



Kvika

Listing on Nasdaq Iceland

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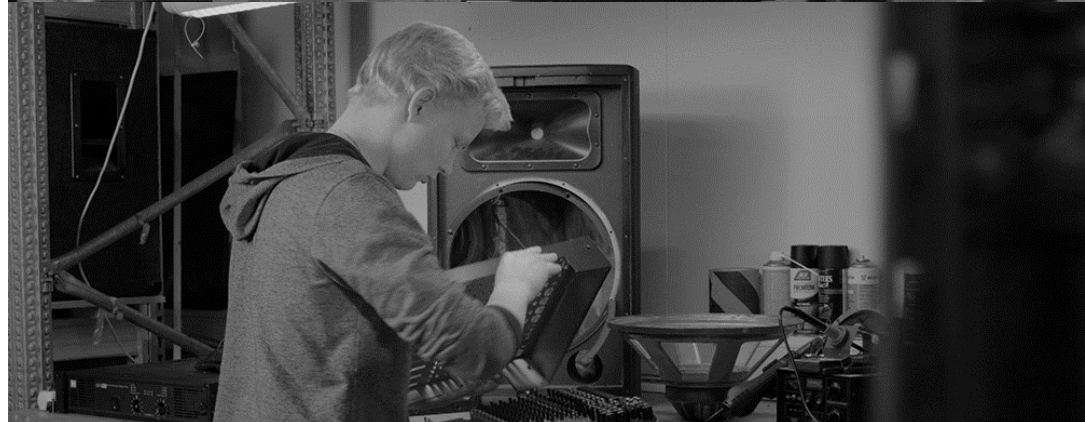
Summary





Kvika

Overview

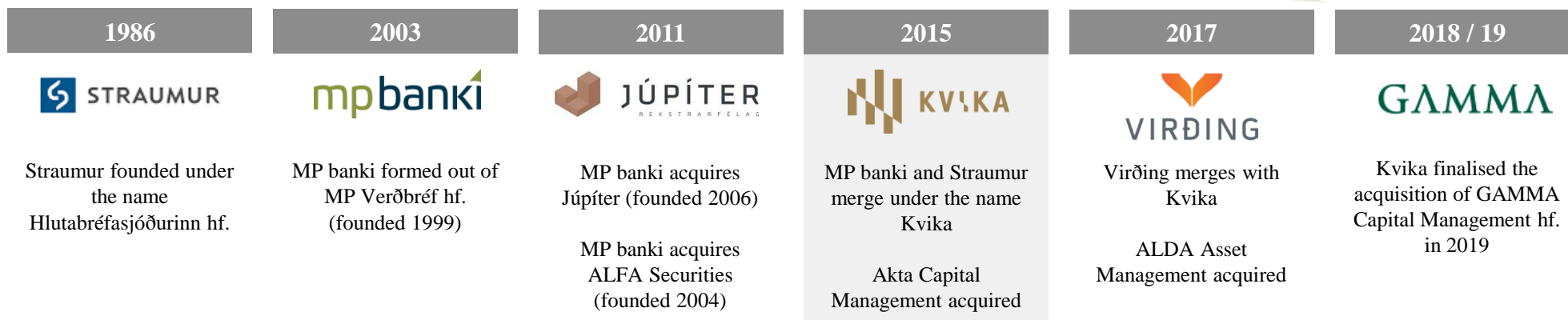


Strong foundation through consolidations

Increased efficiency and specialisation through multiple mergers

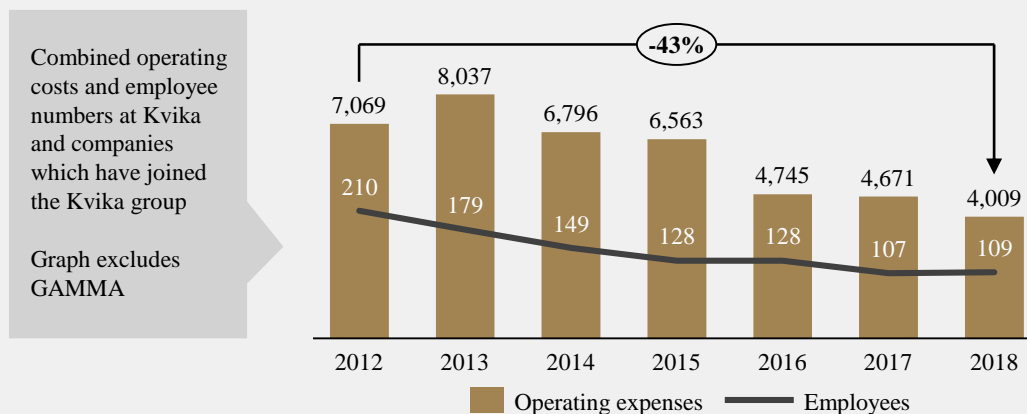


TIMELINE



DEVELOPMENT OF OPEX AND EMPLOYEES

OPEX in ISK m., real wages at 2018 price levels¹⁾



2012		2015		2018	
MP banki	125	Kvika	86	Kvika	109
Straumur	35				
Virðing	19	Virðing	38		
Auður	30				
ALDA	1	ALDA	4	GAMMA	23
GAMMA	9	GAMMA	17		
Employees	219	Employees	145	Employees	132

1) Statistics Iceland, based on real wage index, annual average for the period 2012-2018

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	907 – 1,076
AuM	ISK ~360 – 971 bn.
Deposits	ISK 466 – 693 bn.
Lending	ISK 834 – 1,065 bn.



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

Employees	132
AuM	ISK 426 bn.
Deposits	ISK 48 bn.
Lending	ISK 29 bn.

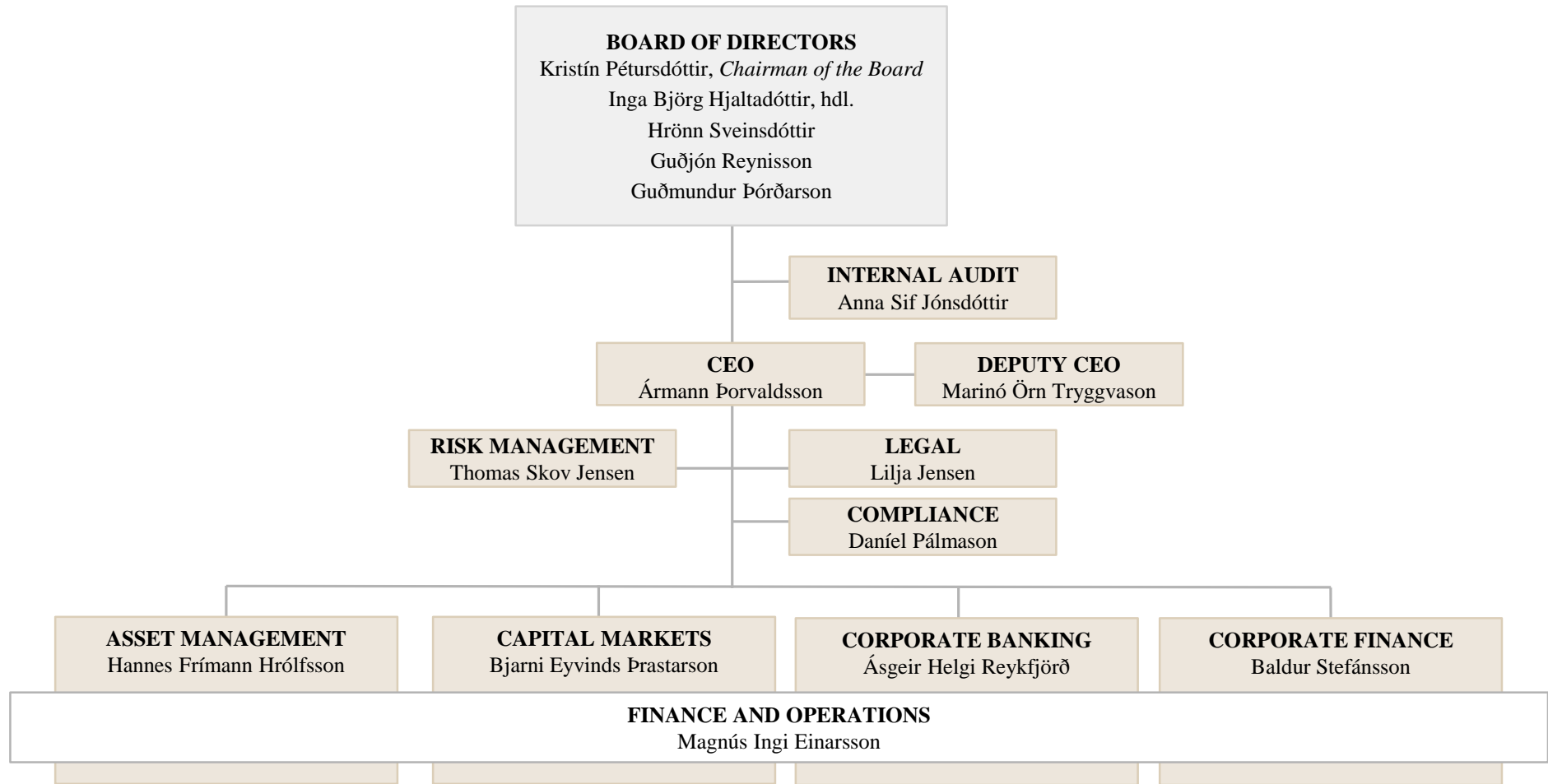


- Operating license as a securities company, fund management company or credit undertakings
- Specialised financial undertaking
- Services in asset management, securities trading, advisory and lending

Employees	<40
AuM	ISK 0 – ~120 bn.
Deposits	ISK 0 bn.
Lending	ISK 0 – 30 bn.

