Kvika

Marinó Örn Tryggvason

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Highlights 12M 2020

Profit of ISK 2,273 million (pre-tax ISK 2,339 million) for 12M 2020 with return on equity of 14.2%
Fourth quarter return on equity of 21.9%,

Business model based on diversified income across segments successful in a challenging environment
Growth in revenue streams year-on-year, driven by increase in net fee and commission income

Strong financial position with CAR of 28.3% and liquidity coverage ratio (LCR) 266%
Significantly higher than both regulatory requirement and long-term targets

Kvika's asset management operations (Kvika and Júpíter) have been merged to form a single company
Kvika eignastýring holds ISK 361 billion in AuM (Kvika consolidated ISK 527 billion, an ISK 101 billion increase from year-end 2019)

Merger with TM and Lykill fjármögnun
Substantial synergies expected

Diversified business model

Successful in a challenging environment

COVID REACTION FOCUS POINTS

1. **Focus on operational continuity**
2. **Responding to potential financial impact**
3. **Strategy and focus on a simple business model**

No losses incurred on securities financing

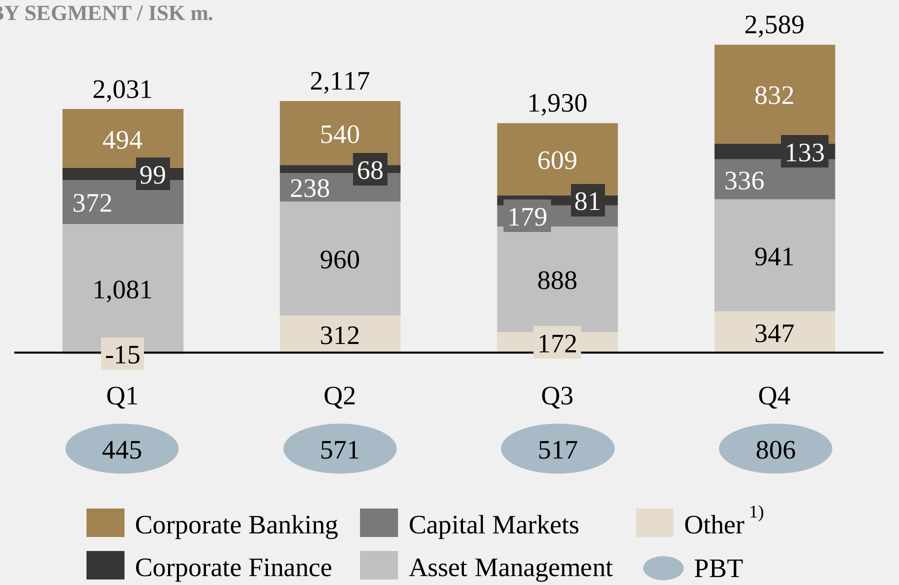
Well secured and diversified loan book

Strong pipeline in Corporate Finance

Resilience in asset management revenues (less subject to economic cycles)

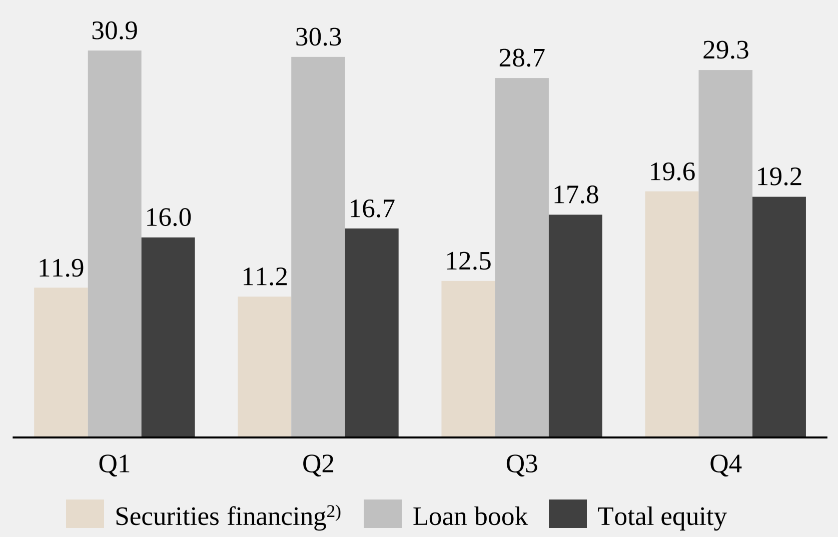
NET OPERATING INCOME

BY SEGMENT / ISK m.



SELECTED BALANCE SHEET HIGHLIGHTS

ISK bn.



1) *Other segments include Proprietary trading and Treasury and Support functions and eliminations*
2) *Securities financing represent securities used for hedging (31.12.2020: Listed equities amounted to ISK 9.9 billion, other listed securities ISK 9.3 billion, other items unlisted ISK 0.5 billion)*

Establishment of Kvika eignastýring hf.

Strategic focus on asset management

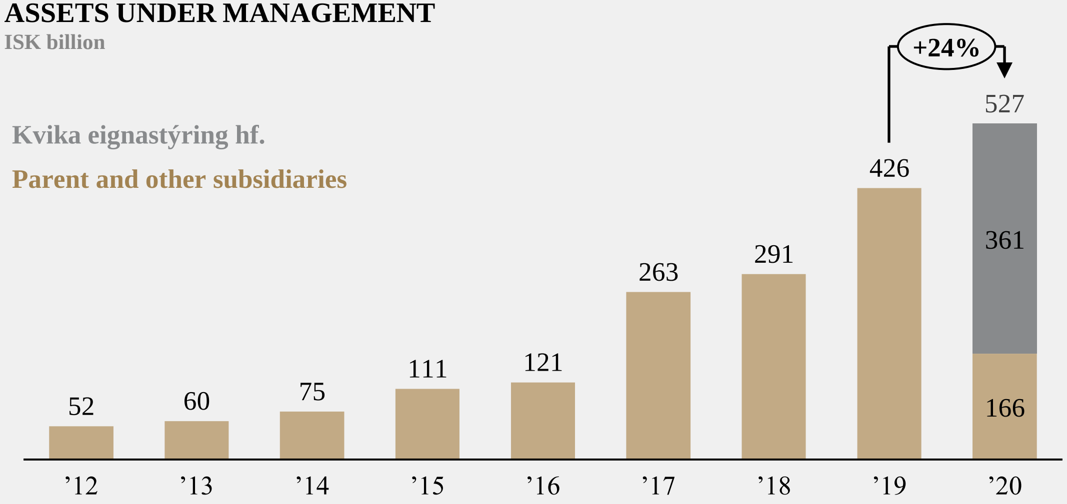
- Successful merger of Kvika’s asset management operations in a single company Kvika Asset Management hf.
- Kvika Asset Management hf. is now one of the largest asset and fund management companies in Iceland with ISK 361 bn. of assets under management
- Focus on providing customers with a broad range of services for investment domestically as well as in foreign markets with emphasis on leading the way in asset and fund management with the long-term interests of customers in mind
- In July 2020 the company successfully funded an ISK 19.5 bn. credit fund, ACF III slhf. This is the largest credit fund that has been established in Iceland

Kvika eignastýring hf., subsidiary of Kvika banki hf.

