



Kvika

12M 2021 Financial Results

24 February 2022

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Highlights 12M 2021



Merger with TM and Lykill concluded at end of March 2021

Third quarter of combined operations successful and currently above track in achieving anticipated cost synergies
Strategic formulation for combined entity in final stages



Profit before tax (PBT) for 12M 2021 ISK 10,487 million with return on weighted tangible equity (RoTE) 34.7%

PBT of ISK 12,004 million should TM be included from January 1st



Profit after tax for 12M 2021 ISK 10,663 million

Return on weighted tangible equity 35.2%



Strong financial position with consolidated solvency of 1.57 and LCR of 290%

Well above regulatory requirement



Assets under management at ISK 528 billion

Net AuM increase of ISK 1 billion year-over-year mainly attributed by organic AuM growth in the period (ISK 87 billion), offset e.g. by strategic divestment of closed end funds (ISK 86 billion)



Share buy-back program of 117,256,300 shares (approx. 2.5% of share capital)

Program completed in October 2021



Ortus SPA signed, completion expected in March 2022

Heads of terms to acquire a majority shareholding in Ortus Secured Finance Ltd. announced in October



Earnings forecast for 2022 PBT ISK 8,000 - 9,000 million, 18.3% - 20.6% RoTE

Strong profitability expected to continue, outlook above pre-merger expectations

3 Year goals

Significant developments in 2021



 **Increase the number of customers of fintech solutions that use three services or more, by 50,000**

- Multiple fintech initiatives launched in 2021
- Considerable investment in product- and business development in 2021
- Significant investment will continue in 2022

 **Having a real and measurable effect on Iceland's carbon footprint and on climate issues in general**

- Green framework established and first green bond issued in 2021
- Climate fund initiative started in 2021

 **UK operations will account for at least 20% of the group's profit**

- Acquisition of Ortus Secured Finance expected to complete in March
- Strong UK corporate finance pipeline in 2022

 **Grow asset management operations faster than the domestic market**

- Significant organic growth in 2021
- Further product development will introduce new products in 2022

 **Be Iceland's most profitable insurance company and increase market share**

- 88.7% combined ratio in 2021
- Various initiatives in 2021 and continuing development in cross sales going forward
- Child-insurance offered in relation to green future-savings accounts for children in 2021, further fintech initiatives pending

 **Funding costs will be comparable to those of Iceland's other banks**

- First green bond issued in 2021, terms comparable to other domestic banks
- 10-year bond issued in January 2022, longest corporate issued senior unsecured bond in over a decade
- EMTN Programme and inaugural foreign issuance in January 2022

 **20% RoTE**

- Outlook for 2022 is 18.3-20.6% RoTE

Rare combination of financial strength, established business units and exciting growth opportunities

Innovation and development in 2021

Investing in development is a prerequisite for increased competition and profitable growth



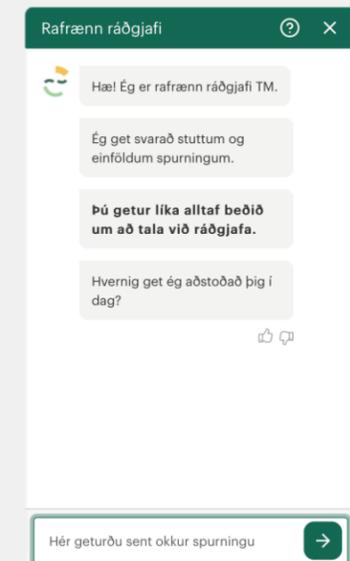
TM: Cyber Monday – Online insurance offers

- Discount on insurance via online-sales channel only
- 534 people purchased insurance compared to an average of 3 people a day
- Sales volume increased by 183% 10 days after Cyber Monday



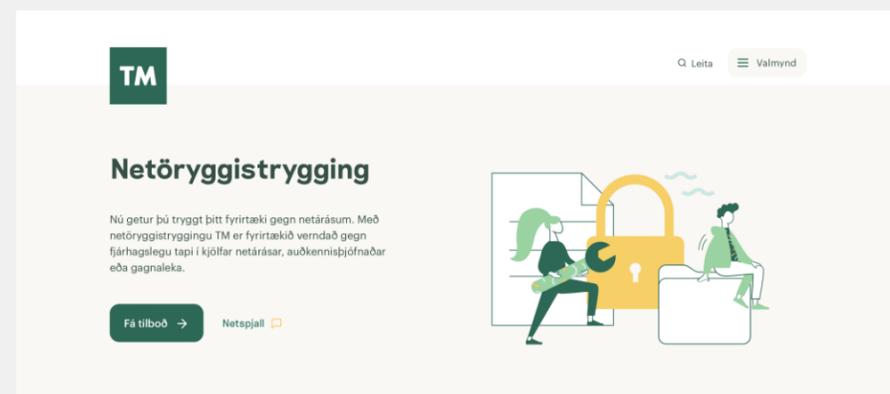
TM: Automation and improvements

- Automatic risk assessment of life and health insurance
- Seamless sales flow for customers and employees
- New chatbot and other improvements in web and app



TM: Cyber-security insurance

- New insurance product for cyber security
- First of its kind in Iceland
- Sales flow fully online



Auður: Green future accounts with child-insurance

- New savings account type in Auður
- Future account - locked until child is 18 years old
- TM Child Insurance Cross-Selling during account setup
- First product to combine services from two entity's in Kvika group; Auður and TM



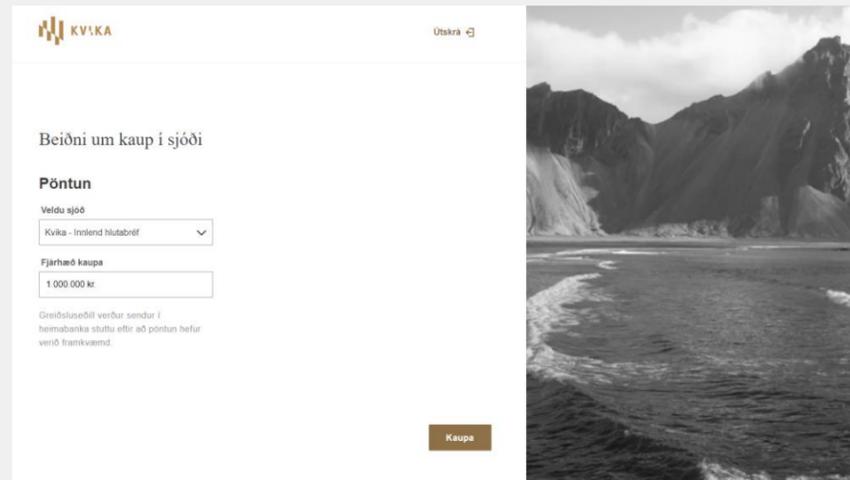
Innovation and development in 2021

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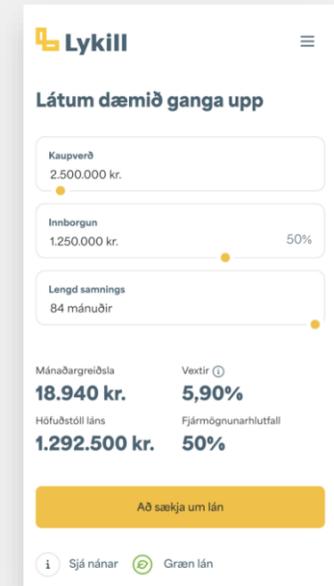
Kvika Asset Management: Online sales channel for investment funds

- Funds available to anyone online
- New online customer-onboarding process
- Fully integrated with internal systems



Lykill: Fully automated process for car loans online

- The first ever electronic car loan registration in Iceland was with Lykill
- Registration process that took several days before now takes a few minutes to complete
- Paving the way for further innovation and streamlining of car loan sales
- New website and integrated loan calculator



Kvika: Foreign exchange marketplace

- Centralized orderbook – bid and ask, visible in real time
- Less difference between buy and sell orders
- Price, volume and time of recent trades is visible
- Information accessible to all through website

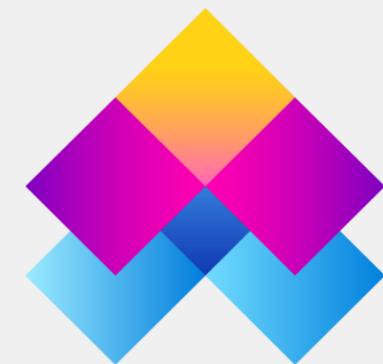
Tilboðsbók EUR/ISK								
ISK	Mynt	Kaupandi	Kaup	Sala	Seljandi	Mynt	ISK	
29.280.000,00	200.000,00	KVIKA	146,40	146,50	KVIKA	1.000.000,00	146.500.000,00	
36.592.500,00	250.000,00	KVIKA	146,37	146,80	KVIKA	200.000,00	29.360.000,00	
18.726.400,00	128.000,00	KVIKA	146,30	150,00	KVIKA	250.000,00	37.500.000,00	

Tilboðsbók USD/ISK								
ISK	Mynt	Kaupandi	Kaup	Sala	Seljandi	Mynt	ISK	
26.100.000,00	200.000,00	KVIKA	130,50	130,77	KVIKA	300.000,00	39.231.000,00	
65.175.000,00	500.000,00	KVIKA	130,35	131,00	KVIKA	500.000,00	65.500.000,00	
6.816.259,00	52.300,00	KVIKA	130,33					

Nýjustu viðskipti							
Auðkenni	Tími	Verð	Mynt	ISK	Kaupandi	Seljandi	
USDISK	08:57:59	130,70	1.500.000	196.050.000,00	KVIKA	KVIKA	
SEKISK	24.11.2021	14,37	109.152	1.568.732,54	KVIKA	KVIKA	
SEKISK	24.11.2021	14,36	60.957	875.342,52	KVIKA	KVIKA	

Kvika: SOPRA Migration

- Migrating to new core-banking system underway / completed
- Important milestone for bank infrastructure
- Completed in February 2022



Sustainability highlights

Having a real and measurable effect



2021 Key developments

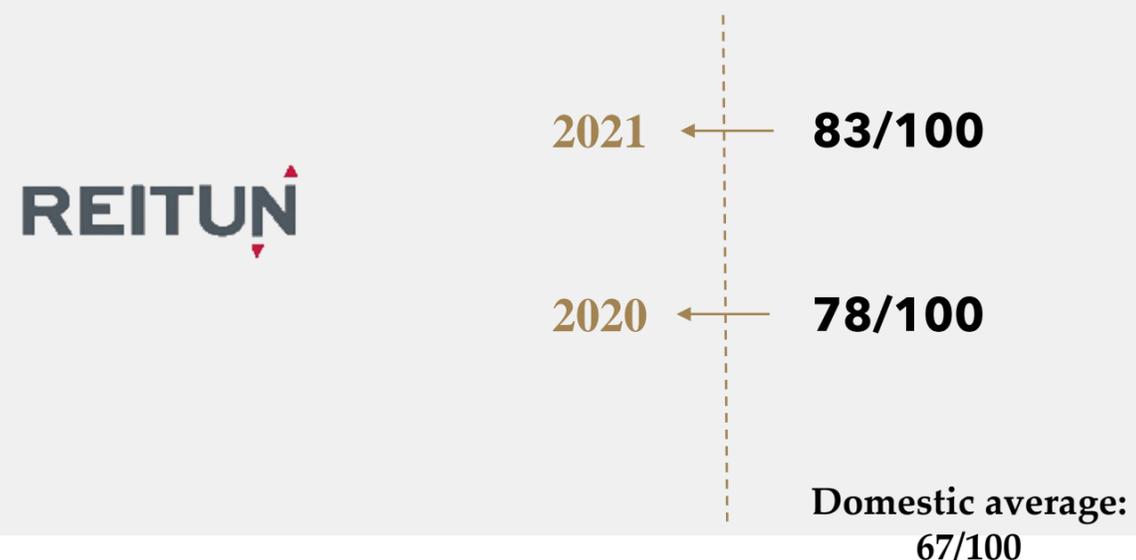
- First annual report to the UN PRI (voluntary)
- Director of Sustainability appointed and group-wide Committee on Corporate Social Responsibility and Sustainability formed
- Offset of all measured carbon emissions
- Green Financing Framework published
- Green deposit accounts offered through Auður and green car loans offered by Lykill
- First Green bond issuance
- Kviká signed a letter of intent to establish a Climate Fund with Klappir Green Solutions

