Kvika

9M 2021 Financial Results

10 November 2021

Highlights 9M 2021

Merger with TM and Lykill concluded at end of March 2021
Second 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 9M 2021 ISK 7,857 million with return on weighted tangible equity (ROTE) 36.4%
PBT of ISK 9,375 million should TM be included from January 1st

Profit after tax for 9M 2021 ISK 7,965 million
Return on weighted tangible equity 36.9%

Strong financial position with consolidated solvency of 1.51 and LCR of 171%
Well above regulatory requirement

Assets under management at ISK 512 billion
Net AuM decrease of ISK 15 billion from year end 2020 mainly caused by divestment of closed end funds (ISK 86 billion), offset by organic AuM growth in the period (ISK 61 billion)

Share buy-back program of 117,256,300 shares (approx. 2.5% of share capital)
Program completed in October 2021

Buy and build strategy expected to continue
Significant surplus capital available, heads of terms to acquire a majority shareholding in Ortus Secured Finance Ltd. announced in October

Earnings forecast for 2021 updated from PBT 8,600 – 9,600 million to PBT 9,800 – 10,300 million ISK
Update includes one-off cost of estimated ISK 400 million related to relocation to Katrínartún

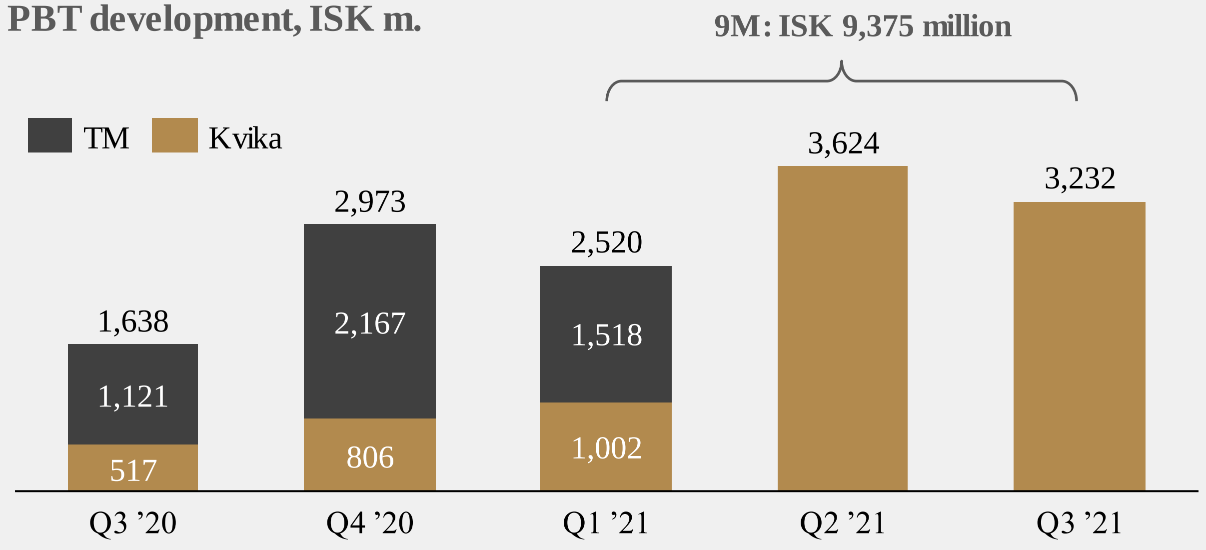
Total profit before tax since year-start ISK 9,375 million

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 9M 2021 is ISK 7,857 million and ROTE of 36.4% (ISK 9,375 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 1,084 million in 9M 2021
  - One off related costs to the merger in 9M 2021 amounted to approximately ISK 320 million (Kvika ISK 234 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

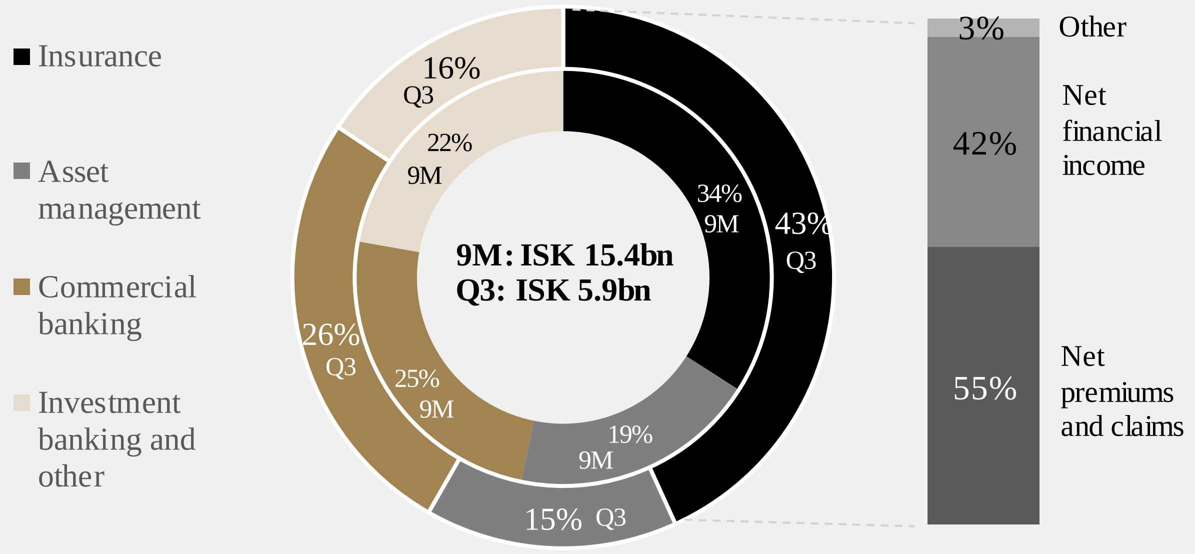
PROFIT BEFORE TAX [1]

PBT development, ISK m.



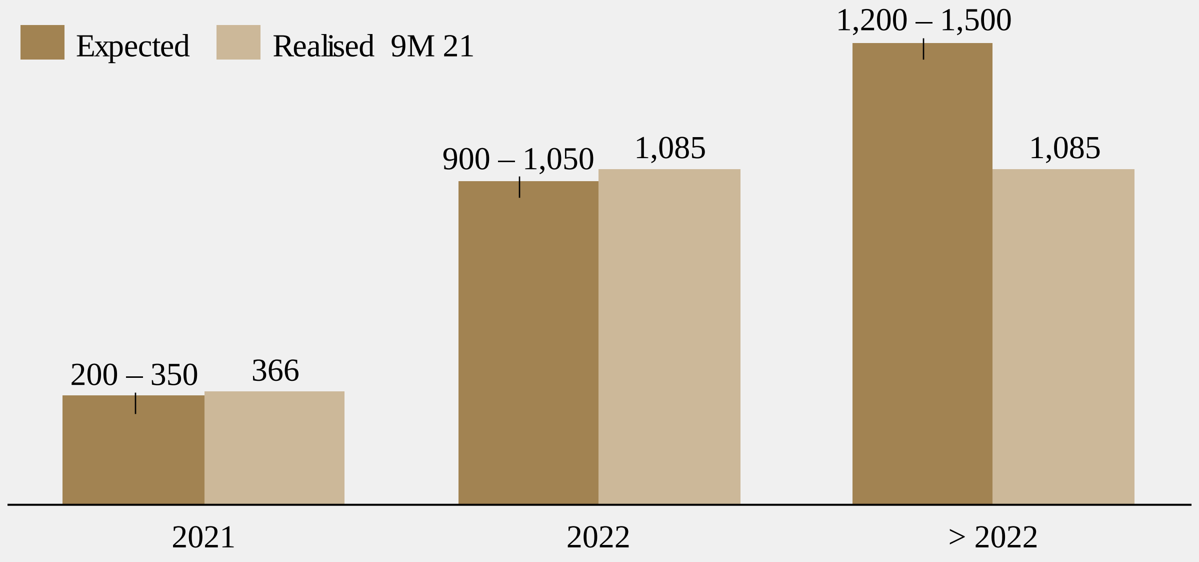
DIVERSIFIED INCOME ACROSS SEGMENTS

Net operating income by segment / Q3 and 9M 2021



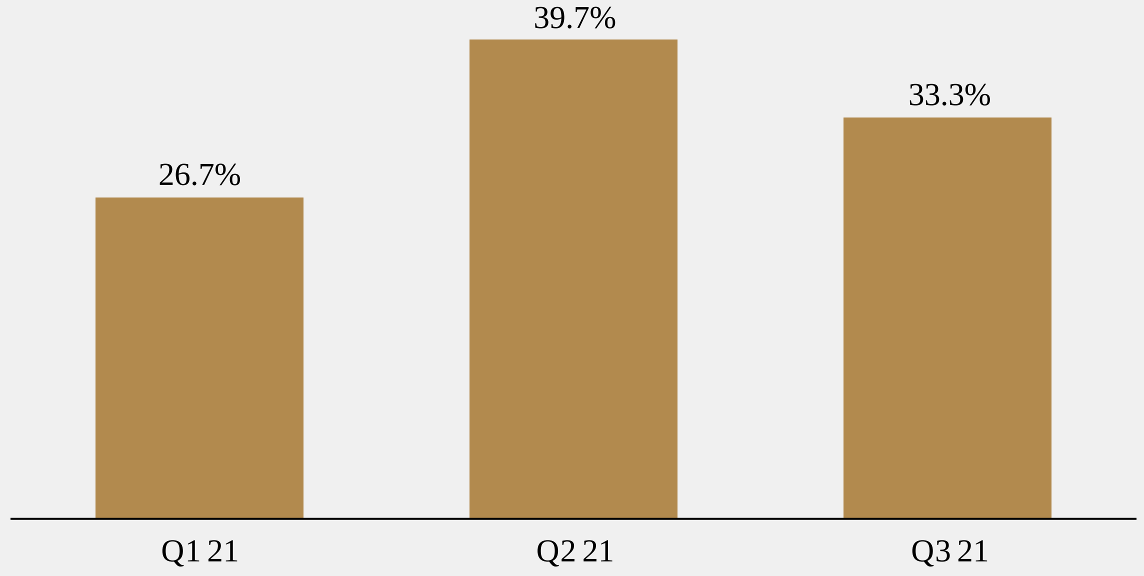
ANNUAL COST SYNERGY AFFECT

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



RETURN ON WEIGHTED TANGIBLE EQUITY

(%)



