



KVIKA

Kvika

9M 2020 Financial Results

12 November 2020

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Highlights 9M 2020



Profit of ISK 1,337 million (pre-tax ISK 1,533 million) for 9M 2020 with return on equity of 11.3%

Exceeding the earnings estimate for the period



Strong financial position with CAR of 26.9% (27.6% incl. unaudited retained earnings and expected dividends)

Regulatory requirement at end of the period was 20.6%



Liquidity coverage ratio (LCR) 321%

Significantly higher than both regulatory requirement and long term target



Discussions with TM and due diligence procedures are progressing well

Considerable synergies expected, largest part will result from lower funding costs



Kvika's asset management operations (Kvika and Júpíter) have been merged to form a single company

Kvika eignastýring holds ISK 348 billion in AuM (Kvika consolidated ISK 538 billion, an ISK 112 billion increase from year-end 2019)



Median for pre-tax earnings forecast increased by ISK 150 million to ISK 2,150 million

Forecast range for 2020 narrowed from ISK 1,700 – 2,300 million to ISK 2,000 – 2,300 million

Kvika and TM

Discussions are progressing well



- 28th of September the Board of Directors of Kvika banki and the Board of Directors of TM agreed to commence discussions on the merger of the two companies
- Discussions are based on the premises that TM will become Kvika banki's subsidiary and that Lykill fjármögnun hf., TM's subsidiary, will merge with Kvika banki
- It is expected that TM's shareholders will receive a 55% share in the merged company in return for their shares in TM, based on the companies' issued share capital as at 28th of September
- Substantial synergies expected, the largest part will result from lower funding costs
- Discussions with TM and due diligence procedures are progressing well, results are expected in a few weeks time



Establishment of Kviká eignastýring hf.

Strategic focus on asset management



- Kviká's asset management operations (Kviká and Júpítér) have been merged to form a single company, Kviká eignastýring hf.
- Following these changes, Kviká eignastýring hf. will be one of the largest asset and fund management companies in Iceland
- Focus on providing customers with a broad range of services for investment domestically as well as in foreign markets with emphasis on leading the way in asset and fund management with the long-term interests of customers in mind
- Primary objectives in transferring asset management operations:
 - Strategic focus
 - Increased transparency
 - Increased service and product offering to customers
 - Rationalisation and increased efficiency in operations

Kviká eignastýring hf., subsidiary of Kviká banki hf.



