Kvika banki hf.

3M 2022 Financial Results

12 May 2022

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Highlights 3M 2022

Profit before tax (PBT) for 3M 2022 ISK 1,740 million with return on weighted tangible equity (RoTE) 16.1%
PBT fully in line with Group budget for the quarter. PAT amounts to ISK 1,510 million

Strong financial position with consolidated solvency of 1.32 and LCR of 247%
Well above regulatory requirements. Strong LCR largely attributable to debt issuance and increase in deposits, prepayment of Lykill debt later in May

Assets under management at 31.3.2022 ISK 497 billion
Divestment of funds managed by KKV (ISK 23 bn.), which has now been completed in full, offsets increase in funds under management and private banking

Addition of fifth operating segment: UK
Reflecting increased importance and revenue generation of the entity

Management changes announced in April – promotion of in-house talent
Ólöf Jónsdóttir appointed MD Commercial Banking, Anna Rut Ágústsdóttir appointed COO, CRO Thomas Jensen joins Group Management team

Share buy-back programme approved by annual general meeting in March 2022
Programme of ISK 3 billion pending regulatory approval

Moody’s assigns first time bank deposit and issuer ratings of Baa2/Prime-2
Investment grade rating, three notches below the Government of Iceland

Next 12 month's PBT expected ISK 8,700 – 9,700 million, 19.9% – 22.2% RoTE
Updated outlook for 2022 PBT, range updated to ISK 8,400 - 9,200 million from ISK 8,000 – 9,000 million, **19.1% – 21.0% RoTE**

Kvika assigned first time deposit and issuer rating

Moody's assigns investment grade ratings of Baa2/Prime-2

- Moody's has assigned a first time investment grade Baa2 long-term and P-2 short-term foreign and local currency bank deposit and issuer ratings to Kvika banki hf. The ratings carry a stable outlook and are comparable to other domestic banks
- Kvika initiated the rating process in early 2022 following the publication of the Group's first EMTN Programme and inaugural foreign debt issuance, to further support and build relationships with non-domestic investors on its track to diversify its funding
- The results of Moody's analysis are in line with Kvika's expectations and confirms Kvika's experience in the domestic market, where the Group has recently issued bonds at comparable rates to Iceland's other banks, and supports the Group's three-year goal of funding costs being comparable to Iceland's other banks
- Kvika's long-term rating of Baa2 is 3 notches below the Government of Iceland, whose last opinion from Moody's was published on 20 August 2021
- Large step towards Kvika's three-year goal of funding costs being comparable to those of Iceland's' other banks

> *"The ratings reflect Kvika's robust capitalisation coupled with strong profitability and liquidity, reflective of the group's diversified revenue stream and the increasing importance of non-capital intensive banking operations as well as the profit contribution from its insurance operations via TM tryggingar hf."* [1)]
>
> *"Kvika's profitability benefits from a diversified revenue stream, in the form of net interest income, insurance premiums, financial income and asset management fees."* [1)]

Comparison to Icelandic Government

Moody's	Kvika	Government of Iceland
Short-term funding	P-2	N/A
Long-term funding	Baa2	A2
Baseline Credit Assessment	Ba1	N/A
Outlook	Stable	Stable
Last opinion	11 May 2022	20 August 2021

Credit rating scales [2)]

Moody's	S&P and Fitch	Meaning
Long term ratings		
Aaa	AAA	Highest rating, minimum risk
Aa (1-3)	AA (+ through -)	High rating, low risk
A (1-3)	A (+ through -)	Above average rating, relatively low risk
Baa (1-3)	BBB (+ through -)	Average rating, acceptable tisk
Short term ratings		
P-1	A-1 / F1	Highest rating, minimum risk
P-2	A-2 / F2	High rating, low risk
P-3	A-3 / F3	Above average rating, good solvency

Investment Grade

1) *Moody's Investor Service, Rating Action: Moody's assigns first time long-term issuer and deposit ratings of Baa2 to Kvika Banki hf.; outlook stable, dated 11 May 2022*
2) *https://www.sedlabanki.is/um-sedlabankann/lanamal-rikisins/lanshaefi-rikissjods/*

Addition of fifth operating segment – UK

Acquisition of majority share in Ortus completed

- The Group has completed the acquisition of a majority share in Ortus Secured Finance in the UK
- Following the acquisition, Kvika's UK operations will be reported within the Group as a separate operating segment, UK, consisting of the operations of subsidiary Kvika Securities Limited and Ortus Secured Finance
  - Previously reported with Investment Banking
- The addition of UK as an operating segment further reflects the Group's focus on diversifying income streams
- Three of Kvika's five operating segments now operated through independent subsidiaries
- Ortus' operations are included in the Group's consolidated financial statements from 1 March 2022, the segment therefore is not representative of a full quarter of operations

Kvika

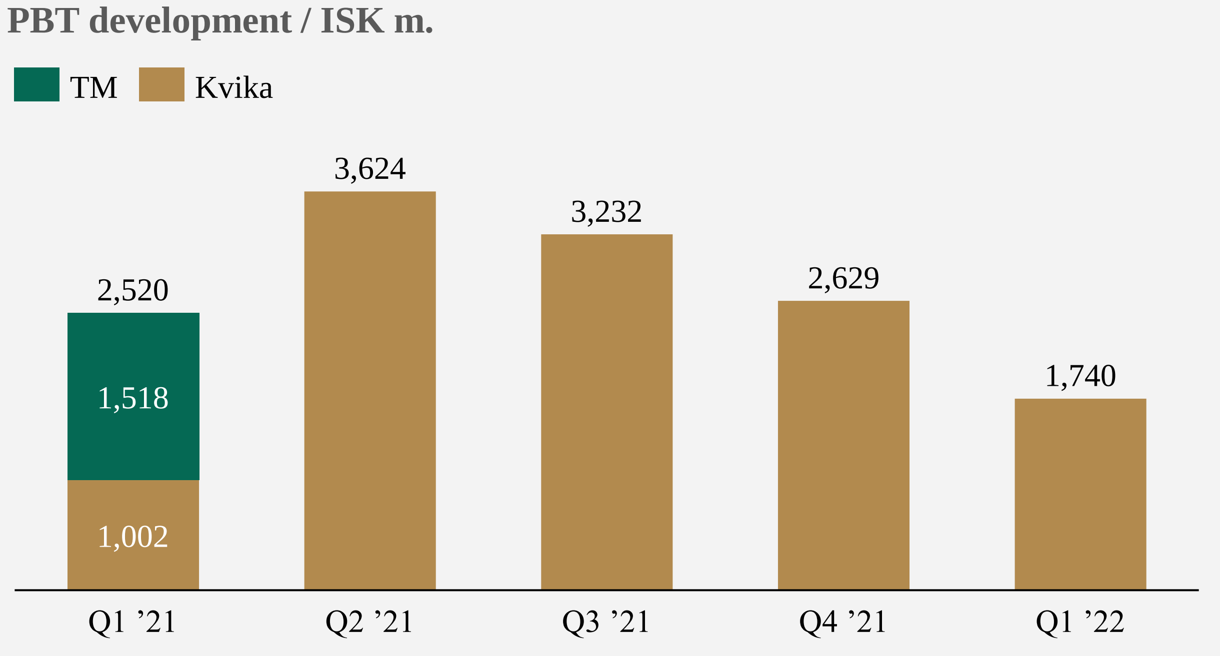
	Insurance	Asset Management	Commercial Banking	Investment Banking	UK
Key Offerings	• Insurance • Investments	• Private Banking • Fund Management • Private Equity • Institutional Investors	• Corporate lending • Specialised lending • Consumer lending • Payment solutions • Deposits	• Capital Markets • Corporate Finance • ~~Kvika UK~~	• Corporate Finance • Investment management • Secured lending
Through Key Brands	• TM Insurance	• Kvika Asset Management	• Kvika Bank • Lykill • Netgíró • Aur • Framtíðin • Auður	• Kvika Bank	• Kvika Securities Ltd. • Ortus Secured Finance

Total profit before tax in Q1 ISK 1,740 million

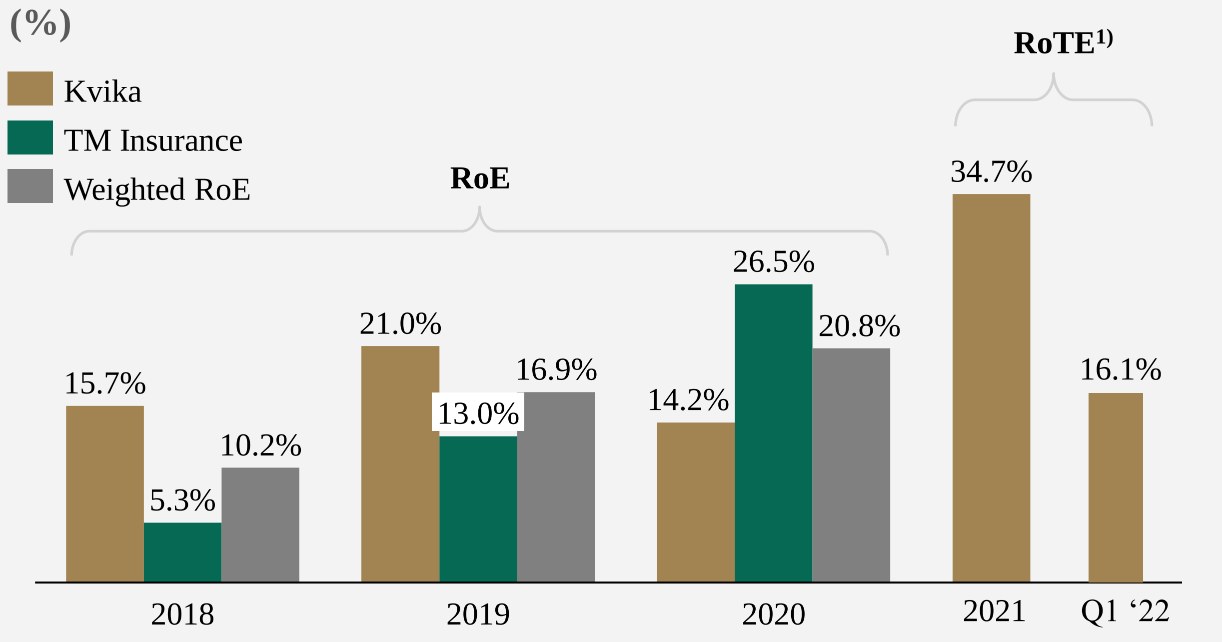
Demonstration of the value of diversified operations

- Kvika's profit before tax for the first three months of 2022 is ISK 1,740 million with a RoTE of 16.1%
- The Group's focus on diversification of revenue streams proved its value during difficult market circumstances, where lower investment income was countered by other revenue streams
- The Group now includes for the first time the fifth operating segment, UK, representative of increased revenue production within the segment following acquisition of Ortus Secured Finance
  - Revenues from segment UK in Q1 only include March operations of Ortus Secured Finance, as the acquisition of a majority share was completed on 1 March 2022
  - Additionally, fee and commission income budgeted by UK in Q1 is expected to materialize in Q2 and Q3
- Amortisation of intangible assets arising from purchase price allocation amounted to ISK 102 million during the period

Profit before tax (PBT)

