KVIKA

31 December 2023

KVIKA

Consolidated Financial Statements

31 December 2023

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

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Kvika highlights

31.12.2023

Kvika

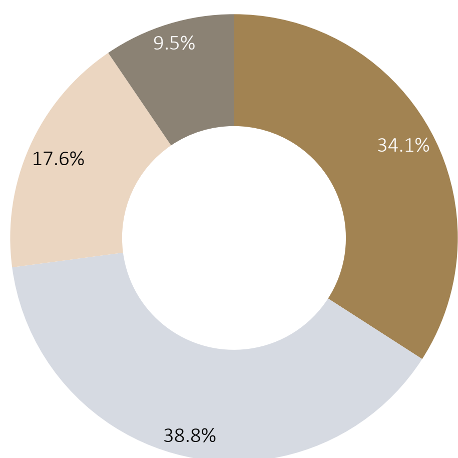
Kvika is a specialized financial institution strategically positioned to increase competition and transform financial services in Iceland. Kvika provides businesses, investors, and individuals with investment banking, insurance, asset management, payment, and banking services. The Bank is listed on Nasdaq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

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

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

Diversified operations

Revenues by segment / 12M 2023

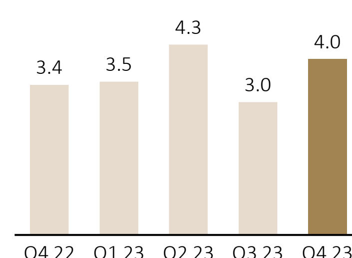


Key figures

ISK m.	12M 2023	12M 2022
Net operating income	14,852	14,479
Profit before taxes	3,009	4,803
Profit before taxes incl.TM	5,245	5,621
RoTE	12.1%	13.1%
	31.12.2023	**31.12.2022**
Total Assets	335,397	299,670
Loans to customers	136,323	107,139
Deposits	133,773	112,245
LCR	247%	320%
NSFR	141%	140%
Group Solvency	1.25	1.36

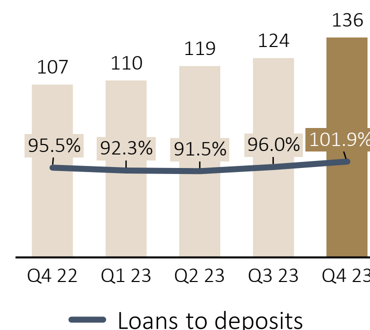
Net operating income

ISK bn.



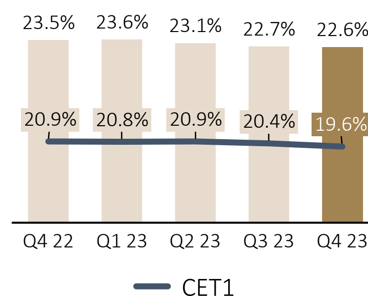
Loans to customers

ISK bn.



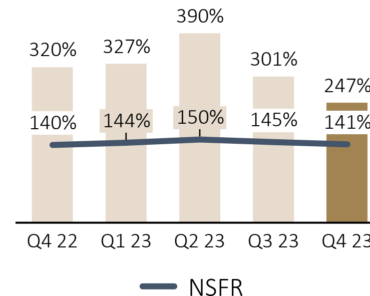
Total capital ratio

(%)



LCR ratio

(%)



Exemplary

Corporate Governance

87/100

Reitun ESG score

Baa2/Prime-2

Stable

Following the classification of TM as a disposal group held for sale, the Group reports income from its insurance operations in a single line in the consolidated income statement as profit after tax from discontinued operations. The comparative figures from 2022 have been restated

Endorsement and Statement
by the Board of Directors and the CEO

These are the Consolidated Financial Statements of Kvika banki hf. ("Kvika" or the "Bank") and its subsidiaries (together the "Group") for the year 2023.

About the Bank

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

Kvika operates in four business segments, two which are operated under the Kvika Bank brand, Commercial banking, and Corporate Banking and Capital Markets, and two in own-brand subsidiaries, Kvika Asset Management and Kvika Securities Ltd., the Group's operations in the UK. The insurance segment, operated through the subsidiary TM tryggingar hf. ("TM") has been discontinued as TM is currently in a sales process.

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

Operations during the year 2023

Profit before taxes for the year amounted to ISK 5,245 million (2022: ISK 5,621 million), corresponding to an annualised 12.1% return on weighted tangible equity, based on the tangible equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the period. Profit before taxes is composed of the pre-tax profit from both the Group's continuing and discontinued operations.

The Group's net operating income during the year was ISK 14,852 million (2022: ISK 14,479 million). Net interest income amounted to ISK 8,021 million (2022: ISK 7,085 million). Net fee income amounted to ISK 5,916 million (2022: ISK 6,414 million). Other operating income amounted to ISK 915 million (2022: ISK 980 million). Administrative expenses during the year amounted to ISK 10,785 million (2022: ISK 9,092 million). During the year, the Group had a net impairment charge of ISK 1,027 million (2022: ISK 567 million).

The figures in the consolidated income statement for the year 2022 do not include the operations of Ortus Secured Finance Ltd. ("Ortus") for January and February 2022, as the business combination took place at the end of February. Reference is made to the Consolidated Financial Statements for 2022 for further information on the business combination.

Financial position

According to the Consolidated Statement of Financial Position, equity at year-end 2023 amounted to ISK 81,958 million (31.12.2022: ISK 81,089 million), and total assets amounted to ISK 335,397 million (31.12.2022: ISK 299,670 million).

The Group's statement of financial position grew by ISK 35.7 billion or 11.9% during the year 2023. Loans to customers grew by ISK 29.2 billion or 27.3% during the year. Liquid assets amounted to ISK 109 billion at year-end 2023, or 33% of total assets.

In the beginning of May 2023 Kvika concluded a sale of NOK 550 million and SEK 275 million floating rate bonds that have a 3-year maturity and were priced at a spread of 410bps over 3-month NIBOR and STIBOR.

Kvika finalised its first green international bond issue in November 2023 when Kvika concluded a sale of SEK 500 million green bonds that were issued at a spread of 400 bps over 3-month STIBOR. The green bonds are the first green issuance of an Icelandic bank in Swedish krona. Kvika also issued additional NOK bonds from the outstanding issuance that was issued in May 2023, increasing the size of NOK issuance to NOK 800 million. The bonds, which have a maturity in May 2026, were sold at a price equivalent to a 380 bps spread over NIBOR.

In the beginning of December 2023 Kvika concluded an offering of Tier-2 subordinated bonds in a new series denominated in Icelandic króna for ISK 2,000 million, the proceeds of the Tier-2 subordinated note offering will be used to strengthen the capital base of the Bank and to repay subordinated notes that are redeemable in 2024.

Change of CEO

On 20 August 2023, the Bank announced that the Board of Directors ("BOD") of Kvika and Marinó Örn Tryggvason had reached an agreement on the terms of the CEO's retirement. The CEO initiated discussions regarding retirement. The retirement became effective on the aforementioned date. The BOD of Kvika has engaged Ármann Þorvaldsson as the Bank's CEO, effective as of that same date. Ármann previously held the position of CEO of Kvika in 2017-2019 and was deputy CEO between 2019-2022.

TM Insurance to be sold or listed

In early October 2023, the Bank announced that following a strategic review at Kvika, the BOD has decided to initiate a process for selling or listing of its insurance subsidiary TM. The decision is in line with the Bank's vision, where emphasis is placed on simplifying the Group's operations and strengthening Kvika's traditional banking activities, in accordance with the Bank's goal to increase competition and simplify its customers' finances. Following the divestment of TM, Kvika's main operations will be focused on commercial- and investment banking, along with asset management. Kvika's capital base is expected to grow significantly following TM's divestment, enabling the Bank to pursue internal growth opportunities across Kvika's business segments. Increased capital will, among other things, enable the Bank to strengthen its market position, in both retail and corporate lending, and increase the risk diversification of its loan book. Furthermore, it is expected that a considerable part of the sales proceeds will be paid to shareholders in the form of dividends and/or buyback of own shares.

Endorsement and Statement
by the Board of Directors and the CEO

In December 2023 Kvika announced that it had received non-binding offers for share capital of TM, both for all outstanding shares and part of the shares. The BOD of Kvika reviewed and evaluated the offers received and subsequently decided to invite four parties to continue in the sales process and provide them with access to vendor due diligence reports and further information. It is anticipated that the sale or listing of TM will be completed in the second or third quarter of 2024. It should however be noted that no assurance can be made that the sales process will result in binding offers for TM.

In accordance with IFRS, at year-end 2023 the decision was made to classify TM and the Group's insurance operations as a disposal group held for sale and as discontinued operations. This has a number of effects on the Consolidated Financial Statements, reference is made to note 4 for further information.

Operational outlook

The outlook for Kvika in 2024 is positive, underpinned by Kvika’s multiple operating segments which provide a diversified source of income for the group. The Group’s financial position remains strong, with robust liquidity and capital buffers well above regulatory requirements. Despite moderating growth in the Icelandic economy, fundamentals remain broadly supportive relative to peer economies as further described in the Economic Outlook. Market pricing suggests rates are likely to come off their peak in 2024, which we expect to be a further tailwind for the Group’s operations. Additionally, the UK economy seems to have dodged a widely expected recession in 2023, as growth is expected to pick up modestly in 2024 amid rapid disinflation and declining policy rates. This is likely to affect Kvika’s UK operations favourably, where lower policy rates are expected to contribute to widening interest margins after a period of compression since 2022.

The volcanic activity around Grindavík has not had material effect on the financial result of Kvika or any of its subsidiaries. Kvika has limited lending exposure to companies and individuals in Grindavík. Kvika‘s insurance subsidiary TM does insure properties in the area but damages caused directly or indirectly by the volcanic activity fall to a very large degree outside the scope of TM’s insurance coverage. Natural catastrophe insurance of Iceland does cover losses related to volcanic activity and other natural disasters, and the Icelandic authorities have also introduced measures to assist households in the area by purchasing residential property in the area.

Economic outlook

The Icelandic economy continues to grow well in excess of most of its European peers, with GDP growing 4.2% in the first three quarters of 2023. The economy is supported by its low energy import dependency ratio, which has sheltered Iceland from gyrations in global commodity markets, as well as rapid growth in its tourism sector.

In part due to the strong growth and positive output gap in the economy, inflation in Iceland remained stubbornly high at 7.7% at year end, although it has since moderated to 6.7%. Persistent inflation has led the Central Bank of Iceland to hike rates to 9.25% in an effort to bring inflation down.

The policy tightening has already led to moderation in domestic demand as household consumption and business investment slowed throughout 2023. The Central Bank of Iceland expects growth in 2024 to slow further to 2.6% as unemployment rises modestly to 4.8%, largely due to the impact of tighter monetary policy. Growth is nevertheless expected to remain stronger than most peers’ due to a combination of ongoing strength in tourism and a resilient private sector, and remain in the 2.5-3.0% range in the medium term.

Inflation is forecast to average 5.7% in 2024, before gradually slowing to below 3% on a three-year horizon. A key uncertainty for the inflation outlook remains the outcome of collective wage agreements currently being negotiated between unions and employers. Iceland’s inverted yield curve suggests that markets are pricing in policy rate cuts in the year to come as disinflation continues.

Capital adequacy and dividends

Kvika‘s total capital requirement at 31.12.2023, taking into account all capital buffers, amounted to 18.7%. Kvika's capital adequacy ratio was 22.6% at the end of December 2023 (31.12.2022: 23.5%). Kvika’s CET1 requirement was 13.5% compared to a CET1 ratio of 19.6% at the end of December 2023.

The Group's solvency ratio at 31.12.2023 was 1.25 (31.12.2022: 1.36) with a regulatory minimum requirement of 1.0.

The Bank's 2023 Annual General Meeting ("AGM") approved a motion from the BOD permitting the Bank to purchase up to 10% of own shares subject to regulatory approvals. This authorisation applies until the next annual general meeting in 2024. In June, the BOD decided to exercise a part of that authorisation and established a buy-back programme to carry out the purchase of shares for a total consideration amount of ISK 1 billion but for no higher nominal amount than 60,000,000 shares. In September 2023, the Bank announced that the buy-back programme had been completed, as shares for ISK 1 billion had been bought.

The 2023 AGM also approved a motion from the BOD to, subject to approval from the Financial Supervisory Authority of the Central Bank of Iceland, decrease the share capital of the Bank by 147,871,265 shares by cancelling treasury shares held by the Bank. Furthermore, the 2023 AGM also approved a motion from the BOD to pay a dividend to shareholders of 0.4 ISK per share or ISK 1,912 million, taking into account treasury shares held by the Group. In April 2023, the share capital reduction and the dividend payment were carried out.

The BOD propose that no dividend will be paid in the year 2024 on 2023 operations. The BOD intends, through the purchase of own shares, to meet the Bank's dividend policy, which states that the aim is for shareholders to be returned an annual dividend of at least 25% of last year's profit after taxes, whether in the form of dividends or through the purchase of own shares. The BOD has not ruled out that it might call to a meeting of shareholders later in the year 2024 to discuss potential dividend payments if the conditions arise, e.g. following the sale of TM.

Endorsement and Statement
by the Board of Directors and the CEO

Share capital and shareholders

The Bank's issued share capital amounted to ISK 4,781 million as at 31 December 2023 (31.12.2022: ISK 4,929 million). At the end of the year the Bank held ISK 59 million treasury shares (31.12.2022: ISK 148 million). The shares were acquired through a share buy-back programme. The net change in the Bank's issued share capital amounted to a reduction in nominal value of ISK 89 million during the year (ISK 22 million increase during the year 2022).

The Bank had 2,876 shareholders at year-end 2023 (2022: 2,992), none of which held more than 10% of shares in the Bank (2022: 0). The ten largest shareholders are as follows:

Shareholder	31.12.2023	31.12.2022
Lífeyrissjóður verzlunarmanna	9.56%	9.13%
Lífeyrissjóður starfsmanna ríkisins A-deild	7.89%	7.64%
Stoðir hf.	7.01%	6.59%
Birta lífeyrissjóður	6.00%	4.80%
Gildi - lífeyrissjóður	5.43%	4.66%
Arion banki hf.	1.92%	3.41%
Stapi lífeyrissjóður	3.54%	3.07%
Lífsverk lífeyrissjóður	2.55%	2.43%
Almenni lífeyrissjóðurinn	2.30%	2.23%
Fossar fjárfestingarbanki hf.	1.45%	0.01%
	47.65%	43.97%

Further information about the shareholders of the Bank is provided in note 69.

Risk management

The objective of risk management is to promote a good and efficient culture of risk awareness within the Group and to increase the understanding of employees and management on the Group's risk taking, in addition to an assessment process related to risk and capital position. An emphasis is placed on being up to speed on the latest developments and adoption of rules related to risk management, such as regarding capital- and liquidity management. The Group faces various risks associated with its operations as a financial conglomerate that arise from its day-to-day operations. Active risk management entails analysing risk, measuring it and taking actions to limit it, as well as monitoring risk factors across the Group. The Group's risk management and main operations are described in the notes accompanying the Consolidated Financial Statements. Refer to notes 45-60 on the analysis of exposure to various types of risk.

Corporate governance

Kvika is obliged to observe recognised corporate governance guidelines, pursuant to Par. 7 of Article 54 of Act No. 161/2002, on Financial Undertakings. The Bank complies with chapter VII of Act No. 161/2002 and in most respects with the Guidelines on Corporate Governance issued jointly in February 2021 by the Chamber of Commerce, Confederation of Icelandic Enterprise (SA) and Nasdaq Iceland. The only deviation from the guidelines is that Kvika has not appointed a nomination committee, but it is expected that a proposal for the appointment of a nomination committee will be submitted to the next annual general meeting as further discussed in an appendix to these financial statements, which contains a corporate governance statement. Kvika has twice been recognized as a company which has achieved excellence in corporate governance following a formal assessment based on the Icelandic Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, Confederation of Icelandic Enterprise (SA) and Nasdaq Iceland, first in 2018 and again in 2021. The recognition applies for three years at a time unless there have been significant changes to the BOD or the ownership of the Bank. The BOD intends to have such an assessment carried out on a regular basis and maintain the aforementioned recognition. Additionally, Kvika complies with Guidelines of the European Banking Authority (EBA) on Internal Governance (EBA/GL/2021/05), cf. Art. 15 of Regulation of the European Parliament and of the Council no. 1093/2010, which was incorporated into Icelandic law with Act no. 24/2017 on European Supervisory System on the Financial Market.

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

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

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

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

Endorsement and Statement
by the Board of Directors and the CEO

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

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

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

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

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

Sustainability and non-financial reporting

Kvika's strategy is to foster competition in financial services and simplify customers' finances and Kvika's values are long-term thinking, simplicity and courage. One of the Group's guiding principles is to be a responsible participant in society and in 2022 a new sustainability policy was issued that applies to Kvika and the Group, based on Kvika's ownership policy for important subsidiaries. Subsequently relevant supporting policies were formulated or updated. Examples of supporting policies include policies on education and professional development, gender equality, health and human resources, as well as a response plan against bullying, harassment and violence. A human rights policy has not been considered necessary, given that the Group operates for the most part in Iceland, where there is a clear legal framework regarding human rights matters.

In 2023, changes were made to the organisational structure of sustainability matters in Kvika's operations. A special sustainability committee is in place and is now composed of the CEO and managing directors of subsidiaries and divisions as well as the Director of Sustainability. The sustainability department moved from the CEO's office and now operates under the Operations and Development division.

A new sustainability risk framework for the Group was defined in 2023 and approved by the Bank's Board of Directors. Kvika Asset Management and TM have now established sustainability risk policies in line with the sustainability risk framework, that are currently being implemented into processes within each subsidiary. Assessment of sustainability risk relates to, among other things, responsible investments, lending and communication with suppliers. Sustainability risk has also been introduced into the remuneration policy, in order to, among other things, meet new EU disclosure requirements related to sustainability in financial services.

Kvika supports the United Nations Sustainable Development Goals, of which six have been prioritized: SDG 3 on good health and safety; SDG 4 on quality education; SDG 5 on gender equality; SDG 9 on industry, innovations, and infrastructure; SDG 13 on climate action and SDG 17 on partnership for the goals. Kvika manages the progress made on projects that relate to the SDGs.

Kvika seeks to reduce carbon emissions from its operations and uses a digital environmental management system to do so. In recent years, the Bank's operations have undergone considerable changes through mergers with and acquisitions of companies, which has had an impact on key environmental indicators. Good progress has been made in sorting waste in 2023, but efforts are being made to gain a better overview of waste generation and to improve waste measurement, with emphasis on automation of relevant processes. Scope 3 greenhouse gas emissions in 2023 were 434 tonnes of CO2, with the largest share due to transport and business travel by employees.

There was a 108.36% increase in green commitments during the year, but a new green bond was issued at the end of the year, in Swedish krona. This was the first green bond series from an Icelandic bank denominated in Swedish krona and was issued under Kvika's green financing framework.

Kvika is a member of the global collaboration initiative, PCAF (Partnership for Carbon Accounting Financials), an industry-led initiative to enable financial institutions to consistently measure and disclose GHG emissions financed by their loans and investments. Kvika is also a member of the United Nations Principles for Responsible Investment (UN PRI) and during the year submitted its first mandatory report to the organisation. A group of employees also attended UN PRI courses on responsible investments. Kvika is one of the founding members of IcelandSIF, an organisation for responsible investments, and is a member of Festa Centre for Sustainability and Kvika also supports Grænvangur, which is a co-operation forum between industry and government on climate issues and green solutions. Furthermore, TM, a subsidiary of Kvika, is a member of the United Nations Principles for Sustainable Insurance (UN PSI).

Fintech solutions and automation play an important role in Kvika's operations and have a positive impact on the environment. Emphasis is placed on innovation in product development and services and in the development of digital solutions, which offer both social and environmental benefits such as time savings for customers, less paper and fewer car trips. New solutions in Kvika's product range and services to Kvika's customers have seen the light of day during the year, for example the establishment of Straumur, the issuance of Aur's electronic credit cards and increased financial services.