Organisational chart

Experienced management team



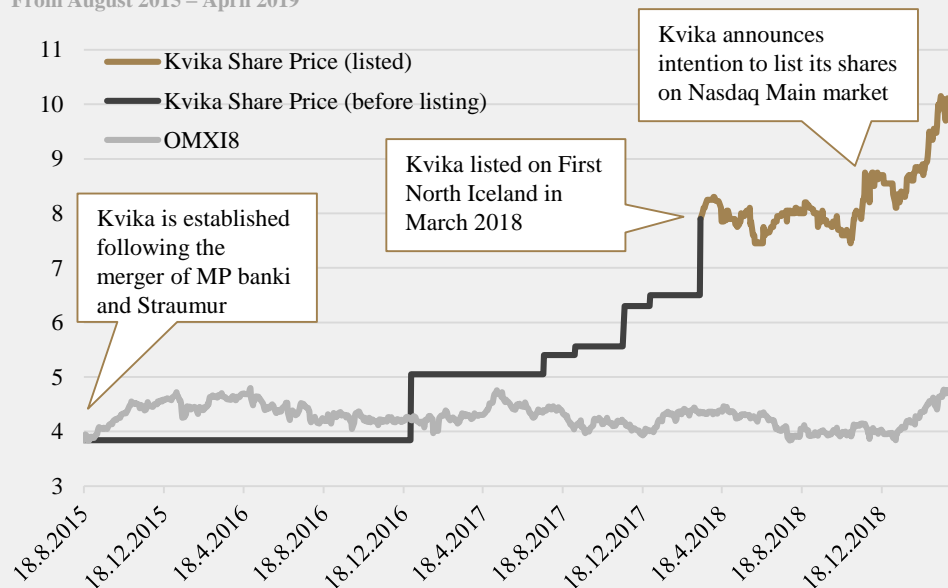
Strong results reflected in share price

Long-term alignment of interests and diversified shareholder base

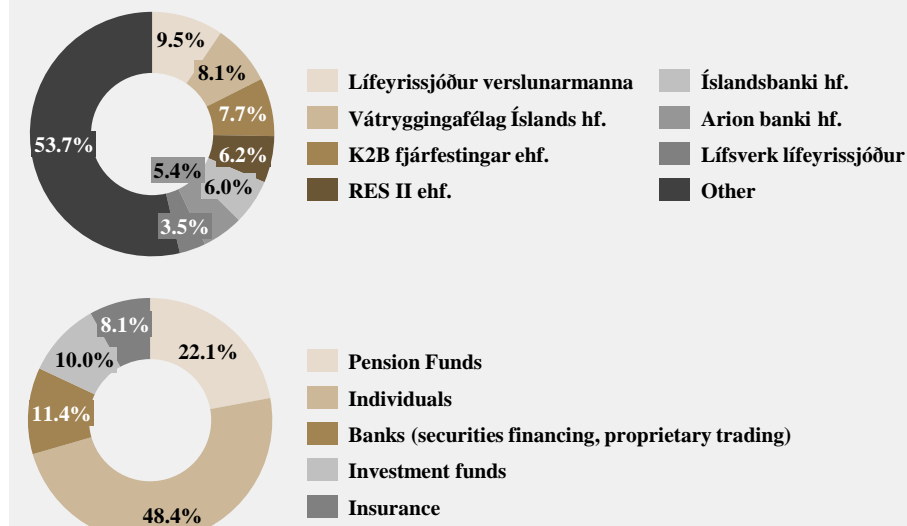


SHARE PRICE DEVELOPMENT

From August 2015 – April 2019



SHAREHOLDERS



As of 26.03.2019

SUMMARY OF OUTSTANDING WARRANTS

	Total	2019	2020	2022
Warrants due date (nominal)	687,986,138	58,486,138	209,833,333	419,666,667
Outstanding warrants as a percentage of total issued capital, post dilution ¹⁾	27.2%	24.9%	16.6%	0.0%
Strike price at expiry date		4.45	6.91 / 7.83 / 9.52	7.98 / 9.04 / 11.01

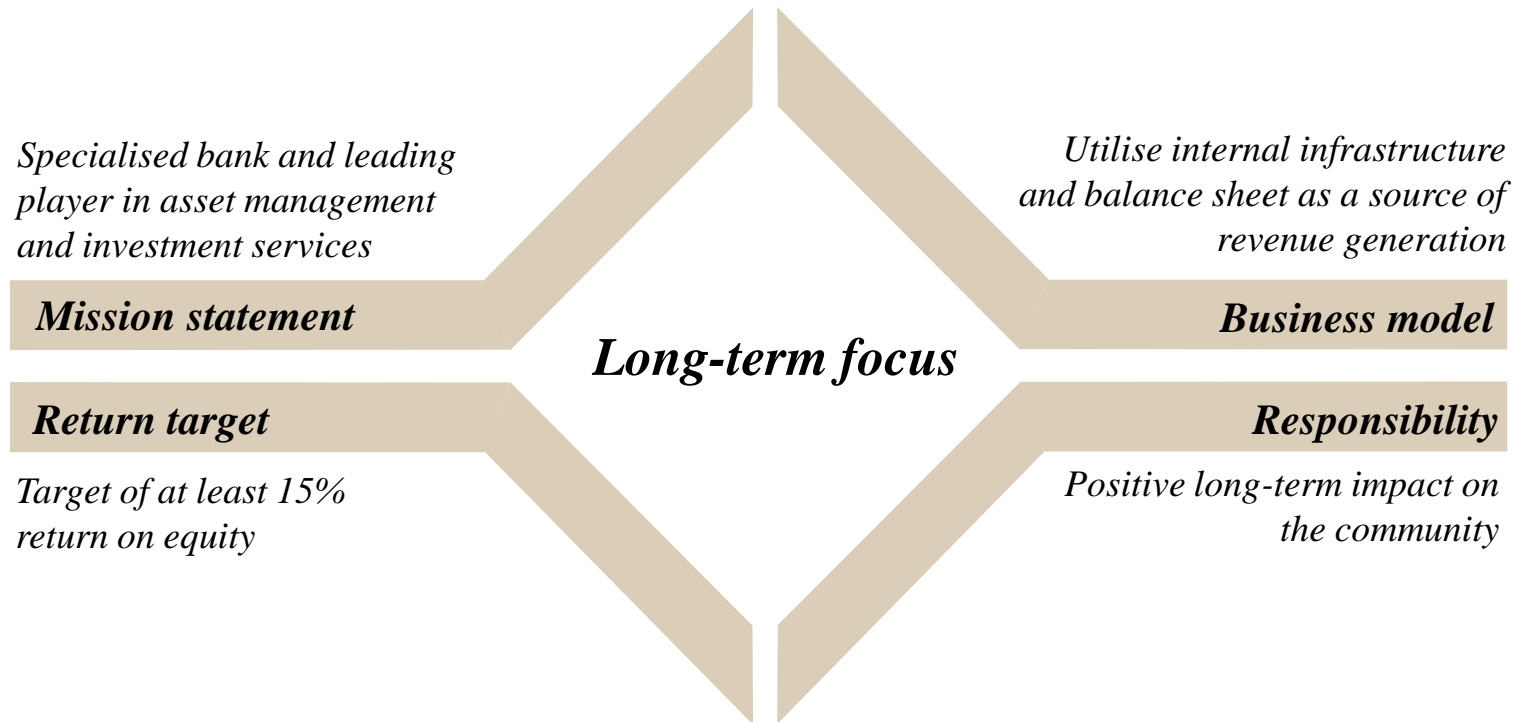
Employees are indirect shareholders, ensuring long-term alignment of interest

Source: Nasdaq Iceland

1) The Board of Directors of the Company is authorised, until the Company's Annual General Meeting in 2020, to issue warrants for 100,000,000 new shares

Kvika's strategy

Strategic focus on long-term profitability



1 Low legacy costs

3 Potential expansion unlikely to cannibalise revenue

5 Licenses and infrastructure of a retail bank but without branch overhead

2 Substantial fee income

4 Potential expansion and increased market share leads to economies of scale

6 Challenger bank mindset with focus on fintech solutions

In prime opportunity to develop a bank that is structured for the current economy, competing with incumbents with inherited business models

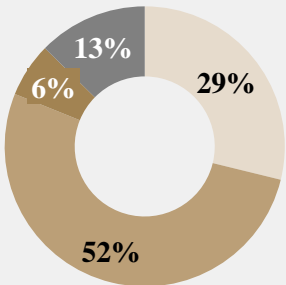
Specialised segments

Balanced mix of revenues from balance sheet and fees



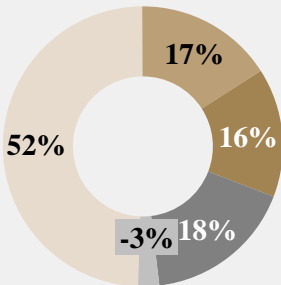
PROFIT MARGIN SEGMENT SPLIT

Profit before cost allocation and tax. Excludes Proprietary trading, treasury, support functions and eliminations / (%)



NET FEE AND COMMISSION INCOME SPLIT

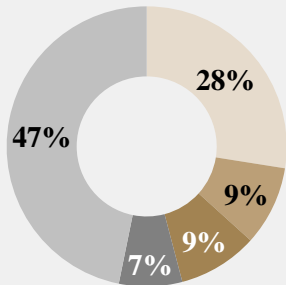
(%)



SEGMENTS FTE, % OF TOTAL FTE

(%)

Business units account for more than half of Kvika's employees



Asset Management Corporate Banking Corporate Finance Capital Markets Other

The income consists of revenue generated from the bank's balance sheet plus commissions from activities which tie up minimum capital resulting in higher return on equity compared to other domestic banks

Simple business model

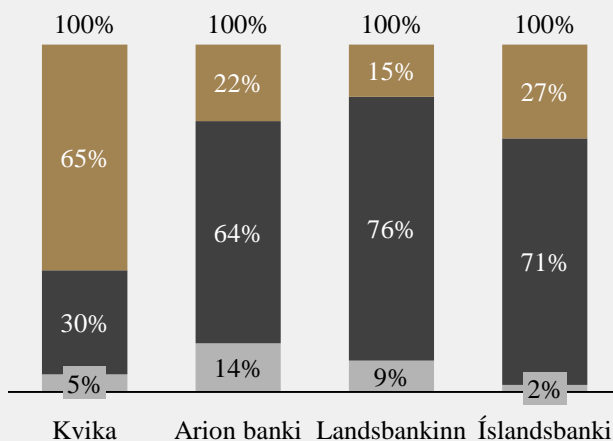
Strategic focus results in high proportion of fees and commission income



NET OPERATING INCOME SPLIT

(%) / 2018

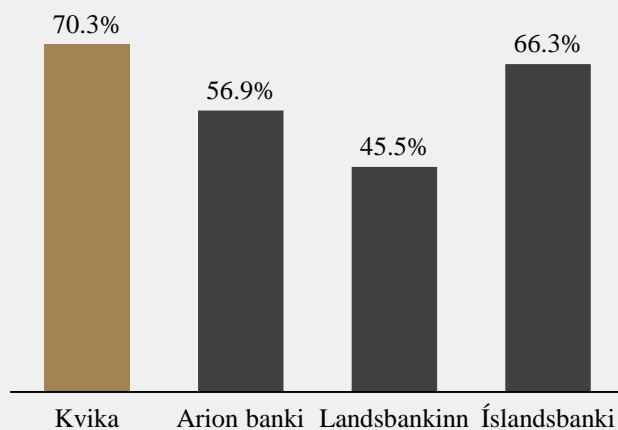
The net fee and commission income of Kvika weighs far more compared to the other banks ...