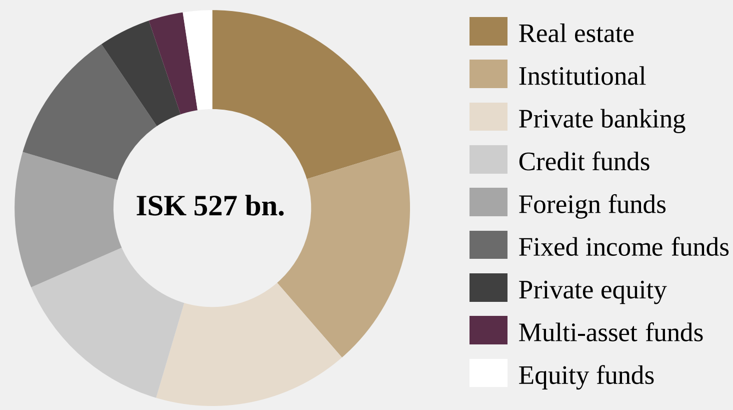
KVIKA Asset Management

Fund management	Private banking
Institutional investors	Private equity

ASSETS UNDER MANAGEMENT
ISK billion



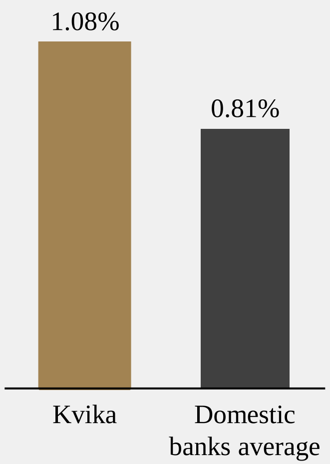
BREAKDOWN OF ASSETS UNDER MANAGEMENT
31.12.2020



Strategic focus

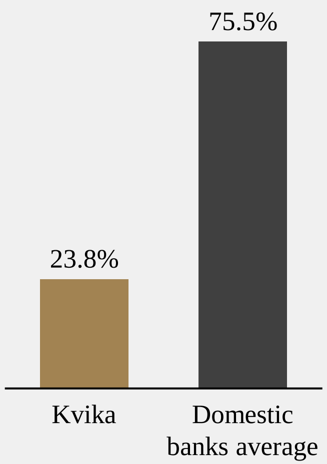
Diversified income across segments basis of a profitable period

NET IMPAIRMENT / LOAN BOOK
12M 2020



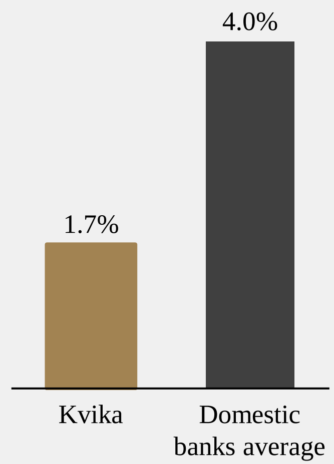
Net impairments in line with other domestic banks

LOAN BOOK / TOTAL ASSETS
12M 2020



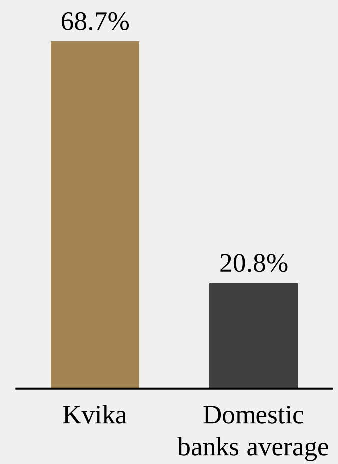
Loan book is relatively small in proportion to total assets

NET IMPAIRMENT / TOTAL EQUITY
12M 2020



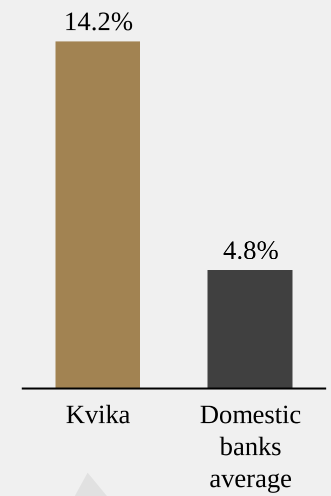
Net impairments relatively small due to size of loan book and solid capital structure

NET FEE AND COMM. / OPERATING INCOME
12M 2020



Business model focuses on net fee and commission income

RETURN ON EQUITY
12M 2020



Kvika’s strategy is reflected in its profitability

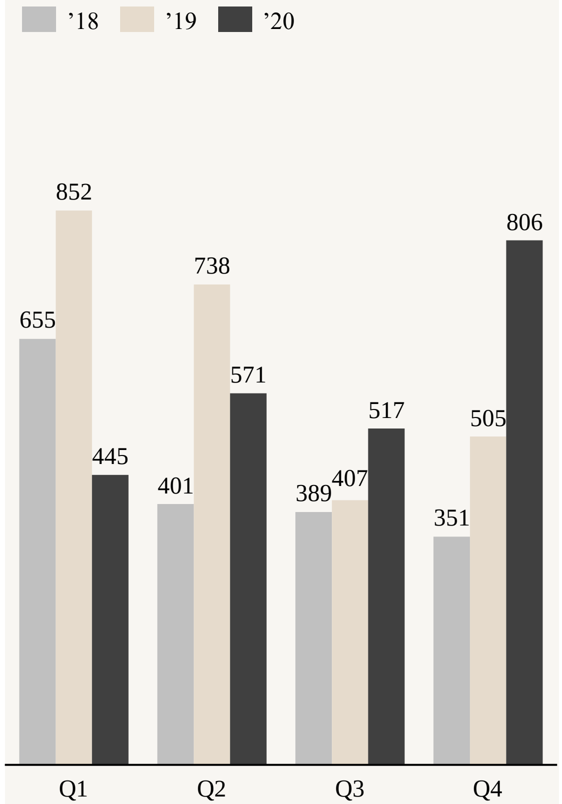
Source: 12M 2020 Financial statements. Note: calculations on presented items may vary between companies. Net impairments may include changes in loans to customers as measured at fair value through profit or loss in net financial income
Domestic banks consist of Arion, Landsbankinn and Íslandsbanki

Income statement / Q4

Solid quarter with return on equity of 21.9%

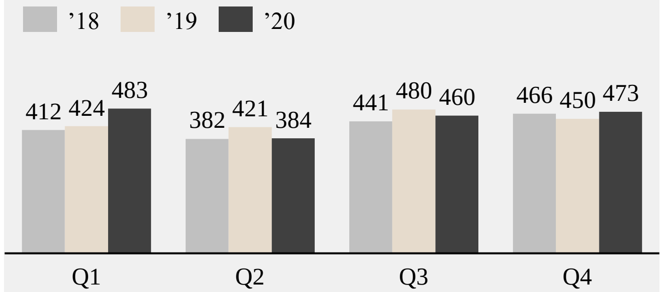
PRE-TAX PROFIT
ISK m.

