Kvika

6M 2021 Financial Results

26 August 2021

Highlights 6M 2021

Merger with TM and Lykill concluded at end of March 2021
First quarter of combined operations successful and currently above track in achieving anticipated cost synergies
Strategic formulation for combined entity in final stages

Profit before tax (PBT) for 6M 2021 ISK 4,626 million with return on weighted tangible equity (ROTE) 36.4%
PBT of ISK 6,144 million should TM be included from January 1st

Profit after tax for 6M 2021 ISK 5,053 million
Return on weighted tangible equity 39.8%

Strong financial position with consolidated solvency of 1.48 and LCR of 204%
Well above regulatory requirement

Assets under management at ISK 509 billion
AuM decreases by ISK 18 billion from year end 2020 mainly caused by divestment of closed end funds

Board of directors approved a share buy-back program of 117,256,300 shares (2,5% of share capital)
Program initiated in July 2021 following approval from the Financial Supervisory Authority

Buy and build strategy expected to continue
Significant surplus capital available

Earnings forecast for 2021 updated / second half of 2021 expected to be in the range of PBT ISK 4,000 – 5,000 million
Resulting in full year results of approximately PBT ISK 8,600 – 9,600 million (ISK 10,100 – 11,100 million should TM be included from January 1st)

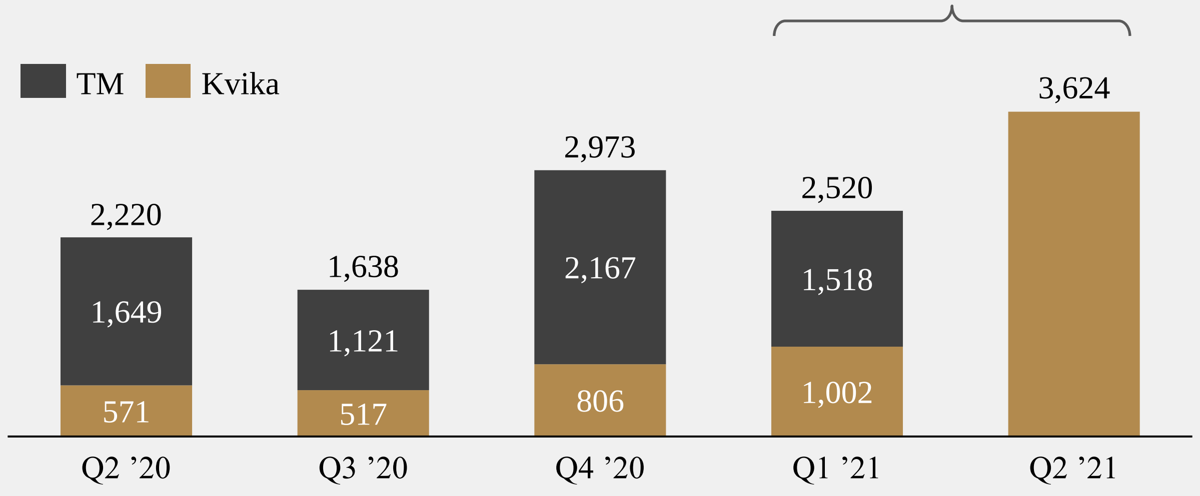
Total profit before tax since year-start ISK 6,144 million

History of delivering value-creation through successful consolidations

- TM is part of Kvika's consolidated financial statements as of 31st March 2021
- Kvika's profit before tax for 6M 2021 is ISK 4,626 million and ROTE of 36.4% (ISK 6,144 million should TM be included since year-start)
- Total expected merger synergy of ISK 2,700 – 3,000 million
- Currently above track in achieving anticipated cost synergies, these amounted to annualized ISK 885 million in 6M 2021
  - One off related costs to the merger in 6M 2021 amounted to approximately ISK 302 million
- Expected annual revenue synergies in three years time are ISK 1,500 million
  - Advancement of revenue synergies through development of Fintech based platform expanding retail service offering
  - Other opportunities are being prioritised
  - Positive developments in optimisation of capital structure

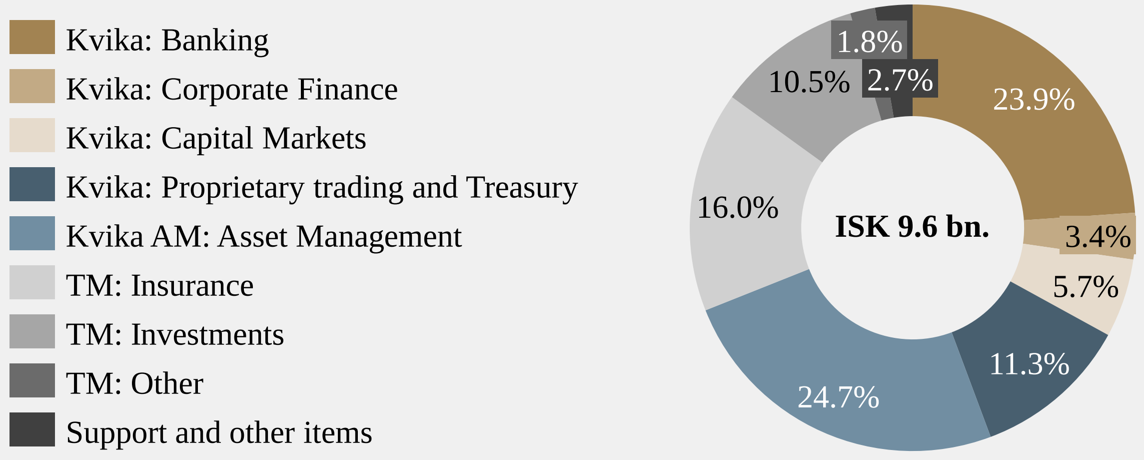
PROFIT BEFORE TAX [1]

PBT development



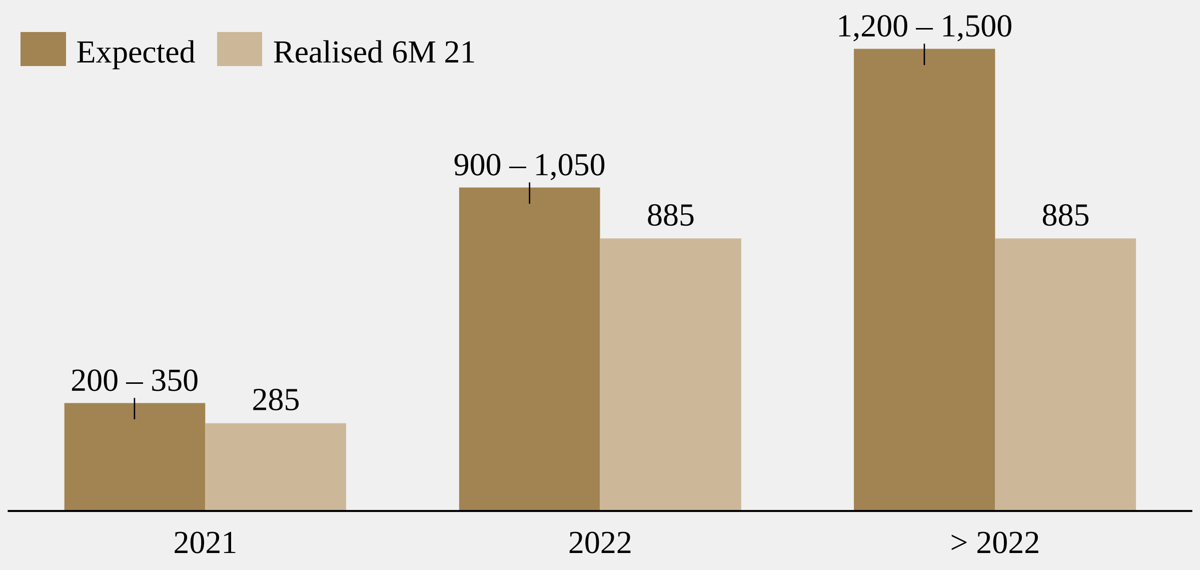
DIVERSIFIED INCOME ACROSS SEGMENTS

Net operating income by segment / 6M 2021



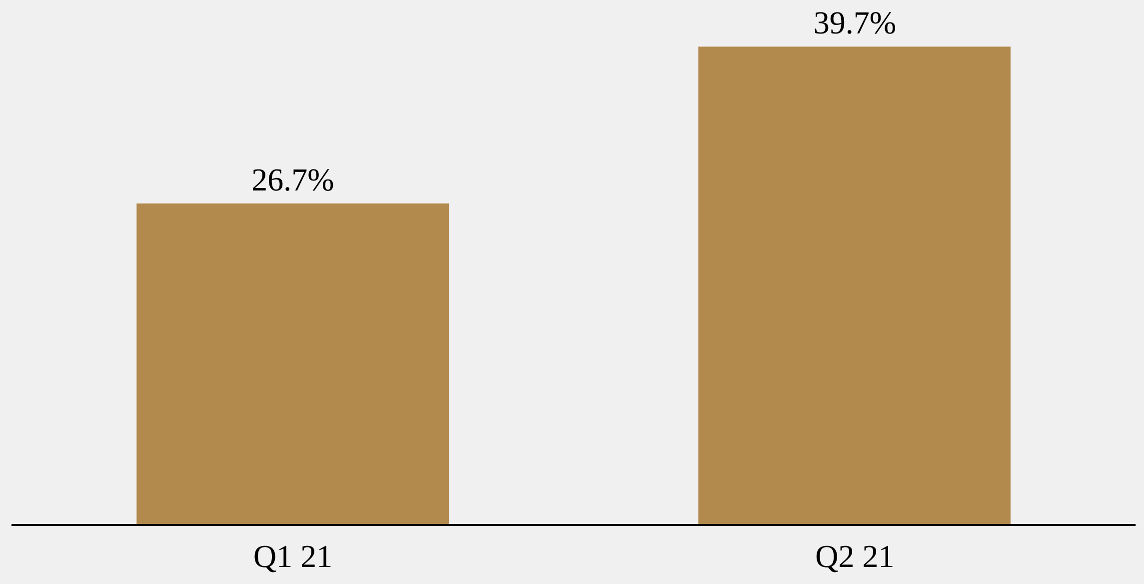
ANNUAL COST SYNERGY AFFECT

Breakdown of anticipated cost synergies net of one-off costs by year ISK m.