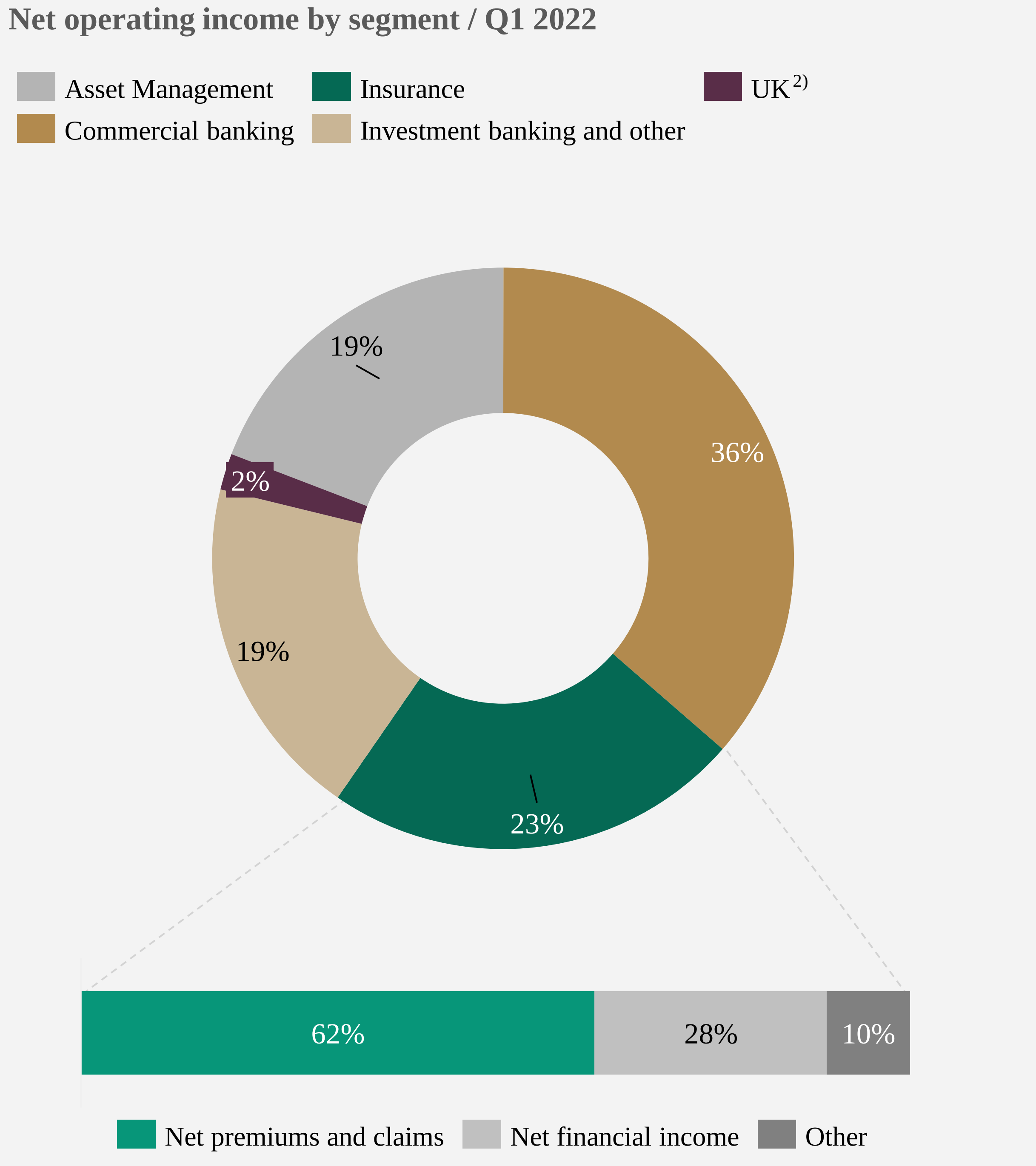


Return on weighted tangible equity (RoTE)



1) Calculations changed to return on tangible equity (RoTE) after the merger with TM Insurance. The reason being the increased amount of intangible equity (approx. 80% of total) created due to rise in share price from the announcement to execution. RoTE is calculated using profit before tax

Diversified income across segments



2) UK operations only include revenues from Ortus Secured Finance for March 2022

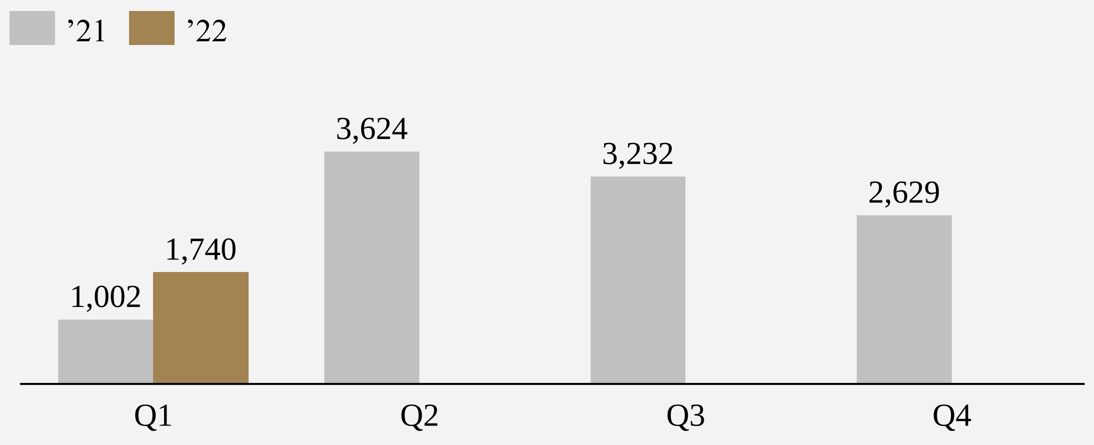
Operations Q1 2022

Return on weighted tangible equity of 16.1% during the quarter

Pre-tax profit

ISK m.

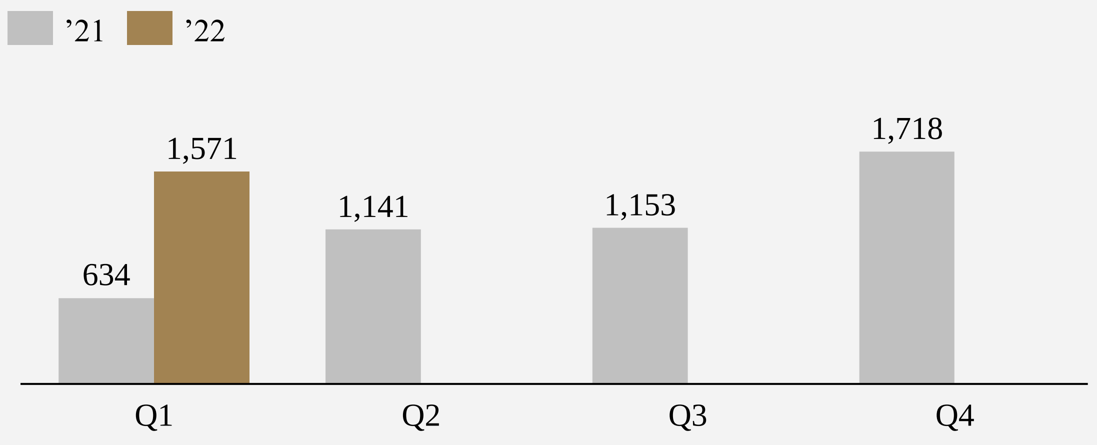
Performance fully in line with budget despite challenging markets



Net interest income (NII)

ISK m.

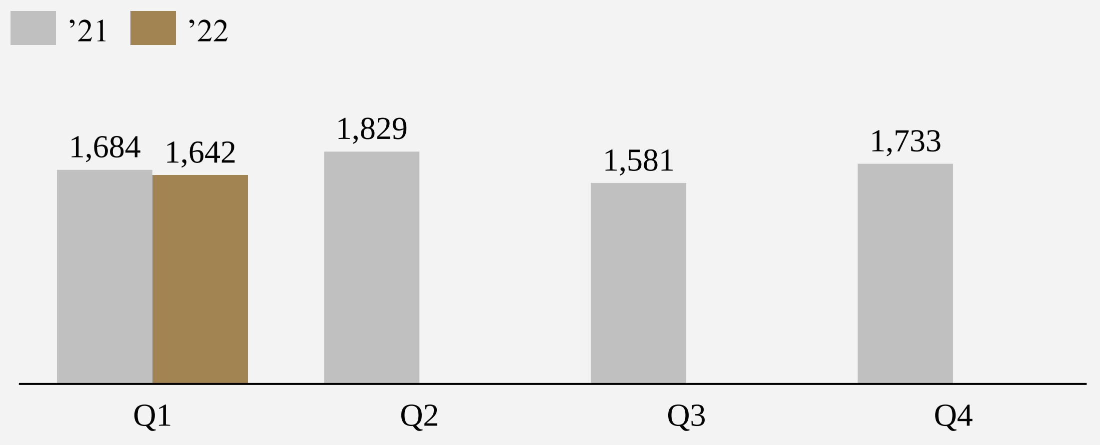
Loan book composition, indexation and favorable track in funding continue to impact NII, Ortus NII only included in March 2022



Net fee and commission income (NFC)

ISK m.

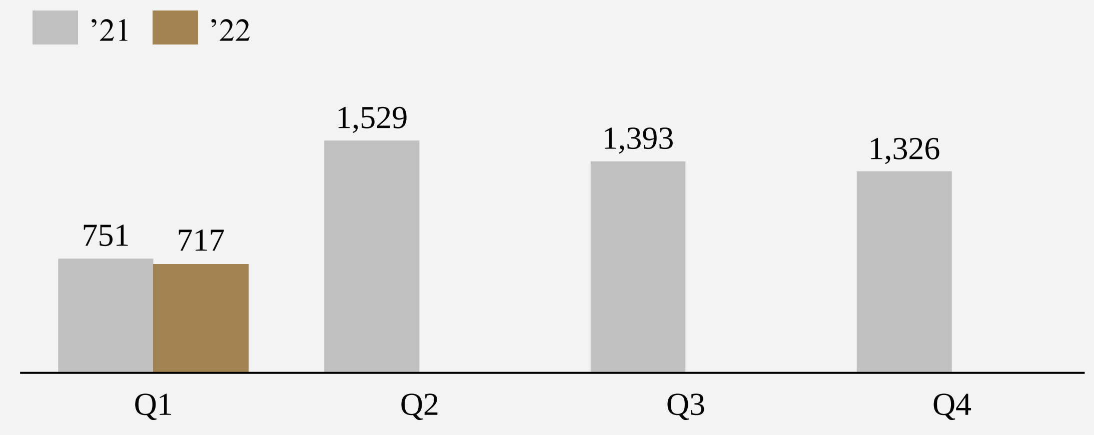
Strong recurring fee base and less reliance on variable fees



Net premiums and claims (NPC)[1]

ISK m.