Good results despite high one-off related costs



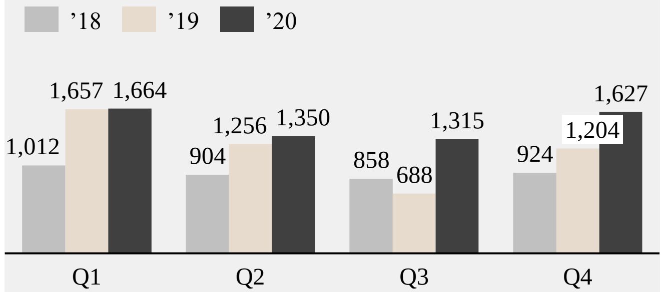
NET INTEREST INCOME (NII)
ISK m.

Positive reversal in NIM following negative impact of policy rate cuts in first half



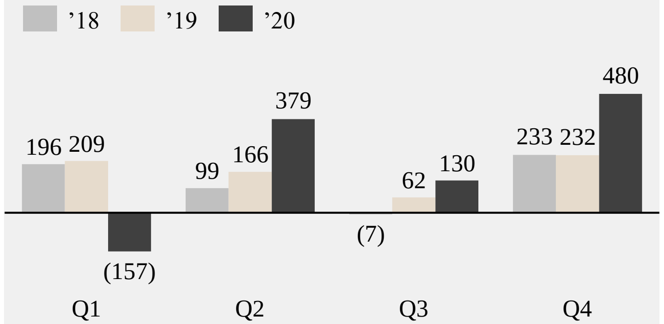
NET FEE AND COMMISSION INCOME (NFC)
ISK m.

Strong performance across all segments



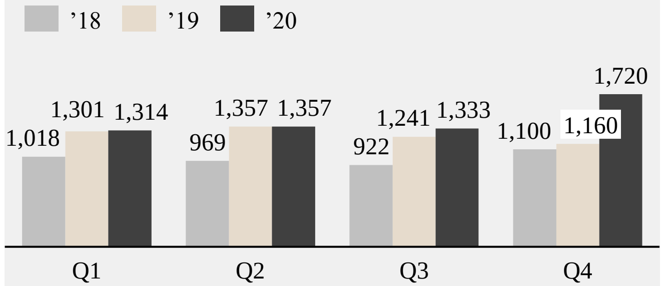
NET FINANCIAL INCOME (NFI)
ISK m.

Favorable market conditions



OPERATING EXPENSES (OPEX)
ISK m.

High one-off costs largely related to organizational changes and M&A in Q4 (approx. ISK 300 m. in total)



Income statement / 12M 2020

Return on equity 14.2% during the year

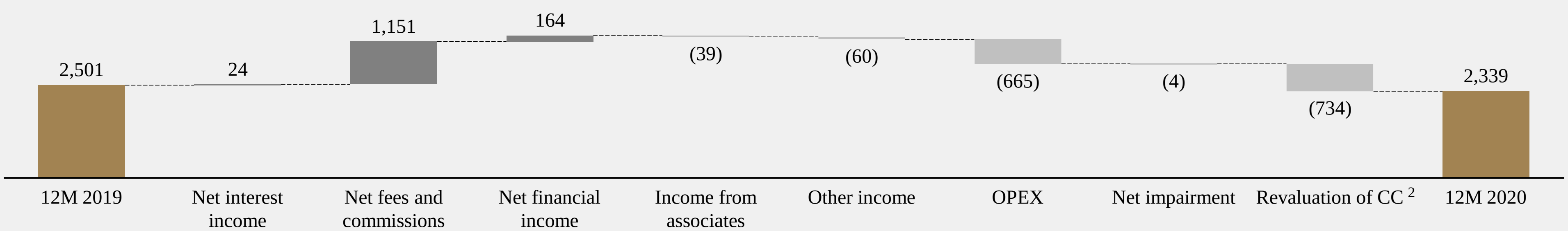
- Profit for the year amounted to ISK 2,273 million, driven by increase in net fees and commission income and net financial income
- Corresponding to 14.2% return on equity
- Net interest income increased 1.4% year-on-year despite temporary negative effects of cuts in policy rate in first half
- Net fee and commission income ISK 5,956 million, an increase of 24.0% year-on-year
- Operating expenses ISK 5,724 million in line with expectations
  - Costs related to expected merger with TM and Lykill fjármögnun and acquisition of Netgíró were expensed during the period
- Net impairments ISK 317 million largely related to COVID impact
- Net financial income ISK 833 million

INCOME STATEMENT

ISK m.	*12M 2020*	*12M 2019*
Net interest income	1,800	1,776
Net fees and commissions	5,956	4,804
Net financial income	833	668
Income from associates	(7)	32
Other income	85	145
Net operating income	***8,666***	***7,426***
Operating expenses	(5,724)	(5,059)
Net impairment	(317)	(314)
Revaluation of contigent consideration	(286)	447
Pre-tax profit	***2,339***	***2,501***
Taxes		
Income tax	28	362
Special bank taxes [1]	(94)	(202)
After-tax profit	***2,273***	***2,660***
Earnings per share (EPS)	***1.10***	***1.41***
Diluted EPS	***1.02***	***1.27***

PRE-TAX PROFIT BRIDGE

FROM 12M 2019 to 12M 2020 ISK m.

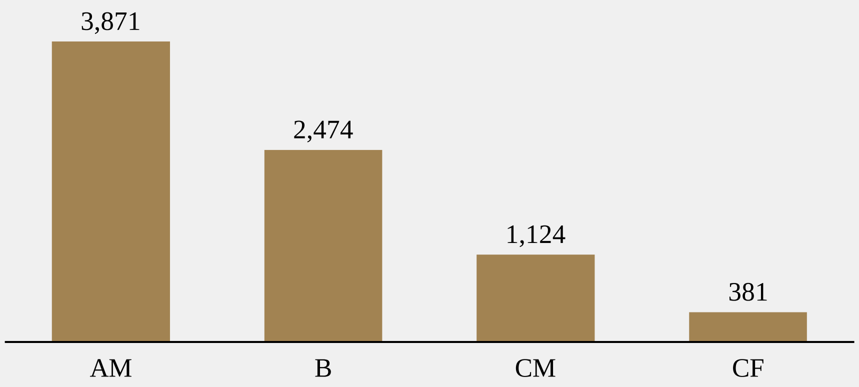


1) *Special tax on financial activity ISK 16.6 million and special tax on financial institutions ISK 77.4 million for 12M 2020*
2) *Revaluation of contingent consideration*

