



KVIKA

Kvika

3M 2020 Financial Results

14 May 2020

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Highlights



Profit for the period amounts to ISK 336 million (pre-tax ISK 445 million)

Slightly above quarterly budget



Return on equity 8.8%

Target of 15% return on equity unchanged



Strong financial position with CAD ratio of 24.2% (23.7% excl. interim profit)

Regulatory requirement at end of the period was 20.6%



Liquidity coverage ratio (LCR) 275%

Significantly higher than both regulatory requirement and long term target



Assets under management at ISK 427 billion

Consolidation of asset management operations on track and expected to be concluded in Q2 2020



COVID-19 impact

Significant opportunity cost of defensive measures in operating costs, impairments, revenue and balance sheet composition

Net impairments and loss from net financial income amounted to ISK 312 million



Well placed to manage economic uncertainty

Simple business model and strategy are opportune in the current economic climate



Updated pre-tax earnings forecast of ISK 1,700 - 2,300 million for 2020

Corresponding to estimated return on equity of 11% - 15%

COVID-19 response

Key steps taken to minimise disruption and maintain operations



1

Focus on operational continuity

COVID-19 steering committee established across divisions

Majority of employees shifted to remote work in order to maintain operating hours

Focus on maintaining service levels, ensuring business continuity and revenue generation

2

Responding to potential financial impact

Decision revised on loan book expansion (as previous budget accounted for)

Emphasis on reducing securities financing – decrease in listed shares from ISK 14 bn. to ISK 6 bn. (no losses incurred)

One-off operating expenses incurred due to measures taken

3

Strategy and focus

Simple business model and current strategy well placed to partake in economic recovery

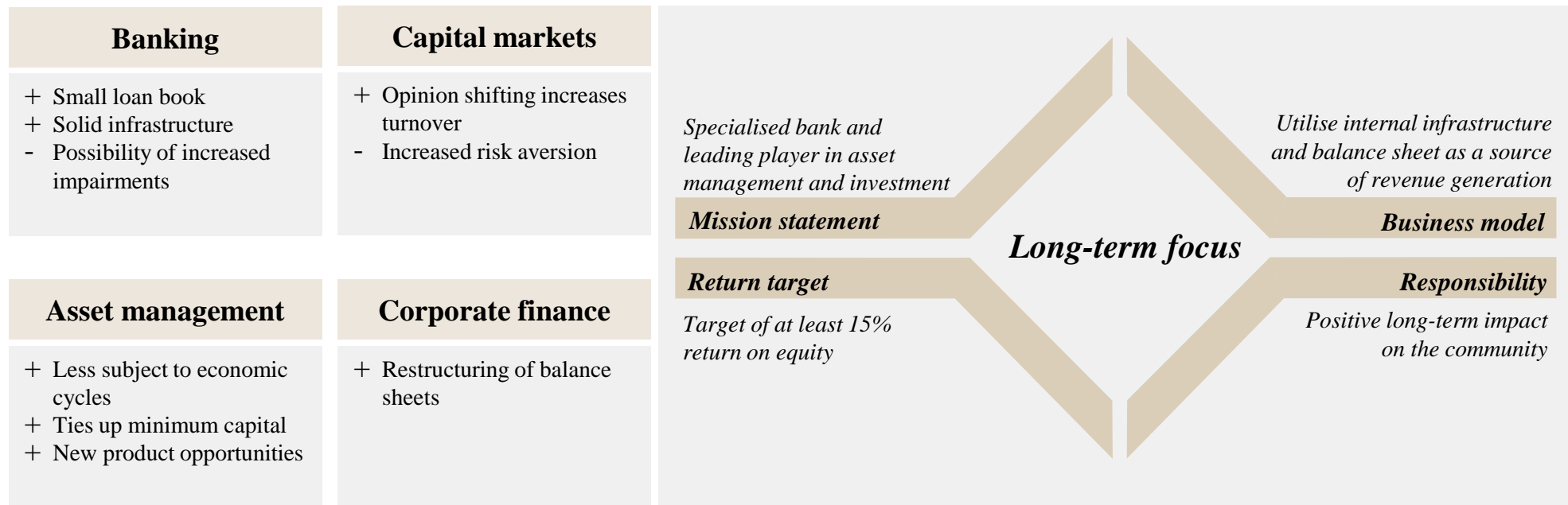
Strategy

Well placed to manage economic uncertainty and COVID-19 impact



Simple business model provides flexibility and enables core business units to seize opportunities

Kvika's strategy is opportune in the current economic climate and the bank is well situated to face economic uncertainty