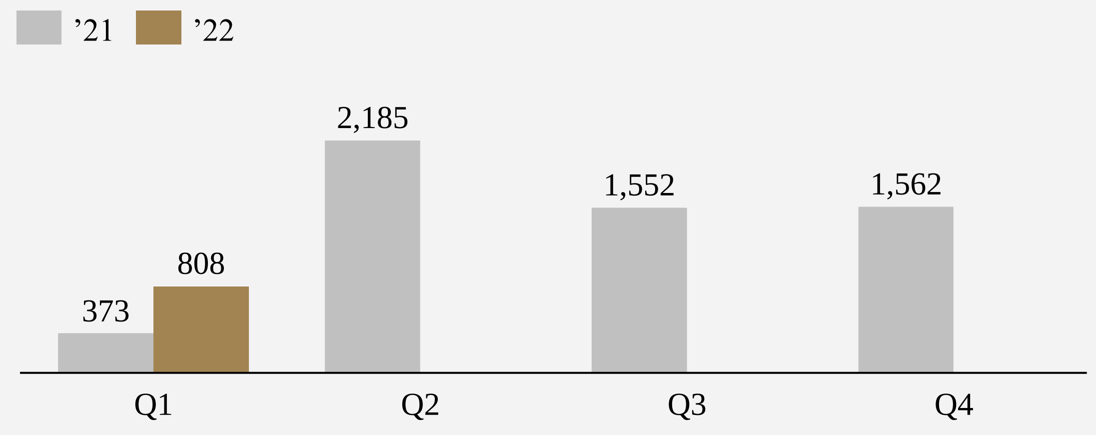
Premium growth offset by claims frequency



Net financial income (NFI)

ISK m.

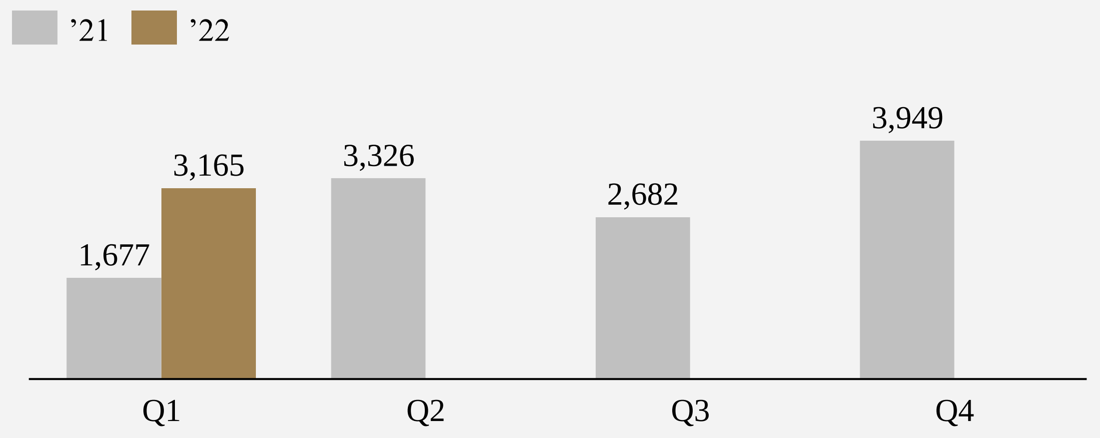
Positive NFI performance despite difficult market conditions



Operating expenses (OPEX)

ISK m.

OPEX in line with budget expectations



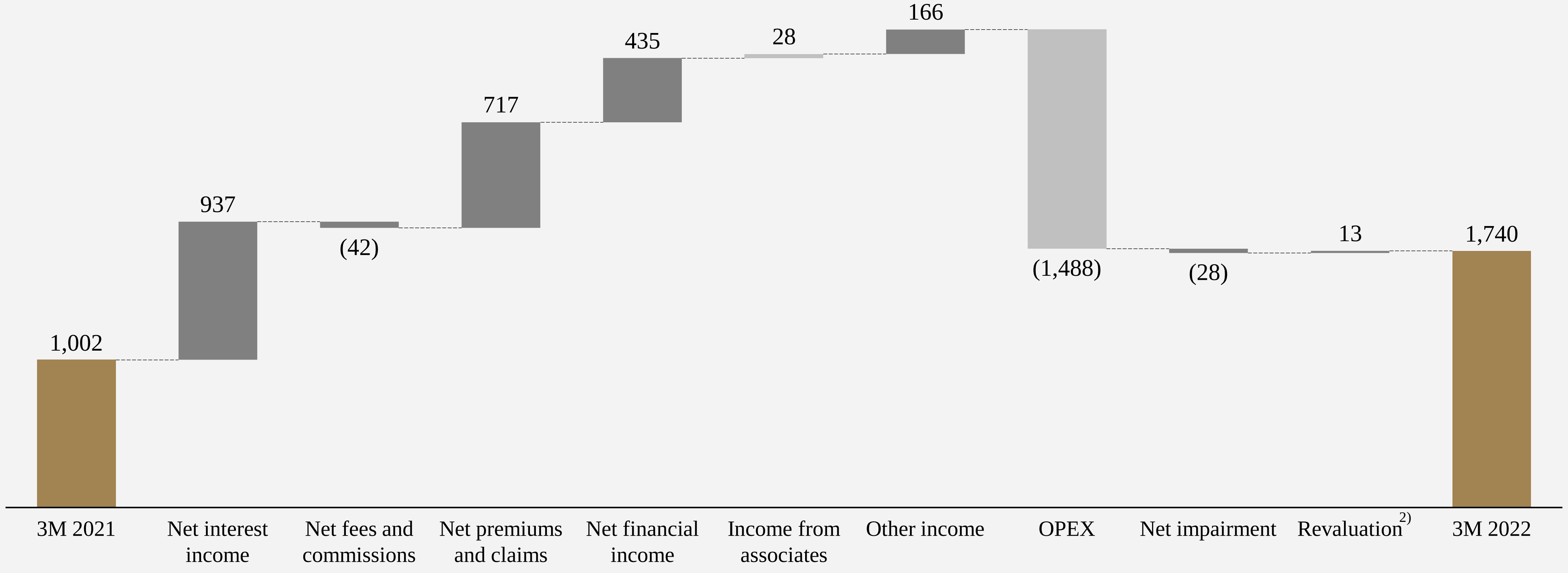
1) Net premiums and claims historical figures from TM hf. financial statements and investor presentations

Operations 3M 2022

Solid performance across segments

Pre-tax profit (loss) bridge

FROM 3M 2021 to 3M 2022 / ISK m.



Income statement

ISK m.

	3M 2022	*3M 2021*
Net interest income	1,571	634
Net fees and commissions	1,642	1,684
Net premiums and claims	717	-
Net financial income	808	373
Income from associates	-	(28)
Other income	205	39
Net operating income	***4,943***	***2,702***
Operating expenses	(3,165)	(1,677)
Net impairment	(38)	(11)
Revaluation of contingent consideration	-	(13)
Pre-tax profit	***1,740***	***1,002***
Income tax	(189)	(96)
Special bank taxes[1)]	(42)	(36)
After-tax profit	***1,510***	***869***
Earnings per share (EPS)	***0.31***	***0.40***
Diluted EPS	***0.30***	***0.37***

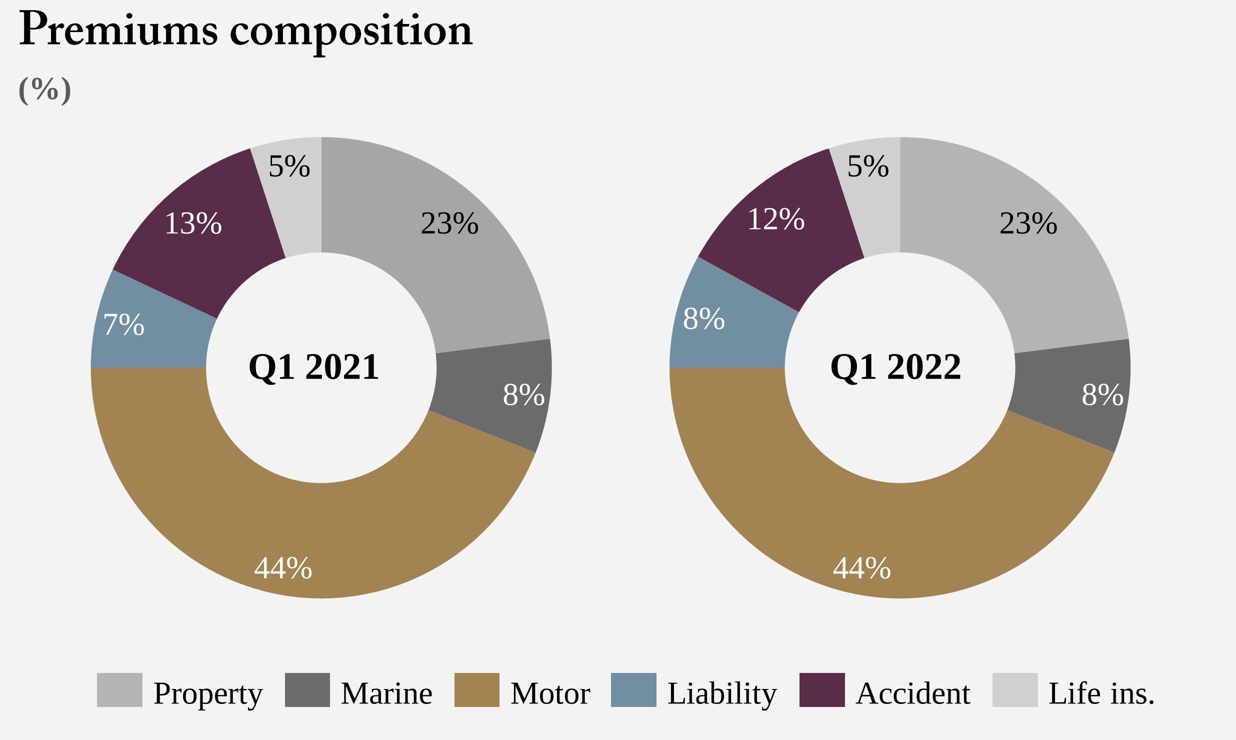
- Net operating income for the period amounted to ISK 4,943 million, driven by strong performance in banking and asset management
- Corresponding to 16.1% return on weighted tangible equity
- Net interest income more than doubled year-on-year as Lykill merged with Kvika and cost of funding decreased
- Net fee and commission income of ISK 1,642 million
- Operating expenses ISK 3,165 million in line with budget
  - Insignificant one-offs related to rating process and EMTN programme
- Net financial income ISK 808 million

