



Condensed Interim  
Consolidated Financial Statements

30 September 2020

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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 30 September 2020 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.

Kvika is a specialized bank focusing on asset management and investment services. The Bank operates four business segments, Asset Management, Corporate Finance, Corporate Banking and Capital Markets. Kvika provides businesses, investors and individuals with comprehensive investment banking and asset management services, as well as selected banking services. Kvika's Asset Management has an established reputation and offers solutions covering all major asset classes, including fixed-income securities, equities, and alternative investments in both domestic and international markets. At the end of September 2020 the Group had ISK 538 billion of assets under management, compared to ISK 426 billion at year end 2019. The Bank is listed on the main list of Nasdaq OMX Iceland.

### Operations in the reporting period

Profit for the period amounted to ISK 1,337 million (9m 2019: ISK 1,913 million), corresponding to an annualised 11.3% return on equity based on the equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. The Group's net operating income during the period was ISK 6,077 million (9m 2019: ISK 5,615 million). Net interest income amounted to ISK 1,328 million (9m 2019: ISK 1,326 million). Net fee income amounted to ISK 4,329 million (9m 2019: ISK 3,600 million). Other operating income amounted to ISK 421 million (9m 2019: ISK 689 million). Administrative expenses during the period amounted to ISK 4,004 million (9m 2019: ISK 3,899 million).

The COVID-19 pandemic, and the uncertainty related to it, had a considerable impact on the Bank's operations and the Icelandic economy during the reporting period. The Bank has, among other things, updated the economic scenarios which are used in the Expected Credit Loss model to better reflect the economic situation. Furthermore, the economic situation has, to some extent, increased the amount of loan exposures classified as Stages 2 and 3. During the operating period, the Group had a negative net impairment charge of ISK 230 million (9m 2019: 95 million). In addition to that, unfavourable market conditions due to the economic situation resulted in the Group's net gain from shares and other variable income securities contracted considerably between years. During the operating period the net gain amounted to ISK 51 million while during the first nine months of 2019 it amounted to ISK 367 million.

According to the Consolidated Statement of Financial Position, equity at the end of the period amounted to ISK 17,823 million (31.12.2019: ISK 15,515 million) and total assets amounted to ISK 114,659 million (31.12.2019: ISK 105,584 million).

The Group's total capital ratio at 30.09.2020 is 26.9% (31.12.2019: 24.1%). The Bank's minimum regulatory capital requirement based on Financial Supervisory Authority's Supervisory Review and Evaluation Process (SREP) is 15.1%. In March 2020, the Central Bank of Iceland lowered the countercyclical capital buffer to zero. The minimum regulatory capital requirement including the additional capital requirements imposed following the implementation of CRD IV is 20.6% as at 30 September 2020.

The Bank maintains a strong liquidity position. The Bank's assets are liquid and its access to funding is good, reflected in ample liquidity position. At the end of September 2020 the Group's 30 day liquidity coverage ratio (LCR) was 321%, well above the minimum level of 100%.

The Bank's Annual General Meeting ("AGM") was held on 26 March 2020. It approved the motion of the Board of Directors ("BOD") to the AGM that no dividend be paid for the operating year 2019. The AGM also approved a motion from the BOD to reduce the Bank's share capital by 50,000,000 shares by cancelling the Bank's own shares. The share capital reduction was registered by the Company Registry on 1 April 2020. Further, the AGM approved a motion from the BOD permitting the Bank to purchase up to 10% of own shares subject to regulatory approvals. This authorisation applies until the next annual general meeting in 2021.

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

In September 2020, the Board of Directors of Kvika and the Board of Directors of TM hf. ("TM") agreed to commence discussions on the merger of the two companies. Discussions are based on the premises that TM will become Kvika's subsidiary and that Lykill fjármögnun hf., TM's subsidiary, will merge with Kvika. It is also expected that TM's shareholders will receive a 55% share in the merged company in return for their shares in TM, based on the companies' issued share capital on 28 September 2020. Discussions will take place in the coming weeks as well as due diligence procedures. Since both companies are issuers of listed securities, and as such have an ongoing disclosure obligation, the due diligence process is not expected to take long. The forthcoming merger is subject to the approval of relevant supervisory authorities and shareholders of both companies. The Board of Directors of the two companies believe that synergies in excess of ISK one billion a year, excluding transaction- and one off costs, is a realistic target. The largest part of synergies will result from lower funding costs. The merged company will be financially strong and in a position to increase competition in the financial market. The companies have a large group of clients that will have access to the products and services of both companies.

### 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 35-48 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 30 September 2020 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 30 September 2020 and the financial performance of the Group and changes of cash flows for the period 1 January to 30 September 2020.

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 30 September 2020, and confirm them by the means of their signatures.

Reykjavík, 12 November 2020.

Board of Directors

CEO

Sigríður Hammars

Marta Óra Þósson

Luiza B. Holt

Þrinn Sveinsdóttir

Þórunn

Andri Þeyrniss

## Condensed Interim Consolidated Income Statement

For the period 1 January 2020 to 30 September 2020

	Notes	9m 2020	9m 2019
Interest income .....		2,885,202	3,804,018
Interest expense .....		(1,557,635)	(2,477,810)
<b>Net interest income</b>	4	1,327,567	1,326,208
Fee and commission income .....		4,461,862	3,712,750
Fee and commission expense .....		(133,277)	(112,581)
<b>Net fee and commission income</b>		4,328,585	3,600,169
Net financial income .....	5	352,214	436,207
Share in (loss) profit of associates, net of income tax .....	21	(11,399)	163,458
Other operating income .....		79,996	89,286
<b>Other operating income</b>		420,811	688,951
<b>Net operating income</b>		6,076,963	5,615,328
Administrative expenses .....	7	(4,003,580)	(3,898,609)
Net impairment .....	9	(228,070)	(95,296)
Revaluation of contingent consideration .....		(312,034)	374,920
<b>Profit before taxes</b>		1,533,279	1,996,343
Income tax .....	10	(96,215)	34,862
Special tax on financial activity .....	11	(53,523)	0
Special tax on financial institutions .....	12	(46,786)	(118,555)
<b>Profit for the period</b>		1,336,755	1,912,651

	Notes	9m 2020	9m 2019
Attributable to the shareholders of Kvika banki hf. ....		1,387,230	1,914,908
Attributable to non-controlling interest .....	20	(50,476)	(2,257)
<b>Profit for the period</b>		1,336,755	1,912,651
<b>Earnings per share</b>	13		
Basic earnings per share (ISK per share) .....		0.70	1.04
Diluted earnings per share (ISK per share) .....		0.65	0.91

The notes on pages 10 to 39 are an integral part of these Condensed Interim Consolidated Financial Statements.

## Condensed Interim Consolidated Statement of Comprehensive Income

For the period 1 January 2020 to 30 September 2020

	Notes	9m 2020	9m 2019
<b>Profit for the period</b>		1,336,755	1,912,651
Changes in fair value of financial assets through OCI, net of tax .....		14,498	0
Realized net gain transferred to the Income Statement, net of tax .....		(169)	0
<b>Changes to reserve for financial assets at fair value through OCI .....</b>		<b>14,329</b>	<b>0</b>
Exchange difference on translation of foreign subsidiaries .....		41,913	3,621
<b>Other Comprehensive income that is or may be reclassified subsequently to profit and loss</b>		<b>56,242</b>	<b>3,621</b>
<b>Total comprehensive income for the period</b>		<b>1,392,997</b>	<b>1,916,272</b>
	Notes	9m 2020	9m 2019
Attributable to the shareholders of Kvika banki hf. ....		1,443,472	1,918,528
Attributable to non-controlling interest .....		(50,476)	(2,257)
<b>Total comprehensive income for the period</b>		<b>1,392,997</b>	<b>1,916,272</b>

The notes on pages 10 to 39 are an integral part of these Condensed Interim Consolidated Financial Statements.

## Condensed Interim Consolidated Statement of Financial Position

As at 30 September 2020

Assets	Notes	30.9.2020	31.12.2019
Cash and balances with Central Bank .....	14	28,061,586	26,818,231
Fixed income securities .....	15	25,315,982	8,097,169
Shares and other variable income securities .....	16	5,012,099	3,659,208
Securities used for hedging .....	17	12,476,198	24,274,769
Loans to customers .....	18	28,677,529	30,105,643
Derivatives .....	19	544,149	1,259,833
Investment in associates .....	21	42,240	776,490
Investment properties .....	22	1,016,905	1,016,553
Intangible assets .....	23	3,467,835	3,283,256
Property and equipment .....		606,075	596,336
Deferred tax assets .....		780,518	872,972
Other assets .....	24	8,658,011	4,823,577
<b>Total assets</b>		<b>114,659,127</b>	<b>105,584,035</b>
<b>Liabilities</b>			
Deposits from customers .....	25	58,355,096	51,479,732
Borrowings .....	26	21,638,006	22,058,747
Issued bills .....	27	1,992,045	3,945,306
Issued bonds .....	28	5,339,784	4,261,308
Subordinated liabilities .....	29	2,022,111	1,999,530
Short positions held for trading .....	30	468,638	1,239,916
Derivatives .....	19	419,061	1,282,341
Current tax liabilities .....		81	136,395
Deferred tax liabilities .....		213,199	268,613
Other liabilities .....	31	6,388,744	3,396,965
<b>Total liabilities</b>		<b>96,836,765</b>	<b>90,068,852</b>
<b>Equity</b>			
Share capital .....	32	2,077,319	1,945,366
Share premium .....		3,901,398	3,115,992
Other reserves .....		4,997,136	4,101,662
Retained earnings .....		6,799,685	6,292,189
<b>Total equity attributable to the shareholders of Kvika banki hf.</b>		<b>17,775,538</b>	<b>15,455,209</b>
Non-controlling interest .....		46,824	59,974
<b>Total equity</b>		<b>17,822,362</b>	<b>15,515,183</b>
<b>Total liabilities and equity</b>		<b>114,659,127</b>	<b>105,584,035</b>

The notes on pages 10 to 39 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 30 September 2020