Digital solutions and sustainability

- Digital solutions are at the core of Kviká's business strategy and are intertwined with Kviká's sustainability journey as digital solutions and automation make for simpler, more efficient and environmentally friendly processes, services and products
- Kviká's emphasis on enabling technology whenever possible is evidenced e.g. by the first digital registration of an auto loan in Iceland which was carried out by Kviká's brand Lykill in September 2021



Updated ESG score



Sustainability Report 2021

- As a part of the group's non-financial disclosure, Kviká will publish a sustainability report for the year 2021
- The report follows Nasdaq's ESG Reporting Guide 2.0 and, to a limited extent, the GRI Standards. Deloitte will provide a limited assurance on non-financial information. This is the first time the group issues a sustainability report in this format
- The report can be found on Kviká's website and will be submitted to the registry of annual accounts
- Kviká's first allocation and impact report according to Kviká's Green Financing Framework will be a part of the Sustainability Report



Acquisition of Ortus Secured Finance Completed



Alternative credit provider specialising in property backed lending to borrowers in the United Kingdom

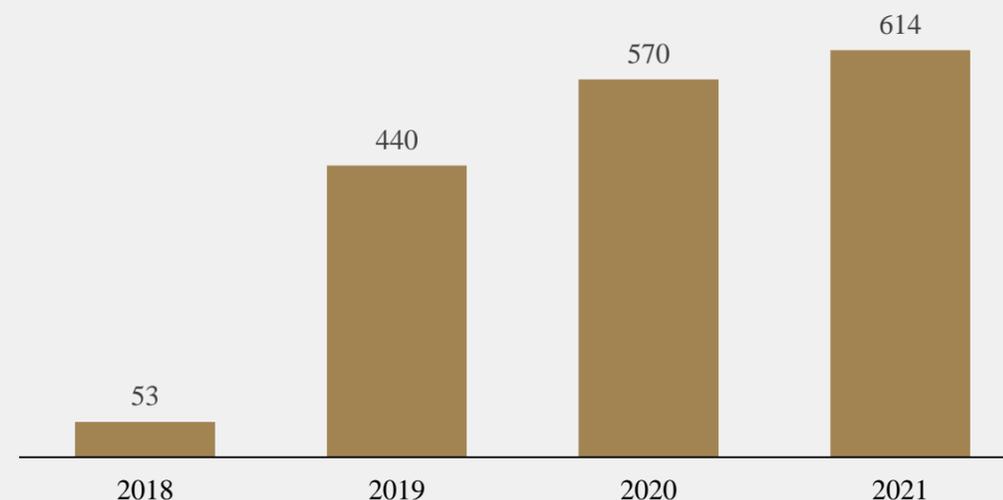
- Acquisition of a majority share in Ortus Secured Finance has been completed
- Completion follows a comprehensive due diligence process, which included a thorough review of the loan book
- Consideration is paid in cash at a total equity value equivalent to ISK 6.0 billion; Grant Thornton UK has prepared fairness opinion concluding that the transaction value is fair
- Ortus will become a subsidiary of Kviká Securities Ltd. (KSL), Kviká's UK operational subsidiary
- Key management team will continue to hold a significant shareholding in Ortus following the acquisition and will lead its daily operations
- KSL will acquire remaining share from management over the next four years. Valuation will be based on the performance of the business over that period
- Ortus is expected to generate ISK c.900 million in pre-tax profits in 2022, with earnings expected to grow steadily in subsequent years
- Important step towards UK operations contributing 20% of group's profit within three years

TIMELINE OF KVIKA INVOLVEMENT



ORTUS SECURED FINANCE PROFIT BEFORE TAX

Excluding non-recurring items, ISK. m. at annual average exchange rates

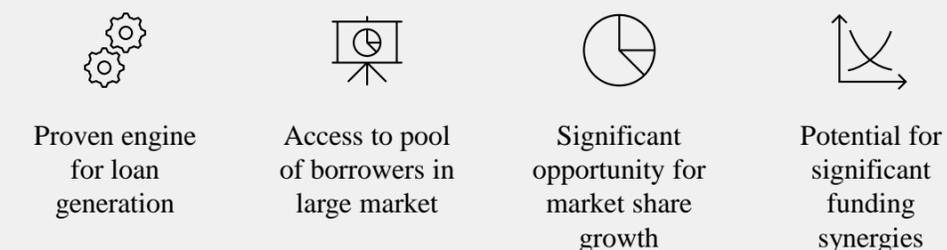


ORTUS SECURED FINANCE AT A GLANCE

31.12.2021, amounts in ISK



Key benefits of acquisition





Financials

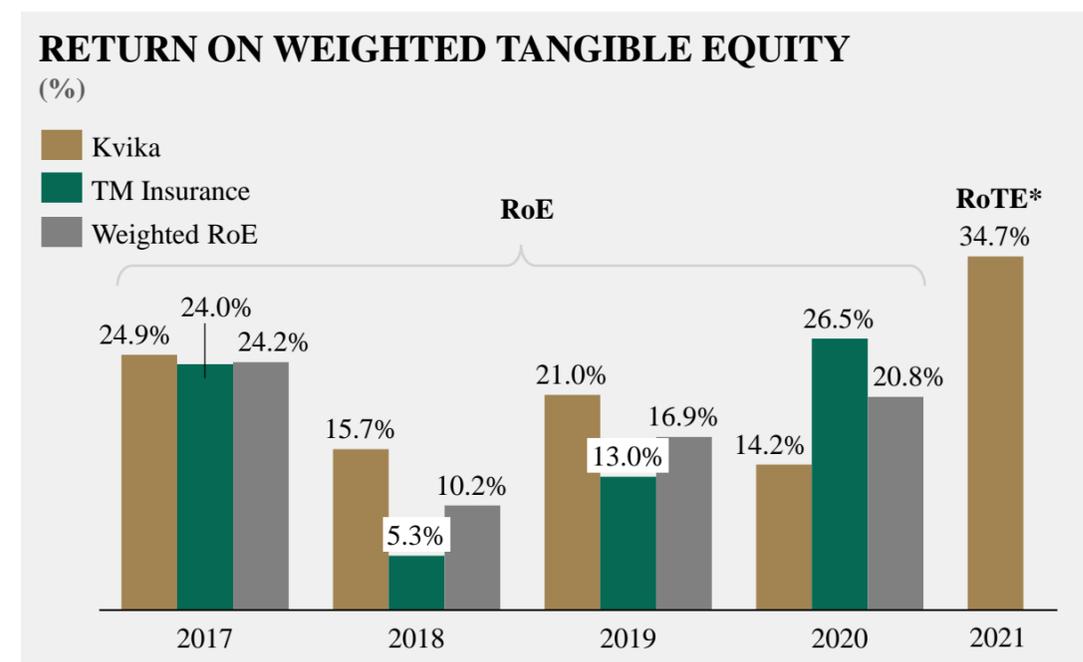
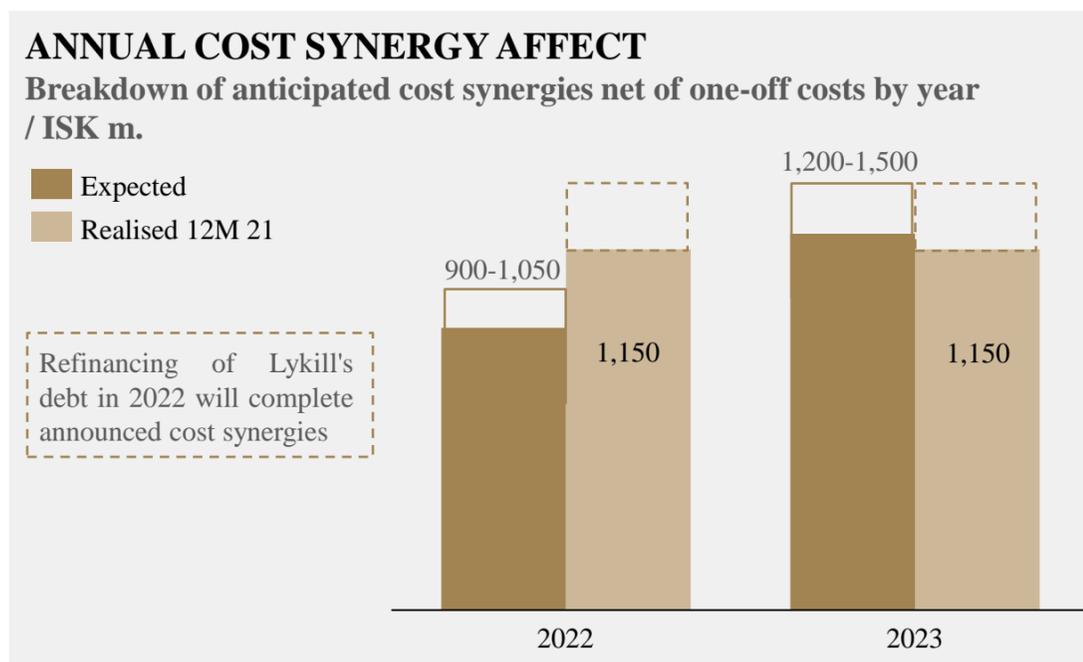
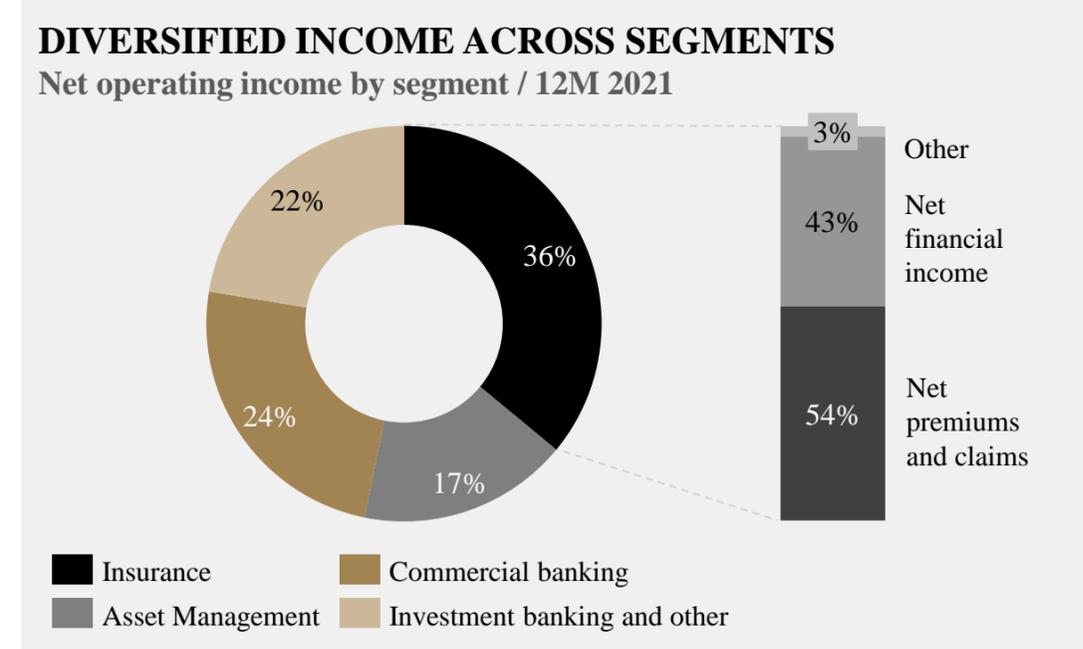
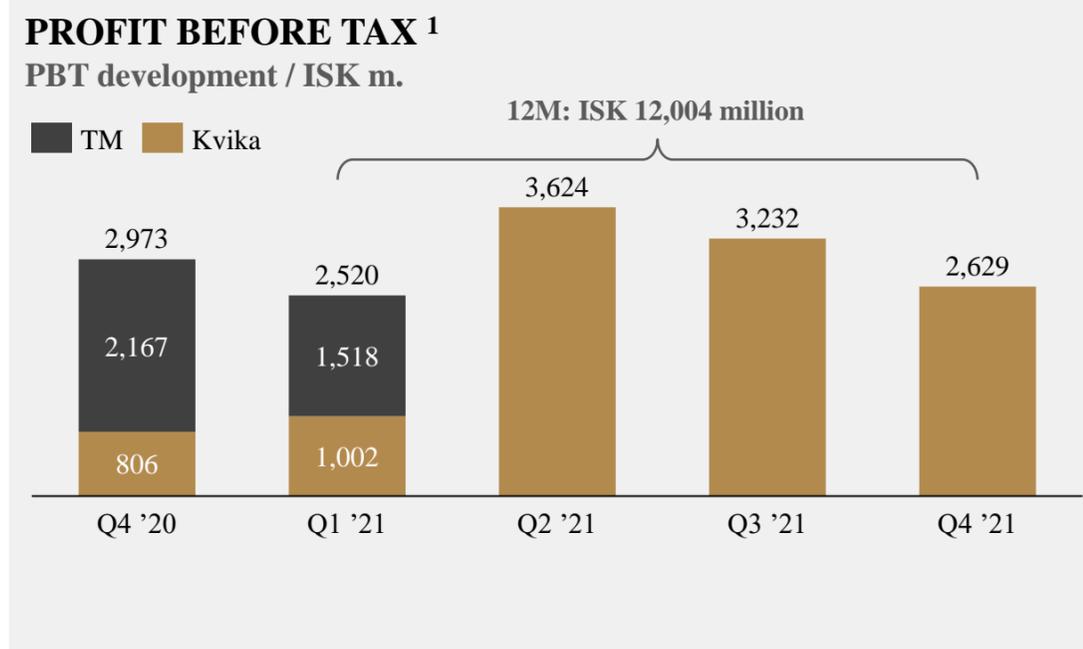