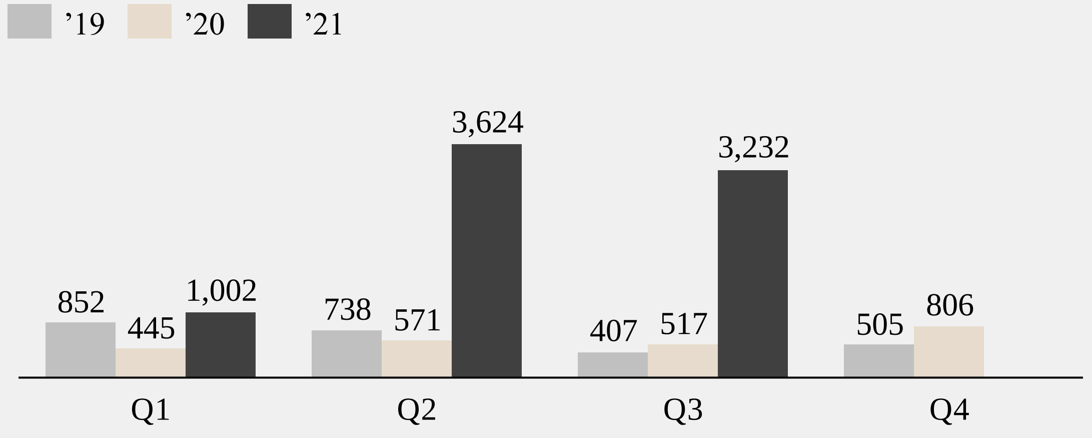
1) *TM historical figures reflect regular operations, e.g. do not reflect changes in price purchase allocation of Lykill*
TM hf. merged with with Kvika banki hf. as of 31 March 2021. The above profit before tax is a demonstrative example if TM would have merged with Kvika banki hf. on 1st January 2021

Operations 9M 2021

Return on weighted tangible equity of 36.4% during the quarter

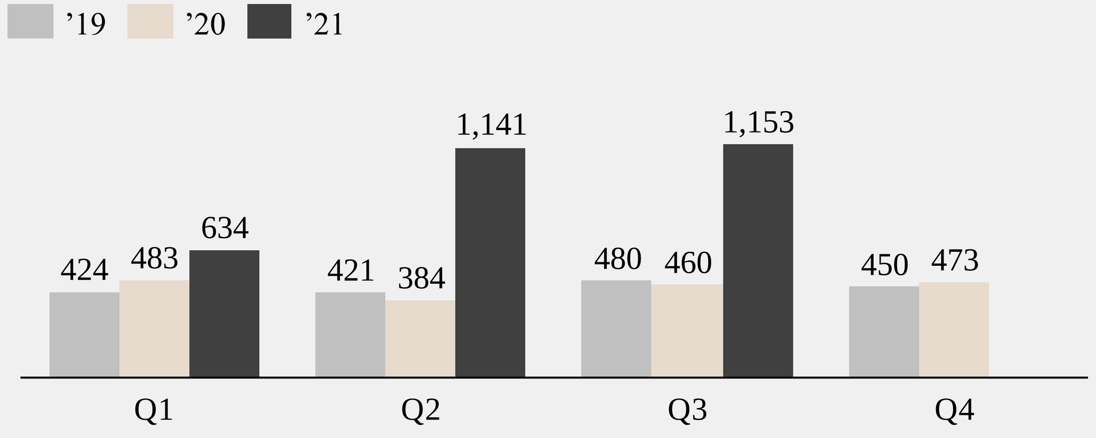
PRE-TAX PROFIT
ISK m.

Positive trend across business segments



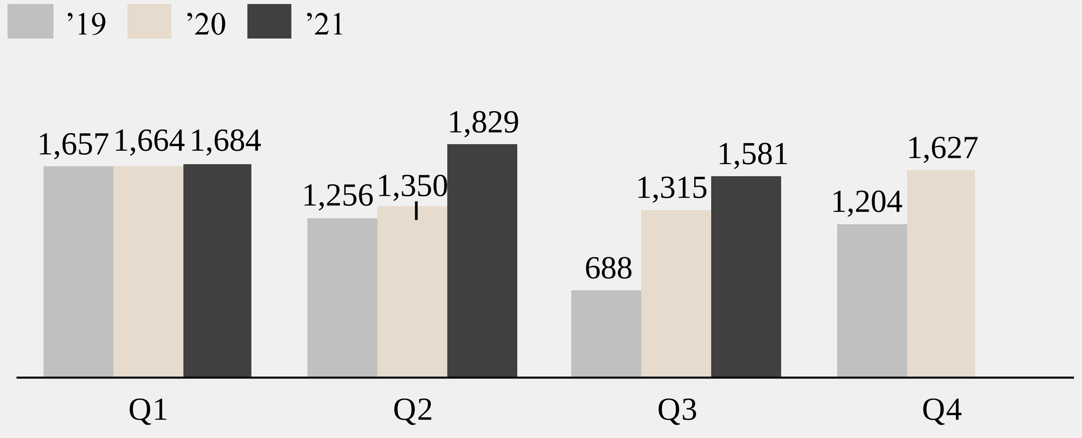
NET INTEREST INCOME (NII)
ISK m.

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



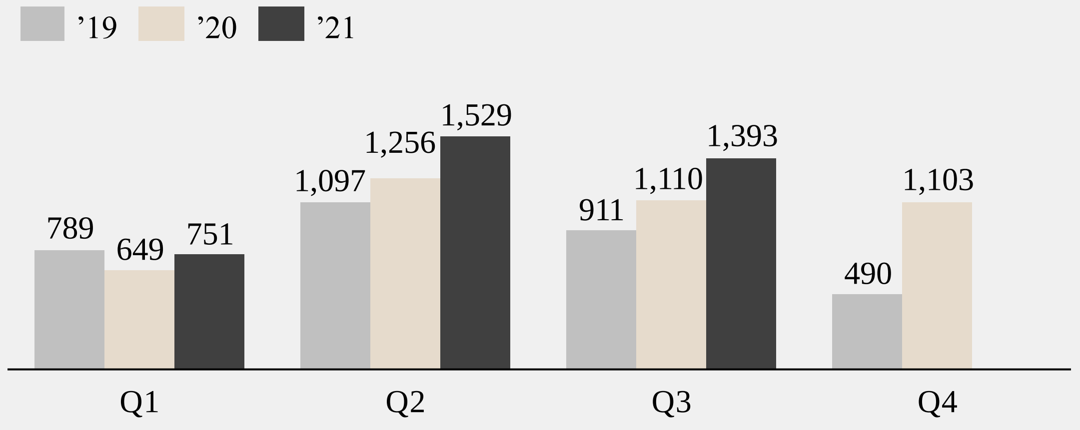
NET FEE AND COMMISSION INCOME (NFC)
ISK m.

Strong recurring fee base and less reliance on variable fees



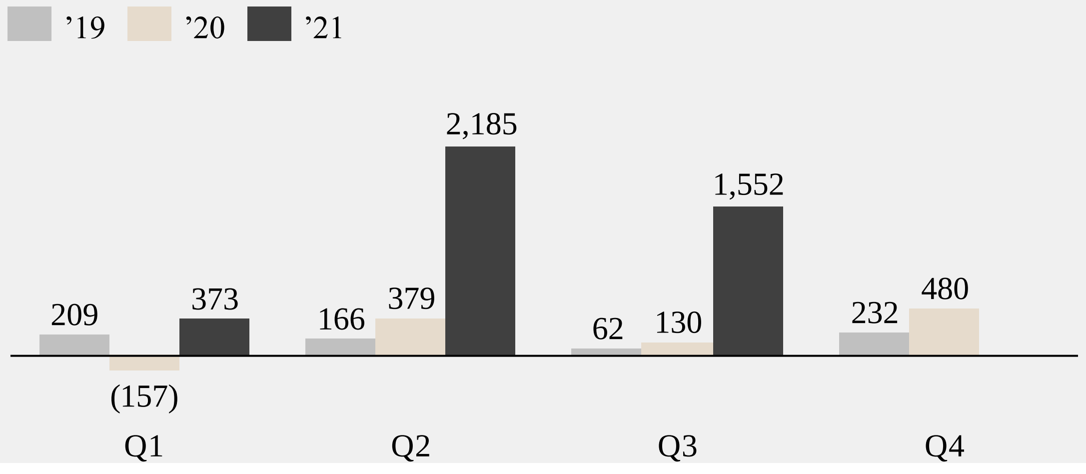
NET PREMIUMS AND CLAIMS
ISK m.

