



**KVÍKA**

Condensed Interim  
Consolidated Financial Statements  
31 March 2021

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

The Condensed Interim Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") for the period 1 January to 31 March 2021 have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union, and additional requirements in the Icelandic Financial Statement Act. The Condensed Interim Consolidated Financial Statements comprise Kvika and its subsidiaries (together the "Group"). The Condensed Interim Consolidated Financial Statements have not been audited or reviewed by the Bank's independent auditors.

The Group operates five business segments, Asset Management, Corporate Finance, Banking, Insurance Services and Capital Markets. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services, as well as selected banking services. At the end of March 2021 the Group had ISK 546 billion of assets under management, compared to ISK 527 billion at year end 2020. The Bank is listed on the main list of Nasdaq OMX Iceland.

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

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

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

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

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

### Operations during the first quarter of 2021

The figures in the consolidated income statement for the period do not include the operations of TM, Lykill or Aur as the business combinations took place at end of March. The acquisition of Netgíró was concluded at end of January and therefore its operations for February and March are part of consolidated income statement. Profit for the period amounted to ISK 869 million (3m 2020: ISK 336 million), corresponding to an annualised 26.7% return on weighted tangible equity, based on the tangible equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. The Group's net operating income during the period was ISK 2,702 million (3m 2020: ISK 2,030 million). Net interest income amounted to ISK 633 million (3m 2020: ISK 483 million). Net fee income amounted to ISK 1,684 million (3m 2020: ISK 1,664 million). Other operating income amounted to ISK 384 million (3m 2020: negative ISK 117 million). Administrative expenses during the period amounted to ISK 1,677 million (3m 2020: ISK 1,314 million).

According to the Consolidated Statement of Financial Position, equity at the end of the period amounted to ISK 69,763 million (31.12.2020: ISK 19,208 million) and total assets amounted to ISK 259,572 million (31.12.2020: ISK 123,196 million).

The Group's solvency ratio at 31.03.2021 was 1.33, with a regulatory minimum requirement of 1.0. There is no comparative figure as this is the first time the Group calculates a solvency ratio.

### Risk management

The objective of risk management is to promote a good and efficient culture of risk awareness within the Group and to increase the understanding of employees and management on the Group's risk taking, in addition to an assessment process related to risk and capital position. An emphasis is placed on being up to speed on the latest developments and adoption of rules related to risk management, such as regarding capital- and liquidity management. The Group is faced with various kinds of risk that relate to its operations as a financial institution and arise from its day-to-day operations. An active risk management entails analysing risk, measuring it and taking actions to limit it, as well as monitoring risk factors. The Group's risk management, and its main operations, are described in the notes accompanying the Consolidated Financial Statements. Refer to notes 40-54 on analysis of exposure to various types of risk.

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

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

To the best of our knowledge the Condensed Interim Consolidated Financial Statements of Kvika banki hf. for the period 1 January to 31 March 2021 comply with IAS 34 Interim Financial Reporting as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and give a true and fair view of the Group's assets, liabilities and financial position as at 31 March 2021 and the financial performance of the Group and changes of cash flows for the period 1 January to 31 March 2021.

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

The Board of Directors and the CEO of the Bank have today discussed the Condensed Interim Consolidated Financial Statements for the period 1 January to 31 March 2021, and confirm them by the means of their signatures.

Reykjavík, 27 May 2021.

### Board of Directors

Sigurður Hannesson  
Chairman

Guðmundur Þórðarson  
Deputy Chairman

Helga Kristín Auðunsdóttir

Kristín Friðgeirsdóttir

Guðjón Reynisson

### Chief Executive Officer

Marínó Örn Tryggvason

The condensed interim consolidated financial statements of Kvika banki hf. for the period ended 31 March 2021 are electronically certificated by the Board of Directors and the CEO.

## Condensed Interim Consolidated Income Statement

For the period 1 January 2021 to 31 March 2021

	Notes	3m 2021	3m 2020
Interest income .....		1,003,583	1,148,480
Interest expense .....		(369,958)	(665,225)
<b>Net interest income</b>	4	633,624	483,256
Fee and commission income .....		1,752,726	1,711,616
Fee and commission expense .....		(68,536)	(47,674)
<b>Net fee and commission income</b>		1,684,190	1,663,942
Net financial income (expense) .....	5	373,134	(157,049)
Share in (loss) profit of associates, net of income tax .....	21	(27,566)	6,649
Other operating income .....		38,873	33,765
<b>Other operating income (expense)</b>		384,442	(116,635)
<b>Net operating income</b>		2,702,255	2,030,563
Administrative expenses .....	7	(1,677,154)	(1,313,958)
Net impairment .....	9	(10,764)	(155,360)
Revaluation of contingent consideration .....		(12,563)	(115,794)
<b>Profit before taxes</b>		1,001,774	445,451
Income tax .....	10	(96,495)	(69,219)
Special tax on financial activity .....	11	0	(22,189)
Special tax on financial institutions .....	12	(36,034)	(18,026)
<b>Profit for the period</b>		869,244	336,017

	Notes	3m 2021	3m 2020
Attributable to the shareholders of Kvika banki hf. ....		884,645	343,665
Attributable to non-controlling interest .....	20	(15,401)	(7,648)
<b>Profit for the period</b>		869,244	336,017
<b>Earnings per share</b>	13		
Basic earnings per share (ISK per share) .....		0.40	0.17
Diluted earnings per share (ISK per share) .....		0.37	0.16

The notes on pages 10 to 44 are an integral part of these Condensed Interim Consolidated Financial Statements.

## Condensed Interim Consolidated Statement of Comprehensive Income

For the period 1 January 2021 to 31 March 2021

	Notes	3m 2021	3m 2020
<b>Profit for the period</b>		869,244	336,017
Changes in fair value of financial assets through OCI, net of tax .....		(6,725)	0
Realized net gain transferred to the Income Statement, net of tax .....		(1,500)	0
<b>Changes to reserve for financial assets at fair value through OCI .....</b>		<b>(8,225)</b>	<b>0</b>
Exchange difference on translation of foreign subsidiaries .....		2,185	34,015
<b>Other Comprehensive income that is or may be reclassified subsequently to profit and loss</b>		<b>(6,041)</b>	<b>34,015</b>
<b>Total comprehensive income for the period</b>		<b>863,204</b>	<b>370,032</b>
	Notes	3m 2021	3m 2020
Attributable to the shareholders of Kvika banki hf. ....		878,604	377,680
Attributable to non-controlling interest .....		(15,401)	(7,648)
<b>Total comprehensive income for the period</b>		<b>863,204</b>	<b>370,032</b>

The notes on pages 10 to 44 are an integral part of these Condensed Interim Consolidated Financial Statements.

## Condensed Interim Consolidated Statement of Financial Position

### As at 31 March 2021

Assets	Notes	31.3.2021	31.12.2020
Cash and balances with Central Bank .....	14	37,816,597	28,945,030
Fixed income securities .....	15	47,978,416	28,785,033
Shares and other variable income securities .....	16	18,019,396	5,072,830
Securities used for hedging .....	17	23,490,598	19,620,240
Loans to customers .....	18	68,106,212	29,322,972
Derivatives .....	19	2,096,261	389,671
Investment in associates .....	21	14,674	42,240
Investment properties .....	22	1,016,905	1,016,905
Intangible assets .....	23	32,020,383	3,562,621
Operating lease assets .....	24	1,784,025	0
Property and equipment .....		628,739	162,373
Deferred tax assets .....		1,313,871	835,816
Reinsurance assets .....	27	1,696,357	0
Other assets .....	25	23,589,708	5,440,092
<b>Total assets</b>		<b>259,572,141</b>	<b>123,195,821</b>
<b>Liabilities</b>			
Deposits .....	26	66,302,513	59,924,683
Technical provision .....	27	27,169,612	0
Borrowings .....	28	30,227,652	26,424,340
Issued bills .....	29	4,465,276	2,003,608
Issued bonds .....	30	31,827,233	5,568,085
Subordinated liabilities .....	31	4,491,162	2,077,225
Short positions held for trading .....	32	1,653,269	1,520,547
Short positions used for hedging .....	33	249,511	731,987
Derivatives .....	19	2,470,749	1,750,346
Current tax liabilities .....		323	341
Deferred tax liabilities .....		239,082	236,186
Other liabilities .....	34	20,712,285	3,750,472
<b>Total liabilities</b>		<b>189,808,666</b>	<b>103,987,820</b>
<b>Equity</b>			
Share capital .....	35	4,690,252	2,141,002
Share premium .....		51,457,680	4,290,521
Other reserves .....		5,359,883	5,014,902
Retained earnings .....		8,250,031	7,740,546
<b>Total equity attributable to the shareholders of Kvika banki hf.</b>		<b>69,757,846</b>	<b>19,186,971</b>
Non-controlling interest .....		5,629	21,030
<b>Total equity</b>		<b>69,763,475</b>	<b>19,208,001</b>
<b>Total liabilities and equity</b>		<b>259,572,141</b>	<b>123,195,821</b>

The notes on pages 10 to 44 are an integral part of these Condensed Interim Consolidated Financial Statements.

## Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2021 to 31 March 2021

1 January 2021 to 31 March 2021	Notes	Share capital	Share premium	Option reserve	Other reserves			Trans-lation reserve	Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
					Warrants reserve	Deficit reduction reserve	Fair value reserve						
Equity as at 1 January 2021 .....		2,141,002	4,290,521	0	149,462	3,103,697	27,293	54,520	1,679,930	7,740,546	19,186,971	21,030	19,208,001
Profit for the period .....										884,645	884,645	(15,401)	869,244
Changes in fair value through OCI .....							(10,282)				(10,282)		(10,282)
Realized net gain transferred to the Income Statement .....							(1,876)				(1,876)		(1,876)
Translation of foreign operations													
Exchange difference on translation of foreign subsidiaries .....								2,185			2,185		2,185
Total comprehensive income for the period .....		0	0	0	0	0	(12,157)	2,185	0	884,645	874,672	(15,401)	859,272
Restricted retained earnings .....									375,160	(375,160)	0		0
Transactions with owners of the Bank													
Capital increase .....		2,555,649	47,273,673								49,829,322	(0)	49,829,322
Own shares acquired through business combination .....		(6,400)	(126,720)								(133,120)		(133,120)
Warrants exercised .....	36		20,206			(20,206)					0		0
<b>Equity as at 31 March 2021</b>		<b>4,690,252</b>	<b>51,457,680</b>	<b>0</b>	<b>129,256</b>	<b>3,103,697</b>	<b>15,136</b>	<b>56,705</b>	<b>2,055,090</b>	<b>8,250,031</b>	<b>69,757,846</b>	<b>5,629</b>	<b>69,763,475</b>

The notes on pages 10 to 44 are an integral part of these Condensed Interim Consolidated Financial Statements



## Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2020 to 31 March 2020

1 January 2020 to 31 March 2020	Notes	Share capital	Share premium	Option reserve	Other reserves			Translation reserve	Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
					Warrants reserve	Deficit reduction reserve	Fair value reserve						
Equity as at 1 January 2020 .....		1,945,366	3,115,992	7,687	206,501	3,103,697	0	5,586	778,191	6,292,189	15,455,209	59,974	15,515,183
Profit for the period .....										343,665	343,665	(7,648)	336,017
Translation of foreign operations													
Exchange difference on translation of foreign subsidiaries .....								34,015			34,015		34,015
Total comprehensive income for the period .....		0	0	0	0	0	0	34,015	0	343,665	377,680	(7,648)	370,032
Restricted retained earnings .....									271,296	(271,296)	0		0
Transactions with owners of the Bank													
Capital increase .....		19,393	106,327								125,720		125,720
Stock options .....				845							845		845
Warrants exercised .....			5,957		(5,957)						0		0
<b>Equity as at 31 March 2020</b>		<b>1,964,759</b>	<b>3,228,276</b>	<b>8,533</b>	<b>200,543</b>	<b>3,103,697</b>	<b>0</b>	<b>39,601</b>	<b>1,049,487</b>	<b>6,364,558</b>	<b>15,959,454</b>	<b>52,327</b>	<b>16,011,781</b>

The notes on pages 10 to 44 are an integral part of these Condensed Interim Consolidated Financial Statements