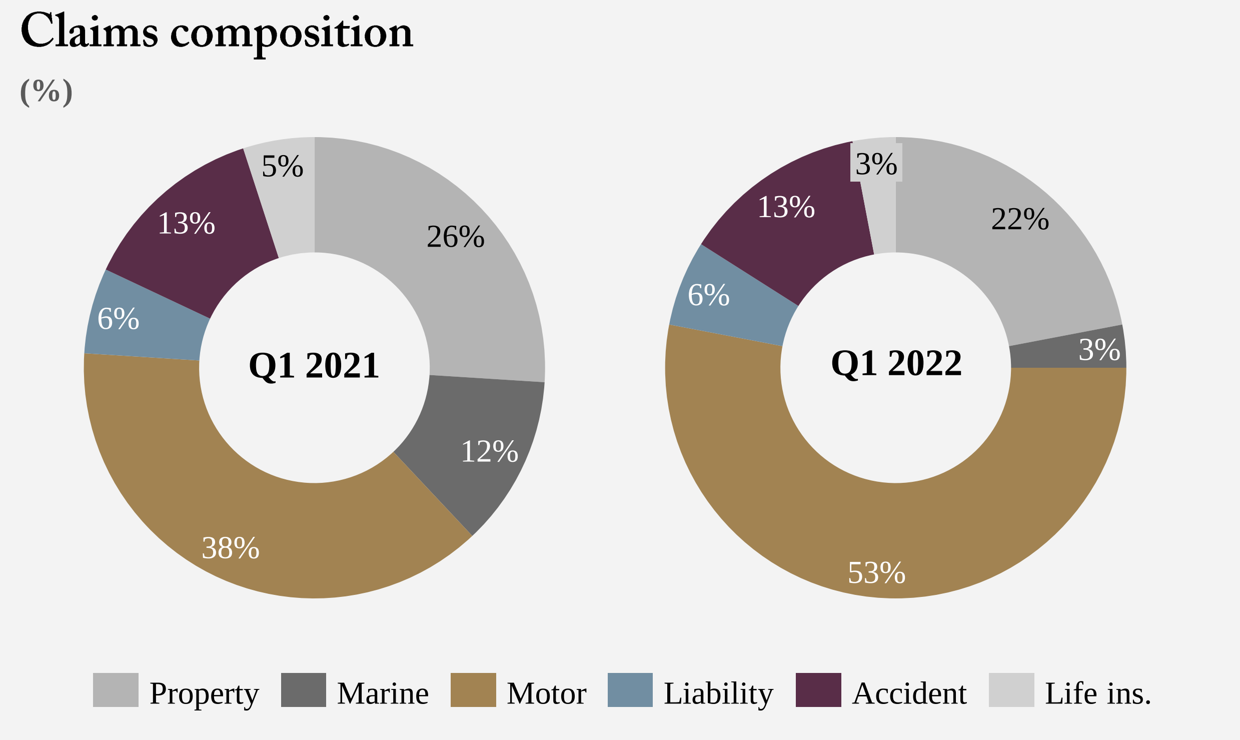
1) Special tax on financial activity and special tax on financial institutions
2) Revaluation of contingent consideration and investment properties

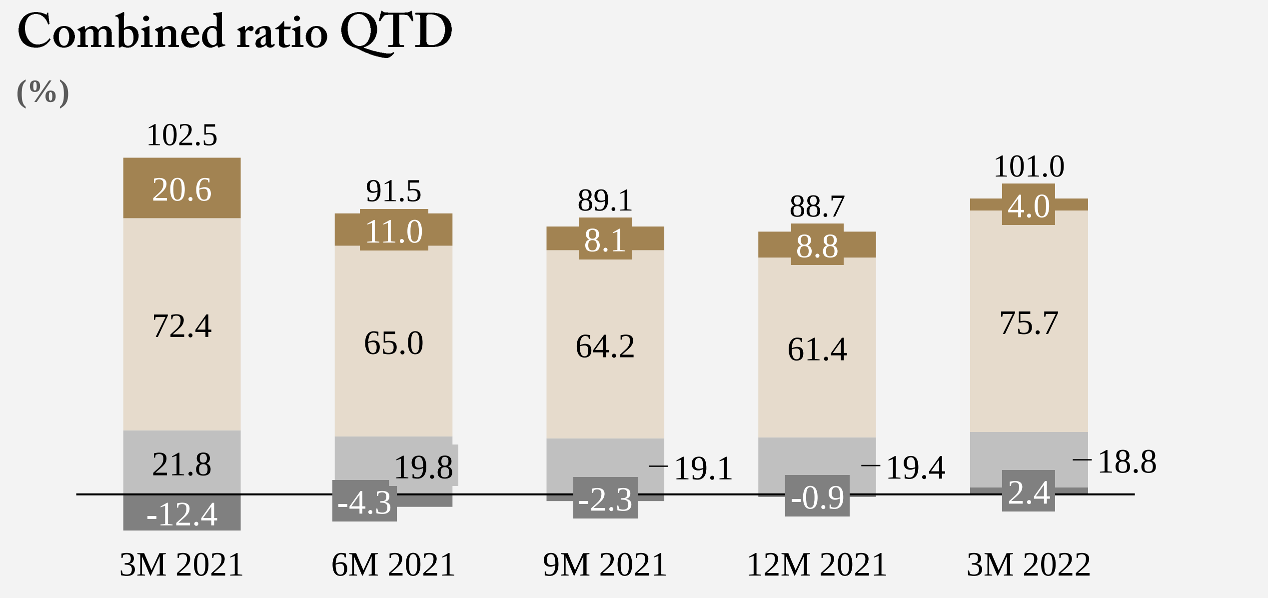
Insurance operations

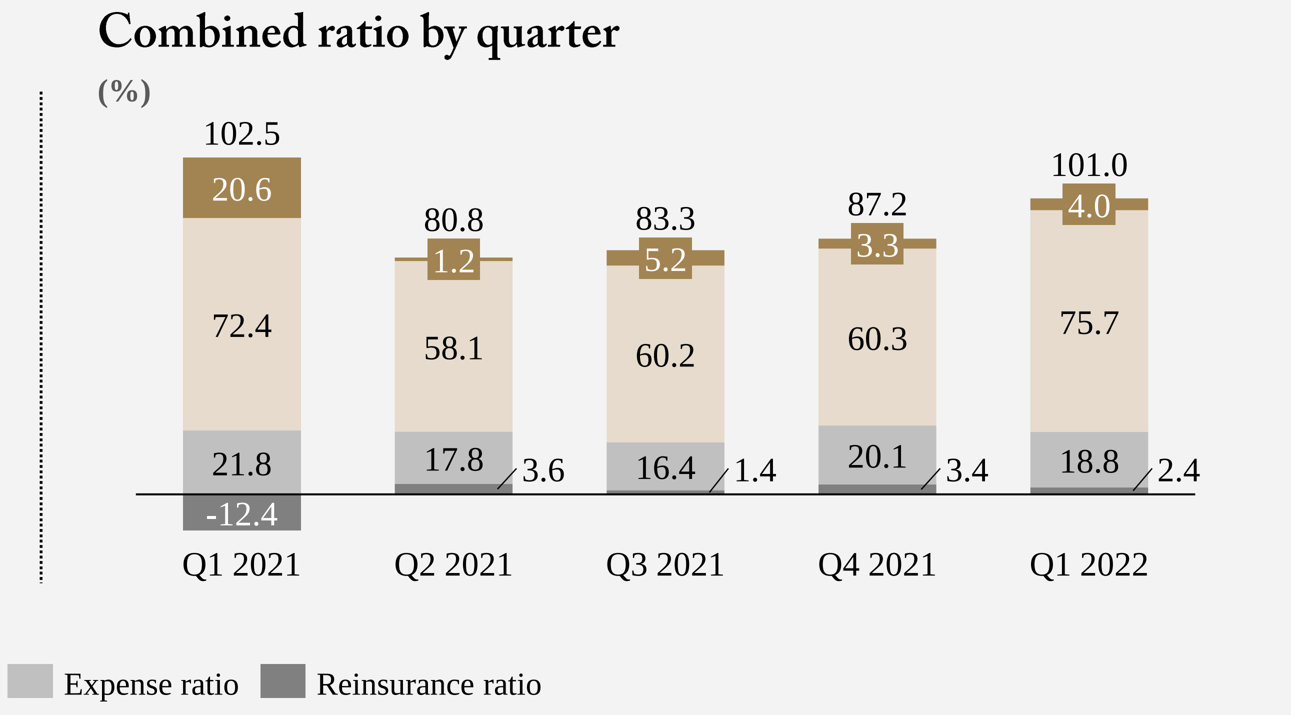
Combined ratio of 101.0% in Q1 2022

- Combined ratio for Q1 2022 of 101.0%, 1.5 percentage points decrease from Q1 2021
- Claims ratio increases from Q1 2021, major claims ratio significantly lower than in Q1 2021 (claims over ISK 50 million)
- Reinsurers' share positive by 2.4% in Q1
- Composition of premiums and claims remains stable









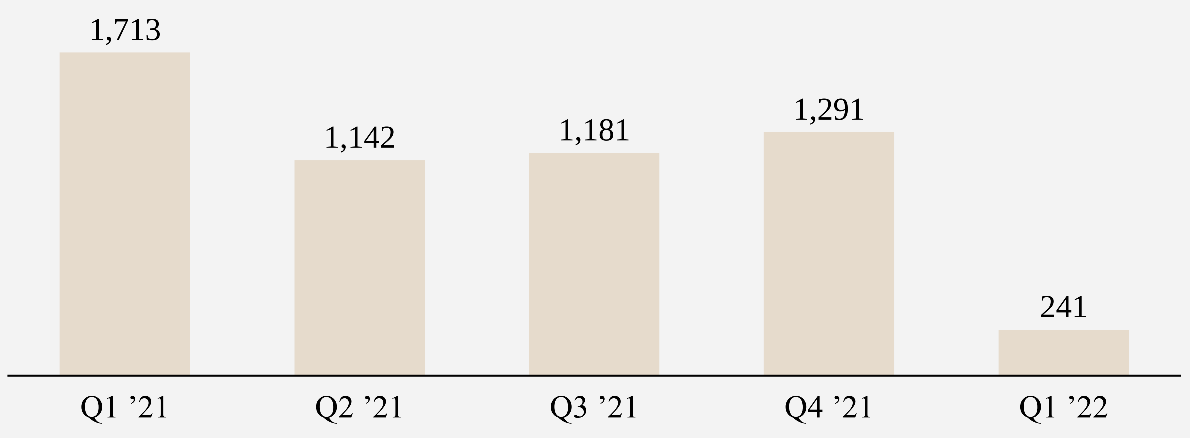
Insurance investments

Return on investment of 0.7% in Q1 2022 (Q1 2021: 5.6%)

- Return on investment assets in Q1 of 0.7%, a positive outcome during difficult market circumstances
- Positive performance in most asset classes, with listed equities being the main driver of return
- Return on listed equities amounted to 6.2% during Q1 2022 (Q1 2021: 35.8%)
- Cash and liquidity funds amount to ISK 3.9 billion at the end of the period[1)]

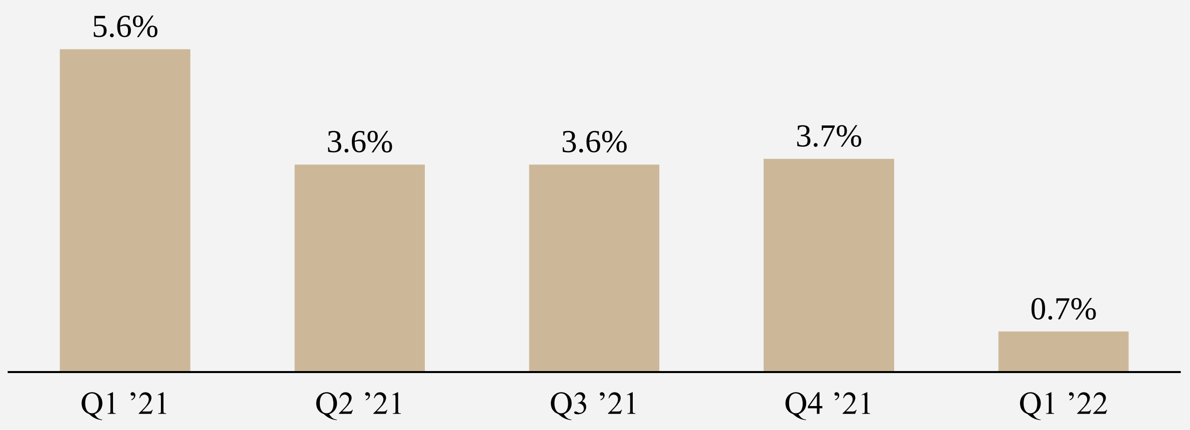
Investment asset income

ISK m.