Significant YoY growth



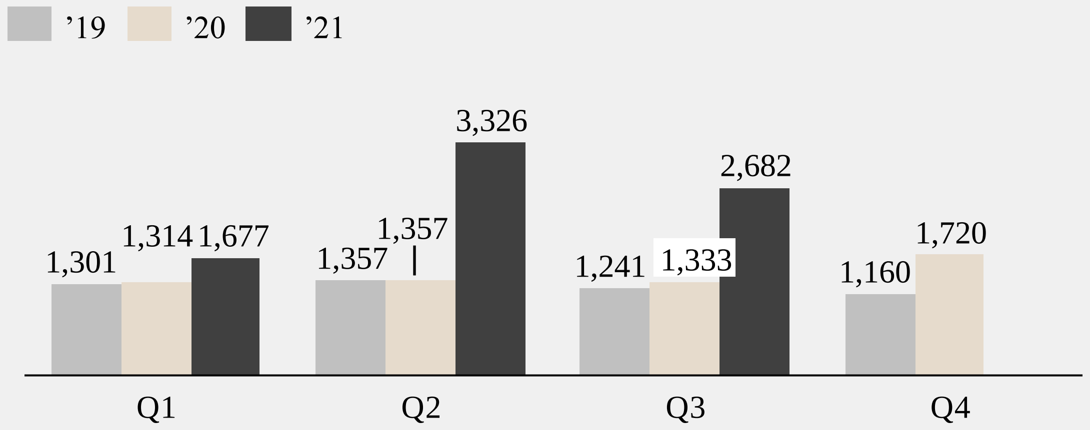
NET FINANCIAL INCOME (NFI)
ISK m.

Good market performance in 9M 2021. Approximately 76% of NFI from insurance investment operations



OPERATING EXPENSES (OPEX)
ISK m.

OPEX in line with expectations

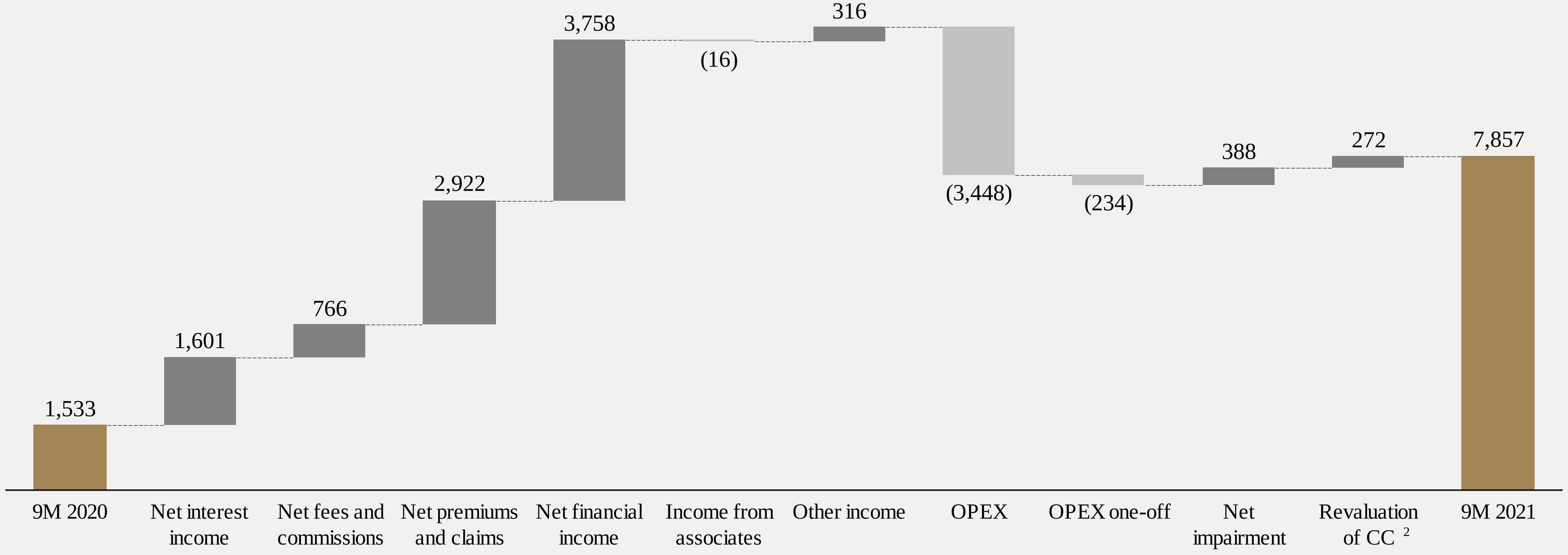


Net premiums and claims historical figures from TM hf. financial statements and investor presentations

Operations 9M 2021

Return on weighted tangible equity of 36.4% during 9M 2021

PRE TAX PROFIT (LOSS) BRIDGE
FROM 9M 2020 to 9M 2021 ISK m.



INCOME STATEMENT
ISK m.

	9M 2021	9M 2020
Net interest income	2,928	1,328
Net fees and commissions	5,094	4,329
Net premiums and claims	2,922	0
Net financial income	4,110	352
Income from associates	(28)	(11)
Other income	396	80
Net operating income	***15,423***	***6,077***
Operating expenses	(7,686)	(4,004)
Net impairment	160	(228)
Revaluation of contingent consideration	(40)	(312)
Pre-tax profit	***7,857***	***1,533***
Income tax	198	(96)
Special bank taxes [1]	(91)	(100)
After-tax profit	***7,965***	***1,337***
Earnings per share (EPS)	***2.07***	***0.70***
Diluted EPS	***2.01***	***0.65***

- Profit for the period amounted to ISK 7,965 million, driven by TM merger and favorable market conditions
- Corresponding to 36.9% 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 5,094 million, increase of 17.7% year-on-year
- Operating expenses ISK 7,686 million in line with expectations
- Kvika's OPEX one-off related to TM merger ISK 234 million (including TM Q1 ISK 320 million)
- Net impairments ISK 160 million, positive development and updated economic outlook
- Net financial income ISK 4,110 million

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

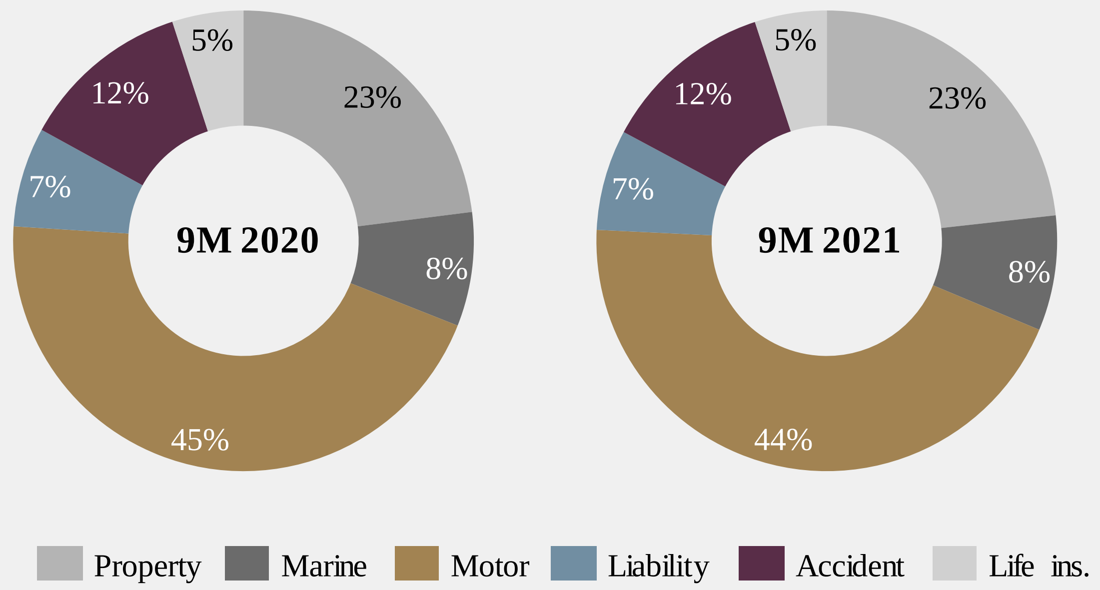
Insurance operations

Combined ratio 89.1 in 9M 2021

- Combined ratio for 9M 2021 89.1% should TM be included from January 1st (82.6% post merger)
- Claims ratio decreases year-on-year while major claims ratio is higher in Q3 2021 (claims over ISK 50 million)
- All insurance categories below 100% combined ratio during Q3 2021
- Reinsurers' share positive in Q3 2021
- Composition of premiums and claims remains stable

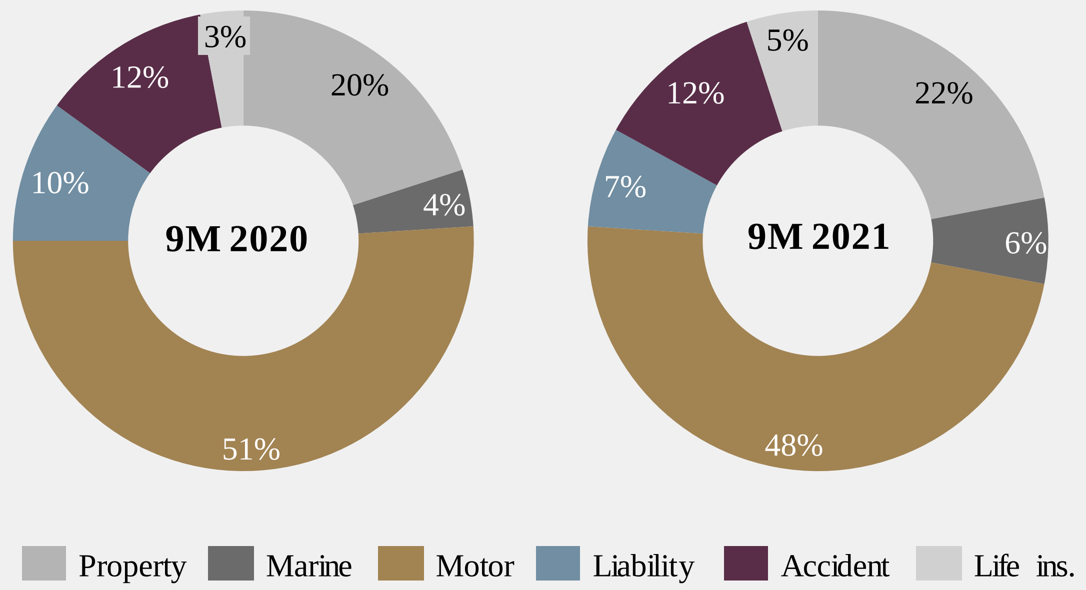
PREMIUMS COMPOSITION

(%)