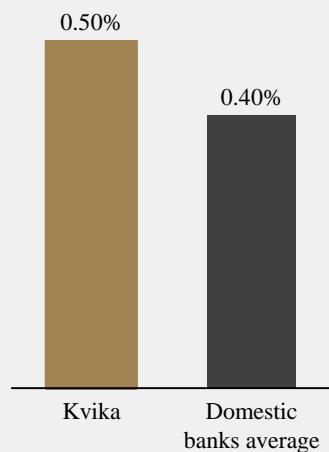
Focus on supporting strong balance sheets, which are the basis of economic recovery

Strategic focus

Diversified income across segments basis of a profitable quarter

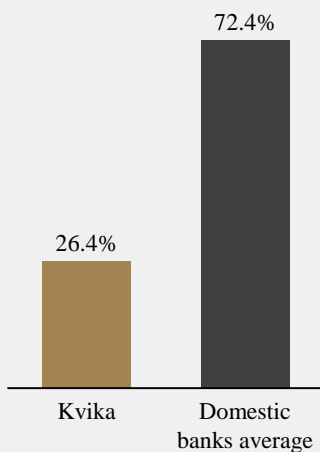


**NET IMPAIRMENT /
LOAN BOOK**
3M 2020



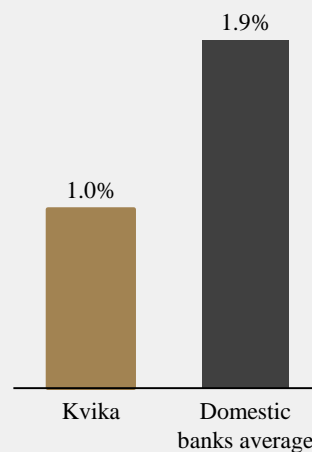
Net impairments in line with other domestic banks

**LOAN BOOK /
TOTAL ASSETS**
3M 2020



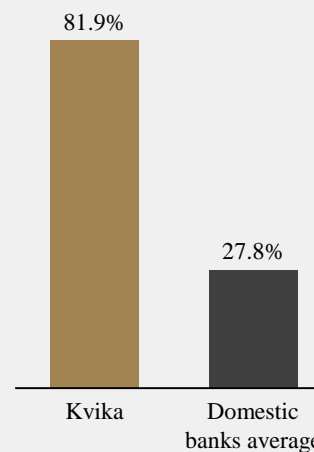
Loan book is relatively small in proportion to total assets

**NET IMPAIRMENT /
TOTAL EQUITY**
3M 2020



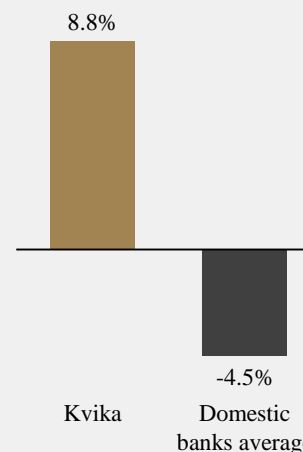
Net impairments relatively small due to size of loan book and solid capital structure

**NET FEE AND COMM. /
OPERATING INCOME**
3M 2020



Business model focuses on net fee and commission income

**RETURN ON
EQUITY**
3M 2020



Kvika's strategy is reflected in its profitability

Source: 3M 2020 Financial statements. Note: calculations on presented items may vary between companies
Domestic banks consist of Arion, Landsbankinn and Íslandsbanki



Financials

Continuing growth in net operating income



Income statement / Q1

Positive quarter in adverse market conditions

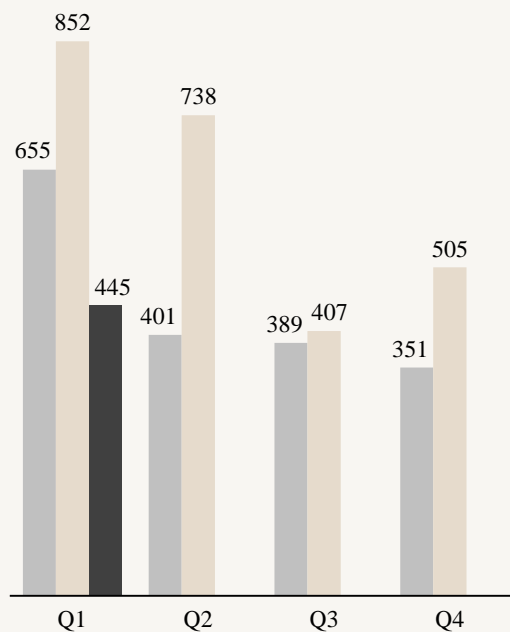


PRE-TAX PROFIT

ISK m.