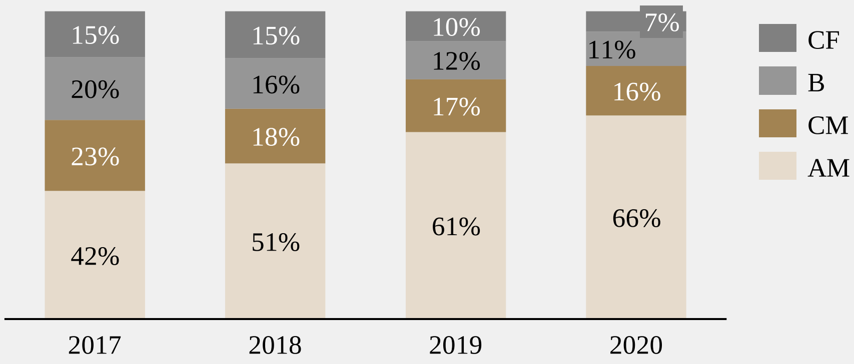
Strategic focus on fee and commission income

Continued increase in recurring income

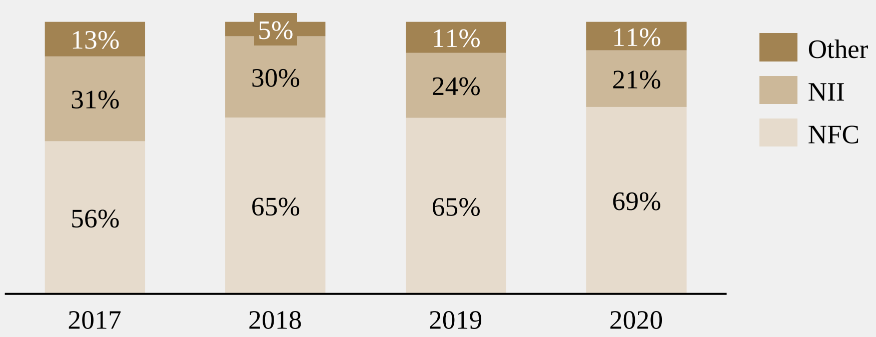
NET OPERATING INCOME
BY SEGMENT / 2020 ISK m.



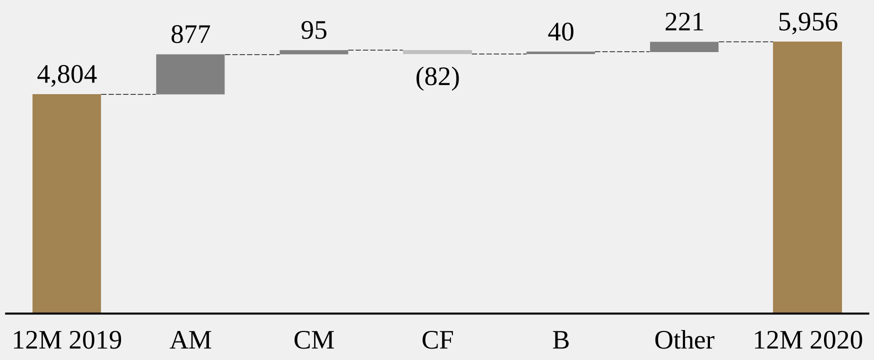
NET FEE AND COMMISSION INCOME SPLIT
FROM 2017 to 2020 (%)



NET OPERATING INCOME SPLIT
FROM 2017 to 2020 (%)



NET FEE AND COMMISSION INCOME
SEGMENT / FROM 2019 to 2020 ISK m.



B = Banking
AM = Asset Management
CF = Corporate Finance
CM = Capital Markets

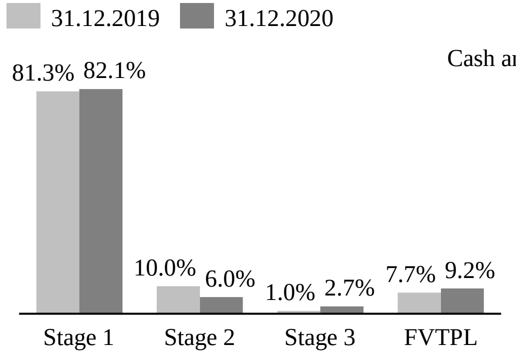
NII = Net interest income
NFC = Net fee and commission income

Assets

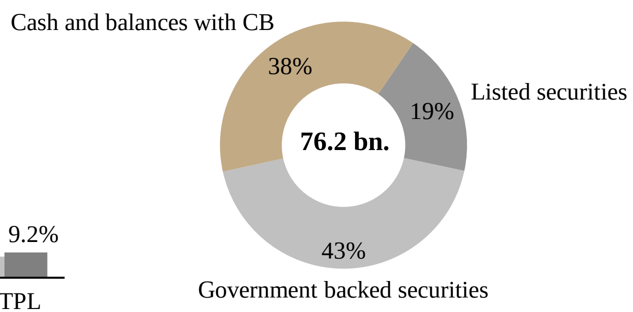
Strong balance sheet supported by high proportion of liquid assets

- In total, liquid assets amount to ISK 76.2 billion or 61.8% of total assets and 127% of all deposits from customers
  - Cash and balances with the Central Bank at ISK 28.9 billion. Other liquid assets include ISK 33.0 billion in government backed securities and ISK 14.3 billion of other listed securities
- Financial instruments ISK 53.9 billion of which ISK 19.6 billion are for hedging
- Loans to customers decreased by ISK 0.8 billion from year-end 2019
  - The weighted average duration of the loan book was 2.05 year at end of period
  - Stage 1 has increased by 0.8% and Stage 2 decreased by 4.0% since year-end 2019, loan prepayments and resolutions have had a positive impact
  - Temporary COVID measures / moratoriums peaked at the end of Q2 at ISK 3.1 billion while at year end 2020 it was only ISK 0.8 billion