## Condensed Interim Consolidated Statement of Cash Flows

### For the period 1 January 2021 to 31 March 2021

	Notes	3m 2021	3m 2020
<b>Cash flows from operating activities</b>			
Profit for the period .....		869,244	336,017
Adjustments for:			
Indexation and exchange rate difference .....		205,399	9,010,772
Share in (profit) loss of associates, net of income tax .....	21	27,566	(6,649)
Depreciation and amortisation .....		52,109	73,752
Net interest income .....		(633,624)	(483,256)
Net impairment .....		11,855	130,910
Income tax .....		0	69,219
Other adjustments .....		19,520	130,702
		552,069	9,261,467
Changes in:			
Fixed income securities .....		(4,189,191)	2,524,812
Shares and other variable income securities .....		(251,631)	(59,367)
Securities used for hedging .....		(3,870,358)	12,343,644
Loans to customers .....		3,362,431	(596,290)
Derivatives - assets .....		(125,483)	227,820
Other assets .....		(6,472,391)	(4,532,201)
Deposits .....		6,305,771	(4,185,372)
Short positions .....		(349,754)	204,535
Derivatives - liabilities .....		677,780	(936,184)
Other liabilities .....		13,286,116	5,004,442
		8,373,290	9,995,837
Interest received .....		934,492	1,034,619
Interest paid .....		(251,706)	(526,557)
<b>Net cash from operating activities</b>		9,608,145	19,765,367
<b>Cash flows from investing activities</b>			
Acquisition of intangible assets .....	23	(137,532)	(71,912)
Acquisition of property and equipment .....		(6,325)	0
Proceeds from the sale of property and equipment .....		0	1,650
Acquisition of subsidiary, net of cash .....		(657,826)	0
Lease receivable payments .....		50,427	50,897
<b>Net cash to investing activities</b>		(751,257)	(19,364)
<b>Cash flows from financing activities</b>			
Borrowings .....		(4,103,764)	2,231,006
Issued bills .....		(600,000)	(1,962,256)
Increase in share capital .....		45,715	19,393
Increase in share premium .....		358,112	112,284
Decrease in warrants .....		(20,206)	(5,957)
Lease payments .....		(45,747)	(56,977)
<b>Net cash (to) from financing activities</b>		(4,365,890)	337,493
Net increase in cash and balances with Central Bank .....		4,490,998	20,083,495
Cash and balances with Central Bank at the beginning of the year .....		28,945,030	26,818,231
Change in cash and cash equivalents due to acquisition of subsidiary .....		4,586,419	0
Effects of exchange rate fluctuations on cash and balances with Central Bank .....		(205,850)	1,165,890
<b>Cash and balances with Central Bank at the end of the period</b>	14	37,816,597	48,067,616

The notes on pages 10 to 44 are an integral part of these Condensed Interim Consolidated Financial Statements.

# Notes to the Condensed Interim Consolidated Financial Statements

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## Notes to the Condensed Interim Consolidated Financial Statements

### General information

#### 1. Reporting entity

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

The Condensed Interim Consolidated Financial Statements for the period ended 31 March 2021 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). The Group operates five business segments, Asset Management, Corporate Finance, Banking, Insurance Services and Capital Markets. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services as well as selected banking services.

The Condensed Interim Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 27 May 2021.

#### 2. Basis of preparation

##### a. Statement of compliance

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

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

##### b. Basis of measurement

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

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

##### c. Functional and presentation currency

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

The Group's assets and liabilities which are denominated in other currency than ISK are translated to ISK using the exchange rate as at the end of day 31 March 2021.

##### d. Going concern

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

##### e. Estimates and judgements

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

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

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

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

##### f. Relevance and importance of notes to the reader

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 3. Business combinations

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

In March 2021, the tripartite merger of Kvika banki hf. ("Kvika"), TM hf. ("TM") and Lykill Fjármögnun hf. ("Lykill") was concluded. In the merger TM and Lykill were dissolved without settlement of debts, the three companies were combined and are TM and Lykill thereby a part of the Bank as at 31 March 2021 and their subsidiaries are part of the Group's Condensed Interim Consolidated Financial Statements 31 March 2021. The activities and operations of TM and Lykill have been integrated with those of the Bank and the merged company operates under the name Kvika banki hf. In 2021, the Bank incurred transaction costs and costs related to the merger, refer to note 7 for more information on operating expenses.

The consideration transferred, to the previous owners of TM, was in the form of shares in the merged company in exchange for their shares in TM. TM's shareholders received, in return for their shares in TM, 2,509,934,076 shares in Kvika. The payment was made by issuance of new share capital at end of March 2021.

In accordance with IFRS 3, Business Combinations, the purchase price of TM and Lykill will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation ("PPA") has not been finalised as the merger has recently taken place, and therefore the estimation of the fair value of identifiable intangible assets has not been concluded. The preliminary goodwill amounts to ISK 20,815 million. The following table summarises the consideration paid for TM and Lykill and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 31 March 2021.

Identifiable assets acquired and liabilities assumed	31.3.2021
<b>Assets</b>	
Cash and cash equivalents .....	1,949,238
Shares and other variable income securities .....	433,520
Loans to customers .....	38,936,463
Operating lease assets .....	1,784,025
Derivatives .....	1,511,121
Investment in subsidiaries .....	18,784,993
Intangible assets .....	59,754
Property and equipment .....	447,960
Deferred tax assets .....	1,088,721
Other assets .....	3,119,474
<b>Total</b>	<b>68,115,269</b>
<b>Liabilities</b>	
Borrowings .....	6,457,110
Issued bills .....	3,253,058
Issued bonds .....	24,241,920
Subordinated liabilities .....	2,358,610
Deferred tax liabilities .....	626,250
Other liabilities .....	2,547,363
<b>Total</b>	<b>39,484,310</b>
<b>Total identifiable net assets</b> .....	<b>28,630,959</b>
Acquisition price .....	49,445,701
Preliminary goodwill on acquisition .....	20,814,742

During the first quarter of 2021, TM sold its insurance operations to its subsidiary, TM tryggingar hf. ("TMT"). Furthermore, TMT also bought subsidiaries, which provide insurance services, from TM. This is the reason why the preliminary goodwill on acquisition in note 3 is lower than the goodwill acquired through business combinations in note 23.

The figures in the consolidated income statement for the period do not include the operations of TM or Lykill as the merger took place at end of March. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 5,676 million and the consolidated profit before tax for the period would have been ISK 2,520 million.

## Notes to the Condensed Interim Consolidated Financial Statements

### 3. Business combinations (cont.)

#### b. Acquisition of Netgíró hf.

In January 2021, the Group acquired 80% of the shares in Netgíró hf. ("Netgíró") and is Netgíró a part of the Group and Consolidated Financial Statements from the end of January 2021. The Group is now the sole owner of Netgíró as before the acquisition, it owned 20% of the shares in the company. The consideration transferred, to the previous owners of Netgíró, was in the form of a cash payment of ISK 325 million. ISK 125 million of the payment is conditional on certain conditions. In 2021, the Group incurred transaction costs and costs related to the acquisition, refer to note 7 for more information on operating expenses.

In accordance with IFRS 3, Business Combinations, the purchase price of Netgíró will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation has not been finalised and the preliminary goodwill amounts to ISK 689 million. The following table summarises the consideration paid for Netgíró and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 31 January 2021.

Identifiable assets acquired and liabilities assumed	31.1.2021
<b>Assets</b>	
Cash and cash equivalents .....	35,843
Loans to customers .....	2,667,598
Property and equipment .....	4,335
Intangible assets .....	409,372
Deferred tax assets .....	129,448
Other assets .....	425,974
<b>Total</b>	<b>3,672,572</b>
<b>Liabilities</b>	
Borrowings .....	3,467,195
Other liabilities .....	488,111
<b>Total</b>	<b>3,955,306</b>
Total identifiable net assets .....	(282,734)
Acquisition price .....	406,000
Preliminary goodwill on acquisition .....	688,734

The figures in the consolidated income statement for the period do not include the operations of Netgíró in January as the merger took place at end of January. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 2,779 million and the consolidated profit after tax for the period would have been ISK 1,007 million.

#### c. Acquisition of Aur app ehf.

In March 2021, the Group acquired Aur app ehf. ("Aur") and is Aur a part of the Group and Consolidated Financial Statements from 31 March 2021. The consideration transferred, to the previous owners of Aur, was in the form of a cash payment of ISK 458 million. In 2021, the Group incurred transaction costs and costs related to the acquisition, refer to note 7 for more information on operating expenses.

In accordance with IFRS 3, Business Combinations, the purchase price of Aur will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation has not been finalised and the preliminary goodwill amounts to ISK 480 million. The following table summarises the consideration paid for Aur and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 31 March 2021.

Identifiable assets acquired and liabilities assumed	31.3.2021
<b>Assets</b>	
Cash and cash equivalents .....	75,302
Intangible assets .....	38,132
Other assets .....	7,104
<b>Total</b>	<b>120,538</b>
<b>Liabilities</b>	
Other liabilities .....	142,538
<b>Total</b>	<b>142,538</b>
Total identifiable net assets .....	(22,000)
Acquisition price .....	458,000
Preliminary goodwill on acquisition .....	480,000

The figures in the consolidated income statement for the period do not include the operations of Aur as the merger took place at end of March. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 2,741 million and the consolidated profit after tax for the period would have been ISK 1,013 million.

## Notes to the Condensed Interim Consolidated Financial Statements

### Income statement

#### 4. Net interest income

Interest income is specified as follows:

	3m 2021	3m 2020
Cash and balances with Central Bank .....	22,764	209,013
Derivatives .....	169,056	276,319
Loans to customers .....	685,300	641,474
Fixed income securities (FVOCI) .....	99,112	0
Other interest income .....	27,350	21,674
<b>Total</b>	<b>1,003,583</b>	<b>1,148,480</b>

Interest expense is specified as follows:

	3m 2021	3m 2020
Deposits .....	135,811	268,814
Borrowings .....	88,770	253,388
Issued bills .....	7,916	37,744
Issued bonds .....	44,771	49,475
Subordinated liabilities .....	55,662	37,446
Derivatives .....	577	3,410
Other interest expense* .....	36,453	14,947
<b>Total</b>	<b>369,958</b>	<b>665,225</b>

\* Thereof are lease liabilities' interest expense amounting to ISK 6 million (3m 2020: ISK 6 million)

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 696 million (3m 2020: ISK 828 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 409 million (3m 2020: ISK 656 million).

#### 5. Net financial income (expense)

Net financial income (expense) is specified as follows:

	3m 2021	3m 2020
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities .....	109,838	85,351
Shares and other variable income securities .....	288,825	(201,860)
Derivatives .....	(2,801)	743
Loans to customers .....	(18,121)	(13,301)
Foreign currency exchange difference .....	(4,607)	(27,981)
<b>Total</b>	<b>373,134</b>	<b>(157,049)</b>

#### 6. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	3m 2021	3m 2020
Gain on financial instruments at fair value through profit and loss .....	94,793	624,366
Loss on other financial instruments .....	(99,400)	(652,347)
<b>Total</b>	<b>(4,607)</b>	<b>(27,981)</b>

#### 7. Administrative expenses

Administrative expenses are specified as follows:

	3m 2021	3m 2020
Salaries and related expenses .....	1,025,606	858,771
Other operating expenses .....	542,303	369,407
Depositors' and Investors' Guarantee Fund contributions .....	7,852	12,029
Depreciation and amortisation .....	58,223	25,246
Depreciation of right of use asset .....	43,171	48,507
<b>Total</b>	<b>1,677,154</b>	<b>1,313,958</b>

During the period in 2021, ISK 53 million in one-off and irregular operating expenses were incurred by the Group due to mergers and acquisitions. Of that amount, ISK 10 million are included among salaries and related expenses and ISK 43 million are included among other operating expenses in the table above.