COST INCOME RATIO

(%) / 2018

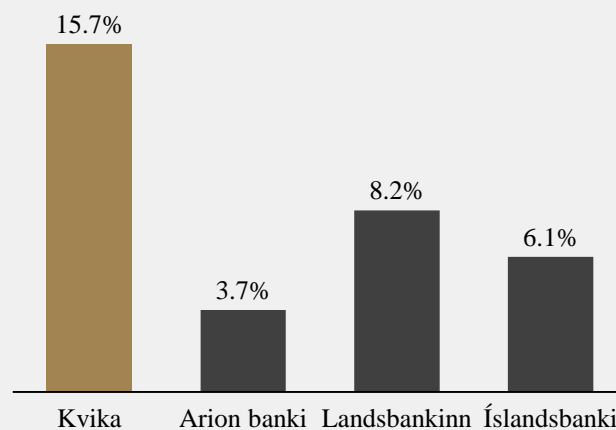
...which results in a higher cost income ratio...



RETURN ON EQUITY

(%) / 2018

...however, return on equity is higher reflecting less capital intensive operations



- Net fee and commission income
- Net interest income
- Other income

Corporate Banking (1/2)

Niche lending and tailored financing

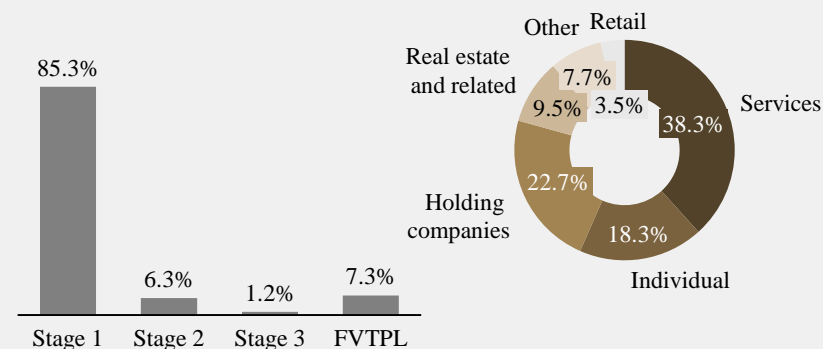


Strategic focus

- Maintain high turnover
- Leverage infrastructure and utilise fintech
- Efficient market pricing of risk through sale of debt instruments
- Duration in line with the banks funding
- Increasingly diversified deposit financing with Auður

CREDIT QUALITY AND BREAKDOWN OF LOAN BOOK

As of 31.12.2018



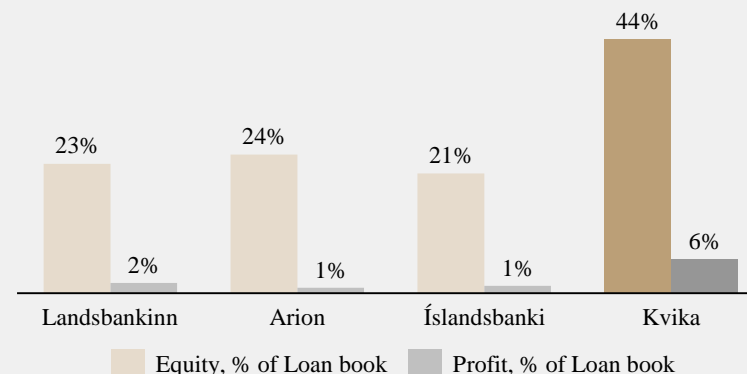
Services provided

Overview 2018

Real estate	Guarantees and risk sharing	Turnover of loan book	+1.85x
		Depositors	~5,700
Securities, bridge and mezzanine financing	Project financing	Borrowers	~900
		End-borrowers	+12,000

EQUITY AND PROFIT, % OF LOAN BOOK

As of 31.12.2018



Corporate Banking (2/2)

Focus on return on allocated capital



Favorable funding source

- Deposits/loans ratio over 170%, providing cover from fluctuations in wholesale funding
- New savings account platform, Auður, provides reliable funding due to greater client distribution

High gross-yield on loan book

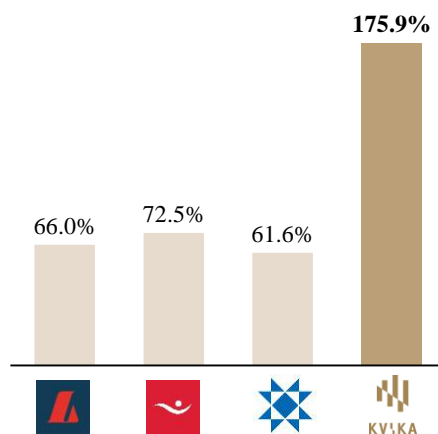
- The bank competes in service rather than pricing
- Kvika's size works to its advantage by being versatile and efficient
- Consequently, the bank has had higher gross-yields on its loan book than its competitors

Robust commissions from lending activities

- Short maturity of the loan book has resulted in a higher proportion of fees from lending activity, i.e. higher arrangement fees
- The bank brokers loans to market participants, creating fees while limiting on-balance sheet risk and use of equity

DEPOSITS FROM CUSTOMERS / LOANS TO CUSTOMERS

(%)



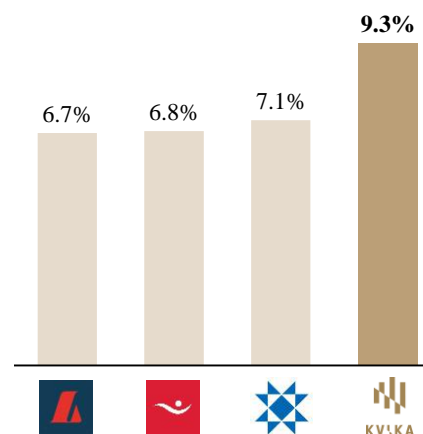
2018 (ISK m.)

Loan book ¹⁾	990,858	802,689	760,744	27,221
Deposits from customers ²⁾	653,517	581,649	468,408	47,891

1) Loans from customers, average of end of each reported quarter over the year
2) Deposits from customers, average of end of each reported quarter over the year

GROSS INTEREST INCOME FROM LOANS / LOAN BOOK 2018

(%)



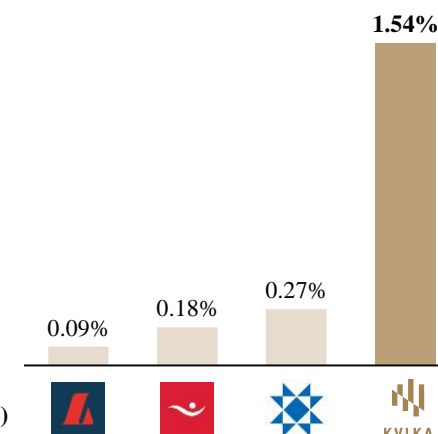
2018 (ISK m.)

Loan book ¹⁾	990,858	802,689	760,744	27,221
Gross interest income ²⁾	66,427	54,287	53,811	2,529

1) Loans from customers, average of end of each reported quarter over the year
2) Gross interests, not including commissions from loans and guarantees

COMMISSIONS FROM LOANS AND GUARANTEES / LOAN BOOK 2018

(%)



2018 (ISK m.)

