Other financial corporations	0.0%										0.0%					0.6%
8	of which investment firms	0.0%										0.0%					0.0%
9	Loans and advances	0.0%										0.0%					0.0%
10	Debt securities, including UoP	0.0%										0.0%					0.0%
11	Equity instruments	0.0%										0.0%					0.0%
12	of which management companies	0.0%										0.0%					0.6%
13	Loans and advances	0.0%										0.0%					0.6%
14	Debt securities, including UoP	0.0%										0.0%					0.0%
15	Equity instruments	0.0%										0.0%					0.0%
16	of which insurance undertakings	0.0%										0.0%					0.0%
17	Loans and advances	0.0%										0.0%					0.0%
18	Debt securities, including UoP	0.0%										0.0%					0.0%
19	Equity instruments	0.0%										0.0%					0.0%
20	**Non-financial undertakings**	0.0%										0.0%					0.0%
21	Loans and advances	0.0%										0.0%					0.0%
22	Debt securities, including UoP	0.0%										0.0%					0.0%
23	Equity instruments	0.0%										0.0%					0.0%
24	**Households**	27.3%										27.3%					9.7%
25	of which loans collateralised by residential immovable property	100.0%										100.0%					0.6%
26	of which building renovation loans	0.0%										0.0%					0.0%
27	of which motor vehicle loans	100.0%										100.0%					2.1%
28	**Local governments financing**	0.0%										0.0%					0.5%
29	Housing financing	0.0%										0.0%					
30	Other local government financing	0.0%										0.0%					0.5%
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.0%										0.0%					0.0%
32	**Total GAR assets**	3.6%										3.6%					74.8%

Kvika banki hf. Amounts are in ISK thousands

3. GAR KPI stock - Cap-Ex based

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure 31.12.2024															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
	% (compared to total covered assets in the denominator)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	34.6%										34.6%					10.2%
2	**Financial undertakings**	0.0%										0.0%					0.4%
3	Credit institutions	0.0%										0.0%					0.0%
4	Loans and advances	0.0%										0.0%					0.0%
5	Debt securities, including UoP	0.0%										0.0%					0.0%
6	Equity instruments	0.0%										0.0%					0.0%
7	Other financial corporations	0.0%										0.0%					0.4%
8	of which investment firms	0.0%										0.0%					0.0%
9	Loans and advances	0.0%										0.0%					0.0%
10	Debt securities, including UoP	0.0%										0.0%					0.0%
11	Equity instruments	0.0%										0.0%					0.0%
12	of which management companies	0.0%										0.0%					0.4%
13	Loans and advances	0.0%										0.0%					0.4%
14	Debt securities, including UoP	0.0%										0.0%					0.0%
15	Equity instruments	0.0%										0.0%					0.0%
16	of which insurance undertakings	0.0%										0.0%					0.0%
17	Loans and advances	0.0%										0.0%					0.0%
18	Debt securities, including UoP	0.0%										0.0%					0.0%
19	Equity instruments	0.0%										0.0%					0.0%
20	**Non-financial undertakings**	0.0%										0.0%					0.0%
21	Loans and advances	0.0%										0.0%					0.0%
22	Debt securities, including UoP	0.0%										0.0%					0.0%
23	Equity instruments	0.0%										0.0%					0.0%
24	**Households**	37.5%										37.5%					9.4%
25	of which loans collateralised by residential immovable property	100.0%										100.0%					0.5%
26	of which building renovation loans	0.0%										0.0%					0.0%
27	of which motor vehicle loans	53.7%										53.7%					5.7%
28	**Local governments financing**	0.0%										0.0%					0.4%
29	Housing financing	0.0%										0.0%					
30	Other local government financing	0.0%										0.0%					0.4%
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.0%										0.0%					0.0%
32	**Total GAR assets**	4.7%										4.7%					75.4%