Fund management

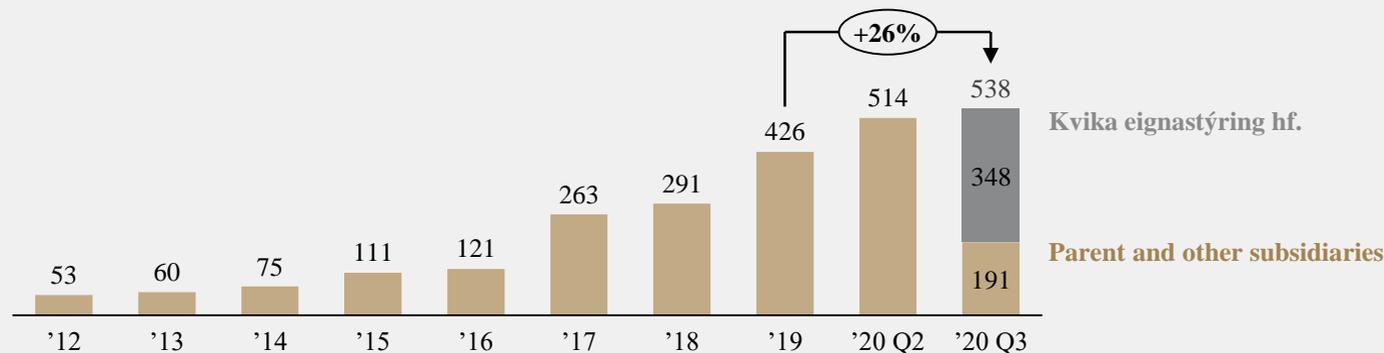
Private banking

Institutional investors

Private equity

ASSETS UNDER MANAGEMENT

ISK billion

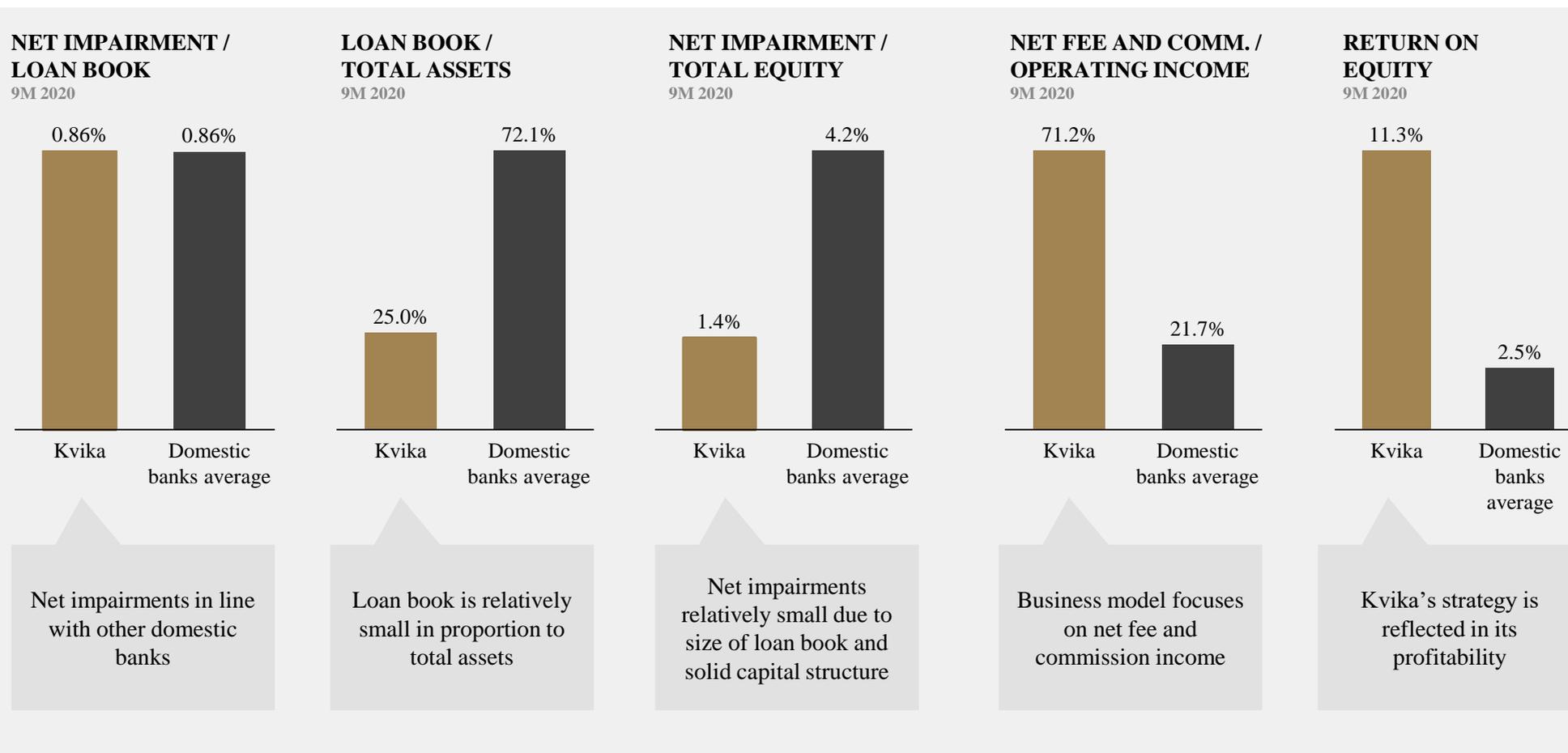


Internal growth every year since 2012, accounting for 38% of AuM increase over the displayed period

Kviká eignastýring hf. holds ISK 348 billion of assets under management

Strategic focus

Diversified income across segments basis of a profitable period



Source: 9M 2020 Financial statements. Note: calculations on presented items may vary between companies. Net impairments may include changes in loans to customers as measured at fair value through profit or loss in net financial income
Domestic banks consist of Arion, Landsbankinn and Íslandsbanki