Loan book ¹⁾	990,858	802,689	760,744	27,221
Commissions from loans and guarantees	892	1,467	2,050	420

1) Loans from customers, average of end of each reported quarter over the year

Asset Management (1/2)

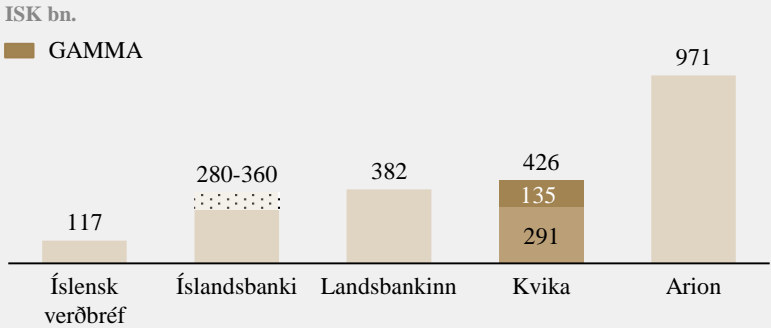
Among the largest asset managers in Iceland



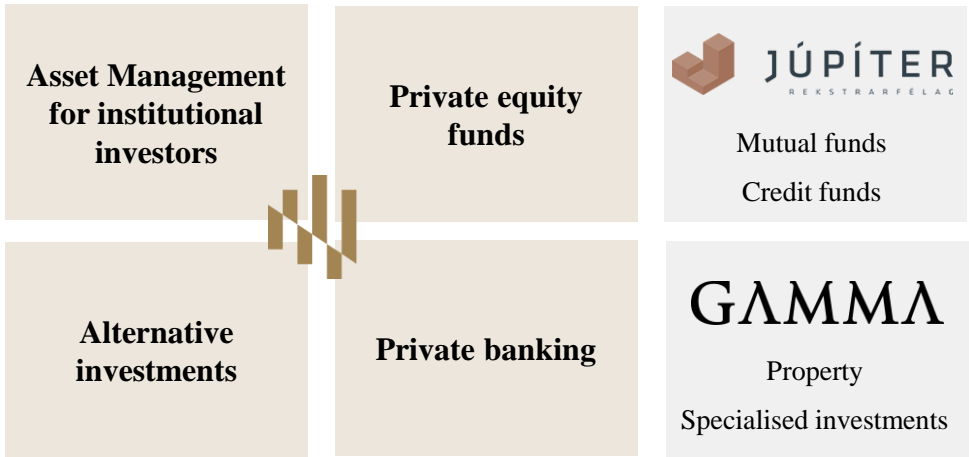
Strategic focus

- Backbone of Kvika’s operations and majority of front office employees
- Wide range of international investment opportunities
- Long term fiduciary duties
- Market development suggests that savings will be increasingly placed with asset managers instead of banks balance sheets

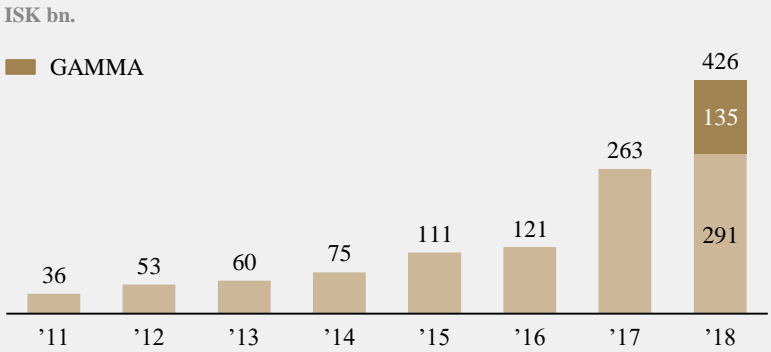
ASSETS UNDER MANAGEMENT OF KEY PLAYERS



The Asset Management division bases its operations on four pillars and two strategic fund management subsidiaries



ASSETS UNDER MANAGEMENT OF KVIKA



Source: Assets under management from 2018 financial statements, except for Íslensk verðbréf which is from 2017. As Íslandsbanki does not publish their AuM, estimation is based on Competition Authority figures from resolution report on merger of Kvika and GAMMA where Íslandsbanki is estimated to have a 10%-15% market share. Íslandsbanki does release AuM figures for subsidiary Íslandssjóðir (2018: ISK 267 bn.)

Asset Management (2/2)



Increased diversification with the acquisition of GAMMA

Results of recent acquisitions

Increased profitability

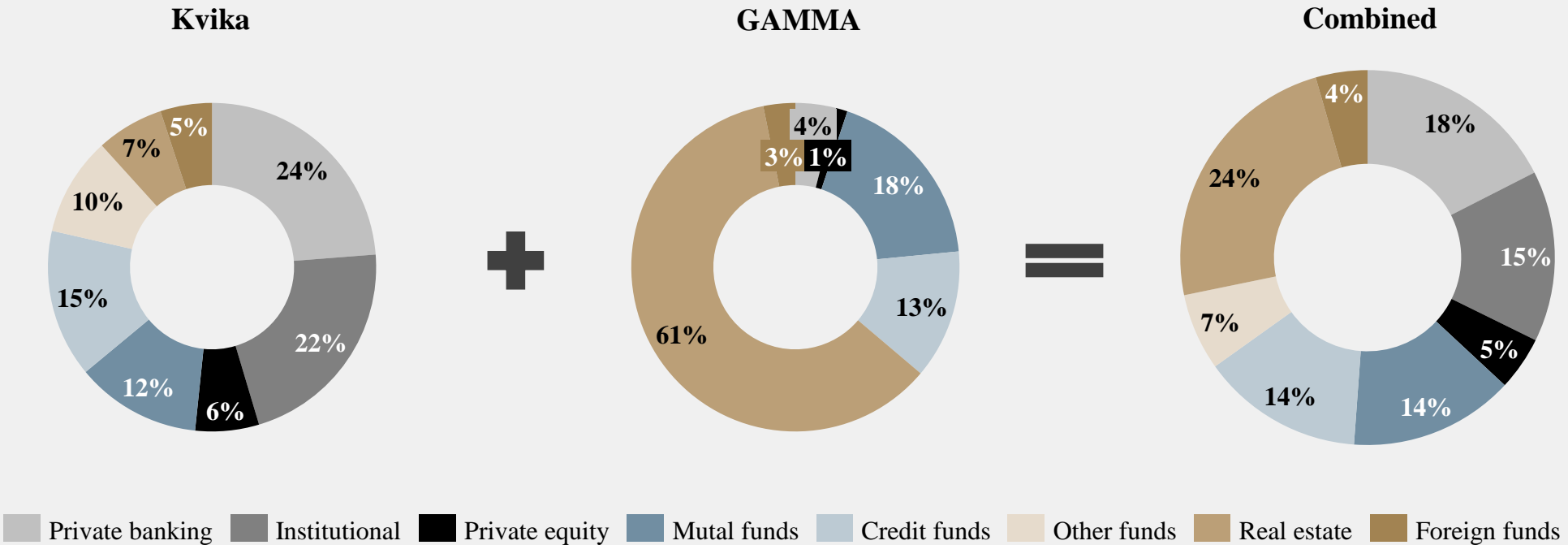
Increased specialisation

Further diversification of AuM

Strengthening of human capital

DISTRIBUTION OF ASSETS UNDER MANAGEMENT BY ASSET CLASS

As of 31.12.2018



Corporate Finance

Leading investment banking advisory

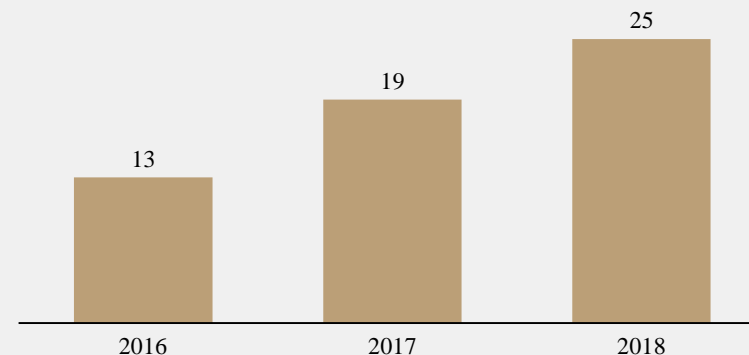


Strategic focus

- Opportunistic and value-adding investment banking services
- Project origination and execution with other divisions
- Emphasis on mid-sized projects that generate a stable revenue base with high likelihood of successful execution in addition to large projects with element of fixed fees that have significant upside potential

SEGMENT PROFIT PER EMPLOYEE

Before cost allocation and tax / ISK m.



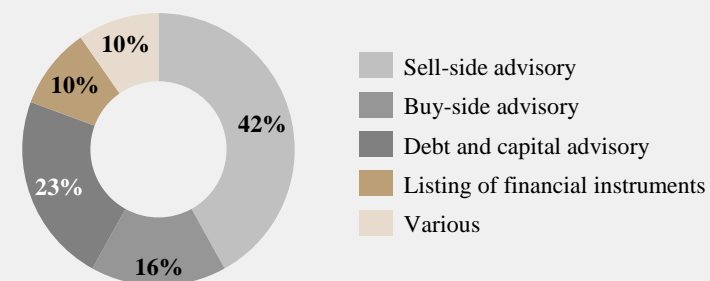
Services provided

Overview

Acquisitions, divestments and mergers	Strategic reviews	# of paying customers 2018	+30
Listings and offerings	Debt and capital advisory	Current # of active projects	+40

2018 PROJECTS BY TYPE

(%)



Capital Markets

Comprehensive services with focus on professional investors

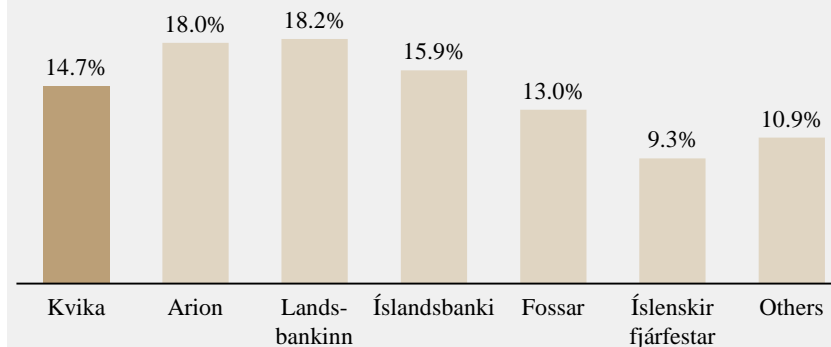


Strategic focus

- Efficient market pricing of risk through trading of equity and debt on listed markets
- Securities financing plays a considerable role in service offering
- Foreign exchange offering provides local knowledge that is key to client's success

MARKET SHARE NASDAQ ICELAND 2018

Total market share, fixed income and equities



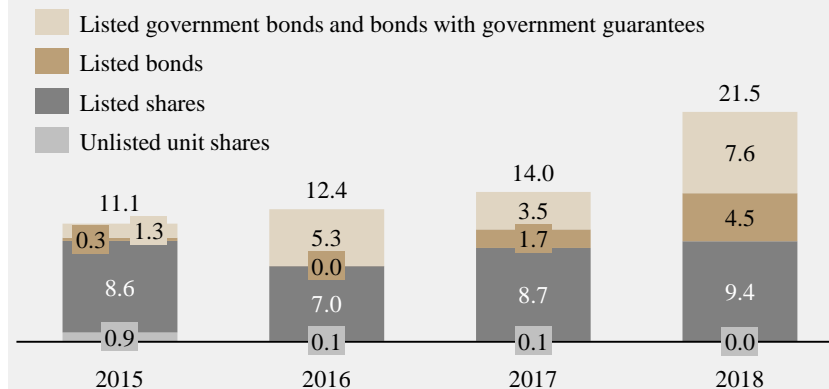
Services provided

Overview 2018

Equities	Fixed income	Market share Nasdaq Iceland 2018	14.7%
Foreign exchange	Derivatives	Securities financing % of total assets	24.4%

SECURITIES FINANCING DEVELOPMENT

Securities used for hedging, ISK bn.