Kvika banki hf. Amounts are in ISK thousands

4. GAR KPI flow - Turnover-based

	% (compared to flow of total eligible assets)	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure 31.12.2024															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total new assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	100.0%										100.0%					38.4%
2	**Financial undertakings**	0.0%										0.0%					0.0%
3	Credit institutions	0.0%										0.0%					0.0%
4	Loans and advances	0.0%										0.0%					0.0%
5	Debt securities, including UoP	0.0%										0.0%					0.0%
6	Equity instruments	0.0%										0.0%					0.0%
7	Other financial corporations	0.0%										0.0%					0.0%
8	of which investment firms	0.0%										0.0%					0.0%
9	Loans and advances	0.0%										0.0%					0.0%
10	Debt securities, including UoP	0.0%										0.0%					0.0%
11	Equity instruments	0.0%										0.0%					0.0%
12	of which management companies	0.0%										0.0%					0.0%
13	Loans and advances	0.0%										0.0%					0.0%
14	Debt securities, including UoP	0.0%										0.0%					0.0%
15	Equity instruments	0.0%										0.0%					0.0%
16	of which insurance undertakings	0.0%										0.0%					0.0%
17	Loans and advances	0.0%										0.0%					0.0%
18	Debt securities, including UoP	0.0%										0.0%					0.0%
19	Equity instruments	0.0%										0.0%					0.0%
20	**Non-financial undertakings**	100.0%										100.0%					0.2%
21	Loans and advances	100.0%										100.0%					0.2%
22	Debt securities, including UoP	0.0%										0.0%					0.0%
23	Equity instruments	0.0%										0.0%					0.0%
24	**Households**	39.1%										39.1%					38.1%
25	of which loans collateralised by residential immovable property	100.0%										100.0%					0.7%
26	of which building renovation loans	0.0%										0.0%					0.0%
27	of which motor vehicle loans	100.0%										100.0%					37.4%
28	**Local governments financing**	0.0%										0.0%					0.0%
29	Housing financing	0.0%										0.0%					0.0%
30	Other local government financing	0.0%										0.0%					0.0%
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.0%										0.0%					0.0%
32	**Total GAR assets**	15.5%										15.5%					38.4%

Kvika banki hf. Amounts are in ISK thousands

4. GAR KPI flow -Turnover-based

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	% (compared to flow of total eligible assets)	Disclosure 31.12.2023															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total new assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation																
2	**Financial undertakings**																
3	Credit institutions																
4	Loans and advances																
5	Debt securities, including UoP																
6	Equity instruments																
7	Other financial corporations																
8	of which investment firms																
9	Loans and advances																
10	Debt securities, including UoP																
11	Equity instruments																
12	of which management companies																
13	Loans and advances																
14	Debt securities, including UoP																
15	Equity instruments																
16	of which insurance undertakings																
17	Loans and advances																
18	Debt securities, including UoP																
19	Equity instruments																
20	**Non-financial undertakings**																
21	Loans and advances																
22	Debt securities, including UoP																
23	Equity instruments																
24	**Households**																
25	of which loans collateralised by residential immovable property																
26	of which building renovation loans																
27	of which motor vehicle loans																
28	**Local governments financing**																
29	Housing financing																
30	Other local government financing																
31	**Collateral obtained by taking possession: residential and commercial immovable properties**																
32	**Total GAR assets**																

Kvika banki hf. Amounts are in ISK thousands

4. GAR KPI flow - Cap-Ex based

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure 31.12.2024															
	% (compared to flow of total eligible assets)	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total new assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	66.9%										66.9%					38.4%
2	**Financial undertakings**	0.0%										0.0%					0.0%
3	Credit institutions	0.0%										0.0%					0.0%
4	Loans and advances	0.0%										0.0%					0.0%
5	Debt securities, including UoP	0.0%										0.0%					0.0%
6	Equity instruments	0.0%										0.0%					0.0%
7	Other financial corporations	0.0%										0.0%					0.0%
8	of which investment firms	0.0%										0.0%					0.0%
9	Loans and advances	0.0%										0.0%					0.0%
10	Debt securities, including UoP	0.0%										0.0%					0.0%
11	Equity instruments	0.0%										0.0%					0.0%
12	of which management companies	0.0%										0.0%					0.0%
13	Loans and advances	0.0%										0.0%					0.0%
14	Debt securities, including UoP	0.0%										0.0%					0.0%
15	Equity instruments	0.0%										0.0%					0.0%
16	of which insurance undertakings	0.0%										0.0%					0.0%
17	Loans and advances	0.0%										0.0%					0.0%
18	Debt securities, including UoP	0.0%										0.0%					0.0%
19	Equity instruments	0.0%										0.0%					0.0%
20	**Non-financial undertakings**	100.0%										100.0%					0.2%
21	Loans and advances	100.0%										100.0%					0.2%
22	Debt securities, including UoP	0.0%										0.0%					0.0%
23	Equity instruments	0.0%										0.0%					0.0%
24	**Households**	39.1%										39.1%					38.1%
25	of which loans collateralised by residential immovable property	100.0%										100.0%					0.7%
26	of which building renovation loans	0.0%										0.0%					0.0%
27	of which motor vehicle loans	100.0%										100.0%					37.4%
28	**Local governments financing**	0.0%										0.0%					0.0%
29	Housing financing	0.0%										0.0%					0.0%
30	Other local government financing	0.0%										0.0%					0.0%
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.0%										0.0%					0.0%
32	**Total GAR assets**	15.5%										0.0%					38.4%