RETURN ON WEIGHTED TANGIBLE EQUITY

(%)



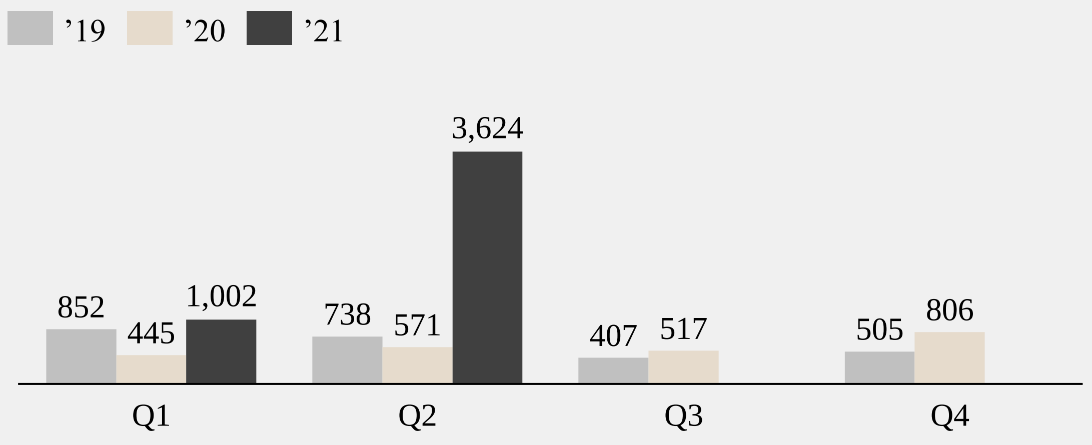
1) *TM historical figures reflect regular operations, e.g. do not reflect changes in price purchase allocation of Lykill*
TM hf. merged with with Kvika banki hf. as of 31 March 2021. The above profit before tax is a demonstrative example if TM would have merged with Kvika banki hf. on 1st January 2021

Operations 6M 2021

Return on weighted tangible equity of 39.7% during the quarter

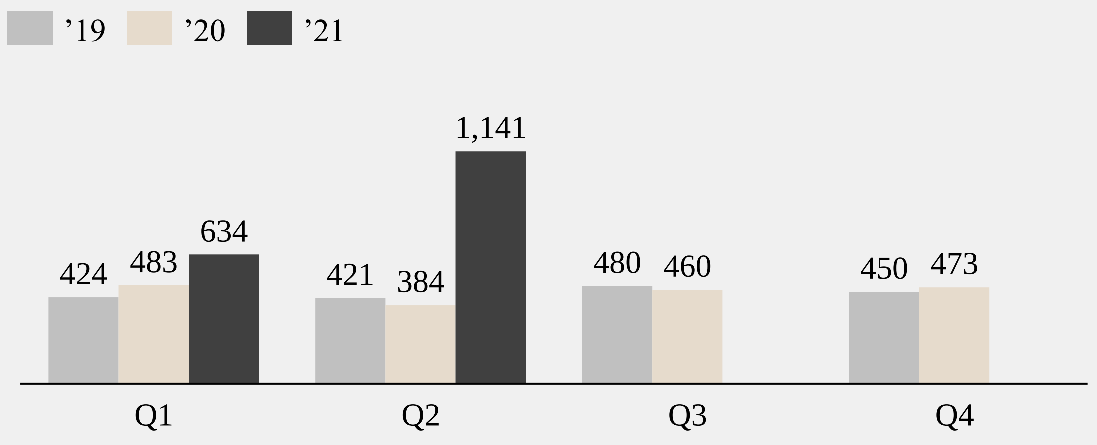
PRE-TAX PROFIT
ISK m.

Positive trend across business segments



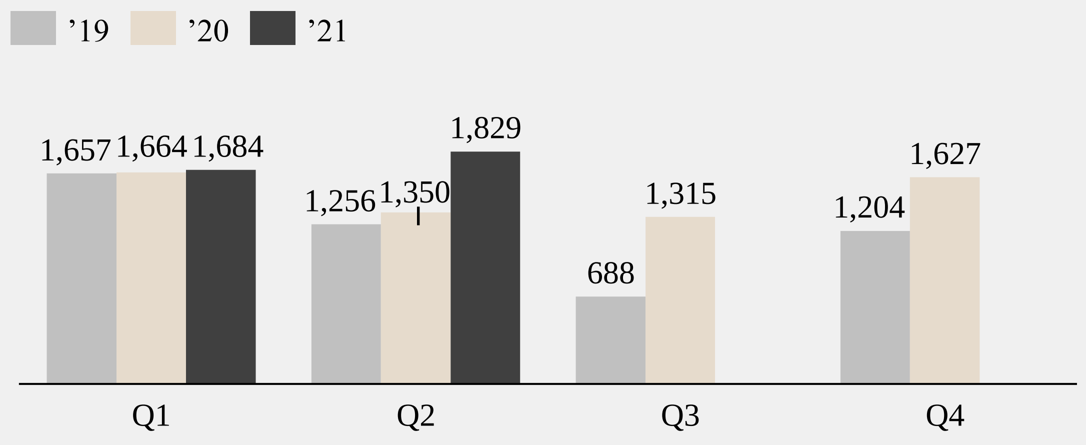
NET INTEREST INCOME (NII)
ISK m.

Significant impact of loan book composition, indexation and favorable track in funding



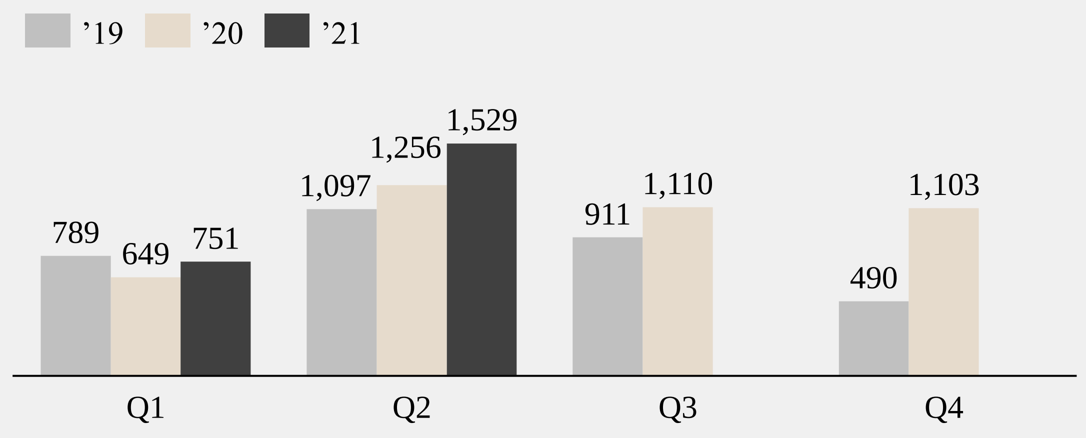
NET FEE AND COMMISSION INCOME (NFC)
ISK m.

Stronger recurring fee base and less reliance on variable fees



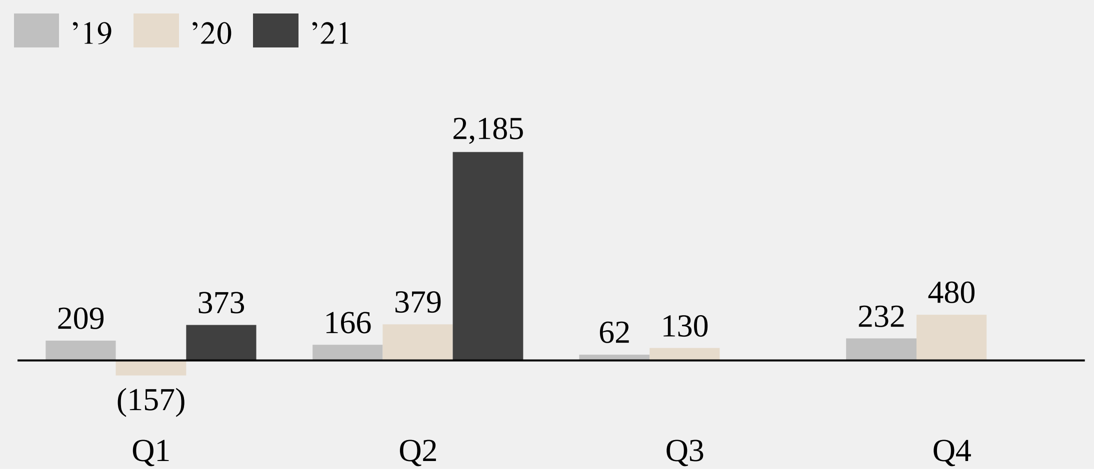
NET PREMIUMS AND CLAIMS
ISK m.