	Notes	Other reserves							Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
		Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Fair value reserve	Trans-lation reserve					
<b>1 January 2020 to 30 September 2020</b>													
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 .....										1,387,230	1,387,230	(50,476)	1,336,755
Changes in fair value through OCI .....							17,911				17,911		17,911
Realized net gain transferred to the Income Statement .....							(211)				(211)		(211)
Translation of foreign operations													
Exchange difference on translation of foreign subsidiaries .....								41,913			41,913		41,913
Total comprehensive income for the period .....		0	0	0	0	0	17,700	41,913	0	1,387,230	1,446,844	(50,476)	1,396,368
Restricted retained earnings .....									881,210	(881,210)	0		0
Transactions with owners of the Bank													
Capital increase .....		131,953	739,061								871,014	37,325	908,340
Stock options .....				2,471							2,471		2,471
Stock options excercised .....			8,683	(10,158)						1,475	0		0
Warrants exercised .....	33		37,662		(37,662)						0		0
<b>Equity as at 30 September 2020</b>		<b>2,077,319</b>	<b>3,901,398</b>	<b>0</b>	<b>168,839</b>	<b>3,103,697</b>	<b>17,700</b>	<b>47,499</b>	<b>1,659,401</b>	<b>6,799,685</b>	<b>17,775,538</b>	<b>46,824</b>	<b>17,822,362</b>

The notes on pages 10 to 39 are an integral part of these Condensed Interim Consolidated Financial Statements



## Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2019 to 30 September 2019

	Notes	Other reserves							Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
		Share capital	Share premium	Option reserve	Warrants reserve	Deficit reduction reserve	Fair value reserve	Trans-lation reserve					
<b>1 January 2019 to 30 September 2019</b>													
Equity as at 1 January 2019 .....		1,844,996	2,881,165	4,297	202,527	3,103,697	0	(12,023)	506,896	4,376,900	12,908,455	61,544	12,969,999
Impact of adopting IFRS 16 .....										(32,637)	(32,637)		(32,637)
<b>Restated opening balance under IFRS 16 .....</b>		<b>1,844,996</b>	<b>2,881,165</b>	<b>4,297</b>	<b>202,527</b>	<b>3,103,697</b>	<b>0</b>	<b>(12,023)</b>	<b>506,896</b>	<b>4,344,263</b>	<b>12,875,818</b>	<b>61,544</b>	<b>12,937,362</b>
Profit for the period .....										1,914,908	1,914,908	(2,257)	1,912,651
Translation of foreign operations													
Exchange difference on translation of foreign subsidiaries .....								3,621			3,621		3,621
Total comprehensive income for the period .....		0	0	0	0	0	0	3,621	0	1,914,908	1,918,528	(2,257)	1,916,272
Restricted retained earnings .....									(107,010)	107,010	0		0
Transactions with owners of the Bank													
Capital increase .....		82,453	309,534								391,987		391,987
Dividend paid to shareholders .....										(442,799)	(442,799)		(442,799)
Stock options .....				2,536							2,536		2,536
Warrants sold .....					43,424						43,424		43,424
Warrants exercised .....			12,971		(12,971)						0		0
<b>Equity as at 30 September 2019</b>		<b>1,927,449</b>	<b>3,203,671</b>	<b>6,833</b>	<b>232,980</b>	<b>3,103,697</b>	<b>0</b>	<b>(8,403)</b>	<b>399,885</b>	<b>5,923,382</b>	<b>14,789,494</b>	<b>59,287</b>	<b>14,848,782</b>

The notes on pages 10 to 39 are an integral part of these Condensed Interim Consolidated Financial Statements

## Condensed Interim Consolidated Statement of Cash Flows

### For the period 1 January 2020 to 30 September 2020

	Notes	9m 2020	9m 2019
<b>Cash flows from operating activities</b>			
Profit for the period .....		1,336,755	1,912,651
Adjustments for:			
Indexation and exchange rate difference .....		(1,651,864)	601,615
Share in (profit) loss of associates, net of income tax .....	21	11,399	(163,458)
Depreciation and amortisation .....		210,222	47,706
Net interest income .....	4	(1,327,567)	(1,326,208)
Net impairment .....		228,070	95,296
Income tax .....		96,215	83,693
Other adjustments .....		81,709	493,624
		(1,015,061)	1,744,919
Changes in:			
Fixed income securities .....		(17,218,813)	(568,708)
Shares and other variable income securities .....		(1,335,192)	(235,525)
Securities used for hedging .....		11,798,571	(5,590,798)
Loans to customers .....		1,725,815	(1,131,969)
Derivatives - assets .....		715,684	(682,763)
Deferred tax assets and tax liabilities .....		(56,430)	(215,461)
Other assets .....		(3,684,232)	(5,698,450)
Deposits from customers .....		6,588,582	10,089,872
Short positions .....		(771,277)	248,303
Derivatives - liabilities .....		(863,280)	531,977
Other liabilities .....		2,985,779	4,877,277
		(114,794)	1,623,755
Interest received .....		2,667,460	3,622,145
Interest paid .....		(1,240,749)	(1,816,379)
<b>Net cash from operating activities</b>		296,856	5,174,440
<b>Cash flows from investing activities</b>			
Acquisition of intangible assets .....	23	(226,750)	(106,676)
Acquisition of property and equipment .....		(74,238)	(5,450)
Proceeds from the sale of property and equipment .....		23,090	0
Dividend from associates .....		3,750	3,750
Acquisition of subsidiary, net of cash .....		0	(892,174)
Net sale (investment) in associates .....		362,778	19,227
Lease receivable payments .....		20,974	0
<b>Net cash from (to) investing activities</b>		109,604	(981,323)
<b>Cash flows from financing activities</b>			
Borrowings .....		657,735	3,031,417
Issued bills .....		(1,953,261)	362,132
Increase in share capital .....		871,014	404,958
Increase (decrease) in warrants .....		0	30,453
Dividend paid to shareholders .....		0	(442,799)
Lease payments .....		(142,777)	0
<b>Net cash (to) from financing activities</b>		(567,289)	3,386,161
Net increase in cash and balances with Central Bank .....		(160,829)	7,579,279
Cash and balances with Central Bank at the beginning of the year .....	14	26,818,231	21,339,185
Change in cash and cash equivalents due to acquisition of subsidiary .....		0	8,016
Effects of exchange rate fluctuations on cash and balances with Central Bank .....		1,404,184	(593,853)
<b>Cash and balances with Central Bank at the end of the period</b>	14	28,061,586	28,332,626
<b>Investing and financing activities not affecting cash flows due to a acquisitions, refer to note 5</b>			
Assets and liabilities acquired from GAMMA Capital Management hf. ....		0	1,090,717

The notes on pages 10 to 39 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 Iceland.

The Condensed Interim Consolidated Financial Statements for the period ended 30 September 2020 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). Kvika is a specialized bank focusing on asset management and investment services. The Bank operates four business segments, Asset Management, Corporate Finance, Corporate Banking and Capital Markets. Kvika provides businesses, investors and individuals with comprehensive investment banking and asset management services as well as selected banking services.

The Condensed Interim Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 12 November 2020.

#### 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.

##### 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;
- 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 30 September 2020.

##### d. Going concern

The Bank's management has assessed the Group's ability to continue as a going concern and are 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 2019.

##### 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. Significant accounting policies

The accounting policies applied in the Condensed Interim Consolidated Financial Statements are consistent with those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not effective.

#### **Financial instruments measured at fair value through other comprehensive income**

At 30 June 2020 the Bank reclassified certain fixed income securities as financial instruments measured at fair value through other comprehensive income ("FVOCI"). These securities are held by the Bank's treasury department. They are held within a business model whose objective is to collect contractual cash flows and selling financial assets. Their contractual cash flows are solely payments of principal and interest.

#### **Impact of COVID-19 on the Financial Statements**

Due to the considerable impact that the COVID-19 pandemic is having on the economy, the Bank has made changes to the macroeconomic outlook used for IFRS 9 provision calculations in accordance with the guidelines of the European supervisors and the Central Bank of Iceland. Economic scenarios, and the weights assigned to them, have been reviewed with respect to the expected impact of the COVID-19 pandemic and used in the assessment of expected credit loss ("ECL"). As a part of this review process, the weights assigned to the downside economic scenario have increased. The Bank continues to monitor developments closely and will adjust its provisions accordingly.

During the first nine months of 2020 there has been considerable volatility in the pricing of securities with variable income and fair value measurements for securities in certain sectors have decreased. For the Group, this has resulted in fair value losses on a part of its trading portfolio. The impact of the COVID-19 pandemic on the economy, and the uncertainty that it is causing for the near- to mid-term, also has an effect on how the Group estimates the value of some of its receivables, in particular long-term performance related fees. In some cases the book value of these has been reduced.

## Notes to the Condensed Interim Consolidated Financial Statements

### Income statement

#### 4. Net interest income

Interest income is specified as follows:

	9m 2020	9m 2019
Cash and balances with Central Bank .....	358,231	621,005
Derivatives .....	506,600	1,164,545
Loans to customers .....	1,864,113	1,939,694
Fixed income securities (FVOCI) .....	64,857	0
Other interest income .....	91,400	78,774
<b>Total</b>	<b>2,885,202</b>	<b>3,804,018</b>

Interest expense is specified as follows:

	9m 2020	9m 2019
Deposits from customers .....	632,042	1,182,919
Borrowings .....	550,019	804,248
Issued bills .....	63,992	144,128
Issued bonds .....	115,252	130,997
Subordinated liabilities .....	150,598	135,669
Derivatives .....	5,437	9,141
Other interest expense* .....	40,297	70,708
<b>Total</b>	<b>1,557,635</b>	<b>2,477,810</b>

\* Thereof are lease liabilities' interest expense amounting to ISK 17 million (9m 2019: ISK 13 million)

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 2,164 million (9m 2019: ISK 2,509 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 1,552 million (9m 2019: ISK 2,469 million).

#### 5. Net financial income

Net financial income is specified as follows:

	9m 2020	9m 2019
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities .....	370,496	92,812
Shares and other variable income securities .....	50,995	366,812
Derivatives .....	2,349	(48,914)
Loans to customers .....	(18,749)	55,619
Foreign currency exchange difference .....	(52,878)	(30,123)
<b>Total</b>	<b>352,214</b>	<b>436,207</b>

Gains and losses on the sale of subsidiaries are discussed in note 20.

