Condensed Interim Consolidated Financial Statements

30 September 2021

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

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Endorsement and Statement
by the Board of Directors and the CEO

The Condensed Interim Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") for the period 1 January to 30 September 2021 have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union, and additional requirements in the Icelandic Financial Statement Act. The Condensed Interim Consolidated Financial Statements comprise Kvika and its subsidiaries (together the "Group"). The Condensed Interim Consolidated Financial Statements have not been audited or reviewed by the Bank's independent auditors.

The Group operates four business segments, Asset Management, Corporate Banking, Insurance Services and Investment Banking. 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 September 2021 the Group had ISK 512 billion of assets under management, compared to ISK 527 billion at year end 2020. The decrease in assets under management was mainly caused by divestment of closed end funds. The Bank is listed on the main list of Nasdaq OMX Iceland.

The Bank's Annual General Meeting ("AGM") approved a motion from the Board of Directors ("BOD") permitting the Bank to purchase up to 5% of own shares subject to regulatory approvals. This authorisation applies until the next annual general meeting in 2022. In May, the BOD authorised a buy-back programme for the repurchase of up to 117 million shares, or around 2.5% of issued share capital. The programme was initiated in July 2021 following approval from the Financial Supervisory Authority of the Central Bank of Iceland. In October 2021, the Bank announced that the buy back programme had been completed, as the aforementioned amount of shares had been bought.

Merger with TM hf. and Lykill fjármögnun hf.

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

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

Acquisition of Netgíró hf. and Aur app ehf.

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

Operations in the reporting period

Profit before taxes for the period amounted to ISK 7,857 million (9m 2020: ISK 1,533 million), corresponding to an annualised 36.4% return on weighted tangible equity, based on the tangible equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. The Covid-19 pandemic continues to have an effect, especially with regards to operational complexity. However, for the period, it has not had a large impact on the Group's operations and income generating segments. The Group's net operating income during the period was ISK 15,423 million (9m 2020: ISK 6,077 million). Net interest income amounted to ISK 2,928 million (9m 2020: ISK 1,328 million). Net fee income amounted to ISK 5,094 million (9m 2020: ISK 4,329 million). Net premiums and claims amounted to ISK 2,922 million (not part of the Group's operations in 2020). Other operating income amounted to ISK 4,479 million (9m 2020: ISK 421 million). Administrative expenses during the period amounted to ISK 7,686 million (9m 2020: ISK 4,004 million). The figures in the consolidated income statement for the period do not include the operations of TM, Lykill or Aur for the first quarter as the business combinations took place at end of March. Furthermore, they do not include the operations of Netgíró for January as the business combination took place at end of January.

According to the Consolidated Statement of Financial Position, equity at the end of the period amounted to ISK 75,747 million (31.12.2020: ISK 19,208 million) and total assets amounted to ISK 234,294 million (31.12.2020: ISK 123,196 million).

The Group's solvency ratio at 30.09.2021 was 1.51, with a regulatory minimum requirement of 1.0. There is no comparative figure as this is the first year that the Group calculates a solvency ratio.

Risk management

The objective of risk management is to promote a good and efficient culture of risk awareness within the Group and to increase the understanding of employees and management on the Group's risk taking, in addition to an assessment process related to risk and capital position. An emphasis is placed on being up to speed on the latest developments and adoption of rules related to risk management, such as regarding capital- and liquidity management. The Group is faced with various kinds of risk that relate to its operations as a financial institution and arise from its day-to-day operations. An active risk management entails analysing risk, measuring it and taking actions to limit it, as well as monitoring risk factors. The Group’s risk management, and its main operations, are described in the notes accompanying the Condensed Interim Consolidated Financial Statements. Refer to notes 41-55 on analysis of exposure to various types of risk.

Endorsement and Statement
by the Board of Directors and the CEO

Statement by the Board of Directors and the CEO

To the best of our knowledge the Condensed Interim Consolidated Financial Statements of Kvika banki hf. for the period 1 January to 30 September 2021 comply with IAS 34 Interim Financial Reporting as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and give a true and fair view of the Group's assets, liabilities and financial position as at 30 September 2021 and the financial performance of the Group and changes of cash flows for the period 1 January to 30 September 2021.

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

The Board of Directors and the CEO of the Bank have today discussed the Condensed Interim Consolidated Financial Statements for the period 1 January to 30 September 2021, and confirm them by the means of their signatures.

Reykjavík, 10 November 2021.

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 condensed interim consolidated financial statements of Kvika banki hf. for the period ended 30 September 2021 are electronically certificated by the Board of Directors and the CEO.

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Income Statement
For the period 1 January 2021 to 30 September 2021

	Notes	9m 2021	9m 2020
Interest income		4,803,149	2,885,202
Interest expense		(1,874,930)	(1,557,635)
Net interest income	4	2,928,218	1,327,567
Fee and commission income		5,390,197	4,461,862
Fee and commission expense		(295,782)	(133,277)
Net fee and commission income		5,094,415	4,328,585
Earned premiums, net of reinsurers' share		7,929,755	0
Claims incurred, net of reinsurers' share		(5,008,036)	0
Net premiums and claims	5	2,921,720	0
Net financial income	6	4,110,036	352,214
Share in loss of associates, net of income tax		(27,566)	(11,399)
Other operating income		396,365	79,996
Other operating income		4,478,835	420,811
Net operating income		15,423,188	6,076,963
Administrative expenses	8	(7,685,669)	(4,003,580)
Net impairment	10	160,103	(228,070)
Revaluation of contingent consideration		(40,419)	(312,034)
Profit before taxes		7,857,203	1,533,279
Income tax	11	198,272	(96,215)
Special tax on financial activity	12	(1,182)	(53,523)
Special tax on financial institutions	13	(89,425)	(46,786)
Profit for the period		7,964,869	1,336,755

	Notes	9m 2021	9m 2020
Attributable to the shareholders of Kvika banki hf.		8,027,427	1,387,230
Attributable to non-controlling interest	21	(62,558)	(50,476)
Profit for the period		7,964,869	1,336,755
Earnings per share	14		
Basic earnings per share (ISK per share)		2.07	0.70
Diluted earnings per share (ISK per share)		2.01	0.65

The notes on pages 10 to 46 are an integral part of these Condensed Interim Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Comprehensive Income

For the period 1 January 2021 to 30 September 2021

	Notes	9m 2021	9m 2020
Profit for the period		7,964,869	1,336,755
Changes in fair value of financial assets through OCI, net of tax		(67,868)	14,498
Realized net gain transferred to the Income Statement, net of tax		14,344	(169)
Changes to reserve for financial assets at fair value through OCI		(53,524)	14,329
Exchange difference on translation of foreign subsidiaries		5,503	41,913
Other Comphrehensive income that is or may be reclassified subsequently to profit and loss		(48,020)	56,242
Total comprehensive income for the period		7,916,849	1,392,997

	Notes	9m 2021	9m 2020
Attributable to the shareholders of Kvika banki hf.		7,979,407	1,443,472
Attributable to non-controlling interest		(62,558)	(50,476)
Total comprehensive income for the period		7,916,849	1,392,997

The notes on pages 10 to 46 are an integral part of these Condensed Interim Consolidated Financial Statements.

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Financial Position
As at 30 September 2021

Assets	Notes	30.9.2021	31.12.2020
Cash and balances with Central Bank	15	15,265,917	28,945,030
Fixed income securities	16	40,364,414	28,785,033
Shares and other variable income securities	17	21,515,346	5,072,830
Securities used for hedging	18	28,105,302	19,620,240
Loans to customers	19	69,495,456	29,322,972
Derivatives	20	2,582,611	389,671
Investment in associates	22	0	42,240
Investment properties	23	1,016,905	1,016,905
Intangible assets	24	31,990,059	3,562,621
Operating lease assets	25	1,602,258	0
Property and equipment		597,066	162,373
Deferred tax assets	11	2,753,902	835,816
Reinsurance assets	28	864,454	0
Other assets	26	18,140,512	5,440,092
Total assets		234,294,203	123,195,821

Liabilities	Notes	30.9.2021	31.12.2020
Deposits	27	68,192,962	59,924,683
Technical provision	28	24,298,482	0
Borrowings	29	20,011,765	26,424,340
Issued bills	30	0	2,003,608
Issued bonds	31	24,221,738	5,568,085
Subordinated liabilities	32	3,338,085	2,077,225
Short positions held for trading	33	1,201,080	1,520,547
Short positions used for hedging	34	391,098	731,987
Derivatives	20	2,938,284	1,750,346
Current tax liabilities		371,632	341
Deferred tax liabilities		1,115,611	236,186
Other liabilities	35	12,466,352	3,750,472
Total liabilities		158,547,088	103,987,820

Equity	Notes	30.9.2021	31.12.2020
Share capital	36	4,761,445	2,141,002
Share premium		50,366,900	4,290,521
Other reserves		8,041,976	5,014,902
Retained earnings		12,618,480	7,740,546
Total equity attributable to the shareholders of Kvika banki hf.		75,788,801	19,186,971
Non-controlling interest		(41,686)	21,030
Total equity		75,747,115	19,208,001
Total liabilities and equity		234,294,203	123,195,821

The notes on pages 10 to 46 are an integral part of these Condensed Interim Consolidated Financial Statements.

Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2021 to 30 September 2021

				Other reserves									
1 January 2021 to 30 September 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 period										8,027,427	8,027,427	(62,558)	7,964,869
Changes in fair value through OCI							(66,904)				(66,904)		(66,904)
Realized net gain transferred to the Income Statement							17,930				17,930		17,930
Translation of foreign operations													
Exchange difference on translation of foreign subsidiaries								5,503			5,503	(158)	5,346
Total comprehensive income for the period		0	0	0	0	0	(48,974)	5,503	0	8,027,427	7,983,956	(62,716)	7,921,240
Restricted retained earnings									3,149,185	(3,149,185)	0		0
Transactions with owners of the Bank													
Capital increase		2,724,342	48,391,899								51,116,241	0	51,116,241
Own shares aquired through business combination		(6,400)	(151,680)								(158,080)		(158,080)
Transactions with own shares		(97,500)	(2,242,788)								(2,340,288)		(2,340,288)
Warrants exercised	37		78,948		(78,948)						0		0
Equity as at 30 September 2021		4,761,445	50,366,900	0	70,515	3,103,697	(21,681)	60,024	4,829,115	12,618,788	75,788,801	(41,686)	75,747,115

The notes on pages 10 to 46 are an integral part of these Condensed Interim Consolidated Financial Statements

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Changes in Equity

For the period 1 January 2020 to 30 September 2020

				Other reserves									
1 January 2020 to 30 September 2020	**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 2020		1,945,366	3,115,992	7,687	206,501	3,103,697	0	5,586	778,191	6,292,189	15,455,209	59,974	15,515,183
Profit for the period										1,387,230	1,387,230	(50,476)	1,336,755
Changes in fair value through OCI							17,911				17,911		17,911
Realized net gain transferred to the Income Statement							(211)				(211)		(211)
Translation of foreign operations													
Exchange difference on translation of foreign subsidiaries								41,913			41,913		41,913
Total comprehensive income for the period		0	0	0	0	0	17,700	41,913	0	1,387,230	1,446,844	(50,476)	1,396,368
Restricted retained earnings									881,210	(881,210)	0		0
Transactions with owners of the Bank													
Capital increase		131,953	739,061								871,014	37,325	908,340
Stock options				2,471							2,471		2,471
Stock options excercised			8,683	(10,158)						1,475	0		0
Warrants exercised			37,662		(37,662)						0		0
Equity as at 30 September 2020		2,077,319	3,901,398	0	168,839	3,103,697	17,700	47,499	1,659,401	6,799,685	17,775,538	46,824	17,822,362

