

H1 earnings release 2019

29 August 2019

## **Kvika banki hf.**

At a meeting of the Board of Directors on 29 August 2019, the board and CEO approved the interim financial statement of the Kvika Banki hf. group for the period from 1 January to 30 June 2019.

The highlights of the Consolidated Financial Statement are:

- Profit before taxes amounted to ISK 1,590 million
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- Return on equity was 23.2%
- Net operating income amounted to ISK 4,165 million
- Operating costs amounted to ISK 2,658 million
- Total assets at 30 June 2019 amounted to ISK 114,703 million
- The group's equity at 30 June 2019 amounted to ISK 13,998 million
- The capital adequacy ratio (CAD) at 30 June 2019 was 24.6%
- The Liquidity Coverage Ratio (LCR) at 30 June 2019 was 193%
- Total assets under management amounted to ISK 445 billion at the end of June 2019
- The number of full-time employees at the end of June 2019 amounted to 124
- Basic earnings per share were ISK 0.79 and diluted earnings per share were ISK 0.68

### **Good results for the first half of 2019**

Kvika's earnings before tax for the first half of 2019 amounted to ISK 1,590 million compared to ISK 1,056 million for the first half of 2018. Profit after taxes for the first half of 2019 amounted to ISK 1,455 million compared to ISK 1,023 million for the first half of 2018. The bank's return on equity amounted to 23.2% and were well over the bank's target of 15% return on equity.

There has been a significant growth in the bank's income this year, since its net operating income increased by 37% year-on-year. The greatest growth was in commission income since net commission income increased by 52% between years and amounted to ISK 2,912 million, with most of the rise coming from increased activity in asset management. Net interest income amounted to ISK 846 million and grew by 7%. Investment income increased somewhat and amounted to ISK 374 million. Operating costs rose by 34% between years and amounted to ISK 2,658 million in the first six months of the year. The rise can primarily be attributed to increased activity following the acquisition of GAMMA Capital Management hf.

### **Strong liquidity position**

The bank's liquidity position continues to be very strong. The bank's Liquidity Coverage Ratio (LCR) was 193%, well above the minimum ratio of 100%. Cash and balances with the Central Bank of Iceland and holdings in government backed bonds amounted to ISK 38.3 billion. Loans to customers amounted to ISK 28.6 billion, showing a slight decrease from the end of 2018. The deposit/loan ratio is 203% at the end of the period, but was 163% at the end of 2018.

### **Increase in deposits**

Customer deposits increased by 21% during the year and amounted to ISK 58 billion at the end of June. The increase in deposits can primarily be attributed to the bank's new deposit option, Auður saving accounts, which were introduced in March.

### **High capital ratio**

The total assets of the Kvika group at the end of June 2019 amounted to ISK 114.7 billion and increased by 30% from the end of 2018 when total assets amounted to ISK 88.3 billion. The capital adequacy ratio of the bank at the end of June was 24.6% but the ratio was 25.4%, before adjusting for the impact of estimated dividends in accordance with the dividend payment policy of the bank. The capital requirements with the additional capital buffers is 20.75% and the capital adequacy ratio is therefore far above requirements.

### **Earnings forecast raised for the year**

In light of Kvika's results for the first half of 2019 and operational expectations for the rest of the year, the bank's earnings forecast has been upwardly revised. In the bank's initial earnings forecast for 2019, the bank's earnings before tax had been estimated at ISK 2.0 billion. In May the earnings forecast was revised and increased to ISK 2.7 billion.

The earnings forecast has now been revised again and profit before taxes is now estimated at ISK 2.9 billion in 2019.

Net operating income is estimated at ISK 8.2 billion, some 67% of which is net commission income, 23% net interest income and 10% investment income. The earnings of the bank may deviate considerably from forecasts as a result of, among other things, market conditions.

The bank has capitalised part of its carry forward tax losses to the extent that they are likely to be used to offset estimated income tax in the future, as deferred tax assets on its balance sheet. Deferred tax assets shall be re-evaluated at the end of the year along with the planning for next year and the bank's annual accounts. Since the bank's taxable sources of income have increased during the year it is likely that capitalisation will be increased on the carry forward losses at the end of the year.

### **Buy-back programme approved by Board of Directors**

The Board of Directors of the bank has decided to exercise the authority which it was granted at the last Annual General Meeting to set up a regular buy-back programme. The board's decision authorises the purchase of up to 50 million shares. The decision regarding the buy-back programme is subject to supervisory approval of the buy-back programme.

### **Marinó Örn Tryggvason, CEO of Kvika:**

*Kvika's operations in the first six months exceeded expectations. The bank's operations performed considerably better than operating estimates had predicted and, as a result, the bank's earnings forecast has been upwardly revised for the year. Profits have been good, resulting in, among other things, a strong capital adequacy ratio far above requirements.*

*Looking at the outlook for Kvika's operations and its earnings forecast for the year, its strong capital ratio and liquidity creates a lot of scope. Kvika's entry into the retail market has already increased competition. Greater competition increases opportunities for businesses and individuals in the financial market. The environment of financial undertakings has developed*

*rapidly with technological innovation and this creates new opportunities to better serve our customers and further enhance our operations.*

For further information please contact Marinó Örn Tryggvason CEO of Kvika, tel. (+354) 5403200.

A presentation for market participants and shareholders will be held at Kvika's headquarters at Borgartún 25 on Friday 30 August at 08:30 hrs.