#### 6. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	9m 2020	9m 2019
Gain on financial instruments at fair value through profit and loss .....	814,898	260,817
Loss on other financial instruments .....	(867,775)	(290,939)
<b>Total</b>	<b>(52,878)</b>	<b>(30,123)</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 7. Administrative expenses

Administrative expenses are specified as follows:	<b>9m 2020</b>	<b>9m 2019</b>
Salaries and related expenses .....	2,553,509	2,511,054
Other operating expenses .....	1,212,262	1,221,639
Depositors' and Investors' Guarantee Fund contributions .....	27,587	65,427
Depreciation and amortisation .....	84,671	47,706
Depreciation of right of use asset .....	125,551	52,782
<b>Total</b>	<b>4,003,580</b>	<b>3,898,609</b>

### 8. Salaries and related expenses

Salaries and related expenses are specified as follows:	<b>9m 2020</b>	<b>9m 2019</b>
Salaries .....	2,028,958	1,816,296
Performance based payments excluding share-based payments .....	(31,487)	140,686
Share-based payment expenses .....	2,471	2,536
Pension fund contributions .....	272,986	238,350
Tax on financial activity .....	118,667	130,962
Other salary related expenses .....	161,915	182,225
<b>Total</b>	<b>2,553,509</b>	<b>2,511,054</b>
Average number of full time employees during the period .....	138	125
Total number of full time employees at the end of the period .....	148	122

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a tax based on salary payments, called tax on financial activity. The current tax rate is 5.50% (2019: 5.50%).

### 9. Net impairment

	<b>9m 2020</b>	<b>9m 2019</b>
Net change in impairment of loans .....	158,754	27,314
Net change in impairment of other assets .....	59,597	64,298
Net change in impairment of loan commitments, guarantees and unused credit facilities .....	9,719	3,684
<b>Total</b>	<b>228,070</b>	<b>95,296</b>

### 10. Income tax

The Bank and most of its subsidiaries will not pay income tax on its profit for 2020 due to the fact that it has a tax loss carry forward that offsets the calculated income tax. At year end 2019, the tax loss carry forward of the Group amounted to ISK 7 billion. A substantial part of the tax loss carry forward is utilisable until end of year 2025. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised a part of the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position. The deferred tax asset is recognised only to the extent that it is probable to be utilisable against future taxable profits.

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% (2019: 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% (2019: 6.0%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

### 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% (2019: 0.376%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

### 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>9m 2020</b>	<b>9m 2019</b>
Net earnings attributable to equity holders of the Bank	1,387,230	1,914,908
Weighted average number of outstanding shares .....	1,975,808	1,849,165
Adjustments for warrants and stock options .....	168,993	249,263
<b>Total</b>	<b>2,144,801</b>	<b>2,098,427</b>
Basic earnings per share (ISK) .....	0.70	1.04
Diluted earnings per share (ISK) .....	0.65	0.91

## 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:

	30.9.2020	31.12.2019
Deposits with Central Bank .....	20,393,284	19,106,515
Cash on hand .....	16,654	6,845
Balances with banks .....	5,348,534	2,268,540
Foreign treasury bills .....	1,385,328	2,956,550
<b>Included in cash and cash equivalents</b>	<b>27,143,800</b>	<b>24,338,450</b>
Restricted balances with Central Bank - average maintenance level .....	0	853,192
Restricted balances with Central Bank - fixed reserve requirement .....	917,786	853,192
Receivables from Central Bank .....	0	773,398
<b>Total</b>	<b>28,061,586</b>	<b>26,818,231</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:

	30.9.2020	31.12.2019
Mandatorily measured at fair value through profit or loss		
Listed government bonds and bonds with government guarantees .....	3,604,531	3,434,851
Listed bonds .....	2,273,185	3,700,392
Unlisted bonds .....	1,041,577	961,925
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees .....	16,901,754	0
Listed treasury bills .....	1,494,936	0
<b>Total</b>	<b>25,315,982</b>	<b>8,097,169</b>

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

Shares and other variable income securities are specified as follows:

	30.9.2020	31.12.2019
Mandatorily measured at fair value through profit or loss		
Listed shares .....	1,247,380	1,271,325
Unlisted shares .....	2,207,772	1,694,493
Unlisted unit shares .....	1,556,948	693,390
<b>Total</b>	<b>5,012,099</b>	<b>3,659,208</b>

#### 17. Securities used for hedging

Securities used for hedging are specified as follows:

	30.9.2020	31.12.2019
Listed government bonds and bonds with government guarantees .....	4,522,798	8,006,643
Listed bonds .....	195,802	2,366,621
Listed shares .....	7,710,340	13,822,091
Unlisted unit shares .....	47,259	79,414
<b>Total</b>	<b>12,476,198</b>	<b>24,274,769</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>30.9.2020</b>						
Loans to customers at amortised cost .....	4,998,709	4,980,436	20,547,341	20,030,136	25,546,050	25,010,572
Loans to customers at fair value through profit or loss .....	609,928	609,928	3,057,029	3,057,029	3,666,958	3,666,958
<b>Total</b>	<b>5,608,637</b>	<b>5,590,364</b>	<b>23,604,371</b>	<b>23,087,166</b>	<b>29,213,008</b>	<b>28,677,529</b>
<b>31.12.2019</b>						
Loans to customers at amortised cost .....	4,790,146	4,780,053	23,365,514	22,978,928	28,155,660	27,758,981
Loans to customers at fair value through profit or loss .....	0	0	2,346,662	2,346,662	2,346,662	2,346,662
<b>Total</b>	<b>4,790,146</b>	<b>4,780,053</b>	<b>25,712,176</b>	<b>25,325,590</b>	<b>30,502,322</b>	<b>30,105,643</b>



## Notes to the Condensed Interim Consolidated Financial Statements

### 19. Derivatives

Derivatives are specified as follows:

	Notional		Carrying value	
	Assets	Liabilities	Assets	Liabilities
<b>30.9.2020</b>				
Interest rate derivatives .....	649,840	600,454	49,386	0
Currency forwards .....	5,804,807	5,750,176	60,891	6,261
Bond and equity total return swaps .....	13,359,966	13,365,179	327,251	329,217
Equity options .....	326,737	3,860	106,620	83,584
<b>Total</b>	<b>20,141,350</b>	<b>19,719,669</b>	<b>544,149</b>	<b>419,061</b>

	Notional		Carrying value	
	Assets	Liabilities	Assets	Liabilities
<b>31.12.2019</b>				
Interest rate derivatives .....	3,342,934	3,103,868	239,066	0
Currency forwards .....	1,963,733	1,938,785	29,636	4,688
Bond and equity total return swaps .....	27,091,699	27,396,373	727,855	1,033,599
Equity options .....	326,762	11,760	263,275	244,054
<b>Total</b>	<b>32,725,127</b>	<b>32,450,786</b>	<b>1,259,833</b>	<b>1,282,341</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
			30.9.2020	31.12.2019
Fí Fasteignafélag GP ehf. ....	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf. ....	Fund management	Iceland	100%	100%
Júpíter rekstrarfélag hf. ....	Fund management	Iceland	100%	100%
M-Investments ehf. ....	Holding company	Iceland	100%	100%
Netgíró reikningar ehf. ....	Holding company	Iceland	100%	100%
Netgíró lán ehf. ....	Holding company	Iceland	100%	100%
Netgíró lán II ehf. ....	Holding company	Iceland	100%	100%
Rafklettur ehf. ....	Holding company	Iceland	100%	100%
AC GP 3 ehf. ....	Fund management	Iceland	80%	80%
Kvika Securities Ltd. ....	Business consultancy services	UK	100%	100%

### 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
			30.9.2020	31.12.2019
Akta sjóðir hf. ....	Fund management	Iceland	19%	34%
Kjölfesta GP ehf. ....	Holding company	Iceland	50%	50%
KORTA hf. ....	Payment Institution	Iceland	-	41%
Gláma fjárfestingar slhf. ....	Holding company	Iceland	24%	24%

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

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

	30.9.2020	31.12.2019
Balance at the beginning of the year .....	776,490	774,832
Acquisition of shares in associates .....	0	47,201
Dividend received .....	(3,750)	(7,500)
Disposal of shares in associates .....	(719,102)	(70,025)
Share in (loss) profit of associates, net of income tax .....	(11,399)	31,982
<b>Total</b>	<b>42,240</b>	<b>776,490</b>

### 22. Investment properties

Investment properties are specified as follows:

	30.9.2020	31.12.2019
Balance at year beginning .....	1,016,553	950,000
Additions .....	352	66,553
<b>Total</b>	<b>1,016,905</b>	<b>1,016,553</b>

In October 2017, the Group acquired investment properties through one of its subsidiaries, Rafklettur ehf. The intention is to either earn rental income or capital appreciation or both. The book value of investment properties is based on the most recent appraisal values by licensed real estate agents, current listing prices and/or recent transactions for comparable real estates or valuation models based on gross income multipliers. The Group received rental income for the first nine months amounting to ISK 57 million (9m 2019: ISK 54 million) and incurred direct operating expenses of ISK 11 million (9m 2019: ISK 26 million).

## Notes to the Condensed Interim Consolidated Financial Statements

### 23. Intangible assets

Intangible assets are specified as follows:

<b>30.9.2020</b>	<b>Goodwill</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
Balance as at 1 January 2020 .....	2,943,881	175,256	164,118	3,283,256
Acquisitions .....	0	158,492	68,258	226,750
Amortisation .....	0	(23,178)	(18,993)	(42,171)
<b>Balance as at 30 September 2020</b>	<b>2,943,881</b>	<b>310,570</b>	<b>213,384</b>	<b>3,467,835</b>
Gross carrying amount .....	2,943,881	386,297	284,861	3,615,039
Accumulated amortisation and impairment losses .....	0	(75,727)	(71,477)	(147,204)
<b>Balance as at 30 September 2020</b>	<b>2,943,881</b>	<b>310,570</b>	<b>213,384</b>	<b>3,467,835</b>
<b>31.12.2019</b>	<b>Goodwill</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
Balance as at 1 January 2019 .....	2,244,521	118,428	16,332	2,379,281
Acquisitions .....	0	76,467	119,167	195,634
Additions through business combinations .....	699,360	0	46,586	745,946
Disposals .....	0	(3,244)	(3,301)	(6,545)
Amortisation .....	0	(16,396)	(14,664)	(31,060)
<b>Balance as at 31 December 2019</b>	<b>2,943,881</b>	<b>175,256</b>	<b>164,118</b>	<b>3,283,256</b>
Gross carrying amount .....	2,943,881	227,805	216,603	3,388,289
Accumulated amortisation and impairment losses .....	0	(52,549)	(52,484)	(105,033)
<b>Balance as at 31 December 2019</b>	<b>2,943,881</b>	<b>175,256</b>	<b>164,118</b>	<b>3,283,256</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 24. Other assets

Other assets are specified as follows:

	30.9.2020	31.12.2019
Unsettled transactions .....	3,871,869	162,007
Accounts receivable .....	3,533,167	3,193,923
Right of use asset and lease receivables .....	484,222	622,415
Sundry assets .....	768,753	845,232
<b>Total</b>	<b>8,658,011</b>	<b>4,823,577</b>

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

	30.9.2020	31.12.2019
Balance of IFRS 16 leases at the beginning of the year .....	622,415	353,811
Additions .....	0	541,118
Disposal .....	0	(189,692)
Indexation .....	6,783	3,254
Depreciation and lease receivable installment .....	(144,977)	(86,076)
<b>Total</b>	<b>484,222</b>	<b>622,415</b>

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

### 25. Deposits from customers

Deposits from customers are specified as follows:

	30.9.2020	31.12.2019
Demand deposits .....	45,783,920	37,487,799
Time deposits .....	12,571,176	13,991,933
<b>Total</b>	<b>58,355,096</b>	<b>51,479,732</b>

### 26. Borrowings

Borrowings are specified as follows:

	30.9.2020	31.12.2019
Loans from credit institutions .....	0	803,052
Money market deposits .....	21,638,006	21,255,695
<b>Total</b>	<b>21,638,006</b>	<b>22,058,747</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.