The notes on pages 10 to 46 are an integral part of these Condensed Interim Consolidated Financial Statements

Kvika banki hf. Amounts are in ISK thousands

Condensed Interim Consolidated Statement of Cash Flows

For the period 1 January 2021 to 30 September 2021

Cash flows from operating activities	Notes	9m 2021	9m 2020
Profit for the period		7,964,869	1,336,755
Adjustments for:			
Indexation and exchange rate difference		88,277	(1,651,864)
Share in (profit) loss of associates, net of income tax		27,566	11,399
Depreciation and amortisation		742,994	210,222
Net interest income		(2,928,218)	(1,327,567)
Net impairment		(160,103)	228,070
Income tax		(198,272)	96,215
Other adjustments		5,545	81,709
		5,542,657	(1,015,061)
Changes in:			
Fixed income securities		3,297,220	(17,218,813)
Shares and other variable income securities		(3,772,540)	(1,335,192)
Securities used for hedging		(8,485,062)	11,798,571
Loans to customers		332,276	1,725,815
Derivatives - assets		(611,834)	715,684
Deferred tax assets and tax liabilities		0	(56,430)
Other assets		(3,645,538)	(3,684,232)
Deposits		8,020,702	6,588,582
Technical provision		(125,619)	0
Short positions		(660,356)	(771,277)
Derivatives - liabilities		1,145,315	(863,280)
Other liabilities		5,637,385	2,985,779
		1,131,947	(114,794)
Interest received		4,486,280	2,667,460
Interest paid		(1,431,706)	(1,240,749)
Net cash from operating activities		9,729,179	296,856
Cash flows from investing activities			
Acquisition of intangible assets	24	(335,959)	(226,750)
Acquisition of property and equipment		(62,811)	(74,238)
Net acquisition (disposal) of operating lease assets		18,995	0
Proceeds from the sale of property and equipment		0	23,090
Dividend from assoiciates		3,750	3,750
Net sale (investment) in associates		(653,239)	362,778
Lease receivable payments		25,460	20,974
Net cash (to) from investing activities		(1,003,804)	109,604
Cash flows from financing activities			
Borrowings		(19,461,076)	657,735
Issued bills		(5,291,000)	(1,953,261)
Subordinated liabilities		(1,258,799)	0
Increase in share capital		116,908	871,014
Increase in share premium		(707,708)	0
Decrease in warrants		(78,948)	0
Lease payments		(225,825)	(142,777)
Net cash to financing activities		(26,906,448)	(567,289)
Net increase in cash and balances with Central Bank		(18,181,073)	(160,829)
Cash and balances with Central Bank at the beginning of the year		28,945,030	26,818,231
Change in cash and cash equivalents due to acquisition of subsidiary		4,586,420	0
Effects of exchange rate fluctuations on cash and balances with Central Bank		(84,459)	1,404,184
Cash and balances with Central Bank at the end of the period	15	15,265,917	28,061,586

The notes on pages 10 to 46 are an integral part of these Condensed Interim Consolidated Financial Statements.

Notes to the Condensed Interim Consolidated Financial Statements

Notes to the Condensed Interim Consolidated Financial Statements

General information

1. Reporting entity

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

The Condensed Interim Consolidated Financial Statements for the period ended 30 September 2021 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). The Group operates four business segments, Asset Management, Corporate Banking, Insurance Services and Investment Banking. The Group provides businesses, investors and individuals with comprehensive investment banking, insurance services and asset management services as well as selected banking services.

The Condensed Interim Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 10 November 2021.

2. Basis of preparation

a. Statement of compliance

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

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

b. Basis of measurement

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

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

c. Functional and presentation currency

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

The Group's assets and liabilities which are denominated in other currency than ISK are translated to ISK using the exchange rate as at the end of day 30 September 2021.

d. Going concern

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

e. Estimates and judgements

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

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

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

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

f. Relevance and importance of notes to the reader

In order to enhance the informational value of the Condensed Interim 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 Condensed Interim Consolidated Financial Statements

3. Business combinations

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

In March 2021, the tripartite merger of Kvika banki hf. ("Kvika"), TM hf. ("TM") and Lykill Fjármögnun hf. ("Lykill") was concluded. In the merger TM and Lykill were dissolved without settlement of debts, the three companies were combined and are TM and Lykill thereby a part of the Bank as at 30 March 2021 and their subsidiaries are part of the Group's Condensed Interim Consolidated Financial Statements 31 March 2021. The activities and operations of TM and Lykill have been integrated with those of the Bank and the merged company operates under the name Kvika banki hf. In 2021, the Bank incurred transaction costs and costs related to the merger, refer to note 8 for more information on operating expenses.

The transaction is a good strategic fit and allows for loan diversification for the Group. It is anticipated that cost synergies will result in considerably lower funding costs and reduced operating expenses for the activities of Lykill and TM. For more information, reference is made to stock exhange releases and investor presentations that Kvika has published.

The consideration transferred, to the previous owners of TM, was in the form of shares in the merged company in exchange for their shares in TM. TM's shareholders received, in return for their shares in TM, 2,509,934,076 shares in Kvika. The payment was made by issuance of new share capital at end of March 2021. The fair value of the Kvika shares transferred was based on the listed share price of the Bank at 30 March 2021, being 19.7 per share. Kvika is the acquirer in the business combination as, among other things, the majority of the Group‘s senior management and board of directors consists of management and directors from Kvika.

In accordance with IFRS 3, Business Combinations, the purchase price of TM and Lykill will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation ("PPA") has not been finalised as the merger has recently taken place, and therefore the estimation of the fair value of identifiable intangible assets has not been concluded. The preliminary goodwill amounts to ISK 25,897 million. The following table summarises the consideration paid for TM and Lykill and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 30 March 2021.

Identifiable assets acquired and liabilities assumed	**30.3.2021**
Assets	
Cash and cash equivalents	4,476,923
Fixed income securities	15,649,175
Shares and other variable income securities	12,899,937
Loans to customers	39,384,339
Operating lease assets	1,784,025
Investment where investment risk is borne by life-insurance policyholders	93,883
Derivatives	1,581,106
Goodwill	99,916
Intangible assets	750,648
Property and equipment	793,195
Deferred tax assets	1,088,721
Other assets	11,706,807
Total	90,308,676
Liabilities	
Borrowings	6,457,110
Issued bills	3,253,058
Issued bonds	24,241,920
Subordinated liabilities	2,358,610
Technical provision for life-insurance policies where investment risk is borne by policyholders	93,883
Derivatives	42,623
Deferred tax liabilities	694,715
Technical provision	27,169,612
Other liabilities	2,448,226
Total	66,759,755
Total identifiable net assets	23,548,921
Acquisition price	49,445,701
Preliminary goodwill on acquisition	25,896,781

The figures in the consolidated income statement for the period do not include the operations of TM or Lykill during January through March as the merger took place at end of March. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 18,397 million and the consolidated profit before tax for the period January - September would have been ISK 9,375 million.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

3. Business combinations (cont.)

b. Acquisition of Netgíró hf.

In January 2021, the Group acquired 80% of the shares in Netgíró hf. ("Netgíró") and is Netgíró a part of the Group and Consolidated Financial Statements from the end of January 2021. The Group is now the sole owner of Netgíró as before the acquisition, it owned 20% of the shares in the company. The 20% share which the Group previously owned was at end of 2020 held at a fair value in line with the purchase price for the remaining share. The consideration transferred, to the previous owners of Netgíró, was in the form of a cash payment of ISK 325 million. In 2021, the Group incurred transaction costs and costs related to the acquisition, refer to note 8 for more information on operating expenses.

Netgíró is a provider of "buy now pay later" services. The transaction is a good strategic fit and is in line with Kvika's policy of utilising technological solutions to modernize financial services. The acquisition also allows for loan diversification for the Group, and synergies in terms of improved funding costs.

In accordance with IFRS 3, Business Combinations, the purchase price of Netgíró will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation has not been finalised and the preliminary goodwill amounts to ISK 710 million. The following table summarises the consideration paid for Netgíró and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 31 January 2021.

Identifiable assets acquired and liabilities assumed	**31.1.2021**
Assets	
Cash and cash equivalents	35,843
Loans to customers	2,655,867
Property and equipment	4,335
Intangible assets	409,372
Deferred tax assets	112,300
Other assets	285,884
Total	3,503,602
Liabilities	
Borrowings	3,320,809
Other liabilities	487,284
Total	3,808,094
Total identifiable net assets	(304,492)
Acquisition price	406,000
Preliminary goodwill on acquisition	710,492

As a part of the acquisition, the Group provided Netgíró with funding to repurchase cash flow from loans which it had sold. The presentation in the table above reflects this.

The figures in the consolidated income statement for the period do not include the operations of Netgíró in January as the merger took place at end of January. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 15,501 million and the consolidated profit before tax for the period January - September would have been ISK 7,862 million.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

3. Business combinations (cont.)

c. Acquisition of Aur app ehf.

In March 2021, the Group acquired Aur app ehf. ("Aur") and is Aur a part of the Group and Consolidated Financial Statements from 31 March 2021. The consideration transferred, to the previous owners of Aur, was in the form of a cash payment of ISK 453 million. In 2021, the Group incurred transaction costs and costs related to the acquisition, refer to note 8 for more information on operating expenses.

Aur is a leading financial technology services company with an extensive client base. The acquisition is in line with Kvika's policy of utilising technological solutions to modernize financial services.

In accordance with IFRS 3, Business Combinations, the purchase price of Aur will be allocated to identifiable assets and liabilities acquired. The values of assets and liabilities recognised on acquisition are estimates of their fair values. Purchase price allocation has not been finalised and the preliminary goodwill amounts to ISK 478 million. The following table summarises the consideration paid for Aur and the recognised preliminary amounts of assets acquired and liabilities assumed at the acquisition date, being 31 March 2021.

Identifiable assets acquired and liabilities assumed	**31.3.2021**
Assets	
Cash and cash equivalents	75,302
Intangible assets	38,132
Other assets	3,925
Total	117,359
Liabilities	
Other liabilities	142,538
Total	142,538
Total identifiable net assets	(25,179)
Acquisition price	453,239
Preliminary goodwill on acquisition	478,418

The figures in the consolidated income statement for the period do not include the operations of Aur for January through March as the merger took place at end of March. If the merger had occurred on 1 January 2021, it is estimated that the consolidated net operating income would have been ISK 15,462 million and the consolidated profit before tax for the period January - September would have been ISK 7,868 million.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Income statement

4. Net interest income

Interest income is specified as follows:

	9m 2021	9m 2020
Cash and balances with Central Bank	58,724	358,231
Derivatives	575,265	506,600
Loans to customers	3,376,626	1,864,113
Fixed income securities (FVOCI)	312,836	64,857
Other interest income	479,697	91,400
Total	4,803,149	2,885,202

Interest expense is specified as follows:

	9m 2021	9m 2020
Deposits	467,505	632,042
Borrowings	266,955	550,019
Issued bills	34,334	63,992
Issued bonds	744,250	115,252
Subordinated liabilities	289,939	150,598
Derivatives	3,158	5,437
Other interest expense*	68,790	40,297
Total	1,874,930	1,557,635
Net interest income	2,928,218	1,327,567

* Thereof are lease liabilities' interest expense amounting to ISK 28 million (9m 2020: ISK 17 million).

