



KV\KA

Kvika

Annual general meeting

26 March 2020

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Kvika's operations and financials 2019

Marinó Örn Tryggvason CEO



Highlights



Profit for the year amounts to ISK 2,660 million (pre-tax ISK 2,501 million)

Increase of 52% year-on-year (pre-tax 39% year-on-year) - Initial budget for 2019 amounted to ISK 1,990 million



Return on equity 21.0%

Surpassing long term target of 15%



Strong financial position with CAD ratio of 24.1%

Regulatory requirement at year-end was 21.35%



Fintech deposit platform Auður launched in March 2019

Positive reactions reflected in growth in deposits



Work started on consolidating Kvika's asset management operations

In line with strategic focus – estimated to be concluded in 2020



Issuance of a five year senior unsecured bond

Issue size of ISK 1,520 million with total issue limited to ISK 5,000 million



Pre-tax earnings forecast of ISK 2,300 - 2,700 million for 2020

Corresponding to return on equity of 15% - 18%



Kvika

Overview

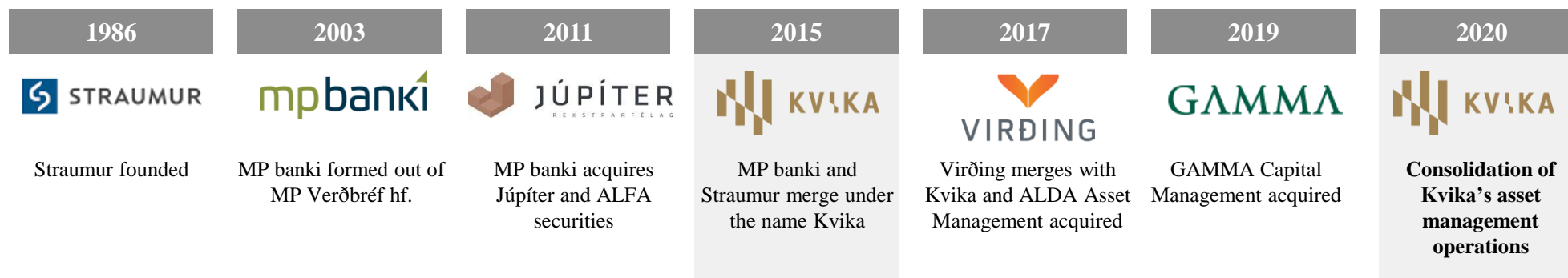


Strong foundation through consolidations

Track record in obtaining increased efficiency, specialisation and lowering costs



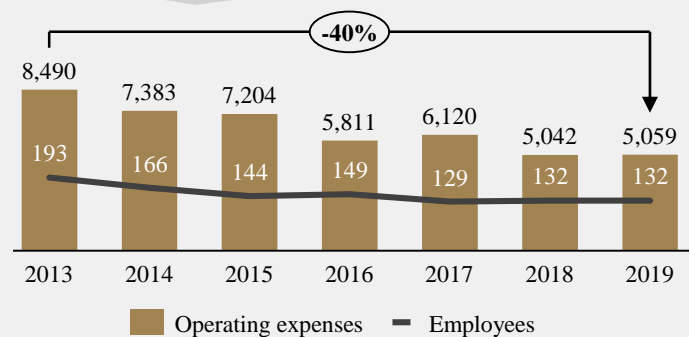
TIMELINE



DEVELOPMENT OF OPEX AND EMPLOYEES

OPEX in ISK m., real wages at 2019 price levels¹⁾

Combined operating costs and employee numbers at Kvika and companies which have joined the Kvika group



2012		2015		2018		2019	
MP banki	125	Kvika	86	Kvika	109	Kvika	132
Straumur	35	Virðing	38				
Virðing	19	ALDA	4				
Auður	30	GAMMA	16				
ALDA	1			GAMMA	23		
GAMMA	9	Employees	144	Employees	132	Employees	132
Employees	219						

1) Statistics Iceland, based on real wage index, annual average for the period 2013-2019
Virðing and Auður merged in 2014