Financials

Good results and strong growth in fee and commission income



Income statement / Q3

Solid quarter with increase in profits year-on-year

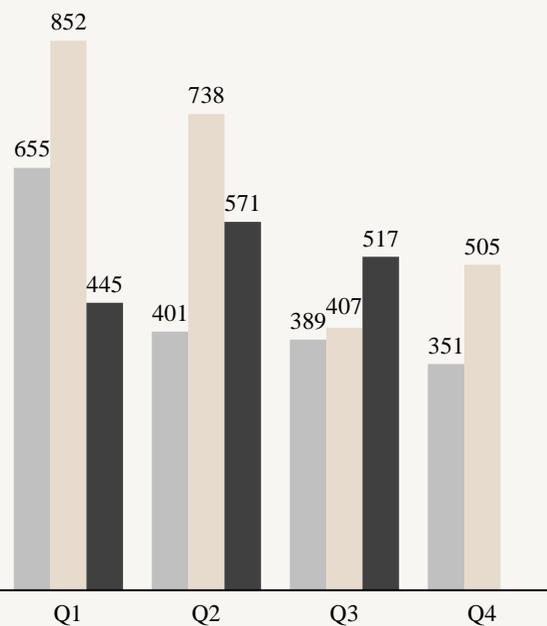


PRE-TAX PROFIT

ISK m.

Return on equity of 10.3% during the quarter

'18 '19 '20

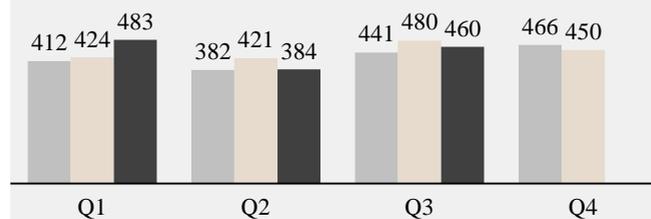


NET INTEREST INCOME (NII)

ISK m.

Stable net interest income

'18 '19 '20

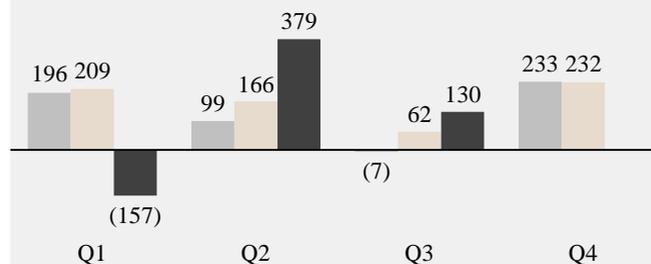


NET FINANCIAL INCOME (NFI)

ISK m.

Net financial income in line with expectations

'18 '19 '20

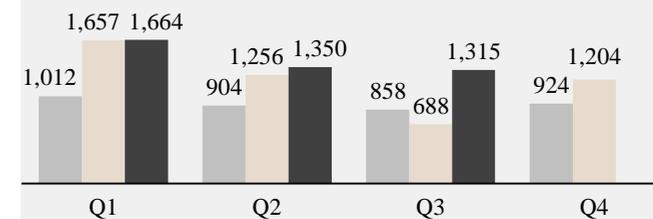


NET FEE AND COMMISSION INCOME (NFC)

ISK m.

Recurring NFC provide stability

'18 '19 '20

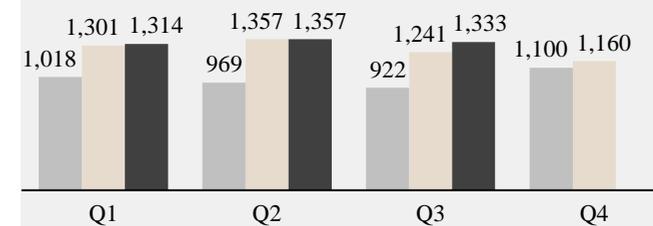


OPERATING EXPENSES (OPEX)

ISK m.

OPEX in line with expectations

'18 '19 '20



Income statement / 9M 2020

Return on equity 11.3% during the period



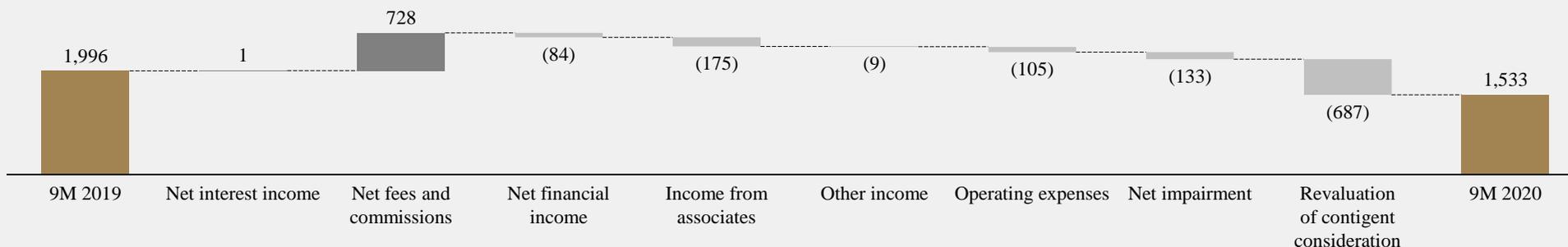
- Profit for the period amounted to ISK 1,337 million, net financial income increased profit while net impairment negatively impacted results
- Corresponding to an annualised 11.3% return on equity
- Net interest income increased slightly year-on-year despite temporary negative effects of cuts in policy rate
- Net fee and commission income ISK 4,329 million, an increase of 20.2% year-on-year
- Operating expenses ISK 4,004 million and increased slightly year-on-year in line with expectations
- Net impairments ISK 228 million largely related to COVID-19 impact
- Net financial income ISK 352 million