Outstanding quarter in insurance operations



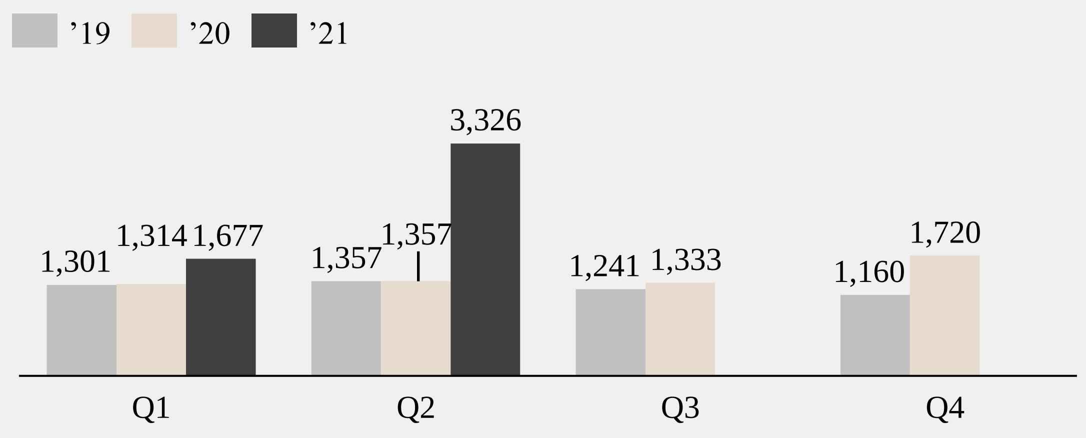
NET FINANCIAL INCOME (NFI)
ISK m.

Good market performance in 6M 2021. Approximately 50% of NFI from insurance investment arm



OPERATING EXPENSES (OPEX)
ISK m.

OPEX in line with expectations



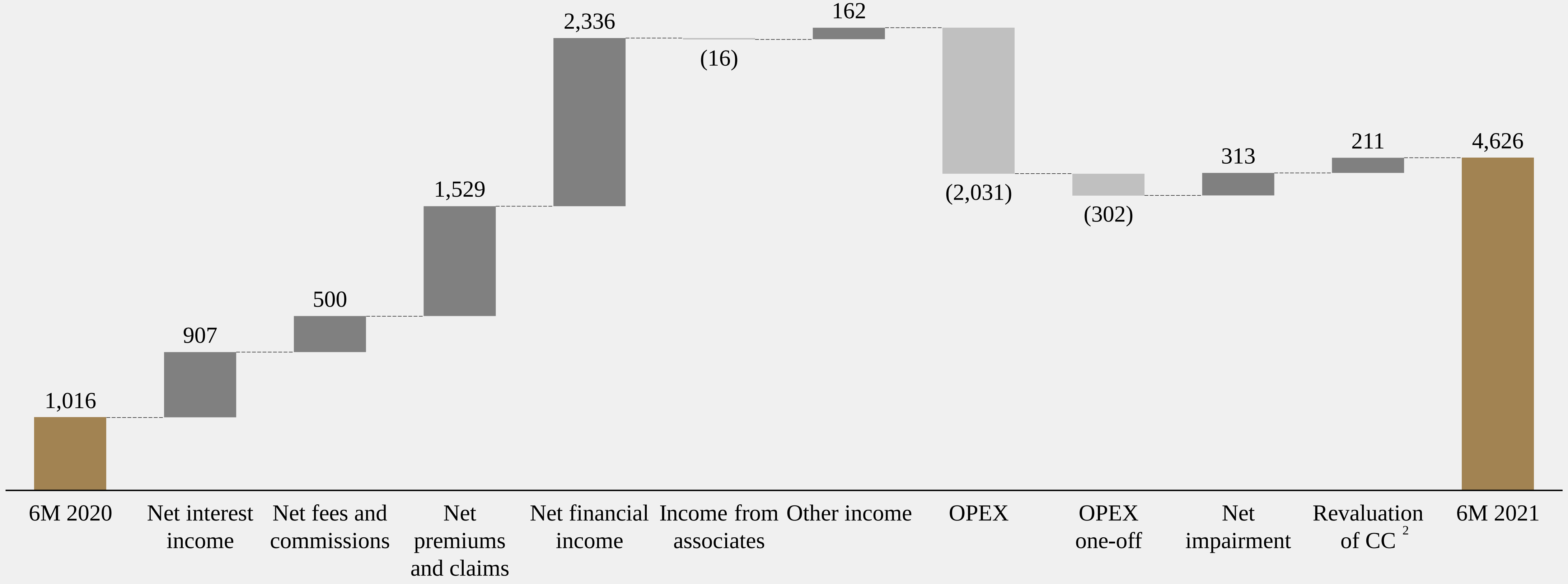
Net premiums and claims historical figures from TM hf. financial statements and investor presentations

Operations 6M 2021

Return on weighted tangible equity of 36.4% during 6M 2021

PRE TAX PROFIT (LOSS) BRIDGE

FROM 6M 2020 to 6M 2021 ISK m.



INCOME STATEMENT

ISK m.

	6M 2021	*6M 2020*
Net interest income	1,775	868
Net fees and commissions	3,514	3,014
Net premiums and claims	1,529	
Net financial income	2,558	222
Income from associates	(28)	(11)
Other income	217	55
Net operating income	***9,566***	***4,147***
Operating expenses	(5,003)	(2,671)
Net impairment	104	(209)
Revaluation of contingent consideration	(40)	(252)
Pre-tax profit	***4,626***	***1,016***
Income tax	487	(37)
Special bank taxes [1]	(59)	(55)
After-tax profit	***5,053***	***924***
Earnings per share (EPS)	***1.48***	***0.47***
Diluted EPS	***1.40***	***0.44***

- Profit for the period amounted to ISK 5,053 million, driven by TM merger and favorable market conditions
- Corresponding to 39.8% return on weighted tangible equity (pre-tax: 36.4%)
- Net interest income doubles year-on-year as Lykill merges with Kvika and cost of funding decreases
- Net fee and commission income of ISK 3,514 million, increase of 16.6% year-on-year
- Operating expenses ISK 5,003 million in line with expectations
- Net impairments ISK 104 million, positive development and updated economic scenarios
- Net financial income ISK 2,558 million

1) *Special tax on financial activity and special tax on financial institutions*
2) *Revaluation of contingent consideration*

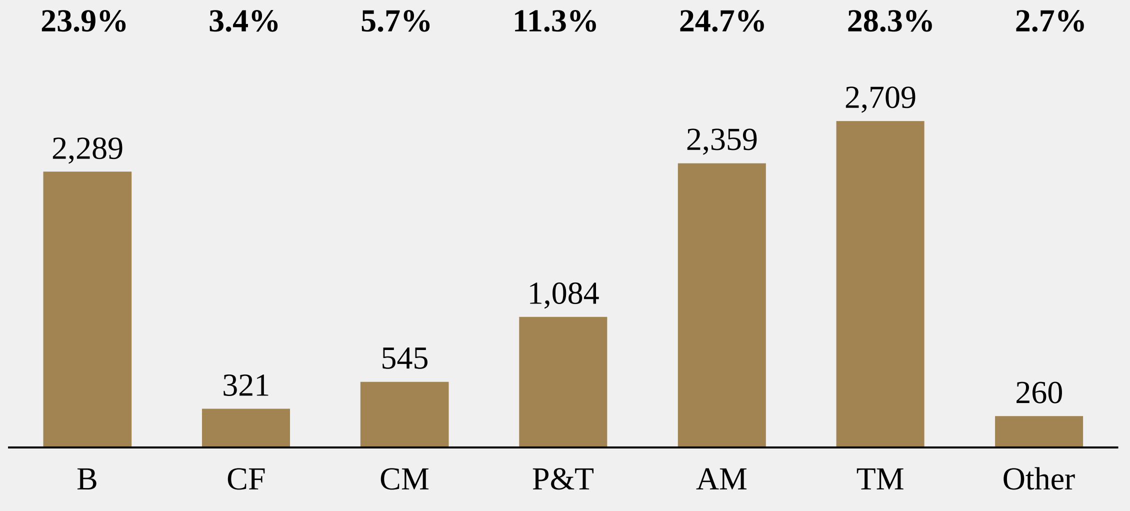
Increased revenue diversification in operations

Net operating income

- Net operating income split has changed significantly due to changed composition of revenues following merger
- TM Tryggingar (TM) accounted for 28.3% of net operating income in 6M 2021 despite only being included in Q2
- Majority of increase for Banking year-on-year is due to merger with Lykill
- Favorable market conditions for P&T, lower funding cost and improved liquidity management
- Asset management driven by influx in private banking and establishment of new funds