During the period in 2021, ISK 112 million were expensed in one-off costs related to refinancing debt which was acquired in relation to the merger with Lykill.

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 3,723 million (9m 2020: ISK 2,164 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 1,889 million (9m 2020: ISK 1,552 million).

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

5. Net premiums and claims

Net premiums and claims is specified as follows:

Earned premiums, net of reinsurers' share	9m 2021
Premiums written	5,670,950
Premiums written, reinsurers' share	(244,669)
Change in provision for unearned premiums	2,767,474
Change in provision for unearned premiums, reinsurers' share	(263,999)
Total	7,929,755

Claims incurred, net of reinsurers' share	9m 2021
Claims paid	(5,375,471)
Claims paid, reinsurers' share	829,053
Change in provision for claims due to insurance operations	119,394
Change in risk margin	(12,245)
Change in provision for claims, reinsurers' share	(568,767)
Total	(5,008,036)
Net premiums and claims	2,921,720
Combined ratio	82.6%

Insurance operations became part of the Group's operations following the merger with TM hf. at end of the first quarter of 2021. As a result, the operating figures only relate to period 01.04.2021 to 30.09.2021. Furthermore, there are no comparative figures as insurance operations were not part of the consolidated financial statements for the year 2020.

6. Net financial income

Net financial income is specified as follows:

	9m 2021	9m 2020
Net gain on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities	500,616	370,496
Shares and other variable income securities	3,193,787	50,995
Derivatives	343,719	2,349
Loans to customers	(13,242)	(18,749)
Unwinding, interest and exchange rate change of technical provision	(2,629)	0
Foreign currency exchange difference	87,785	(52,878)
Total	4,110,036	352,214

7. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	9m 2021	9m 2020
(Loss) gain on financial instruments at fair value through profit and loss	(121,537)	814,898
Gain (loss) on other financial instruments	209,321	(867,775)
Total	87,785	(52,878)

8. Administrative expenses

Administrative expenses are specified as follows:	9m 2021	9m 2020
Salaries and related expenses	4,437,551	2,553,509
Other operating expenses	2,481,341	1,212,262
Depositors' and Investors' Guarantee Fund contributions	23,783	27,587
Depreciation and amortisation	545,682	84,671
Depreciation of right of use asset	197,311	125,551
Total	7,685,669	4,003,580

During the period in 2021, ISK 110 million in one-off and irregular operating expenses were incurred by the Group due to mergers and acquisitions. Of that amount, ISK 10 million are included among salaries and related expenses and ISK 100 million are included among other operating expenses in the table above.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

9. Salaries and related expenses

Salaries and related expenses are specified as follows:	9m 2021	9m 2020
Salaries	3,250,377	2,028,958
Performance based payments excluding share-based payments	220,056	(31,487)
Share-based payment expenses	0	2,471
Pension fund contributions	432,238	272,986
Tax on financial activity	190,537	118,667
Other salary related expenses	344,344	161,915
Total	4,437,551	2,553,509
Average number of full time employees during the period	315	138
Total number of full time employees at the end of the period	322	148

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

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

The amount of performance based payments that has been expensed is based on the results for the first nine months of 2021 and the guidelines on performance based payments set forth in the Group's remuneration policy. The performance based payments have not been allocated to any employees or business segments and are subject to approval by the Board of Directors.

10. Net impairment

	9m 2021	9m 2020
Net change in impairment of loans	138,383	(158,754)
Net change in impairment of other assets	10,598	(59,597)
Net change in impairment of loan commitments, guarantees and unused credit facilities	11,122	(9,719)
Total	160,103	(228,070)

11. Income tax

The Bank and many of its subsidiaries will not pay income tax on its profit for 2021 due to the fact that Group has a tax loss carry forward that offsets the calculated income tax. Following business combinations during the first half of 2021, the tax loss carry forward has increased considerably and as at 30 September it amounts to ISK 26 billion for the Group. 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 a part of the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position.

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

12. Special tax on financial activity

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

13. Special tax on financial institutions

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

14. Earnings per share

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

	9m 2021	9m 2020
Net earnings attributable to equity holders of the Bank	8,027,427	1,387,230
Weighted average number of outstanding shares	3,880,844	1,975,808
Adjustments for warrants and stock options	115,480	168,993
Total	3,996,324	2,144,801
Basic earnings per share (ISK)	2.07	0.70
Diluted earnings per share (ISK)	2.01	0.65

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Statement of Financial Position

15. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

	30.9.2021	31.12.2020
Deposits with Central Bank	2,408,478	21,379,857
Cash on hand	13,000	11,649
Balances with banks	8,117,338	3,405,876
Foreign treasury bills	1,903,600	1,739,281
Included in cash and cash equivalents	12,442,416	26,536,663
Restricted balances with Central Bank - average maintenance level	0	0
Restricted balances with Central Bank - fixed reserve requirement	1,212,090	952,636
Receivables from Central Bank	1,611,410	1,455,730
Total	15,265,917	28,945,030

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.

16. Fixed income securities

Fixed income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	30.9.2021	31.12.2020
Listed government bonds and bonds with government guarantees	8,497,897	2,890,226
Listed bonds	9,092,525	1,412,239
Unlisted bonds	4,643,111	1,535,801
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees	17,948,671	18,962,079
Listed bonds	182,211	0
Listed treasury bills	0	3,984,688
Total	40,364,414	28,785,033

17. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	30.9.2021	31.12.2020
Listed shares	5,435,692	892,423
Unlisted shares	8,054,479	2,338,138
Unlisted unit shares in bond funds	3,154,740	1,448,126
Unlisted unit shares in other funds	4,870,434	394,143
Total	21,515,346	5,072,830

18. Securities used for hedging

Securities used for hedging are specified as follows:

	30.9.2021	31.12.2020
Listed government bonds and bonds with government guarantees	5,520,856	7,115,854
Listed bonds	2,293,862	2,147,393
Listed shares	19,312,250	9,890,103
Unlisted unit shares	978,334	466,891
Total	28,105,302	19,620,240

19. Loans to customers

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

	Individuals		Corporates		Total	
30.9.2021	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	28,696,667	28,218,824	40,017,665	39,152,441	68,714,333	67,371,265
Loans to customers at fair value through profit or loss	640,362	640,362	1,483,828	1,483,828	2,124,191	2,124,191
Total	29,337,030	28,859,187	41,501,494	40,636,269	70,838,524	69,495,456

	Individuals		Corporates		Total	
31.12.2020	Gross carrying amount	Book value	Gross carrying amount	Book value	Gross carrying amount	Book value
Loans to customers at amortised cost	5,015,213	4,992,943	22,100,559	21,586,179	27,115,772	26,579,121
Loans to customers at fair value through profit or loss	608,034	608,034	2,135,817	2,135,817	2,743,851	2,743,851
Total	5,623,247	5,600,976	24,236,376	23,721,996	29,859,623	29,322,972

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

20. Derivatives

Derivatives are specified as follows:

	Notional		Carrying value	
30.9.2021	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	14,138,505	13,147,521	1,554,750	0
Currency forwards	4,202,743	4,201,704	11,027	106,267
Bond and equity total return swaps	33,674,335	35,800,351	475,478	2,601,375
Equity options	443,236	3,860	541,355	230,642
Total	52,458,820	53,153,435	2,582,611	2,938,284

	Notional		Carrying value	
31.12.2020	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives	3,176,798	3,102,368	74,429	0
Currency forwards	2,698,140	2,740,401	0	42,261
Bond and equity total return swaps	21,918,514	23,386,919	108,771	1,577,177
Equity options	130,343	3,860	206,470	130,909
Total	27,923,795	29,233,548	389,671	1,750,346

21. Group entities

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

Entity	**Nature of operations**	**Domicile**	**Share 30.9.2021**	**Share 31.12.2020**
Aur app ehf.	Financial technology services	Iceland	100%	-
FÍ Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf.	Fund management	Iceland	100%	100%
Kvika eignastýring hf.	Asset management	Iceland	100%	100%
M-Investments ehf.	Holding company	Iceland	100%	100%
Netgíró hf.	Consumer lending operations	Iceland	100%	20%
Rafklettur ehf.	Holding company	Iceland	100%	100%
TM líftryggingar hf.	Insurance services	Iceland	100%	-
TM tryggingar hf.	Insurance services	Iceland	100%	-
AC GP 3 ehf.	Fund management	Iceland	80%	80%
Kvika Securities ltd.	Business consultancy services	UK	100%	100%

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

22. Investment in associates

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

Entity	**Nature of operations**	**Domicile**	**Share 30.9.2021**	**Share 31.12.2020**
Kjölfesta GP ehf.	Holding company	Iceland	-	50%
Gláma fjárfestingar slhf.	Holding company	Iceland	24%	24%

The Group does not consider its associates material, neither individually nor as a group. During the second quarter of 2021, the Group sold all its shareholding in Kjölfesta GP ehf.

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

	30.9.2021	**31.12.2020**
Balance at the beginning of the year	42,240	776,490
Dividend received	0	(7,500)
Disposal of shares in associates	(14,674)	(719,323)
Share in (loss) profit of associates, net of income tax	(27,566)	(7,427)
Total	0	42,240

23. Investment properties

Investment properties are specified as follows:

	30.9.2021	**31.12.2020**
Balance at the beginning of the year	1,016,905	1,016,553
Additions	0	352
Total	1,016,905	1,016,905

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

24. Intangible assets

Intangible assets are specified as follows:

30.9.2021	**Goodwill**	**Software**	**Other**	**Total**
Balance as at 1 January 2021	2,943,881	418,830	199,910	3,562,621
Additions during the period	0	240,630	95,329	335,959
Additions through business combinations	27,228,005	1,053,782	97,887	28,379,674
Amortisation	0	(147,188)	(141,006)	(288,194)
Balance as at 30 September 2021	30,171,886	1,566,054	252,119	31,990,059
Gross carrying amount	30,171,886	1,802,084	479,883	32,453,854
Accumulated amortisation and impairment losses	0	(236,030)	(227,764)	(463,794)
Balance as at 30 September 2021	30,171,886	1,566,054	252,119	31,990,059

31.12.2020	**Goodwill**	**Software**	**Other**	**Total**
Balance as at 1 January 2020	2,943,881	175,256	164,118	3,283,256
Additions during the period	0	279,867	74,186	354,053
Amortisation	0	(36,293)	(38,395)	(74,688)
Balance as at 31 December 2020	2,943,881	418,830	199,910	3,562,621
Gross carrying amount	2,943,881	507,672	286,668	3,738,221
Accumulated amortisation and impairment losses	0	(88,842)	(86,759)	(175,600)
Balance as at 31 December 2020	2,943,881	418,830	199,910	3,562,621

Acquisitions by the Group during the first quarter of 2021 as a part of business combinations resulted in the recognition of goodwill. Preliminary purchase price allocation ("PPA") was prepared as part of the Condensed Interim Consolidated Financial Statements for the period ended 30 September 2021. As the PPA has not been concluded, the goodwill that has been recognised is preliminary. Refer to note 3 for more information on the acquisitions.