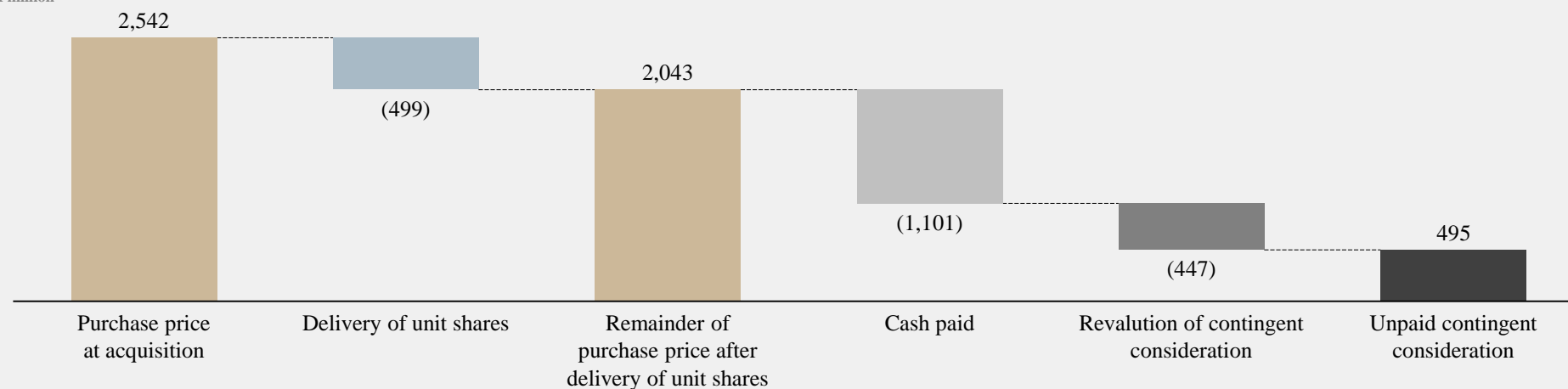
Acquisition of GAMMA concluded in 2019



- In November 2018 Kvika signed an agreement to acquire GAMMA Capital Management hf.
 - Acquisition finalised in March 2019
 - GAMMA is part of the financial statements from March 1st 2019
- Purchase price at the acquisition date amounted to ISK 2,542 million, and was partly based on the book value of accrued performance related fees
- The purchase price ISK 2,542 million was composed of
 - ISK 1,843 million net assets
 - ISK 699 million of goodwill
- The purchase price is partially conditional on certain conditions
 - The amount of performance related fees GAMMA will receive over a certain period affects the purchase price
 - As a result the purchase price can increase or decrease over time
- As at 31 December 2019
 - ISK 1,600 million of the acquisition had been paid for
 - i. Thereof ISK 499 million paid by buying unit shares from GAMMA and delivering to the sellers
 - ISK 495 million recognised as contingent consideration
- In 2019 the purchase price was reduced by ISK 447 million mainly due to revaluation of performance related fees in GAMMA's operations

ACQUISITION OF GAMMA

ISK million

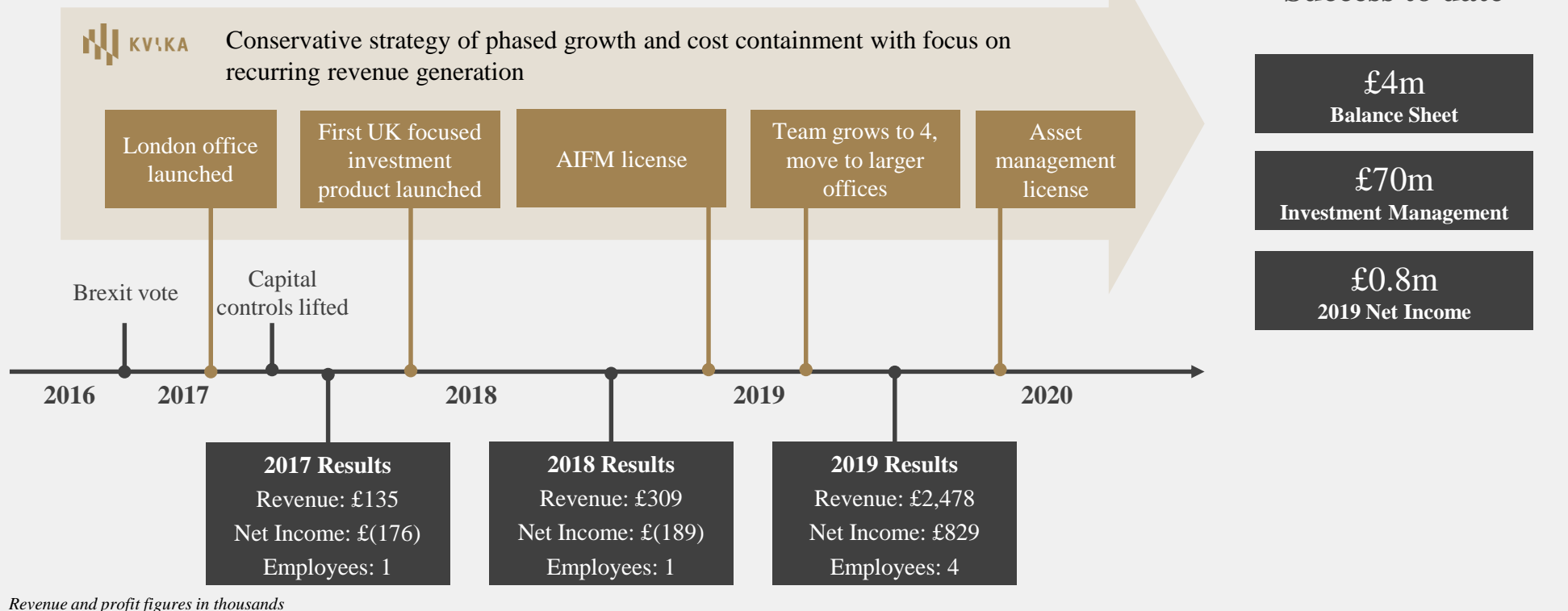


UK operation - Kvika Securities Ltd.

Logical expansion following capital control liberalisation



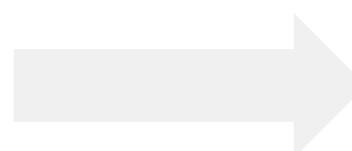
HISTORY AND DEVELOPMENT OF KVIKA SECURITIES LTD



**Asset
Management**

**Corporate
Finance**

Credit



Focus on building a service offering across three of Kvika's four core business segments



Financials

Continuing growth in net operating income



Income statement / Q4

Diversified income generation and expenses in line with expectations

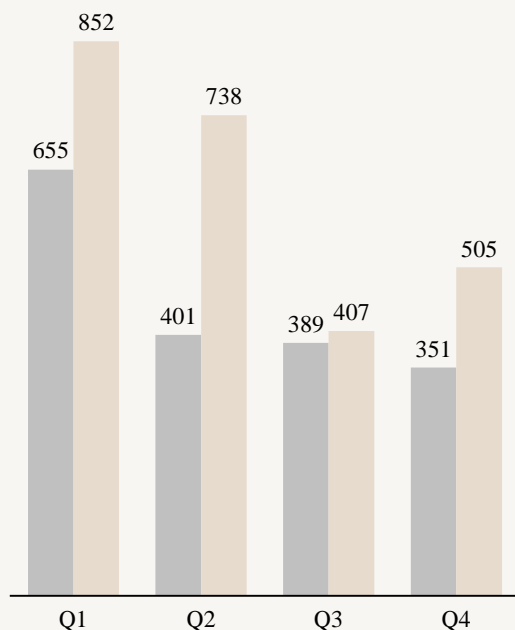


PRE-TAX PROFIT

ISK m.