### 27. Issued bills

Issued bills are specified as follows:

	30.9.2020	31.12.2019
Issued bills .....	1,992,045	3,945,306
<b>Total</b>	<b>1,992,045</b>	<b>3,945,306</b>

### 28. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2020	31.12.2019
KVB 19 01, ISK 3,640 million .....	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	3,096,588	1,522,432
KVB 17 02, ISK 2,160 million .....	2017	2020	At maturity	Floating, 1 month REIBOR + 1.25%	1,887,595	1,881,675
<b>Total</b>					<b>4,984,183</b>	<b>3,404,107</b>
Unlisted senior unsecured bonds, total .....					355,600	857,201
<b>Total</b>					<b>5,339,784</b>	<b>4,261,308</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.

## Notes to the Condensed Interim Consolidated Financial Statements

### 29. Subordinated liabilities

#### a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2020	31.12.2019
KVB 15 01, ISK 1,000 million .....	2015	2025	At maturity	CPI-Indexed, fixed 5.50%	1,163,260	1,122,360
KVB 18 02, ISK 800 million .....	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	858,851	877,170
<b>Total</b>					<b>2,022,111</b>	<b>1,999,530</b>

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

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

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

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

	30.9.2020	31.12.2019
Balance at the beginning of the year .....	1,999,530	1,947,511
Paid interest .....	(60,000)	(115,000)
Paid interests due to indexation .....	(3,144)	(7,000)
Accrued interests and indexation .....	85,726	174,019
<b>Total</b>	<b>2,022,111</b>	<b>1,999,530</b>

### 30. Short positions held for trading

Short positions held for trading are specified as follows:

	30.9.2020	31.12.2019
Listed government bonds and bonds with government guarantees .....	0	632,124
Listed bonds .....	468,638	607,792
<b>Total</b>	<b>468,638</b>	<b>1,239,916</b>

### 31. Other liabilities

Other liabilities are specified as follows:

	30.9.2020	31.12.2019
Unsettled transactions .....	3,765,461	487,683
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities .....	30,894	21,092
Accounts payable and accrued expenses .....	333,745	401,230
Special taxes on financial institutions and financial activities .....	212,839	202,307
Withholding taxes .....	216,857	459,251
Salaries and salary related expenses .....	431,929	541,401
Lease liability .....	483,927	616,521
Contingent consideration .....	472,490	494,991
Other liabilities .....	440,601	172,489
<b>Total</b>	<b>6,388,744</b>	<b>3,396,965</b>

## Notes to the Condensed Interim Consolidated Financial Statements

### 31. Other liabilities (cont.)

Lease liability is specified as follows:

	30.9.2020	31.12.2019
Balance of IFRS 16 leases at the beginning of the year .....	616,521	386,455
Addition .....	0	541,118
Disposal .....	0	(217,535)
Installment .....	(142,777)	(98,493)
Indexation .....	10,182	4,976
<b>Total</b>	<b>483,927</b>	<b>616,521</b>

### 32. 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.

	30.9.2020	31.12.2019
Share capital according to the Bank's Articles of Association .....	2,077,319	1,995,366
Nominal amount of treasury shares .....	0	50,000
Authorised but not issued shares .....	610,163	742,117

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

The Bank's share capital was increased by ISK 124,649,987 in nominal value during the period 1 January to 30 September 2020 in order to serve the exercising of issued warrants. In addition to that, the share capital was increased by ISK 7,303,425 in nominal value in order to fulfill the Bank's obligations related to share option agreements. Furthermore, the share capital was decreased by ISK 50,000,000 in nominal value by cancellation of own shares following a resolution passed by the Annual General Meeting.

#### c. Share capital increase authorisations

According to the Bank's Articles of Association dated 28 September 2020, the Board of Directors is authorised to increase the share capital of the Bank by up to ISK 100 million through subscription for new shares. This authorisation is based on temporary provision I to the Articles of Association and is valid until 15 March 2022.

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

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

Temporary provision IV to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. According to section A of temporary provision IV the Board of Directors is authorised to increase share capital by up to ISK 263 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 413 million but can increase to ISK 463 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.

## Notes to the Condensed Interim Consolidated Financial Statements

### 33. Warrants

The Bank has issued warrants for shares in the total nominal amount of ISK 458,900,001 as at 30 September 2020. The number of owners of these warrants is 116 and they purchased the warrants for a total consideration of ISK 168,818,900. The purchase price of the warrants was determined using market standard methodology and a valuation from an independent appraiser as applicable. Should the owners of the warrants exercise their warrants, the Bank is obliged to issue new shares and sell to the warrant owners at a predefined price, usually referred to as strike price. If all the warrants would be exercised, the Bank's share capital would increase to 2,536,219,180, and the newly issued shares would represent 18.1% 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	189,566,668	57,059,567	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	4,000,000	1,348,000	7.5%	7.59	Dec. 2019 - Dec. 2020
December 2017	7,333,333	2,471,333	7.5%	8.80	Dec. 2020 - Dec. 2022
December 2017	7,333,333	2,471,333	7.5%	8.80	Dec. 2021 - Dec. 2022
May 2018	1,000,000	433,000	7.5%	9.27	Dec. 2019 - Dec. 2020
May 2018	1,166,667	505,167	7.5%	10.75	Dec. 2020 - Dec. 2022
May 2018	1,166,667	505,167	7.5%	10.75	Dec. 2021 - Dec. 2022
April 2019	17,500,000	16,520,000	7.5%	15.36	Dec. 2020 - Dec. 2022
April 2019	17,500,000	16,520,000	7.5%	15.36	Dec. 2020 - Dec. 2022
August 2019	5,500,000	5,192,000	7.5%	15.36	Dec. 2020 - Dec. 2022
August 2019	5,500,000	5,192,000	7.5%	15.36	Dec. 2021 - Dec. 2022
<b>Total</b>	<b>458,900,001</b>	<b>168,818,900</b>			

### 34. Capital adequacy ratio (CAR)

Equity at the end of the period was ISK 17,822 million (31.12.2019: 15,515 million), equivalent to 15.5% of total assets according to the statement of financial position (31.12.2019: 14.7%). The capital adequacy ratio of the Group, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 26.9% (31.12.2019: 24.1%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

Own funds	30.9.2020	31.12.2019
Total equity	17,822,362	15,515,183
Unaudited retained (positive) earnings from current period	(412,730)	0
Other unaudited (positive) changes to total equity in current period	(35,348)	0
Expected dividends according to Dividend Policy	(231,006)	0
<b>Capital eligible as CET1 Capital</b>	<b>17,143,278</b>	<b>15,515,183</b>
Goodwill and intangibles	(3,467,835)	(3,283,256)
Shares in financial institutions	(148,639)	(146,401)
Subordinated fixed income securities	(116,292)	(102,999)
Deferred tax asset	(780,518)	(872,972)
Common equity Tier 1 capital (CET 1)	12,629,993	11,109,555
Tier 2 capital	1,991,023	1,941,695
Deductions from Tier 2 capital	(225,996)	0
<b>Total own funds</b>	<b>14,395,020</b>	<b>13,051,251</b>
<b>Risk weighted assets</b>		
Credit risk	38,327,582	37,614,747
Market risk	3,794,833	5,246,577
Operational risk	11,336,890	11,336,890
<b>Total Capital requirements</b>	<b>53,459,304</b>	<b>54,198,213</b>
<b>Capital ratios</b>		
Capital adequacy ratio (CAR)	26.9%	24.1%
CET1 ratio	23.6%	20.5%
Total own funds including unaudited (positive) retained earnings and expected dividends	14,739,915	13,051,251
Capital adequacy ratio, adjusted	27.6%	24.1%
CET1 ratio, adjusted	24.3%	20.5%
Minimum Capital adequacy ratio requirement	15.1%	15.1%
Minimum Capital adequacy ratio requirement including supervisory buffers	20.6%	28.6%
Minimum CET 1 ratio requirement including supervisory buffers	14.0%	24.8%

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

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). The Bank's minimum regulatory capital requirement, based on the SREP from 2019, is 15.1%. The minimum regulatory capital requirement including the additional capital buffers is 20.6% as at 30 September 2020.