25. Operating lease assets

Operating lease assets are specified as follows:

	30.9.2021
Balance as at 1 January 2021	0
Additions through business combinations	1,784,025
Additions	160,219
Disposals	(179,215)
Depreciation	(162,771)
Balance as at 30 September 2021	1,602,258
Gross carrying amount	2,413,895
Accumulated depreciation	(811,636)
Balance as at 30 September 2021	1,602,258

There are no comparative figures as operating lease assets were part of business combinations during the period. Reference is made to note 3 for more information on business combinations.

26. Other assets

Other assets are specified as follows:

	30.9.2021	**31.12.2020**
Unsettled transactions	6,036,066	630,192
Accounts receivable	10,421,629	3,646,962
Right of use asset and lease receivables	586,432	478,995
Receivables at fair value	30,188	327,210
Investment where investment risk is borne by life-insurance policyholders	105,278	0
Sundry assets	960,919	356,733
Total	18,140,512	5,440,092

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

	30.9.2021	**31.12.2020**
Right of use asset and lease receivables at the beginning of the year	478,995	622,415
Additions during the period	0	11,152
Additions through business combinations	301,665	0
Indexation	28,543	18,023
Depreciation and lease receivable installment	(222,771)	(172,596)
Total	586,432	478,995

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.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

27. Deposits

Deposits are specified as follows:

	30.9.2021	31.12.2020
Demand deposits	54,980,494	46,775,812
Time deposits	13,212,467	13,148,871
Total	68,192,962	59,924,683

28. Technical provision

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

The core of the claims provisions is an actuarial estimate of payments of incurred claims until they will be settled less what has already been paid. According to Act on Insurance No. 100/2016 and related legislation, margins are added to the core of the claim's provision. The margins are:
- Expected settlement expenses not allocated to specific claims. This cost is recognized among operating expenses when it is due.
- The effect of future inflation from the date of accounts to payment.
- The effect of discounting the future payments using a risk-free interest rate curve.

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

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

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

Technical provision is specified as follows:

	30.9.2021
Technical provision:	
Claims provision	16,626,786
Premium provision	7,024,048
Risk margin	647,649
Total	24,298,482

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	605,161
Premium provision	259,293
Total	864,454
Own technical provision:	
Claims provision	16,021,624
Premium provision	6,764,754
Risk margin	647,649
Total	23,434,028

The estimated claims provisions are reported less estimated salvage value of the assets that were damaged. The total salvage value at end of September 2021 is immaterial.
There are no comparative figures as the technical provision was a part of business combinations during the period. Reference is made to note 3 for more information on business combinations.

29. Borrowings

Borrowings are specified as follows:

	30.9.2021	31.12.2020
Loans from credit institutions	5,633,185	0
Money market deposits	14,378,580	26,424,340
Total	20,011,765	26,424,340

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

30. Issued bills

Issued bills are specified as follows:

	30.9.2021	31.12.2020
KVB 21 0322	0	598,488
KVB 21 0621	0	595,587
KVB 21 0921	0	809,534
Total	0	2,003,608

31. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2021	31.12.2020
Unsecured bonds:						
KVB 20 01, ISK 1,500 million	2020	2023	At maturity	Floating, 1 month REIBOR + 0.85%	4,606,242	1,763,538
KVB 19 01, ISK 3,640 million	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	3,252,992	3,474,842
KVB 21 01, GBP 12 million	2021	2023	At maturity	Floating, LIBOR + 2.5%	2,112,171	0
KVB 21 02, ISK 2,180 million	2021	2027	Amortizing	CPI-indexed, fixed 1%	2,219,159	0
Lykill 23 11, ISK 3,010 million	2020	2023	At maturity	Floating, 1 month REIBOR + 1.10%	2,811,637	0
Asset backed bonds:						
Lykill 16 01, ISK 10,870 million	2016	2023	Amortizing	Floating, 1 month REIBOR + 1.10%	3,314,288	0
Lykill 26 05, ISK 5,130 million	2019	2026	Amortizing	CPI-indexed, fixed 3.30%	3,931,401	0
Lykill 24 06, ISK 1,570 million	2020	2024	Amortizing	Fixed 2.8%	1,099,344	0
Lykill 23 09, ISK 1,000 million	2019	2023	Amortizing	Fixed 5.2%	526,949	0
Total					23,874,183	5,238,381
Unlisted senior unsecured bonds, total					347,555	329,704
Total					24,221,738	5,568,085

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

32. Subordinated liabilities

a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	30.9.2021	31.12.2020
KVB 15 01, ISK 1,000 million	2015	2025	At maturity	CPI-Indexed, fixed 7.50%	0	1,169,444
KVB 18 02, ISK 800 million	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	921,237	907,781
TM 15 1, ISK 2,000 million	2015	2045	At maturity	CPI-Indexed, fixed 5.25%	2,416,848	0
Total					3,338,085	2,077,225

Following authorisation from the FME, the Group repaid KVB 15 01 on the interest payment date in August 2021.
At the interest payment date in the year 2023 for KVB 18 02, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.
At the interest payment date in May 2025 for TM 15 01, the annual interest rate increases from 5.25% p.a. to 6.25% p.a. At the interest payment date in May 2025 for TM 15 01, the Group has the right to repay the subordinated bond and on any subsequent interest payment dates until maturity.

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

b. Subordinated liabilities are specified as follows:

	30.9.2021	31.12.2020
Balance at the beginning of the year	2,077,225	1,999,530
Redemption of KVB 15 01	(1,258,799)	0
Additions through business combinations	2,358,610	0
Paid interest	(113,125)	(115,000)
Paid interests due to indexation	(14,763)	(9,922)
Accrued interests and indexation	288,937	202,617
Total	3,338,085	2,077,225

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

33. Short positions held for trading

Short positions held for trading are specified as follows:

	30.9.2021	31.12.2020
Listed government bonds and bonds with government guarantees	608,536	559,382
Listed bonds	592,545	961,165
Total	1,201,080	1,520,547

34. Short positions used for hedging

Short positions used for hedging are specified as follows:

	30.9.2021	31.12.2020
Listed government bonds and bonds with government guarantees	391,098	731,987
Total	391,098	731,987

35. Other liabilities

Other liabilities are specified as follows:

	30.9.2021	31.12.2020
Unsettled transactions	6,278,763	1,217,659
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities	19,790	31,371
Accounts payable and accrued expenses	2,023,153	324,385
Special taxes on financial institutions and financial activities	135,757	97,664
Withholding taxes	413,300	361,088
Salaries and salary related expenses	1,497,112	490,576
Technical provision for life-insurance policies where investment risk is borne by policyholders	105,278	0
Lease liability	653,822	477,691
Contingent consideration	426,357	386,001
Reinsurance liabilities	117,193	0
Other liabilities	795,828	364,037
Total	12,466,352	3,750,472

Lease liability is specified as follows:

	30.9.2021	31.12.2020
Lease liability at the beginning of the year	477,691	616,521
Additions during the period	0	39,449
Additions through business combinations	373,413	0
Installment	(225,825)	(197,076)
Indexation	28,543	18,796
Total	653,822	477,691

Kvika banki hf. Amounts are in ISK thousands

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36. Share capital

a. Share capital

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

	30.9.2021	**31.12.2020**
Share capital according to the Bank's Articles of Association	4,865,345	2,141,002
Nominal amount of treasury shares	103,900	0
Authorised but not issued shares	405,375	546,480

b. Changes made to the nominal amount of share capital

The Bank's share capital was increased by ISK 214,408,351 in nominal value during the period 1 January to 30 September 2021 in order to serve the exercising of issued warrants. In addition to that, the share capital was increased by ISK 2,509,934,076 in nominal value in relation to the merger with TM hf. and Lykill fjármögnun hf.

c. Share capital increase authorisations

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

Temporary provision II to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. Pursuant to this temporary provision the Board of Directors is authorised to increase share capital by up to ISK 78 million to serve warrants issued under this provision.

Temporary provision IV to the Articles of Association authorises the Board of Directors to issue warrants and increase the share capital accordingly. According to section A of temporary provision IV the Board of Directors is currently authorised to increase share capital by up to ISK 100 million to serve issued warrants. According to section B of temporary provision IV the Board of Directors is furthermore granted a conditioned authorisation to increase the share capital, currently by an additional amount of ISK 107 million to serve issued warrants. The authorisation under section B of temporary provision IV is directly linked to the Board of Directors' authorisation under section A of temporary provision I.

The aforementioned authorisation under section B of temporary provision IV currently stands at ISK 57 million. However, should the Board of Directors utilise its authorisation according to section A of temporary provision I and increase the Bank's share capital by ISK 100 million, the authorisation under section B of temporary provision IV will increase from ISK 57 million to ISK 107 million, as stipulated in the provision. The Board of Directors' authorisation under temporary provision IV to increase share capital thus currently totals ISK 157 million but can increase to ISK 207 million by the usage by the Board of Directors of its authorisation pursuant to section A of temporary provision I. This authorisation is valid until 31 December 2022.

Temporary provision IV 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. Such a stock option plan has not been launched at this date. 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.

37. Warrants

The Bank has issued warrants for shares in the total nominal amount of ISK 180,808,331 as at 30 September 2021. The number of owners of these warrants is 88 and they purchased the warrants for a total consideration of ISK 70,514,432. The purchase price of the warrants was determined using market standard methodology and a valuation from an independent appraiser as applicable. Should the owners of the warrants exercise their warrants, the Bank is obliged to issue new shares and sell to the warrant owners at a predefined price, usually referred to as strike price. If all the warrants would be exercised, the Bank's share capital would increase to 5,046,153,255, and the newly issued shares would represent 3.6% of the Bank's total issued capital, post dilution.

Issue Date	**Nominal amount**	**Purchase price of warrants**	**Annual increase of strike price**	**Strike price at expiry date**	**Exercise period**
September 2017	26,600,019	8,232,356	7.5%	7.74	Sept. 2020 - Sept. 2022
September 2017	121,333,311	36,295,576	7.5%	7.74	Sept. 2021 - Sept. 2022
December 2017	7,333,334	2,471,333	7.5%	8.80	Dec. 2021 - Dec. 2022
May 2018	1,166,667	505,167	7.5%	10.75	Dec. 2021 - Dec. 2022
April 2019	1,375,000	1,298,000	7.5%	15.36	Dec. 2020 - Dec. 2022
April 2019	17,500,000	16,520,000	7.5%	15.36	Dec. 2020 - Dec. 2022
August 2019	5,500,000	5,192,000	7.5%	15.36	Dec. 2021 - Dec. 2022
Total	180,808,331	70,514,432			

Kvika banki hf. Amounts are in ISK thousands

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38. Solvency of a financial conglomerate

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

Solvency measures the Group's ability to take on setbacks, thus indicating its financial strength. The available capital and capital requirements of the Group is calculated as a financial conglomerate according to Articles 16, 17 and 18 of Act on Additional Supervision of Financial Conglomerates No. 61/2017. The Group's solvency ratio is 1.51, with a regulatory minimum requirement of 1.0.