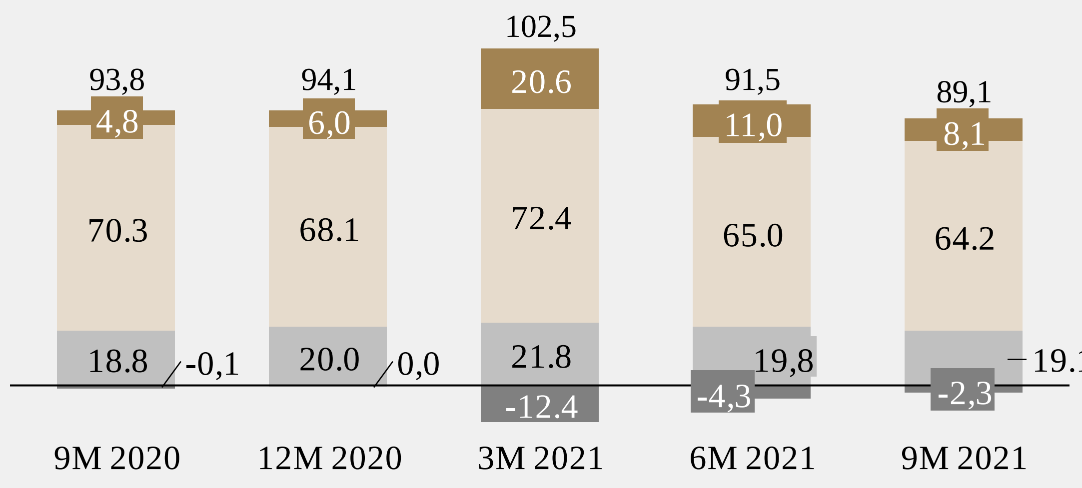
CLAIMS COMPOSITION

(%)



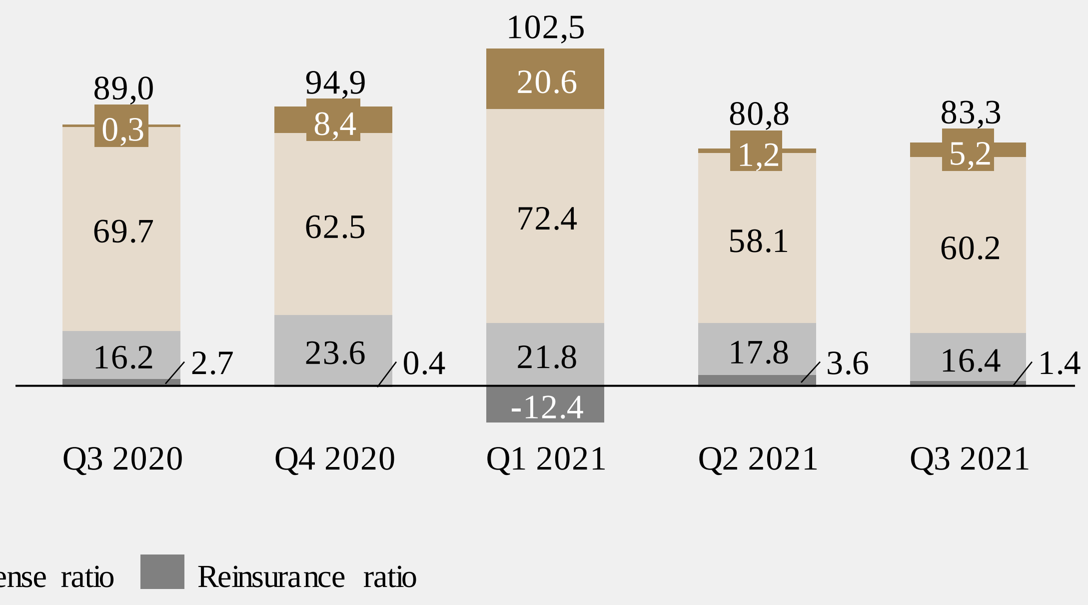
COMBINED RATIO QTD

(%)



COMBINED RATIO PER QUARTER

(%)

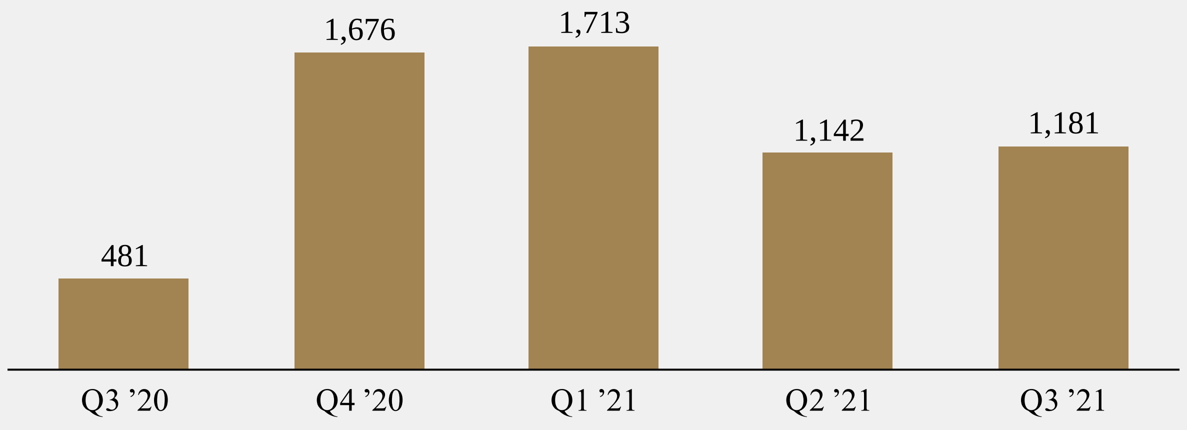


Insurance investments

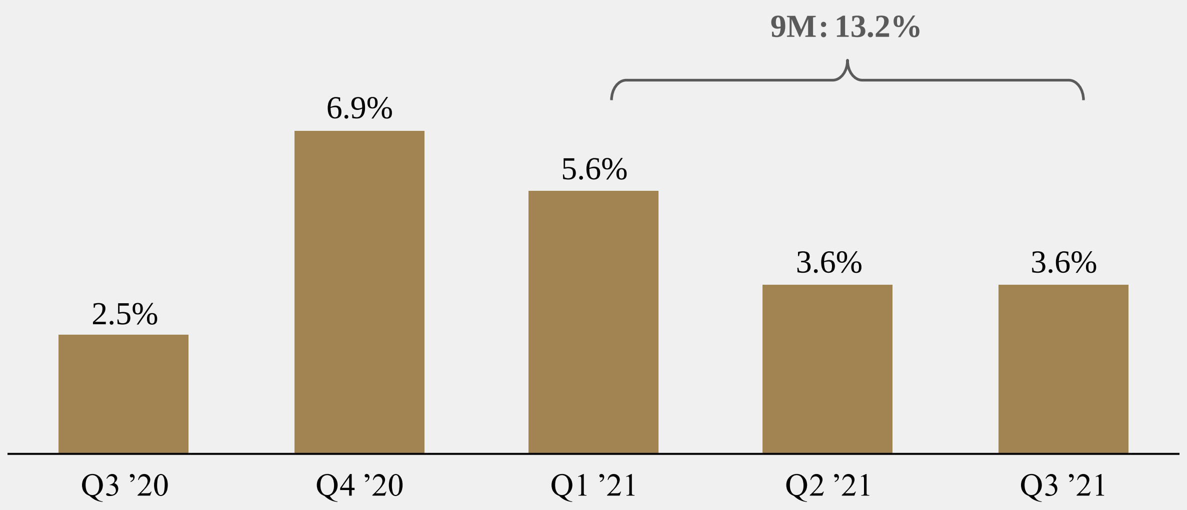
Return on investment of 13.2% in 9M 2021 (Q3 2021 3.6%)

- Outstanding return on investment assets in 9M 2021 of 13.2% (Q3: 3.6%)
- Positive performance in most asset classes, with listed and unlisted equities being the main driver of return
- Return on listed equities exceeded 72% during the first nine months of 2021 (Q3: 16.1%)
- Cash and liquidity funds amount to ISK 3.3 billion at the end of quarter,[1] partly due to Stoðir divestment