Total profit before tax since year-start ISK 12,004 million

History of delivering value-creation through successful consolidations



- TM is part of Kvika's consolidated financial statements as of 31st March 2021
- Kvika's profit before tax for the year 2021 is ISK 10,487 million and RoTE of 34.7% (ISK 12,004 million should TM be included from year-start)
- Currently above track in achieving anticipated cost synergies, these amounted to annualized ISK 1,150 million at year end 2021
 - One off costs related to the merger amounted to approximately ISK 709 million in 2021, including costs incurred by TM in Q1
 - Thereof, one off cost of ISK 361 million in Q4 due to relocation to Katrínartún
- Expected annual revenue synergies in three years' time are ISK 1,500 million
 - Advancement of revenue synergies through development of Fintech based platform expanding retail service offering
 - Other opportunities are being prioritised
 - Front loaded cost affects PBT short term



1) TM historical figures reflect regular operations, e.g. do not reflect changes in price purchase allocation of Lykill TM hf. merged with Kvika banki hf. as of 31 March 2021. The above profit before tax is a demonstrative example if TM would have merged with Kvika banki hf. on 1st January 2021

*Calculations changed to return on tangible equity (RoTE) after the merger with TM Insurance. The reason being the increased amount of intangible equity (approx. 80% of total) created due to rise in share price from the announcement to execution. RoTE is calculated using profit before tax

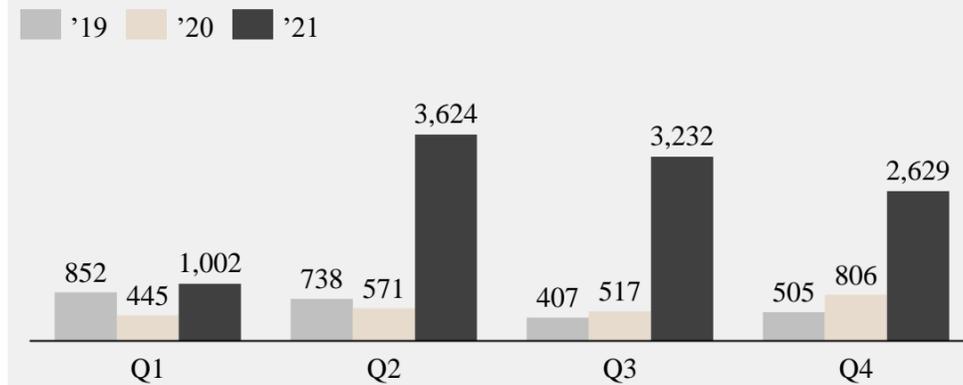
Operations Q4 2021



Return on weighted tangible equity of 25.6% during the quarter

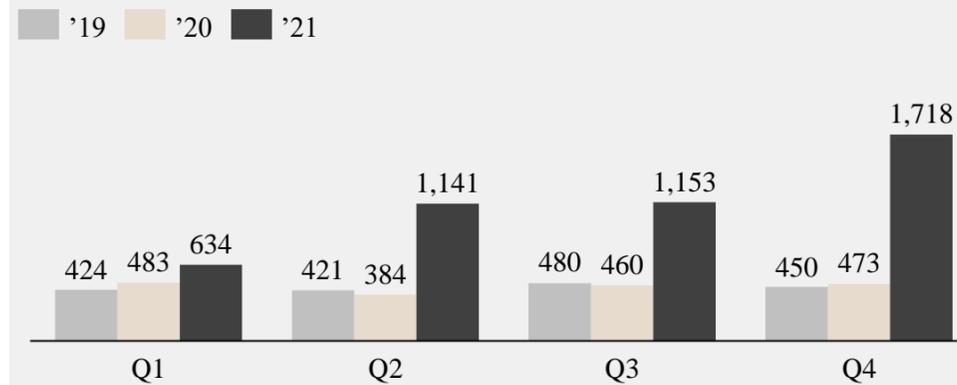
PRE-TAX PROFIT ISK m.

Strong quarter despite one-off OPEX



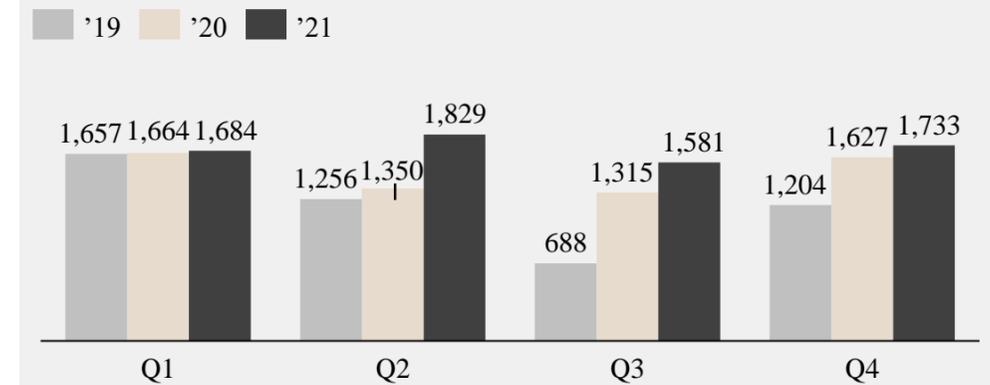
NET INTEREST INCOME (NII) ISK m.

Significant impact of loan book composition, indexation and favorable track in funding. One-off NII thereof approx. ISK 220 million



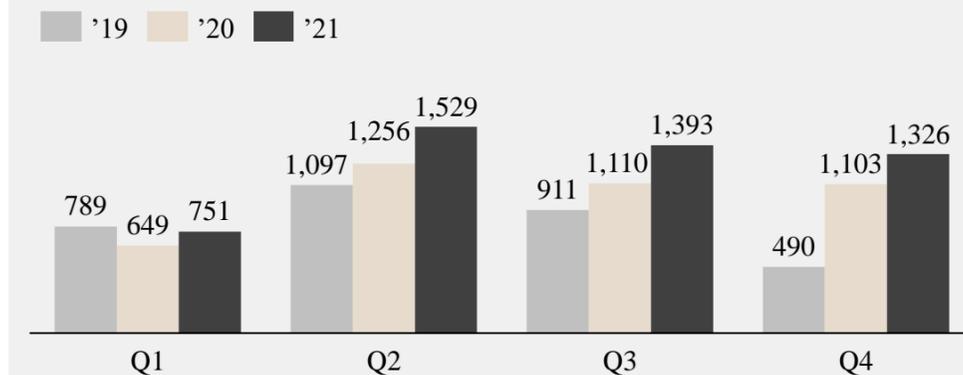
NET FEE AND COMMISSION INCOME (NFC) ISK m.

Strong recurring fee base and less reliance on variable fees



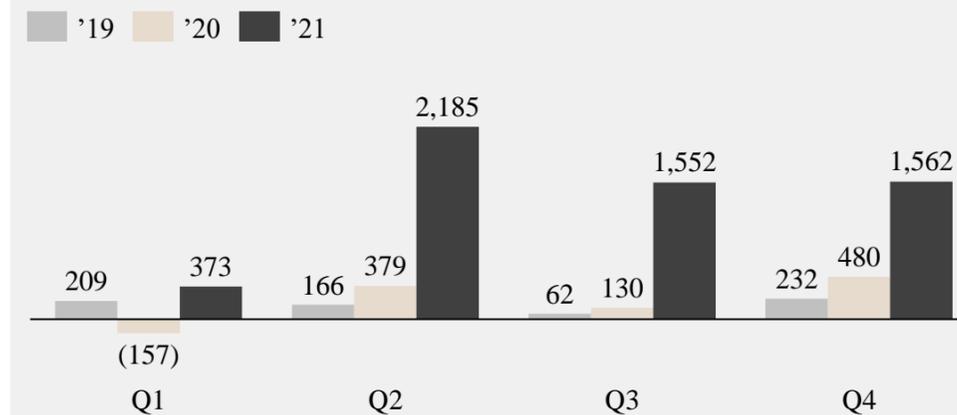
NET PREMIUMS AND CLAIMS ISK m.