The European Union (EU) has implemented legislation in line with the objectives of the EU Green Deal. New disclosure rules have been introduced with the Corporate Sustainability Reporting Directive (CSRD), which will enter into force in Iceland in the foreseeable future, along with the Corporate Sustainability Due Diligence Directive (CSDDD), which will impose requirements on companies to implement sustainability throughout their value chain. The Sustainability Finance Disclosure Regulation (SFDR) and the EU Taxonomy Regulation have already been implemented in Iceland when Act No. 25/2023 on Sustainable Finance Disclosures entered into force on 1 June 2023.

Endorsement and Statement
by the Board of Directors and the CEO

Kvika has worked on implementing Act No. 25/2023 in the Group’s operations, and the Group is now required to publish information in accordance with article 8 of the EU Taxonomy Regulation for the first time for the financial year 2023. The EU Taxonomy Regulation establishes a framework for a classification scheme defining what constitutes an environmentally sustainable economic activity. In order to enforce the provisions of the Regulation, analysis was carried out on which assets meet the technical criteria of the Regulation which then resulted in the green asset ratio (GAR). The green asset ratio represents the Group's assets financing and investments in environmentally sustainable economic activities that are aligned with the EU Taxonomy. The proportion of the Group's green asset ratio at year-end 2023 is 0%. One of the main reasons is that this is the first year that companies will publish information according to the EU Taxonomy Regulation and therefore there is information missing, mainly from companies that disclose non-financial information under the Act No. 3/2006 on Annual Accounts.

Extensive work took place during the year on the development of an ESG risk assessment model in line with SFDR's requirements. This entailed broadening the scope of the ESG risk assessment which can now, for example, be projected onto a loan portfolio. Workshops were held during the year to discuss responsible investment methodologies among employees of Kvika, Kvika Asset Management and TM.

The Bank has adopted a Group wide policy on measures against financial crime, internal rules for measures against conflicts of interest, rules on gifts, rewards and incentive payments, as well as policies on reputational and conduct risk. There have also been implemented rules on segregation of duties, rules on employees' own transactions and rules on the protection of whistle blowers. These and other rules and policies are established for the most part on a consolidated basis and, along with the Bank's code of ethics, lay the foundation for Kvika's defence against corruption and bribery.

The above-mentioned rules and policies seek to prevent the operations of Kvika and the Bank's subsidiaries from being used for any economic and financial crimes. The Bank conducts and regularly reviews a money laundering risk assessment of its operations and all business relationships. The system Lucinity, which utilizes modern technology and artificial intelligence, is used to detect suspicious conduct.

Kvika awards a variety of grants that have a positive social impact, and the selection of projects reflects the six UN SDGs that have been adopted. In recent years, support has been provided to UNICEF in Iceland; women and innovation with FrumkvöðlaAuður, and industrial studies and teacher training with allocations from Kvika's Incentive Fund. Educational support is considered to be one of the best long-term investments for both societies and individuals. The total amount of grants from the Kvika group in 2023 was ISK 87 million.

Employees were offered to undergo a health assessment and 155 individuals signed up. This included a blood test, a survey of sleep habits, stress and exercise levels. The Group's full-time employee turnover was 14.8% in 2023. The proportion of women in the company is 45% and the proportion of women in senior and management positions within the Group is 35%.

Kvika complies with Article 66. d. of Act No. 3/2006 on Annual Accounts Act on non-financial disclosure. Along with this financial statement, Kvika publishes a sustainability report for 2023 based on ESG indicators according to the ESG guidelines of Nasdaq (ESG Reporting Guide 2.0) and to a limited extent on GRI indicators according to the standards of the Global Reporting Initiative (GRI). The report contains a section that is the Bank's impact and allocation report according to Kvika's green financing framework. Deloitte provides a limited assurance opinion on Kvika's sustainability and non-financial disclosures for the year 2023, as well as on the allocation of green funds according to Kvika´s green financing framework.

More information on Kvika´s sustainability and non-financial information can be found in the sustainability report that accompanies this financial statement and is available on the bank's website www.kvika.is.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Kvika banki hf. for the year 2023 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and additional requirements, as applicable, in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions no. 834/2003.

To the best of our knowledge these Consolidated Financial Statements give a true and fair view of the Group's assets, liabilities and financial position as at 31 December 2023 and the financial performance of the Group and changes of cash flows for the year 2023. Furthermore, in our opinion the Consolidated Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

In our opinion, the Consolidated Financial Statements of Kvika banki hf. for the year 2023 identified as "254900WR3I1Z9NPC7D84-2023-12-31-en" are prepared in all material respects, in compliance with the European Single Electronic Format Regulation (ESEF).

The Board of Directors and the CEO of the Bank have today discussed the Consolidated Financial Statements for the year 2023 and confirmed them by the means of their signatures.

Reykjavík, 15 February 2024.

Board of Directors

Sigurður Hannesson, Chairman

Guðmundur Þórðarson, Deputy Chairman

Helga Kristín Auðunsdóttir

Ingunn Svala Leifsdóttir

Guðjón Reynisson

Chief Executive Officer

Ármann Þorvaldsson

The consolidated financial statements of Kvika banki hf. for the year ended 31 December 2023 are electronically certificated by the Board of Directors and the CEO.

Independent Auditor's Report

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

Opinion

We have audited the Consolidated Financial Statements of Kvika banki hf. for the year ended December 31, 2023 which comprise, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of Kvika banki hf. as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements, as applicable, in the Act on Annual Accounts, the Act on Financial Undertakings and rules on accounting for credit institutions.

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

Basis for Opinion

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

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

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

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

Key Audit Matters

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

Key Audit Matters	How the matter was addressed in our audit
Impairment charges for loans	
Book value of loans to customers amounted to ISK 136,323 million at year end (2022: ISK 107,139 million) and the total expected credit loss for the group amounted to ISK 2,234 million (2022: ISK 2,666 million) against loans at amortized cost, unused credit facilities and guarantees at 31 December 2023. Measurement of loan impairment charges for loans and provisions for guarantees is deemed a key audit matter as the determination of assumptions for expected credit losses is highly subjective due to the level of judgement applied by Management. The most significant judgements are: • Timely identification of exposures with significant increase in credit risk and credit impaired exposures. • Valuation of collateral and assumptions of future cash flows on manually assessed credit-impaired exposures. • Post-model adjustments for particular high-risk exposures, which are not appropriately captured in the expected credit loss model. • Assumptions used in the expected credit loss models to incorporate macroeconomic uncertainties. Management has provided further information about expected credit losses and provisions for guarantees in notes 23, 48 and 84 to the Consolidated Financial Statements.	Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans and provisions for undrawn loan commitments and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter. During our audit we have evaluated whether the Groups expected credit loss models are compliant to IFRS 9. Our examination included the following elements: • Testing of key controls over assumptions used in the expected credit loss models. • Obtaining and substantively testing the evidence behind valuation of collateral with particular focus on post-model adjustments applied to collateral value. • Substantively testing the PD models, related methodology and how they have been applied in the expected credit loss models. • Testing the appropriateness of forward looking information and how they have been applied in the expected credit loss models. We have reviewed the disclosures to the Consolidated Financial statements to confirm compliance with IFRS.

Independent Auditor's Report

Other information

The Board of Directors and the CEO are responsible for the other information. Other information comprises the report of board of directors, Statement of the Corporate Governance and EU Taxonomy Regulation.

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

Report on other legal and regulatory requirements

Report on European single electronic format (ESEF Regulation)

As part of our audit of the Consolidated Financial Statements of Kvika banki hf. we performed procedures to be able to issue an opinion on whether the Consolidated Financial Statements of Kvika banki hf. for the year 2023 with the file name „254900WR3I1Z9NPC7D84-2023-12-31-en.zip "is prepared, in all material respects, in compliance with laws no. 20/2021 disclosure obligation of issuers of securities and the obligation to flag relating to requirements regarding European single electronic format regulation EU 2019/815 which include requirements related to the preparation of the Consolidated Financial Statements in XHTML format and iXBRL markup.

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

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

In our opinion, the Consolidated Financial Statements of Kvika banki hf. for the 2023 with the file name „254900WR3I1Z9NPC7D84-2023-12-31-en.zip" is prepared, in all material respects, in compliance with the ESEF Regulation.

Deloitte was appointed auditor of Kvika banki hf. by the general meeting of shareholders on March 30th 2023. Deloitte have been elected since the general meeting 2016.

Kópavogur, 15 February 2024.

Deloitte ehf.

Guðmundur Ingólfsson

State Authorized Public Accountant

The consolidated financial statements of Kvika banki hf. for the year ended 31 December 2023 are electronically certificated by the auditor.

Consolidated Income Statement
For the year 2023

	Notes	2023	2022 *
Interest income		22,425,240	14,576,190
Interest expense		(14,404,510)	(7,491,240)
Net interest income	6	8,020,729	7,084,950
Fee and commission income		6,455,647	6,878,725
Fee and commission expense		(539,199)	(465,056)
Net fee and commission income	7	5,916,447	6,413,668
Net financial income	8	442,389	278,360
Share in profit of associates, net of income tax	26	35,756	26,725
Other operating income		436,900	675,408
Other net operating income		915,045	980,493
Net operating income		14,852,222	14,479,111
Administrative expenses	10-13	(10,784,684)	(9,091,533)
Net impairment	14	(1,027,489)	(567,322)
Revaluation of contingent consideration		(31,048)	(17,646)
Profit before taxes from continuing operations		3,009,001	4,802,611
Income tax	15	(389,673)	45,255
Special tax on financial activity	16	(82,026)	(309,391)
Special tax on financial institutions	17	(233,414)	(185,348)
Profit for the year from continuing operations		2,303,887	4,353,127
Discontinued operations			
Profit after tax for the year from discontinued operations	4	1,730,389	560,255
Profit for the year		4,034,276	4,913,381

	Notes	2023	2022
Attributable to the shareholders of Kvika banki hf.		4,018,503	4,882,945
Attributable to non-controlling interest	25	15,772	30,437
Profit for the year		4,034,276	4,913,381
Earnings per share	18		
Basic earnings per share (ISK per share)		0.84	1.02
Diluted earnings per share (ISK per share)		0.84	1.02

** Comparative information has been restated, reference is made to note 4 for further information.*

The notes on pages 17 to 77 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income
For the year 2023

	Notes	2023	2022
Profit for the year		4,034,276	4,913,381
Changes in fair value of financial assets through OCI, net of tax		(433,002)	(537,359)
Realized net loss transferred to the Income Statement, net of tax		77,089	37,864
Changes to reserve for financial assets at fair value through OCI		(355,912)	(499,495)
Exchange difference on translation of foreign operations		28,808	(3,706)
Other comprehensive income that is or may be reclassified subsequently to profit and loss		(327,105)	(503,202)
Total comprehensive income for the year		3,707,171	4,410,180

	Notes	2023	2022
Attributable to the shareholders of Kvika banki hf.		3,691,399	4,374,678
Attributable to non-controlling interest		15,772	35,502
Total comprehensive income for the year		3,707,171	4,410,180

The notes on pages 17 to 77 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2023

Assets	Notes	31.12.2023	31.12.2022*
Cash and balances with Central Bank	19	23,681,453	36,670,586
Fixed income securities	20	64,977,406	65,160,407
Shares and other variable income securities	21	3,857,480	19,410,508
Securities used for hedging	22	16,852,313	13,841,853
Loans to customers	23	136,323,481	107,139,227
Derivatives	24	2,497,877	4,940,738
Investment in associates	26	96,194	88,988
Investment properties	27	0	1,165,398
Intangible assets	28	21,906,363	34,079,900
Operating lease assets	29	530,144	884,222
Property and equipment		618,361	480,706
Deferred tax assets	15, 30	2,902,580	3,232,933
Reinsurance contract assets		0	691,239
Other assets	31	10,401,128	11,883,489
Assets classified as held for sale	4	50,752,652	0
Total assets		335,397,432	299,670,195

Liabilities	Notes	31.12.2023	31.12.2022*
Deposits	32	133,772,941	112,245,198
Insurance contract liabilities		0	21,101,090
Borrowings	33	23,817,062	28,120,009
Issued bonds	34	45,715,427	38,103,414
Subordinated liabilities	35	5,993,084	3,686,451
Short positions held for trading	36	131,745	1,486,107
Short positions used for hedging	37	4,230	1,343,186
Derivatives	24	2,196,904	1,609,537
Current tax liabilities		17	203,214
Deferred tax liabilities	30	272,615	944,274
Other liabilities	38	16,593,993	9,738,535
Liabilities associated with assets classified as held for sale	4	24,941,611	0
Total liabilities		253,439,628	218,581,015

Equity	Notes	31.12.2023	31.12.2022*
Share capital	39	4,722,073	4,781,026
Share premium		47,661,777	48,602,825
Other reserves		4,330,081	3,068,159
Retained earnings		25,171,754	24,559,886
Total equity attributable to the shareholders of Kvika banki hf.		81,885,685	81,011,895
Non-controlling interest	25	72,119	77,285
Total equity		81,957,804	81,089,180
Total liabilities and equity		335,397,432	299,670,195

** Comparative information has been restated, reference is made to note 3 for further information.*

The notes on pages 17 to 77 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year 2023

				Other reserves									
1 January 2023 to 31 December 2023	**Notes**	**Share capital**	**Share premium**	**Option reserve**	**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 2023		4,781,026	48,602,825	155,951	0	1,203,697	(574,319)	57,338	2,225,492	24,559,886	81,011,895	77,285	81,089,180
Profit for the year										4,018,503	4,018,503	15,772	4,034,276
Changes in fair value of financial assets through OCI							(433,002)				(433,002)		(433,002)
Realized net loss transferred to the Income Statement							77,089				77,089		77,089
Translation of foreign operations													
Exchange difference on translation of foreign operations								28,808			28,808	0	28,808
Total comprehensive income for the year		0	0	0	0	0	(355,912)	28,808	0	4,018,503	3,691,399	15,772	3,707,171
Restricted due to subsidiaries and associates									1,443,488	(1,443,488)	0		0
Restricted due to development costs									127,884	(127,884)	0		0
Transactions with owners of the Bank													
Treasury shares acquired as part of a buy-back programme		(58,952)	(941,048)								(1,000,000)		(1,000,000)
Dividend paid to shareholders										(1,912,410)	(1,912,410)		(1,912,410)
Stock options	68			17,654						73,997	91,651		91,651
Other transactions													
Acquisition from a non-controlling interest										3,150	3,150	(20,938)	(17,788)
Equity as at 31 December 2023		4,722,073	47,661,777	173,605	0	1,203,697	(930,231)	86,145	3,796,865	25,171,754	81,885,685	72,119	81,957,804

The notes on pages 17 to 77 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the year 2022

1 January 2022 to 31 December 2022	Notes	Share capital	Share premium	Other reserves Option reserve	Warrants reserve	Deficit reduction reserve	Fair value reserve	Trans-lation reserve	Restricted retained earnings	Retained earnings	Total share-holders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2022		4,790,139	50,316,002	4,430	56,468	3,103,697	(74,823)	66,109	6,457,912	13,696,745	78,416,678	(49,058)	78,367,620
Impact of adopting IFRS 17	3									(101,285)	(101,285)		(101,285)
Restated opening balance under IFRS 17		4,790,139	50,316,002	4,430	56,468	3,103,697	(74,823)	66,109	6,457,912	13,595,460	78,315,393	(49,058)	78,266,335
Profit for the year										4,882,945	4,882,945	30,437	4,913,381
Changes in fair value of financial assets through OCI							(537,359)				(537,359)		(537,359)
Realized net loss transferred to the Income Statement							37,864				37,864		37,864
Translation of foreign operations													
Exchange difference on translation of foreign operations								(8,772)			(8,772)	5,066	(3,706)
Total comprehensive income for the year		0	0	0	0	0	(499,495)	(8,772)	0	4,882,945	4,374,678	35,502	4,410,180
Restricted due to subsidiaries and associates									(4,321,471)	4,321,471	0		0
Restricted due to development costs									89,050	(89,050)	0		0
Transfer from deficit reduction reserve						(1,900,000)				1,900,000	0		0
Transactions with owners of the Bank													
Capital increase		138,758	1,086,482								1,225,240		1,225,240
Treasury shares acquired as part of a buy-back programme		(147,871)	(2,856,127)								(3,003,998)		(3,003,998)
Stock options	68			151,521						39,902	191,423		191,423
Warrants exercised			56,468		(56,468)						0		0
Other transactions													
Acquisition of non-controlling interest via merger										(90,841)	(90,841)	90,841	0
Equity as at 31 December 2022		4,781,026	48,602,825	155,951	0	1,203,697	(574,319)	57,338	2,225,492	24,559,886	81,011,895	77,285	81,089,180

The notes on pages 17 to 77 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows
For the year 2023

Cash flows from operating activities	Notes	2023	2022 *
Profit for the year		4,034,276	4,913,381
Adjustments for:			
Indexation and exchange rate difference		(188,114)	883,787
Share in profit of associates, net of income tax		(35,756)	(26,725)
Depreciation and amortisation		1,109,490	1,190,515
Net interest income		(8,020,729)	(7,675,450)
Net impairment		1,027,489	531,823
Income tax		705,114	212,479
Adjustment relating to assets held for sale		445,029	329,020
Other adjustments		94,801	98,030
		(828,401)	456,862
Changes in:			
Fixed income securities		(21,211,295)	(25,738,126)
Shares and other variable income securities		227,425	2,048,054
Securities used for hedging		(3,010,460)	8,243,842
Loans to customers		(29,420,426)	(22,900,240)
Derivatives - assets		2,442,861	(2,206,522)
Operating lease assets		194,187	673,986
Other assets		484,156	(4,030,841)
Deposits		20,669,844	31,715,859
Insurance contract liabilities		2,166,335	1,992,084
Short positions		(2,693,319)	224,794
Derivatives - liabilities		529,292	(2,073,983)
Other liabilities		8,286,647	2,408,926
		(21,334,752)	(9,642,164)
Interest received		21,389,947	14,169,572
Interest paid		(13,561,855)	(6,624,663)
Income tax paid		(494,455)	(212,479)
Net cash to operating activities		(14,829,515)	(1,852,872)
Cash flows from investing activities			
Acquisition of intangible assets	28	(1,539,716)	(835,246)
Net acquisition of property and equipment		(342,664)	(607,535)
Dividend from associates		27,493	6,087
Acquisition of subsidiary and associates, net of cash		(20,938)	(318,994)
Net cash to investing activities		(1,875,826)	(1,755,687)
Cash flows from financing activities			
Borrowings		(5,176,815)	(1,543,572)
Issued bonds		10,821,525	5,551,208
Subordinated liabilities		2,000,000	0
Increase in share capital and share premium		0	1,225,240
Acquired own shares		(1,000,000)	(3,003,998)
Dividend paid to shareholders		(1,912,410)	0
Repayment of lease liabilities		(424,085)	(410,412)
Net cash from financing activities		4,308,215	1,818,466
Net change in cash and balances with Central Bank		(12,397,126)	(1,790,093)
Cash and balances with Central Bank at the beginning of the year		36,670,586	38,645,894
Change in cash and cash equivalents due to assets held for sale	4	(995,561)	0
Effects of exchange rate fluctuations on cash and balances with Central Bank		403,554	(185,215)
Cash and balances with Central Bank at the end of the year	19	23,681,453	36,670,586

** Comparative information has been restated, reference is made to note 3 for further information.*

The notes on pages 17 to 77 are an integral part of these Consolidated Financial Statements.