## Notes to the Condensed Interim Consolidated Financial Statements

### 8. Salaries and related expenses

Salaries and related expenses are specified as follows:	<b>3m 2021</b>	<b>3m 2020</b>
Salaries .....	847,597	679,817
Performance based payments excluding share-based payments .....	(8,541)	3,611
Share-based payment expenses .....	0	845
Pension fund contributions .....	93,929	87,747
Tax on financial activity .....	42,473	38,776
Other salary related expenses .....	50,148	47,974
<b>Total</b>	<b>1,025,606</b>	<b>858,771</b>
Average number of full time employees during the period .....	152	132
Total number of full time employees at the end of the period .....	319	135

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

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

### 9. Net impairment

	<b>3m 2021</b>	<b>3m 2020</b>
Net change in impairment of loans .....	4,848	114,855
Net change in impairment of other assets .....	0	34,110
Net change in impairment of loan commitments, guarantees and unused credit facilities .....	5,916	6,395
<b>Total</b>	<b>10,764</b>	<b>155,360</b>

### 10. Income tax

The Bank and most of its subsidiaries will not pay income tax on its profit for 2021 due to the fact that it has a tax loss carry forward that offsets the calculated income tax. At year end 2020, the tax loss carry forward of the Group amounted to ISK 6.6 billion. A substantial part of the tax loss carry forward is utilisable until end of year 2025. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised a part of the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position.

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

### 11. Special tax on financial activity

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

### 12. Special tax on financial institutions

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

### 13. Earnings per share

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

	<b>3m 2021</b>	<b>3m 2020</b>
Net earnings attributable to equity holders of the Bank	884,645	343,665
Weighted average number of outstanding shares .....	2,193,530	1,979,011
Adjustments for warrants and stock options .....	205,603	176,564
<b>Total</b>	<b>2,399,132</b>	<b>2,155,575</b>
Basic earnings per share (ISK) .....	0.40	0.17
Diluted earnings per share (ISK) .....	0.37	0.16



## Notes to the Condensed Interim Consolidated Financial Statements

### Statement of Financial Position

#### 14. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

	31.3.2021	31.12.2020
Deposits with Central Bank .....	25,021,453	21,379,857
Cash on hand .....	16,079	11,649
Balances with banks .....	8,452,605	3,405,876
Foreign treasury bills .....	1,855,646	1,739,281
<b>Included in cash and cash equivalents</b>	<b>35,345,783</b>	<b>26,536,663</b>
Restricted balances with Central Bank - average maintenance level .....	0	0
Restricted balances with Central Bank - fixed reserve requirement .....	953,248	952,636
Receivables from Central Bank .....	1,517,566	1,455,730
<b>Total</b>	<b>37,816,597</b>	<b>28,945,030</b>

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.

#### 15. Fixed income securities

Fixed income securities are specified as follows:

	31.3.2021	31.12.2020
Mandatorily measured at fair value through profit or loss		
Listed government bonds and bonds with government guarantees .....	8,319,494	2,890,226
Listed bonds .....	9,358,208	1,412,239
Unlisted bonds .....	4,018,725	1,535,801
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees .....	22,286,641	18,962,079
Listed treasury bills .....	3,995,348	3,984,688
<b>Total</b>	<b>47,978,416</b>	<b>28,785,033</b>

#### 16. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

	31.3.2021	31.12.2020
Mandatorily measured at fair value through profit or loss		
Listed shares .....	2,430,704	892,423
Unlisted shares .....	11,104,316	2,338,138
Unlisted unit shares .....	4,484,376	1,842,269
<b>Total</b>	<b>18,019,396</b>	<b>5,072,830</b>

#### 17. Securities used for hedging

Securities used for hedging are specified as follows:

	31.3.2021	31.12.2020
Listed government bonds and bonds with government guarantees .....	6,323,613	7,115,854
Listed bonds .....	2,980,523	2,147,393
Listed shares .....	13,439,659	9,890,103
Unlisted unit shares .....	746,804	466,891
<b>Total</b>	<b>23,490,598</b>	<b>19,620,240</b>

#### 18. Loans to customers

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

	Individuals		Corporates		Total	
	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
<b>31.3.2021</b>						
Loans to customers at amortised cost .....	27,428,155	26,839,546	38,950,334	37,933,037	66,378,489	64,772,583
Loans to customers at fair value through profit or loss .....	593,628	593,628	2,740,002	2,740,002	3,333,630	3,333,630
<b>Total</b>	<b>28,021,783</b>	<b>27,433,174</b>	<b>41,690,336</b>	<b>40,673,039</b>	<b>69,712,119</b>	<b>68,106,212</b>
	Individuals		Corporates		Total	
	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
<b>31.12.2020</b>						
Loans to customers at amortised cost .....	5,015,213	4,992,943	22,100,559	21,586,179	27,115,772	26,579,121
Loans to customers at fair value through profit or loss .....	608,034	608,034	2,135,817	2,135,817	2,743,851	2,743,851
<b>Total</b>	<b>5,623,247</b>	<b>5,600,976</b>	<b>24,236,376</b>	<b>23,721,996</b>	<b>29,859,623</b>	<b>29,322,972</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 19. Derivatives

Derivatives are specified as follows:

	Notional		Carrying value	
	Assets	Liabilities	Assets	Liabilities
<b>31.3.2021</b>				
Interest rate derivatives .....	13,553,635	11,941,742	1,611,893	0
Currency forwards .....	2,330,969	2,360,992	30,002	69,545
Bond and equity total return swaps .....	23,215,936	25,260,512	185,032	2,232,022
Equity options .....	149,812	3,860	269,334	169,182
<b>Total</b>	<b>39,250,352</b>	<b>39,567,105</b>	<b>2,096,261</b>	<b>2,470,749</b>
<b>31.12.2020</b>				
Interest rate derivatives .....	3,176,798	3,102,368	74,429	0
Currency forwards .....	2,698,140	2,740,401		42,261
Bond and equity total return swaps .....	21,918,514	23,386,919	108,771	1,577,177
Equity options .....	130,343	3,860	206,470	130,909
<b>Total</b>	<b>27,923,795</b>	<b>29,233,548</b>	<b>389,671</b>	<b>1,750,346</b>

### 20. Group entities

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

Entity	Nature of operations	Domicile	Share	Share
			31.3.2021	31.12.2020
Aur app ehf. ....	Financial technology services	Iceland	100%	-
Fí Fasteignafélag GP ehf. ....	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf. ....	Fund management	Iceland	100%	100%
Kvika eignastýring hf. ....	Asset management	Iceland	100%	100%
M-Investments ehf. ....	Holding company	Iceland	100%	100%
Netgíró hf. ....	Consumer lending operations	Iceland	100%	20%
Rafklettur ehf. ....	Holding company	Iceland	100%	100%
TM líftryggingar hf. ....	Insurance services	Iceland	100%	-
TM tryggingar hf. ....	Insurance services	Iceland	100%	-
AC GP 3 ehf. ....	Fund management	Iceland	80%	80%
Kvika Securities Ltd. ....	Business consultancy services	UK	100%	100%

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

### 21. 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	Share
			31.3.2021	31.12.2020
Kjölfesta GP ehf. ....	Holding company	Iceland	50%	50%
Gláma fjárfestingar slhf. ....	Holding company	Iceland	24%	24%

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

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

	31.3.2021	31.12.2020
Balance at the beginning of the year .....	42,240	776,490
Dividend received .....	0	(7,500)
Disposal of shares in associates .....	0	(719,323)
Share in (loss) profit of associates, net of income tax .....	(27,566)	(7,427)
<b>Total</b>	<b>14,674</b>	<b>42,240</b>

### 22. Investment properties

Investment properties are specified as follows:

	31.3.2021	31.12.2020
Balance at the beginning of the year .....	1,016,905	1,016,553
Additions .....	0	352
<b>Total</b>	<b>1,016,905</b>	<b>1,016,905</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 23. Intangible assets

Intangible assets are specified as follows:

	Goodwill	Software	Other	Total
<b>31.3.2021</b>				
Balance as at 1 January 2021 .....	2,943,881	418,830	199,910	3,562,621
Additions during the period .....	0	66,435	72,792	139,227
Additions through business combinations .....	27,212,693	1,053,782	97,886	28,364,362
Amortisation .....	0	(31,047)	(14,780)	(45,827)
<b>Balance as at 31 March 2021</b>	<b>30,156,575</b>	<b>1,508,000</b>	<b>355,808</b>	<b>32,020,383</b>
Gross carrying amount .....	30,156,575	1,627,889	457,346	32,241,810
Accumulated amortisation and impairment losses .....	0	(119,888)	(101,539)	(221,427)
<b>Balance as at 31 March 2021</b>	<b>30,156,575</b>	<b>1,508,000</b>	<b>355,808</b>	<b>32,020,383</b>
<b>31.12.2020</b>				
Balance as at 1 January 2020 .....	2,943,881	175,256	164,118	3,283,256
Additions during the period .....	0	279,867	74,186	354,053
Amortisation .....	0	(36,293)	(38,395)	(74,688)
<b>Balance as at 31 December 2020</b>	<b>2,943,881</b>	<b>418,830</b>	<b>199,910</b>	<b>3,562,621</b>
Gross carrying amount .....	2,943,881	507,672	286,668	3,738,221
Accumulated amortisation and impairment losses .....	0	(88,842)	(86,759)	(175,600)
<b>Balance as at 31 December 2020</b>	<b>2,943,881</b>	<b>418,830</b>	<b>199,910</b>	<b>3,562,621</b>

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

### 24. Operating lease assets

Operating lease assets are specified as follows:

	<b>31.3.2021</b>
Balance as at 1 January 2021 .....	0
Additions through business combinations .....	1,784,025
Depreciation .....	0
<b>Balance as at 31 March 2021</b>	<b>1,784,025</b>
Gross carrying amount .....	2,591,114
Accumulated depreciation .....	(807,089)
<b>Balance as at 31 March 2021</b>	<b>1,784,025</b>

There are no comparative figures as operating lease assets were not part of the consolidated financial statements for the year 2020.

### 25. Other assets

Other assets are specified as follows:

	31.3.2021	31.12.2020
Unsettled transactions .....	10,266,055	630,192
Accounts receivable .....	12,032,372	3,646,962
Right of use asset and lease receivables .....	728,898	478,995
Receivables at fair value .....	29,259	327,210
Sundry assets .....	533,123	356,733
<b>Total</b>	<b>23,589,708</b>	<b>5,440,092</b>

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

	31.3.2021	31.12.2020
Right of use asset and lease receivables at the beginning of the year .....	478,995	622,415
Additions during the period .....	0	11,152
Additions through business combinations .....	301,665	0
Indexation .....	999	18,023
Depreciation and lease receivable installment .....	(52,761)	(172,596)
<b>Total</b>	<b>728,898</b>	<b>478,995</b>

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.

## Notes to the Condensed Interim Consolidated Financial Statements

### 26. Deposits

Deposits are specified as follows:

	31.3.2021	31.12.2020
Demand deposits .....	52,465,495	46,775,812
Time deposits .....	13,837,017	13,148,871
<b>Total</b>	<b>66,302,513</b>	<b>59,924,683</b>

### 27. Technical provision

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

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

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

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

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

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

Technical provision is specified as follows:

	31.3.2021
Technical provision:	
Claims provision .....	16,764,649
Premium provision .....	9,769,559
Risk margin .....	635,404
<b>Total</b>	<b>27,169,612</b>

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

Reinsurer's share:	
Claims provision .....	1,173,928
Premium provision .....	522,428
<b>Total</b>	<b>1,696,357</b>

Own technical provision:	
Claims provision .....	15,590,720
Premium provision .....	9,247,131
Risk margin .....	635,404
<b>Total</b>	<b>25,473,255</b>

The estimated claims provisions are reported less estimated salvage value of the assets that were damaged. The total salvage value at period-end 2021 is immaterial.

There are no comparative figures as the technical provision was not part of the consolidated financial statements for the year 2020.