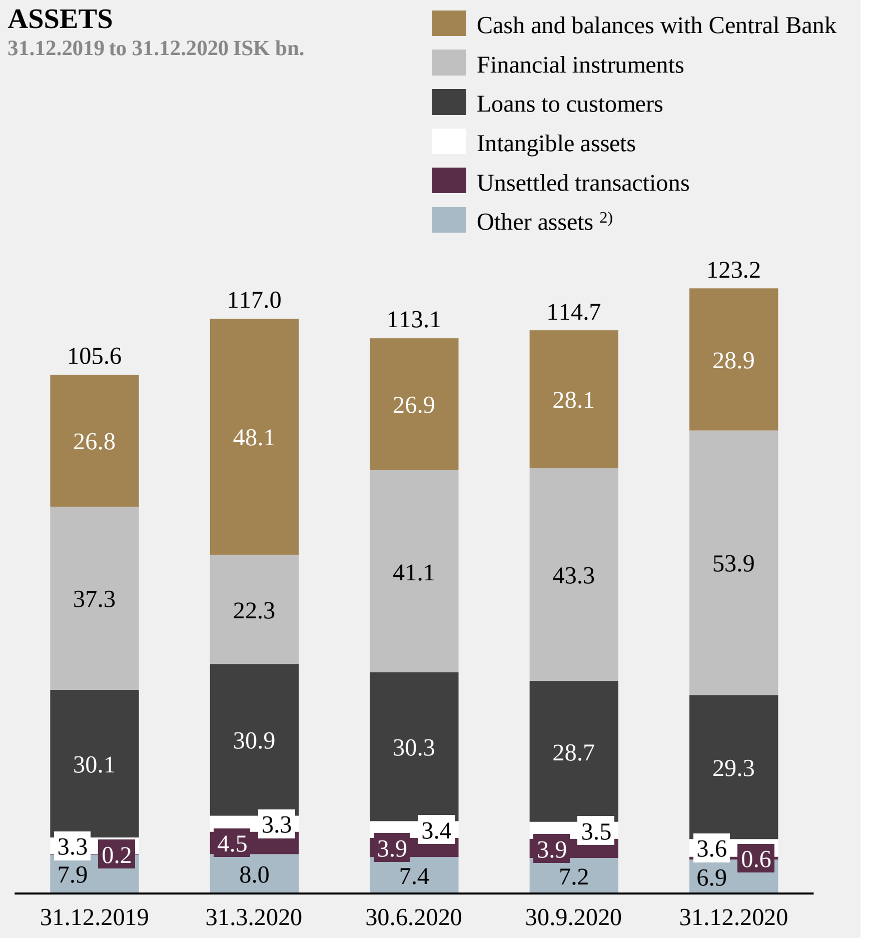
CREDIT QUALITY OF LOAN BOOK [1)]
31.12.2019 and 31.12.2020



LIQUID ASSETS [3)]
31.12.2020



ASSETS
31.12.2019 to 31.12.2020 ISK bn.



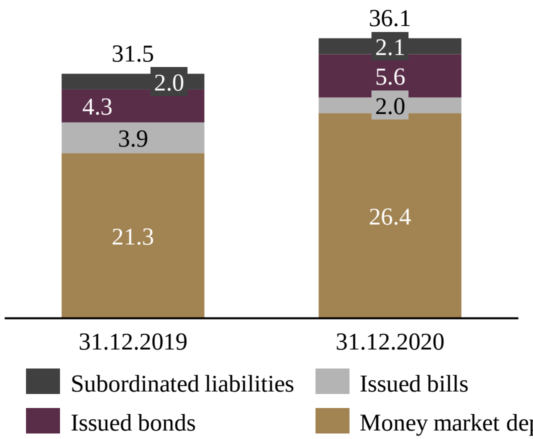
1) *Credit quality based on IFRS 9. Gross carrying amount by rating class / Total gross amount*
2) *Other assets include Investment properties, Investment in associates, Property and equipment, Deferred tax assets, Accounts receivable, Right of use assets, Sundry assets and Assets classified as held for sale*
3) *Government bonds include bonds with government guarantees*

Liabilities

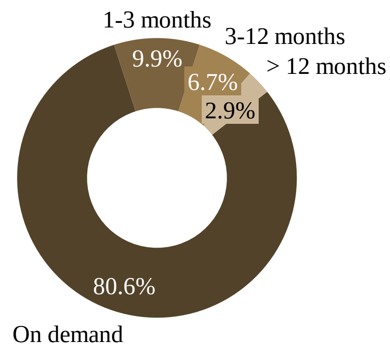
Funding continues to be strong and steady growth in deposits

- Liquidity coverage ratio (LCR) 266% at end of the period
- Deposits to loans ratio remains high at 204%
- Deposits have increased by ISK 8.5 billion from year-end 2019
  – Increase mainly driven by retail deposits from individuals
- Outstanding issued debt securities amounted to ISK 9.6 billion
- Money market borrowings amounted to ISK 26.4 billion
- Five-year senior unsecured KVB 19 01 increased to nominal amount of ISK 4.3 billion
- Issuance of ISK 2.2 billion in KVB 20 01, a new series of three-year senior unsecured bonds

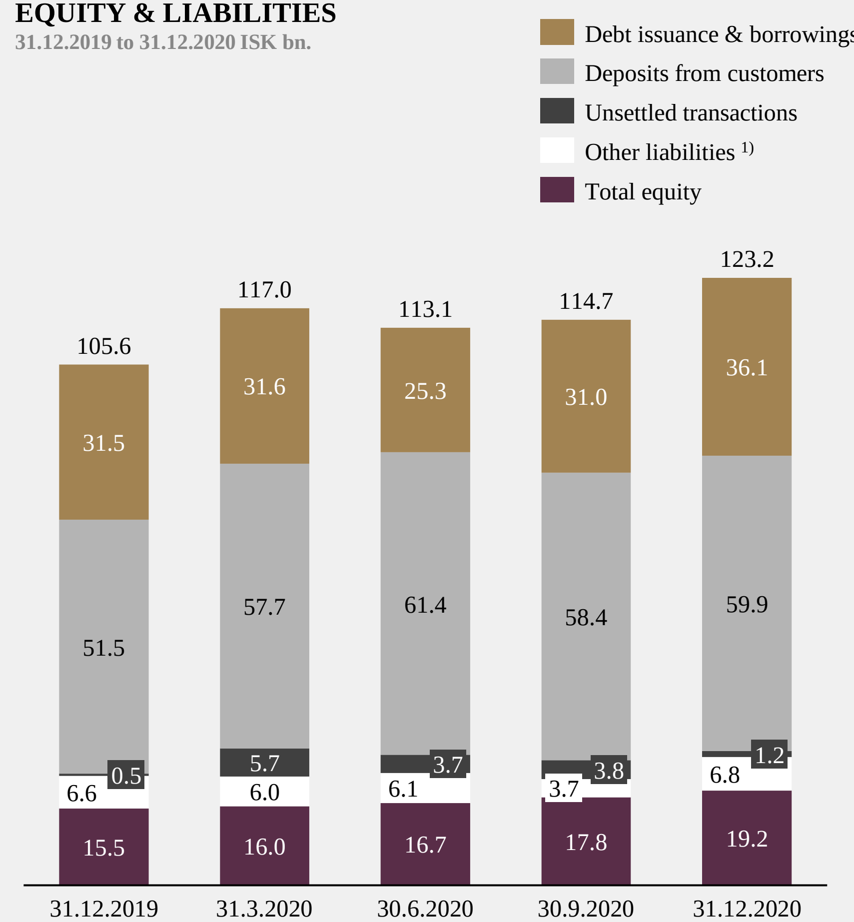
SECURITIES & BORROWINGS
31.12.2019 and 31.12.2020 ISK bn.