Improved performance driven by net fee and commission income

■ 2018 ■ 2019

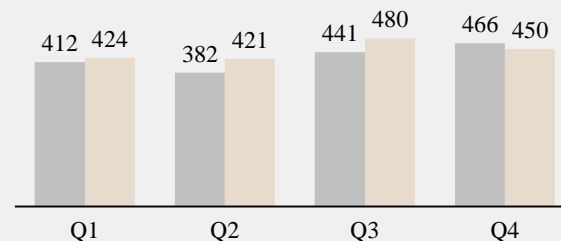


NET INTEREST INCOME (NII)

ISK m.

Relatively unchanged size of loan book

■ 2018 ■ 2019

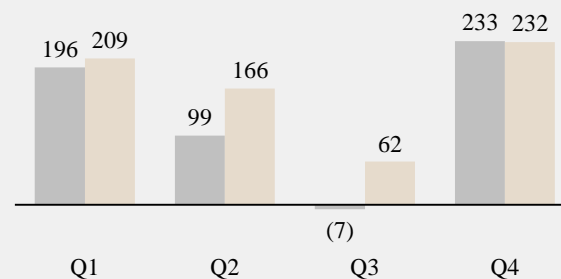


NET FINANCIAL INCOME (NFI)

ISK m.

Volatile NFI due to market conditions

■ 2018 ■ 2019

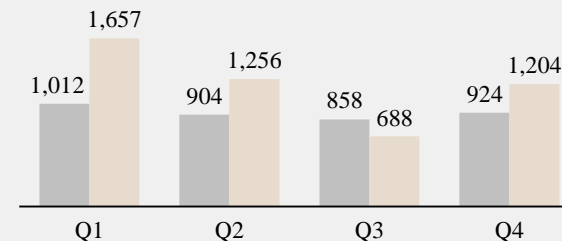


NET FEE AND COMMISSION INCOME (NFC)

ISK m.

Increase in NFC mainly attributable to asset management and capital markets

■ 2018 ■ 2019

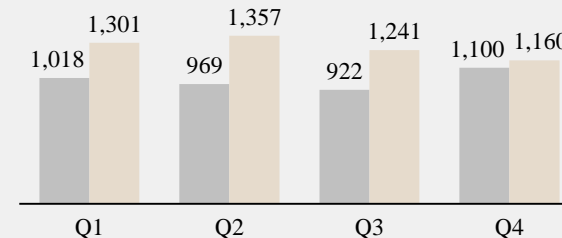


OPERATING EXPENSES (OPEX)

ISK m.

OPEX in line with expectations

■ 2018 ■ 2019



Income statement / 2019

Return on equity 21.0% during the year



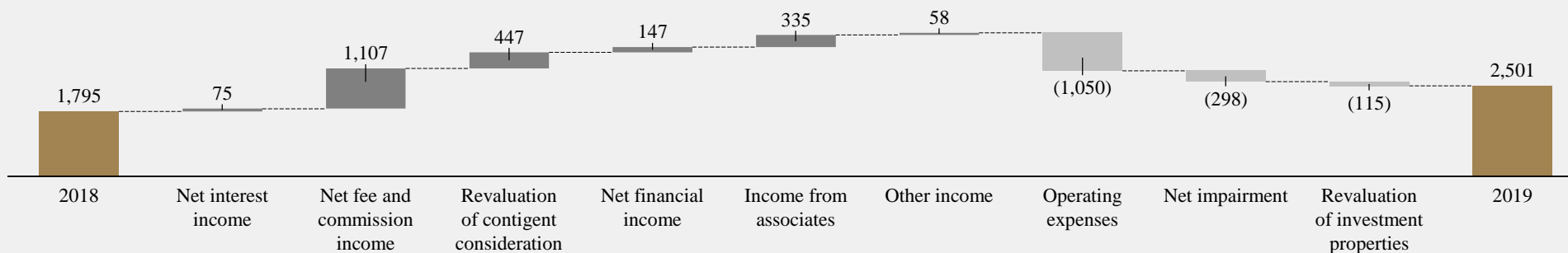
- Profit for the year amounted to ISK 2,660 million, an increase of 52% year-on-year
- Corresponding to an annualised 21.0% return on equity
- Net interest income increased 4.4% year-on-year despite cuts in policy rates
- Net fee and commission income ISK 4,804 million, an increase of 30% year-on-year driven by asset management
- Operating expenses ISK 5,059 million and increased 26% year-on-year in line with expectations
 - Average salary increased by 0.7% year-on-year, compared to wage index increase of 4.5%
- Increase in net impairments mainly in Q4
 - In line with budget
- Net financial income ISK 668 million, an increase of 28% year-on-year

INCOME STATEMENT

ISK m.	2019	2018
Net interest income	1,776	1,701
Net fee and commission income	4,804	3,698
Net financial income	668	522
Income from associates	32	(303)
Other income	145	87
Net operating income	7,426	5,705
Operating expenses	(5,059)	(4,009)
Net impairment	(314)	(15)
Revaluation of contingent consideration	447	-
Revaluation of investment properties	-	115
Pre-tax profit	2,501	1,795
Taxes		
Income tax	362	110
Special tax on financial activity and institutions ¹⁾	(202)	(153)
After-tax profit	2,660	1,752
Earnings per share (EPS)	1.41	0.95
Diluted EPS	1.27	0.86

PRE-TAX PROFIT BRIDGE

FROM 12M 2018 to 12M 2019 ISK m.

