Prospectus

KVB 20 1221

Securities Note

July 2020

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RISK FACTORS

The risk factors described in this chapter *Risk Factors* are those which the Issuer is aware of and which, in its opinion, are specifically applicable to the Securities. These risk factors are subject to uncertainty and therefore the Issuer is not able to predict the likelihood of them occurring. It is possible that the Issuer may not be able to meet the obligations of the Securities due to other factors that are not considered risk factors based on the information currently available and of which the Issuer is aware. The Issuer has assessed the materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact and has organised the following risk factors accordingly, beginning with those estimated to be most significant to the Issuer.

General Risk of Securities

Investment in securities involves risk. The value of the Securities may decrease as well as increase. Investors can lose the value of all or part of their investment in the Securities. Various issues can cause changes in the value of securities, e.g. general economic conditions, interest rate decisions by the Central Bank, changes in legislation and regulations and other events.

Market Risk

The value of securities may change due to market conditions. Thus, the value of the Securities may decrease if the general market yield rises and the value may rise if the yield decreases. The Issuer’s principal interest payments on the Securities are paid in Icelandic Krona, therefore exchange rate risk may be embedded in the Securities.

Liquidity Risk

The Securities have not previously been admitted to trading on a regulated market. Although the Securities will be admitted to trading on the Regulated Market of Nasdaq Iceland, the Issuer cannot guarantee that the Securities will be actively traded. No obligation rests on the Issuer to maintain an active market with the Securities and no market making with them has been envisaged. Therefore, liquidity risk may arise, i.e. the risk of not being able to sell the Securities at will. The risk is expressed in such a way that the market cannot accept the quantity that is to be sold or the price formation is such that there is a significant difference between the buying and selling price of the Securities. Further, the Issuer may be in a position of not having sufficient liquidity to meet obligations on the Securities when they fall due. However, the Issuer carefully manages its liquidity risk to ensure that, among other things, it always has sufficient liquidity to meet its obligations.

Changes in Legislation

The admission to trading of the Issuer's Securities on the Regulated Market of Nasdaq Iceland is subject to Icelandic laws in force on the date of the Prospectus. No assurance can be given as to the impacts of any amendments to Icelandic law, court decisions, and/or administrative practice after the date of the Prospectus.

Additionally, it should be borne in mind that changes to EU legislation in this area may affect the Issuer and the Securities due to Iceland's membership of the EEA agreement.

IMPORTANT INFORMATION

Notice to investors

This Securities Note dated 13 July 2020 (hereafter the “Securities Note”), has been approved by the Financial Supervisory Authority of the Central Bank of Iceland (hereafter the „FSA“), as competent authority under Regulation (EU) 2017/1129. The FSA only approves this Securities Note as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129. Such approval should not be considered as an endorsement of the quality of the securities that are the subject of this Securities Note and investors should make their own assessment as to the suitability of investing in the securities.The Securities Note is a part of the Issuers' Prospectus, dated 13 July 2020 (hereafter referred to as the “Prospectus”), which concerns, and is published in relation to the Issuer's application to have its newly issued Securities (hereafter also referred to as the “Securities” and the “Series of Securities”) admitted to trading on the Regulated Market of Nasdaq Iceland hf. (hereafter referred to as the “Regulated Market of Nasdaq Iceland”). The Prospectus has been prepared in accordance with Icelandic laws and regulations in effect on the date of the Prospectus, including Act no. 108/2007, on Securities Transactions (hereafter the “Act on Securities Transactions”) and Act no.14/2020, on Prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market (hereafter the “Act on Prospectuses”) which implements Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (hereafter the “Prospectus Regulation”) into Icelandic law. Furthermore, the Prospectus has been prepared in accordance with the provisions of Annex 6 and Annex 15 of Commission Delegated Regulation (EU) 2019/980, cf. Regulation 274/2020. The Prospectus is additionally prepared with regard to the Rules for issuers of financial instruments, issued by Nasdaq Iceland hf., effective as of 1 May 2020.

The Prospectus is published in English and consists of two documents, a Registration Document dated 13 July 2020 and this Securities Note dated 13 July 2020. The Prospectus is available for viewing at the Company's registered office at Katrínartún 2, 105 Reykjavík, Iceland. The Prospectus will also be available on the Company's website: https://www.kvika.is/en/investor-relations/prospectuses/.

The information appearing in this Prospectus should not be construed as an offer, a recommendation or solicitation to buy, hold or sell securities issued by the Company or to take any other investment decisions. The Prospectus contains information for investors to evaluate the Company's assets and liabilities, financial situation, performance and outlook. Investors are encouraged to familiarise themselves with all information contained in the Prospectus, especially the chapter named *Risk Factors*, both in the Registration Document and in this Securities Note.

Following the publication of the Prospectus, investors are advised to acquaint themselves with all public information issued by Kvika or concerning Kvika and/or bills, bonds or shares issued by Kvika.

Only the Company is entitled to procure information about conditions described in this Securities Note. Information procured by any other person is of no relevance in relation to this Securities Note and cannot be relied on.

This Securities Note, as well as other documents which are a part of the Prospectus, may not be sent or otherwise distributed, whether electronically or by other means, to countries in which distribution would require additional registration measures or other measures to be taken other than as applicable under Icelandic laws and regulations, or would be in conflict with laws and regulations in the relevant country. In some jurisdictions laws and regulations may restrict distribution of the Prospectus. Therefore, the Company requests all recipients of the Prospectus to familiarise themselves with and act in accordance with such laws and regulations or other restrictions. Kvika assumes no liability for distribution of the Prospectus by any third parties in any jurisdiction. This Securities Note, as well as any other documents in the Prospectus, should not be distributed or sent to the United States, Australia, Canada, Hong Kong, Singapore, South Africa or Japan.

This Securities Note, or other documents which are a part of the Prospectus, should by no means be viewed or construed as a promise by the Company of future success in operations or as a return on investments. Investors must, first and foremost, trust their own judgment when it comes to investing in securities issued by the Company, and are advised to seek advice from external experts before making investment decisions. Investors are furthermore advised to consider their legal status, including taxation issues that may concern the purchase or sale of the Company's securities, and seek external and independent advice in that respect.

Information in this Prospectus is based on circumstances and facts on the date the Prospectus is signed. If significant new information, material mistakes or inaccuracy relating to information in the Prospectus, which could affect the assessment of the Company's securities, is discovered between the time the Prospectus is approved and the time when the Company's securities are admitted to trading, a supplement to the Prospectus shall be prepared describing the details in question. The supplement shall be approved within five working days and published in the same manner as the original Prospectus.

As the Company's shares were admitted to trading on the Regulated Market of Nasdaq Iceland in March 2019, the Company is already under disclosure obligation on the market pursuant to applicable laws and regulations, cf. the Act on Securities Transactions, publicly issues announcements, and is governed by the Nasdaq Iceland Rules. Additionally, the Bank has issued bonds that are currently admitted to trading on the Regulated Market of Nasdaq Iceland hf. and is therefore further already governed by the Nasdaq Iceland Rules' provisions regarding bills and bonds.

Company Statement

The CEO and Deputy CEO of Kvika hereby declare, on behalf of the Issuer, that, to the best of their knowledge, having taken all reasonable care to ensure that such is the case, that the information in this Securities Note is in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 13 July 2020

For and on behalf of Kvika

Marinó Örn Tryggvason
CEO of Kvika

For and on behalf of Kvika

Ármann H. Þorvaldsson
Deputy CEO

Potential Conflicts of Interests

It should be noted that the Issuer itself will manage the admission of its Securities to trading on the Regulated Market of Nasdaq Iceland and has prepared the Prospectus. It could be argued that conflicts of interest may arise in such situations, but, in accordance with the statements made by Kvika in the chapter *Company Statement*, the information in this Prospectus is, to the best of Kvika and its Board of Directors' knowledge, factual and contains no omission likely to affect its import.

Additionally, several employees, members of the Issuer's executive management and members of its board of directors own shares in the Bank. Furthermore, most employees and members of the Issuer's executive management own stock options and/or warrants issued by the Bank. The warrants are further described in the chapter *Warrants* in the Registration Document. A number of these individuals have contributed to the preparation of this Prospectus and the admission of Kvika's Securities to trading.

Definitions

"Kvika", the "Issuer", the "Company" or the "Bank"	Kvika banki hf., reg. no. 540502-2930, Katrínartúni 2, 105 Reykjavík, Iceland
The "Securities" and the "Series of Securities"	The new series of Kvika's securities KVB 20 1221, which is the series that the Issuer has requested to be admitted to trading on the Regulated Market of Nasdaq Iceland.
"Act on Bills"	Act no. 93/1933 on Bills
"Act on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments"	Act no. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments.
"Act on Financial Undertakings"	Act no. 161/2002 on Financial Undertakings
"Act on Prospectuses"	Act no.14/2020 on Prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market
"Act on Securities Transactions"	Act no. 108/2007, on Securities Transactions
The "FSA"	The Financial Supervisory Authority of the Central Bank of Iceland
"ISK"	Icelandic Króna
"Nasdaq CSD Iceland"	Nasdaq CSD SE, útibú á Íslandi, reg. no. 5101190370, Laugavegi 182, 105 Reykjavík
"Nasdaq Iceland" or the "Exchange"	NASDAQ Iceland hf., Laugavegi 182, 105, Iceland
"Prospectus"	The prospectus dated 13 July 2020, which concerns and is published in relation to Kvika's application to have its securities in the new series KVB 20 1221 admitted to trading on the Regulated Market of Nasdaq Iceland, consisting of this securities note dated 13 July 2020 and a registration document, dated 13 July 2020
"Prospectus Regulation"	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC
"Registration Document"	The registration document dated 13 July 2020
"Regulated Market of Nasdaq Iceland"	The regulated market of Nasdaq Iceland hf.
"Securities Note"	This securities note dated 13 July 2020, which concerns and is published in relation to Kvika's application to have its securities in the new series KVB 20 1221 admitted to trading on the Regulated Market of Nasdaq Iceland

INFORMATION ON THE SECURITIES AND ADMITTANCE TO TRADING

Issuer

Kvika is a financial undertaking in accordance with Act no. 161/2002 on Financial Undertakings (hereafter referred to as the "Act on Financial Undertakings"), as amended, and is supervised by the Financial Supervisory Authority of Iceland. Kvika holds a licence to operate as a commercial bank. The issuer operates in accordance with Act no. 2/1995 on Public Limited Companies and Act no. 161/2002 on Financial Undertakings.

Legal name:	Kvika banki hf.
Commercial name:	Kvika
Legal form:	A public limited company established under Act no. 2/1995 on Public Limited Companies
Registration number:	540502-2930
Address:	Katrínartún 2, 105 Reykjavík
Date of incorporation:	07.05.2002
LEI:	254900WR3I1Z9NPC7D84
Website:	www.kvika.is[1]
Phone number:	+ 354 540 3200
Ticker symbol with Nasdaq Iceland:	KVB

Information on the Securities

The Securities were issued on 22 June 2020 when ISK 2,000,000,000, or 100 nominal units, were issued. The total issuance limit in the series is ISK 2,000,000,000, or 100 nominal units.

The reason for issuing the Securities is to fund the Bank‘s ongoing regular operations. The Securities were sold at a simple rate of 1.75%. The sale value of the issuance is ISK 1,982,748,000 and the net sale value after costs is estimated at ISK 1,981,785,550. The Bank bears all costs associated with the admittance of the Securities to trading. The total cost borne by the Bank is estimated to be ISK 962,450 and consists of costs associated with the preparation, scrutiny and approval of the Prospectus, the Nasdaq Iceland listing fees and costs for auditors, along with other costs directly associated with the admittance to trading.

The objective of having the Securities admitted to trading on the Regulated Market of Nasdaq Iceland hf. is to promote their increased liquidity and marketability, in addition to ensuring that the procedures and disclosure of the Issuer comply with the rules which apply to the issuers of financial instruments on the Regulated Market of Nasdaq.

[1] Information on the website does not form part of the Securities Note unless that information is incorporated by reference into the document.

Identifier	KVB 20 1221.
ISIN number	IS0000031938
Type of Security	Securities offered and sold at a discount to their nominal amount and not bearing interest.
CFI number	DYZUXR
FISN number	KVIKA BANKI HF/ZERO CPN 20201221
Electronically registered	The Securities, which are in registered form, are issued electronically in a central securities depository, Nasdaq CSD SE, útibú á Íslandi, reg. no. 5101190370, Laugavegi 182, 105 Reykjavík (hereafter referred to as "Nasdaq CSD Iceland") which operates pursuant to act no. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments (hereafter the "Act on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments"). The registration of electronic security certificates at Nasdaq CSD Iceland grants their owners legal authority to the rights for which they are registered.
Type of instalments	One payment of principal on maturity date.
Country of issuing	Iceland.
Currency	ISK – Icelandic króna.
Nominal units	20,000,000.
Total limit	2,000,000,000.
Previously issued	0.
Issued now	2,000,000,000.
Date of issue	22.06.2020
Total number of due dates of the principal as a whole	1.
Maturity date of principal	21.12.2020
Payment of interests and interest rate	The Securities are sold at a discount to their nominal amount and do not bear interest.
Calculation rule for interest	Simple.
Day-count convention	ACT/360.