Positive results in core segments. COVID-19 impact reflected in NFI and net impairments

'18 '19 '20

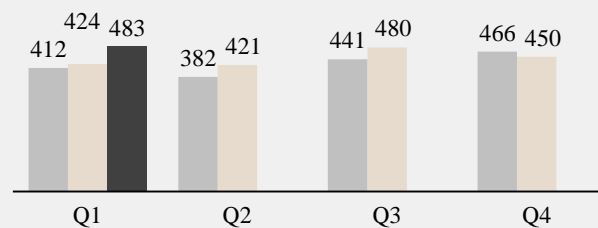


NET INTEREST INCOME (NII)

ISK m.

Positive development in NII

'18 '19 '20

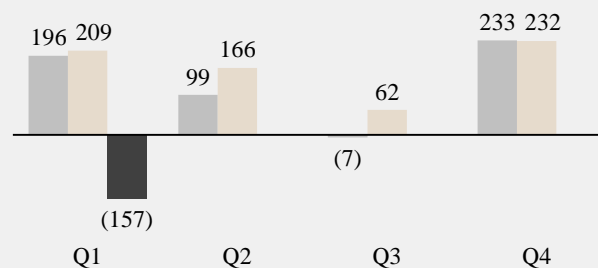


NET FINANCIAL INCOME (NFI)

ISK m.

NFI impacted by adverse market conditions

'18 '19 '20

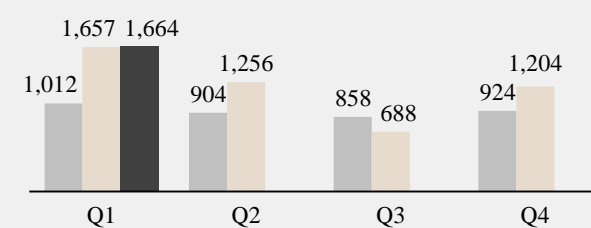


NET FEE AND COMMISSION INCOME (NFC)

ISK m.

Recurring NFC provide stability

'18 '19 '20

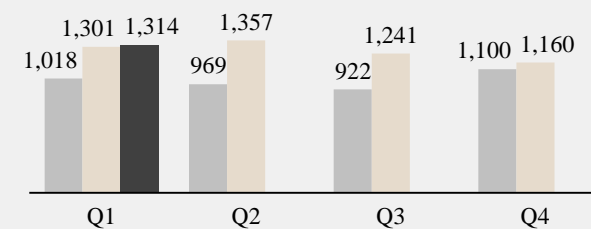


OPERATING EXPENSES (OPEX)

ISK m.

OPEX in line with expectations

'18 '19 '20



Income statement / 3M 2020

Return on equity 8.8% during the period



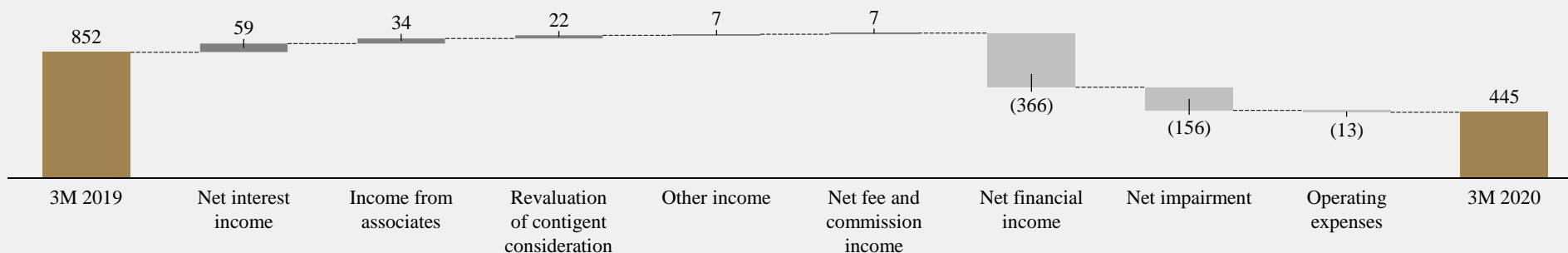
- Profit for the period amounted to ISK 336 million, negatively impacted by net financial income and net impairments
- Corresponding to an annualised 8.8% return on equity
- Net interest income increased 13.9% year-on-year despite cuts in policy rates
- Net fee and commission income ISK 1,664 million, a slight increase year-on-year
- Operating expenses ISK 1,314 million and increased 1% year-on-year in line with expectations
- Net impairments ISK 155 million
 - Q1 net impairments approximately double the amount in the budget for the period
- Net financial income negative ISK 157 million, impacted by adverse market conditions