Significant YoY growth



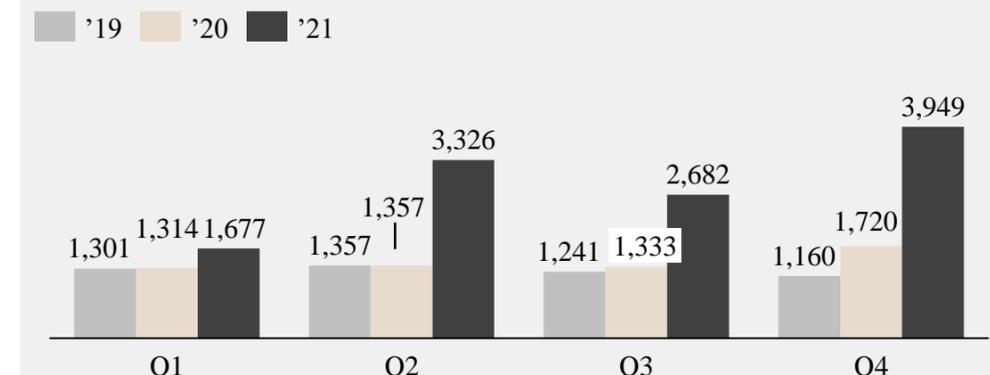
NET FINANCIAL INCOME (NFI) ISK m.

Good market performance in 2021. Majority of NFI from insurance investment operations



OPERATING EXPENSES (OPEX) ISK m.

Increase in OPEX between quarters due to seasonality, housing relocation, PPA and other one offs totaling approx. ISK 900 million



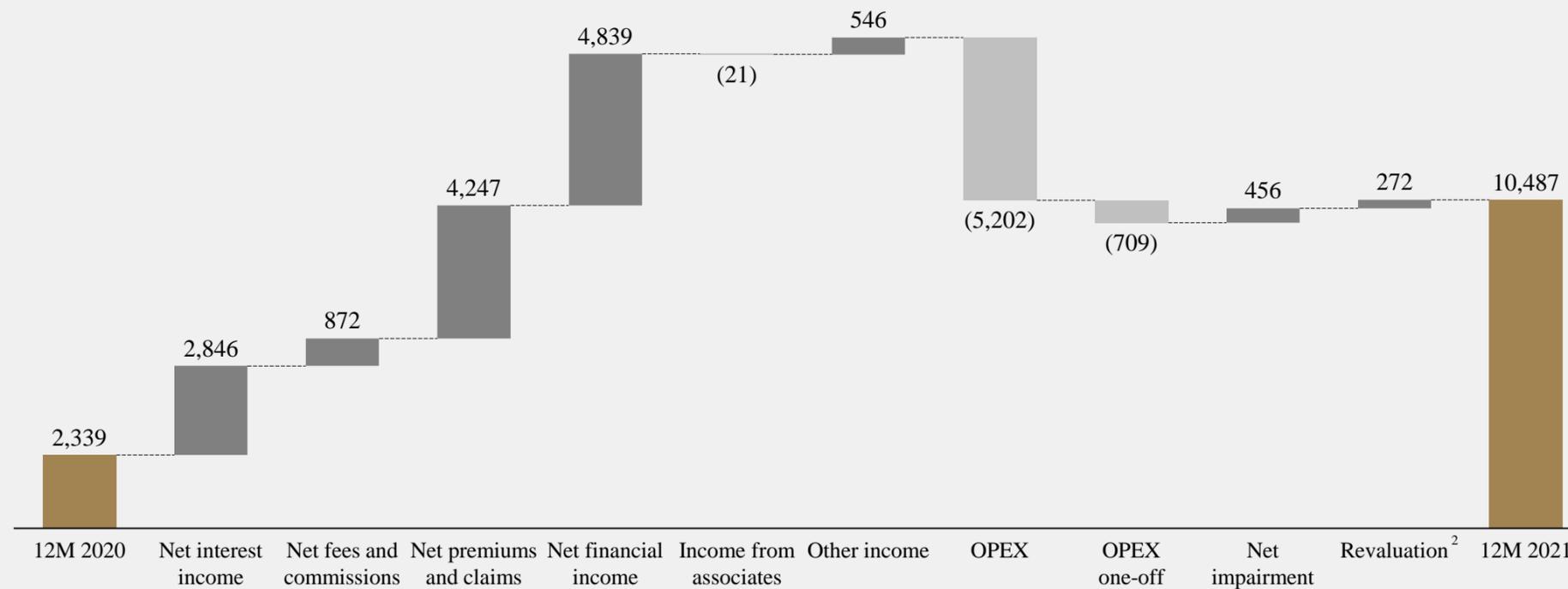
Operations 12M 2021

Return on weighted tangible equity of 34.7% during the year



PRE TAX PROFIT (LOSS) BRIDGE

FROM 12M 2020 to 12M 2021 ISK m.



INCOME STATEMENT

ISK m.

	12M 2021	12M 2020
Net interest income	4,646	1,800
Net fees and commissions	6,828	5,956
Net premiums and claims	4,247	0
Net financial income	5,672	833
Income from associates	(28)	(7)
Other income	631	85
Net operating income	21,997	8,666
Operating expenses	(11,635)	(5,724)
Net impairment	139	(317)
Revaluation of contingent consideration	(98)	(286)
Revaluation of investment properties	83	-
Pre-tax profit	10,487	2,339
Income tax	348	28
Special bank taxes ¹	(171)	(94)
After-tax profit	10,663	2,273
Earnings per share (EPS)	2.62	1.10
Diluted EPS	2.56	1.02

- Net operating income for the year amounted to ISK 21,997 million, driven by TM merger and favorable market conditions
- Corresponding to 35.2% return on weighted tangible equity (pre-tax: 34.7%)
- Net interest income more than doubles year-on-year as Lykill merges with Kvika and cost of funding decreases

- Net fee and commission income of ISK 6,828 million, increase of 14.6% year-on-year
- Operating expenses ISK 11,635 million in line with expectations
 - OPEX one-off related to TM merger ISK 709 million
- Positive net impairments ISK 139 million, due to positive development and updated economic outlook
- Net financial income ISK 5,672 million

1) Special tax on financial activity and special tax on financial institutions

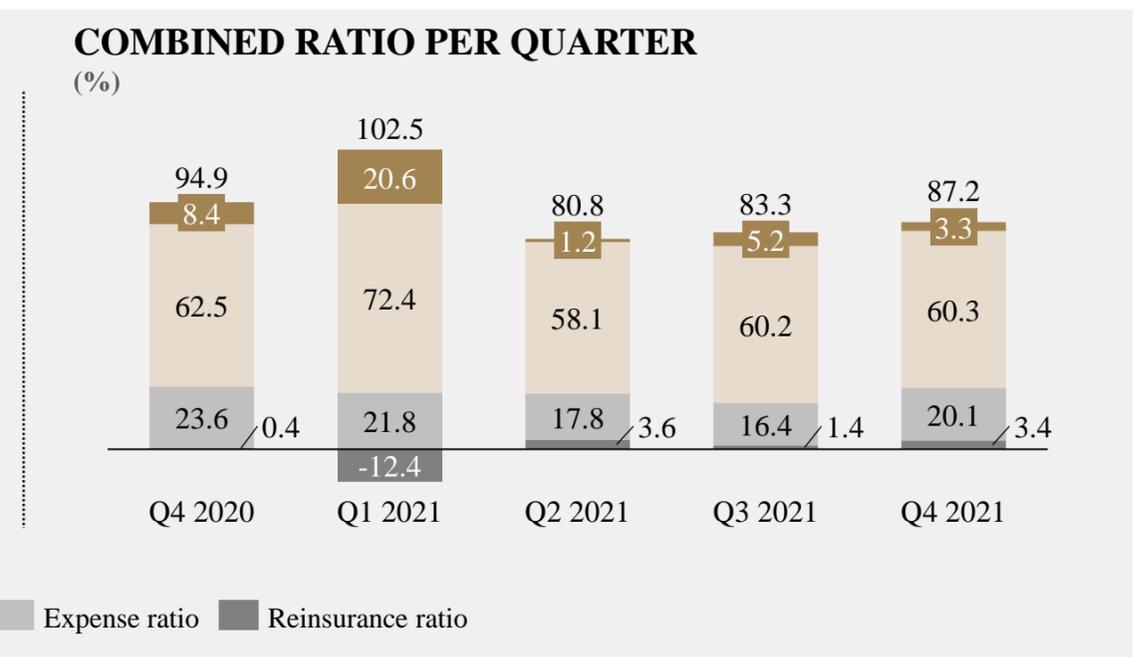
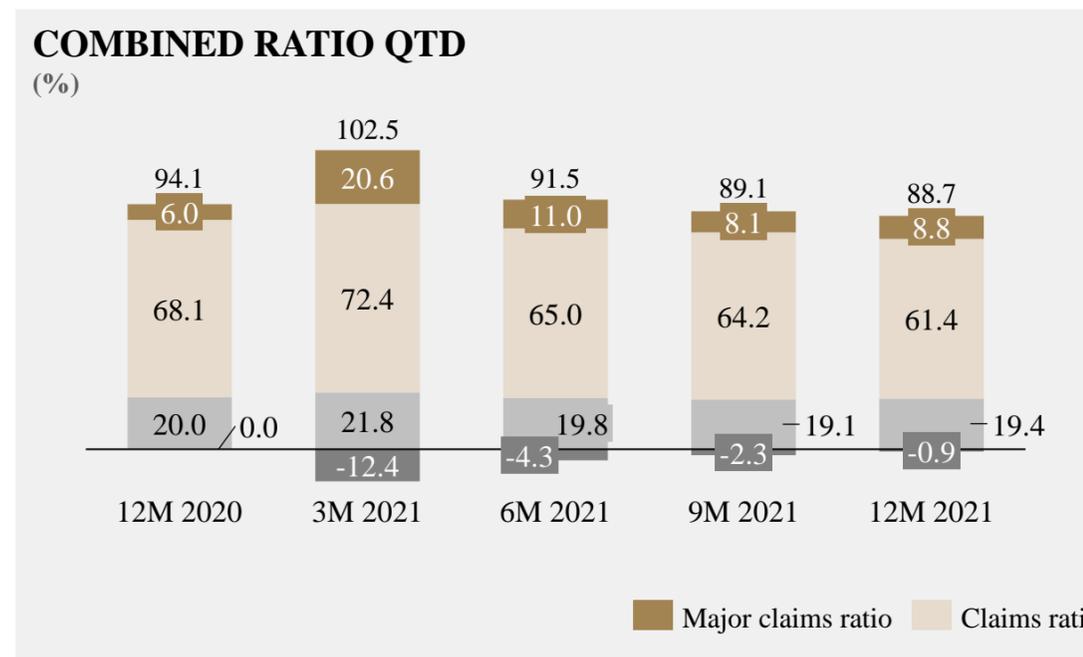
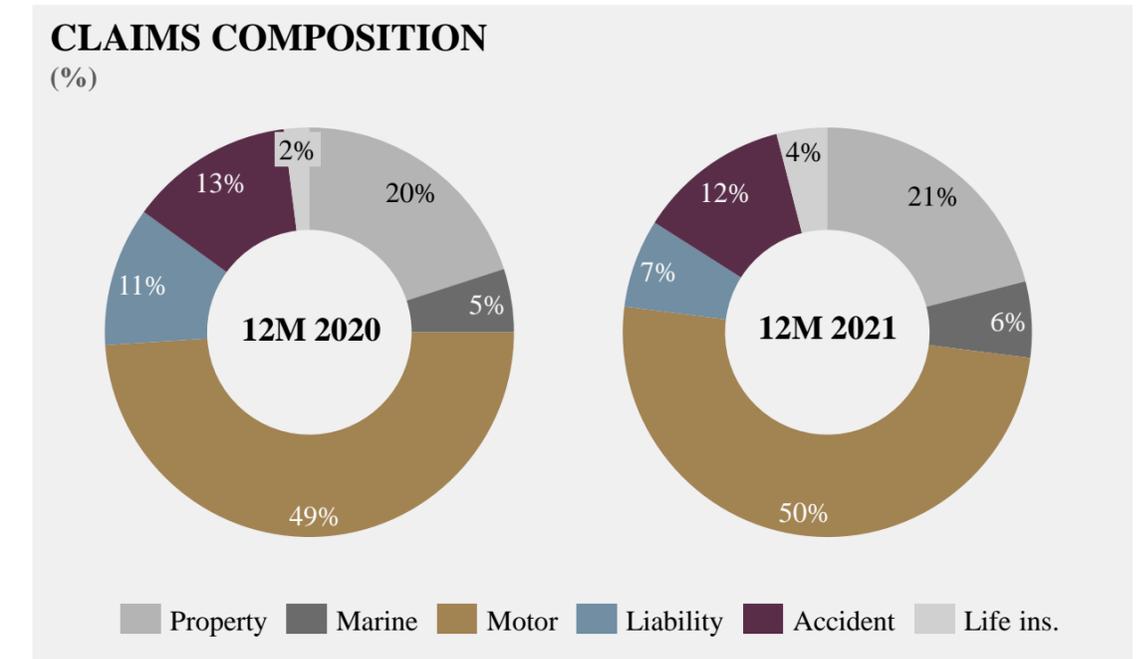
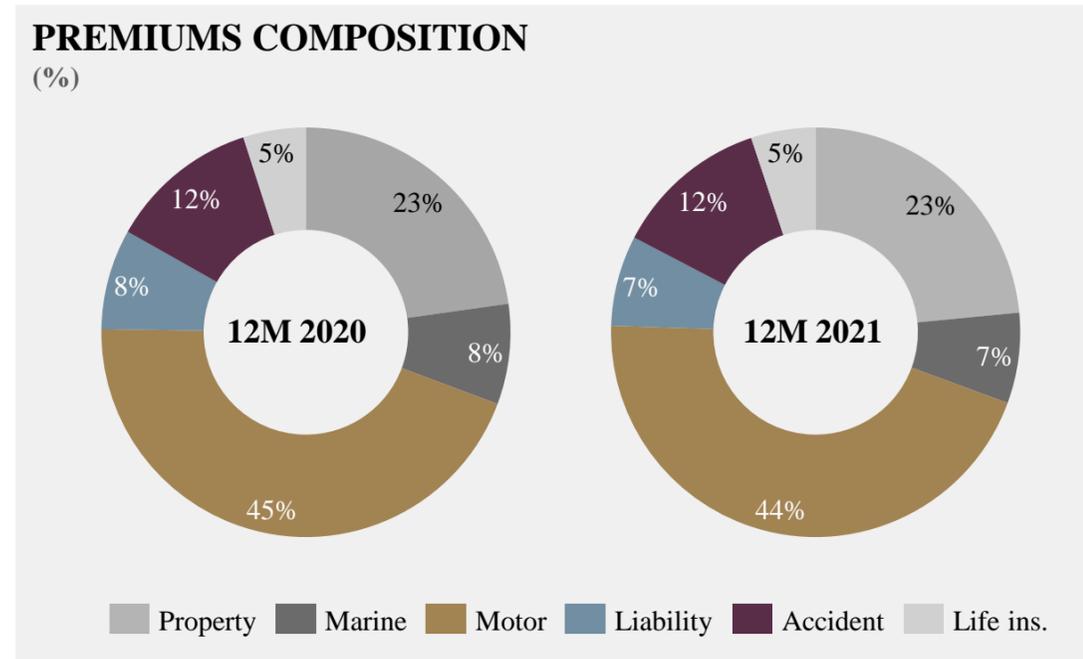
2) Revaluation of contingent consideration and investment properties

