Kvika banki hf.

9M 2022 Financial Results

11 November 2022

9M 2022
Highlights

- Profit before tax (PBT) for 9M 2022 ISK 4,007 million with RoTE 12.3% driven by strong core income
  Q3 resulting in PBT of ISK 1,841 million and RoTE of 17.7% despite NFI loss of ISK 569 million
- Strong financial position with consolidated solvency of 1.34 and LCR of 308%
  Well above regulatory requirements. Strong LCR largely attributable increase in deposits and debt issuance
- Draft of updated SREP requirements received in October
  Resulting in a 4.9% decrease in regulatory capital requirement, from 22.6% to 17.7%
- UK operations continue to grow and will be fully integrated by year end
  Presentation of Kvika's operations and loan book in the UK included in appendix
- Total deposit growth of 37% since year end 2021, loan book growth of 45%
  12% of loan book growth due to initial Ortus acquisition, 33% organic growth domestically and in the UK
- TM combined ratio of 95.8% in 9M 2022, growth in all insurance categories in the period
  Insurance performed extremely well in Q3 with a combined ratio of 88.3%,
- PBT for next 12 months expected ISK 9,071 million, 21.7% RoTE
  Each quarter's expected PBT in the range of ISK 1.8-3.2 billion

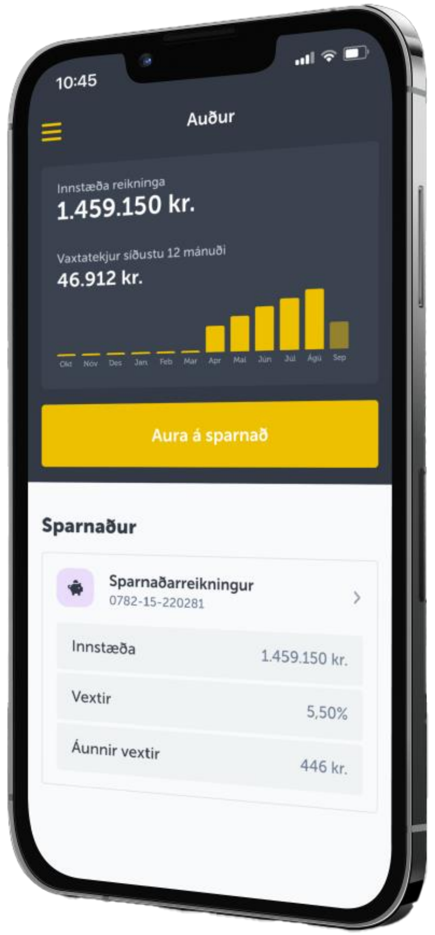
Auður most likely to be recommended

…Runner up: Aur

Maskína's recommendation award is based on measurements of how likely people are to recommend (or warn others of) companies they have done business with. In 2022 Auður received the award for scoring highest across all categories. The runner-up in the category of financial- and insurance services was another Kvika fintech solution: **Aur.**

Auður + Aur

Since August 2022 customers have been able to access and transfer to their Auður accounts in the Aur app



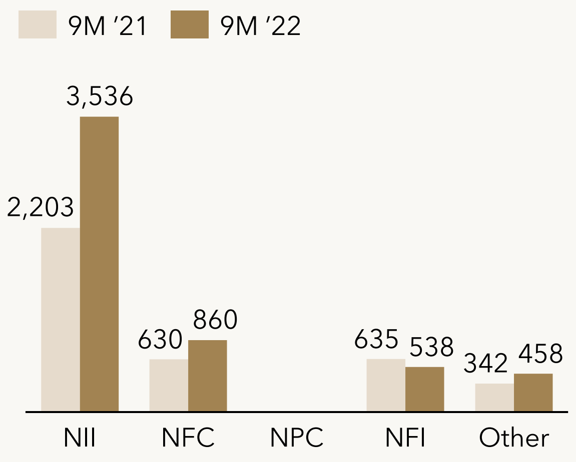
Segment highlights in 9M

Kvika's five operating segments provide a diverse source of income for the Group

Commercial Banking

- Healthy loan book growth of over 3% in the quarter
- Significant growth in deposits led by a near 200% YTD growth in deposits through the Auður platform
- Aur continues to attract new users, up 14% YTD and multiple new fintech banking solutions in development

Revenues
ISK millions



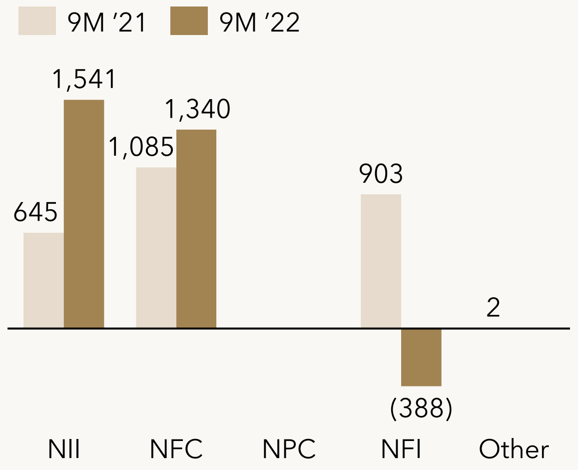
79.1 Loan book, ISK bn.
9M 2022

9M 2021 only includes Lykill NII from 1 April 2021 due to merger on 31 March

Investment Banking

- Increased interest in FX felt both through currency forward contracts and new users of Keldan FX
- Uncertainty and rising inflation and interest rates had a somewhat negative effect on turnover in Capital Markets
- Completion of acquisition of Tempo as advisors to Diversis Capital. Strong pipeline in corporate finance for upcoming quarters

Revenues
ISK millions



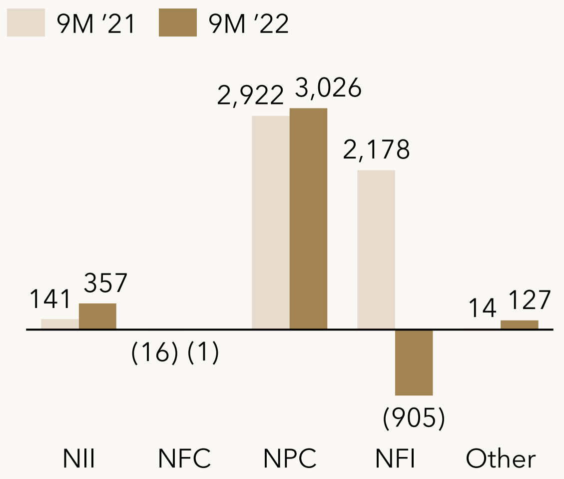
21.5 TRS book, ISK bn.
9M 2022

Treasury and Market Making are included in Investment Banking's segment reporting

TM Insurance

- Combined ratio of 88.3% in Q3 exceeded expectations, insurance operations in the quarter very strong with growth in all insurance categories
- Unfavorable market circumstances presented challenges and resulted in a loss in investment income
- Significant increase seen in the use of TM's automatic digital insurance sales and servicing channels in the first half of the year

Revenues
ISK millions



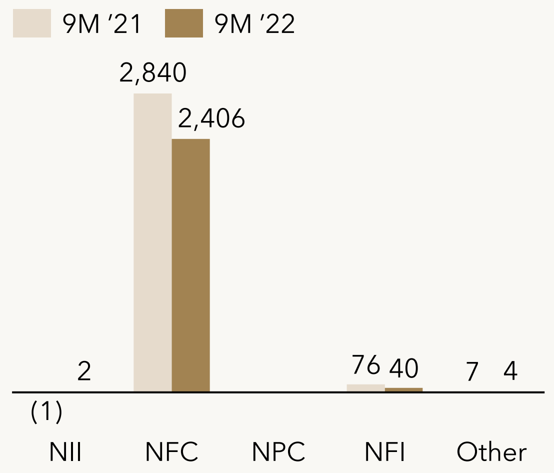
95.8% Combined ratio
9M 2022 (Q3: 88.3%)

9M 2021 only includes revenues from 1 April 2021 due to merger on 31 March

Kvika Asset Management

- Market share in retail investment funds grew by 13% in the period, as measured by AuM
- Negative market developments have presented challenges while rising inflation and interest rates have somewhat altered customers' risk- and business appetites
- Continued net positive inflow in all revenue streams in Q3 despite declining market developments

Revenues
ISK millions

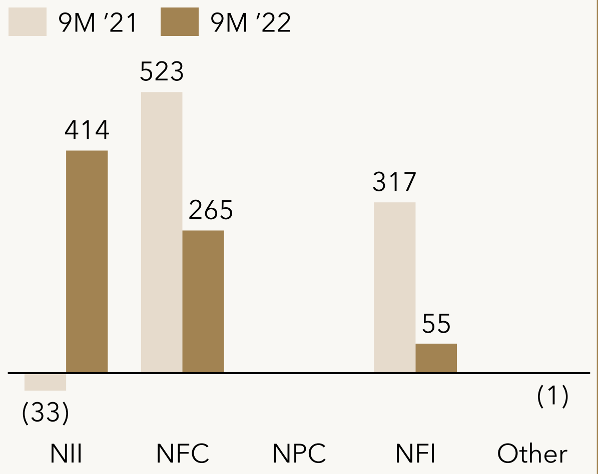


460 AuM, ISK bn.
9M 2022

UK

- Strong loan book growth during Q3, quality remains high as granularity and diversification has strengthened further
- Rising interest rates in the UK have negatively impacted NIM. Conversion to floating rates and pricing on new loans will mitigate in the medium term
- Systems and process integration of the Ortus operation fully completed in Q4
- External conditions continue to be challenging and impact the timing and completion of corp. finance projects

Revenues
ISK millions



24.4 Loan book, ISK bn.
9M 2022

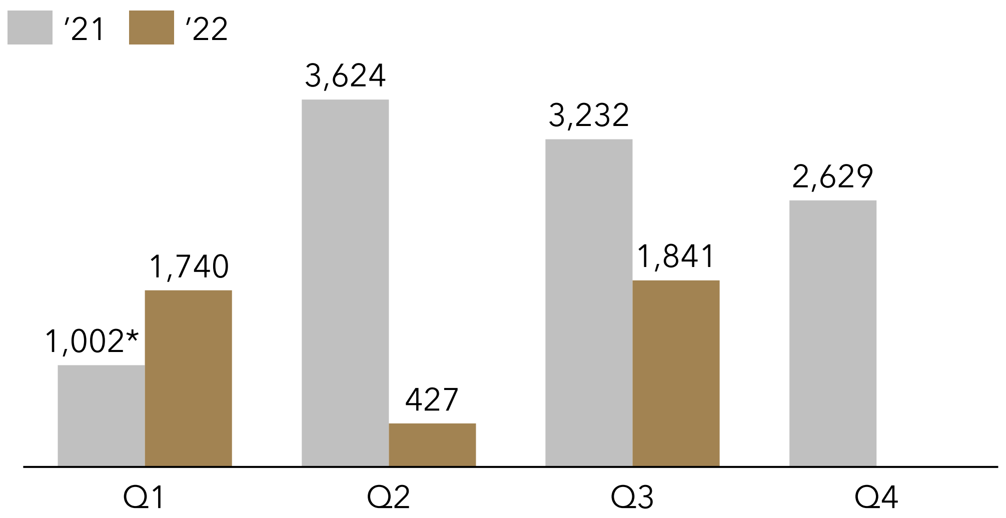
Revenues only include operations of Ortus Secured Finance from March 2022

Total profit before tax in 9M ISK 4,007m

Demonstration of the value of diversified operations

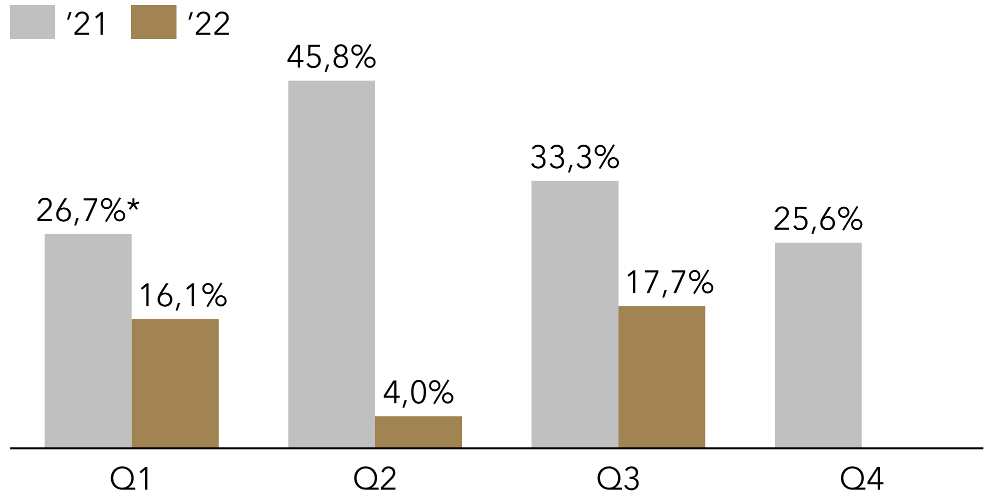
Profit before tax (PBT)

PBT development / ISK m.



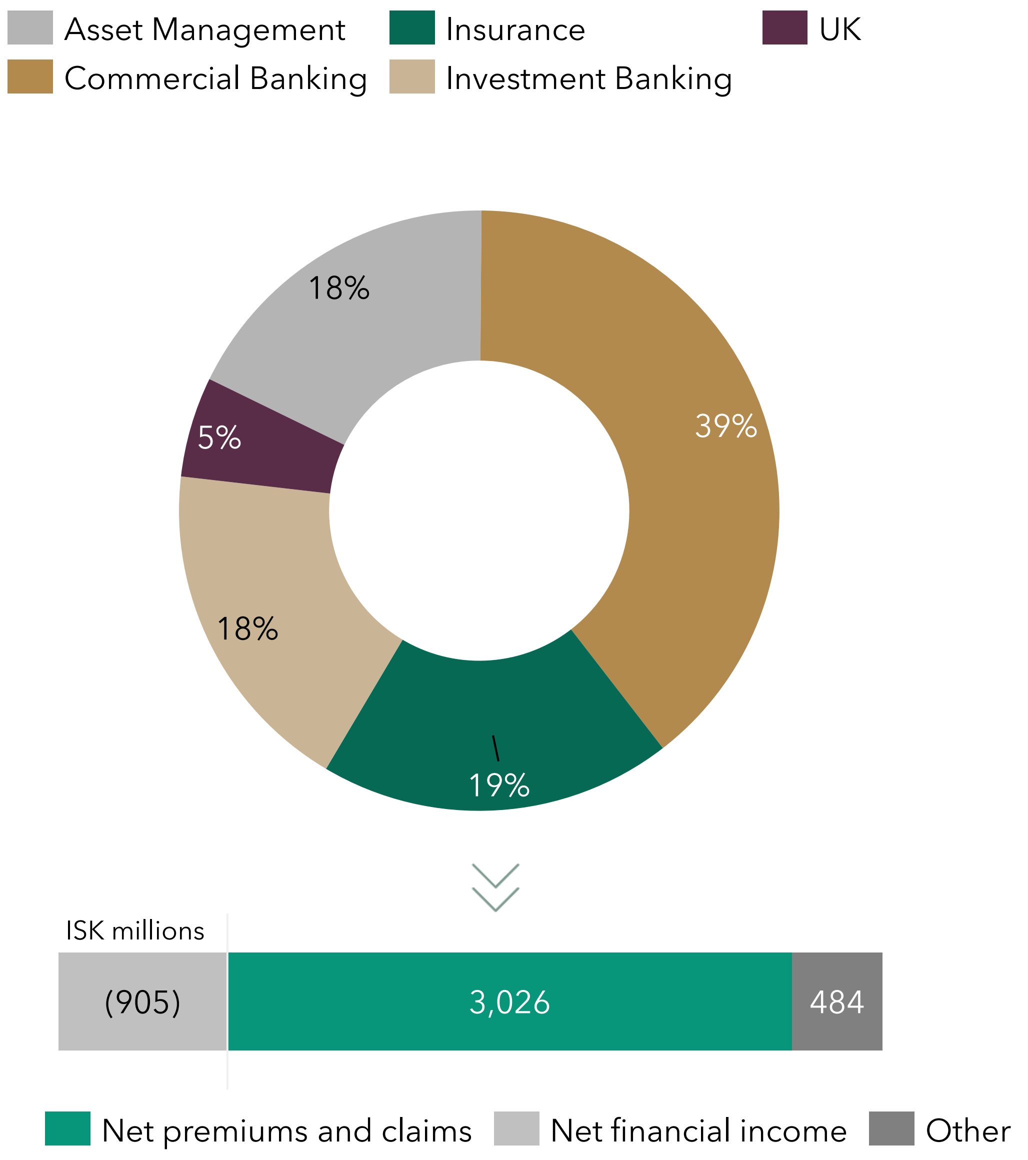
Return on weighted tangible equity (RoTE)

(%)



Diversified income across segments

Net operating income by segment / 9M 2022



- Kvika's profit before tax for the first nine months of 2022 is ISK 4,007 million with a RoTE of 12.3%
- PBT in Q3 amounted to ISK 1,841 million despite financial income loss of ISK 569 million
  - → The Group's focus on diversification of revenue streams continues to prove its value during difficult market circumstances, where losses in investment income are countered by other revenue streams
- Return on weighted tangible equity of 17.7% in Q3, reflecting the strength of core operations despite negative financial income
- New operating segment, UK, introduced in 2022 following acquisition of Ortus Secured Finance
  - → Revenues from segment UK in 9M only include March-September operations of Ortus, as the acquisition of a majority share was completed on 28 February 2022

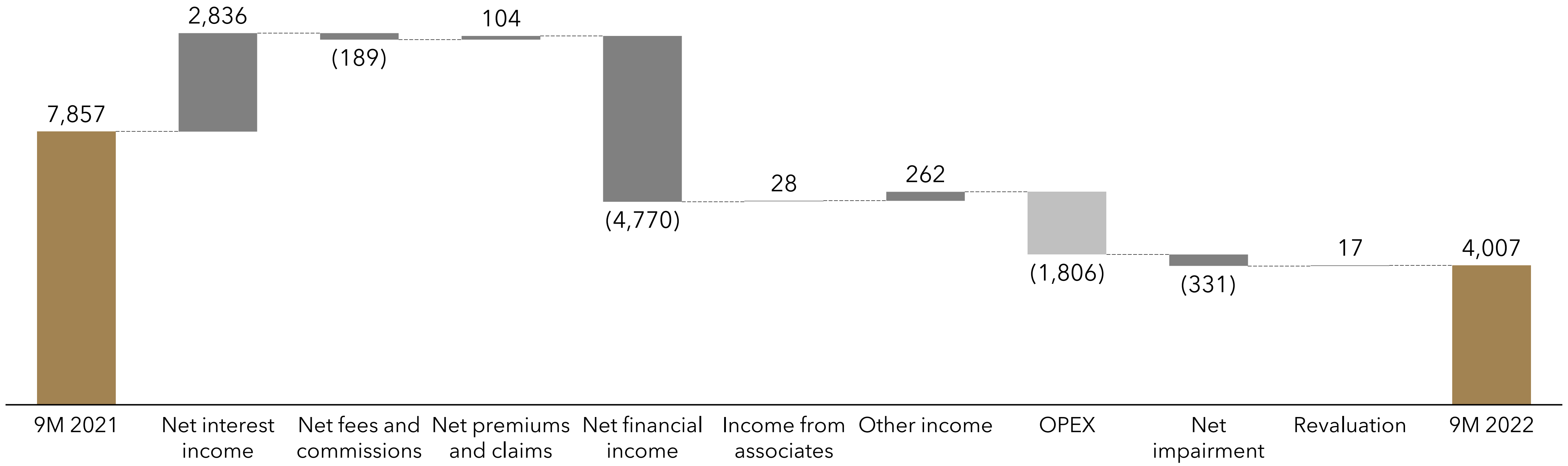
*2021 only includes TM and Lykill from 1 April 2021 due to merger on 31 March
UK operations only include Ortus Secured Finance from 1 March 2022

Operations 9M 2022

Solid performance in core revenues

- Net operating income for the period amounted to ISK 13,694 million, driven by continued strong performance in commercial banking and asset management
- Net interest income grows significantly year-on-year mainly due to loan book growth, both organic domestic growth as well as the acquisition of Ortus in the UK
- Net fee and commission income and net premiums and claims remain stable year on year
- Net financial income decreases by ISK 4,770 million year on year during difficult market circumstances
- Change in OPEX mainly due to new operations in the period**

Pre-tax profit (loss) bridge
9M 2021 to 9M 2022 / ISK m.