MATURITY OF DEPOSITS
31.12.2020



EQUITY & LIABILITIES
31.12.2019 to 31.12.2020 ISK bn.



1) *Other liabilities include Current tax liabilities, Deferred tax liabilities, Impairment on off balance sheet items, Expected credit loss allowance for loan commitments, guarantees and unused credit facilities, Account payable and accrued expenses, Taxes payable, Special taxes on financial institutions and financial activities, Withholding taxes, Salaries and salary related expenses, Lease liability, Contingent consideration and Other liabilities*

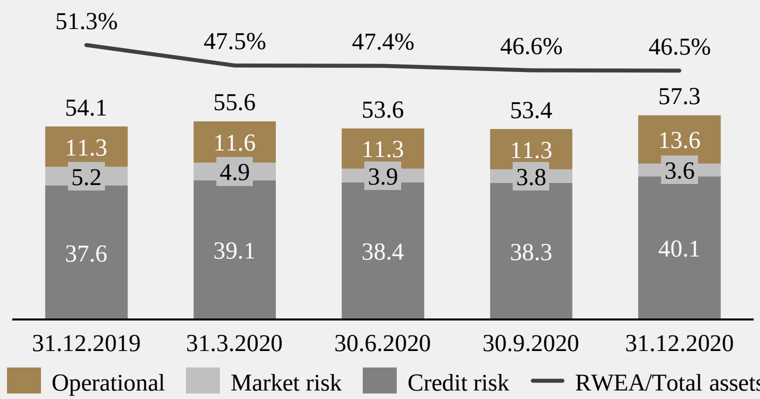
Solid capital position

Capital adequacy ratio exceeds required capital buffers

- Capital adequacy ratio 28.3% at end of year
- CET 1 surplus capital relative to 20.6% capital requirements amounts to ISK 4,411 million
- Capital base amounted to ISK 16,217 million and book value of equity at ISK 19,187 million
- Exercise of warrants and stock options increase capital by ISK 1,354 million
- Increase in risk exposure amount mainly attributable to changes in credit and operational risk
  - Operational risk has increased as the bank has grown significantly
- Other balance sheet items relatively unchanged
- Minimum regulatory capital requirement is 15.1% as of 31st December 2018 and 5.5% capital buffers as of 18th March 2020

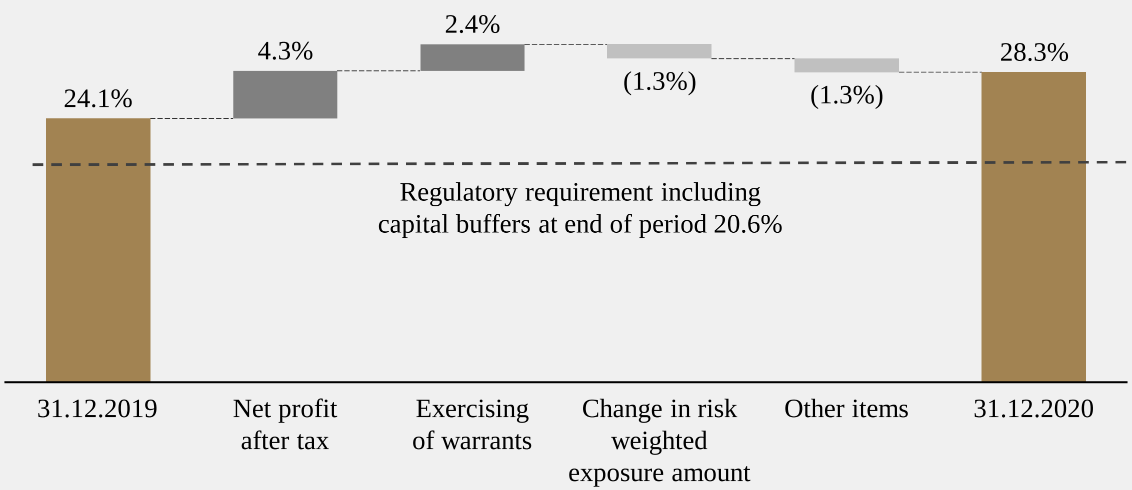
RISK WEIGHTED EXPOSURE AMOUNT (RWEA)

ISK bn.



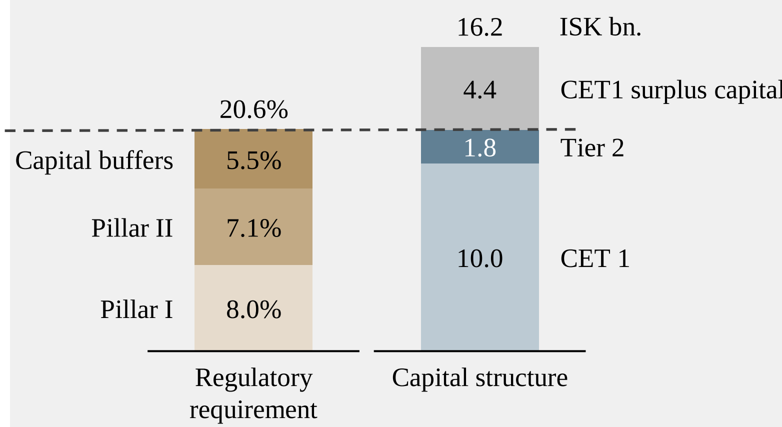
DEVELOPMENT OF CAPITAL ADEQUACY RATIO

BASIS FOR CALCULATION OF % CHANGE IS THE 2019 YEAR-END POSITION



CAPITAL BASE

31.12.2020

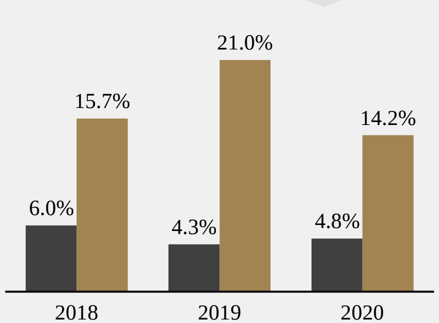


Comparison

Strategic focus reflected in key ratios

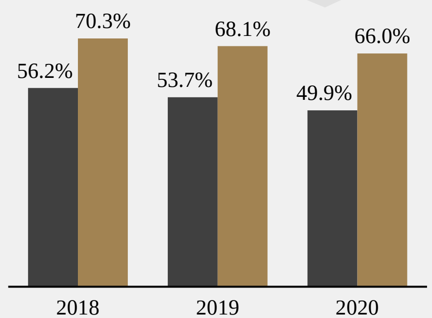
RETURN ON EQUITY

Successful implementation of strategy



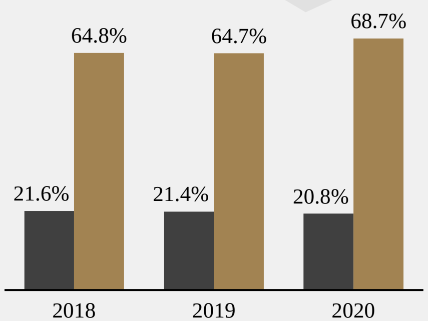
COST-INCOME RATIO

Expenses in line with budget



NET FEE & COM. INC. / OPERATING INC.