Insurance operations



Combined ratio of 88.7% in 2021

- Combined ratio for 12M 2021 88.7% should TM be included from January 1st
- One of the best years in TM's operations, significant decrease in combined ratio YoY during favorable conditions
- Claims ratio decreases year-on-year while major claims ratio is higher in 2021 (claims over ISK 50 million)
- Reinsurers' share negative by 0.9% in 2021
- Composition of premiums and claims remains stable

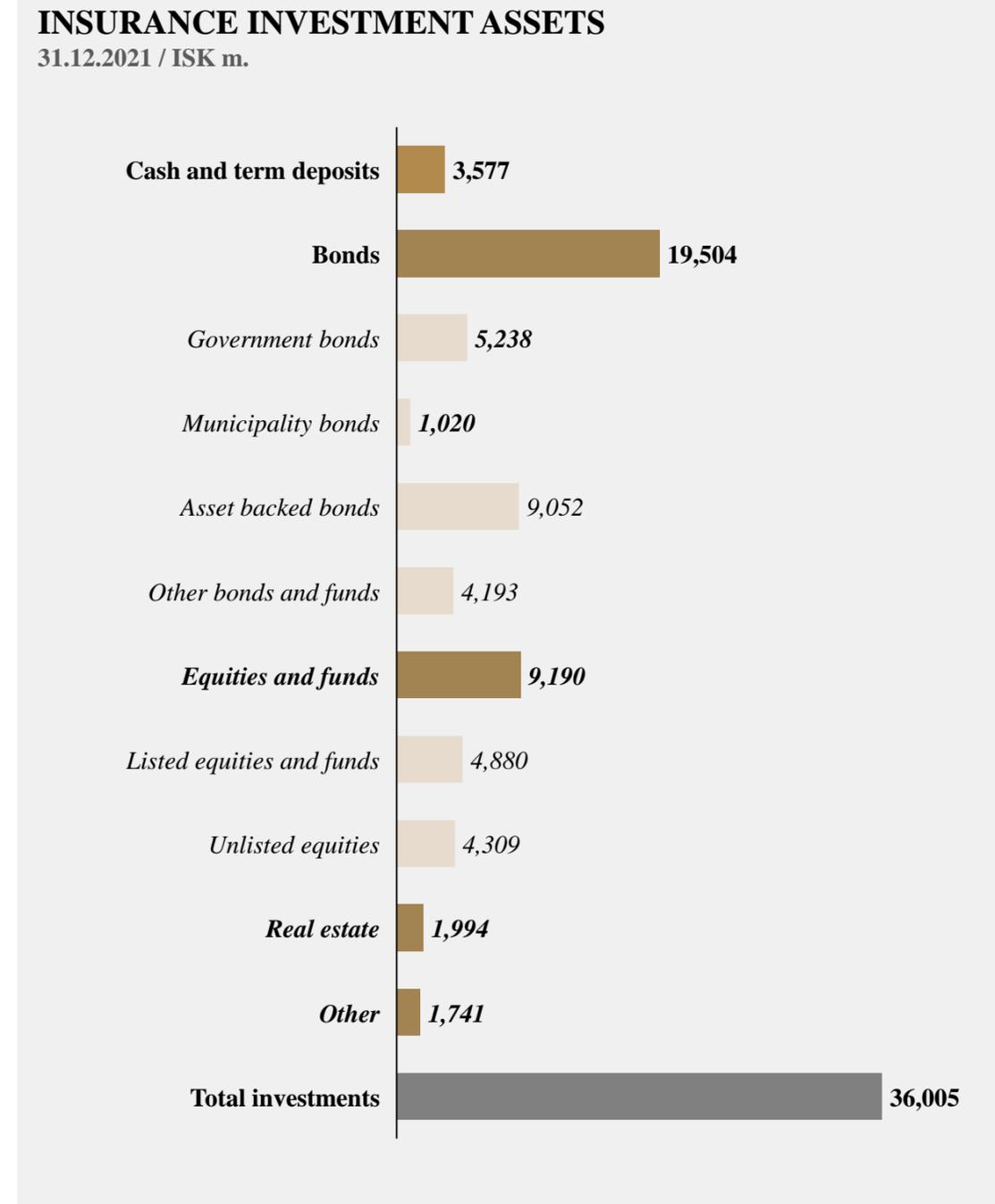
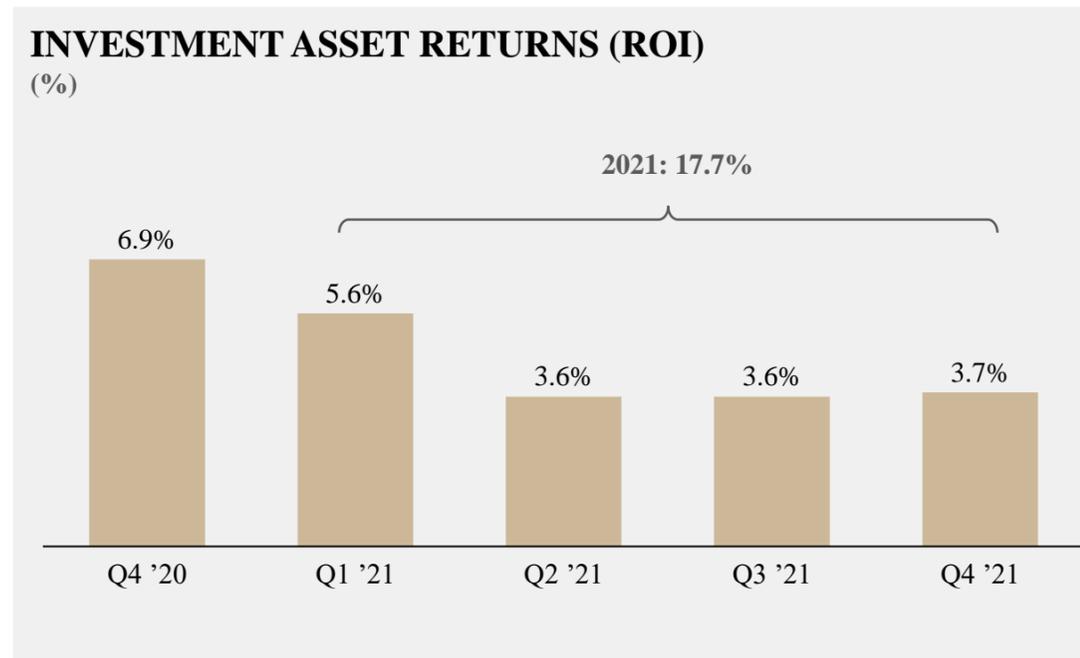
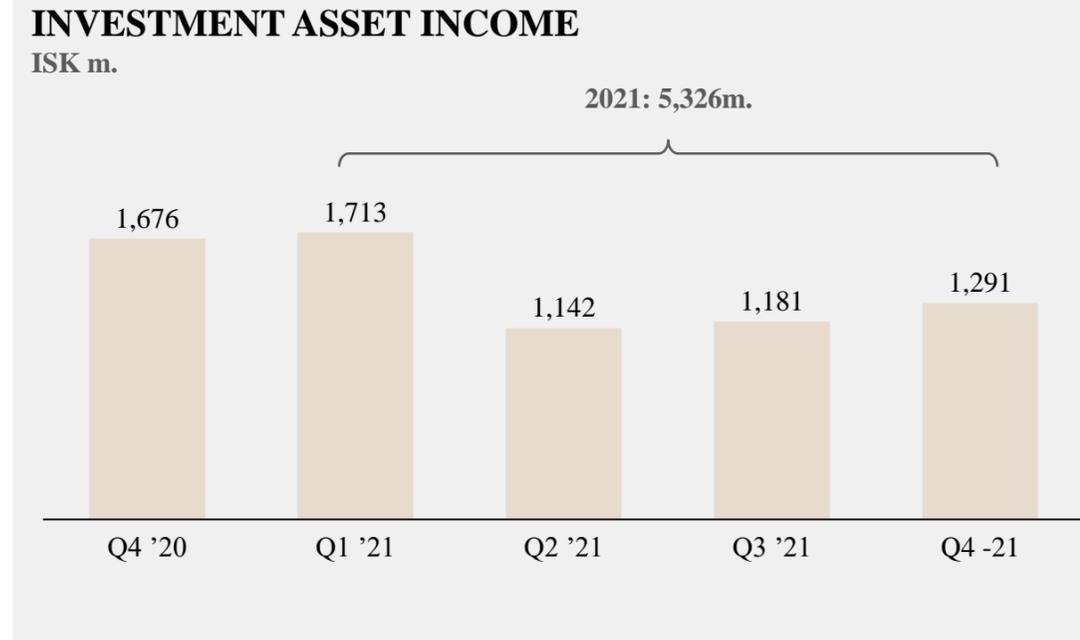