Income statement
ISK m.

	9M 2022	9M 2021
Net interest income	5,764	2,928
Net fees and commissions	4,905	5,094
Net premiums and claims	3,026	2,922
Net financial income	(660)	4,110
Income from associates	-	(28)
Other income	658	396
Net operating income	***13,694***	***15,423***
Operating expenses	(9,492)	(7,686)
Net impairment	(171)	160
Revaluation of contingent consideration	(23)	(40)
Pre-tax profit	***4,007***	***7,857***
Income tax	(468)	198
Special bank taxes*	(338)	(91)
After-tax profit	***3,202***	***7,965***
Earnings per share (EPS)	***0.66***	***2.07***
Diluted EPS	***0.66***	***2.01***

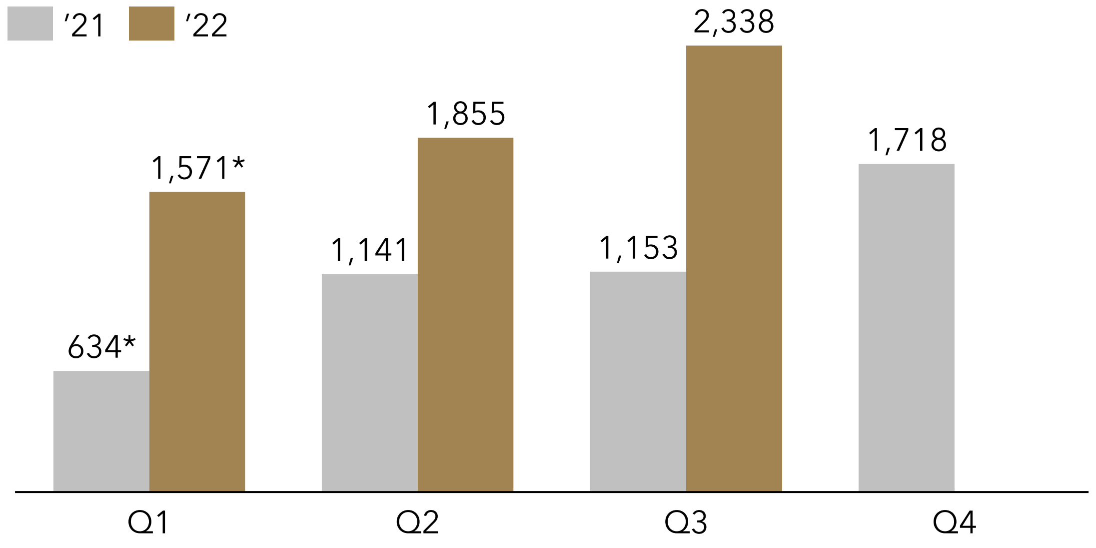
*Special tax on financial activity and special tax on financial institutions

**2021 only includes TM and Lykill from 1 April 2021 due to merger on 31 March
UK operations only include Ortus Secured Finance from 1 March 2022

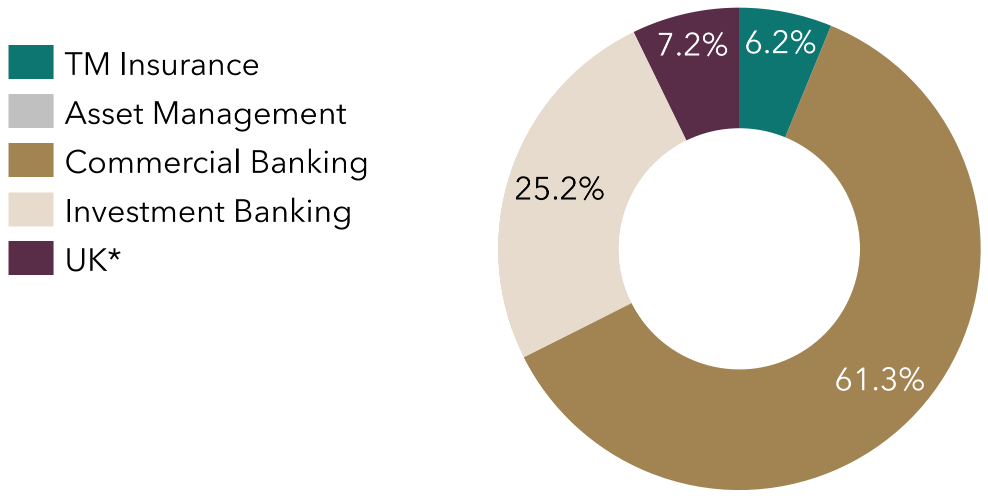
Net Interest Income

Loan book growth supporting increasing NII

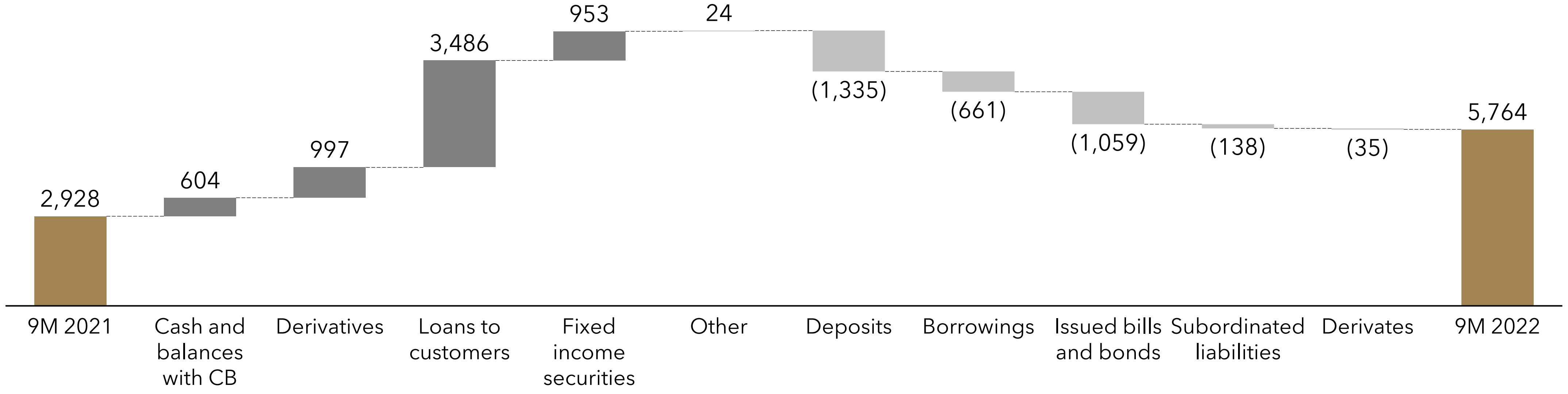
Net interest income (NII)
ISK m.



Segment split
9M 2022 / (%)



Net interest income 9M comparison
9M 2021 to 9M 2022 / ISK m.



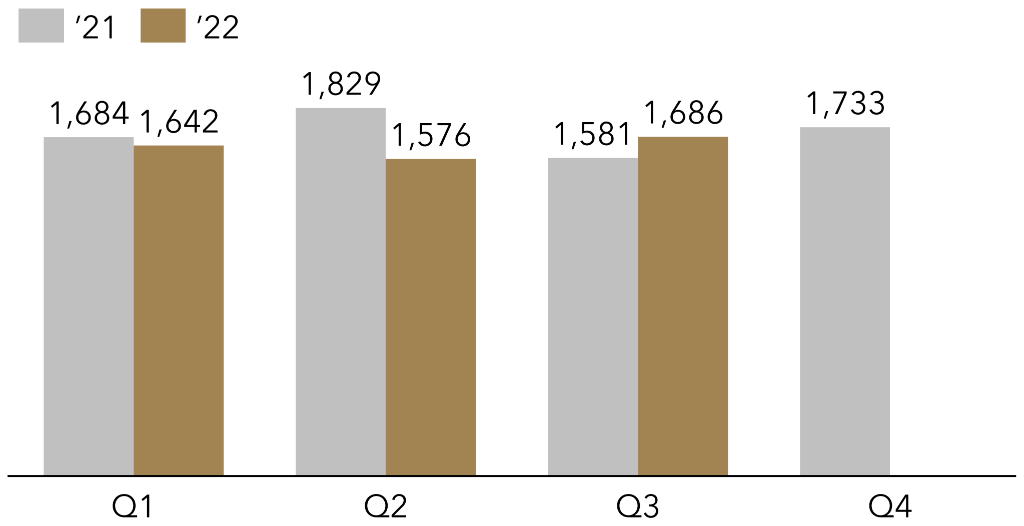
- Rising NII mainly driven by loan book growth and composition as well as a growing balance sheet
  - → Lykill NII only included from 1 April 2021
  - → Ortus NII only included from 1 March 2022
- Loans to customers increase year on year, attributable to both Ortus acquisition and organic growth
  - → 6% loan book growth in Q3
  - → 45% loan book growth in first nine months of 2022
- NII contribution from Investment Banking is mainly attributable to treasury operations and total return swaps offered to customers by Capital Markets
  - → The TRS portfolio, which consists mainly of TRS's on listed equity and fixed income instruments, has remained relatively stable despite market circumstances
- Net interest margin of 2.8% p.a. for the first nine months of the year, calculated as NII to simple average of total assets in the period

*2021 only includes TM and Lykill from 1 April 2021 due to merger on 31 March
UK operations only include Ortus Secured Finance from 1 March 2022

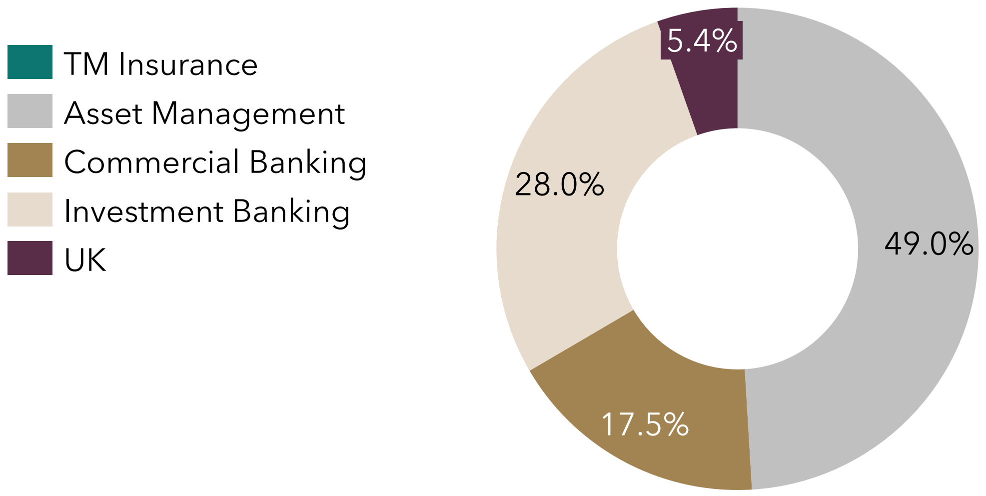
Net Fee and Commission Income

Strong recurring fee base and less reliance on variable fees

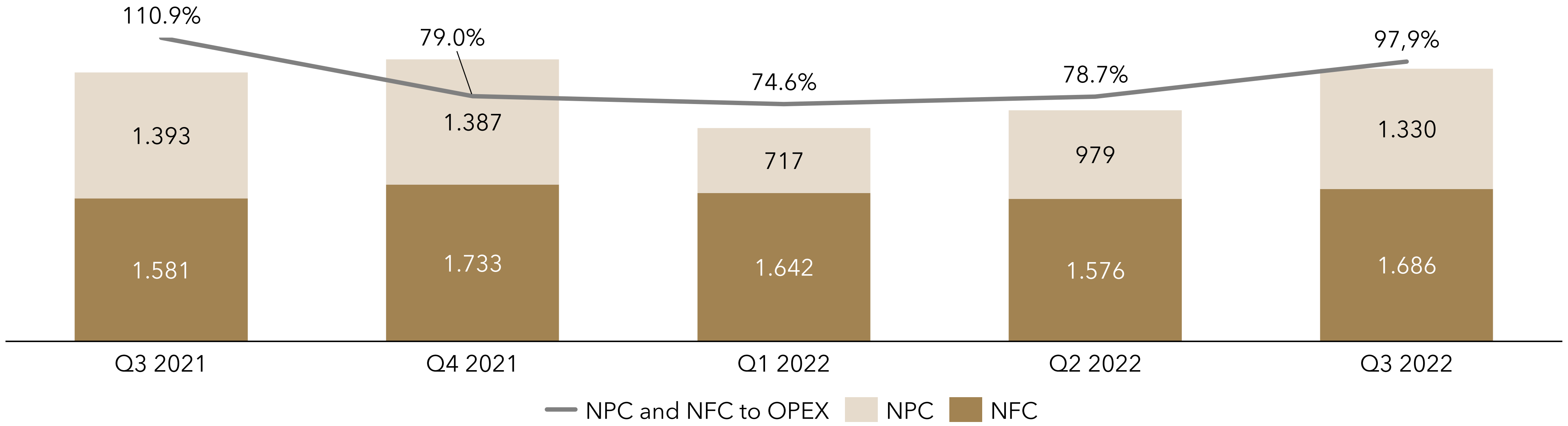
Net fee and commission income (NFC)
ISK m.



Segment split
9M 2022 / (%)



Net fee and commission income and net premiums and claims to OPEX
ISK m.



- NFC income continues to provide a strong recurring fee base, creating less reliance on variable fees
  - → Asset management is a key contributor to NFC while also providing the strongest recurring fee base
- Assets under management at 30.9.2022 ISK 460 billion
  - → Net AuM decrease mainly due to negative market sentiment, strong inflow despite challenging environment
- Investment Banking also had a solid performance both through Capital Markets and Corporate Finance
  - → Multiple large projects completed by Corporate Finance
  - → Strong performance in Capital Markets despite challenging markets
- Net fee and commission income and net premiums and claims, another strong recurring fee base, account for 98% of OPEX in Q3

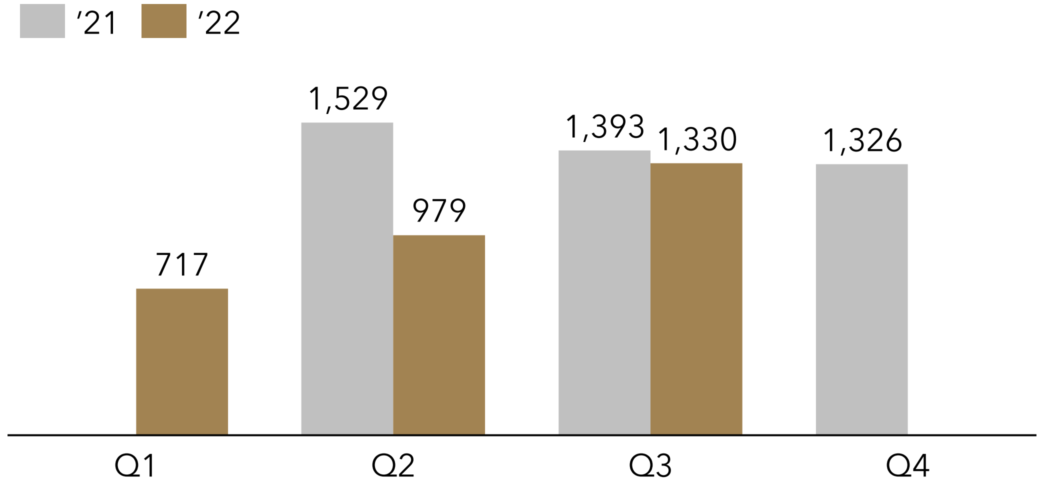
*2021 only includes TM and Lykill from 1 April 2021 due to merger on 31 March
UK operations only include Ortus Secured Finance from 1 March 2022

Net Premiums and Claims

Combined ratio of 88.3% in Q3 2022

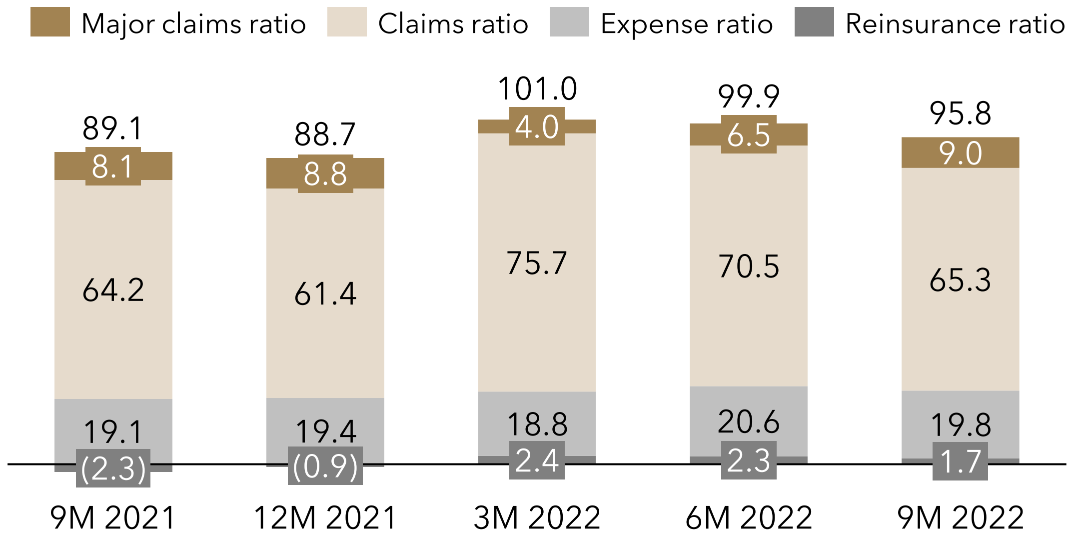
Net premiums and claims (NPC)

ISK m.