INCOME STATEMENT

ISK m.	9M 2020	9M 2019
Net interest income	1,328	1,326
Net fees and commissions	4,329	3,600
Net financial income	352	436
Income from associates	(11)	163
Other income	80	89
Net operating income	6,077	5,615
Operating expenses	(4,004)	(3,899)
Net impairment	(228)	(95)
Revaluation of contingent consideration	(312)	375
Pre-tax profit	1,533	1,996
Taxes		
Income tax	(96)	35
Special bank taxes ¹	(100)	(119)
After-tax profit	1,337	1,913
Earnings per share (EPS)	0.70	1.04
Diluted EPS	0.65	0.91

PRE-TAX PROFIT BRIDGE

FROM 9M 2019 to 9M 2020 ISK m.



1) Special tax on financial activity ISK 53.5 million and special tax on financial institutions ISK 46.8 million for 9M 2020

Assets

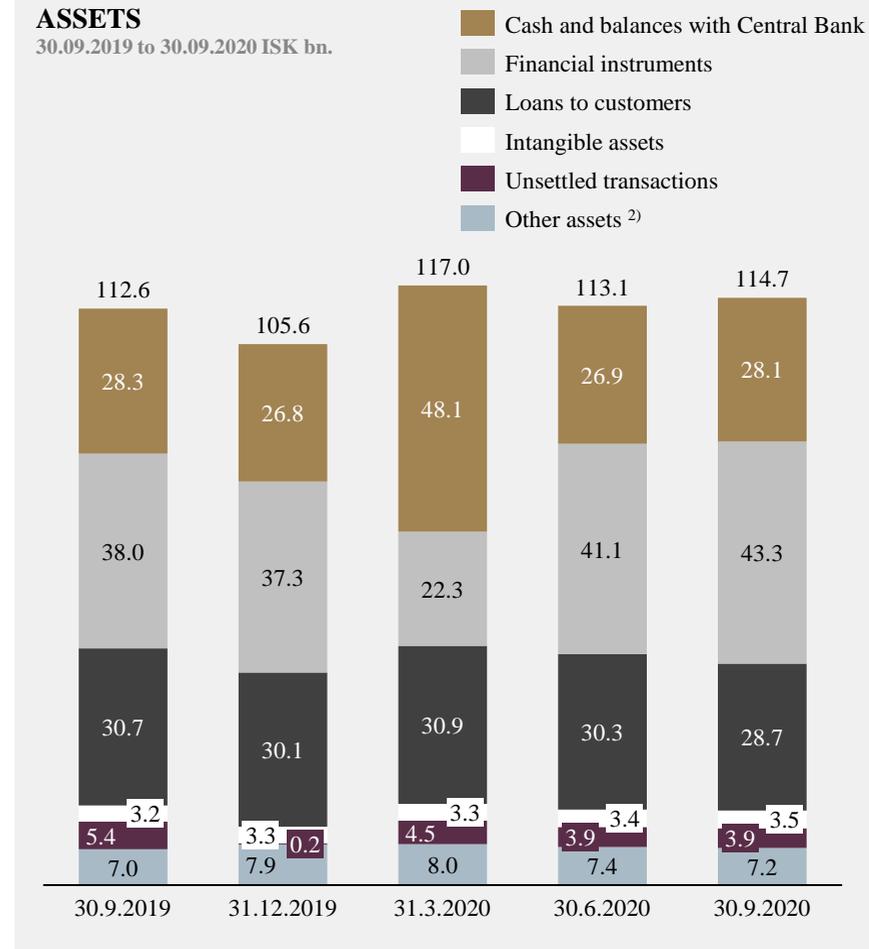
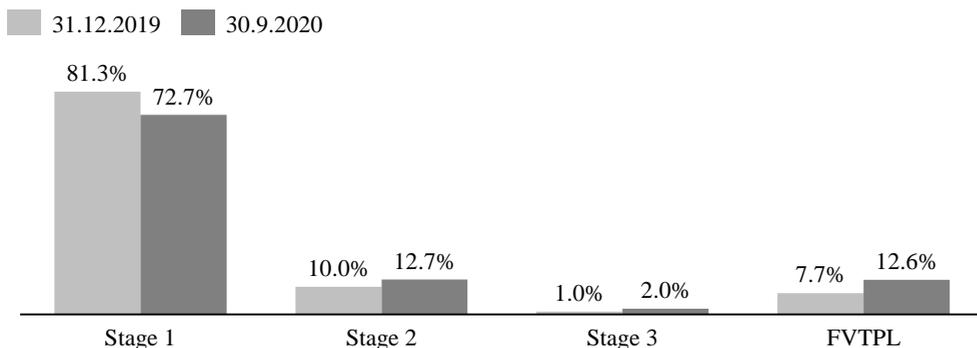
Strong balance sheet supported by high proportion of liquid assets



