Consolidated Financial Statements

31 December 2022

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

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Kvika highlights

31.12.2022

Kvika

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

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

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

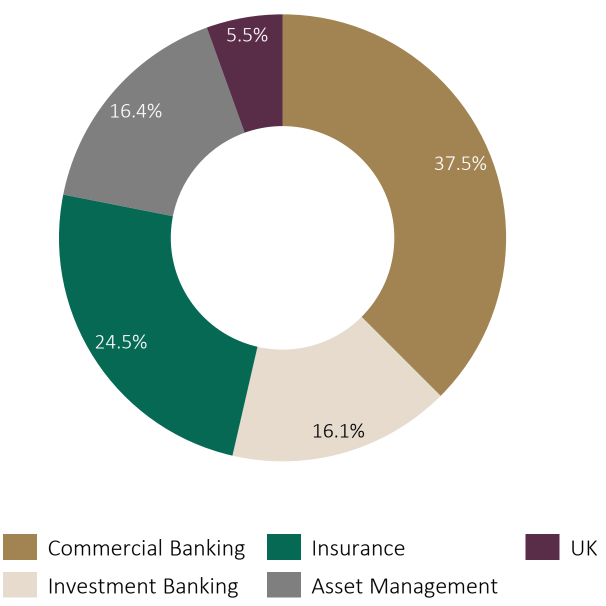
Key figures

ISK m.	2022	2021
Net operating income	19,180	21,997
Profit before taxes	5,621	10,487
RoTE	13.1%	34.7%

	31.12.2022	31.12.2021
Total Assets	303,189	246,240
Loans to customers	107,139	71,588
Deposits	112,245	78,670
LCR	320%	290%
NSFR	140%	130%
Group Solvency	1.36	1.57

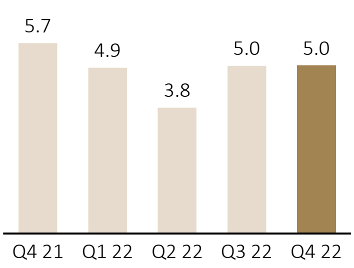
Diversified operations

Revenues by segment / 12M 2022



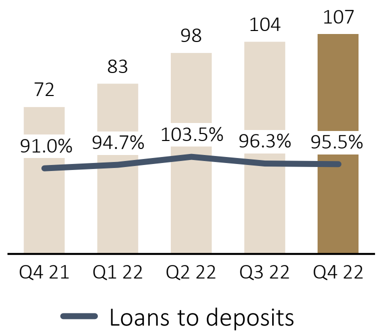
Net operating income

ISK bn.



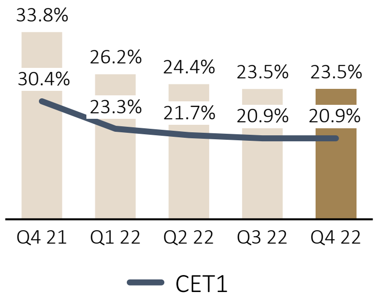
Loans to customers

ISK bn.



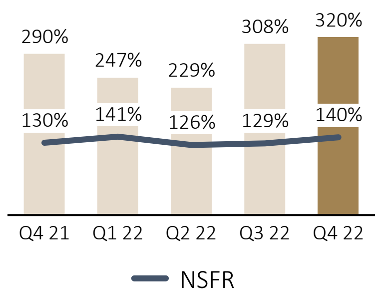
Total capital ratio

(%)



LCR ratio

(%)



Exemplary

Corporate Governance

86/100

Reitun ESG score

Baa2/Prime-2

Outlook: Stable

Endorsement and Statement
by the Board of Directors and the CEO

These are the Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") and its subsidiaries (together the "Group") for the year 2022.

About the Bank

Kvika's core values are long-term thinking, simplicity, and courage. The Group focuses on fostering long-term relationships with its customers by providing high-quality and efficient financial services in core areas.

Kvika banki has grown significantly in recent years and operates under several brands. The main brands, apart from Kvika, are TM, Kvika Asset Management, Lykill, Auður, Netgíró, Aur and Ortus Secured Finance. Additionally, preparations for the operations of a new subsidiary in the field of payment facilitation are under way.

In December 2022, the Bank announced changes to its organizational chart. The objective of the changes is to better prepare the Group for continued operational success and to adjust its structure to a growing Group which continues to lead increased competition and innovation in the financial market. The changes are also in line with the goals and emphasis set forth in strategic planning introduced in November 2021. Part of the Commercial Banking division, along with the Investment Banking division, will form a new revenue division, Corporate Banking and Capital Markets. Corporate Banking and Capital Markets will emphasize Kvika's unique position when it comes to servicing corporations and investors, and make it easier for the Group to use its increased financial strength to better serve its customers. These changes took effect from 1 January 2023. Following the changes Kvika banki will operate two revenue divisions, on the one hand Commercial Banking and on the other Corporate Banking and Capital Markets. Additionally, three revenue divisions are operated through Kvika's subsidiaries: TM, Kvika Asset Management and Kvika Securities in the UK.

The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services, as well as selected banking services. At the end of December 2022 the Group had ISK 462 billion of assets under management, compared to ISK 528 billion at year end 2021. The decrease is mainly caused by divestments of funds (ISK 42 bn.) and poor market performance in the period. The Bank is listed on the main list of Nasdaq OMX Iceland.

Operations during the year 2022

Profit before taxes for the year amounted to ISK 5,621 million (2021: ISK 10,487 million), corresponding to an annualised 13.1% return on weighted tangible equity, based on the tangible equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the year.

Turmoil in the domestic and global capital markets in 2022 caused by the Russian Federation's invasion into Ukraine, rising inflation and interest rates globally and market disruptions due to strict Covid 19 restrictions in China have had a considerable global impact on the prices of securities, and as a result, have affected a number of assets held by the Group. The Group's net operating income during the year was ISK 19,180 million (2021: ISK 21,997 million). Net interest income amounted to ISK 7,675 million (2021: ISK 4,646 million). Net fee income amounted to ISK 6,408 million (2021: ISK 6,828 million). Net premiums and claims amounted to ISK 4,210 million (2021: ISK 4,247 million. Other operating income amounted to ISK 887 million (2021: ISK 6,276 million). Administrative expenses during the year amounted to ISK 13,076 million (2021: ISK 11,635 million). During the year, the Group had a negative net impairment charge of ISK 532 million (2021: positive net impairment charge of ISK 139 million).

The figures in the consolidated income statement for the year 2022 do not include the operations of Ortus Secured Finance ltd. ("Ortus") for January and February as the business combination took place at end of February. Further, the figures in the consolidated income statement for the comparison year 2021 are not directly comparable due to the number of business combinations which were effected during that year. Reference is made to the Consolidated Financial Statements for 2021 for further information on those business combinations.

Balance sheet

According to the Consolidated Statement of Financial Position, equity at the end of the year amounted to ISK 81,190 million (31.12.2021: ISK 78,368 million) and total assets amounted to ISK 303,189 million (31.12.2021: ISK 246,240 million).

Kvika's statement of financial position grew by ISK 57 billion or 23% in 2022. Loans to customers grew by ISK 36 billion or 50% during the year and the growth is mainly attributable to the acquisition of Ortus Secured Finance ltd. earlier in the year as well as increased lending to corporate clients. Liquid assets amount to ISK 116 billion at end of 2022 or 38% of total assets.

Kvika established the Group's first EMTN Programme in year end 2021 with inaugural foreign debt issuance of SEK 500 million in January 2022. In the domestic debt market, Kvika issued bonds in EUR and ISK in the first and fourth quarters. In May 2022 the international ratings agency Moody's Investors Service ("Moody's") assigned a first time Baa2 long-term and Prime-2 short-term foreign and local currency bank deposit and issuer ratings to Kvika. This will further support the Group's issuance of bonds and other funding efforts.

Acquisition of Ortus Secured Finance ltd.

In February 2022, the Group concluded the acquisition of Ortus. Ortus is a British alternative credit provider specialising in property backed lending to borrowers in the United Kingdom. Ortus' headquarters are in London, where it shares an office with Kvika Securities Ltd. The company also operates offices in Belfast, N-Ireland and in Glasgow, Scotland. The transaction is a good strategic fit and allows for significant diversification of the Group's loan portfolio, as well as opportunities to generate synergies in terms of improved funding costs. In accordance with IFRS 3, Business Combinations, the purchase price of Ortus has been allocated to identifiable assets and liabilities acquired. The purchase price allocation process resulted in the recognition of goodwill amounting to ISK 1.8 billion. Refer to note 3 for further information on the acquisition.

Endorsement and Statement
by the Board of Directors and the CEO

Decision to enter the acquiring market in Iceland

In May 2022, it was announced that the Group had signed an asset purchase agreement stating that Group will acquire part of Valitor hf.'s ("Valitor") merchant agreements. The Group's market share will be considerable and it will be a new and strong competitor on the acquiring market in Iceland. The Group currently provides various services with payment solutions and this agreement will further strengthen the Group's position in payment services in Iceland. According to the agreement it is envisaged that the Group will become a Payment Facilitator and will, in the coming months, acquire agreements with the relevant merchants according to provisions of the agreement, which from that point will become customers of the Group. The effects of the agreement on the Bank's capital base are negligible and the effect on the year 2022 operating results is minor. Refer to note 72 for further information.

Merger discussions with Íslandsbanki hf.

In February 2023 the board of directors of Kvika and Íslandsbanki hf. decided to commence discussions on the merger of the two companies. Kvika's board of directors believes that merging the companies would create a strong financial institution with an optimal revenue combination. The merged company could provide its customers with diversified services and would contribute to increased competition in the financial market through fintech and other solutions, as well as being an interesting investment opportunity. At the signing date of the Consolidated Financial Statements the discussion had recently commenced and had therefore not yet yielded any results.

Operational outlook

The outlook for Kvika in 2023 is positive, underpinned by Kvika's five operating segments which provide a diverse source of income for the group. Kvika has a strong financial position with robust liquidity and capital which are well above regulatory requirements. The outlook for Kvika in 2023 is supported by a relatively strong economic outlook for Iceland in international comparison as is further described in the Economic outlook. The economic outlook in the UK is more challenging. According to the IMF's January World Economic Outlook, the UK's GDP is expected to decline modestly by 0.6% in 2023, reflecting tighter fiscal and monetary policies and financial conditions, as well as still-high energy retail prices weighing on household budgets. Although interest margins across Kvika´s UK operations have come under pressure amid Bank of England rate hikes, the tepid growth outlook for the UK is not expected to have material impact on the credit quality of Kvika's outstanding loans in the region, as most of its business is focused on specialised real estate lending with conservative loan-to-value ratio, which continues to average close to 50%.

Economic outlook

In the year end 2022 the Icelandic economy seems to have nearly fully recovered after the sharp contraction that started in 2020 due to the Covid-19 pandemic. In the current environment of steep rise of interest rates and high inflation, households and businesses have shown to be resiliant throughout and post pandemic. It is anticipated that GDP growth in 2022 will be 7.1% but slow down to 2.6% in 2023 to around 2% onwards.

Unemployment is anticipated to remain low or at 3.8% in 2023 and increase slightly as the economy slows down. Historically the labour market has been flexible and has returned to pre-pandemic levels, with increased staffing shortages and wage increases, as the tourism and services sectors have rebounded sharply and in 2023 it is forecasted that 1.9 million tourists will visit Iceland, in line with numbers pre pandemic.

Annual inflation peaked at 9.9% in July 2022 and is forecasted to come off gradually in 2023 with average annual inflation of 6.5% and converge to 3.0% in 2025. The Central Bank of Iceland increased key interest rate by 4.0% in 2022 with key interest rate at 6.0% at year end 2022. Key interest rate are expected to continue to rise in the first half of 2023 and to remain high throughout 2023 but expected to come off in 2024 as inflation is forecasted to come down towards long term target of 2.5%.

Share capital and shareholders

The Bank's issued share capital amounted to ISK 4,929 million as at 31 December 2022 (31.12.2021: ISK 4,907 million). At the end of the year the Bank held ISK 148 million treasury shares (31.12.2021: ISK 117 million). The shares were acquired through a share buy-back programme. The net change in the Bank's issued share capital amounted to a nominal value of ISK 22 million during the year (ISK 2,766 million during the year 2021).

The Bank had 2,992 shareholders at year-end 2022 (2021: 2,820), none of which held more than 10% of shares in the Bank (2021: 0). The ten largest shareholders are as follows:

Shareholder	31.12.2022	31.12.2021
Lífeyrissjóður verzlunarmanna	9.13%	8.20%
Lífeyrissjóður starfsmanna ríkisins A-deild	7.64%	6.28%
Stoðir hf.	6.59%	6.11%
Birta lífeyrissjóður	4.80%	4.33%
Gildi - lífeyrissjóður	4.66%	4.61%
Arion banki hf.	3.41%	4.40%
Stapi lífeyrissjóður	3.07%	3.08%
Lífsverk lífeyrissjóður	2.43%	2.47%
Almenni lífeyrissjóðurinn	2.23%	1.90%
Brú Lífeyrissjóður starfsmanna sveitarfélaga	2.13%	2.14%
	46.09%	43.52%

Further information about the shareholders of the Bank is provided in note 71.

Endorsement and Statement

by the Board of Directors and the CEO

Capital adequacy and dividends

In November 2022, Kvika was notified of final results of the Supervisory Review and Evaluation Process (SREP) carried out by the Financial Supervisory Authority of the Central Bank of Iceland on the assessment of the risk in Kvika’s operations and capital requirements. Key conclusions of the assessment are that Kvika‘s total capital requirement, taking into account all capital buffers, decreased by 4.9% from Kvika‘s last assessment which was completed in 2019. The decrease is mostly caused by the fact that the minimum capital requirement (Pillar 1 and 2) will amount to 11.5% of risk weighted exposures at any given time instead of 15.1%. At year end 2022 the total capital requirement, taking into account all capital buffers, amounted to 17.9%. Kvika's capital adequacy ratio was 23.5 at year end 2022 (2021: 33.8%)

The Group's solvency ratio at 31.12.2022 was 1.36, (31.12.2021: 1.57) with a regulatory minimum requirement of 1.0.

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

The Bank's Board of Directors propose that a dividend of 0.4 ISK per share or ISK 1,912 million, taking into account treasury shares held by the Group, will be paid in the year 2023 on 2022 operations. The dividend payment amounts to 40.1% of Kvika’s profit after tax which is above Kvika’s dividend policy which states that the aim is for shareholders to be returned an annual dividend of at least 25% of last year's profit after taxes, whether in the form of dividends or through the purchase of own shares.

Risk management

The objective of risk management is to promote a good and efficient culture of risk awareness within the Group and to increase the understanding of employees and management on the Group's risk taking, in addition to an assessment process related to risk and capital position. An emphasis is placed on being up to speed on the latest developments and adoption of rules related to risk management, such as regarding capital- and liquidity management. The Group is faced with various kinds of risk that relate to its operations as a financial conglomerate and arise from its day-to-day operations. An active risk management entails analysing risk, measuring it and taking actions to limit it, as well as monitoring risk factors across the Group. The Group’s risk management, and its main operations, are described in the notes accompanying the Consolidated Financial Statements. Refer to notes 47-62 on analysis of exposure to various types of risk.

Corporate governance

Kvika is obliged to observe recognised corporate governance guidelines, pursuant to Par. 7 of Article 54 of Act No. 161/2002, on Financial Undertakings. The Bank complies with chapter VII of Act No. 161/2002 and in most respects with the Guidelines on Corporate Governance issued jointly in February 2021 by the Chamber of Commerce, Confederation of Icelandic Enterprise (SA) and NASDAQ Iceland. The only deviation from the guidelines is that Kvika has not appointed a nomination committee nor decided how one should be appointed as further discussed in an appendix to these financial statements, which contains a corporate governance statement. Kvika has twice been recognized as a company which has achieved excellence in corporate governance following a formal assessment based on the Icelandic Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, Confederation of Icelandic Enterprise (SA) and Nasdaq Iceland, first in 2018 and again in 2021. The recognition applies for three years at a time unless there have been significant changes to the Board of Directors or the ownership of the Bank. The Board of Directors intends to have such an assessment carried out on a regular basis and maintain the aforementioned recognition. Additionally, Kvika complies with Guidelines of the European Banking Authority (EBA) on Internal Governance (EBA/GL/2021/05), cf. Art. 15 of Regulation of the European Parliament and of the Council no. 1093/2010, which was incorporated into Icelandic law with Act no. 24/2017 on European Supervisory System on the Financial Market.

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

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

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

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

The Board of Directors determines the risk policy and risk appetite of the Group with rules on risk management of the financial conglomerate of Kvika, which define risk factors in Kvika’s operations, including their nature and acceptable volume.

Endorsement and Statement
by the Board of Directors and the CEO

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

The Risk Committee has an advisory and supervisory role for the Bank's Board of Directors, among other things, in determining its risk policy and risk appetite. The Audit Committee is intended to play an advisory and supervisory role for the Bank's Board of Directors by, among other things, ensuring the quality of financial statements and other financial information from the Bank and the independence of its auditors. The Audit Committee supervises accounting procedures and the effectiveness of internal controls as well as internal and external auditing. The main aspects of internal and external control and the Bank's management in connection with the accounting process are described in detail in the Statement on the Corporate Governance of Kvika.

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

Sustainability and non-financial reporting

The Group's strategy is to increase competition in financial services and simplify customers' finances. It is possible by utilizing infrastructure, financial strength and offering diverse services. The Group's values are long-term thinking, simplicity, and courage. One of the guiding principles of the policy includes focus on sustainability and social responsibility. Among the Group's seven goals based on the policy is to aim for a reduction in carbon emissions and thus have a measurable impact on Iceland's carbon footprint and climate issues in general. In addition to climate issues, other factors related to sustainability and social responsibility (ESG factors) are also important part of the Group's business model.

In 2022, in-depth strategic sustainability work was undertaken with employees across all units of the Group. The result was a new sustainability policy, adopted in November 2022, that applies to Kvika and the whole Group based on Kvika's ownership strategy for important subsidiaries, which stipulates that sustainability and corporate social responsibility is coordinated throughout the Group. The sustainability policy places greater emphasis than before on sustainability being a natural part of operations and decision-making processes. In the strategy planning emphasis was placed on setting goals and defining projects within four focus areas, which are: product development and innovation, sustainable business environment, internal and external communication, as well as employees and society.

The Group's new sustainability strategy adopts six UN Sustainable Development Goals (UNSDG) to emphasize in the operations. They are goal no. 3 on good health and wellbeing; goal no. 4 on quality education; goal no. 5 on gender equality; goal no. 9 on industry innovation and infrastructure; goal no. 13 on climate action; and goal no. 17 on partnership for the goals.

Kvika's CEO and the Executive Board is responsible for the implementation and execution of the sustainability strategy. The sustainability project manager, together with Kvika's Committee on Social Responsibility and Sustainability, monitor the implementation of sustainability on a consolidated basis. Following the adoption of the new sustainability policy, measures were taken to increase sustainability education and communication.

During the year, a survey was also conducted among the Group's employees and other stakeholders about the materiality of the various categories related to the environment, social affairs, personnel issues, and governance. The results of the survey will be useful when implementing and executing the sustainability policy and when prioritizing sustainability disclosure.

Other ESG-related policies, including policy on education and professional development and a remote work policy, were formulated during the year. Furthermore, the Group´s equality policy, health policy, human resources policy, remuneration policy and a response plan against bullying, harassment and violence were updated to accommodate changes related to the merger of the Bank with TM and Lykill in 2021. The Group operates for the most part in Iceland, where there is a strict law and framework for human rights issues and violations, and therefore a special human rights policy has not been deemed necessary.

The Goup supports national and international climate policy and the Icelandic government's goal of carbon neutrality in 2040. Kvika is a member of the United Nations Principles for Responsible Investment (UN PRI) and a founding member of IcelandSIF, an association for responsible investments. Kvika is also a member of Festa, a center for social responsibility and sustainability, and supports Grænvangur, a cooperation platform between business and government on climate issues and green solutions. Furthermore, during the year, TM applied to become a signatory of the United Nations Principles for Sustainable Insurance (UN PSI).