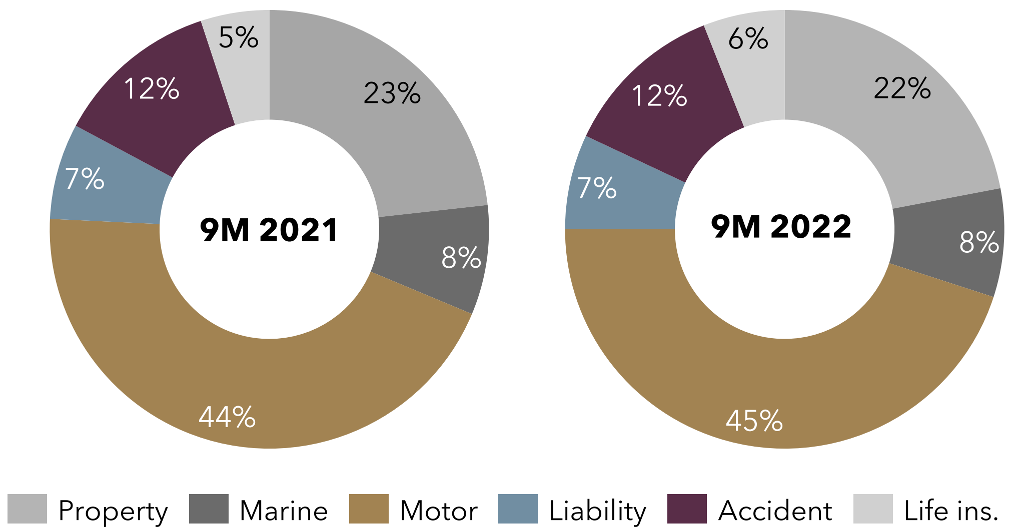
Combined ratio

(%)



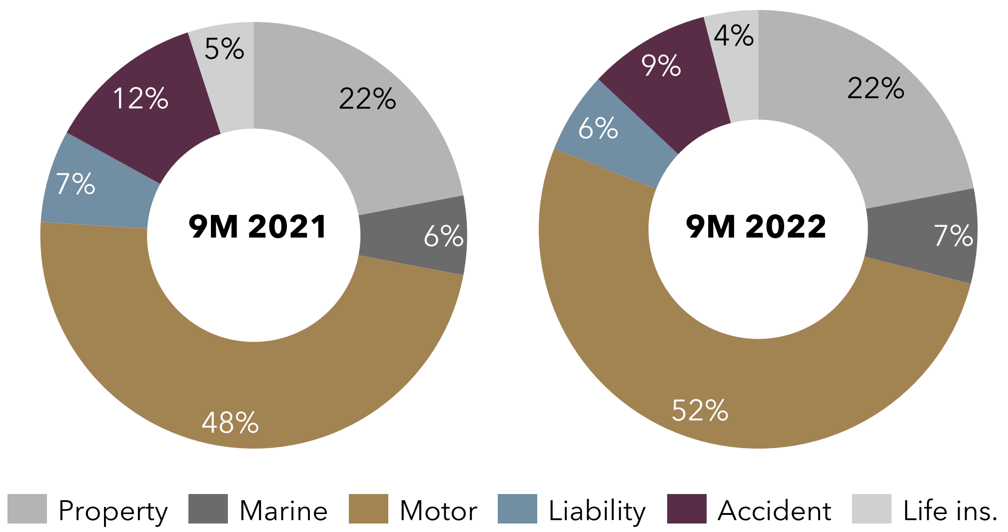
Premiums composition

(%)



Claims composition

(%)



- Increase in premiums in the period, with growth seen in all insurance categories, countered by increased claims cost and resulting in a similar NPC as the same period in 2021
- Continued strong performance of insurance operations with a combined ratio of 95.8% for 9M 2022 and 88.3% for Q3
- Claims ratio increases somewhat from 9M 2021 as well as the major claims ratio (claims over ISK 50 million)
- Expense ratio similar as 9M 2021
- Major claims ratio significantly lower in Q3
- Reinsurers' share positive by 1.7% in 9M
- Composition of premiums and claims remains relatively stable
  - → Increase in motor claims from 9M 2021 and a decrease in accident claims

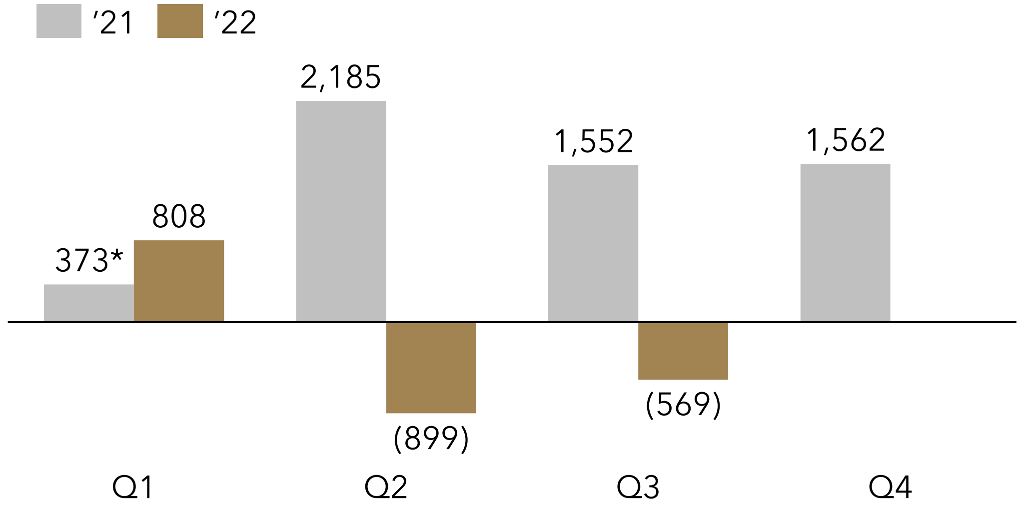
*2021 only includes TM and Lykill from 1 April 2021 due to merger on 31 March

Net Financial Income

Losses driven by negative market developments

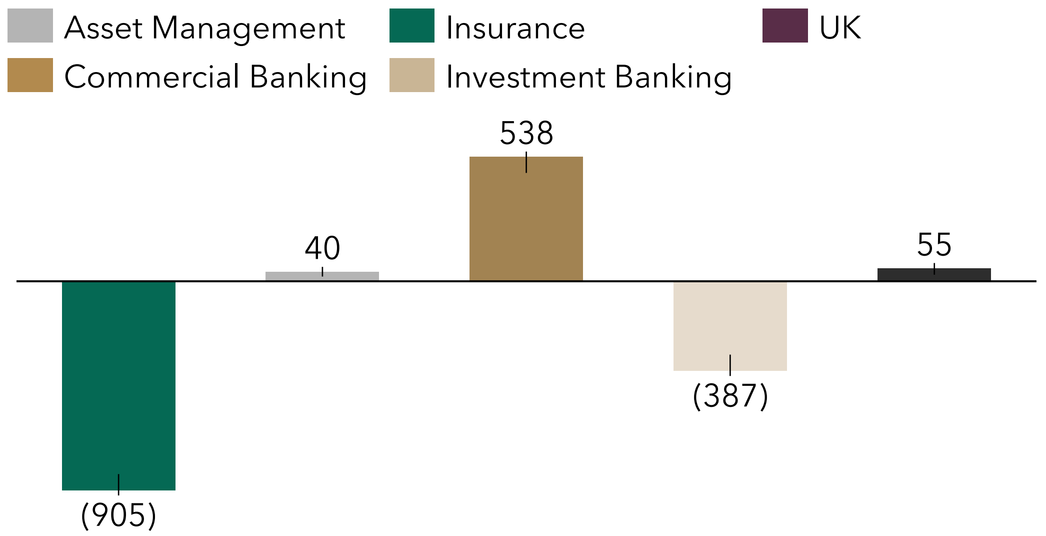
Net financial income (NFI)

ISK m.



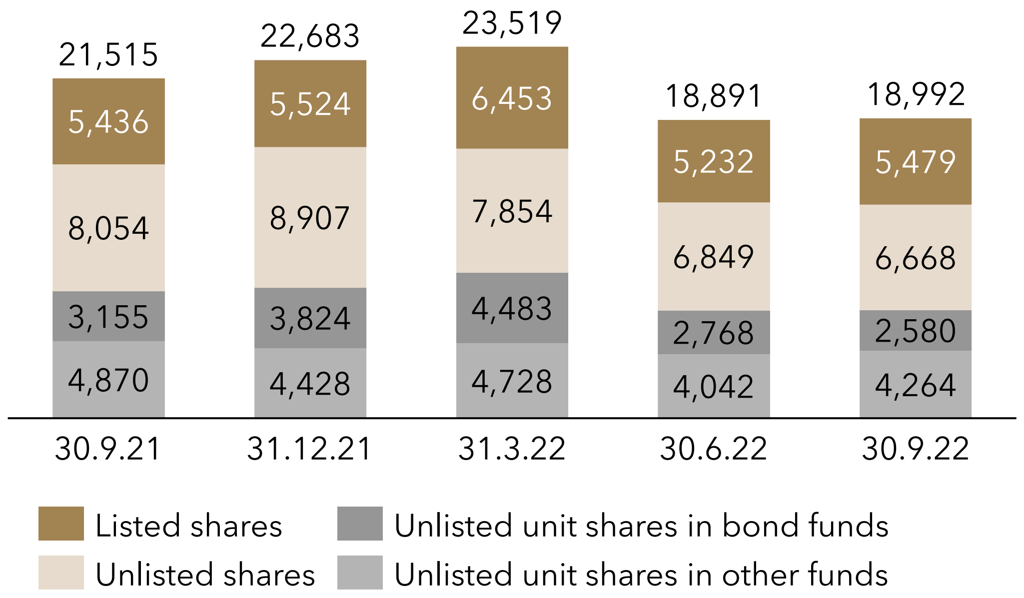
Segment split

9M 2022 / ISK m.



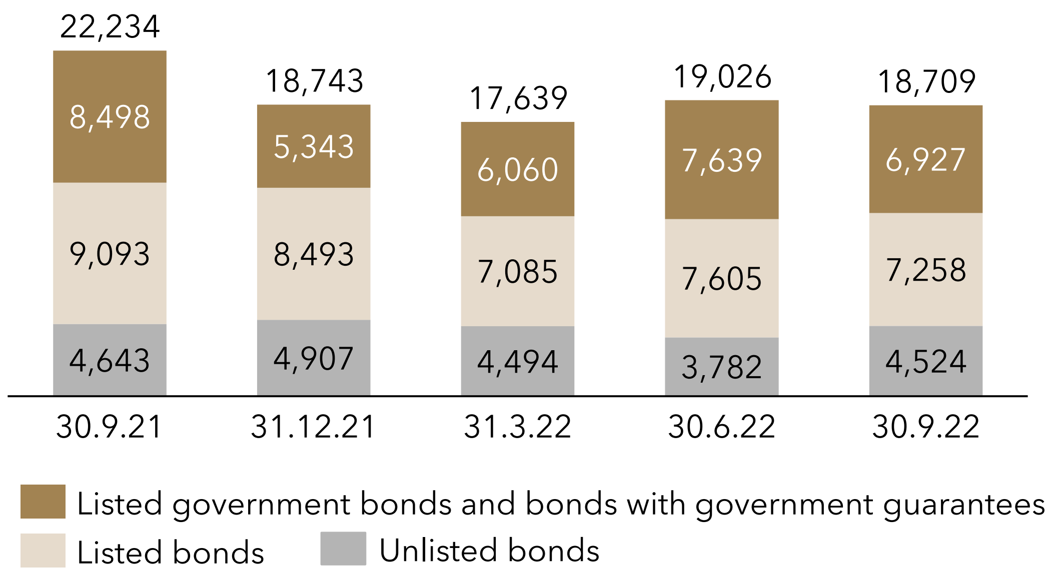
Shares and other variable income securities

ISK m.



Bonds and debt instruments (FVPL)

ISK m.



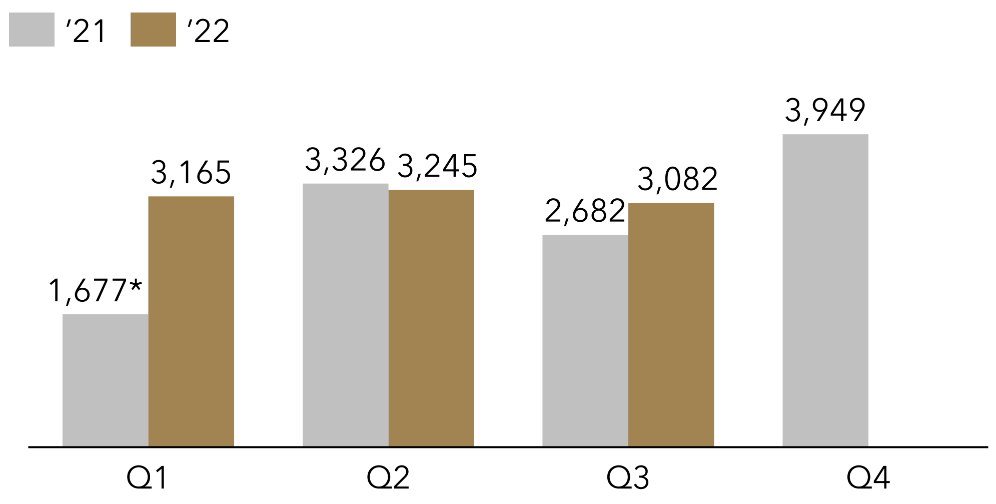
- Negative total NFI performance due to difficult market conditions in the period
- Kvika receives financial income, and losses, through various operating segments though TM Insurance's investment operations generally contribute the most significant part
  - → Losses in first nine months of 2022 contributed mainly by TM Insurance's investment activities and securities and derivatives held by Treasury and Market Making
- Positive NFI contribution through Commercial Banking, mainly due to revaluation of unlisted shares in Q2

*2021 only includes TM and Lykill from 1 April 2021 due to merger on 31 March
UK operations only include Ortus Secured Finance from 1 March 2022

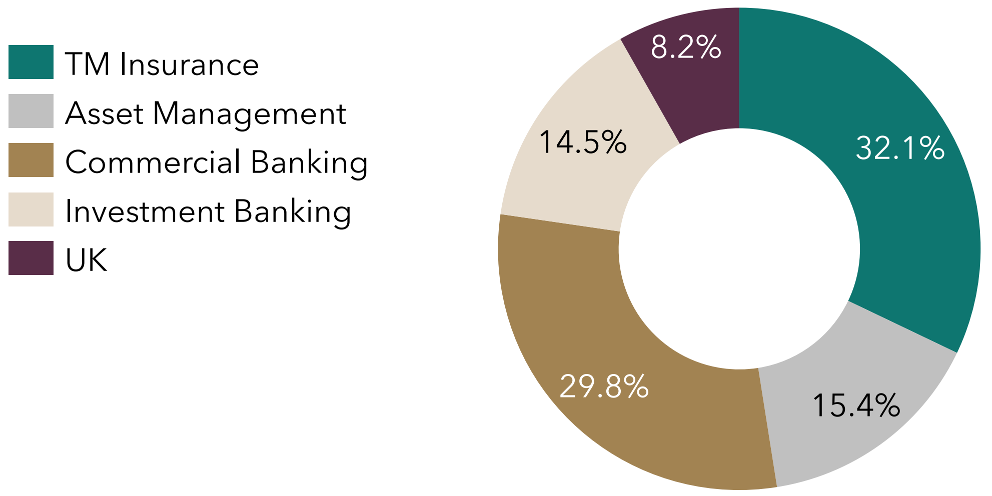
Operating Expenses

In line with budget

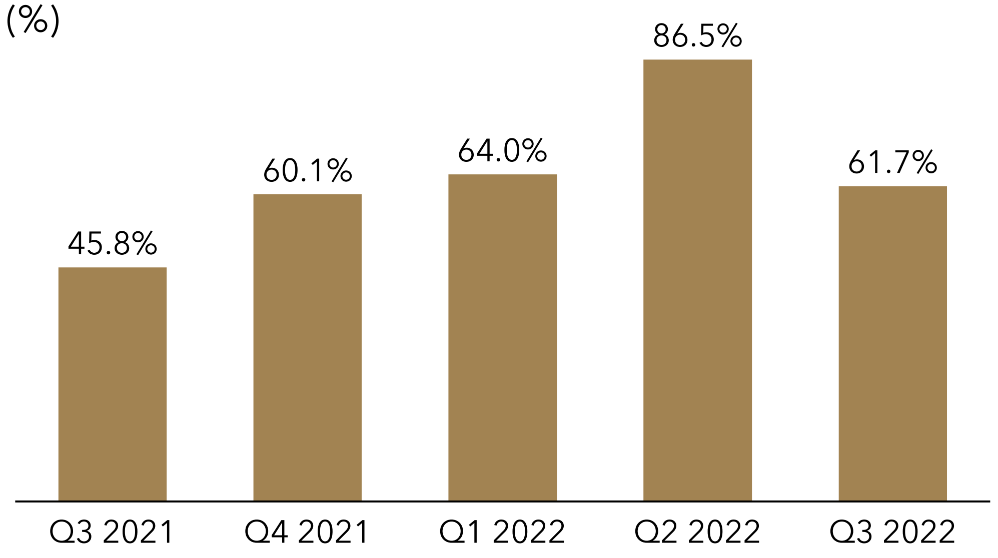
Operating expenses (OPEX)
ISK m.



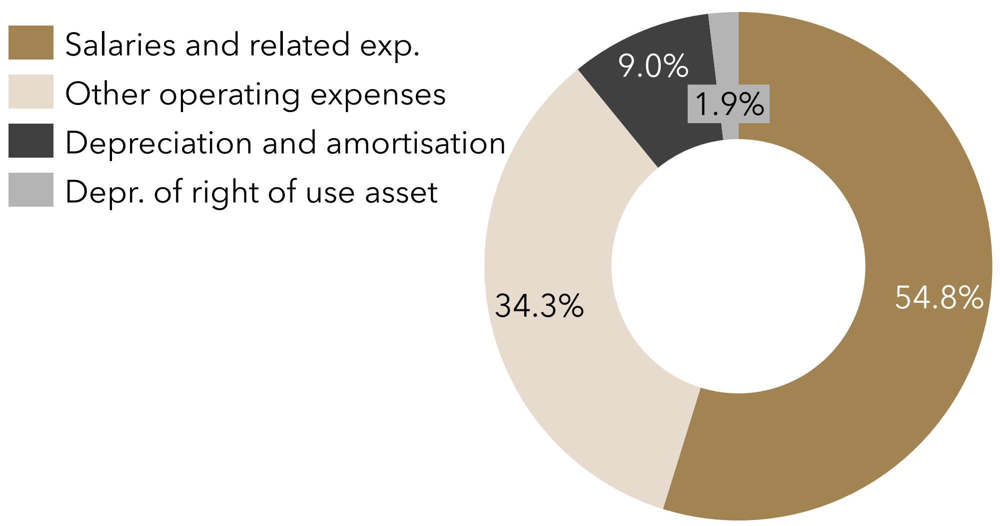
Segment split
9M 2022 / (%)



Cost to income
(%)



Operating expenses
9M 2022 / (%)



- Operating expenses were in line with the Group's budget in Q3 2022
  - → Cost to income ratio rebounds from an abnormally high level in Q2 due to negative net financial income
  - → Increase in operating expenses in Q2 and Q3 mainly due to acquisition of Ortus Secured Finance
- Salaries and related expenses continue to be a key operating expense within the Group and amount to 54.8% of total OPEX in the first nine months of 2022
  - → Salaries and related expenses have historically accounted for a majority of the Group's OPEX as its investment banking and professional client services rely on specialists
  - → Employees increase from 331 at year end 2021 to 350 at the end of September 2022, mainly attributable to Ortus acquisition and new subsidiaries