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

	30.9.2021
Available capital	
Own Funds eligible for non insurance activities	27,949,290
Own Funds eligible for insurance activities	14,953,396
Total	42,902,686
Solvency requirement for insurance activities	
Solvency Capital Requirements (SCR)	9,730,632
Own funds requirement for non insurance activities	
Statutory minimum capital requirement (Pillar I)	7,250,009
Additional capital requirements (Pillar II)	6,434,383
Minimum capital requirement for non insurance activities	13,684,393
Additional capital protection buffers	4,984,382
Total	18,668,774
Solvency	42,902,686
Solvency requirement (SCR)	9,730,632
Own funds requirement for non insurance activities	18,668,774
Minimum solvency of financial conglomerate	28,399,407
Solvency ratio	1.51

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

39. Capital adequacy ratio (CAR)

The capital adequacy ratio of the Group, excluding entities which belong to the insurance sector, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 30.8%. The minimum requirement from the FME is 15.1%. The ratio is calculated as follows:

Own funds eligible for non insurance activities	**30.9.2021**	**31.12.2020**
Total equity	75,747,115	19,208,001
Unaudited retained (positive) earnings from current period	(2,915,226)	0
Other unaudited (positive) changes to total equity in current period	(83,550)	0
Capital eligible as CET1 Capital	72,748,339	19,208,001
Goodwill and intangibles	(26,101,171)	(3,562,621)
Shares in other financial institutions	(19,209,968)	(259,829)
Subordinated fixed income securities	0	(117,250)
Deferred tax asset	(2,753,902)	(835,816)
Common equity Tier 1 capital (CET 1)	24,683,297	14,432,485
Tier 2 capital	3,265,992	2,012,387
Deductions from Tier 2 capital	0	(227,952)
Total own funds	27,949,290	16,216,919
Risk weighted exposures		
Credit risk	67,672,705	40,070,248
Market risk	4,944,179	3,617,483
Operational risk	18,008,234	13,621,015
Total risk weighted exposures	90,625,119	57,308,746
Capital ratios		
Capital adequacy ratio (CAR)	30.8%	28.3%
CET1 ratio	27.2%	25.2%
Total own funds including unaudited (positive) retained earnings and expected dividends	29,387,117	
Capital adequacy ratio, adjusted	32.4%	
CET1 ratio, adjusted	28.8%	
Minimum Capital adequacy ratio requirement	15.1%	15.1%
Minimum Capital adequacy ratio requirement including supervisory buffers	20.6%	20.6%
Minimum CET 1 ratio requirement including supervisory buffers	14.0%	14.0%

Official Capital adequacy ratio is based on reviewed retained earnings at 30 June 2021.

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

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). The Bank's minimum regulatory capital requirement, based on the SREP from 2019, is 15.1%. The FME has notified the Bank that a new SREP process will be conducted in the latter half of 2021. The minimum regulatory capital requirement including the additional capital buffers is 20.6% as at 30 September 2021.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

40. Solvency of insurance activities

The Group calculates solvency capital and capital requirements for entities which belong to the insurance sector. The available capital and required capital is calulated in accordance with Articles 88 and 96 of the Act on Insurance Activity No. 100/2016. This brings the solvency ratio for entities which belong to the insurance sector to 1.54. Solvency capital requirements according to law is the minimum insurance companies have to meet.

	30.9.2021
Own funds eligible for insurance activities solvency	
Equity eligible for insurance activities	20,775,470
Goodwill and intangibles	(5,888,889)
Own shares	(158,080)
Difference between net technical provision in the financial statements and solvency rules	224,895
Total	14,953,396
Solvency requirement	
Life insurance risk	292,667
Health insurance risk	1,437,688
Non-life insurance risk	4,927,609
Market risk	7,009,143
Counterparty default risk	1,140,388
Multifaceted effects	(4,271,424)
Base Solvency Capital Requirements (Basic SCR)	10,536,072
Operational risk	686,788
Adjustment for the loss-absorbing capacity of deferred taxes	(1,492,227)
Solvency Capital Requirements (SCR)	9,730,632
Solvency	14,953,396
Solvency requirement (SCR)	9,730,632
Solvency ratio	1.54
Eligible items to meet the minimum capital	14,953,396
Minimum required capital (MRC)	4,074,428
Minimum required capital ratio	3.67

There are no comparative figures as insurance services became a part of the Group's operations through business combinations during the period. Reference is made to note 3 for more information on business combinations.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Risk management

41. Insurance risk

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

Insurance contracts

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

Non-Life insurance

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

Life and Health insurance

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

Insurance risk

Insurance risk is a risk, other than financial risk, transferred from the holder of a contract to the issuer, such as financial loss due to accident, damage, theft, illness, disability or death. The Group compensates certain losses of customers against payment of a premium. A premium is paid at the beginning of the period covered by the insurance protection, the loss is incurred at a later point and settlement can then take some time, which varies based on the nature of the loss and the circumstances. Premium and estimated indemnity must be 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	**30.9.2021**
Fire and other damage to property insurance	2,464,151
Marine, aviation and transport insurance	1,047,509
Motor vehicle liability insurance	11,002,996
Other motor insurance	1,343,528
General liability, credit and suretyship insurance	2,841,362
Income Protection insurance	1,210,882
Workers' compensation insurance	3,064,623
Medical Expense insurance	7,039
Life insurance	402,412
Sold reinsurances	49,526
Own technical provision total	23,434,028

There are no comparative figures as insurance services became a part of the Group's operations through business combinations during the period. Reference is made to note 3 for more information on business combinations.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

42. Maximum exposure to credit risk

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

30.9.2021	**Public**	**Financial**	**Corporate**		
On-balance sheet exposure	**entities**	**institutions**	**customers**	**Individuals**	**30.9.2021**
Cash and balances with Central Bank	7,148,569	8,117,348			15,265,917
Fixed income securities	29,128,704	5,040,216	6,195,494		40,364,414
Loans to customers	15,731	164	40,620,374	28,859,187	69,495,456
Derivatives		1,772,222	805,893	4,496	2,582,611
Other assets	738,839	2,876,640	11,541,643	2,396,959	17,554,081
	37,031,843	17,806,591	59,163,403	31,260,641	145,262,478
Off-balance sheet exposure					
Loan commitments			2,642,881	380,011	3,022,893
Financial guarantee contracts			675,695		675,695
Maximum exposure to credit risk	37,031,843	17,806,591	62,481,980	31,640,652	148,961,066

31.12.2020	**Public**	**Financial**	**Corporate**		
On-balance sheet exposure	**entities**	**institutions**	**customers**	**Individuals**	**31.12.2020**
Cash and balances with Central Bank	25,539,154	3,405,876			28,945,030
Fixed income securities	26,040,694	1,685,377	1,058,961		28,785,033
Loans to customers			23,721,996	5,600,976	29,322,972
Derivatives		130,709	258,962		389,671
Other assets	364,393	2,105,031	2,491,673		4,961,097
	51,944,241	7,326,993	27,531,592	5,600,976	92,403,802
Off-balance sheet exposure					
Loan commitments			1,771,209	366,050	2,137,260
Financial guarantee contracts			1,245,885		1,245,885
Maximum exposure to credit risk	51,944,241	7,326,993	30,548,685	5,967,027	95,786,947

43. Credit quality of financial assets

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

The COVID-19 pandemic had an impact on the Group's loan portfolio during 2020 and 2021. This is mainly reflected in the effect of macro-economic variables on the probability of default and has therefore a homogenous impact on the whole portfolio. All scenarios were negatively impacted when the pandemic started. The negative impact has however reduced during the first three quarters of 2021 while the scenario weights are still shifted towards a more negative outlook. The negative outlook economic scenario now weighs 40% and the positive outlook only weighs 10% in the total outcome. However, the pandemic has not had a significant effect on asset value. Due to the fact that the loan portfolio is in general well secured, changes to loss given default are minimal, which offsets the negative effect of increased probability of default.

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

In general, the Group’s debtors have been able to adapt to the changes in the economic reality due to COVID-19 and have been able to source increased revenue from local customers and reduce operating costs in a controlled manner. After good progress in COVID-19 vaccinations in Iceland and among neighbouring countries in 2021 the tourist industry showed considerable improvement at the end of second quarter and throughout the third quarter.

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

43. Credit quality of financial assets (cont.)

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

		Scenarios	
Model parameters 30.09.2021	**Base case**	**Upside**	**Downside**
GDP growth	3.4%	6.7%	3.1%
Unemployment rate	7.3%	7.0%	7.8%
Foreign exchange rate	0.2%	-0.4%	2.0%
Assigned weight	50.0%	10.0%	40.0%

		Scenarios	
Model parameters 31.12.2020	**Base case**	**Upside**	**Downside**
GDP growth	-5.5%	-3.0%	-9.5%
Unemployment rate	10.0%	7.5%	11.0%
Assigned weight	50.0%	5.0%	45.0%

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

43. Credit quality of financial assets (cont.)

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

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

					Allocated collateral										
30.9.2021	**Claim value**	**Impairment due to expected credit loss**	**Carrying amount**	**%**	**Total collateral**	**Deposits**	**Listed securities and liquid funds**	**Unlisted securities and other funds**	**Residential real estate**	**Commercial real estate**	**Automobiles**	**Industrial equipment**	**Guarantees**	**Other**	**Unsecured claim value**
Public entities	16,083	(352)	15,731	0.0%	13,306	0	0	0	0	0	7,271	0	0	6,035	3,175
Financial institutions	293	(129)	164	0.0%	992	0	0	0	0	0	992	0	0	0	0
Corporate															
Service activities	9,261,595	(253,154)	9,008,441	13.0%	11,726,451	60,969	160,647	8,609	0	354,016	7,812,264	1,939,217	0	1,390,728	1,233,468
Construction	7,727,092	(333,080)	7,394,012	10.6%	18,167,538	487	0	0	2,831,484	9,517,023	2,566,940	2,614,429	0	637,175	46,727
Activities of holding companies	5,850,610	(29,493)	5,821,116	8.4%	19,317,240	46,810	54,680	12,027,140	1,406,436	4,695,862	126,611	64,712	443,875	451,114	420,114
Real estate activities	5,746,361	(30,280)	5,716,081	8.2%	14,302,185	134,585	1,950,790	2,624,546	3,994,953	5,025,038	458,925	79,267	16,000	18,080	189,927
Activities of holding companies - Securities	2,935,391	(984)	2,934,406	4.2%	8,321,909	107,401	7,605,909	608,599	0	0	0	0	0	0	2
Wholesale and Retail Trade	2,886,291	(24,826)	2,861,465	4.1%	4,856,273	3,093	0	680,000	0	642,989	1,430,477	512,986	15,000	1,571,727	530,366
Other	7,077,777	(192,925)	6,884,852	9.9%	10,876,720	12,935	432,066	374,603	256,450	2,932,139	1,870,703	2,580,165	589,375	1,828,284	4,151,387
Individual	29,337,030	(477,843)	28,859,187	41.5%	43,874,970	38,164	2,908,076	80,238	7,110,864	418,970	31,955,985	1,182,895	0	179,778	3,647,736
Total	70,838,524	(1,343,068)	69,495,456	100.0%	131,457,583	404,445	13,112,169	16,403,734	15,600,188	23,586,038	46,230,167	8,973,671	1,064,250	6,082,922	10,222,903