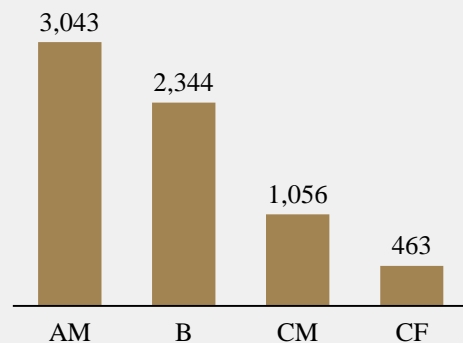


Strategic focus on fee and commission income

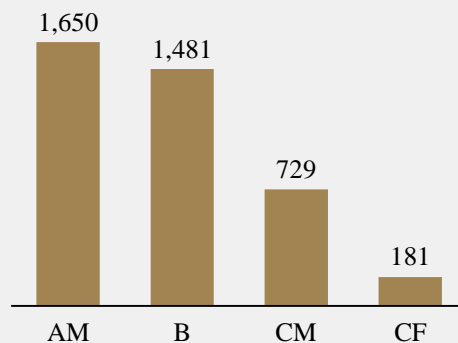
Improvements in core operations



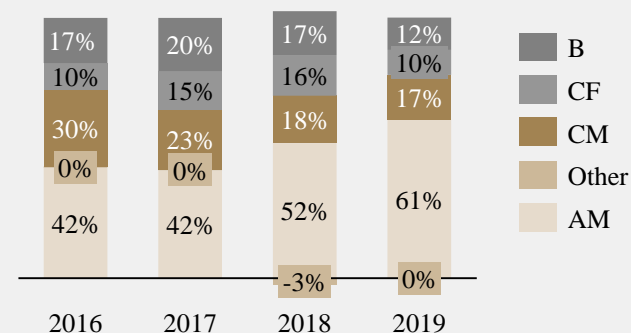
NET OPERATING INCOME
BY SEGMENT / 2019 ISK m.



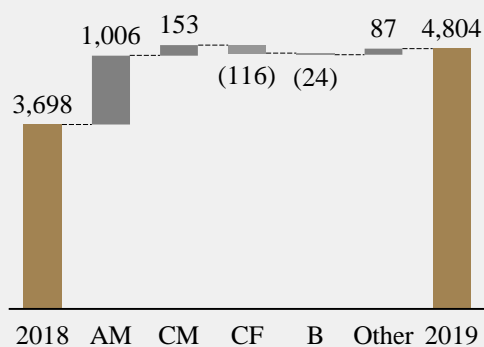
PROFIT OR LOSS BEFORE COST ALLOCATION
BY SEGMENT / 2019 ISK m.



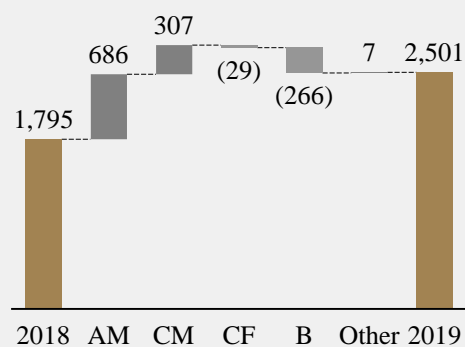
NET FEE AND COMMISSION INCOME SPLIT
FROM 2016 to 2019 (%)



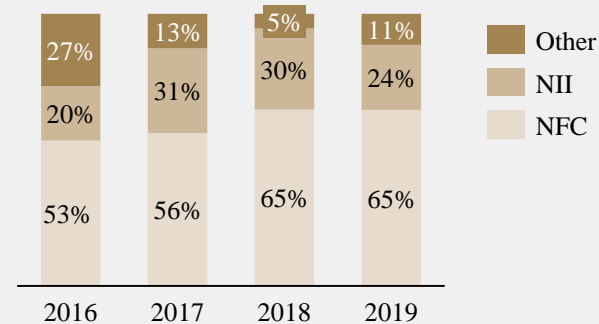
NET FEE AND COMMISSION INCOME
SEGMENT CHANGE / FROM 2018 to 2019 ISK m.



PROFIT OR LOSS BEFORE COST ALLOCATION
SEGMENT CHANGE / FROM 2018 to 2019 ISK m.



NET OPERATING INCOME SPLIT
FROM 2016 to 2019 (%)



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

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

Balance sheet

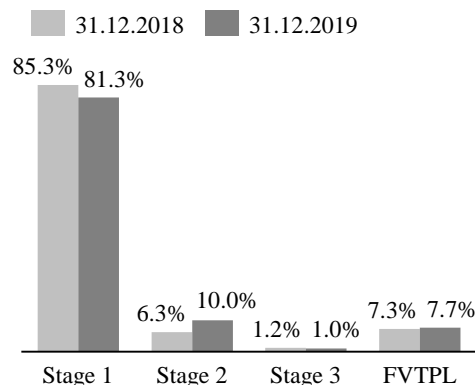
Growth in short-term and liquid assets



- In total, liquid assets amount to ISK 59.4 billion or 56% of total assets and 115% of all deposits from customers
 - Cash and balances with the Central Bank at ISK 26.8 billion
 - Other liquid assets include ISK 11.4 billion in listed government bonds and ISK 21.2 billion of other listed securities
- Financial instruments ISK 37.3 billion of which ISK 24.3 billion are for hedging
- Loans to customers increased ISK 0.7 billion from year-end 2018
 - The weighted average duration of the loan book was 1.07 year at the end of the year