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General information

1. Reporting entity

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

The Consolidated Financial Statements for the year ended 31 December 2023 comprise Kvika banki hf. and its subsidiaries (together referred to as the Group). As disclosed in December 2022, and discussed in the Consolidated Financial Statements for 2022, changes were made to the Group's operating segments which took effect on 1 January 2023. Furthermore, as disclosed in note 4, the subsidiary TM tryggingar hf. has been classified as a disposal group held for sale. Insurance operations are therefore a discontinued operation and are no longer reported as an operating segment. The Group operates four business segments, Asset Management, Corporate Banking, Corporate Banking and Capital Markets and UK operations. Operating without a branch network, Kvika provides businesses, investors, and individuals with investment banking, insurance, asset management, payment, and banking services.

The Consolidated Financial Statements were approved and authorised for issue by the Board of Directors and the CEO on 15 February 2024.

2. Basis of preparation

a. Statement of compliance

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

Due to the reclassification of the subsidiary TM tryggingar hf. as disposal group held for sale, in accordance with IFRS 5, comparative figures in the Income Statement have been restated, reference is made to note 4.

b. Basis of measurement

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

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

c. Functional and presentation currency

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

The Group's assets and liabilities which are denominated in other currency than ISK are translated to ISK using the exchange rate as at the end of day 31 December 2023.

d. Going concern

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

e. Estimates and judgements

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

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

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

Information about areas of estimation uncertainty and critical judgements made by management in applying accounting policies that can have a significant effect on the amounts recognised in the Consolidated Financial Statements is provided in note 112.

f. Relevance and importance of notes to the reader

In order to enhance the informational value of the Consolidated Financial Statements, the notes are evaluated based on relevance and importance for the reader. This can result in information, that has been evaluated as neither important nor relevant for the reader, not being presented in the notes.

Notes to the Consolidated Financial Statements

3. Changes in accounting policies

On 1 January 2023 the Group adopted IFRS 17 and hedge accounting according to IFRS 9 and IAS 39. The sections below explain in further details the change for both adoptions.

Hedge accounting

The Group adopted hedge accounting according to IAS 39, in line with exemption from IFRS 9. The purpose of the hedge accounting is to hedge against exchange difference on translation of foreign operations. Derivatives are used as a hedging instrument against translation of foreign operations in equity.

The Group documents the relationship between the hedge instrument and hedged item on initial recognition. An efficiency test is performed according to IAS 39 to determine if the hedge relationship is effective. The results of the efficiency test must be in the range of 80-125% to be considered effective.

If the hedge relationship does not meet the above criteria due to inefficiency, the foreign currency exchange difference is recognised in the consolidated income statement instead of equity. If the derivative instrument is sold, expires, terminated or exercised in the period that the hedge relationship is in place, the hedge relationship becomes ineffective and hedge accounting is ceased.

IFRS 17, Insurance contracts

The Group has initially applied IFRS 17, including any consequential amendments to other standards, from 1 January 2023, replacing IFRS 4 Insurance contracts. This standard has brought changes to the accounting for insurance and reinsurance contracts. As a result, the Group has restated certain comparative amounts.

The nature and effects of the key changes in the Group's accounting policies resulting from its adoption of IFRS 17 is summarised below.

Recognition, measurement and presentation of insurance contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. It introduces a model that measures groups of contracts based on the Group's estimates of the present value of future cash flows that are expected to arise as the Group fulfils the contracts, an explicit risk adjustment for non-financial risk.

Transition

Changes in accounting policies resulting from the adoption of IFRS 17 have been applied using a full retrospective approach. Under the full retrospective approach, at 1 January 2022 the Group:

- Identified, recognised and measured each group of insurance and reinsurance contracts as if IFRS 17 had always been applied;
- recognised any resulting net difference in equity. The carrying amount of goodwill from previous business combinations was not adjusted.

Effect on the statement of financial position

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

Other changes include the inclusion of liability for unpaid operational expenses allocated to insurance in the liability of incurred claims and the evaluation of the Risk Adjustment, both gross and reinsurers share, which is different to the previous calculation of Risk Margin in IFRS4.

The table below shows the effect of implementation on the Consolidated Statement of Financial Position at 1 January 2022:

	31.12.2022 IFRS 4	Impact of IFRS 17	31.12.2022 IFRS 17
Assets:			
Reinsurance assets	627,469	(627,469)	0
Reinsurance contract assets	0	691,239	691,239
Other assets	15,465,850	(3,582,361)	11,883,489
All other assets	287,095,467	0	287,095,467
Total assets	303,188,786	(3,518,591)	299,670,195
Liabilities and Equity:			
Technical provisions	24,362,281	(24,362,281)	0
Insurance contract liabilities	0	21,101,090	21,101,090
Other liabilities	9,894,650	(156,115)	9,738,535
Retained earnings	24,661,171	(101,285)	24,559,886
All other liabilities and equity	244,270,684	0	244,270,684
Total liabilities and equity	303,188,786	(3,518,591)	299,670,195

Effect on the income statement

The classification the subsidiary TM tryggingar hf. as discontinued operations resulted in comparative information being restated. Refer to note 4 for more information on the discontinued operations.

Notes to the Consolidated Financial Statements

4. Discontinued operations

In early October 2023, the Bank announced that following a strategic review at Kvika, the BOD has decided to initiate a process for selling or listing of its insurance subsidiary TM tryggingar hf. ("TM"), a wholly owned subsidiary. In December 2023, the Bank further announced that it had received non-binding offers for the share capital of TM, both for all outstanding shares and part of the shares. It is anticipated that the sale or listing of TM will be completed in the second or third quarter of 2024. At year-end 2023, TM was classified as a disposal group held for sale and as a discontinued operation. TM is measured at the lower of carrying amount upon the date of reclassification and fair value less costs to sell.

Restated Consolidated Income Statement for the year 2022:

	Published accounts	Operation of TM tryggingar	2022*
Net interest income	7,675,450	(590,500)	7,084,950
Net fee and commission income	6,408,110	5,558	6,413,668
Insurance revenue	16,517,836	(16,517,836)	0
Incurred claims and net expense from reinsurance contract held	(12,307,539)	12,307,539	0
Net financial income	272	278,089	278,360
Share in profit of associates, net of income tax	26,725	0	26,725
Other operating income	859,600	(184,192)	675,408
Administrative expenses related to insurance service	(13,075,783)	3,984,250	(9,091,533)
Net impairment	(531,823)	(35,498)	(567,322)
Revaluation of contingent consideration	(17,646)	0	(17,646)
Revaluation of investment properties	65,398	(65,398)	0
Income tax and other taxes	(707,218)	257,734	(449,484)
Discontinued operations		560,255	560,255
Profit for the year	4,913,381	0	4,913,381

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

	2023	2022*
Net interest income	896,360	590,500
Net fee and commission income	24,243	(5,558)
Insurance revenue	18,484,259	16,517,836
Incurred claims and net expense from reinsurance contract held	(13,466,035)	(12,088,132)
Net financial income	437,768	(497,495)
Other operating income	199,837	184,192
Administrative expenses related to insurance service	(4,523,638)	(4,130,623)
Net impairment	20,893	35,498
Revaluation of investment properties	59,602	65,398
Income tax	(483,429)	(227,066)
	1,649,861	444,550
Administrative expenses, stranded costs	102,402	146,374
Income tax	(21,874)	(30,668)
Profit for the year from discontinued operations	1,730,389	560,255

The major classes of assets and liabilities of the discontinued operations as at year-end 2023 are, as follows:

Assets	**31.12.2023**
Cash and balances with Central Bank	995,561
Fixed income securities	19,824,505
Shares and other variable income securities	14,543,128
Investment properties	1,240,135
Intangible assets	12,615,362
Other assets	1,533,960
Assets classified as held for sale	50,752,652
Liabilities	
Insurance contract liabilities	23,267,425
Deferred tax liabilities	629,063
Other liabilities	1,045,123
Liabilities associated with assets classified as held for sale	24,941,611
Eliminations with the Group	1,018,962
Net assets directly associated with disposal group	26,830,002

** Comparative information has been restated.*

Notes to the Consolidated Financial Statements

4. Discontinued operations (cont.)

Amounts included in accumulated OCI:	**2023**	**2022**
Fair value of financial assets through OCI	(387,416)	(221,950)
Deferred tax on fair value reserve	77,483	44,390
Reserve of disposal group classified as held for sale	(309,933)	(177,560)

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

	2023	**2022**
Operating	4,779,187	4,008,670
Investing	(6,207,467)	550,856
Financing	(6,980)	(4,181,195)
Net cash (outflow)/inflow	(1,435,260)	378,331

Notes to the Consolidated Financial Statements

Segment information

5. Business segments

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

Reportable segments

As disclosed in December 2022, and discussed in the Consolidated Financial Statements for 2022, changes were made to the Group's operating segments which took effect on 1 January 2023. The specialised financing operations of the Commercial Banking division, along with the Investment Banking division, now form a new revenue division, Corporate Banking and Capital Markets. Furthermore, as disclosed in note 4, the subsidiary TM tryggingar hf. has been classified as a disposal group held for sale. Insurance operation are therefore a discontinued operations and are no longer reported as an operating segment. During the year 2023, the Group defined four reportable operating segments; Asset Management, Commercial Banking, Corporate Banking and Capital Markets and UK operations. The figures for the year 2023 reflect the operating segment structure that was in place during that year, taking into account the discontinuation of the insurance operations, and comparison amounts for the previous year have been restated accordingly.

- Asset Management
  Products and services offered include asset management involving both domestic and foreign assets, private banking and private pension plans. The management of a broad range of mutual funds, investment funds and institutional investor funds is included in this segment through the operations of Kvika eignastýring hf.
- Commercial Banking
  Commercial Banking offers various forms of banking services and related advisory services. Included in this operating segment is Lykill, the leasing operations of the Group, and the Group's fintech operations, such as Auður, Netgíró and Aur, as well as the payment facilitation operations of Straumur greiðslumiðlun hf.
- Corporate Banking and Capital Markets
  Corporate Banking & Capital Markets provide a range of professional services in the fields of specialised financing, securities and foreign exchange transactions and corporate finance services. The functions of Market Making and Treasury are also included in the segment although they are a part of Kvika's Finance division.
- UK operations
  The UK operations consist of asset management and corporate finance services through Kvika Securities Ltd. and specialised lending services through Ortus Secured Finance Ltd.
  UK operations is the only geographic area outside of Iceland and for the period 2023 it accounts for 9.5% (2022: 7.2%) of net operating income.

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

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

Notes to the Consolidated Financial Statements

5. Business segments (cont.)

2022 *	Asset Management	Commercial Banking	Corporate Banking & Capital Markets	UK operations	Supporting units	Total
Net interest income	2,377	3,595,425	3,133,671	452,856	(99,379)	7,084,950
Net fee and commission income	3,068,805	969,612	1,976,767	349,492	48,992	6,413,668
Net financial income	62,421	(71,703)	39,792	247,678	172	278,360
Share in profit of associates	(68)	26,793	-	-	-	26,725
Other operating income	9,089	559,556	-	(1,098)	107,862	675,408
Net operating income	3,142,624	5,079,683	5,150,229	1,048,928	57,647	14,479,111
Salaries and related expenses	(1,080,555)	(661,651)	(1,027,227)	(416,019)	(2,094,568)	(5,280,020)
Other operating expenses	(84,732)	(1,424,551)	(301,764)	(561,705)	(1,438,762)	(3,811,513)
Administrative expenses	(1,165,287)	(2,086,201)	(1,328,991)	(977,723)	(3,533,330)	(9,091,533)
Net impairment	-	(56,754)	(416,432)	(94,136)	-	(567,322)
Revaluation of contingent consideration	(17,646)	-	-	-	-	(17,646)
Cost allocation	(866,607)	(1,009,427)	(1,193,468)	(217,730)	3,287,233	-
Profit (loss) before tax	1,093,085	1,927,300	2,211,338	(240,661)	(188,451)	4,802,611
Net segment revenue from external customers	3,162,433	4,053,650	5,642,393	1,569,324	51,312	14,479,111
Net segment revenue from other segments	(19,808)	1,026,032	(492,164)	(520,396)	6,335	(0)

The figures for the year 2022 have been restated to reflect changes made in the presentation of internal reporting and reportable segments as of 1 January 2023, and the discontinuation of insurance operations.

** Comparative information has been restated, reference is made to note 3 for further information.*

Notes to the Consolidated Financial Statements

Income statement

6. Net interest income

Interest income is specified as follows:

	2023	2022
Cash and balances with Central Bank	1,697,958	1,001,738
Derivatives	1,571,640	2,422,309
Loans to customers	15,315,986	9,520,831
Fixed income securities (FVOCI)	3,837,064	1,625,454
Other interest income	2,593	5,859
Total	22,425,240	14,576,190

Interest expense is specified as follows:

	2023	2022
Deposits	8,442,963	2,971,531
Borrowings	1,885,625	1,354,360
Issued bonds	3,329,984	2,414,621
Subordinated liabilities	529,637	518,940
Derivatives	144,031	95,360
Other interest expense*	72,271	136,429
Total	14,404,510	7,491,240
Net interest income	8,020,729	7,084,950

* Thereof are lease liabilities' interest expense amounting to ISK 65 million (2022: ISK 96 million).

Total interest income recognised in respect of financial assets not carried at fair value through profit or loss amounts to ISK 16,840 million (2022: ISK 10,325 million). Total interest expense recognised in respect of financial liabilities not carried at fair value through profit or loss amounts to ISK 14,260 million (2022: ISK 7,396 million).

7. Net fee and commission income

Fee income and expenses are presented on a net fee basis, as presented in internal reporting to management for decision making purposes and broken down by business segments. The business segments are representative of the nature and types of activity from which the Group generates fee income from. A description of each business segment is provided in note 5. As discussed in that note, the Group changed the structure of its internal reporting and reportable segments, taking effect on 1 January 2023. The figures for the period in 2023 reflect this structure and the comparison amounts have been restated accordingly.

Net fee and commission income by business segment	2023	2022
Asset Management	2,475,130	3,068,805
Commercial Banking	1,373,071	969,612
Corporate Banking & Capital Markets	1,577,910	1,976,767
UK operations	474,892	349,492
Supporting units	15,445	48,992
Total	5,916,447	6,413,668

8. Net financial income

Net financial income is specified as follows:

	2023	2022
Net gain (loss) on financial assets and financial liabilities mandatorily measured at fair value through profit or loss		
Fixed income securities	(5,613)	116,957
Financial assets at fair value through OCI	(96,479)	(47,330)
Shares and other variable income securities	397,168	765,138
Derivatives	431,731	(608,946)
Loans to customers	(170,882)	(6,120)
Foreign currency exchange difference	(113,536)	58,660
Total	442,389	278,360

Notes to the Consolidated Financial Statements

9. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	2023	2022
Gain on financial instruments at fair value through profit and loss	49,333	180,774
Loss on other financial instruments	(162,869)	(122,114)
Total	(113,536)	58,660

10. Administrative expenses

Administrative expenses are specified as follows:	2023	2022
Salaries and related expenses	6,453,599	5,280,020
Other operating expenses	3,221,595	2,610,181
Depositors' and Investors' Guarantee Fund contributions	0	10,817
Depreciation and amortisation	900,191	929,836
Depreciation of right of use asset	209,299	260,679
Total	10,784,684	9,091,533

During the year 2023, ISK 438 million in irregular and one-off costs were incurred by the Group, among other due to the resignation of the chief executive officer, changes to the senior management and merger negotiations with Íslandsbanki hf. ISK 303 million, of that figure, is included in the line salaries and related expenses in the table above.

11. Salaries and related expenses

Salaries and related expenses are specified as follows:	2023	2022
Salaries	4,862,337	3,948,054
Performance based payments excluding share-based payments	175,326	137,225
Share-based payment expenses	59,004	75,126
Pension fund contributions	655,913	563,074
Tax on financial activity	277,969	241,397
Other salary related expenses	423,050	315,145
Total	6,453,599	5,280,020
Average number of full time employees during the year	280	251
Total number of full time employees at year-end	270	270

The 2022 figures for average number of employees and employees at year-end have been restated to exclude employees of TM. Further, the figures for 2022 average number of full time employees do not include employees of Ortus Secured Finance ltd. during January and February 2022. At the beginning of 2022, Ortus had 18 full time employees and Kvika and its subsidiaries, excl. TM, had 236, or 254 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% (2022: 5.50%).

The amount of performance based payments that has been expensed is based on the results for the period in 2023 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.

Notes to the Consolidated Financial Statements

12. Employment terms of the Board of Directors and management

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

Remuneration to the Board of Directors	2023			2022		
	Board and committee remunerat.	Pension contribut-ion	Total	Board and committee remunerat.	Pension contribut-ion	Total
Sigurður Hannesson, Chairman of the Board and member of the Risk and Remuneration committees	18,709	2,806	21,516	17,300	2,595	19,894
Guðmundur Þórðarson, Deputy Chairman of the Board and chairperson of the Risk committee	14,382	2,140	16,521	12,247	1,937	14,184
Guðjón Karl Reynisson, Board member and chairperson of the Remuneration committee	10,684	1,603	12,287	9,564	1,435	10,999
Helga Kristín Auðunsdóttir, Board member and member of the Audit and Remuneration committees	16,124	2,366	18,489	12,112	1,808	13,920
Ingunn Svala Leifsdóttir, Board member, chairperson of the Audit committee and member of the Risk committee	13,437	1,814	15,251	9,891	607	10,497
Helga Jóhanna Oddsdóttir, alternate Board member	485	49	534	265	27	292
Sigurgeir Guðlaugsson, alternate Board member	485	49	534	455	46	501
Total	74,306	10,826	85,132	61,833	8,454	70,287

Remuneration to the CEO and executive committee	2023				2022			
	Salaries and benefits	Performance based payments	Pension contribut-ion	Total	Salaries and benefits	Performance based payments	Pension contribut-ion	Total
Ármann Þorvaldsson, CEO	20,685	2,000	3,051	25,735	0	0	0	0
Marinó Örn Tryggvason, former CEO	32,653	0	4,870	37,524	50,397	1,950	7,313	59,659
Managing Directors (2023: 6 (on average 7.0), 2022: 4 (on average: 5.5))	273,049	10,000	39,241	322,290	233,054	6,242	32,064	271,360
Former Managing Directors (2023: 1 (on average 0.8), 2022: 2 (on average: 0.5))	28,325	0	3,810	32,135	19,950	0	2,700	22,650
Expensed notice payments	86,700	0	12,420	99,120	57,075	0	7,830	64,905
Total	441,412	12,000	63,392	516,804	360,476	8,192	49,907	418,574

In August 2023 Ármann Þorvaldsson was hired as the Bank's CEO. In addition to a change in CEO, two other changes were made to the Bank's executive committee. Besides the CEO, the following were a part of the Bank's executive committee during 2023: i) Sigurður Viðarson, Deputy CEO, ii) Eiríkur Magnús Jensson, CFO, iii) Ólöf Jónsdóttir, MD of Commercial Banking (until December), iv) Bjarni Eyvinds, MD Corporate Banking & Capital Markets, v) Lilja Jensen, General Counsel, vi) Anna Rut Ágústsdóttir, MD Operations and Development, vii) Thomas Skov Jensen, MD Risk Management (until September) and viii) Elísabet G. Björnsdóttir, MD Risk Management (from October). As at the date of these Consolidated Financial Statements, the hiring process for MD of Commercial Banking had not been completed.

As the resignation of the MD of Commercial Banking was received in December, she is included in the figure for salaries and benefits for 2023 for managing directors, but not counted as managing director at year end.

As a result of the aforementioned, the salaries and benefits figures for managing directors for 2023 and 2022 are not directly comparable.

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

The Bank has adopted a remuneration policy which covers three remuneration components, base pay, performance based incentive scheme and other benefits, including pension fund contributions. Further information about the remuneration policy is provided in notes 66-68.

The members of the BOD owned, or controlled, 85,711 thousand shares at year-end 2023. The CEO owned, or controlled, 4,842 thousand shares and options for 1,574 thousand shares in the Bank at year-end 2023. The members of the executive committee owned, or controlled, 28,747 thousand shares and options for 7,670 thousand shares at year-end 2023.

