Kvika banki hf.

6M 2022 Financial Results

18 August 2022

6M 2022

Highlights

Profit before tax (PBT) for 6M 2022 ISK 2,167 million with return on weighted tangible equity (RoTE) 10.0%

Negative earnings announcement due to difficult market conditions in the quarter impacting financial income. PAT amounts to ISK 1,732 million

Strong financial position with consolidated solvency of 1.28 and LCR of 229%

Well above regulatory requirements. Strong LCR largely attributable to debt issuance and increase in deposits

37% total loan book growth in the first half of 2022, thereof 18% loan book growth in Q2

Attributable to acquisition of Ortus and organic growth

Payment facilitator agreements acquired

Subsidiary establishment in progress, significant expected market share

Credit rating obtained in Q2

Moody's assigned Kvika a bank deposit rating of Baa1/Prime-2 and an issuer rating of Baa2/Prime-2

Share buy-back programme initiated in May 2022

Total purchase price at 12 August is ISK 1,844,440,000. Buy-back under the programme will amount to a maximum purchase price of ISK 3 billion

PBT for next 12 months expected ISK 9,848 million, 23.4% RoTE

Each quarter's expected PBT in the range of ISK 2.1-2.7 billion

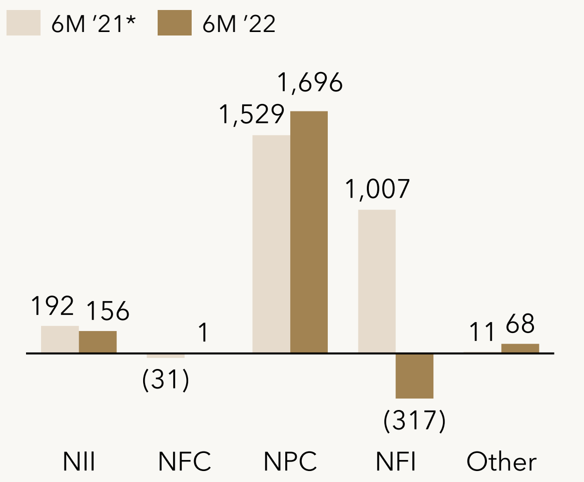
Segment highlights in 6M

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

TM Insurance

- Combined ratio in line with expectations and healthy growth seen in motor- and personal insurance
- 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

TM Insurance
ISK millions



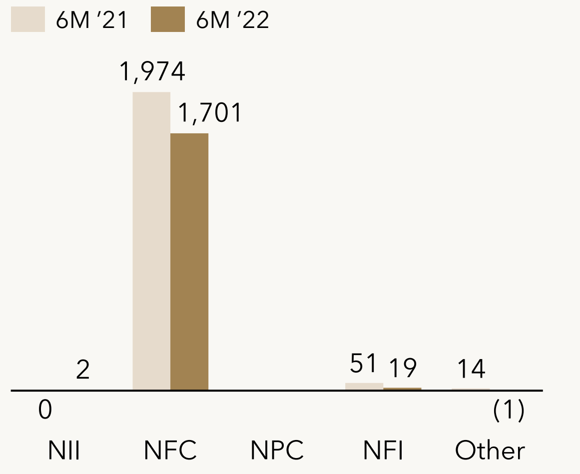
99.9% Combined ratio 6M 2022

*6M 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 5% in the period, supporting 3-year goal of growing faster than the market
- Negative market developments have presented challenges while rising inflation and interest rates have somewhat altered customers' risk- and business appetites
- Despite challenges, KAM has seen positive inflow in all revenue streams

Kvika Asset Management
ISK millions

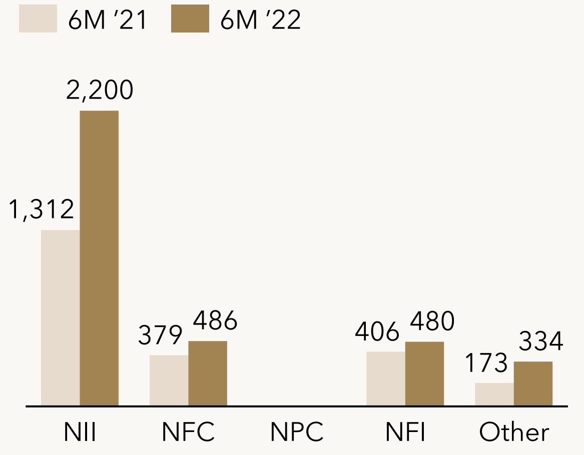


457 AuM, ISK bn. 6M 2022

Commercial Banking

- Healthy loan book growth of over 7% in the quarter
- Significant growth in deposits both via corporate and retail channels, over 50% growth in deposits through the Auður platform in the first 6 months of 2022
- Aur continues to attract new users, contracts signed with Visa for card issuance and multiple new fintech banking solutions in development

Commercial Banking
ISK millions



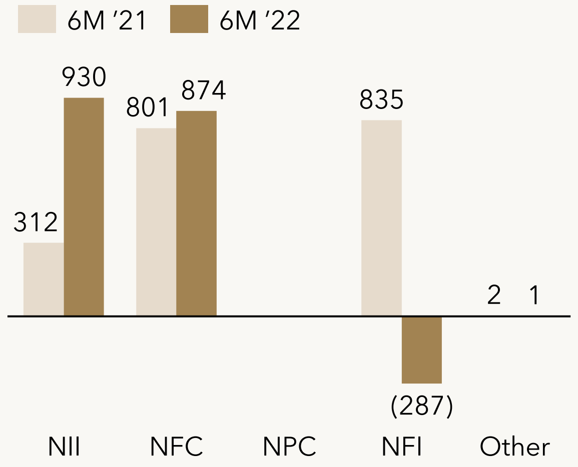
76.3 Loan book, ISK bn. 6M 2022

*6M 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
- Large projects completed by Corporate Finance in the period with a strong H2 pipeline. Successful listing of Ölgerðin by Corporate Finance and Capital Markets in Q2

Investment Banking
ISK millions



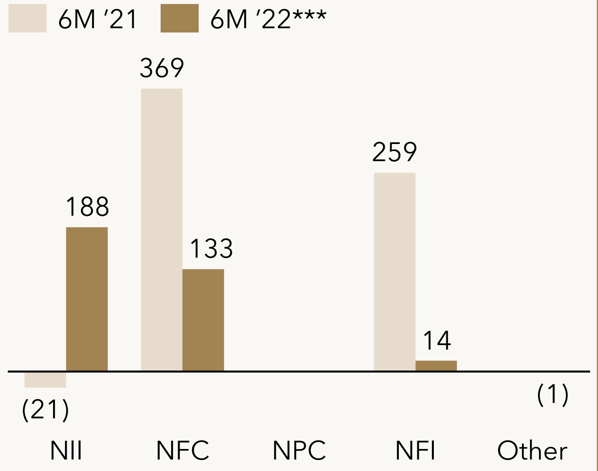
27.2 TRS book, ISK bn. 6M 2022

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

UK

- Acquisition of 78% share in Ortus completed in March, integration of systems and processes ongoing
- Strong loan book growth in the period and loan book quality remains high, though rising interest rates in the UK have presented a challenge and might affect interest margins
- External conditions also felt through corporate finance projects, which have experienced delays in completion

UK
ISK millions



21.6 Loan book, ISK bn. 6M 2022

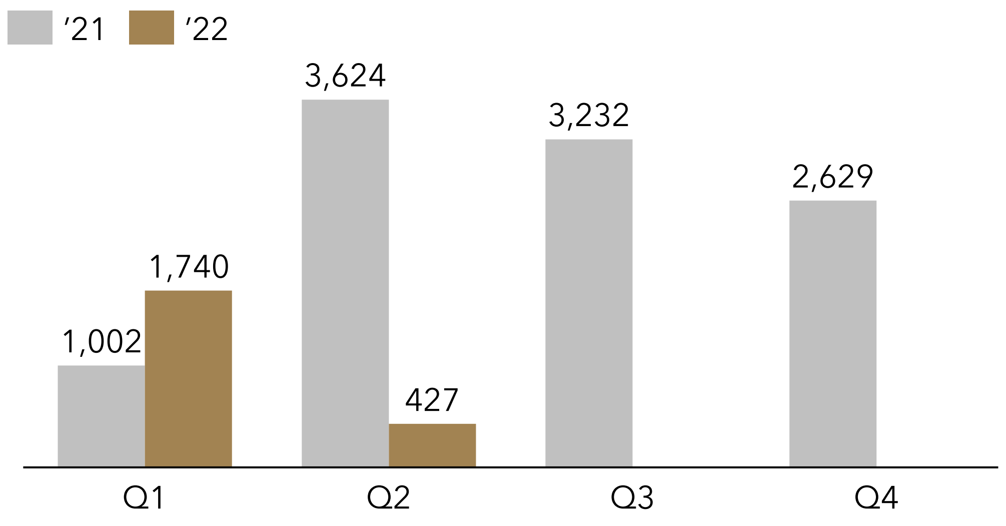
***Revenues only include March-June 2022 operations of Ortus Secured Finance

Total profit before tax in 6M ISK 2,167m

Demonstration of the value of diversified operations

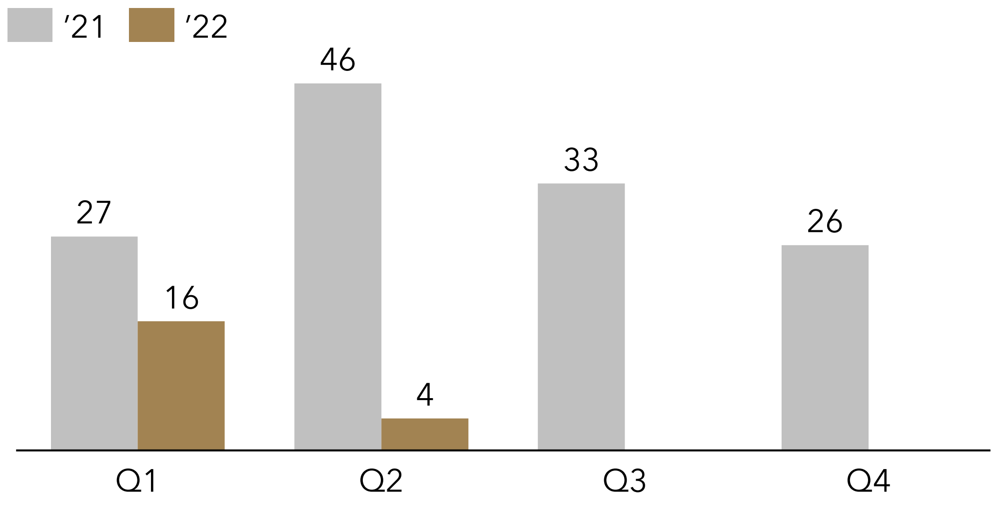
Profit before tax (PBT)

PBT development / ISK m.



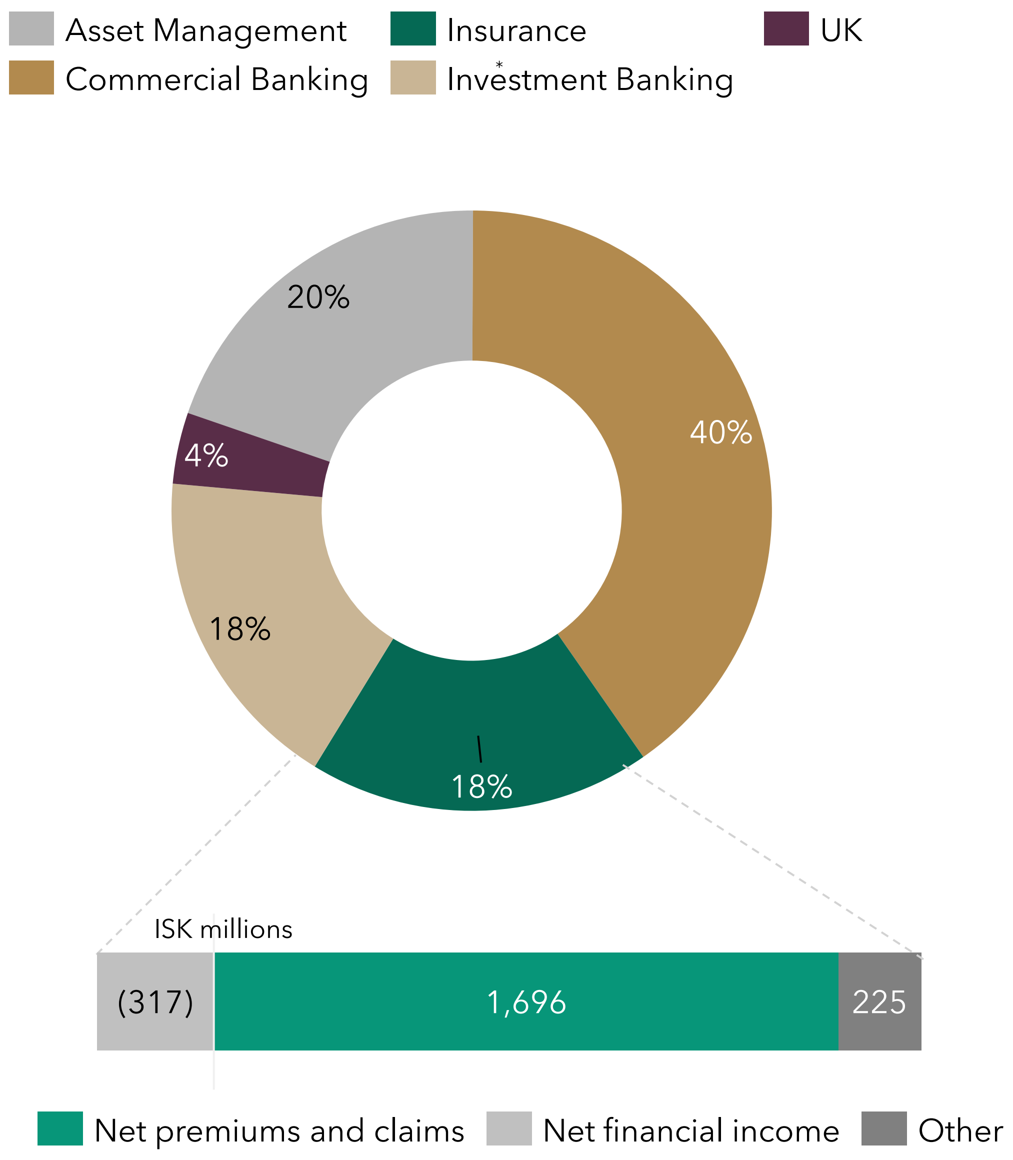
Return on weighted tangible equity (RoTE)

(%)