## Notes to the Condensed Interim Consolidated Financial Statements

### Risk management

#### 35. 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:

	Public entities	Financial institutions	Corporate customers	Individuals	
<b>30.9.2020</b>					<b>30.9.2020</b>
<b>On-balance sheet exposure</b>					
Cash and balances with Central Bank .....	22,713,052	5,348,534			28,061,586
Fixed income securities .....	22,580,448	2,519,791	215,744		25,315,982
Loans to customers .....		318,754	22,768,411	5,590,364	28,677,529
Derivatives .....		137,221	380,953	25,976	544,149
Other assets .....	174,628	321,311	7,677,847		8,173,786
	45,468,128	8,645,611	31,042,954	5,616,339	90,773,032
<b>Off-balance sheet exposure</b>					
Loan commitments .....		30,937	2,040,113	435,217	2,506,267
Financial guarantee contracts .....			572,584		572,584
<b>Maximum exposure to credit risk</b>	45,468,128	8,676,548	33,655,651	6,051,557	93,851,883
<b>31.12.2019</b>					<b>31.12.2019</b>
<b>On-balance sheet exposure</b>					
Cash and balances with Central Bank .....	24,549,691	2,268,540			26,818,231
Fixed income securities .....	4,306,557	2,782,322	1,008,289		8,097,169
Loans to customers .....		258,556	25,072,034	4,775,053	30,105,643
Derivatives .....		404,345	811,802	43,686	1,259,833
Other assets .....	67,451	230,117	3,903,594		4,201,162
	28,923,699	5,943,881	30,795,719	4,818,739	70,482,037
<b>Off-balance sheet exposure</b>					
Loan commitments .....		2,073,113	1,258,009	336,493	3,667,615
Financial guarantee contracts .....		197,415	642,515		839,930
<b>Maximum exposure to credit risk</b>	28,923,699	8,214,408	32,696,243	5,155,232	74,989,582

#### 36. 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 next three years. 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.

##### a. 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.

## Notes to the Condensed Interim Consolidated Financial Statements

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

#### 30.9.2020

<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 .....	14,446,134	307,812	1,391	1,335,519	16,090,857
Credit quality band II .....	3,191,045	882,596	13,294	110,130	4,197,066
Credit quality band III .....	897,281	457,864	25,157	639,555	2,019,857
Credit quality band IV .....	509,860	411,775	49,682	127,301	1,098,618
In default .....		1,134,367	492,586	844,524	2,471,477
Non-rated .....	2,198,891	511,705	14,609	609,928	3,335,134
<b>Gross carrying amount</b>	<b>21,243,211</b>	<b>3,706,120</b>	<b>596,719</b>	<b>3,666,958</b>	<b>29,213,008</b>
Expected credit loss .....	(239,863)	(142,332)	(153,284)		(535,479)
<b>Book value</b>	<b>21,003,348</b>	<b>3,563,788</b>	<b>443,436</b>	<b>3,666,958</b>	<b>28,677,529</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 .....	1,998,111	4,981	496		2,003,588
Credit quality band II .....	360,427	173,748			534,175
Credit quality band III .....	12,204	37,175		57,603	106,982
Credit quality band IV .....	43,549	31,649			75,198
In default .....			3,831		3,831
Non-rated .....	162,695	189,382	3,000		355,077
<b>Total off-balance sheet amount</b>	<b>2,576,986</b>	<b>436,934</b>	<b>7,327</b>	<b>57,603</b>	<b>3,078,851</b>
Expected credit loss .....	(15,511)	(14,324)	(1,060)		(30,894)
<b>Net off-balance sheet amount</b>	<b>2,561,476</b>	<b>422,611</b>	<b>6,267</b>	<b>57,603</b>	<b>3,047,957</b>

#### 31.12.2019

<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 .....	16,746,578	542,505	17,566	890,560	18,197,209
Credit quality band II .....	2,517,738	2			2,517,740
Credit quality band III .....	1,105,650	1,370,939		812,293	3,288,882
Credit quality band IV .....	1,793,786	1,137,340		643,809	3,574,935
In default .....	35,037	0	297,331		332,369
Non-rated .....	2,591,158	29			2,591,186
<b>Gross carrying amount</b>	<b>24,789,948</b>	<b>3,050,814</b>	<b>314,898</b>	<b>2,346,662</b>	<b>30,502,322</b>
Expected credit loss .....	(167,078)	(100,185)	(129,416)		(396,679)
<b>Book value</b>	<b>24,622,870</b>	<b>2,950,629</b>	<b>185,482</b>	<b>2,346,662</b>	<b>30,105,643</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 .....	2,140,892	6,283		11,215	2,158,389
Credit quality band II .....	484,628	0			484,628
Credit quality band III .....	38,059	176,503		149,929	364,491
Credit quality band IV .....	56,437	36,459			92,896
In default .....	100,000		9,739		109,739
Non-rated .....	1,297,403				1,297,403
<b>Total off-balance sheet amount</b>	<b>4,117,418</b>	<b>219,245</b>	<b>9,739</b>	<b>161,143</b>	<b>4,507,545</b>
Expected credit loss .....	(15,592)	(2,746)	(2,754)		(21,092)
<b>Net off-balance sheet amount</b>	<b>4,101,826</b>	<b>216,499</b>	<b>6,985</b>	<b>161,143</b>	<b>4,486,453</b>

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

#### 30.9.2020

	<b>Claim value</b>	<b>Expected credit loss</b>	<b>Carrying amount</b>
Not past due .....	27,346,560	(489,167)	26,857,394
Past due 1-30 days .....	941,015	(12,544)	928,471
Past due 31-60 days .....	646,087	(2,852)	643,235
Past due 61-90 days .....	17,509	(138)	17,370
Past due 91-180 days .....	2,697	(6)	2,692
Past due 181-360 days .....	258,673	(30,737)	227,935
Past due more than 360 days .....	467	(34)	432
<b>Total</b>	<b>29,213,008</b>	<b>(535,479)</b>	<b>28,677,529</b>



## Notes to the Condensed Interim Consolidated Financial Statements

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

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

#### c. Breakdown of loans to customers by industry

The breakdown of the loan portfolio by industries is specified as follows:

30.9.2020	Claim value	Expected credit loss	Carrying amount	%
Financial institutions .....	319,252	(498)	318,754	1.1%
Corporate				
Services .....	8,327,207	(151,555)	8,175,651	28.5%
Holding companies .....	7,218,533	(98,793)	7,119,740	24.8%
Real estate, construction and industry .....	6,129,179	(199,651)	5,929,528	20.7%
Retail .....	359,541	(13,157)	346,384	1.2%
Other .....	1,250,660	(53,552)	1,197,108	4.2%
Individual .....	5,608,637	(18,273)	5,590,364	19.5%
<b>Total</b>	<b>29,213,008</b>	<b>(535,479)</b>	<b>28,677,529</b>	<b>100.0%</b>

  

31.12.2019	Claim value	Expected credit loss	Carrying amount	%
Financial institutions .....	258,665	(108)	258,556	0.9%
Corporate				
Services .....	7,522,777	(106,675)	7,416,102	24.6%
Holding companies .....	7,656,488	(47,285)	7,609,203	25.3%
Real estate, construction and industry .....	9,281,142	(207,116)	9,074,027	30.1%
Retail .....	449,783	(11,325)	438,458	1.5%
Other .....	543,322	(9,077)	534,245	1.8%
Individual .....	4,790,146	(15,093)	4,775,053	15.9%
<b>Total</b>	<b>30,502,322</b>	<b>(396,679)</b>	<b>30,105,643</b>	<b>100.0%</b>

## Notes to the Condensed Interim Consolidated Financial Statements

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

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

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

#### 30.9.2020

##### Expected credit loss allowance total

	Stage 1	Stage 2	Stage 3	Total
<b>Transfers of financial assets:</b>				
<b>Balance as at 31 December 2019</b>	182,670	102,932	132,170	417,771
Transfer to Stage 1 - (Initial recognition) .....	6,882	(5,127)	(1,755)	0
Transfer to Stage 2 - (significantly increased credit risk) .....	(22,997)	22,997		0
Transfer to Stage 3 - (credit impaired) .....	(258)	(9,543)	9,801	0
Net remeasurement of loss allowance .....	8,479	40,744	(60,562)	(11,339)
New financial assets, originated or purchased .....	137,301	15,894	89,979	243,174
Derecognitions and maturities .....	(56,702)	(11,242)	(5,289)	(73,233)
Write-offs .....			(10,000)	(10,000)
<b>Balance as at 30 September 2020</b>	255,374	156,656	154,344	566,373

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

#### Transfers of financial assets:

<b>Balance as at 31 December 2019</b>	167,078	100,185	129,416	396,679
Transfer to Stage 1 - (Initial recognition) .....	6,290	(4,711)	(1,579)	0
Transfer to Stage 2 - (significantly increased credit risk) .....	(17,712)	17,712		0
Transfer to Stage 3 - (credit impaired) .....	(257)	(9,501)	9,759	0
Net remeasurement of loss allowance .....	8,702	34,977	(60,905)	(17,226)
New financial assets, originated or purchased .....	127,355	12,838	89,380	229,574
Derecognitions and maturities .....	(51,592)	(9,169)	(2,788)	(63,548)
Write-offs .....			(10,000)	(10,000)
<b>Balance as at 30 September 2020</b>	239,863	142,332	153,284	535,479

##### 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 31 December 2019</b>	15,592	2,746	2,754	21,092
Transfer to Stage 1 - (Initial recognition) .....	592	(416)	(176)	0
Transfer to Stage 2 - (significantly increased credit risk) .....	(5,285)	5,285		0
Transfer to Stage 3 - (credit impaired) .....	(1)	(41)	42	0
Net remeasurement of loss allowance .....	(223)	5,767	342	5,887
New financial assets, originated or purchased .....	9,946	3,055	598	13,600
Derecognitions and maturities .....	(5,110)	(2,073)	(2,501)	(9,684)
<b>Balance as at 30 September 2020</b>	15,511	14,324	1,060	30,894

#### 31.12.2019

##### Expected credit loss allowance total

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

## Notes to the Condensed Interim Consolidated Financial Statements

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

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

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

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 37. Collateral and other credit enhancements

#### a. Valuation

The Group applies the same valuation methods to collateral held as other comparable assets held by the Group. The methods used for financial assets are outlined in note 50. For other types of assets the Group uses third party valuation where possible. Haircuts are then applied to account for liquidity and other factors which may affect the collateral value of the asset or other credit enhancement.

#### b. Loans to customers

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	30.9.2020
Financial institutions .....	172,245	8,519	743,791	669,556			1,594,111
Corporate customers .....	317,037	659,212	6,110,887	11,977,581		70,418	19,135,134
Individuals .....	19,818	7,261	934,147	2,236,172			3,197,398
<b>Total</b>	<b>509,099</b>	<b>674,992</b>	<b>7,788,824</b>	<b>14,883,309</b>	<b>0</b>	<b>70,418</b>	<b>23,926,643</b>

  

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2019
Financial institutions .....	382,137	15,159	773,001	887,268		193,049	2,250,614
Corporate customers .....	211,923	892,170	7,188,215	10,129,828	100,651	97,695	18,620,482
Individuals .....	26,351	10,033	724,757	937,911			1,699,052
<b>Total</b>	<b>620,411</b>	<b>917,361</b>	<b>8,685,973</b>	<b>11,955,008</b>	<b>100,651</b>	<b>290,744</b>	<b>22,570,148</b>

Amounts have been adjusted to exclude collateral in excess of claim value, i.e. overcollateralisation. Other collateral includes financial claims, inventories, receivables and letters of credit and guarantees.