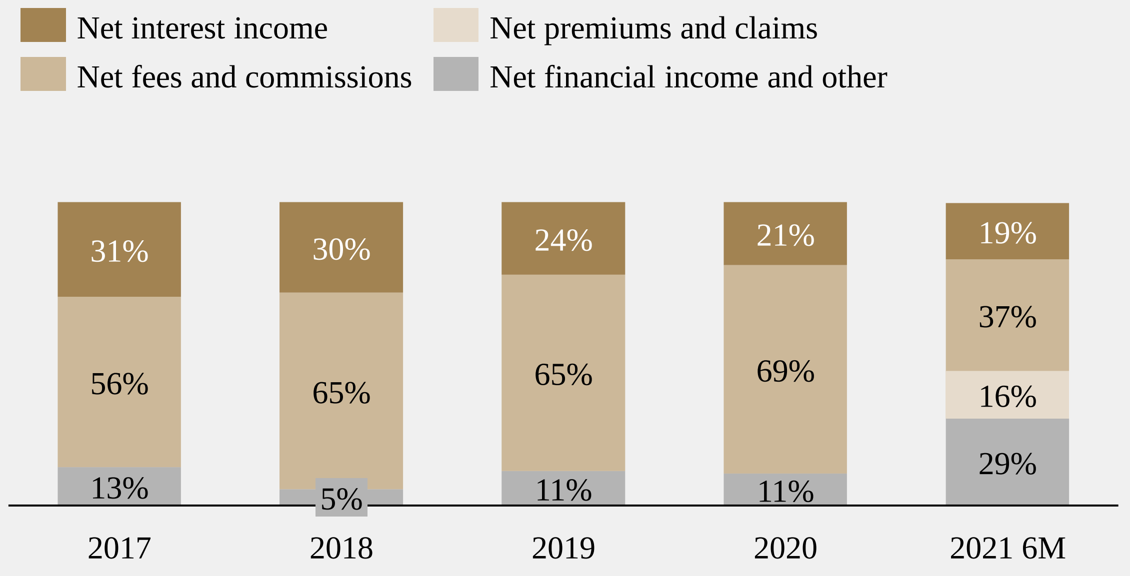
NET OPERATING INCOME

Percentages represent share of NOI



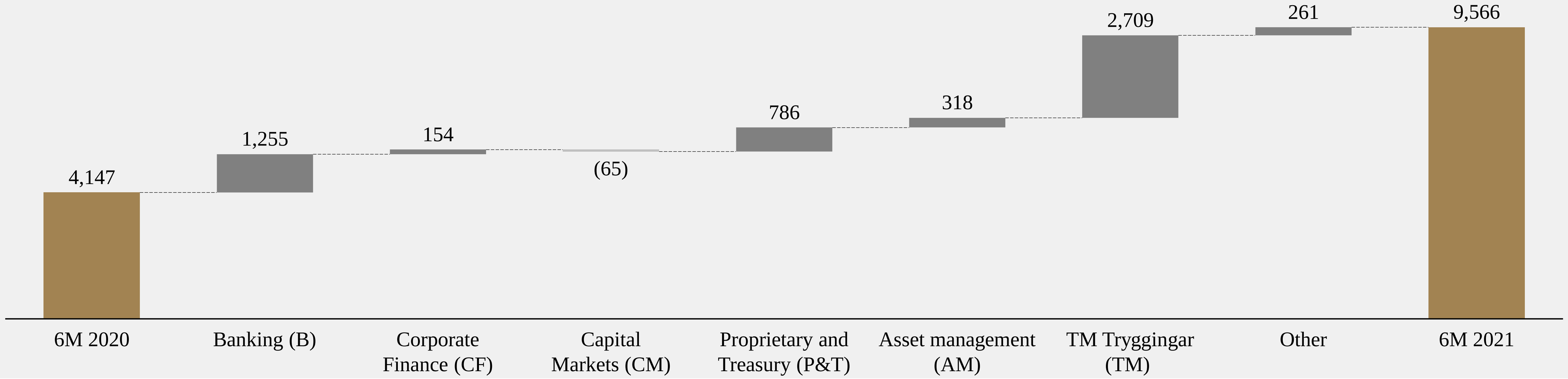
NET OPERATING INCOME SPLIT

2017 to 2021 6M



NET OPERATING INCOME BRIDGE

30.06.2020 and 30.06.2021

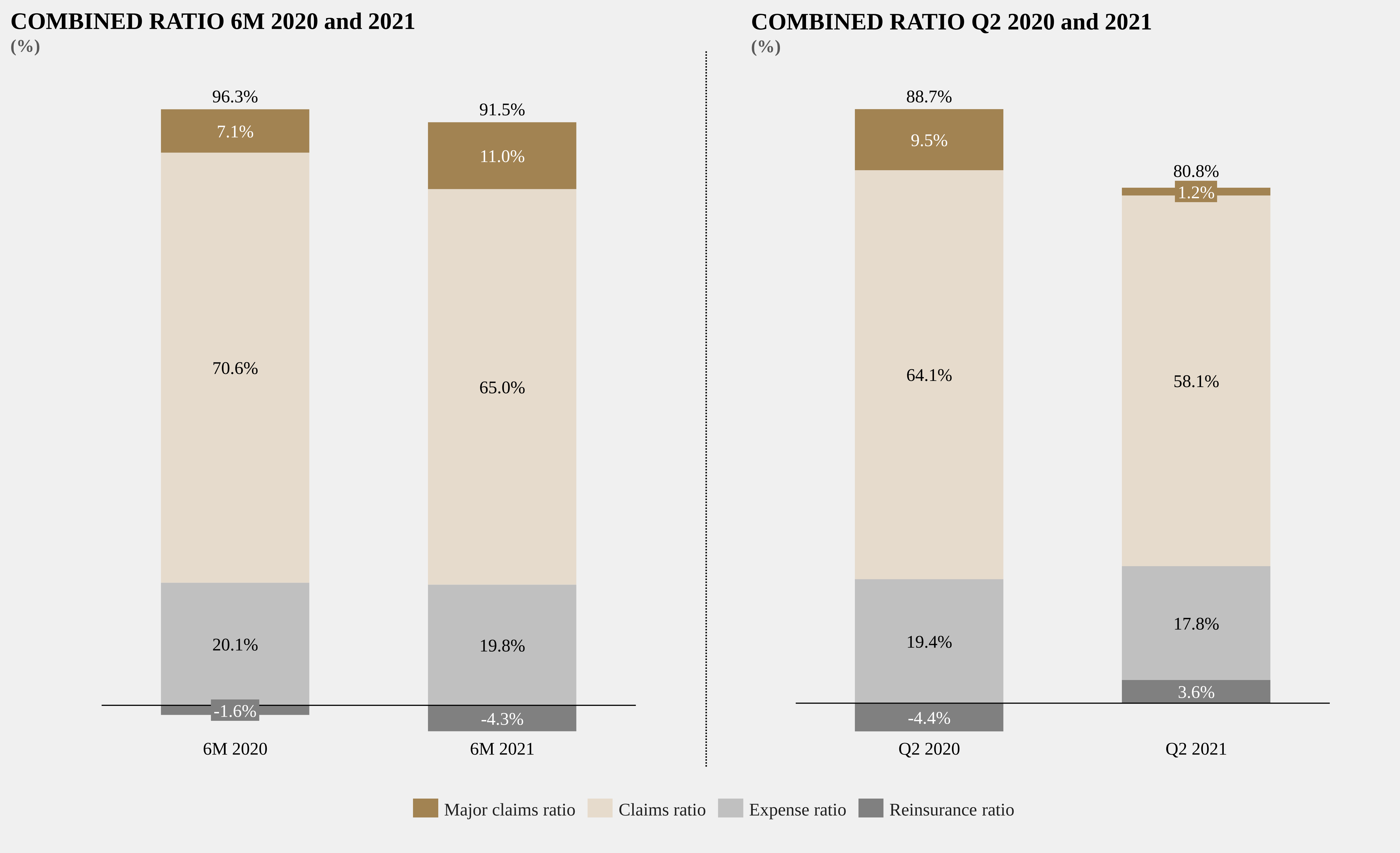


B = Banking
CF = Corporate Finance
CM = Capital Markets
P&T = Proprietary Trading and Treasury
AM = Asset Management
TM = TM Tryggingar
Other = Support functions and eliminations

Insurance operations

Combined ratio 80.8% in Q2 2021

- Combined ratio for 6M 2021 91.5% should TM be included from January 1st
- Claims ratio decreases year-on-year while major claims ratio is significantly lower in Q2 2021 (claims over ISK 50 million)
- All insurance categories below 100% combined ratio during 6M 2021
- Reinsurers’ share positive in Q2 2021 compared to negative in Q2 2020