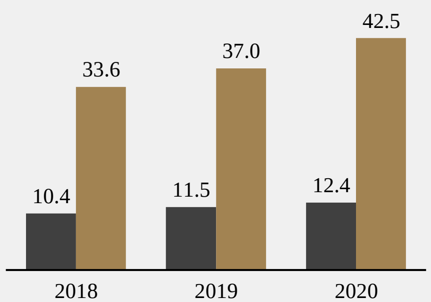
Continued focus on net fee and commission income



NET FEE & COMMISSION INCOME / FTE[1)]

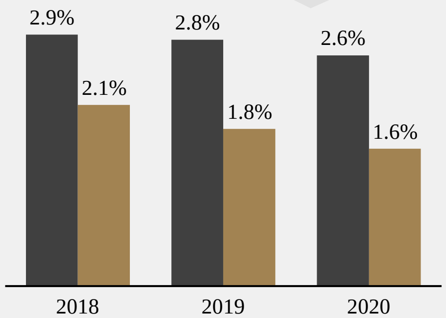
Relatively more growth in net fee and commission income compared to FTE's

ISK m.



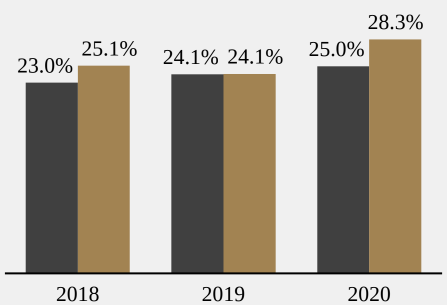
NET INTEREST MARGIN [2)]

High stock of liquid assets and proportionally small loan book results in lower NIM



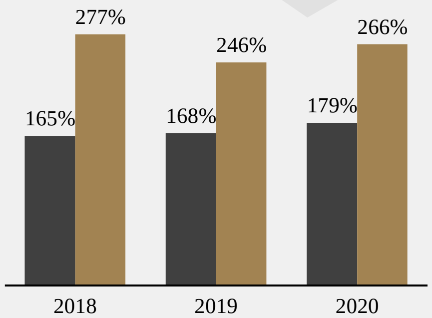
CAPITAL ADEQUACY RATIO (CAR)

Well above regulatory requirement



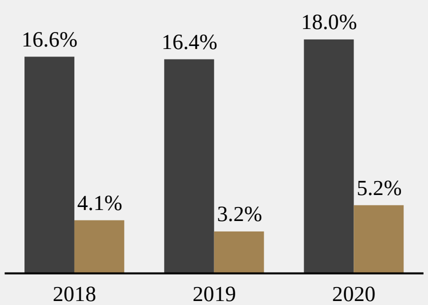
LIQUIDITY COVERAGE RATIO (LCR)

Strong liquidity position, LCR well above long term target



ASSET ENCUMBERANCE [3)]

No asset pledge for debt issuance



Domestic banks (simple average) Kvika banki

1) Net fee & commission income / Average FTE
2) On average carrying total book value of assets
3) Defined as encumbered (pledged) assets / total assets
Domestic banks consist of Arion, Landsbankinn and Íslandsbanki


TM

New structure post merger

Ongoing focus on core operation

Lykill fjármögnun

MAIN BUSINESS SEGMENTS
Post merger

Capital Markets	Banking	Corporate Finance	Asset Management	Insurance (incl. investment activities)
KVIKA	KVIKA Lykill fjármögnun	KVIKA	KVIKA Asset Management	TM

Profitable entities that will continue to focus on its core operation while taking advantage of new growth opportunities

Unique market position

Kvika can differentiate through selective product and service offering

- Three large commercial banks
- General retail and corporate services
- Branch network
- Emphasis on commercial banking
- Comprehensive investment banking activities

Employees	776 – 878
AuM	ISK ~450 – 1,131 bn.
Deposits	ISK 568 – 793 bn.
Lending	ISK 834 – 1,065 bn.
Insurance premiums	ISK 0 – 12.3 bn.

- Strong player in its areas of operation
  - Insurance
  - Asset Management
  - Corporate Finance
  - Banking
  - Capital Markets
- Growth opportunities

Employees	301
AuM	ISK 527 bn.
Deposits	ISK 60 bn.
Lending	ISK 68 bn.
Insurance premiums	ISK 16.5 bn.

- Established insurance providers in Iceland
- Insurance operations
- Investment activities

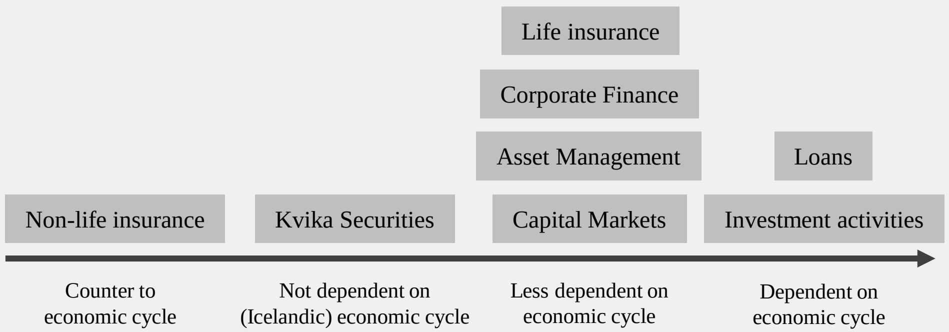
Employees	187 - 197
AuM	ISK 0 bn.
Deposits	ISK 0 bn.
Lending	ISK 0 bn.
Insurance premiums	ISK 20.8 – 22.5 bn.

Source: Statistical information on competitors on a consolidated basis, based on 2020 financial statements. Where statistical information on competitors is not available, figures reflect independent estimates based on the latest data and are therefore not precise. Kvika and TM figures are based on 2020 annual statements.