#### c. Derivatives

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	30.9.2020
Financial institutions .....	448,473	359,577	81,771				889,821
Corporate customers .....	412,830	32,855	693,801				1,139,486
Individuals .....	71,438	13,835	28,614				113,887
<b>Total</b>	<b>932,740</b>	<b>406,268</b>	<b>804,186</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,143,194</b>

  

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

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

### 38. 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:

	30.9.2020	%	31.12.2019	%
Less than 50% .....	11,764,501	41.0%	12,784,235	42.5%
51-70% .....	5,572,863	19.4%	4,655,736	15.5%
71-90% .....	3,702,955	12.9%	2,440,778	8.1%
91-100% .....	1,530,549	5.3%	673,622	2.2%
More than 100% .....	2,618,994	9.1%	4,895,571	16.3%
No collateral:				
Purchased short-term retail claims .....	2,134,243	7.4%	2,763,804	9.2%
Other loans with no collateral .....	1,353,424	4.7%	1,891,896	6.3%
<b>Total</b>	<b>28,677,529</b>	<b>100.0%</b>	<b>30,105,643</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.

## Notes to the Condensed Interim Consolidated Financial Statements

### 39. 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 34).

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.

Large exposures before risk adjusted mitigation	Number	30.9.2020		31.12.2019	
		Number	Amount	Number	Amount
10-20% of capital base .....	3	5,227,008	6	8,518,292	
20-25% of capital base .....	0	0	0	0	
Exceeding 25% of capital base .....	0	0	0	0	
<b>Total</b>	<b>3</b>	<b>5,227,008</b>	<b>6</b>	<b>8,518,292</b>	
Thereof nostro accounts with foreign banks with a rating of investment grade or higher .	3	3,722,369	0	0	
Large exposures net of risk adjusted mitigation .....	3	5,226,990	1	1,725,329	

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

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

### 40. 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 Group was in compliance with internal and external liquidity requirements throughout the years 2020 and 2019. At end of September 2020 the LCR was 321% and at year-end 2019 it was 246%.

## Notes to the Condensed Interim Consolidated Financial Statements

### 40. Liquidity risk (cont.)

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

30.9.2020	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 .....	27,368,954	692,700				28,061,654	28,061,586
Fixed income securities * .....	5,606,811	1,113,053	14,784,838	3,811,280		25,315,982	25,315,982
Shares and other variable income securities .....	1,494,463		3,517,636			5,012,099	5,012,099
Securities used for hedging .....	12,476,198					12,476,198	12,476,198
Loans to customers .....	7,097,996	5,754,181	9,232,060	6,213,008	2,744,577	31,041,821	28,677,529
Other assets .....	4,953,748	884,615	683,628	2,136,019		8,658,010	8,658,011
	58,998,170	8,444,549	28,218,162	12,160,307	2,744,577	110,565,765	108,201,405
<i>Derivative assets</i>							
Inflow .....	10,557,616	2,768,917		49,840		13,376,373	
Outflow .....	(10,202,454)	(2,739,678)		(454)		(12,942,587)	
	355,161	29,239	0	49,386	0	433,786	544,149
<b>Financial liabilities by type</b>							
<i>Non-derivative liabilities</i>							
Deposits from customers .....	(47,346,730)	(7,438,036)	(1,957,935)	(1,686,867)	(49,114)	(58,478,682)	58,355,096
Borrowings .....	(5,659,551)	(4,139,958)	(11,964,625)			(21,764,134)	21,638,006
Issued bills .....		(2,000,000)				(2,000,000)	1,992,045
Issued bonds .....	(1,952,366)	(135,268)	(601,608)	(2,845,684)		(5,534,926)	5,339,784
Subordinated liabilities .....			(149,493)	(1,726,164)	(1,051,657)	(2,927,314)	2,022,111
Short positions held for trading .....	(468,638)					(468,638)	468,638
Short positions used for hedging .....	(0)					(0)	0
Other liabilities .....	(4,449,643)	(704,526)	(739,908)	(494,054)		(6,388,132)	6,388,744
	(59,876,928)	(14,417,788)	(15,413,570)	(6,752,769)	(1,100,771)	(97,561,826)	96,204,423
<i>Derivative liabilities</i>							
Inflow .....	5,171,786					5,171,786	
Outflow .....	(5,507,301)					(5,507,301)	
	(335,515)	0	0	0	0	(335,515)	419,061
<b>Unrecognised financial items</b>							
<i>Loan commitments</i>							
Inflow .....	199,676	492,968	650,370	1,253,615		2,596,628	
Outflow .....	(2,506,267)					(2,506,267)	
<i>Financial guarantee contracts</i>							
Inflow .....	15,520	19,288	328,948	149,770	59,057	572,584	
Outflow .....	(572,584)					(572,584)	
	(2,863,655)	512,256	979,318	1,403,385	59,057	90,361	
<b>Summary</b>							
Non-derivative assets .....	58,998,170	8,444,549	28,218,162	12,160,307	2,744,577	110,565,765	
Derivative assets .....	355,161	29,239		49,386		433,786	
Non-derivative liabilities .....	(59,876,928)	(14,417,788)	(15,413,570)	(6,752,769)	(1,100,771)	(97,561,826)	
Derivative liabilities .....	(335,515)					(335,515)	
<b>Net assets (liabilities) excluding unrecognised items</b> .....	(859,113)	(5,943,999)	12,804,592	5,456,924	1,643,806	13,102,210	
Net unrecognised items .....	(2,863,655)	512,256	979,318	1,403,385	59,057	90,361	
<b>Net assets (liabilities)</b> .....	(3,722,767)	(5,431,744)	13,783,910	6,860,309	1,702,863	13,192,571	

\* As mentioned in note 3, the Bank has reclassified a part of its fixed income securities as financial instruments measured at fair value through other comprehensive income. The maturity analysis for those financial instruments is based on their contractual cash flows. This results in a considerable increase in the amounts in the categories for 3-12 months and 1-5 years from year end 2019. The vast majority of the amount which falls into the 1-5 years category will mature in October 2022.

## Notes to the Condensed Interim Consolidated Financial Statements

### 40. Liquidity risk (cont.)

31.12.2019	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 .....	25,773,296	968,800				26,742,096	26,818,231
Fixed income securities .....	7,902,293	102,999	91,876			8,097,169	8,097,169
Shares and other variable income securities .....	1,528,914		2,130,294			3,659,208	3,659,208
Securities used for hedging .....	24,274,769					24,274,769	24,274,769
Loans to customers .....	3,066,655	6,490,086	14,211,455	6,443,200	984,383	31,195,778	30,105,643
Other assets .....	1,629,388	535,529	517,497	2,141,163		4,823,577	4,823,577
	64,175,315	8,097,414	16,951,122	8,584,364	984,383	98,792,597	97,778,596
<i>Derivative assets</i>							
Inflow .....	10,272,921		205,885	37,050		10,515,855	
Outflow .....	(9,515,478)		(2,658)	(1,210)		(9,519,347)	
	757,442	0	203,226	35,840	0	996,508	1,259,833
<b>Financial liabilities by type</b>							
<i>Non-derivative liabilities</i>							
Deposits from customers .....	(38,047,222)	(8,851,313)	(2,813,005)	(1,905,846)	(122,169)	(51,739,556)	51,479,732
Borrowings .....	(2,419,498)	(7,505,617)	(12,417,607)			(22,342,722)	22,058,747
Issued bills .....		(2,000,000)	(2,000,000)			(4,000,000)	3,945,306
Issued bonds .....	(40,079)	(636,625)	(2,209,392)	(1,671,961)		(4,558,057)	4,261,308
Subordinated liabilities .....			(123,396)	(493,584)	(2,250,952)	(2,867,933)	1,999,530
Short positions held for trading .....	(1,239,916)					(1,239,916)	1,239,916
Other liabilities .....	(955,774)	(917,995)	(973,396)	(549,800)		(3,396,965)	3,396,965
	(42,702,489)	(19,911,550)	(20,536,797)	(4,621,191)	(2,373,122)	(90,145,149)	88,381,503
<i>Derivative liabilities</i>							
Inflow .....	15,612,704		339,575			15,952,279	
Outflow .....	(16,645,233)		(349,300)			(16,994,533)	
	(1,032,529)	0	(9,725)	0	0	(1,042,254)	1,282,341
<b>Unrecognised financial items by type</b>							
<i>Loan commitments</i>							
Inflow .....	212,618	442,930	2,307,256	776,847		3,739,651	
Outflow .....	(3,667,615)					(3,667,615)	
<i>Financial guarantee contracts</i>							
Inflow .....	103,265	63,000	222,017	417,808	33,840	839,930	
Outflow .....	(839,930)					(839,930)	
	(4,191,662)	505,930	2,529,273	1,194,655	33,840	72,036	
<b>Summary</b>							
Non-derivative assets .....	64,175,315	8,097,414	16,951,122	8,584,364	984,383	98,792,597	
Derivative assets .....	757,442		203,226	35,840		996,508	
Non-derivative liabilities .....	(42,702,489)	(19,911,550)	(20,536,797)	(4,621,191)	(2,373,122)	(90,145,149)	
Derivative liabilities .....	(1,032,529)		(9,725)			(1,042,254)	
<b>Net assets (liabilities) excluding unrecognised items .....</b>	<b>21,197,739</b>	<b>(11,814,136)</b>	<b>(3,392,173)</b>	<b>3,999,012</b>	<b>(1,388,739)</b>	<b>8,601,702</b>	
Net unrecognised items .....	(4,191,662)	505,930	2,529,273	1,194,655	33,840	72,036	
<b>Net assets (liabilities) .....</b>	<b>17,006,077</b>	<b>(11,308,207)</b>	<b>(862,901)</b>	<b>5,193,667</b>	<b>(1,354,899)</b>	<b>8,673,738</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

### 41. 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 42-47 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.