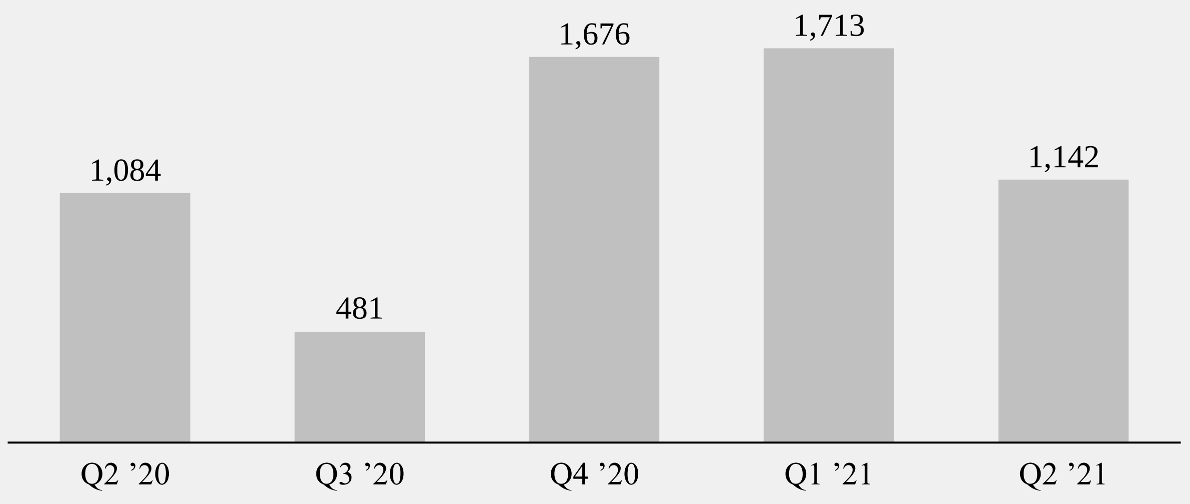


Insurance investments

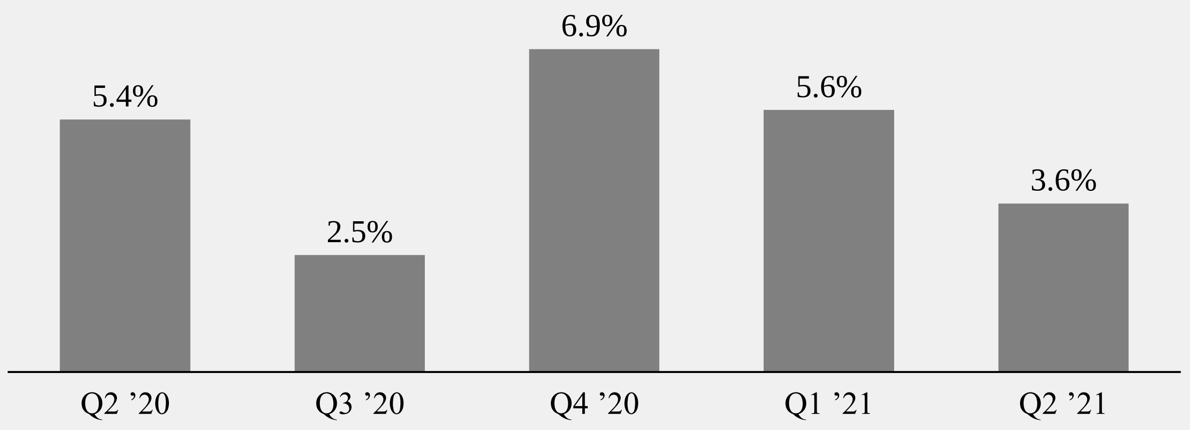
Return on investment of 9.3% in 6M 2021 (Q2 2021 3.6%)

- Outstanding return on investment assets in 6M 2021 of 9.3% (Q2: 3.6%)
- Positive performance in all asset classes outside of cash, with listed and unlisted equities being the main driver of return
- Return on listed equities exceeded 50% during the first six months of 2021 (Q2: 22%)
- Cash and liquidity funds amount to ISK 6.1 billion at the end of quarter, [1] partly due to Stoðir divestment

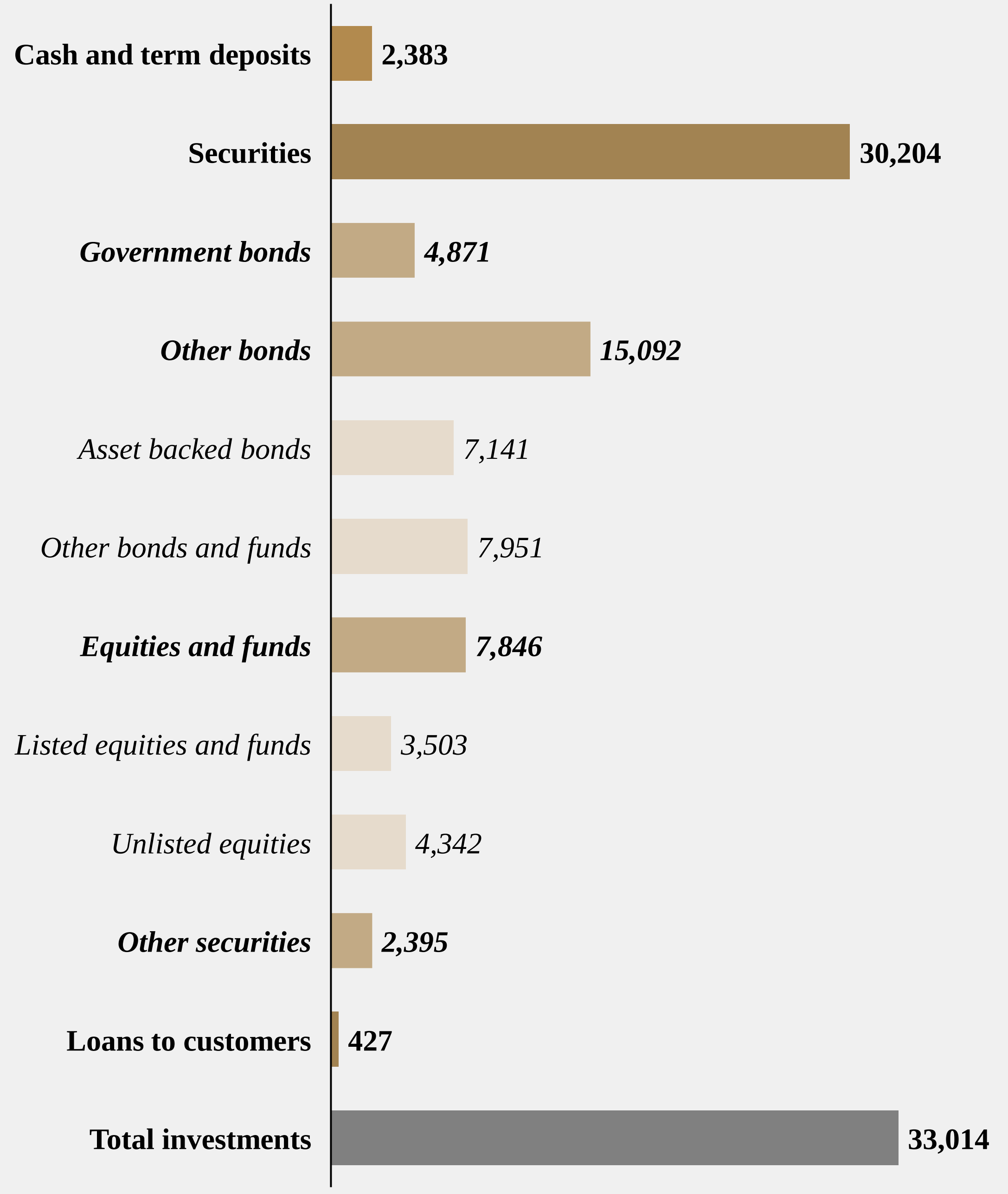
INSURANCE NET FINANCIAL INCOME
ISK m.



INSURANCE INVESTMENT ASSET RETURNS (ROI)
(%)



INSURANCE INVESTMENT ASSETS
30.06.2021



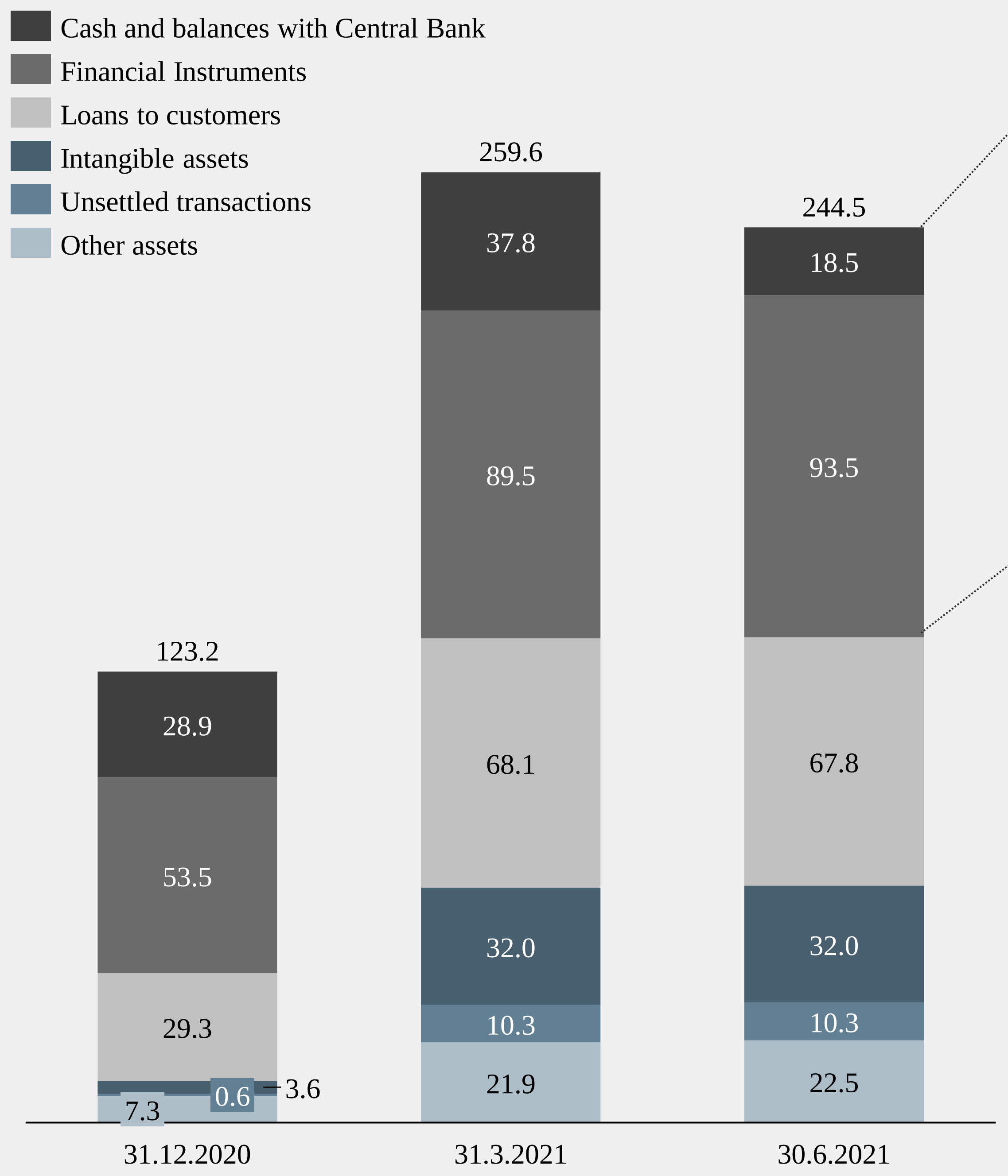
1) *Liquidity funds are categorized under other bonds and funds*