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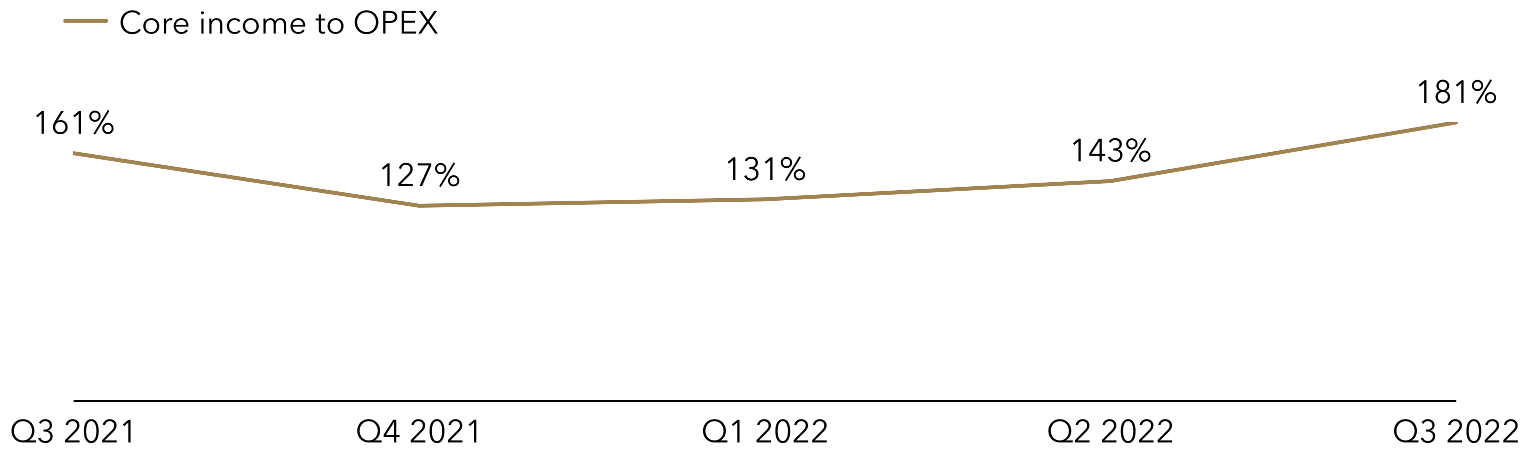
UK operations only include Ortus Secured Finance from 1 March 2022

Core income continues to strengthen

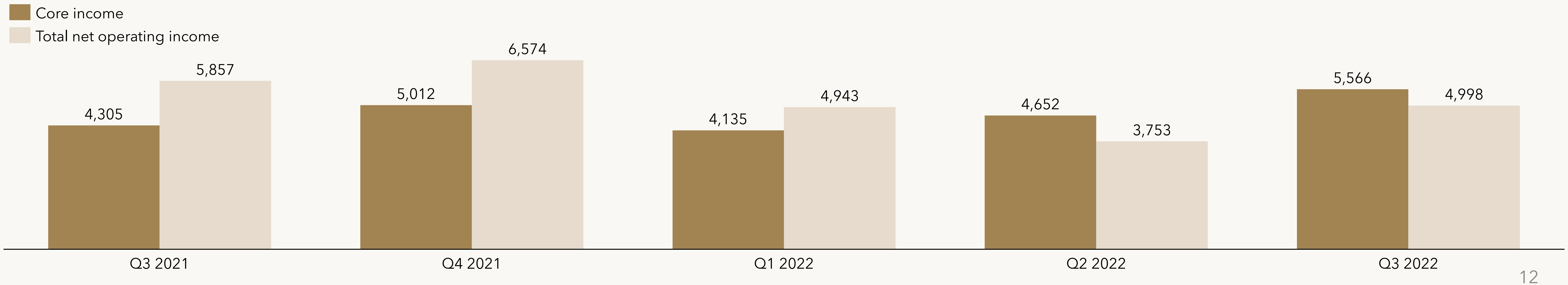
Net operating income excluding financial income

- Core income is defined as net operating income excluding net financial income, which is the revenue stream most affected by external market circumstances
  - → Kvika incurs NFI due to both its banking and insurance operations, both of which require Kvika to hold significant investment assets
- While the Group's NFI has seen significant volatility in the past quarters core income has been stable and has continued to grow
  - → Seasonality in core income due to insurance operations as claim volume is especially high in Q1
- 29% core income growth YoY

Core income cover
(%)



Net operating income
Development / ISK m.

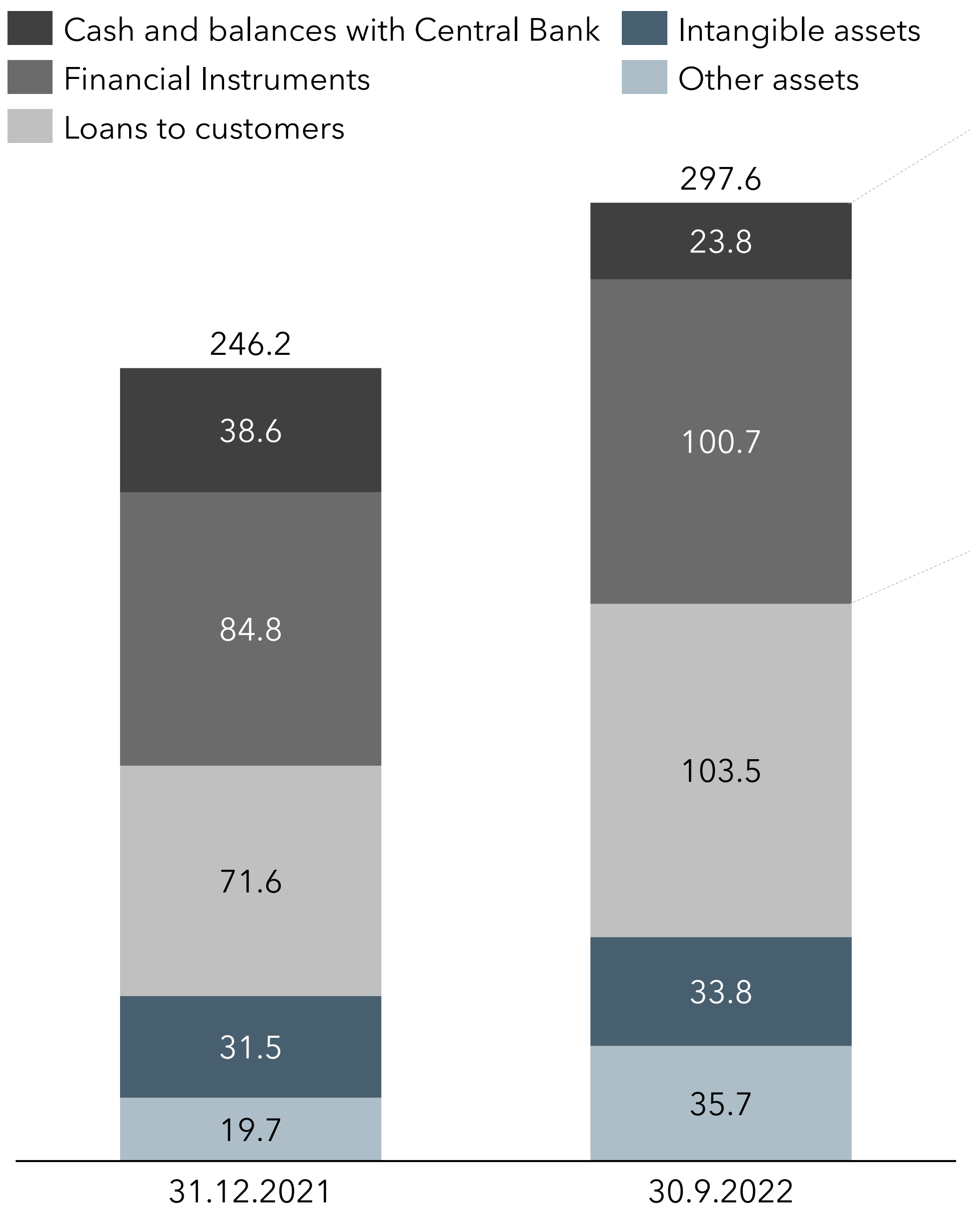


Balance Sheet: Assets

Over a third of the balance sheet consists of liquid assets

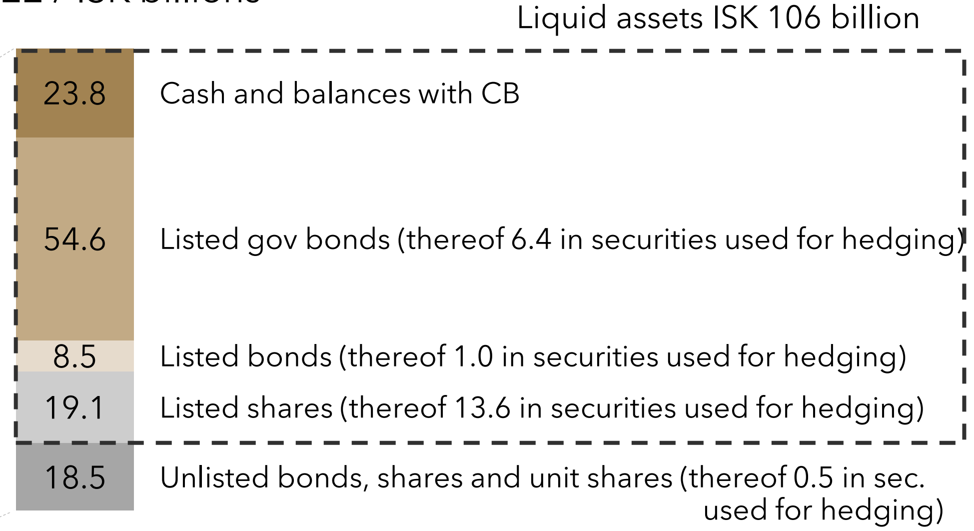
Assets

30.9.22 / ISK billions



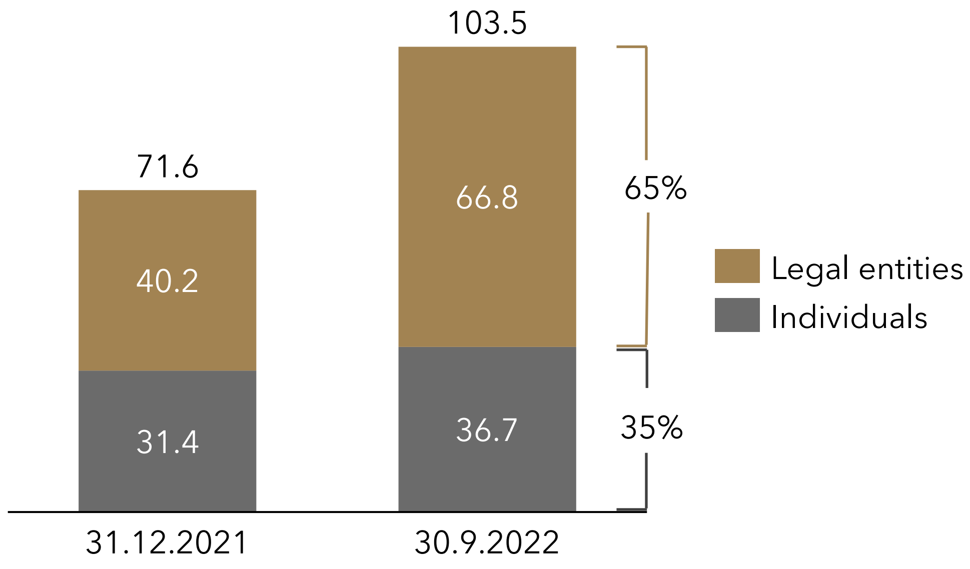
Cash and financial instruments

30.9.22 / ISK billions



Loan book by customer type

ISK billions



- ISK 51.3 billion increase in assets since year-end 2021 driven by loan book growth, as well as an ISK 14.1 billion increase in other assets attributable e.g. to unsettled transactions and increased receivables
- Loan book increases by ISK 31.9 billion since year-end 2021
  - → Weighted average duration of the domestic loan book was 2.1 years at 30.9.2022
- Loan book growth is mainly attributable to acquisition of Ortus Secured Finance, which is a part of the Group and its consolidated financial statements since 1 March 2022, and organic growth
  - → Loans to individuals increase by ISK 5.3 billion since year-end 2021 to ISK 36.7 billion
  - → Loans to corporates increase by ISK 26.6 billion since year end 2021 to ISK 66.8 billion
- Liquid assets amount to ISK 106 billion, 36% of total assets and 102% of loans to customers
  - → Decrease in cash and balances and increase in financial instruments mainly attributable to liquidity management
- ISK 12.4 billion positive CPI balance at 30.9.2022

Loans to Customers

Diversified loan book and increased granularity

Vehicles

- Car dealers are the primary source of loan applications
- Advanced IT setup facilitates semi-automated and responsive loan process
- New and used vehicles
- Average loan is just under ISK 2 million

Core customers: retail clients

Commercial vehicles and equipment

- Collateralized by commercial vehicles or various kind of equipment
- LTV depends on the liquidity of collateral
- Borrowers generally businesses with a good track record

Core customers: professional clients

Real estate

- Mostly to legal entities backed by residential and commercial real estate
- The category includes approximately ISK 2.2 billion of 2nd lien residential real estate loans to individuals granted through Framtíðin lending platform

Core customers: professional clients and retail

Real estate development

- Construction level from land to fully equipped property
- Loans are usually drawn in accordance with the construction progress. Effective monitoring is essential to protect the bank's interest and ensure that collateral values are realistic

Core customers: professional clients

30.9.2022 / ISK billions

Total 103.5

Investment and operational loans

- Loans against unlisted securities or cash flows
- Generally, carry the highest interest rates and tie up the most equity
- Loans collateralized with unlisted equity have LTV of less than 30% once granted as higher LTV's result in excessive capital requirements

Core customers: professional clients

Securities

- Loans against listed securities
- Normally LTV of less than 50% once granted as higher LTV's result in excessive capital requirements
- Margin call covenants should the value of the underlying collateral decrease

Core customers: professional clients

Unsecured loans

- BNPL and cash loans to individuals via fully automated loan process
- Proprietary algorithm-based credit system
- Maximum APR regulated
- Low defaults, lent to A, B and C class borrowers*

Core customers: retail clients

Ortus real restate

- Mostly to legal entities backed by residential and commercial real estate
- Historical average LTV of around 50%

Core customers: professional clients

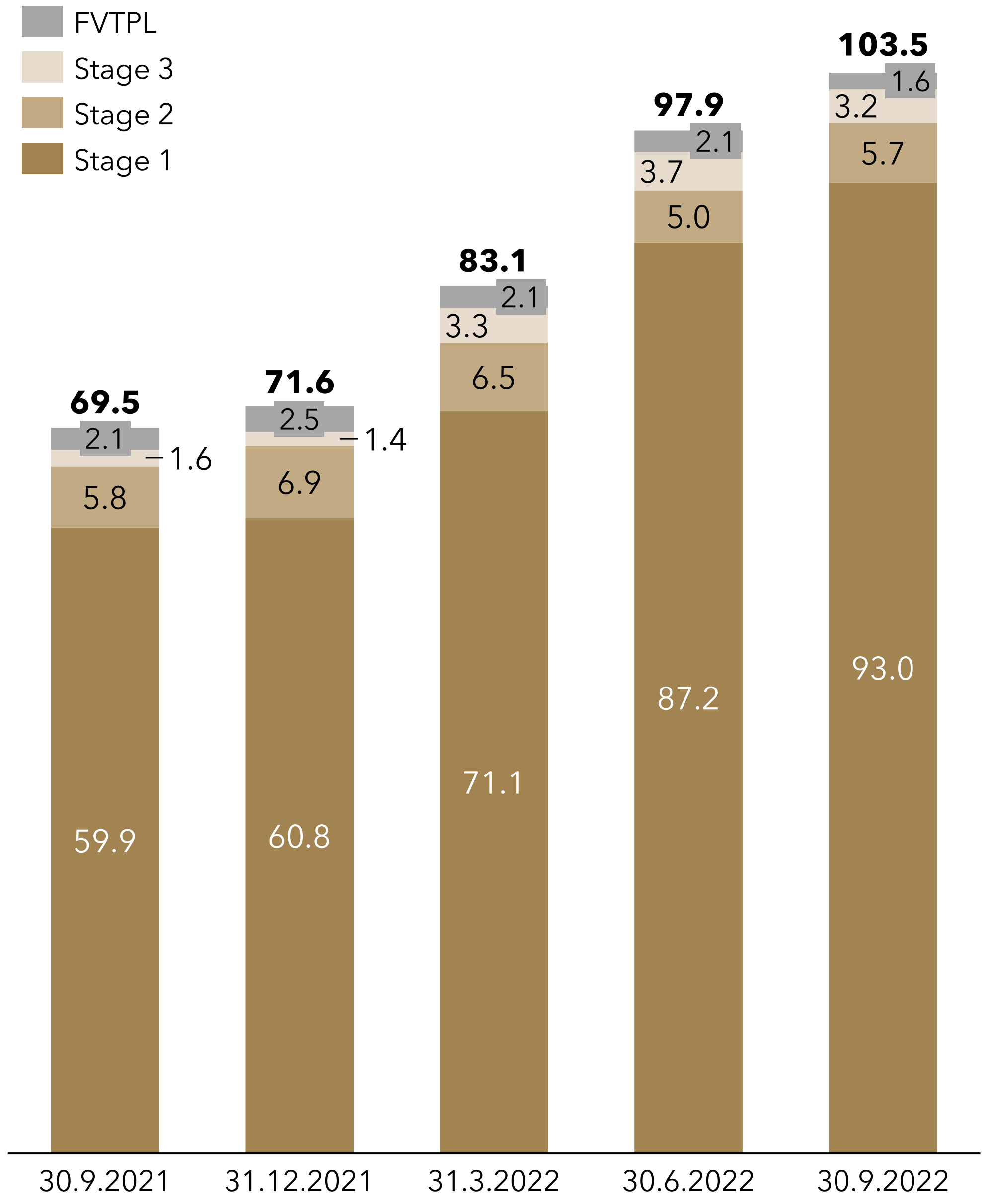
*Credit Score classification by Creditinfo Iceland, which rates individuals from A1 through E3

Credit Quality

Meaningful drop in stage 3 exposures

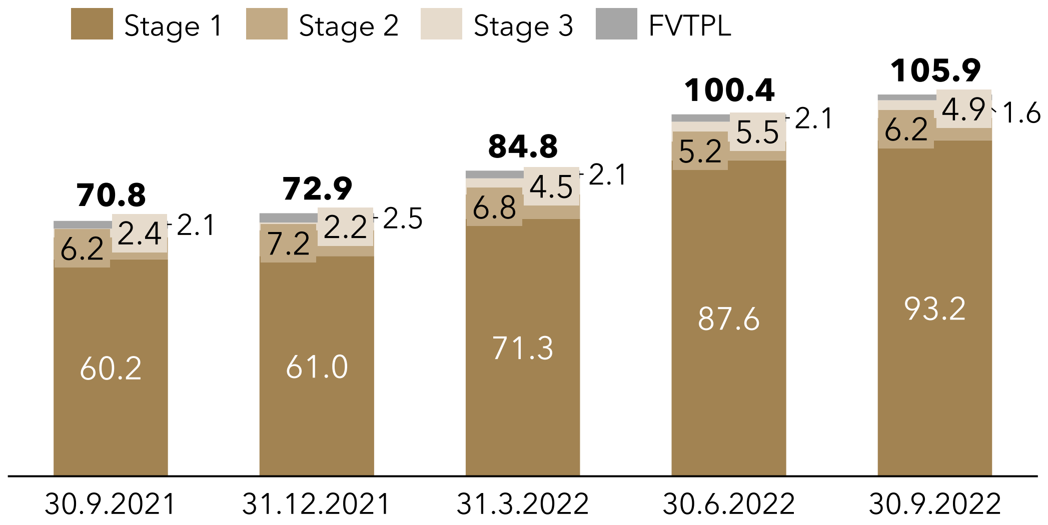
Net carrying amount

IFRS 9 risk stage allocation / ISK billions



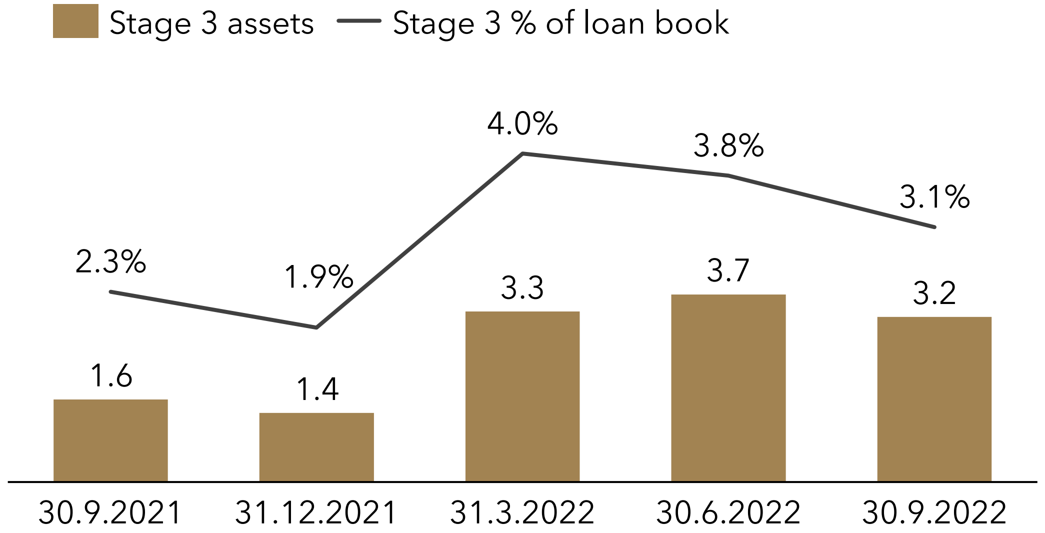
Gross carrying amount

IFRS 9 risk stage allocation / ISK billions



Stage 3 asset development

ISK billions



- Temporary change in credit quality in Q1 2022 mainly due to acquisition of Ortus (new financial assets)
  - → Group integration and adjustments in lending rules resulting in quality of loan book steadily improving
- Stage 1 assets amount to 89.8% of loan book at 30.9.2022, 89.1% at 30.6.2022
  - → Total impairment loss allowance 2.3% of loan book at 30.9.2022, 2.5% at 30.6.2022
- Significant decrease in stage 3 loans between quarters, which are now 3.1% of the total loan book, down from 4.0% post Ortus acquisition at 31.3.2022
  - → Large stage 3 position in the UK repaid in the period
- Pursuant to the due diligence that was performed on the loan book of Ortus Secured Finance ltd. prior to the Group's acquisition of the company in February 2022, it was agreed with the sellers of shares that a pro-rata indemnity against losses on a specific loan exposure would be provided. This indemnity totals £2.29 million