### 28. Borrowings

Borrowings are specified as follows:

	31.3.2021	31.12.2020
Loans from credit institutions .....	6,091,058	0
Money market deposits .....	23,770,539	26,424,340
Other borrowings .....	366,055	0
<b>Total</b>	<b>30,227,652</b>	<b>26,424,340</b>

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

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 29. Issued bills

Issued bills are specified as follows:

	31.3.2021	31.12.2020
KVB 21 0322 .....	0	598,488
LYKILL210615 .....	1,532,783	0
LYKILL210915 .....	1,520,969	0
KVB 21 0621 .....	597,813	595,587
KVB 21 0921 .....	813,711	809,534
<b>Total</b>	<b>4,465,276</b>	<b>2,003,608</b>

### 30. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.3.2021	31.12.2020
<b>Unsecured bonds:</b>						
KVB 20 01, ISK 1,500 million .....	2020	2023	At maturity	Floating, 1 month REIBOR + 0.85%	1,763,566	1,763,538
KVB 19 01, ISK 3,640 million .....	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	3,753,173	3,474,842
KVB 21 01, GBP 12 million .....	2021	2023	At maturity	Floating, LIBOR + 2.5%	2,092,970	0
Lykill 23 11, ISK 3,010 million .....	2020	2023	At maturity	Floating, 1 month REIBOR + 1.10%	2,994,326	0
Lykill 21 04, ISK 2,000 million .....	2020	2021	Amortizing	Fixed 3.1%	169,097	0
<b>Asset backed bonds:</b>						
Lykill 17 01, ISK 15,000 million .....	2017	2021	Amortizing	CPI-indexed, fixed 3.95%	10,497,606	0
Lykill 16 01, ISK 10,870 million .....	2016	2023	Amortizing	Floating, 1 month REIBOR + 1.10%	4,083,868	0
Lykill 26 05, ISK 5,130 million .....	2019	2026	Amortizing	CPI-indexed, fixed 3.30%	4,204,333	0
Lykill 24 06, ISK 1,570 million .....	2020	2024	Amortizing	Fixed 2.8%	1,288,357	0
Lykill 23 09, ISK 1,000 million .....	2019	2023	Amortizing	Fixed 5.2%	649,403	0
<b>Total</b>					<b>31,496,698</b>	<b>5,238,381</b>
Unlisted senior unsecured bonds, total .....					330,535	329,704
<b>Total</b>					<b>31,827,233</b>	<b>5,568,085</b>

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

### 31. Subordinated liabilities

#### a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.3.2021	31.12.2020
KVB 15 01, ISK 1,000 million .....	2015	2025	At maturity	CPI-Indexed, fixed 7.50%	1,200,792	1,169,444
KVB 18 02, ISK 800 million .....	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	931,760	907,781
TM 15 1, ISK 2,000 million .....	2015	2045	At maturity	CPI-Indexed, fixed 5.25%	2,358,610	0
<b>Total</b>					<b>4,491,162</b>	<b>2,077,225</b>

At the interest payment date in August 2020 for KVB 15 01, the annual interest rate increased from 5.50% p.a. to 7.50% p.a. The Group has the right to repay the subordinated bond on any subsequent interest payment dates until maturity.

At the interest payment date in the year 2023 for KVB 18 02, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.

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

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

#### b. Subordinated liabilities are specified as follows:

	31.3.2021	31.12.2020
Balance at the beginning of the year .....	2,077,225	1,999,530
Additions through business combinations .....	2,358,610	0
Paid interest .....	0	(115,000)
Paid interests due to indexation .....	0	(9,922)
Accrued interests and indexation .....	55,328	202,617
<b>Total</b>	<b>4,491,162</b>	<b>2,077,225</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 32. Short positions held for trading

Short positions held for trading are specified as follows:

	<b>31.3.2021</b>	<b>31.12.2020</b>
Listed government bonds and bonds with government guarantees .....	921,534	559,382
Listed bonds .....	731,736	961,165
<b>Total</b>	<b>1,653,269</b>	<b>1,520,547</b>

### 33. Short positions used for hedging

Short positions used for hedging are specified as follows:

	<b>31.3.2021</b>	<b>31.12.2020</b>
Listed government bonds and bonds with government guarantees .....	249,511	731,987
<b>Total</b>	<b>249,511</b>	<b>731,987</b>

### 34. Other liabilities

Other liabilities are specified as follows:

	<b>31.3.2021</b>	<b>31.12.2020</b>
Unsettled transactions .....	14,465,511	1,217,659
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities .....	36,138	31,371
Accounts payable and accrued expenses .....	1,401,581	324,385
Special taxes on financial institutions and financial activities .....	81,943	97,664
Withholding taxes .....	753,633	361,088
Salaries and salary related expenses .....	1,242,637	490,576
Lease liability .....	806,530	477,691
Contingent consideration .....	398,501	386,001
Reinsurance liabilities .....	481,895	0
Other liabilities .....	1,043,917	364,037
<b>Total</b>	<b>20,712,285</b>	<b>3,750,472</b>

Lease liability is specified as follows:

	<b>31.3.2021</b>	<b>31.12.2020</b>
Lease liability at the beginning of the year .....	477,691	616,521
Additions during the period .....	0	39,449
Additions through business combinations .....	373,413	0
Installment .....	(45,574)	(197,076)
Indexation .....	999	18,796
<b>Total</b>	<b>806,530</b>	<b>477,691</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 35. Share capital

#### a. Share capital

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

	31.3.2021	31.12.2020
Share capital according to the Bank's Articles of Association .....	4,696,652	2,141,002
Nominal amount of treasury shares .....	6,400	0
Authorised but not issued shares .....	546,765	546,480

#### b. Changes made to the nominal amount of share capital

The Bank's share capital was increased by ISK 45,714,998 in nominal value during the period 1 January to 31 March 2021 in order to serve the exercising of issued warrants. In addition to that, the share capital was increased by ISK 2,509,934,076 in nominal value in relation to the merger with TM hf. and Lykill fjármögnun hf.

#### c. Share capital increase authorisations

According to the Bank's Articles of Association dated 30 March 2021, the Board of Directors is authorised to increase the share capital of the Bank by up to ISK 100 million through subscription for new shares. This authorisation is based on temporary provision I to the Articles of Association and is valid until 15 March 2022.

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

Temporary provision II to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. Pursuant to this temporary provision the Board of Directors is authorised to increase share capital by up to ISK 90.625.000 to serve warrants issued under this provision.

Temporary provision IV to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. According to section A of temporary provision IV the Board of Directors is authorised to increase share capital by up to ISK 163 million to serve issued warrants. According to section B of temporary provision IV the Board of Directors is furthermore granted a conditioned authorisation to increase the share capital by an additional amount of ISK 200 million to serve issued warrants. The authorisation under section B of temporary provision IV is directly linked to the Board of Directors' authorisation under section A of temporary provision I.

The aforementioned authorisation under section B of temporary provision IV currently stands at ISK 150 million. However, should the Board of Directors utilise its authorisation according to section A of temporary provision I and increase the Bank's share capital by ISK 100 million, the authorisation under section B of temporary provision IV will increase from ISK 150 million to ISK 200 million, as stipulated in the provision. The Board of Directors' authorisation under temporary provision IV to increase share capital thus currently totals ISK 313 million but can increase to ISK 363 million by the usage by the Board of Directors of its authorisation pursuant to section A of temporary provision I. This authorisation is valid until 31 December 2022.

A copy of the Bank's Articles of Association, including the temporary provisions, is available on the Bank's website, [www.kvika.is](http://www.kvika.is), reference is made to them for more information.

### 36. Warrants

The Bank has issued warrants for shares in the total nominal amount of ISK 349,501,684 as at 31 March 2021. The number of owners of these warrants is 114 and they purchased the warrants for a total consideration of ISK 129,255,882. The purchase price of the warrants was determined using market standard methodology and a valuation from an independent appraiser as applicable. Should the owners of the warrants exercise their warrants, the Bank is obliged to issue new shares and sell to the warrant owners at a predefined price, usually referred to as strike price. If all the warrants would be exercised, the Bank's share capital would increase to 5,046,153,256, and the newly issued shares would represent 6.9% of the Bank's total issued capital, post dilution.

Issue Date	Nominal amount	Purchase price of warrants	Annual increase of strike price	Strike price at expiry date	Exercise period
September 2017 .....	102,376,684	30,815,382	7.5%	7.74	Sept. 2020 - Sept. 2022
September 2017 .....	201,333,333	60,601,333	7.5%	7.74	Sept. 2021 - Sept. 2022
December 2017 .....	7,333,333	2,471,333	7.5%	8.80	Dec. 2021 - Dec. 2022
May 2018 .....	666,667	288,667	7.5%	10.75	Dec. 2020 - Dec. 2022
May 2018 .....	1,166,667	505,167	7.5%	10.75	Dec. 2021 - Dec. 2022
April 2019 .....	8,125,000	7,670,000	7.5%	15.36	Dec. 2020 - Dec. 2022
April 2019 .....	17,500,000	16,520,000	7.5%	15.36	Dec. 2020 - Dec. 2022
August 2019 .....	5,500,000	5,192,000	7.5%	15.36	Dec. 2020 - Dec. 2022
August 2019 .....	5,500,000	5,192,000	7.5%	15.36	Dec. 2021 - Dec. 2022
<b>Total</b>	<b>349,501,684</b>	<b>129,255,882</b>			

## Notes to the Condensed Interim Consolidated Financial Statements

### 37. Solvency of a financial conglomerate

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

Solvency measures the Group's ability to take on setbacks, thus indicating its financial strength. The available capital and capital requirements of the Group is calculated as a financial conglomerate according to Articles 16, 17 and 18 of Act on Additional Supervision of Financial Conglomerates No. 61/2017. The Group's solvency ratio is 1.33, with a regulatory minimum requirement of 1.0.

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

	<b>31.3.2021</b>
<b>Available capital</b>	
Own Funds eligible for non insurance activities .....	27,397,168
Own Funds eligible for insurance activities .....	10,434,123
<b>Total</b>	<b>37,831,290</b>
<b>Solvency requirement for insurance activities</b>	
Solvency Capital Requirements (SCR) .....	9,170,692
<b>Own funds requirement for non insurance activities</b>	
Statutory minimum capital requirement (Pillar I)	7,471,926
Additional capital requirements (Pillar II) .....	6,631,334
Minimum capital requirement for non insurance activities	14,103,260
Additional capital protection buffers .....	5,136,949
<b>Total</b>	<b>19,240,210</b>
Solvency .....	37,831,290
Solvency requirement (SCR) .....	9,170,692
Own funds requirement for non insurance activities .....	19,240,210
Minimum solvency of financial conglomerate .....	28,410,902
Solvency ratio .....	1.33

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



## Notes to the Condensed Interim 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 29.3%. The minimum requirement from the FME is 15.1%. The ratio is calculated as follows:

	31.3.2021	31.12.2020
<b>Own funds eligible for non insurance activities</b>		
Total equity .....	52,289,251	19,208,001
Unaudited retained (positive) earnings from current period .....	(920,679)	0
Other unaudited (positive) changes to total equity in current period .....	(2,185)	0
<b>Capital eligible as CET1 Capital</b>	<b>51,366,387</b>	<b>19,208,001</b>
Goodwill and intangibles .....	(26,138,675)	(3,562,621)
Shares in other financial institutions .....	(436,995)	(259,829)
Subordinated fixed income securities .....	(121,470)	(117,250)
Deferred tax asset .....	(1,382,330)	(835,816)
Common equity Tier 1 capital (CET 1) .....	23,286,918	14,432,485
Tier 2 capital .....	4,340,112	2,012,387
Deductions from Tier 2 capital .....	(229,863)	(227,952)
<b>Total own funds</b>	<b>27,397,168</b>	<b>16,216,919</b>
<b>Risk weighted exposures</b>		
Credit risk .....	71,209,334	40,070,248
Market risk .....	4,181,507	3,617,483
Operational risk .....	18,008,234	13,621,015
<b>Total risk weighted exposures</b>	<b>93,399,075</b>	<b>57,308,746</b>
<b>Capital ratios</b>		
Capital adequacy ratio (CAR) .....	29.3%	28.3%
CET1 ratio .....	24.9%	25.2%
Total own funds including unaudited (positive) retained earnings and expected dividends .....	28,089,862	
Capital adequacy ratio, adjusted .....	30.1%	
CET1 ratio, adjusted .....	25.1%	
Minimum Capital adequacy ratio requirement .....	15.1%	15.1%
Minimum Capital adequacy ratio requirement including supervisory buffers .....	20.6%	20.6%
Minimum CET 1 ratio requirement including supervisory buffers .....	14.0%	14.0%

Official Capital adequacy ratio is based on audited retained earnings as at 31 December 2020.