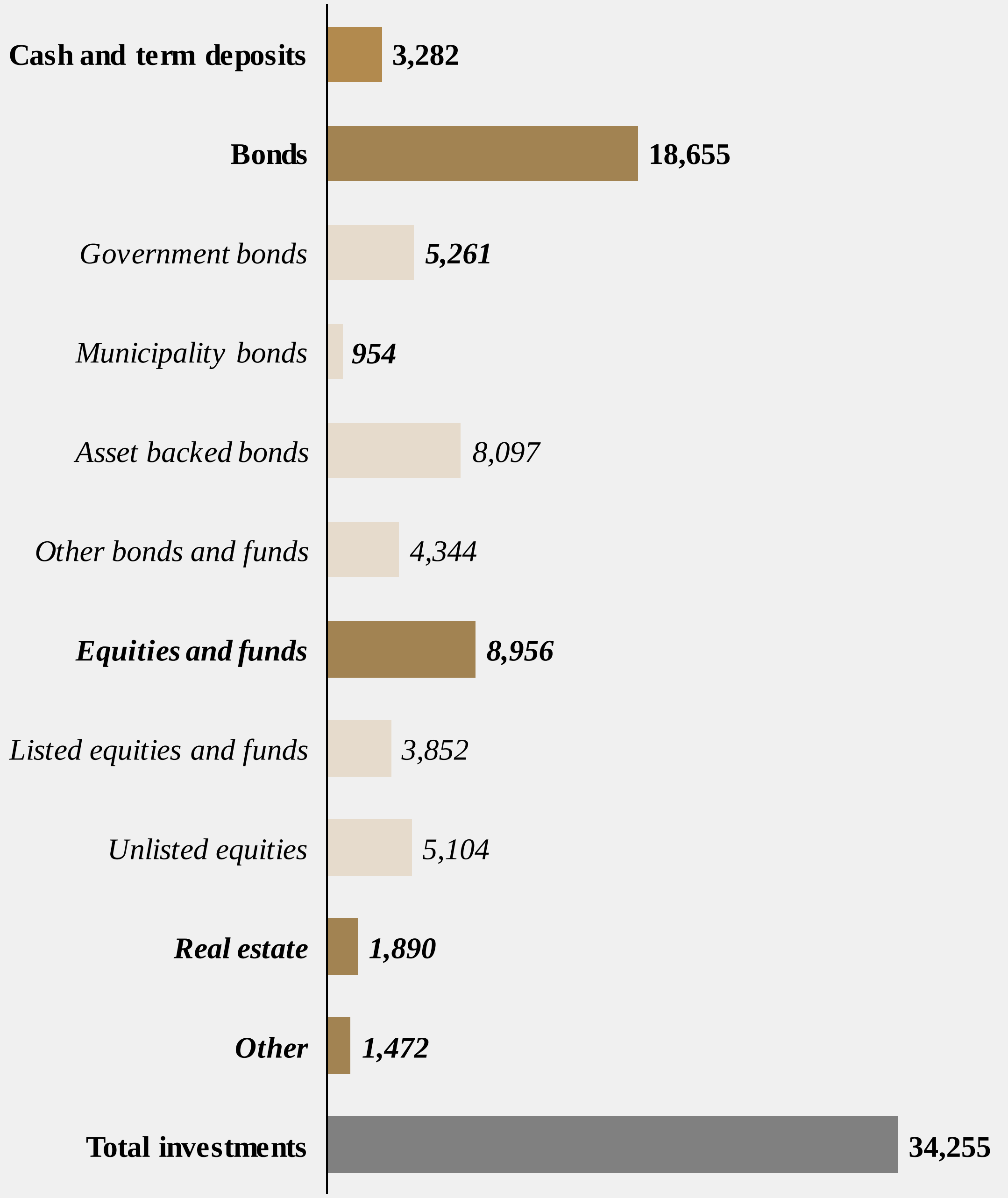
INSURANCE NET FINANCIAL INCOME
ISK m.



INSURANCE INVESTMENT ASSET RETURNS (ROI)
(%)



INSURANCE INVESTMENT ASSETS
30.09.2021 ISK m.



1) Liquidity funds are categorized under other bonds and funds

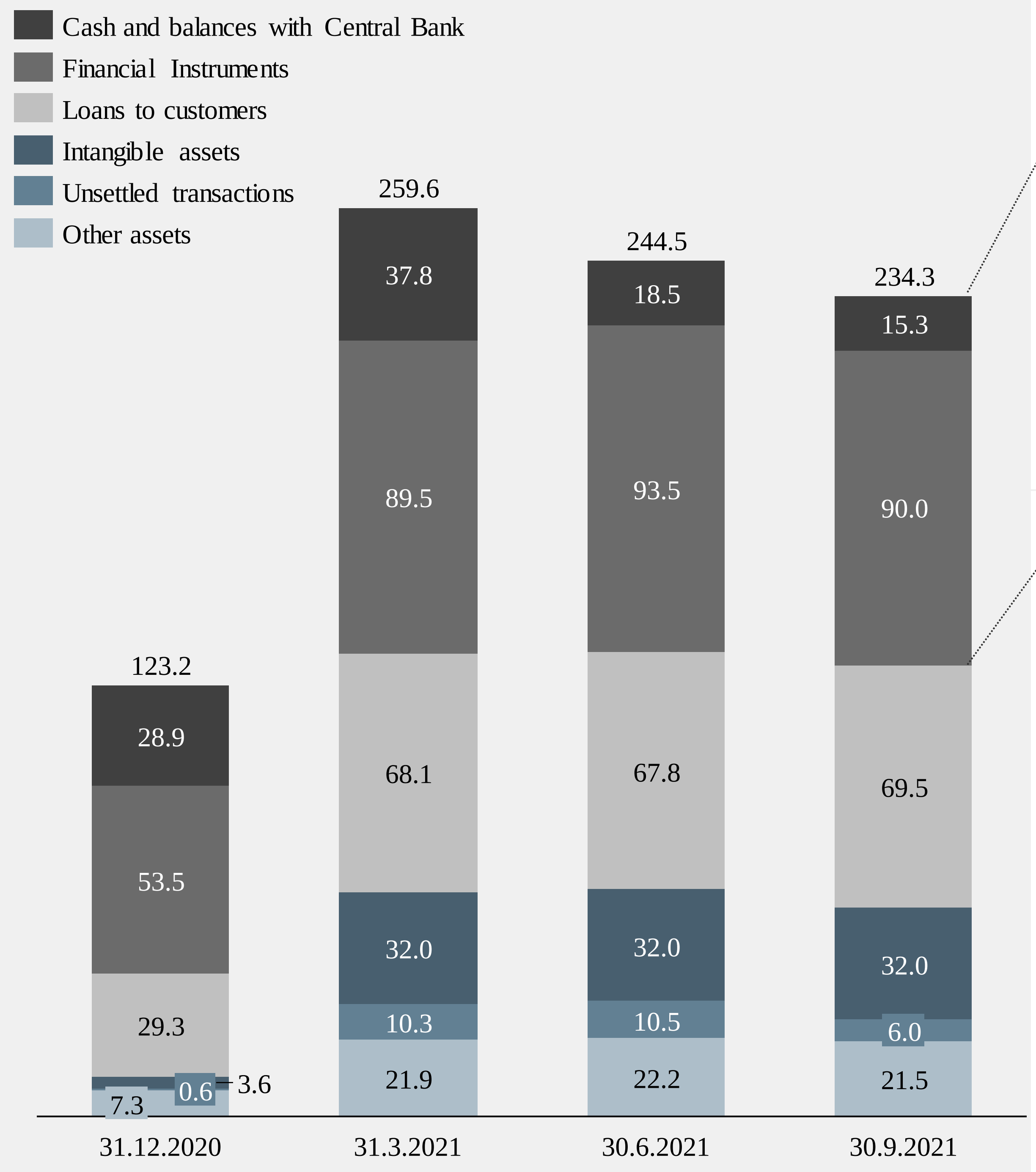
Assets

Considerable increase in assets post merger

- TM, Lykill and subsidiaries are part of the Consolidated Financial Statements as of 31st March 2021
- Total assets of ISK 234.3 billion, nearly doubled since year-end 2020
- Liquidity coverage ratio (total) remains strong post-merger
- Liquid assets amount to ISK 84 billion, 35% of total assets and 123% of deposits from customers
- Loan book increase of ISK 40.2 billion since year-end 2020
- Purchase price allocation has not been concluded; preliminary goodwill has been recognised and will be finalised in the course of the financial year 2021
- Decrease in liquid assets and LCR mainly due to ISK 17.2 billion refinancing of Lykill debt instruments in Q2 and Q3

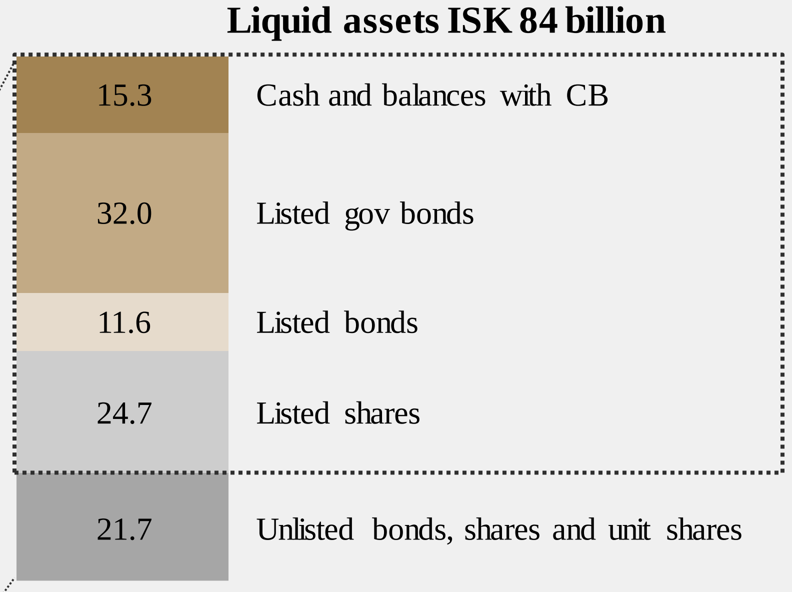
ASSETS

31.12.2020 to 30.09.2021 ISK bn.