Indexed	No.
Callable	No.
Redeemable	No.
Limitation Periods	The limitation period for claims pursuant to the Securities is ten years from the due date, in accordance with Paragraph 1, Article 5 of Act no. 150/2007 on the limitation periods for claims. The limitation period for claims of interests and price level adjustments is four years from the due date in accordance with Article 3 of the same act.
Convertible	No.
Place of payment	The Issuer shall, through the intermediation of Nasdaq CSD Iceland, pay the nominal value of the Securities on the due date to the account operator where the registered owners of the Securities have an electronic securities account (an electronic securities account is understood as an account in the sense of the Act on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments).
If a payment becomes due on a weekend/holiday, should interest be added for the number of days the payment is delayed by?	No.
Market making	No.
Transfer	In the event of a change of ownership, the Securities will only be transferred to named parties in accordance with the provisions of the Act on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments. Otherwise there are no restrictions on the transfer of the Securities.
Default	Defaults shall be subject to the Act on Bills. If there is a default on the payment of the Securities on their maturity date and they are not paid within three days, the holder shall be authorised to declare the debt due in a written notification to the Issuer. When the Issuer has received the notice of acceleration, the Securities shall be considered to be due and payable and the Issuer obliged to pay up in accordance with their terms.

Amendments of terms	The Issuer must notify Nasdaq CSD Iceland of any changes that may be made to the terms of the Series of Securities.
Benefits	No benefits are attached to the Securities.
Tax	The issuance is electronically registered with Nasdaq CSD Iceland. The custodian of the relevant Securities must calculate and withhold withholding tax on capital gains.
Expenses	The Issuer pays all costs relating to the issuance, including fees to Nasdaq Iceland hf.
Disputes	Any dispute arising due to the Securities may be brought before the District Court of Reykjavík, cf. the provisions of Chapter XVII of Act no. 91/1991 on Civil Procedure.
Prioritisation	A claim against the Issuer for repayment of the principal of the Securities is a general claim and does not enjoy priority over other claims against Kvika at any given time.

In appendix I below is an issue description of the Securities, dated 12 June 2020.

Authorisation to issue the Securities

The Securities were issued in accordance with the authorisation of the Bank's Asset and Liability Committee on 3 June 2020.

Laws governing the issuance of the Securities

The Securities are issued in accordance with the Act on Bills, the Act on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments, the Act on Prospectuses and the Prospectus Regulation. The Act on Securities Transactions apply to transactions with the Securities, including rules on market abuse.

In addition, rules no. 1050/2012 of the Financial Supervisory Authority, on the Treatment of Insider Information and Insider Transactions, as well as regulation no. 630/2005 on Insider Information and Market Abuse, regulation no. 707/2008 on the provision of information and notification requirements in accordance with Act no. 108/2007 on Securities Transactions and the Nasdaq Iceland Rules, apply to the Securities and the Issuer from the time when the Issuer has applied for admission of the Securities to trading on the Regulated Market of Nasdaq Iceland. Changes to the legislation related to the issuance may affect the value of the Securities.

The Issuer must comply with the abovementioned laws and regulations, which, among other things, include disclosure requirements. The Securities are otherwise subject to Icelandic laws.

Admission to Trading on the Regulated Market of Nasdaq Iceland

Following the Financial Supervisory Authority's scrutiny and approval of the Prospectus, Nasdaq Iceland will conduct a final review of the Bank's application and make its conclusions public in the European Economic Area.

It is expected, although no guarantee can be given to that effect, that Nasdaq Iceland will admit the Bank' s Securities to trading on its regulated market. If the Securities are admitted to trading, the first day of trading in the Securities will be announced by Nasdaq Iceland with a minimum of one business days' notice.

The Issuer is already under disclosure obligations on the market, pursuant to applicable laws and regulations, cf. the Act on Securities Transactions, publicly issues announcements, and is governed by the Nasdaq Iceland Rules. Current rules stipulate, among other things, that the Issuer of the Securities, shall endeavour to publish, without delay, any previously unpublished information regarding decisions or incidents, which the Issuer knows or might know may have a significant impact on the price of the Securities.

The Series of Securities will be delisted after the due date, unless otherwise notified by the Issuer. The Issuer is required to notify Nasdaq CSD Iceland of non-payment of the Series of Securities and shall in such case send Nasdaq CSD Iceland notification thereof when payment has been made.

Appendix I: Issue description of the Securities, dated 12 June 2020

Registration Document

July 2020

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RISK FACTORS

The following overview of risk factors is based on what the Issuer, at its own discretion, considers to be of importance in relation to the Issuer's ability to fulfil its obligations under the Securities. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. While the Issuer believes that the factors described below represent the principal risks inherent in investing in the Securities, this overview is not a substitute for the rest of the Prospectus and should not be perceived as such. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and draw their own conclusions prior to making any investment decision. The Issuer has assessed the materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact and has organised the following risk factors accordingly, beginning with those estimated to be most significant to the Issuer.

Additional risks and uncertainties not presently known to the Issuer, the Board of Directors or the CEO or, that they currently deem immaterial, may also impair the Issuer's business operations and therefore its ability to pay interest, principal or other amounts on or in connection with the Securities. The business, financial condition or result of operations of the Issuer could be materially and adversely affected by any of these risks.

The Issuer's Board of Directors has overall responsibility for the establishment and oversight of the Issuer's risk management framework and risk appetite setting. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The CEO is responsible for the effective implementation of the risk management framework through the corporate governance structure and committees. The Issuer operates three committees, established by the CEO, that are involved in risk management, namely, the Asset and Liability Committee (hereafter also referred to as "ALCO"), Credit Committee and Operations Committee, which are responsible for developing and monitoring risk management policies in their specified areas. For further information on these committees a reference is made to the subchapter Committees established by the CEO in the chapter Management and Corporate Governance. The implementation and execution of the Issuer's internal control rests with the Issuer's managing directors along with its internal control units, i.e. Risk Management, Compliance and Internal Auditor. For further information on internal control and risk management reference is again made to the chapter Management and Corporate Governance.

Economic and financial market risk

The Issuer's business is affected by local and global economic developments

The Issuer's business is directly affected by changes in the economic environment in Iceland as demand for banking services and the nature of that demand tends to fluctuate with economic sentiment. In turn, the domestic environment is highly dependent on global dynamics given the country's heavy reliance on trade in goods and services. Growth in Iceland had already stalled in the beginning of 2020 after years of robust economic activity, in large part due to a decline in tourist arrivals. Recent economic developments associated with the COVID-19 virus have led to a significant deterioration in growth prospects in the coming months. Current economic headwinds should however be supported by low public debt and the economy's net positive and historically high international investment position. Consumer purchasing power has been increasing in recent years due to wage hikes and low inflation, underpinning the strong position of the general consumer in Iceland going into the current crisis. Increased employee costs have however weighed on businesses and made them more vulnerable to stalling top line growth associated with the COVID health crisis. Investment growth is expected to be negative this year as heavy focus has been on the tourist industry in recent years and business sentiment remains negative. Loan growth among deposit institutions had slowed rapidly going into the current crisis due to a refocus within the industry on increased returns, fewer attractive investment projects and increased risk aversion. This risk aversion has now heightened substantially as default risk among businesses has risen due to a severe slowdown in the tourist industry and wide-ranging restructuring is expected among businesses related to industry. Although these are natural consequences associated with the current economic outlook risks remain if unemployment continues to increase and international border openings are unsuccessful. International economic developments and local politics remain a risk factor going forward, as a lot hinges on the economic policy response of governments.

The United Kingdom's withdrawal from the European Union at the end of the year is an added risk factor. A long with the COVID crisis, the Brexit negotiations could have an adverse effect on the Icelandic economy and therefore the Issuer, given close trade relations between Iceland and the UK.

The Issuer's business is affected by the level of banking, investment and financial services required by its customers. The level of borrowing by customers depends on customer confidence, current employment status, the status of the economy and current market interest rates. A lower demand by customers for financial services may have an effect on the Issuer’s business.

Financial Risks

Should one or more of the Issuer's counterparties fail to meet obligations could result in an adverse effect on the Issuer's business, operations and stability

As granting of credit is one of the Issuer's main sources of income, consequently, one of the Issuer's primary sources of risk is counterparty credit risk, which can significantly affect the financial stability of the Issuer. Credit risk is defined as the risk that the Issuer will incur losses due to a counterparty defaulting on debt, or debt equivalent instruments, granted by the Issuer. Credit risk includes loans to customers, guarantees, loan commitments and derivative transactions. Additional assets such as deposits in bank accounts and accounts receivable qualify, among others, as credit risk. However, the largest part of the Issuer's credit risk involves lending to individuals and legal entities. Information on the Issuer's loan portfolio and counterparties can be found in subchapter *Banking* under the chapter *Principal Activities*.

A sectorial, single-name and/or geographical concentration of the loan portfolio could affect the Issuer. The Issuer's loan portfolio is concentrated in key sectors.

These sectors include, real estate, construction, financial entities and holding companies. See further in subchapter *Banking* under the chapter *Principal Activities*. Downturns in these sectors that would influence customers’ ability to meet their obligations may ultimately have an adverse effect on the Issuer’s business, financial condition and results of operations.

Economic downturns could affect the Issuer's loan portfolio such as increased loan impairments granted by the Issuer.

The Issuer’s loan portfolio is mainly composed of loans to Icelandic businesses. Increased corporate insolvency and reduced disposable income may reduce the customers’ ability to repay loans granted by the Issuer. This may lead to a higher impairment of loans in the Issuer’s loan portfolio.

The Issuer maintains a loan portfolio with emphasis on the general quality of lending rather than quantity. Emphasis is placed on a robust and efficient lending process that contributes to the quality of the loan portfolio regarding customer risk categorisation and pledged collateral quality classification. Emphasis is placed on providing first-class specialised banking services utilising a flexible infrastructure.

The loan portfolio is unique with respect to composition and duration. As at 31 December 2019, the duration of the loan portfolio was relatively short or approximately one year.

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

The loan-to-value ratio (hereafter “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 the credit quality of a loan. Valuation of collateral held against loans is updated as deemed necessary based on price volatility and liquidity. Wrong assessment on the valuation of collateral can have an effect on the Issuer’s financial position.

In accordance with the Financial Supervisory Authority's regulation no. 233/2017 on prudential requirements for financial undertakings, total exposure towards a customer can be classified as a large exposure if it exceeds 10% of the Issuer’s capital base. According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base. Single large exposures net of risk adjusted mitigation take into account the effects of collateral held by the Issuer, and other credit enhancements, in accordance with the Financial Supervisory Authority's regulation, no. 625/2013.

The extent of single large exposures net of risk adjusted mitigation is in accordance with the Financial Supervisory Authority's regulation no. 625/2013.

The Issuer's lending rules as defined by the Issuer’s Board of Directors and the related lending policy is intended to organise and ensure an overview of the lending operations of the Issuer. The policy is a guideline for the Credit Committee, and the committee may deviate from the provisions of the policy as deemed appropriate. Any deviations from the lending policy shall be approved by the Credit Committee, and the reasons for the deviation shall be recorded in the relevant meeting minutes of the Credit Committee. Employees with lending authorisation are authorised to approve lending within their respective authorisation and within the limits of the lending policy. If a loan request falls outside of the lending policy, the loan request must be submitted to the Credit Committee regardless of the loan amount. The vast majority of loan requests are subject to Credit Committee approval. The lending policy does set certain criteria with respect to the purpose, loan to value ratios and quality of the collateral, form of contracts, maturity and payment schedules for different loan types.

The Issuer is exposed to the risk of counterparties repaying loans earlier than expected

Prepayment risk is the risk that the Issuer can incur a financial loss because its counterparties request repayment of loans earlier than expected. Changes in interest rates could influence the customers willingness and ability to make unscheduled early payments on loans granted by the Issuer. This could lead to decreased interest income for the Issuer and therefore have an effect on the Issuer's financial position. Prepayment risk is mitigated by prepayment fees and the Issuer's own prepayment options on its borrowings. Information regarding the Issuer's borrowings is further described in chapter *Funding*.

The Issuer is exposed to a wide range of market risks. The most significant risk factors include interest rate, equity, foreign exchange and inflation risks.

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. The Issuer has a strict policy on controlling market risk and keeping its exposure within set limits. Risk Management monitors market risk limits daily and reports regularly to the Asset and Liability Committee and to the CEO.

The Issuer is mainly exposed to market risk due to changes in stock prices, bond yields and currency exchange rates that can adversely affect the Issuer's financial position. The Issuer is directly exposed to market risk through its activities in the following departments: Corporate Banking, Treasury, Proprietary Trading and Capital Markets, as well as indirectly exposed through the activities in Asset Management and, to some extent, Corporate Finance. Market risk arises both due to the activities of the individual departments and through common risk, i.e. risk to the Issuer as a whole.

Changes in market variables directly impact the assets of the Issuer's trading portfolios, which are marked-to-market on a daily basis, recognising gains and losses immediately in the income statement. The Issuer's trading portfolios consist of market making portfolios for both stocks and bonds, as well as a trading portfolio for proprietary trading. There is furthermore market risk exposure in the treasury portfolio and the investment portfolio. The treasury portfolio contains securities positions, which are considered part of the Issuer's active financial management, e.g. liquid assets. Investment securities that are not actively traded are valued either at amortised cost or at fair value. Further market risk due to assets and liabilities on- and off-balance sheet can arise, due to currency mismatches, interest rate imbalances and indexation.