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

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). The Bank's minimum regulatory capital requirement, based on the SREP from 2019, is 15.1%. The minimum regulatory capital requirement including the additional capital buffers is 20.6% as at 31 March 2021.

## Notes to the Condensed Interim 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 1.14. Solvency capital requirements according to law is the minimum insurance companies have to meet.

	<b>31.3.2021</b>
<b>Own funds eligible for insurance activities solvency</b>	
Equity eligible for insurance activities .....	17,581,814
Goodwill and intangibles .....	(5,875,322)
Own shares .....	(1,118,395)
Difference between net technical provision in the financial statements and cf. solvency rules .....	(153,974)
<b>Total</b>	<b>10,434,123</b>
<b>Solvency requirement</b>	
Life insurance risk .....	282,783
Health insurance risk .....	1,491,877
Non-life insurance risk .....	4,699,413
Market risk .....	6,122,637
Counterparty default risk .....	1,502,958
Multifaceted effects .....	(4,242,512)
Base Solvency Capital Requirements (Basic SCR)	9,857,156
Operational risk .....	770,974
Adjustment for the loss-absorbing capacity of deferred taxes .....	(1,457,438)
Solvency Capital Requirements (SCR)	9,170,692
Solvency .....	10,434,123
Solvency requirement (SCR) .....	9,170,692
Solvency ratio .....	1.14
Eligible items to meet the minimum capital .....	10,434,123
Minimum required capital (MRC) .....	4,260,800
Minimum required capital ratio .....	2.45

There are no comparative figures as insurance services were not part of the consolidated financial statements for 2020.

## Notes to the Condensed Interim Consolidated Financial Statements

### Risk management

#### 40. Insurance risk

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

##### Insurance contracts

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

##### Non-Life insurance

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

##### Life and Health insurance

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

##### Insurance risk

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

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

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

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

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

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

<b>Own technical provision classified to line of insurance operations</b>	<b>31.3.2021</b>
Fire and other damage to property insurance .....	3,113,393
Marine, aviation and transport insurance .....	1,616,712
Motor vehicle liability insurance .....	10,877,885
Other motor insurance .....	1,492,525
Third party liability insurance .....	2,897,372
Health insurance .....	5,037,859
Life insurance .....	383,461
Sold reinsurances .....	54,049
<b>Own technical provision total</b>	<b>25,473,255</b>

There are no comparative figures as insurance services were not part of the consolidated financial statements for the year 2020.

## Notes to the Condensed Interim Consolidated Financial Statements

### 41. 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:

<b>31.3.2021</b>	<b>Public entities</b>	<b>Financial institutions</b>	<b>Corporate customers</b>	<b>Individuals</b>	<b>31.3.2021</b>
<b>On-balance sheet exposure</b>					
Cash and balances with Central Bank .....	29,363,993	8,452,605			37,816,597
Fixed income securities .....	35,898,837	6,378,973	5,700,606		47,978,416
Loans to customers .....	18,340	734	40,653,965	27,433,174	68,106,212
Derivatives .....		1,812,086	279,150	5,024	2,096,261
Other assets .....	12,398,132	6,045,193	2,609,861	1,807,624	22,860,810
	77,679,301	22,689,591	49,243,582	29,245,822	178,858,296
<b>Off-balance sheet exposure</b>					
Loan commitments .....			1,934,529	393,349	2,327,879
Financial guarantee contracts .....			521,719		521,719
<b>Maximum exposure to credit risk</b>	77,679,301	22,689,591	51,699,830	29,639,171	181,707,893
<b>31.12.2020</b>					
<b>On-balance sheet exposure</b>					
Cash and balances with Central Bank .....	25,539,154	3,405,876			28,945,030
Fixed income securities .....	26,040,694	1,685,377	1,058,961		28,785,033
Loans to customers .....			23,721,996	5,600,976	29,322,972
Derivatives .....		130,709	258,962		389,671
Other assets .....	364,393	2,105,031	2,491,673		4,961,097
	51,944,241	7,326,993	27,531,592	5,600,976	92,403,802
<b>Off-balance sheet exposure</b>					
Loan commitments .....			1,771,209	366,050	2,137,260
Financial guarantee contracts .....			1,245,885		1,245,885
<b>Maximum exposure to credit risk</b>	51,944,241	7,326,993	30,548,685	5,967,027	95,786,947

### 42. Credit quality of financial assets

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

The COVID-19 pandemic had an impact on the Bank's loan portfolio during 2020 and Q1 of 2021. This is reflected in the effect of macro-economic variables on the probability of default and has therefore a homogenous impact on the whole portfolio. All scenarios are negatively impacted and in addition scenario weights is shifted towards a more negative outlook. The negative outlook economic scenario now weighs 45% and the positive outlook only weighs 5% in the total outcome. In general it is the increase in the probability of default, due to a more negative outlook, which drives the increase in expected credit loss. However, the pandemic has not had a significant effect on asset value. Due to the fact that the loan portfolio is in general well secured, changes to loss given default are minimal, which offsets the negative effect of increased probability of default.

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

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

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 42. Credit quality of financial assets (cont.)

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

2021	Scenarios		
	Base case	Upside	Downside
GDP growth	-5.5%	-3.0%	-9.5%
Unemployment rate	10.0%	7.5%	11.0%
Assigned weight	50.0%	5.0%	45.0%

  

2020	Scenarios		
	Base case	Upside	Downside
GDP growth	-5.5%	-3.0%	-9.5%
Inflation	10.0%	7.5%	11.0%
Unemployment rate	50.0%	5.0%	45.0%
Assigned weight	50.0%	5.0%	45.0%

## Notes to the Condensed Interim Consolidated Financial Statements

### 42. Credit quality of financial assets (cont.)

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

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

					Allocated collateral											Unsecured claim value
	Claim due to value	Impairment 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		
<b>31.3.2021</b>																
Public entities .....	19,209	(869)	18,340	0.0%	15,688	0	0	0	0	0	7,625	0	0	8,063	3,870	
Financial institutions .....	734	(0)	734	0.0%	1,080	0	0	0	0	0	1,080	0	0	0	276	
Corporate																
Construction .....	9,702,661	(284,356)	9,418,306	13.8%	16,026,284	68,912	0	0	2,129,923	8,870,342	2,351,066	2,272,907	0	333,135	92,295	
Service activities .....	8,322,387	(512,537)	7,809,850	11.5%	14,865,972	15,511	129,908	3,640,857	11,978	372,812	7,644,071	1,991,812	0	1,059,023	666,542	
Activities of holding companies .....	6,298,714	(87,125)	6,211,589	9.1%	17,757,711	12,607	164,672	10,672,719	721,813	5,479,883	146,429	73,824	434,251	51,512	492,367	
Real estate activities .....	5,488,177	(47,945)	5,440,232	8.0%	12,138,686	12,514	116,536	2,642,547	3,918,512	4,810,908	425,192	167,409	16,000	29,069	206,809	
Activities of holding companies - Securities .	3,097,037	(6,388)	3,090,649	4.5%	9,795,211	123,760	8,573,254	1,098,198	0	0	0	0	0	0	46	
Wholesale and Retail Trade .....	2,638,809	(42,307)	2,596,502	3.8%	5,283,426	14,014	0	712,327	0	461,209	1,652,786	790,263	67,500	1,585,327	125,109	
Other .....	6,122,361	(183,674)	5,938,687	8.7%	9,968,995	2,045	10,314	340,000	241,150	3,338,773	1,560,260	2,415,796	164,500	1,896,158	1,189,608	
Individual .....	28,022,031	(440,707)	27,581,325	40.5%	40,751,111	39,254	2,220,053	33,099	7,182,205	394,547	29,754,878	35,123	0	1,091,953	3,426,387	
<b>Total</b>	<b>69,712,119</b>	<b>(1,605,906)</b>	<b>68,106,212</b>	<b>100.0%</b>	<b>126,604,165</b>	<b>288,616</b>	<b>11,214,736</b>	<b>19,139,747</b>	<b>14,205,581</b>	<b>23,728,475</b>	<b>43,543,388</b>	<b>7,747,132</b>	<b>682,251</b>	<b>6,054,239</b>	<b>6,203,309</b>	
<b>31.12.2020</b>																
Financial institutions .....	0	0	0	0.0%	0	0	0	0	0	0	0	0	0	0	0	
Corporate																
Activities of holding companies .....	5,028,991	(91,502)	4,937,489	16.8%	14,109,569	9,899	168,644	9,471,872	734,690	3,282,905	0	0	441,560	0	128,644	
Construction .....	5,778,115	(212,899)	5,565,216	19.0%	9,133,191	37	0	0	4,035,845	5,057,309	0	0	0	40,000	81,946	
Financial activities .....	1,717,763	(50,193)	1,667,570	5.7%	744,727	90,343	81,632	228,239	32	0	0	0	0	344,480	1,228,197	
Real estate activities .....	3,669,211	(39,552)	3,629,659	12.4%	8,110,745	3,711	145,905	1,626,221	2,486,304	3,821,735	0	0	26,750	120	234,779	
Activities of holding companies - Securities .	2,997,582	(2,355)	2,995,226	10.2%	10,623,797	280,488	9,440,256	903,054	0	0	0	0	0	0	10,952	
Service activities .....	2,012,081	(33,463)	1,978,618	6.7%	5,078,184	136,242	42,470	3,979,506	0	365,769	0	0	0	554,197	76,211	
Other .....	3,032,633	(84,414)	2,948,219	10.1%	8,707,910	29,267	36,825	2,597,023	385,150	2,268,093	0	0	67,500	3,324,053	150,248	
Individual .....	5,623,247	(22,271)	5,600,976	19.1%	9,747,097	24,298	2,842,506	33,032	6,688,262	82,000	0	0	0	77,000	308,698	
<b>Total</b>	<b>29,859,623</b>	<b>(536,650)</b>	<b>29,322,972</b>	<b>100.0%</b>	<b>66,255,220</b>	<b>574,284</b>	<b>12,758,237</b>	<b>18,838,945</b>	<b>14,330,282</b>	<b>14,877,811</b>	<b>0</b>	<b>0</b>	<b>535,810</b>	<b>4,339,851</b>	<b>2,219,674</b>	

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 42. Credit quality of financial assets (cont.)

#### b. Credit quality of financial assets by credit quality band

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

#### 31.3.2021

<i>Loans to customers:</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>FVTPL</b>	<b>Total</b>
Credit quality band I .....	34,988,916	866,636	3,202	807,048	36,665,802
Credit quality band II .....	11,859,877	748,590	5,427	237,711	12,851,604
Credit quality band III .....	4,840,396	2,993,389	172,493	18,826	8,025,103
Credit quality band IV .....	943,608	1,987,030	4,570		2,935,209
In default .....	49,622	572,908	3,707,117	643,226	4,972,874
Non-rated .....	1,648,163	815,589	170,955	1,626,819	4,261,527
<b>Gross carrying amount</b>	<b>54,330,582</b>	<b>7,984,142</b>	<b>4,063,765</b>	<b>3,333,630</b>	<b>69,712,119</b>
Expected credit loss .....	(325,706)	(354,540)	(925,661)		(1,605,906)
<b>Book value</b>	<b>54,004,877</b>	<b>7,629,602</b>	<b>3,138,104</b>	<b>3,333,630</b>	<b>68,106,212</b>
<i>Loan commitments, guarantees and unused credit facilities:</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>FVTPL</b>	<b>Total</b>
Credit quality band I .....	1,762,036	949	998		1,763,983
Credit quality band II .....	389,189	1,303			390,492
Credit quality band III .....	208,763	12,752			221,515
Credit quality band IV .....	12,858	46,995			59,854
In default .....	6,792		8,094		14,886
Non-rated .....	309,276	12,391		77,200	398,868
<b>Total off-balance sheet amount</b>	<b>2,688,914</b>	<b>74,391</b>	<b>9,093</b>	<b>77,200</b>	<b>2,849,597</b>
Expected credit loss .....	(22,316)	(7,417)	(2,276)		(32,008)
<b>Net off-balance sheet amount</b>	<b>2,666,598</b>	<b>66,974</b>	<b>6,817</b>	<b>77,200</b>	<b>2,817,589</b>