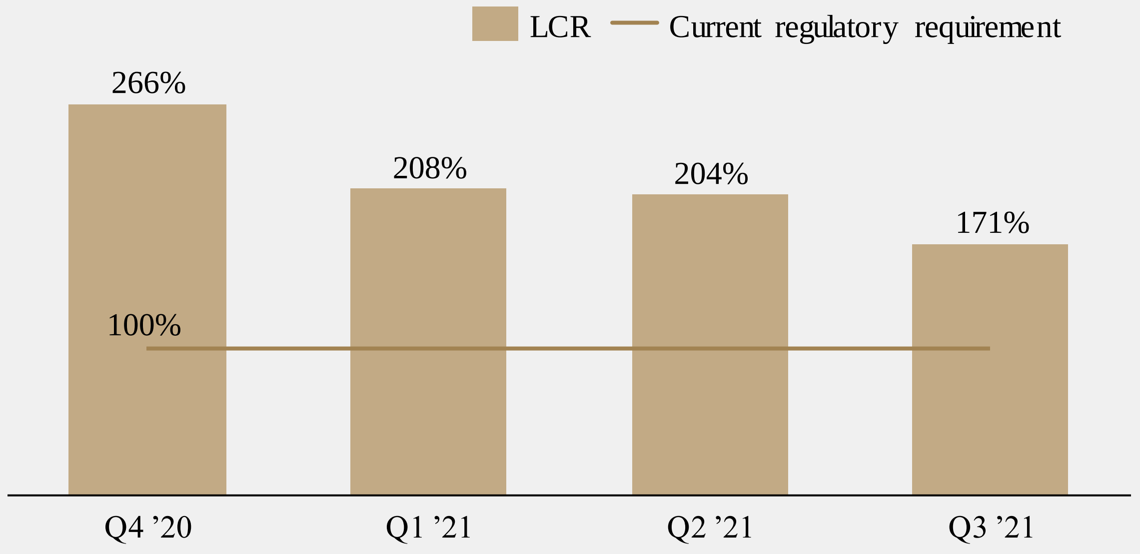
CASH AND FINANCIAL INSTRUMENTS

30.09.2021 ISK bn.



LIQUIDITY COVERAGE RATIO (LCR)

30.09.2021



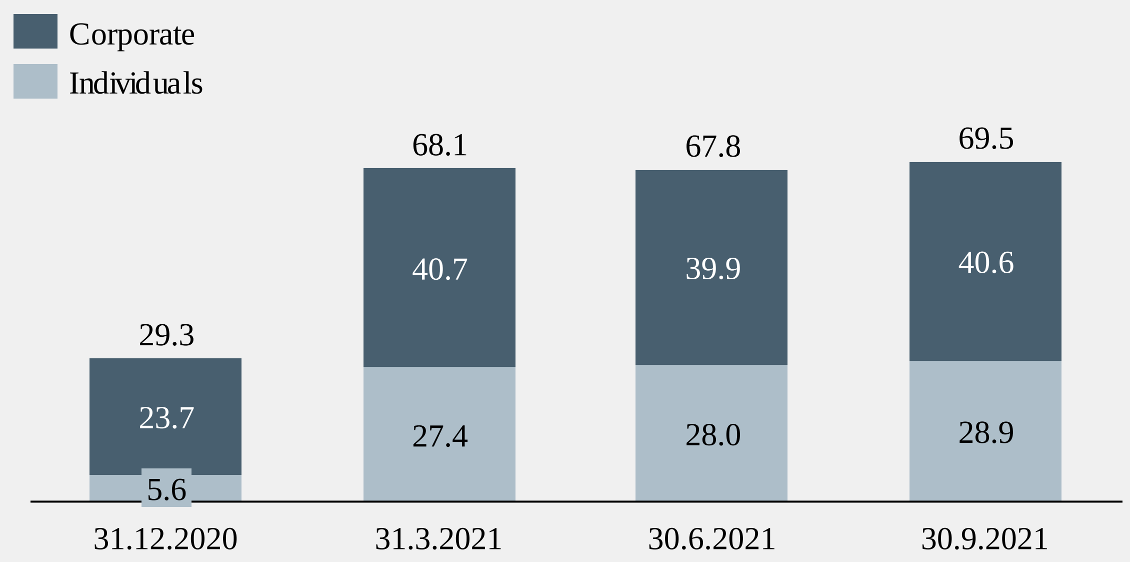
Other assets include investment properties, investment in associaties, operating lease assets, property and equipment, deferred tax assets, reinsurance assets, derivatives and other assets as further outlined in note 26 in the Consolidated Financial Statments for the period

Loans to customers

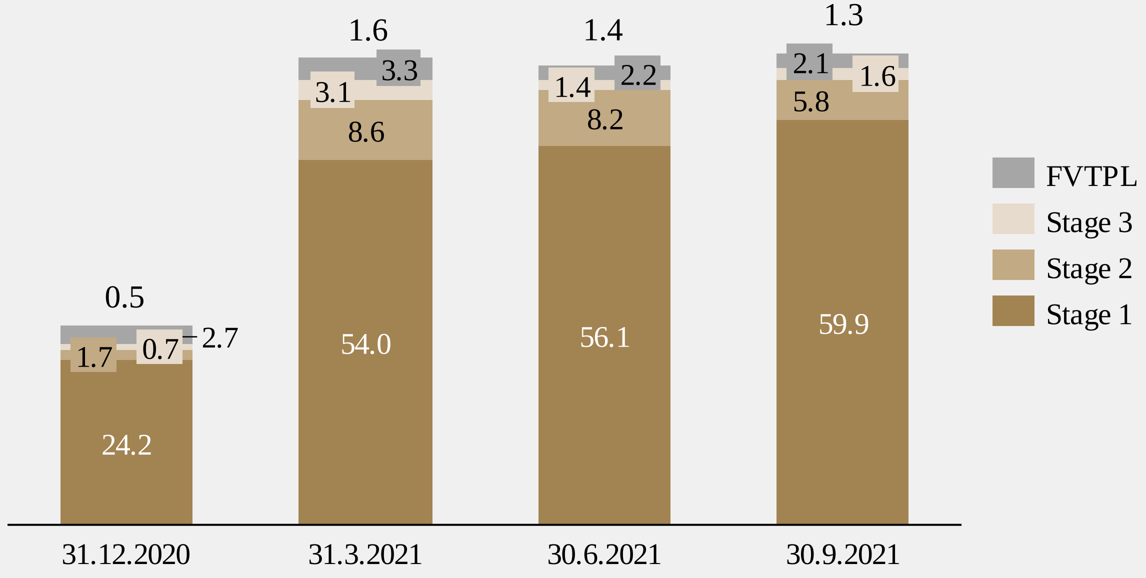
Increased diversification of loans to customers

- Loan book increases considerably following TM and Lykill merger
- Loans to individuals approximately fivefold from year-start ISK 5.6 billion to ISK 29.0 billion
- Loans to corporates increase by 71% from ISK 23.7 billion to ISK 40.6 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

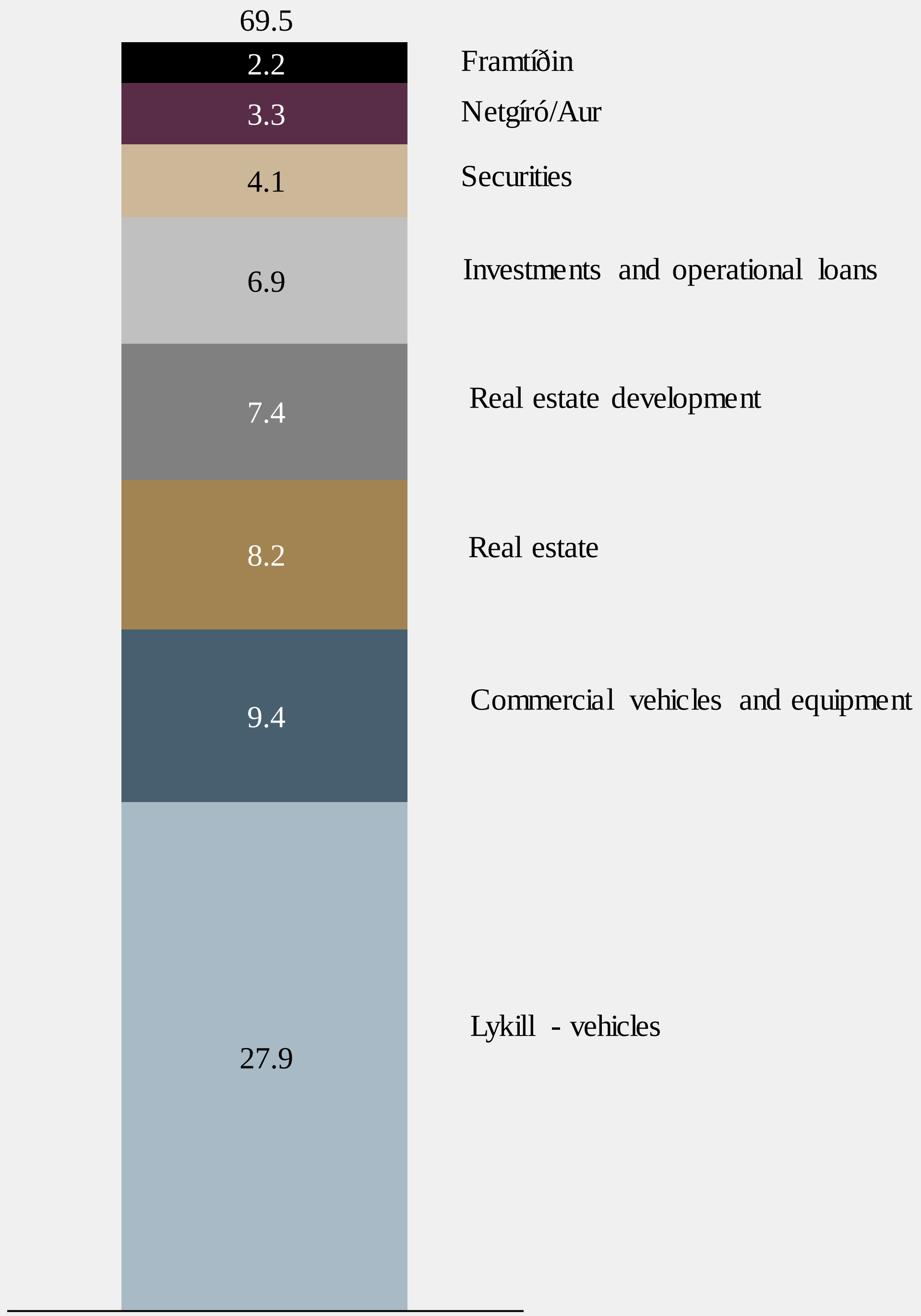
LOAN BOOK BY CUSTOMER TYPE
31.12.2020 to 30.09.2021 ISK bn.