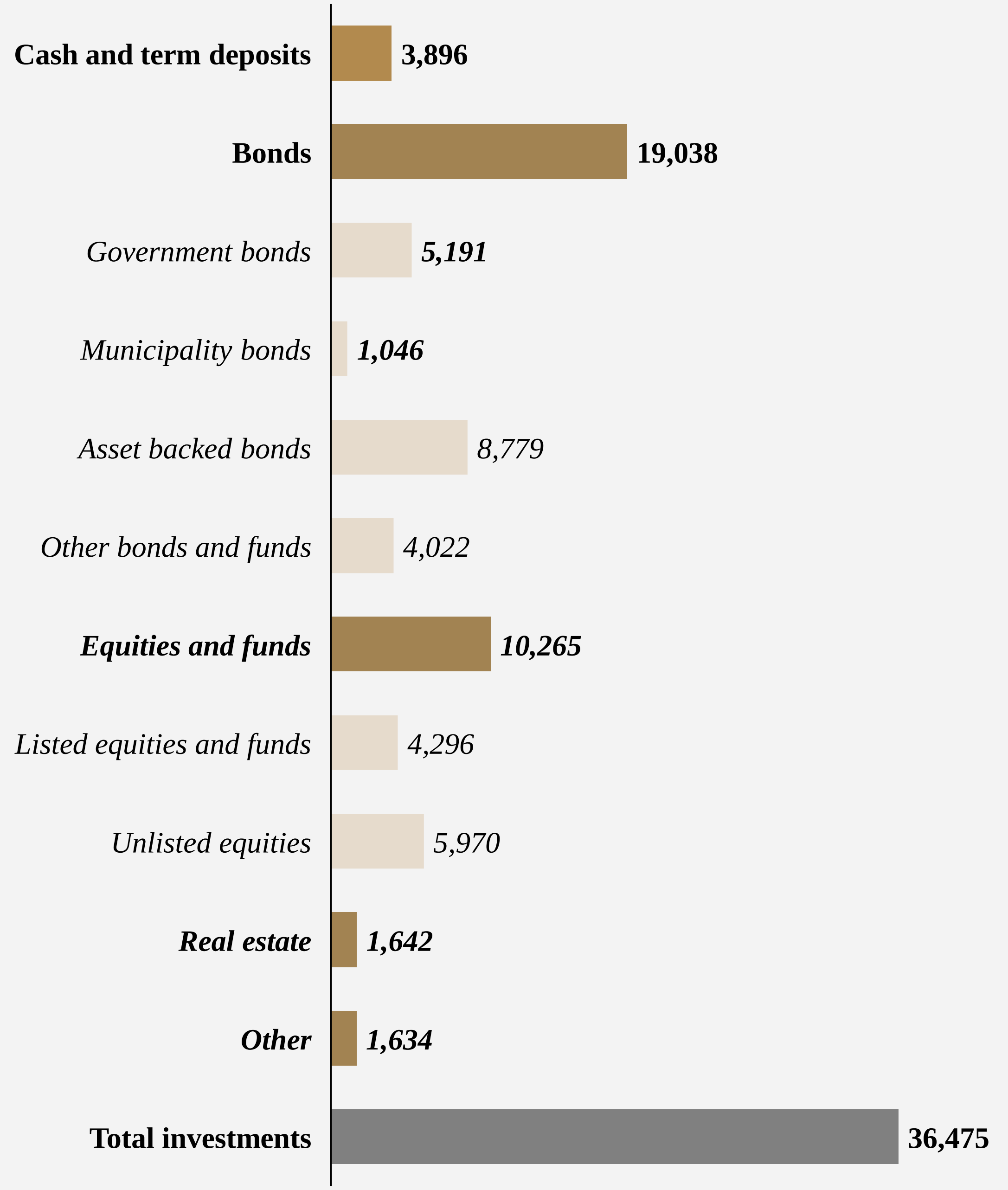
Investment asset returns (ROI)

(%)



Insurance investment assets

31.3.2022 / ISK m.



1) Liquidity funds are categorized under other bonds and funds

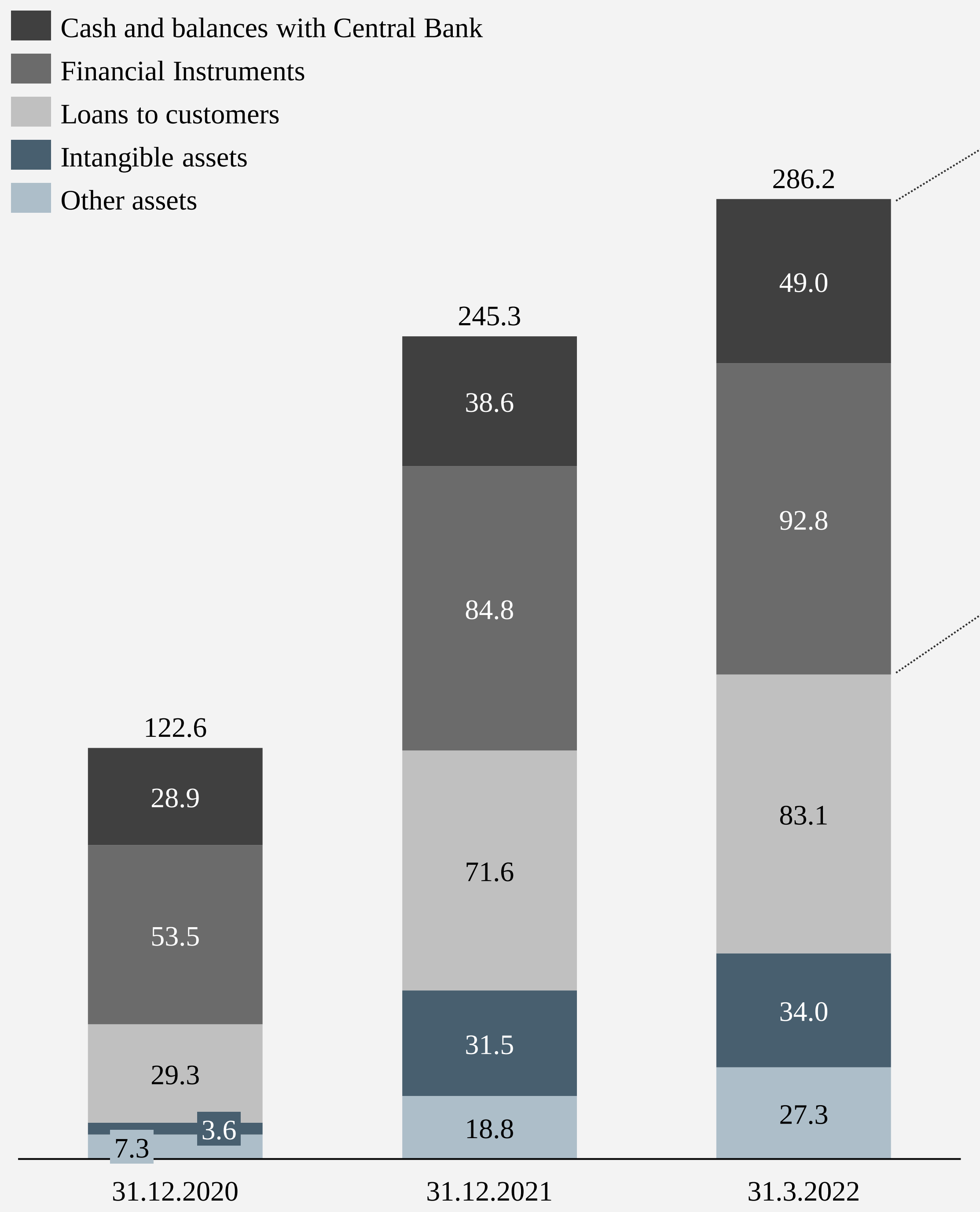
Assets

Increase in assets mainly attributable to acquisition of Ortus

- ISK 41.3 bn. increase in assets since year-end 2021 driven by increased cash position and loan book growth, as well as an ISK 8.5 bn. increase in other assets attributable e.g. to unsettled transactions and increased receivables
  - Loan book growth is attributable to acquisition of Ortus Secured Finance, which is a part of the Group and its consolidated financial statements since 1 March 2022
  - Increase in cash and balances partly due to growth in deposits and bond issuance in Q1
- Liquid assets amount to ISK 120 billion, 42% of total assets and 144% of loans to customers
- Significant LCR position of 247%, mainly due to preparations for the announced repayment of Lykill's debt in May 2022 and other expected transactions
- ISK 14.8 billion positive CPI imbalance at 31.3.2022 and expected to increase

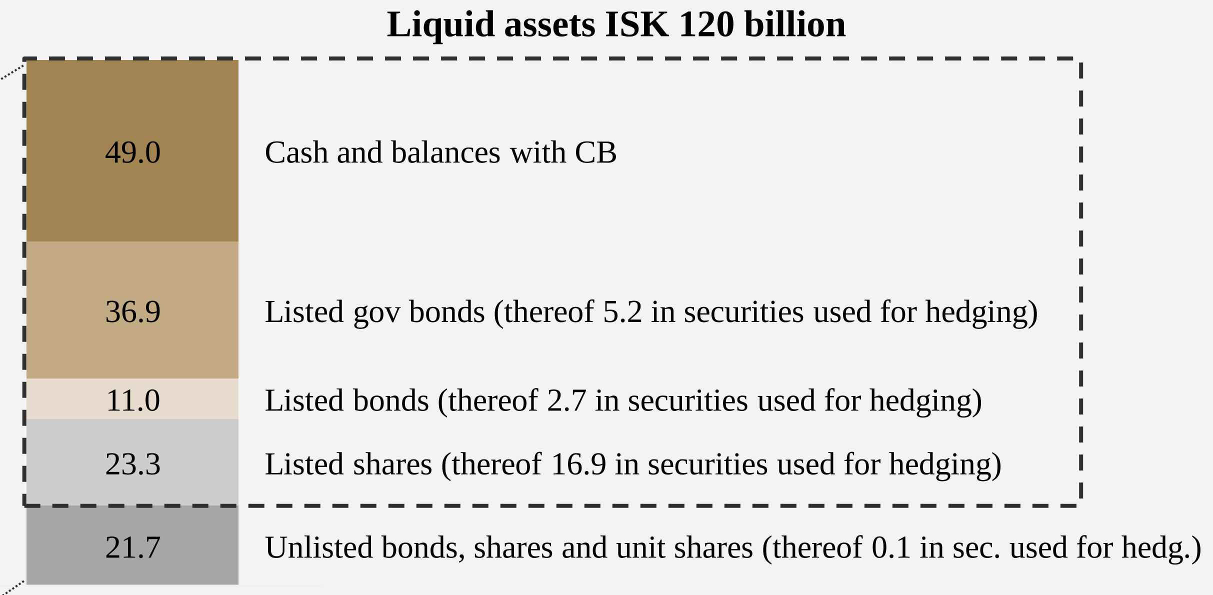
Assets

31.12.2020 to 31.3.2022 / ISK bn.