INCOME STATEMENT

ISK m.	3M 2020	3M 2019
Net interest income	483	424
Net fee and commission income	1,664	1,657
Net financial income	(157)	209
Income from associates	7	(27)
Other income	34	26
Net operating income	2,031	2,289
Operating expenses	(1,314)	(1,301)
Net impairment	(155)	1
Revaluation of contingent consideration	(116)	(138)
Pre-tax profit	445	852
Taxes		
Income tax	(69)	(99)
Special tax on financial activity and institutions ¹⁾	(40)	(44)
After-tax profit	336	709
Earnings per share (EPS)	0.17	0.38
Diluted EPS	0.16	0.34

PRE-TAX PROFIT BRIDGE

FROM 3M 2019 to 3M 2020 ISK m.



1) Special tax on financial activity ISK 22 million and special tax on financial institutions ISK 18 million for 3M 2020

Assets

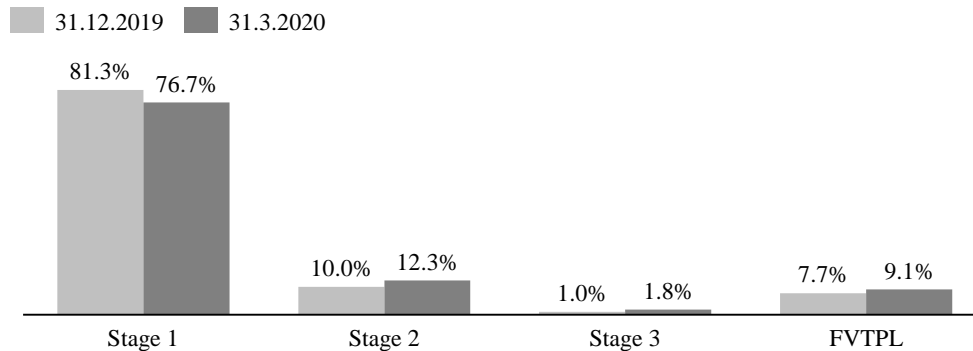
Significant increase in liquid assets



- In total, liquid assets amount to ISK 65.7 billion or 56% of total assets and 114% of all deposits from customers
 - Cash and balances with the Central Bank at ISK 48.1 billion
 - Other liquid assets include ISK 6.1 billion in listed government bonds and ISK 11.5 billion of other listed securities
- Financial instruments ISK 22.3 billion of which ISK 11.9 billion are for hedging
- Loans to customers increased ISK 0.8 billion from year-end 2019
 - The weighted average duration of the loan book was 1.46 year at the end of the period

CREDIT QUALITY OF LOAN BOOK ¹⁾

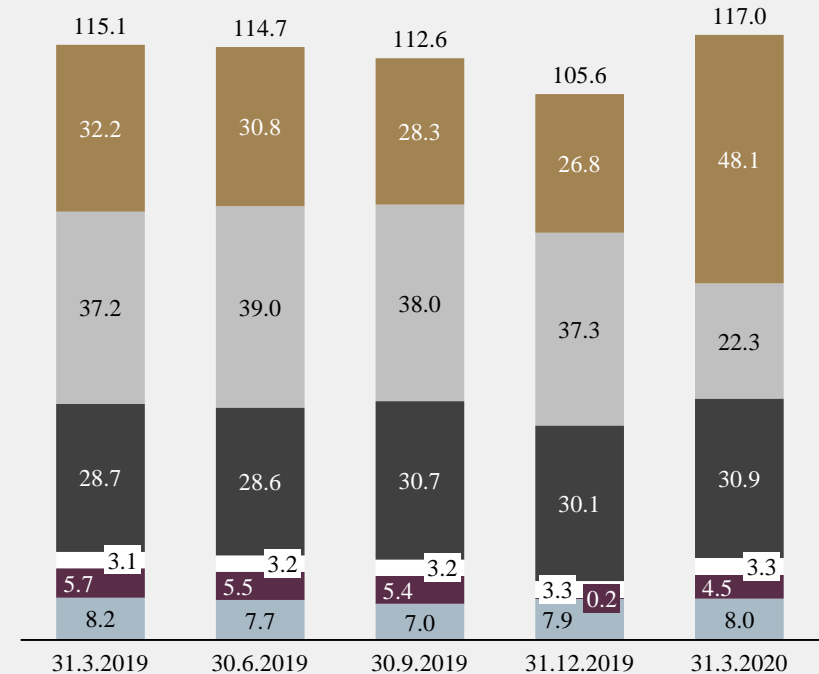
31.12.2019 and 31.03.2020



ASSETS

31.03.2019 to 31.03.2020 ISK bn.