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



LOAN BOOK COMPOSITION
30.09.2021 ISK bn.



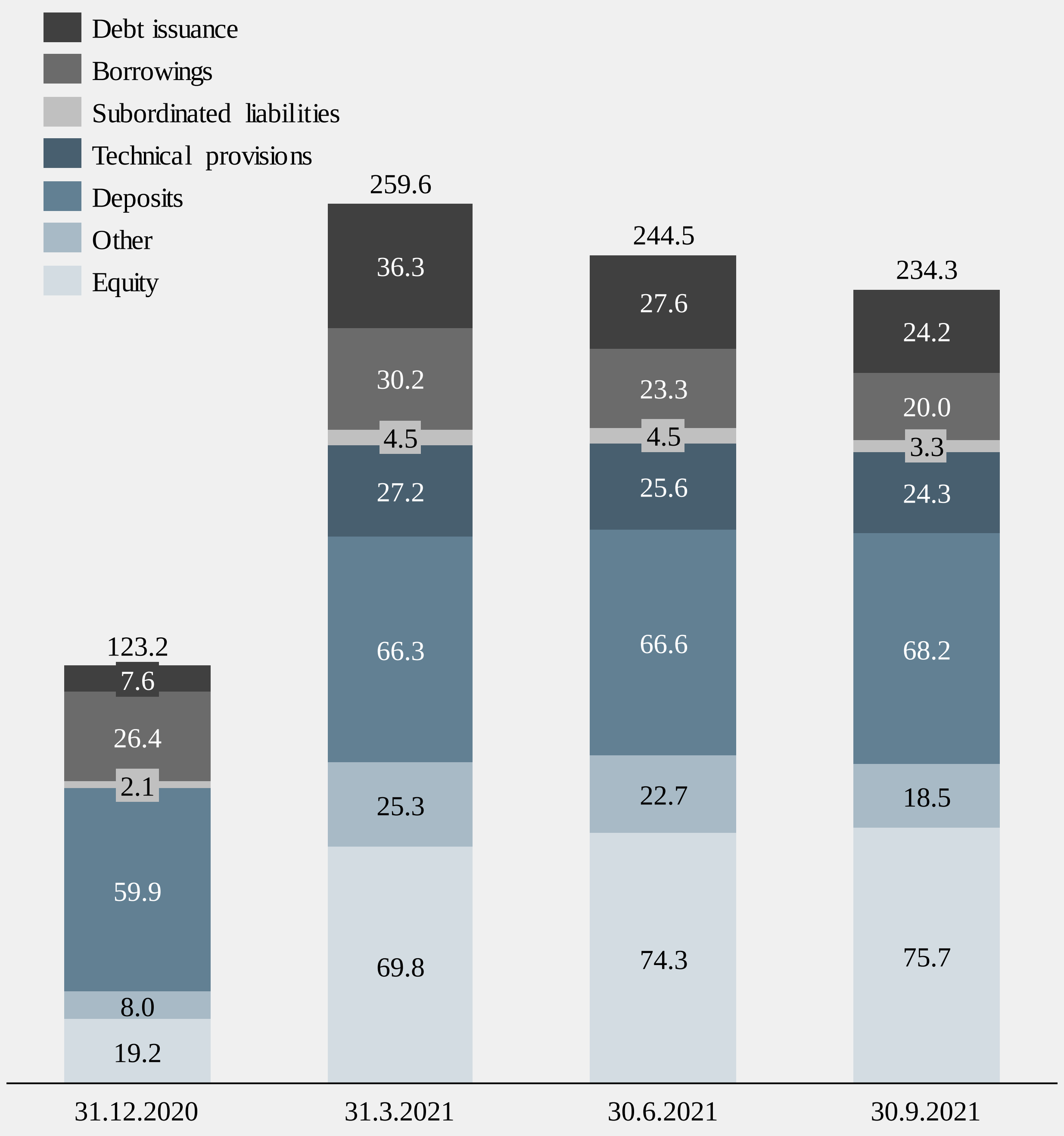
Liabilities

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 7.8 billion of senior unsecured bonds in 9M 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, and KVB 15 01 in Q3, a total of ISK 1.2 billion
- Borrowings at ISK 20.0 billion include money market financing and secured credit facilities
- Technical provision of TM Tryggingar amounts to ISK 24.3 billion
- Total deposits increase by ISK 8.3 billion from year-end

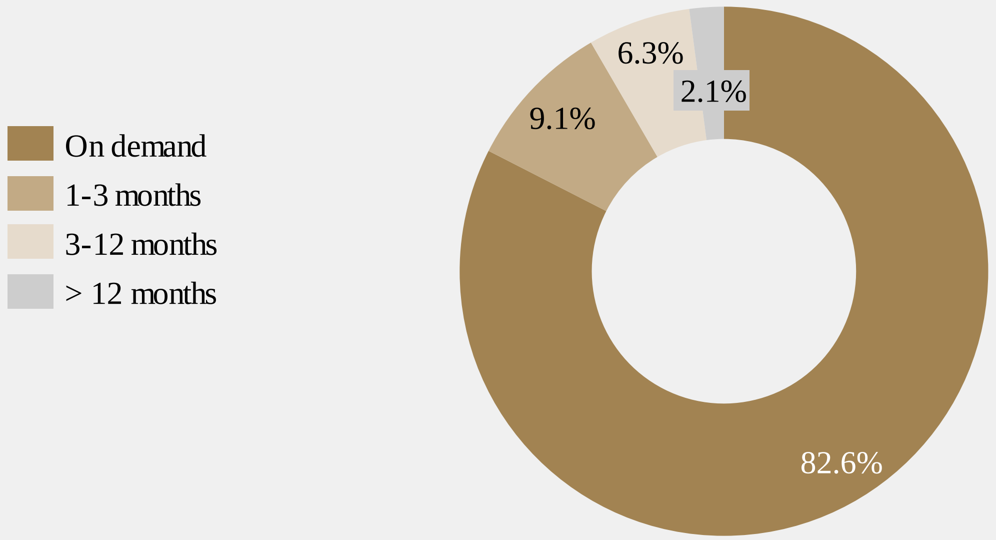
LIABILITIES AND EQUITY

31.12.2020 to 30.09.2021 ISK bn.