Diversified income across segments

Net operating income by segment / 6M 2022



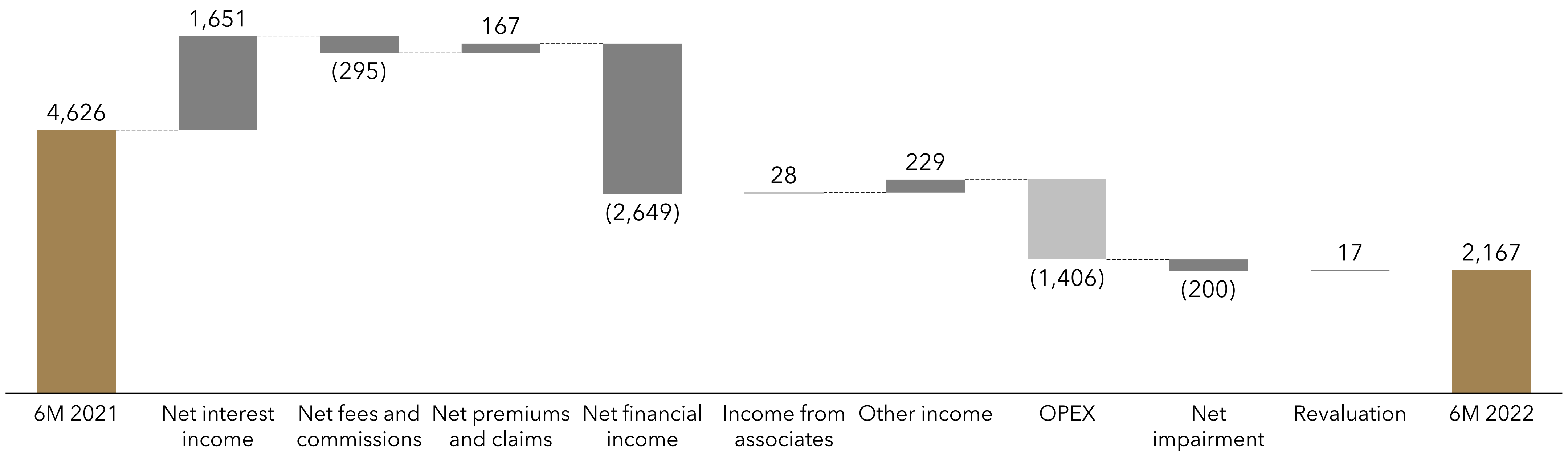
*UK operations only include revenues from Ortus Secured Finance for March 2022

- Kvika's profit before tax for the first six months of 2022 is ISK 2,167 million with a RoTE of 10.0%
- PBT in Q2 amounted to ISK 427 million, mainly affected by losses in net financial income due to market performance in Q2
- 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
- The Group now includes operating segment UK, representative of increased revenue production within the segment following acquisition of Ortus Secured Finance
  - → Revenues from segment UK in 6M only include March-June operations of Ortus Secured Finance, as the acquisition of a majority share was completed on 28 February 2022

Operations 6M 2022

NFI losses offset by performance of other segments

Pre-tax profit (loss) bridge
6M 2021 to 6M 2022 / ISK m.



- Net operating income for the period amounted to ISK 8,696 million, driven by strong performance in banking and asset management
- Corresponding to annualized 10.0% return on weighted tangible equity
- Net interest income almost doubled year-on-year as loan book grew and cost of funding decreased
- Net fee and commission income of ISK 3,219 million
- Net financial income a loss of ISK 91 million as market conditions were difficult
- Operating expenses ISK 6,410 million in line with budget
  → One-offs related to rating process and EMTN programme in the period

Income statement
ISK m.

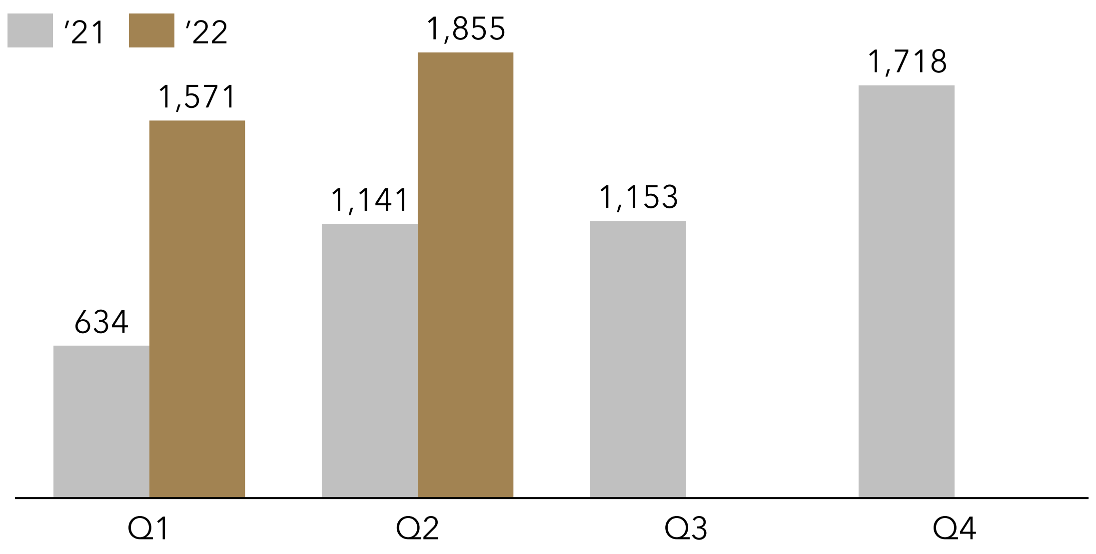
	6M 2022	6M 2021
Net interest income	3,426	1,775
Net fees and commissions	3,219	3,514
Net premiums and claims	1,696	1,529
Net financial income	(91)	2,558
Income from associates	-	(28)
Other income	446	217
Net operating income	***8,696***	***9,566***
Operating expenses	(6,410)	(5,003)
Net impairment	(96)	104
Revaluation of contingent consideration	(23)	(40)
Pre-tax profit	***2,167***	***4,626***
Income tax	(278)	487
Special bank taxes*	(157)	(59)
After-tax profit	***1,732***	***5,053***
Earnings per share (EPS)	***0.35***	***1.48***
Diluted EPS	***0.35***	***1.40***

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

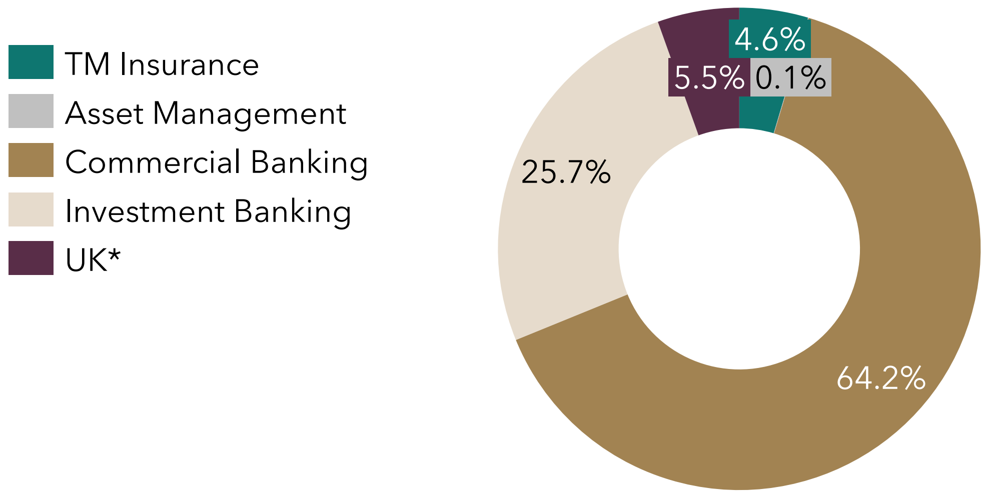
Net Interest Income

Loan book growth supporting increasing NII

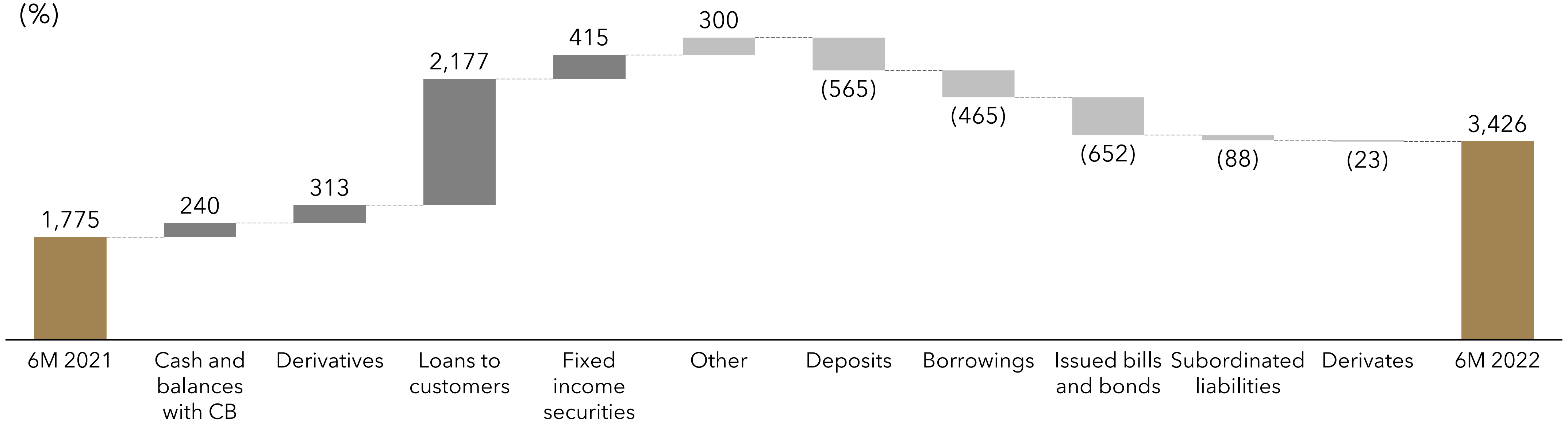
Net interest income (NII)
ISK m.



Segment split
6M 2022 / (%)



Net interest income Q2 comparison
(%)



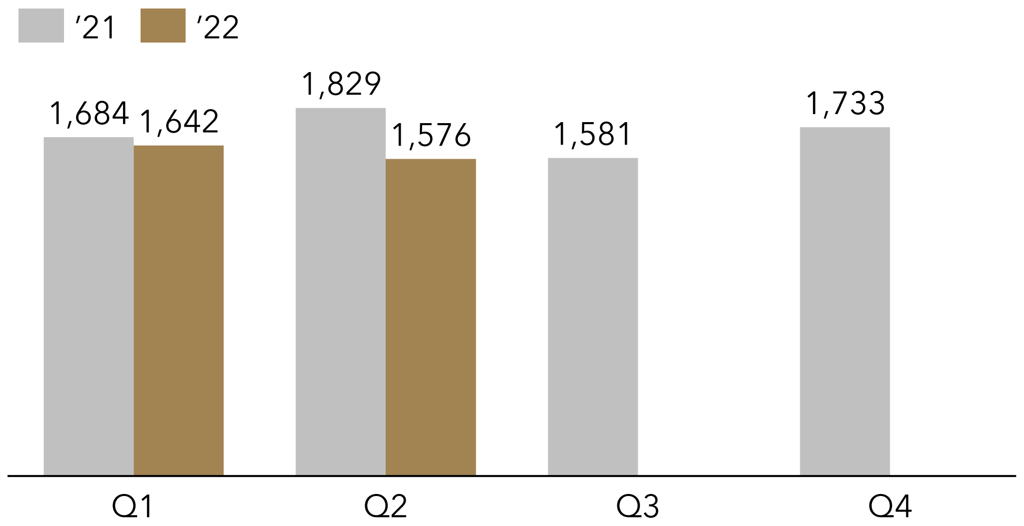
*6M revenues only include March-June operations of Ortus Secured Finance, as the acquisition of a majority share was completed on 1 March 2022

- Loan book composition, indexation and favorable track in funding continue to impact NII, which grows year on year partially due to Lykill acquisition
  - → Lykill NII only included from 1 April 2021
  - → Ortus NII only included from 1 March 2022
- 18% loan book growth in Q2, both through the domestic loan book which grew by 7% in the quarter and Ortus in the UK whose loan book grew by 80% in Q2
  - → 37% total loan book growth in 6M, ISK 26.4 billion, attributable to Ortus acquisition and organic growth in Q2
- 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 equity and fixed income instruments, has remained relatively stable despite market circumstances
- Net interest margin of 2.6% for the first half of the year, calculated as NII to simple average of total assets

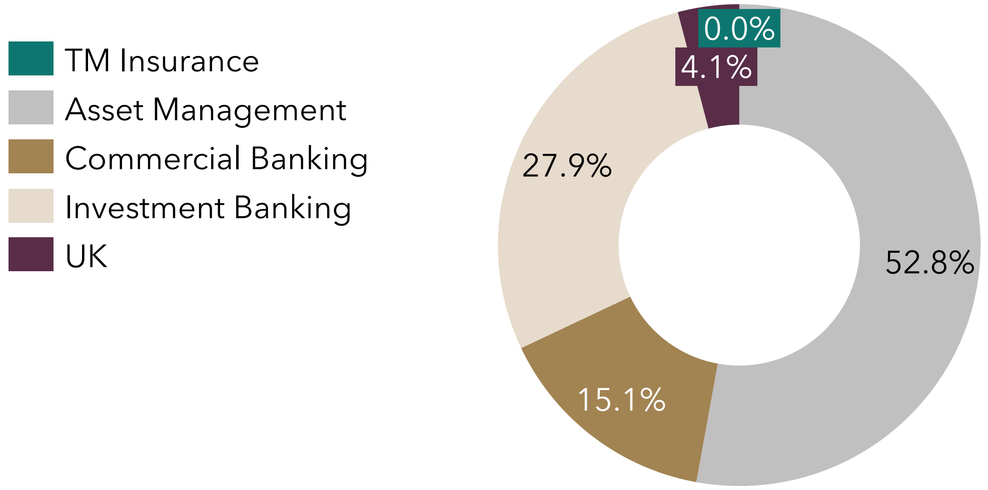
Net Fee and Commission Income

Strong recurring fee base and less reliance on variable fees

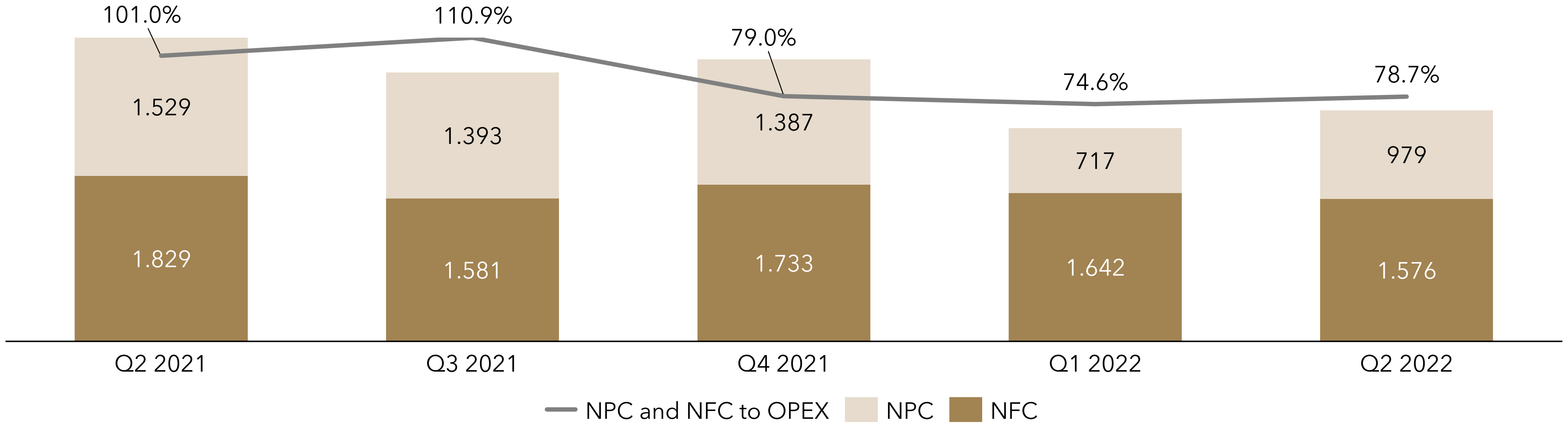
Net fee and commission income (NFC)
ISK m.