In November 2022, Kvika became a member of PCAF (e. Partnership for Carbon Accounting Financials), on the development and use of a climate meter for financial companies. During the year, Kvika also calculated financed emission from investments and loans of the Bank and investments of TM, as of the end of the year 2021. That is part of the Group´s work to understand more fully its overall direct and indirect carbon footprint. Kvika has set a goal to have a real and measurable impact on Iceland´s carbon footprint and on climate issues in general. Kvika has not yet though set science-based targets.

Kvika is focused on fintech (financial technology solutions) and automation in its operations, which Kvika considers to be a strength from an environmental perspective, given reduced carbon emission when service is provided online, and reduced use of paper as technology replaces the use of paper. Kvika's new sustainability strategy and strategy on responsible lending and investment, which is an appendix to the Bank´s credit rules, are focused on green and sustainable lending. Accordingly, internal incentives were adopted for the Bank's business units during the year, which include more favourable internal pricing on green projects than other. By such means, Kvika aims to encourage the business units to seek opportunities in green lending and thereby support green investments.

Emissions of greenhouse gases due to the use of own vehicles, heat, and electricity (scope 1 and 2) and Kvika's total emissions (scope 1, 2 and 3) have increased, parallel with increased activity in operations, following the merger of Kvika with TM and Lykill in 2021. Kvika has been successful in reducing carbon emissions when looking at energy efficiency since 2020, as energy consumption per employee has decreased by 17%. Emission capacity based on the number of employees was similar between 2021 and 2022. Kvika has offset measured carbon emissions for the year 2022 with certified carbon units from the United States-based company Aspiration, which sells certified carbon credits, originating from quality carbon projects.

Endorsement and Statement
by the Board of Directors and the CEO

Efforts have been made to gain a better overview of risks related to climate change during the year. Climate risk, together with social factors and governance, form the regulatory framework for sustainability risk management. Kvika looks towards the TCFD (Task Force on Climate Related Financial Disclosure) guidelines in its sustainability risk framework. A rough assessment was made of the impact of climate risk during the year based on the sectors of the Bank's loan and asset portfolio. Results indicate that the weight of climate risk is insignificant according to this first analysis. The industry categories of the loan portfolio are monitored, which could potentially carry some climate risk, mostly transition risk. Climate-related issues are part of the board's regular agenda as the risk management informs Kvika's board about climate related risk annually.

In 2022, the position of an expert in sustainability was established at Kvika Asset Management ("KAM") and a sustainability forum for discussion of sustainability risks and product development at KAM. During the year, KAM has further developed its internal ESG risk assessment methodology to evaluate its portfolio and analyse the extent to which companies are exposed to ESG risk factors. About 36% of KAM's portfolio has undergone an ESG risk assessment. TM has used the same methodology when ESG evaluating its investment portfolio. At TM, emphasis has been placed on improving processes regarding ESG focus to customers and partners, e.g. with ESG risk assessments. TM continues to focus on automation, such as in its claims departments and other services.

Kvika has established rules for protection against conflicts of interest, the aim of which is to increase credibility and protect the Bank's reputation. They are also intended to prevent, or deal with, conflicts of interest that may occur in connection with investment services or additional services. Rules have also been adopted for gifts, rewards, and incentive payments, as well as a policy on reputational risk and conduct risk, rules on the separation of work areas and rules on staff's own business. These rules and policies are on a consolidated basis and, in addition to the code of conduct, lay the foundation for the Group's defences against corruption and bribery.

Additionally, the Bank has established rules and relevant processes, as well as monitoring for actions against money laundering and terrorist financing, in accordance with relevant laws and regulations, and performs regular monitoring. Kvika performs a risk assessment of all its activities and individual business relationships. Due diligence is carried out before the establishment of a contractual relationship and regularly during the lifetime of an ongoing business relationship. For risk classification of business relationships and regular transaction monitoring, Kvika uses Lucinity, which is a digital system that uses modern technology and artificial intelligence to spot suspicious behaviour.

Community restrictions due to the corona virus epidemic were abolished in the first half of 2022. Although the epidemic has taken a toll on Icelandic society, positive changes at the Group can be pointed out, such as an increased emphasis on health education to employees, both physical and mental health, as well as increased flexibility for staff with a new remote work policy. Work has been done to update Kvika's sponsorship policy, which is in line with the UNSDG adopted by Kvika, and the total amount of sponsorships at the group during the year was ISK 86,965,000.

An annual attitude survey among employees was carried out during the year, which measures, among other things, job satisfaction, stress, equality, and balance between work and personal life of employees. Job satisfaction measured an average of 4.38 out of a possible 5, and employee dedication was an average of 4.09. Employee turnover of full-time employees at the Group in 2022 was 9,3%. The percentage of women in the group is 47%, and the percentage of women in management positions at the Group is 40%.

Kvika complies with Article 66. d. of the Act on Annual Accounts no. 3/2006 on non-financial disclosure. Along with this financial statement Kvika publishes a sustainability report for 2022 based on ESG indicators according to the ESG guidelines of Nasdaq in the Nordics (ESG Reporting Guide 2.0) and to a limited extent based on GRI indicators according to the Global Reporting Initiative Standards (GRI). One chapter contains a section that is the Bank's impact and allocation report according to Kvika's green financial framework. Deloitte provides a limited assurance opinion on Kvika's sustainability and non-financial disclosures for the year 2022, as well as on the allocation of green funds according to Kvika´s green financing framework.

More information on Kvika´s sustainability and non-financial information can be found in the sustainability report that accompanies this Consolidated Financial Statement, and is available on the Bank's website www.kvika.is.

Endorsement and Statement
by the Board of Directors and the CEO

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Kvika banki hf. for the year 2022 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and additional requirements, as applicable, in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions no. 834/2003.

To the best of our knowledge these Consolidated Financial Statements give a true and fair view of the Group's assets, liabilities and financial position as at 31 December 2022 and the financial performance of the Group and changes of cash flows for the year 2022. Furthermore, in our opinion the Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

In our opinion, the Consolidated Financial Statements of Kvika banki hf. for the year 2022 identified as "254900WR3I1Z9NPC7D84-2022-12-31-en" are prepared in all material respects, in compliance with the European Single Electronic Format Regulation (ESEF).

The Board of Directors and the CEO of the Bank have today discussed the Consolidated Financial Statements for the year 2022, and confirm them by the means of their signatures.

Reykjavík, 15 February 2023.

Board of Directors:

Sigurður Hannesson, Chairman

Guðmundur Þórðarson, Deputy Chairman

Helga Kristín Auðunsdóttir

Ingunn Svala Leifsdóttir

Guðjón Reynisson

Chief Executive Officer

Marinó Örn Tryggvason

The consolidated financial statements of Kvika banki hf. for the year ended 31 December 2022 are electronically certificated by the Board of Directors and the CEO.

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Kvika banki hf. for the year ended December 31, 2022 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Kvika banki hf. as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements, as applicable, in the Act on Annual Accounts, the Act on Financial Undertakings and rules on accounting for credit institutions.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Kvika banki hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the EU Audit Regulation 537/2014 Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU . We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters	**How the matter was addressed in our audit**
Impairment charges for loans	
Loans for the group amounted to ISK 107,139 million at year end and the total allowance for the group amounted to ISK 2,666 million against loans at amortized cost, unused credit facilities and guarantees at 31 December 2022. Measurement of loan impairment charges is considered a key audit matter as the determination of assumptions for expected credit losses is highly subjective due to the level of judgement applied by management. The most significant judgements are: • Assumptions used in the expected credit loss models to incorporate forward looking information • Timely identification of exposures with significant increase in credit risk and credit impaired exposures. • Valuation of collateral and assumptions of future cash flows on manually assessed credit-impaired exposures. • Management overlays for particular exposures, which are not appropriately captured in the expected credit loss model. Management has provided further information about expected credit losses and provisions for guarantees in notes 23, 49 and 93 to the consolidated financial statements.	Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans and provisions for undrawn loan commitments and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter. During our audit we have evaluated whether the groups expected credit loss models are compliant to IFRS 9. Our examination included the following elements: • Testing of key controls over assumptions used in the expected credit loss models. • Substantively testing the valuation of collateral with particular focus on management overlays applied to collateral value. • Substantively testing the PD model from Credit Info and how it has been calibrated to represent the banks portfolio. • Testing the appropriateness of forward looking information and how they have been applied in the expected credit loss models. We have reviewed the disclosures to the consolidated financial statements to confirm compliance with IFRS.

Independent Auditor's Report

Measurement of liabilities under insurance contracts	
Liabilities under insurance contracts for the Group amounted to ISK 24,362 million at 31 December 2022. There of claims provision amounted to 17,860 million. Measurement of claims provision is deemed a key audit matter as the determination of assumptions for the measurement of claims provision requires Management to apply judgements about future events. Changes in assumptions and the methodology applied may have a material impact on the measurement of claims provision. Management has provided further information about liabilities under insurance contracts in notes 33 and 103 to the consolidated financial statements.	Based on our risk assessment, we have examined the valuation of claims provision and evaluated the methodology applied and the assumptions made. Our examination included the following elements, where we also made use of our internationally qualified actuaries: • Testing of key controls over the actuarial models, data collection and analysis and the assumptions-setting processes. • Performed substantive testing on reported claims and estimated whether the liability was sufficiently recognized. • Evaluated managements first estimates of claims when further information is missing. • Evaluated management methodology and calculations of IBNR. • Reconcliations of reported and IBNR claims at year end. In addition we have evaluated whether disclosures in the consolidated financial statements are in accordance with International Financial Reporting Standards (IFRS).

Other information

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

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

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

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

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

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements, as applicable, in the Act on Annual Accounts, the Act on Financial Undertakings and rules on accounting for credit institutions, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the consolidated financial statements of Kvika banki hf. we performed procedures to be able to issue an opinion on whether the consolidated financial statements of Kvika banki hf. for the year 2022 with the file name 254900WR3I1Z9NPC7D84-2022-12-31-en is prepared, in all material respects, in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the consolidated financial statements in XHTML format and iXBRL markup.

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

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

In our opinion, the consolidated financial statements of Kvika banki hf. for the 2022 with the file name 254900WR3I1Z9NPC7D84-2022-12-31-en is prepared, in all material respects, in compliance with the ESEF Regulation.

Deloitte was appointed auditor of Kvika banki hf. by the general meeting of shareholders on 31 March 2022. Deloitte have been elected since the general meeting 2016.

Kópavogur, 15 February 2023.

Deloitte ehf.

Pálína Árnadóttir

State Authorized Public Accountant

The consolidated financial statements of Kvika banki hf. for the year ended 31 December 2022 are electronically certificated by the auditors.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Income Statement
For the year 2022

	Notes	2022	2021
Interest income		15,208,446	7,084,596
Interest expense		(7,532,996)	(2,438,481)
Net interest income	5	7,675,450	4,646,115
Fee and commission income		6,902,601	7,224,480
Fee and commission expense		(494,491)	(396,739)
Net fee and commission income	6	6,408,110	6,827,741
Earned premiums, net of reinsurers' share		16,517,836	11,808,210
Claims incurred, net of reinsurers' share		(12,307,539)	(7,560,809)
Net premiums and claims	7	4,210,297	4,247,400
Net financial income	8	272	5,671,978
Share in profit (loss) of associates, net of income tax	26	26,725	(27,566)
Other operating income		859,600	631,391
Other net operating income		886,597	6,275,803
Net operating income		19,180,453	21,997,059
Administrative expenses	10-13	(13,075,783)	(11,634,885)
Net impairment	14	(531,823)	138,842
Revaluation of contingent consideration		(17,646)	(97,548)
Revaluation of investment properties	27	65,398	83,095
Profit before taxes		5,620,600	10,486,563
Income tax	15	(212,479)	347,634
Special tax on financial activity	16	(309,391)	(35,454)
Special tax on financial institutions	17	(185,348)	(135,299)
Profit for the year		4,913,381	10,663,444

	Notes	2022	2021
Attributable to the shareholders of Kvika banki hf.		4,882,945	10,734,181
Attributable to non-controlling interest	25	30,437	(70,737)
Profit for the year		4,913,381	10,663,444
Earnings per share	18		
Basic earnings per share (ISK per share)		1.02	2.62
Diluted earnings per share (ISK per share)		1.02	2.56

The notes on pages 18 to 79 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Comprehensive Income
For the year 2022

	Notes	2022	2021
Profit for the year		4,913,381	10,663,444
Changes in fair value of financial assets through OCI, net of tax		(537,359)	(108,180)
Realized net loss transferred to the Income Statement, net of tax		37,864	11,522
Changes to reserve for financial assets at fair value through OCI		(499,495)	(96,657)
Exchange difference on translation of foreign operations		(3,706)	12,238
Other comphrehensive income that is or may be reclassified subsequently to profit and loss		(503,202)	(84,419)
Total comprehensive income for the year		4,410,180	10,579,025

	Notes	2022	2021
Attributable to the shareholders of Kvika banki hf.		4,374,678	10,649,762
Attributable to non-controlling interest		35,502	(70,737)
Total comprehensive income for the year		4,410,180	10,579,025

The notes on pages 18 to 79 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Financial Position

As at 31 December 2022

Assets	Notes	31.12.2022	31.12.2021
Cash and balances with Central Bank	19	36,670,586	38,645,894
Fixed income securities	20	65,160,407	40,046,651
Shares and other variable income securities	21	19,410,508	22,683,295
Securities used for hedging	22	13,841,853	22,085,696
Loans to customers	23	107,139,227	71,587,646
Derivatives	24	4,940,738	2,734,216
Investment in associates	26	88,988	67,000
Investment properties	27	1,165,398	1,100,000
Intangible assets	28	34,079,900	31,455,409
Operating lease assets	29	884,222	1,458,621
Property and equipment		480,706	405,695
Deferred tax assets	15, 30	3,232,933	3,177,763
Reinsurance assets	33	627,469	749,383
Other assets	31	15,465,850	10,042,553
Total assets		303,188,786	246,239,821

Liabilities			
Deposits	32	112,245,198	78,669,807
Technical provision	33	24,362,281	22,434,447
Borrowings	34	28,120,009	17,261,048
Issued bonds	35	38,103,414	32,597,716
Subordinated liabilities	36	3,686,451	3,371,766
Short positions held for trading	37	1,486,107	1,323,631
Short positions used for hedging	38	1,343,186	1,280,868
Derivatives	24	1,609,537	3,008,401
Current tax liabilities		203,214	347,068
Deferred tax liabilities	30	944,274	899,942
Other liabilities	39	9,894,650	6,677,507
Total liabilities		221,998,322	167,872,201

Equity			
Share capital	40	4,781,026	4,790,139
Share premium		48,602,825	50,316,002
Other reserves		3,068,159	9,613,793
Retained earnings		24,661,171	13,696,745
Total equity attributable to the shareholders of Kvika banki hf.		81,113,180	78,416,678
Non-controlling interest	25	77,285	(49,058)
Total equity		81,190,465	78,367,620
Total liabilities and equity		303,188,786	246,239,821

The notes on pages 18 to 79 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Changes in Equity
For the year 2022

				Other reserves										
1 January 2022 to 31 December 2022	**Notes**	**Share capital**	**Share premium**	**Option reserve**	**Warrants reserve**	**Deficit reduction reserve**	**Fair value reserve**	**Trans-lation reserve**	**Restricted retained earnings**	**Retained earnings**	**Total share-holders' equity**	**Non-controlling interest**	**Total equity**
Equity as at 1 January 2022		4,790,139	50,316,002	4,430	56,468	3,103,697	(74,823)	66,109	6,457,912	13,696,745	78,416,678	(49,058)	78,367,620
Profit for the year										4,882,945	4,882,945	30,437	4,913,381
Changes in fair value of financial assets through OCI							(537,359)				(537,359)		(537,359)
Realized net loss transferred to the Income Statement							37,864				37,864		37,864
Translation of foreign operations													
Exchange difference on translation of foreign operations								(8,772)			(8,772)	5,066	(3,706)
Total comprehensive income for the year		0	0	0	0	0	(499,495)	(8,772)	0	4,882,945	4,374,678	35,502	4,410,180
Restricted due to subsidiaries and associates									(4,321,471)	4,321,471	0		0
Restricted due to development costs									89,050	(89,050)	0		0
Transfer from deficit reduction reserve						(1,900,000)				1,900,000	0		0
Transactions with owners of the Bank													
Capital increase		138,758	1,086,482								1,225,240		1,225,240
Treasury shares acquired as part of a buy-back programme		(147,871)	(2,856,127)								(3,003,998)		(3,003,998)
Stock options	70			151,521						39,902	191,423		191,423
Warrants exercised	41		56,468		(56,468)						0		0
Other transactions													
Acquisition of non-controlling interest via purchase										(90,841)	(90,841)	90,841	0
Equity as at 31 December 2022		4,781,026	48,602,825	155,951	0	1,203,697	(574,319)	57,338	2,225,492	24,661,171	81,113,180	77,285	81,190,465

The notes on pages 18 to 79 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Changes in Equity
For the year 2021

				Other reserves									
1 January 2021 to 31 December 2021	**Notes**	**Share capital**	**Share premium**	**Option reserve**	**Warrants reserve**	**Deficit reduction reserve**	**Fair value reserve**	**Trans- lation reserve**	**Restricted retained earnings**	**Retained earnings**	**Total share- holders' equity**	**Non- controlling interest**	**Total equity**
Equity as at 1 January 2021		2,141,002	4,290,521	0	149,462	3,103,697	27,293	54,520	1,679,930	7,740,546	19,186,971	21,030	19,208,001
Profit for the year										10,734,181	10,734,181	(70,737)	10,663,444
Changes in fair value of financial assets through OCI							(108,180)				(108,180)		(108,180)
Realized net loss transferred to the Income Statement							11,522				11,522		11,522
Translation of foreign operations													
Exchange difference on translation of foreign operations								11,589			11,589	649	12,238
Total comprehensive income for the year		0	0	0	0	0	(96,657)	11,589	0	10,734,181	10,649,113	(70,088)	10,579,025
Restricted due to subsidiaries and associates									4,777,983	(4,777,983)	0		0
Prior year adjustment							(5,459)				(5,459)		(5,459)
Transactions with owners of the Bank													
Capital increase		2,766,392	48,673,652								51,440,045		51,440,045
Own shares aquired through business combination		(6,400)	(126,720)								(133,120)		(133,120)
Treasury shares acquired as part of a buy-back programme		(117,256)	(2,741,165)								(2,858,422)		(2,858,422)
Transactions with own shares		6,400	126,720								133,120		133,120
Stock options	70			4,430							4,430		4,430
Warrants exercised			92,994		(92,994)						0		0
Equity as at 31 December 2021		4,790,139	50,316,002	4,430	56,468	3,103,697	(74,823)	66,109	6,457,912	13,696,745	78,416,678	(49,058)	78,367,620

The notes on pages 18 to 79 are an integral part of these Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Consolidated Statement of Cash Flows

For the year 2022

Cash flows from operating activities	Notes	2022	2021
Profit for the year		4,913,381	10,663,444
Adjustments for:			
Indexation and exchange rate difference		883,787	89,214
Share loss of associates, net of income tax		(26,725)	27,566
Depreciation and amortisation		1,584,933	1,966,889
Net interest income		(7,675,450)	(4,646,115)
Net impairment		531,823	(138,842)
Income tax		212,479	(329,374)
Investment properties, fair value change		(65,398)	(83,095)
Other adjustments		98,030	(71,925)
		456,862	7,477,762
Changes in:			
Fixed income securities		(25,738,126)	3,833,960
Shares and other variable income securities		2,048,054	(5,042,426)
Securities used for hedging		8,243,842	(2,465,456)
Loans to customers		(22,900,240)	(2,802,876)
Derivatives - assets		(2,206,522)	(763,439)
Operating lease assets		336,993	946,974
Other assets		(4,459,405)	1,558,140
Deposits		31,715,859	18,479,161
Technical provision		2,416,668	(276,730)
Short positions		224,794	351,965
Derivatives - liabilities		(2,073,983)	1,215,432
Other liabilities		2,412,906	(380,224)
		(9,979,157)	14,654,481
Interest received		14,169,572	6,555,029
Interest paid		(6,624,663)	(1,905,378)
Income tax paid		(212,479)	0
Net cash (to) from operating activities		(2,189,865)	26,781,893
Cash flows from investing activities			
Acquisition of intangible assets	28	(835,246)	(458,271)
Net sale (acquisition) of property and equipment		(270,542)	(160,551)
Dividend from associates		6,087	3,750
Acquisition of subsidiary and associates, net of cash	3	(318,994)	3,741,180
Lease receivable payments		0	19,915
Net cash (to) from investing activities		(1,418,694)	3,146,023
Cash flows from financing activities			
Borrowings		(1,543,572)	(12,600,892)
Issued bills		0	(5,291,000)
Issued bonds		5,551,208	223,107
Subordinated liabilities		0	(1,258,799)
Increase (decrease) in share capital and share premium		1,225,240	1,994,343
Aquired own shares		(3,003,998)	(2,858,421)
Repayment of lease liabilities		(410,412)	(299,701)
Net cash from (to) financing activities		1,818,466	(20,091,363)
Net change in cash and balances with Central Bank		(1,790,093)	9,836,553
Cash and balances with Central Bank at the beginning of the year		38,645,894	28,945,030
Effects of exchange rate fluctuations on cash and balances with Central Bank		(185,215)	(135,688)
Cash and balances with Central Bank at the end of the year	19	36,670,586	38,645,894

The notes on pages 18 to 79 are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

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General information

1. Reporting entity

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

The Consolidated Financial Statements for the year ended 31 December 2022 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). During 2022, the Group operated five business segments, Asset Management, Corporate Banking, Insurance Services, Investment Banking and UK operations. In December 2022, the Bank announced changes to its organizational chart, which took effect from 1 January 2023. The objective of the changes is to better prepare the Group for continued operational success and to adjust its structure to a growing Group which continues to lead increased competition and innovation in the financial market. The changes are also in line with the goals and emphasis set forth in strategic planning introduced in November 2021. Part of the Commercial Banking division, along with the Investment Banking division, will form a new revenue division, Corporate Banking and Capital Markets. The new revenue division will emphasize Kvika's unique position when it comes to servicing corporations and investors, and make it easier for the Group to use its increased financial strength to better serve its customers. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services as well as selected banking services.

The Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 15 February 2023.

2. Basis of preparation

a. Statement of compliance

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

b. Basis of measurement

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

- fixed income securities are measured at fair value;
- shares and other variable income securities are measured at fair value;
- securities used for hedging are measured at fair value;
- certain loans to customers which are measured at fair value;
- derivatives are measured at fair value;
- investment properties are measured at fair value;
- certain receivables are measured at fair value;
- shared based payment is accounted for in accordance with IFRS 2;
- contingent consideration is measured at fair value;
- short positions are measured at fair value; and
- technical provision is measured in accordance with IFRS 4.

c. Functional and presentation currency

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

The Group's assets and liabilities which are denominated in other currency than ISK are translated to ISK using the exchange rate as at the end of day 31 December 2022.

d. Going concern

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

e. Estimates and judgements

The preparation of 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 Consolidated Financial Statements is provided in note 117.

f. Relevance and importance of notes to the reader

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

3. Business combinations

Acquisition of Ortus Secured Finance ltd.

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

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

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

The Group has a contractual agreement to acquire the remaining 21.8% of shareholding in 2024 and 2026. As a result of this, there is no non-controlling interest recognised in the Group. At the acquisition date, this item was recorded as a derivative liability with at fair value of ISK 692 million. It will be reassessed on a quarterly basis for further fair value adjustments, which will be recognised through the Consolidated Income Statement.

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

In accordance with IFRS 3, Business Combinations, the total consideration has been allocated to Ortus' identifiable assets and liabilities acquired, that have been re-measured to fair value at the acquisition date. The purchase price allocation led to capitalized intangible assets amounting to ISK 2,668 million, reference is made to note 28 for more information. The following table summarises the consideration paid for Ortus and the recognised amounts of assets acquired and liabilities assumed at the acquisition date, being 28 February 2022.

Identifiable assets acquired and liabilities assumed **Assets**	**Book value at acquisition date**	**Fair value changes**	**Total**
Cash and cash equivalents	3,367,206		3,367,206
Loans to customers	11,598,808		11,598,808
Intangible assets	0	2,668,287	2,668,287
Other assets	554,825		554,825
Total	15,520,839	2,668,287	18,189,125
Liabilities			
Borrowings	12,402,533		12,402,533
Other liabilities	214,589		214,589
Total	12,617,122	0	12,617,122
Total identifiable net assets			2,903,717
Acquisition price			5,572,004
Calculated goodwill on acquisition			2,668,287

The figures in the consolidated income statement for the year 2022 do not include the operations of Ortus during January and February as the acquisition took place at end of February. If the acquisition had occurred on 1 January 2022, it is estimated that the consolidated net operating income would have been ISK 19,316 million and the consolidated profit before tax for the year would have been ISK 5,648 million. Net income for Ortus for the period from acquisition date to year end amounted to ISK 1,052 million and profit before tax ISK 91 million.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Segment information

4. Business segments

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

Reportable segments

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

- Insurance
  The TM insurance group offers its customers comprehensive insurance services, including life insurance.
- Asset Management
  Products and services offered include asset management involving both domestic and foreign assets, private banking, and private pension plans. The management of a broad range of mutual funds, investment funds and institutional investor funds is include in this segment through the operations of Kvika eignastýring hf. and Gamma Capital Management hf.
- Commercial Banking
  Commercial Banking offers various forms of banking services and related advisory services, in addition to providing specialised lending services. Included in this operating segment is Lykill, the leasing operations of the Group, and the Group's fintech operations, such as Auður, Netgíró and Aur.
- Investment Banking
  Investment Banking consists of Capital Markets and Corporate Finance. The functions of Market Making and Treasury are also included in the segment although they are a part of Kvika's Finance division.
- UK operations
  The UK operations consist of asset management and corporate finance services through Kvika Securities Ltd. and specialised lending services through Ortus Secured Finance Ltd.
  UK operations is the only geographic area outside of Iceland and accounts for 5.5% (2021: 4.8%) of Net operating income.

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

2022	Insurance	Asset Management	Commercial Banking	Investment Banking	UK operations	Supporting units	Total
Net interest income	590,492	2,377	4,728,338	2,000,766	452,856	(99,379)	7,675,450
Net fee and commission income	(3,227)	3,068,805	1,293,929	1,652,450	349,492	46,660	6,408,110
Net premiums and claims	4,210,297	-	-	-	-	-	4,210,297
Net financial income	(278,089)	62,421	588,256	(620,168)	247,678	172	272
Share in profit of associates	(0)	(68)	26,793	-	-	-	26,725
Other operating income	187,787	9,089	559,556	-	(1,098)	104,267	859,600
Net operating income	4,707,260	3,142,624	7,196,872	3,033,048	1,048,928	51,721	19,180,453
Salaries and related expenses	(1,636,218)	(1,080,555)	(841,763)	(847,114)	(416,019)	(2,399,934)	(7,221,603)
Other operating expenses	(1,555,920)	(84,732)	(1,444,439)	(281,876)	(561,705)	(1,925,508)	(5,854,180)
Net impairment	35,498	-	(473,618)	432	(94,136)	-	(531,823)
Revaluation of contingent consideration	-	(17,646)	-	-	-	-	(17,646)
Revaluation of investment properties	65,398	-	-	-	-	-	65,398
Cost allocation	(983,422)	(866,607)	(1,364,364)	(838,531)	(217,730)	4,270,655	-
Profit (loss) before tax	632,596	1,093,085	3,072,688	1,065,958	(240,661)	(3,066)	5,620,600
Net segment revenue from external customers	4,610,232	3,148,027	7,030,533	2,742,407	1,606,200	43,054	19,180,453
Net segment revenue from other segments	97,029	(5,402)	166,338	290,641	(557,272)	8,667	0

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

4. Business segments (cont.)

2021	Insurance	Asset Management	Commercial Banking	Investment Banking	UK operations	Supporting units	Total
Net interest income	205,437	(654)	3,365,277	1,140,324	(59,298)	(4,971)	4,646,115
Net fee and commission income	(14,483)	3,700,065	857,952	1,528,891	704,561	50,755	6,827,741
Net premiums and claims	4,247,400	-	-	-	-	-	4,247,400
Net financial income	3,399,270	79,056	655,736	1,135,363	402,553	-	5,671,978
Share in profit of associates	0	(1,864)	(28,201)	-	-	2,498	(27,566)
Other operating income	84,510	7,078	517,837	2,646	-	19,319	631,391
Net operating income	7,922,134	3,783,682	5,368,601	3,807,225	1,047,816	67,602	21,997,059
Salaries and related expenses	(1,163,622)	(1,149,644)	(665,856)	(783,455)	(506,127)	(2,010,955)	(6,279,660)
Other operating expenses	(1,127,112)	(95,716)	(1,417,256)	(200,400)	(546,219)	(1,968,522)	(5,355,225)
Net impairment	(8,245)	-	149,572	-	-	(2,484)	138,842
Revaluation of contingent consideration	-	(97,548)	-	-	-	-	(97,548)
Revaluation of investment properties	-	-	83,095	-	-	-	83,095
Profit (loss) before cost allocation and tax	5,623,155	2,440,773	3,518,156	2,823,369	(4,530)	(3,914,360)	10,486,563
Net segment revenue from external customers	7,920,167	3,823,249	6,074,775	3,008,029	1,102,892	67,948	21,997,059
Net segment revenue from other segments	1,968	(39,567)	(706,174)	799,195	(55,076)	(346)	0

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Income statement

5. Net interest income

Interest income is specified as follows:

	2022	2021
Cash and balances with Central Bank	1,001,738	98,077
Derivatives	2,422,309	1,358,756
Loans to customers	9,622,075	4,985,407
Fixed income securities (FVOCI)	1,902,457	459,687
Other interest income	259,866	182,670
Total	15,208,446	7,084,596

Interest expense is specified as follows:

	2022	2021
Deposits	2,957,125	688,525
Borrowings	1,417,832	325,855
Issued bills	0	34,334
Issued bonds	2,404,363	866,116
Subordinated liabilities	518,940	385,960
Derivatives	95,360	10,557
Other interest expense*	139,376	127,136
Total	7,532,996	2,438,481
Net interest income	7,675,450	4,646,115

* Thereof are lease liabilities' interest expense amounting to ISK 96 million (2021: ISK 39 million).

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 10,681 million (2021: ISK 5,021 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 7,437 million (2021: ISK 2,432 million).

6. Net fee and commission income

Fee income and expenses are presented on a net fee basis, as presented in internal reporting to management for decision making purposes, and broken down by business segments. The business segments are representative of the nature and types of activity from which the Group generates fee income from. A description of each business segment is provided in note 4. As discussed in that note, the Group changed the structure of its internal reporting and reportable segments during 2022. The figures for the period in 2022 reflect this structure and the comparison amounts have been restated accordingly.

Net fee and commission income by business segment	2022	2021
Insurance	(3,227)	(14,483)
Asset Management	3,068,805	3,700,065
Commercial Banking	1,293,929	857,952
Investment Banking	1,652,450	1,528,891
UK operations	349,492	704,561
Supporting units	46,660	50,755
Total	6,408,110	6,827,741

7. Net premiums and claims

Net premiums and claims is specified as follows:

Earned premiums, net of reinsurers' share	2022	2021
Premiums written	17,878,052	8,048,480
Premiums written, reinsurers' share	(891,759)	(315,788)
Change in provision for unearned premiums	(487,411)	4,484,240
Change in provision for unearned premiums, reinsurers' share	18,954	(408,723)
Total	16,517,836	11,808,210

Claims incurred, net of reinsurers' share	2022	2021
Claims paid	(11,288,304)	(8,126,007)
Claims paid, reinsurers' share	545,937	853,013
Change in provision for claims due to insurance operations	(1,352,124)	245,620
Change in risk margin	(72,247)	5,075
Change in provision for claims, reinsurers' share	(140,802)	(538,510)
Total	(12,307,539)	(7,560,809)
Net premiums and claims	4,210,297	4,247,400
Combined ratio	95.3%	84.1%

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

8. Net financial income

Net financial income is specified as follows:

	2022	2021
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities	641,136	622,126
Financial assets at fair value through OCI	(47,330)	(14,403)
Shares and other variable income securities	(131,725)	4,647,213
Derivatives	(608,946)	388,524
Loans to customers	(6,120)	(36,956)
Unwinding, interest and exchange rate change of technical provision	(16,118)	488
Foreign currency exchange difference	169,374	64,987
Total	272	5,671,978

9. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	2022	2021
Gain (loss) on financial instruments at fair value through profit and loss	434,301	(148,309)
(Loss) gain on other financial instruments	(264,927)	213,295
Total	169,374	64,987

10. Administrative expenses

Administrative expenses are specified as follows:	2022	2021
Salaries and related expenses	7,221,603	6,279,660
Other operating expenses	4,258,430	3,627,764
Depositors' and Investors' Guarantee Fund contributions	10,817	31,718
Depreciation and amortisation	1,324,255	1,243,431
Depreciation of right of use asset	260,679	452,312
Total	13,075,783	11,634,885

11. Salaries and related expenses

Salaries and related expenses are specified as follows:	2022	2021
Salaries	5,488,641	4,675,858
Performance based payments excluding share-based payments	149,063	275,830
Share-based payment expenses	104,889	4,389
Pension fund contributions	733,535	642,849
Tax on financial activity	320,888	306,555
Other salary related expenses	424,586	374,179
Total	7,221,603	6,279,660
Average number of full time employees during the year	348	316
Total number of full time employees at year-end	367	331

The figures for 2021 do not include employees of Ortus Secured Finanace ltd. At the beginning of 2022, Ortus had 18 full time employees and Kvika and its subsidiaries had 331, or 349 in total.

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a tax based on salary payments, called tax on financial activity. The current tax rate is 5.50% (2021: 5.50%).

Notes to the Consolidated Financial Statements

12. Employment terms of the Board of Directors and management

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

			31.12.2022			31.12.2021
	Salaries and benefits	Number of shares	Warrants & options	Salaries and benefits	Number of shares	Warrants & options
Marinó Örn Tryggvason, CEO	59,659	7,460	1,872	63,756	3,427	7,390
Sigurður Hannesson, Chairman of the Board and member of the Risk and Remuneration committees	19,894	8,550	0	17,461	8,550	0
Guðmundur Þórðarson, Deputy Chairman of the Board and chairperson of the Risk committee	14,184	66,750	0	10,002	66,750	0
Guðjón Karl Reynisson, Board member and chairperson of the Remuneration committee	10,999	10,411	0	9,379	10,411	0
Helga Kristín Auðunsdóttir, Board member and member of the Audit committee	13,920	0	0	8,916	0	0
Ingunn Svala Leifsdóttir, Board member and chairperson of the Audit committee	10,497	0	0	3,159	0	0
Sigurgeir Guðlaugsson, alternate Board member	501	0	0	0	0	0
Helga Jóhanna Oddsdóttir, alternate Board member	292	0	0	0	0	0
Hrönn Sveinsdóttir, former member of the Audit committe and former Board member	0	0	0	4,759	0	0
Inga Björg Hjaltadóttir, former member of the Audit committe and former Board member	0	0	0	5,579	0	0
Kristín Friðgeirsdóttir, former Board member and former member of the Audit committee	0	0	0	1,229	0	0
Albert Þór Jónsson, former alternate Board member	0	0	0	489	0	0
Managing Directors (2022: 4 (on average: 5.5), 2021: 7 (on average: 6.75))	271,360	29,242	5,587	380,996	47,971	29,564
Former Managing Directors (2022: 2 (on average: 0.5), 2021: none)	22,650	-	-	0	-	-
Total	423,956	122,413	7,459	505,725	137,108	36,954

Salaries and benefits are substantially all short-term employee benefits. Salaries and benefits paid to members of the Board of Directors include compensation for their participation in Board committees.

The CEO and the managing directors received performance based payments in 2022. In 2022 a number of changes were made to the Bank's executive committee. Besides the CEO, the following were a part of the Bank's executive committee during 2022: i) Ármann Þorvaldsson, Deputy CEO (until December), ii) Ragnar Páll Dyer, CFO (until December), iii) Ólöf Jónsdóttir, MD of Operations and Development (from January to April), and MD of Commercial Banking (as of April), iv) Lilja Jensen, General Counsel, v) Bjarni Eyvinds, MD Investment Banking, vi) Anna Rut Ágústsdóttir, MD Operations and Development (as of April), vii) Thomas Skov Jensen, MD Risk Management (as of April), Magnús Ingi Einarsson, MD Commercial Banking (until April) and Baldur Stefánsson, MD Corporate Finance (until February).

In December 2022, it was announced that Eiríkur Magnús Jensson and Sigurður Viðarsson had been hired as the Bank's CFO and its deputy CEO, and that they would take up their positions in January 2023.

As the resignations of the CFO and the deputy CEO were received in December, they are included in the figure for salaries and benefits for 2022 for managing directors, but are not counted as managing directors at year end.

As a result of the aforementioned, the salaries and benefits figures for managing directors for 2022 and 2021 are not directly comparable.

Figures for shares, share options and warrants are in thousands and include shares held by companies owned by or under the control of the respective parties as at 31 December 2022 and 31 December 2021. If the holdings are held indirectly through companies, then the pro rata ownership of the aforementioned persons has been included.

The Bank has defined the Deputy CEO and two Managing Directors as Key Employees, as defined in Act No. 161/2002 on Financial Undertakings. Furthermore the Bank has approved and published internal rules covering the qualification requirements, evaluation process and conduct of Key Employees, in accordance with requirements set forth by the Financial Supervisory Authority of the Central Bank.

The Bank has adopted a remuneration policy which covers three remuneration components, base pay, performance based incentive scheme and other benefits, including pension fund contributions. Further information about the remuneration policy is provided in notes 68-70.

13. Auditor's fees

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

	2022	2021
Audit of annual accounts	134,150	83,724
Review of interim accounts	26,471	28,350
Other audit related services	19,161	14,934
Total	179,782	127,008

The table above shows fees paid to Deloitte and other component auditors. Total fee paid to other component auditors for the year 2022 amounts to ISK 41 million. (2021: ISK 15 million)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

14. Net impairment

	2022	2021
Net change in impairment of loans	(525,554)	124,089
Net change in impairment of other assets	(413)	(10,730)
Net change in impairment of loan commitments, guarantees and unused credit facilities	(5,857)	25,483
Total	(531,823)	138,842

15. Income tax

The Bank and some of its subsidiaries will not pay income tax on its profit for 2022 due to the fact that Group has a tax loss carry forward that offsets the calculated income tax. At year end 2022, the tax loss carry forward of the Group amounted to ISK 16 billion. A substantial part of the tax loss carry forward is utilisable until end of year 2028. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position.

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

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

Reconciliation of effective tax rate:

		2022		2021
Profit before tax		5,620,600		10,486,563
Income tax using the domestic corporation tax rate	20.0%	(1,124,472)	20.0%	(2,097,313)
Non-deductible expenses	0.1%	(7,472)	0.1%	(7,395)
Tax exempt revenues / loss	14.6%	(819,189)	(17.4%)	1,822,451
Recognition of tax losses	(31.1%)	1,747,062	(11.1%)	1,159,050
Effects due to merger	0.0%	0	6.0%	(632,952)
Other changes	0.1%	(8,408)	(1.0%)	103,792
Effective income tax	3.8%	(212,479)	(3.3%)	347,634

Profit before tax amounts to ISK 5,621 million. Income tax amounts to ISK -212 million, resulting in an effective tax rate of 3.8%. This is substantially different from the Icelandic corporate tax rate of 20%, mainly due to non-taxable income from shares and revaluation of the deferred tax asset.