- In total, liquid assets amount to ISK 66.0 billion or 58% of total assets and 113% of all deposits from customers
 - Cash and balances with the Central Bank at ISK 28.1 billion
 - Other liquid assets include ISK 26.5 billion in government backed securities and ISK 11.4 billion of other listed securities
- Financial instruments ISK 43.3 billion of which ISK 12.5 billion are for hedging
- Loans to customers decreased by ISK 1.7 billion from year-end 2019
 - The weighted average duration of the loan book was 1.55 year at end of period
 - Stage 2 has increased by 1.6% and Stage 3 decreased by 0.2% since Q2
 - Approximately 10% (ISK 2.9 billion) of the Bank’s loans to customers have received temporary COVID measures

CREDIT QUALITY OF LOAN BOOK ¹⁾

31.12.2019 and 30.09.2020



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

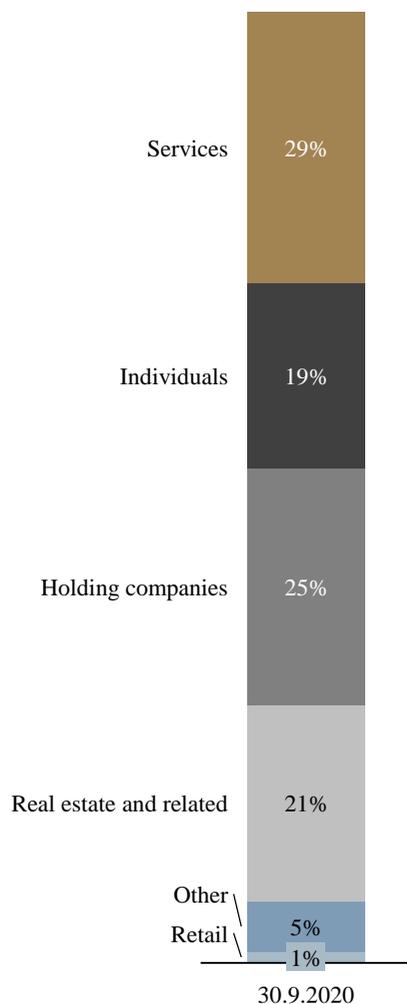
Loan book composition

Diversified loan book



LOAN BOOK SPLIT

30.09.2020



1) Includes financing of listed securities

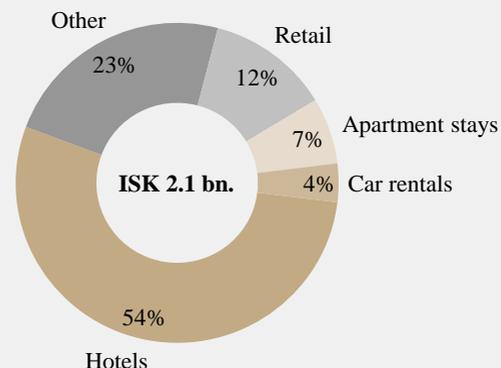
TOURISM (6.7% of loan book)