Strategic focus on fee and commission income

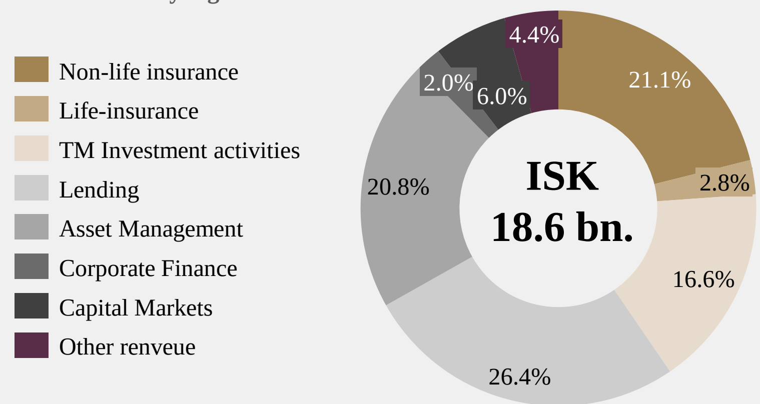
Strong core operation with substantial synergy potential

DIVERSIFIED BUSINESS MODEL



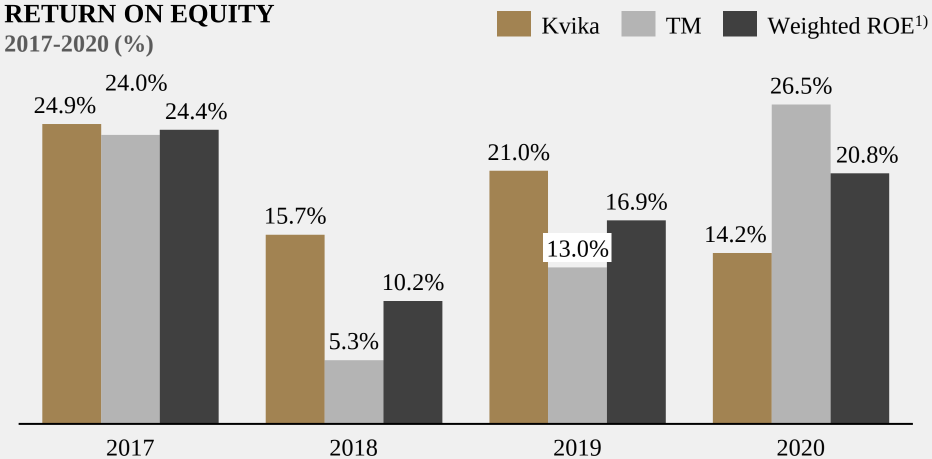
DIVERSIFIED INCOME ACROSS SEGMENTS

Net revenue breakdown by segment 2020



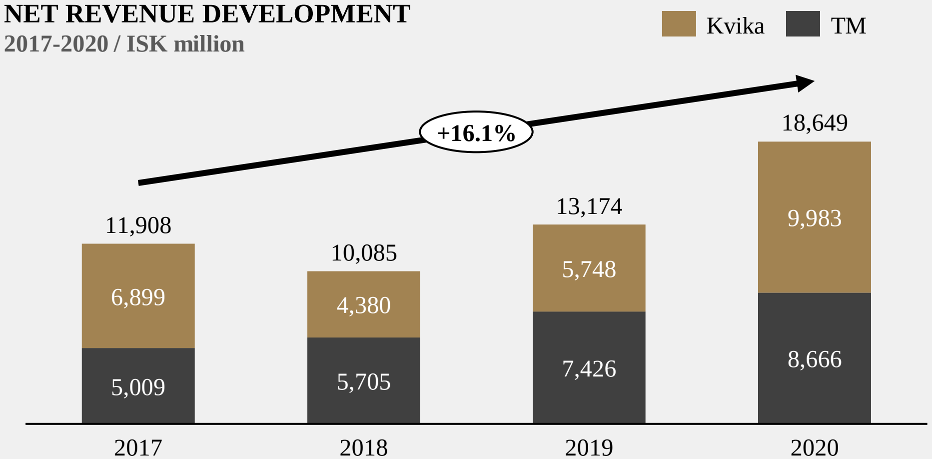
RETURN ON EQUITY

2017-2020 (%)



NET REVENUE DEVELOPMENT

2017-2020 / ISK million



Source: 2017-2020 Financial Statements

1) *Weighted average based on average equity (beg./end of period) for the separate entities. Expected synergies not included.*

Uniquely positioned to capitalize on new opportunities

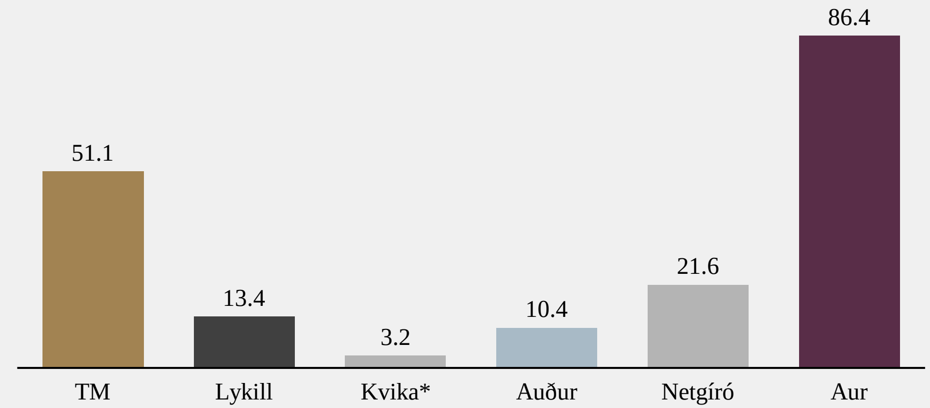
Opportunity to increased profits

Capitalizing on new growth opportunities

- Substantial net income and financial strength
- Low legacy costs
- Potential expansion unlikely to cannibalise revenue
- Potential expansion and increased market share leads to economies of scale
- Licenses and infrastructure of a retail bank and insurance company but without substantial branch overhead
- Challenger mindset with focus on fintech solutions

CUSTOMER BASE

As of 31.12.2020 / Number of active customers in ´000



Prime opportunity to continue to develop a financial entity that is structured for the current economy, competing with incumbents with inherited business models

Source: 2020 financial statements & management accounts

Expected synergy of ISK 2,700-3,000 million

History of delivering value-creation through successful consolidations

Cost synergies

- The companies´ Boards expect that the merger could achieve cost synergies of ISK 1,200-1,500 million annually, excluding transaction and one-off costs
- The assessment is based on the companies forecasts for 2021, the largest part will result from lower funding costs
- Majority of the projected synergies are expected to be reached by 2022
- Other opportunities for synergies are expected; however, they will require further analysis following the merger

Revenue synergies

- It is estimated that in three years, the merged company will have achieved revenue synergies in the amount of ISK 1,500 million annually
- Revenue synergies come from the results of operations that would probably not have been achieved without the merger

ANNUAL COST SYNERGY AFFECT

Breakdown of anticipated cost synergies by year

Leveraging and utilising internal infrastructure

Utilising technological solutions to modernize financial services

Leveraging on existing and new customer base

Increased financial strength opens new opportunities

Opportunity to compete without cannibalisation of current revenue streams

Source: Company announcement

Kvika / TM

Growth opportunity built on a strong foundation

Profitable entities that will continue to focus on its core operation while taking advantage of new growth opportunities

The merger will further enable the entities to enhance profits by promoting increased competition

Greater financial strength expected to generate new sources of income and lower funding costs

Considerable cost and revenue synergy to be unleashed

Ongoing focus on profitability – not size