- Cash and balances with Central Bank
- Financial instruments
- Loans to customers
- Intangible assets
- Unsettled transactions
- Other assets ²⁾



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

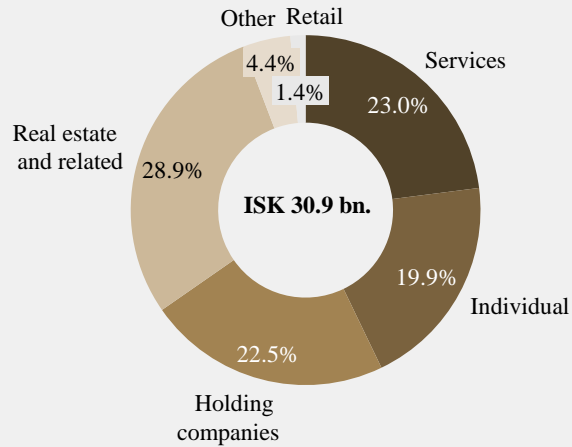
Diversified loan book

Tourism accounts for 6.5% of total loans to customers



BREAKDOWN OF LOAN BOOK

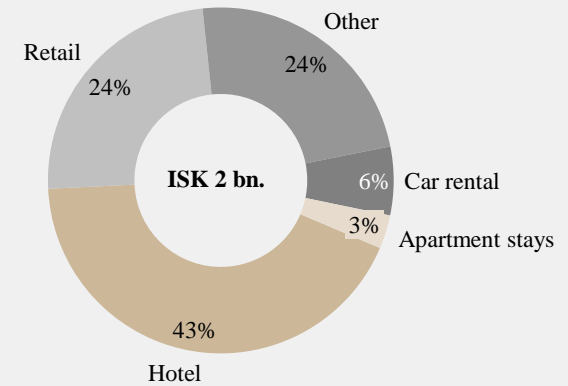
31.03.2020



Tourism is 6.5% of loans to customers

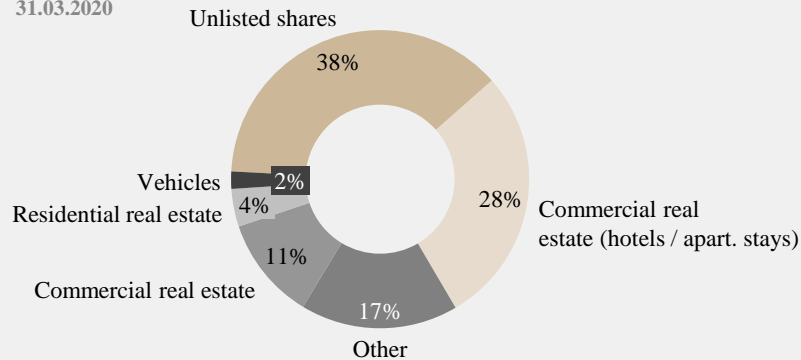
BREAKDOWN OF TOURISM

31.03.2020



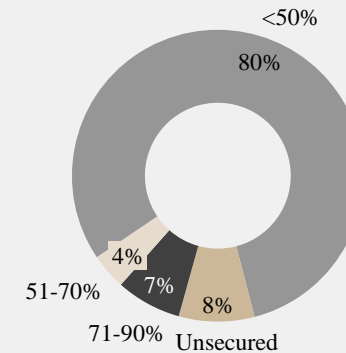
TYPE OF COLLATERAL FOR TOURISM

31.03.2020



LTV FOR TOURISM

31.03.2020



Liabilities

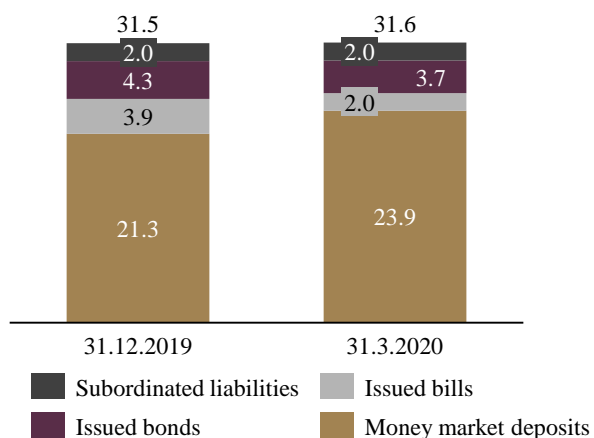
Increased diversification in funding



- Liquidity coverage ratio (LCR) 275% at end of the period
- Deposits to loans ratio remains high at 187%
- Deposits have increased by ISK 6.3 billion from year-end 2019
 - Increase mainly driven by retail deposits from individuals
- Outstanding issued debt securities amounted to ISK 7.7 billion
- Money market borrowings amounted to ISK 23.9 billion