The Asset and Liability Committee addresses the Issuer's market risk in accordance with the defined rules of the committee and may, in cooperation with Risk Management, set more detailed criteria for positions and define limits and targets. Violations of limits are immediately reported to the Asset and Liability Committee and the CEO and a decision on appropriate actions is taken in accordance with the severity of the violation.

Risk Management measures the direct risk of trading portfolios daily, using statistical value at risk (hereafter "VaR") methods. VaR is a measure of the financial risk in the investment portfolio using a 99% confidence level and 1 day holding period. Limits are set by Risk Management for risk arising from both equity and debt securities in market making portfolios, and the limits are monitored by Risk Management daily.

Interest Rate Risk

Interest rate risk refers to the risk of loss due to general interest rate changes. The Issuer's interest rate risk is twofold. On the one hand, the Issuer has a proprietary portfolio of bonds, where market rates affect prices and any fluctuations are recognised through the income statement. On the other hand, the Issuer has a 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. The impact of interest rate changes on the Issuer's performance is determined by the characteristics of the Issuer's assets and liabilities, particularly interest rate revision provisions. Thus, interest rate hikes can reduce the value of loans with fixed interest rates, while raising the cost of funding. The interest rate change has a lasting effect if interest rates are fixed over the contract period, while the effect is limited to the next interest rate revision date, if the interest rates are variable.

The Issuer takes measures to minimise interest rate risk by matching the interest rate profile and duration of assets with the Issuer's liabilities as well as using derivative and non-derivative financial instruments to effectively manage the risk of an adverse impact on the Issuer's earnings.

The Group performs monthly sensitivity analysis on financial assets and liabilities in trading and non-trading portfolios that are subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies.

Currency Risk

Currency risk arises from fluctuations in the currency rate of financial instruments that are not denominated in the functional currency of the respective entity of the Issuer, the Icelandic króna. A part of the Issuer's financial assets and financial liabilities is denominated in foreign currencies.

Treasury manages the Issuer's position in foreign currencies by buying and selling currency and derivatives. Currency positions are monitored daily by Risk Management and Treasury and reported monthly to the Asset and Liability Committee and the Central Bank of Iceland. Any mismatch between assets and liabilities in each currency is monitored closely and maintained within limits.

The Issuer is subject to restrictions set by the Central Bank of Iceland, cf. Rules no. 784/2018 on Foreign Exchange Balance, regarding the maximum size of open currency position, which shall not exceed 15% of the capital base.

There is uncertainty regarding the remaining restrictions relating to the capital controls. There is also no guarantee that the Central Bank will not reimpose some elements of the capital controls that have already been lifted. Direct foreign investment in Iceland may be affected by the potential scenario that capital restrictions could be re-imposed in the future. This would limit the growth of the Icelandic economy and potentially the Issuer.

CPI/Inflation Risk

Exposure to changes in the Consumer Price Index (hereafter referred to as "CPI") is the risk that fluctuations in the Icelandic CPI will affect the balance and cash flow of indexed financial instruments. The Issuer is exposed to Icelandic inflation due to the imbalance of CPI indexed assets and CPI indexed liabilities. Indexed assets and liabilities of the Issuer consist of securities and interest rate swap agreements, as well as indexed deposits and loans to customers.

The Issuer controls its indexation risk through derivatives contracts and sales and purchase of indexed bonds, mostly government bonds, and thus keeps its inflationary position within the limits of the maximum 100% of the capital base as defined by the Asset and Liability Committee.

The Issuer's total CPI imbalance at year-end 2019 amounted to ISK 1,34 billion (year-end 2018: 1,62 billion).

Equity Risk

Increased uncertainty in the financial markets contributes towards increased volatility in equity markets which affect the Issuer's business. Equity risk arises from the change in value of individual stocks. The Issuer has equity risk exposure towards positions held in the trading book as well as positions in the non-trading portfolio.

The Issuer's market risk increased significantly during the first quarter of 2020 due to volatility in the equity, fixed income and foreign exchange markets as a consequence of the COVID-19 pandemic. Losses due to market risk exposure could have an effect on the Issuer's financial position and its ability to make payments in respect of the debt securities.

The Issuer is exposed to liquidity risk. Unexpected changes in the underlying mechanisms of funding sources could have an adverse effect on the Issuer's ability to meet its obligations when they reach maturity.

Liquidity risk is the risk that the Issuer will encounter difficulty in meeting contractual payment obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. This risk mainly arises from mismatches in the timing of maturing cash flows from assets and liabilities. The Issuer's largest funding source are deposits from individuals, corporations and financial institutions. A sudden outflow of deposits from customers might have an adverse effect on the liquidity position of the Issuer's and therefore its financial position.

Liquidity management is carried out by Treasury and monitored by Risk Management. The liquidity position is reported to the Asset and Liability Committee.

The Issuer continuously maintains liquidity and funding ratios in accordance with the Central Bank of Iceland's rules of credit institutions' liquidity ratios no. 266/2017. The rules include requirements for the coverage ratio between cash flows of assets and liabilities (hereafter referred to as "LCR") as well as the required stable funding in foreign currencies (hereafter referred to as "NSFR").

The minimum 30-day LCR was 100% in 2018 as well as in 2019 (100% for non-ISK assets). The minimum NSFR in foreign currencies was 100% in 2018 as well as in 2019. The Group was in compliance with internal and external liquidity requirements throughout the years 2019 and 2018. At end of December 2019 the LCR was 246% and at year end 2018 it was 277%.

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.

Kvika has established guidelines regarding the matching of maturities of assets and liabilities. Furthermore, to ensure the ability to meet liquidity needs, the Issuer maintains a stock of highly liquid unencumbered assets, e.g. cash, treasury bills and bonds.

To manage liquidity risk, the Issuer has established a risk management strategy pertaining to liquidity management. The Issuer's liquidity risk management is consistent with both external regulatory requirements and internal criteria set by the Issuer's risk policy. As per the risk policy, the implementation of liquidity management shall be in compliance with the rules and recommendations of regulators, including the Guidelines of the Financial Supervisory Authority no. 2/2010, for sound liquidity risk management and supervision. The Asset and Liability Committee may set further criteria within the framework of the Risk Policy Guide and Rules on risk management and should ensure that Treasury has the agency and capacity for the day-to-day management of funding and liquidity risk. Treasury shall:

- Ensure prudence in the daily management of the Issuer's liquidity;
- Distribute and direct funds in a way that promotes a solid liquidity environment;
- Maintain diversity in funding regarding maturity and origin;
- Ensure that liquidity risk limits are respected

Treasury has outlined a contingency plan to be activated in the event of situations that threaten or are likely to threaten the Issuer's liquidity position. The Financial Supervisory Authority of the Central Bank of Iceland (hereafter the „FSA“),has supervised and given valuable guidance in outlining the contingency plan. The contingency plan has been approved by the Issuer's Board of Directors and outlines responsibilities as well as defining the framework of disclosure requirements to the Asset and Liability Committee, the Board of Directors and regulators. Criteria for activating the liquidity management contingency plan are more detailed and stricter than those required by rules no. 266/2017 on liquidity coverage ratios, issued by the Central Bank of Iceland.

Risk Management has a supervisory role regarding the Issuer's liquidity risk and is responsible for reporting, both internally and to regulatory bodies. The daily implementation of liquidity management is further defined in Liquidity Risk Management Procedures, which prescribes, among other things, regular status meetings of Risk Management and Treasury representatives to review liquidity developments. The procedures also describe the frequency and scope of reporting. For example, Risk Management calculates and publishes internally liquidity and funding ratios as needed, though never less than once a week. Likewise, a comprehensive liquidity report reviewing both internal and external risk indicators should be submitted monthly to the Asset and Liability Committee. Finally, Risk Management is obliged to inform the Board of Directors of liquidity risk as a part of the regular risk reporting presented at least every three months.

Operational Risk

A failure in one of the Issuer's main operating systems could have an adverse effect on the Issuer's business.

Operational risk is the risk of financial losses resulting from the failure or inadequacy of internal processes or systems, due to employee error, fraud or external events.

Operational risk is multifarious and often categorised into more specific risk types, such as, for example, legal risk, business risk, product risk, systems risk, human error and fraud. Following is a description of the operational risk factors that are considered relevant for the Issuer.

Operational risk factors are inherent in all areas of business activities and public awareness of these factors can add to the Issuers' reputational risk.

Operational risk can be reduced through staff training, process re-design and enhancement of the overall control environment. The Issuer's Risk Management Department monitors operational risk by tracking loss events, quality deficiencies, potential risk indicators and other early-warning signals. Risk Management plays an active role in internal controls and quality management.

Operational risk is relevant to all the Issuers' activities. The Management Team is responsible for enforcing the Issuer's risk management policy in relation to operational risk while Risk Management is responsible for evaluating, measuring and communicating operational risk to the relevant parties. This includes supporting the Compliance Unit in ensuring that all adequate rules and procedures are in place, regularly reviewed and followed. The Issuer, 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 in minimising those risks.

The Issuer emphasises that each department should perform its own risk assessment, supervised by Risk Management, to assess the internal operational risk in its activities. This includes identifying need for improvements and implementing an action plan for important projects in that regard, in order to develop operations and strengthen infrastructure; thereby reducing operational risk. The Issuer’s Operations Committee regularly initiates improvement projects, with the goal of minimising the Issuer's operational risk.

The Issuer's contingency plan details how to maintain its main activities and minimise damage caused by a serious disturbance to operations, such as due to a critical incident, systemic problems, facility issues and human resource shortages. The Issuer's IT department regularly tests security and access control systems, data validity, new systems and system backups.

The technological advances in the financial sector have been rapid during recent years. To keep up with the rapid developments the Issuer will be implementing a new core deposit and payment system, Sopra Banking system. The Sopra banking system opens the way to increased integration of software solutions in the financial system.

The Issuer is exposed to the risk of security breaches and unauthorized access of confidential information. The failure in functionality of the Issuer's information systems could have an adverse effect on the Issuer's business.

The rapid development of technology has led to a greater attention and importance of acknowledging information and communication technology risk, as most of the Issuer’s operations rely entirely on information, information processing and automated information systems. Therefore, any incidents that compromises the information and communication solutions used by the Bank can have a serious impact on the Issuer’s business processes. These incidents can be various and either random, malicious or accidental, such as, for example, destruction of data or data theft (e.g. from cyber-attacks), errors and omissions, system disruptions etc. The aforementioned incidents could have a material effect on the Issuer’s operations and business.

The Issuer’s IT department is continuously working thoroughly on minimising IT risk through various ways as well as increasing general operational security. For example, by increasing the employees' security awareness through more extensive and organised security education since the majority of cyber-attacks stem from human activity. Moreover, all important data is backed up and stored at an offsite data centre where backups are kept encrypted but available on disk arrays for the fastest possible recovery, e.g. in case of a critical data loss or system failure. To ensure data integrity, restorations of the backups are tested on a weekly basis. The IT department has also implemented real-time monitoring that monitors all network connection and services, has an operation desk that is manned 24/7 and prioritises alerts and takes actions when necessary. Furthermore, the Issuer’s data centre is ISO 27001 certified which confirms that strict safety rules are being followed in all processing and management of information systems and data as ISO 27001 is a security management standard that specifies security management best practices and comprehensive security controls following the ISO 27002 best practice guidance. Management and incidents are also logged and handled according to ISO 27001, to minimise errors and operational incidents.

Due to the nature of banking, the safe handling and processing of customer's personal data and other confidential information, is an important part of the Issuer’s daily operations. The same applies to the Issuer’s subsidiaries, including Júpíter rekstrarfélag hf. (hereafter “Júpíter”), GAMMA Capital Management hf (hereafter “GAMMA”), Kvika Securities Ltd (hereafter “Kvika Securities” or “KSL”) and Kvika Advisory Ltd. The Issuer and the subsidiaries are legally responsible for safeguarding personal data and confidential information and must comply with strict data protection and privacy laws, including rules on bank secrecy, when handling and processing such data.

Pursuant to Act no. 161/2002 on Financial Undertakings (hereafter referred to as “Act on Financial Undertakings”), the Issuer’s Board of Directors, managing directors, auditors, employees and any persons undertaking tasks on behalf of the Issuer are bound by an obligation of confidentiality concerning any information of which they may become aware in the course of their duties regarding business or private concerns of the Issuer’s customers, unless obliged by law to provide such information. This obligation is commonly referred to as bank secrecy.

To protect confidential information, and to ensure compliance with rules on bank secrecy, the Issuer has implemented appropriate security measures, such as internal rules on information concerning the Issuer's customers, which apply to the work of all of the Issuer's employees, board members, auditors, contractors and any other parties who undertake work on behalf of the Issuer. Further, all data access is controlled through dedicated access control systems to ensure data security and an overview of who is permitted to access which data. Access reviews are performed annually to maintain the quality of access control. Moreover, contracts with third-party service providers, working for the Issuer, generally include confidentiality obligations, restricting them from using or disclosing any confidential information they receive from the Issuer. A performance failure or operational errors by third-party service providers could have a material effect on the Issuer's business and operations.

However, security measures, such as confidentiality agreements, may not fully prevent the unauthorised use or disclosure of confidential information or allow the Issuer to seek reimbursement from a third-party in case of a breach of confidentiality obligation towards the Issuer.

Violating rules on Bank secrecy, by loss of control of confidential information, due to e.g. cyber security breaches or human error, can result in significant reputational damage, additional costs or other charges, fines, legal proceedings or regulatory actions against the Issuer by governmental authorities, customers or other third parties.