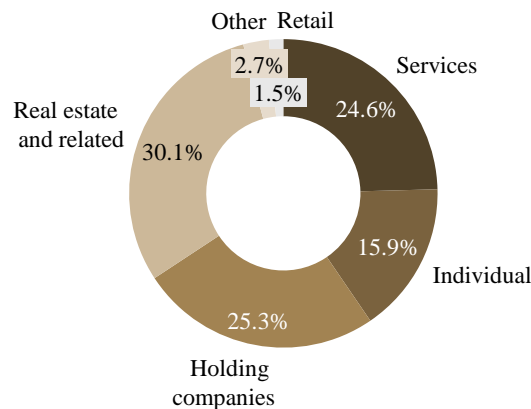
CREDIT QUALITY OF LOAN BOOK ¹⁾

31.12.2018 and 31.12.2019



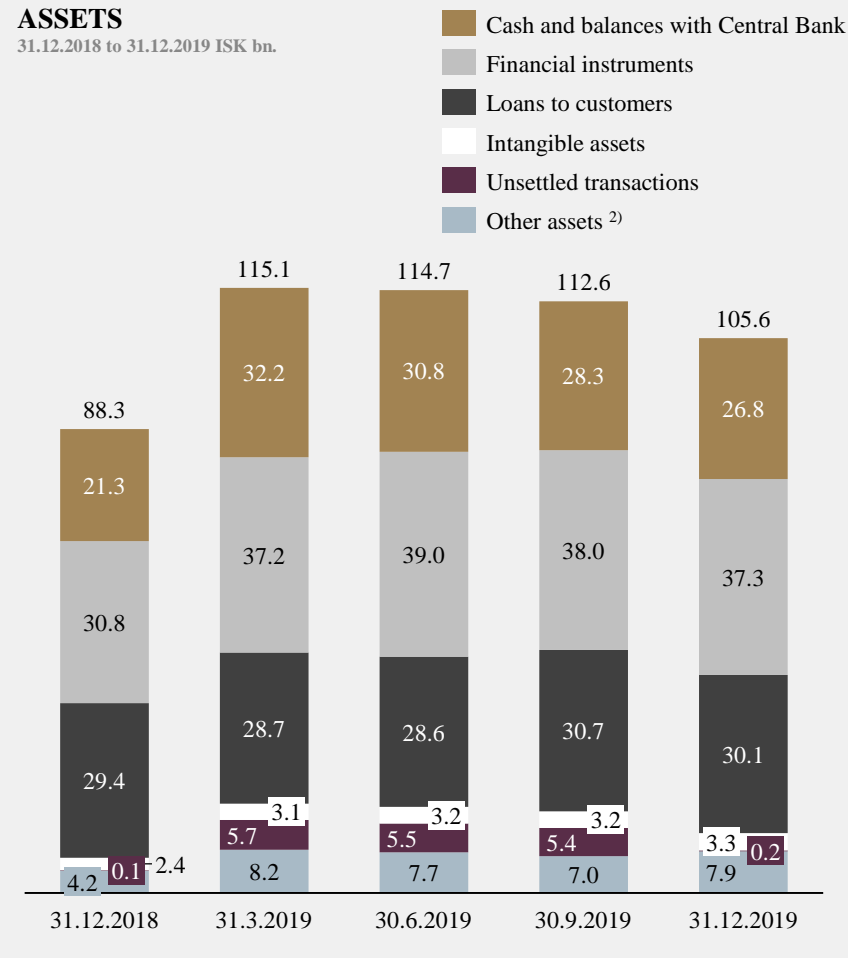
BREAKDOWN OF LOAN BOOK

31.12.2019



ASSETS

31.12.2018 to 31.12.2019 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

Balance sheet

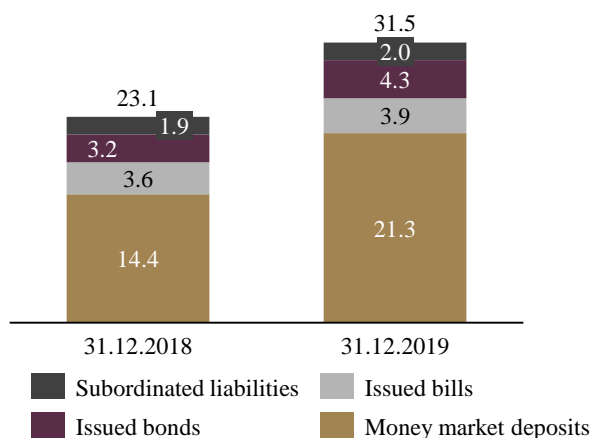
Increased diversification in funding



- Liquidity coverage ratio (LCR) 246% at year-end
- Deposits to loans ratio remains high at 171% and provides cover from fluctuations in wholesale funding
- Deposits have increased by ISK 3.6 billion from year-end 2018
 - Positive reactions in successful launch of Auður deposit platform in mid March 2019
 - Increase in stable and diversified retail deposits replaces less stable deposits from corporates and financial entities
- Outstanding issued debt securities amounted to ISK 10.2 billion
 - Issuance of senior unsecured five year bond in 2019 of ISK 1.5 billion
- Money market borrowings amounted to ISK 21.3 billion

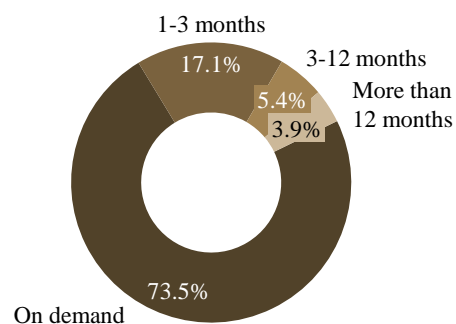
SECURITIES & BORROWINGS

31.12.2018 and 31.12.2019 ISK bn.