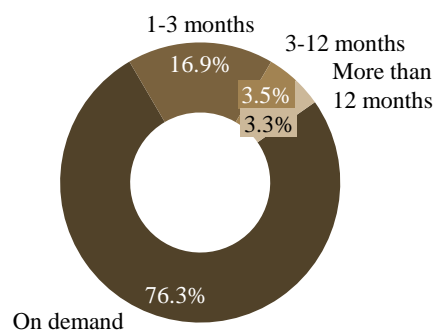
SECURITIES & BORROWINGS

31.12.2019 and 31.03.2020 ISK bn.



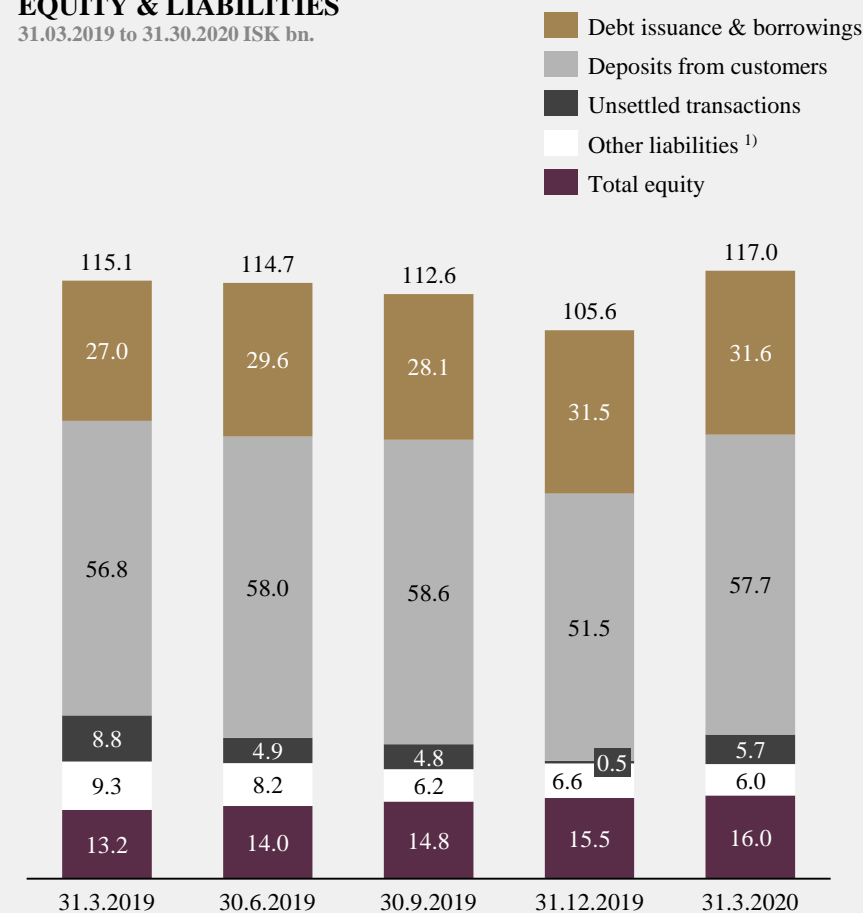
MATURITY OF DEPOSITS

31.03.2020



EQUITY & LIABILITIES

31.03.2019 to 31.30.2020 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

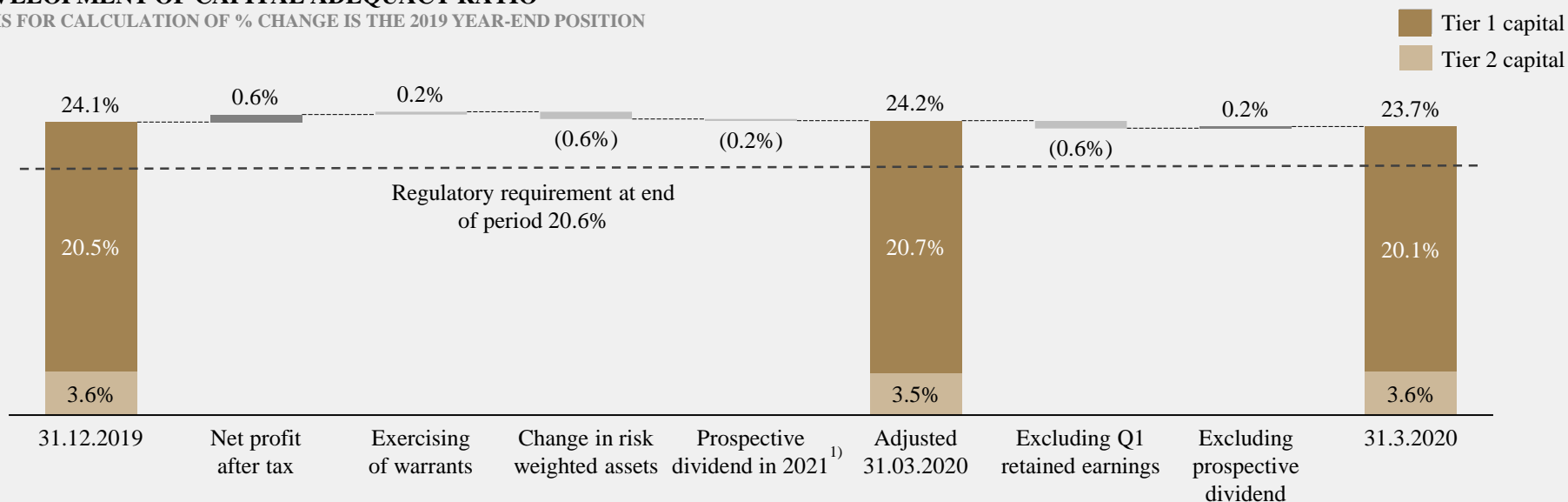
Capital adequacy ratio exceeds required capital buffers



- Capital adequacy ratio 23.7% at end of Q1
 - Including retained earnings and prospective dividend in 2021 the Capital adequacy ratio is 24.2%
- Capital base amounted to ISK 13,436 million and book value of equity at ISK 16,012 million
- Issues of new shares for warrants exercised and sale of new warrants in 2019 increased capital by ISK 125 million
- Increase in risk-weighted assets mainly attributable to loan portfolio
- Other balance sheet items relatively unchanged
- Minimum regulatory capital requirement is 20.6% as at 31 March 2020