					Allocated collateral										
31.12.2020	**Claim value**	**Impairment due to expected credit loss**	**Carrying amount**	**%**	**Total collateral**	**Deposits**	**Listed securities and liquid funds**	**Unlisted securities and other funds**	**Residential real estate**	**Commercial real estate**	**Automobiles**	**Industrial equipment**	**Guarantees**	**Other**	**Unsecured claim value**
Financial institutions	0	0	0	0.0%	0	0	0	0	0	0	0	0	0	0	0
Corporate															
Activities of holding companies	5,028,991	(91,502)	4,937,489	16.8%	14,109,569	9,899	168,644	9,471,872	734,690	3,282,905	0	0	441,560	0	128,644
Construction	5,778,115	(212,899)	5,565,216	19.0%	9,133,191	37	0	0	4,035,845	5,057,309	0	0	0	40,000	81,946
Financial activities	1,717,763	(50,193)	1,667,570	5.7%	744,727	90,343	81,632	228,239	32	0	0	0	0	344,480	1,228,197
Real estate activities	3,669,211	(39,552)	3,629,659	12.4%	8,110,745	3,711	145,905	1,626,221	2,486,304	3,821,735	0	0	26,750	120	234,779
Activities of holding companies - Securities	2,997,582	(2,355)	2,995,226	10.2%	10,623,797	280,488	9,440,256	903,054	0	0	0	0	0	0	10,952
Service activities	2,012,081	(33,463)	1,978,618	6.7%	5,078,184	136,242	42,470	3,979,506	0	365,769	0	0	0	554,197	76,211
Other	3,032,633	(84,414)	2,948,219	10.1%	8,707,910	29,267	36,825	2,597,023	385,150	2,268,093	0	0	67,500	3,324,053	150,248
Individual	5,623,247	(22,271)	5,600,976	19.1%	9,747,097	24,298	2,842,506	33,032	6,688,262	82,000	0	0	0	77,000	308,698
Total	29,859,623	(536,650)	29,322,972	100.0%	66,255,220	574,284	12,758,237	18,838,945	14,330,282	14,877,811	0	0	535,810	4,339,851	2,219,674

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 Bank is in general covered by covenants in the loan agreement, e.g. with a negative pledge or other ring fencing.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

43. Credit quality of financial assets (cont.)

b. Credit quality of financial assets by credit quality band

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

30.9.2021

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	44,670,485	252,065	23,618	556,629	45,502,796
Credit quality band II	10,173,539	321,542			10,495,081
Credit quality band III	3,332,074	3,216,939	966		6,549,979
Credit quality band IV	264,781	1,066,517	743		1,332,041
In default	69,541	426,534	2,213,384	178,801	2,888,260
Non-rated	1,641,279	877,983	162,343	1,388,761	4,070,366
Gross carrying amount	60,151,700	6,161,580	2,401,053	2,124,191	70,838,524
Expected credit loss	(243,302)	(319,466)	(780,300)		(1,343,068)
Book value	59,908,398	5,842,114	1,620,753	2,124,191	69,495,456

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	2,112,562	500	1,456		2,114,518
Credit quality band II	743,268	0			743,268
Credit quality band III	351,478	2,384			353,862
Credit quality band IV	187,396	198			187,594
In default	1,000		5,683		6,683
Non-rated	208,543		6,920	77,200	292,663
Total off-balance sheet amount	3,604,247	3,081	14,059	77,200	3,698,588
Expected credit loss	(16,296)	(270)	(3,223)		(19,790)
Net off-balance sheet amount	3,587,951	2,811	10,836	77,200	3,678,798

31.12.2020

Loans to customers:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	14,899,136	436,960	20,849	1,022,457	16,379,402
Credit quality band II	3,859,240	389,944		233,126	4,482,310
Credit quality band III	1,161,890	555,021	229,771	17,999	1,964,680
Credit quality band IV	1,740,690	393,737	1,285		2,135,712
In default	28,455	2,676	552,915	862,234	1,446,280
Non-rated	2,824,445	14,311	4,448	608,034	3,451,238
Gross carrying amount	24,513,856	1,792,649	809,267	2,743,851	29,859,623
Expected credit loss	(306,203)	(72,222)	(158,226)		(536,650)
Book value	24,207,653	1,720,426	651,042	2,743,851	29,322,972

Loan commitments, guarantees and unused credit facilities:	**Stage 1**	**Stage 2**	**Stage 3**	**FVTPL**	**Total**
Credit quality band I	2,417,243	0	39,771		2,457,014
Credit quality band II	331,257	155,937			487,193
Credit quality band III	56,703	40,276	8,000		104,979
Credit quality band IV	1,089	4,709			5,798
In default	2,591		10,689	2,801	16,081
Non-rated	80,827	154,053		77,200	312,080
Total off-balance sheet amount	2,889,709	354,974	58,460	80,001	3,383,144
Expected credit loss	(14,830)	(13,631)	(2,911)		(31,371)
Net off-balance sheet amount	2,874,879	341,344	55,548	80,001	3,351,773

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

43. Credit quality of financial assets (cont.)

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

30.9.2021	**Claim value**	**Expected credit loss**	**Carrying amount**
Not past due	67,094,341	(789,044)	66,305,296
Past due 1-30 days	1,642,407	(40,354)	1,602,053
Past due 31-60 days	358,175	(14,101)	344,074
Past due 61-90 days	219,068	(27,445)	191,623
Past due 91-180 days	1,130,103	(242,821)	887,282
Past due 181-360 days	125,916	(62,989)	62,927
Past due more than 360 days	268,514	(166,314)	102,199
Total	70,838,524	(1,343,068)	69,495,456

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

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

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

30.9.2021

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)	59,728	(35,240)	(24,488)	0
Transfer to Stage 2 - (significantly increased credit risk)	(46,194)	48,130	(1,937)	0
Transfer to Stage 3 - (credit impaired)	(41,028)	(7,042)	48,070	0
Net remeasurement of loss allowance	(113,453)	41,769	(6,314)	(77,998)
New financial assets, originated or purchased	192,261	208,169	706,162	1,106,592
Derecognitions and maturities	(112,748)	(21,903)	(19,258)	(153,908)
Write-offs			(79,850)	(79,850)
Balance as at 30 September 2021	259,598	319,737	783,523	1,362,858

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)	46,702	(23,508)	(23,195)	0
Transfer to Stage 2 - (significantly increased credit risk)	(46,178)	48,115	(1,937)	0
Transfer to Stage 3 - (credit impaired)	(40,468)	(6,403)	46,871	0
Net remeasurement of loss allowance	(100,960)	41,959	(7,095)	(66,096)
New financial assets, originated or purchased	188,689	208,128	706,020	1,102,836
Derecognitions and maturities	(110,686)	(21,047)	(18,741)	(150,473)
Write-offs			(79,850)	(79,850)
Balance as at 30 September 2021	243,302	319,466	780,300	1,343,068

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

43. 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 2021	14,830	13,631	2,911	31,371
Transfer to Stage 1 - (Initial recognition)	13,026	(11,732)	(1,294)	0
Transfer to Stage 2 - (significantly increased credit risk)	(16)	16		0
Transfer to Stage 3 - (credit impaired)	(560)	(639)	1,199	0
Net remeasurement of loss allowance	(12,493)	(190)	781	(11,902)
New financial assets, originated or purchased	3,572	41	143	3,755
Derecognitions and maturities	(2,062)	(856)	(517)	(3,435)
Balance as at 30 September 2021	16,296	270	3,223	19,790

31.12.2020

Expected credit loss allowance total

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

Expected credit loss allowance for loans to customers

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

44. 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. In addition to collateral included in the LTV ratios the Bank uses other risk mitigation measures, such as guarantees, negative pledge, cross-collateral and collateralization of non-quantifiable assets.

b. Breakdown

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

	30.9.2021	**%**	**31.12.2020**	**%**
Less than 50%	19,014,165	27.4%	12,579,973	42.9%
51-70%	19,708,407	28.4%	7,450,150	25.4%
71-90%	17,964,969	25.9%	3,101,307	10.6%
91-100%	3,185,733	4.6%	1,870,641	6.4%
100-125%	2,287,890	3.3%	48,476	0.2%
125-200%	79,626	0.1%	13,996	0.0%
Greater than 200%	441,818	0.6%	198,961	0.7%
No or negligible collateral:				
Purchased short-term retail claims	0	0.0%	2,027,605	6.9%
Other loans with no collateral	6,812,847	9.8%	2,031,863	6.9%
Total	69,495,456	100.0%	29,322,972	100.0%

45. Collateral against exposures to derivatives

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

	Deposits	**Fixed income securities**	**Variable income securities**	**Real estate**	**Other fixed assets**	**Other**	**30.9.2021**
Financial institutions	498,182	627,330	645,934				1,771,447
Corporate customers	1,164,722	81,886	929,481				2,176,089
Individuals	43,783	1,505	45,927				91,215
Total	1,706,687	710,721	1,621,343	0	0	0	4,038,751

	Deposits	**Fixed income securities**	**Variable income securities**	**Real estate**	**Other fixed assets**	**Other**	**31.12.2020**
Financial institutions	587,322	413,397					1,000,720
Corporate customers	176,327	121,815	640,596				938,738
Individuals	20,164	26,064	24,598				70,825
Total	783,813	561,276	665,194	0	0	0	2,010,283

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

46. Large exposures

In accordance with 233/2017 on Prudential Requirements, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the financial institution's Tier 1 capital (see note 39).

According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the eligible Tier 1 capital. 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. 233/2017.

		30.9.2021		31.12.2020
Large exposures before risk adjusted mitigation	**Number**	**Amount**	**Number**	**Amount**
10-20% of Tier 1 capital	1	3,044,944	0	0
20-25% of Tier 1 capital	0	0	0	0
Exceeding 25% of Tier 1 capital	0	0	0	0
Total	1	3,044,944	0	0
Thereof nostro accounts with foreign banks with a rating of investment grade or higher .	1	3,028,519	0	0
Large exposures net of risk adjusted mitigation	1	3,044,944	0	0

47. Liquidity risk

a. Definition

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

b. Management

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

The FME has designated the Group as a financial conglomorate. LCR is not calculated for a financial conglomorate, instead the Group calculates LCR based on the consolidated statement of financial position excluding the insurance operations of TM tryggingar hf. The Group was in compliance with internal and external liquidity requirements throughout the years 2021 and 2020. At the end of September 2021 the LCR was 171% and at year-end 2020 it was 266%.