### 42. 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.

### 43. 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	
						<b>30.9.2020</b>
Fixed income securities .....			1,809,473	2,290,903	1,458,854	5,559,230
Short positions - fixed income securities .....				(24,308)	(444,330)	(468,638)
<b>Net imbalance</b>	0	0	1,809,473	2,266,594	1,014,525	5,090,592
						<b>31.12.2019</b>
Fixed income securities .....		2,832,280	22,712	2,533,636	2,708,542	8,097,169
Short positions - fixed income securities .....				(1,137,103)	(102,813)	(1,239,916)
<b>Net imbalance</b>	0	2,832,280	22,712	1,396,533	2,605,729	6,857,253

#### b. Sensitivity analysis

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

	Shift in basis points	Downward	30.9.2020 Upward	Downward	31.12.2019 Upward
Indexed .....	50	110,934	(110,934)	117,650	(117,650)
Non-indexed .....	100	100,496	(100,496)	64,121	(64,121)
<b>Total</b>		211,430	(211,430)	181,771	(181,771)



## Notes to the Condensed Interim Consolidated Financial Statements

### 44. 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:

<b>30.9.2020</b>						
<b>Financial assets</b>	<b>Up to 1</b>	<b>1-3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	
	<b>month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>Total</b>
Cash and balances with Central Bank .....	26,676,258	1,385,328				28,061,586
Fixed income securities .....		996,617	13,572,001	5,097,219	90,915	19,756,752
Loans to customers .....	24,208,037	1,112,949	1,787,297	682,343	886,904	28,677,529
Financial assets excluding derivatives	50,884,294	3,494,894	15,359,298	5,779,563	977,818	76,495,867
Effect of derivatives .....	13,269,921	139,885		600,000		14,009,806
<b>Total</b>	<b>64,154,216</b>	<b>3,634,779</b>	<b>15,359,298</b>	<b>6,379,563</b>	<b>977,818</b>	<b>90,505,674</b>
<b>Financial liabilities</b>	<b>Up to 1</b>	<b>1-3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	
	<b>month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>Total</b>
Deposits from customers .....	58,355,096					58,355,096
Borrowings .....	5,654,598	4,127,464	11,855,944			21,638,006
Issued bills .....		1,992,045				1,992,045
Issued bonds .....	2,228,026	134,619	316,950	2,660,189		5,339,784
Subordinated liabilities .....	1,137,887		62,913	821,311		2,022,111
Financial liabilities excluding derivatives	67,375,606	6,254,128	12,235,807	3,481,500	0	89,347,041
Effect of derivatives .....	600,454					600,454
<b>Total</b>	<b>67,976,060</b>	<b>6,254,128</b>	<b>12,235,807</b>	<b>3,481,500</b>	<b>0</b>	<b>89,947,495</b>
<b>Total interest repricing gap</b>	<b>(3,821,844)</b>	<b>(2,619,349)</b>	<b>3,123,491</b>	<b>2,898,062</b>	<b>977,818</b>	<b>558,178</b>
<b>31.12.2019</b>						
<b>Financial assets</b>	<b>Up to 1</b>	<b>1-3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	
	<b>month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>Total</b>
Cash and balances with Central Bank .....	23,861,681	2,956,550				26,818,231
Loans to customers .....	23,951,507	1,148,549	3,010,619	647,975	1,346,993	30,105,643
Financial assets excluding derivatives	47,813,188	4,105,100	3,010,619	647,975	1,346,993	56,923,874
Effect of derivatives .....	27,334,633		2,500,000	600,000		30,434,633
<b>Total</b>	<b>75,147,821</b>	<b>4,105,100</b>	<b>5,510,619</b>	<b>1,247,975</b>	<b>1,346,993</b>	<b>87,358,507</b>
<b>Financial liabilities</b>	<b>Up to 1</b>	<b>1-3</b>	<b>3-12</b>	<b>1-5</b>	<b>Over 5</b>	
	<b>month</b>	<b>months</b>	<b>months</b>	<b>years</b>	<b>years</b>	<b>Total</b>
Deposits from customers .....	51,479,732					51,479,732
Borrowings .....	2,417,672	7,463,302	12,177,773			22,058,747
Issued bills .....		1,982,430	1,962,876			3,945,306
Issued bonds .....	39,974	633,194	2,124,611	1,463,529		4,261,308
Subordinated liabilities .....			1,184,146	815,383		1,999,530
Financial liabilities excluding derivatives	53,937,378	10,078,925	17,449,406	2,278,912	0	83,744,622
Effect of derivatives .....	3,104,224					3,104,224
<b>Total</b>	<b>57,041,603</b>	<b>10,078,925</b>	<b>17,449,406</b>	<b>2,278,912</b>	<b>0</b>	<b>86,848,846</b>
<b>Total interest repricing gap</b>	<b>18,106,219</b>	<b>(5,973,826)</b>	<b>(11,938,788)</b>	<b>(1,030,938)</b>	<b>1,346,993</b>	<b>509,660</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:

<b>Currency</b>	<b>Shift in basis points</b>	<b>30.9.2020</b>			<b>31.12.2019</b>	
		<b>Downward</b>	<b>Upward</b>	<b>Downward</b>	<b>Upward</b>	
ISK, indexed .....	50	6,576	(9,369)	26,255	(24,900)	
ISK, non-indexed .....	100	74,640	(83,089)	(85,240)	78,636	
Other currencies .....	20	177	(392)	(1,141)	175	
<b>Total</b>		<b>81,393</b>	<b>(92,850)</b>	<b>(60,126)</b>	<b>53,912</b>	

## Notes to the Condensed Interim Consolidated Financial Statements

### 45. Exposure towards changes in the CPI

#### a. Definition

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

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

#### b. Management

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

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

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

	30.9.2020	31.12.2019
Assets .....	9,361,264	10,676,860
Liabilities .....	(7,647,233)	(7,620,546)
<b>Total</b>	<b>1,714,031</b>	<b>3,056,314</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.

	30.9.2020		31.12.2019	
	-1%	1%	-1%	1%
Government bonds .....	(15,119)	15,119	(11,095)	11,095
Other fixed income securities .....	(13,381)	13,381	(25,248)	25,248
Loans to customers .....	(59,112)	59,112	(39,425)	39,425
Derivatives .....	(6,000)	6,000	(31,000)	31,000
Short positions .....	3,269	(3,269)	3,737	(3,737)
Deposits .....	55,203	(55,203)	54,469	(54,469)
Subordinated debt .....	18,000	(18,000)	18,000	(18,000)
	(17,140)	17,140	(30,563)	30,563

The effect on equity would be the same.

### 46. Currency risk

#### a. Definition

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

#### b. Management

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

The Group is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 30 September 2020 and 31 December 2019 the Group's position in foreign currencies was within those limits.

#### c. Exchange rates

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

	Closing 30.9.2020	Average 9m 2020	Closing 31.12.2019	Average 9m 2019
EUR/ISK .....	162.2	152.6	135.8	137.0
USD/ISK .....	138.5	135.5	121.1	121.3
GBP/ISK .....	177.7	172.3	159.4	156.9

## Notes to the Condensed Interim Consolidated Financial Statements

### 46. Currency risk (cont.)

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

30.9.2020

##### Financial assets

	EUR	USD	GBP	DKK	Other currencies	Total
Cash and balances with Central Bank .....	1,263,831	3,077,026	234,781	270,515	1,818,753	6,664,907
Fixed income securities .....	0		214,281			214,281
Shares and other variable income securities .....	34,316	251,231	1,285,879		1	1,571,428
Securities used for hedging .....	192,269				4,393	196,662
Loans to customers .....	695,380	123,914	1,079,403		363,922	2,262,618
Other assets .....	343,649	735,626	269,360	31,722	31,259	1,411,616
Financial assets excluding derivatives	2,529,445	4,187,798	3,083,704	302,238	2,218,328	12,321,513
Derivatives .....	1,888,615	3,562,961	2,243,180		0	7,694,756
<b>Total</b>	<b>4,418,060</b>	<b>7,750,759</b>	<b>5,326,884</b>	<b>302,238</b>	<b>2,218,328</b>	<b>20,016,269</b>

##### Financial liabilities

	EUR	USD	GBP	DKK	Other currencies	Total
Deposits from customers .....	3,129,516	5,315,227	675,166	261,067	1,533,940	10,914,916
Borrowings .....	47,824					47,824
Issued bonds .....		355,600				355,600
Other liabilities .....	412,206	148,217	223,427	28,511	360,497	1,172,857
Financial liabilities excluding derivatives	3,589,546	5,819,044	898,592	289,578	1,894,436	12,491,197
Derivatives .....	955,584	1,773,245	4,354,630		306,900	7,390,358
<b>Total</b>	<b>4,545,130</b>	<b>7,592,288</b>	<b>5,253,222</b>	<b>289,578</b>	<b>2,201,336</b>	<b>19,881,556</b>

##### Net currency position

	EUR	USD	GBP	DKK	Other currencies	Total
Financial assets .....	4,418,060	7,750,759	5,326,884	302,238	2,218,328	20,016,269
Financial liabilities .....	(4,545,130)	(7,592,288)	(5,253,222)	(289,578)	(2,201,336)	(19,881,556)
Financial guarantee contracts .....	86,620					86,620
<b>Total</b>	<b>(40,450)</b>	<b>158,471</b>	<b>73,662</b>	<b>12,659</b>	<b>16,992</b>	<b>221,334</b>

31.12.2019

##### Financial assets

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

##### Financial liabilities

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

##### Net currency position

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

## Notes to the Condensed Interim Consolidated Financial Statements

### 46. 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.

	30.9.2020		31.12.2019	
Assets and liabilities denominated in foreign currencies	-10%	+10%	-10%	+10%
EUR .....	(4,045)	4,045	11,495	(11,495)
USD .....	15,847	(15,847)	7,196	(7,196)
GBP .....	7,366	(7,366)	7,130	(7,130)
DKK .....	1,266	(1,266)	1,475	(1,475)
CAD .....	201	(201)	2,793	(2,793)
Other currencies .....	1,498	(1,498)	5,290	(5,290)
<b>Total</b>	<b>22,133</b>	<b>(22,133)</b>	<b>35,380</b>	<b>(35,380)</b>

The effect on equity would be the same.