Liquidity and Funding Ratios

Strong levels

Liquidity coverage ratio (LCR)

30.9.2022 / ISK billions

High quality liquid assets	60
Net outflow	20
Liquidity coverage ratio	**308%**
Minimum regulatory requirement	100%

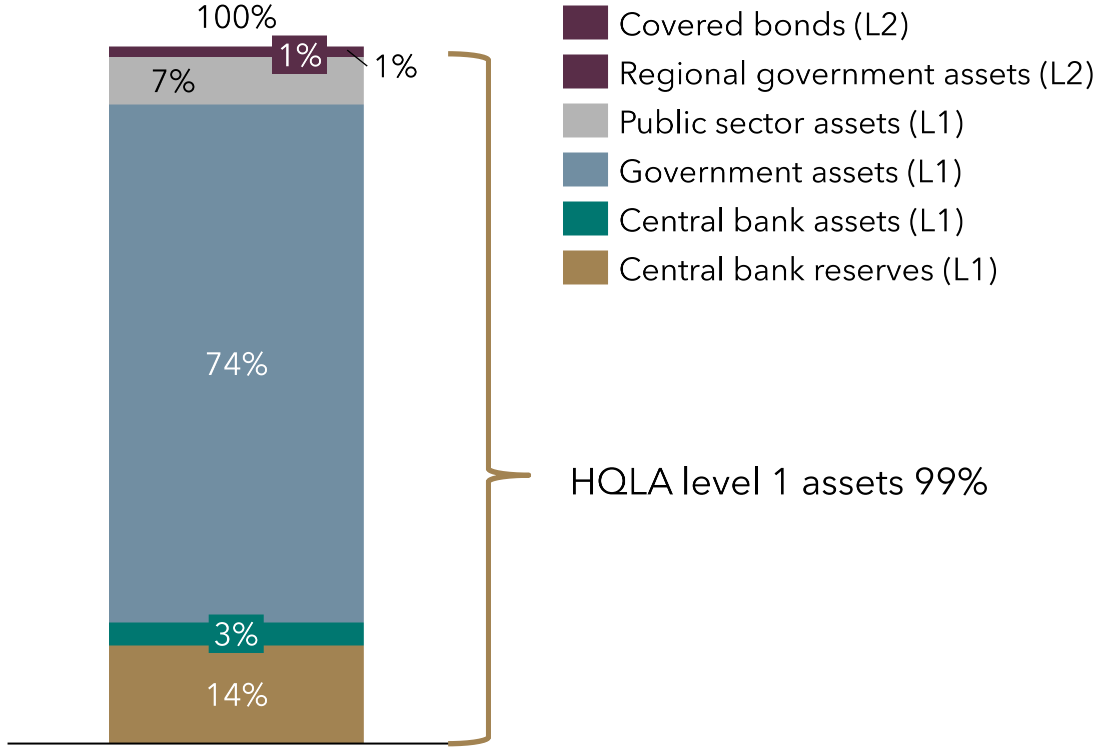
Net stable funding ratio (NSFR)

30.9.2022 / ISK billions

Available stable funding	197
Required stable funding	153
Net stable funding ratio	**129%**
Minimum regulatory requirement	100%

High quality liquid assets (HQLA)*

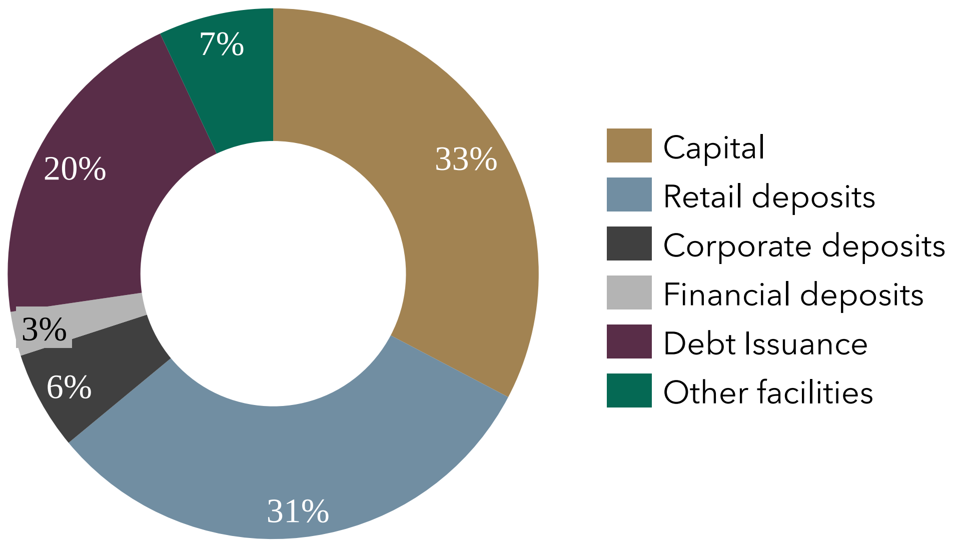
30.9.22 / (%)



*L1: Level 1 assets , L2: Level 2 assets

Available stable funding

30.9.22 / (%)



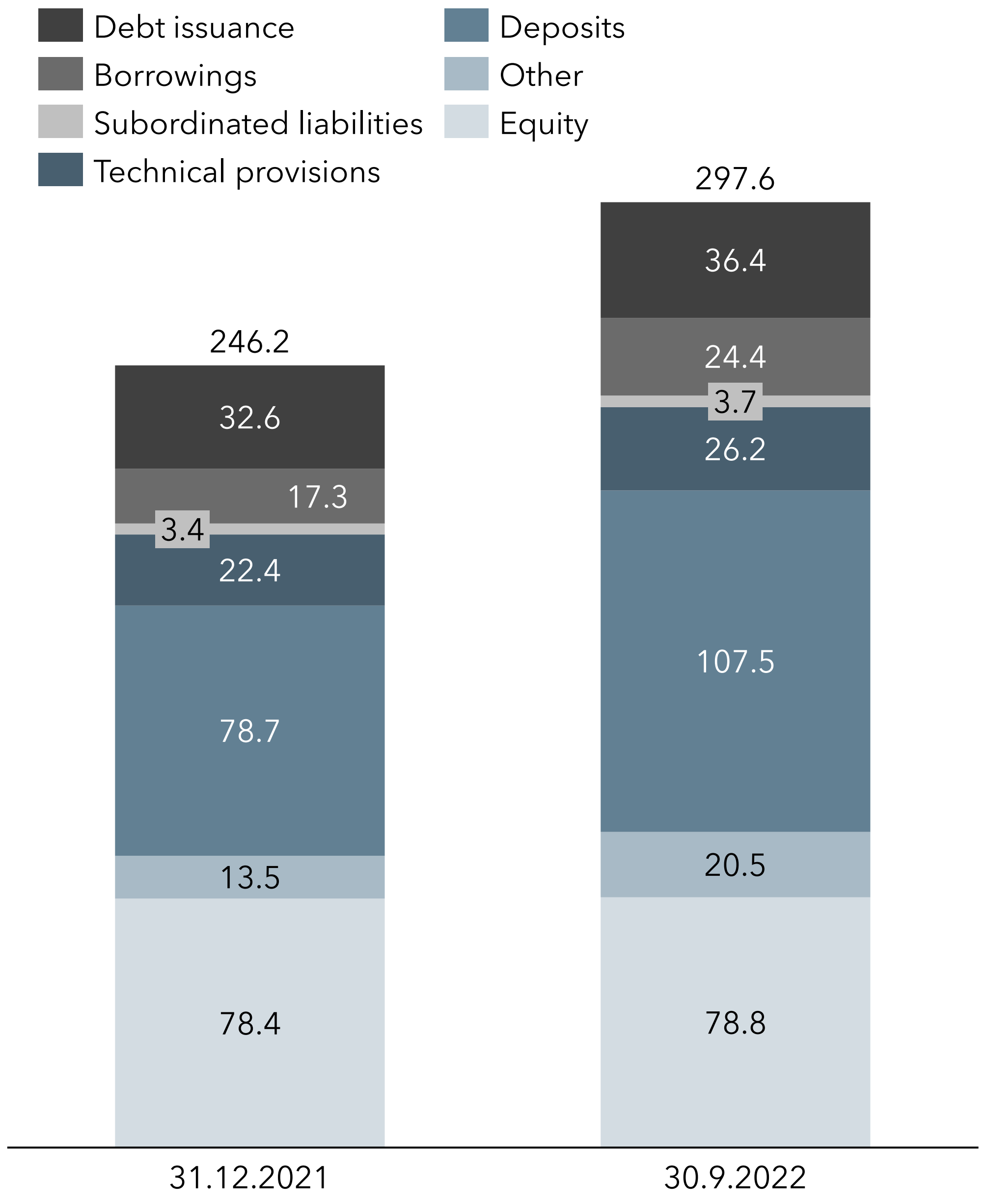
- HQLA assets ISK 60 billion excluding mandatory reserves and collateral to the Central Bank
- Liquidity coverage ratio is strong at 308%, where the regulatory minimum is 100%
- Net stable funding ratio is strong at 129%, where the regulatory minimum is 100%
- Asset and liability management is aimed at maintaining stable funding sources such as core retail deposits and long-term funding via debt issuance
- The Group's capital and deposits are the largest funding sources

Balance Sheet: Liabilities

Increase driven by growth in deposits and Ortus acquisition

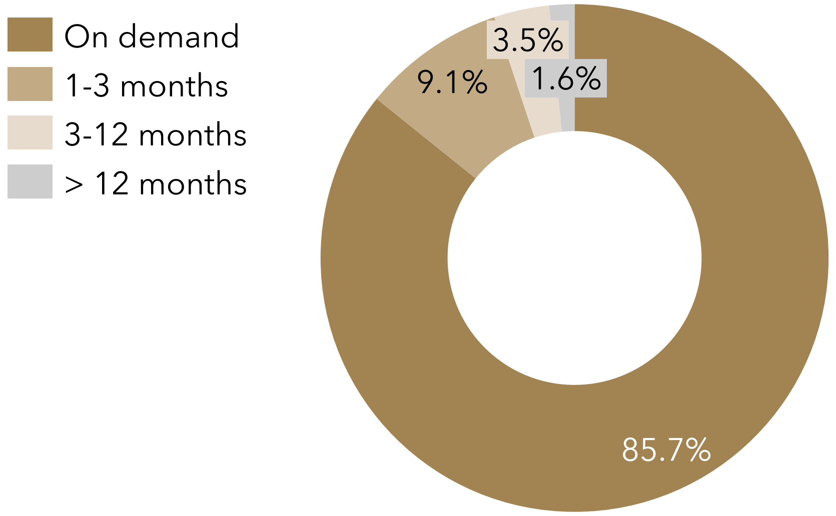
Liabilities and equity

ISK billions



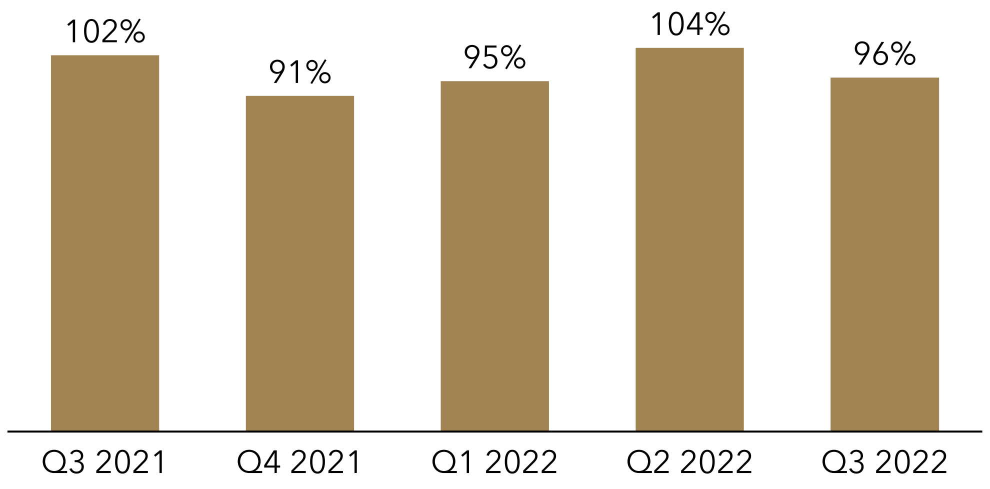
Maturity of deposits

30.9.22 / (%)



Loans to deposits

(%)

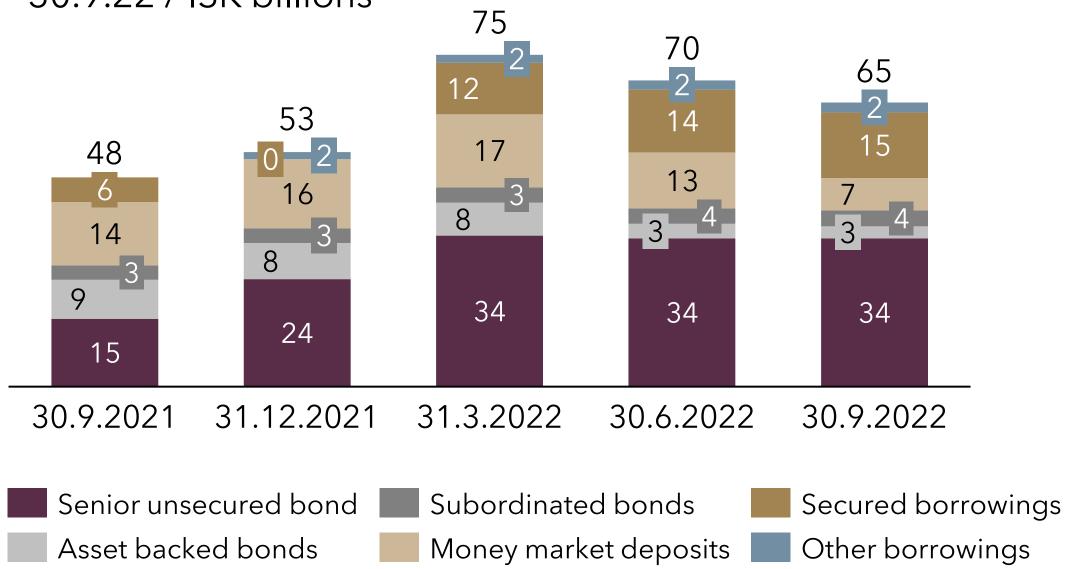


- Liabilities increase by ISK 50.9 billion since year-end 2021, driven by growth in deposits and increased borrowings
- Deposits increased by ISK 28.9 billion in 9M 2022
- Increased borrowings are mainly attributable to the acquisition of Ortus Secured Finance, which has borrowed from UK lenders
- Kvika issued ISK 9.8 billion equivalent of senior unsecured bonds in Q1 2022, including its first euro medium-term note (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 26.2 billion, increasing by ISK 3.8 billion mainly due to renewals and new issuances of policies

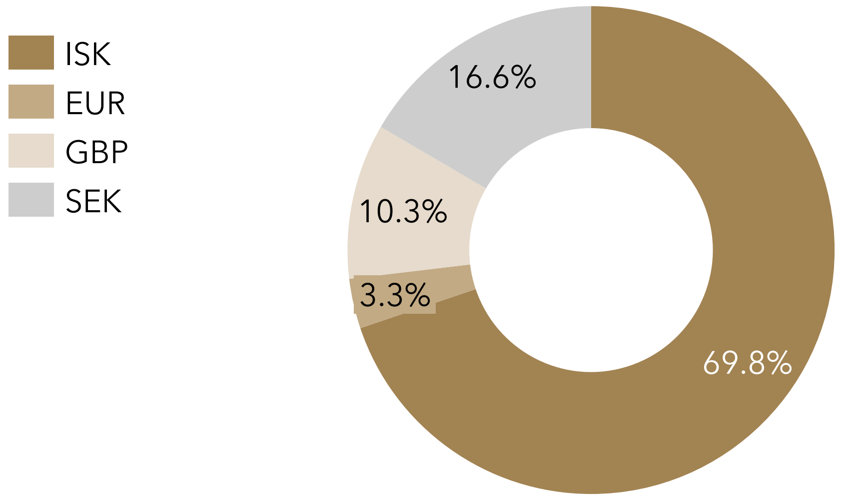
Diversified Funding Programmes

Funding capabilities both domestically and abroad

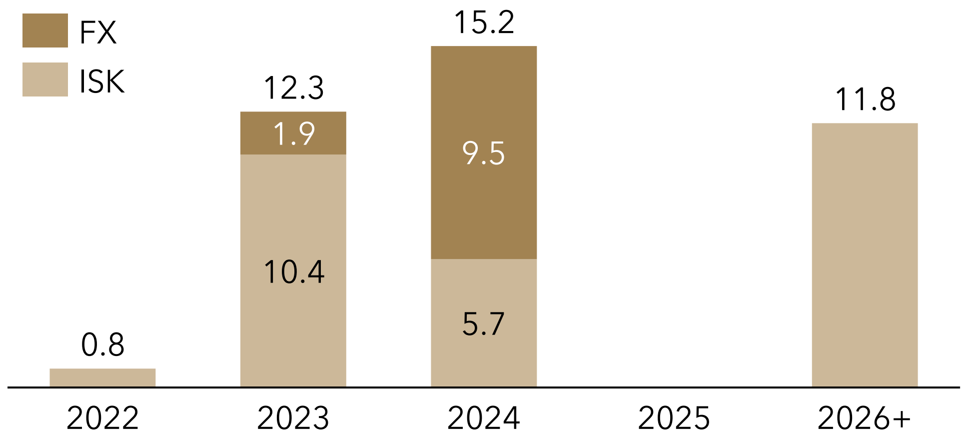
Sources of borrowings
30.9.22 / ISK billions