Kvika banki hf. Amounts are in ISK thousands

5. KPI off-balance sheet exposures

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
% (compared to flow of total eligible assets)		Disclosure 31.12.2024														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling
31.12.2024 - Turnover-based																
1	Financial guarantees (FinGuar KPI)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2	Assets under management (AuM KPI)	0.14	0.01	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.14	0.01	0.00	0.00	0.01
31.12.2024 - Cap-Ex based																
1	Financial guarantees (FinGuar KPI)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2	Assets under management (AuM KPI)	0.21	0.01	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.21	0.01	0.00	0.00	0.01

1. Institution shall dislcose in this template the KPIs for off-balance sheet exposures (financial guarantees and AuM) calculated based on the data disclosed in template 1, on covered assets, and by applying the formulas proposed in this template.

Kvika banki hf. Amounts are in ISK thousands

Disclosure by credit institutions under EU Taxonomy Regulation Article 8 and underlying Delegated Act (EU) 2021/2178, Article 10.

Annex XI
QUALITATIVE DISCLOSURES FOR ASSET MANAGERS, CREDIT INSTITUTIONS, INVESTMENT FIRMS AND INSURANCE AND REINSURANCE UNDERTAKINGS

The disclosure of quantitative KPIs shall be accompanied by the following qualitative information to support the financial undertakings' explanations and markets' understanding of these KPIs:	
Contextual information in support of the quantitative indicators including the scope of assets and activities covered by the KPIs, information on data sources and limitation.	The Group has derived that the following assets can be considered as taxonomy-eligible; loans and advances to financial and non-financial corporates that are subject to non-financial disclosures according to Article 66 d of the Annual Accounts Act and loans to households, in particular motor vehicle loans (activity 6.5: Purchase, financing, renting, leasing) and residential real estate (mortgages, activity 7.7: Acquisition and ownership of buildings). Kvika has employed external data sourced from a third party, adhering to the criteria outlined in Article 66 d of the Annual Accounts Act. This information has been complemented, where needed, with data directly collected from the annual reports of corporate customers and counterparties. Kvika's estimation of how and to what extent its activities are associated with taxonomy-aligned economic activities is dependent upon and limited to its counterparties' reporting.
Explanations of the nature and objectives of Taxonomy-aligned economic activities and the evolution of the Taxonomy aligned economic activities over time, starting from the second year of implementation, distinguishing between business-related and methodological and data-related elements.	Not applicable for financial year 2024
Description of the compliance with Regulation (EU) 2020/852 in the financial undertaking's business strategy, product design processes and engagement with clients and counterparties.	In 2024, Kvika updated it Green Funding Framework to better adhere to recent developments in sustainability related regulations, including the EU Taxonomy. The updated Framework, which follows the most recent market practice, supports Kvika's strategic goal to have a real and measurable impact on Iceland's carbon footprint and climate issues. Kvika has mapped applicable categories to EU environmental objectives and example of economic activities under the EU Taxonomy. Where possible, applicable eligibility criteria have been designed to comply with the technical screening criteria set out in the EU Taxonomy Delegated Act as at the time of this Framework publication.
For credit institutions that are not required to disclose quantitative information for trading exposures, qualitative information on the alignment of trading portfolios with Regulation (EU) 2020/852, including overall composition, trends observed, objectives and policy.	
Additional or complementary information in support of the financial undertaking's strategies and the weight of the financing of Taxonomy-aligned economic activities in their overall activity.	

Kvika banki hf. Amounts are in ISK thousands

Kvika Asset Management

Kvika Asset Management publishes the following information pursuant to Article 8 of the EU Taxonomy. The information is set forward in a template from Annex IV and Annex XI of the Delegated Regulation No. 2021/2178, as subsequently changed with Delegated Regulation (EU) No. 2023/2486, covering asset managers, alongside Kvika Asset Management annual accounts for 2024. The calculation of key figures is based on the data used in Kvika Asset Management's financial statement for 2024.