13. Auditor's fees

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

	2023	2022
Audit of annual accounts	184,627	134,150
Review of interim accounts	27,130	26,471
Other audit related services	18,734	19,161
Total	230,491	179,782
Thereof to the auditors of the Bank	174,166	139,241

The table above shows fees paid to Deloitte and other component auditors. Total fee paid to other component auditors for the year 2023 amounts to ISK 56 million (2022: ISK 41 million).

Notes to the Consolidated Financial Statements

14. Net impairment

	2023	2022
Net change in impairment of loans	(1,025,266)	(525,554)
Net change in impairment of other assets	506	(35,911)
Net change in impairment of loan commitments, guarantees and unused credit facilities	(2,729)	(5,857)
Total	(1,027,489)	(567,322)

15. Income tax

The Bank and some of its subsidiaries will not pay income tax on its profit for 2023 due to the fact that Group has a tax loss carry forward that offsets the calculated income tax. At year-end 2023, the tax loss carry forward of the Group amounted to ISK 13.0 billion. A substantial part of the tax loss carry forward is utilisable until end of year 2028. Management is of the opinion that the Group's operations in the years to come will result in taxable results which will be offset with the tax loss carry forward. The Group has therefore recognised the tax loss carry forward as a deferred tax asset in the consolidated statement of financial position.

Income tax is recognised based on the tax rates and tax laws enacted during the current year, according to which the domestic corporate income tax rate was 20.0% (2022: 20.0%). Companies within the Group, which operate outside of Iceland, recognise income tax in accordance with the applicable tax laws in the country where they are resident.

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

Reconciliation of effective tax rate:

		2023		2022
Profit before tax		3,009,001		4,802,611
Income tax using the domestic corporation tax rate	20.0%	(601,800)	20.0%	(960,522)
Non-deductible expenses	1.0%	(29,372)	0.2%	(7,457)
Tax exempt revenues / loss	(7.5%)	225,272	13.5%	(647,958)
Recognition of tax losses	0.0%	0	(36.4%)	1,747,062
Other changes	(0.5%)	16,226	1.8%	(85,869)
Effective income tax	13.0%	(389,673)	(0.9%)	45,255

Profit before tax amounts to ISK 3,009 million. Income tax amounts to ISK -390 million, resulting in an effective tax rate of 13.0%. This is substantially different from the Icelandic corporate tax rate of 20%, mainly due to non-taxable income from shares.

16. Special tax on financial activity

The special tax on financial activity is an additional income tax which becomes effective when the income tax base exceeds ISK 1,000 million. It is levied on the same entities as the tax on financial activity according to Act No. 90/2003. The tax rate is set at 6.0% (2022: 6.0%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

17. Special tax on financial institutions

According to Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including banks, must pay annually a tax based on the carrying amount of their liabilities as determined for tax purposes in excess of ISK 50 billion at year-end. The tax rate is set at 0.145% (2022: 0.145%) and the tax is not a deductible expense for income tax purposes. The tax is presented separately in the consolidated income statement.

18. Earnings per share

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

	Continuing operations		Discontinued operations		Continuing and discontinued operations	
	2023	2022	2023	2022	2023	2022
Net earnings attributable to equity holders of the Bank	2,288,115	4,322,690	1,730,389	560,255	4,018,503	4,882,945
Weighted average number of outstanding shares	4,757,742	4,786,389	4,757,742	4,786,389	4,757,742	4,786,389
Adjustments for stock options	279	506	279	506	279	506
Total	4,758,021	4,786,894	4,758,021	4,786,894	4,758,021	4,786,894
Basic earnings per share (ISK)	0.48	0.90	0.36	0.12	0.84	1.02
Diluted earnings per share (ISK)	0.48	0.90	0.36	0.12	0.84	1.02

Notes to the Consolidated Financial Statements

Statement of Financial Position

19. Cash and balances with Central Bank

Cash and balances with Central Bank are specified as follows:

	31.12.2023	31.12.2022
Deposits with Central Bank	13,479,131	24,718,270
Cash on hand	20,055	22,822
Balances with banks	6,356,998	7,391,501
Foreign treasury bills	0	2,831,108
Included in cash and cash equivalents	19,856,184	34,963,701
Restricted balances with Central Bank - fixed reserve requirement	3,825,269	1,706,885
Total	23,681,453	36,670,586

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

20. Fixed income securities

Fixed income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	31.12.2023	31.12.2022
Listed government bonds and bonds with government guarantees	2,515,820	2,867,887
Listed bonds	1,053,955	3,456,180
Unlisted bonds	114,075	3,901,728
Measured at fair value through other comprehensive income		
Listed government bonds and bonds with government guarantees	45,067,483	38,347,272
Listed treasury bills	14,675,118	12,864,314
Listed bonds	1,550,955	3,723,026
Total	64,977,406	65,160,407

21. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

Mandatorily measured at fair value through profit or loss	31.12.2023	31.12.2022
Listed shares	512,703	4,879,257
Unlisted shares	2,027,673	7,325,211
Unlisted unit shares in bond funds	0	3,040,899
Unlisted unit shares in other funds	1,317,103	4,165,141
Total	3,857,480	19,410,508

22. Securities used for hedging

Securities used for hedging are specified as follows:

	31.12.2023	31.12.2022
Listed government bonds and bonds with government guarantees	1,201,377	3,852,697
Listed bonds	955,948	896,385
Listed shares	14,258,492	8,925,858
Listed unit shares	7,501	0
Unlisted unit shares	428,995	166,914
Total	16,852,313	13,841,853

Notes to the Consolidated Financial Statements

23. Loans to customers

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

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

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

The Group presents finance lease receivables as part of loans to customers at amortised cost. As at 31 December 2023, the book value of finance lease receivables amounted to ISK 21,504 million (31.12.2022: ISK 18,604 million).

24. Derivatives

Derivatives are specified as follows:

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

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

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

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

	31.12.2023	**31.12.2022**
Balance at the beginning of the year	0	0
Foreign currency revaluation of the net foreign operations	(65,695)	0
Tax effect	13,139	0
Total	(52,556)	0

Notes to the Consolidated Financial Statements

25. Group entities

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

Entity	Nature of operations	Domicile	Share 31.12.2023	Share 31.12.2022
FÍ Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%	100%
GAMMA Capital Management hf.	Fund management	Iceland	100%	100%
Kvika eignastýring hf.	Asset management	Iceland	100%	100%
* Rafklettur ehf.	Holding company	Iceland	100%	100%
Skilum ehf.	Debt Collection	Iceland	100%	100%
Straumur greiðslumiðlun hf.	Payment facilitator	Iceland	100%	100%
* TM líftryggingar hf.	Insurance company	Iceland	100%	100%
* TM tryggingar hf.	Insurance company	Iceland	100%	100%
AC GP 3 ehf.	Fund management	Iceland	85%	80%
Kvika Securities ltd.	Business consultancy services	UK	100%	100%
Ortus Secured Finance ltd.	Lending operations	UK	78%	78%

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

26. Investment in associates

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

Entity	Nature of operations	Domicile	Share 31.12.2023	Share 31.12.2022
Gláma fjárfestingar slhf.	Holding company	Iceland	24%	24%
Moberg d. o. o.	Digital solutions provider	Croatia	40%	40%

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

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

	31.12.2023	31.12.2022
Balance at the beginning of the year	88,988	67,000
Dividend received	(27,493)	(6,087)
Share in profit of associates, net of income tax	35,756	26,725
Exchange rate difference	(1,057)	1,350
Total	96,194	88,988

27. Investment properties

Investment properties are specified as follows:	31.12.2023	31.12.2022
Balance at the beginning of the year	1,165,398	1,100,000
Additions	15,134	0
Revaluation of investment properties	59,602	65,398
Reclassified as assets held for sale	(1,240,134)	0
Total	0	1,165,398

The discontinuation of its insurance subsidiary of TM tryggingar hf. resulted in Investment properties to be categorized as assets held for sale. Refer to note 4 for more information on the discontinued operations.

Notes to the Consolidated Financial Statements

28. Intangible assets

Intangible assets are specified as follows:

31.12.2023	**Goodwill**	**Customer relationships**	**Brands**	**Software and other**	**Total**
Balance as at 1 January 2023	26,041,926	2,838,993	2,276,484	2,922,498	34,079,900
Additions during the period	0	315,558	0	1,224,158	1,539,716
Discontinued	0	0	0	(20,338)	(20,338)
Amortisation	0	(262,726)	(152,986)	(700,617)	(1,116,329)
Reclassified as assets held for sale	(8,300,327)	(1,160,429)	(1,859,875)	(1,294,732)	(12,615,363)
Currency adjustments	41,046	509	705	(3,484)	38,776
Balance as at 31 December 2023	17,782,646	1,731,905	264,327	2,127,485	21,906,363
Gross carrying amount	17,782,646	2,095,815	369,096	3,617,923	23,865,479
Accumulated amortisation and impairment losses	0	(363,910)	(104,769)	(1,490,438)	(1,959,116)
Balance as at 31 December 2023	17,782,646	1,731,905	264,327	2,127,485	21,906,363

31.12.2022	**Goodwill**	**Customer relationships**	**Brands**	**Software and other**	**Total**
Balance as at 1 January 2022	24,257,972	2,255,810	2,340,265	2,601,362	31,455,409
Additions during the period	0	0	0	835,246	835,246
Additions through business combinations	1,771,221	812,437	84,629	0	2,668,287
Discontinued	0	0	0	(7,737)	(7,737)
Amortisation	0	(235,264)	(148,761)	(506,374)	(890,399)
Currency adjustments	12,732	6,011	351	0	19,095
Balance as at 31 December 2022	26,041,926	2,838,993	2,276,484	2,922,497	34,079,900
Gross carrying amount	26,041,926	3,210,439	2,524,768	4,105,486	35,882,618
Accumulated amortisation and impairment losses	0	(371,446)	(248,284)	(1,182,988)	(1,802,718)
Balance as at 31 December 2022	26,041,926	2,838,993	2,276,484	2,922,498	34,079,900

The discontinuation of the subsidiary TM tryggingar hf. resulted in goodwill, customer relationships, brands, software and other intangible assets to be categorized as assets held for sale. Reference is made to note 4 for further information on the discontinued operations.

b. Impairment testing

Assets with indefinite useful life, such as goodwill, are not amortised but are subject to annual impairment testing as described in note 93. Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combinations in which the goodwill arose. Goodwill has been allocated to four CGUs, Asset Management, Commercial Banking, Corporate Markets & Capital Markets and UK operations. The goodwill allocated to UK operations, following business combinations during the year 2022, was a based on a preliminary estimate. The allocation was finalised during the year 2023 with no changes being made. At the beginning of 2023, Investment Banking was renamed Corporate Banking & Capital Markets, as further outlined in note 1.

The goodwill impairment tests were performed at the end of 2023. Their results show that the recoverable values exceed the carrying values of goodwill. In addition to the base case testing, additional scenarios were tested where some key inputs had been stressed. In all scenarios tested the results show that there is sufficient headroom and that there are no triggers indicating that impairment is necessary.

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

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

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

Notes to the Consolidated Financial Statements

29. Operating lease assets

Operating lease assets are specified as follows:

	31.12.2023	31.12.2022
Balance as at 1 January	884,222	1,458,621
Additions	63,792	133,883
Disposals	(257,979)	(470,876)
Depreciation	(159,891)	(237,406)
Total	530,144	884,222
Gross carrying amount	1,116,581	1,505,807
Accumulated depreciation	(586,437)	(621,585)
Total	530,144	884,222

30. Deferred tax assets and liabilities

	31.12.2023	31.12.2022
Deferred tax assets	2,902,580	3,232,933
Deferred tax liabilities	(272,615)	(944,274)
Net	2,629,966	2,288,659

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

	31.12.2023	31.12.2022
Property and equipment	71,166	32,677
Intangible assets	(2,302)	(644,801)
Other items	(30,814)	(274,934)
Tax losses carried forward	2,591,916	3,175,718
Total	2,629,966	2,288,659

At year end 2023, tax losses carried forward amount to ISK 13.0 billion, and are set to expire as follows:

	Tax losses
Tax losses 2018, expiring in 2028	12,050,371
Tax losses 2020, expiring in 2030	909,209
Total	12,959,579

31. Other assets

Other assets are specified as follows:

	31.12.2023	31.12.2022*
Unsettled transactions	2,262,226	4,443,719
Accounts receivable	6,342,227	4,675,780
Right of use asset and lease receivables	1,320,983	1,576,582
Investments where investment risk is borne by life-insurance policyholders	0	121,906
Sundry assets	475,693	1,065,503
Total	10,401,128	11,883,489

** Comparative information has been restated, reference is made to note 3 for further information.*

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

	31.12.2023	31.12.2022
Right of use asset and lease receivables as at 1 January	1,576,582	800,087
Additions during the period	0	935,915
Termination of lease agreements	0	(26,458)
Indexation	77,713	128,709
Currency adjustments	2,655	5,247
Depreciation and lease receivable instalment	(335,967)	(266,917)
Total	1,320,983	1,576,582

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

32. Deposits

Deposits are specified as follows:

	31.12.2023	31.12.2022
Demand deposits	113,625,055	91,504,652
Time deposits	20,147,887	20,740,545
Total	133,772,941	112,245,198

Notes to the Consolidated Financial Statements

33. Borrowings

Borrowings are specified as follows:

	31.12.2023	31.12.2022
Money market deposits	8,792,963	9,778,280
Secured borrowings	13,691,834	15,674,280
Other borrowings	1,332,264	2,667,449
Total	23,817,062	28,120,009

Money market deposits typically have a principal of ISK 5-500 million and maturity between 1 day and 6 months and pay fixed interest rates. Secured borrowings are in GBP and are to be paid at maturity. The borrowings mature in 2028.

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

34. Issued bonds

Issued bonds are specified as follows:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.12.2023	31.12.2022
Unsecured bonds:						
KVB 21 01, GBP 12 million	2021	2023	At maturity	Floating, 3 month LIBOR + 2.50%	0	2,067,377
KVB 20 01, ISK 5,000 million	2020	2023	At maturity	Floating, 1 month REIBOR + 0.85%	0	4,632,806
Lykill 23 11, ISK 3,010 million	2020	2023	At maturity	Floating, 1 month REIBOR + 1.10%	0	2,600,598
EMTN 24 0131, SEK 500 million	2022	2024	At maturity	Floating, 3 month STIBOR + 2.80%	4,610,572	6,866,708
EMTN 24 0204, EUR 8.5 million	2022	2024	At maturity	Floating, 3 month EURIBOR + 2.80	1,292,489	1,296,978
KVIKA 24 1119, GBP 11.4 million	2021	2024	At maturity	Floating, 3 month LIBOR + 1.75%	1,990,376	1,959,110
KVIKA 24 1216 GB, ISK 4,500 million	2021	2024	At maturity	Floating, 3 month REIBOR + 0.90%	4,517,330	4,513,777
KVB 19 01, ISK 5,000 million	2019	2024	Amortizing	Floating, 1 month REIBOR + 1.50%	1,003,675	2,005,242
KVIKA 25 1201 GB ISK 1,660 million	2022	2025	At maturity	Floating, 3 month REIBOR + 1.25%	1,675,442	1,670,790
EMTN 26 0511, SEK 275 million	2023	2026	At maturity	Floating, 3 month STIBOR + 4.10%	3,770,724	0
EMTN 26 0511, NOK 800 million	2023	2026	At maturity	Floating, 3 month NIBOR + 4.10%	10,837,164	0
EMTN 23 11 26, SEK 500 m.	2023	2026	At maturity	Floating, 3 month STIBOR + 4%	6,839,052	0
KVB 21 02, ISK 5,400 million	2021	2027	At maturity	CPI-indexed, fixed 1.0%	6,599,359	6,110,428
KVIKA 32 0112, ISK 2,000 million	2022	2032	At maturity	CPI-indexed, fixed 1.40%	2,373,037	2,197,224
Asset backed bonds:						
Lykill 16 01, ISK 10,870 million	2016	2023	Amortizing	Floating, 1 month REIBOR + 1.10%	0	1,368,276
Lykill 23 09, ISK 1,000 million	2019	2023	Amortizing	Fixed, 5.20%	0	204,013
Lykill 24 06, ISK 1,570 million	2020	2024	Amortizing	Fixed, 2.80%	206,206	610,086
Total					45,715,427	38,103,414

35. Subordinated liabilities

a. Subordinated liabilities:

Currency, nominal value	First issued	Maturity	Maturity type	Terms of interest	31.12.2023	31.12.2022
KVB 18 02, ISK 800 million	2018	2028	At maturity	CPI-Indexed, fixed 7.50%	1,123,778	1,040,313
KVIKA 34 1211 T2i, ISK 2,000 m.	2023	2034	At maturity	CPI-Indexed, fixed 6.25%	2,011,434	0
TM 15 1, ISK 2,000 million	2015	2045	At maturity	CPI-Indexed, fixed 5.25%	2,857,872	2,646,139
Total					5,993,084	3,686,451

For KVB 18 02, the Group has the right to repay the subordinated bond on any interest payment dates until maturity. In January 2024, the Group gave notice to holders of the bond that they will be redeemed in full on the next interest payment date, 8 May 2024.

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

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

Notes to the Consolidated Financial Statements

b. Subordinated liabilities are specified as follows:

	31.12.2023	31.12.2022
Balance at the beginning of the year	3,686,451	3,371,766
Additions	2,000,000	0
Paid interest	(164,833)	(164,833)
Paid interests due to indexation	(58,171)	(39,421)
Accrued interests and indexation	529,637	518,940
Total	5,993,084	3,686,451

36. Short positions held for trading

Short positions held for trading are specified as follows:

	31.12.2023	31.12.2022
Listed government bonds and bonds with government guarantees	60,081	970,178
Listed bonds	71,664	515,929
Total	131,745	1,486,107

37. Short positions used for hedging

Short positions used for hedging are specified as follows:

	31.12.2023	31.12.2022
Listed government bonds and bonds with government guarantees	4,230	1,343,186
Total	4,230	1,343,186

38. Other liabilities

Other liabilities are specified as follows:

	31.12.2023	31.12.2022*
Accounts payable and accrued expenses	9,326,840	2,116,731
Unsettled transactions	2,396,243	1,970,758
Lease liability	1,510,333	1,827,582
Salaries and salary related expenses	1,136,312	1,265,867
Withholding taxes	1,130,048	781,845
Special taxes on financial institutions and financial activities	304,045	494,455
Contingent consideration	404,762	373,715
Insurance contracts for life-insurance policies where investment risk is borne by policyholders	0	121,906
Expected credit loss allowance for loan commitments, guarantees and unused credit facilities	15,673	12,935
Other liabilities	369,737	772,743
Total	16,593,993	9,738,535

** Comparative information has been restated, reference is made to note 3 for further information.*

Lease liability is specified as follows:

	31.12.2023	31.12.2022
Lease liability as at 1 January	1,827,582	1,041,121
Additions during the period	0	1,054,121
Termination of lease agreements	0	(14,428)
Currency adjustments	4,639	7,554
Instalment	(424,085)	(410,412)
Indexation	102,198	149,626
Total	1,510,333	1,827,582

Notes to the Consolidated Financial Statements

39. Share capital

a. Share capital

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

	31.12.2023	31.12.2022
Share capital according to the Bank's Articles of Association	4,781,026	4,928,897
Nominal amount of treasury shares	58,952	147,871
Authorised but not issued shares	310,000	310,000

b. Changes made to the nominal amount of share capital

During the year 2023 the Bank's share capital was decreased by ISK 148 million in nominal value following a resolution by the AGM to cancel treasury shares. Furthermore, during the year, the Bank has acquired treasury shares amounting to ISK 59 million in nominal value as a result of a share buy-back plan.

c. Share capital increase authorisations

According to the Bank's Articles of Association dated 30 March 2023, the Board of Directors is authorised to increase the share capital as follows:

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

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

40. 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 calculated as the solvency ratio of a financial conglomerate. The Group furthermore calculates the consolidated capital adequacy ratio for entities not belonging to the insurance sector by excluding the insurance activities from calculation of risk weighted exposures and capital base. The Group similarly calculates the solvency ratio of entities solely belonging to the insurance sector. In 2023, the Group introduced a change in treatment of deductions from capital base due to significant holdings in financial institutions and deferred tax assets. The calculations now take into account article 48 of the Capital Requirements Regulation no. 575/2013 of the EU.