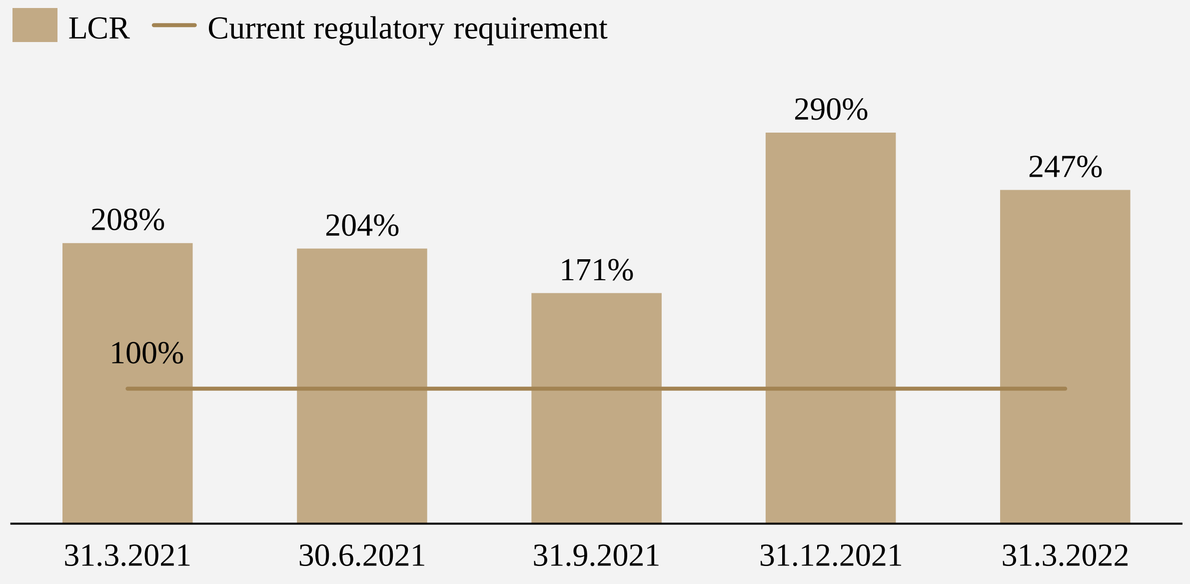
Cash and financial instruments

31.3.2022 / ISK bn.



Liquidity coverage ratio (LCR)

31.3.2022



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 notes to the Group's Consolidated Financial Statments

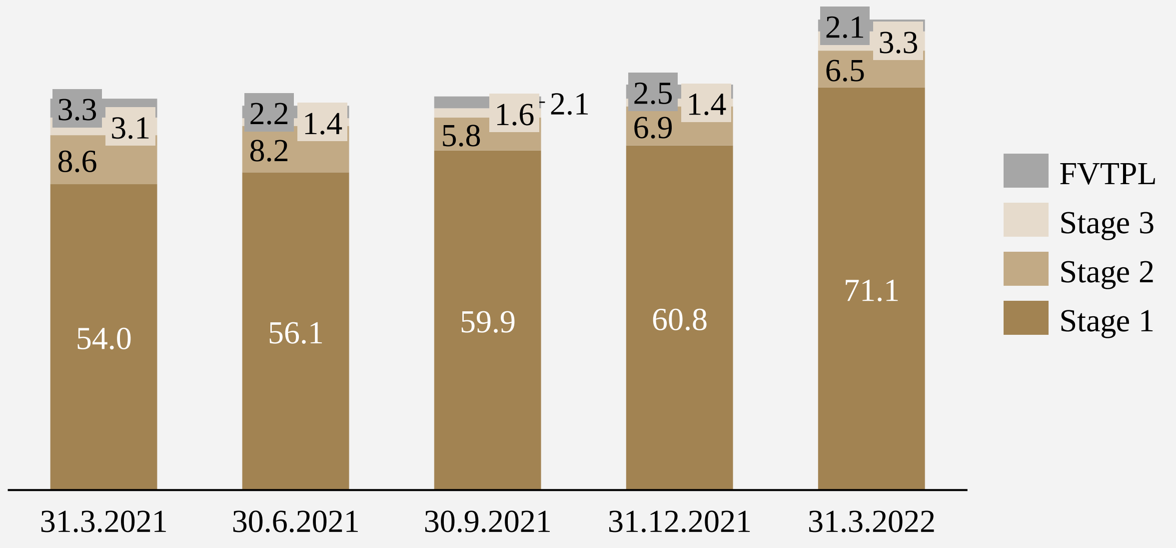
Loans to customers

Increased diversification of loans to customers

- Loan book increases by ISK 11.5 bn. since year-end 2021, mainly due to the acquisition of a majority share in Ortus Secured Finance
- Loans to individuals increase by ISK 2.1 billion since year-end 2021 to ISK 33.5 billion
- Loans to corporates increase by ISK 9.5 billion since year end 2021 to ISK 49.5 billion
- Weighted average duration of the domestic loan book was 1.8 years at 31.3.2022
- Change in credit quality mainly due to acquisition of Ortus (new financial assets) and remains in line with loan book size
  - Stage 1 assets 84.9% of loan book at year end 2021, 85.6% at 31.3.2022
  - Total impairment loss allowance 1.82% of loan book at year-end 2021, 2.05% of loan book at 31.3.2022

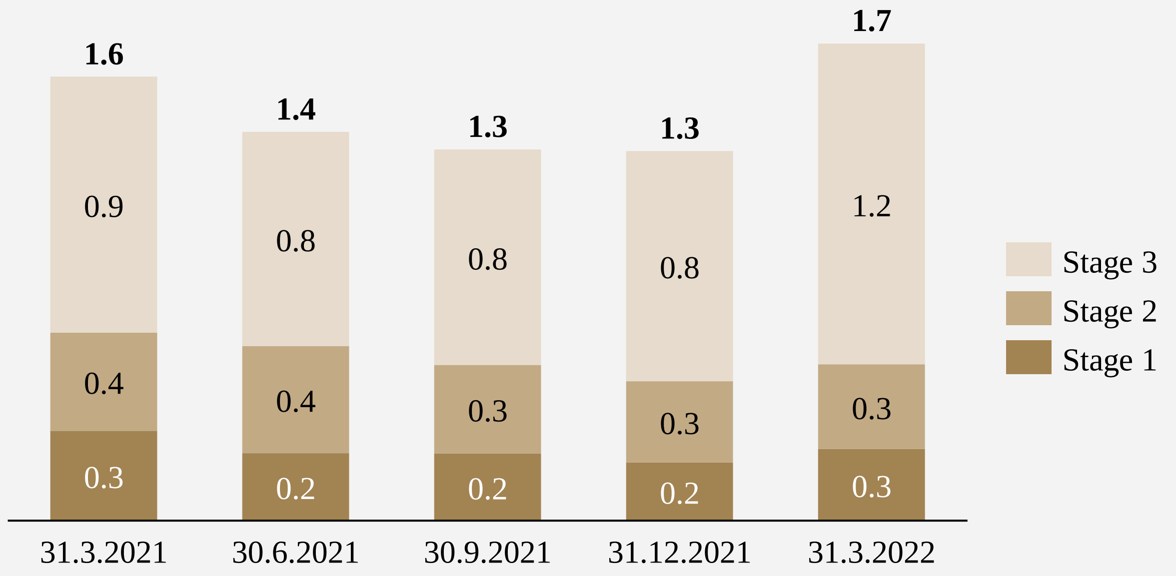
Credit quality of loan book

Book value / 31.3.2022 / ISK bn.



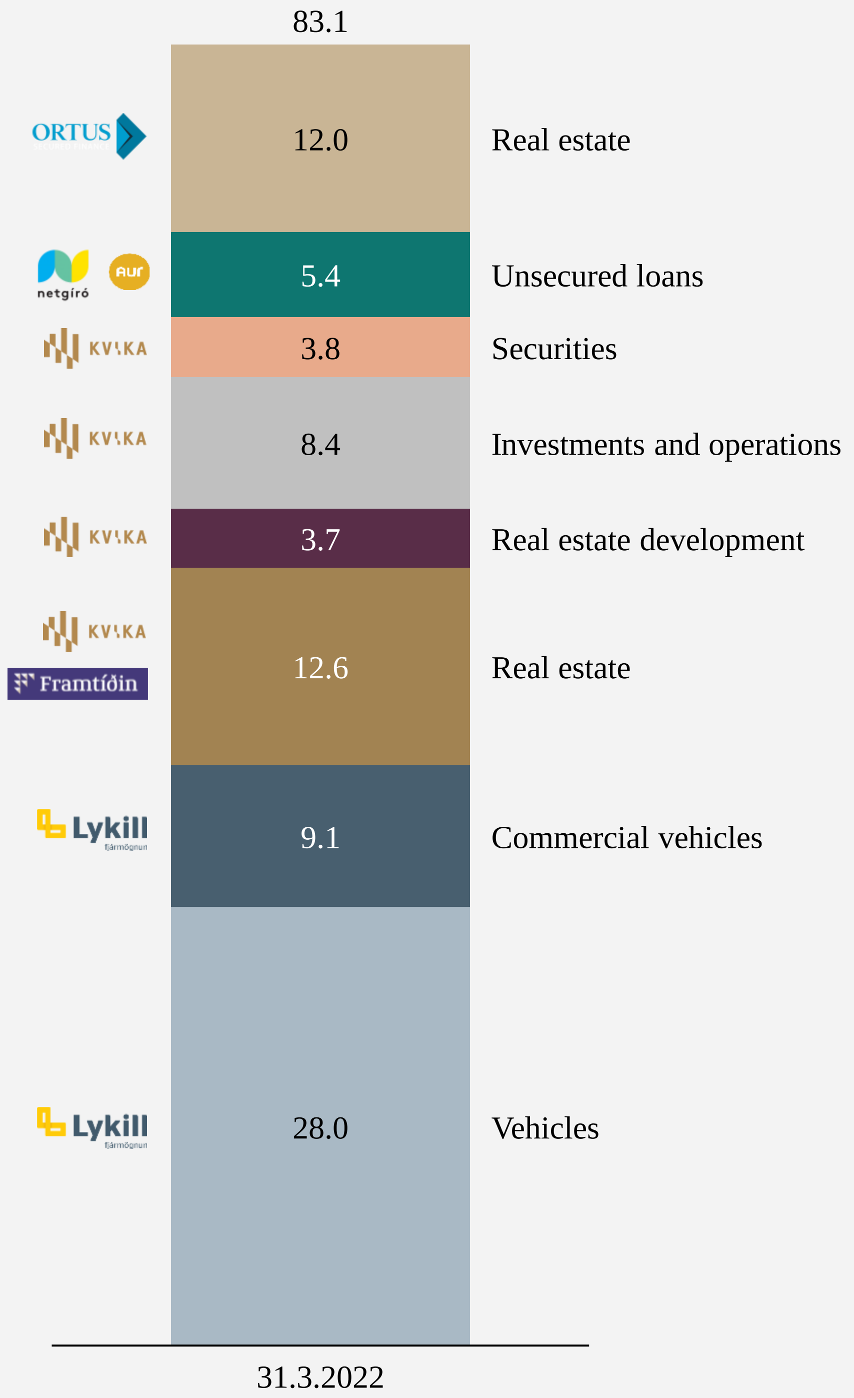
Impairment loss allowance

31.3.2022 / ISK bn.