Segment split
6M 2022 / (%)



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

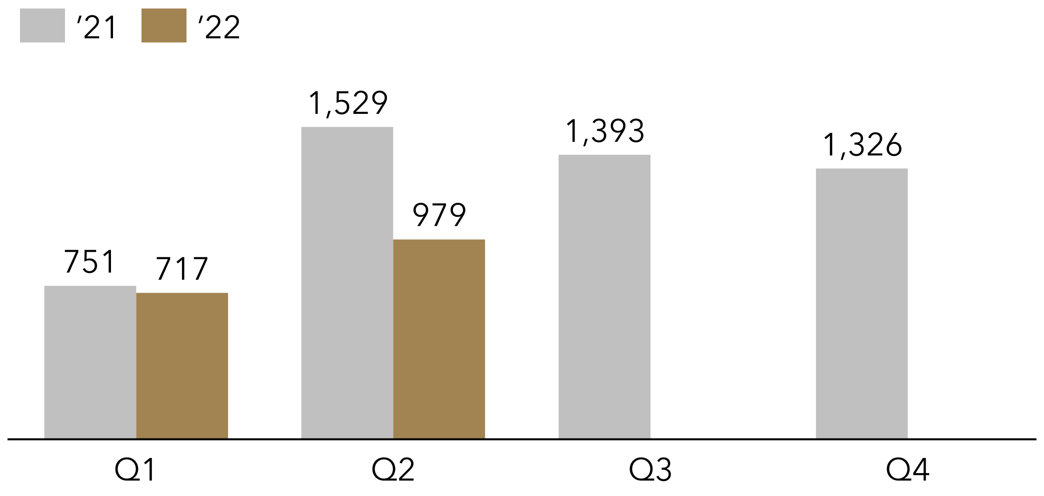


- NFC income continues to provide a strong recurring fee base, creating less reliance on variable fees
  - → Asset management is a key contributor to NFC while also providing the strongest recurring fee base
- Assets under management at 30.6.2022 ISK 457 billion
  - → Net AuM decrease mainly due to negative market sentiment, strong inflow despite challenging environment
- Investment Banking also had a solid performance in the first half of the year both through capital markets and corporate finance
  - → Large projects completed by Corporate Finance in the first half of the year
  - → 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 78.7% of OPEX in Q2

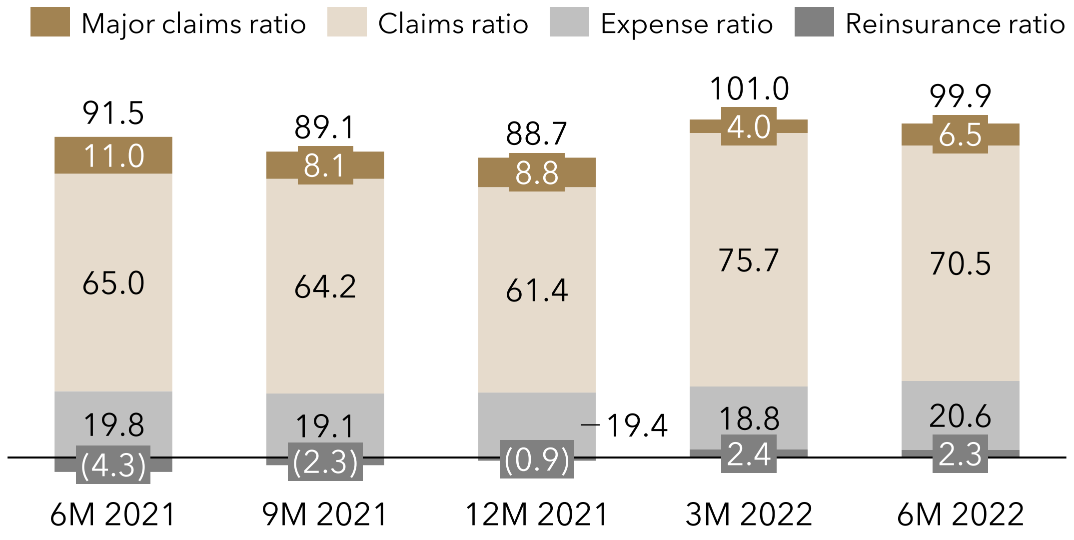
Net Premiums and Claims

Combined ratio of 99.9% in 6M 2022

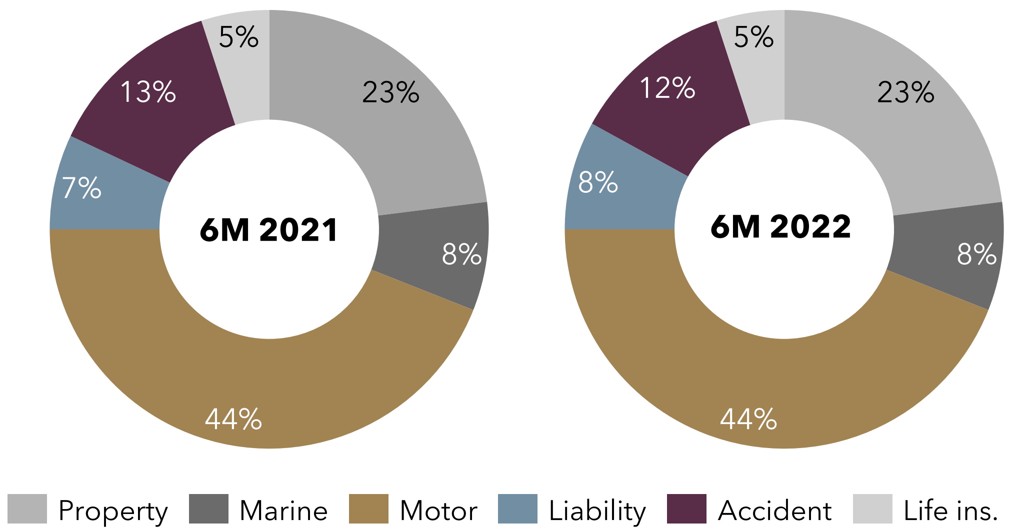
Net premiums and claims (NPC)
ISK m.



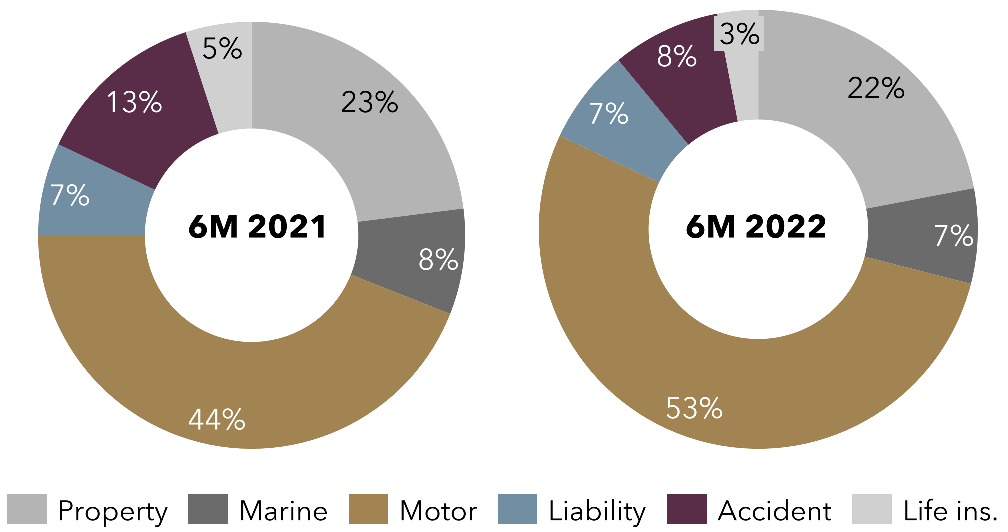
Combined ratio
(%)



Premiums composition
(%)



Claims composition
(%)

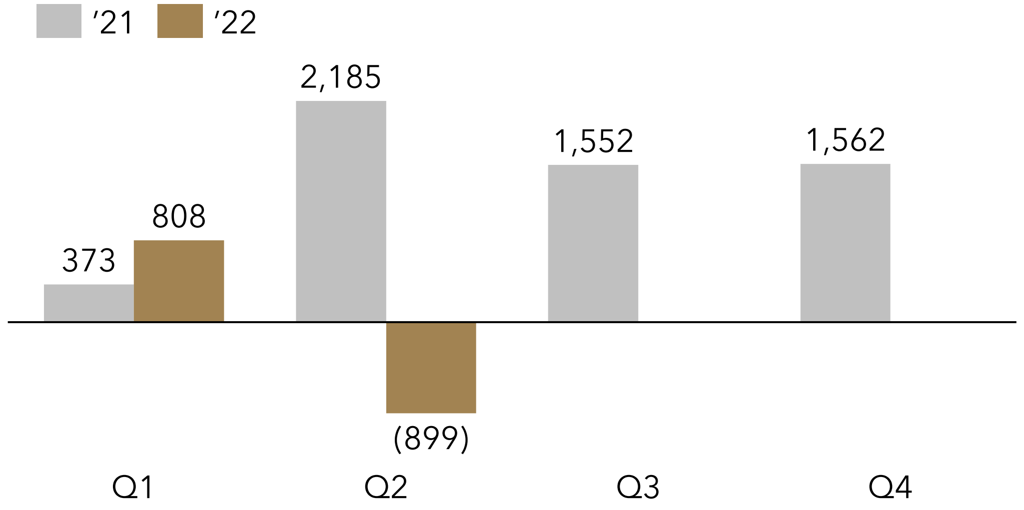


- Combined ratio of 99.9 for 6M 2022 and 98.8 for Q2
- Claims ratio increases from 6M 2021 while major claims ratio is significantly lower than in the first half of 2021 (claims over ISK 50 million)
- Expense ratio similar as 6M 2021
- Reinsurers' share positive by 2.3% in 6M
- Composition of premiums and claims remains relatively stable
  - → Increase in motor claims from 6M 2021 and a decrease in accident claims

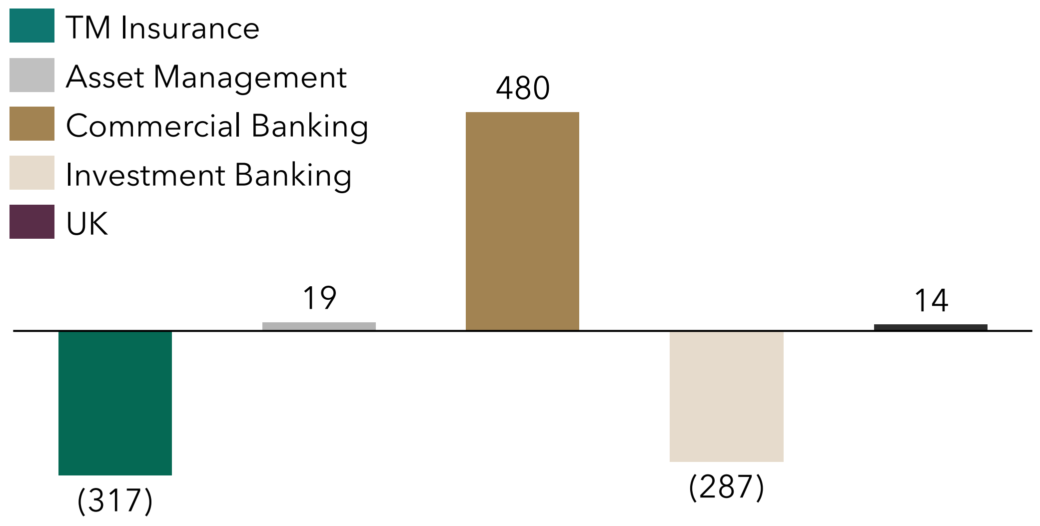
Net Financial Income

Losses driven by negative market developments

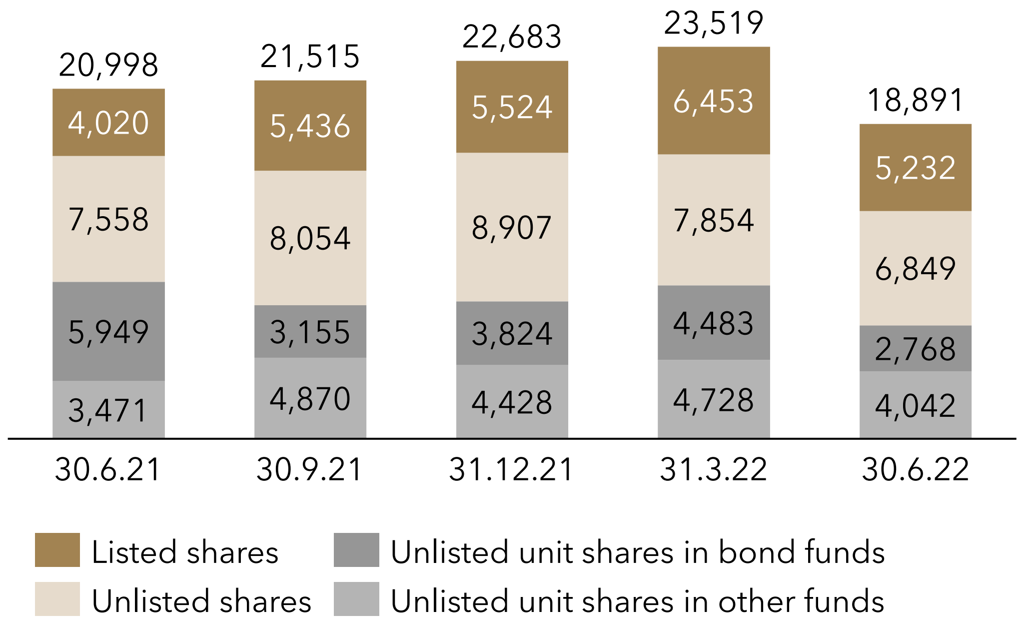
Net financial income (NFI)
ISK m.