16. Special tax on financial activity

The special tax on financial activity is an additional income tax which becomes effective when the income tax base exceeds ISK 1,000 million. It is levied on the same entities as the tax on financial activity according to Act No. 90/2003. The tax rate is set at 6.0% (2021: 6.0%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

17. Special tax on financial institutions

According to Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including banks, must pay annually a tax based on the carrying amount of their liabilities as determined for tax purposes in excess of ISK 50 billion at year-end. The tax rate is set at 0.145% (2021: 0.145%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

18. 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.

	2022	2021
Net earnings attributable to equity holders of the Bank	4,882,945	10,734,181
Weighted average number of outstanding shares	4,786,389	4,104,785
Adjustments for warrants and stock options	506	90,703
Total	4,786,894	4,195,488
Basic earnings per share (ISK)	1.02	2.62
Diluted earnings per share (ISK)	1.02	2.56

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Statement of Financial Position

19. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

	31.12.2022	31.12.2021
Deposits with Central Bank	24,718,270	16,611,434
Cash on hand	22,822	14,651
Balances with banks	7,391,501	16,093,533
Foreign treasury bills	2,831,108	2,564,841
Included in cash and cash equivalents	34,963,701	35,284,459
Restricted balances with Central Bank - fixed reserve requirement	1,706,885	1,235,491
Receivables from Central Bank	0	2,125,945
Total	36,670,586	38,645,894

The Bank holds mandatory reserve deposit accounts with the Central Bank of Iceland in compliance with the Central Bank's Rules on Minimum Reserve Requirements No. 585/2018. Under these rules the reserve requirement is divided into two parts: a fixed reserve requirement bearing no interest and an average maintenance level requirement bearing the same interest as that on deposit-taking institutions' current accounts with the Central Bank. The mandatory reserve deposit with the Central Bank and the receivables from the Central Bank are not available for the Group to use in its daily operations.

20. Fixed income securities

Fixed income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	31.12.2022	31.12.2021
Listed government bonds and bonds with government guarantees	2,867,887	5,343,444
Listed bonds	3,456,180	8,492,751
Unlisted bonds	3,901,728	4,907,093
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees	38,347,272	18,127,222
Listed treasury bills	12,864,314	2,997,628
Listed bonds	3,723,026	178,512
Total	65,160,407	40,046,651

21. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	31.12.2022	31.12.2021
Listed shares	4,879,257	5,523,914
Unlisted shares	7,325,211	8,907,091
Unlisted unit shares in bond funds	3,040,899	3,824,181
Unlisted unit shares in other funds	4,165,141	4,428,108
Total	19,410,508	22,683,295

22. Securities used for hedging

Securities used for hedging are specified as follows:

	31.12.2022	31.12.2021
Listed government bonds and bonds with government guarantees	3,852,697	126,113
Listed bonds	896,385	1,699,621
Listed shares	8,925,858	18,745,871
Unlisted unit shares	166,914	1,514,091
Total	13,841,853	22,085,696

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

23. Loans to customers

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

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

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

The Group presents finance lease receivables as part of loans to customers at amortised cost. As at 31 December 2022, the book value of finance lease receivables amounted to ISK 18,604 million (31.12.2021: ISK 16,139 million).

24. Derivatives

Derivatives are specified as follows:

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

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

25. Group entities

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

Entity	**Nature of operations**	**Domicile**	**Share 31.12.2022**	**Share 31.12.2021**
Aur app ehf.	Financial technology services	Iceland	-	100%
FÍ Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf.	Fund management	Iceland	100%	100%
Kvika eignastýring hf.	Asset management	Iceland	100%	100%
Netgíró hf.	Consumer lending operations	Iceland	-	100%
Rafklettur ehf.	Holding company	Iceland	100%	100%
Skilum ehf.	Debt Collection	Iceland	100%	-
Straumur greiðslumiðlun hf.	Payment facilitator	Iceland	100%	-
TM líftryggingar hf.	Insurance services	Iceland	100%	100%
TM tryggingar hf.	Insurance services	Iceland	100%	100%
AC GP 3 ehf.	Fund management	Iceland	80%	80%
Kvika Securities ltd.	Business consultancy services	UK	100%	100%
Ortus Secured Finance ltd.	Lending operations	UK	78%	15%

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

26. Investment in associates

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

Entity	**Nature of operations**	**Domicile**	**Share 31.12.2022**	**Share 31.12.2021**
Gláma fjárfestingar slhf.	Holding company	Iceland	24%	24%
Moberg d. o. o.	Digital solutions provider	Croatia	40%	40%

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

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

	31.12.2022	**31.12.2021**
Balance at the beginning of the year	67,000	42,240
Acquisition of shares in associates	0	67,000
Dividend received	(6,087)	(3,750)
Disposal of shares in associates	0	(10,924)
Share in profit (loss) of associates, net of income tax	26,725	(27,566)
Exchange rate difference	1,350	0
Total	88,988	67,000

27. Investment properties

Investment properties are specified as follows:	**31.12.2022**	**31.12.2021**
Balance at the beginning of the year	1,100,000	1,016,905
Revaluation of investment properties	65,398	83,095
Total	1,165,398	1,100,000

28. Intangible assets

Intangible assets are specified as follows:

31.12.2022	**Goodwill**	**Customer relationships**	**Brands**	**Software and other**	**Total**
Balance as at 1 January 2022	24,257,972	2,255,810	2,340,265	2,601,362	31,455,409
Additions during the period	0	0	0	835,246	835,246
Additions through business combinations	1,771,221	812,437	84,629	0	2,668,287
Discontinued	0	0	0	(7,737)	(7,737)
Amortisation	0	(235,264)	(148,761)	(506,373)	(890,399)
Currency adjustments	12,732	6,011	351	0	19,095
Balance as at 31 December 2022	26,041,926	2,838,993	2,276,484	2,922,498	34,079,900
Gross carrying amount	26,041,926	3,210,439	2,524,768	4,105,486	35,882,618
Accumulated amortisation and impairment losses	0	(371,446)	(248,284)	(1,182,988)	(1,802,718)
Balance as at 31 December 2022	26,041,926	2,838,993	2,276,484	2,922,498	34,079,900

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

Acquisitions by the Group during the first half of 2022 as a part of business combinations resulted in the recognition of goodwill, customer relationship and brand. Refer to note 3 for more information on the acquisitions.

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

28. Intangible assets (cont.)

b. Impairment testing

Assets with indefinite useful life, such as goodwill, are not amortised but are subject to annual impairment testing as described in note 97. Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combinations in which the goodwill arose. Goodwill has been allocated to five CGUs, Asset Management, Commercial Banking, Investment Banking, UK operations and Insurance. When the purchase price allocation for the 2021 business combinations was finalised in 2022, a part of the goodwill that had been allocated preliminary to Commercial Banking was allocated to Investment Banking. The goodwill allocated to UK operations, following business combinations during the year 2022, is a based on a preliminary estimate. The allocation will be finalised during the year 2023.

The goodwill impairment tests were performed at the end of 2022. Their results show that the recoverable values exceed the carrying values of goodwill. In addition to the base case testing, additional scenarios were tested where some key inputs had been stressed. In all scenarios tested the results show that there is sufficient headroom and that there are no triggers indicating that impairment is necessary.

The cash flow projections for 2023 are derived from the Group's one year business plan which has been approved by the Board of Directors. In some instances, the Group's subsidiaries have prepared a three year business plan which has been approved by the Board of Directors of those companies. Management prepares a five year cash flow projection for each CGU, which is derived from the one year business plan and is also based on management assumptions. The following table shows the key assumptions used in the estimation of the recoverable amount. The recoverable amounts are calculated by discounting the estimated future growth rate of the CGUs. The time value of money and price of uncertainty, calculated as the weighted average cost of capital ("WACC"), are based on external market information about market risk, interest rates and CGU specific elements like country risk.

31.12.2022	Future growth rate	Discount rate	Book value
Asset Management	3.5%	13.1%	2,943,881
Commercial Banking	3.5%	11.3%	11,826,735
Investment Banking	3.5%	13.7%	1,199,761
UK operations	3.5%	9.8%	1,771,221
Insurance	3.5%	12.1%	8,300,327
Total goodwill			26,041,926

31.12.2021	Future growth rate	Discount rate	Book value
Asset Management	3.5%	10.1%	2,943,881
Commercial Banking	3.5%	11.1%	13,013,764
Insurance	3.0%	11.2%	8,300,327
Total goodwill			24,257,972

29. Operating lease assets

Operating lease assets are specified as follows:

	31.12.2022	31.12.2021
Balance as at 1 January	1,458,621	0
Additions through business combinations	0	1,784,025
Additions	133,883	233,914
Disposals	(470,876)	(319,763)
Depreciation	(237,406)	(239,555)
Total	884,222	1,458,621
Gross carrying amount	1,505,807	2,226,907
Accumulated depreciation	(621,585)	(768,286)
Total	884,222	1,458,621

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

30. Deferred tax assets and liabilities

	31.12.2022	31.12.2021
Deferred tax assets	3,232,933	3,177,763
Deferred tax liabilities	(944,274)	(899,942)
Net	2,288,659	2,277,821

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

	31.12.2022	31.12.2021*
Property and equipment	32,677	153,226
Intangible assets	(644,801)	(446,335)
Other items	(274,934)	(225,954)
Tax losses carried forward	3,175,718	2,796,884
Total	2,288,659	2,277,821

*Comparative figures have been adjusted between line items.

At year end 2022, tax losses carried forward amount to ISK 15.9 billion, and are set to expire as follows:

	Tax losses
Tax losses 2017, expiring in 2027	25,746
Tax losses 2018, expiring in 2028	14,850,383
Tax losses 2019, expiring in 2029	44,384
Tax losses 2020, expiring in 2030	939,402
Tax losses 2021, expiring in 2031	18,675
Total	15,878,589

31. Other assets

Other assets are specified as follows:

	31.12.2022	31.12.2021
Accounts receivable	8,258,141	7,599,584
Unsettled transactions	4,443,719	984,264
Right of use asset and lease receivables	1,576,582	800,087
Investment where investment risk is borne by life-insurance policyholders	121,906	111,172
Receivables at fair value	0	30,202
Sundry assets	1,065,503	517,245
Total	15,465,850	10,042,553

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

	31.12.2022	31.12.2021
Right of use asset and lease receivables as at 1 January	800,087	478,995
Additions during the period	935,915	453,937
Additions through business combinations	0	301,665
Termination of lease agreements	(26,458)	0
Disposal	0	(175,404)
Indexation	128,709	37,716
Currency adjustments	5,247	0
Depreciation and lease receivable installment	(266,917)	(296,822)
Total	1,576,582	800,087

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

32. Deposits

Deposits are specified as follows:

	31.12.2022	31.12.2021
Demand deposits	91,504,652	63,858,051
Time deposits	20,740,545	14,811,756
Total	112,245,198	78,669,807

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

33. Technical provision

Technical provision is specified as follows:

	31.12.2022	31.12.2021
Claims provision	17,859,746	16,492,994
Premium provision	5,799,959	5,311,124
Risk margin	702,576	630,329
Technical provisions, total	24,362,281	22,434,447

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

Reinsurer's share:		
Claims provision	494,617	635,419
Premium provision	132,853	113,964
Reinsurer's share, total	627,469	749,383
Own technical provision:		
Claims provision	17,365,129	15,857,575
Premium provision	5,667,107	5,197,160
Risk margin	702,576	630,329
Own technical provision (net), total	23,734,811	21,685,065

Development of claims provisions in 2022	Total	Reinsurer's share	Own share
Claims provisions at 01.01.2022	16,492,994	(635,419)	15,857,575
Paid claims in the period due to older accident years	(5,742,391)	441,266	(5,301,125)
Exchange rate change of claims provisions due to older accident years	9,827	0	9,827
Unwinding and interest rate change of claims provisions due to older accident years	4,801	0	4,801
Change in settlement cost allocation due to older accident years	(313,720)	0	(313,720)
Change in assessment of claims provisions due to older accident years	(261,132)	(164,314)	(425,446)
Change in Claims provisions for claims incurred in 2022	7,669,367	(136,151)	7,533,216
Claims provisions at 31.12.2022	17,859,746	(494,617)	17,365,129
Change in claims provisions due to insurance operations	1,352,124	140,802	1,492,925
Proportional change in assessment of claims for older accident years	(1.6%)	25.9%	(2.7%)
Development of claims provisions from 1.4.2021 to 31.12.2021			
Claims provisions at 1.4.2021	16,764,649	(1,173,928)	15,590,720
Paid claims in the period due to older accident years	(3,967,947)	310,640	(3,657,306)
Exchange rate change of claims provisions due to older accident years	4,150	0	4,150
Unwinding and interest rate change of claims provisions due to older accident years	(30,185)	0	(30,185)
Change in settlement cost allocation due to older accident years	(210,595)	0	(210,595)
Change in assessment of claims provisions due to older accident years	(66,201)	(114,159)	(180,360)
Change in Claims provisions for claims incurred in 2021	3,999,123	342,028	4,341,151
Claims provisions at 31.12.2021	16,492,994	(635,419)	15,857,575
Change in claims provisions due to insurance operations	(245,620)	538,510	292,890
Proportional change in assessment of claims for older accident years	(0.4%)	9.7%	(1.2%)

The positive development of own claims provision in the year 2022 contributes to a decrease in combined ratio of 2,4%, whereas it contributed to a decrease of 1,4% in the year 2021.

Development of premium provisions in 2022			
Premium provisions at 1.1.2022	5,311,124	(113,964)	5,197,160
Exchange rate change of premium provisions	1,424	66	1,490
Change in the provision for unearned premiums	487,411	(18,954)	468,457
Premium provisions at 31.12.2022	5,799,959	(132,853)	5,667,107

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

33. Technical provision (cont.)

Development of premium provisions from 1.4.2021 to 31.12.2021	Total	Reinsurer's share	Own share
Premium provisions at 1.4.2021	9,769,559	(522,428)	9,247,131
Exchange rate change of premium provisions	25,806	(258)	25,547
Change in the provision for unearned premiums	(4,484,240)	408,723	(4,075,518)
Premium provisions at 31.12.2021	5,311,124	(113,964)	5,197,160

Unwinding, change in interest and exchange rate in 2022			
Unwinding and change in interest rate of claims provisions due to older accident years	4,801	0	4,801
Exchange rate change of claims provisions	9,827	0	9,827
Exchange rate change of premium provisions	1,424	66	1,490
Total	16,052	66	16,118

Unwinding, change in interest and exchange rate in from 1.4.2021 to 31.12.2021			
Unwinding and change in interest rate of claims provisions due to older accident years	(30,185)	0	(30,185)
Exchange rate change of claims provisions	4,150	0	4,150
Exchange rate change of premium provisions	25,806	(258)	25,547
Total	(229)	(258)	(488)

34. Borrowings

Borrowings are specified as follows:

	31.12.2022	31.12.2021
Money market deposits	9,778,280	15,650,931
Secured borrowings	15,674,280	0
Other borrowings	2,667,449	1,610,117
Total	28,120,009	17,261,048

Money market deposits typically have a principal of ISK 5-500 million and maturity between 1 day and 6 months and pay fixed interest rates. Secured borrowings are in GBP and are to be paid at maturity. The borrowings mature in 2024.

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

35. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.12.2022	31.12.2021
Unsecured bonds:						
KVB 21 01, GBP 12 million	2021	2023	At maturity	Floating, 3 month LIBOR + 2.50%	2,067,377	2,117,105
KVB 20 01, ISK 5,000 million	2020	2023	At maturity	Floating, 1 month REIBOR + 0.85%	4,632,806	4,609,836
Lykill 23 11, ISK 3,010 million	2020	2023	At maturity	Floating, 1 month REIBOR + 1.10%	2,600,598	2,575,197
EMTN 24 0131, SEK 500 million	2022	2024	At maturity	Floating, 3 month STIBOR + 2.80%	6,866,708	0
EMTN 24 0204, EUR 8.5 million	2022	2024	At maturity	Floating, 3 month EURIBOR + 2.80%	1,296,978	0
KVIKA 24 1119, GBP 11.4 million	2021	2024	At maturity	Floating, 3 month LIBOR + 1.75%	1,959,110	2,007,693
KVIKA 24 1216 GB, ISK 4,500 million	2021	2024	At maturity	Floating, 3 month REIBOR + 0.90%	4,513,777	4,506,565
KVB 19 01, ISK 5,000 million	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	2,005,242	3,003,775
KVIKA 25 1201 GB ISK 1.660 million	2022	2025	At maturity	Floating, 3 month REIBOR + 1.25%	1,670,790	0
KVB 21 02, ISK 5,400 million	2021	2027	At maturity	CPI-indexed, fixed 1.0%	6,110,428	5,589,138
KVIKA 32 0112, ISK 2,000 million	2022	2032	At maturity	CPI-indexed, fixed 1.40%	2,197,224	0
Asset backed bonds:						
Lykill 16 01, ISK 10,870 million	2016	2023	Amortizing	Floating, 1 month REIBOR + 1.10%	1,368,276	2,928,877
Lykill 23 09, ISK 1,000 million	2019	2023	Amortizing	Fixed, 5.20%	204,013	464,019
Lykill 24 06, ISK 1,570 million	2020	2024	Amortizing	Fixed, 2.80%	610,086	1,002,853
Lykill 26 05, ISK 5,130 million	2019	2026	Amortizing	CPI-indexed, fixed 3.30%	0	3,792,658
Total					38,103,414	32,597,716

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

36. Subordinated liabilities

a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.12.2022	31.12.2021
KVB 18 02, ISK 800 million	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	1,040,313	960,156
TM 15 1, ISK 2,000 million	2015	2045	At maturity	CPI-Indexed, fixed 5.25%	2,646,139	2,411,610
Total					3,686,451	3,371,766

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

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

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

b. Subordinated liabilities are specified as follows:

	31.12.2022	31.12.2021
Balance at the beginning of the year	3,371,766	2,077,225
Redemption of KVB 15 01	0	(1,258,799)
Additions through business combinations	0	2,358,610
Paid interest	(164,833)	(113,125)
Paid interests due to indexation	(39,421)	(14,763)
Accrued interests and indexation	518,940	322,618
Total	3,686,451	3,371,766

37. Short positions held for trading

Short positions held for trading are specified as follows:

	31.12.2022	31.12.2021
Listed government bonds and bonds with government guarantees	970,178	608,965
Listed bonds	515,929	714,665
Total	1,486,107	1,323,631

38. Short positions used for hedging

Short positions used for hedging are specified as follows:

	31.12.2022	31.12.2021
Listed government bonds and bonds with government guarantees	1,343,186	1,280,868
Total	1,343,186	1,280,868

39. Other liabilities

Other liabilities are specified as follows:

	31.12.2022	31.12.2021
Salaries and salary related expenses	1,265,867	1,481,030
Lease liability	1,827,582	1,041,121
Accounts payable and accrued expenses	2,189,717	974,515
Unsettled transactions	1,970,758	875,985
Withholding taxes	781,845	694,281
Contingent consideration	373,715	483,486
Special taxes on financial institutions and financial activities	494,455	170,753
Reinsurance liabilities	83,128	142,407
Technical provision for life-insurance policies where investment risk is borne by policyholders	121,906	111,172
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities	12,935	6,720
Other liabilities	772,743	696,038
Total	9,894,650	6,677,507

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

39. Other liabilities (cont.)

Lease liability is specified as follows:

	31.12.2022	31.12.2021
Lease liability as at 1 January	1,041,121	477,691
Additions during the period	1,054,121	452,001
Additions through business combinations	0	373,413
Termination of lease agreements	(14,428)	0
Currency adjustments	7,554	0
Installment	(410,412)	(299,701)
Indexation	149,626	37,716
Total	1,827,582	1,041,121

40. Share capital

a. Share capital

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

	31.12.2022	31.12.2021
Share capital according to the Bank's Articles of Association	4,928,897	4,907,395
Nominal amount of treasury shares	147,871	117,256
Authorised but not issued shares	310,000	413,325

b. Changes made to the nominal amount of share capital

The Bank's share capital was increased by ISK 139 million in nominal value during the year 2022 in order to serve the exercising of issued warrants. During the year, the share capital was decreased by ISK 117 millon in nominal value following a resolution by the AGM to cancel treasury shares. Furthermore, during the year, the Bank has acquired treasury shares amounting to ISK 148 million in nominal value as a result of a share buy-back plan.

c. Share capital increase authorisations

According to the Bank's Articles of Association dated 15 December 2022, the Board of Directors is authorised to increase the share capital as follows:

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

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

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

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Notes to the Consolidated Financial Statements

41. Warrants

During the years 2017 to 2019, the Bank issued warrants for shares in the total nominal amount of ISK 675,500,000. During the years 2019 to 2022, warrants for the nominal amount of ISK 675,433,330 shares were excercised. At year end 2022 there are no warrants outstanding as the final excercise period lapsed in December 2022.