Solvency measures the Group's ability to take on setbacks, thus indicating its financial strength. The available capital and capital requirements of the Group is calculated as a financial conglomerate according to Articles 16, 17 and 18 of Act on Additional Supervision of Financial Conglomerates No. 61/2017. The Group's solvency ratio is 1.25, with a regulatory minimum requirement of 1.0.

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

	31.12.2023	31.12.2022
Available capital		
Own Funds eligible for non insurance activities	39,117,918	32,456,104
Own Funds eligible for insurance activities	14,754,678	13,094,779
Deduction from own funds not eligible	(3,687,860)	0
Total	50,184,737	45,550,883
Solvency requirement for insurance activities		
Solvency Capital Requirements (SCR)	9,622,063	8,772,791
Own funds requirement for non insurance activities		
Statutory minimum capital requirement (Pillar I)	13,826,577	11,037,600
Additional capital requirements (Pillar II)	6,913,288	4,828,950
Minimum capital requirement for non insurance activities	20,739,865	15,866,550
Additional capital protection buffers	11,579,758	8,830,080
Adjustments to capital requirements in conglomerate	(1,724,074)	0
Total	30,595,549	24,696,631
Solvency	50,184,737	45,550,883
Solvency requirement (SCR)	9,622,063	8,772,791
Own funds requirement for non insurance activities	30,595,549	24,696,631
Minimum solvency of financial conglomerate	40,217,612	33,469,422
Solvency ratio	1.25	1.36

Notes to the Consolidated Financial Statements

41. Capital adequacy ratio (CAR)

The capital adequacy ratio of the Group, excluding entities which belong to the insurance sector, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 22.6%. The minimum requirement from the FME is 12.0%. The ratio is calculated as follows:

Own funds eligible for non insurance activities	**31.12.2023**	**31.12.2022***
Total equity	81,957,804	81,089,180
Expected dividends and buy-back according to dividend policy	(1,004,626)	(1,912,410)
Capital eligible as CET1 Capital	80,953,178	79,176,769
Goodwill and intangibles	(29,040,706)	(28,380,760)
Shares in other financial institutions	(16,420,475)	(18,728,749)
Deferred tax asset	(1,559,045)	(3,232,933)
Common equity Tier 1 capital (CET 1)	33,932,952	28,834,327
Tier 2 capital	5,915,278	3,621,777
Deductions from Tier 2 capital	(730,312)	0
Total own funds	39,117,918	32,456,104
Risk weighted exposures		
Credit risk	142,648,209	109,104,748
Market risk	3,082,235	4,091,761
Operational risk	27,101,765	24,773,495
Total risk weighted exposures	172,832,209	137,970,004
Capital ratios		
Capital adequacy ratio (CAR)	22.6%	23.5%
CET1 ratio	19.6%	20.9%
Minimum Capital adequacy ratio requirement	12.0%	11.5%
Minimum Capital adequacy ratio requirement including supervisory buffers	18.7%	17.9%
Minimum CET 1 ratio requirement including supervisory buffers	13.5%	12.9%

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

Minimum capital requirement is based on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is reviewed by the FME through the Supervisory Review and Evaluation Process (SREP). The Bank's minimum regulatory capital requirement, based on SREP from 2023 is 12.0%. The minimum regulatory capital requirement including the additional capital buffers is 18.7% as at 31 December 2023.

TM tryggingar hf. has been classified as a disposal group held for sale and as a discontinued operation. This does not affect the Group‘s capital adequacy calculation. Nonetheless, assuming a cash sale of the subsidiary, the Bank’s capital would increase. To what extent the capital adequacy ratio would increase depends on the sale price and whether the company will be sold in part or in full.

** Comparative information has been restated, reference is made to note 3 for further information.*

Notes to the Consolidated Financial Statements

42. Solvency of insurance activities

The Group calculates solvency capital and capital requirements for entities which belong to the insurance sector. The available capital and required capital is calculated in accordance with Articles 88 and 96 of the Act on Insurance Activity No. 100/2016. This brings the solvency ratio for entities which belong to the insurance sector to 1.53. Solvency capital requirements according to law is the minimum insurance companies have to meet.

	31.12.2023	31.12.2022*
Own funds eligible for insurance activities solvency		
Equity eligible for insurance activities	19,811,796	18,268,799
Goodwill and intangibles	(5,527,999)	(5,699,140)
Difference between net technical provision in the financial statements and solvency rules	470,881	525,120
Total	14,754,678	13,094,779
Solvency requirement		
Life insurance risk	536,675	425,729
Health insurance risk	1,656,139	1,475,602
Non-life insurance risk	6,108,228	5,484,355
Market risk	5,770,238	5,336,721
Counterparty default risk	1,169,357	1,117,766
Multifaceted effects	(4,695,651)	(4,229,553)
Base Solvency Capital Requirements (Basic SCR)	10,544,986	9,610,620
Operational risk	754,058	680,934
Adjustment for the loss-absorbing capacity of deferred taxes	(1,676,980)	(1,518,763)
Solvency Capital Requirements (SCR)	9,622,063	8,772,791
Solvency	14,754,678	13,094,779
Solvency requirement (SCR)	9,622,063	8,772,791
Solvency ratio after dividend	1.53	1.49
Eligible items to meet the minimum capital	14,754,678	13,094,779
Minimum required capital (MRC)	4,520,510	4,057,090
Minimum required capital ratio after dividend	3.26	3.23

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

** Comparative information has been restated, reference is made to note 3 for further information.*

43. Leverage ratio

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

	31.12.2023	31.12.2022
On-balance sheet exposures	243,721,442	226,245,821
Derivative exposures	1,187,911	471,815
Off - balance sheet exposures	210,534	260,296
Total exposure	245,119,887	226,977,932
Tier 1 capital	33,932,952	28,834,327
Leverage Ratio	13.8%	12.7%

Notes to the Consolidated Financial Statements

Risk management

44. Risk management framework

a. Board of Directors

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

b. Board of Directors sub-committees

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

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

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

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

c. CEO and the Executive Committee

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

The Executive Committee manages and supervises, as decided by the CEO, the day-to-day operations of Kvika in accordance with the policy formulated by the Bank's BOD in collaboration with the CEO.

Furthermore, the CEO has established four committees within the Bank, which are, along with the Bank’s Executive Committee, responsible for developing and monitoring risk management policies in specified areas across the divisions.

d. Committees

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

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

The Credit Committee carries out matters assigned to the committee according to the Bank’s credit rules, approved by the Board of Directors, and reviews the reports submitted to the Board of Directors according to the credit rules. The credit rules define the authority of the Credit Committee when it comes to granting credit facilities and the purchase and sale of investment property as applicable.

The Operations Committee is responsible for increasing efficiency in the Bank’s operations and reducing operational risks, as well as ensuring that safety issues concerning e.g. Kvika’s housing, operational security of IT systems, security of personal information and security in the transport of valuables are up to standards.

The Sustainability Committee oversees and is responsible for the enforcement of Kvika’s sustainability strategy, approved by Kvika’s Board of Directors. The strategy includes a common vision of an approach to sustainability within the Group, to be a responsible participant in the society, consider the future, and promote a sustainable society. The committee supervises the development of sustainability on a consolidated basis and that the Bank’s sustainability goals are achieved.

e. Risk management

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

Notes to the Consolidated Financial Statements

44. Risk management framework (cont.)

f. Compliance Officer

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

g. Internal Audit

The internal audit activity of Kvika bank hf. operates according to Article 16 on the Act on financial companies no. 161/2002 and guiding recommendations of the Financial Supervisory Authority of the Central Bank of Iceland regarding the work of the audit activity of financial companies no. 3/2008. In addition to the terms of the audit charter, international IPPF standards on internal auditing apply to the department's activities. Kvika's internal audit activity is organisationally independent and the internal auditor is has a position accordingly in the organizational chart. In accordance with the internal auditor's charter, he also has direct and unrestricted access to the board and managers of the Bank and its subsidiaries. Kvika's internal audit activity must provide independent and objective confirmation and consulting services on the Bank's activities on a consolidated basis, aimed at increasing its value. The department's activities assess and improve the effectiveness of risk management, control methods and governance through a systematic and disciplined way, thus contributing to Kvika's group achieving its key goals. The director of internal audit (internal auditor) is responsible for effectively managing the internal audit activity in accordance with the audit charter and the IPPF standards.

45. Hedging

Securities held as a hedge against derivatives positions of customers make up a part of the Group's portfolio of assets. The Group hedges currency exposure between the Group's asset portfolio and its liabilities to the extent possible as part of managing its balance and keeping it within approved limits. The Group applies hedge accounting according to IAS 39 against translation of foreign operations. Currency swap agreements are used as a hedge instrument against translation difference arising from foreign operations.

46. Credit risk - overview

a. Definition

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

b. Management

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

c. Credit approval process

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

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

d. Collateral

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

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

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

e. Credit rating, control and provisioning

The risk management unit is responsible for credit rating and reviewing the loan portfolio.
The Group monitors the value of collateral by listed securities on a real time basis and takes prompt action when necessary.

f. Loan portfolio management

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

Notes to the Consolidated Financial Statements

46. Credit risk - overview (cont.)

g. Impairment

Provisioning for loan impairments is estimated on the basis of expected loss models assessing the portfolio as a whole as well as individual lending. Risk management suggest a level of provisioning for the portfolio, based on the expected loss assessment. Risk management reassess impairments in the event of collateral decay, delayed payments, indication of increased risk, or other early warning signs. Provisions require approval from the credit committee. Refer to note 84 in the financial statements for more information on the Group's impairment policy.

h. Derivatives

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

i. Securities used for hedging

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

Notes to the Consolidated Financial Statements

47. Maximum exposure to credit risk

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

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

31.12.2022* On-balance sheet exposure	Public entities	Financial institutions	Corporate customers	Individuals	31.12.2022
Cash and balances with Central Bank	29,279,085	7,391,501			36,670,586
Fixed income securities	54,989,042	5,309,011	4,862,354		65,160,407
Loans to customers	15,103		69,139,761	37,984,363	107,139,227
Derivatives		3,955,424	917,391	67,923	4,940,738
Other assets	1,013,523	1,432,807	7,793,876	66,701	10,306,907
	85,296,753	18,088,743	82,713,382	38,118,988	224,217,865
Off-balance sheet exposure					
Loan commitments			1,955,620	725,755	2,681,375
Financial guarantee contracts			261,861		261,861
Maximum exposure to credit risk	85,296,753	18,088,743	84,930,863	38,844,743	227,161,102

** Comparative information has been restated, reference is made to note 3 for further information.*

48. Credit quality of financial assets

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

The following table shows the first 12 month macro economic values for the variables used in the expected credit loss model. The Group utilises an economic forecast which is aligned with requirements for the calculation of expected credit loss. Following the Group's acquisition of Ortus Secured Finance ltd., the Group owns loan portfolios in two geographical segments, i.e. Iceland and the United Kingdom ("UK"). In general, the Group utilises the same ECL methodology for the portfolios in both segments, although in the UK it is to a larger extent based on an individual assessment by credit specialists. Reference is made to note 84 for further information about the Group's impairment methodology.

		Scenarios	
Model parameters 31.12.2023	**Base**	**Upside**	**Downside**
Unemployment rate	4.8%	4.4%	5.0%
Inflation CPI index	5.7%	6.0%	6.7%
Assigned weight	60.0%	10.0%	30.0%

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

Notes to the Consolidated Financial Statements

48. Credit quality of financial assets (cont.)

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

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

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

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

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

Notes to the Consolidated Financial Statements

48. Credit quality of financial assets (cont.)

b. Credit quality of financial assets by credit quality band

The following tables show financial assets subject to the impairment requirements of IFRS 9 broken down by credit quality bands where band i denotes the lowest and band iv the highest credit risk. Assets measured at fair value through profit or loss are not subject to the stage classification requirements of IFRS 9 but are nevertheless included in the tables in order to give a more complete picture of the credit quality of loans to customers and reconcile the tables to the carrying amount on the balance sheet. The Bank has primarily used adjusted external credit ratings to assess the default probability of its customers and some larger borrowers are furthermore individually assessed by credit specialists. In year-end 2023 the Bank implemented it's own credit rating models for part of the loan portfolio and the Bank has intention to maintain this development in 2024.

31.12.2023

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

Loan commitments, guarantees and unused credit facilities:	Stage 1	Stage 2	Stage 3	FVTPL	Total
Credit quality band I	3,773,821	0			3,773,821
Credit quality band II	920,679	1,211			921,890
Credit quality band III	586,052	41,972			628,024
Credit quality band IV	3,407	1,594			5,002
In default	351	1	87,855		88,207
Non-rated	0				0
Total off-balance sheet amount	5,284,311	44,778	87,855	0	5,416,944
Expected credit loss	(13,897)	(538)	(1,253)		(15,688)
Net off-balance sheet amount	5,270,413	44,241	86,602	0	5,401,256

31.12.2022

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

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

Notes to the Consolidated Financial Statements

48. Credit quality of financial assets (cont.)

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

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

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

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

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

31.12.2023

Expected credit loss allowance total

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2023	269,605	256,810	2,139,852	2,666,267
Transfer to Stage 1 - (Initial recognition)	67,581	(51,505)	(16,076)	0
Transfer to Stage 2 - (significantly increased credit risk)	(10,766)	17,183	(6,416)	0
Transfer to Stage 3 - (credit impaired)	(32,752)	(70,485)	103,237	0
Net remeasurement of loss allowance	(93,507)	3,002	840,190	749,685
New financial assets, originated or purchased	284,314	84,645	655,505	1,024,464
Derecognitions and maturities	(102,625)	(111,119)	(881,568)	(1,095,312)
Write-offs	(57)	(471)	(1,110,229)	(1,110,757)
Balance as at 31 December 2023	381,793	128,058	1,724,497	2,234,348

Expected credit loss allowance for loans to customers

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers of financial assets:				
Balance as at 1 January 2023	258,197	255,541	2,139,595	2,653,333
Transfer to Stage 1 - (Initial recognition)	67,521	(51,445)	(16,076)	0
Transfer to Stage 2 - (significantly increased credit risk)	(10,685)	17,102	(6,416)	0
Transfer to Stage 3 - (credit impaired)	(32,750)	(69,985)	102,736	0
Net remeasurement of loss allowance	(91,795)	2,716	840,191	751,112
New financial assets, originated or purchased	278,426	84,474	654,771	1,017,672
Derecognitions and maturities	(100,961)	(110,411)	(881,328)	(1,092,700)
Write-offs	(57)	(471)	(1,110,229)	(1,110,757)
Balance as at 31 December 2023	367,895	127,520	1,723,244	2,218,660

Notes to the Consolidated Financial Statements

48. 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 2023	11,408	1,269	258	12,935
Transfer to Stage 1 - (Initial recognition)	61	(61)		0
Transfer to Stage 2 - (significantly increased credit risk)	(81)	81		0
Transfer to Stage 3 - (credit impaired)	(2)	(500)	502	0
Net remeasurement of loss allowance	(1,712)	286	(1)	(1,427)
New financial assets, originated or purchased	5,888	171	734	6,792
Derecognitions and maturities	(1,664)	(708)	(239)	(2,611)
Balance as at 31 December 2023	13,897	538	1,253	15,688

31.12.2022

Expected credit loss allowance total

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

Expected credit loss allowance for loans to customers

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

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

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

Notes to the Consolidated Financial Statements

49. Loan-to-value

a. General

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

b. Breakdown

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

	31.12.2023	%	31.12.2022	%
Less than 50%	40,343,153	29.6%	29,001,396	27.1%
51-70%	43,106,020	31.6%	36,654,281	34.2%
71-90%	37,703,829	27.7%	22,168,930	20.7%
91-100%	2,996,007	2.2%	3,027,670	2.8%
100-125%	2,390,159	1.8%	3,880,228	3.6%
125-200%	726,535	0.5%	511,406	0.5%
Greater than 200%	493,460	0.4%	2,704,141	2.5%
No or negligible collateral:				
Other loans with no collateral	8,564,319	6.3%	9,191,175	8.6%
Total	136,323,481	100.0%	107,139,227	100.0%

50. Collateral against exposures to derivatives

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

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

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

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

51. Large exposures

In accordance with regulation no. 575/2013 of the European Union on prudential requirements for credit institutions, which was incorporated into Icelandic law with Act No. 38/2022, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the financial institution's Tier 1 capital (see note 41).

According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the eligible Tier 1 capital. Based on Icelandic rules no. 789/2022 on the Application of Optional Provisions and Authorisations Pursuant to the Act on Financial Undertakings, the value of exposures towards financial institutions shall not exceed 25% of the eligible Tier 1 capital or 10 bn. ISK, whichever is higher. Single large exposures net of risk adjusted mitigation take into account the effects of collateral and other credit enhancements held by the financial institution, and other credit enhancements, in accordance with regulation no. 575/2013.

		31.12.2023		31.12.2022
Large exposures before risk adjusted mitigation	Number	Amount	Number	Amount
10-20% of capital base	3	12,343,465	2	7,009,093
20-25% of capital base	0	0	0	0
Exceeding 25% of capital base	0	0	0	0
Total	3	12,343,465	2	7,009,093
Large exposures net of risk adjusted mitigation	1	4,002,353	1	2,980,320

Notes to the Consolidated Financial Statements

52. Liquidity risk

a. Definition

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

b. Management

Liquidity is managed by treasury and monitored by risk management. Liquidity position is reported to the ALCO committee. The Central Bank of Iceland sets minimum requirements for the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The minimum 30 day LCR regulatory requirement is 100% for LCR total, 50% minimum requirement for LCR in ISK and 80% minimum requirement for LCR in EUR. The minimum requirement for LCR EUR only applies when the Group's commitments in EUR represent 10% or more of the Group´s total commitments. The minimum regulatory requirement for NSFR total is 100%.