Insurance investments



Return on investment of 17.7% in 2021 (2020: 14.8%)

- Outstanding return on investment assets in 2021 of 17.7% (2020: 14.8%)
- Positive performance in most asset classes, with equities being the main driver of return
- Return on listed equities exceeded 88.7% during 2021 (2020: 19%)
- Positive returns in all asset classes except real estate
- Cash and liquidity funds amount to ISK 3.6 billion at the end of the year¹



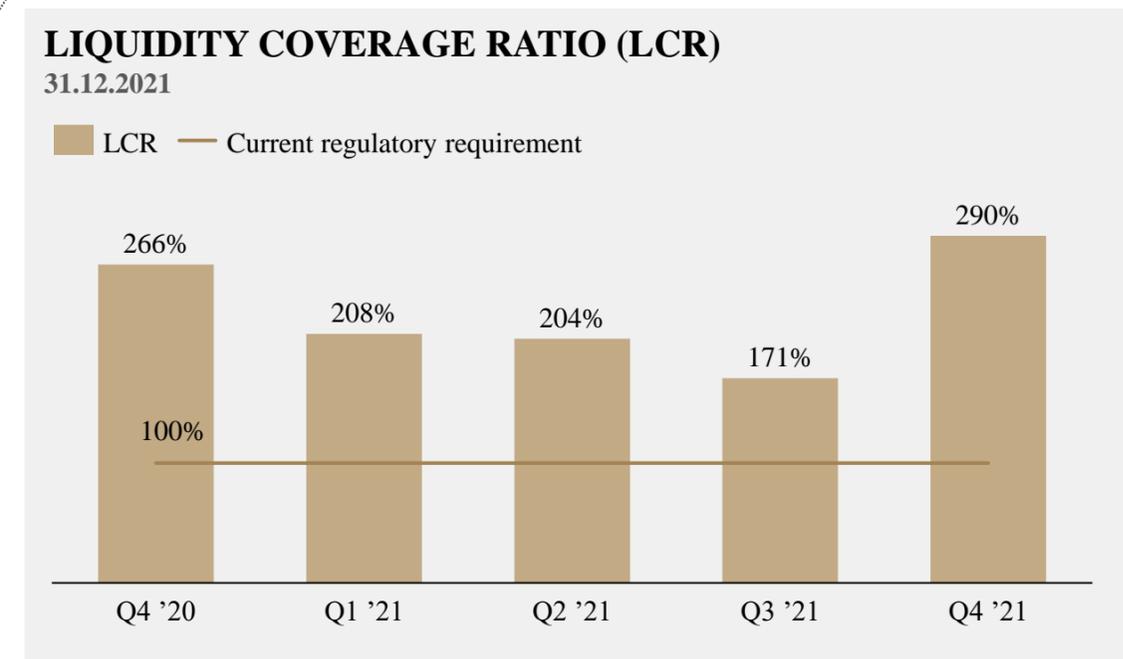
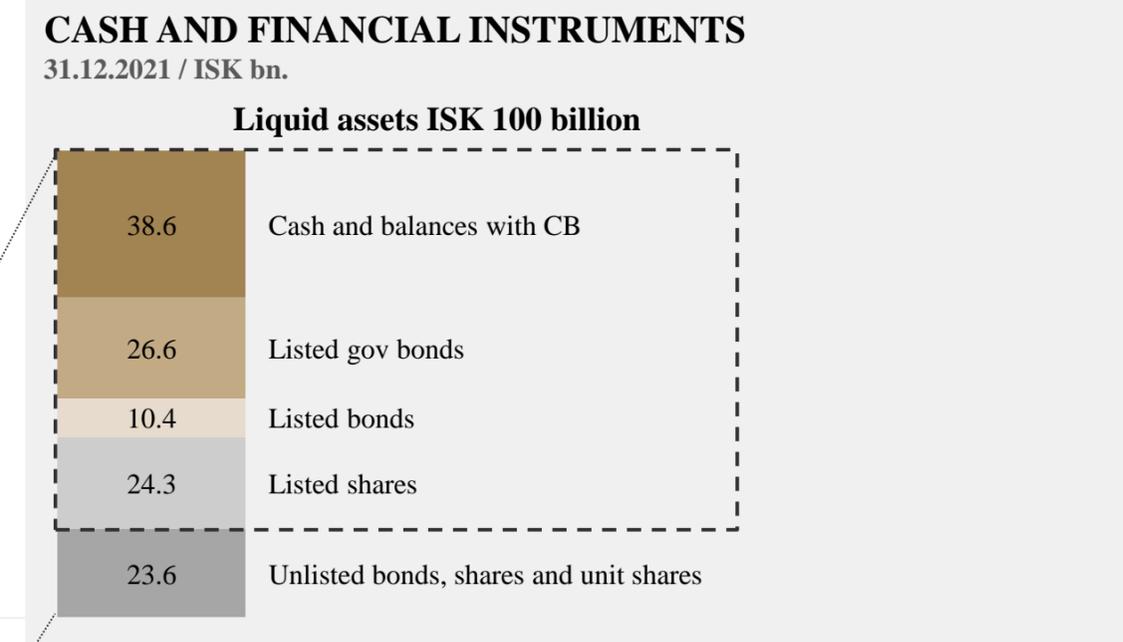
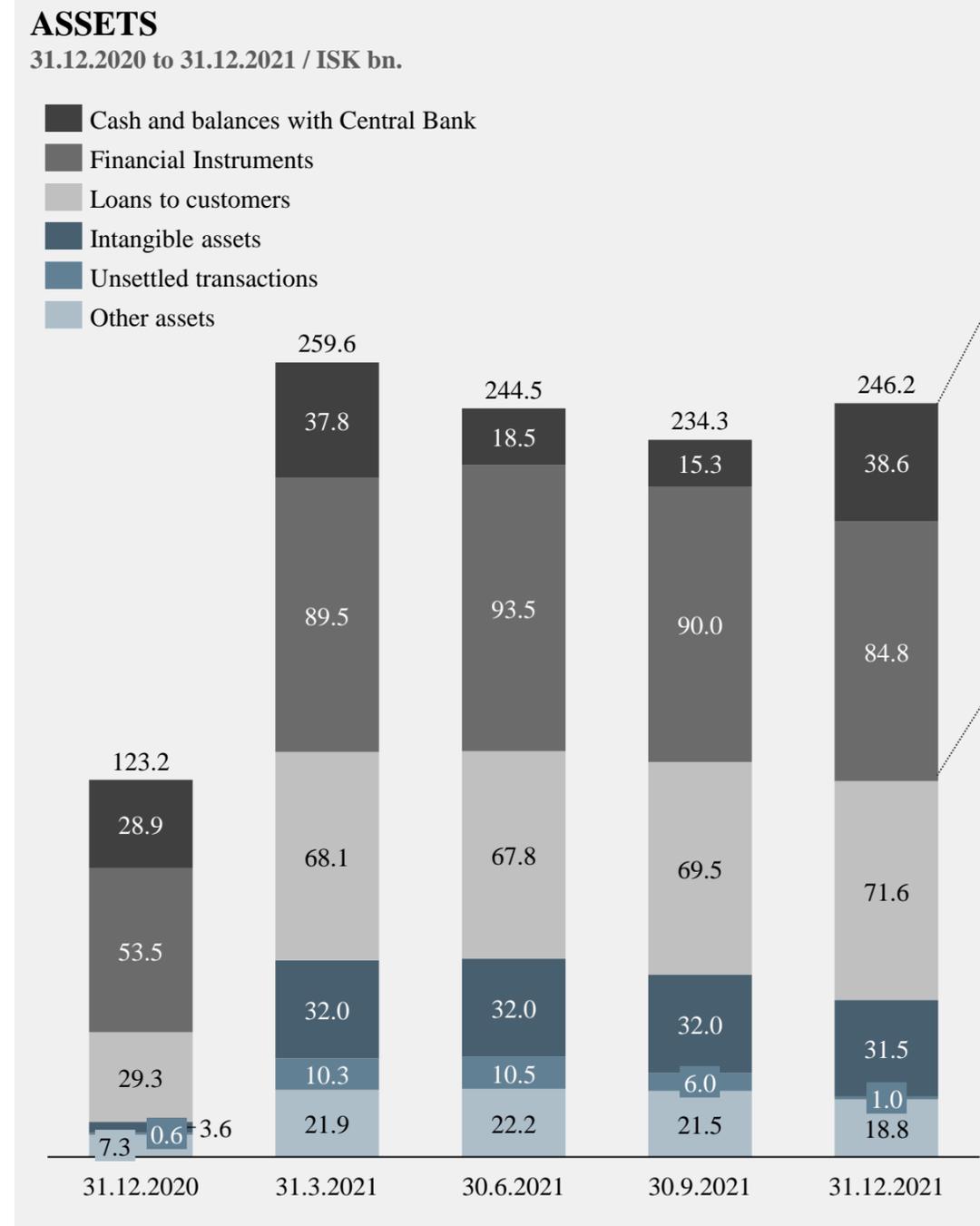
1) Liquidity funds are categorized under other bonds and funds

Assets



Considerable increase in assets post merger

- TM, Lykill and subsidiaries are part of the Consolidated Financial Statements as of 31st March 2021
- Total assets of ISK 246 billion, doubled since year-end 2020
- Liquid assets amount to ISK 100 billion, 41% of total assets and 127% of deposits from customers
- Loan book increase of ISK 42 billion since year-end 2020
- Significant increase in LCR, 290% at year end 2021, contributable in part to expected refinancing of Lykill's debt in 2022 and the acquisition of Ortus Secured Finance