42. Solvency of a financial conglomerate

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

Solvency measures the Group's ability to take on setbacks, thus indicating its financial strength. The available capital and capital requirements of the Group is calculated as a financial conglomerate according to Articles 16, 17 and 18 of Act on Additional Supervision of Financial Conglomerates No. 61/2017. The Group's solvency ratio is 1.36, with a regulatory minimum requirement of 1.0.

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

	31.12.2022	**31.12.2021**
Available capital		
Own Funds eligible for non insurance activities	32,456,104	32,496,219
Own Funds eligible for insurance activities	13,094,779	14,121,233
Total	45,550,883	46,617,452
Solvency requirement for insurance activities		
Solvency Capital Requirements (SCR)	8,772,791	9,986,019
Own funds requirement for non insurance activities		
Statutory minimum capital requirement (Pillar I)	11,037,600	7,680,858
Additional capital requirements (Pillar II)	4,828,950	6,816,762
Minimum capital requirement for non insurance activities	15,866,550	14,497,620
Additional capital protection buffers	8,830,080	5,280,590
Total	24,696,631	19,778,210
Solvency	45,550,883	46,617,452
Solvency requirement (SCR)	8,772,791	9,986,019
Own funds requirement for non insurance activities	24,696,631	19,778,210
Minimum solvency of financial conglomerate	33,469,422	29,764,229
Solvency ratio	1.36	1.57

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

43. Capital adequacy ratio (CAR)

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

Own funds eligible for non insurance activities	**31.12.2022**	**31.12.2021**
Total equity	81,190,465	78,367,620
Proposed dividends	(1,912,410)	0
Capital eligible as CET1 Capital	79,278,054	78,367,620
Goodwill and intangibles	(28,380,760)	(25,564,998)
Shares in other financial institutions	(18,830,034)	(20,441,123)
Deferred tax asset	(3,232,933)	(3,177,763)
Common equity Tier 1 capital (CET 1)	28,834,327	29,183,736
Tier 2 capital	3,621,777	3,312,483
Total own funds	32,456,104	32,496,219
Risk weighted exposures		
Credit risk	109,104,748	70,135,184
Market risk	4,091,761	4,051,492
Operational risk	24,773,495	21,824,053
Total risk weighted exposures	137,970,004	96,010,729
Capital ratios		
Capital adequacy ratio (CAR)	23.5%	33.8%
CET1 ratio	20.9%	30.4%
Minimum Capital adequacy ratio requirement	11.5%	15.1%
Minimum Capital adequacy ratio requirement including supervisory buffers	17.9%	20.6%
Minimum CET 1 ratio requirement including supervisory buffers	12.9%	14.0%

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

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). In November 2022, the FME notified Kvika of the SREP results on the assessment of the risk in Kvika's operations and capital requirements. The Bank's minimum regulatory capital requirement, based on the aforementioned SREP results, is 11.5%. The FME has notified the Bank that a new SREP process will be conducted in 2023. The minimum regulatory capital requirement including the additional capital buffers is 17.9% as at 31 December 2022.

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Notes to the Consolidated Financial Statements

44. Solvency of insurance activities

The Group calculates solvency capital and capital requirements for entities which belong to the insurance sector. The available capital and required capital is calulated in accordance with Articles 88 and 96 of the Act on Insurance Activity No. 100/2016. This brings the solvency ratio for entities which belong to the insurance sector to 1.49. Solvency capital requirements according to law is the minimum insurance companies have to meet.

	31.12.2022	31.12.2021
Own funds eligible for insurance activities solvency		
Equity eligible for insurance activities	18,370,084	22,163,820
Goodwill and intangibles	(5,699,140)	(5,888,497)
Difference between net technical provision in the financial statements and solvency rules	423,835	350,979
Proposed dividend payment	0	(2,500,000)
Non-controlling interest	0	(5,069)
Total	13,094,779	14,121,233
Solvency requirement		
Life insurance risk	425,729	326,634
Health insurance risk	1,475,602	1,390,074
Non-life insurance risk	5,484,355	4,956,453
Market risk	5,336,721	7,478,337
Counterparty default risk	1,117,766	962,624
Multifaceted effects	(4,229,553)	(4,259,005)
Base Solvency Capital Requirements (Basic SCR)	9,610,620	10,855,118
Operational risk	680,934	627,562
Adjustment for the loss-absorbing capacity of deferred taxes	(1,518,763)	(1,496,661)
Solvency Capital Requirements (SCR)	8,772,791	9,986,019
Solvency	13,094,779	14,121,233
Solvency requirement (SCR)	8,772,791	9,986,019
Solvency ratio after dividend	1.49	1.41
Eligible items to meet the minimum capital	13,094,779	14,121,233
Minimum required capital (MRC)	4,057,090	3,818,920
Minimum required capital ratio after dividend	3.23	3.70

Notes to the Consolidated Financial Statements

Risk management

45. Risk management framework

a. Board of Directors

The Bank's Board of Directors is responsible for the Group's corporate governance, including the establishment and oversight of the Group's risk management framework and risk appetite setting. In that respect, the Board of Directors has set a policy on the Group's corporate governance. In order to ensure harmonized and good governance on a consolidated basis, the Bank's Board of Directors further sets out ownership policies for subsidiaries that are considered an important part of the Group's operations. According to the ownership policies, the Boards of Directors of the relevant subsidiaries shall always provide the Bank with all information necessary for it to carry out its supervisory role and the services that the Bank provides to the relevant subsidiaries. Further, as risk management must be co-ordinated on a group-wide basis, those subsidiaries, shall provide risk management with all necessary information to enable the Bank to be able to fulfil its obligations as parent company of the Group. The head of risk management and the Bank's compliance officer can request a direct audience with the Boards of Directors of those subsidiaries. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through training and management standards and procedures, continuously aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

b. Board of Directors sub-committees

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

The Risk Committee is intended to perform a consultative and supervisory role for the Bank’s Board of Directors, including for the formation of the Bank’s risk policy and risk appetite. The Risk Committee supervises the arrangement and activity of risk management, credit risk, market risk, liquidity risk, operational risk, reputational risk and other risk as applicable.

The Audit Committee is intended to perform a consultative and supervisory role for the Bank’s Board of Directors, including to ensure the quality of the annual accounts and other financial information of the Bank and the independence of the Bank’s auditors. The Audit Committee monitors the work process for the preparation of financial statements, the functioning of internal controls as well as internal and external auditing.

The Remuneration Committee is intended to perform a consultative and supervisory role for the Bank’s Board of Directors in connection with the Bank’s remuneration and that they support the objectives and interests of the Bank.

c. CEO

The CEO is responsible for the effective implementation through the corporate governance structure and committees. The CEO has established three committees, which are responsible for developing and monitoring risk management policies in their specified areas.

d. Committees

The Bank operates three committees that are involved in risk management: an Asset and Liability Committee (ALCO), a Credit Committee and an Operations Committee. ALCO and the Operations Committee operate on a Group level.

ALCO supervises the management of the Group's balance sheet, assets and liabilities. This involves determining the most efficient division between returns and risk and allocating funds to the Group's business units.

The Credit Committee addresses matters regarding the Bank's loan activities and is responsible for and makes decisions on the investments and sale of unlisted assets, such as unlisted securities and financial instruments, shares in private limited companies and other companies, and as regards other divisions than Treasury and Market Making, the investment and sale of unit share certificates in funds for collective investment. The committee is responsible for the approval of larger loans and is the primary forum for the discussion of the Bank's credit rules, including credit limits for relevant divisions of the Bank.

The Operations Committee is responsible for supervision and implementation of the Group's security and quality policies. The security policy mainly addresses data security and operational security in IT systems, physical security for the personnel and proper access controls and monitoring in the Bank's premises. The quality work is aimed at upholding proper quality in work processes, IT systems and services to support performance and profitability, lower operational risk and increase the customer experience.

e. Risk management

The purpose of the Bank's risk management unit is to identify, quantify, control and report on the risks that the Group is exposed to in its daily activities. The unit also participates in drafting the overall risk policy and has representatives on the ALCO committee, Credit committee and the Operations committee. The unit’s main activities include monitoring and managing credit risk, market risk, liquidity risk and operational risk. The Board of Directors sets the rules and guidelines regarding the Group's risk policy and the obligations of risk management and credit control. The division reports regularly on the Group’s positions and exposure to risk to the Board of Directors, the CEO and to the ALCO committee.

f. Compliance Officer

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

Notes to the Consolidated Financial Statements

45. Risk management framework (cont.)

g. Internal Audit

The internal Audit of Kvika is responsible for providing an independent and objective opinion on the Group’s operations. Furthermore, to provide advice which aims to increase the Group’s value and to strengthen risk management and internal control. The Internal Audit’s main task, is to estimate whether adequate processes and systems are in place, and whether they are relevant and efficient for Kvika to reach its goals. Internal audit is a part of Kvika Group and is an important part of its internal controls system. It furthermore operates according to the International Standards for the Professional Practice of Internal Auditing. The Internal Auditor is recruited by the Board of Directors and is located accordingly in the hierarchy. Its operations cover all units of operations, including the subsidiaries TM tryggingar hf., Kvika eignastýring hf., and Kvika Securities Ltd. According to the letter of appointment, the internal auditor has direct and unrestricted access to the Board of Directors on a Group level.

46. Hedging

Securities held as a hedge against derivatives positions of customers make up a part of the Group's portfolio of assets. The Group hedges currency exposure between the Group's loan portfolio and debts to the extent possible, but does not apply hedge accounting.

47. Credit risk - overview

a. Definition

One of the Group's primary sources of risk is counterparty credit risk. Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

b. Management

The risk management unit is responsible for managing and reporting on credit risk. The Group uses a variety of tools and processes to manage credit risk, including collaterals, hedges and loan portfolio management.

c. Credit approval process

The originating department prepares a proposal for each larger loan or credit line which is presented to the credit committee for approval. The proposal consists of a basic description of the client, the purpose of the loan, a simple credit assessment and arguments for or against granting the loan. The committee decides whether there is need for further credit assessment and on what terms the loan may be granted. For smaller loans the originating department optains a general credit approval from the credit committee with respect to the process, terms, credit limits and total amount of the specific lending type.

A more thorough credit assessment may be conducted if considered appropriate and can include an assessment of a borrower's fundamental credit strength as well as the value of any collateral. To assess the borrower's capacity to meet his or her obligations the committee can request stress test analysis of the borrower's cash flow or call for third party assessments.

d. Collateral

Securing loans with collateral is a traditional method to reduce credit risk. The Group uses different methods to reduce credit risk by obtaining collateral from customers where appropriate. Such collateral gives the Group right to the collateralised assets for current and future obligations incurred by the customer.

The Group places emphasis on pricing loans according to the value and quality of pledged collateral. The Group applies appropriate haircuts on all collateral in order to ensure proper risk mitigation. For all collateral in listed securities, the Group maintains the right to liquidate collateral in case its market value falls below a predefined limit.

To a very large extent the Group's loan portfolio consists of senior loans, most of which are highly collateralised.

e. Credit rating, control and provisioning

The risk management unit is responsible for credit rating and reviewing the loan portfolio. In case of any significant delay of payments or defaults the unit carefully analyses the underlying assets and loan documents and organizes the process of collection.

The Group monitors the value of collateral by listed securities on a real time basis, and takes prompt action when necessary.

f. Loan portfolio management

To ensure an effective diversification of the loan portfolio the board has set a limit framework defining maximum exposure as a ratio of the Group’s equity and/or the total size of the loan portfolio. These limits include limitation on joint exposure to associated clients, exposure to individual and associated industries, single regions and countries etc. It is the responsibility of risk management to monitor that these limits are not being violated and to report discrepancies to the credit committee.

g. Impairment

Provisioning for loan impairments is estimated on the basis of expected loss models assessing the portfolio as a whole as well as individual lending. Risk management suggest a level of provisioning for the portfolio, based on the expected loss assessment. Risk management reassess impairments in the event of collateral decay, delayed payments, indication of increased risk, or other early warning signs. Provisions require approval from the credit committee. Refer to note 88 in the 2022 financial statements for more information on the Group's impairment policy.

h. Derivatives

The Group offers derivative contracts in the form of swap contracts on highly liquid securities. On the day when the contract is entered into, the Group purchases the underlying security and hedges its exposure to price changes. Collateral is in the form of cash or listed, highly liquid securities. The risk management sets rules about the level of collateralisation and monitors the compliance to these rules. Contracts are closed if required levels of collateralisation are not met.

i. Securities used for hedging

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

Kvika banki hf. Amounts are in ISK thousands

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48. Maximum exposure to credit risk

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

31.12.2022	**Public**	**Financial**	**Corporate**		
On-balance sheet exposure	**entities**	**institutions**	**customers**	**Individuals**	**31.12.2022**
Cash and balances with Central Bank	29,279,085	7,391,501			36,670,586
Fixed income securities	54,989,042	5,309,011	4,862,354		65,160,407
Loans to customers	15,103		69,139,761	37,984,363	107,139,227
Derivatives		3,955,424	917,391	67,923	4,940,738
Other assets	1,014,247	1,484,295	9,296,867	2,093,859	13,889,268
	85,297,477	18,140,231	84,216,373	40,146,145	227,800,226
Off-balance sheet exposure					
Loan commitments			1,955,620	725,755	2,681,375
Financial guarantee contracts			261,861		261,861
Maximum exposure to credit risk	85,297,477	18,140,231	86,433,854	40,871,900	230,743,462

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

49. Credit quality of financial assets

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

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

The following table shows the first 12 month macro economic values for the variables used in the expected credit loss model. The Group utilises an economic forecast which is aligned with requirements for the calculation of expected credit loss. Following the Group's acquisition of Ortus Secured Finance ltd., the Group owns loan portfolios in two geographical segments, i.e. Iceland and the United Kingdom ("UK"). In general, the Group utilises the same ECL methodology for the portfolios in both segments, although in the UK it is to a larger extent based on an individual assessment by credit specialists. Reference is made to note 88 for further information about the Group‘s impairment methodology.

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

49. Credit quality of financial assets (cont.)

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

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

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

49. Credit quality of financial assets (cont.)

b. Credit quality of financial assets by credit quality band

The following tables show financial assets subject to the impairment requirements of IFRS 9 broken down by credit quality bands where band i denotes the lowest and band iv the highest credit risk. Assets measured at fair value through profit or loss are not subject to the stage classification requirements of IFRS 9 but are nevertheless included in the tables in order to give a more complete picture of the credit quality of loans to customers and reconcile the tables to the carrying amount on the balance sheet. The Bank uses primarily adjusted external credit ratings to assess the default probability of its customers and some larger borrowers are furthermore individually assessed by credit specialists. Exposures which are non-rated relate mostly to retail portfolios where individual rating has not been obtained.

31.12.2022

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

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

31.12.2021

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

49. Credit quality of financial assets (cont.)

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

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

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

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

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

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

31.12.2022

Expected credit loss allowance total

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2022	216,023	293,794	833,534	1,343,351
Transfer to Stage 1 - (Initial recognition)	51,349	(40,605)	(10,744)	0
Transfer to Stage 2 - (significantly increased credit risk)	(7,894)	23,377	(15,483)	0
Transfer to Stage 3 - (credit impaired)	(9,714)	(125,921)	135,635	0
Net remeasurement of loss allowance	(63,511)	(3,464)	450,319	383,343
New financial assets, originated or purchased	202,002	177,845	1,317,950	1,697,797
Derecognitions and maturities	(118,478)	(66,385)	(413,543)	(598,406)
Write-offs	(172)	(1,832)	(157,814)	(159,818)
Balance as at 31 December 2022	269,605	256,810	2,139,852	2,666,267

Expected credit loss allowance for loans to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2022	211,083	293,663	831,885	1,336,631
Transfer to Stage 1 - (Initial recognition)	51,041	(40,550)	(10,491)	0
Transfer to Stage 2 - (significantly increased credit risk)	(6,795)	22,279	(15,483)	0
Transfer to Stage 3 - (credit impaired)	(9,714)	(125,921)	135,635	0
Net remeasurement of loss allowance	(67,769)	(3,588)	450,570	379,213
New financial assets, originated or purchased	197,246	177,845	1,317,710	1,692,801
Derecognitions and maturities	(116,723)	(66,356)	(412,417)	(595,495)
Write-offs	(172)	(1,832)	(157,814)	(159,818)
Balance as at 31 December 2022	258,197	255,541	2,139,595	2,653,333

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

49. Credit quality of financial assets (cont.)

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

	Stage 1	Stage 2	Stage 3	Total
Transfers of financial assets:				
Balance as at 1 January 2022	4,940	130	1,649	6,720
Transfer to Stage 1 - (Initial recognition)	307	(55)	(253)	0
Transfer to Stage 2 - (significantly increased credit risk)	(1,098)	1,098		0
Transfer to Stage 3 - (credit impaired)				0
Net remeasurement of loss allowance	4,258	124	(252)	4,130
New financial assets, originated or purchased	4,756		239	4,996
Derecognitions and maturities	(1,755)	(29)	(1,127)	(2,911)
Balance as at 31 December 2022	11,408	1,269	258	12,935

31.12.2021

Expected credit loss allowance total

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

Expected credit loss allowance for loans to customers

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

50. Loan-to-value

a. General

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

b. Breakdown

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

	31.12.2022	%	31.12.2021	%
Less than 50%	29,001,396	27.1%	20,182,991	28.2%
51-70%	36,654,281	34.2%	18,411,393	25.7%
71-90%	22,168,930	20.7%	18,175,877	25.4%
91-100%	3,027,670	2.8%	3,063,469	4.3%
100-125%	3,880,228	3.6%	2,706,342	3.8%
125-200%	511,406	0.5%	201,953	0.3%
Greater than 200%	2,704,141	2.5%	670,667	0.9%
No or negligible collateral:				
Other loans with no collateral	9,191,175	8.6%	8,174,954	11.4%
Total	107,139,227	100.0%	71,587,646	100.0%

51. Collateral against exposures to derivatives

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

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

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

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

52. Large exposures

In accordance with regulation no. 575/2013 of the European Union on prudential requirements for credit institutions, which was incorporated into Icelandic law with Act No. 38/2022, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the financial institution's Tier 1 capital (see note 43).

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

		31.12.2022		31.12.2021
Large exposures before risk adjusted mitigation	Number	Amount	Number	Amount
10-20% of capital base	2	7,009,093	2	8,732,707
20-25% of capital base	0	0	0	0
Exceeding 25% of capital base	0	0	0	0
Total	2	7,009,093	2	8,732,707
Thereof nostro accounts with other banks which are part of the Group's liquidity management	0	0	2	8,732,707
Large exposures net of risk adjusted mitigation	1	2,980,320	2	8,732,707

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

53. Insurance risk

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

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

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

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

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

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

Own technical provision classified to line of insurance operations	**31.12.2022**	**31.12.2021**
Fire and other damage to property insurance	2,253,810	2,105,022
Marine, aviation and transport insurance	708,136	847,645
Motor vehicle liability insurance	11,836,142	10,639,438
Other motor insurance	1,528,020	1,199,425
General liability, credit and suretyship insurance	2,935,360	2,701,425
Income Protection Insurance	1,267,286	1,058,845
Workers' compensation insurance	2,713,813	2,717,221
Medical Expense Insurance	4,541	6,104
Life insurance	450,549	360,402
Sold reinsurances	37,156	49,539
Own technical provision total	23,734,811	21,685,065

54. Liquidity risk

a. Definition

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

b. Management

Liquidity is managed by treasury and monitored by risk management. Liquidity position is reported to the ALCO committee. The Central Bank of Iceland sets minimum requirements for the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The minimum 30 day LCR regulatory requirement is 100% for both LCR total and LCR in foreign currencies and 40% for LCR in ISK as at 31. December 2022. The minimum regulatory requirement for NSFR total is 100%.