Loan book composition

31.3.2022 / ISK bn.



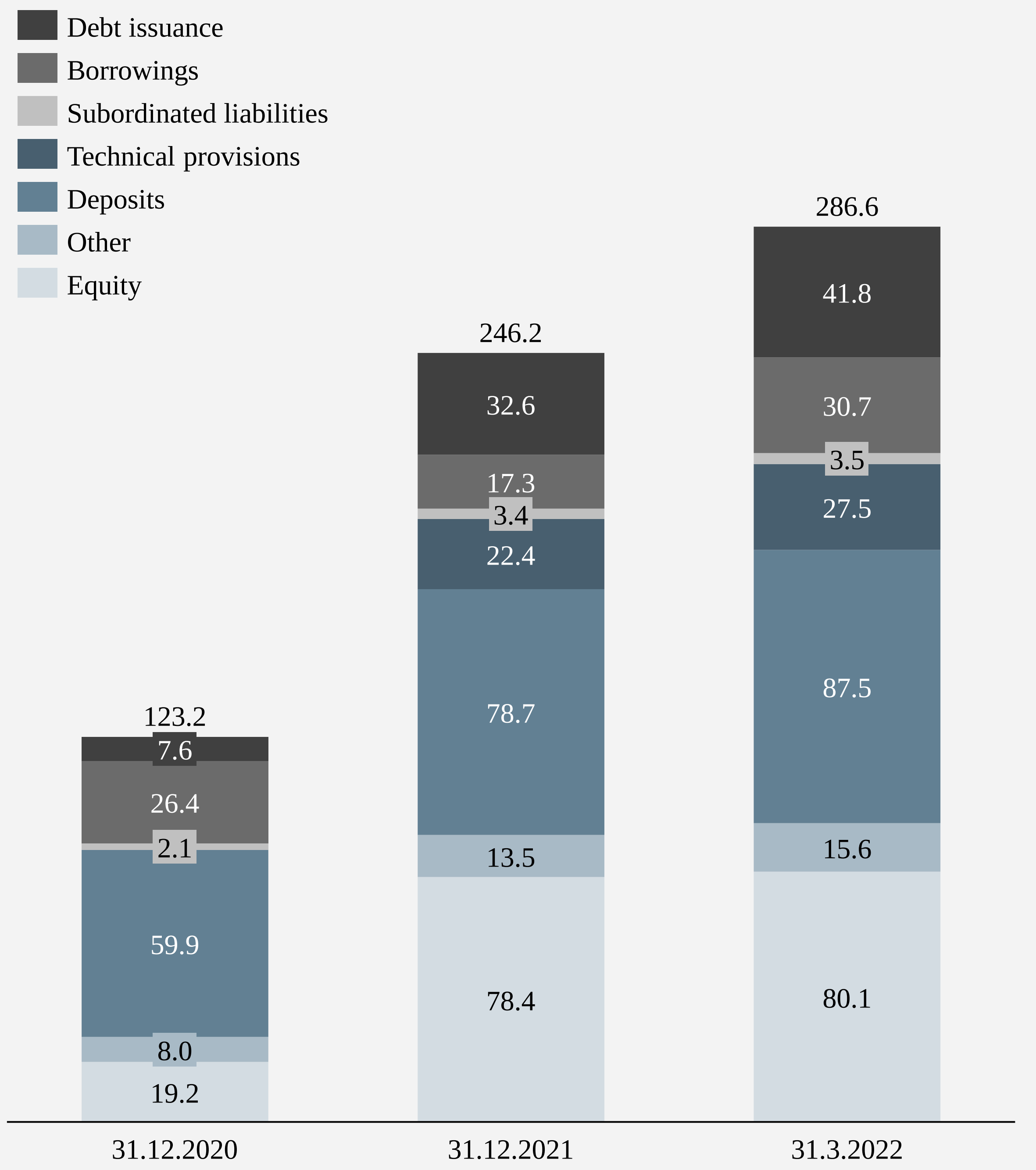
Liabilities

Increase driven by first international bond issuance and Ortus acquisition

- Liabilities increase by 41.3 billion since year-end 2021, driven by debt issuance and increase in borrowings
- Increased borrowings are mainly attributable to the acquisition of Ortus Secured Finance, which holds borrowings with UK lenders
- Kvika issued ISK 10.1 billion equivalent of senior unsecured bonds in Q1 2022, including its first EMTN issue:
  - ISK 2 billion bond with maturity of 10 years
  - SEK 500 million bond with maturity of 2 years
  - EUR 8.5 million bond with maturity of 2 years
- Technical provision of TM amounts to ISK 27.5 billion, increasing by ISK 5.1 billion mainly due to new policy issuance
- Total deposits increase of ISK 8.8 billion in Q1 2022

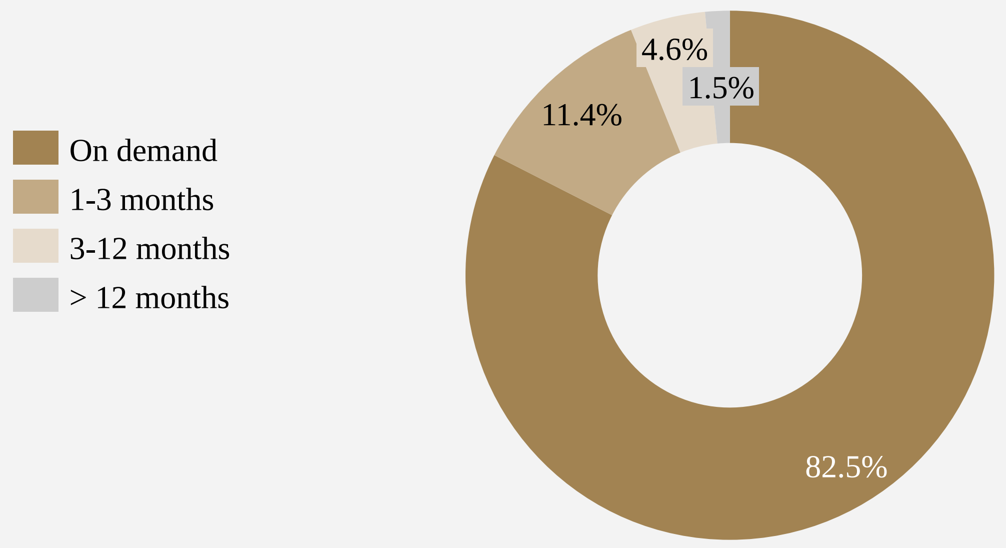
Liabilities and equity

31.12.2020 to 31.3.2022 / ISK bn.



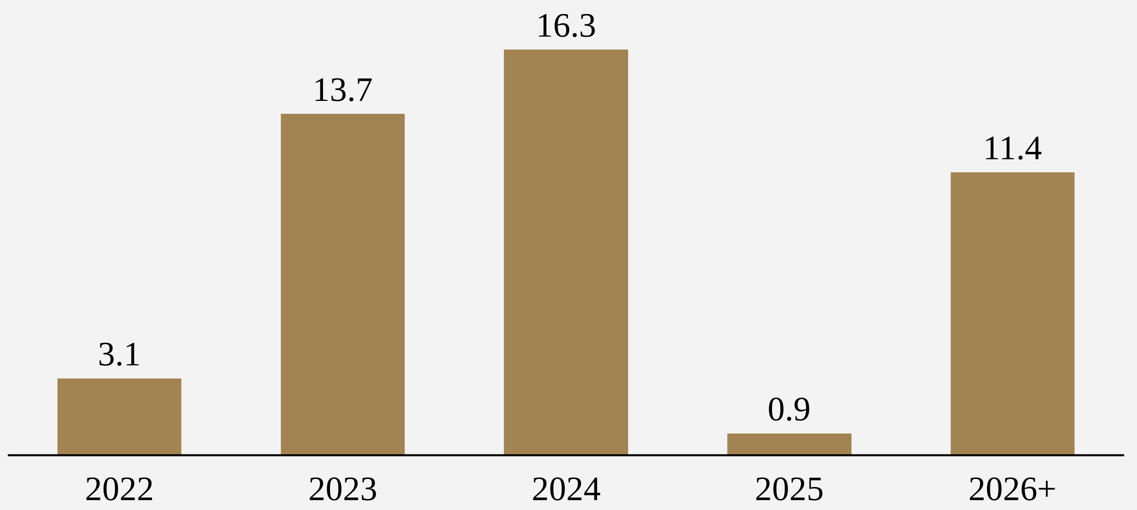
Maturity of deposits

31.3.2022



Maturity of issuance

31.3.2022 / 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 notes to the Group's Consolidated Financial Statements