Act no. 90/2018, on Data Protection and the Processing of Personal Data (hereafter referred to as the "Data Protection Act"), implementing the European General Data Protection Regulation (hereafter referred to as "GDPR"), came into force in July 2018. The Data Protection Act included significant changes to the previous data protection legislation. To protect personal data, the Issuer has implemented appropriate security measures in accordance with the requirements of the new legal regime, including a data protection policy. The Issuer's data protection policy specifies the personal data that the Issuer processes, for what purpose, how long the data will be stored, third parties that may obtain access to the personal data and how the security of personal data is guaranteed. The Board of Directors has appointed a data protection officer in accordance with the Data Protection Act, who shall be appointed based on professional competence. The task of the data protection officer is primarily to supervise compliance and assist the Issuer in complying with the provisions of the Data Protection Act. Penalties for non-compliance with the Data Protection Act can be monetary fines, damages and, in severe cases, criminal liability.

Reputational risk is the risk of financial losses due to the Issuer's negative impression towards stakeholders, such as customers, shareholders, employees, and investors. Consequences of a negative impression can lead to a lack of trustworthiness in the market, leading to a loss of customers and opportunities and, consequently, income.

The Issuer has a well-established image and positive reputation that has contributed to attracting new customers, as well as strengthening its business relations with core customers. If the Issuer's reputation suffered significant damage, there is a risk that a substantial number of customers will terminate their business relationship and other counterparties will be reluctant to engage in further transactions with the Issuer. This could negatively impact and limit the Issuer's potential of obtaining funding, creating new business relationships and maintaining existing ones.

The Issuer has a policy on reputational risk which aim is to minimise the risk of reputational damage in the Issuer's operations.

The Issuer emphasises that customers are kept well informed and regularly provides information about new services provided, changes to existing services and other information that customers may benefit from. The Issuer has implemented communication procedures, detailing how communications and information flows to customers, employees, the public, regulatory bodies and shareholders are to be conducted and who is authorised to publicly discuss matters relating to the Issuer and its operations.

The Issuer regularly assesses these risk factors in accordance with the procedures and identifies the ones that are considered the most important.

Changes in legislation could affect the Issuer's business structure.

In assessing legal risk, the Issuer takes into consideration risk due to disputes of contracts that the Issuer is party to, risk due to ongoing and potential court disputes as well as risk due to administrative and/or private claims. Furthermore, the Issuer continuously assesses the risk of possible fines or other punitive decisions by regulatory bodies. The Issuer also monitors compliance with applicable laws and regulations, as well as monitoring court rulings that may have a precedent for the Issuer's activities as well as legislative changes.

The Issuer has assessed the risks of current and imminent disputes due to contracts which the Issuer is a party to.

Furthermore, the possibility of disputes rising in the future due to these contracts has been assessed. It is the Issuer's assessment that no dispute of a significance, that would give rise to a special capital allocation exists.

In order to minimise the risk of disputes due to contracts to which the Issuer is a party to, the Issuer has reviewed and structured all internal rules and procedures. Furthermore, the Issuer continuously reviews the relevant regulatory framework and procedures regarding the Issuer's lending process. The Credit Committee's operational rules are reviewed annually in accordance with other internal rules. Additionally, the Credit Committee's scope has been expanded in concurrence with other continuous efforts to improve procedures and administration around the Issuer's lending activities. For information on material contracts of the Issuer, reference is made to chapter *Warrants*.

Regulatory changes could mean increased compliance cost for the Issuer and adversely affect the Issuer's business. Changes in current regulatory capital requirements could mean that the Issuer's business is less profitable and result in adverse effect on the Issuer's business.

Frequent changes in tax legislation pose a general risk to entities operating in Iceland and any changes in tax legislation can affect the financial results of the Issuer.

In addition to the general risk, there is an additional tax risk regarding financial institutions as there are taxes levied specifically on financial undertakings in Iceland in accordance with Act no. 90/2003, on Income Tax and Act no. 155/2010 on Special Tax on Financial Institutions.

Pursuant to the Value Added Tax Act no. 50/1988, with subsequent amendments (hereafter referred to as the "Value Added Tax Act"), the services of banks, saving banks and other credit institutions, as well as stock-brokerage, are exempt from value added tax (hereafter referred to as “VAT”). However, the VAT environment of financial undertakings has in general been subject to some uncertainty regarding the handling of VAT on the sale of goods and services as it is the interpretation of Icelandic tax authorities that the exemption only applies to services banks or credit institutions provide according to the Act on Financial Undertakings. Services that could be deemed by the tax authorities not to fall within the services provided under the Act on Financial Undertakings but are provided by banks and credit institutions can, to some extent, be subject to interpretation.

Although the Issuer believes its collection and handling of VAT for services provided by the Issuer is in accordance with the Value Added Tax Act, there is no guarantee that the Icelandic tax authorities will not conclude otherwise. Were that to happen, the Issuer could be retroactively liable for six years' unpaid tax, plus penalties and interest.

There is an additional risk regarding competitive affects were any of the banks or credit institutions to start claiming value added tax on any services provided, resulting in a competitive advantage or disadvantage with different treatment of VAT and possible material adverse effects for those claiming such VAT.

Failure to meet the governing authority compliance regulations could result in the business closure of the Issuer and adversely affect the Issuer's business and reputation.

The Issuer’s Compliance Unit is responsible for the supervision of securities transactions. This supervision involves, among other things, a regular check on whether customers have been correctly categorised, both at the beginning of a new business relationship as well as when customers request to be re-categorised once a business relationship has been established. The Issuer also monitors whether individual transactions are in accordance with the customer's suitability at the time, the Issuer’s categorisation of the customer and the specific transaction instructions. Additionally, the Compliance Unit supervises changes in the Issuer’s securities portfolio, specifically whether acquisition/disposal of voting rights in listed companies must be reported in accordance with Icelandic law.

The Compliance Unit is responsible for the Issuer’s anti-money laundering and terrorist financing measures. This involves structuring a regulatory framework and procedures to minimise the risk of the Issuer being used for these activities. The Compliance Unit's supervision is twofold. On one hand, conducting due diligence on new customers and, when appropriate, existing customers in accordance with the Issuer’s risk assessment and, on the other hand, monitoring the Issuer’s customers, their transfers, withdrawals etc. with the aim of detecting any such activities. If a suspicion of money laundering and/or terrorist financing arises, the Compliance Unit informs the relevant authorities.

The Compliance Unit also oversees and supervises the Issuer’s fulfilment of its obligations under chapter XIII of the Icelandic Act on Securities Transactions, No. 108/2007 (hereafter referred to as “Act on Securities Transactions”), regarding the handling of insider information and insider trading. This includes supervision of the Issuer’s obligations under article 122 of the act, pertaining to disclosure, suspension of disclosure and legitimate disclosure of insider information. Additionally, the Compliance Unit oversees and supervises the Issuer's fulfilment of its obligations under other articles of the same chapter such as the disclosure of Executive Management trading and the preparation of insider lists as well as supervision of the handling of any insider information and insider trading pursuant to article 130 of the act.

Further, the Compliance Unit makes sure that the Issuer has in place rules and procedures to identify and prevent conflicts of interests, has an overview of possible predefined conflicts of interests and ensures that measures are taken if conflicts of interests that have not been predefined arise or are likely to arise.

The Issuer future business growth relies on retaining qualified and experienced employees and management.

The Issuer's operations are based on the knowledge, experience and future vision of the Issuer's essential employees. There is no guarantee that these individuals will continue to work for the Issuer. The loss of any such essential employee may significantly delay the attainment of the Issuer’s business objectives and could negatively affect the Issuer‘s business, financial condition and results of operations.

To minimise risk relating to attrition or absenteeism of essential employees, a substitute for each member of the Executive Management has been designated by each relevant member of the Executive Management. The Head of Risk Management and Head of Treasury have also designated their substitutes. The Board of Directors has been informed of the names and titles of the substitutes. Further, the Issuer's remuneration policy may, to some extent, limit the risk of loss of essential employees, but its main goal is to make the Company a desirable place of work for qualified and ambitious individuals and be able to build long-term relationship with employees. However, when the labour market is experiencing wage inflation the Issuer may come under pressure to increase the salaries of its employees. Salary increases can lead to increases in the Issuer’s expenditure which could have adverse effect on the Issuer’s business, financial condition and ability to make payments in respect of the Securities.

The Issuer's consolidated financial statements are partly based on future estimates and assumptions. Large deviations from those measures could result in future losses and affect the Issuer's business adversely.

The Consolidated Financial Statements of the Issuer have been prepared in accordance with International Financial Reporting Standards (hereafter referred to as “IFRS”), as adopted by the European Union and additional requirements in the Icelandic Financial Statement Act. Any changes to the aforementioned accounting principles could have an effect on the statement of comprehensive income or the statement of financial position in the Issuer's Consolidated Financial Statements.

Poor decisions and executions of projects have a negative impact on the Issuer's business and financial position.

Business risk is defined as the risk of financial loss due to changes in the Issuer's economic environment or due to certain events that may reduce the expected earnings of the Issuer. Strategy risk is defined as the risk of the Issuer's expected earnings and capital ratio deteriorating due to changes in the Issuer's business environment or due to unfavourable business decisions, late and unwise decision making or lack of response time due to changes in the environment.

Political decisions that lead to changes in regulatory obligations and requirements for the Issuer might have an adverse impact on the Issuer.

The Issuer has established procedures for the handling of regulatory and political risk, both regarding roles and responsibilities within the Issuer as well as procedures for estimating additional capital requirements due to such risks. In assessing the political and regulatory risk, the Issuer emphasises two factors. The Issuer assesses the risk of laws and regulations being amended in a way that could have a significant impact on the Issuer's operating profit, competitive position, etc. Furthermore, the Issuer assesses the political risk as it relates to government economic, fiscal and monetary policy and policies regarding individual political decisions that may affect individual industries, communities or businesses. The risk of terrorism, riots, civil wars, etc. can furthermore be mentioned as examples of political risk.

Based on the Issuer's assessment, the Issuer currently does not hold a specific capital requirement due to political risk in excess of what is already in place due to overall business and policy risk. The main current uncertainty is the processing of the strategy presented in a white paper on the financial system and whether the two domestic banks, currently owned by the Icelandic government, will be sold, either being in part or full.[1]

The Issuer emphasises on maintaining a comprehensive assessment of the status of these risk factors, their likely development and ways of improvements. Analysis to identify and manage political and regulatory risks is continuously ongoing.

The Issuer's insurance coverage might not cover all losses

The Issuer has insurance policies in place which are considered appropriate and relevant with respect to the Issuer’s operations. More specifically, the Issuer has a Combined Comprehensive Crime and Professional Indemnity Insurance Policy as well as Directors' and Officers' Liability Insurance Policy. Despite these insurance policies which the Issuer has in place, there is no guarantee that all claims that might be lodged against the Issuer at any time would be covered.

Capital Management Risk

Changes regarding required capital may have an adverse effect on the Issuer

The Issuer's capital ratios are calculated in accordance with the Act on Financial Undertakings and regulation 233/2017 on prudential requirements for financial undertakings. In accordance with the Financial Supervisory Authority's regulation no. 233/2017 on prudential requirements for financial undertakings, the Issuer uses the standardised approach to calculate capital requirements for credit risk, market risk and operational risk. Failure by the Issuer to meet the regulatory capital requirements could result in the intervention of regulators. The regulators

[1] The White Paper on a Future Vision for the Financial System was published on 10 December 2018 https://www.government.is/library/01-Ministries/Main%20Emphases%20and%20Conclusions%20(002).pdf

could impose sanctions on the Issuer and therefore affect the financial position and reputation of the Issuer severely.

The Issuer maintains and performs an Internal Capital Adequacy Assessment Process (hereafter referred to as “ICAAP”) and Internal Liquidity management processes (hereafter referred to as “ILAAP”). These processes assure that the Issuer has in place systems that manage and identify risk factors and ensure sufficient capital and liquidity.

The aim of the ICAAP process is to identify, calculate and document the additional capital requirement the Issuer must hold in accordance with its current planned risk profile as well as stressed scenarios.

The Issuer's ILAAP process ensures a sound and effective overall architecture of liquidity management and the required documentation.

IMPORTANT INFORMATION

Notice to Investors

This Registration Document dated 13 July 2020 (hereafter the “Registration Document”), has been approved by the FSA as competent authority under Regulation (EU) 2017/1129. The FSA only approves this Registration Document as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129 and such approval should not be considered as an endorsement of the issuer that is the subject of this Registration Document. The Registration Document is a part of the Issuers' Prospectus, dated 13 July 2020 (hereafter referred to as the “Prospectus”), which concerns, and is published in relation to the Issuer's application to have its newly issued Securities (hereafter also referred to as the “Securities” and the “Series of Securities”) admitted to trading on the Regulated Market of Nasdaq Iceland hf. (hereafter referred to as the “Regulated Market of Nasdaq Iceland”). The Prospectus has been prepared in accordance with Icelandic laws and regulations in effect on the date of the Prospectus, including Act no. 108/2007, on Securities Transactions (hereafter the “Act on Securities Transactions”) and Act no.14/2020, on Prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market (hereafter the “Act on Prospectuses”) which implements Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (hereafter the “Prospectus Regulation”) into Icelandic law. Furthermore, the Prospectus has been prepared in accordance with the provisions of Annex 6 and Annex 15 of Commission Delegated Regulation (EU) 2019/980, c.f. Regulation 274/2020. The Prospectus is additionally prepared with regard to the Rules for Issuers of Financial Instruments, issued by Nasdaq Iceland hf., effective as of 1 May 2020.