Assets

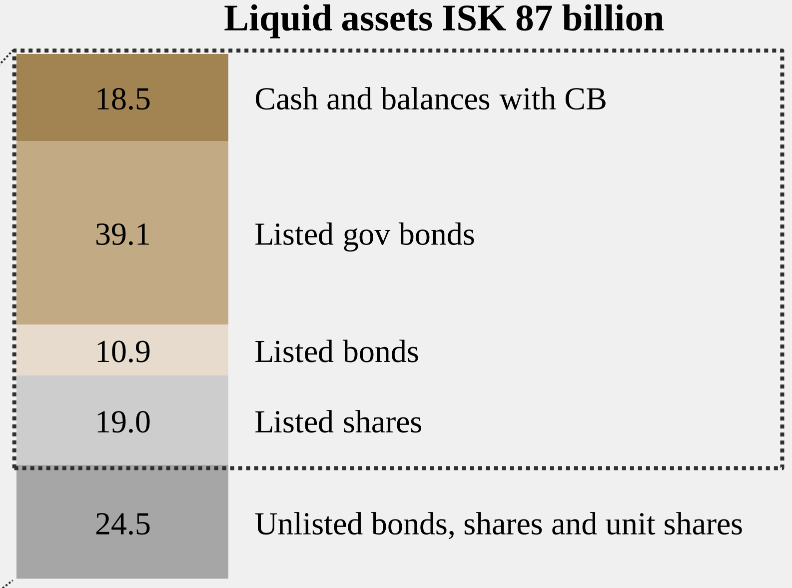
Considerable increase in assets post merger

- TM and Lykill and their subsidiaries are part of the Consolidated Financial Statements as of 31st March 2021
- Total assets approximately double since year-end to ISK 244.5 billion
- Liquidity coverage ratio (total) remains strong post-merger
- Liquid assets amount to ISK 87 billion or 36% of total assets and 131% of deposits from customers
- Kvika's loan book increases by ISK 38.5 billion since year-end
- The purchase price allocation has not been concluded; the goodwill that has been recognised is preliminary and will be finalised in the course of the financial year 2021
- Majority of liquid assets decrease due to ISK 10.7 billion redemption of Lykill 17 1

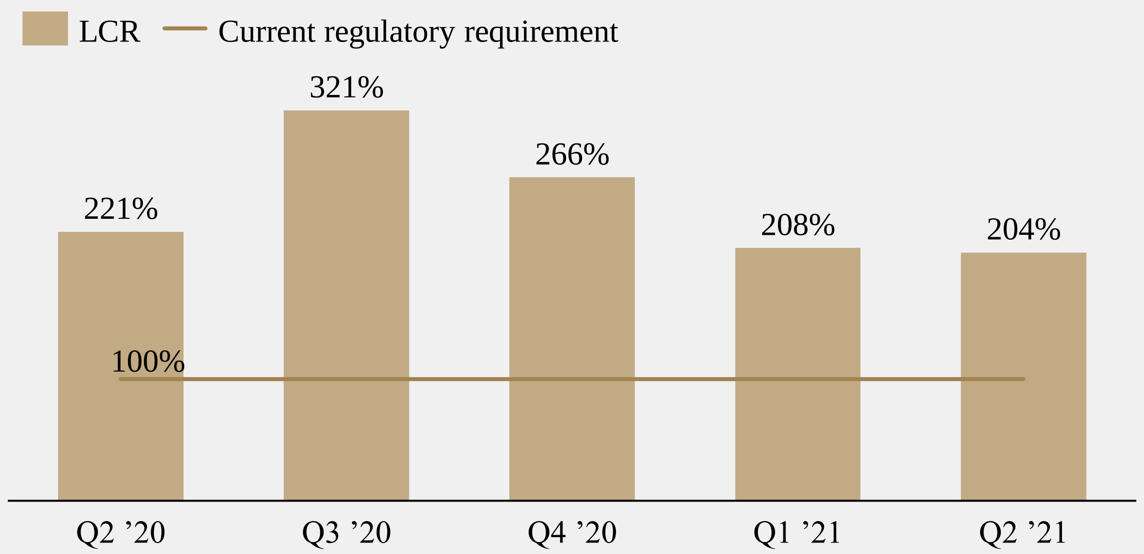
ASSETS
31.12.2020 to 30.06.2021 ISK bn.



CASH AND FINANCIAL INSTRUMENTS
30.06.2021



LIQUIDITY COVERAGE RATIO (LCR)
30.06.2021



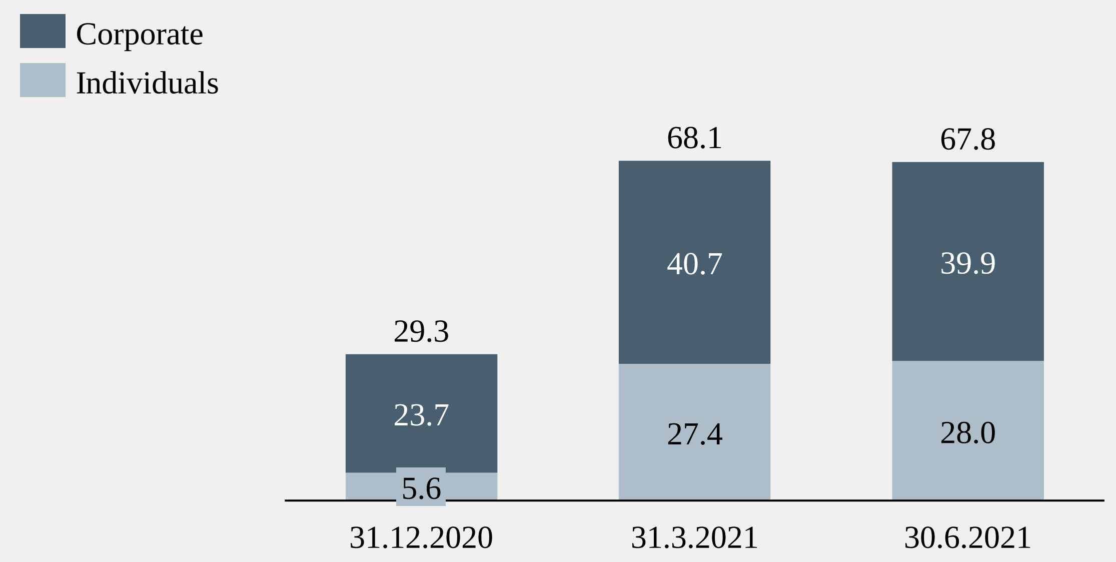
Other assets include investment properties, investment in associaties, operating lease assets, property and equipment, deferred tax assets, reinsurance assets, derivatives and other assets as further outlined in note 27 in the Consolidated Financial Statments for the period

Loans to customers

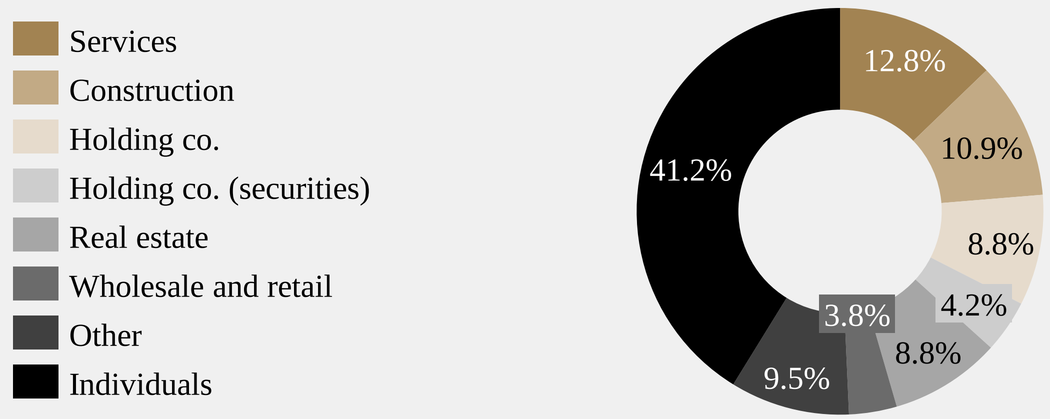
Increased diversification of loans to customers

- Loan book increases considerably following TM and Lykill merger
- Loans to individuals approximately fivefold from year-start ISK 5.6 billion to ISK 28.0 billion
- Loans to corporates increase by 68.4% from ISK 23.7 billion to ISK 39.9 billion
- Weighted average duration of the loan book was 2.10 years at end of period
- Change in credit quality mostly due to merger with Lykill (new financial assets) but improves quarter-on-quarter

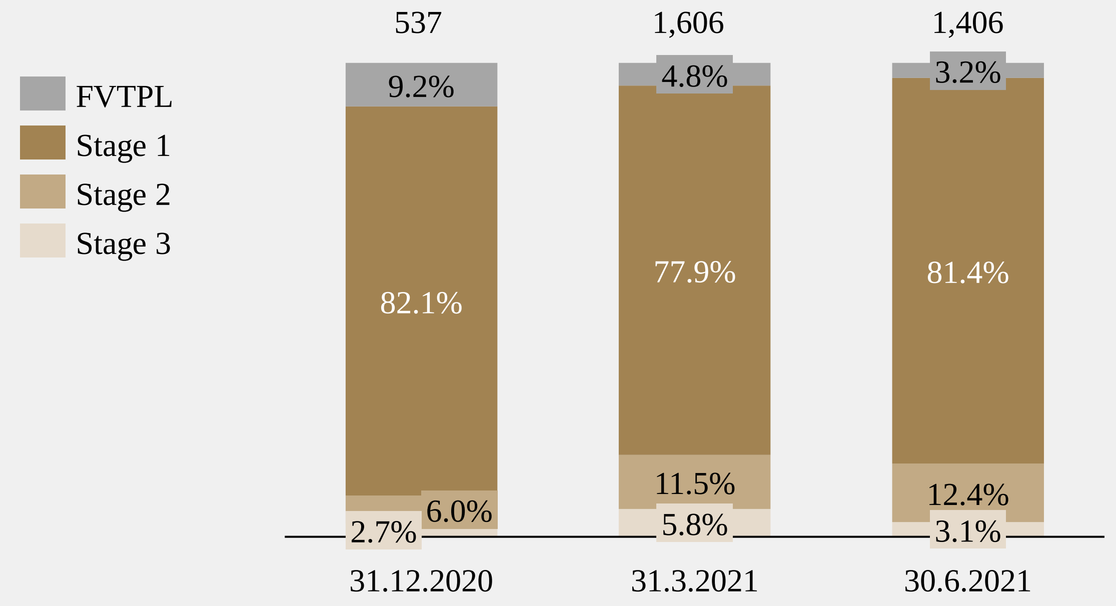
LOAN BOOK BY CUSTOMER TYPE
31.12.2020 to 30.06.2021 ISK bn.