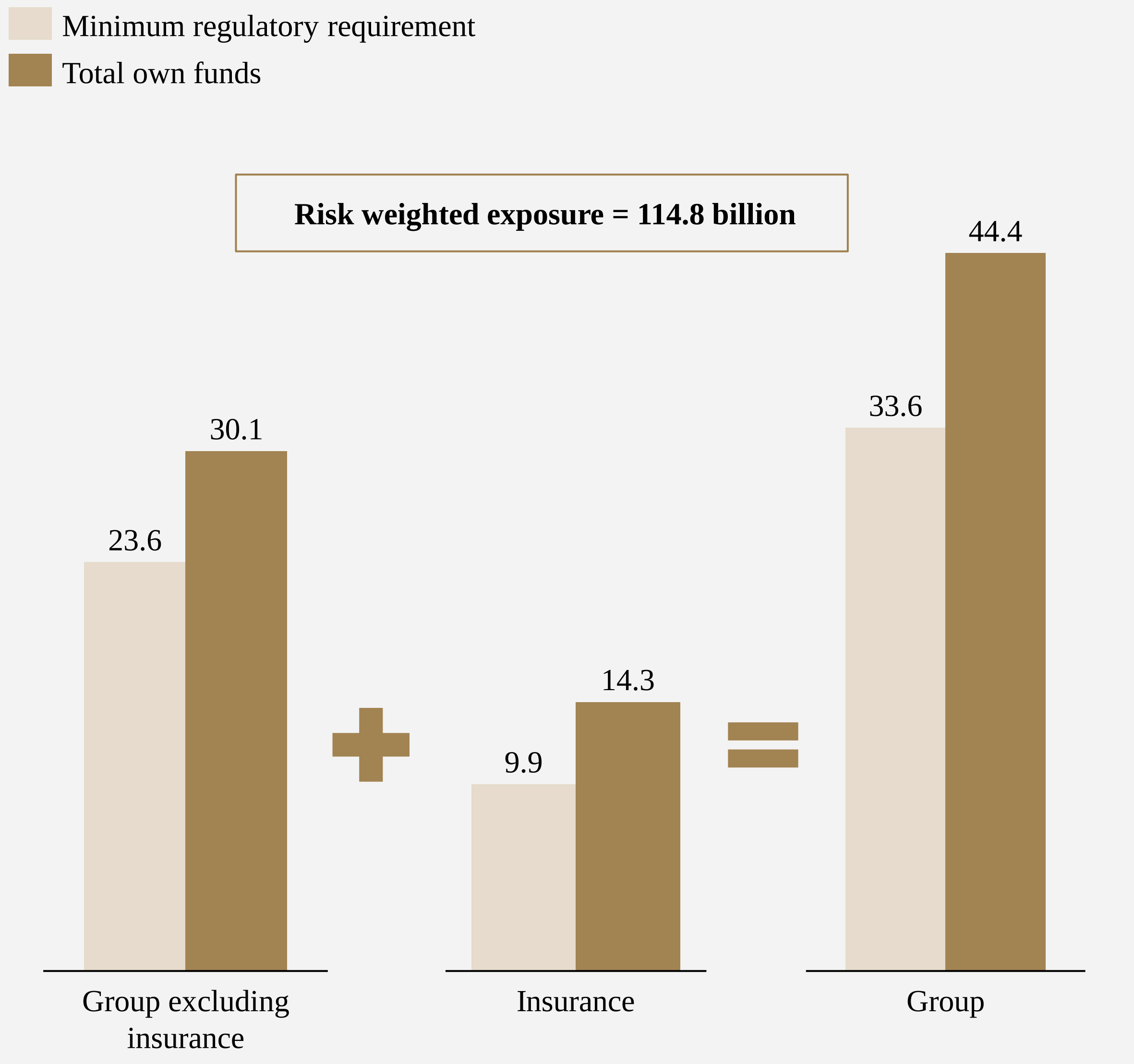
Solvency and capital

Consolidated solvency and capital adequacy ratios well above regulatory requirements

- Capital adequacy is calculated on a consolidated level as the solvency ratio of the financial conglomerate
- 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
- Countercyclical buffer will increase from 0% to 2%, effective as of 29 September 2022
- The Pillar 2 requirement is 7.1% based on SREP 2019 results
- Excess capital of ISK 10.8 billion on consolidated solvency basis for the group and ISK 6.4 billion on CAR basis excluding insurance activities
- Including unaudited Q1 profit, without dividend/buyback, CAR increases to 27.5% and Group solvency to 1.37

CAR and solvency[1)]

31.3.2022 / ISK bn.



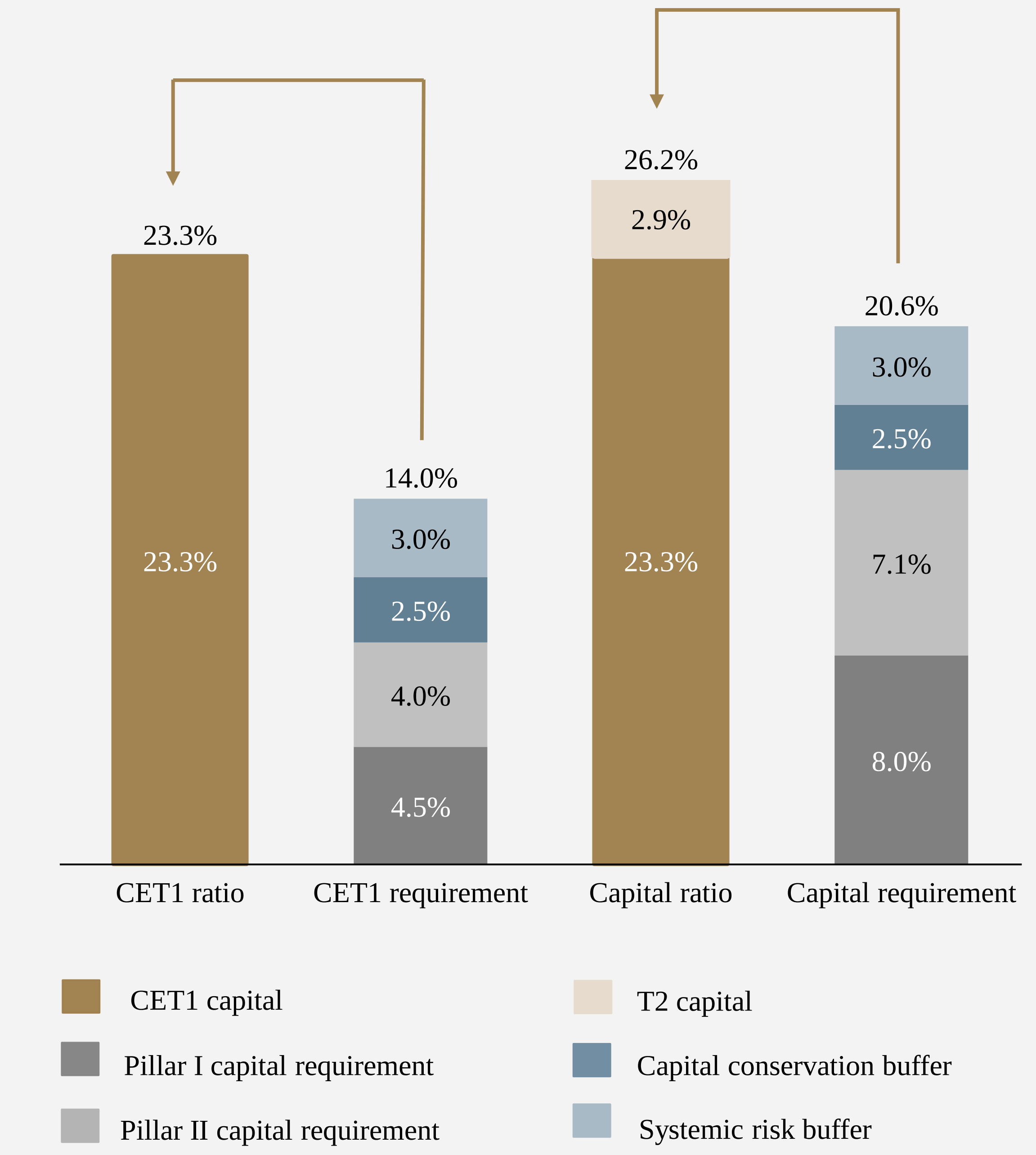
Capital adequacy ratio
30.1/ 114.8 = 26.2%
Reg. min = 23.6 / 114.8 = 20.6%
Equiv. solv. ratio 30.1 / 23.6 = 1.27

Solvency ratio
14.3 / 9.9 = 1.44
Reg. min = 1.00

Solvency ratio
44.4 / 33.6 = 1.32
Reg. min = 1.00

Capital position and requirements[1)]

31.3.2022

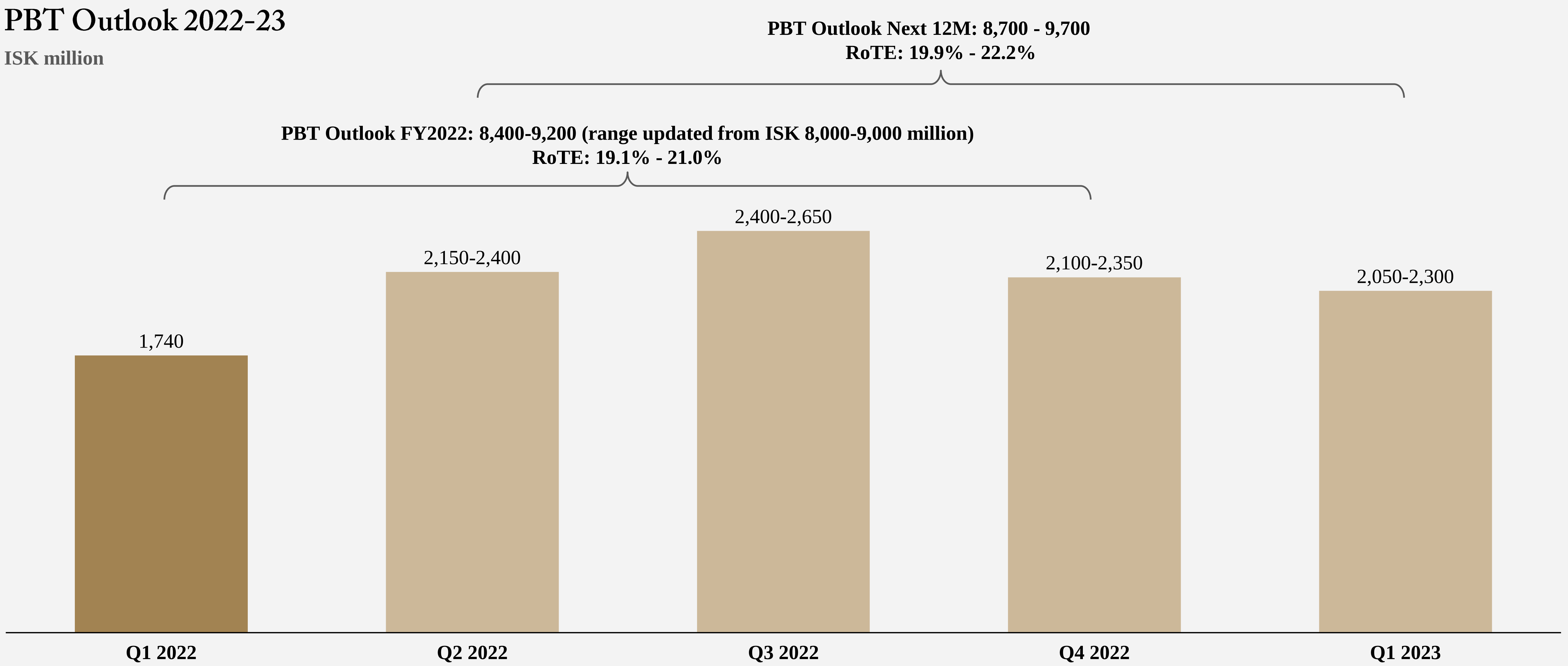


1) Numbers do not include unaudited profit from Q1 2022

Outlook

PBT outlook next 12 months: ISK 8,700-9,700 million

- At the end of each quarter the Group revises key assumptions for the next four quarters and updates previously reported outlook as required as well as publishing an outlook for an additional quarter
- PBT Outlook for the next four quarters, Q2 2022-Q1 2023 in the range of ISK 8,700-9,700 million
- PBT Outlook for FY2022 range updated to ISK 8,400-9,200 million, from ISK 8,000-9,000 million
- Q1 PBT realized at ISK 1,740 million, in line with Outlook of ISK 1,749 million
- Key assumptions underlying the Group's outlook for 2022 include:
  - TM: 6.4% return on investment, compared to 17.7% in 2021
  - TM: Combined ratio of 95.0%, compared to 88.7% in 2021, updated from previous estimate of 92.8%
  - Considerable costs due to product- and business development, not expected to result in revenues in 2022, affect PBT short term



- It is expected that the Group's strong and stable profitability will continue in 2022, though noting that market conditions in 2021 were unusually favourable
- Key assumptions underlying the Group's next 12 months' outlook include:
  - TM: 6.8% return on investment and Combined ratio of 95.2%
  - Loan book size ISK 110-120 bn. at the end of the period
  - Expected inflation next 12 months: 7%