The Prospectus is published in English and consists of two documents, a Securities Note dated 13 July 2020 and this Registration Document dated 13 July 2020. The Prospectus is available for viewing for 10 years from the date of this Prospectus at the Company's registered office at Katrínartún 2, 105 Reykjavík, Iceland. The Prospectus will also be available on the Company's website: https://www.kvika.is/en/investor-relations/prospectuses/.

The information appearing in this Prospectus should not be construed as an offer, a recommendation or solicitation to buy, hold or sell securities issued by the Company or to take any other investment decisions. The Prospectus contains information for investors to evaluate the Company's assets and liabilities, financial situation, performance and outlook. Investors are encouraged to familiarise themselves with all information contained in the Prospectus, especially the chapter named *Risk Factors*, both in the Securities Note and in this Registration Document.

Following the publication of the Prospectus, investors are advised to acquaint themselves with all public information issued by Kvika or concerning Kvika and/or bills, bonds or shares issued by Kvika.

Only the Company is entitled to procure information about conditions described in this Registration Document. Information procured by any other person is of no relevance in relation to this Registration Document and cannot be relied on.

This Registration Document, as well as other documents which are a part of the Prospectus, may not be sent or otherwise distributed, whether electronically or by other means, to countries in which distribution would require additional registration measures or other measures to be taken other than as applicable under Icelandic laws and regulations, or would be in conflict with laws and regulations in the relevant country. In some jurisdictions laws and regulations may restrict distribution of the Prospectus. Therefore, the Company requests all recipients of the Prospectus to familiarise themselves with and act in accordance with such laws and regulations or other restrictions. Kvika assumes no liability for distribution of the Prospectus by any third parties in any jurisdiction. This Registration Document, as well as any other documents in the Prospectus, should not be distributed or sent to the or sent to the United States, Australia, Canada, Hong Kong, Singapore, South Africa or Japan.

This Registration Document, or other documents which are a part of the Prospectus, should by no means be viewed or construed as a promise by the Company of future success in operations or as a return on investments. Investors must, first and foremost, trust their own judgment when it comes to investing in securities issued by the Company, and are advised to seek advice from external experts before making investment decisions. Investors are furthermore advised to consider their legal status, including taxation issues that may concern the purchase or sale of the Company's securities, and seek external and independent advice in that respect.

Information in this Prospectus is based on circumstances and facts on the date the Prospectus is signed. If significant new information, material mistakes or inaccuracy relating to information in the Prospectus, which could affect the assessment of the Company's securities, is discovered between the time the Prospectus is approved and the time when the Company's securities are admitted to trading, a supplement to the Prospectus shall be prepared describing the details in question. The supplement shall be approved within five working days and published in the same manner as the original Prospectus.

As the Company's shares were admitted to trading on the Regulated Market of Nasdaq Iceland in March 2019, the Company is already under disclosure obligation on the market pursuant to applicable laws and regulations, cf. the Act on Securities Transactions, publicly issues announcements, and is governed by the Nasdaq Iceland Rules. Additionally, the Bank has issued bonds that are currently admitted to trading on the Regulated Market of Nasdaq Iceland hf. and is therefore further already governed by the Nasdaq Iceland Rules' provisions regarding bills and bonds.

Company Statement

The CEO and Deputy CEO of Kvika hereby declare, on behalf of the Issuer, that, to the best of their knowledge, having taken all reasonable care to ensure that such is the case, that the information in this Registration Document is, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 13 July 2020

For and on behalf of Kvika	For and on behalf of Kvika
Marinó Örn Tryggvason CEO of Kvika	Ármann H. Þorvaldsson Deputy CEO

Statutory Auditor

The Company's audit firm is Deloitte ehf., reg. no. 521098-2449, Smáratorgi 3, 201 Kópavogi, Iceland. Kvika's auditors are Pálína Árnadóttir, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland and Guðmundur Ingólfsson, State Authorised Public Accountant and member of the Institute of State Authorised Public Accountants in Iceland. Deloitte ehf. has been the Company's audit firm since it was elected its audit firm, at the Company's shareholders' meeting in March 2016.

Deloitte has audited the consolidated financial statements of Kvika for the years ended 31 December 2019 and 2018 and reviewed the consolidated financial statements of Kvika for the periods ended 30 June 2018 and 2019. The auditor's report in the Consolidated Financial Statements of the Issuer for 2019 and 2018 and the review reports for the periods ended ended 30 June 2018 and 2019 were signed with an unmodified opinion.

Information incorporated by reference

This Registration Document is to be read in conjunction with all documents which are deemed to be incorporated herein by reference. This Registration Document shall be read and construed on the basis that such documents are incorporated and form part of the Prospectus. The following information shall be incorporated by reference in, and form a part of this Registration Document:

The Bank's condensed interim consolidated financial statements for the three months ended 30.3.2020:

https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=776106

The Bank's consolidated financial statements for the year ended 31.12.2019, together with the audit report thereon:

https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=759340

The Bank's reviewed condensed interim consolidated financial statements for the six months ended 30.6.2019, together with the review report thereon:

https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=736792

The Bank's audited consolidated financial statements for the year ended 31.12.2018, together with the audit report thereon:

https://newsclient.omxgroup.com/cds/DisclosureAttachmentServlet?showInline=true&messageAttachmentId=712214

Documents on Display

For 12 months from the date of the publication of the Prospectus, the following documents are available for viewing at the registered office of the Company, and/or electronically on the Company's website, *www.kvika.is*:

- The Prospectus, dated 13 July 2020, and any supplements thereto as applicable
- The Company's Articles of Association
- The Company's Constitutional Documents
- The Company's condensed interim consolidated financial statements for the six months ended 30.6.2018
- The Company's Audited consolidated financial statements for the year-ended 31 December 2018
- The Company's condensed interim consolidated financial statements for the six months ended 30.6.2019
- The Company's Audited consolidated financial statements for the year-ended 31 December 2019
- The Company's condensed interim consolidated financial statements for the three months ended 31.3.2020

Third Party Information

Where third party information has been used in the Prospectus, the information has been accurately reproduced and the source of such information has been identified. As far as the Company is aware and able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. When third party information has been used in the Prospectus, it has been on the basis of publicly available information which is cited in footnotes where applicable.

Definitions

“Kvika”, the “Issuer”, the “Company” or the “Bank”	Kvika banki hf., reg. no. 540502-2930, Katrínartúni 2, 105 Reykjavík, Iceland
The “Group”	Kvika along with its subsidiaries as at 31.12.2019
The “Securities” and the “Series of Securities”	The new series of Kvika's securities KVB 20 1221, which is the series that the Issuer has requested to be admitted to trading on the Regulated Market of Nasdaq Iceland.
“ALCO”	The Bank’s Asset and Liability Committee
“Júpíter”	Júpíter Rekstrarfélag hf.
“GAMMA”	GAMMA Capital Management hf.
“KKV”	KKV Investment Management Ltd.
“Kvika Securities” or “KSL”	Kvika Securities Ltd.
The “FSA”	the Financial Supervisory Authority of the Central Bank of Iceland
“LTV”	The loan-to-value ratio
“VaR”	Statistical Value at Risk methods
“Act on Financial Undertakings”	Act no. 161/2002 on Financial Undertakings
“Data Protection Act”	Act no. 90/2018, on Data Protection and the Processing of Personal Data
“Value Added Tax Act”	Value Added Tax Act no. 50/1988
“VAT”	Value Added Tax
“IFRS”	International Financial Reporting Standards
“ICAAP”	Internal Capital Adequacy Assessment Process
“ILAAP”	Internal Liquidity Management Processes
“Prospectus”	The prospectus dated 13 July 2020, which concerns and is published in relation to Kvika's application to have its securities in the new series KVB 20 1221 admitted to trading on the Regulated Market of Nasdaq Iceland, consisting of this securities note dated 13 July 2020 and a registration document, dated 13 July 2020

the "Securities" and the "Series of Securities"	The new series of Kvika's securities KVB 20 1221, which is the series that the Issuer has requested to be admitted to trading on the Regulated Market of Nasdaq Iceland.
"Regulated Market of Nasdaq Iceland"	The regulated market of Nasdaq Iceland hf.
"Act on Securities Transactions"	Act on Securities Transactions, No. 108/2007
"Act on Prospectuses"	Act no.14/2020 on Prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market
"Prospectus Regulation"	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC
"Registration Document"	This registration document dated 13 July 2020
"Securities Note"	The securities note dated 13 July 2020
"ISK"	Icelandic Króna

THE ISSUER

About the Issuer

Legal name:	Kvika banki hf.
Commercial name:	Kvika
Address:	Katrínartún 2, 105 Rvk, Iceland
Reg. No.:	540502-2930
Legal form:	A public limited company established under the Act on Public Limited Companies
Domicile:	Iceland
Date of incorporation:	07.05.2002
Ticker symbol with Nasdaq Iceland:	KVIKA
ISIN-number:	IS0000020469
LEI:	254900WR3I1Z9NPC7D84
Website:	www.kvika.is[2]
E-mail:	kvika@kvika.is
Phone number:	+ 354 540 3200

The Issuer's Purpose

According to Article 1.4. of the current Articles of Association of Kvika at the date of this Prospectus, dated 17 April 2019, the purpose of the Company is to provide financial services. The Company is authorised to engage in those operations which financial undertakings are permitted to carry out in accordance with the law and the Company's operating license as well as normal operations in relation thereto. The Company is authorised to achieve its objectives through establishment and operation of subsidiaries as well as other participation and ownership of companies, compatible to its operations.

History and Development

Kvika traces its roots back to 1999 when MP Verðbréf hf. was established. MP Verðbréf hf. was granted an investment banking license in Iceland in 2003, following which the name was changed to MP Fjárfestingarbanki hf. In 2008 MP Fjárfestingarbanki hf. was granted a commercial banking license in Iceland.

In April 2011, a group of private investors purchased the Icelandic operations of MP Fjárfestingarbanki hf., which later got the name MP banki hf. In 2011, MP banki hf. acquired

[2] Information on the website does not form part of the Registration Document unless that information is incorporated by reference into the document.

Alfa verðbréf hf., a licensed securities company. The merger of the two companies, under the name and registration number of the former, was approved by the FSAin March 2012. In 2015 MP banki hf. and Straumur fjárfestingabanki hf. merged, and the merged bank was renamed Kvika. Straumur fjárfestingabanki hf. was the only specialised investment bank in Iceland, focusing on capital markets, asset servicing, advisory and corporate finance.

In September 2017, Kvika acquired all shares in Virðing hf., a licensed securities company focusing on asset and fund management with ISK 100 billion of assets under management. Work began on merging the two companies immediately following the acquisition and was concluded on 17 November 2017.

In October 2017, Kvika acquired all shares in Alda sjóðir hf., a fund management company with ISK 44 billion of assets under management. At the end of May 2018, Alda sjóðir hf. and Kvika's subsidiary Júpíter merged under the name and registration number of the latter. In March 2019 the Group aquired all shares in GAMMA, a fund management company with ISK 135 billion of assets under management at year-end 2018. GAMMA is held as a subsidiary.

On 2 September 2019 the Bank announced its decision to merge all asset and fund management activities of the Group, subject to the approval of the relevant supervisory authorities. Following the merger, the merged Kvika subsidiary would become the biggest asset and fund management company in Iceland.

Further, in June 2020 Kvika announced the expansion of its asset management operations in the UK as KKV Investment Management Ltd. (Hereafter "KKV"), a subsidiary of Kvika Securities, Kvika's UK subsidiary, reached an agreement to provide investment management services to British secured loan fund SQN Asset Finance Income Fund. The fund has net assets of £390 million, equivalent to ca. ISK 70 billion and is listed on the London Stock Exchange. KKV is a newly established investment manager specialising in direct lending and alternative credit, which operates as an independent subsidiary of KSL.

BUSINESS OVERVIEW

Competitive Environment

The Icelandic banking sector is highly concentrated with three large banks Arion banki hf., Íslandsbanki hf. and Landsbankinn hf., all of which are defined as domestic systemically important banks.

The structure of the financial system has changed in recent years as the Icelandic banking sector has seen increasing competition from less regulated financial institutions i.e. shadow banking system. This includes and is not limited to, pension funds (not as defined by the Central Bank of Iceland), management companies of UCITS funds and other unregulated entities. For example, specialised fund vehicles are often able to offer better terms for loans and other unregulated entities are offering unsecured loans for the retail market in competition to overdraft facilities. Icelandic pension funds have expanded their share in the retail mortgage lending market, and with the recent increase in employer contributions, this trend is likely to continue.

While the Icelandic investment banking market is small in comparison to European and other international markets, several local competitors actively participate in various corporate banking, corporate finance, capital markets and asset management activities. Main participants include the investment banking divisions of the three large banks as well as Kvika and several boutique firms such as Arctica Finance, Fossar Markets, Íslensk Verðbréf hf. and others.

General Overview

Kvika is a specialised bank focusing on asset management and investment services. The Bank places emphasis on developing long-term partnerships with customers through responsive and versatile services. Kvika is licensed to operate as a commercial bank under the Act on Financial Undertakings.

Targeted range of services

Kvika focuses on specific groups and customers, emphasising exceptional, tailor-made services. The Bank's size enables it to adapt to its environment with the aim of maintaining profitability and customer service. The Bank is prepared to make use of its infrastructure and balance sheet to generate income, e.g. by utilising its loan processes to loan in tandem with other lenders.