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

47. Liquidity risk (cont.)

c. Maturity analysis of financial assets and financial liabilities

30.9.2021 **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	14,614,351	651,600				15,265,951	15,265,917
Fixed income securities	16,821,888	3,764,349	1,029,932	16,866,309	1,881,935	40,364,414	40,364,414
Shares and other variable income securities	14,021,175	2,878,927	4,615,243			21,515,346	21,515,346
Securities used for hedging	28,105,302					28,105,302	28,105,302
Loans to customers	5,770,450	6,298,956	22,320,887	39,718,164	6,054,624	80,163,080	69,495,456
Reinsurance assets	70,926	91,185	279,304	407,296	15,742	864,454	864,454
Other assets	8,714,344	6,289,510	2,800,636	336,022		18,140,512	18,140,512
	88,118,438	19,974,528	31,046,003	57,327,791	7,952,301	204,419,060	193,751,401
Derivative assets							
Inflow	7,686,629	2,985,423	9,095,991	2,663,991		22,432,035	
Outflow	(7,302,215)	(2,922,239)	(8,749,271)	(1,105,906)		(20,079,630)	
	384,414	63,184	346,720	1,558,086	0	2,352,404	2,582,611

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	(56,440,546)	(6,209,201)	(4,291,144)	(1,387,804)	(41,572)	(68,370,267)	68,192,962
Technical provision	(2,588,143)	(2,494,768)	(7,641,554)	(11,143,323)	(430,693)	(24,298,482)	24,298,482
Borrowings	(4,274,746)	(5,669,059)	(10,093,257)	(9,668)		(20,046,731)	20,011,765
Issued bills						0	
Issued bonds	(604,250)	(923,040)	(3,548,185)	(19,067,931)	(2,233,534)	(26,376,939)	24,221,738
Subordinated liabilities		(61,544)	(129,529)	(789,596)	(6,215,662)	(7,196,331)	3,338,085
Short positions held for trading	(1,201,080)					(1,201,080)	1,201,080
Short positions used for hedging	(391,098)					(391,098)	391,098
Other liabilities	(7,152,249)	(3,042,180)	(1,564,665)	(707,258)		(12,466,352)	12,466,352
	(72,652,111)	(18,399,792)	(27,268,334)	(33,105,581)	(8,921,461)	(160,347,279)	154,121,561
Derivative liabilities							
Inflow	15,605,097	3,700,694		3,166,410		22,472,201	
Outflow	(17,440,397)	(4,476,898)		(3,262,623)		(25,179,918)	
	(1,835,299)	(776,203)	0	(96,214)	0	(2,707,716)	2,938,284
Unrecognised financial items							
Loan commitments							
Inflow	109,521	710,273	1,705,320	589,778		3,114,893	
Outflow	(3,022,893)					(3,022,893)	
Financial guarantee contracts							
Inflow	105,067	210,461	127,599	150,075	82,493	675,695	
Outflow	(675,695)					(675,695)	
	(3,484,000)	920,734	1,832,920	739,853	82,493	92,000	
Summary							
Non-derivative assets	88,118,438	19,974,528	31,046,003	57,327,791	7,952,301	204,419,060	
Derivative assets	384,414	63,184	346,720	1,558,086		2,352,404	
Non-derivative liabilities	(72,652,111)	(18,399,792)	(27,268,334)	(33,105,581)	(8,921,461)	(160,347,279)	
Derivative liabilities	(1,835,299)	(776,203)		(96,214)		(2,707,716)	
Net assets (liabilities) excluding unrecognised items	14,015,441	861,716	4,124,389	25,684,082	(969,160)	43,716,469	
Net unrecognised items	(3,484,000)	920,734	1,832,920	739,853	82,493	92,000	
Net assets (liabilities)	10,531,442	1,782,450	5,957,309	26,423,935	(886,666)	43,808,469	

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

47. Liquidity risk (cont.)

31.12.2020 **Financial assets by type**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Gross inflow/ (outflow)**	**Carrying amount**
Non-derivative assets							
Cash and balances with Central Bank	28,059,712	890,470				28,950,182	28,945,030
Fixed income securities	5,600,838	117,250	19,802,625	3,264,320		28,785,033	28,785,033
Shares and other variable income securities	1,464,966		3,607,863			5,072,830	5,072,830
Securities used for hedging	19,620,240					19,620,240	19,620,240
Loans to customers	2,017,619	3,403,967	16,159,918	8,581,843	3,504,320	33,667,667	29,322,972
Other assets	1,474,195	1,027,270	715,537	2,223,090		5,440,092	5,440,092
	58,237,570	5,438,957	40,285,943	14,069,253	3,504,320	121,536,043	117,186,196
Derivative assets							
Inflow	1,056,236	778,870		76,798		1,911,904	
Outflow	(979,810)	(746,525)		(2,368)		(1,728,703)	
	76,426	32,345	0	74,429	0	183,200	389,671

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	(48,383,678)	(5,944,107)	(3,993,981)	(1,664,675)	(47,976)	(60,034,418)	59,924,683
Borrowings	(6,789,566)	(9,747,775)	(10,001,623)			(26,538,964)	26,424,340
Issued bills		(600,000)	(1,420,000)			(2,020,000)	2,003,608
Issued bonds	(82,395)	(164,111)	(1,073,859)	(4,529,066)		(5,849,431)	5,568,085
Subordinated liabilities			(150,788)	(1,741,109)	(1,060,762)	(2,952,658)	2,077,225
Short positions held for trading	(1,520,547)					(1,520,547)	1,520,547
Short positions used for hedging	(731,987)					(731,987)	731,987
Other liabilities	(923,315)	(1,317,466)	(1,098,735)	(410,956)		(3,750,472)	3,750,472
	(58,431,489)	(17,773,459)	(17,738,985)	(8,345,806)	(1,108,738)	(103,398,478)	102,000,947
Derivative liabilities							
Inflow	17,286,909	2,315,614	390,250			19,992,773	
Outflow	(18,111,337)	(3,092,010)	(411,675)			(21,615,021)	
	(824,428)	(776,395)	(21,425)	0	0	(1,622,248)	1,750,346
Unrecognised financial items by type							
Loan commitments							
Inflow	107,445	264,951	1,108,702	733,780		2,214,878	
Outflow	(2,137,260)					(2,137,260)	
Financial guarantee contracts							
Inflow	711,288	114,000	297,639	63,901	59,057	1,245,885	
Outflow	(1,245,885)					(1,245,885)	
	(2,564,411)	378,951	1,406,341	797,681	59,057	77,619	
Summary							
Non-derivative assets	58,237,570	5,438,957	40,285,943	14,069,253	3,504,320	121,536,043	
Derivative assets	76,426	32,345		74,429		183,200	
Non-derivative liabilities	(58,431,489)	(17,773,459)	(17,738,985)	(8,345,806)	(1,108,738)	(103,398,478)	
Derivative liabilities	(824,428)	(776,395)	(21,425)			(1,622,248)	
Net assets (liabilities) excluding unrecognised items	(941,921)	(13,078,552)	22,525,533	5,797,876	2,395,581	16,698,518	
Net unrecognised items	(2,564,411)	378,951	1,406,341	797,681	59,057	77,619	
Net assets (liabilities)	(3,506,331)	(12,699,601)	23,931,874	6,595,557	2,454,639	16,776,137	

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

48. 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 49-54 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.

49. 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.

50. Interest rate risk associated with trading portfolios

a. Breakdown

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	30.9.2021
Fixed income securities			90,316	3,698,604	2,367,727	6,156,647
Short positions - fixed income securities		(63,160)	(24,556)	(608,535)	(504,829)	(1,201,080)
Net imbalance	0	(63,160)	65,760	3,090,069	1,862,897	4,955,567

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2020
Fixed income securities			995,943	2,512,237	193,801	3,701,981
Short positions - fixed income securities				(127,198)	(1,393,349)	(1,520,547)
Net imbalance	0	0	995,943	2,385,039	(1,199,548)	2,181,434

b. Sensitivity analysis

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

	Shift in basis points	Downward	30.9.2021 Upward	Downward	31.12.2020 Upward
Indexed	50	8,520	(8,520)	5,620	(5,620)
Non-indexed	100	139,388	(139,388)	31,700	(31,700)
Total		147,908	(147,908)	37,321	(37,321)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

51. Interest rate risk associated with non-trading portfolios

a. Breakdown

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

30.9.2021

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	13,362,317	1,903,600				15,265,917
Fixed income securities	1,054,213	791,537	2,798,844	22,084,165	7,479,009	34,207,767
Loans to customers	58,615,569	1,166,029	5,264,642	4,092,164	357,052	69,495,456
Financial assets excluding derivatives	73,032,099	3,861,166	8,063,485	26,176,329	7,836,060	118,969,140
Effect of derivatives	21,194,421	1,364,282		15,129,226		37,687,929
Total	94,226,520	5,225,448	8,063,485	41,305,555	7,836,060	156,657,068

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	68,192,962					68,192,962
Borrowings	4,263,450	5,102,960	10,632,760	12,594		20,011,765
Issued bills						0
Issued bonds	603,045	918,366	3,465,326	17,123,614	2,111,387	24,221,738
Subordinated liabilities		61,148	(138,459)	1,305,627	2,109,769	3,338,085
Financial liabilities excluding derivatives	73,059,457	6,082,474	13,959,627	18,441,836	4,221,156	115,764,549
Effect of derivatives				12,339,360		12,339,360
Total	73,059,457	6,082,474	13,959,627	30,781,196	4,221,156	128,103,909
Total interest repricing gap	21,167,063	(857,026)	(5,896,142)	10,524,359	3,614,905	28,553,160

31.12.2020

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	27,205,748	1,739,281				28,945,030
Fixed income securities	17	99,156	17,593,356	7,297,972	92,550	25,083,052
Loans to customers	24,457,207	793,533	2,815,576	1,287,973	(31,316)	29,322,972
Financial assets excluding derivatives	51,662,972	2,631,970	20,408,932	8,585,946	61,234	83,351,054
Effect of derivatives	18,597,318	3,397,994		3,100,000		25,095,311
Total	70,260,290	6,029,964	20,408,932	11,685,946	61,234	108,446,365

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	59,924,683					59,924,683
Borrowings	6,797,253	9,715,286	9,911,801			26,424,340
Issued bills		598,592	1,405,016			2,003,608
Issued bonds	82,908	164,653	640,449	4,680,075		5,568,085
Subordinated liabilities	1,168,852		64,711	843,662		2,077,225
Financial liabilities excluding derivatives	67,973,696	10,478,531	12,021,977	5,523,737	0	95,997,940
Effect of derivatives	3,102,368					3,102,368
Total	71,076,064	10,478,531	12,021,977	5,523,737	0	99,100,309
Total interest repricing gap	(815,774)	(4,448,567)	8,386,956	6,162,209	61,234	9,346,056

b. Sensitivity analysis

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

Currency	**Shift in basis points**	**30.9.2021 Downward**	**30.9.2021 Upward**	**31.12.2020 Downward**	**31.12.2020 Upward**
ISK, indexed	50	80,511	(90,964)	62,022	(60,635)
ISK, non-indexed	100	256,679	(259,740)	24,517	(36,416)
Other currencies	20	(347)	362	980	(1,139)
Total		336,843	(350,341)	87,519	(98,190)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

52. Exposure towards changes in the CPI

a. Definition

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

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

b. Management

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

c. Balance of CPI linked assets and liabilities

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

	30.9.2021	31.12.2020
Assets	30,247,362	11,877,087
Liabilities	(15,400,264)	(8,311,283)
Total	14,847,098	3,565,804

d. Sensitivity to changes in CPI

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

	30.9.2021		31.12.2020	
	-1%	1%	-1%	1%
Government bonds	(57,843)	57,843	(14,006)	14,006
Other fixed income securities	(53,417)	53,417	(6,810)	6,810
Loans to customers	(92,522)	92,522	(66,955)	66,955
Derivatives	(98,692)	98,692	(31,000)	31,000
Short positions	11,353	(11,353)	9,484	(9,484)
Deposits	56,771	(56,771)	55,629	(55,629)
Issued bonds and subordinated liabilities	85,879	(85,879)	18,000	(18,000)
	(148,471)	148,471	(35,658)	35,658

The effect on equity would be the same.