Issue currency
30.9.22 / ISK billions



Maturity of issuance
30.9.22 / ISK billions



Rating
Moody's Investors Service

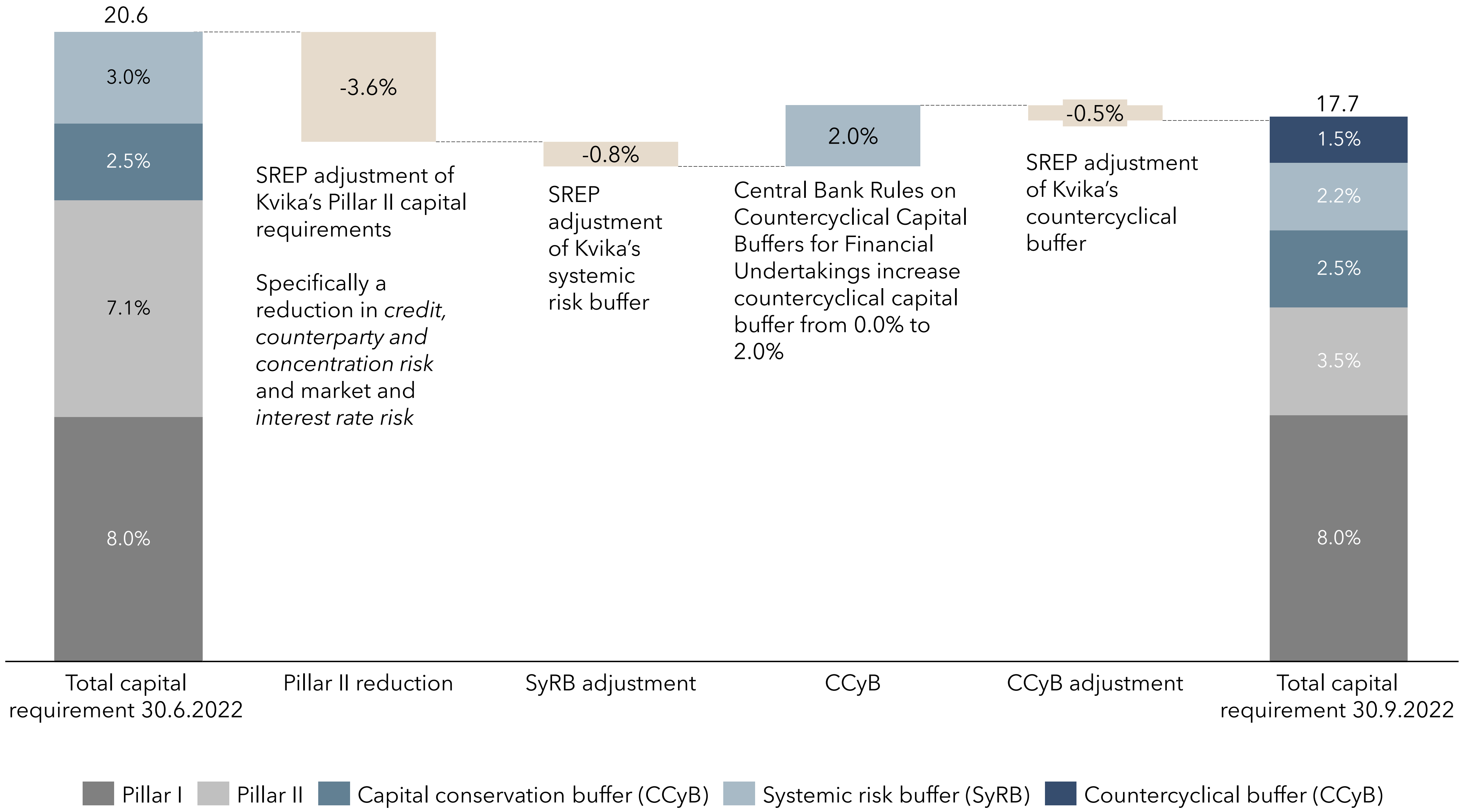
	Bank deposit rating	Issuer rating
Long term	Baa1	Baa2
Short term	P-2	P-2
Outlook	Stable	Stable
Last	29 June 2022	19 May 2022

- Kvika has been an active issuer in Iceland since 2015 and in 2021 established an EMTN programme and obtained a credit rating from Moody's Investors Service
- Inaugural EMTN issue of 2y SEK 500 million issued in January 2022 paying 280bps above 3m STIBOR
  - → Notes under the programme can be issued in any currency agreed between the issuer and applicable dealers, e.g EUR, GBP, USD, SEK and NOK
- ISK 36 billion of senior bonds outstanding at 30 September 2022 with 69% issued in ISK
- Among Kvika's borrowings are secured borrowing facilities which are utilized by Ortus in the UK

Lowering of Capital Requirement

SREP update and countercyclical buffer implementation

Capital requirement waterfall
(%)



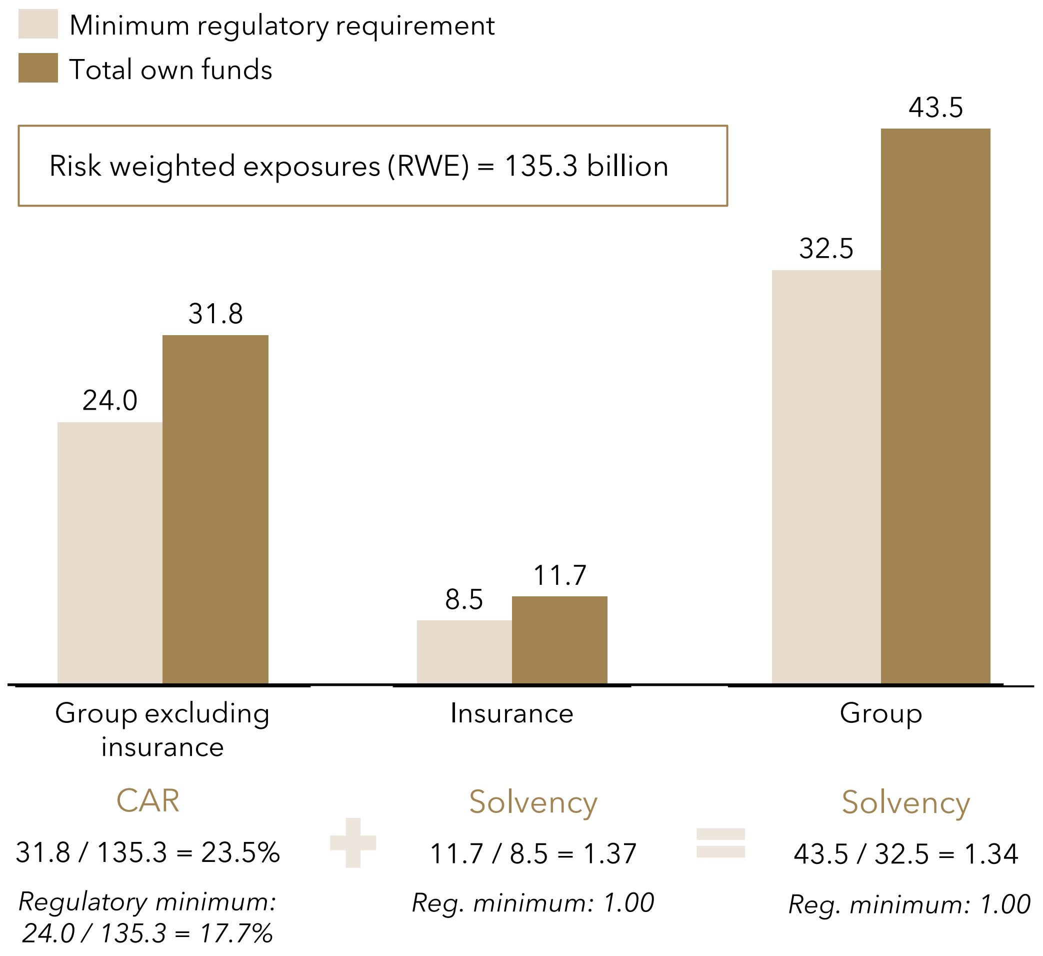
- In October Kvika was informed by the FSA of its draft decision, pending comment by Kvika, regarding capital requirements following a Supervisory Review and Evaluation Process (SREP)
  - → Kvika will not comment nor object to the draft decision regarding capital requirements and therefore considers it to be final
- Updated capital requirements are considerably lower, mainly due to the significant changes and de-risking in Kvika's operations since the last SREP in 2019
  - → Pillar II capital requirements are lowered by 3.6% and geographical adjustments (-1,3%) are made to the systemic risk buffer (SyRB) and countercyclical capital buffer (CCyB). Total capital requirements lowered by 4.9%
  - → In pillar II the credit, counterparty and concentration risk is evaluated as significantly lower than in 2019 due to increased granularity and diversification of the loan portfolio
  - → Similarly, market and interest rate risk is lowered due to a proportional reduction of securities on the balance sheet and increased management of factors e.g. interest and currency risk
- Total capital requirements may increase by 0.25% due to Kvika's operations in the UK as the Bank of England is set to increase the countercyclical capital buffer from 0.0% to 1.0% in Dec. 2022

Solvency and Capital

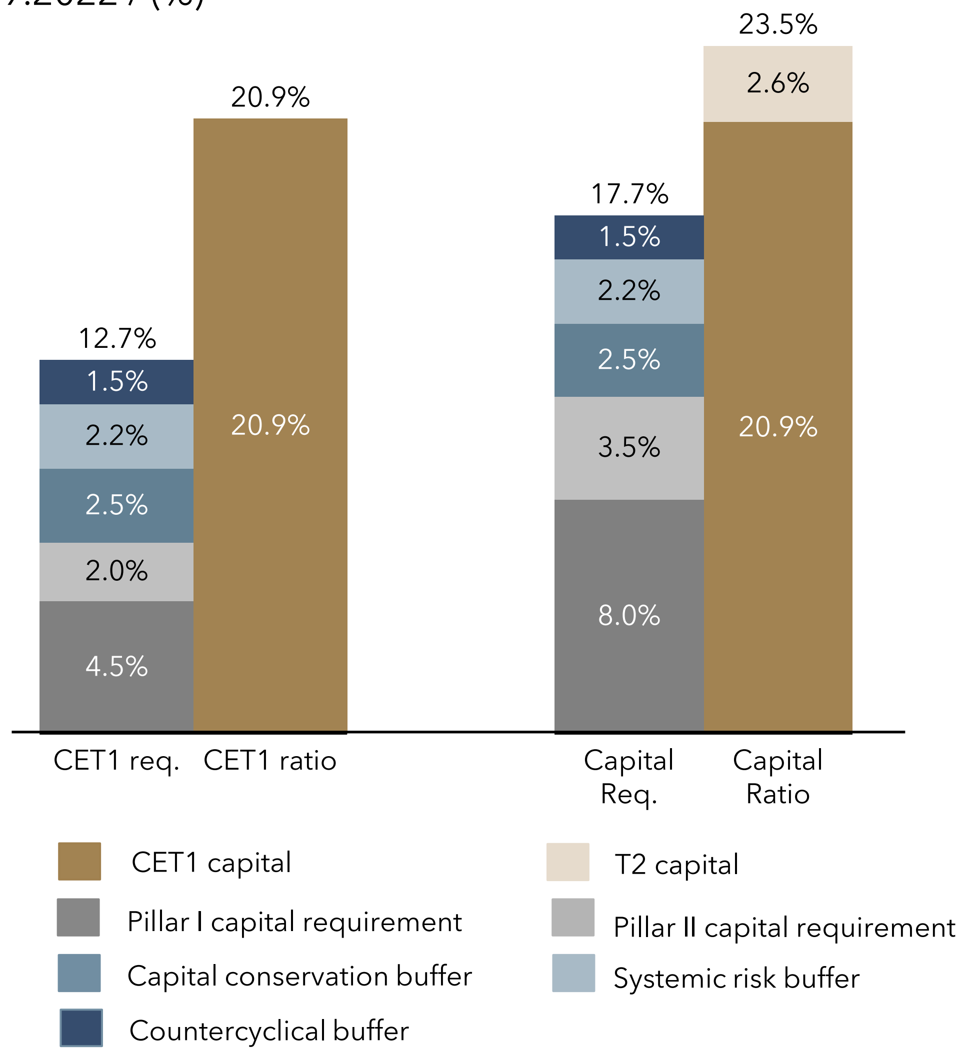
Well above regulatory requirements

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

CAR and solvency
30.9.2022 / ISK bn.



Capital position and requirements
30.9.2022 / (%)



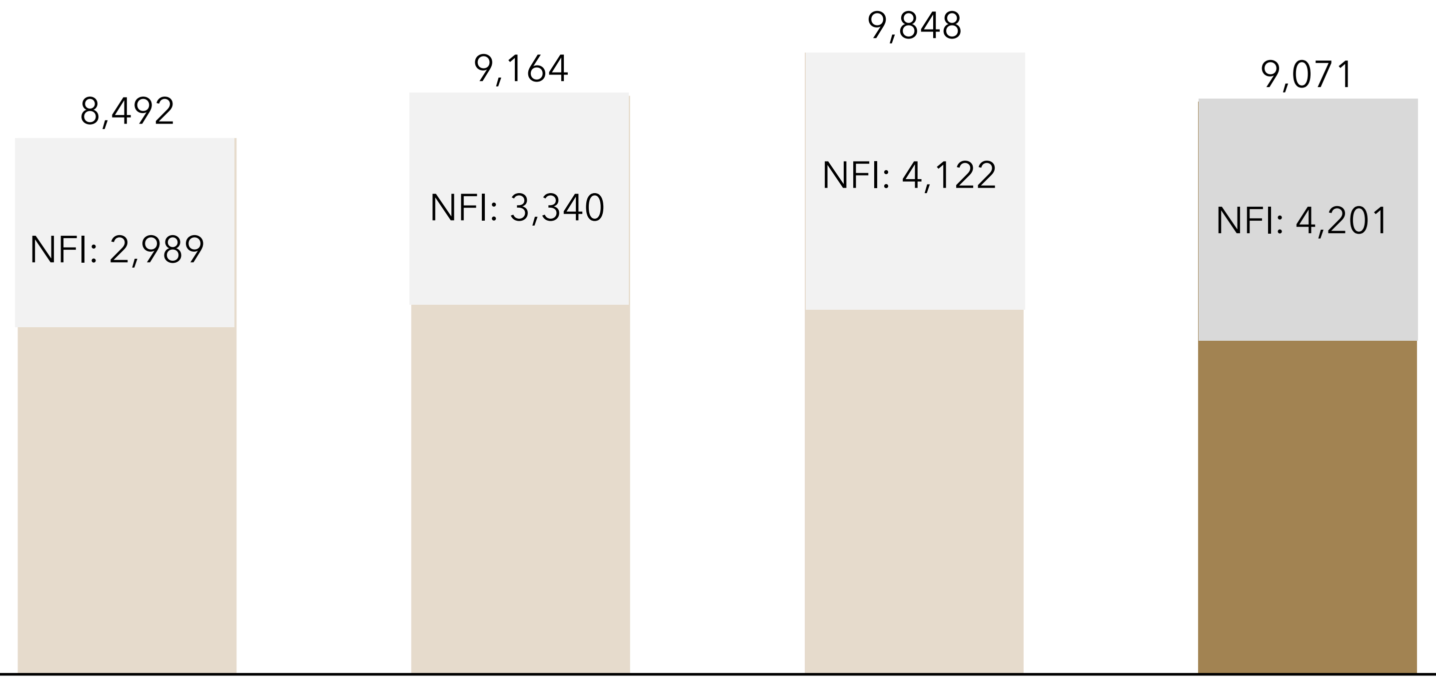
- Kvika has a group solvency of 1.34 and a CAR of 23.5% at the end of September 2022
  - → Solvency of 1.38 and CAR of 24.6% with unaudited retained earnings for Q3
  - → In October Kvika received a draft of the FSA's decision regarding capital requirements and presents results in line with updated requirements
- Following the 4.9% total reduction in the group's capital requirement, Kvika holds a significant amount of excess capital
  - → Excess capital of ISK 10.8 billion on consolidated solvency basis for the Group and ISK 7.7 billion on CAR basis excluding insurance activities
- Kvika will in coming months explore opportunities for utilizing or releasing capital, e.g., through internal and/or external growth, share buybacks or dividends
  - → Options must be assessed in the light of generally highly volatile market conditions and the increase of risk and uncertainty in the global economy
  - → Important to maintain capital buffers that are consistent with the prevailing level of risk as recommended by the Central Bank of Iceland to help ensure banking sector resilience

Outlook for Next Four Quarters

Conservative guidance due to market uncertainty

At the end of each quarter the Group revises key assumptions for the next four quarters and updates previously reported outlook as required, maintaining a running four quarter guidance at each time

PBT Outlook 2022-23
ISK million



Period forecast:	Q1 2022 – Q4 2022	Q2 2022 – Q1 2023	Q3 2022 – Q2 2023	Q4 2022 – Q3 2023
Published on:	24 February 2022	12 May 2022	18 August 2022	10 November 2022
RoTE	19.4%	21.4%	23.4%	21.7%

Key assumptions

TM: 8.9% return on investment and combined ratio of 94.4%

Loan book growth of 21% in the period

Expected inflation of 5.5% for the next 12 months

No refinancing of UK loan portfolio in the period

- PBT Outlook for the next four quarters, Q4 2022 – Q3 2023, updated to ISK 9,071 million from ISK 9,848 million for Q3 2022 – Q2 2023
  - → Thereof NFI outlook per each period shown separately
  - → Each quarter's expected PBT varies from ISK 1.8-3.2 billion in the Q4 2022 – Q3 2023 guidance
- Running four quarter PBT lower than last outlook mainly due to conservative assumptions in a volatile external environment
  - → UK outlook lower due to decrease in growth and NIM due to increased cost of funding
  - → Higher OPEX expected due to high inflation
  - → Decrease expected in variable NFC
- Kvika will maintain an opportunistic view on growth and is in an ideal position to utilize excess capital and accelerate plans once environment improves
  - → Expected that excess capital will increase even further with slowed balance sheet growth. Group still assessing growth and/or capital distribution opportunities involved in new SREP
  - → Growth is dependent on external variables and guidance may accelerate if capital markets improve

Key Takeaways

Diverse income streams form strong core operations

- Five operating segments continue to provide a highly diverse source of income for the Group
- Updated draft SREP results lower capital requirements by 4.9% creating significant excess capital
- Strong financial position with significant liquidity and excess capital creates both stability and valuable infrastructure for growth
- Core revenues remain strong and in line with guidance while financial income is negatively affected by market conditions
- Conservative guidance of PBT ISK 9,071 million for next 12 months