- Banking finances enterprises and the investments of the Bank's customers. Banking also makes use of the Bank's expertise and network to broker loans to other institutional investors.
- Asset Management emphasises offering customers a broad range of services for investing in Iceland as well as in global markets. The aim is to provide the best asset and fund management services, guided by customers' long-term interests.
- Capital Markets offers customers comprehensive securities brokerage and foreign exchange market services.
- Corporate Finance provides various types of advisory services in connection with investments and financing. The principal focus is on corporate acquisitions and divestments, as well as initial public offerings.

The Group employs a tight-knit team of experts who achieve success on the basis of their diverse educational backgrounds, in-depth knowledge, extensive experience, and dedication to meeting customers' needs. Kvika's CEO is Marinó Örn Tryggvason and the chairman of the Board is Sigurður Hannesson.

The Bank is currently listed on the Regulated Market of Nasdaq Iceland. The Bank has also issued several bills and bonds that have been admitted to trading on the Regulated Market of Nasdaq Iceland.

Organisational structure

The Issuer's organisational chart can be seen below in Figure 1.

The Issuer's organisational chart can be seen below in Figure 1.
The Group defines four reportable segments, based on the same principles and structure as internal reporting to executive management and the board of directors. On 31.12.2019, the Group employed 132 full-time employees.

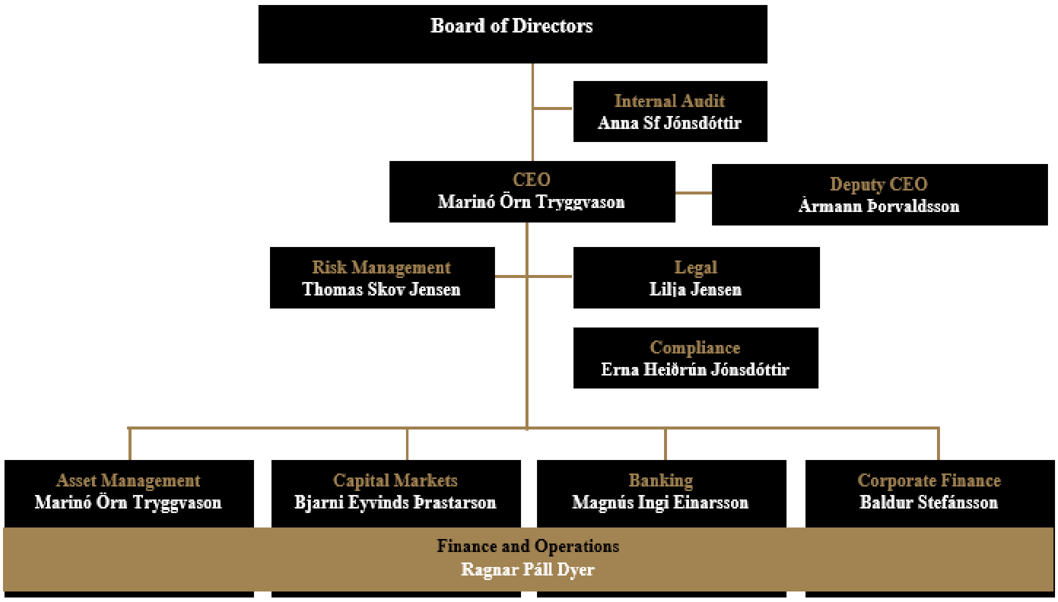

Figure 1: The Group's organisational chart

On 2 September 2019 the Bank announced its decision to merge all asset and fund management activities of the Group, which is still subject to the approval of the relevant supervisory authorities. The merged entity will be a wholly owned subsidiary of the Group, leaving Kvika with three reportable segments: Capital Markets, Banking and Corporate Finance.

The Issuer is the parent company of the Group and owns several subsidiaries.
The main subsidiaries held directly or indirectly by the Group are listed in the table below

Entity	Nature of operations	Domicile	Share 31.12.2019
FÍ Fasteignafélag GP ehf.	Real estate fund management	Iceland	100%
GAMMA Capital Management hf.	Fund management	Iceland	100%
Júpíter rekstrarfélag hf.	Fund management	Iceland	100%

M-Investments ehf.	Holding company	Iceland	100%
Netgíró reikningar ehf.	Holding company	Iceland	100%
Netgíró lán ehf.	Holding company	Iceland	100%
Netgíró lán II ehf.	Holding company	Iceland	100%
Rafklettur ehf.	Holding company	Iceland	100%
AC GP 3 ehf.	Fund management	Iceland	80%
Kvika Securities ltd.	Business consultancy services	UK	100%

Table 1: Main Group Subsidiaries

Júpíter and GAMMA are UCITS management companies, licensed under the Act on Financial Undertakings and the Act on UCITS, Investment Funds and Professional Investment Funds. Júpíter operates funds with a main emphasis on listed securities as well as unlisted debt instruments while GAMMA operates funds that are mainly focused on real estate and alternative investments.

Kvika Securities Ltd. is a UK subsidiary, which the Bank acquired through the acquisition of Virðing in 2017. Kvika Securities is regulated in the United Kingdom by the Financial Conduct Authority and is authorised to manage alternative investment funds and provide asset management and corporate finance services. Kvika Advisory Ltd. is a subsidiary of Kvika Securities Ltd., acquired through the Bank's acquisition of GAMMA in 2019. Kvika Advisory Ltd. is regulated in the United Kingdom by the Financial Conduct Authority and is authorised to provide corporate finance services. KKV Investment Management Ltd. is a subsidiary and appointed representative of Kvika Securities Ltd., founded in 2020. KKV is an alternative credit investment manager focusing on collateralised, non-correlated, income-producing investments.

Júpíter, GAMMA and KSL have been classified by the Issuer as significant subsidiaries. Though varying in their financial contribution to the Group, any reputational or other difficulties in their operations can also negatively affect the Issuer. The Issuer is therefore partially dependent on the successful operations of these subsidiaries.

Principal Activities

Asset Management

Kvika has an established reputation in asset management and offers products covering all major asset classes, including fixed-income securities, equities and real estate in both domestic and international markets. Asset Management is the core of the Group's operation and is built upon long-term customer relationships.

Asset Management services its customers in both domestic and foreign securities markets and operates both alternative investments and private equity funds. Asset Management can be divided into three main areas of operations:

i) Private Banking
ii) Asset management for Institutional Investors
iii) Private Equity

Private Banking serves high net-worth individuals with exclusive and comprehensive financial service. All sections of the Bank are utilised to provide the customer with universal asset management service, tailored to the customers need.

Asset Management for Institutional Investors offer its customers quality long-term investment management and advice. The unit places emphasis on offering its customers specialised investment opportunities as well as a wide selection of domestic and international funds and other standard investment vehicles. The unit regularly utilises the Group's subsidiaries' services in the operation of funds, especially Júpíter. They also offer funds from many other domestic and foreign asset management companies.

Private Equity currently manages three private equity funds, AuÐur 1 fagfjárfestasjóður slf., Edda slhf. and FREYJA framtakssjóður slhf. Having launched the first fund in February 2008, Kvika is one of the most experienced managers of private equity funds in Iceland. Kvika plays an active role in strategy development through board participation with the aim of maximising long-term value. The companies invested in are encouraged to show social responsibility, adopt good corporate governance and consider environmental issues in their day-to-day operations

Capital Markets

Kvika Capital Markets offer full-service brokerage in the Icelandic equity, fixed income and foreign exchange markets. It offers professional advice and personal service designed to meet the needs of both retail and institutional customers and seeks to deliver leading market insight and execution. Additionally, Kvika Capital Markets is a primary dealer and performs market making activities in many local securities.

Kvika Capital Markets trades in equities, bonds and currency on all principal international markets. Moreover, capital markets trade in options and total return swaps, forward contracts on securities and foreign exchange contracts with its customers.

Corporate Finance

The Corporate Finance team offers a wide range of value-adding investment banking services focused on acquisitions, divestments and mergers, financing and financial restructuring, listings and delisting of equities and bonds, as well as various other balance sheet related advisory such as strategic reviews of securities and businesses.

Corporate Finance also offers diverse services to listed companies and companies seeking to list on a regulated stock exchange, such as managing initial public offerings, share capital increases and floating. Detailed preparation and grooming, as well as thorough planning, are essential for a successful listing. The approach of Kvika's Corporate Finance includes independent advice with the aim of ensuring the best possible strategy for its customers.

Banking

The Banking division finances enterprises and the investments of the Bank's customers. The division also makes use of the Bank's expertise and network to sell or syndicate loans to other institutional investors.

The Banking division can be divided into two main areas of operations: deposit and banking services and financing operations. In addition, the division also manages the Bank's unlisted assets. The focus is on creating returns on the Bank's capital and fees and commissions from servicing its customers, many of who are also customers of other business units.

Constantly seeking new and innovative solutions with the customer's needs at the forefront, the latest addition to Kvika's service offering is Auður; an online financial service offering savings accounts with favourable deposit rates. By automating processes and offering limited services it is possible to keep costs at a minimum and thus provide customers with better rates than are currently available in the market.

Auður's online platform is based on self-service, thus no contact with staff or physical offices is required. Auður's savings account is an on-demand savings account and therefore always available for deposits or withdrawal.

Deposit and banking services

The Corporate Banking's deposit and banking service arm offers a range of private banking services to high net worth individuals, businesses and market participants. The Bank accepts deposits and offers competitive interest rates. The Bank's ambition is to create a long-lasting and personal relationship with its customers.

Deposits from customers

Kvika's deposits from customers have been steadily growing (2019: ISK 51.5 billion, 2018: ISK 47.9 billion) for the last two years, largely due to new deposit product offerings such as the online deposit platform Auður. More than two thirds (and growing) of deposits are in ISK as FX deposits account for less than 20% of total deposits with USD and EUR accounts historically making up the majority of that.

The table below sets forth Kvika's deposits size and composition for the last three years.

	End of year deposit breakdown (% of amounts)		
Types of deposits	**2019**	**2018**	**2017**
ISK	83.2%	73.0%	69.3%
FX	16.8%	27.0%	30.7%
- EUR	6.9%	10.7%	8.1%
- USD	6.7%	12.0%	18.4%
- GBP	1.3%	2.2%	1.8%
- NOK		0.2%	0.3%
- CAD	0.6		
- Other	1.3%	1.9%	2.1%
Total %	**100%**	**100%**	**100%**
Total ISK thousands	**51,479,732**	**47,893,959**	**41,749,497**

Table 2: Deposit split by FX

Financing operations

The Corporate Banking's financing arm provides financing to the Bank's customers. The Bank prides itself in offering bespoke financing solutions, including project financing, portfolio financing, bridge lending, mezzanine lending and wholesale funding for fintech solution providers. Further, Kvika acts as lead lender in syndicated loans to satisfy the need of larger corporates. Emphasis is placed on short-term financing, where the maturity of loans generally does not exceed 24 months.

Lending activity

The Corporate Banking division has diversified its loan book over the last few years. This has mainly been done by providing wholesale funding to fintech service providers that supply individuals with short-term consumer credit. The end-borrowers that have been reached through these channels now exceed 12 thousand and represent the bulk of the Bank's unsecured loans. The breakdown of loans to customers by loan-to-value over the last three years is specified as follows:

	End of year loan composition		
Loan to Value of Collateral	**2019**	**2018**	**2017**
No collateral	15.5%	16.4%	7.5%
Thereof purchased short-term retail claims	*9.2%*	*11.9%*	*5.5%*
Thereof other loans with no collateral	*6.3%*	*4.5%*	*2.0%*
>100%	16.3%	10.9%	15.4%
91-100%	2.2%	1.8%	2.0%
71-90%	8.1%	15.4%	11.9%
51-70%	15.5%	21.4%	16.4%
0-50%	42.5%	34.1%	46.9%
	100%	**100%**	**100%**

Table 3: Loan to Value of Collateral

At the same time, the loan book duration has been gradually decreased to better match the Bank's funding profile and mitigate risk. In addition, shorter maturity has resulted in a higher proportion of fees from the lending activity.

The Bank's loan book has remained relatively stable in size over the last three years, with total loans amounting to around ISK 25-30 billion. The composition of the book has been fairly static, over the last few years it has consisted of mainly non-CPI-linked ISK loans (80-83%), with CPI-linked loans hovering around 10% and FX loans between 5-11%. EUR loans have accounted for a majority portion of the Bank's FX loans, though GBP was the leading currency at year-end 2019. The tables below set forth Kvika's loan book size and composition for the last three years.

	End of year loan composition		
Loan type	**2019**	**2018**	**2017**
ISK	95.2%	93.7%	89.2%
FX	4.8%	6.3%	10.8%
- EUR	1.5%	4.9%	9.5%
- USD	0.4%	0.4%	0.7%
- GBP	2.9%	0.5%	0.0%
- NOK	0.0%	0.0%	0.0%
- Other	0.1%	0.5%	0.7%
Total %	**100%**	**100%**	**100%**
Total ISK thousand	**30,105,643**	**29,443,573**	**25,338,250**

Table 4: Loan split by FX

Loans to individuals have grown from around 8% in year end 2016 to close to 20% in year-end 2018. This can almost solely be attributed to the wholesale funding, mentioned before, where individuals are reached via various fintech platforms. The table below sets forth Kvika's loan book composition by types of loans for the last three years.