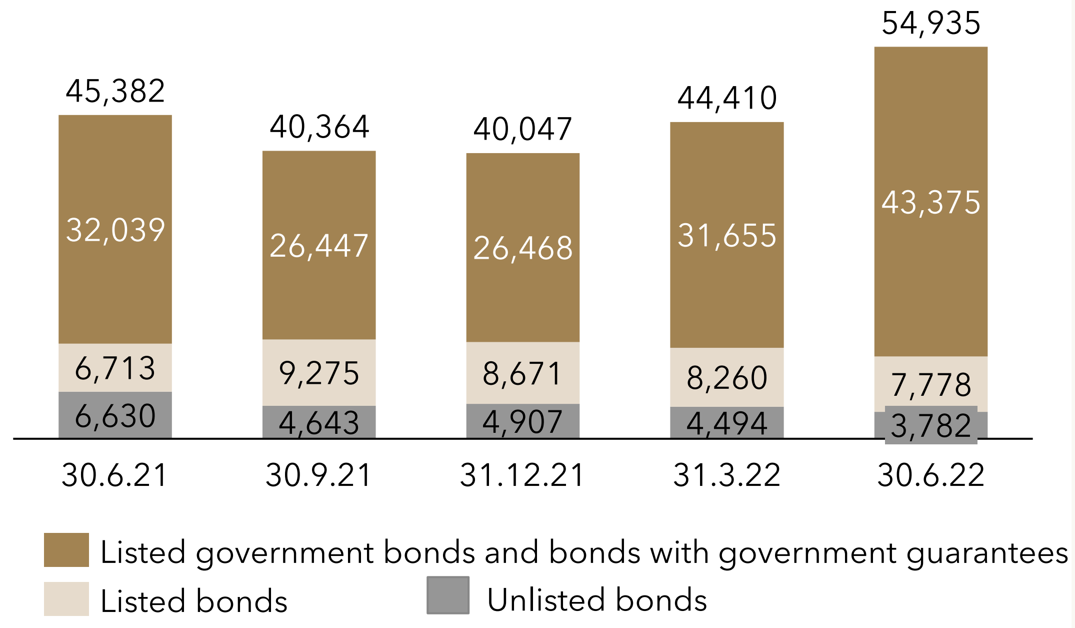
Segment split
6M 2022 / ISK m.



Shares and other variable income securities
ISK m.



Bonds and debt instruments
ISK m.



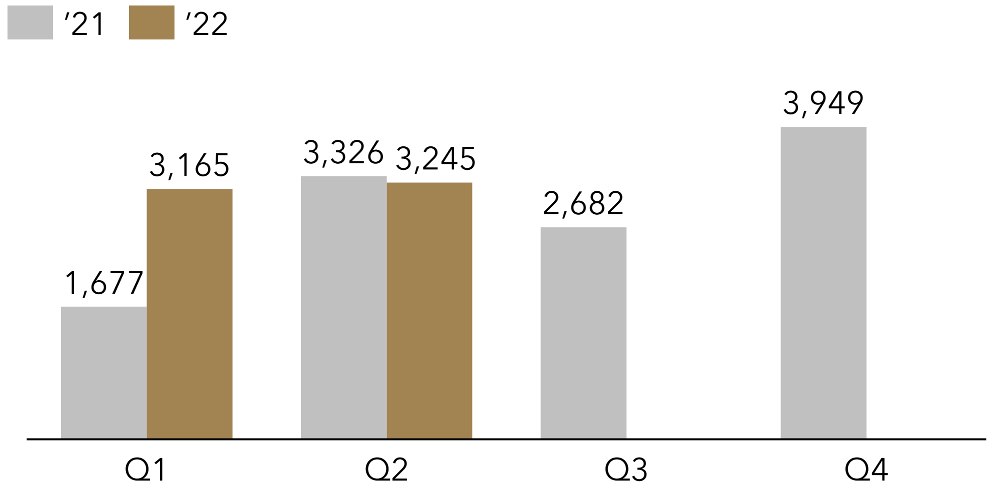
- Negative total NFI performance due to difficult market conditions
- Losses contributed mainly by TM Insurance's investment activities and securities held by treasury and market making
- Positive NFI contribution through Commercial Banking, mainly due to revaluation of unlisted shares
- Fixed income holdings across the Group increase in Q2 while holdings in shares and other variable income securities decrease, due to market conditions and divestments

Operating Expenses

In line with budget

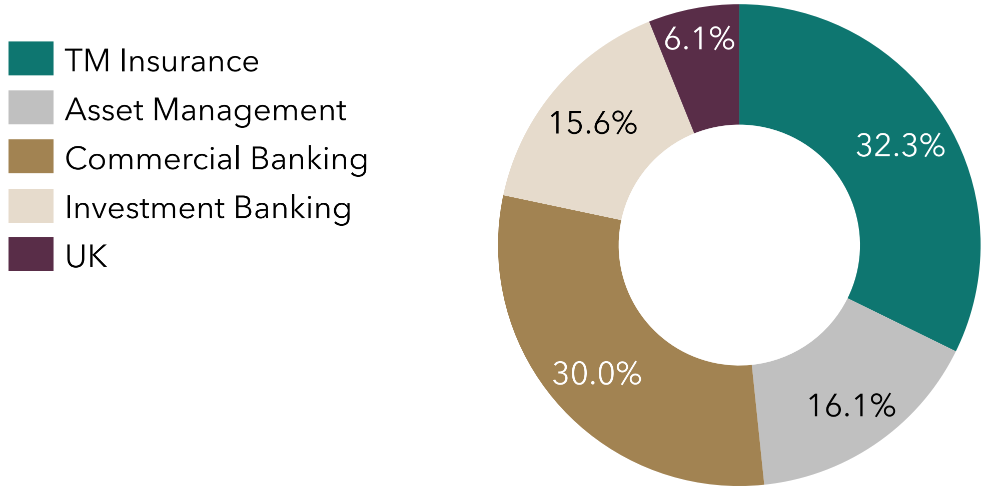
Operating expenses (OPEX)

ISK m.



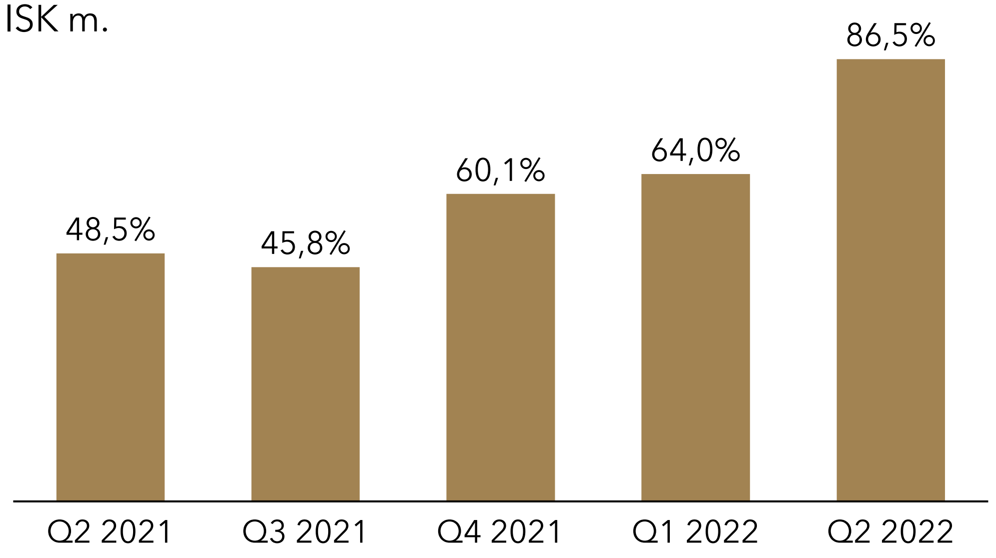
Segment split

6M 2022 / (%)



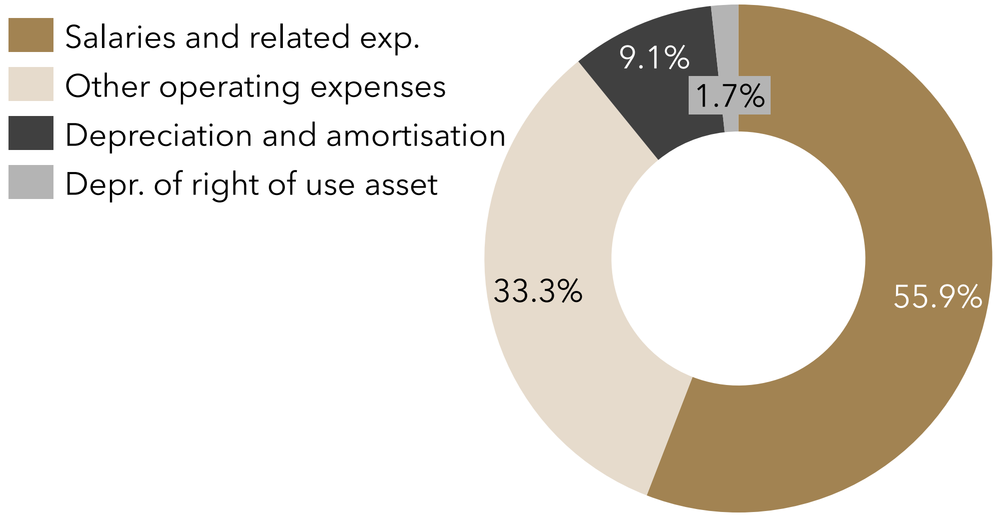
Cost to income

ISK m.



Operating expenses

6M 2022 / ISK m.



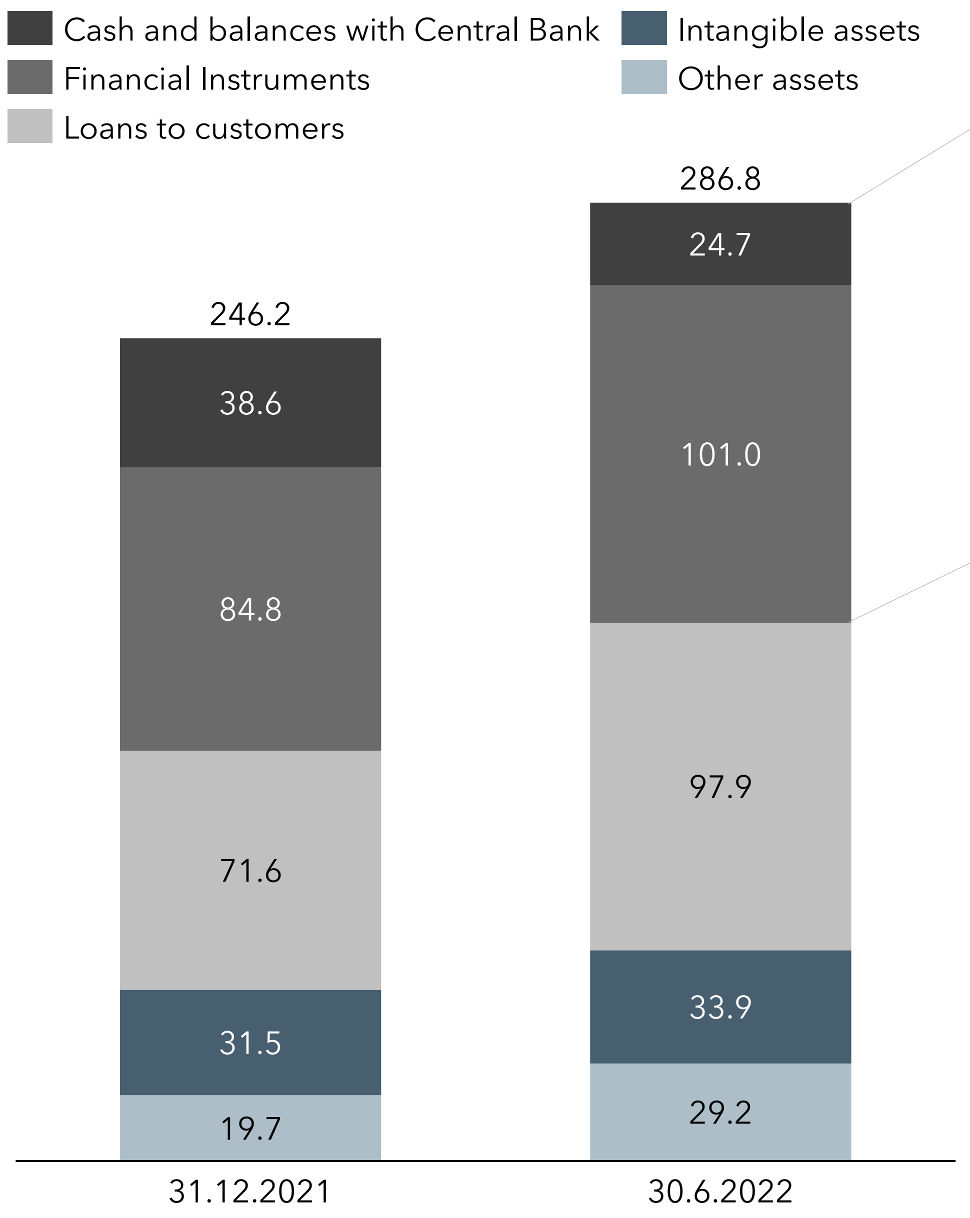
- Operating expenses were in line with the Group's budget in Q2 2022
  - → Cost to income ratio higher than normal in Q2 due to lower net financial income
- Salaries and related expenses continue to be a key operating expense within the Group and amount to 55.9% of total OPEX in the first half of 2022
  - → 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 349 at the end of June 2022, mainly attributable to Ortus acquisition