By selected industry classification

BREAKDOWN OF TOURISM

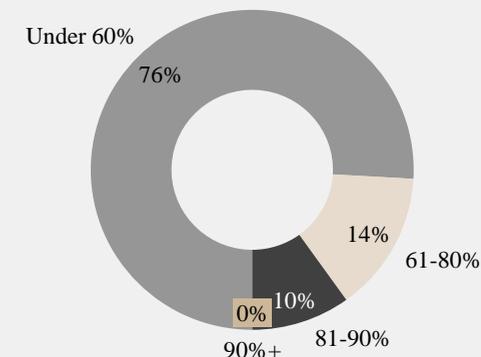
30.09.2020

- Tourism accounts for 6.7% of loans to customers
- Majority of loans are under 60% LTV



LTV FOR TOURISM

30.09.2020



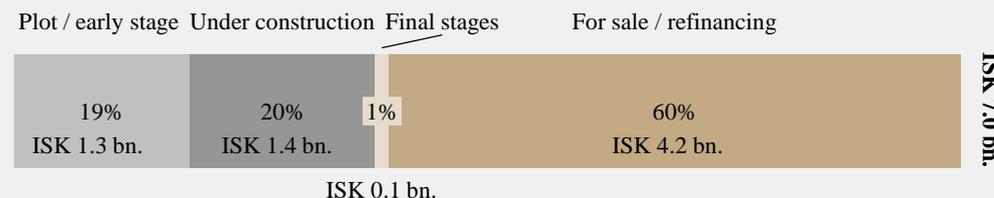
REAL ESTATE DEVELOPMENT (22% of loan book)

By selected industry classification

BREAKDOWN OF REAL ESTATE DEVELOPMENT

30.09.2020

- Approximately 22% of loans to customers are in real estate development
- Majority are in the Capital Region and around 60% are for sale and/or refinanced



Tourism and real estate development related information are based on internal estimations and on total loan book (which includes loans within the group)

Liabilities

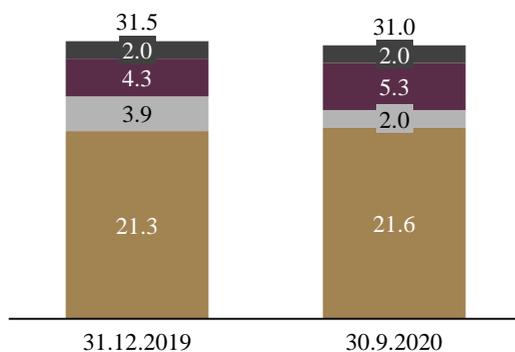
Funding continues to be strong



- Liquidity coverage ratio (LCR) 321% at end of the period
- Deposits to loans ratio remains high at 203%
- Deposits have increased by ISK 6.9 billion from year-end 2019
 - Increase mainly driven by retail deposits from individuals
- Outstanding issued debt securities amounted to ISK 9.4 billion
- Money market borrowings amounted to ISK 21.6 billion
- Five-year senior unsecured KVB 19 01 increased in July by nominal amount of ISK 2,120 million

SECURITIES & BORROWINGS

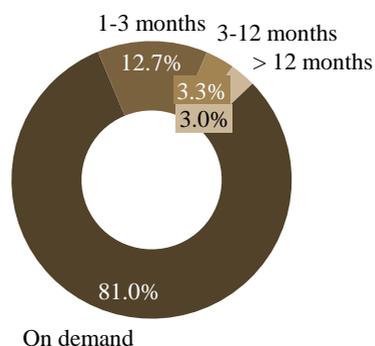
31.12.2019 and 30.09.2020 ISK bn.