### 47. Other price risk

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

	30.9.2020			31.12.2019		
	Average	Max	Exposure	Average	Max	Exposure
Listed shares .....	1,235,992	2,014,838	1,247,380	927,255	1,352,589	1,271,325
Unlisted shares .....	1,725,848	2,237,612	2,207,772	1,657,393	1,863,076	1,694,493
Unlisted unit shares .....	1,107,060	1,611,559	1,556,948	773,771	998,994	693,390
<b>Total</b>			<b>5,012,099</b>			<b>3,659,208</b>

### 48. 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

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

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

<b>30.9.2020</b>				
<b>Financial assets</b>	<b>Amortised cost</b>	<b>Fair value through OCI</b>	<b>Mandatorily at fair value through P/L</b>	<b>Total carrying amount</b>
Cash and balances with Central Bank .....	28,061,586			28,061,586
Fixed income securities .....		18,396,690	6,919,292	25,315,982
Shares and other variable income securities .....			5,012,099	5,012,099
Securities used for hedging .....			12,476,198	12,476,198
Loans to customers .....	25,010,572		3,666,958	28,677,529
Derivatives .....			544,149	544,149
Other assets .....	8,301,658		356,353	8,658,011
<b>Total</b>	<b>61,373,815</b>	<b>18,396,690</b>	<b>28,975,049</b>	<b>108,745,554</b>
<b>Financial liabilities</b>	<b>Amortised cost</b>	<b>Fair value through OCI</b>	<b>Mandatorily at fair value through P/L</b>	<b>Total carrying amount</b>
Deposits from customers .....	58,355,096			58,355,096
Borrowings .....	21,638,006			21,638,006
Issued bills .....	1,992,045			1,992,045
Issued bonds .....	5,339,784			5,339,784
Subordinated liabilities .....	2,022,111			2,022,111
Short positions held for trading .....			468,638	468,638
Short positions used for hedging .....			0	0
Derivatives .....			419,061	419,061
Other liabilities .....	5,916,253		472,490	6,388,744
<b>Total</b>	<b>95,263,295</b>	<b>0</b>	<b>1,360,190</b>	<b>96,623,485</b>
<b>31.12.2019</b>				
<b>Financial assets</b>	<b>Amortised cost</b>	<b>Fair value through OCI</b>	<b>Mandatorily at fair value through P/L</b>	<b>Total carrying amount</b>
Cash and balances with Central Bank .....	26,818,231			26,818,231
Fixed income securities .....			8,097,169	8,097,169
Shares and other variable income securities .....			3,659,208	3,659,208
Securities used for hedging .....			24,274,769	24,274,769
Loans to customers .....	27,758,981		2,346,662	30,105,643
Derivatives .....			1,259,833	1,259,833
Other assets .....	4,823,577			4,823,577
<b>Total</b>	<b>59,400,789</b>	<b>0</b>	<b>39,637,640</b>	<b>99,038,429</b>
<b>Financial liabilities</b>	<b>Amortised cost</b>	<b>Fair value through OCI</b>	<b>Mandatorily at fair value through P/L</b>	<b>Total carrying amount</b>
Deposits from customers .....	51,479,732			51,479,732
Borrowings .....	22,058,747			22,058,747
Issued bills .....	3,945,306			3,945,306
Issued bonds .....	4,261,308			4,261,308
Subordinated liabilities .....	1,999,530			1,999,530
Short positions held for trading .....			1,239,916	1,239,916
Short positions used for hedging .....			0	0
Derivatives .....			1,282,341	1,282,341
Other liabilities .....	2,901,973		494,991	3,396,965
<b>Total</b>	<b>86,646,596</b>	<b>0</b>	<b>3,017,248</b>	<b>89,663,844</b>

## Notes to the Condensed Interim Consolidated Financial Statements

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

#### a. Fair value hierarchy

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

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

#### b. Valuation process

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

#### c. Valuation techniques

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

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

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

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

## Notes to the Condensed Interim Consolidated Financial Statements

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

#### d. Fair value hierarchy classification

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

#### 30.9.2020

Financial assets	Level 1	Level 2	Level 3	Carrying amount
Mandatorily measured at fair value through profit and loss				
Fixed income securities .....	6,718,493		200,799	6,919,292
Shares and other variable income securities .....	2,472,353	220,921	2,318,826	5,012,099
Securities used for hedging .....	12,476,198			12,476,198
Loans to customers .....			3,666,958	3,666,958
Derivatives .....		544,149		544,149
Other assets .....			356,353	356,353
Measured at fair value through other comprehensive income				
Fixed income securities .....	18,396,690			18,396,690
<b>Total</b>	<b>40,063,733</b>	<b>765,070</b>	<b>6,542,936</b>	<b>47,371,739</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 .....	468,638			468,638
Short positions used for hedging .....	0			0
Derivatives .....		419,061		419,061
Other liabilities .....			472,490	472,490
<b>Total</b>	<b>468,638</b>	<b>419,061</b>	<b>472,490</b>	<b>1,360,190</b>

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

#### 31.12.2019

Financial assets	Level 1	Level 2	Level 3	Carrying amount
Mandatorily measured at fair value through profit and loss				
Fixed income securities .....	8,095,688		1,480	8,097,169
Shares and other variable income securities .....	1,665,665	227,472	1,766,071	3,659,208
Securities used for hedging .....	24,195,355	79,414		24,274,769
Loans to customers .....			2,346,662	2,346,662
Derivatives .....		1,259,833		1,259,833
<b>Total</b>	<b>33,956,707</b>	<b>1,566,719</b>	<b>4,114,214</b>	<b>39,637,640</b>
Financial liabilities				
Mandatorily measured at fair value through profit and loss				
Short positions held for trading .....	1,239,916			1,239,916
Short positions used for hedging .....				0
Derivatives .....		1,282,341		1,282,341
Other liabilities .....			494,991	494,991
<b>Total</b>	<b>1,239,916</b>	<b>1,282,341</b>	<b>494,991</b>	<b>3,017,248</b>

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

## Notes to the Condensed Interim Consolidated Financial Statements

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

#### e. 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>30.9.2020</b>						
Balance as at 31 December 2019	1,480	1,766,071	2,346,662		(494,991)	3,619,222
Total gains and losses in profit or loss	(18)	286,559	139,797		(312,034)	114,305
Additions		278,457	1,285,959	356,353		1,920,769
Repayments			(105,461)		334,535	229,074
Disposals		(12,262)				(12,262)
Transfers in (out) of Level 3	199,337					199,337
<b>Balance as at 30 September 2020</b>	<b>200,799</b>	<b>2,318,826</b>	<b>3,666,958</b>	<b>356,353</b>	<b>(472,490)</b>	<b>6,070,446</b>
<b>31.12.2019</b>						
Balance as at 31 December 2018	134,944	864,180	2,160,522			3,159,646
Reclassification into Level 3 in accordance with IFRS 9			150,865			150,865
Total gains and losses in profit or loss	(133,463)	212,897	95,505		447,463	622,401
Additions		1,652,385	592,385			2,244,770
Repayments			(652,615)		1,599,864	947,249
Acquisition of subsidiary		928,327			(2,542,318)	(1,613,991)
Disposals		(1,531,253)				(1,531,253)
Transfers in (out) Level 3		(360,466)				(360,466)
<b>Balance as at 31 December 2019</b>	<b>1,480</b>	<b>1,766,071</b>	<b>2,346,662</b>	<b>0</b>	<b>(494,991)</b>	<b>3,619,222</b>

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

Level 3 assets consist primarily of illiquid, unlisted bonds, shares and share certificates and loans measured at fair value. Each asset is evaluated separately but assets within an asset group share a valuation method. The following valuation methods are in use in 2020:

Asset class	Method	Significant unobservable input	Range	Book value
				<b>30.9.2020</b>
Unlisted bonds	Expected recovery	Value of assets	0-95%	200,799
Unlisted variable income securities	Market price	Recent trades	-	2,318,826
Loans to customers	Expert model	Value of assets and collateral	-	3,666,958
<b>Total</b>				<b>6,186,583</b>
				<b>Book value</b>
				<b>31.12.2019</b>
Unlisted bonds	Expected recovery	Value of assets	0-5%	1,480
Unlisted variable income securities	Market price	Recent trades	-	1,766,071
Loan to customers	Expert model	Value of assets and collateral	-	2,346,662
<b>Total</b>				<b>4,114,214</b>

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

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

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

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

	+10%	-10%
Shares and other variable income securities	231,883	(231,883)
Loans to customers	366,696	(366,696)
<b>Total</b>	<b>598,578</b>	<b>(598,578)</b>



## Notes to the Condensed Interim Consolidated Financial Statements

### Other information

#### 51. Pledged assets

The Group has pledged assets, in the ordinary course of banking business, to the Central Bank of Iceland to the amount of ISK 2.7 billion as at 30 September 2020 (2019: ISK 2.7 billion) to secure settlement in the Icelandic clearing systems. Further pledges have been placed in the ordinary course of banking business for netting and set-off arrangements in the total amount of ISK 3.7 billion as at 30 September 2020 (2019: ISK 1.1 billion).

#### 52. 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>30.9.2020</b>		
Management .....	4	136,101
Associates .....	3,738	0
<b>Total</b>	<b>3,742</b>	<b>136,101</b>
	<b>Loans &amp; receivables</b>	<b>Deposits &amp; payables</b>
<b>31.12.2019</b>		
Management .....	354	40,296
Associates .....	208,278	2,995,554
<b>Total</b>	<b>208,632</b>	<b>3,035,851</b>

##### d. Effects on income statement

	Interest income	Interest expense	Fees received	Fees paid
<b>9m 2020</b>				
Management .....	0	527	1,890	15,045
Associates .....	10,379	236	34,634	0
<b>Total</b>	<b>10,379</b>	<b>763</b>	<b>36,524</b>	<b>15,045</b>
	Interest income	Interest expense	Fees received	Fees paid
<b>9m 2019</b>				
Management .....	4,095	2,296	2,690	9,680
Associates .....	903	40,582	36,783	0
<b>Total</b>	<b>4,998</b>	<b>42,878</b>	<b>39,472</b>	<b>9,680</b>

#### 53. Other matters

##### Legal proceedings

The Bank has been served with a written summons whereby owners of a certain real estate have made a claim of ca. ISK 316 million plus interest against Kvika and several other parties in solidum. Kvika has denied the claims of the plaintiffs and does not believe the matter to be of merit. Next hearing in the case will be on 25 November 2020.

#### 54. Events after the reporting date

There are no material events after the reporting date.