Balance Sheet: Assets

Balance sheet growth post merger

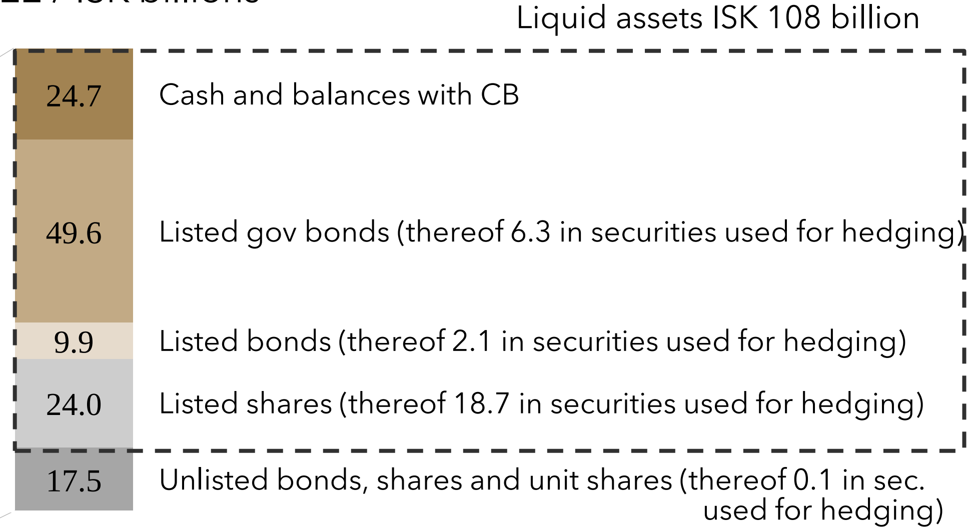
Assets

30.6.22 / ISK billions



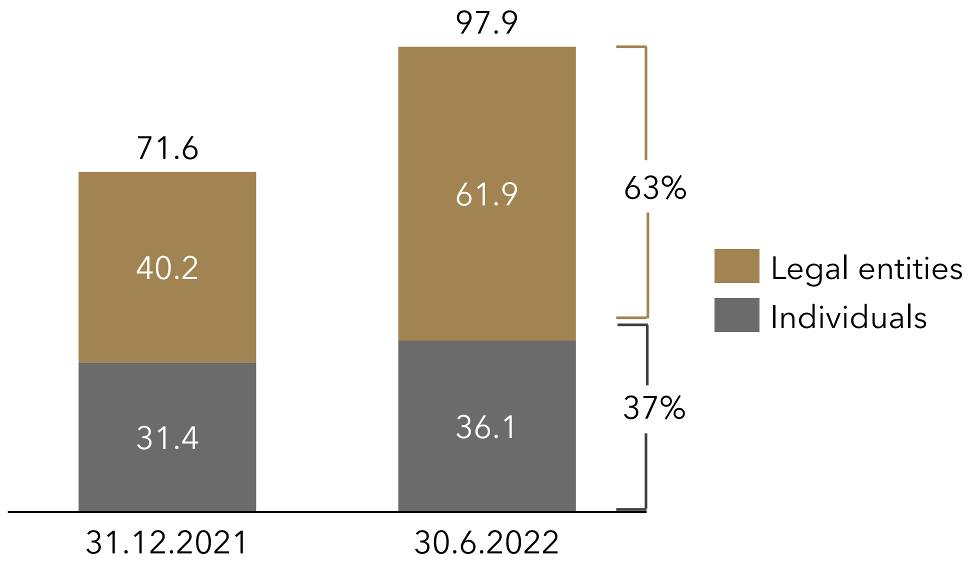
Cash and financial instruments

30.6.22 / ISK billions



Loan book by customer type

ISK billions



- ISK 40.6 billion increase in assets since year-end 2021 driven by increased cash position and loan book growth, as well as an ISK 9.5 billion increase in other assets attributable e.g. to unsettled transactions and increased receivables
- 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
  - → Loans to individuals increase by ISK 4.7 billion since year-end 2021 to ISK 36.1 billion
  - → Loans to corporates increase by ISK 21.7 billion since year end 2021 to ISK 61.9 billion
- Increase in cash and balances mainly due to growth in deposits and bond issuance in Q1
- Liquid assets amount to ISK 108 billion, 38% of total assets and 111% of loans to customers
- ISK 14.9 billion positive CPI balance at 30.6.2022

Loans to Customers

Diversified loan book

Vehicles
Lykill fjármögnun

- 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
Lykill fjármögnun

- 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
KVIKA Framtíðin

- 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
KVIKA

- 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

30.6.2022 / ISK billions

Total 97.9

Investment and operational loans
KVIKA

- 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
KVIKA

- 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
netgíró AUR

- 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
ORTUS SECURED FINANCE

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

Core customers: professional clients

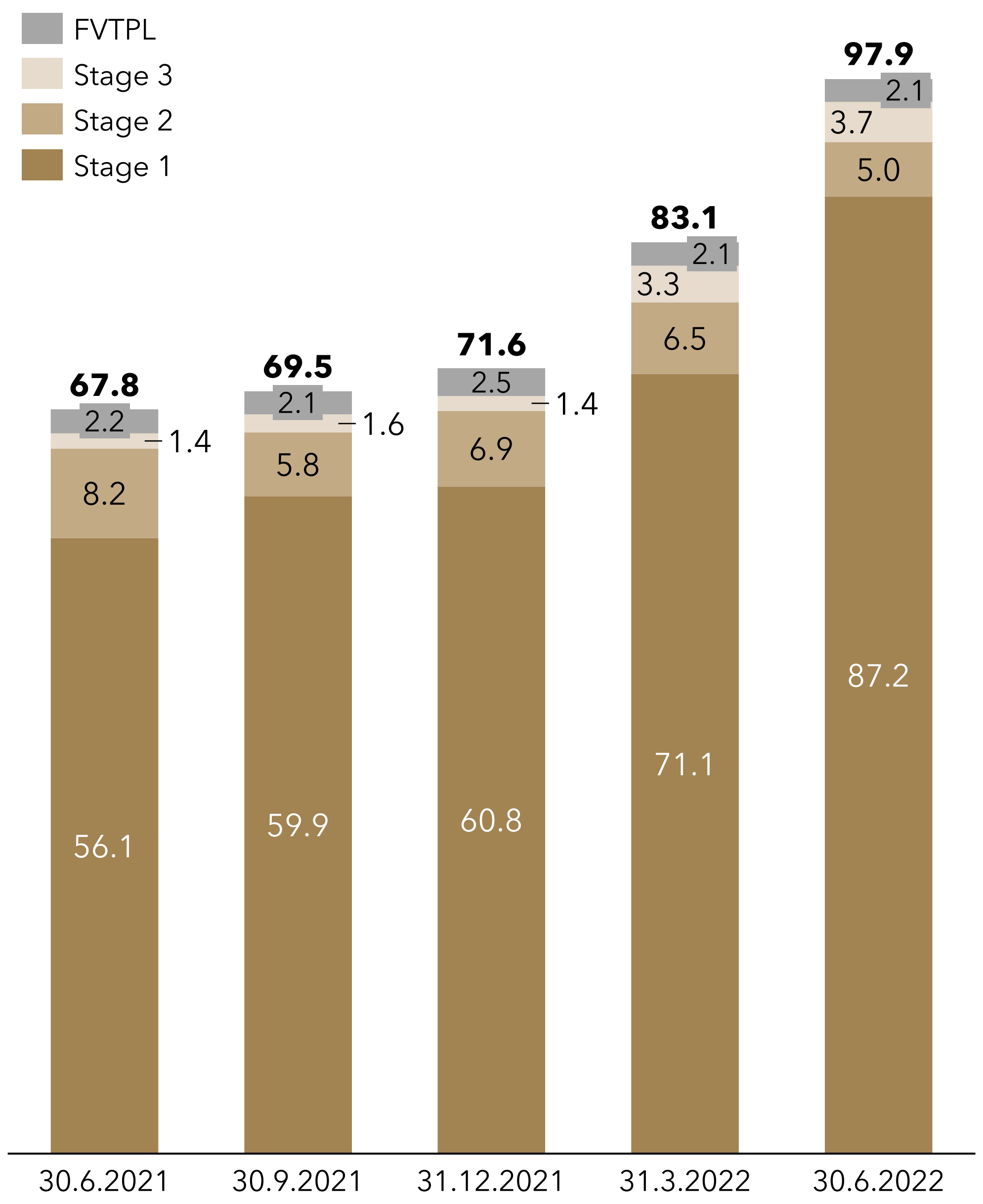
*Credit Score classification by Creditinfo Iceland, which rates individuals from A1 through E3

Credit Quality

Change in credit quality due to Ortus acquisition

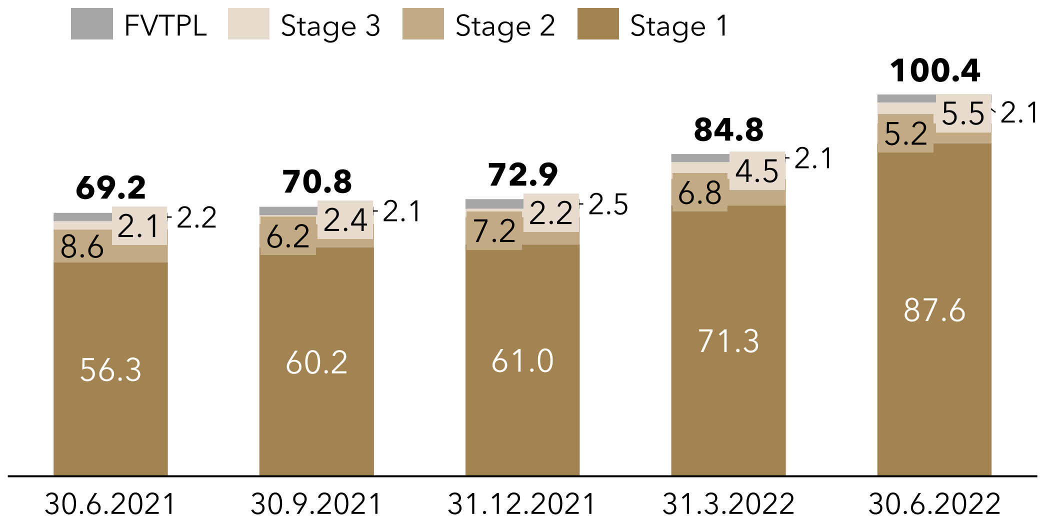
Net carrying amount

IFRS 9 risk stage allocation / ISK billions



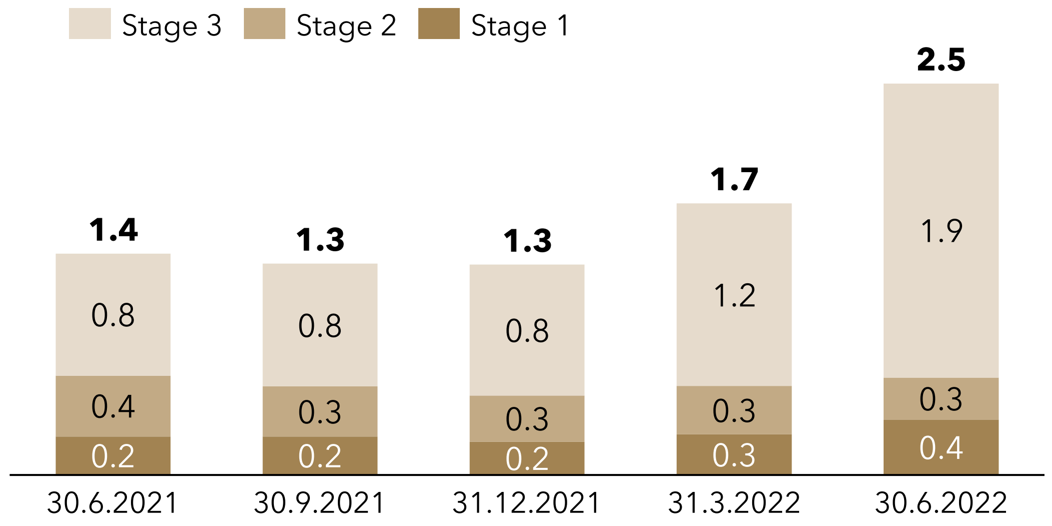
Gross carrying amount

IFRS 9 risk stage allocation / ISK billions



Impairment loss allowance

Expected credit loss / ISK billions



- Loan book increases by ISK 26.3 billion since year-end 2021, mainly due to the acquisition of a majority share in Ortus Secured Finance
- Weighted average duration of the domestic loan book was 2.2 years at 30.6.2022
- Change in credit quality mainly due to acquisition of Ortus (new financial assets) and remains in line with loan book size
  - → Stage 1 assets 89.1% of loan book at 30.6.2022, 85.0% at year end 2021
  - → Total impairment loss allowance 2.5% of loan book at 30.6.2022, 1.9% at year-end 2021
- 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)

30.6.2022 / ISK billions

High quality liquid assets	53
Net outflow	23
Liquidity coverage ratio	**229%**
Minimum regulatory requirement	100%

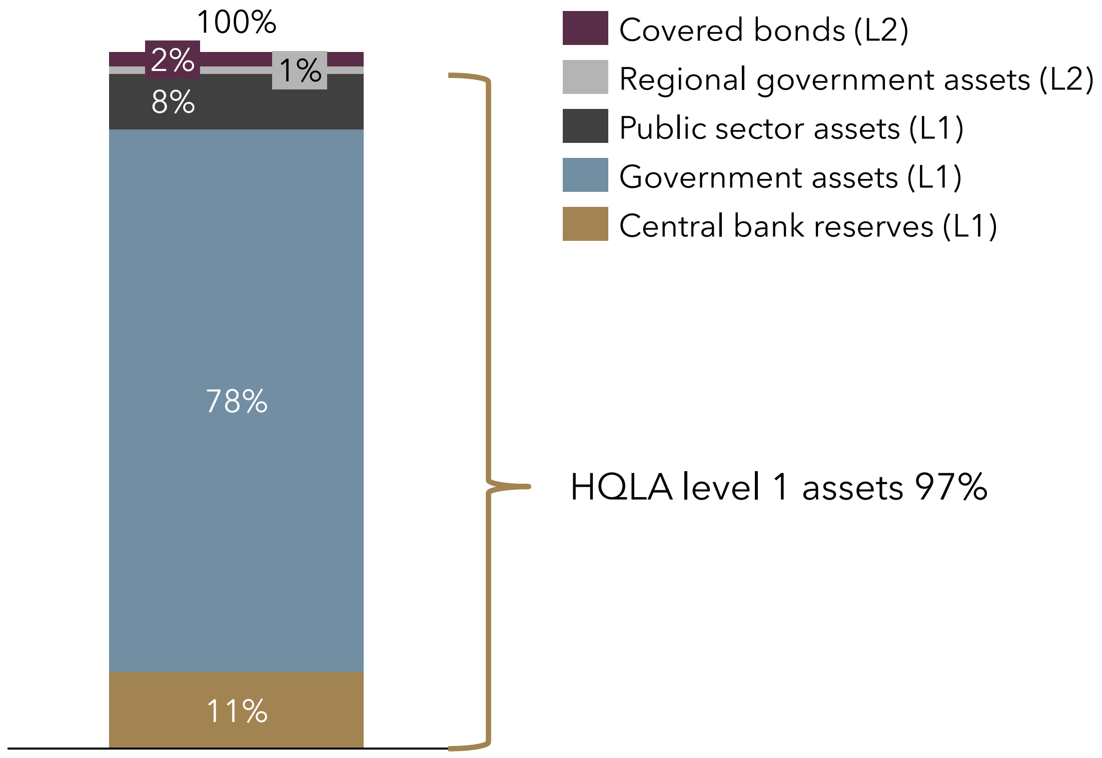
Net stable funding ratio (NSFR)