Key performance indicators published for the first time in 2024

According to the Delegated Regulation no. 2021/2178 asset managers are to disclose the proportion of investment in taxonomy-aligned economic activities out of the total value of all investments managed by them. This ratio is based on key performance indicators of investees (turnover and capex), which they published according to the EU Taxonomy for the first time in Iceland in 2024 for the financial year 2023. Kvika Asset Management is dependent upon and limited to the investees' taxonomy disclosures, and therefore publishes now for the first time the ratio of investments in environmentally sustainable economic activities.

ANNEX IV

TEMPLATE FOR THE KPI OF ASSET MANAGERS

Standard template for the disclosure required under Article 8 of Regulation (EU) 2020/852 (asset managers)

The weighted average value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities **relative to the value of total assets covered by the KPI**, with following weights for investments in undertakings per below:		The weighted average value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities, with following weights for investments in undertakings per below:	
Turnover-based: %	0.1%	Turnover-based: [monetary amount]	617,517
CapEx—based: %	0.2%	CapEx-based: [monetary amount]	952,792
The percentage of assets covered by the KPI relative to total investments (total AuM). Excluding investments in sovereign entities.		The monetary value of assets covered by the KPI. Excluding investments in sovereign entities.	
Coverage: %	88.8%	The value in monetary amounts of derivatives.	399,311,281
Additional, complementary disclosures: breakdown of **denominator** of the KPI			
The percentage of derivatives relative to total assets covered by the KPI.		The value in monetary amounts of derivatives.	
Percentage (%)	0.1%	[monetary amount]	397,438
The proportion of **exposures to EU financial and non-financial undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI:		Value of **exposures to EU financial and non-financial undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU**:	
For non-financial undertakings:	40.4%	For non-financial undertakings: [monetary amount]	161,191,879
For financial undertakings:	22.9%	For financial undertakings: [monetary amount]	91,503,580
The proportion of **exposures to financial and non-financial undertakings from non-EU countries not subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI:		Value of **exposures to financial and non-financial undertakings from non-EU countries not subject to Articles 19a and 29a of Directive 2013/34/EU:**	
For non-financial undertakings:	4.3%	For non-financial undertakings: [monetary amount]	17,303,212
For financial undertakings:	4.4%	For financial undertakings: [monetary amount]	17,400,149
The proportion of **exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI:		Value of **exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU:**	
For non-financial undertakings:	8.5%	For non-financial undertakings: [monetary amount]	33,853,335
For financial undertakings:	10.6%	For financial undertakings: [monetary amount]	42,151,736
The proportion of **exposures to other counterparties over** total assets covered by the KPI:		Value of **exposures to other counterparties:**	
Percentage (%)	8.9%	[monetary amount]	35,509,952
The value of all the investments that are funding **economic activities that are not taxonomy-eligible** relative to the value of total assets covered by the KPI:		Value of all the investments that are funding **economic activities that are not taxonomy-eligible:**	
Percentage (%)	56.0%	[monetary amount]	223,743,143
The value of all the investments that are funding taxonomy-eligible economic activities, **but not taxonomy-aligned relative to the value of** total assets covered by the KPI:		Value of all the investments that are funding Taxonomy eligible economic activities, **but not taxonomy aligned:**	
Percentage (%)		[monetary amount]	

Kvika banki hf. Amounts are in ISK thousands

Kvika Asset Management

ANNEX IV (cont.)