	End of year loan composition		
Types of loans	**2019**	**2018**	**2017**
Services	24.6%	38.3%	33.5%
Holding companies	25.3%	22.7%	28.3%
Real estate, construction and industry	30.1%	9.5%	13.0%
Retail	1.5%	3.5%	4.7%
Other	1.8%	7.7%	6.3%
Individual	15.9%	18.3%	14.0%
	100%	**100%**	**100%**

Table 5: Loan split by industry

Management and Corporate Governance

Compliance with Corporate Governance

Kvika is obliged to implement recognised guidelines on Corporate Governance under Article 54 of the Act on Financial Undertakings no. 161/2002. Kvika complies with the Guidelines on Corporate Governance, 5th edition, published in May 2015 by the Chamber of Commerce, Nasdaq Iceland and the SA Confederation of Icelandic Enterprise in most respects. Kvika has not appointed a nomination committee. This is the Bank's only deviation from the aforementioned guidelines. The Bank's annual general meeting, held on 14 March 2019, accepted to trust the board of directors with the task to assess the benefits and disadvantages of appointing a nomination committee, consult with shareholders on the matter and form a proposal if deemed appropriate. At the Bank's annual general meeting, held on 26 March 2020 the chairman of the board informed the meeting of the board's findings, which concluded that a nomination committee would not be beneficial for the Issuer at this time.

In 2018 the Bank completed a corporate governance assessment process resulting in an award from the Centre for Corporate Governance in Iceland for exemplary corporate governance in 2018-2019. The award is valid for three years as long as there are no material changes in ownership or the board of directors of the Bank. The board of directors intends to have such an assessment carried out on a regular basis and maintain the aforementioned award.

A statement on the corporate governance practices of Kvika is reviewed and agreed upon annually by the board of directors and is accessible on the Issuer's website.

Internal control, risk management and accounting

Kvika's risk policy and risk appetite are regularly reviewed and approved by the board of directors. The board is also responsible for ensuring that an active system of internal controls is in place. The board defines the risk factors that the Bank has to address, including their nature and extent. Furthermore, the board also defines remedial actions for the risks in question. The implementation and execution of the internal control rests with the Bank's managing directors along with control units, i.e. Risk management, Compliance and Internal Auditor. The board hires an internal auditor. The board further agrees to an audit plan for each year. The CEO hires a compliance officer, with the approval of the board. The reports and findings of the Internal Auditor and of the Compliance Officer are presented directly to the board.

The Bank's internal control is built on risk assessment and control measures, which are intended to minimise the risk that exceeds the approved risk appetite of the Bank. A part of internal control entails formal working procedures, which the internal supervisory units verify compliance to.

The board has implemented a risk policy for the Bank, for a focused and effective risk management and in order to enhance transparency in the Bank's risk taking at management level, from the board to the operational units and individuals that directly participate in the daily operations and decisions involving any risk taking.

The Bank's Finance & Operations division is responsible for preparing the Bank's annual account in accordance with International Financial Reporting Standards. The account is audited by the Bank's external auditors, Deloitte.

The CEO reports directly to the board when verifying the effectiveness of internal control and risk management regarding the annual account. Internal Audit and Risk Management are meant to prevent any deficiencies in the accounting process.

The board regularly verifies the effectiveness of internal control and risk management in the Bank.

The Board of Directors

The Issuer's Board of Directors consists of five main members and two alternate members, who are elected annually, at the annual general meeting. The election term of members of the Board is therefore until the next annual general meeting. The eligibility of members of the Board shall be subject to statutory law. In accordance with the Bank's Equality Policy, when electing the Board of Directors, care is taken to ensure at least 40% representation of each gender among board members and alternates.

The Board of Directors constitutes the supreme authority in the affairs of the Company between shareholders' meetings. The main duties of the Board entail supervising the operations of the Bank and ensuring that they are continuously in good order. The Board shall also ensure that the Bank's financial matters, including the financial reporting practices are diligently supervised. The Board shall make operational plans according to the Bank's purpose as set out in its articles of association and form a policy to achieve set goals. The Board hires the CEO of the Bank and supervises his work.

The Board of Directors consists of the following members:

Siguður Hannesson, Chairman of the Board of Directors
Borgartún 36, 105 Reykjavík, Iceland

Sigurður Hannesson was born in 1980 and is currently the Director General of the Federation of Icelandic Industries. 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. From 2013-2017, Sigurdur worked as a managing director of Kvika asset management (previously MP Bank). In 2015, Sigurdur was the Vice-Chairman of the Government Task Force on lifting of capital controls and in 2013 the Chairman of the Expert Group on household debt relief. From 2010-2013, Sigurdur worked as CEO of Jupiter fund management company, now a subsidiary of Kvika, and in Capital Markets at Straumur Investment Bank in 2007-2010.

Guðmundur Þórðarson, Deputy Chairman of the Board of Directors
Carrer dels Cavallers 41, 08034 Barcelona, Spain

Guðmundur Þórðarson was elected to the Board in March 2017. He graduated from the University of Iceland with a business degree, cand. oecon., in 1997. Guðmundur has focused on managing his own investments since 2007.

Inga Björg Hjaltadóttir, Board member
Suðurlandsbraut 4, 108 Reykjavík, Iceland and Borgartún 25, 105 Reykjavík, Iceland.

Inga Björg Hjaltadóttir was elected to the Board in April 2013. She is a member of Kvika's audit and remuneration committees. She graduated from the University of Iceland in 1995 with a law degree and is a licensed attorney. Inga is one of the founders of the consulting firm Attentus Human Resources where she is a partner, CEO and has worked there since 2007, while also working as an attorney and partner at Reykjavik Law Firm from 2016.

Guðjón Karl Reynisson, Board member
94 Rusthall Avenue, W41BS, London, United Kingdom

Guðjón was elected to the board of directors of the Bank in March 2018. He was born in 1963. He is currently an independent active investor and non-executive board member.

Hrönn Sveinsdóttir, Board member
Hrauntunga 20, 200 Kópavogur, Iceland

Hrönn Sveinsdóttir was elected to the Board in March 2017. She graduated from the University of Iceland with a business degree, cand. oecon in accounting and finance in 1992. Hrönn is currently self-employed. Hrönn worked for Sýn hf. 2005-2019 as Chief financial and operating officer.

Albert Þór Jónsson, Alternate Board member
Hlíðarhvammur 8, 200 Kópavogur, Iceland

Albert Þór Jónsson was elected to the Board in March 2019. Albert Þór graduated with a business degree, cand. oecon from the University of Iceland in 1986 and MCF (Master of Corporate Finance) from the University of Reykjavík in 2014. Albert is a Certified Stock Broker and Certified Real Estate Broker. Albert Þór has worked independently in finance from 2008.

Sub-Committees of the Board of Directors

According to the Issuer's Articles of Association at the date of this Prospectus, dated 28 May 2020, the Board shall appoint a Risk Committee, an Audit Committee and a Remuneration Committee for the Company no later than one month after the Company's annual general meeting. The Board shall appoint at least three individuals for membership of each committee, thereof at least two Board members. It is not permitted to appoint employees of the Company to any committee. Members shall have the necessary experience and knowledge for each committee's tasks according to applicable laws and rules. All sub-committees have incorporated procedural rules that shall be confirmed by the Board.

Risk Committee

The Risk Committee of the Bank 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 purpose of the Risk Committee is to serve in accordance with Icelandic law and rules and good corporate governance. The Risk Committee is appointed by the Board of Directors in accordance with article 78 of the Act on Financial Undertakings. The Board shall appoint at least three individuals for membership, thereof at least two Board members. The committee is composed of Guðmundur Þórðarson, who is the chairman of the committee, Sigurður Hannesson and Sigríður Mogensen.

Audit Committee

The Audit Committee of the Bank 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 audit. 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 purpose of the Audit Committee is to operate according to Icelandic law and rules and good corporate governance. The Audit Committee is appointed by the Board of Directors in accordance with chapter IX. A of the Act no. 3/2006 on Annual Accounts. The Board shall appoint at least three individuals for membership, thereof at least two Board members. The committee is composed of Hrönn Sveinsdóttir, who is the chairman of the committee, Inga Björg Hjaltadóttir and Hafdís Böðvarsdóttir.

Remuneration Committee

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

The purpose of the Remuneration Committee is to operate in accordance with Icelandic law and rules and good corporate governance. The Remuneration Committee is appointed by the Board of Directors in accordance with the Guidelines on Corporate Governance, cf. also Paragraph 7 Article 54 of the Act on Financial Undertakings. The Board shall appoint at least three individuals for membership, thereof at least two Board members. The committee is composed of Guðjón Reynisson, who is the chairman of the committee, Sigurður Hannesson and Inga Björg Hjaltadóttir.

Executive Management

The Executive Management comprises the CEO, deputy CEO and five managing directors.

Marinó Örn Tryggvason, CEO
Borgartúni 25, 105 Reykjavík, Iceland

Marinó Örn Tryggvason joined Kvika as Deputy CEO in August 2017 and became CEO on May 27 2019. Prior to joining Kvika, Marinó worked at Kaupthing Banki from 2002 to 2008. At Kaupthing Marino was Head of Institutional Asset Management from 2007. From 2008 to 2017 Marino worked at Arion banki hf. Marinó served as Deputy Managing Director of Asset Management at Arion banki hf. from 2014 until 2017 and as Head of Asset Management of Institutional Asset Management from 2008 until 2017. Marinó sat on the Board of Vörður Tryggingar from 2016 to 2017. Marinó holds a B.Sc. business degree from the University of Iceland and is a certified securities broker.

Ármann Þorvaldsson, Deputy CEO
Borgartúni 25, 105 Reykjavík, Iceland

Ármann Þorvaldsson joined Kvika as CEO in June 2017 and became Deputy CEO on 27 May 2019.He has worked in the financial markets for over twenty years. From 1997 until 2005, he was Head of Corporate Finance at Kaupthing and, from 2005 to 2008, he was CEO of Kaupthing Singer & Friedlander in London. He then went on to work at Ortus Secured Finance in London until 2015 when he joined Virding. He was the head of Virding'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.

Ragnar Páll Dyer, Director of Finance and Operations
Borgartúni 25, 105 Reykjavík, Iceland

Ragnar Páll Dyer joined the Kvika Group in 2010 and was appointed Managing Director of Jupiter Capital Management in 2013. He was then appointed Managing Director of Finance and Operations at Kvika in 2019. Mr. Dyer started his career in the financial sector in 2007. Before he joined Kvika he served as a fund manager and a partner of Teton Investments and at Straumur Investment bank as a broker and specialist in interest rates and derivatives. Mr. Dyer has completed the Stanford Executive Program from Stanford University, holds a B.Sc. degree in Engineering Management from the University of Reykjavík and is a licensed securities broker.

Lilja Jensen, General Counsel
Borgartúni 25, 105 Reykjavík, Iceland

Lilja Jensen has worked for Kvika and its predecessor since 2012 and as General Counsel since 2015. Prior to that, Lilja worked for LOGOS legal services, intermittently from 2008 to 2012 along with law studies and following graduation. Prior to legal work, Lilja worked as a nurse at the National University Hospital of Iceland and Eir nursing home. Lilja holds a BSc degree in nursing from the University of Iceland, BA and ML degree in law from Reykjavik University and is licensed to plead cases before the district courts of Iceland.

Bjarni Eyvinds Þrastarson, Managing Director of Capital Markets
Borgartúni 25, 105 Reykjavík, Iceland

Bjarni Eyvinds joined Kvika (formerly MP banki) in July 2009, after serving as Senior Vice President of Equity sales in Straumur Investment Bank from 2007 to 2009. Prior to joining Kvika, he worked for Reykjavik Savings Bank, MP banki, Islandsbanki, and Straumur Investment Bank. He graduated from the George Washington University with a BBA degree in 2002 and is a certified securities broker.

Magnús Ingi Einarsson, Managing Director of Banking
Borgartúni 25, 105 Reykjavík, Iceland

Magnús Ingi Einarsson has over thirteen years' experience in the financial markets. He joined Risk Management at Kvika (then Straumur-Burdaras) in July 2006 and headed the Bank's credit risk division from 2009. He was Head of Risk Management and later Head of Treasury at Straumur Investment Bank from the bank's establishment until the end of 2014. He has served as Managing Director of Finance and Operations from 2014-2019. In 2019 he was appointed the Managing Director of Corporate Banking (now Banking). He holds a B.Sc. degree in Mechanical Engineering from the University of Iceland and an M.Sc. degree in Mechanical Engineering from Virginia Tech.

Baldur Stefánsson, Managing Director of Corporate Finance
Borgartúni 25, 105 Reykjavík, Iceland

Baldur Stefánsson joined Kvika in September 2017. He has over 20 years of experience in private equity and investment banking both in Iceland and internationally. Baldur joined Kvika through the acquisition of the Scandinavian investment bank Beringer Finance's Icelandic operations where Baldur was the Managing Director. Before joining Beringer Finance, Baldur was cofounder and Managing Partner at the financial service firm Arctica Finance for eight years and, prior to that, Senior Director at Landsbanki's International Investment Banking arm for five years. Baldur has led many complex cross-border and local Corporate Finance equity- and debt capital markets transactions in various sectors. Baldur studied economics and political science at the University of Iceland between 1992 and 1994 and graduated with an MBA degree from IESE in Barcelona in 2004.