30.6.2022 / ISK billions

Available stable funding	179
Required stable funding	142
Net stable funding ratio	**126%**
Minimum regulatory requirement	100%

High quality liquid assets (HQLA)*

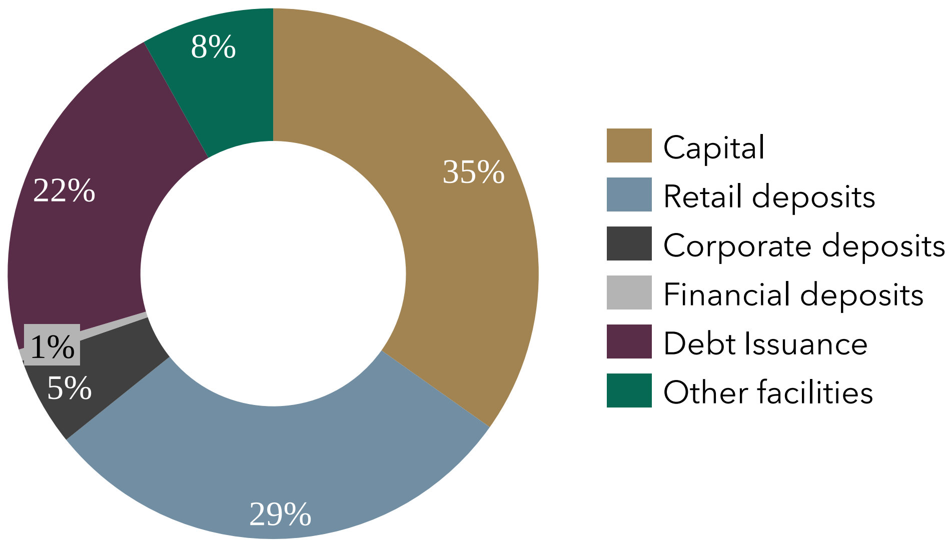
30.6.22 / (%)



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

Available stable funding

30.6.22 / (%)

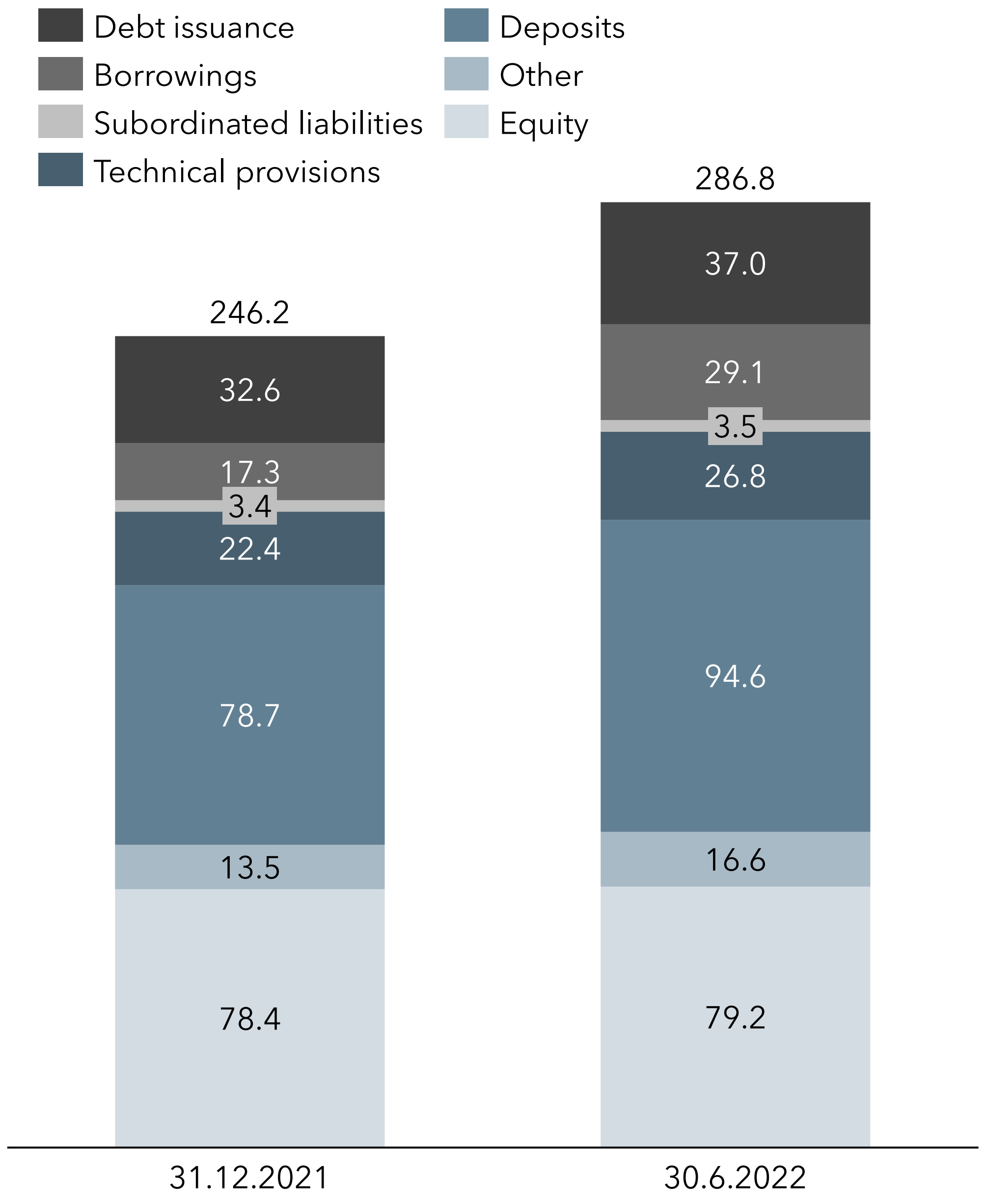


- HQLA assets ISK 53bn excluding mandatory reserves and collateral to the Central Bank
- Liquidity coverage ratio is strong at 229%, where the regulatory minimum is 100%
- Net stable funding ratio is strong at 126%, where the regulatory minimum is 100%
- Asset and liability management is aimed at maintaining stable funding sources such as core retail deposits and long-term funding via debt issuance
- The Group's capital remains the single largest funding source

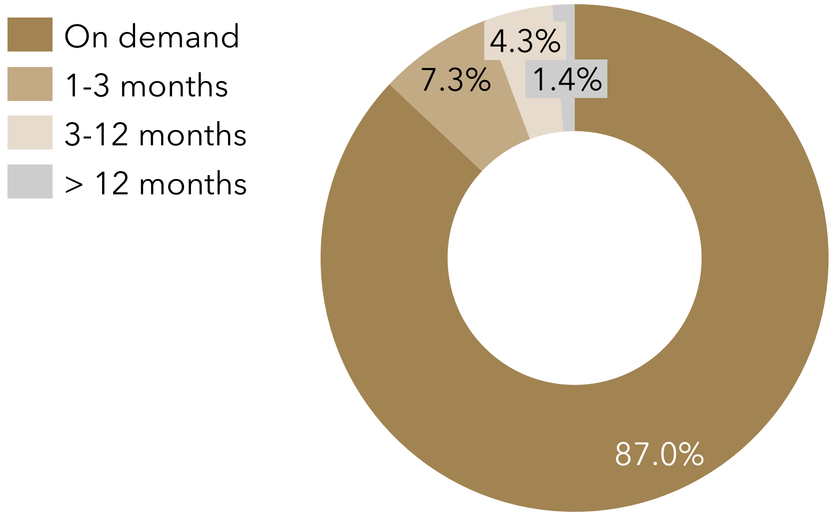
Balance Sheet: Liabilities

Increase driven by first intern. bond issuance and Ortus acq.

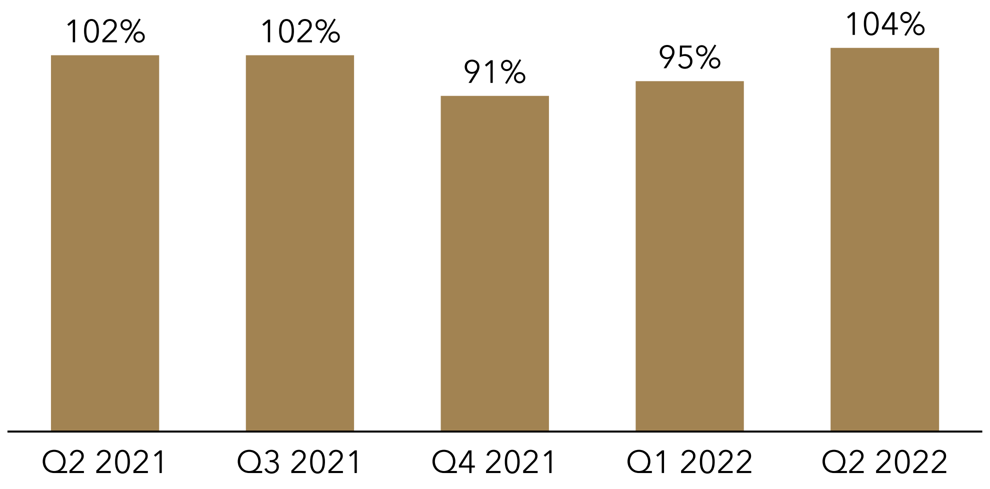
Liabilities and equity
ISK billions



Maturity of deposits
30.6.22 / (%)



Loans to deposits
30.6.22 / (%)

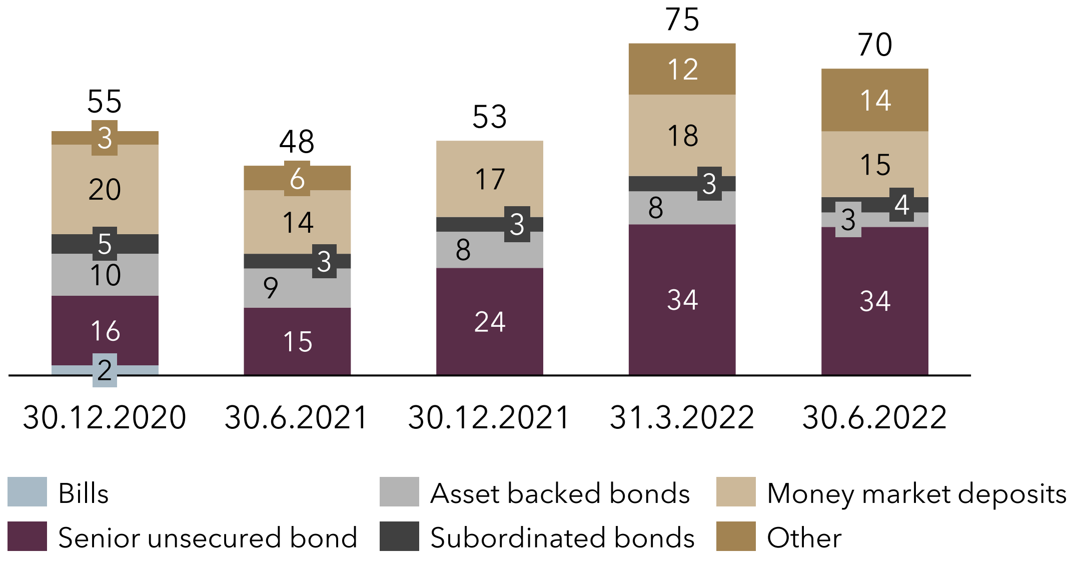


- Liabilities increase by 39.7 billion since year-end 2021, driven by debt issuance and increase in borrowings
- Increased borrowings are mainly attributable to the acquisition of Ortus Secured Finance, which has borrowed from UK lenders
- Kvika issued ISK 9.8 billion equivalent of senior unsecured bonds 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 26.8 billion, increasing by ISK 4.4 billion mainly due to renewals in policies
- Total deposits increase by ISK 15.9 billion in 6M 2022

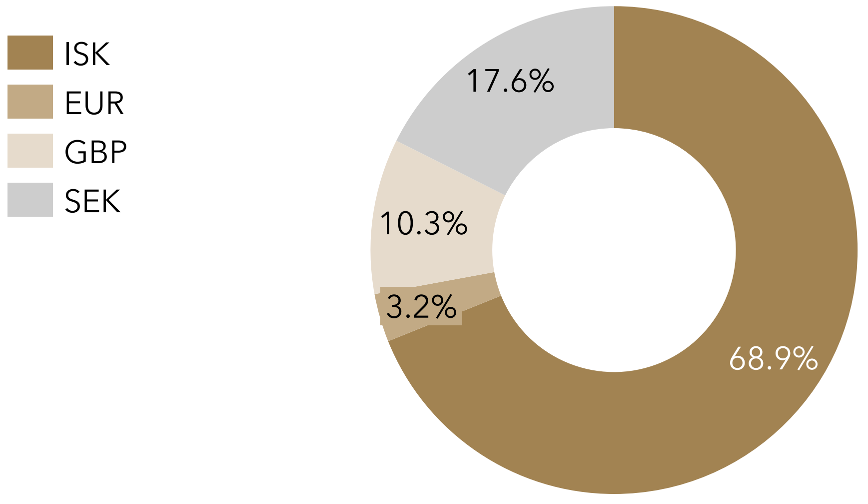
Diversified Funding Programmes

Funding capabilities both domestically and abroad

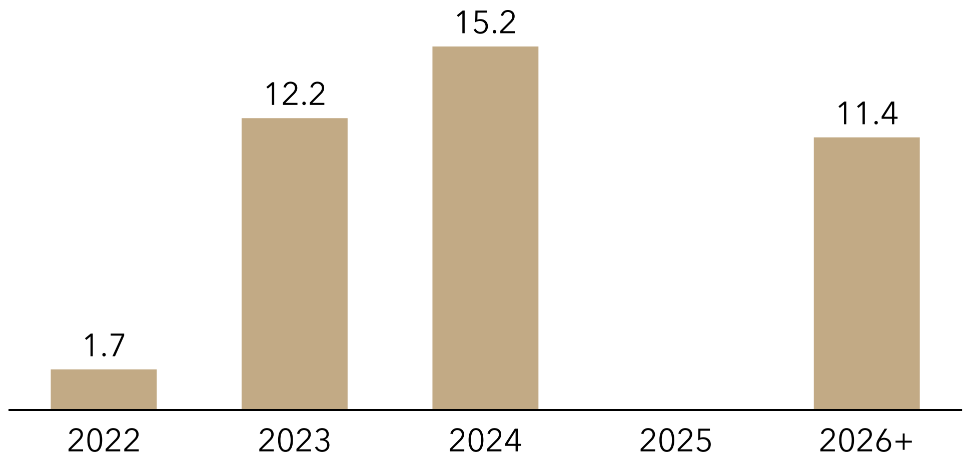
Sources of borrowings
30.6.22 / ISK billions