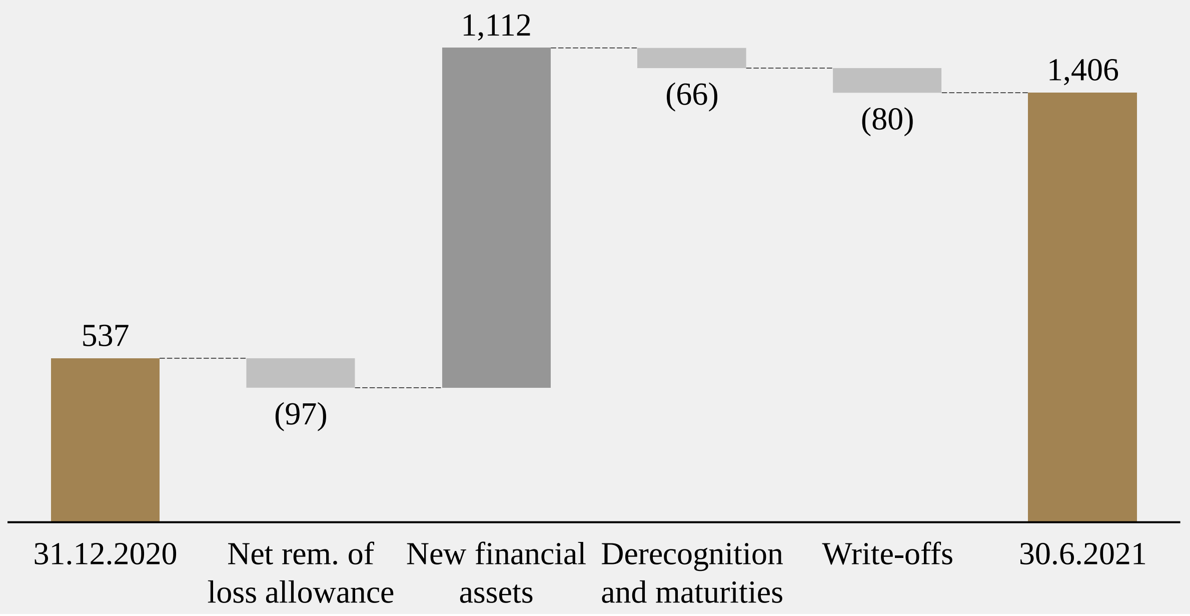
LOAN BOOK COMPOSITION
30.06.2021



CREDIT QUALITY OF LOAN BOOK
Total sum represents expected credit loss in ISK m.



BRIDGE CREDIT QUALITY / EXPECTED CREDIT LOSS
31.12.2020 to 30.06.2021 in ISK m

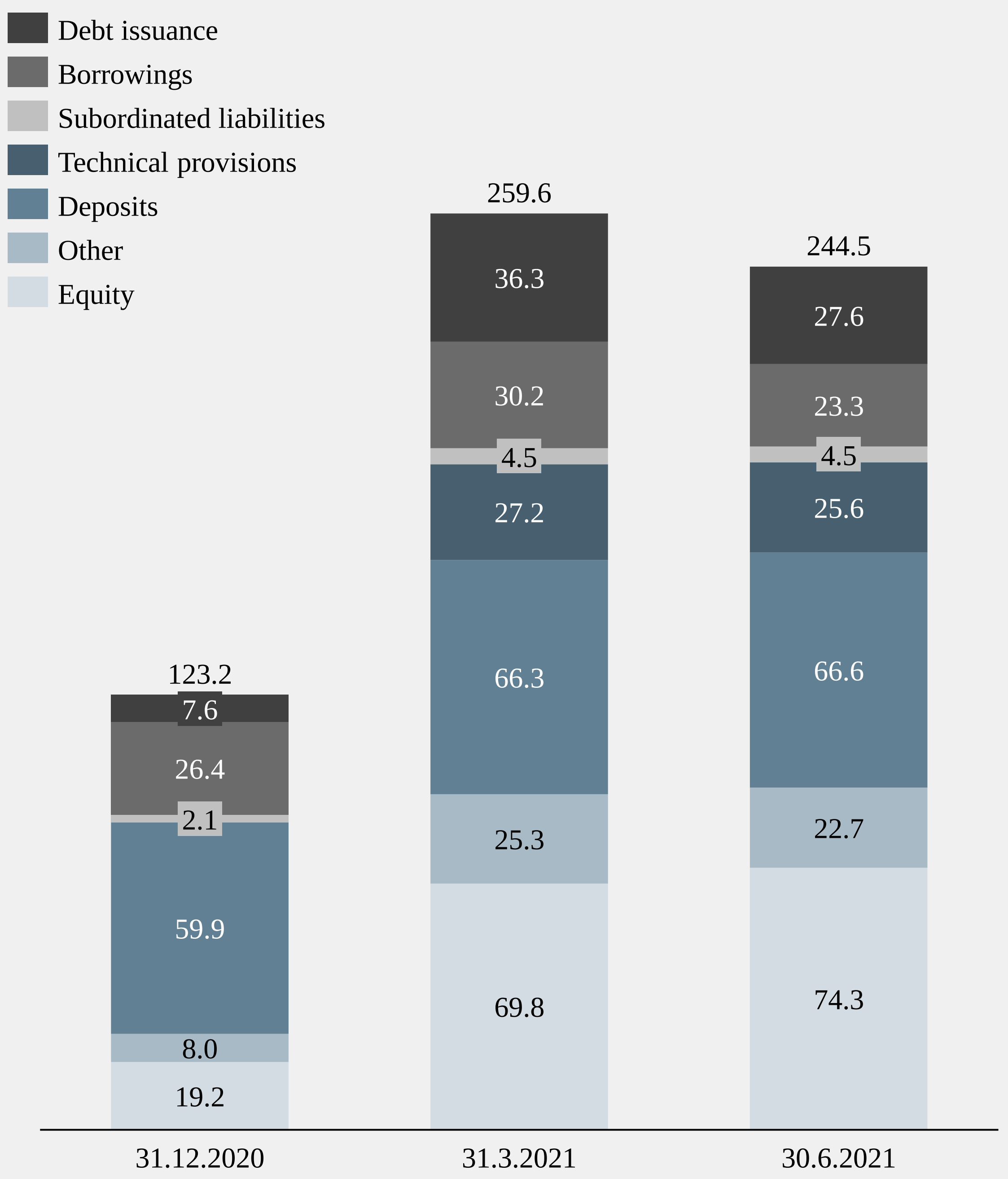


Liabilities

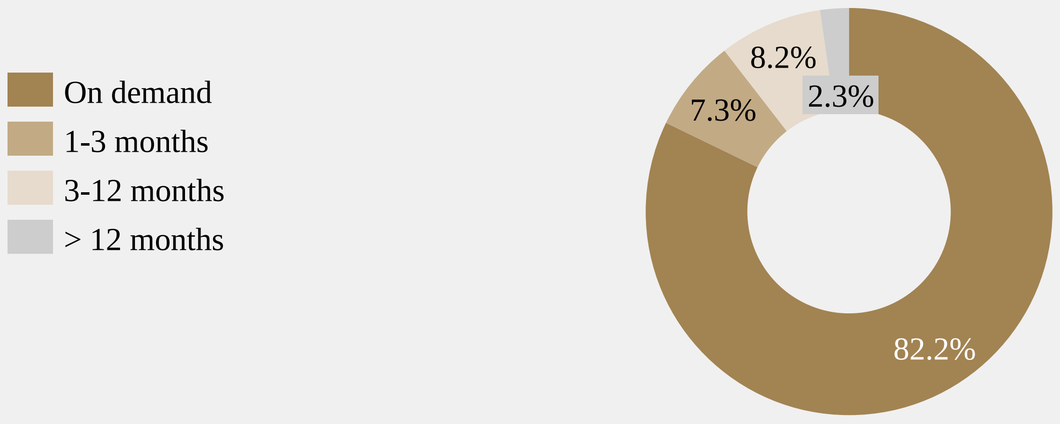
Funding continues to be strong

- TM and Lykill and their subsidiaries are part of the consolidated financial statements as of 31st March 2021
- Kvika issued ISK 5.7 billion of senior unsecured bonds in 6M 2021, including ISK 2.2 billion of 6-year inflation linked bond
- Kvika paid all outstanding notional of Lykill 17 1 in Q2, a total of ISK 10.7 billion
- Borrowings at ISK 23.3 billion include money market financing and secured credit facilities
- Technical provision of TM Tryggingar amounts to ISK 25.6 billion
- Total deposits increase by ISK 6.6 billion from year-end