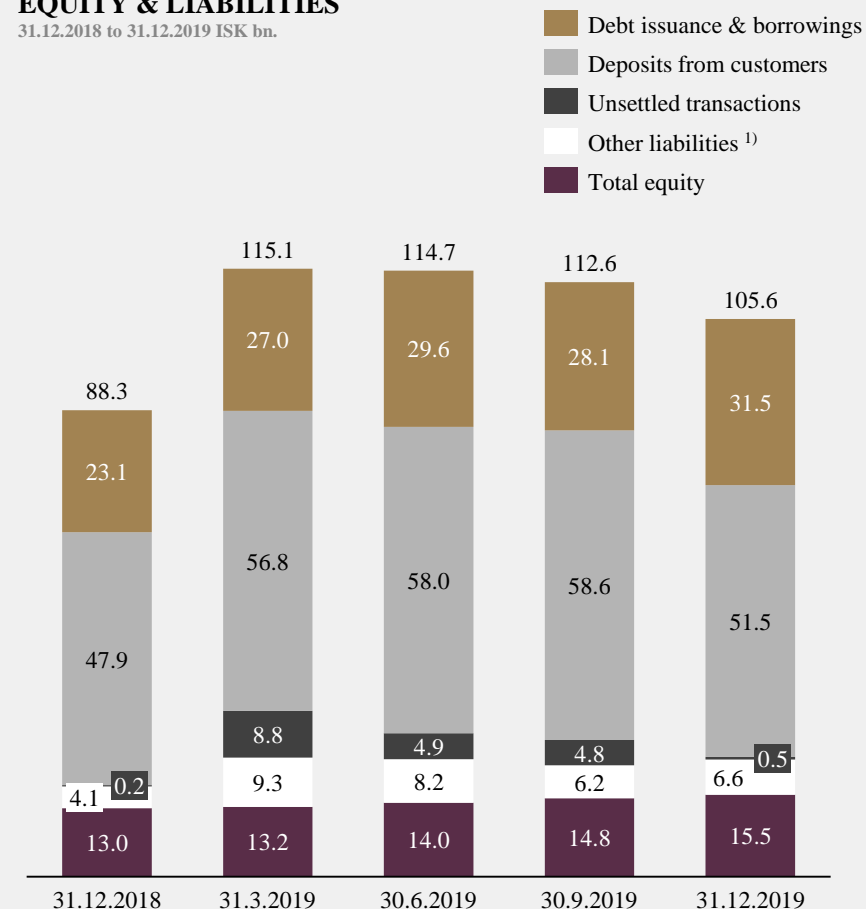
MATURITY OF DEPOSITS

31.12.2019



EQUITY & LIABILITIES

31.12.2018 to 31.12.2019 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

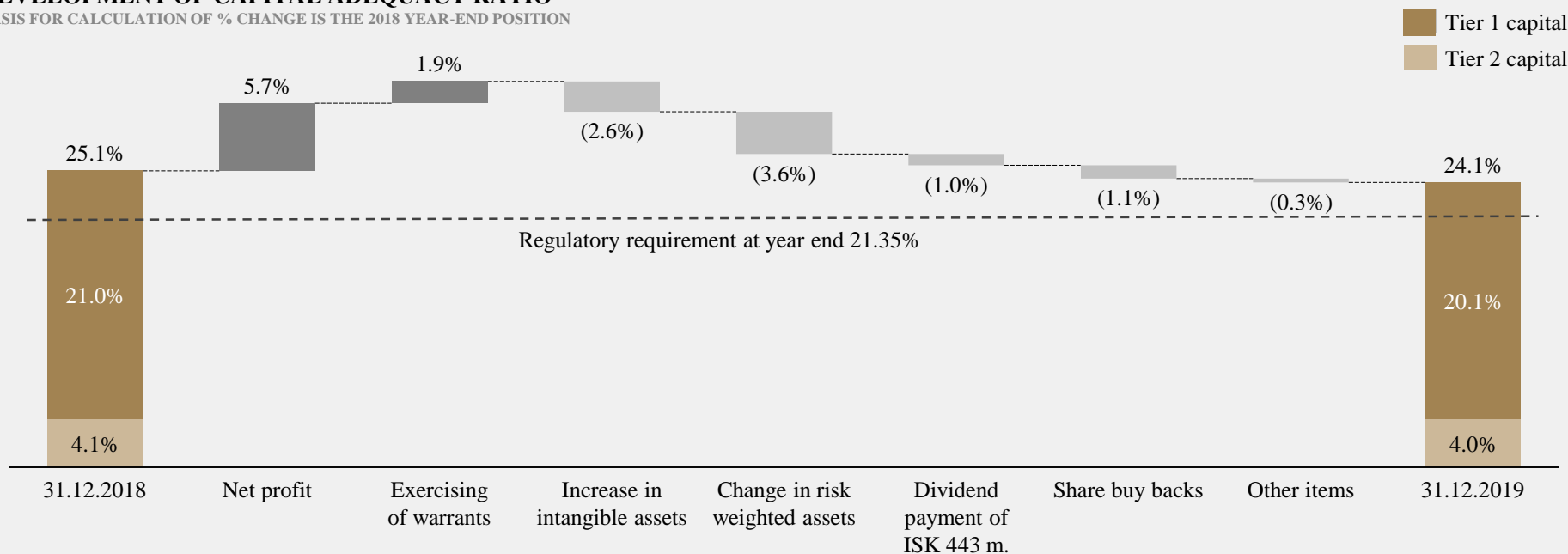
Capital adequacy ratio exceeds required capital buffers