Subordinated liabilities
 Issued bills
 Issued bonds
 Money market deposits

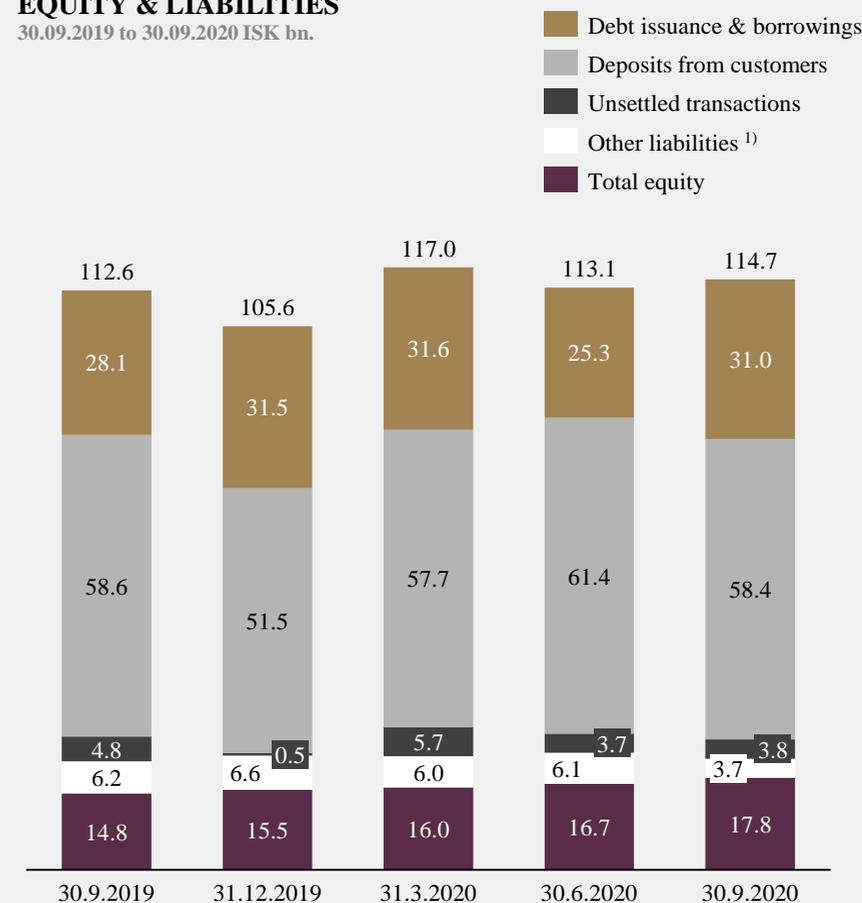
MATURITY OF DEPOSITS

30.09.2020



EQUITY & LIABILITIES

30.09.2019 to 30.09.2020 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

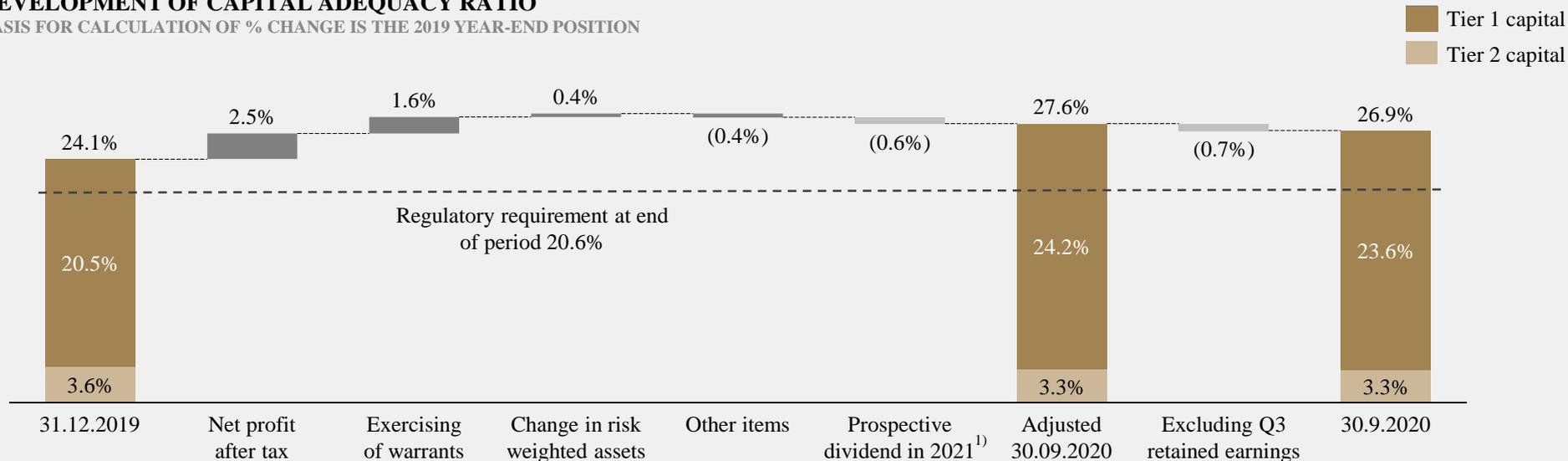
Capital adequacy ratio exceeds required capital buffers



- Capital adequacy ratio 26.9% at end of Q3 (27.6% including unaudited (positive) retained earnings and expected dividends)
- Capital base amounted to ISK 14,395 million and book value of equity at ISK 17,822 million
- Increase in risk-weighted assets mainly attributable to changes in financial instruments
- Other balance sheet items relatively unchanged
- Minimum regulatory capital requirement is 20.6% as of 31 March 2020