#### 31.12.2020

<i>Loans to customers:</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>FVTPL</b>	<b>Total</b>
Credit quality band I .....	14,899,136	436,960	20,849	1,022,457	16,379,402
Credit quality band II .....	3,859,240	389,944		233,126	4,482,310
Credit quality band III .....	1,161,890	555,021	229,771	17,999	1,964,680
Credit quality band IV .....	1,740,690	393,737	1,285		2,135,712
In default .....	28,455	2,676	552,915	862,234	1,446,280
Non-rated .....	2,824,445	14,311	4,448	608,034	3,451,238
<b>Gross carrying amount</b>	<b>24,513,856</b>	<b>1,792,649</b>	<b>809,267</b>	<b>2,743,851</b>	<b>29,859,623</b>
Expected credit loss .....	(306,203)	(72,222)	(158,226)		(536,650)
<b>Book value</b>	<b>24,207,653</b>	<b>1,720,426</b>	<b>651,042</b>	<b>2,743,851</b>	<b>29,322,972</b>
<i>Loan commitments, guarantees and unused credit facilities:</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>FVTPL</b>	<b>Total</b>
Credit quality band I .....	2,417,243	0	39,771		2,457,014
Credit quality band II .....	331,257	155,937			487,193
Credit quality band III .....	56,703	40,276	8,000		104,979
Credit quality band IV .....	1,089	4,709			5,798
In default .....	2,591		10,689	2,801	16,081
Non-rated .....	80,827	154,053		77,200	312,080
<b>Total off-balance sheet amount</b>	<b>2,889,709</b>	<b>354,974</b>	<b>58,460</b>	<b>80,001</b>	<b>3,383,144</b>
Expected credit loss .....	(14,830)	(13,631)	(2,911)		(31,371)
<b>Net off-balance sheet amount</b>	<b>2,874,879</b>	<b>341,344</b>	<b>55,548</b>	<b>80,001</b>	<b>3,351,773</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 42. Credit quality of financial assets (cont.)

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

31.3.2021	Claim value	Expected credit loss	Carrying amount
Not past due .....	65,720,209	(1,174,654)	64,545,555
Past due 1-30 days .....	1,320,656	(33,536)	1,287,120
Past due 31-60 days .....	1,075,526	(45,373)	1,030,153
Past due 61-90 days .....	502,374		502,374
Past due 91-180 days .....	238,039	(48,287)	189,752
Past due 181-360 days .....	258,901	(87,953)	170,948
Past due more than 360 days .....	596,414	(216,104)	380,309
<b>Total</b>	<b>69,712,119</b>	<b>(1,605,906)</b>	<b>68,106,212</b>

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

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

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

#### 31.3.2021

##### Expected credit loss allowance total

	Stage 1	Stage 2	Stage 3	Total
<b>Transfers of financial assets:</b>				
<b>Balance as at 1 January 2021</b>	321,032	85,853	161,137	568,022
Transfer to Stage 1 - (Initial recognition) .....	14,421	(13,273)	(1,148)	0
Transfer to Stage 2 - (significantly increased credit risk) .....	(46,880)	72,092	(25,213)	0
Transfer to Stage 3 - (credit impaired) .....	(40,393)		40,393	0
Net remeasurement of loss allowance .....	(46,480)	45,509	4,773	3,802
New financial assets, originated or purchased .....	162,660	176,908	770,200	1,109,768
Derecognitions and maturities .....	(16,339)	(5,132)	(2,676)	(24,146)
Write-offs .....			(19,531)	(19,531)
<b>Balance as at 31 March 2021</b>	<b>348,021</b>	<b>361,957</b>	<b>927,936</b>	<b>1,637,915</b>

##### Expected credit loss allowance for loans to customers

	Stage 1	Stage 2	Stage 3	Total
<b>Transfers of financial assets:</b>				
<b>Balance as at 1 January 2021</b>	306,203	72,222	158,226	536,650
Transfer to Stage 1 - (Initial recognition) .....	5,781	(4,633)	(1,148)	0
Transfer to Stage 2 - (significantly increased credit risk) .....	(46,830)	71,190	(24,359)	0
Transfer to Stage 3 - (credit impaired) .....	(40,393)		40,393	0
Net remeasurement of loss allowance .....	(42,070)	46,408	4,552	8,891
New financial assets, originated or purchased .....	157,913	172,902	770,200	1,101,015
Derecognitions and maturities .....	(14,899)	(3,548)	(2,671)	(21,119)
Write-offs .....			(19,531)	(19,531)
<b>Balance as at 31 March 2021</b>	<b>325,706</b>	<b>354,540</b>	<b>925,661</b>	<b>1,605,906</b>



## Notes to the Condensed Interim Consolidated Financial Statements

### 42. 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
<b>Transfers of financial assets:</b>				
<b>Balance as at 1 January 2021</b>	14,830	13,631	2,911	31,371
Transfer to Stage 1 - (Initial recognition) .....	8,640	(8,640)		0
Transfer to Stage 2 - (significantly increased credit risk) .....	(50)	903	(853)	0
Transfer to Stage 3 - (credit impaired) .....	(1)		1	0
Net remeasurement of loss allowance .....	(4,411)	(899)	221	(5,088)
New financial assets, originated or purchased .....	4,747	4,006		8,753
Derecognitions and maturities .....	(1,440)	(1,583)	(4)	(3,028)
<b>Balance as at 31 March 2021</b>	22,316	7,417	2,276	32,008

#### 31.12.2020

*Expected credit loss allowance total*

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

*Expected credit loss allowance for loans to customers*

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

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

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 43. Loan-to-value

#### a. General

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

#### b. Breakdown

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

	31.3.2021	%	31.12.2020	%
Less than 50% .....	16,845,247	24.7%	12,579,973	42.9%
51-70% .....	19,451,538	28.6%	7,450,150	25.4%
71-90% .....	20,104,922	29.5%	3,101,307	10.6%
91-100% .....	4,242,414	6.2%	1,870,641	6.4%
100-125% .....	2,414,611	3.5%	48,476	0.2%
125-200% .....	131,441	0.2%	13,996	0.0%
Greater than 200% .....	285,240	0.4%	198,961	0.7%
No or negligible collateral:				
Purchased short-term retail claims .....	0	0.0%	2,027,605	6.9%
Other loans with no collateral .....	4,630,799	6.8%	2,031,863	6.9%
<b>Total</b>	<b>68,106,212</b>	<b>100.0%</b>	<b>29,322,972</b>	<b>100.0%</b>

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

### 44. 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	31.3.2021
Financial institutions .....	263,115	632,093	2,193				897,402
Corporate customers .....	391,812	32,599	901,956				1,326,367
Individuals .....	52,921	48,230	25,271				126,423
<b>Total</b>	<b>707,849</b>	<b>712,923</b>	<b>929,420</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,350,191</b>
	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2020
Financial institutions .....	587,322	413,397					1,000,720
Corporate customers .....	176,327	121,815	640,596				938,738
Individuals .....	20,164	26,064	24,598				70,825
<b>Total</b>	<b>783,813</b>	<b>561,276</b>	<b>665,194</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,010,283</b>

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 45. Large exposures

In accordance with the Financial Supervisory Authority's regulation no. 625/2013 on financial institutions' large exposures, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the Bank's capital base (see note 38).

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

Large exposures before risk adjusted mitigation	31.3.2021		31.12.2020	
	Number	Amount	Number	Amount
10-20% of capital base .....	0	0	0	0
20-25% of capital base .....	0	0	0	0
Exceeding 25% of capital base .....	0	0	0	0
<b>Total</b>	0	0	0	0
Thereof nostro accounts with foreign banks with a rating of investment grade or higher .	0	0	0	0
Large exposures net of risk adjusted mitigation .....	0	0	0	0

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

### 46. Liquidity risk

#### a. Definition

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

#### b. Management

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

The FME has designated the Group as a financial conglomerate. LCR is not calculated for a financial conglomerate, instead the Group calculates LCR based on the consolidated statement of financial position excluding the insurance operations of TM tryggingar hf. The Group was in compliance with internal and external liquidity requirements throughout the years 2021 and 2020. At the end of March 2021 the LCR was 208% and at year-end 2020 it was 266%.

## Notes to the Condensed Interim Consolidated Financial Statements

### 46. Liquidity risk (cont.)

#### c. Maturity analysis of financial assets and financial liabilities

31.3.2021 Financial assets by type	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross inflow/ (outflow)	Carrying amount
<i>Non-derivative assets</i>							
Cash and balances with Central Bank .....	37,816,597					37,816,597	37,816,597
Fixed income securities .....	18,049,679	5,649,076	9,139,754	13,104,363	2,035,543	47,978,416	47,978,416
Shares and other variable income securities .....	4,998,807		13,020,589			18,019,396	18,019,396
Securities used for hedging .....	23,490,598					23,490,598	23,490,598
Loans to customers .....	6,631,336	8,367,988	19,580,709	38,368,253	6,470,740	79,419,026	68,106,212
Reinsurance assets .....	39,018	86,817	803,582	766,939		1,696,357	1,696,357
Other assets .....	12,398,132	6,045,193	3,338,759	1,807,624		23,589,708	23,589,708
	103,424,168	20,149,074	45,883,393	54,047,179	8,506,284	232,010,098	220,697,284
<i>Derivative assets</i>							
Inflow .....	6,727,723	170,512		1,205,646	24,273	8,128,153	
Outflow .....	(6,500,659)	(170,012)		(15,606)	(1,322)	(6,687,599)	
	227,064	500	0	1,190,040	22,951	1,440,554	2,096,261
<i>Financial liabilities by type</i>							
<i>Non-derivative liabilities</i>							
Deposits .....	(53,581,330)	(6,890,346)	(4,312,336)	(1,530,223)	(45,400)	(66,359,636)	66,302,513
Technical provision .....	(2,191,947)	(2,541,252)	(10,431,946)	(11,548,451)	(456,015)	(27,169,612)	27,169,612
Borrowings .....	(7,535,091)	(4,729,576)	(12,515,856)	(5,544,334)		(30,324,857)	30,227,652
Issued bills .....		(2,138,694)	(2,353,000)			(4,491,694)	4,465,276
Issued bonds .....	(404,986)	(3,671,365)	(3,659,278)	(26,914,990)	(218,466)	(34,869,084)	31,827,233
Subordinated liabilities .....		(126,690)	(147,036)	(2,253,985)	(6,211,859)	(8,739,570)	4,491,162
Short positions held for trading .....	(1,653,269)					(1,653,269)	1,653,269
Short positions used for hedging .....	(249,511)					(249,511)	249,511
Other liabilities .....	(810,330)	(13,025,791)	(5,938,127)	(938,037)		(20,712,285)	20,712,285
	(66,426,465)	(33,123,715)	(39,357,580)	(48,730,019)	(6,931,740)	(194,569,518)	187,098,513
<i>Derivative liabilities</i>							
Inflow .....	16,146,070	1,035,013				17,181,082	
Outflow .....	(18,389,537)	(1,092,298)				(19,481,836)	
	(2,243,468)	(57,286)	0	0	0	(2,300,754)	2,470,749
<b>Unrecognised financial items</b>							
<i>Loan commitments</i>							
Inflow .....	129,875	251,595	1,131,802	885,783		2,399,054	
Outflow .....	(2,327,879)					(2,327,879)	
<i>Financial guarantee contracts</i>							
Inflow .....	15,000	13,000	412,038	22,623	59,057	521,719	
Outflow .....	(521,719)					(521,719)	
	(2,704,722)	264,595	1,543,841	908,406	59,057	71,176	
<b>Summary</b>							
Non-derivative assets .....	103,424,168	20,149,074	45,883,393	54,047,179	8,506,284	232,010,098	
Derivative assets .....	227,064	500		1,190,040	22,951	1,440,554	
Non-derivative liabilities .....	(66,426,465)	(33,123,715)	(39,357,580)	(48,730,019)	(6,931,740)	(194,569,518)	
Derivative liabilities .....	(2,243,468)	(57,286)				(2,300,754)	
<b>Net assets (liabilities) excluding unrecognised items .....</b>	<b>34,981,300</b>	<b>(13,031,427)</b>	<b>6,525,814</b>	<b>6,507,199</b>	<b>1,597,494</b>	<b>36,580,380</b>	
Net unrecognised items .....	(2,704,722)	264,595	1,543,841	908,406	59,057	71,176	
<b>Net assets (liabilities) .....</b>	<b>32,276,577</b>	<b>(12,766,833)</b>	<b>8,069,654</b>	<b>7,415,605</b>	<b>1,656,551</b>	<b>36,651,556</b>	