Issue currency
30.6.22 / ISK billions



Maturity of issuance
30.6.22 / ISK billions



Rating
Moody's Investors Service

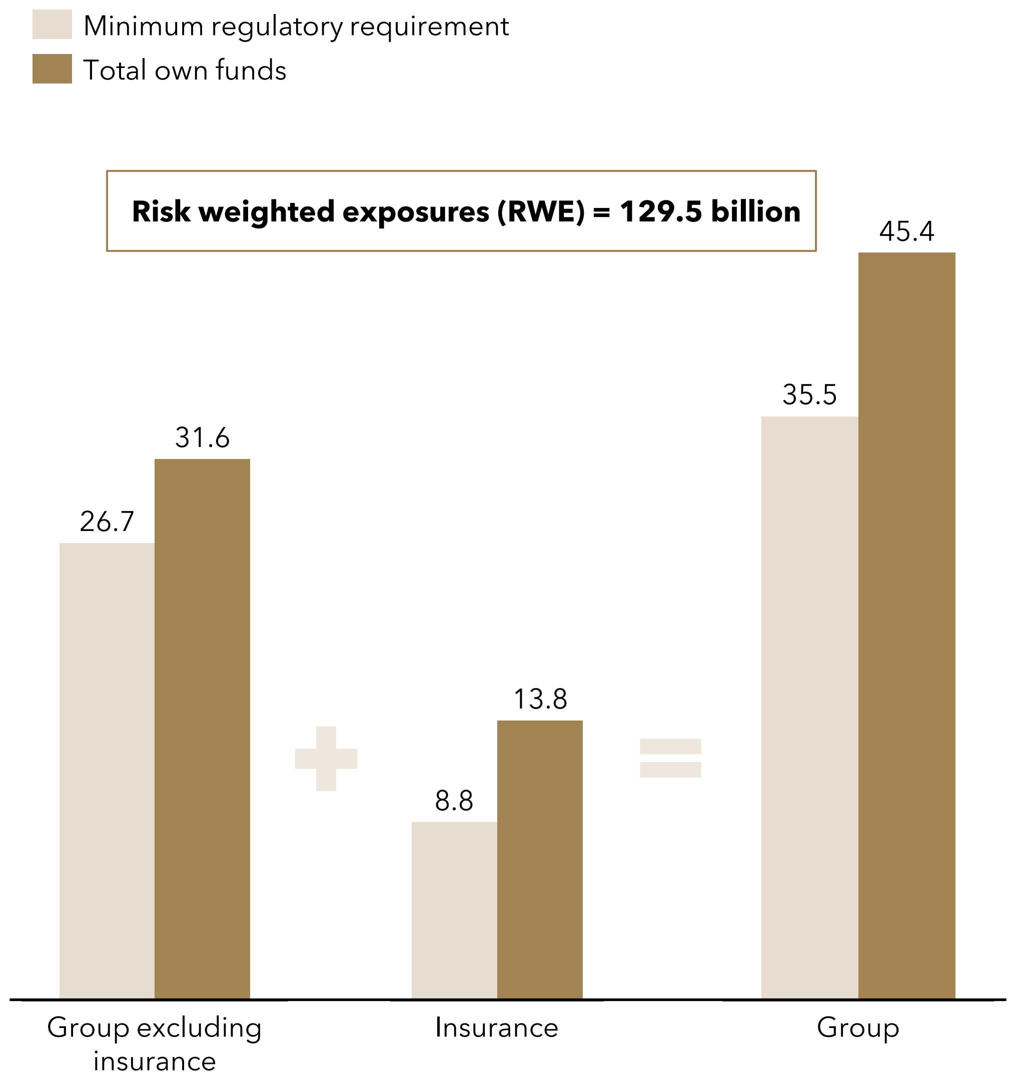
	Bank deposit rating	Issuer rating
Long term	Baa1	Baa2
Short term	P-2	P-2
Outlook	Stable	Stable
Last	29 June 2022	19 May 2022

- 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 37 billion of senior bonds outstanding at 30 June 2022

Solvency and Capital

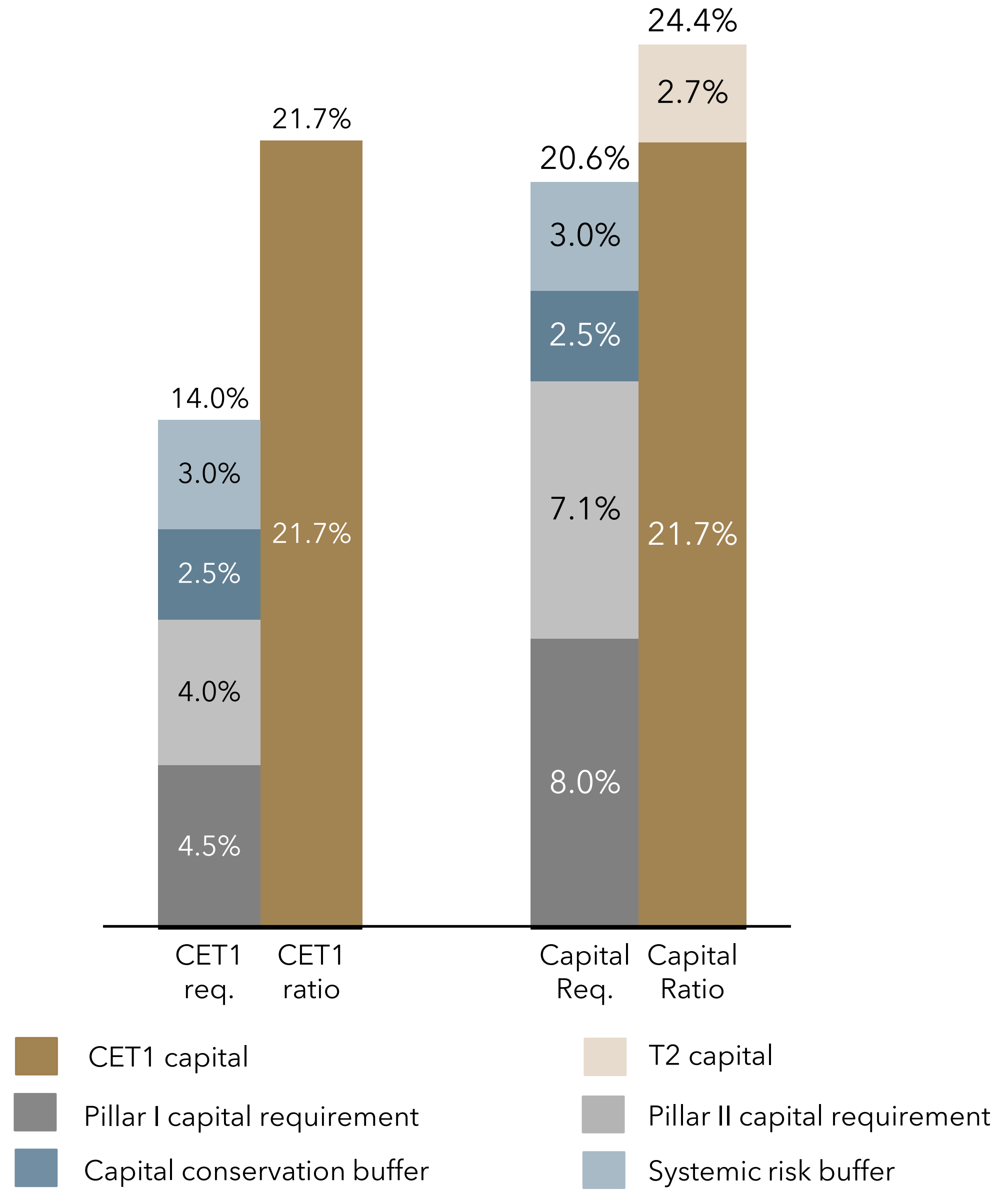
Comfortably above regulatory requirements

CAR and solvency
30.6.2022 / ISK bn.



Capital adequacy ratio	Solvency ratio	Solvency ratio
31.6 / 129.5 = 24.4% Reg. min = 26.7 / 129.5 = 20.6% (Equiv. solvency 31.6 / 26.7 = 1.18)	13.8 / 8.8 = 1.57 Reg. min = 1.00	45.4 / 35.5 = 1.28 Reg. min = 1.00

Capital position and requirements
30.6.2022 / (%)

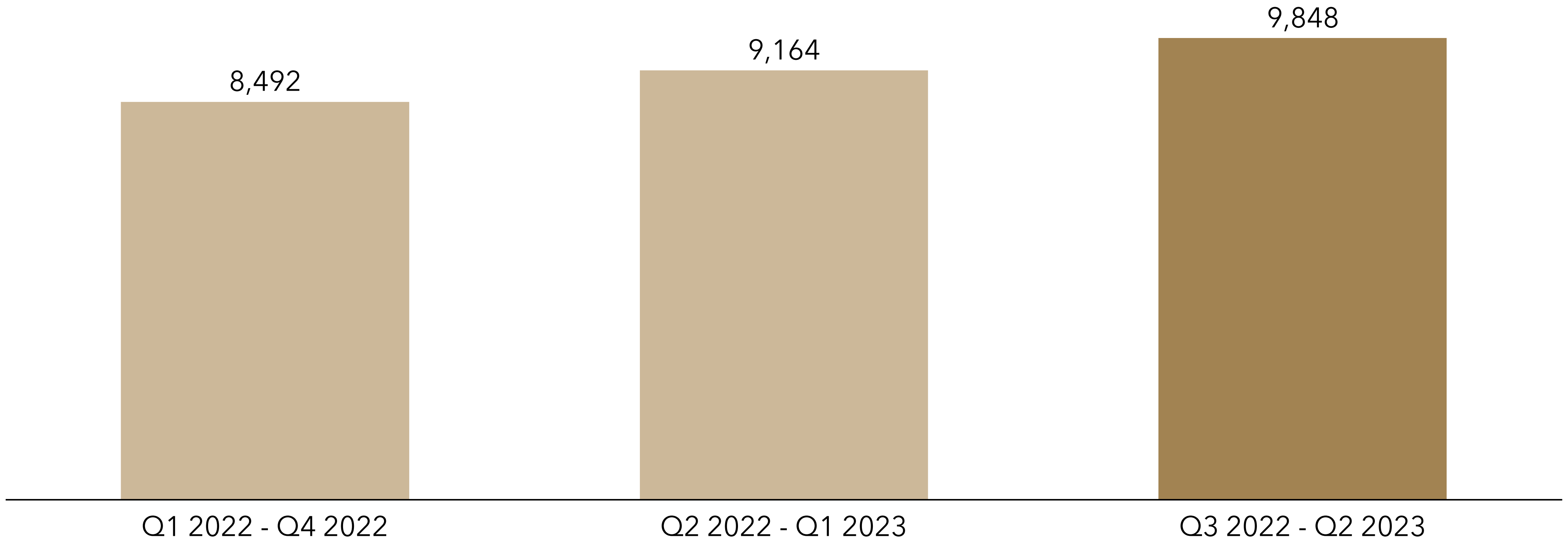


- Capital adequacy is calculated on a consolidated level as the solvency ratio of the financial conglomerate
- The consolidated capital adequacy ratio (CAR) is calculated for entities not belonging to the insurance sector by excluding insurance activities from calculation of risk weighted exposures and capital base
- Countercyclical buffer will increase from 0% to 2%, effective as of 29 September 2022
- The Pillar 2 requirement is 7.1% based on SREP 2019 results
- Excess capital of ISK 9.9 billion on consolidated solvency basis for the Group and ISK 4.9 billion on CAR basis excluding insurance activities

Published Outlook

Guidance published for next four quarters at each time

PBT Outlook 2022-23
ISK million



19.4%	21.4%	23.4%
RoTE	RoTE	RoTE

Key assumptions underlying the Group's next 12 months' outlook include:

- → TM: 8.3% return on investment and combined ratio of 94.9%
- → Loan book growth of 20% in the period (10% domestic, 54% UK)
- → Expected inflation of 6-7% for the next 12 months
- → Refinancing of UK loan portfolio starts in 2023

- At the end of each quarter the Group revises key assumptions for the next four quarters and updates previously reported outlook as required
- Updated guidance published to the market after each quarters' results, guiding the next four quarters
- PBT Outlook for the next four quarters, Q3 2022 - Q2 2023, updated to ISK 9,848 million from ISK 9,164 million for Q2 2022 - Q1 2023
- Each quarter's expected PBT varies from ISK 2.1-2.7 billion in the Q3 2022 - Q2 2023 forecast
- Earnings announcement published if results, for the latest full published four quarters guidance, are expected to vary by +/- 5%