- Capital adequacy ratio 24.1% at year end
 - Capital base amounted to ISK 13,051 million and book value of equity at ISK 15,515 million
 - Regulatory requirement at March 18 2020 was 20.6%
- Issues of new shares for warrants exercised and sale of new warrants in 2019 increased capital by ISK 859 million and raised CAD by 1.9%
- Acquisition of GAMMA Capital Management resulted in increased goodwill of 699 million
- Increase in risk-weighted assets mainly attributable to loan portfolio and other investments
- Dividend payment of ISK 443 million in March reduced CAD by 1.0%
- Share buyback program of 50 million nominal shares (ISK 520 million purchase price) in Q4 reduced CAD by 1.1%

DEVELOPMENT OF CAPITAL ADEQUACY RATIO

BASIS FOR CALCULATION OF % CHANGE IS THE 2018 YEAR-END POSITION



Outstanding warrants

As at March 24 2020



- Kvika has sold warrants at fair value, of which the sales price is allocated directly to retained earnings
- Exercising of the warrants increases the number of shares issued and increases equity
 - Shareholders are diluted if the market price is higher than the subscription price
- As of 26th of September 2019 nominal value of 111,276,648 have been issued
- Based on Kvika's stock price at March 24 the dilution effect of yet to be exercised warrants is 0.7% ¹⁾
- If all warrants are exercised, independent of market price at any time, the estimated capital increase (purchase price) is ISK 4.4 billion ²⁾

ISSUANCE

Board meeting	Number of holders	Nominal issued	Capital increase
September 19'	29	23,966,655	148,113,928
October 19'	14	17,416,663	108,037,477
November 19'	18	41,533,332	259,583,325
December 19'	4	8,966,667	56,459,669
January 20'	12	16,449,998	106,918,154
February 20'	4	2,943,333	18,801,798
Total		111,276,648	697,914,351

WARRANT OVERVIEW

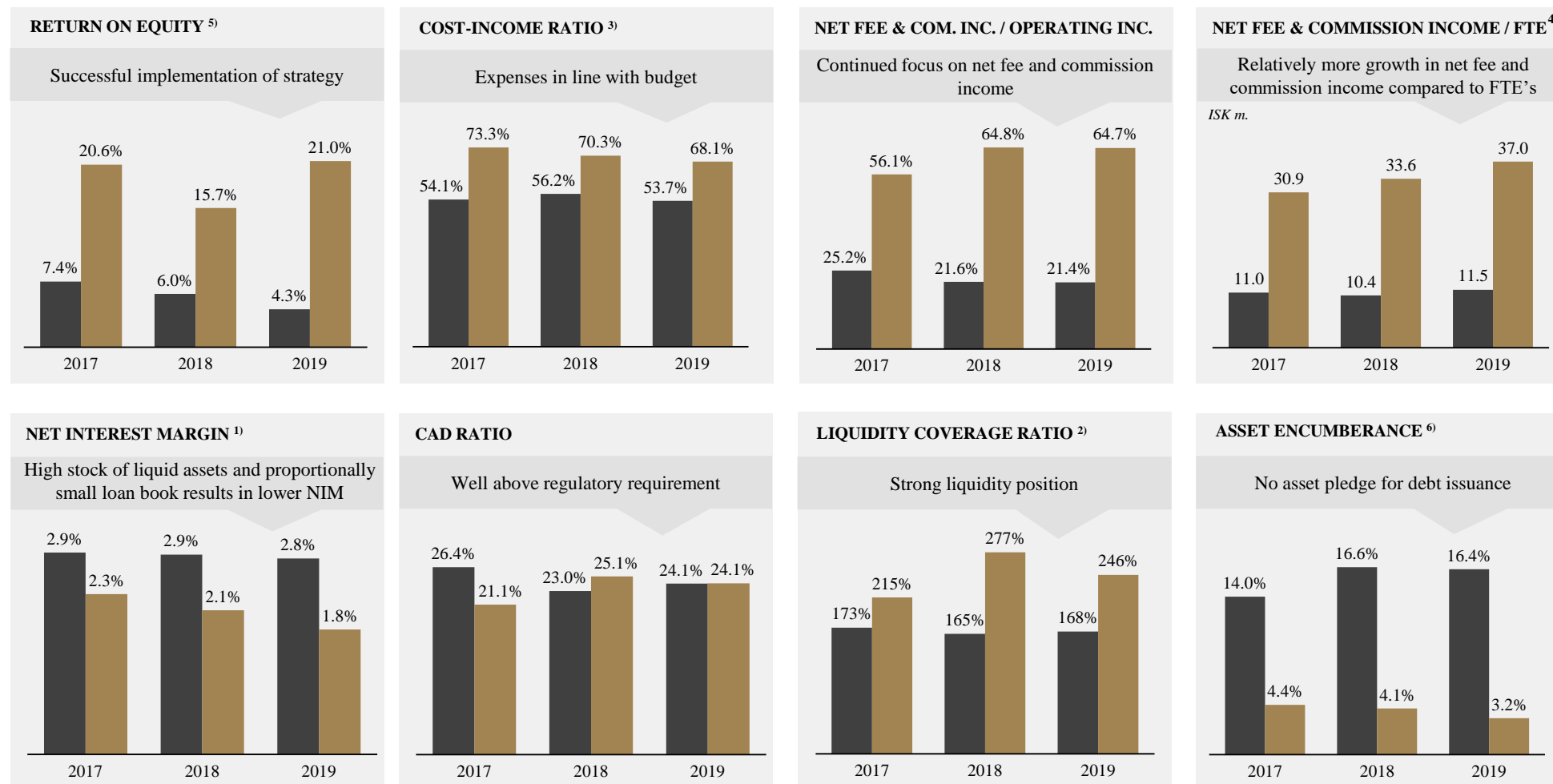
Subscription period	Issued	Nominal outstanding	Estimated dilution ¹⁾	Exercised	Capital increase
Until end of December 2020	111,276,648	98,556,685	0.6%	53%	697,914,351
From December 2020 to December 2022	0	232,833,333	0.1%	0%	0
From December 2021 to December 2022	0	232,833,333	0.0%	0%	0
Total	111,276,648	564,223,351	0.7%	16%	697,914,351