New liquidity rules no. 1520/2022, set by The Central Bank of Iceland, took effect on 1 January 2023 and repealed rules no. 266/2017. The new liquidity rules set a 100% minimum requirement for LCR total, 50% minimum requirement for LCR in ISK and 80% minimum requirement for LCR in EUR. The minimimum requirement for LCR EUR only applies when the Group‘s commitments in EUR represent 10% or more of the Group´s total commitments.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

54. Liquidity risk (cont.)

b. Management (cont.)

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

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

	ISK		Foreign currency		Total	
31.12.2021	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**	**Unweighted**	**Weighted**
Liquid assets level 1	41,530,667	41,530,667	2,569,231	2,569,231	44,099,899	44,099,899
Liquid assets level 2	1,164,431	989,767			1,164,431	989,767
Total liquid assets	42,695,099	42,520,434	2,569,231	2,569,231	45,264,330	45,089,665
Deposits*	52,057,101	20,349,887	9,827,926	4,621,220	61,885,027	24,971,107
Other borrowings	264,524	264,524			264,524	264,524
Other outflows	10,409,313	7,030,901	227,546	73,102	10,636,859	7,104,003
Total outflows (0-30 days)	62,730,938	27,645,312	10,055,472	4,694,321	72,786,410	32,339,633
Short-term deposits with other banks	1,522,565	1,522,565	12,577,893	12,577,893	14,100,458	14,100,458
Other inflows	10,272,154	2,702,012	626,670	8,659	10,898,823	2,710,671
Restrictions on inflows				(9,065,811)		
Total inflows (0-30 days)	11,794,719	4,224,577	13,204,563	3,520,741	24,999,282	16,811,129
Liquidity coverage ratio		182%		219%		290%

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

	31.12.2022	**31.12.2021**
NSFR total	140%	130%

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

54. Liquidity risk (cont.)

c. Maturity analysis of financial assets and financial liabilities

31.12.2022 **Financial assets by type**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Gross inflow/ (outflow)**	**Carrying amount**
Non-derivative assets							
Cash and balances with Central Bank	34,556,826	2,121,760				36,678,586	36,670,586
Fixed income securities	14,752,525	27,873,149	3,907,528	18,627,205		65,160,407	65,160,407
Shares and other variable income securities	11,424,516	2,702,765	5,283,228			19,410,508	19,410,508
Securities used for hedging	13,841,853					13,841,853	13,841,853
Loans to customers	7,224,508	8,148,187	32,600,452	73,801,224	6,773,201	128,547,573	107,139,227
Reinsurance assets	64,890	70,733	203,334	281,020	7,492	627,469	627,469
Other assets	6,003,861	4,511,616	3,218,110	33,776	121,906	13,889,268	15,465,850
	87,868,980	45,428,209	45,212,653	92,743,224	6,902,599	278,155,665	258,315,901
Derivative assets							
Inflow	25,202,434	2,962,372	6,485,242	2,981,751		37,631,799	
Outflow	(22,308,183)	(2,829,323)	(5,401,381)	(2,215,601)		(32,754,488)	
	2,894,251	133,049	1,083,861	766,150	0	4,877,311	4,940,738

Financial liabilities by type	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Gross inflow/ (outflow)**	**Carrying amount**
Non-derivative liabilities							
Deposits	(94,506,439)	(8,882,306)	(5,198,432)	(4,121,200)	(225,740)	(112,934,118)	112,245,198
Technical provision	(2,446,797)	(2,667,094)	(7,667,022)	(10,596,292)	(985,076)	(24,362,281)	24,362,281
Borrowings	(6,725,800)	(2,647,846)	(1,735,135)	(18,759,487)		(29,868,267)	28,120,009
Issued bonds	(315,021)	(3,088,061)	(11,577,901)	(24,716,516)	(2,320,710)	(42,018,209)	38,103,414
Subordinated liabilities			(212,271)	(916,053)	(6,571,430)	(7,699,754)	3,686,451
Short positions held for trading	(1,486,107)					(1,486,107)	1,486,107
Short positions used for hedging	(1,343,186)					(1,343,186)	1,343,186
Other liabilities	(3,475,187)	(3,584,999)	(2,213,814)	(527,067)	(121,906)	(9,922,973)	9,894,650
	(110,298,538)	(20,870,306)	(28,604,574)	(59,636,615)	(10,224,861)	(229,634,895)	219,241,297
Derivative liabilities							
Inflow	(123,731)	1,629,989	3,340,763	6,866,708		11,713,728	
Outflow	(526,350)	(1,761,200)	(3,394,813)	(7,649,561)		(13,331,924)	
	(650,081)	(131,212)	(54,050)	(782,853)	0	(1,618,196)	1,609,537
Unrecognised financial items							
Loan commitments							
Inflow	192,918	247,571	1,188,493	1,284,906		2,913,888	
Outflow	(2,681,375)					(2,681,375)	
Financial guarantee contracts							
Inflow		5,800	87,750	102,186	66,126	261,861	
Outflow	(261,861)					(261,861)	
	(2,750,318)	253,371	1,276,243	1,387,091	66,126	232,513	
Summary							
Non-derivative assets	87,868,980	45,428,209	45,212,653	92,743,224	6,902,599	278,155,665	
Derivative assets	2,894,251	133,049	1,083,861	766,150		4,877,311	
Non-derivative liabilities	(110,298,538)	(20,870,306)	(28,604,574)	(59,636,615)	(10,224,861)	(229,634,895)	
Derivative liabilities	(650,081)	(131,212)	(54,050)	(782,853)		(1,618,196)	
Net assets (liabilities) excluding unrecognised items	(20,185,389)	24,559,741	17,637,889	33,089,905	(3,322,262)	51,779,885	
Net unrecognised items	(2,750,318)	253,371	1,276,243	1,387,091	66,126	232,513	
Net assets (liabilities)	(22,935,707)	24,813,112	18,914,133	34,476,996	(3,256,137)	52,012,398	

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

54. Liquidity risk (cont.)

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

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

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

55. 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 56-61 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.

56. 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.

57. Interest rate risk associated with trading portfolios

a. Breakdown

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

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

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

b. Sensitivity analysis

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

	Shift in basis points	31.12.2022 Downward	Upward	31.12.2021 Downward	Upward
Indexed	50	17,328	(17,206)	42,091	(42,091)
Non-indexed	100	(65,251)	54,360	(35,656)	35,656
Total		(47,923)	37,154	6,436	(6,436)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

58. Interest rate risk associated with non-trading portfolios

a. Breakdown

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

31.12.2022

Financial assets	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash and balances with Central Bank	33,839,478	2,831,108				36,670,586
Fixed income securities	4,853,617	11,997,237	20,978,404	19,745,282	4,762,141	62,336,681
Loans to customers	77,638,422	6,912,847	8,579,333	13,522,931	485,694	107,139,227
Financial assets excluding derivatives	116,331,518	21,741,191	29,557,737	33,268,213	5,247,836	206,146,495
Effect of derivatives	27,714,400	3,350,170	3,650,430	5,583,880		40,298,880
Total	144,045,918	25,091,361	33,208,167	38,852,093	5,247,836	246,445,375

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

31.12.2021

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

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

b. Sensitivity analysis

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

	Shift in		**31.12.2022**		**31.12.2021**
Currency	**basis points**	**Downward**	**Upward**	**Downward**	**Upward**
ISK, indexed	50	(102,436)	90,744	222,350	(216,040)
ISK, non-indexed	100	322,905	(313,948)	85,251	(92,544)
Other currencies	20	28,068	(27,866)	(7,936)	7,901
Total		248,537	(251,070)	299,665	(300,683)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

59. Exposure towards changes in the CPI

a. Definition

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

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

b. Management

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

c. Balance of CPI linked assets and liabilities

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

	31.12.2022	31.12.2021
Assets	30,670,482	36,414,405
Liabilities	(19,761,069)	(18,295,156)
Total	10,909,412	18,119,249

d. Sensitivity to changes in CPI

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

	31.12.2022		31.12.2021	
	-1%	1%	-1%	1%
Government bonds	(74,357)	74,357	(97,037)	97,037
Other fixed income securities	(42,622)	42,622	(87,163)	87,163
Loans to customers	(95,730)	95,730	(81,424)	81,424
Derivatives	(93,995)	93,995	(98,520)	98,520
Short positions	4,064	(4,064)	8,476	(8,476)
Deposits	73,605	(73,605)	58,158	(58,158)
Issued bonds	109,538	(109,538)	88,317	(88,317)
Subordinated liabilities	10,403	(10,403)	28,000	(28,000)
	(109,094)	109,094	(181,192)	181,192

The effect on equity would be the same.

60. Currency risk

a. Definition

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

b. Management

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

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

c. Exchange rates

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

	Closing 31.12.2022	Average 2022	Closing 31.12.2021	Average 2021
EUR/ISK	151.5	142.3	147.6	150.2
USD/ISK	142.0	135.5	130.4	127.1
GBP/ISK	170.8	166.9	175.7	174.7

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

60. Currency risk (cont.)

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

31.12.2022

Financial assets	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Cash and balances with Central Bank	374,239	2,088,077	2,898,400	65,546	427,832	5,854,094
Fixed income securities	0	3,080,348				3,080,348
Shares and other variable income securities	217	2,543,043	1,201,003	28,692	88,988	3,861,943
Securities used for hedging	290,170	195,634	887	16,111	78,795	581,598
Loans to customers	1,359,546		28,619,678		69,092	30,048,316
Intangible assets			2,611,243			2,611,243
Other assets	738,049	792,841	794,141	30	54,986	2,380,047
Financial assets excluding derivatives	2,762,221	8,699,943	36,125,352	110,379	719,692	48,417,587
Derivatives	7,720,865	3,154,406	1,252	6,866,708	127,232	17,870,463
Total	10,483,086	11,854,349	36,126,604	6,977,087	846,924	66,288,050

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

Net currency position	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Financial assets	10,483,086	11,854,349	36,126,604	6,977,087	846,924	66,288,050
Financial liabilities	(10,956,393)	(9,986,534)	(36,823,965)	(7,074,245)	(744,701)	(65,585,838)
Financial guarantee contracts	119,564					119,564
Total	(353,743)	1,867,815	(697,361)	(97,159)	102,223	821,776

31.12.2021

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

60. Currency risk (cont.)

e. Sensitivity to currency risk

Given the net currency position, a 10% change in the value of the ISK would, with other things constant, result in the following changes to the Group's Consolidated Income Statement or equity.

	31.12.2022		31.12.2021	
Assets and liabilities denominated in foreign currencies	**-10%**	**+10%**	**-10%**	**+10%**
EUR	(35,374)	35,374	(32,458)	32,458
USD	186,782	(186,782)	56,904	(56,904)
GBP	(69,736)	69,736	47,478	(47,478)
SEK	(9,716)	9,716	(7,631)	7,631
DKK	7,644	(7,644)	8,065	(8,065)
Other currencies	2,579	(2,579)	47,764	(47,764)
Total	82,178	(82,178)	120,123	(120,123)

61. Equity risk

a. Definition

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

b. Sesitivity analysis of equity risk

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

	31.12.2022		31.12.2021	
	-10%	**+10%**	**-10%**	**+10%**
Listed shares	(487,926)	487,926	(552,391)	552,391
Unlisted shares	(732,521)	732,521	(890,709)	890,709
Unlisted unit shares in funds	(720,604)	720,604	(825,229)	825,229
Total	(1,941,051)	1,941,051	(2,268,329)	2,268,329

62. Operational risk

a. Definition

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

b. Management

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Financial assets and financial liabilities

63. Accounting classification of financial assets and financial liabilities

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

31.12.2022 Financial assets	Amortised cost	Fair value through OCI	Manda-torily at fair value through P/L	Total carrying amount
Cash and balances with Central Bank	36,670,586			36,670,586
Fixed income securities		54,934,612	10,225,796	65,160,407
Shares and other variable income securities			19,410,508	19,410,508
Securities used for hedging			13,841,853	13,841,853
Loans to customers	105,928,837		1,210,390	107,139,227
Derivatives			4,940,738	4,940,738
Other assets	15,465,850			15,465,850
Total	158,065,273	54,934,612	49,629,285	262,629,170

Financial liabilities	Amortised cost	Fair value through OCI	Manda-torily at fair value through P/L	Total carrying amount
Deposits	112,245,198			112,245,198
Borrowings	28,120,009			28,120,009
Issued bonds	38,103,414			38,103,414
Subordinated liabilities	3,686,451			3,686,451
Short positions held for trading			1,486,107	1,486,107
Short positions used for hedging			1,343,186	1,343,186
Derivatives			1,609,537	1,609,537
Other liabilities	9,520,935		373,715	9,894,650
Total	191,676,008	0	4,812,545	196,488,553

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

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

Notes to the Consolidated Financial Statements

64. Financial assets and financial liabilities measured at fair value

a. Fair value hierarchy

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

- Level 1
  Inputs are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2
  Inputs are not quoted market prices but are observable either directly, i.e. as prices, or indirectly, i.e. derived from prices. This category includes financial instruments valued using quoted prices in active markets for similar instruments, quoted prices for similar or identical instruments in markets that are considered less than active and other instruments which are valued using techniques which rely primarily on inputs that are directly or indirectly observable from market data.

- Level 3
  Inputs are not observable or unobservable inputs have a significant effect on the valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments are required to reflect the differences between the instruments.

b. Valuation process

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

c. Valuation techniques

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

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

64. 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:

31.12.2022

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	5,524,639	4,085,852	615,304	10,225,796
Shares and other variable income securities	8,723,913	3,249,312	7,437,283	19,410,508
Securities used for hedging	13,841,853			13,841,853
Loans to customers			1,210,390	1,210,390
Derivatives		4,940,738		4,940,738
Other assets				0
Measured at fair value through other comprehensive income				
Fixed income securities	54,934,612			54,934,612
Total	83,025,017	12,275,902	9,262,978	104,563,897

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

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

31.12.2021

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

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

f. Reconciliation of changes in Level 3 fair value measurements

31.12.2022	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Derivatives	Other liabilities	Total
Balance as at 1 January 2022	794,538	8,383,419	2,524,269	30,202	0	(483,486)	11,248,942
Total gains and losses in profit or loss	(33,760)	1,979,597	208,872	1,939	(4,532)	(17,646)	2,134,470
Additions	581,656	1,096,404	245,626		(687,181)		1,236,505
Repayments	0	0	(1,768,377)	(29,480)		127,417	(1,670,440)
Disposals	(864,483)	(3,193,004)		(2,661)			(4,060,148)
Reclassifacation	137,353	(137,353)					(0)
Transfers in (out) of Level 3		(691,779)					(691,779)
Balance as at 31 December 2022	615,304	7,437,283	1,210,390	0	(691,713)	(373,715)	8,197,550

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

g. Fair value measurements for Level 3 financial assets

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

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

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

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

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

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

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

	+10%	-10%
Fixed income securities	61,530	(61,530)
Shares and other variable income securities	743,728	(743,728)
Loans to customers	121,039	(121,039)
Receivables at fair value	0	0
Total	926,298	(926,298)

Notes to the Consolidated Financial Statements

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

The Group holds financial instruments which are not measured at fair value. Except for loans to customers, the Group believes that the best estimate of the fair value of these financial instruments is equal to the carrying amount at the reporting date and does therefore not report a fair value for these financial instruments. Loans to customers measured at amortised cost are classified as level 3, in the fair value hierarchy, and have a book value of ISK 105,929 million at end of December 2022. The estimated fair value of loans to customers measured at amortised cost at end of December 2022 is ISK 104,917 million.

Cash and balances with Central Bank includes several components as detailed in note 19. These assets are either balances available on-demand or on very short notice, or other assets easily converted to cash. Other financial assets consist primarily of short-term receivables. The carrying amount of these assets is therefore a reasonable approximation of their fair value.

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Other information

66. Pledged assets

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

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

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

67. 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 26, shareholders with significant influence over the Bank, close family members of individuals identified as related parties and entities under the control or joint control of related parties.

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

c. Balances with related parties

31.12.2022	Assets	Liabilities
Management	0	44,424
Associates	0	7,408
Total	0	51,832

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

d. Transactions with related parties

2022	Interest income	Interest expense	Other income	Other expense
Management	0	1,857	2,285	447
Associates	0	0	0	90,896
Total	0	1,857	2,285	91,343

2021	Interest income	Interest expense	Other income	Other expense
Management	60	281	3,870	3,395
Associates	0	0	0	0
Total	60	281	3,870	3,395

Further information about salaries and benefits paid to the Board of Directors, the CEO and Managing Directors is provided in note 12.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

68. Remuneration policy

The Board of Directors has adopted a remuneration policy at the proposal of the Remuneration Committee. The Bank's Annual General Meeting approved the Bank's current remuneration policy in March 2022. The Board of Directors will submit an updated remuneration policy for approval at the Bank's Annual General Meeting in 2023.

The remuneration policy conforms to Articles 57 a and 57 b of Act No. 161/2002 on Financial Undertakings, Act No. 2/1995 on Public Limited Companies and the Icelandic FSA's rules No. 388/2016 on Incentive Schemes. A more detailed description of the policy can be found on the Bank's website, www.kvika.is.

69. Incentive scheme

The Board of Directors has approved a performance based incentive scheme at the proposal of the Remuneration Committee. The scheme forms a part of the remuneration policy adopted by the Bank.

a. Description

The incentive scheme is set forth in accordance with Article 57 b of Act No. 161/2002 on Financial Undertakings and the Icelandic FSA's rules No. 388/2016 on Incentive Schemes. Performance based payments may consist, in part or in full, of shares or sharelinked instruments, such as warrants or stock options for shares in the Company. Payments according to the scheme are based on key performance indicators (KPIs) that reflect the goals of the Bank, the division and the employee. The basis for performance based pay reflects sound risk management and does not induce excessive risk taking. Performance based pay to individual employees shall not exceed 25% of their annual salary and 40% of the performance based pay shall be deferred for three years. Performance based pay that does not exceed 10% of annual salary is not subject to deferral. A more detailed description of the scheme can be found in the Bank's remuneration policy on it's website, www.kvika.is.

b. Performance based payments through profit and loss

	2022 Cash	2021 Cash
Non-deferred	143,294	189,506
Deferred	5,769	86,324
Salary related expenses	42,636	77,849
Total	191,699	353,679

c. On-balance sheet deferred performance based payments

	31.12.2022	31.12.2021
Deferred cash payments	72,867	158,540
Deferred cash payments, acquired via business combinations	0	87,017
Total	72,867	245,556

70. Share-based payments

a. Description

The Bank has issued share options in accordance with authorisations of its annual general meeting, the Group's remuneration policy and incentive scheme. There are two share option plans in effect at year end 2022, a general share option plan, cf. Art. 10 of Act No. 90/2003, and a share option plan based on the Bank's incentive shceme.

General share option plan, cf. Art. 10 of Act No. 90/2003

On 21 April 2021 the Annual General Meeting of the Bank authorised the Board of Directors to approve a general share option plan in accordance with Article 10 of the Income Tax Act No. 90/2003 for all employees of Kvika and its subsidiaries. On 10 November 2021 the Bank's Board of Directors approved a share option plan which was approved by Iceland Revenue and Customs on 9 December 2021.

The objective of the share-based payments is to integrate the interests of employees with the long-term goals of the Group. The calculation of the purchase price was based on weighted average price in transactions with shares of the Bank for ten whole business days prior to each contract date. The options do not allow for cash settlement. Furthermore, the options are conditional on the employee remaining employed by the Bank, or its subsidiaries, and various other conditions.

The plan was implemented on 15 December 2021 and on that date each eligible employee was offered a stock option for up to ISK 1,500,000 per year the following three years, in total for up to ISK 4,500,000. The first year of the stock option plan has now expired but employees hired in 2022 were on 15 December 2022 invited to enter the stock options for the remaining two years in accordance with the plan.