DEVELOPMENT OF CAPITAL ADEQUACY RATIO

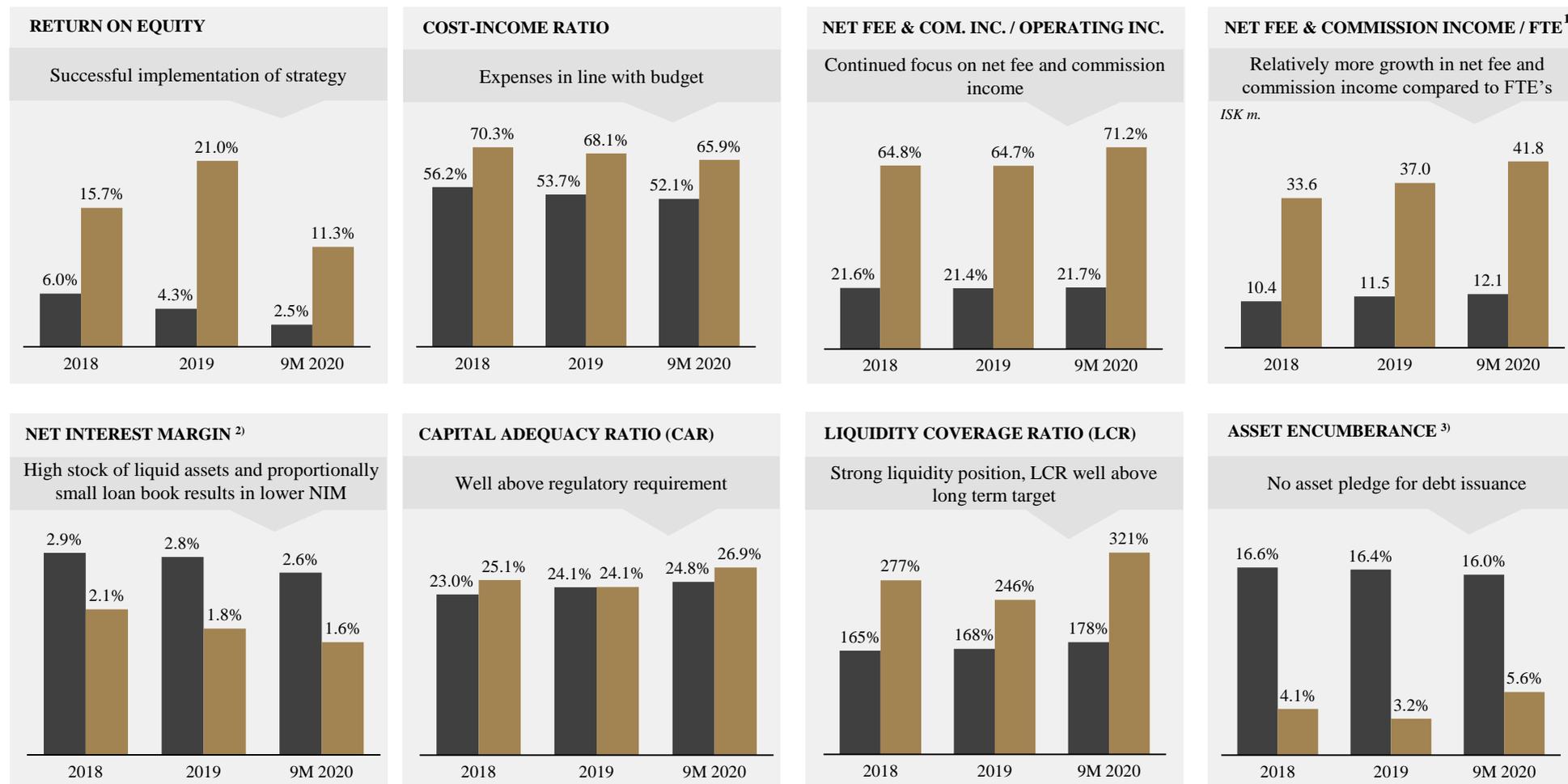
BASIS FOR CALCULATION OF % CHANGE IS THE 2019 YEAR-END POSITION



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 9M 2020

2) On average carrying total book value of assets. Annualised for 9M 2020

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

Domestic banks consist of Arion, Landsbankinn and Islandsbanki