## Notes to the Condensed Interim Consolidated Financial Statements

### 46. Liquidity risk (cont.)

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross inflow/ (outflow)	Carrying amount
<b>Financial assets by type</b>							
<i>Non-derivative assets</i>							
Cash and balances with Central Bank .....	28,059,712	890,470				28,950,182	28,945,030
Fixed income securities .....	5,600,838	117,250	19,802,625	3,264,320		28,785,033	28,785,033
Shares and other variable income securities .....	1,464,966		3,607,863			5,072,830	5,072,830
Securities used for hedging .....	19,620,240					19,620,240	19,620,240
Loans to customers .....	2,017,619	3,403,967	16,159,918	8,581,843	3,504,320	33,667,667	29,322,972
Other assets .....	1,474,195	1,027,270	715,537	2,223,090		5,440,092	5,440,092
	58,237,570	5,438,957	40,285,943	14,069,253	3,504,320	121,536,043	117,186,196
<i>Derivative assets</i>							
Inflow .....	1,056,236	778,870		76,798		1,911,904	
Outflow .....	(979,810)	(746,525)		(2,368)		(1,728,703)	
	76,426	32,345	0	74,429	0	183,200	389,671
<b>Financial liabilities by type</b>							
<i>Non-derivative liabilities</i>							
Deposits .....	(48,383,678)	(5,944,107)	(3,993,981)	(1,664,675)	(47,976)	(60,034,418)	59,924,683
Borrowings .....	(6,789,566)	(9,747,775)	(10,001,623)			(26,538,964)	26,424,340
Issued bills .....		(600,000)	(1,420,000)			(2,020,000)	2,003,608
Issued bonds .....	(82,395)	(164,111)	(1,073,859)	(4,529,066)		(5,849,431)	5,568,085
Subordinated liabilities .....			(150,788)	(1,741,109)	(1,060,762)	(2,952,658)	2,077,225
Short positions held for trading .....	(1,520,547)					(1,520,547)	1,520,547
Short positions used for hedging .....	(731,987)					(731,987)	731,987
Other liabilities .....	(923,315)	(1,317,466)	(1,098,735)	(410,956)		(3,750,472)	3,750,472
	(58,431,489)	(17,773,459)	(17,738,985)	(8,345,806)	(1,108,738)	(103,398,478)	102,000,947
<i>Derivative liabilities</i>							
Inflow .....	17,286,909	2,315,614	390,250			19,992,773	
Outflow .....	(18,111,337)	(3,092,010)	(411,675)			(21,615,021)	
	(824,428)	(776,395)	(21,425)	0	0	(1,622,248)	1,750,346
<b>Unrecognised financial items by type</b>							
<i>Loan commitments</i>							
Inflow .....	107,445	264,951	1,108,702	733,780		2,214,878	
Outflow .....	(2,137,260)					(2,137,260)	
<i>Financial guarantee contracts</i>							
Inflow .....	711,288	114,000	297,639	63,901	59,057	1,245,885	
Outflow .....	(1,245,885)					(1,245,885)	
	(2,564,411)	378,951	1,406,341	797,681	59,057	77,619	
<b>Summary</b>							
Non-derivative assets .....	58,237,570	5,438,957	40,285,943	14,069,253	3,504,320	121,536,043	
Derivative assets .....	76,426	32,345		74,429		183,200	
Non-derivative liabilities .....	(58,431,489)	(17,773,459)	(17,738,985)	(8,345,806)	(1,108,738)	(103,398,478)	
Derivative liabilities .....	(824,428)	(776,395)	(21,425)			(1,622,248)	
<b>Net assets (liabilities) excluding unrecognised items .....</b>	<b>(941,921)</b>	<b>(13,078,552)</b>	<b>22,525,533</b>	<b>5,797,876</b>	<b>2,395,581</b>	<b>16,698,518</b>	
Net unrecognised items .....	(2,564,411)	378,951	1,406,341	797,681	59,057	77,619	
<b>Net assets (liabilities) .....</b>	<b>(3,506,331)</b>	<b>(12,699,601)</b>	<b>23,931,874</b>	<b>6,595,557</b>	<b>2,454,639</b>	<b>16,776,137</b>	

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.

## Notes to the Condensed Interim Consolidated Financial Statements

### 47. 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 48-53 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.

### 48. 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.

### 49. 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	31.3.2021
Fixed income securities .....	233,708		63,758	3,165,627	1,066,534	4,529,627
Short positions - fixed income securities .....				(195,452)	(1,457,817)	(1,653,269)
<b>Net imbalance</b>	233,708	0	63,758	2,970,175	(391,284)	2,876,357
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2020
Fixed income securities .....			995,943	2,512,237	193,801	3,701,981
Short positions - fixed income securities .....				(127,198)	(1,393,349)	(1,520,547)
<b>Net imbalance</b>	0	0	995,943	2,385,039	(1,199,548)	2,181,434

#### b. Sensitivity analysis

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

	Shift in basis points	31.3.2021 Downward	31.3.2021 Upward	31.12.2020 Downward	31.12.2020 Upward
Indexed .....	50	(5,620)	5,620	5,620	(5,620)
Non-indexed .....	100	(31,700)	31,700	31,700	(31,700)
<b>Total</b>		(37,321)	37,321	37,321	(37,321)

## Notes to the Condensed Interim Consolidated Financial Statements

### 50. 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:

#### 31.3.2021

Financial assets	Up to 1	1-3	3-12	1-5	Over 5	Total
	month	months	months	years	years	
Cash and balances with Central Bank .....	35,960,951	1,855,646				37,816,597
Fixed income securities .....	2,235,675	4,255,724	9,357,991	19,412,808	8,186,591	43,448,789
Loans to customers .....	57,831,476	1,819,837	3,380,895	4,648,252	425,752	68,106,212
Financial assets excluding derivatives	96,028,102	7,931,207	12,738,886	24,061,061	8,612,342	149,371,599
Effect of derivatives .....	21,766,865	791,838		14,629,226	500,000	37,687,929
<b>Total</b>	<b>117,794,967</b>	<b>8,723,046</b>	<b>12,738,886</b>	<b>38,690,286</b>	<b>9,112,342</b>	<b>187,059,527</b>
Financial liabilities	Up to 1	1-3	3-12	1-5	Over 5	Total
	month	months	months	years	years	
Deposits .....	66,302,513					66,302,513
Borrowings .....	7,531,831	4,719,363	12,429,306	5,547,152		30,227,652
Issued bills .....		2,330,531	2,134,745			4,465,276
Issued bonds .....	416,747	3,678,714	3,297,729	24,249,072	184,971	31,827,233
Subordinated liabilities .....	1,199,853	125,788	(196,331)	1,295,988	2,065,865	4,491,162
Financial liabilities excluding derivatives	75,450,943	10,854,396	17,665,448	31,092,212	2,250,837	137,313,836
Effect of derivatives .....			11,839,360	500,000		12,339,360
<b>Total</b>	<b>75,450,943</b>	<b>10,854,396</b>	<b>29,504,808</b>	<b>31,592,212</b>	<b>2,250,837</b>	<b>149,653,196</b>
<b>Total interest repricing gap</b>	<b>42,344,024</b>	<b>(2,131,350)</b>	<b>(16,765,922)</b>	<b>7,098,075</b>	<b>6,861,506</b>	<b>37,406,332</b>

#### 31.12.2020

Financial assets	Up to 1	1-3	3-12	1-5	Over 5	Total
	month	months	months	years	years	
Cash and balances with Central Bank .....	27,205,748	1,739,281				28,945,030
Fixed income securities .....	17	99,156	17,593,356	7,297,972	92,550	25,083,052
Loans to customers .....	24,457,207	793,533	2,815,576	1,287,973	(31,316)	29,322,972
Financial assets excluding derivatives	51,662,972	2,631,970	20,408,932	8,585,946	61,234	83,351,054
Effect of derivatives .....	18,597,318	3,397,994		3,100,000		25,095,311
<b>Total</b>	<b>70,260,290</b>	<b>6,029,964</b>	<b>20,408,932</b>	<b>11,685,946</b>	<b>61,234</b>	<b>108,446,365</b>
Financial liabilities	Up to 1	1-3	3-12	1-5	Over 5	Total
	month	months	months	years	years	
Deposits .....	59,924,683					59,924,683
Borrowings .....	6,797,253	9,715,286	9,911,801			26,424,340
Issued bills .....		598,592	1,405,016			2,003,608
Issued bonds .....	82,908	164,653	640,449	4,680,075		5,568,085
Subordinated liabilities .....	1,168,852		64,711	843,662		2,077,225
Financial liabilities excluding derivatives	67,973,696	10,478,531	12,021,977	5,523,737	0	95,997,940
Effect of derivatives .....	3,102,368					3,102,368
<b>Total</b>	<b>71,076,064</b>	<b>10,478,531</b>	<b>12,021,977</b>	<b>5,523,737</b>	<b>0</b>	<b>99,100,309</b>
<b>Total interest repricing gap</b>	<b>(815,774)</b>	<b>(4,448,567)</b>	<b>8,386,956</b>	<b>6,162,209</b>	<b>61,234</b>	<b>9,346,056</b>

#### b. Sensitivity analysis

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

Currency	Shift in basis points	31.3.2021		31.12.2020	
		Downward	Upward	Downward	Upward
ISK, indexed .....	50	163,838	(170,755)	62,022	(60,635)
ISK, non-indexed .....	100	228,752	(239,795)	24,517	(36,416)
Other currencies .....	20	(3,941)	3,888	980	(1,139)
<b>Total</b>		<b>388,649</b>	<b>(406,661)</b>	<b>87,519</b>	<b>(98,190)</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 51. Exposure towards changes in the CPI

#### a. Definition

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

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

#### b. Management

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

#### c. Balance of CPI linked assets and liabilities

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

	31.3.2021	31.12.2020
Assets .....	29,218,526	11,877,087
Liabilities .....	(23,097,226)	(8,311,283)
<b>Total</b>	<b>6,121,300</b>	<b>3,565,804</b>

#### 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.

	31.3.2021		31.12.2020	
	-1%	1%	-1%	1%
Government bonds .....	(63,397)	63,397	(14,006)	14,006
Other fixed income securities .....	(37,210)	37,210	(6,810)	6,810
Loans to customers .....	(92,789)	92,789	(66,955)	66,955
Derivatives .....	(98,789)	98,789	(31,000)	31,000
Short positions .....	7,063	(7,063)	9,484	(9,484)
Deposits .....	55,694	(55,694)	55,629	(55,629)
Subordinated debt .....	168,215	(168,215)	18,000	(18,000)
	(61,213)	61,213	(35,658)	35,658

The effect on equity would be the same.

### 52. 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 March 2021 and 31 December 2020 the Group's position in foreign currencies was within those limits.