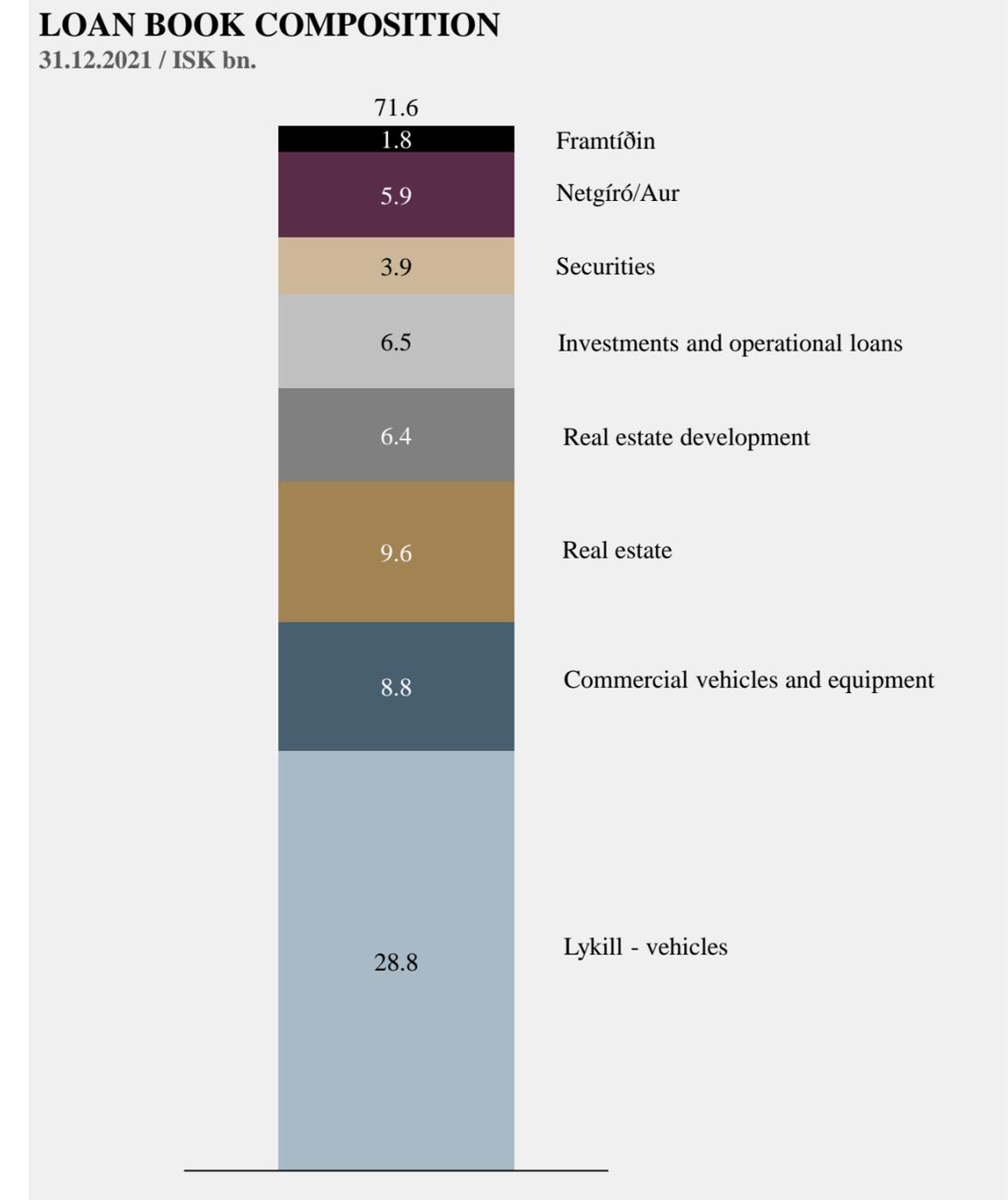
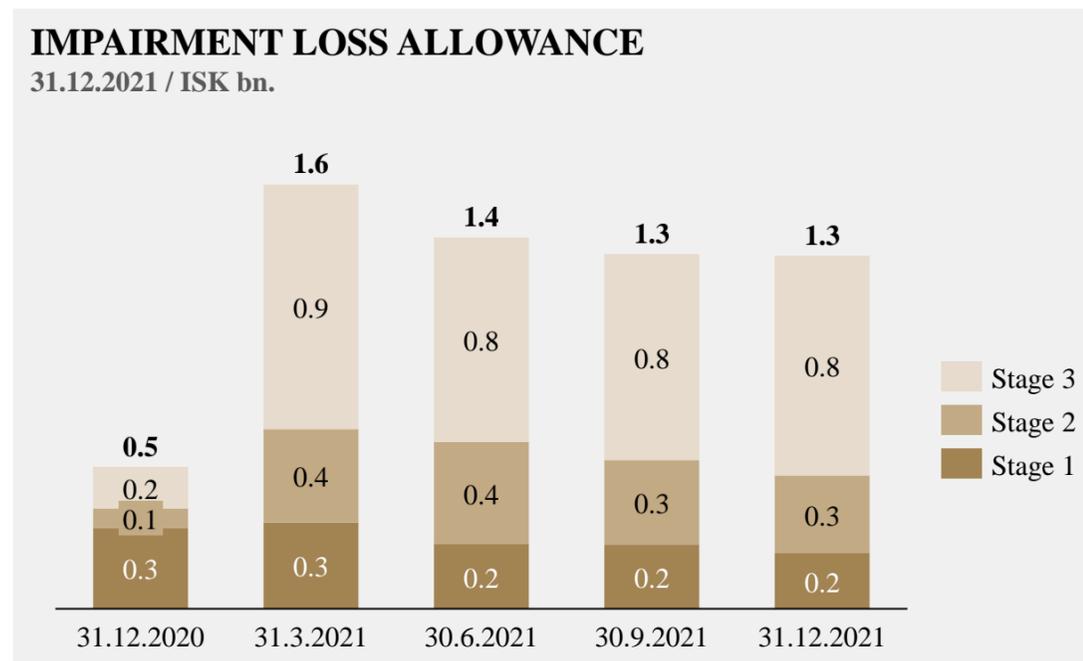
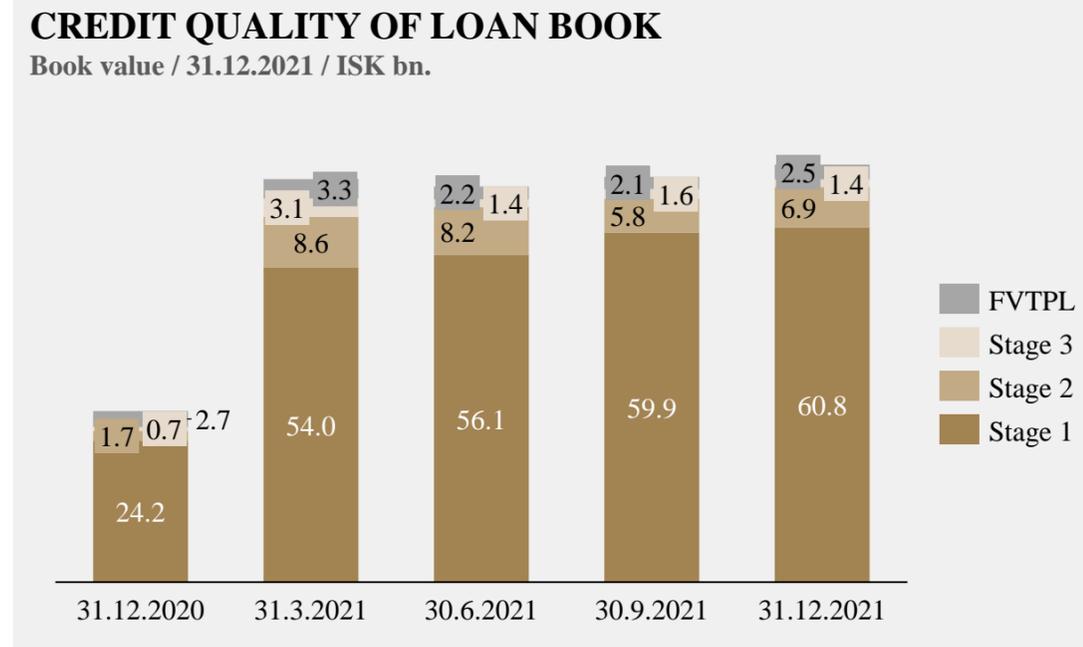


Loans to customers

Increased diversification of loans to customers



- Loan book increases considerably following TM and Lykill merger
- Loans to individuals almost sixfold from year-start ISK 5.6 billion at year end 2021 to ISK 31.4 billion
- Loans to corporates increase by 70% from ISK 23.7 billion at year end 2021 to ISK 40.2 billion
- Weighted average duration of the loan book was 2.01 years at end of year
- Change in credit quality mostly due to merger with Lykill (new financial assets) and remains stable