Additional, complementary disclosures: breakdown of **numerator** of the KPI			
The proportion of **Taxonomy-aligned exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI:		Value of **Taxonomy-aligned exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU:**	
For non-financial undertakings:		For non-financial undertakings:	
Turnover-based: %	0.1%	Turnover-based: [monetary amount]	617,517
CapEx—based: %	0.2%	CapEx-based: [monetary amount]	952,792
For financial undertakings:		For financial undertakings:	
Turnover-based: %	0.0%	Turnover-based: [monetary amount]	0
CapEx—based: %	0.0%	CapEx-based: [monetary amount]	0
The proportion of **taxonomy-aligned exposures to other counterparties in** over total assets covered by the KPI:		Value of **taxonomy-aligned exposures to other counterparties:**	
Turnover-based: %	0.0%	Turnover-based: [monetary amount]	0
CapEx—based: %	0.0%	CapEx-based: [monetary amount]	0
Breakdown of the numerator of the KPI per environmental objective			
Taxonomy-aligned activities –:			
1) Climate change mitigation	Turnover: 0.1%	Transitional activities: A% (Turnover; CapEx)	0.0%
	Capex: 0.2%	Enabling activities: B% (Turnover; CapEx)	100.0%
2) Climate change adaptation	Turnover: 0.0%	Transitional activities: A% (Turnover; CapEx)	0.0%
	Capex: 0.0%	Enabling activities: B% (Turnover; CapEx)	0.0%
3) The sustainable use and protection of water and marine resources	Turnover: 0.0%	Transitional activities: A% (Turnover; CapEx)	0.0%
	Capex: 0.0%	Enabling activities: B% (Turnover; CapEx)	0.0%
4) The transition to a circular economy	Turnover: 0.0%	Transitional activities: A% (Turnover; CapEx)	0.0%
	Capex: 0.0%	Enabling activities: B% (Turnover; CapEx)	0.0%
5) Pollution prevention and control	Turnover: 0.0%	Transitional activities: A% (Turnover; CapEx)	0.0%
	Capex: 0.0%	Enabling activities: B% (Turnover; CapEx)	0.0%
6) The protection and restoration of biodiversity and ecosystems	Turnover: 0.0%	Transitional activities: A% (Turnover; CapEx)	0.0%
	Capex: 0.0%	Enabling activities: B% (Turnover; CapEx)	0.0%

Explanatory notes

'taxonomy-aligned activities'	economic activities that qualify as environmentally sustainable under EU Taxonomy
'not taxonomy-aligned'	economic activities that do not qualify as environmentally sustainable under EU Taxonomy i.e. do not fulfil the criteria set out in the delegated acts
'taxonomy-eligible activities'	activity that has a corresponding criteria in the EU Taxonomy delegated acts to be assessed against

ANNEX XI

QUALITATIVE DISCLOSURES FOR ASSET MANAGERS, CREDIT INSTITUTIONS, INVESTMENT FIRMS AND INSURANCE AND REINSURANCE UNDERTAKINGS

The disclosure of quantitative KPIs shall be accompanied by the following qualitative information to support the financial undertakings' explanations and markets' understanding of these KPIs:	
Contextual information in support of the quantitative indicators including the scope and activities covered by the KPIs, information on data sources and limitation.	The calculation of key indicators uses total assets under management (AuM), excluding exposures to central governments, central banks and supranational issuers. Investments in companies which are not obliged to disclose non-financial information under the Act on Annual Accounts should also be excluded. Furthermore, the calculations of Kvika Asset Management's Taxonomy KPIs depend upon and are limited to investee companies' 2024 Taxonomy disclosures for the financial year 2023.
Explanations of the nature and objectives of Taxonomy-aligned economic activities and the evolution of the Taxonomy-aligned economic activities over time, starting from the second year of implementation, distinguishing between business-related and methodological and data-related elements.	As according to investee companies' 2024 Taxonomy disclosures, all Taxonomy-aligned economic activities are enabling activities, i.e. they all enable other activities to make a substantial contribution to climate change mitigation.
Description of the compliance with Regulation (EU) 2020/852 in the financial undertaking's business strategy, product design processes and engagement with clients and counterparties.	Kvika Asset Management expects to increasingly consider the EU Taxonomy e.g. in product development as well as in communication with customers, additionally there has been increased education to employees on the topic.
For credit institutions that are not required to disclose quantitative information for trading exposures, qualitative information on the alignment of trading portfolios with Regulation (EU) 2020/852, including overall composition, trends observed, objectives and policy.	Does not apply to asset managers.

Group alignment

Computation of weighted averages of KPIs on Taxonomy-aligned activities of Groups

			KPI per business segment			
ISK Thousand	**Revenue***	**Proportion of total group revenue**	**KPI (Turnover)**	**KPI (CapEx)**	**KPI (Turnover)** *weighted*	**KPI (CapEx)** *weighted*
Asset management	2,597,493	15.12%	0.14%	0.21%	0.021%	0.032%
Banking activities	14,586,947	84.88%	0%	0%	0%	0%
Insurance undertakings	-	-	0%	0%	0%	0%
Total	17,184,440					
Average KPI					0.021%	0.032%