Financials

Solid growth in 2018



Income statement

Strong core operations



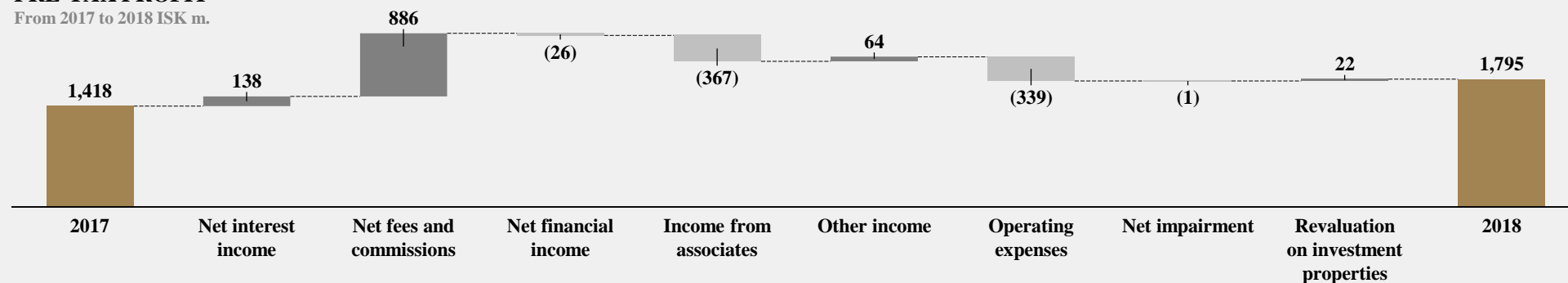
- Profit for the period amounted to ISK 1,752 million, an increase of 10% year-on-year
- Return on equity for the period at 15.7%
- Net interest income increased 9% year-on-year
 - Mostly contributed by increased lending
- Net fee and commissions ISK 3,698 million, an increase of 32% year-on-year
 - 85% of the increase contributed by asset management
- Operating expenses amounted to ISK 4,009 million and increased 9% year-on-year
 - Attributable to an increase in number of employees following the acquisitions of Virðing and Alda
- Loss from associates amounted to ISK 303 million

INCOME STATEMENT

ISK m.	2018	2017
Net interest income	1,701	1,563
Net fees and commissions	3,698	2,812
Net financial income	522	547
Income from associates	(303)	64
Other income	87	23
Net operating income	5,705	5,009
Operating expenses	(4,009)	(3,670)
Net impairment	(15)	(14)
Revaluation on investment properties	115	92
Pre-tax profit	1,795	1,418
Taxes		
Income tax	110	249
Special bank taxes	(153)	(75)
After-tax profit	1,752	1,591
Earnings per share (EPS)	0.95	1.07
Diluted EPS	0.86	1.03

PRE-TAX PROFIT

From 2017 to 2018 ISK m.



Balance sheet

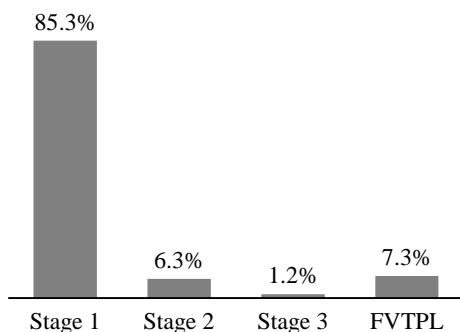
Highly liquid balance sheet and a strong capital ratio



- In total, liquid assets amounted to ISK 48.6 billion or 55% of total assets and 101% of all deposits from customers
 - Cash and balances with the Central Bank at ISK 21.3 billion
 - Other liquid assets include ISK 9.5 billion in listed government bonds and ISK 17.8 billion of other listed securities
- Financial instruments ISK 30.8 billion of which ISK 21.5 billion are for hedging
- Lending increased ISK 4.1 billion year-on-year while the weighted duration of the loan portfolio decreased and is now 1.06 years
 - Fees and commissions from lending remain high
 - 85.3% of gross loans to customers in stage 1

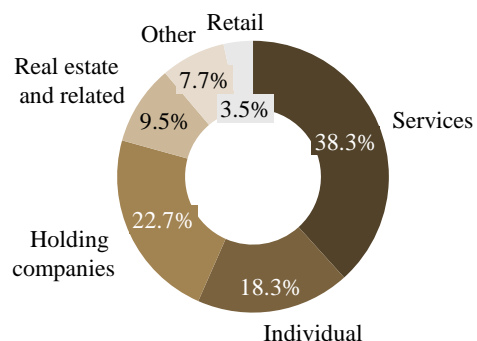
CREDIT QUALITY OF LOAN BOOK ¹⁾

31.12.2018



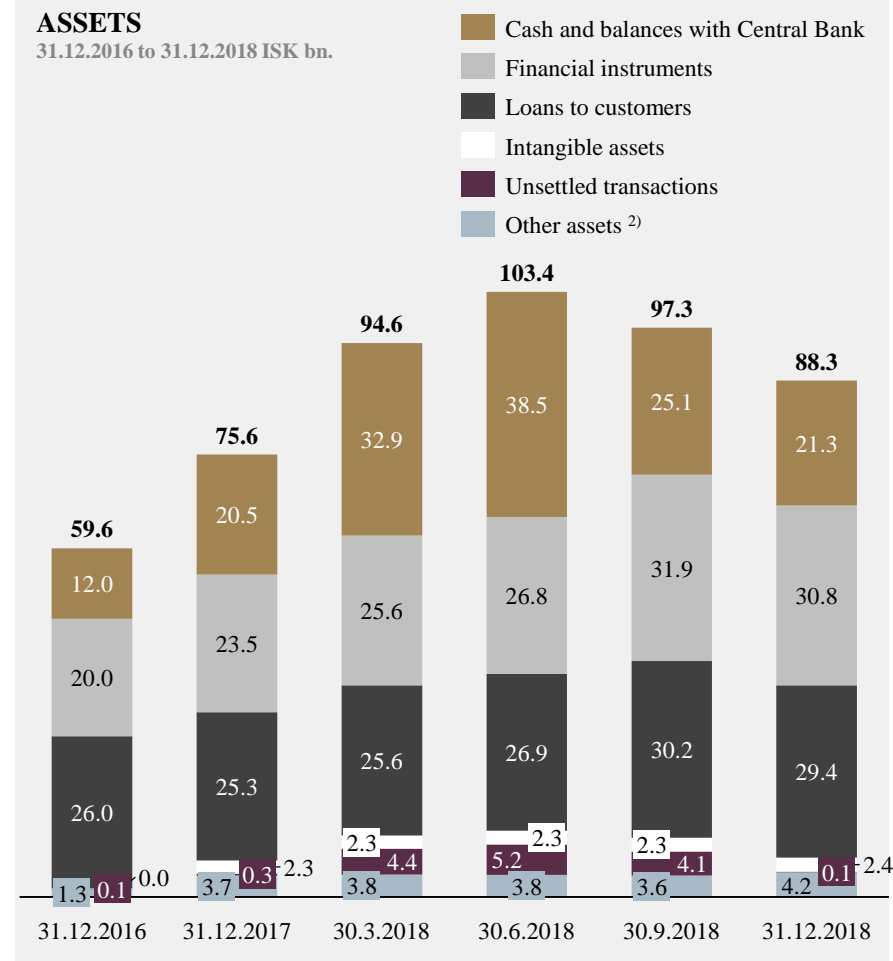
BREAKDOWN OF LOAN BOOK

31.12.2018



ASSETS

31.12.2016 to 31.12.2018 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, Sundry assets and Assets classified as held for sale

Balance sheet

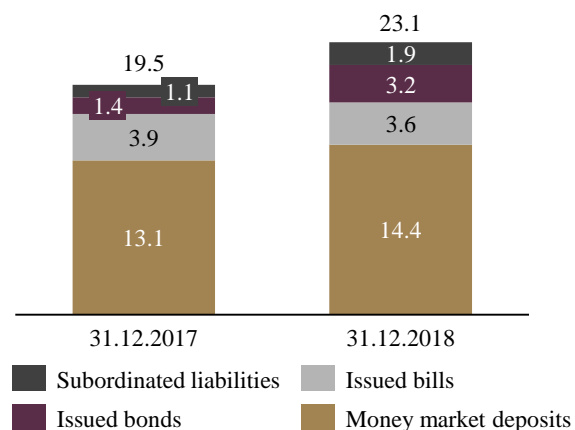
Well balanced funding with a high ratio of deposits



- Deposits in relation to loans to customers is high (over 163%) and provides cover from fluctuations in wholesale funding
- Liquidity coverage ratio (LCR) 277% at year end 2018
- Deposits grew by ISK 6.1 billion from year-end 2017
 - Time deposits increased by ISK 6.7 billion
- Bond issuance increased during the year
 - Three and two year senior unsecured bond issuance increased by 2.8 billion
 - New ten-year subordinated bond issuance of ISK 800 million
 - Total debt issuance at year-end amounted to ISK 8.7 bn.

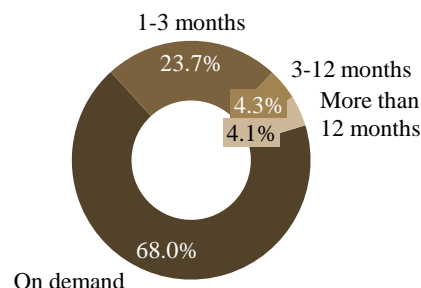
DEBT ISSUANCE & BORROWINGS

31.12.2017 and 31.12.2018 ISK bn.