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

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

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

	31.12.2023	**31.12.2022**
NSFR total	141%	140%

Notes to the Consolidated Financial Statements

52. Liquidity risk (cont.)

c. Maturity analysis of financial assets and financial liabilities

31.12.2023 **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	23,681,967					23,681,967	23,681,453
Fixed income securities	20,151,355	1,974,339	21,340,000	18,908,801	2,602,910	64,977,406	64,977,406
Shares and other variable income securities	1,222,894	411,609	2,222,977			3,857,480	3,857,480
Securities used for hedging	16,852,313					16,852,313	16,852,313
Loans to customers	7,839,447	10,674,108	47,315,427	90,723,103	6,895,531	163,447,617	136,323,481
Other assets	3,794,043	4,265,609	820,319	200,175		9,080,146	10,401,128
	73,542,019	17,325,666	71,698,723	109,832,080	9,498,441	281,896,929	256,093,262
Derivative assets							
Inflow	8,779,563	12,775,096	6,974,032	58,519		28,587,210	
Outflow	(7,921,683)	(12,310,694)	(5,856,054)	(902)		(26,089,333)	
	857,879	464,402	1,117,978	57,617	0	2,497,877	2,497,877
Financial liabilities by type	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Gross inflow/ (outflow)**	**Carrying amount**
Non-derivative liabilities							
Deposits	(115,974,426)	(8,335,449)	(5,646,547)	(4,284,193)	(384,513)	(134,625,128)	133,772,941
Borrowings	(8,681,044)	(430,722)	(2,684,014)	(19,142,369)		(30,938,148)	23,817,062
Issued bonds	(109,333)	(6,881,308)	(9,407,820)	(32,874,868)	(2,457,149)	(51,730,478)	45,715,427
Subordinated liabilities			(354,804)	(2,465,385)	(8,399,596)	(11,219,785)	5,993,084
Short positions held for trading	(71,664)				(60,081)	(131,745)	131,745
Short positions used for hedging					(4,230)	(4,230)	4,230
Other liabilities	(3,308,385)	(11,197,785)	(1,652,495)	(492,619)		(16,651,283)	16,593,993
	(128,144,851)	(26,845,264)	(19,745,680)	(59,259,434)	(11,305,569)	(245,300,798)	226,028,482
Derivative liabilities							
Inflow	15,157,017	1,721,575	4,653,591			21,532,182	
Outflow	(16,222,964)	(1,759,667)	(4,886,823)	(859,631)		(23,729,086)	
	(1,065,948)	(38,092)	(233,233)	(859,631)	0	(2,196,904)	2,196,904
Unrecognised financial items							
Loan commitments							
Inflow	211,062	61,502	1,464,611	4,579,989	140,836	6,458,000	
Outflow	(5,205,004)					(5,205,004)	
Financial guarantee contracts							
Inflow			163,896	40,976	7,068	211,940	
Outflow	(211,940)					(211,940)	
	(5,205,882)	61,502	1,628,507	4,620,965	147,905	1,252,996	
Summary							
Non-derivative assets	73,542,019	17,325,666	71,698,723	109,832,080	9,498,441	281,896,929	
Derivative assets	857,879	464,402	1,117,978	57,617		2,497,877	
Non-derivative liabilities	(128,144,851)	(26,845,264)	(19,745,680)	(59,259,434)	(11,305,569)	(245,300,798)	
Derivative liabilities	(1,065,948)	(38,092)	(233,233)	(859,631)		(2,196,904)	
Net assets (liabilities) excluding unrecognised items	(54,810,901)	(9,093,288)	52,837,788	49,770,632	(1,807,128)	36,897,103	
Net unrecognised items	(5,205,882)	61,502	1,628,507	4,620,965	147,905	1,252,996	
Net assets (liabilities)	(60,016,783)	(9,031,786)	54,466,295	54,391,597	(1,659,223)	38,150,099	

Notes to the Consolidated Financial Statements

52. Liquidity risk (cont.)

31.12.2022* **Financial assets by type**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Gross inflow/ (outflow)**	**Carrying amount**
Non-derivative assets							
Cash and balances with Central Bank	34,556,826	2,121,760				36,678,586	36,670,586
Fixed income securities	14,752,525	27,873,149	3,907,528	18,627,205		65,160,407	65,160,407
Shares and other variable income securities	11,424,516	2,702,765	5,283,228			19,410,508	19,410,508
Securities used for hedging	13,841,853					13,841,853	13,841,853
Loans to customers	7,224,508	8,148,187	32,600,452	73,801,224	6,773,201	128,547,573	107,139,227
Reinsurance contract assets	46,290	63,319	294,148	214,844	72,638	691,239	691,239
Other assets	5,276,555	2,883,802	1,990,869	33,776	121,906	10,306,907	11,883,489
	87,123,073	43,792,982	44,076,226	92,677,048	6,967,745	274,637,074	254,797,310
Derivative assets							
Inflow	25,202,434	2,962,372	6,485,242	2,981,751		37,631,799	
Outflow	(22,308,183)	(2,829,323)	(5,401,381)	(2,215,601)		(32,754,488)	
	2,894,251	133,049	1,083,861	766,150	0	4,877,311	4,940,738

Financial liabilities by type	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Gross inflow/ (outflow)**	**Carrying amount**
Non-derivative liabilities							
Deposits	(94,506,439)	(8,882,306)	(5,198,432)	(4,121,200)	(225,740)	(112,934,118)	112,245,198
Insurance contract liabilities	(2,132,094)	(2,388,608)	(7,185,201)	(9,631,606)	(1,231,551)	(22,569,060)	21,101,090
Borrowings	(6,725,800)	(2,647,846)	(1,735,135)	(18,759,487)		(29,868,267)	28,120,009
Issued bonds	(315,021)	(3,088,061)	(11,577,901)	(24,716,516)	(2,320,710)	(42,018,209)	38,103,414
Subordinated liabilities			(212,271)	(916,053)	(6,571,430)	(7,699,754)	3,686,451
Short positions held for trading	(1,486,107)					(1,486,107)	1,486,107
Short positions used for hedging	(1,343,186)					(1,343,186)	1,343,186
Other liabilities	(3,344,393)	(3,584,999)	(2,188,492)	(527,067)	(121,906)	(9,766,858)	9,738,535
	(109,853,041)	(20,591,820)	(28,097,433)	(58,671,929)	(10,471,336)	(227,685,559)	215,823,990
Derivative liabilities							
Inflow	(123,731)	1,629,989	3,340,763	6,866,708		11,713,728	
Outflow	(526,350)	(1,761,200)	(3,394,813)	(7,649,561)		(13,331,924)	
	(650,081)	(131,212)	(54,050)	(782,853)	0	(1,618,196)	1,609,537
Unrecognised financial items by type							
Loan commitments							
Inflow	192,918	247,571	1,188,493	1,284,906		2,913,888	
Outflow	(2,681,375)					(2,681,375)	
Financial guarantee contracts							
Inflow		5,800	87,750	102,186	66,126	261,861	
Outflow	(261,861)					(261,861)	
	(2,750,318)	253,371	1,276,243	1,387,091	66,126	232,513	
Summary							
Non-derivative assets	87,123,073	43,792,982	44,076,226	92,677,048	6,967,745	274,637,074	
Derivative assets	2,894,251	133,049	1,083,861	766,150		4,877,311	
Non-derivative liabilities	(109,853,041)	(20,591,820)	(28,097,433)	(58,671,929)	(10,471,336)	(227,685,559)	
Derivative liabilities	(650,081)	(131,212)	(54,050)	(782,853)		(1,618,196)	
Net assets (liabilities) excluding unrecognised items	(20,485,798)	23,202,999	17,008,605	33,988,415	(3,503,591)	50,210,630	
Net unrecognised items	(2,750,318)	253,371	1,276,243	1,387,091	66,126	232,513	
Net assets (liabilities)	(23,236,116)	23,456,371	18,284,848	35,375,506	(3,437,466)	50,443,143	

** Comparative information has been restated, reference is made to note 3 for further information.*

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

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

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

Notes to the Consolidated Financial Statements

53. 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 54-59 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.

54. 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.

55. Interest rate risk associated with trading portfolios

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

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

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

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

	Shift in basis points	31.12.2023 Downward	31.12.2023 Upward	31.12.2022 Downward	31.12.2022 Upward
Indexed	50	25,032	(24,632)	17,328	(17,206)
Non-indexed	100	41,408	(39,687)	(65,251)	54,360
Total		66,440	(64,319)	(47,923)	37,154

Notes to the Consolidated Financial Statements

56. Interest rate risk associated with non-trading portfolios

a. Breakdown

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

31.12.2023

Financial assets	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash and balances with Central Bank	23,681,453					23,681,453
Fixed income securities	13,234,607	2,813,780	22,531,739	18,795,625	3,172,359	60,548,110
Loans to customers	118,422,687	5,472,017	5,631,528	6,488,964	308,287	136,323,481
Financial assets excluding derivatives	155,338,747	8,285,797	28,163,267	25,284,589	3,480,645	220,553,045
Effect of derivatives	24,309,020	33,360,561	13,512,749	945,276	803,219	72,930,826
Total	179,647,767	41,646,358	41,676,016	26,229,865	4,283,865	293,483,870

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits	116,363,448	8,209,284	5,187,702	3,827,784	184,724	133,772,941
Borrowings	24,813,614	82,084	43,157	3,108		24,941,963
Issued bonds	7,093,090	29,547,945	184,841	6,664,263	2,225,289	45,715,427
Subordinated liabilities			341,008	2,071,885	3,580,191	5,993,084
Financial liabilities excluding derivatives	148,270,151	37,839,312	5,756,708	12,567,040	5,990,203	210,423,415
Effect of derivatives	26,099,269	21,434,697	11,957,255			59,491,221
Total	174,369,421	59,274,009	17,713,963	12,567,040	5,990,203	269,914,636
Total interest repricing gap	5,278,346	(17,627,651)	23,962,053	13,662,825	(1,706,339)	23,569,235

31.12.2022

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

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

b. Sensitivity analysis

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

	Shift in		**31.12.2023**		**31.12.2022**
Currency	**basis points**	**Downward**	**Upward**	**Downward**	**Upward**
ISK, indexed	50	(245,435)	228,724	(102,436)	90,744
ISK, non-indexed	100	396,558	(385,418)	322,905	(313,948)
Other currencies	20	1,223	(1,215)	28,068	(27,866)
Total		152,346	(157,909)	248,537	(251,070)

Notes to the Consolidated Financial Statements

57. Exposure towards changes in the CPI

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

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

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

c. Balance of CPI linked assets and liabilities

	31.12.2023	**31.12.2022**
Assets	34,860,451	30,670,431
Liabilities	(23,177,052)	(19,761,019)
Total	11,683,398	10,909,412

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

	31.12.2023		**31.12.2022**	
	-1%	1%	-1%	1%
Government bonds	(58,667)	58,667	(74,357)	74,357
Other fixed income securities	(21,561)	21,561	(42,622)	42,622
Loans to customers	(236,126)	236,126	(95,730)	95,730
Derivatives	(32,251)	32,251	(93,995)	93,995
Short positions	683	(683)	4,064	(4,064)
Deposits	81,464	(81,464)	73,605	(73,605)
Issued bonds	89,710	(89,710)	83,077	(83,077)
Subordinated liabilities	59,913	(59,913)	36,865	(36,865)
	(116,834)	116,834	(109,094)	109,094

The effect on equity would be the same.

58. Currency risk

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

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

The Group is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 31 December 2023 and 31 December 2022 the Group's position in foreign currencies was within those limits.

c. Hedge accounting
The Group applies hedge accounting according to IAS 39 against translation of foreign operations. Currency swap agreements are used as a hedge instrument against translation difference arising from foreign operations.

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

	Closing 31.12.2023	**Average 2023**	**Closing 31.12.2022**	**Average 2022**
EUR/ISK	150.5	149.2	151.5	140.9
USD/ISK	136.2	137.9	142.0	132.5
GBP/ISK	173.2	171.5	170.8	166.4

Notes to the Consolidated Financial Statements

58. Currency risk (cont.)

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

31.12.2023

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

Financial liabilities	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Deposits	2,286,689	7,057,779	756,682	28,189	281,357	10,410,697
Borrowings	122,840	830,698	14,816,743			15,770,282
Issued bonds	1,292,489		1,990,376	15,220,348	10,837,164	29,340,377
Insurance contract liabilities						0
Other liabilities	527,123	669,394	803,960	5	4,616	2,005,098
Financial liabilities excluding derivatives	4,229,142	8,557,872	18,367,762	15,248,542	11,123,136	57,526,454
Derivatives	15,861,328	10,352,601	22,199,121	1,692,775	105,127	50,210,951
Total	20,090,469	18,910,472	40,566,883	16,941,318	11,228,263	107,737,405

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

31.12.2022*

Financial assets	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Cash and balances with Central Bank	374,239	2,088,077	2,898,400	65,546	427,832	5,854,094
Fixed income securities	0	3,080,348				3,080,348
Shares and other variable income securities	217	2,543,043	1,201,003	28,692	88,988	3,861,943
Securities used for hedging	290,170	195,634	887	16,111	78,795	581,598
Loans to customers	1,359,546		28,619,678		69,092	30,048,316
Intangible assets			2,611,243			2,611,243
Other assets	690,326	774,579	794,141	30	12,036	2,271,112
Financial assets excluding derivatives	2,714,498	8,681,681	36,125,352	110,379	676,742	48,308,653
Derivatives	7,720,865	3,154,406	1,252	6,866,708	127,232	17,870,463
Total	10,435,363	11,836,088	36,126,604	6,977,087	803,974	66,179,115

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

Net currency position	**EUR**	**USD**	**GBP**	**SEK**	**Other currencies**	**Total**
Financial assets	10,435,363	11,836,088	36,126,604	6,977,087	803,974	66,179,115
Financial liabilities	(10,956,393)	(9,986,534)	(36,823,965)	(7,074,245)	(744,701)	(65,585,838)
Financial guarantee contracts	119,564					119,564
Total	(401,465)	1,849,553	(697,361)	(97,159)	59,273	712,841

** Comparative information has been restated, reference is made to note 3 for further information.*

Notes to the Consolidated Financial Statements

58. Currency risk (cont.)

f. Sensitivity to currency risk

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

	31.12.2023		31.12.2022	
Assets and liabilities denominated in foreign currencies	**-10%**	**+10%**	**-10%**	**+10%**
EUR	9,769	(9,769)	(40,147)	40,147
USD	3,532	(3,532)	184,955	(184,955)
GBP	(31,337)	31,337	(69,736)	69,736
SEK	6,038	(6,038)	(9,716)	9,716
Other currencies	(5,230)	5,230	5,927	(5,927)
Total	(17,228)	17,228	71,284	(71,284)

59. Equity risk

a. Definition

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

b. Sensitivity analysis of equity risk

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

	31.12.2023		31.12.2022	
	-10%	**+10%**	**-10%**	**+10%**
Listed shares	(51,270)	51,270	(487,926)	487,926
Unlisted shares	(202,767)	202,767	(732,521)	732,521
Unlisted unit shares in funds	(131,710)	131,710	(720,604)	720,604
Total	(385,748)	385,748	(1,941,051)	1,941,051

60. Operational risk

a. Definition

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

b. Management

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

Notes to the Consolidated Financial Statements

Financial assets and financial liabilities

61. Accounting classification of financial assets and financial liabilities

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

31.12.2023 **Financial assets**	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Cash and balances with Central Bank	23,681,453			23,681,453
Fixed income securities		61,293,556	3,683,849	64,977,406
Shares and other variable income securities			3,857,480	3,857,480
Securities used for hedging			16,852,313	16,852,313
Loans to customers	135,641,049		682,433	136,323,481
Derivatives			2,497,877	2,497,877
Other assets	10,401,128			10,401,128
Total	169,723,630	61,293,556	27,573,952	258,591,138

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	133,772,941			133,772,941
Borrowings	23,817,062			23,817,062
Issued bonds	45,715,427			45,715,427
Subordinated liabilities	5,993,084			5,993,084
Short positions held for trading			131,745	131,745
Short positions used for hedging			4,230	4,230
Derivatives			2,044,723	2,044,723
Derivatives used for hedge accounting		152,182		152,182
Other liabilities	16,189,231		404,762	16,593,993
Total	225,487,745	152,182	2,585,460	228,225,386

31.12.2022* **Financial assets**	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Cash and balances with Central Bank	36,670,586			36,670,586
Fixed income securities		54,934,612	10,225,796	65,160,407
Shares and other variable income securities			19,410,508	19,410,508
Securities used for hedging			13,841,853	13,841,853
Loans to customers	105,928,837		1,210,390	107,139,227
Derivatives			4,940,738	4,940,738
Other assets	11,883,489			11,883,489
Total	154,482,912	54,934,612	49,629,285	259,046,809

Financial liabilities	**Amortised cost**	**Fair value through OCI**	**Manda-torily at fair value through P/L**	**Total carrying amount**
Deposits	112,245,198			112,245,198
Borrowings	28,120,009			28,120,009
Issued bonds	38,103,414			38,103,414
Subordinated liabilities	3,686,451			3,686,451
Short positions held for trading			1,486,107	1,486,107
Short positions used for hedging			1,343,186	1,343,186
Derivatives			1,609,537	1,609,537
Other liabilities	9,364,820		373,715	9,738,535
Total	191,519,893	0	4,812,545	196,332,437

** Comparative information has been restated, reference is made to note 3 for further information.*

Notes to the Consolidated Financial Statements

62. Financial assets and financial liabilities measured at fair value

a. Fair value hierarchy

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

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

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

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

b. Valuation process

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

c. Valuation techniques

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

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

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

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

Notes to the Consolidated Financial Statements

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

d. Fair value hierarchy classification

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

31.12.2023

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

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

31.12.2022

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

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

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

Notes to the Consolidated Financial Statements

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

e. Reconciliation of changes in Level 3 fair value measurements

31.12.2023	Fixed income securities	Shares and other var. income securities	Loans to customers	Other assets	Derivatives	Other liabilities	Total
Balance as at 1 January 2023	615,304	7,437,283	1,210,390	0	(691,713)	(373,715)	8,197,550
Total gains and losses in profit or loss	130,943	987,969	(21,186)		(11,159)	(31,048)	1,055,519
Additions	380,542	1,085,457	40,000		(156,759)		1,349,240
Repayments	(162,024)	0	(578,130)				(740,155)
Disposals	0	(2,246,400)					(2,246,400)
Reclassified as assets held for sale	(850,690)	(4,746,966)					(5,597,656)
Balance as at 31 December 2023	114,075	2,517,343	651,074	0	(859,631)	(404,762)	2,018,098

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

f. Fair value measurements for Level 3 financial assets

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

Asset class	Method	Significant unobservable input	Range	Book value 31.12.2023
Unlisted bonds	Expected recovery	Value of assets	0-95%	114,075
Unlisted variable income securities	Market price	Recent trades	-	2,517,343
Loans to customers	Expert model	Value of assets and collateral	-	651,074
Total				3,282,491

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

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

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

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

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

	+10%	-10%
Fixed income securities	11,407	(11,407)
Shares and other variable income securities	251,734	(251,734)
Loans to customers	65,107	(65,107)
Total	328,249	(328,249)

Notes to the Consolidated Financial Statements

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

The Group holds financial instruments which are not measured at fair value. Except for loans to customers, the Group believes that the best estimate of the fair value of these financial instruments is equal to the carrying amount at the reporting date and does therefore not report a fair value for these financial instruments. Loans to customers measured at amortised cost are classified as level 3, in the fair value hierarchy, and have a book value of ISK 135,641 million at end of December 2023. The estimated fair value of loans to customers measured at amortised cost at end of December 2023 is ISK 135,289 million.

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

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

Notes to the Consolidated Financial Statements

Other information

64. Pledged assets

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

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

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

65. Related parties

a. Definition of related parties

The Group has a related party relationship with the board members of the Bank, the CEO of the Bank and key employees (together referred to as management), associates as disclosed in note 26, shareholders with significant influence over the Bank, close family members of individuals identified as related parties and entities under the control or joint control of related parties.

b. Arm's length

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

c. Balances with related parties

31.12.2023	Assets	Liabilities
Management	5,861	77,974
Associates	0	28,639
Total	5,861	106,613

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

d. Transactions with related parties

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

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

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

66. Remuneration policy

The Board of Directors has adopted a remuneration policy at the proposal of the Remuneration Committee. The Bank's Annual General Meeting approved the Bank's current remuneration policy in March 2023. The Board of Directors will submit an updated remuneration policy for approval at the Bank's Annual General Meeting in 2024.

The remuneration policy conforms to Articles 57 a and 57 b of Act No. 161/2002 on Financial Undertakings, Act No. 2/1995 on Public Limited Companies, the Icelandic FSA's rules No. 388/2016 on Incentive Schemes and Act No. 25/2003 on Sustainable Finance Disclosure. A more detailed description of the policy can be found on the Bank's website, www.kvika.is.

Notes to the Consolidated Financial Statements

67. Incentive scheme

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

a. Description

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

b. Performance based payments through profit and loss

	2023	2022 *
	Cash	**Cash**
Non-deferred	157,334	131,456
Deferred	17,992	5,769
Salary related expenses	38,269	42,636
Total	213,595	179,861

c. On-balance sheet deferred performance based payments

	31.12.2023	31.12.2022
Deferred cash payments	37,016	72,867
Total	37,016	72,867

68. Share-based payments

a. Description

The Bank has issued share options in accordance with authorisations of its annual general meeting, the Group's remuneration policy and incentive scheme. At year end 2023, there were outstanding share options based on two separate share option plans, a general share option plan, cf. Art. 10 of Act No. 90/2003, and a share option plan based on the Bank's incentive scheme.