53. Currency risk

a. Definition

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

b. Management

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

The Group is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 30 September 2021 and 31 December 2020 the Group's position in foreign currencies was within those limits.

c. Exchange rates

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

	Closing 30.9.2021	Average 9m 2021	Closing 31.12.2020	Average 9m 2020
EUR/ISK	150.9	150.7	156.1	152.6
USD/ISK	130.3	126.0	127.2	135.5
GBP/ISK	175.4	174.5	173.6	172.3

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

53. Currency risk (cont.)

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

30.9.2021

Financial assets	EUR	USD	GBP	SEK	Other currencies	Total
Cash and balances with Central Bank	2,610,544	4,288,017	1,071,247	69,720	253,285	8,292,813
Fixed income securities	603,703	195,480	553,493			1,352,677
Shares and other variable income securities	358	1,027,249	1,670,002	31,174		2,728,782
Securities used for hedging	657,863	61,295	1,860		208,596	929,614
Loans to customers	1,227,527		1,773,559		127,223	3,128,309
Reinsurance assets	23,233	9,541		4	14,676	47,453
Other assets	1,294,119	477,096	270,196	28,546	396,403	2,466,361
Financial assets excluding derivatives	6,417,348	6,058,676	5,340,357	129,444	1,000,184	18,946,009
Derivatives	1,653,447	1,664,162	64,971		148,500	3,531,080
Total	8,070,795	7,722,838	5,405,328	129,444	1,148,684	22,477,090

Financial liabilities	EUR	USD	GBP	SEK	Other currencies	Total
Deposits	3,213,502	4,939,371	526,080	47,887	231,862	8,958,701
Borrowings	120,069					120,069
Issued bonds		347,555	2,112,171			2,459,726
Technical provision	235,561	190,009	226,574	9,637	195,242	857,025
Other liabilities	950,285	909,727	271,205	39,179	368,419	2,538,814
Financial liabilities excluding derivatives	4,519,417	6,386,662	3,136,030	96,703	795,523	14,934,336
Derivatives	3,371,194	360,962	1,753,830		297,000	5,782,986
Total	7,890,611	6,747,624	4,889,860	96,703	1,092,523	20,717,322

Net currency position	EUR	USD	GBP	SEK	Other currencies	Total
Financial assets	8,070,795	7,722,838	5,405,328	129,444	1,148,684	22,477,090
Financial liabilities	(7,890,611)	(6,747,624)	(4,889,860)	(96,703)	(1,092,523)	(20,717,322)
Financial guarantee contracts	214,157					214,157
Total	394,341	975,214	515,468	32,740	56,161	1,973,925

31.12.2020

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

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

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

Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

53. Currency risk (cont.)

e. Sensitivity to currency risk

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

	30.9.2021		31.12.2020	
Assets and liabilities denominated in foreign currencies	**-10%**	**+10%**	**-10%**	**+10%**
EUR	39,434	(39,434)	30,571	(30,571)
USD	97,521	(97,521)	13,052	(13,052)
GBP	51,547	(51,547)	26,959	(26,959)
SEK	3,274	(3,274)	905	(905)
NOK	1,294	(1,294)	2,594	(2,594)
Other currencies	4,322	(4,322)	2,112	(2,112)
Total	197,393	(197,393)	76,194	(76,194)

The effect on equity would be the same.

54. Equity risk

a. Definition

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

b. Sensitivity analysis of equity risk

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

	30.9.2021		31.12.2020	
	-10%	**+10%**	**-10%**	**+10%**
Listed shares	(543,569)	543,569	(89,242)	89,242
Unlisted shares	(805,448)	805,448	(233,814)	233,814
Unlisted unit shares in funds	(802,517)	802,517	(184,227)	184,227
Total	(2,151,535)	2,151,535	(507,283)	507,283

55. Operational risk

a. Definition

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

b. Management

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Financial assets and financial liabilities

56. Accounting classification of financial assets and financial liabilities

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

30.9.2021 **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	15,265,917			15,265,917
Fixed income securities		17,948,671	22,415,744	40,364,414
Shares and other variable income securities			21,515,346	21,515,346
Securities used for hedging			28,105,302	28,105,302
Loans to customers	67,371,265		2,124,191	69,495,456
Derivatives			2,582,611	2,582,611
Other assets	18,110,324		30,188	18,140,512
Total	100,747,506	17,948,671	76,773,382	195,469,558

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	68,192,962			68,192,962
Borrowings	20,011,765			20,011,765
Issued bills				0
Issued bonds	24,221,738			24,221,738
Subordinated liabilities	3,338,085			3,338,085
Short positions held for trading			1,201,080	1,201,080
Short positions used for hedging			391,098	391,098
Derivatives			2,938,284	2,938,284
Other liabilities	12,039,996		426,357	12,466,352
Total	127,804,545	0	4,956,818	132,761,363

31.12.2020 **Financial assets**	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Cash and balances with Central Bank	28,945,030			28,945,030
Fixed income securities		22,946,767	5,838,266	28,785,033
Shares and other variable income securities			5,072,830	5,072,830
Securities used for hedging			19,620,240	19,620,240
Loans to customers	26,579,121		2,743,851	29,322,972
Derivatives			389,671	389,671
Other assets	5,112,881		327,210	5,440,092
Total	60,637,033	22,946,767	33,992,067	117,575,867

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	59,924,683			59,924,683
Borrowings	26,424,340			26,424,340
Issued bills	2,003,608			2,003,608
Issued bonds	5,568,085			5,568,085
Subordinated liabilities	2,077,225			2,077,225
Short positions held for trading			1,520,547	1,520,547
Short positions used for hedging			731,987	731,987
Derivatives			1,750,346	1,750,346
Other liabilities	3,364,471		386,001	3,750,472
Total	99,362,412	0	4,388,881	103,751,293

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

57. Financial assets and financial liabilities measured at fair value

a. Fair value hierarchy classification

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

30.9.2021

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Fixed income securities	18,581,210	1,851,269	1,983,265	22,415,744
Shares and other variable income securities	6,191,276	9,306,775	6,017,294	21,515,346
Securities used for hedging	28,105,302			28,105,302
Loans to customers			2,124,191	2,124,191
Derivatives		2,582,611		2,582,611
Other assets			30,188	30,188
Measured at fair value through other comprehensive income				
Fixed income securities	17,948,671			17,948,671
Total	70,826,459	13,740,655	10,154,938	94,722,052

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Mandatorily measured at fair value through profit and loss				
Short positions held for trading	1,201,080			1,201,080
Short positions used for hedging	391,098			391,098
Derivatives		2,938,284		2,938,284
Other liabilities			426,357	426,357
Total	1,592,178	2,938,284	426,357	4,956,818

Transfers of shares and other variable income securities from Level 1 to level 3 amounted to ISK 737 million during the period 2021.

31.12.2020

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

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

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

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

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

b. Reconciliation of changes in Level 3 fair value measurements

30.9.2021	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Other liabilities	Total
Balance as at 1 January 2021	200,799	2,281,174	2,743,851	327,210	(386,001)	5,167,034
Total gains and losses in profit or loss	(162,768)	820,756	158,711		(40,419)	776,280
Additions through a business combination	1,284,089	2,715,968				4,000,057
Additions	661,145	298,545	1,229,000			2,188,690
Repayments			(2,007,371)	(297,022)	63	(2,304,330)
Disposals	0	(836,304)				(836,304)
Transfers in (out) of Level 3		737,156				737,156
Balance as at 30 September 2021	1,983,265	6,017,294	2,124,191	30,188	(426,357)	9,728,582

31.12.2020	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Other liabilities	Total
Balance as at 1 January 2020	1,480	1,766,071	2,346,662		(494,991)	3,619,222
Total gains and losses in profit or loss	(18)	248,743	235,355	0	(286,058)	198,023
Additions		298,594	1,539,245	327,210	0	2,165,049
Repayments		0	(1,377,411)		395,048	(982,363)
Disposals		(32,234)				(32,234)
Transfers in (out) Level 3	199,337	0				199,337
Balance as at 31 December 2020	200,799	2,281,174	2,743,851	327,210	(386,001)	5,167,034

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

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

Asset class	Method	Significant unobservable input	Range	Book value 30.9.2021
Unlisted bonds	Expected recovery	Value of assets	0-95%	1,983,265
Unlisted variable income securities	Market price	Recent trades	-	6,017,294
Loans to customers	Expert model	Value of assets and collateral	-	2,124,191
Receivables at fair value	Expert model	Information on turnover	-	30,188
Total				10,154,938

Asset class	Method	Significant unobservable input	Range	Book value 31.12.2020
Unlisted bonds	Expected recovery	Value of assets	0-95%	200,799
Unlisted variable income securities	Market price	Recent trades	-	2,281,174
Loan to customers	Expert model	Value of assets and collateral	-	2,743,851
Receivables at fair value	Expert model	Information on turnover	-	327,210
Total				5,553,035

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

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

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

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

	+10%	-10%
Shares and other variable income securities	601,729	(601,729)
Loans to customers	212,419	(212,419)
Unlisted bonds	198,326	(198,326)
Receivables at fair value	3,019	(3,019)
Total	1,015,494	(1,015,494)

Kvika banki hf. Amounts are in ISK thousands

Notes to the Condensed Interim Consolidated Financial Statements

Other information

58. Pledged assets

30.9.2021	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
Cash and balances with Central Bank	0	1,611,682	4,829	1,616,511
Fixed income securities	4,087,380	1,626,811	0	5,714,191
Loans to customers	7,453,858	0	10,849,972	18,303,830
Other assets	0	134,050	0	134,050
Total	11,541,238	3,372,543	10,854,801	25,768,582

31.12.2020	Settlement and committed facilities	Securities borrowing	Asset backed securities	Total
Cash and balances with Central Bank	0	1,457,323	0	1,457,323
Fixed income securities	3,984,688	906,073	0	4,890,761
Other assets	0	96,102	0	96,102
Total	3,984,688	2,459,498	0	6,444,186

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

59. 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 22, shareholders with significant influence over the Bank, close family members of individuals identified as related parties and entities under the control or joint control of related parties.

b. Arm's length

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

c. Effects on statement of financial position

30.9.2021	Loans & receivables	Deposits & payables
Management	821	308,820
Associates	0	0
Total	821	308,820

31.12.2020	Loans & receivables	Deposits & payables
Management	1,851	83,166
Associates	0	0
Total	1,851	83,166

d. Effects on income statement

9m 2021	Interest income	Interest expense	Fees received	Fees paid
Management	60	48	1,337	12,632
Associates	0	0	0	0
Total	60	48	1,337	12,632

9m 2020	Interest income	Interest expense	Fees received	Fees paid
Management	0	527	1,890	15,045
Associates	10,379	236	34,634	0
Total	10,379	763	36,524	15,045

60. Events after the reporting date

In October 2021, it was announced that Kvika banki hf. ("Kvika") has agreed heads of terms with the shareholders and the management team of Ortus Secured Finance Ltd. ("Ortus") to acquire a majority shareholding in Ortus. Ortus is a British alternative credit provider specialising in property backed lending to borrowers in the United Kingdom. The company was founded in 2013 and currently manages a 23 billion ISK equivalent private credit portfolio, of which 14.5 billion ISK is held on Ortus' own balance sheet. If the transaction proceeds, Kvika Group's total consolidated assets are expected to grow by 10%. Kvika, through its subsidiary Kvika Securities Ltd. ("KSL"), currently owns 15% of Ortus' ordinary shares , which it acquired in 2018. The acquisition is subject to regulatory and board approval following due diligence and documentation.