DEVELOPMENT OF CAPITAL ADEQUACY RATIO

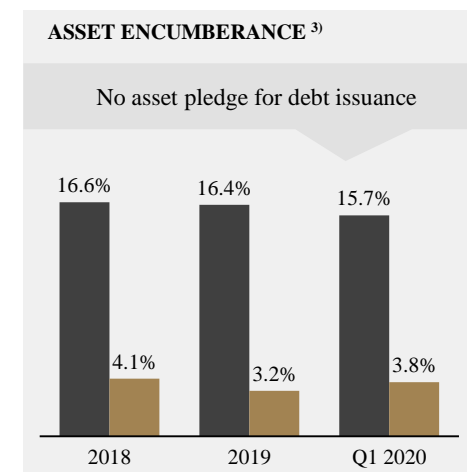
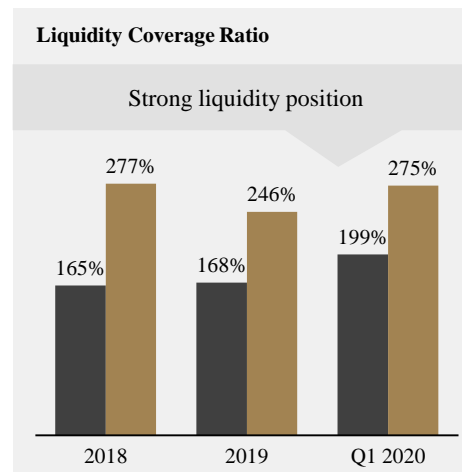
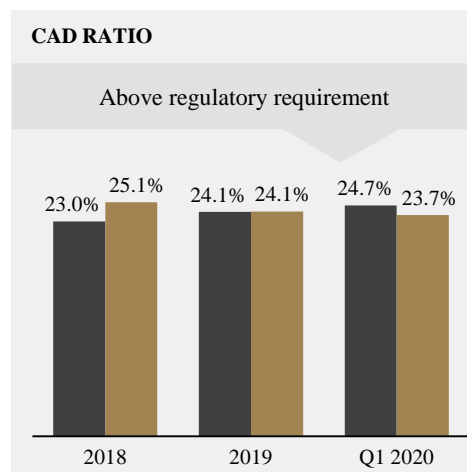
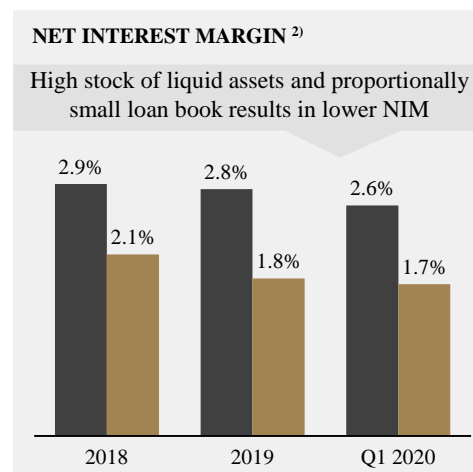
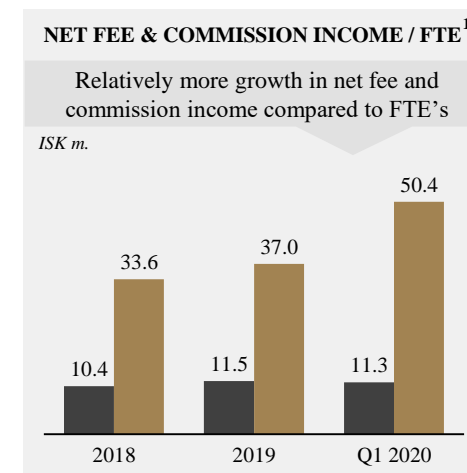
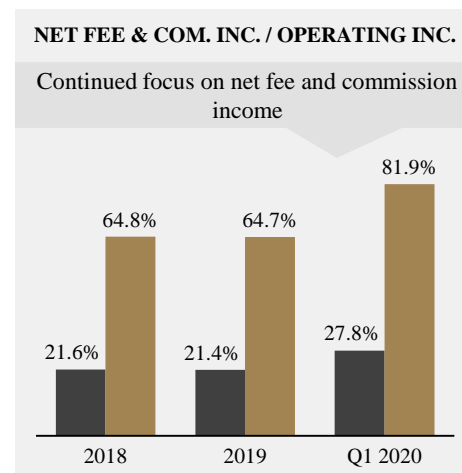
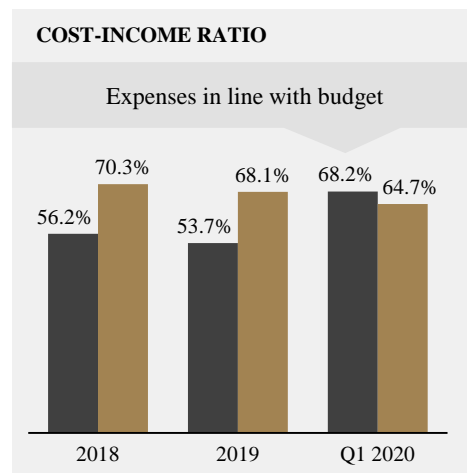
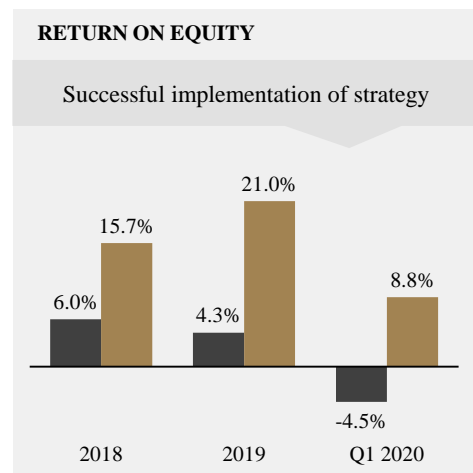
BASIS FOR CALCULATION OF % CHANGE IS THE 2019 YEAR-END POSITION



1) Based on Kvika's dividend policy

Comparison

Strategic focus reflected in key ratios



■ Domestic banks (simple average) ■ Kvika banki

1) Net fee & commission income / Average FTE. Annualised for Q1 2020
 2) On average carrying total book value of assets. Annualised for Q1 2020
 3) Defined as encumbered (pledged) assets / total assets
 Domestic banks consist of Arion, Landsbankinn and Islandsbanki



Earnings forecast 2020



Outlook for 2020

Profit before tax expected to be ISK 1,700 – 2,300 million



PROFIT BEFORE TAX

2016 to Updated 2020B ISK m.