Appendix I

Kvika UK

The Ortus Loan Book

Changes in the loan book in 2022

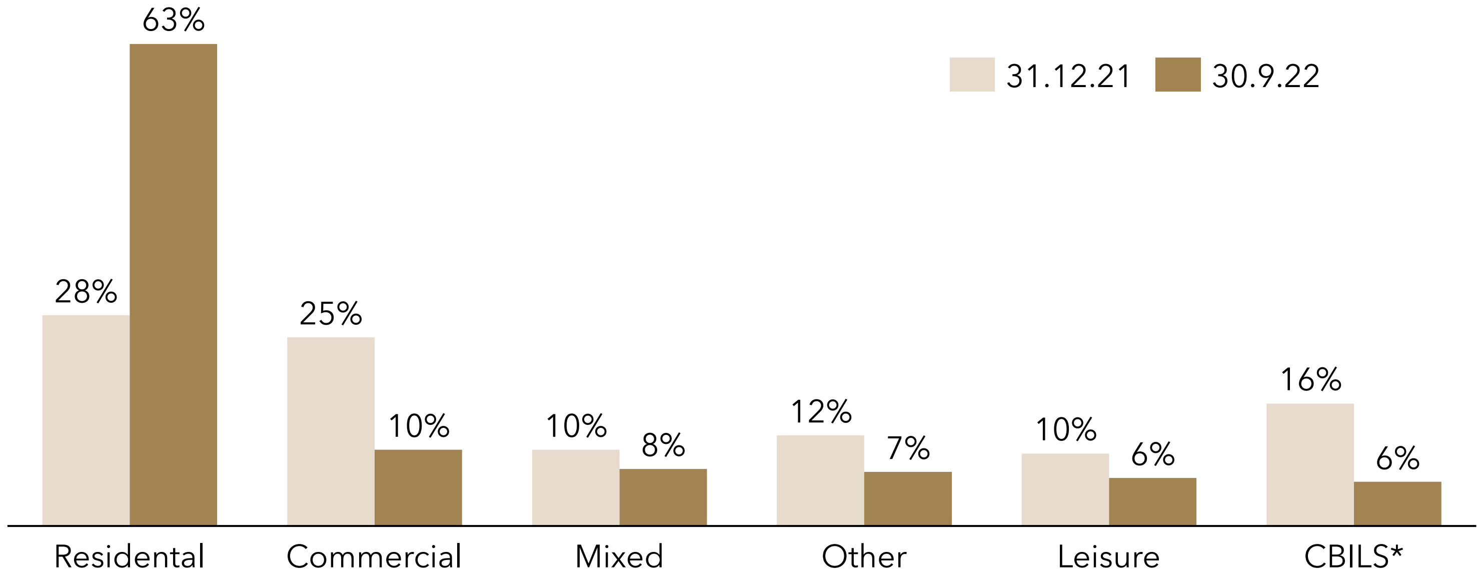
31.12.21	30.9.22
ISK 15bn Size of portfolio	ISK 24bn Size of portfolio
ISK 150m Average loan size	ISK 149m Average loan size
28% Residential property share of collateral mix	63% Residential property share of collateral mix
34% Top ten loans as percentage of book	26% Top ten loans as percentage of book
<55% Average LTV	<55% Average LTV

- Since the start of the year, strong demand has allowed the Ortus team to grow the overall gross book from ISK 15bn to ~ISK24 bn in the year to date while maintaining strict underwriting standards.
- Given the difficult external circumstances, the team´s focus has been on further strengthening the granularity, diversification and overall quality of the loan book
  - → Mix of residential property backed loans has increased substantially whilst maintaining conservative LTV´s and leaving the average loan size unchanged
  - → The top 10 loans by size in the book now account for 26% of the total book (down from 34% at the beginning of the year)
- LTV has increased slightly as a result of changes to loan book composition (more residential lending focused)
- In response to rising short-term rates in the UK, a concerted effort has been made to move the book to variable rate lending in order to reduce interest rate risk

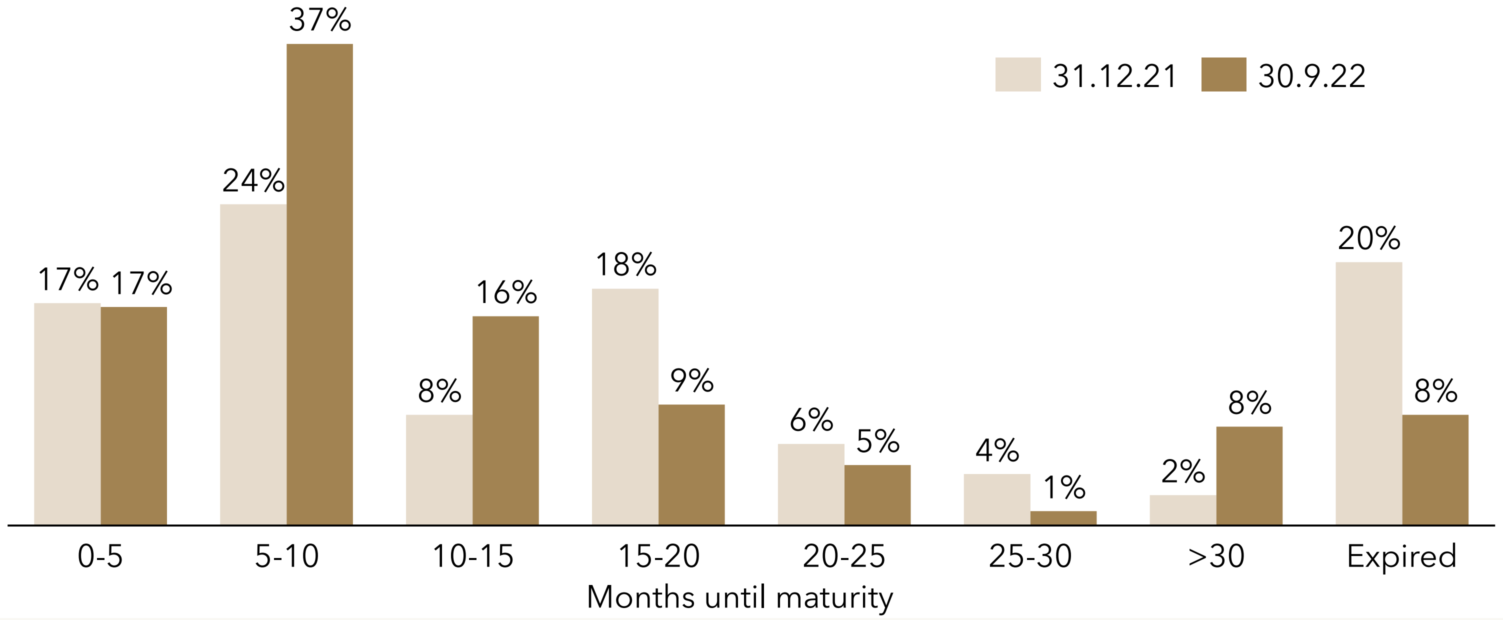
The Ortus Loan Book

Key portfolio metrics

Underlying Security
% of book by value



Maturity Distribution
% of book by value



Move to more liquid and resilient residential collateral

- Loan book has been de-risked by targeting an increased share of more liquid residential property in the collateral mix
  - → Residential property increasing from <30% of loan book to over 60%
  - → Commercial and leisure exposures have been significantly pared back

Short maturity profile has afforded valuable flexibility

- The loan book average maturity remains short, with over 50% of the portfolio repaying within 10 months
- The rapid churn has afforded valuable flexibility in the first half of the year, as de-risking efforts have led to rapid changes in the loan book profile

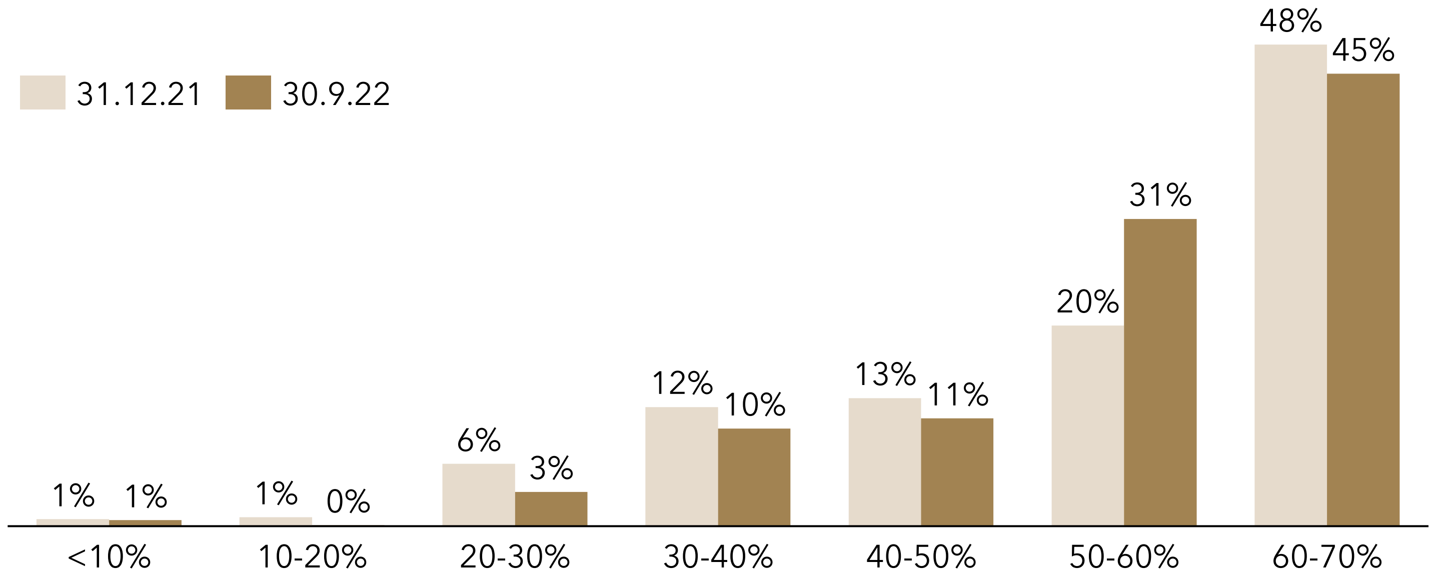
*CBILS: Coronavirus Business Interruption Loan Scheme

The Ortus Loan Book

Key portfolio metrics

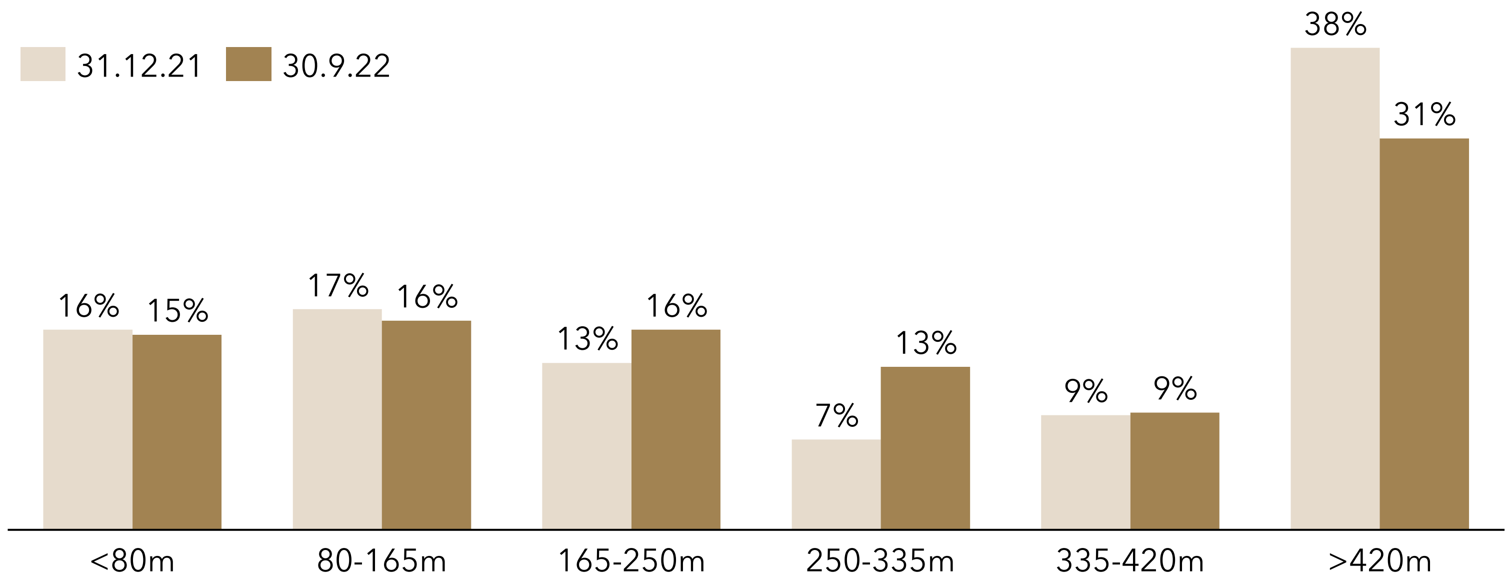
Loan-to-Value Ratio

% of book by value



Loan Size

% of book by value in ISK



Average LTV remains below 55%, leaving significant headroom

- The LTV profile has shifted upwards moderately, largely due to the increased share of higher LTV residential mortgages in the collateral mix.
- No loans have been extended at LTVs higher than 70%, highlighting resilience to even meaningful decrease in collateral values

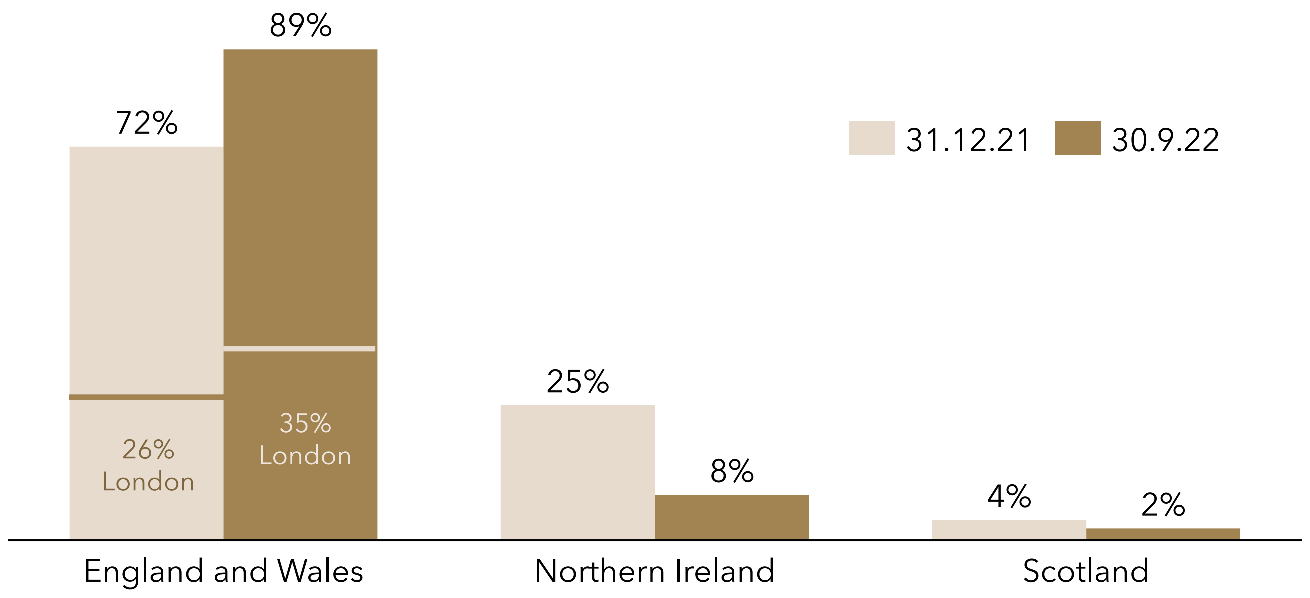
Increased granularity of loan book has reduced concentration risk in portfolio

- Granularity in the loan book remains high and has improved modestly with average loan size dropping from ISK 150m to ISK 149m
- Top 10 concentration has decreased from 34% in December 2021 to 26% in September 2022
- Furthermore, there has been a more general decrease in large exposures, with exposures exceeding ISK 420m dropping as a % of loan book from 38% to 31% since the start of the year

The Ortus Loan Book

Key portfolio metrics

Geography
% of book by value



Loan Book Staging
% of total net loan book

ISK bn.	31.3.22	30.6.22	30.9.22
Stage 1	87.7%	92.2%	94.7%
Stage 2	0.8%	0.1%	0.9%
Stage 3	11.6%	7.6%	4.4%
Total	100%	100%	100%

Exposures in less liquid markets (Scotland + NI) have been pared back

- Geographical distribution continues to balance collateral liquidity and diversification
- Proportion of book backed by assets in more liquid markets in EW/London has continued to increase as exposures in Northern Ireland and Scotland have been pared back as % of overall portfolio

Staging profile has improved as portfolio grows

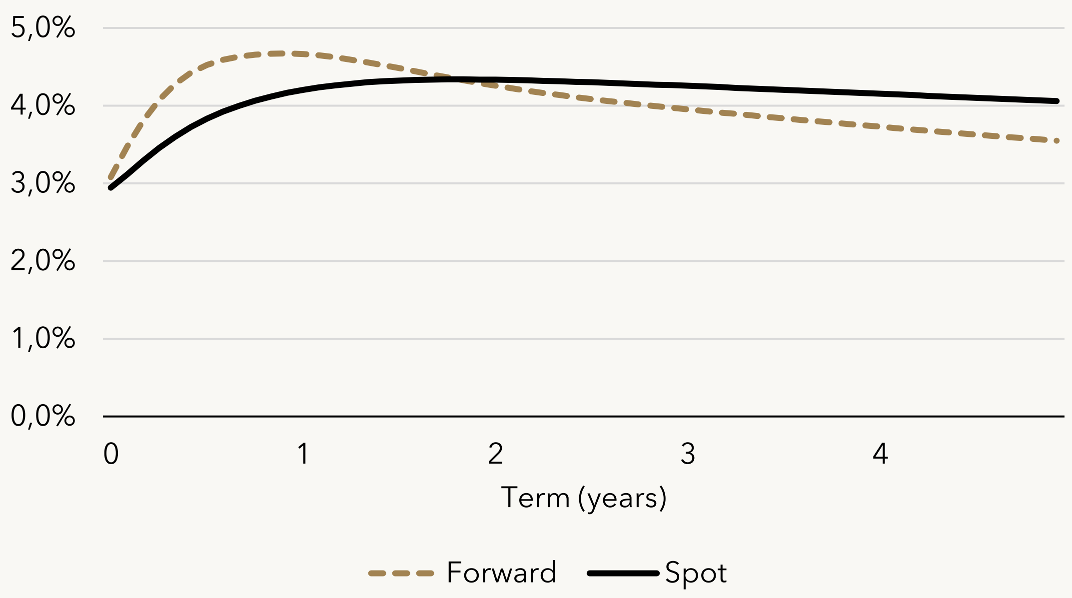
- Stage 3 exposures have remained constant as the book has grown, with two net exposures accounting for circa 65% of the stage 3 balance
  - → For the larger one of those, the sale of the collateral asset, was completed in October allowing for repayment in full of principal and accrued interest
- Senior management are targeting an ongoing stage 3 exposure of no more than 5%

Medium Term Outlook

Key Themes

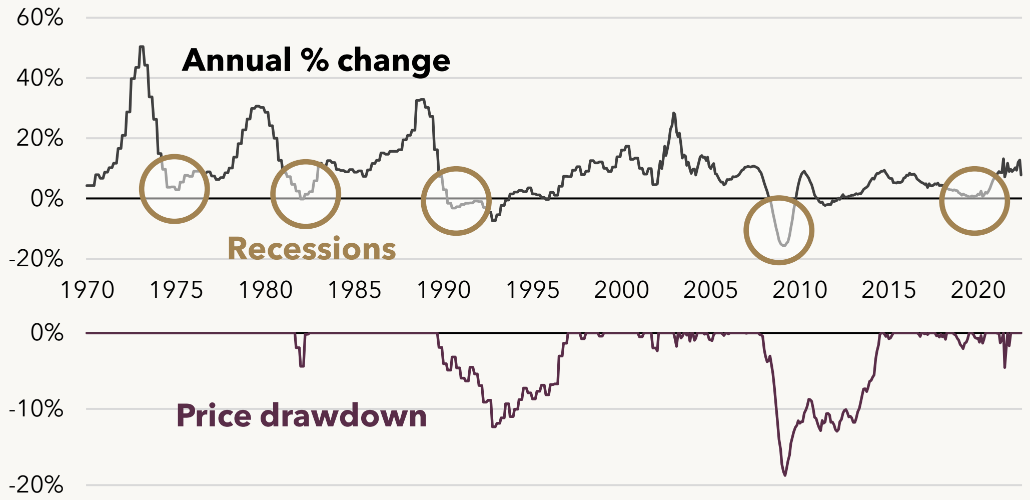
	Business impact
Slowdown in sector activity We expect a gradual sector-wide slowdown in bridging activity and acquisition financing, led by declining economic output and a slowing housing market	Opportunities for re-structuring and refinancing Focus on close borrower contact to work through market turmoil (Covid model)
Further base rate increases Although the house view is that swaps are oversold and short-term rates will not reach levels recently implied by market forwards, we assume rates will continue to increase at least until Q2 23; all stress testing based on market forwards	Decisive move to variable rate only lending to reduce interest rate exposure Exit assumptions tested against prevailing forward rates at projected time of exit
House price adjustment We expect an adjustment in housing prices due to rising rates and diminishing purchasing power with modest nominal price declines as much of the adjustment takes place via inflation. Larger declines expected in commercial market	LTV targets set so as to position portfolio for worst case historical scenario Ability to withstand 20%+ house price slump without significant losses
Inflation and cost of living impact Although we expect disinflation in 2023, we are prepared for cost-of-living concerns to continue weighing on economic activity throughout the year, which may adversely impact capacity for debt service over the coming 12-18 months	Default rate remains low Close borrower contact alongside forbearance and early restructuring (where necessary) expected to diminish future increases in default rates

Overnight Index Swaps



Source: BoE as at 4 Nov. OIS forwards are primary indicator of market expectation of future path of base rates.