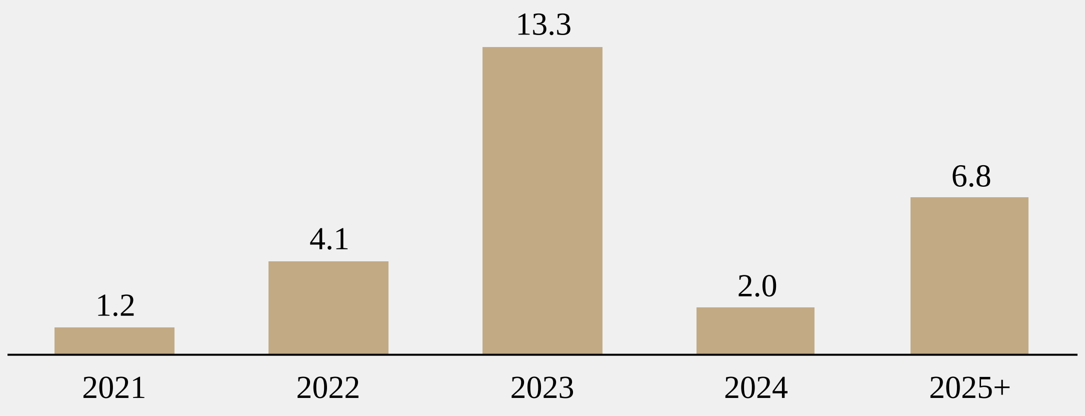
MATURITY OF DEPOSITS

30.09.2021



MATURITY OF ISSUANCE

30.09.2021 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

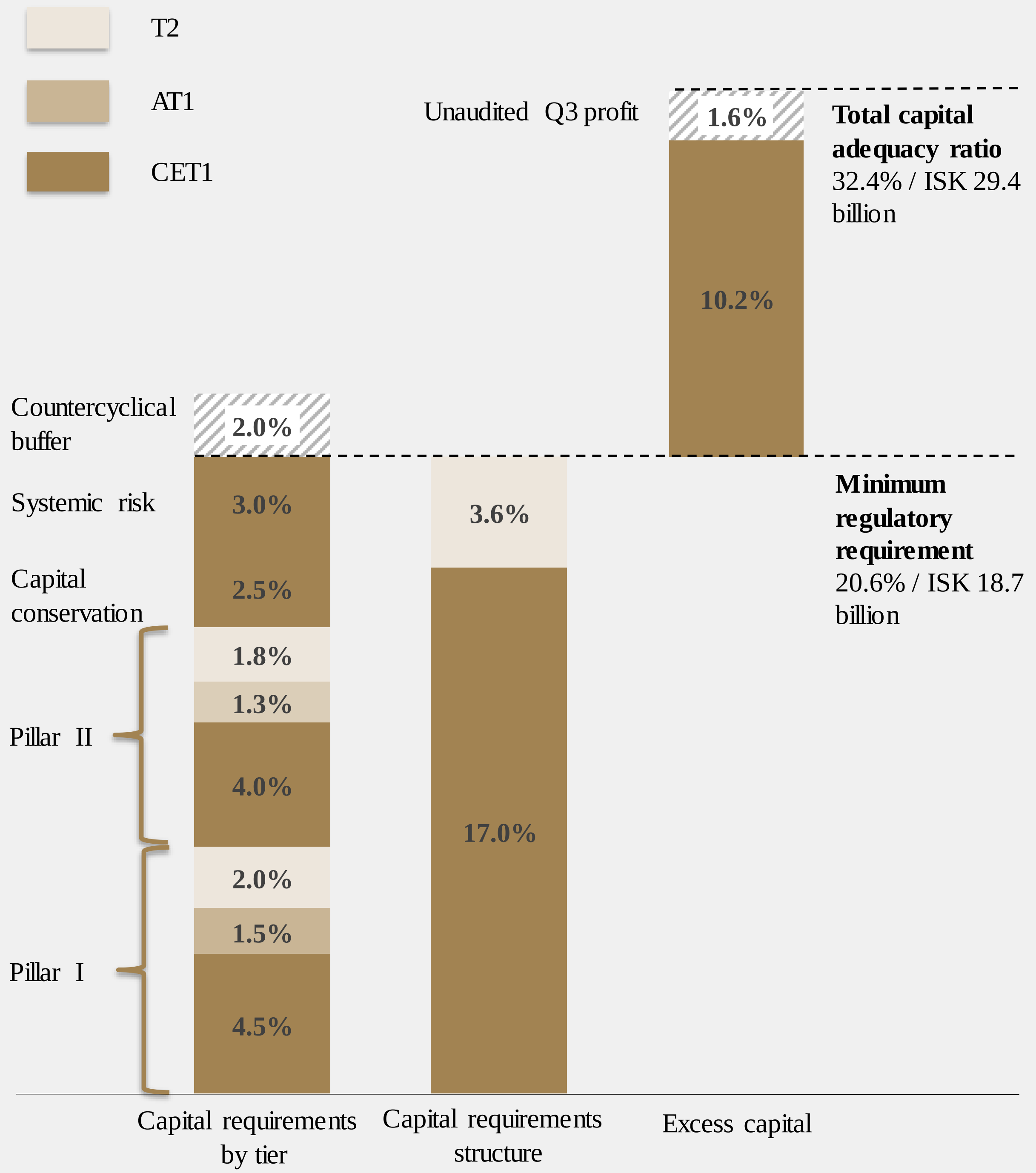
Solvency and capital

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 0.0% to 2.0%, effective as of 29 September 2022
- The Pillar 2 requirement is 7.1% based on SREP 2019 results
- Excess capital of ISK 16.0 billion on consolidated solvency basis for the group and ISK 10.8 billion on CAR basis excluding insurance activities
  - Including Q3 profit but not accounting for announced increase of countercyclical buffer

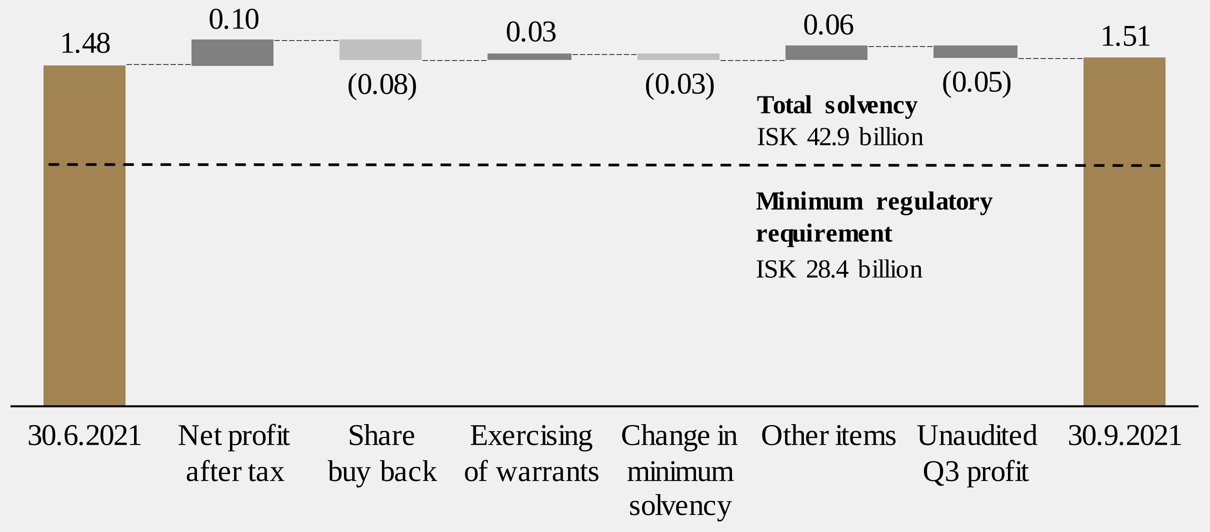
CAPITAL ADEQUACY OF THE BANK

Capital adequacy ratio excluding insurance activities at 30.9.2021



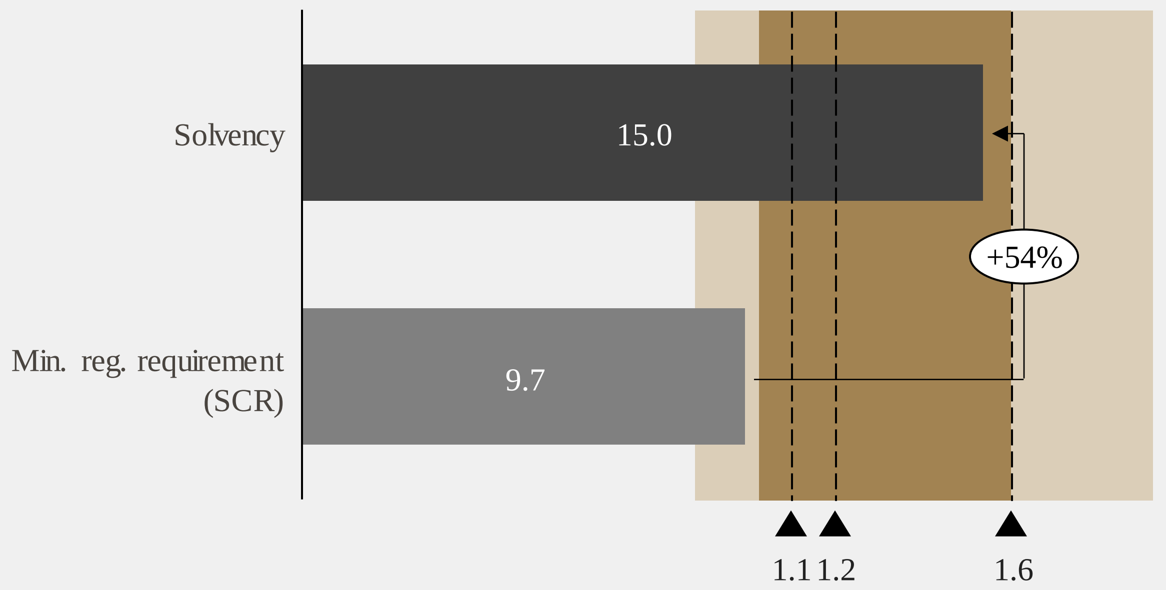
DEVELOPMENT OF CONSOLIDATED SOLVENCY RATIO

Basis for calculation of % change is the position on 30.6.2021



TM TRYGGINGAR SOLVENCY AND RISK APPETITE

At 30.9.2021 ISK bn.

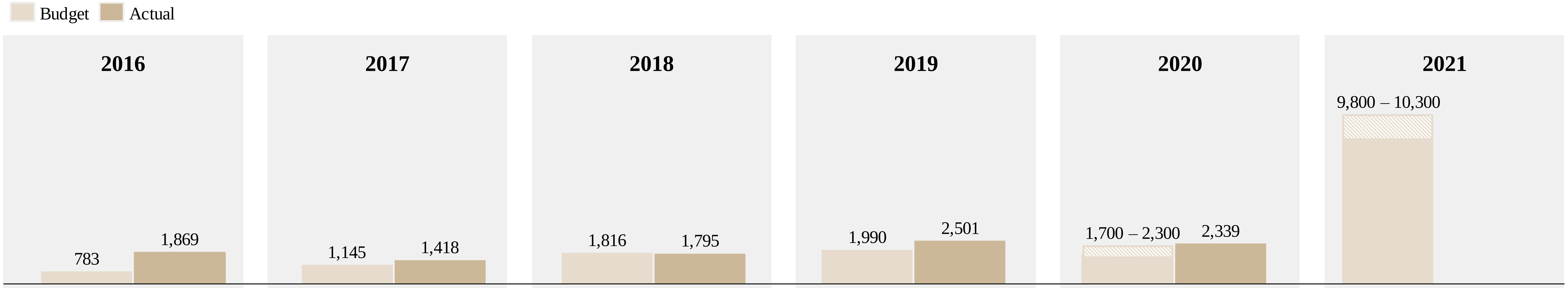


Updated outlook for 2021

Profit before tax in 2021 expected to be ISK 9,800 – 10,300 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

- Updated guidance for 2021 results in PBT ISK 9,800 – 10,300 million (ISK 11,300 – 11,800 million should TM be included from January 1st)
- Updated guidance includes ISK 400 million in one-off cost related to relocation[1)]
- 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

[1)]*Approx. 50% due to accelerated depreciation of interiors*


KVIKA