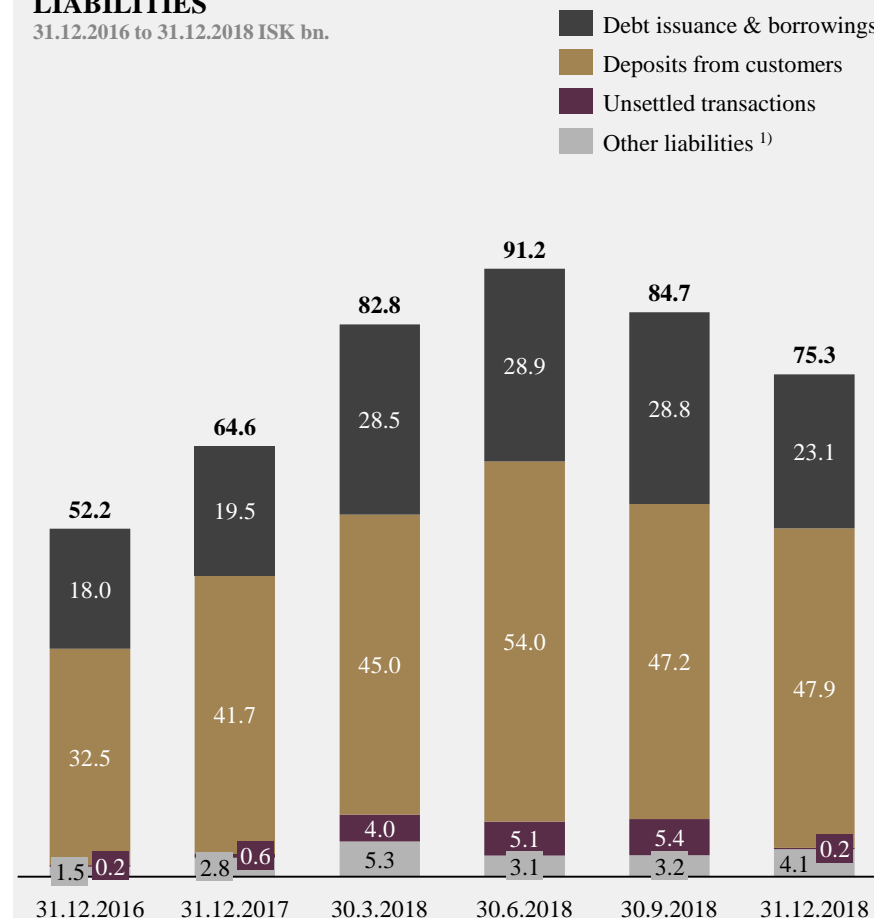
MATURITY OF DEPOSITS

31.12.2018



LIABILITIES

31.12.2016 to 31.12.2018 ISK bn.



1) Other liabilities include Current tax liabilities, Deferred tax liabilities, Account payable and accrued expenses, Expected credit loss allowance for loan commitments, guarantees and unused credit facilities, Special taxes on financial institutions and financial activities, Short positions held for trading and used for hedging, Derivatives, Withholding taxes, Salaries and salary related expenses, Loans from credit institutions, Other borrowings and Other liabilities

Solid capital position

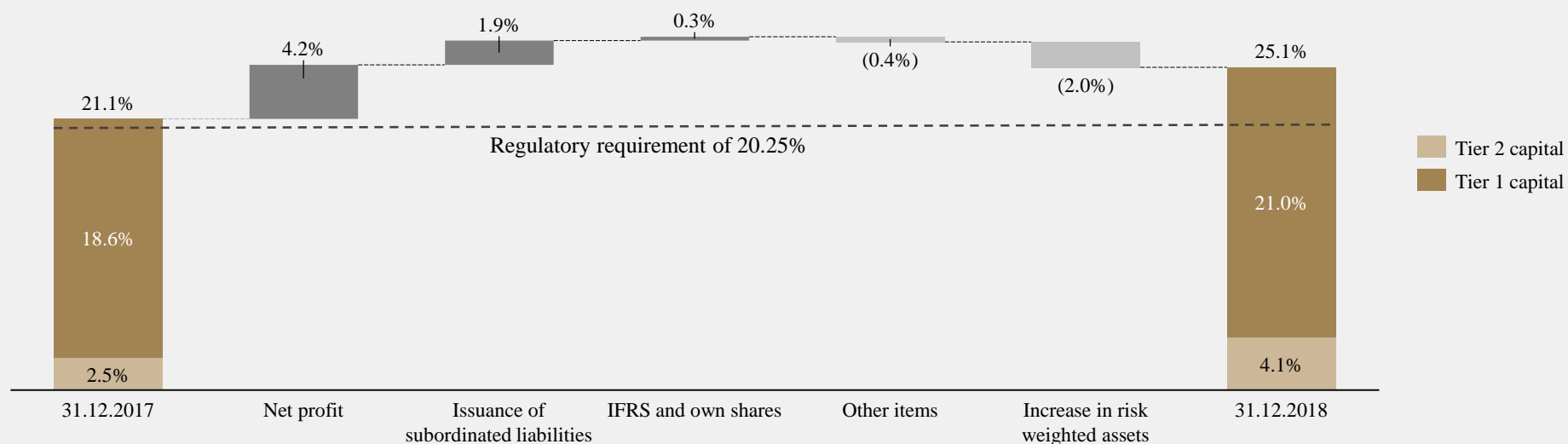
Capital adequacy ratio exceeds required capital buffers



- Capital adequacy ratio 25.1% at end of year 2018
 - Well above 20.25% regulatory requirements
 - Regulatory requirement with capital buffers 20.75% as of 15.5.2019
- The Bank's objective is to maintain a capital ratio above regulatory requirements including capital buffers which will be fully implemented in 2019
- New ten-year subordinated bond for a total of ISK 800 million increases CAD by 1.9%
- Capital base amounts to ISK 11,642 million but book value of equity at year-end was ISK 12,908 million
- Dividend payment for 2018 amounted to ISK 443 million, reducing CAD by 1% to 24.1%

DEVELOPMENT OF CAPITAL ADEQUACY RATIO

Basis for calculation of % change is the 2017 year-end position

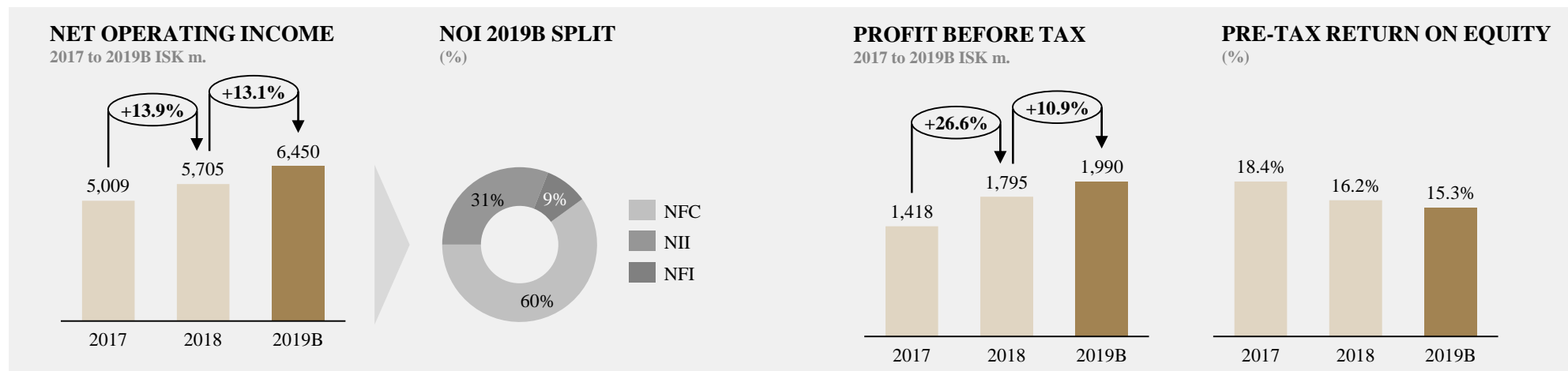


Budget 2019

Profit before tax expected to reach ISK 1,990 million



- Net operating income for 2019 is estimated at ISK 6,450 million
 - 60% as net fee and commission income
 - 31% as net interest income
 - 9% as net financial income
- Profit before taxes expected to be ISK 1,990 million
 - Expected increase of ISK 195 million year-on-year
- Pre-tax return on equity expected to be 15.3%
- Total assets expected to amount to ISK 108 billion at year-end 2019
- The acquisition of GAMMA Capital Management hf. is not included in the budget
 - The Bank's pre-tax profit is expected to increase by ISK 300-400 million per year following the acquisition