The cost of the stock option agreements was calculated using the Black-Scholes calculation model and amounted to ISK 175 million for those issued in the year 2021 and ISK 35 million for those issued in the year 2022.

Notes to the Consolidated Financial Statements

70. Share-based payments (cont.)

Other share options, cf. the Bank´s incentive scheme

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

The main terms of the share options are as follows:

- The exercise price of the stock options is ISK 22.495 per share, which is equivalent to the weighted average price in transactions with shares of the company on Nasdaq OMX Iceland for ten business days prior to the contract date, with 7.5% annual interest over the period, and the exercise price shall be adjusted for dividends that may be decided until the exercise period begins.
- The options do not allow for cash settlement.
- The stock options may be exercised in 2025, during an exercise period of three months.
- In general, stock options shall lapse if the stock option holder's employment relationship with the company is terminated until the beginning of the exercise period.
- The Bank's CEO, deputy CEO and the executive management of the group commit to retain, until the end of their employment, shares which market value correspond to profit after taxes of utilised stock options until the value of the shares owned by those individuals is equivalent to 12 months’ salary for Kvika´s CEO and deputy CEO and six months’ salary for other members of the executive management.
- The value of the stock options was determined by an independent specialist and the value is in line with the laws and rules applicable to bonus payments of financial undertakings.
- In certain instances, the Group is entitled to revoke the stock options in part or in whole in line with FME rules.

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

Share options	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2021 (ISK 1,500,000) - General share option plan, cf. Art. 10 of Act No. 90/2003	36,989	2023-2024	26.44
Issued in 2022 (ISK 1,500,000) - General share option plan. cf. Art. 10 of Act No. 90/2003	11,177	2023-2024	20.13
Issued in 2022 - Other share options, cf. the Bank´s incentive scheme	39,933	2025	22.50
	88,099		

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

	Average exercise price per share	Share options (thousands)
At 1 January 2021	0.00	0
Granted in 2021	26.44	55,484
At 31 December 2021	26.44	55,484
Granted in 2022	21.98	51,110
Forfeited in 2022	26.44	(18,495)
At 31 December 2022	23.85	88,099
Exercisable share options at 31 December 2022		0

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

71. Shareholders of the Bank

Shareholder	Country	31.12.2022 %	31.12.2021 %	Beneficial owners
Lífeyrissjóður verzlunarmanna	Iceland	9.13%	8.20%	
Lífeyrissjóður starfsmanna ríkisins A-deild	Iceland	7.64%	6.28%	
Stoðir hf.	Iceland	6.59%	6.11%	
Birta lífeyrissjóður	Iceland	4.80%	4.33%	
Gildi - lífeyrissjóður	Iceland	4.66%	4.61%	
Arion banki hf.	Iceland	3.41%	4.40%	
Stapi lífeyrissjóður	Iceland	3.07%	3.08%	
Lífsverk lífeyrissjóður	Iceland	2.43%	2.47%	
Almenni lífeyrissjóðurinn	Iceland	2.23%	1.90%	
Brú Lífeyrissjóður starfsmanna sveitarfélaga	Iceland	2.13%	2.14%	
Lífeyrissjóður starfsmanna ríkis B-deild	Iceland	1.78%	1.57%	
Stefnir - Innlend hlutabréf hs.	Iceland	1.68%	1.68%	Investement fund managed by Stefnir hf.
Frjálsi lífeyrissjóðurinn	Iceland	1.58%	1.22%	
Landsbankinn hf.	Iceland	1.49%	1.02%	
Landsbréf - Úrvalsbréf hs.	Iceland	1.48%	1.51%	Investement fund managed by Landsbréf hf.
Attis ehf.	Iceland	1.35%	1.36%	Guðmundur Örn Þórðarson (100%)
Sigla ehf.	Iceland	1.32%	1.19%	Tómas Kristjánsson (100%)
SNV Holding ehf.	Iceland	1.29%	1.36%	Svanhildur Nanna Vigfúsdóttir (100%)
Others, each less than 1%		38.93%	43.18%	2022: 2974, 2021: 2802
		97.00%	97.61%	
Treasury shares		3.00%	2.39%	
Total		100.00%	100.00%	

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

72. Other matters

Acquisition of a merchant agreements

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

73. Events after the reporting date

Merger discussions with Íslandsbanki hf.

In February 2023 the board of directors of Kvika and Íslandsbanki hf. decided to commence discussions on the merger of the two companies. Kvika’s board of directors believes that merging the companies would create a strong financial institution with an optimal revenue combination. The merged company could provide its customers with diversified services and would contribute to increased competition in the financial market through fintech and other solutions, as well as being an interesting investment opportunity. At the signing date of the Consolidated Financial Statements the discussion had recently commenced and had therefore not yet yielded any results.

Kvika banki hf. Amounts are in ISK thousands

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Notes to the Consolidated Financial Statements

Significant accounting policies

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

74. Basis of consolidation

a. Subsidiaries

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

b. Business combinations

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

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

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

c. Non-controlling interest

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

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

d. Fiduciary services

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

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

e. Transactions eliminated on consolidation

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

f. Structured entities

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

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

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

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

Notes to the Consolidated Financial Statements

75. Foreign currency

a. Foreign currency transactions

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

Foreign currency differences are posted as a separate line item under net financial income as disclosed in notes 8 and 80.

b. Foreign operations

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

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

76. Interest income and expense

Effective interest rate

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

Amortised cost and gross carrying amount

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

Presentation

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

77. Fee and commission income and expense

The Group earns income from providing various services to its customers. This includes fees for managing assets on behalf of customers, commissions received for equity and bond transactions and fees and commissions for various other financial services. Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission income and expense are recognised in the income statement when an agreement with a customer meets all of the following criteria:
- the parties to the contract have approved the contract and are committed to perform their respective obligations
- performance obligations have been established for services to be transferred
- the payment terms have been established for the services to be transferred
- the transaction price can be allocated to each individual service in the agreement
- it is probable that a consideration will be collected in exchange for the services that will be transferred to the customer

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

Notes to the Consolidated Financial Statements

78. Net earned premiums and net incurred claims

Premiums are recognised proportionally during the period in which insurance covers. Earned premiums in the income statement is written premiums in the period in addition to the change in the premium provision in the period. Premiums written are presented less depreciated premiums and without commissions or sales cost and the change in premium provision is presented without changes due to foreign exchange differences. Net earned premium is obtained by subtracting written premiums for reinsurance contracts and changes in the reinsurer´s share in premium provision in the accounting period. The definition of net earned premiums is in line with the guidelines of the Central Bank‘s Financial Supervisory body, nr. 1/2020.

Incurred claims cost in the income statement are comprised of claims paid during the period and changes in claims provisions due to insurance operations and changes in the risk margin in the period. The changes in the claims liability due to insurance operations include changes of estimates of claims provision due to prior years in addition to changes in the claims provision due to the current accident year. Changes in the claims provision for prior years is presented without the effect of unwinding, interest and exchange rate changes, which are transferred to the investment segment. Net incurred claims are claims with the reinsurers‘ share deducted both for the paid claims and the changes in claims provision. Definition of net incurred claims is in line with the guidelines of the Central Bank‘s Financial Supervisory body, nr. 1/2020.

79. Insurance Contracts

As part of its insurance operations the Group's entities issue contracts that transfer insurance risk from the customers to the Group.

Insurance contracts are contracts under which the insurer accepts insurance risk from policyholders by agreeing to compensate the them if a specified uncertain future event would occur.

The Group's insurance contracts are categorised as either non-life insurance and life and health insurance contracts.

Non-Life insurance

Non-life insurance contracts are categorised as liability insurances, casualty insurance and property insurance. Liability insurance contracts provides protection against claims resulting from injuries and damage to third parties. Casualty insurance provides protection against losses caused by accidents. Property insurance contracts mainly compensates for material damages to insured properties. Commercial customers could also receive compensation of loss of income caused by a fire or other covered claim events (business interruption insurance).

Life and Health insurance

These contracts are categorised as term life insurance contracts, index-linked insurance contracts and critical illness contracts and are associated with the event of death or critical illness of the policy owner.

80. Net financial income

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

81. Dividend income

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

82. Administrative expenses

Administrative expenses comprise expenses other than interest expenses, fee and commission expenses and expenses related to fair value changes. A breakdown of administrative expenses is provided in note 10.

Notes to the Consolidated Financial Statements

83. Employee benefits

a. Short-term employee benefits

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

b. Defined contribution plans

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

c. Share-based payments

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

84. Income tax

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

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

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

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

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

85. Financial assets and financial liabilities

a. Recognition

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

b. Classification

Financial assets

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

Financial assets at amortised cost

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

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

Notes to the Consolidated Financial Statements

85. Financial assets and financial liabilities (cont.)

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

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

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

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

Financial assets at fair value through profit or loss are measured in the Consolidated Statement of Financial Position at fair value. Loans to customers which are measured at fair value through profit or loss are assets whose cash flows do no represent payments that are solely payments of principal and interest but are non-trading assets. Interest on loans to customers measured at fair value through profit or loss is recognised as interest income. Changes in fair value, as well as any gains or losses realised on disposal, are recognised in the line item Net financial income (expense) in the Consolidated Income Statement.

Business model assessment

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

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

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

Cash flow characteristics assessment

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

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

Reclassifications

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

Financial liabilities

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

Notes to the Consolidated Financial Statements

85. Financial assets and financial liabilities (cont.)

Derecognition

Financial assets

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

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

Financial liabilities

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

86. Offsetting

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

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

87. Determination of fair value

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. For further information on valuation techniques, refer to notes 64 - 65.

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

88. Impairment

Expected Credit Loss

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

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

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

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

The general approach

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

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

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

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

Notes to the Consolidated Financial Statements

88. Impairment (cont.)

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

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

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

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

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

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

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

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

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

Definition of default
The Group considers a financial asset to be in default if one of the following applies:
- the borrower is 90 days past due of one of his exposures with the Bank;
- the borrower is registered as in delinquency by Creditinfo (Icelandic: vanskilaskrá) and has payment in 30 days or longer delinquency with the Group;
- the borrower is registered in public records as filed for bankruptcy, has terminated his business or is no longer a going concern;
- the borrower is considered to be unlikely to pay as determined by the Bank's Risk Management department. Events that are likely to lead to default as determined by the Risk Management department include the following:
  - breach of covenants of loan commitments;
  - loan concessions or stressed restructuring; or
  - High risk classification based on Risk Management's internal risk assessment.
- the borrower has been in default in accordance with above at any point for the previous three months.

The Risk Management department can manually override automatic default triggers if the following applies:
- the reason for reported default triggers is known to the Bank and not considered to be lack of willingness or ability to pay.
- re-financing of borrower’s exposures is expected and has been confirmed.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

88. Impairment (cont.)

Probability of default and credit risk rating

The Group utilises an external Probability of Default model (PD model) developed and maintained by Creditinfo Iceland, an Icelandic credit bureau, for the domestic portfolios. The PD model is based on information compiled by Creditinfo on the creditworthiness of corporates and individuals in Iceland based both on personal and demographic factors. It predicts the probability of default in the next 12 months. The model has been calibrated to using historical default rate information representative of the Group's domestic portfolio. The model is designed as a point in time model and correlation between forecasted and actual default rates and macroeconomic forecasts has been identified. This enables the Group to calculate different forward looking probabilities of default given different forecasts for changes in inflation rate and unemployment rate. Lifetime PD for loans in stage 3 is 100% as by definition they are already in default.

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

Significant increase in credit risk

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

Quantitative SICR assessment

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

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

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

Migration of corporations by one or two risk grades in the PD model is considered to be a significant increase in risk and therefore warrant a transfer to stage 2, depending on the origination grade. However, the Group considers risk grades less than 5 for corporations to be low risk and therefore excludes any movement between categories that does not result in a rating above that level. Ratings above 10 are considered to indicative of default and therefore warrant elevation to stage 3 unless overridden based on other available information or expert judgement. The Group doesn't consider grading migrations for individuals but considers risk grades below certain thresholds, regardless of original score, as significant increased risk. Migration of one risk class in the UK portfolio is indication of significant increase in credit risk.

Qualitative SICR assessment

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

Notes to the Consolidated Financial Statements

88. Impairment (cont.)

Exposure at default

Lifetime definition

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

Committed facilities

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

Expected credit loss measurement

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

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

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

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

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

Forward looking probability weighted scenarios

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

89. Cash and balances with Central Bank

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

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

90. Fixed income securities

Fixed income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 85.

91. Shares and other variable income securities

Shares and other variable income securities consist of equity investments and unit shares in mutual funds. Shares and other variable income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 85.

92. Securities used for hedging

Securities used for hedging consist of non-derivative financial assets that are used to hedge the Group's exposure arising from derivative contracts with customers. Securities used for hedging are measured at fair value as discussed in note 85.

Notes to the Consolidated Financial Statements

93. Loans to customers

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

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

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

94. Derivatives

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

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

The Group uses derivatives for trading purposes and to hedge its exposure to market price risk, foreign exchange risk and inflation and interest risk arising from operating, financing and investing activities. The Group does not apply hedge accounting.

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

95. Investments in associates

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

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

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

96. Investment properties

An investment property is an asset which is specified for leasing to third parties, for returns or for both purposes. Investment properties are initially recognised at cost and subsequently measured at fair value. Changes in fair value are recognised as gains or loss in the income statement.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

97. Intangible assets

a. Asset categories

The Group groups intangible assets into four categories:

- Goodwill

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

  Customer relationships have been acquired as part of recent acquistions and are capitalised and amortised using the straight line method over their useful life of maximum 16 years.
- Brands

  Brands have been acquired as part of recent acquistions and are capitalised and amortised using the straight line method over their useful life, but not exceeding 20 years.
- Software and other

  Software comprise acquired software licences and external costs associated with the development of bespoke applications.
- Development cost that has been capitalised is amortized on the day that the product is launched using the straight line method over their useful life, but not exceeding 10 years.

b. Initial recognition

Intangible assets are initially recognised at cost.

c. Subsequent measurement

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

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

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

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

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

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

d. Amortisation

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

Customer relationships	7-16 years
Brands	4-20 years
Software and other	3-10 years

Depreciation of property and equipment and amortisation of intangible assets are presented together as a separate line item in administrative expenses as disclosed in note 10. Further breakdown on depreciation of intangible assets is provided in note 28.

98. Operating lease assets

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

Notes to the Consolidated Financial Statements

99. Property and equipment

a. Asset categories

The Group groups tangible assets into two categories:

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

b. Initial recognition

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

c. Subsequent measurement

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

d. Subsequent cost

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

e. Depreciation

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

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

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

100. Reinsurance assets

Reinsurance is purchased to reduce the Group´s insurance risk. The outward reinsurance contracts can be either proportional or excess of loss contracts.

101. Other assets

Other assets are measured at amortised cost, except for certain receivables which are measured at fair value.

Part of other assets are life-insurance policies offered by TM líftryggingar hf. which consist of life-insurance and contribution to investments funds. Life-insurance policyholder bears the investment risk.

102. Deposits

Deposits consist of time deposits and demand deposits. Money market deposits are included in borrowings. Deposits are recognised at amortised cost, including accrued interest.

Notes to the Consolidated Financial Statements

103. Technical provision

The technical provision in the Consolidated Financial Statements represents the Group's liability for current insurance contracts and consists of the best estimate of the claims provision, the premium provision and the risk margin.

The claims provision is the Groups liability due to incurred claims and should cover the expected future payments due to all claims incurred, including claims not yet reported to the Group. The core of the claims provisions is an actuarial estimate of payments of all incurred claims until they will be settled less what has already been paid at the reporting date. According to the Act on Insurance No. 100/2016 and related legislation the following margins are added to the core of the claim's provision:

- expected settlement expenses not allocated to specific claims;
- future indexation of claim payments due to future inflation; and
- the effect of discounting the future payments using a risk-free interest rate curve.

The expected settlement expenses are recongnized as operating expenses when they incur.

The premium provision is the provision for unearned premiums in addition to a margin for expected repayment of earned premiums. The provision of unearned premiums is the part of written premiums relating to future exposure arising from current insurance contracts. The premium provision is intended to cover the expected claims cost and operating expenses for future coverage of insurance contracts in force.

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

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

104. Borrowings

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

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

105. Issued bills

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

106. Issued bonds

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

107. Subordinated liabilities

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

108. Short positions held for trading

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

109. Short positions used for hedging

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

110. Other liabilities

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

Notes to the Consolidated Financial Statements

111. Right of use asset and lease liability

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

112. Financial guarantees

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

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

113. Share capital

a. Treasury shares

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

b. Share premium

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

c. Dividends on share capital

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

114. Nature and purpose of equity reserves

a. Option reserve

The option reserve represents the cumulative charge to the income statement for options to purchase shares in the Bank granted under the Bank's Remuneration policy, which is discussed in notes 68-70.

b. Warrants reserve

The warrants reserve represents the consideration received for outstanding warrants, as disclosed in note 41.

c. Deficit reduction reserve

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

d. Fair value reserve

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

e. Translation reserve

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

f. Restricted retained earnings

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

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

g. Retained earnings - accumulated deficit

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

115. Earnings per share

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

Notes to the Consolidated Financial Statements

116. New standards and interpretations

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2022 and have not been applied in the preparation of these financial statements. Early adoption of new standards and amendments is not planned.

IFRS 17 Insurance Contracts

In May 2017 the International Accounting Standards Board (IASB) published IFRS 17 Insurance Contracts which includes a complete review of the requirements for accounting for companies which issue insurance contracts. The standard became effective on 1 January 2023 and replaces IFRS 4 Insurance Contracts.

The insurance operations of the Group will report in accordance with IFRS 17 as of 1 January 2023. The Group will apply the standard using the modified retrospective approach and will update comparison amounts in accordance with IFRS 17. The standard will have an effect on the presentation of the insurance part of the Group’s financial statements, but the Group expects that the effects on its income statement and equity will be limited.

Measuring insurance contracts

The standard allows for the use of Premium Allocation Approach (“PPA”) when the duration of insurance contracts is one year or less and also when the contracts which have a longer duration have the same characteristics, e.g. through an annual review of premiums. The Group will apply this approach as this applies to a large extent to the Group’s contracts, and the premiums for those that this does not apply to are immaterial.

Effect on the statement of financial position

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

Effect on the income statement

The Group does not expect the standard to have a large effect on the presentation of the Group‘s income statement.

117. Use of estimates and judgements

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

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

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

a. Claims provision

The estimation of claims provision is one of the Group's most critical accounting estimate as there are several sources of uncertainty that need to be considered in the estimation procedure. The uncertainty in the estimation involves both the estimation of the ultimate claims cost of reported claims as well as incurred but not reported claims. The Group uses standard actuarial and statistical methods to estimate the ultimate claims cost. The uncertainty in non-life insurance is particularly high in accidents and other long-tailed business lines. Reference is made to note 33 and note 103 for further information.

b. Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques which are reviewed regularly as discussed in note 64.

c. Impairment of financial assets

As outlined in note 88, the use of estimates and judgement is an important component of the calculation of impairment losses. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Unforeseen events could, however, result in further impairment losses which would have a material effect on the income statement and statement of financial position.

d. Impairment of intangible assets

The carrying amount of intangible assets are reviewed annually to determine whether there is indication of impairment as disclosed in note 97. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

e. Deferred tax assets

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

KVIKA

Appendix:

Statement on the Corporate Governance of Kvika banki hf. 2022

Unaudited

Statement on the Corporate Governance of Kvika banki hf. 2022

Business strategy and values

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

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

Commercial Banking provides businesses, institutions and investors with general banking services. Customers’ daily banking transactions are handled mostly via Kvika’s online banking system. The online banking sector enables customers to handle a wide range of banking transactions and monitor portfolios anywhere and at any time. Kvika also offers a range of restricted and unrestricted deposit accounts, both indexed and non-indexed. Kvika provides private customers with a wide range of financial services via its Auður, Aur, Framtíðin, Lykill and Netgíró specialised brands. Auður is an online financial service that offers deposit accounts for individuals. Kvika also offers companies and individuals financing in the form of loan and lease agreements for cars, machines, equipment etc. through the brand Lykill. In addition, Kvika operates Framtíðin, that is exclusively online and provides real estate loans to individuals who qualify for additional housing loans, runs the payment service Netgíró and the payment application Aur.