Key Takeaways

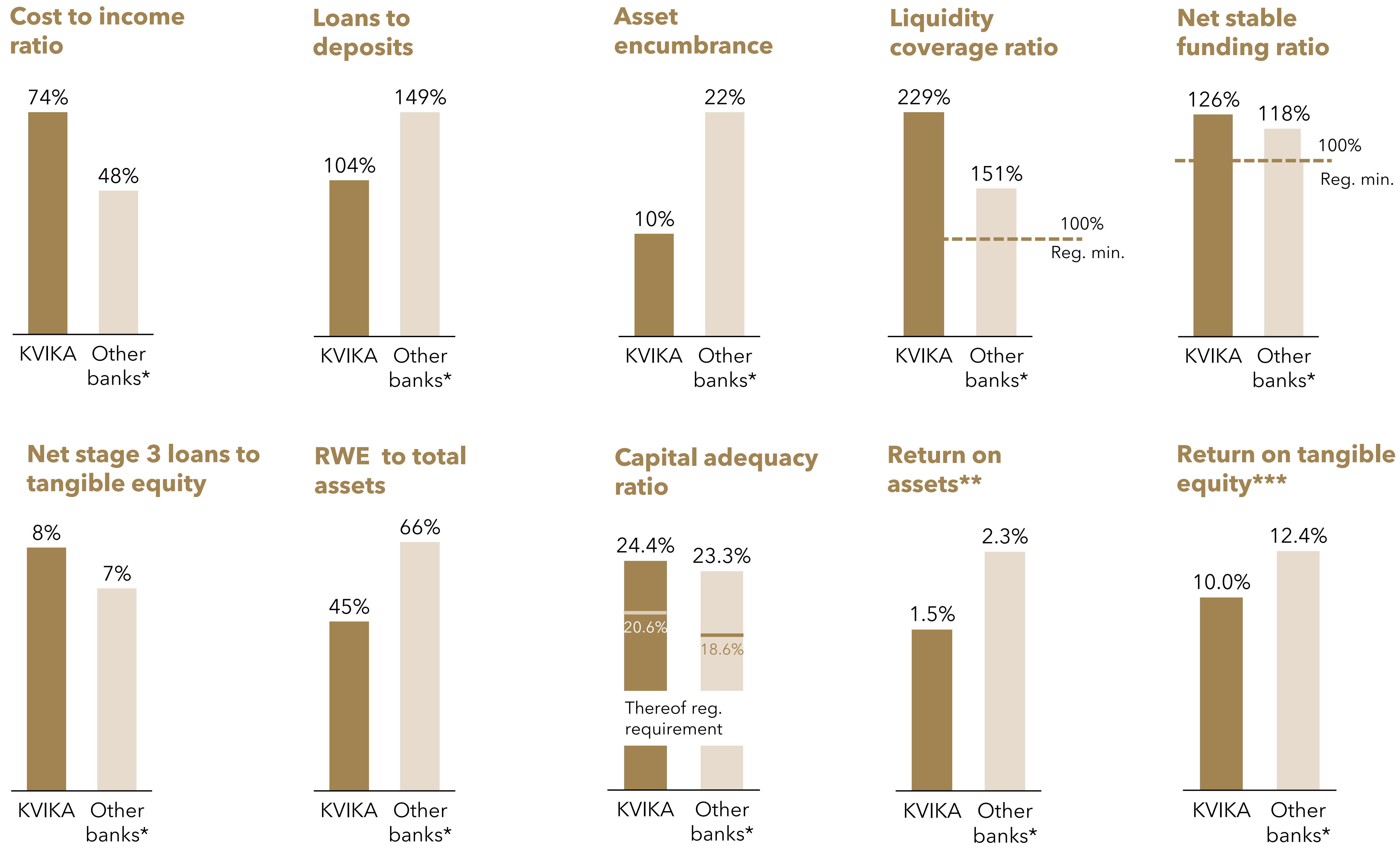
And focus going forward

- Five operating segments provide a highly diverse source of income for the Group
- Strong financial position and valuable infrastructure for growth
- NFI negatively affecting total PBT, Group otherwise operating in line with guidance
- Rating and EMTN programme open doors for more diverse and lower cost of funding
- Guidance of PBT ISK 9,848 million for next 12 months

Appendix

Kvika as a Borrower

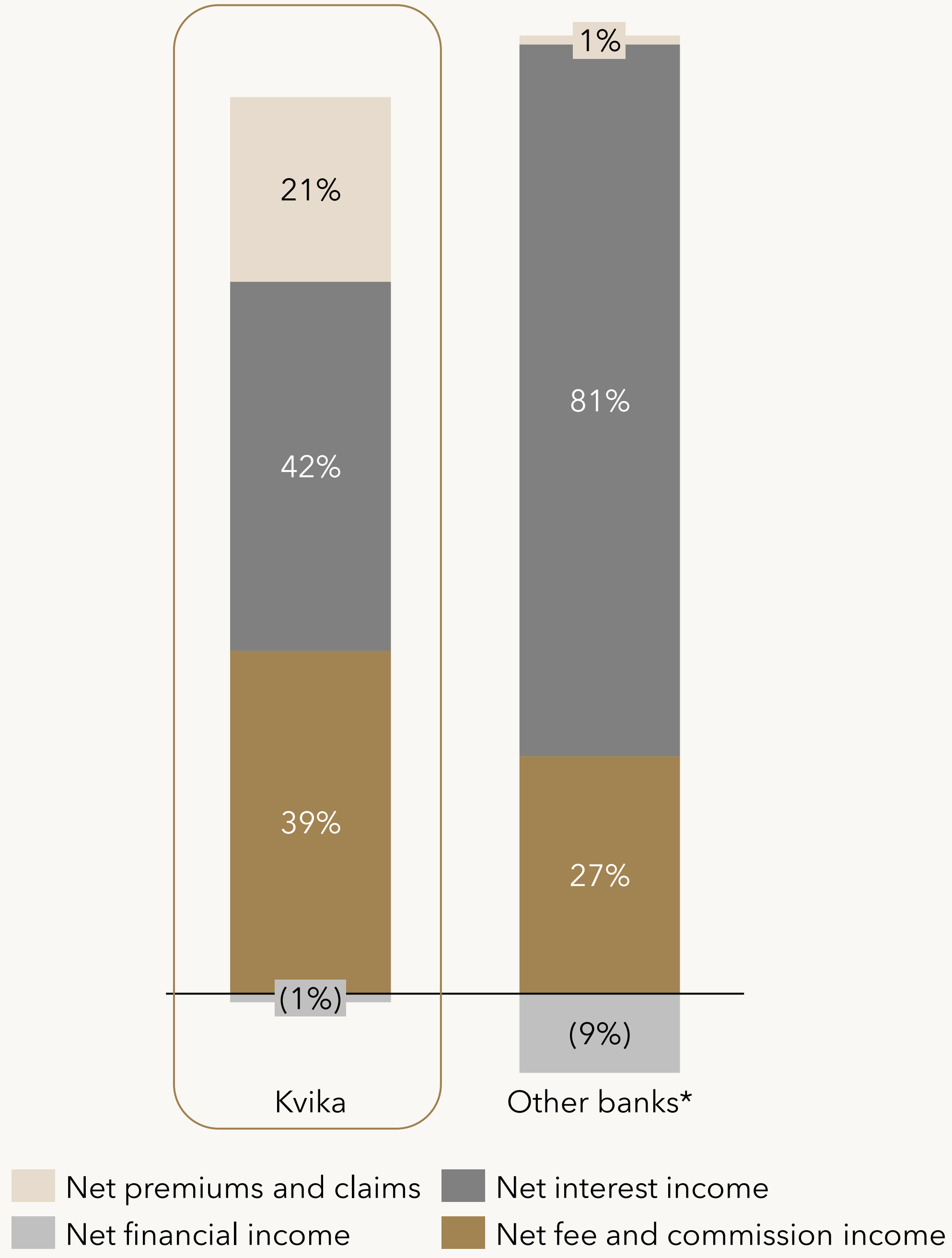
Comparison to domestic banks for 6M 2022



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

A more diversified income base than traditional banks

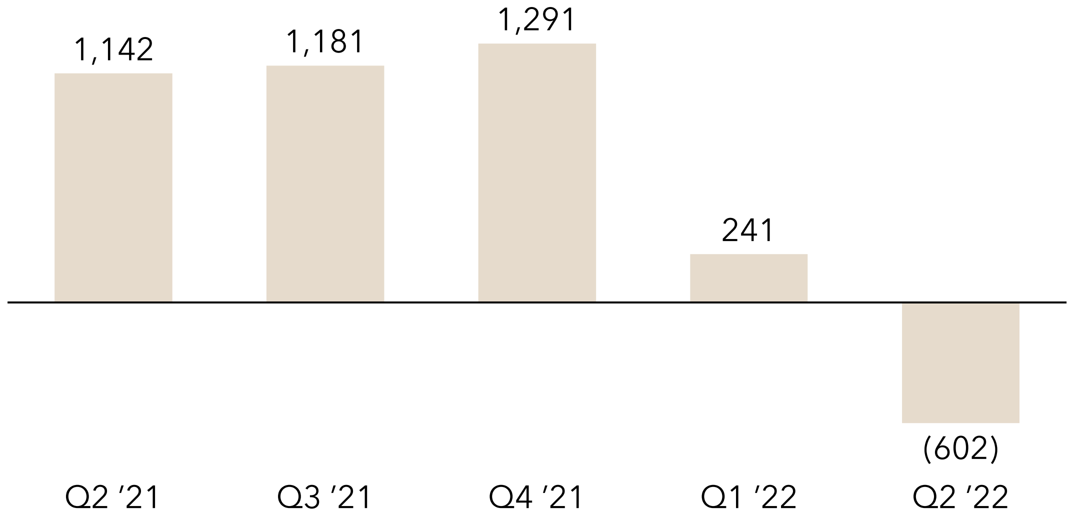
Net operating income / 30.6.22



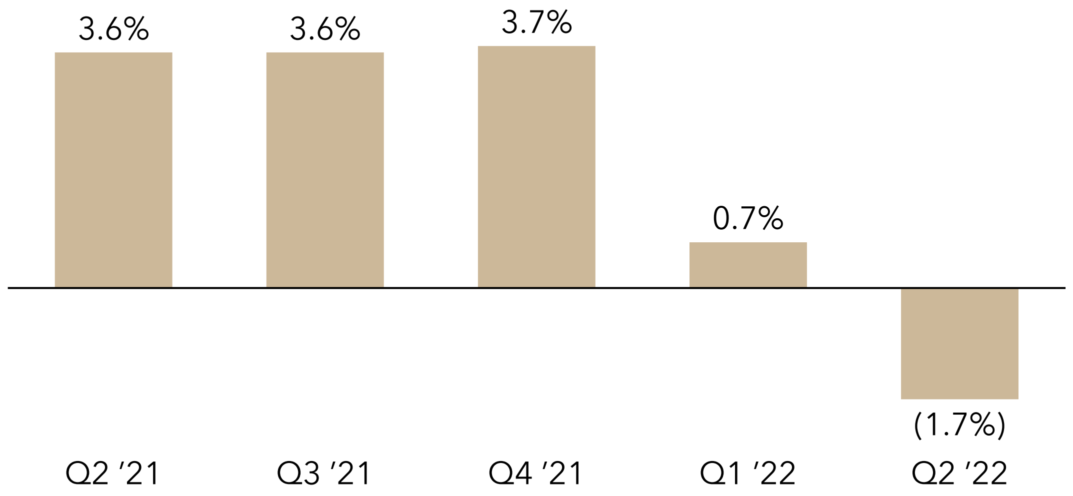
Insurance Investments

Return on investment of -1.0% in 6M 2022 (6M 2021: 9.3%)

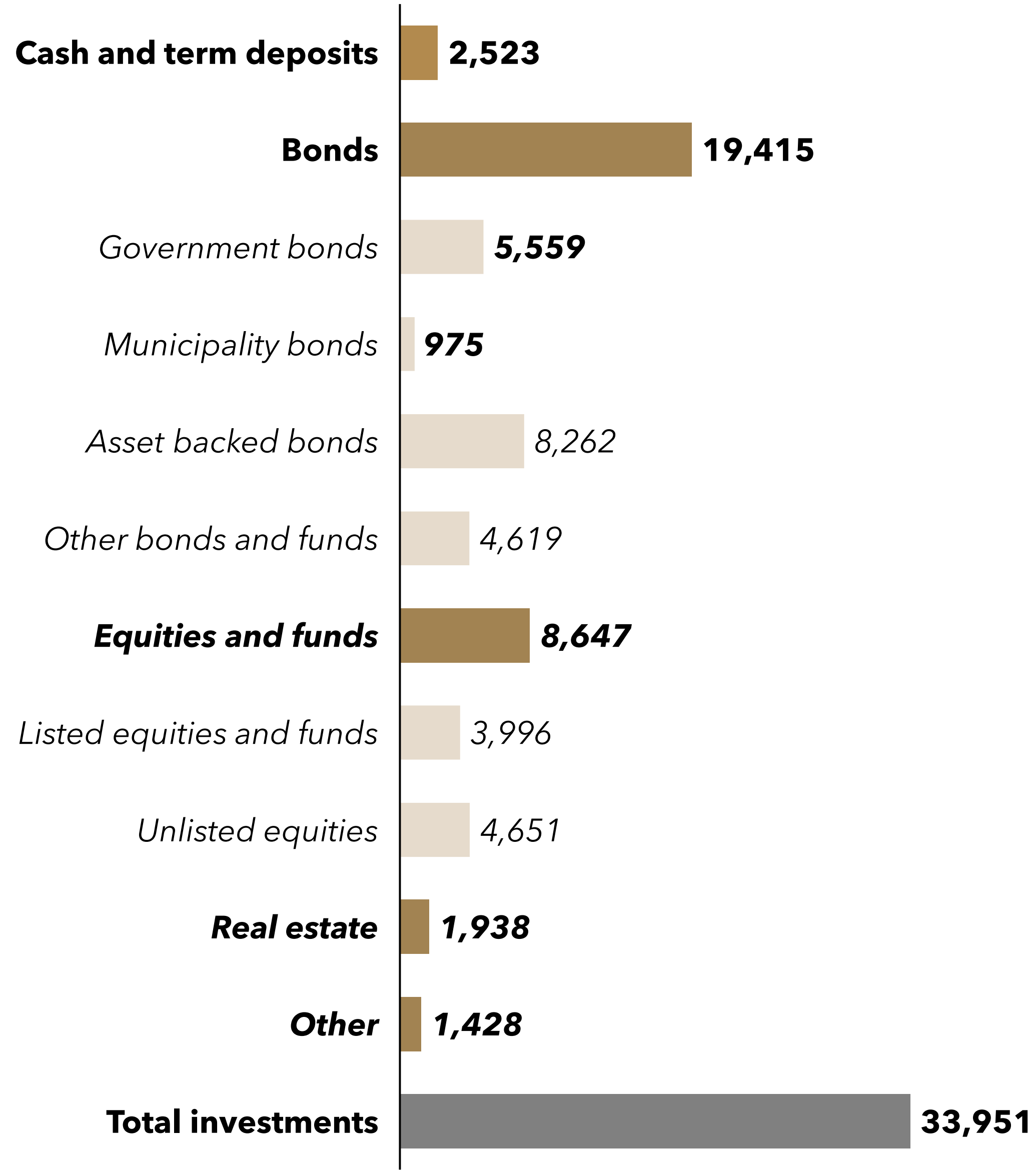
Investment asset income
ISK m.



Investment asset returns (ROI)
(%)



Insurance investment assets*
30.6.2022 / ISK m.



- Negative return on investment assets in the first 6 months of 2022 of -1.0% 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
- Cash and liquidity funds amount to ISK 2.5 billion at the end of the period

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

Disclaimer

This presentation and the information contained therein has been prepared by Kvika banki hf. on a best knowledge basis. Any statements or assumptions are set forth by Kvika alone and not by any third party. Forward looking statements may deviate from what is presented in this presentation, e.g. due to market conditions or other factors. Kvika does not guarantee the accuracy or completeness of the information set forth in this presentation, whether it comes from Kvika or a third party.

This presentation shall not in any way be viewed as a recommendation or solicitation to buy, hold or sell any security or to take any investment decision. The recipient is solely responsible for any investment decision taken on the basis of the information in this presentation.

Kvika does not assume any liability whatsoever for any direct or consequential loss or damage arising from any use of this presentation or its contents. Kvika is not obliged to make amendments or changes to this publication or to submit further information, should errors be discovered or opinions or information change.