#### c. Exchange rates

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

	Closing 31.3.2021	Average 3m 2021	Closing 31.12.2020	Average 3m 2020
EUR/ISK .....	148.1	154.3	156.1	141.5
USD/ISK .....	126.3	128.1	127.2	128.4
GBP/ISK .....	173.8	176.6	173.6	164.1



## Notes to the Condensed Interim Consolidated Financial Statements

### 52. Currency risk (cont.)

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

31.3.2021

##### Financial assets

	EUR	USD	GBP	NOK	Other currencies	Total
Cash and balances with Central Bank .....	1,241,326	3,568,717	207,107	352,511	956,413	6,326,074
Fixed income securities .....	592,550	0	244,504			837,054
Shares and other variable income securities .....	3,500	968,127	1,576,272		49,659	2,597,558
Securities used for hedging .....	470,784			168,378		639,162
Loans to customers .....	1,222,135		1,349,756		144,271	2,716,162
Reinsurance assets .....	83,143	17,144	3	10,042	34,729	145,060
Other assets .....	1,244,578	397,569	296,126	235,596	201,293	2,375,162
Financial assets excluding derivatives	4,858,015	4,951,557	3,673,769	766,528	1,386,364	15,636,232
Derivatives .....	841,007	1,113,537	64,390		0	2,018,933
<b>Total</b>	<b>5,699,021</b>	<b>6,065,093</b>	<b>3,738,158</b>	<b>766,528</b>	<b>1,386,364</b>	<b>17,655,165</b>

##### Financial liabilities

	EUR	USD	GBP	NOK	Other currencies	Total
Deposits .....	2,824,368	4,507,573	467,054	128,507	457,209	8,384,711
Borrowings .....	117,720					117,720
Issued bonds .....		330,535	2,092,970			2,423,505
Technical provision .....	458,473	287,305	1,549	138,543	174,913	1,060,783
Other liabilities .....	780,032	295,657	343,646	412,426	693,642	2,525,403
Financial liabilities excluding derivatives	4,180,593	5,421,070	2,905,219	679,476	1,325,764	14,512,122
Derivatives .....	1,827,881	169,182	521,370	74,090		2,592,523
<b>Total</b>	<b>6,008,474</b>	<b>5,590,252</b>	<b>3,426,589</b>	<b>753,566</b>	<b>1,325,764</b>	<b>17,104,645</b>

##### Net currency position

	EUR	USD	GBP	NOK	Other currencies	Total
Financial assets .....	5,699,021	6,065,093	3,738,158	766,528	1,386,364	17,655,165
Financial liabilities .....	(6,008,474)	(5,590,252)	(3,426,589)	(753,566)	(1,325,764)	(17,104,645)
Financial guarantee contracts .....	210,184					210,184
<b>Total</b>	<b>(99,269)</b>	<b>474,841</b>	<b>311,569</b>	<b>12,962</b>	<b>60,601</b>	<b>760,703</b>

31.12.2020

##### Financial assets

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

##### Financial liabilities

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

##### Net currency position

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 52. Currency risk (cont.)

#### e. Sensitivity to currency risk

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

Assets and liabilities denominated in foreign currencies	31.3.2021		31.12.2020	
	-10%	+10%	-10%	+10%
EUR .....	(9,927)	9,927	30,571	(30,571)
USD .....	47,484	(47,484)	13,052	(13,052)
GBP .....	31,157	(31,157)	26,959	(26,959)
NOK .....	1,296	(1,296)	2,594	(2,594)
Other currencies .....	6,060	(6,060)	3,017	(3,017)
<b>Total</b>	<b>76,070</b>	<b>(76,070)</b>	<b>76,194</b>	<b>(76,194)</b>

The effect on equity would be the same.

### 53. Equity risk

#### a. Definition

Equity risk is the risk that the fair value of equities 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.

	31.3.2021		31.12.2020	
	-10%	+10%	-10%	+10%
Listed shares .....	(243,070)	243,070	(89,242)	89,242
Unlisted shares .....	(1,110,851)	1,110,851	(233,814)	233,814
Unlisted unit shares .....	(448,018)	448,018	(184,227)	184,227
<b>Total</b>	<b>(1,801,940)</b>	<b>1,801,940</b>	<b>(507,283)</b>	<b>507,283</b>

### 54. 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.

## Notes to the Condensed Interim Consolidated Financial Statements

### Financial assets and financial liabilities

#### 55. Accounting classification of financial assets and financial liabilities

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

31.3.2021			Manda- torily at fair value through P/L	Total carrying amount
Financial assets	Amortised cost	Fair value through OCI		
Cash and balances with Central Bank .....	37,816,597			37,816,597
Fixed income securities .....		26,281,988	21,696,427	47,978,416
Shares and other variable income securities .....			18,019,396	18,019,396
Securities used for hedging .....			23,490,598	23,490,598
Loans to customers .....	64,753,997		3,352,215	68,106,212
Derivatives .....			2,096,261	2,096,261
Other assets .....	23,560,449		29,259	23,589,708
<b>Total</b>	<b>126,131,043</b>	<b>26,281,988</b>	<b>68,684,157</b>	<b>221,097,188</b>
Financial liabilities	Amortised cost	Fair value through OCI	Manda- torily at fair value through P/L	Total carrying amount
Deposits .....	66,302,513			66,302,513
Borrowings .....	30,227,652			30,227,652
Issued bills .....	4,465,276			4,465,276
Issued bonds .....	31,827,233			31,827,233
Subordinated liabilities .....	4,491,162			4,491,162
Short positions held for trading .....			1,653,269	1,653,269
Short positions used for hedging .....			249,511	249,511
Derivatives .....			2,470,749	2,470,749
Other liabilities .....	20,313,784		398,501	20,712,285
<b>Total</b>	<b>157,627,620</b>	<b>0</b>	<b>4,772,030</b>	<b>162,399,650</b>
31.12.2020			Manda- torily at fair value through P/L	Total carrying amount
Financial assets	Amortised cost	Fair value through OCI		
Cash and balances with Central Bank .....	28,945,030			28,945,030
Fixed income securities .....		22,946,767	5,838,266	28,785,033
Shares and other variable income securities .....			5,072,830	5,072,830
Securities used for hedging .....			19,620,240	19,620,240
Loans to customers .....	26,579,121		2,743,851	29,322,972
Derivatives .....			389,671	389,671
Other assets .....	5,112,881		327,210	5,440,092
<b>Total</b>	<b>60,637,033</b>	<b>22,946,767</b>	<b>33,992,067</b>	<b>117,575,867</b>
Financial liabilities	Amortised cost	Fair value through OCI	Manda- torily at fair value through P/L	Total carrying amount
Deposits .....	59,924,683			59,924,683
Borrowings .....	26,424,340			26,424,340
Issued bills .....	2,003,608			2,003,608
Issued bonds .....	5,568,085			5,568,085
Subordinated liabilities .....	2,077,225			2,077,225
Short positions held for trading .....			1,520,547	1,520,547
Short positions used for hedging .....			731,987	731,987
Derivatives .....			1,750,346	1,750,346
Other liabilities .....	3,364,471		386,001	3,750,472
<b>Total</b>	<b>99,362,412</b>	<b>0</b>	<b>4,388,881</b>	<b>103,751,293</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 56. Financial assets and financial liabilities measured at fair value

#### a. Fair value hierarchy classification

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

#### 31.3.2021

##### Financial assets

	Level 1	Level 2	Level 3	Carrying amount
Mandatorily measured at fair value through profit and loss				
Fixed income securities .....	19,499,560	1,738,332	458,536	21,696,427
Shares and other variable income securities .....	3,658,919	9,518,280	4,842,197	18,019,396
Securities used for hedging .....	23,490,598			23,490,598
Loans to customers .....			3,352,215	3,352,215
Derivatives .....		2,096,261		2,096,261
Other assets .....			29,259	29,259
Measured at fair value through other comprehensive income				
Fixed income securities .....	26,281,988			26,281,988
<b>Total</b>	<b>72,931,066</b>	<b>13,352,872</b>	<b>8,682,207</b>	<b>94,966,145</b>

##### Financial liabilities

	Level 1	Level 2	Level 3	Carrying amount
Mandatorily measured at fair value through profit and loss				
Short positions held for trading .....	1,653,269			1,653,269
Short positions used for hedging .....	249,511			249,511
Derivatives .....		2,470,749		2,470,749
Other liabilities .....			398,501	398,501
<b>Total</b>	<b>1,902,780</b>	<b>2,470,749</b>	<b>398,501</b>	<b>4,772,030</b>

#### 31.12.2020

##### Financial assets

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

##### Financial liabilities

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

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

## Notes to the Condensed Interim Consolidated Financial Statements

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

#### b. Reconciliation of changes in Level 3 fair value measurements

	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Other liabilities	Total
<b>31.3.2021</b>						
<b>Balance as at 1 January 2021</b>	200,799	2,281,174	2,743,851	327,210	(386,001)	5,167,034
Total gains and losses in profit or loss .....	0	218,310	64,174		(12,563)	269,921
Additions through a business combination .....	227,182	2,715,968				2,943,150
Additions .....	30,554	71,427	1,197,360			1,299,342
Repayments .....			(653,170)	(297,951)	63	(951,058)
Disposals .....		(444,682)				(444,682)
Transfers in (out) of Level 3 .....						0
<b>Balance as at 31 March 2021</b>	458,536	4,842,197	3,352,215	29,259	(398,501)	8,283,706
	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Other liabilities	Total
<b>31.12.2020</b>						
<b>Balance as at 1 January 2020</b>	1,480	1,766,071	2,346,662		(494,991)	3,619,222
Total gains and losses in profit or loss .....	(18)	248,743	235,355	0	(286,058)	198,023
Additions .....		298,594	1,539,245	327,210	0	2,165,049
Repayments .....		0	(1,377,411)		395,048	(982,363)
Disposals .....		(32,234)				(32,234)
Transfers in (out) Level 3 .....	199,337	0				199,337
<b>Balance as at 31 December 2020</b>	200,799	2,281,174	2,743,851	327,210	(386,001)	5,167,034

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

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

Asset class	Method	Significant unobservable input	Range	Book value 31.3.2021
Unlisted bonds	Expected recovery	Value of assets	0-95%	458,536
Unlisted variable income securities	Market price	Recent trades	-	4,842,197
Loans to customers	Expert model	Value of assets and collateral	-	3,352,215
Receivables at fair value	Expert model	Information on turnover	-	29,259
<b>Total</b>				8,682,207
Asset class	Method	Significant unobservable input	Range	Book value 31.12.2020
Unlisted bonds	Expected recovery	Value of assets	0-5%	200,799
Unlisted variable income securities	Market price	Recent trades	-	2,281,174
Loan to customers	Expert model	Value of assets and collateral	-	2,743,851
Receivables at fair value	Expert model	Information on turnover	-	327,210
<b>Total</b>				5,553,035

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

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

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

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

	+10%	-10%
Shares and other variable income securities .....	484,220	(484,220)
Loans to customers .....	335,222	(335,222)
Unlisted bonds .....	45,854	(45,854)
Receivables at fair value .....	2,926	(2,926)
<b>Total</b>	868,221	(868,221)

## Notes to the Condensed Interim Consolidated Financial Statements

### Other information

#### 57. Pledged assets

	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
<b>31.3.2021</b>				
Cash and balances with Central Bank .....	0	1,517,639	0	1,517,639
Fixed income securities .....	3,995,348	711,059	0	4,706,407
Loans to customers .....	7,329,753	0	23,661,990	30,991,743
Other assets .....	0	262,668	0	262,668
<b>Total</b>	<b>11,325,100</b>	<b>2,491,367</b>	<b>23,661,990</b>	<b>37,478,457</b>
<b>31.12.2020</b>				
Cash and balances with Central Bank .....	0	1,457,323	0	1,457,323
Fixed income securities .....	3,984,688	906,073	0	4,890,761
Other assets .....	0	96,102	0	96,102
<b>Total</b>	<b>3,984,688</b>	<b>2,459,498</b>	<b>0</b>	<b>6,444,186</b>

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

#### 58. 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 21, shareholders with significant influence over the Bank, close family members of individuals identified as related parties and entities under the control or joint control of related parties.

##### b. Arm's length

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

##### c. Effects on statement of financial position

	Loans & receivables	Deposits & payables
<b>31.3.2021</b>		
Management .....	6,015	160,008
Associates .....	0	0
<b>Total</b>	<b>6,015</b>	<b>160,009</b>
<b>31.12.2020</b>		
Management .....	1,851	83,166
Associates .....	0	0
<b>Total</b>	<b>1,851</b>	<b>83,166</b>

##### d. Effects on income statement

	Interest income	Interest expense	Fees received	Fees paid
<b>3m 2021</b>				
Management .....	34	37	0	1,962
Associates .....	0	0	0	0
<b>Total</b>	<b>34</b>	<b>37</b>	<b>0</b>	<b>1,962</b>
<b>3m 2020</b>				
Management .....	43	584	1,941	19,463
Associates .....	10,380	136	23,109	0
<b>Total</b>	<b>10,422</b>	<b>720</b>	<b>25,050</b>	<b>19,463</b>

#### 59. Events after the reporting date

On 17 May 2021 the Group paid in advance the outstanding notional and accrued interest of the Lykill 17 1 bond. In conjunction with the repayment, the pledge will be released of the corresponding pledged assets.