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

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

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

The plan was implemented on 15 December 2021 and on that date each eligible employee was offered a share option for up to ISK 1,500,000 per year the following three years, in total for up to ISK 4,500,000. Employees hired in 2022 were on 15 December 2022 offered a share option for the remaining two years according to the plan. Employees hired in 2023 were on 15 December 2023 offered a share option for the remaining last year according to the plan.

The cost of the share option agreements was calculated using the Black-Scholes calculation model and amounted to ISK 175 million for those issued in the year 2021, ISK 35 million for those issued in the year 2022 and ISK 12 million for those issued in 2023.

The stock option plan expires on 15 December 2024 and no further stock options will be entered into under the current plan. No decision has been made whether or not another general stock option plan, cf. Art. 10 of Act No. 90/2003, will be implemented.

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

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

Notes to the Consolidated Financial Statements

68. Share-based payments (cont.)

The main terms of the share options are as follows:

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

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

The main terms of the share options are as follows:

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

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

Share options	Number of shares (in ths.)	Exercise year	Exercise price (ISK)
Issued in 2021 (ISK 1,500,000) - General share option plan, cf. Art. 10 of Act No. 90/2003	16,906	2024	26.44
Issued in 2022 (ISK 1,500,000) - General share option plan. cf. Art. 10 of Act No. 90/2003	5,515	2024	20.12
Issued in 2022 - Other share options, cf. the Bank´s incentive scheme	37,971	2025	21.69
Issued in 2023 (ISK 1,500,000) - General share option plan. cf. Art. 10 of Act No. 90/2003	4,027	2024	15.27
Issued in 2023 - Other share options, cf. the Bank´s incentive scheme	5,059	2026	20.17
	69,478		

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

	Average exercise price per share	Share options (thousands)
At 1 January 2022	26.44	55,484
Granted in 2022	21.98	51,110
Forfeited in 2022	26.44	(18,495)
At 31 December 2022	23.85	88,099
Granted in 2023	18.00	9,086
Forfeited in 2023	24.81	(27,707)
At 31 December 2023	22.24	69,478
Exercisable share options at 31 December 2023		0

Notes to the Consolidated Financial Statements

69. Shareholders of the Bank

Shareholder	Country	31.12.2023 %	31.12.2022 %	Beneficial owners
Lífeyrissjóður verzlunarmanna	Iceland	9.56%	9.13%	
Lífeyrissjóður starfsmanna ríkisins A-deild	Iceland	7.89%	7.64%	
Stoðir hf.	Iceland	7.01%	6.59%	
Birta lífeyrissjóður	Iceland	6.00%	4.80%	
Gildi - lífeyrissjóður	Iceland	5.43%	4.66%	
Stapi lífeyrissjóður	Iceland	3.54%	3.07%	
Lífsverk lífeyrissjóður	Iceland	2.55%	2.43%	
Frjálsi lífeyrissjóðurinn	Iceland	2.31%	1.58%	
Almenni lífeyrissjóðurinn	Iceland	2.30%	2.23%	
Arion banki hf.	Iceland	1.92%	3.41%	
Landsbréf - Úrvalsbréf hs.	Iceland	1.83%	1.48%	Investment fund managed by Landsbréf hf.
Lífeyrissjóður starfsmanna ríkis B-deild	Iceland	1.78%	1.78%	
Stefnir - Innlend hlutabréf hs.	Iceland	1.60%	1.68%	Investment fund managed by Stefnir hf.
Fossar fjárfestingarbanki hf.	Iceland	1.45%	0.01%	
Sigla ehf.	Iceland	1.43%	1.32%	Tómas Kristjánsson (100%)
Attis ehf.	Iceland	1.40%	1.35%	Guðmundur Örn Þórðarson (100%)
Landsbankinn hf.	Iceland	1.28%	1.49%	
SNV Holding ehf.	Iceland	1.27%	1.29%	Svanhildur Nanna Vigfúsdóttir (100%)
Vanguard Emerging Markets Stock	USA	1.25%	0.83%	Investment fund managed by The Vanguard Group, Inc.
Vanguard Total International S	USA	1.21%	0.78%	Investment fund managed by The Vanguard Group, Inc.
Others, each less than 1%		35.75%	39.44%	2023: 2856, 2022: 2974
		98.77%	97.00%	
Treasury shares		1.23%	3.00%	
Total		100.00%	100.00%	

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

70. Other matters

On-site inspection by the Financial Supervisory Authority of the Central Bank

As a part of its supervisory role the FME regularly conducts on-site inspections on the Bank's operations, either theme based or circumstantial. The FME conducted such an inspection of the Bank’s anti money laundering measures in the first quarter of 2023 and the Bank received a report with draft findings towards the end of the third quarter of 2023. The draft findings indicate some deficiencies in the Bank's compliance with the relevant legal framework. When the FME issues final reports on its inspections, the findings are usually made public by the FME and, depending on the circumstances, the Bank. The Bank takes its legal obligations very seriously and has already started working on the detected findings in the draft report.

Discontinuation of merger negotiations with Íslandsbanki hf.

In June 2023 the board of directors of Kvika announced that it had decided to discontinue the merger negotiations with Íslandsbanki hf. The decision was taken in light of the events which followed the publication of a report from the FME on its inspection into the execution of the offering by the Icelandic State of a 22.5% stake in the share capital of Íslandsbanki hf. and the fact that it was decided to call for a shareholder meeting at Íslandsbanki hf., where an election for the board of directors would take place. However, it is the opinion of the board of directors of Kvika that the benefits of a merger of the companies could be significant. Kvika's board will continue to keep an eye out for opportunities in the financial market.

Tax treatment of warrants sold by the Bank

The Bank is aware of that the Iceland revenue and customs ("Skatturinn") is currently reviewing the tax treatment of warrants that the Bank sold during the years 2017 to 2019. The Iceland revenue and customs is looking into whether the warrants should be taxed as perquisites instead of as a financial instruments. Should that be the case, then the Bank would be required to pay the respective social security tax and tax on financial activity. The Bank would however be able to deduct the amount of salary related expenses, as well as the amount of the perquisites, from its tax base for the respective years in question, and thereby increase its deferred tax losses.

As the Iceland revenue and customs has not yet concluded its review, the Bank has not charged any amount to its income statement nor made any changes to the tax returns for the respective years.

71. Events after the reporting date

There are no material events after the reporting date.

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Notes to the Consolidated Financial Statements

Significant accounting policies

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

72. Basis of consolidation

a. Subsidiaries

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

b. Business combinations

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

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

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

c. Non-controlling interest

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

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

d. Fiduciary services

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

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

e. Transactions eliminated on consolidation

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

f. Structured entities

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

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

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

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

Notes to the Consolidated Financial Statements

73. Foreign currency

a. Foreign currency transactions

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

Foreign currency differences are posted as a separate line item under net financial income as disclosed in notes 8 and 76.

b. Foreign operations

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

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

74. Interest income and expense

Effective interest rate

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

Amortised cost and gross carrying amount

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

Presentation

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

75. Fee and commission income and expense

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

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

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

Notes to the Consolidated Financial Statements

76. Net financial income

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

77. Dividend income

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

78. Administrative expenses

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

79. Employee benefits

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

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

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

80. Income tax

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

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

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

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

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

Notes to the Consolidated Financial Statements

81. Financial assets and financial liabilities

a. Recognition

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

b. Classification

Financial assets

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

Financial assets at amortised cost

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

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

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

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

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

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

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

Business model assessment

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

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

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

Notes to the Consolidated Financial Statements

81. Financial assets and financial liabilities (cont.)

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

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

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

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

Derecognition

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

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

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

82. Offsetting

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

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

83. Determination of fair value

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. For further information on valuation techniques, refer to notes 62 - 63.

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

Notes to the Consolidated Financial Statements

84. Impairment

Expected Credit Loss

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

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

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

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

The general approach

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

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

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

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

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

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

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

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

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

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

Expected credit losses

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

12 month expected credit losses

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

Lifetime expected credit losses

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

Notes to the Consolidated Financial Statements

84. Impairment (cont.)

Definition of default

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

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

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

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

Probability of default and credit risk rating

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

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

Significant increase in credit risk

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

Quantitative SICR assessment

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

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

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

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

Qualitative SICR assessment

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

Notes to the Consolidated Financial Statements

84. Impairment (cont.)

Exposure at default

Lifetime definition

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

Committed facilities

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

Expected credit loss measurement

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

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

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

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

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

Forward looking probability weighted scenarios

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

85. Cash and balances with Central Bank

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

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

86. Fixed income securities

Fixed income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 81.

87. Shares and other variable income securities

Shares and other variable income securities consist of equity investments and unit shares in mutual funds. Shares and other variable income securities are initially measured at fair value and subsequently accounted for depending on their classification as discussed in note 81.

88. Securities used for hedging

Securities used for hedging consist of non-derivative financial assets that are used to hedge the Group's exposure arising from derivative contracts with customers. Securities used for hedging are measured at fair value as discussed in note 81.

Notes to the Consolidated Financial Statements

89. Loans to customers

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

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

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

90. Derivatives

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

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

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

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

91. Investments in associates

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

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

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

92. Investment properties

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

Notes to the Consolidated Financial Statements

93. Intangible assets

a. Asset categories

The Group groups intangible assets into four categories:

- Goodwill

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

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

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

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

b. Initial recognition

Intangible assets are initially recognised at cost.

c. Subsequent measurement

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

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

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

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

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

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

d. Amortisation

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

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

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

94. Operating lease assets

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

Notes to the Consolidated Financial Statements

95. Property and equipment

a. Asset categories

The Group groups tangible assets into two categories:

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

b. Initial recognition

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

c. Subsequent measurement

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

d. Subsequent cost

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

e. Depreciation

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

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

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

96. Other assets

Other assets are measured at amortised cost.

97. Deposits

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

98. Borrowings

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

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

99. Issued bills

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

100. Issued bonds

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

101. Subordinated liabilities

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

102. Short positions held for trading

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

Notes to the Consolidated Financial Statements

103. Short positions used for hedging

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

104. Other liabilities

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

105. Assets and disposal groups held for sale

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

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

106. Right of use asset and lease liability

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

107. Financial guarantees

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

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

108. Share capital

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

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

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

Notes to the Consolidated Financial Statements

109. Nature and purpose of equity reserves

a. Option reserve
The option reserve represents the cumulative charge to the income statement for options to purchase shares in the Bank granted under the Bank's Remuneration policy, which is discussed in notes 66-68.

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

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

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

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

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

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

110. Earnings per share

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

111. New standards and interpretations

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2023 and have not been applied in the preparation of these financial statements. Early adoption of new standards and amendments is not planned.

IFRS 17 Insurance Contracts
In May 2017 the International Accounting Standards Board (IASB) published IFRS 17 Insurance Contracts which includes a complete review of the requirements for accounting for companies which issue insurance contracts. The standard became effective on 1 January 2023 and replaces IFRS 4 Insurance Contracts, reference is made to note 3 for further information.

Notes to the Consolidated Financial Statements

112. Use of estimates and judgements

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

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

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

a. Fair value of financial instruments
The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques which are reviewed regularly as discussed in note 62.

b. Impairment of financial assets
As outlined in note 84, the use of estimates and judgement is an important component of the calculation of impairment losses. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Unforeseen events could, however, result in further impairment losses which would have a material effect on the income statement and statement of financial position.

c. Impairment of intangible assets
The carrying amount of intangible assets are reviewed annually to determine whether there is indication of impairment as disclosed in note 93. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

d. Assets and disposal groups held for sale
Assets and discontinued operations held for sale are measured at the lower of carrying amount and fair value, less cost to sell. As outlined in note 4, this applies to a subsidiary of the Group. The fair value at the date of classification of the subsidiary was calculated using valuation models based on discounted future cash flows that incorporated significant non-market observable inputs and assumptions. The use of reasonably possible alternative inputs and assumptions to these models, in particular changes to the discount rate employed (representing the required rate of return on equity), could have an impact on the value of these disposal groups.

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

Appendix 1:

Statement on the Corporate Governance of Kvika banki hf. 2023

Unaudited

Statement on the Corporate Governance of Kvika banki hf. 2023

Business strategy and values

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

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

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

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

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

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

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

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

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

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

Sustainability and social responsibility

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

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

In 2023, changes were made to the organisational structure of sustainability matters in Kvika's operations. A special sustainability committee is in place and is now composed of the CEO, CFO and managing directors of subsidiaries and divisions as well as the Director of Sustainability. The sustainability department moved from the CEO's office into the Operations and Development division.

A new sustainability risk framework for the Kvika group was defined in 2023 and approved by the BOD. Kvika Asset Management and TM have now established sustainability risk strategies in line with the framework that will be reflected when integrating sustainability risk factors into processes.

Statement on the Corporate Governance of Kvika banki hf. 2023

Kvika is a member of the United Nations Principles for Responsible Investment (UN PRI) and submitted its first mandatory report on its responsible investments to the organisation in 2023. Kvika is one of the founding members of IcelandSIF, an organisation for responsible investments, is a member of Festa Centre for Sustainability and supports Grænvangur, which is a co-operation forum between industry and government on climate issues and green solutions. Kvika is a member of the Partnership for Carbon Accounting Financials (PCAF), an industry-led initiative to enable financial institutions to consistently measure and disclose GHG emissions financed by their loans and investments.

Kvika awards a variety of grants that have a positive social impact, and the selection of projects reflects the six UN SDGs that have been adopted. In recent years, support has been provided to UNICEF in Iceland; women and innovation with FrumkvöðlaAuður, and industrial studies and teacher training with allocations from Kvika's Incentive Fund. Educational support is considered to be one of the best long-term investments for both societies and individuals.

A more detailed discussion of the scope, position, and impact of the group regarding environmental, social and governance matters (also known as "ESG factors") can be found in Kvika's sustainability report, which is published together with Kvika's annual financial statement. The report is based on ESG indicators according to Nasdaq Nordic ESG Guidelines (ESG Reporting Guide 2.0), and to a limited extent on GRI indicators according to Global Reporting Initiative (GRI) standards.

Compliance with corporate governance guidelines

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

Kvika's only deviation from the guidelines has been that it has not appointed a nomination committee nor decided how one should be appointed. There is currently no specific nomination procedure in place for board members. Shareholders elect board members from those candidates which have announced their candidacy in accordance with Act No. 2/ on Limited Liability Companies. If the number of candidates does not outnumber the number of seats on the BOD, the candidates are automatically elected to the BOD. This arrangement was in accordance with the outcome of the Bank's annual general meeting in 2019 where the shareholders agreed to entrust the BOD at the time with analysing the advantages and disadvantages of appointing a nomination committee for the Bank and, as the case might be, submit proposals thereto. Following the analysis, the conclusion at the time was to not propose to shareholders to appoint a nomination committee. Since then, a few conversations on the matter have taken place with individual shareholders, and at the scheduled annual general meeting on 21 March 2024 the BOD intends to propose to the shareholders the appointment and role of a nomination committee and that Kvika's articles of association will be updated accordingly.

In this context, it should be noted however that special rules apply to financial undertakings regarding assessment of the composition of their boards. Each year, the BOD carries out a self-assessment with regard to its composition, assisted by external consultants.

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

Regulatory framework

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

The main elements of internal control, risk management and accounting

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

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

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

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

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

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

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

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

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

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

Board members come from varied backgrounds, and all possess extensive experience and expertise. In accordance with the Act on Limited Liability Companies No. 2/1995, the Bank's Articles of Association and Kvika's policy for assessing the eligibility of its board members and CEO care is taken to ensure at least 40% representation of each gender on the BOD and mong the alternates. The BODis currently comprised of three men and two women. Regular board meetings are generally held once a month and, as the case may be, additional meetings in between to discuss specific matters. In 2023, 36 board meetings were held and all board members attended all board meetings, except for three meetings where one board member was absent in each instance. The Chairman of the attended all meetings of the BOD.

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

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

The members of the Audit Committee are Ingunn Svala Leifsdóttir, as chairperson, Helga Kristín Auðunsdóttir and Margrét G. Flóvenz. The committee is intended to play an advisory and supervisory role for Kvika's BOD by, among other things, ensuring the quality of financial statements and other financial information from the Bank and the independence of its auditors. The committee supervises accounting procedures and the effectiveness of internal controls as well as internal and external auditing. The committee met nine times in 2023.

The members of the Risk Committee are Guðmundur Þórðarson, who is chairperson, Ingunn Svala Leifsdóttir and Sigurður Hannesson. The committee has an advisory and supervisory role for the Bank's BOD, among other things, in determining its risk policy and risk appetite. The committee also monitors the organisation and effectiveness of risk management, management of credit risk, market risk, liquidity risk, operating risk, reputational risk, and other risks, as the case may be. The committee met 10 times in 2023.

The members of the Remuneration Committee are Guðjón Reynisson, who is chairperson, Sigurður Hannesson, and Helga Kristín Auðunsdóttir. The committee has an advisory and supervisory role for the Bank's BOD regarding salaries and other remuneration, ensuring that this supports the Bank's objectives and interests. The committee met seven times in 2023.

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

The members of Kvika's Executive Committee, in addition to the CEO are the following employees: Sigurður Viðarsson, Deputy CEO, Eiríkur Magnús Jensson, CFO, Anna Rut Ágústsdóttir, Managing Director of Operations and Development, Elísabet Guðrún Björnsdóttir, Managing Director of Risk Management, Bjarni Eyvinds Þrastarson, Managing Director of Corporate Banking and Capital Markets and Lilja Jensen, General Counsel. The hiring process for the position of Managing Director of Corporate Banking is ongoing. Additionally in the Group's Executive Committee are Hannes Frímann Hrólfsson, CEO of Kvika Asset Management hf., and Birkir Jóhannsson, CEO of TM Tryggingar hf. More details about the Executive Committee are accessible on Kvika's website www.kvika.is.

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

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

Information on Board members

Sigurður Hannesson is the chairman of the BOD. He was appointed to Kvika's BOD in March 2020. He was born in 1980 and is currently the Director General of the Federation of Icelandic Industries. From 2013-2017, Sigurdur worked as a managing director of Kvika's (previously MP Bank's) asset management division. In 2015, Sigurdur was the Vice-Chairman of the Government Task Force on lifting of capital controls and in 2013 the Chairman of the Expert Group on household debt relief. From 2010-2013, Sigurdur worked as CEO of Jupiter fund management company, now Kvika Asset Management, and in Capital Markets at Straumur Investment Bank from 2007-2010. Sigurdur holds a DPhil degree in mathematics from the University of Oxford, a BS degree in mathematics from the University of Iceland and is a certified securities broker. Sigurður also sits on the boards of Iceland Symphony Orchestra, Grænvangur (Green by Iceland), Reykjavík University, Auðna-Tæknitorg ehf., Akkur SI, SI 1 ehf., Sundaboginn slhf., Seapool ehf., BBL 39 ehf. and the Icelandic Cancer Society. Sigurður owns 8,550,107 shares in the Bank through shareholding in the private limited company BBL 39 ehf., but does not have interest links with major clients, competitors, or big shareholders in the sense of the corporate governance guidelines.

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

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

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

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

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

Sigurgeir Guðlaugsson and Helga Jóhanna Oddsdóttir are alternate members of the BOD. In the opinion of the BOD, they are also independent members of the BOD within the meaning of the corporate governance guidelines.

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Main factors in the BOD's performance evaluation

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

Information on the CEO of Kvika and his main duties

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

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

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

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

Communications between shareholders and the BOD

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

This statement on the corporate governance practices of Kvika banki hf. was reviewed and approved by the BOD on 15 February 2024.