Average UK House Prices



Drawdown illustrates the cumulative decline in house prices from their previous peak at different points in time

Source: HM Land Registry.

Operating in a More Challenging Environment

Tangible actions already implemented

Reduced Maximum LTVs	Reduce maximum LTV on residential property backed loans to 65% and commercial property backed loans to 60%	✓ Response to increased uncertainty over house prices in the medium term ✓ Further enhances resilience of portfolio to adverse movements in asset prices
Variable Rate Lending	All new lending strictly on variable rates at a margin to Base Rate	✓ Response to rapid BoE tightening cycle ✓ Reduces interest rate risk in the portfolio (accelerated by rapid churn)
Stress Testing Exits	All exit assumptions on rental properties tested against prevailing forward rates at projected time of exit	✓ Response to rapid BoE tightening cycle ✓ Mitigates risk of outsized increases in interest rates derailing exits/refinancings on maturity
Borrower Outreach	High-frequency monitoring of borrowers to spot early signs of distress and maintain constructive dialogue	✓ Response to potential deterioration in debt service capacity due to economic conditions ✓ Follows monitoring model implemented during Covid; maximises likelihood of successful workouts
Valuation Review	Line-by-line review of all pipeline transactions prior to completion	✓ Response to increased uncertainty over real estate valuations ✓ Minimises risk of exceeding LTV appetite due to stale valuations
Increased Margin	Pricing adjusted to widen margins by upwards of 50bps on new loans	✓ Response to increased economic uncertainty and widening credit spreads ✓ Builds in additional credit risk buffer in loan pricing
Tightened Criteria	Higher threshold applied to alert flags such as rebridging and history of borrower distress	✓ Response to increased economic uncertainty ✓ Heightened rigour in screening processes to further enhance underwriting quality of new loans

Key Takeaways

And focus going forward

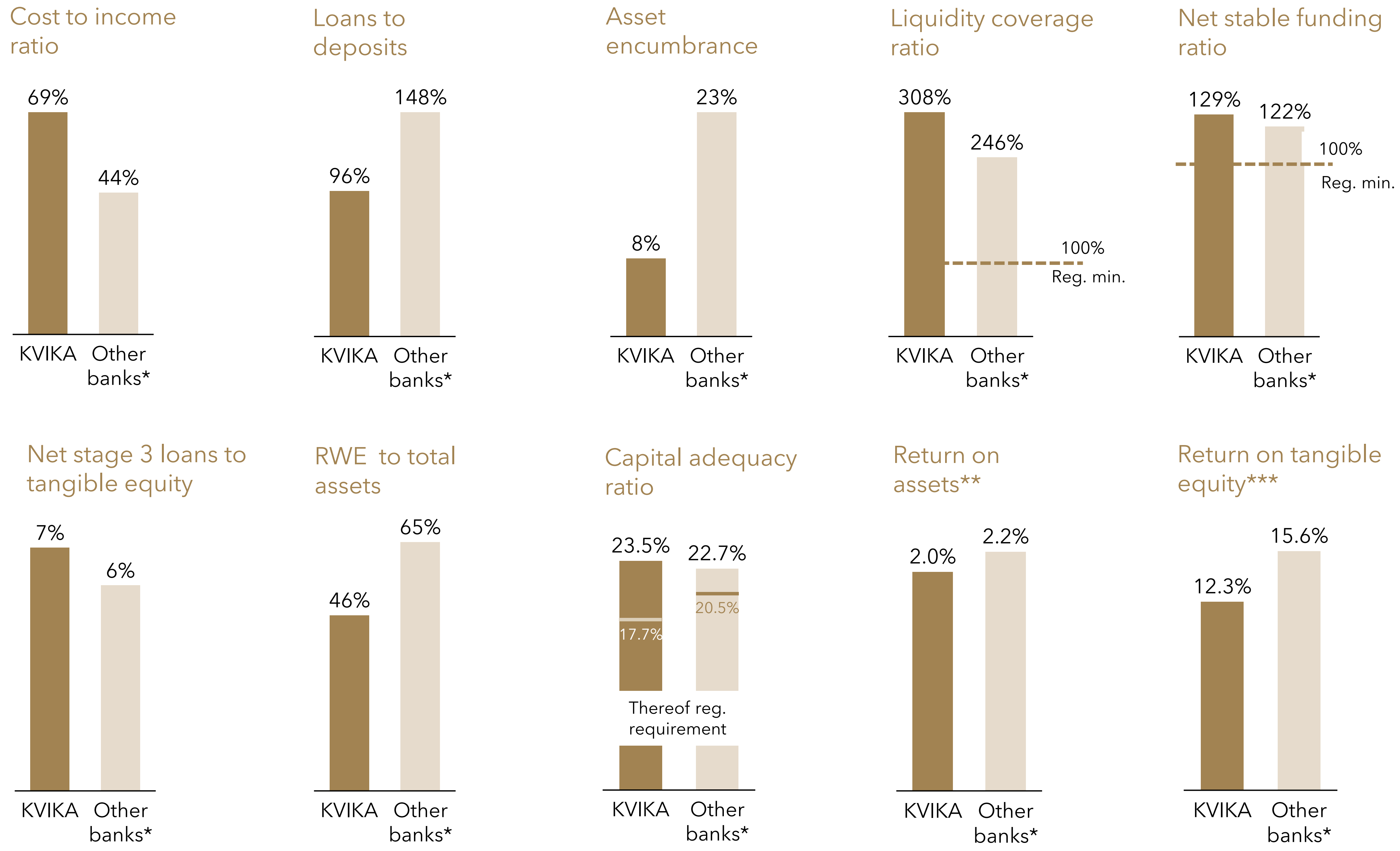
- Strong granular loan book growth in 2022 reflecting rich pipeline and growing diversity of sourcing channels
- Well positioned to weather challenging external conditions and take advantage of arising market opportunities
- Loan book risk profile has improved during 2022 through increased granularity and diversification, as well as increased share of residential housing in collateral mix
- Underwriting standards more conservative and new loans priced to compensate for increased market volatility
- Enhanced portfolio monitoring enacted, with frequency of borrower outreach increased

Appendix II

Additional information

Kvika as a Borrower

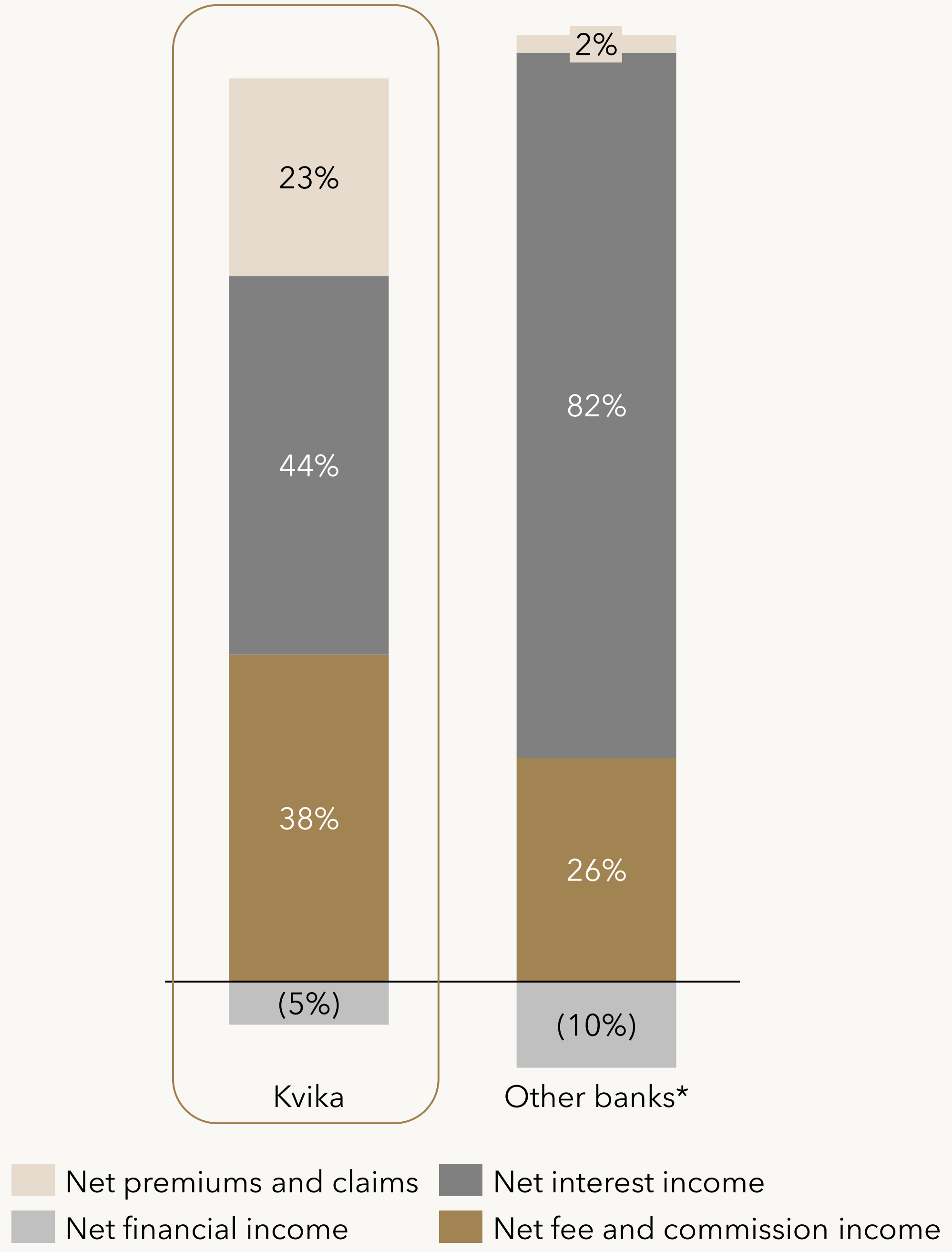
Comparison to domestic banks for 9M 2022



*Simple average of other domestic banks **Return before tax ***RoTE before tax, estimated for other banks

A more diversified income base than traditional banks

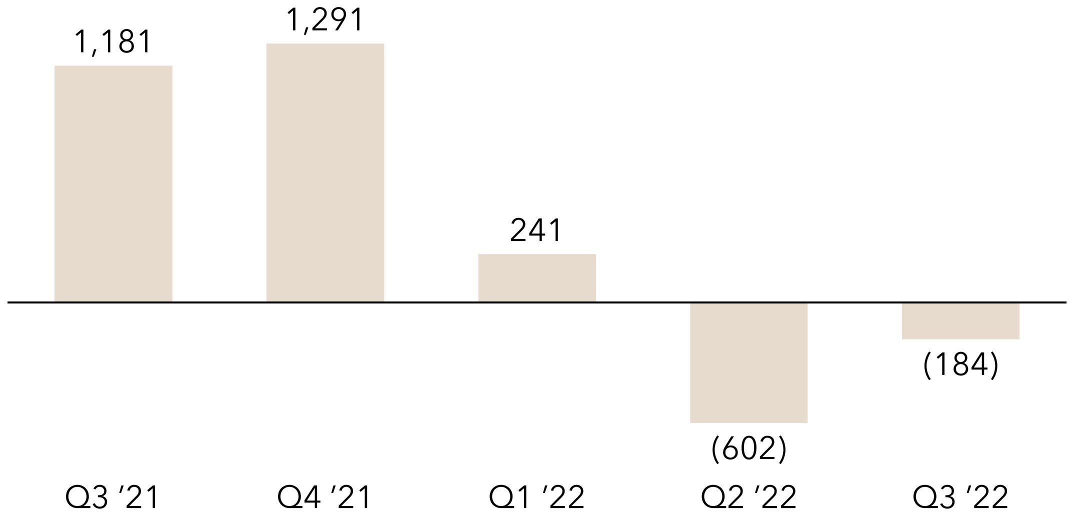
Net operating income / 30.9.22



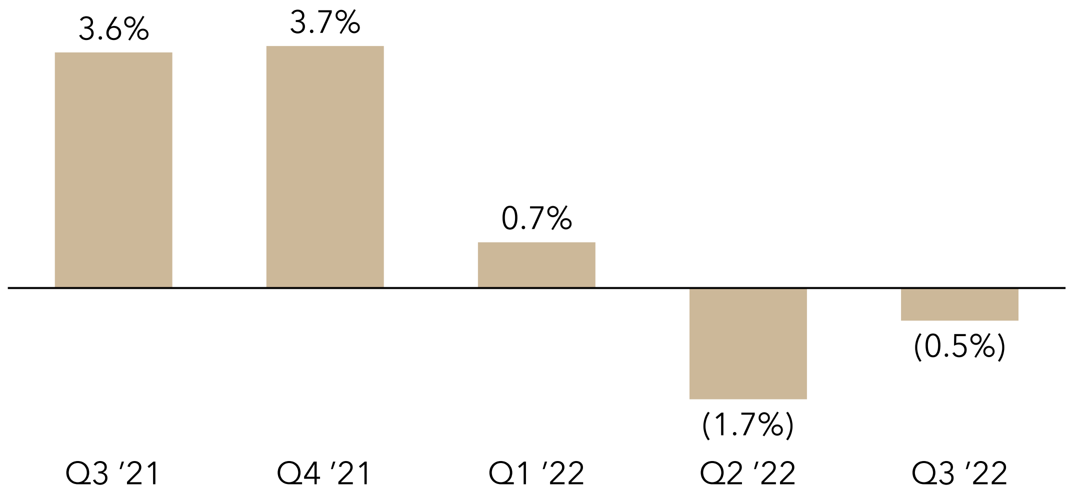
Insurance Investments

Return on investment of -1.6% in 9M 2022

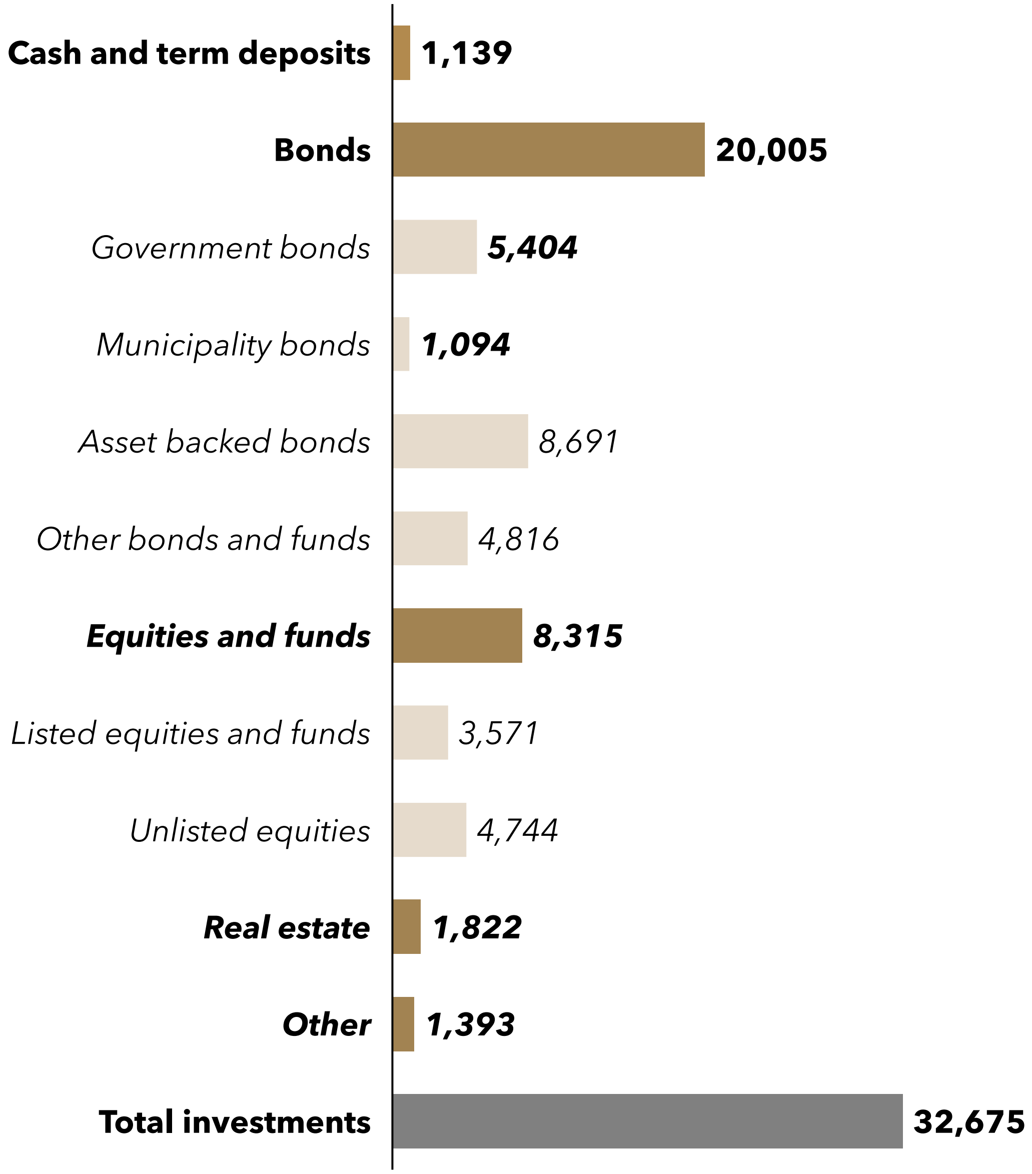
Investment asset income
ISK m.



Investment asset returns (ROI)
(%)



Insurance investment assets*
30.9.2022 / ISK m.



Liquidity funds are categorized as cash and term deposits compared to securities in financial statements

- Negative return on investment assets in the first 9 months of 2022 of -1.6% mainly due to difficult equity market circumstances
- Positive performance in bonds and real estate more than offset by negative return on equities and other investments
  - Listed equity returns -13,2%
- Cash and liquidity funds amount to ISK 1.1 billion at the end of the period

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