Financial Markets

Opportunities in a changing environment



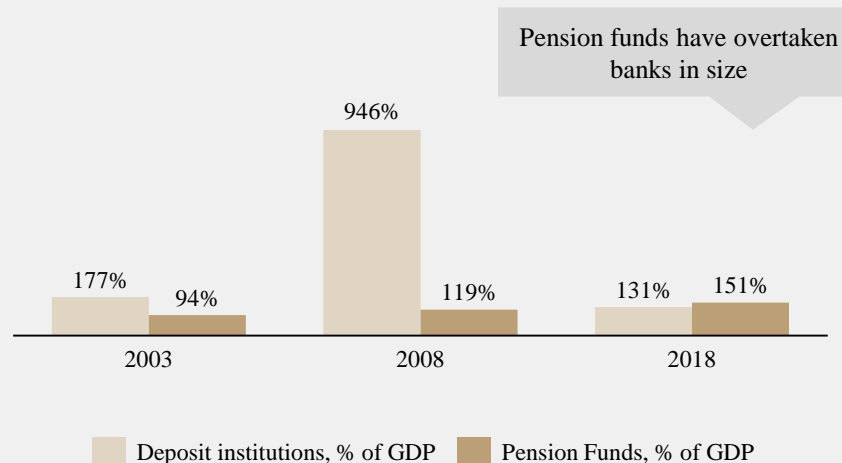
The Icelandic banking sector

The current banking sector is shaped by history



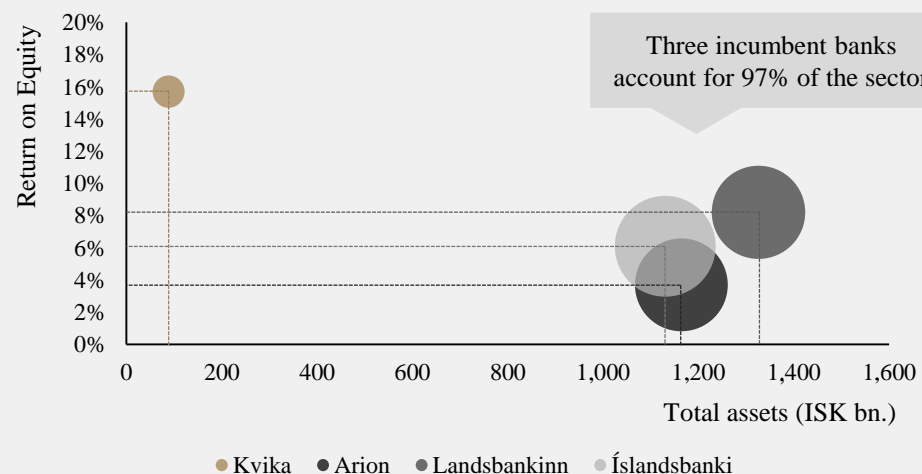
- Complex business models have not been simplified in order to efficiently service owners of capital and meet the needs of clients
- The incumbent banks downsized; from aspirations on servicing millions worldwide to focusing on domestic clients
- Legacy costs and mismatch in funding due to the shift in market dynamics in Iceland
 - No senior unsecured domestic funding other than deposits and collateralised debt
 - Increased focus likely to be placed on utilising infrastructure instead of balance sheet
- The result is a banking system where business models do not accurately reflect market requirements nor the Icelandic economy

THE BANKING SECTOR HAS DECREASED SUBSTANTIALLY (%)



COMPARISON OF COMMERCIAL BANKS IN ICELAND

Return on Equity against Total assets / bubble size represents total FTEs



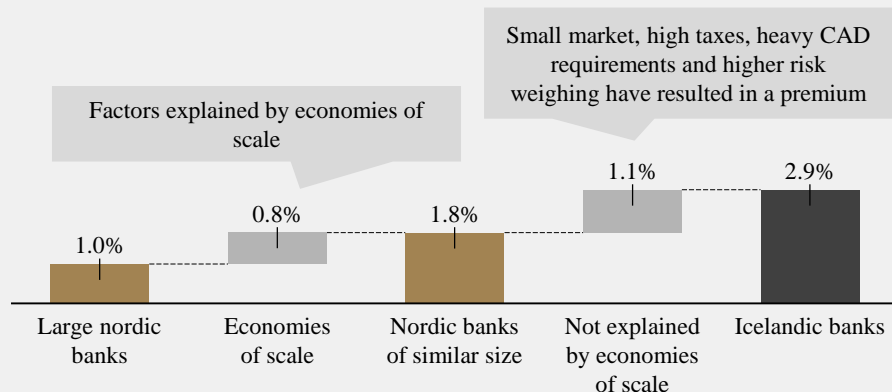
Nordic comparison

High costs outweigh higher net interest margin



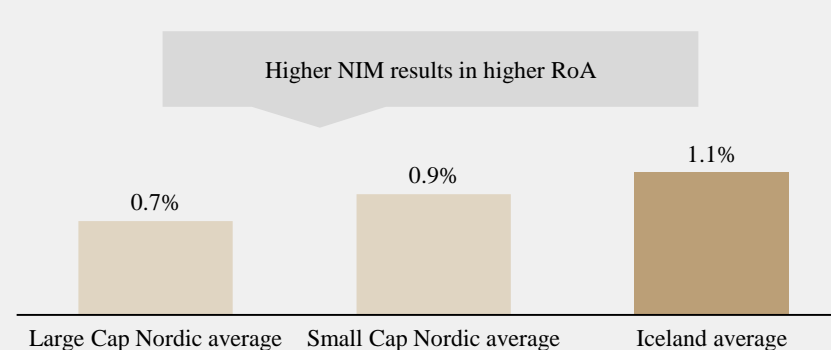
NET INTEREST MARGIN

Icelandic incumbent banks vs. Nordic banks



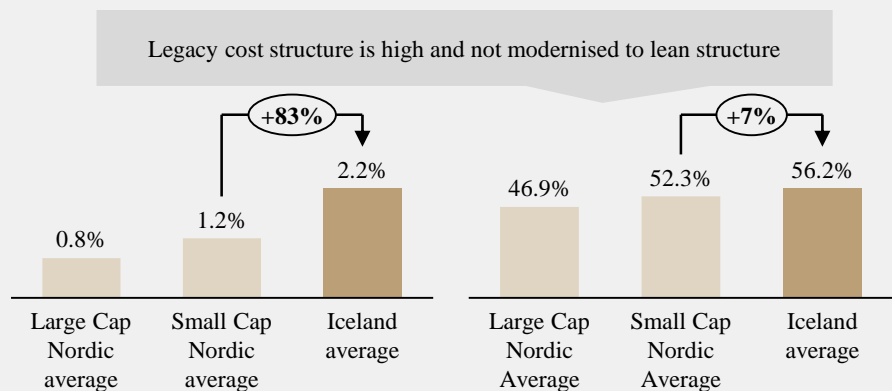
RETURN ON ASSETS

Icelandic incumbent banks vs. Nordic banks 2018



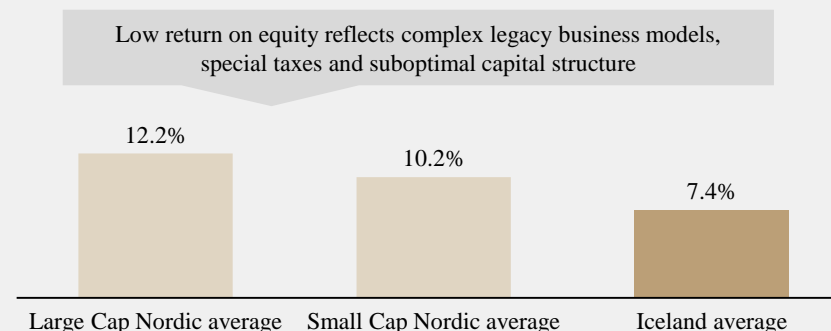
COST TO ASSETS (left) / COST INCOME RATIO (right)

Icelandic incumbent banks vs. Nordic banks 2018



RETURN ON EQUITY

Icelandic incumbent banks vs. Nordic banks 2018



There is considerable room for further streamlining, making the market ripe for disruption where focus is placed on fees and commissions, lean cost structure and smaller balance sheets

The fintech revolution

Fintech companies are causing disruption in numerous areas of finance



Deposits and lending	Services	Insurance	Investing	Data
<ul style="list-style-type: none">▪ Internet only banks▪ Personal loans▪ P2P lending▪ Crowd funding▪ Saving accounts▪ Checking accounts	<ul style="list-style-type: none">▪ Payments▪ Money transfer▪ Mobile payment at checkout▪ Online foreign exchange▪ E-money▪ Remittance	<ul style="list-style-type: none">▪ Digital solutions▪ Software for insurers / reinsurers	<ul style="list-style-type: none">▪ Wealth management▪ Trading▪ Personal finance▪ Robo advisory	<ul style="list-style-type: none">▪ Leveraging transaction data▪ Transaction data from payment platforms▪ Mobile phone usage data▪ Social network related data▪ Data analytics

Fintech seeks to automate the delivery of financial services while delivering an improved user experience at better terms



- Majority of fintech investments have taken place within the banking sector which has led to a change in service level
- As a result of the small market, few candidates can achieve desirable results and establish themselves as leaders
- There is a variety of Fintech products worldwide which might not be realised in Iceland due to smaller market and lack of economies of scale

Fintech in Iceland

Progress in regulatory framework and technology will change the playing field



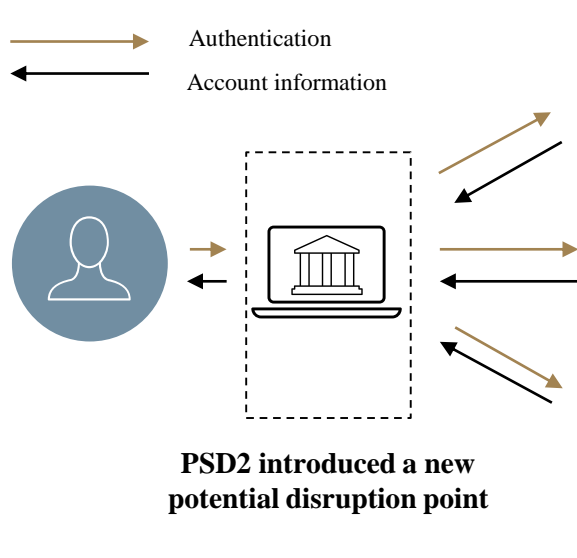
PSD2

Opportunities in account aggregation, personal finance management tools and investment recommendation service etc.