Marinó Örn Tryggvason, Interim Managing Director of Asset Management
Borgartúni 25, 105 Reykjavík, Iceland

Marinó Örn Tryggvason joined Kvika as Deputy CEO in August 2017 and became CEO on May 27 2019. Prior to joining Kvika, Marinó worked at Kaupthing Banki from 2002 to 2008. At Kaupthing Marino was Head of Institutional Asset Management from 2007. From 2008 to 2017 Marino worked at Arion banki hf. Marinó served as Deputy Managing Director of Asset Management at Arion banki hf. from 2014 until 2017 and as Head of Asset Management of Institutional Asset Management from 2008 until 2017. Marinó sat on the Board of Vörður Tryggingar from 2016 to 2017. Marinó holds a B.Sc. business degree from the University of Iceland and is a certified securities broker.

Committees established by the CEO

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

Asset and Liability Committee (ALCO)
ALCO supervises the management of the Bank's balance sheet, assets and liabilities, and strives to achieve the goals of profitability. This involves determining the most efficient division between returns and risk and allocating funds to the Bank's business units. The committee sets measurable profitability goals and strives to achieve them. The committee is composed of the CEO, the Director of Finance and Operations, the Head of Treasury and the Head of Risk Management. The deputy Head of Treasury attends committee meetings as an impartial observer and does not participate in the decision-making on individual decisions. However, the deputy Head of Treasury has the right to speak at committee meetings and has right to put forward motions.

Credit Committee
The Credit Committee addresses matters regarding the Bank's loan activities and is responsible for and makes decisions on the investments and sale of unlisted securities, and as regards other divisions than Treasury and Proprietary Trading, the investment and sale of unit share certificates in funds for collective investment. The committee is responsible for the approval of larger loans and is the primary forum for the discussion of the Bank's credit rules, including credit limits for relevant divisions of the Bank. The committee is composed of the CEO, the Managing Director of Corporate Banking, Managing Director of Finance and Operations and the General Counsel. The Head of Risk Management attends committee meetings as an impartial person and does not participate in decision-making on individual lending or investments. The Head of Risk Management is authorised to speak at meetings and has a power to veto.

Operations Committee
The Operations Committee is responsible for supervision and implementation of the Bank's security and quality policies. The security policy mainly addresses data security and operational security in IT systems, physical security for the personnel and proper access controls and monitoring the Bank's premises. The quality policy is aimed at upholding proper quality in work processes, IT systems and services to support performance and profitability, lower operational risk and increase the customer experience. The committee is composed of the Head of Business operations and strategic management, the Managing Director of Finance and Operations, the Head of Risk Management, the Head of Back Office and the Head of the IT department. The internal auditor, the Compliance Officer and the Office Manager attend committee meetings as observers.

Potential Conflicts of Interest

It should be noted that the Issuer itself will manage the admission of its Securities to trading on the Regulated Market of Nasdaq Iceland and has prepared the Base Prospectus. It could be argued that conflicts of interest may arise in such situations, but, in accordance with the statements made by Kvika in the chapter *Company's Statement*, the information in this

Prospectus is, to the best of Kvika's and the CEO's and Deputy CEO's knowledge, factual and contains no omission likely to affect its import.

Several employees, members of the Issuer's Executive Management and members of the Board of Directors own shares in the Bank. Further, most employees and members of the Executive Management own stock options and/or warrants issued by the Bank. A number of these individuals have contributed to the preparation of this Registration Document and the admission of Kvika's Securities to trading.

Neither the Board of Directors nor members of the executive management are aware of any other potential conflicts of interest between the duties of the members of the Board of Directors or members of the Executive Management to the Bank and their private interests or other duties.

The Bank has in place rules on measures against conflicts of interests, which are considered to include the Banks' policy on conflicts of interests which may be accessed on the Issuer's website.

FINANCIAL INFORMATION

The consolidated financial statements of Kvika for the years 2018 and 2019 and all interim financial statements in the period have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and additional requirements in the Act on Annual Accounts. The consolidated financial statements comprise Kvika and its subsidiaries. The latest consolidated financial statements of Kvika were approved by the Issuer's board of directors on 14 May 2020 and cover the financial period of 1.1.2019-31.12.2019.

For a complete overview of the Issuer's financial position, it is recommended that investors review the complete consolidated financial statements of Kvika for the years 2018 and 2019, including all published interim financial statements, as well as all notes thereto. The statements include, among other information, a consolidated income statement, consolidated statement of financial position, consolidated statement of cash flows and auditor reports where applicable.

Consolidated financial statements for the last two financial years prior to the date of this Prospectus, as well as all published interim consolidated financial statements, have been incorporated in the Registration Document by reference and may be accessed on the Issuer's website, under the following link:

https://www.kvika.is/en/investor-relations/annual-reports/

Consolidated financial statements incorporated by reference are also available on Nasdaq Iceland‘s website, see chapter *Important Information, Information incorporated by reference* above.

Deloitte has audited the Group's consolidated financial statements for the years ended 31.12. 2019 and 2018 and reviewed the Group's condensed interim consolidated financial statements for the six months ended 30.6.2019 and 2018. No other information in this Prospectus has been audited.

Changes from the Issuer's last published audited financial statements

The Bank has been served with a written summons whereby owners of a certain real estate have made a claim of ca. ISK 316 million plus interest against Kvika and several other parties *in solidum*. The claim made is based on faults in said real estate, which was sold by a company which was once owned by a professional investor fund managed by the bank. In 2016 a fund managed by Virðing hf. (now Kvika) purchased an apartment building with 10 apartments, through an SPV, from the contractor of the building. At the time of purchase the building had not been built and the contractor/seller was to deliver the building completed in accordance with delivery description to the buyer (the SPV). In 2018, after all the apartments had been sold to third parties, all the shares in the SPV was sold to the original seller/contractor as part of liquidation of the fund, whose duration was coming to an end. It was clearly stated in the sales and purchase agreement of the shares in the SPV that the contractor must finalise all outstanding issues towards the buyers of the apartments. At the execution of the transaction all control by the fund over the SPV and the real estate ended. The contractor seems to have not fulfilled its duties according to the purchase agreement and the delivery description. The residents have however decided to involve Kvika as the asset management company of the fund that previously owned the shares in their counter party in the real estate transaction. They have also made claims against other parties, *inter alia* the contractor and seller, the designer, the municipality and insurance companies. Kvika has denied the claims of the plaintiffs and does not believe the matter to be of merit. Kvika is to submit its statement in this case on 9 September 2020.

Further, alongside publication of Kvika's Q1 2020 operating results, the Bank issued a revised earnings forecast, lowering its estimation of profits for the year 2020 due to various changes in market conditions such as effects of Covid-19 and recent interest rate cuts by the Central Bank of Iceland. This affects, among other, the size of the Bank's credit portfolio, impairment requirements, market conditions for proprietary trading and Capital Markets and the size of the swap agreement portfolio. In addition to this, recent interest rate cuts have had a negative impact on the interest margin in the short term. The Issuer's earnings forecast does not form a part of this Prospectus, however, the complete statement with further details has been issued to the market and can be found on the websites of the Issuer and the Regulated Market of Nasdaq Iceland.

Aside from the aforementioned, the Issuer's board of directors and executive management is not aware of any governmental, legal or arbitration proceedings, during the twelve months preceding the date of this Registration Document, which may have, or have had in the recent past, significant effects on the Issuer's and/or the Group's financial position or profitability. The Further, the Issuer confirms that aside from the aforementioned, no other significant change in the financial or trading position of the Group has occurred since the end of the last financial period.

Financial position at year-end 2019

The Group's results in 2019 were strong as a result of profit from asset management and capital markets operations being well above budget. In November 2018 Kvika acquired all issued shares of GAMMA, a licensed fund management company focusing on asset- and fund management with ISK 135 billion of assets under management and 22 employees. The acquisition was subject to regulatory approvals, the final of which was granted on 6 March 2019. Consequently, the acquisition was finalised and the operations of GAMMA are included in the Group's Financial Statements from 1 March 2019. At the end of December 2019 the Group had ISK 426 billion of assets under management, compared to ISK 291 billion at year-end 2018.

According to the Consolidated Statement of Financial Position, equity at the end of the year amounted to ISK 15,515 million and total assets amounted to ISK 105,584 million.

The Group's net operating income during the year was ISK 7,426 million (2018: ISK 5,705 million). Net interest income amounted to ISK 1,776 million (2018: ISK 1,701 million). Net fee income amounted to ISK 4,804 million (2018: ISK 3,698 million). Other operating income amounted to ISK 845 million (2018: ISK 306 million). Administrative expenses during the year amounted to ISK 5,059 million (2018: ISK 4,008 million).

Profit for the year amounted to ISK 2,660 million (2018: ISK 1,752 million), corresponding to an annualised 21.0% return on equity based on the equity position at the beginning of the year adjusted for changes in share capital and transactions with treasury shares during the year.

Supervisory Authority's Supervisory Review and Evaluation Process (SREP) is 15.1%. The minimum regulatory capital requirement including the additional capital requirements imposed following the implementation of CRD IV is 21.35% as at 31 December 2019 but increases to 22.35% from 1 January 2020. The Bank maintains a strong liquidity position. The Bank's assets are liquid and its access to funding is good, reflected in ample liquidity position. At the end of December 2019 the Group's 30 day liquidity coverage ratio (LCR) was 246%, well above the minimum level of 100%.

Latest financial statements

On 14 May 2020 Kvika published the Group's results for the first quarter of 2020. The condensed consolidated financial statement for the period 1.1.2020–31.3.2020 has been incorporated in the Registration Document by reference and may be accessed on the Issuer's website, under the following link:

https://www.kvika.is/en/investor-relations/annual-reports/

Significant changes in the period

On 19 November 2018, the Bank and the shareholders of GAMMA signed a sales and purchase agreement regarding the Bank's acquisition of all the share capital in GAMMA. The transaction was subject to approval from regulatory authorities and approval from Kvika's shareholders. In early March 2019 the final conditions were fulfilled and is GAMMA and its subsidiaries a part of the Group and the Consolidated Financial Statements from 1 March 2019. For further details on the aquisition of GAMMA, see note 5 in the Condensed Interim Consolidated Financial Statements of the Group for the period 1 January to 31 March 2019 which has been incorporated in the Prospectus by reference and may be accessed on the Nasdaq Iceland's website, under the following link:

https://csf.omxgroup.com/cns-web/oam/viewAttachment.action;jsessionid=7JGu9nx63Sb2_jl-Rhhwz8JFmx-MBqYJu_ElWWkr.csf.1001?messageAttachmentId=251911

As the acquisition took place in March, financial statements published in 2018 only reflect the Group before the acquistion of GAMMA and the years are therefore not directly comparable.

Funding

Kvika‘s funding largely consists of deposits from customers, borrowings, debt issuance and equity. Deposits from customers have proven to be stable and resilient and are expected to remain Kvika‘s primary funding source. For the past year Kvika has emphasized diversifying and increasing deposits by improved product offering and pricing to retail customers.

Borrowings consist mostly of money market deposits from professional investors with terms varying from one day up to one year. In the debt market Kvika has been issuing 6 months bills every 3 months in addition to longer term debt, both subordinated and senior unsecured, for tenors up to 10 years. Kvika is continously observing opportunities to further diversify the funding of Kvika‘s operations.

Share Capital and Shareholders

The Bank's issued share capital amounted to ISK 1,971,049,096 at the date of this Prospectus. However, on 10 July 2020 the Board of Directors issued an announcement stating that the Bank's share capital would be raised by ISK 5,166,167 due to the exercise of subscription rights for shares in the Bank. Once the new shares have been issued and registered, the Bank's issued share capital will amount to ISK 1,976,215,763. The nominal value of shares issued by the Bank is ISK 1 per share or a multiple thereof. All currently issued shares have a nominal value of ISK 1 per share and are fully paid. The Company's share capital consists of one class of shares and each issued share carries equal rights according to the Company's Articles of Association. The ISIN number of the Shares is IS0000020469. The Shares' ticker symbol in the trading system of Nasdaq Iceland is KVIKA.

The Bank had 857shareholders at 13 July 2020 none of which hold more than 10% of shares in the Bank. Once the aforementioned increase in share capital has been completed, shareholders can be expected to increase by the four subscription right holders exercising their rights at this time. Pursuant to the Act on Financial Undertakings, the Bank is obliged to specify on its website the names and proportional holdings of all parties, and beneficial owners, owning more than 1% of share capital or guarantee capital in the Bank at any given time.

To the extent known to the Issuer, Kvika is not directly or indirectly owned or controlled by parties other than listed shareholders. Apart from issued warrants as described in the chapter *Warrants* below, no arrangements are known to the Issuer, the operation of which may at a subsequent date result in a change in control of the Issuer.

Warrants

The Bank has issued warrants for shares in the total nominal amount of ISK 675,500,000. The number of owners of these warrants is 116 as of the date of the Prospectus and they purchased the warrants for a total consideration of ISK 234,157,500. The purchase price of the warrants was determined using market standard methodology and a valuation from an independent appraiser as applicable. Should the owners of the warrants exercise their warrants, the Bank is obliged to issue new shares and sell to the warrant owners at a predefined price, usually referred to as strike price. If all the warrants would be exercised, the Bank's share capital would increase to 2,528,982,449, and the newly issued shares would represent 21.9% of the Bank's total issued capital, post dilution. The maximum nominal amount of warrants issued to a single counterparty is ISK 22,000,000 which reflects 0.9% of total issued capital, post dilution.