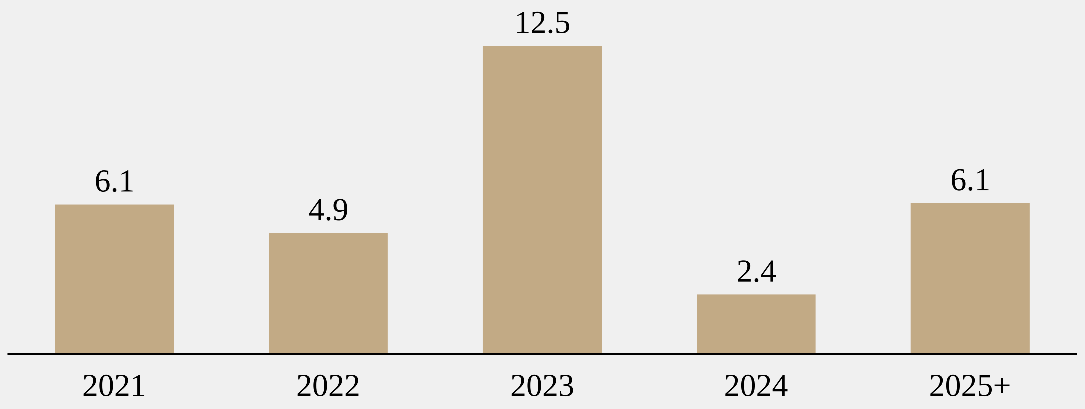
LIABILITIES AND EQUITY
31.12.2020 to 30.06.2021 ISK bn.



MATURITY OF DEPOSITS
30.06.2021



MATURITY OF ISSUANCE
30.06.2021 ISK bn.



Other liabilities include short positions for trading, short positions for hedging, derivatives, current tax liabilities, deferred tax liabilities and other liabilities as further outlined in note 36 in the Consolidated Financial Statments for the period

Solvency

Consolidated Solvency of 1.48 well above regulatory requirements

CAPITAL ADEQUACY OF THE GROUP

Solvency and Capital adequacy ratio

1. Capital adequacy is calculated on a consolidated level as the solvency ratio of the financial conglomerate
2. The consolidated capital adequacy ratio (CAR) is calculated for entities not belonging to the insurance sector by excluding insurance activities from calculation of risk weighted assets and capital base
3. The solvency ratio of entities solely belonging to the insurance sector

1 **Consolidated: Solvency 1.48**

2 **Consolidated excluding insurance: CAR 30.8%**

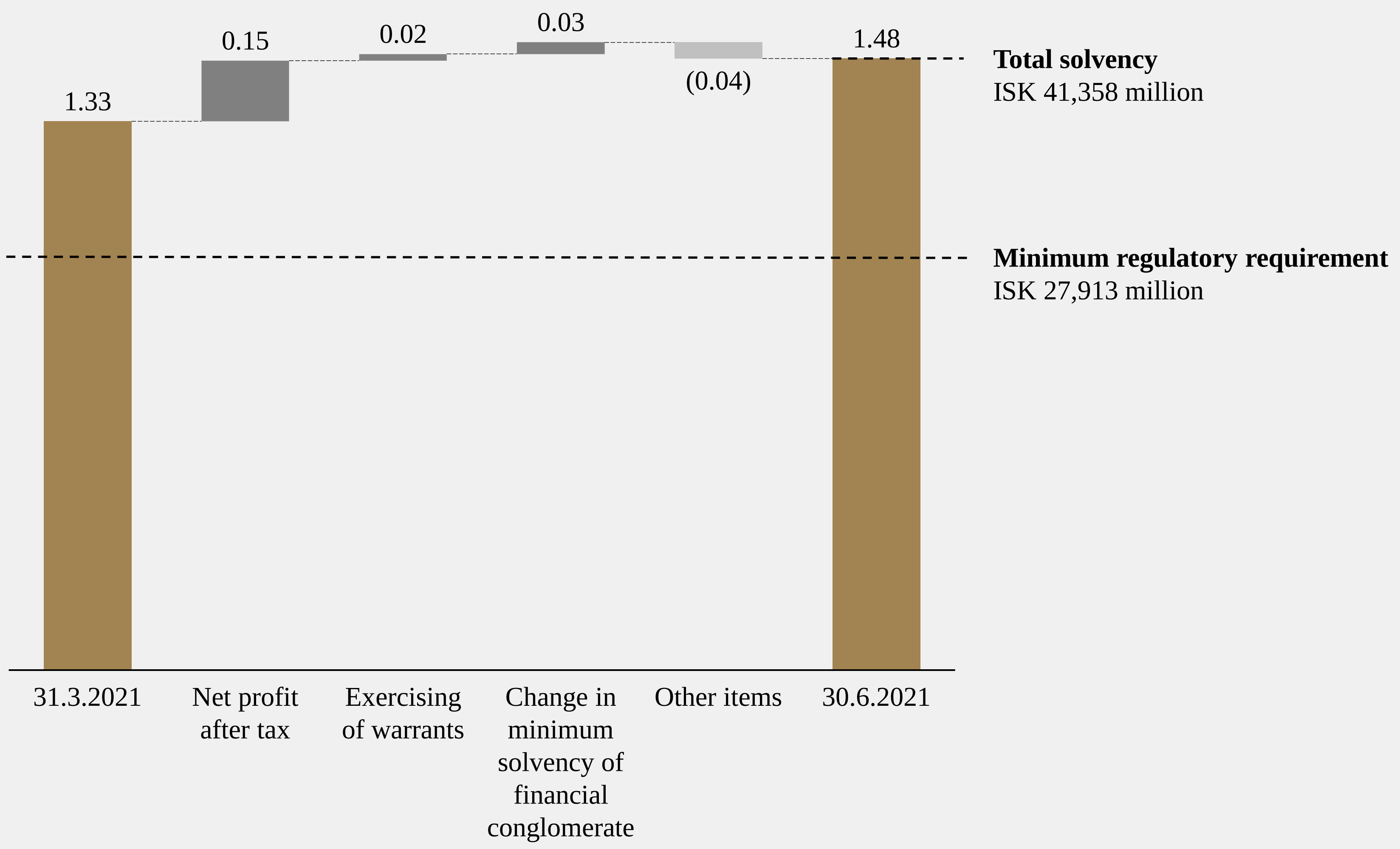
Kvika banki hf. (Parent)
Including subsidiaries Kvika eignastýring, Kvika Securities, GAMMA, Aur, Netgíró and others

3 **Insurance: Solvency 1.45**

TM Tryggingar hf.

DEVELOPMENT OF CONSOLIDATED SOLVENCY RATIO

Basis for calculation of % change is the position on 31.03.2021

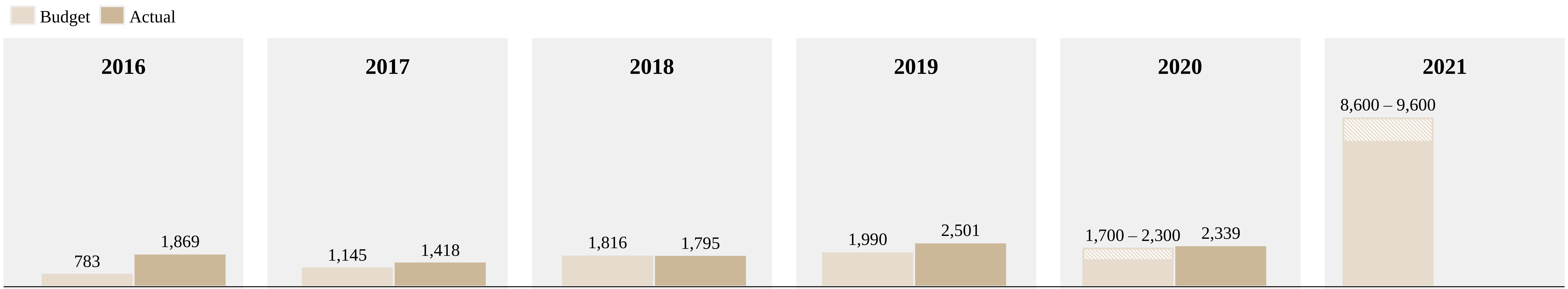


Outlook for 2021

Profit before tax in second half of 2021 expected to be ISK 4,000 – 5,000 million

PROFIT BEFORE TAX

2016 to 2021 ISK m.



2016

- High financial income boosted profit before tax

2017

- Increase in net interest income, due to changed composition of loan portfolio
- Expensed one-off related items in relation to acquisition of Virðing and Alda

2018

- Decrease in financial income and income from associates
- Increase in net fee and commission income, mainly due to Virðing and Alda
- Ongoing positive development in net interest income

2019

- Growth in net fee and commission income, mainly due to GAMMA acquisition, performance related fees and increased turnover
- One-off related items in relation to GAMMA acquisition

2020

- Updated 2020B amounted ISK 1,700 – 2,300 million, from previous estimated of ISK 2,300 – 2,700 million
- Precautionary measures reflected in updated budget due to COVID-19 impact

2021

- Guidance for second half of 2021 amounts to PBT ISK 4,000 – 5,000 million
- Resulting in full year results of approximately PBT ISK 8,600 – 9,600 million (ISK 10,100 – 11,100 million should TM be included from January 1st)
- Initial 2021 budgets for Kvika and TM amounted to ISK 2,600 – 3,000 million and ISK 3,590 million, respectively
- Work on implementation of Beyond Budgeting taking place


KVIKA