Electronic personal ID and registration of title deeds

Opportunities in streamlining processes and for smaller players to enter the mortgage and vehicle lending market at increased cost efficiency



Vehicle financing



Mortgages



Easy onboarding of clients

Better and automated credit decisions

Automation of security taking

Fintech and Kvika

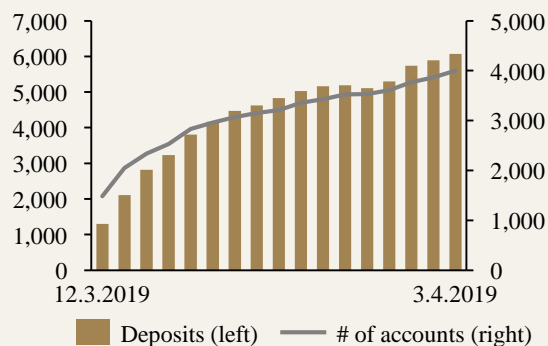
Kvika has the licenses and infrastructure to adopt Fintech to its banking platform



- Launched on 12 March 2019
- Online financial service offering savings accounts with favourable deposit rates and no fixed term
- Automated processes and limited services keep costs at a minimum and thus provides better rates than are currently available in the market
 - Currently offering 4% rates compared to average market rate of 0.92%¹⁾

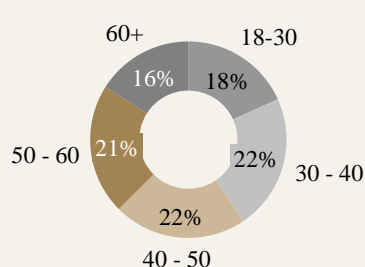
AUÐUR HAS BEEN WELL RECEIVED...

Development of deposits (ISK m.) and # of accounts



... ACROSS ALL AGES

Age split across accounts



Payment and POS solutions

Short payment loans

Consumer financing (< 2 years)

Card solutions

Fund transfers



Payment processing

VISA & MasterCard member

Inventory financing

Top-up mortgages

Generic lending (up to ISK 1 m.)

Student loans

¹⁾ According to website Aurbjorg.is the average of current market rates on comparable accounts is 0.92%

Note: Companies on right hand side shows brands owned in part by Kvika or its subsidiaries

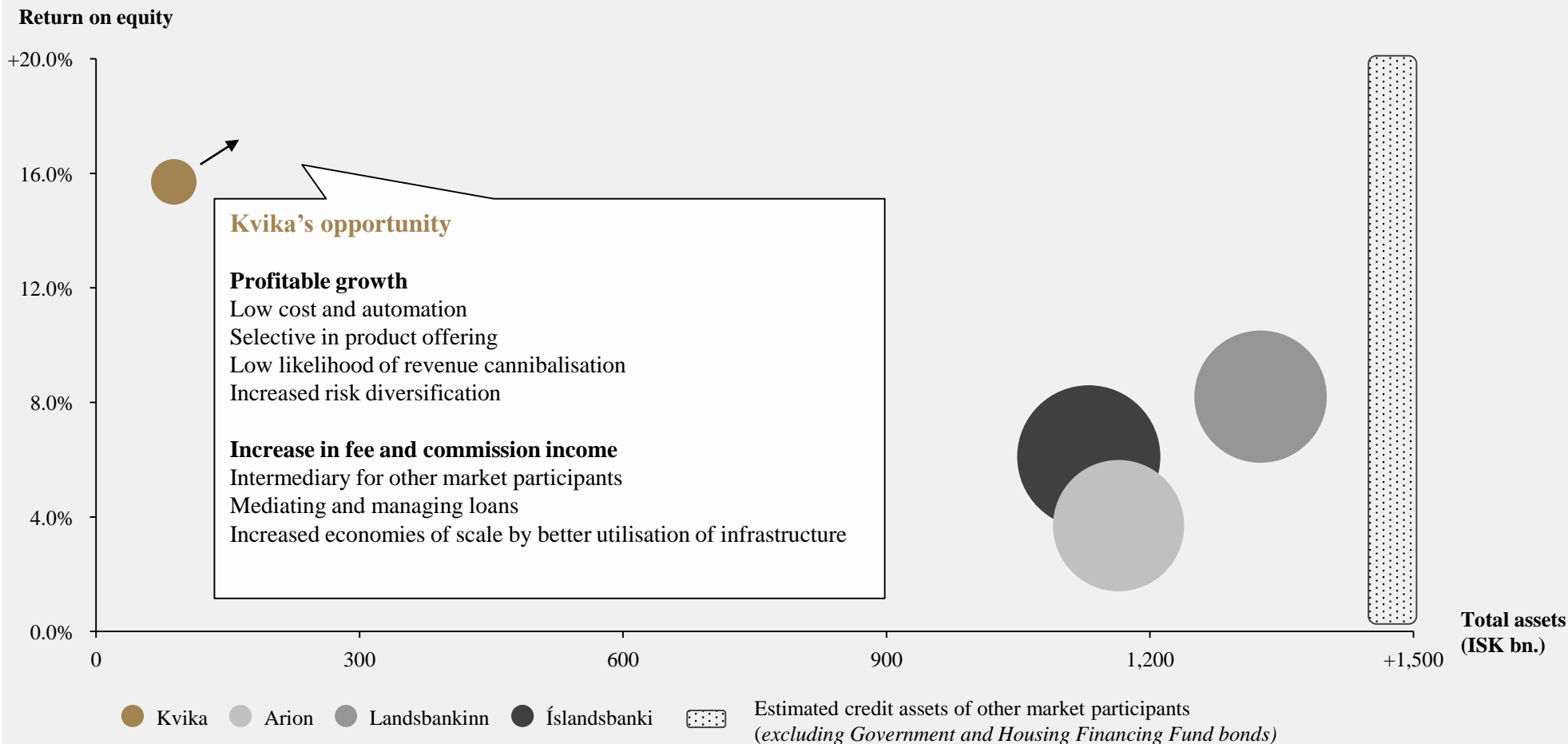
The banking opportunity

Kvika's simple and lean business model offers potential opportunities



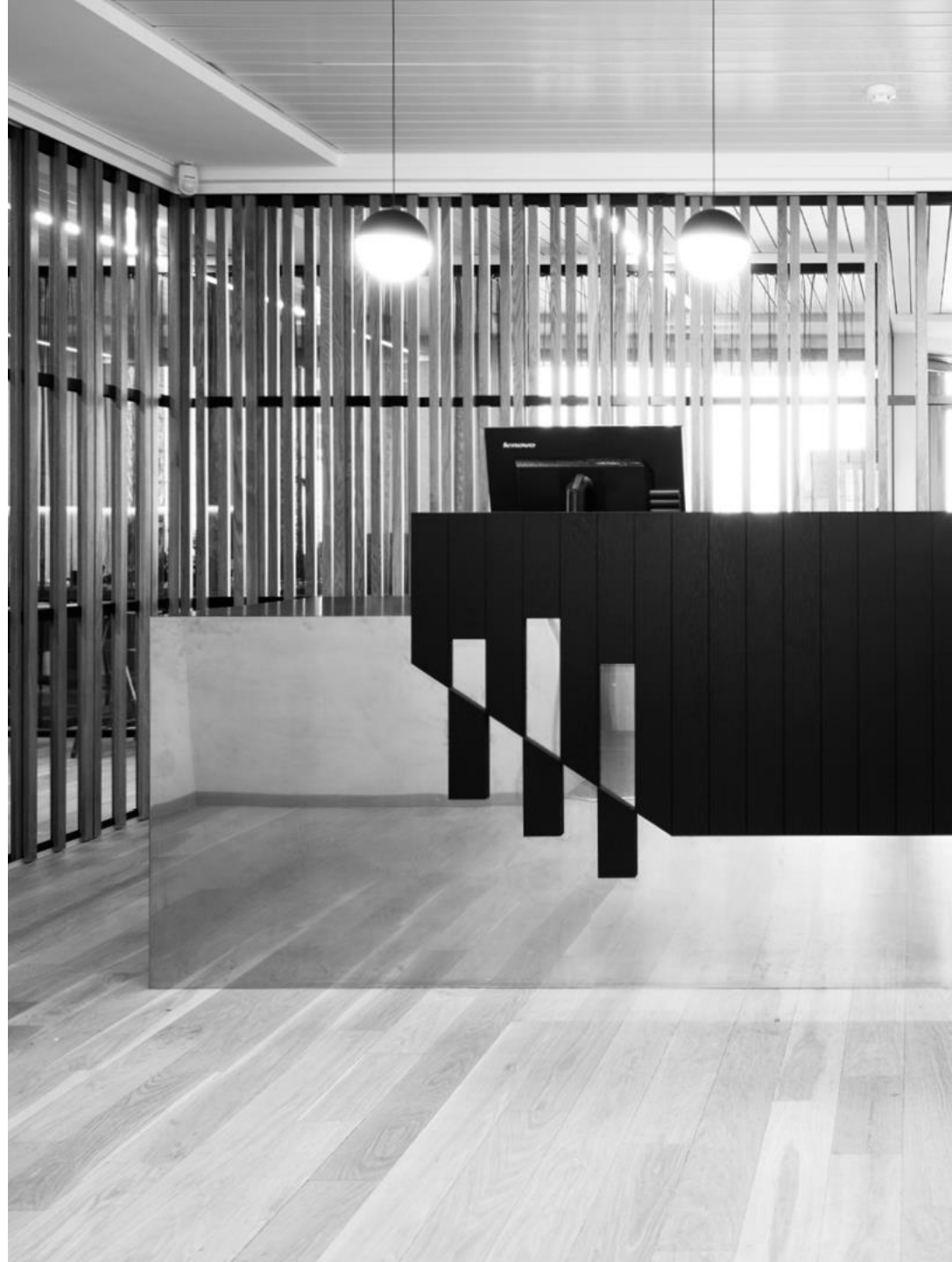
COMPETITIVE MARKET OVERVIEW

Return on equity against Total assets, Bubble size represents total FTEs





Summary



Summary

1

Kvika has evolved through a series of successful consolidations as the most profitable bank in Iceland, while maintaining the highest equity ratio and liquidity ratio among domestic banks

2

A combination of selective lending, underwriting and syndication of debt, in addition to less capital intensive fee based services has led to a market leading return on equity and a diversified income base

3

The financial landscape is going through substantial upheaval due to unprecedented legislative and technology changes

4

Legacy structure and cost base makes it challenging for the incumbent banks to adapt to the changing environment although they will undoubtedly be the significant players in the market for the foreseeable future

5

Kvika, with its efficient infrastructure, low cost base and unique market position is in an exciting position to capitalise on the new opportunities to grow sensibly without sacrificing profitability and risk aversion