1) All warrants that are in-the-money, now and in the future, are evenly exercised in their subscription periods and dilution calculated on end of March share capital basis

2) All warrants that are in-the-money, now and in the future, are evenly exercised in their subscription periods

Comparison

Strategic focus reflected in key ratios



1) On average carrying total book value of assets

2) As reported

3) As reported

4) Net fee & commission income / Average FTE

5) As reported. However, 2017 return on equity was 24.9% adjusted for one-off items due to integration and organisational changes

6) Defined as encumbered (pledged) assets / total assets

■ Simple average of the three largest commercial banks in Iceland ■ Kvika banki

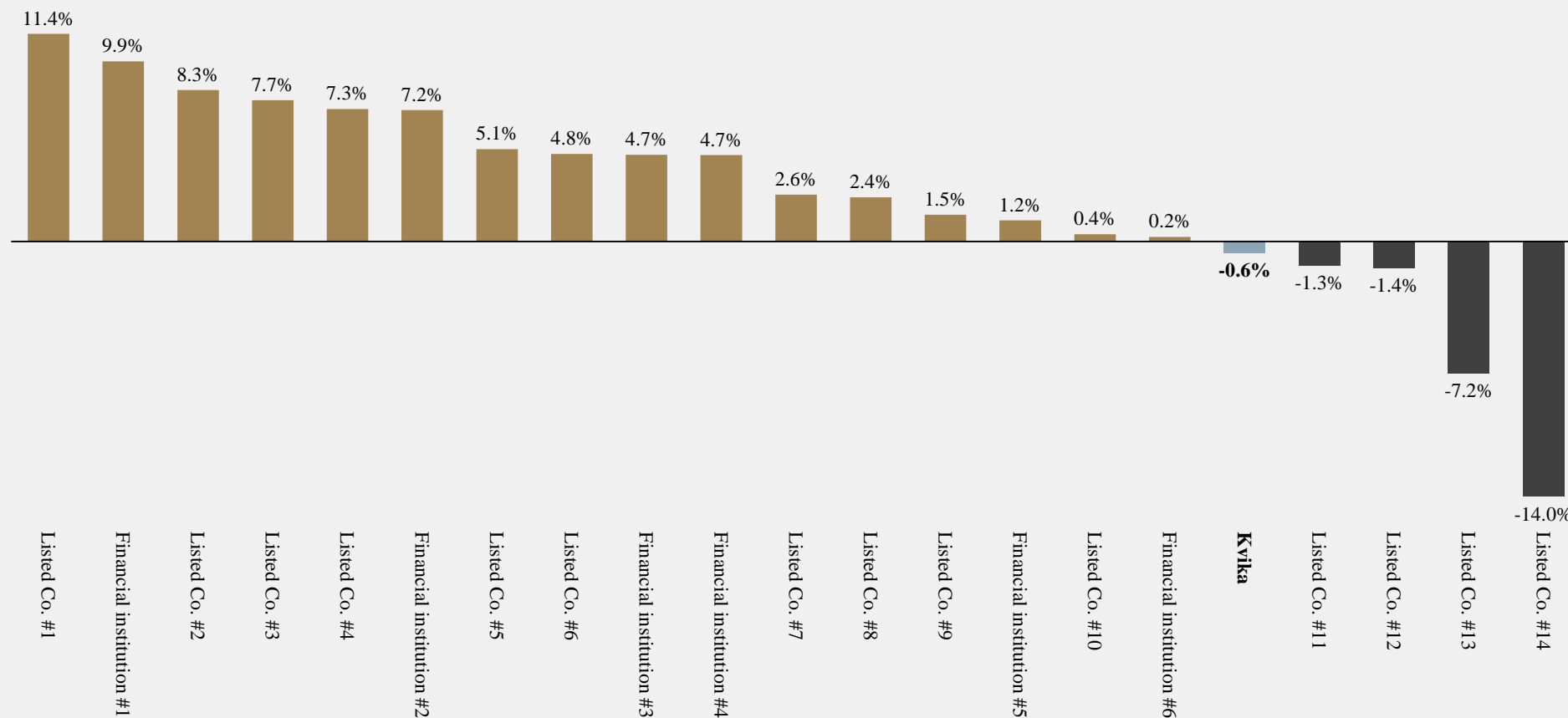
Prudency in salaries costs

Comparison with other Icelandic banks and companies listed on Nasdaq Iceland



SALARY DEVELOPMENT 2018/2019

YoY change (%) ¹⁾



Source: Annual accounts. Report of the boards of directors of Kvika banki hf. on the implementation of the 2019 remuneration policy. .

Might exclude certain companies if data is not available. Financial institutions are either banks or insurance companies, both listed and unlisted

1) Salaries and related exp. / avg. FTEs

Current status

Kvika is well placed to meet economic uncertainty



1

Liquidity and excess capital has increased

LCR and liquid assets remain strong – both have increased since year-end 2019

Excess capital has increased from year-end 2019

2

Securities financing in capital markets has decreased significantly from year-end 2019

Listed shares have decreased from ISK 14 billion to ISK 6 billion

No financial losses incurred by the bank year-to-date due to closing of contracts

3

Loan book is relatively small in terms of total assets

The loan book at year-end 2019 was ISK 30 billion (representing 29% of total assets)

Loan portfolio is well collateralised

4

Unaudited interim profit before tax above budget in the first two months of the year

Mainly driven by an increase in net fees and commission income