Corporate Banking & Capital Markets provide a range of professional services in the fields of specialised financing, securities and foreign exchange transactions and corporate finance services. Capital Markets provide customers with comprehensive services in securities and foreign exchange brokerage. Kvika has forged a strong position for itself in the foreign exchange market and is the only bank offering foreign exchange trading on the new, transformational Keldan foreign exchange market. Our market trading operations also enable customers to trade stocks and bonds on all of the world’s major markets, while experts offer professional advice and personalised services tailored to the needs of professional investors. The Corporate Finance segment provides advice on the acquisition, sale and merger of companies and business entities, financing businesses via stock or bond auctions, listing and delisting stocks and bonds. The Corporate Banking segment provides businesses, institutions and investors with specialised lending to finance such things as real estate, real estate development, securities transactions and other investments. The division also uses the bank’s infrastructure to distribute loans to other institutional investors.

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

Insurance operations of Kvika are operated through its subsidiary, TM Insurance, which has a rich history and over 60 years of experience. TM Insurance offers a universal and highly diversified product offering to commercial and private customers and its main insurance categories include Motor, Property, Marine, Liability, Accident and Life insurance. TM Insurance operates in accordance with Act no. 100/2016 on insurance activities and is licensed in the European Economic Area and in the Faroe Islands.

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

Return on equity is determined by decisions made in accordance with the Company’s risk appetite, which reflects its profitability targets. Emphasis is placed on utilising equity as efficiently as possible with regard to risk. Consequently, decisions regarding the optimal composition of the balance sheet to generate income are restricted by risk appetite and funding at any given time. Kvika’s target is a return on tangible equity of at least 20%.

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

Sustainability and social responsibility

Kvika's purpose is to increase competition and simplify customers' finances by using infrastructure and financial strength. Kvika's values are long-term thinking, simplicity and courage. The company emphasizes long term thinking and promoting a sustainable society through active participation, but one of the guiding principles of Kvika's overall strategy from 2021 includes focus on sustainability and social responsibility.

On the basis of Kvika's overall strategy, a new sustainability strategy was formulated and approved in 2022. The sustainability strategy was developed with employees across the bank's units and subsidiaries. With the new strategy, four themes have been defined that the group emphasizes when implementing sustainability. They relate to innovation and product development; sustainable business environment; internal and external communications; wellbeing of employees and the community. Along with the formulation of the sustainability strategy, a materiality assessment was conducted on the importance of the ESG factors for Kvika´s operation. Part of that assessment was a stakeholder survey. The results of the materiality mapping will be used when formulating Kvika's focus in sustainability.

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Kvika's sustainability governance structure includes a committee on social responsibility and sustainability that follows the implementation of the issue on a consolidated basis, together with the sustainability project manager, who sits in the CEO's office. Kvika's CEO and managing directors are responsible for the implementation and execution of the sustainability policy and other policies that have been adopted and support the E, S and G factors. Furthermore, the board of Kvika has set the bank a code of conduct and rules on conflicts of interest, which are intended to promote good working and business practices within the bank. Kvika strives to offer its employees a healthy, reliable and positive work environment that is shaped by equal opportunities. Emphasis is placed on ensuring the professionalism of employees and that their decisions take into account the bank's values. The bank's policies and rules can be found on Kvika's website.

Kvika has been a member of the United Nations Principles for Responsible Investments (UN PRI) since autumn 2020, and participates in various collaborations in the field of sustainability, such as being a founding member of IcelandSIF, an association for responsible investments, a member of the Festa Center for Sustainability, since 2017, and a supporter of Grænvangur, a cooperation platform between industry and government on climate issues and green solutions, since 2021. In November 2022, Kvika became a member of PCAF (e. Partnership for Carbon Accounting Financials).

Kvika's new sustainability strategy adopts six UNDG to emphasize in the operations. They are: goal 3 on good health and wellbeing; goal 4 on quality education; goal 5 on gender equality; goal 9 on industry innovation and infrastructure; goal 13 on climate action; and goal 17 on partnership for the goals.

Kvika provides a variety of grants that have a positive social impact. In recent years, Kvika has focused on supporting UNICEF in Iceland; women and innovation with FrumkvöðlaAuður; and industrial studies and teacher training with Kvika's Incentive Fund. Education is one of the best long-term investments for communities and individuals, and accordingly the bank contributes to the cause.

A more detailed discussion of the scope, position and impact of the group regarding the E, S and G factors can be found in Kvika's sustainability report, which is published together with Kvika's annual financial statement. The report is based on Nasdaq's UFS guidelines (ESG Reporting Guide 2.0), but in addition the GRI Standards have been taken into consideration and relevant indicators are answered.

Compliance with corporate governance guidelines

Kvika is obliged to observe recognised corporate governance guidelines, pursuant to Par. 7 of Article 54 of Act No. 161/2002, on Financial Undertakings. The Company complies with chapter VII of Act No. 161/2002, on Financial Undertakings, and in most respects with the Guidelines on Corporate Governance issued jointly in February 2021 by the Chamber of Commerce, NASDAQ Iceland and SA – Business Iceland. The Guidelines are available on the website of the Chamber of Commerce www.vi.is. Kvika’s only deviation from the guidelines is that it has not appointed a nomination committee nor decided how one should be appointed. There is currently no specific nomination procedure in place for board members. Shareholders elect board members from those candidates which have announced their candidacy. If the number of candidates does not outnumber the number of seats on the Board of Directors, the candidates are automatically elected to the Board of Directors.

At Kvika’s AGM in 2019, shareholders agreed to entrust the Board of Directors at the time with analysing the advantages and disadvantages of appointing a nomination committee for the Company, inviting shareholders to express their views on the question and draft a proposal if this was considered advisable. The Board subsequently examined the matter and announced the results of its assessment to shareholders at the Company’s 2020 AGM. Part of the analysis involved a review of actions taken by other companies and discussing the matter with shareholders and representatives of companies where nomination committees operate. The conclusion at the time was to not propose to shareholders to appoint a nomination committee. No objections were made in regard to that conclusion. In this context, it should be noted that special rules apply to financial undertakings regarding assessment of the composition of their boards. Each year, the Board of Directors carries out a self-assessment with regard to its composition, assisted by external consultants. Bearing this in mind, the Board was of the opinion that the need for a nomination committee was not as great as might exist in other companies.

Furthermore, Kvika’s activities comply with the recognised standards and rules of the European Banking Authority (EBA), including guidelines on internal governance (EBA/GL/2021/05), cf. Article 15 of regulation of the European Parliament and of the Council No. 1093/2010, which was incorporated into Icelandic law with act no. 24/2017 a European Financial Supervisory System (hereinafter “EBA Guidelines”).

Regulatory framework

Kvika is a financial undertaking subject to provisions of Act No. 161/2002, on Financial Undertakings, Act No 61/2017, on Additional Supervision of Financial. Conglomerates, Act No. 115/2021, on The Market for Financial Instruments, Act No. 45/2020, on Alternative Investment Funds, Act No. 14/2020, on Prospectus for Public Offering or Admission to Trading on a Regulated Market, Act No. 33/2013, on Consumer Lending, Act No. 118/2016, on mortgage lending to consumers, Act No. 100/2016 on Insurance Activity, Act No. 2/1995 on Limited Liability Companies, the Competition Act, No. 44/2005, Act No. 114/2021, on Payment Services, Act No. 3/2006, on Annual Financial Statements, Act No.140/2018, on Measures against Money Laundering and Terrorist Financing and others. Moreover, Kvika is obliged to guarantee the safety of the personal data it processes in its activities, in accordance with Act No. 90/2018, on the Protection of Privacy as regards the Processing of Personal Data. Kvika has an operating licence from FME, which supervises the activities of the Company. Kvika’s activities are therefore governed by the rules and instructions of the FME and Central Bank of Iceland as well as other legal provisions and derivative rules and regulations regarding financial operations. More details about FME and an overview of the principal legislation and rules that apply to the Company at any given time can be found on the website of FME www.en.fme.is.

The main elements of internal control, risk management and accounting

The Board of Directors is responsible for ensuring that an active system of internal controls is in place within the Company, based on three lines of defence: The first line of defence consists of the management and the employees of business and principal units in charge of the Company’s daily management and organization. Their main responsibility is to ensure the functionality and implementation of internal control measures in daily operations. The second line of defence is comprised of the internal control units of the Company, principally the Compliance Officer, who is in charge of ensuring that laws and regulations are observed, and Risk Management, which, among other things, measures and assesses risk according to the Company’s criteria. Other units may also be given control functions. The third line of defence are the internal auditor and sub-committees, which ensure internal auditing is in place and functioning. Among other things, they prepare independent surveys and reports for the Board of Directors and Audit Committee.

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The implementation and functioning of internal controls is the responsibility of the management of the Company and its control units. Internal control is founded on risk assessment and control measures intended to reduce risk factors in the operations of the Company. Internal control includes documented and formal procedures which Kvika's employees follow in their daily work and which are examined by the control units.

The Board of Directors determines the risk policy and risk appetite of the consolidation with rules on risk management of the financial conglomerate of Kvika, which define risk factors in Kvika's operations, including their nature and acceptable volume. The Board hires an Internal Auditor, signs his/her formal statement of duties and annually approves the audit plan. The CEO appoints the Compliance Officer with the approval of the Board and signs his/her formal statement of duties. The reports and findings of the Internal Auditor and Compliance Officer are presented directly to the Board.

The Board has established rules on risk management of the financial conglomerate of Kvika which are rules on risk and apply to Kvika as a financial conglomerate in whole. The purpose of the rules is to harmonize risk management within the consolidation to ensure it is systematic and effective and geared to enhance transparency within the consolidation's risk taking at all levels of management, from the Board of Directors of Kvika to Boards of subsidiaries, the operating units and individuals who directly participate in daily management and decision-making regarding risk. The rules on risk of the financial conglomerate of Kvika stipulate that the Company and its subsidiaries shall establish a risk policy. The risk policy of the Company and each subsidiary shall implement what is stated in the rules on risk and further define risk-taking within Kvika and each subsidiary. The Board of Directors has established a risk policy for the Company.

Kvika's Finance division prepares annual financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and additional requirements, as applicable, in the Act. on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions no. 834/2003. The annual financial statements are audited by Kvika's external auditors, Deloitte.

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

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

Composition and activities of the Board of Directors, Executive Committee and sub-committees

Each year Kvika's AGM elects a Board of Directors consisting of five board members and two alternates for a one-year term.

Directors come from varied backgrounds and all possess extensive experience and expertise. In accordance with the Company's gender equality policy and the Act on Limited Liability Companies, care is taken to ensure at least 40% representation of each gender on the Board, which is currently comprised of three men and two women. The CEO is appointed by the Board of Directors. Board meetings are generally held once a month. In 2022, 20 board meetings were held and all board members attended all board meetings, except for two meetings where one board member was absent in each instance. The Chairman of the Board attended all meetings of the Board of Directors.

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

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

The members of the Audit Committee are Ingunn Svala Leifsdóttir, as chairperson, Helga Kristín Auðunsdóttir and Margrét G. Flóvenz. The committee operates on a consolidated basis and is intended to play an advisory and supervisory role for Kvika's Board of Directors by, among other things, ensuring the quality of financial statements and other financial information from the Company and the independence of its auditors. The committee supervises accounting procedures and the effectiveness of internal controls as well as internal and external auditing. The committee met eight times in 2022.

The members of the Risk Committee are Guðmundur Þórðarson, who is chairperson, Ingunn Svala Leifsdóttir and Sigurður Hannesson. The committee's role has an advisory and supervisory role for the Company's Board of Directors, among other things, in determining its risk policy and risk appetite. The committee also monitors the organisation and effectiveness of risk management, management of credit risk, market risk, liquidity risk, operating risk, reputational risk and other risks, as the case may be. The committee met 11 times in 2022.

The members of the Remuneration Committee are Guðjón Reynisson, who is chairperson, Sigurður Hannesson and Helga Kristín Auðunsdóttir. The committee has an advisory and supervisory role for the Company's Board of Directors regarding salaries and other remuneration, ensuring that this supports its objectives and interests. The committee met eight times in 2022.

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

The members of Kvika's Executive Committee, in addition to the CEO are the following employees: Sigurður Viðarsson, Deputy CEO, Eiríkur Magnús Jensson, Managing Director of Finance, Anna Rut Ágústsdóttir, Managing Director of Operations and Development, Thomas Skov Jensen, Managing Director of Risk Management, Bjarni Eyvinds, Managing Director of Corporate Banking and Capital Markets and Lilja Jensen, General Counsel. Additionally in the Group´s Executive Committee are Hannes Frímann Hrólfsson, CEO of Kvika Asset Management hf., Hjálmar Sigurþórsson, acting CEO of TM Tryggingar hf. and Gunnar Sigurðsson, Managing Director of Kvika Securities Ltd. More details about the Executive Committee are accessible on Kvika's website www.kvika.is.

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Kvika has adopted a policy for assessing the eligibility of its directors and CEO as provided for in EBA guidelines and pursuant to Art. 52 of Act No. 161/2002, on Financial Undertakings, provisions of Rules No. 150/2017, on assessment of eligibility of managing directors and directors of financial undertakings and the guidelines. It addresses, inter alia, Kvika´s policy on the diversity of its Board of Directors, Executive Committee and senior management with regard to age, gender and educational and professional background. The composition of the Board is also dealt with in Kvika's Articles of Association, which state, among other things, that its Board shall be so comprised that its members jointly possess adequate expertise, skills and experience to understand the activities of the Company, including key risk factors. The Articles also state that the proportion of each gender on the Board and among alternates shall not be lower than 40%. Kvika has also adopted a Human Resources and Equality Policy. According to the Company's equality policy, non-discrimination and diversity shall characterise all its operations. All employees should have the opportunity to make good use of their abilities at work and be valued on their own merit, have equal opportunities and enjoy the same rights in their work and for career advancement, regardless of gender, age and origin.

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

Information on Board members

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

Guðmundur Þórðarson is the deputy chairperson of the Board. He was appointed to Kvika's Board of Directors in March 2017. Guðmundur was born in 1972. He graduated from the University of Iceland with a Cand. oecon business degree in 1997. He has also completed a securities brokerage and asset management exam in the UK. Guðmundur's main focus is on managing his own investments. From 1997 to 2000 he worked in Asset Management at Landsbréf hf. From 2000 to 2003, he worked as a specialist in the development and corporate advisory division of Íslandsbanki hf. From 2003 to 2007 he worked as Managing Director of Corporate Finance at Straumur fjárfestingarbanki hf. Guðmundur also sits on the boards of Hedda eignarhaldsfélag ehf., Skel Investments ehf., Flóka Capital ehf and Attis ehf., as well as serving as an alternate in the board of Bílaleiga BTF ehf. Guðmundur holds 66,750,000 shares in the Company through the private limited company Attis ehf. Guðmundur does not have interest links with major clients, competitors or big shareholders in the sense of the Corporate Governance Guidelines.

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

Helga Kristín Auðunsdóttir was born in 1980. Helga Kristín holds a doctor's degree in Law from Fordham University in New York. Helga Kristín graduated with a BS degree in Business Law from Bifröst University in 2004 and with a Master's degree in Law from the same university in 2006. She graduated with an LL.M degree in Law from the University of Miami, with a focus on international business law and contracts. Helga Kristín also studied law at University of Thessaloniki, in Greece. In her doctoral studies at Fordham University she researched hedge fund investments and what factors influence how they act as shareholders in listed companies. Helga Kristín has worked as a director and lecturer at Bifröst University for the past ten years. Prior to that, she worked as a lawyer at FGM/Auðkenni, now part of the Central Bank of Iceland, as a lawyer at Stoðir hf., prior FL Group, and as a lecturer at the faculty of law at University of Miami in 2010-2011. Helga Kristín was a board member of TM hf. from 2020 and was an appointed alternate on the Board of Directors of Tryggingamiðstöðin hf. in 2012-2015. Helga Kristín does not own shares in the Company and does not have interest links with major clients, competitors or big shareholders in in the sense of the Corporate Governance guidelines.

Ingunn Svala Leifsdóttir was appointed to Kvika's Board of Directors in September 2021. Ingunn was born in 1976. She graduated with a BS degree in Business from the University of Iceland in 1999, with a focus on accounting and finance, and with a Cand. Oecon business degree from the same University in 2001, with a focus on accounting and management. Ingunn Svala completed the Advanced Management program (AMP) from the IESE Business School in New York in 2018. Ingunn Svala currently works as a chief operationg officer for Dohop, before that she worked as a executive director of operations at Reykjavík University. Ingunn Svala has extensive experience of serving as a board member. She has served as a board member of Slippurinn Akureyri ehf. since 2015, as a board member of the logistics company Parlogis ehf. since 2014 and as a board member of Ósar – lifeline of health hf. since 2021. Ingunn Svala sat on the Audit Committee of VÍS in 2019 to 2021 and was a board member of Líftryggingafélags Íslands (Lífís) from 2017 to 2021. Ingunn Svala has also established and operated her own business, including in accounting and real estate. Ingunn Svala also has extensive experience from the financial sector. She worked for the Kaupthing´s Resolution Committee as Chief Financial Officer from 2009 to 2011 as well as working as a Global Business Controller in Investment Banking at Kaupþing bank in 2007 to 2009. Ingunn Svala also worked within the Actavis Group PTC consolidation in 2006 to 2007 as a CFO for four subsidiaries, namely Actavis hf., Medís ehf., Actavis Group hf. and Actavis Group PTC ehf. Ingunn Svala does not own shares in the Company and does not have interest links with major clients, competitors or big shareholders in in the sense of the Corporate Governance guidelines.

The Board of Directors considers all board members to be independent directors as defined by the Corporate Governance Guidelines.

Sigurgeir Guðlaugsson and Helga Jóhanna Oddsdóttir are alternate members of Kvika's Board of Directors. In the opinion of the Board, they are also independent members of the Board of Directors within the meaning of the Corporate Governance Guidelines.

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Main factors in the Board's performance evaluation

The Board of Kvika annually evaluates its performance. It evaluates the performance of tasks and work of the Board for the previous year. The focus of the assessment is on strategic planning, disclosure and future vision, the size and composition of the Board, performance of Board members, the work of sub-committees and performance of the CEO, the internal auditor and the secretary of the Board. The development of the Company is examined with a view to assessing whether it is line with objectives. Following the annual performance assessment, the Board defines tasks in areas where improvements are needed. The last performance assessment was conducted in January 2023. The Board also regularly conducts special self-assessments on its composition in accordance with the guidelines of the European Banking Authority (EBA), and last did so in January 2023.

Information on the CEO of Kvika and his main duties

Marinó Örn Tryggvason became CEO of Kvika in May 2019. Marinó was born in 1978 and from August 2017 acted as Kvika's Deputy CEO. Prior to this, Marinó worked in asset management at Arion banki and the bank's forerunner from 2002. Between 2014-2017, Marinó was the Deputy Managing Director of Asset Management at Arion banki and between 2007 and 2014 was the head of institutional asset management. Marinó sat on the board of the Vörður insurance company between 2016-2017. Marinó holds a BSc in business studies from the University of Iceland and possesses a diploma in securities trading. Marinó controls 7,459,892 shares in Kvika and has also entered into call option agreements with Kvika in accordance with Kvika´s remuneration policy and incentive scheme as well as the employees' general stock option plan. He does not have interest links with major clients, competitors or major shareholders as defined by the Corporate Governance Guidelines.

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

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

Kvika has not been subject to withdrawal, revocation or dismissal of registration, authorization, membership or permissions to perform certain trades, operations or work. Kvika has not been fined by any supervisory body in the year 2022. No legal or arbitration proceedings which may have significant effects on the Company or the Group were ongoing or pending at the end of the year.

Communications between shareholders and the Board

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

This statement on the corporate governance practices of Kvika banki hf. was reviewed and approved by the Board of Directors on 15 February 2023.