Appendix 2:

EU Taxonomy Regulation

Unaudited

EU Taxonomy Regulation

The EU Taxonomy (EU regulation No. 2020/852) (hereinafter "the regulation") was implemented into Icelandic law when Act No. 25/2023 on sustainable financial disclosure and taxonomy for sustainable investments entered into force in Iceland on 1 June 2023. The regulation provides the basis for a harmonized European classification system with definitions and criteria for what constitutes as environmentally sustainable economic activities. According to Article 8 of the regulation, companies that fall under the regulation have an obligation to disclose how and to what extent its activities are associated with environmentally sustainable economic activities, the Group is subject to those obligations.

In 2023, the Group has focused on the implementation of the regulation, and delegated acts that have been implemented in Iceland, into the Group's operations as applicable and now publishes, for the first time, information in accordance with Article 8 of the regulation alongside the Consolidated Financial Statements for 2023. The information is prepared in accordance with relevant annexes of the EU delegated regulation no. 2021/2178 (hereinafter "Disclosures Delegated Act"), taking into consideration the information provided in EU Commission Notices on interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets No. (2022/C 385/01)[1] and (C/2023/305)[2] and draft Commission Notice of 21 December 2023[3].

According to Icelandic Act on Annual Accounts No. 3/2006 (hereinafter "the Annual Accounts Act") Kvika is required, in the consolidated financial statements, to disclose non-financial information on consolidated basis. This annex to the consolidated financial statement therefore includes information on Kvika Asset Management which can also be found accompanying Kvika Asset Management's annual financial statement. As was announced on 3 October 2023 Kvika has initiated the process for sale or listing of TM, which is expected to be concluded within the year 2024. Due to this TM was classified as a disposal group held for sale on 31 December 2023. This classification and the fact that the subsidiary is large in size and its operations are very different from other operations of the Group are the reasons why TM's taxonomy disclosures will only be published alongside TM's annual financial statement and not in the consolidated financial statements.

The calculation of the key figures in the annex is based on the data used for the Group's financial reporting.

It should be noted that due to the recent implementation of the disclosure requirements, lack of implementation of various European acts into Icelandic law and lack of disclosure from legal entities subject to the requirements of the regulation the information is limited in the first year of reporting.

The Green Asset Ratio

The regulation requires credit institutions to report on their green asset ratio (GAR) as a key performance indicator (KPI). The GAR shall show the proportion of the of credit institution's assets financing and invested in taxonomy-aligned economic activities as a proportion of total covered assets, excluding exposures to central governments, central banks, and supranational issuers.

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022XC1006%2801%29
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023XC00305
[3] https://ec.europa.eu/finance/docs/law/231221-draft-commission-notice-eu-taxonomy-reporting-financials_en.pdf

Taxonomy-eligible activities

The proportion of assets that can be classified as taxonomy-eligible refers to assets and activities that are outlined in the delegated acts of the regulation but does not indicate which activities are truly environmentally sustainable. This first step of determining "eligibility" involves determining if there is a technical screening criterion in the delegated acts that can be applied to the activity.

Credit institutions and other financial corporations subject to reporting requirements in Iceland are required to report on how exposures to eligible activities impact the following climate objectives outlined in EU regulation No. 2021/2139 (hereinafter "Climate Delegated Act"):
- Climate change mitigation.
- Climate change adaptation.

The regulation covers six environmental objectives in total but the remaining four objectives came into force in the EU through EU delegated regulation No. 2023/2486 and delegated regulation No. 2023/2485.These have yet to be implemented in Iceland. The remaining environmental objectives are:
- The sustainable use and protection of water and marine resources.
- The transition to a circular economy.
- Pollution prevention and control.
- Protection and restoration of biodiversity and ecosystems.

The Group has derived that the following assets can be considered as taxonomy-eligible; loans and advances to financial and non-financial corporates that are subject to non-financial disclosures according to Article 66 d of the Annual Accounts Act and financing to households, in particular motor vehicle loans and residential real estate.

Taxonomy-aligned activities (also known as environmentally sustainable activities)

For an economic activity to be considered environmentally sustainable or taxonomy-aligned it must fulfil the following four conditions:
- Make a substantial contribution to at least one environmental objective outlined in the regulation.
- Do no significant harm to any other environmental objective.
- Comply with minimum social safeguards.
- Comply with the technical screening criteria outlined in the delegated regulations.

For this year's reporting the Group was only able to perform the alignment test on loans to households, in particular motor vehicle loans (activity 6.5: Purchase, financing, renting, leasing) and residential real estate (mortgages, activity 7.7: Acquisition and ownership of buildings) as the assessment for those is not dependent on publicly reported data from the counterparty.

Companies subject to taxonomy disclosures

Companies which are required to publish non-financial information in line with Article 66 d of the Annual Accounts Act, are in scope of disclosing according to the regulation. To identify the companies in scope (also referred to as companies subject to NFRD) Kvika has employed external data sourced from a third party, adhering to the criteria outlined in Article 66 d of the Annual Accounts Act. This information has been complemented, where needed, with data directly collected from the annual reports of corporate customers and counterparties. The Group's exposures to said companies at the end of 2023 was 0.027% of total covered assets and is therefore trivial. Small and medium sized companies do to not meet the disclosure requirements which leaves a substantial portion of the Group's assets out of scope.

The companies in scope of the disclosure requirements are scheduled to release their initial reports in accordance with the regulation in 2024 for the financial year 2023. The Group is required to use data provided by its counterparties to calculate green asset ratio but due to the lack of available information it will provide a limited set of results for the first reporting year.

Households

Motor vehicle loans

Motor vehicle loans are recognized as a taxonomy-eligible activity in accordance with the Climate Delegated Act. A substantial portion of the Group's loans to households pertain to motor vehicle financing. However, only motor vehicle loans issued after the regulation took effect in Iceland i.e. 1 June 2023, are deemed eligible.

For a motor vehicle loan to classify as an environmentally sustainable activity it cannot cause harm on other environmental objectives. To assess this information needs to be gathered on various factors such as the CO2 emissions of the vehicle, the end-of life treatment i.e. reuse, recycling and recovery of the vehicle alongside detailed information about the tyres. The Group has significant information on motor vehicle loans in terms of emissions but has faced difficulties assessing information on e.g. the specific requirements set regarding car tyres of its customers. Therefore, these loans cannot be considered as taxonomy-aligned.

Mortgages

The Group maintains a relatively modest allocation of mortgage loans. While these loans fall within the scope of taxonomy-eligible activities, as outlined in the Delegated Climate Act, it is important to note that they are not presently considered as taxonomy-aligned (environmentally sustainable). For a mortgage to be considered as taxonomy-aligned it is important to have access to information on the energy efficiency of the building subject to the loan. This use of energy efficiency of buildings is common in other European countries but has not been adopted in Iceland. Energy efficiency is based on the energy performance certificates set out in Directive (EU) 2010/31 on the energy performance of buildings but Iceland is exempt from the application of that Directive. As a result, no formal energy performance certificates have been issued for Icelandic buildings.

Due to this lack of data, mortgages to households do not fullfil the criterion to be considered environmentally sustainable.

Limitations to the reporting

There are several limitations to the reporting in the first reporting year in Iceland. The regulation was implemented in phases in Europe starting in 2022 to ensure data availability. However, as it was implemented differently in Iceland, with all companies in scope disclosing at the same time, there will be limitations in the results presented. Due to this it has proven challenging to disclose information on eligibility and alignment since the Group is required to use counterparties' data and KPIs to calculate its own KPIs i.e. GAR.

The regulation is still developing and the Group anticipates there will be a learning curve in data collection, analysis and disclosures. As companies gain experience in reporting it will become clearer how impactful the KPI's can be. The technical screening criteria will also prove useful when considering green financing moving forward. The Group will follow any developments regarding the regulation, and consider it going forward in in its sustainability journey.

0. Assets for the calculation of GAR

		Total environmentally sustainable assets	**KPI******	**KPI*******	**% coverage (over total assets)*****
Main KPI	**Green asset ratio (GAR) stock**				**74.80%**

		Total environmentally sustainable activities	KPI	KPI	% coverage (over total assets)
Additional KPIs	*GAR (flow)*				
	*Trading book**				
	Financial guarantees				
	Assets under management				
	*Fees and commissions income***				

* For credit institutions that do not meet the conditions of Article 94(1) of the CRR or the conditions set out in Article 325a(1) of the CRR
**Fees and commissions income from services other than lending and AuM
*** % of assets covered by the KPI over banks´ total assets
****based on the Turnover KPI of the counterparty
*****based on the CapEx KPI of the counterparty, except for lending activities where for general lending Turnover KPI is used
Note 1: Across the reporting templates: cells shaded in black should not be reported.
Note 2: Fees and Commissions and Trading Book KPIs shall only apply starting 2026. SMEs´inclusion in these KPI will only apply subject to a positive result of an impact assessment.

1. Assets for the calculation of GAR

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date T															
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
	ISK	Total gross carrying amount		Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/ adaptation	Of which enabling
1	**GAR - Covered assets in both numerator and denominator**																
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	36,234,799	8,921,941										8,930,844				
3	**Financial corporations**	1,938,213															
4	**Credit institutions**	1,819															
5	Loans and advances	1,819															
6	Debt securities, including UoP	0															
7	Equity instruments	0															
8	**Other financial corporations**	1,936,393															
9	of which investment firms	0															
10	Loans and advances	0															
11	Debt securities, including UoP	0															
12	Equity instruments	0															
13	of which management companies	1,936,393															
14	Loans and advances	1,936,393															
15	Debt securities, including UoP	0															
16	Equity instruments	0															
17	of which insurance undertakings	0															
18	Loans and advances	0															
19	Debt securities, including UoP	0															
20	Equity instruments	0															
21	**Non-financial corporations**	61,267						8,902					8,902				
22	NFCs subject to NFRD disclosure obligations	61,267						8,902					8,902				
23	Loans and advances	61,267						8,902					8,902				
24	Debt securities, including UoP	0															
25	Equity instruments	0															
26	**Households (3) ***	32,676,440	8,921,941										8,921,941				
27	of which loans collateralised by residential immovable property	1,930,717	1,930,717										1,930,717				
28	of which building renovation loans	0															
29	of which motor vehicle loans**	6,991,224	6,991,224										6,991,224				
30	**Local governments financing**	1,558,880															
31	Collateral obtained by taking possession: residential and commercial immovable properties	0															
32	Other local government financing	1,558,880															
33	**Other assets excluded from the numerator for GAR calculation (covered in the denominator)**	214,574,302															

1. Assets for the calculation of GAR (cont.)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
			Disclosure reference date T														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
	ISK	Total gross carrying amount	Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)			
					Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which adaptation	Of which enabling			Of which specialised lending	Of which transitional/ adaptation	Of which enabling
34	**Non-financial corporations**	101,639,637															
35	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	72,202,993															
36	Loans and advances	72,202,993															
37	of which loans collateralised by commercial immovable property	0															
38	of which building renovation loans	0															
39	Debt securities	0															
40	Equity instruments	0															
41	Non-EU country counterparties not subject to NFRD disclosure obligations	29,436,644															
42	Loans and advances	29,436,644															
43	Debt securities	0															
44	Equity instruments	0															
45	**Derivatives**	19,350,190															
46	**On demand interbank loans**	6,356,998															
47	**Cash and cash-related assets**	20,055															
48	**Other assets (e.g. Goodwill, commodities etc.)**	87,207,422															
49	**Total GAR assets**	250,809,101															
50	**Other assets not covered for GAR calculation**	84,588,331															
51	**Sovereigns**	63,426,450															
52	**Central banks exposure**	17,304,400															
53	**Trading book**	3,857,480															
54	**Total assets**	335,397,432															

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

*Households include all retail loans issued to individuals

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

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

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

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

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

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

2. GAR sector information

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

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

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

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

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

3. GAR KPI stock

	% (compared to total covered assets in the denominator)	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date T															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling	
1	**GAR - Covered assets in both numerator and denominator**																
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	24.8%										24.8%					10.8%
3	**Financial corporations**	0.0%										0.0%					0.6%
4	Credit institutions	0.0%										0.0%					0.0%
5	Loans and advances	0.0%										0.0%					0.0%
6	Debt securities, including UoP	0.0%										0.0%					0.0%
7	Equity instruments	0.0%										0.0%					0.0%
8	Other financial corporations	0.0%										0.0%					0.6%
9	of which investment firms	0.0%										0.0%					0.0%
10	Loans and advances	0.0%										0.0%					0.0%
11	Debt securities, including UoP	0.0%										0.0%					0.0%
12	Equity instruments	0.0%										0.0%					0.0%
13	of which management companies	0.0%										0.0%					0.6%
14	Loans and advances	0.0%										0.0%					0.6%
15	Debt securities, including UoP	0.0%										0.0%					0.0%
16	Equity instruments	0.0%										0.0%					0.0%
17	of which insurance undertakings	0.0%										0.0%					0.0%
18	Loans and advances	0.0%										0.0%					0.0%
19	Debt securities, including UoP	0.0%										0.0%					0.0%
20	Equity instruments	0.0%										0.0%					0.0%
21	**Non-financial corporations**	100.0%										100.0%					0.0%
22	NFCs subject to NFRD disclosure obligations	100.0%										100.0%					0.0%
23	Loans and advances	100.0%										100.0%					0.0%
24	Debt securities, including UoP	0.0%										0.0%					0.0%
25	Equity instruments	0.0%										0.0%					0.0%
26	**Households**	27.0%										27.3%					9.7%
27	of which loans collateralised by residential immovable property	100.0%										100.0%					0.6%
28	of which building renovation loans	0.0%										0.0%					0.0%
29	of which motor vehicle loans	100.0%										100.0%					2.1%
30	**Local governments financing**	0.0%										0.0%					0.5%
31	Collateral obtained by taking possession: residential and commercial immovable	0.0%										0.0%					0.0%
32	Other local government financing	0.0%										0.0%					0.5%
49	**Total GAR assets**																

4. GAR KPI flow

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

5. KPI off-balance sheet exposures

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
% (compared to flow of total eligible assets)		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling			Of which specialised lending	Of which transitional	Of which enabling
1	Financial guarantees (FinGuar KPI)															
2	Assets under management (AuM KPI)															

This table has no data in the first year of reporting as it is reliant on publicly disclosed data from investee companies and counterparties.

Kvika Asset Management

Kvika Asset Management publishes the following information pursuant to Article 8 of The EU Taxonomy (Regulation (EU) 2020/852) in a template from Annex IV and together with information from Annex XI covering asset managers pursuant to Commission Delegated Regulation (EU) 2021/2178 (hereinafter the "Delegated Regulation") alongside its annual accounts for 2023.

The calculation of key figures is based on the data used in Kvika Asset Management's financial statement for 2023.

Limitations to the reporting for 2023

The EU Taxonomy regulation was implemented in phases in Europe starting in 2022 to ensure data availability. However, as it was implemented differently in Iceland with all companies in scope disclosing at the same time there will be limitations in the results presented as it affects the information available to Kvika Asset Management.

According to the Delegated Regulation, asset managers are to disclose the proportion of investment in Taxonomy-aligned economic activities (also known as environmentally sustainable activities) out of the total value of all investments managed by them. This ratio is based on key performance indicators of investees (turnover and capex), which they publish according to the EU Taxonomy for the first time in Iceland for 2023. Since Kvika Asset Management needs information from investees, much of the template is published without information and it is not possible to calculate the ratio of investments in environmentally sustainable economic activities this year. The template only contains information that is not subject to disclosures by investees. Due to the recent implementation of the disclosure requirements, lack of implementation of various European acts into Icelandic law and lack of disclosure from legal entities in scope of the regulation the information is limited in the first year of reporting.

ANNEX IV

TEMPLATE FOR THE KPI OF ASSET MANAGERS

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

The weighted average value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities **relative to the value of total assets covered by the KPI**, with following weights for investments in undertakings per below:		The weighted average value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities, with following weights for investments in undertakings per below:	
Turnover-based: %		Turnover-based: [monetary amount]	
CapEx—based: %		CapEx-based: [monetary amount]	
The percentage of assets covered by the KPI relative to total investments (total AuM). Excluding investments in sovereign entities.		The monetary value of assets covered by the KPI. Excluding investments in sovereign entities.	
Coverage: %	87.7%	The value in monetary amounts of derivatives.	406,707,808
Additional, complementary disclosures: breakdown of **denominator** of the KPI			
The percentage of derivatives relative to total assets covered by the KPI.		The value in monetary amounts of derivatives.	
Percentage (%)	0.01%	[monetary amount]	42,109
The proportion of **exposures to EU financial and non-financial undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI:		Value of **exposures to EU financial and non-financial undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU**:	
For non-financial undertakings:	38.0%	For non-financial undertakings: [monetary amount]	154,389,126
For financial undertakings:	22.5%	For financial undertakings: [monetary amount]	91,503,426
The proportion of **exposures to financial and non-financial undertakings from non-EU countries not subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI:		Value of **exposures to financial and non-financial undertakings from non-EU countries not subject to Articles 19a and 29a of Directive 2013/34/EU:**	
For non-financial undertakings:	0.9%	For non-financial undertakings: [monetary amount]	3,499,990
For financial undertakings:	5.2%	For financial undertakings: [monetary amount]	20,964,297
The proportion of **exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI:		Value of **exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU:**	
For non-financial undertakings:	13.8%	For non-financial undertakings: [monetary amount]	56,040,187
For financial undertakings:	12.2%	For financial undertakings: [monetary amount]	49,713,770
The proportion of **exposures to other counterparties over** total assets covered by the KPI:		Value of **exposures to other counterparties:**	
Percentage (%)	7.5%	[monetary amount]	30,554,903
The value of all the investments that are funding **economic activities that are not taxonomy-eligible** relative to the value of total assets covered by the KPI:		Value of all the investments that are funding **economic activities that are not taxonomy-eligible:**	
Percentage (%)	55.9%	[monetary amount]	227,372,725
The value of all the investments that are funding taxonomy-eligible economic activities, **but not taxonomy-aligned relative to the value of** total assets covered by the KPI:		Value of all the investments that are funding Taxonomy eligible economic activities, **but not taxonomy aligned:**	
Percentage (%)		[monetary amount]	

Kvika Asset Management

Kvika Asset Management publishes the following information pursuant to Article 8 of The EU Taxonomy (Regulation (EU) 2020/852) in a template from

ANNEX IV (cont.)

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

Explanatory notes

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

ANNEX XI

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

The disclosure of quantitative KPIs shall be accompanied by the following qualitative information to support the financial undertakings' explanations and markets' understanding of these KPIs:	
Contextual information in support of the quantitative indicators including the scope of assets and activities covered by the KPIs, information on data sources and limitation;	The calculation of key indicators uses total assets under management (AuM), excluding exposures to central governments, central banks and supranational issuers. Investments in companies which are not obliged to disclose non-financial information under the Act on Annual Accounts should also be excluded. As this is the first year of implementation, there is limited access to data to perform calculations on the key indicator. The volume of investment in taxonomy aligned economic activities cannot be disclosed, as undertakings that are obliged to assess and publish such information according the EU Taxonomy, i.e. the extent to which their economic activities are environmentally sustainable, will publish this information in 2024.
Explanations of the nature and objectives of Taxonomy-aligned economic activities and the evolution of the Taxonomy-aligned economic activities over time, starting from the second year of implementation, distinguishing between business-related and methodological and data-related elements;	Not applicable in the first year of reporting (financial year 2023).
Description of the compliance with Regulation (EU) 2020/852 in the financial undertaking's business strategy, product design processes and engagement with clients and counterparties;	Kvika Asset Management expects to increasingly consider the EU Taxonomy e.g. in product development as well as in communication with customers, additionally there has been increased education to employees on the topic. When disclosure based on the regulatory framework increases, the company will be able to increase its disclosures in line with the regulation.
For credit institutions that are not required to disclose quantitative information for trading exposures, qualitative information on the alignment of trading portfolios with Regulation (EU) 2020/852, including overall composition, trends observed, objectives and policy;	Doesn't apply to asset managers.