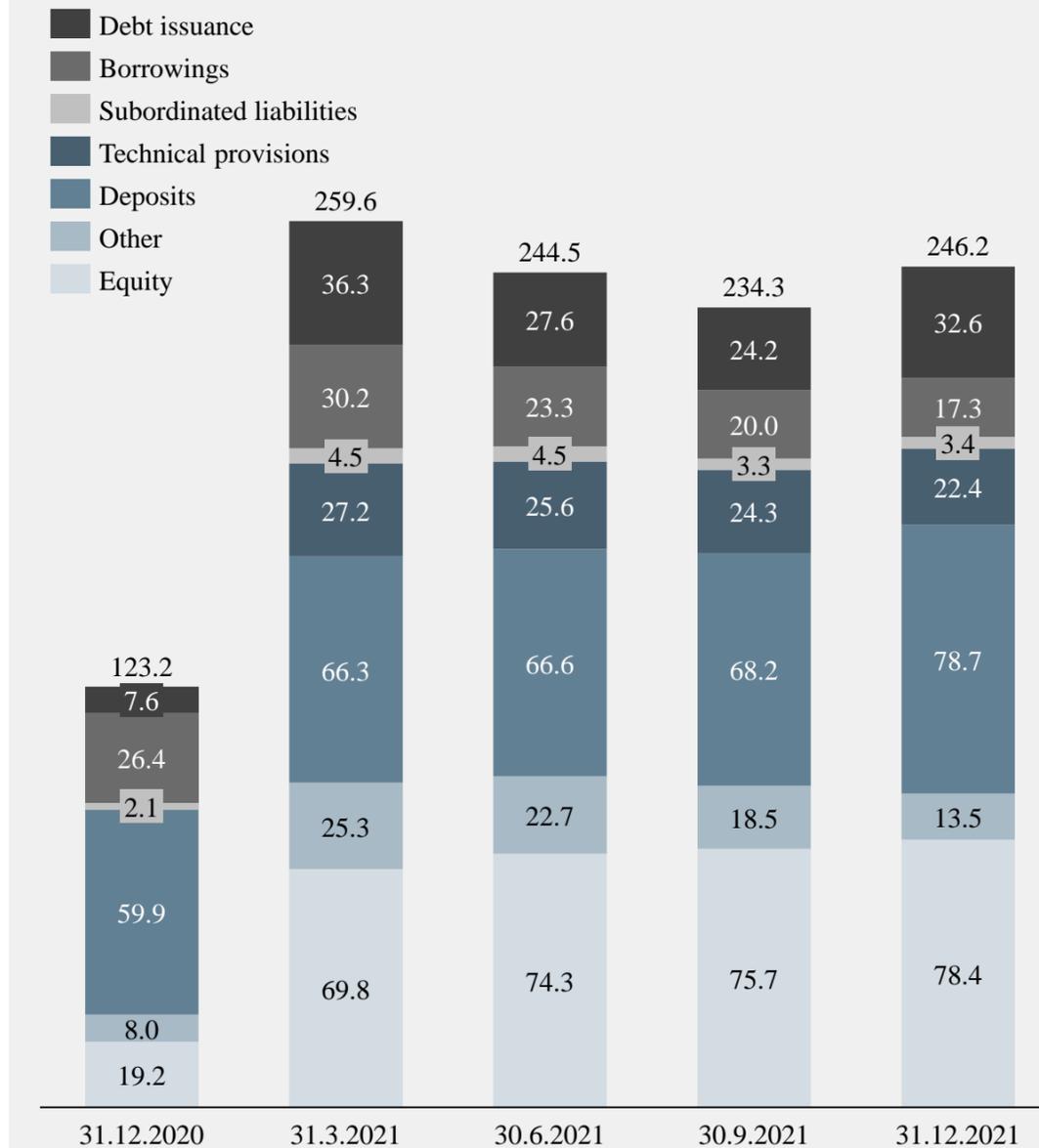
Liabilities

Funding continues to be strong



- TM and Lykill and their subsidiaries are part of the consolidated financial statements as of 31st March 2021
- Kvika issued ISK 17.5 billion of senior unsecured bonds in 2021, including its first green bond
- Kvika paid all outstanding notional of Lykill 17 1 in Q2, a total of ISK 10.7 billion, and KVB 15 01 in Q3, a total of ISK 1.2 billion
- Borrowings at ISK 17.3 billion include money market financing and secured credit facilities
- Technical provision of TM Tryggingar amounts to ISK 22.4 billion
- Total deposits increase by ISK 18.8 billion from year-end 2020

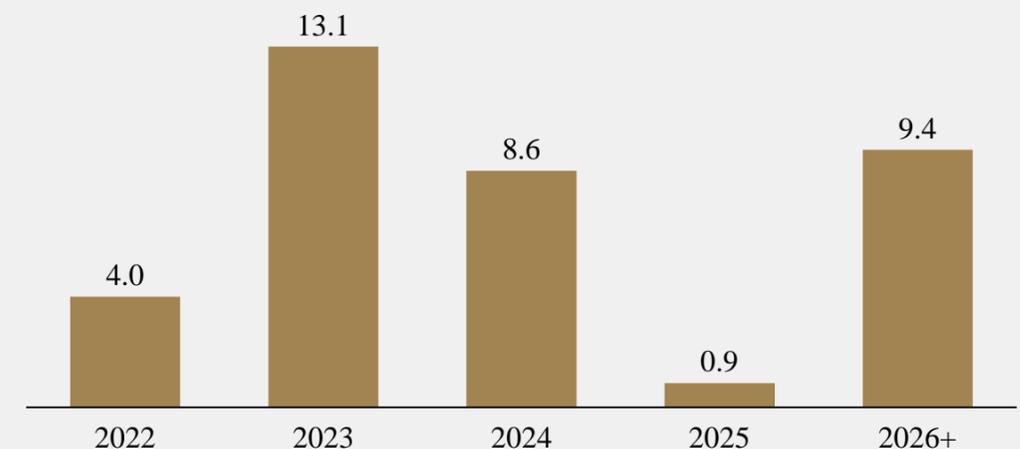
LIABILITIES AND EQUITY
31.12.2020 to 31.12.2021 / ISK bn.



MATURITY OF DEPOSITS
31.12.2021



MATURITY OF ISSUANCE
31.12.2021 / ISK bn.

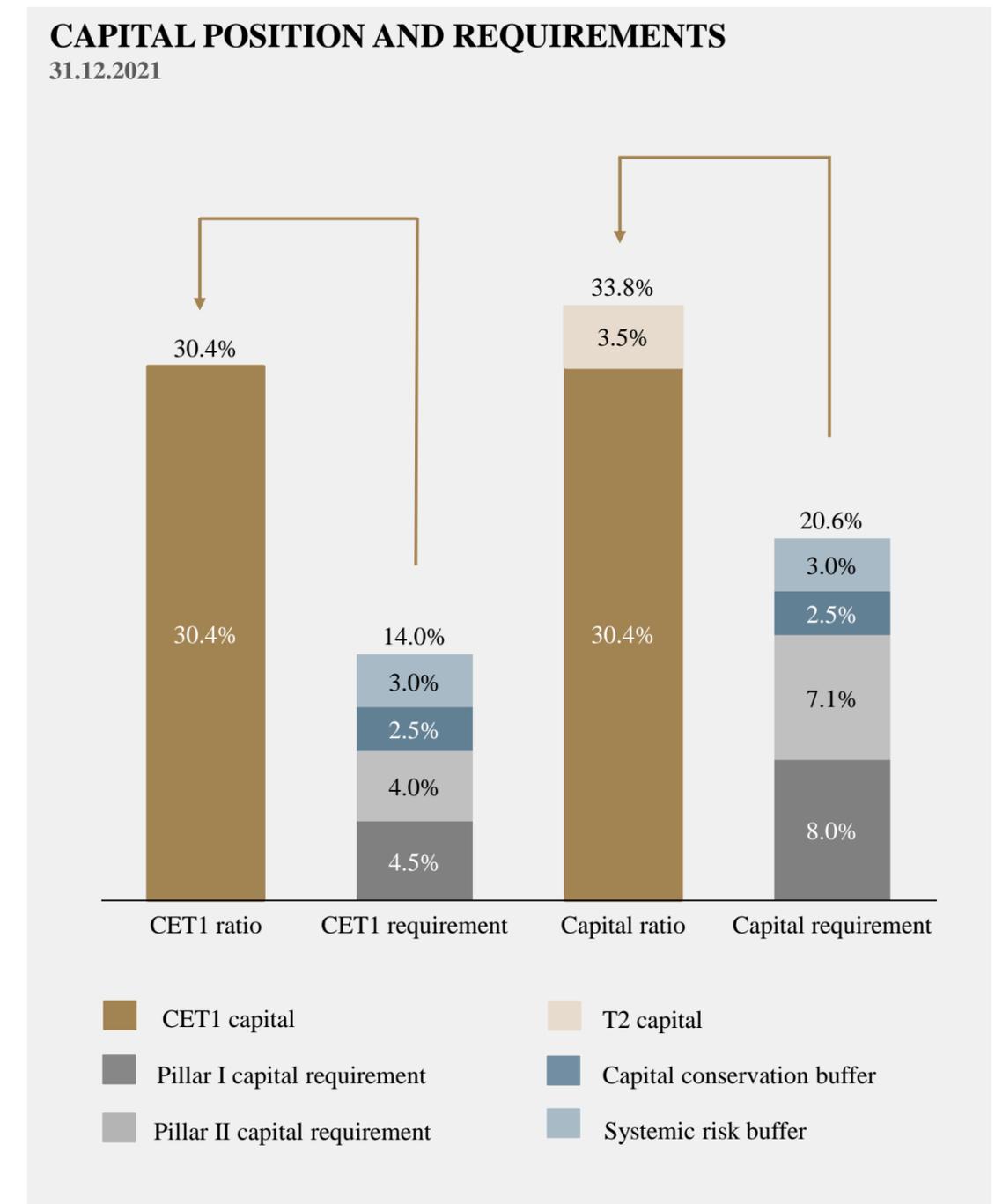
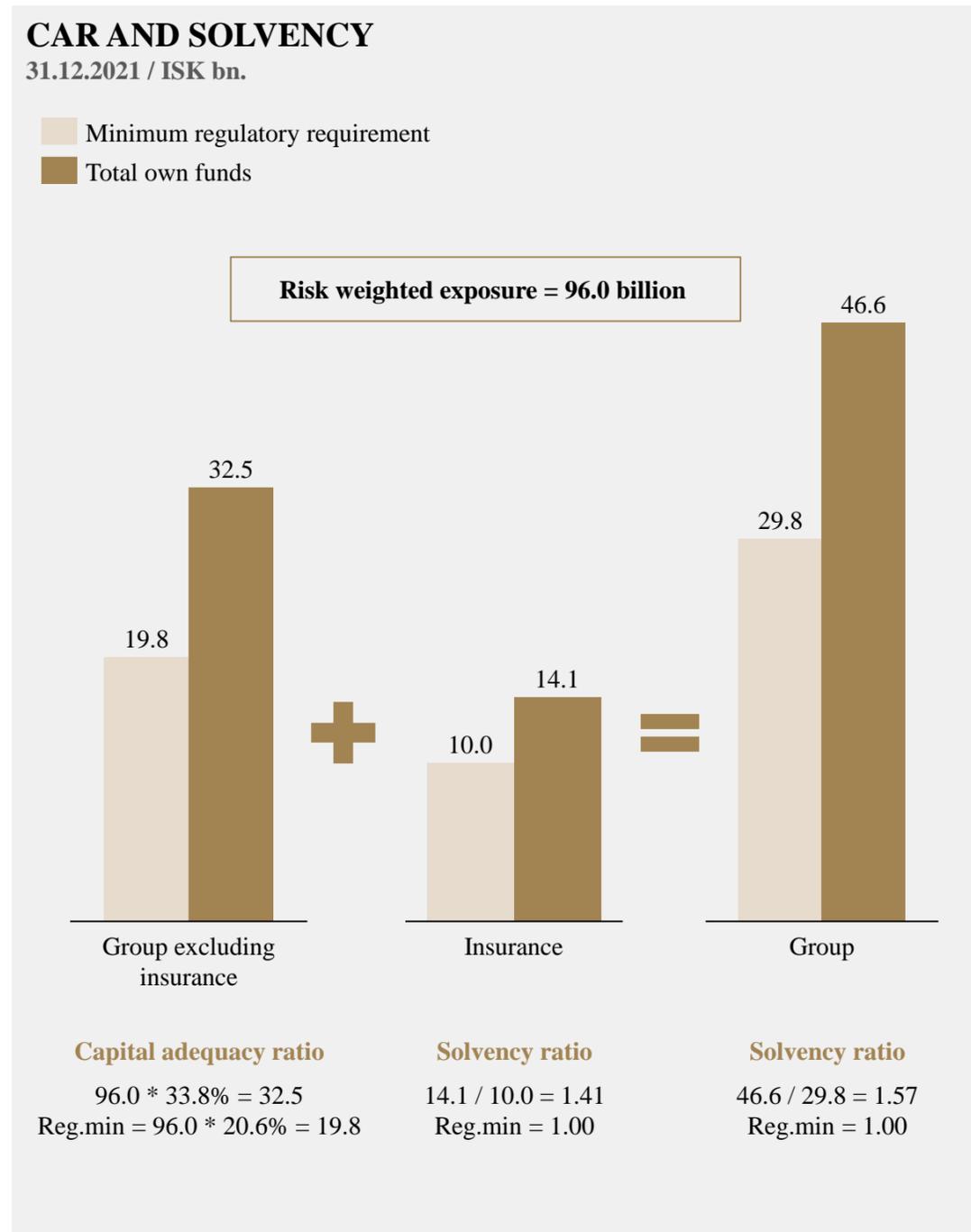


Solvency and capital



Consolidated solvency and capital adequacy ratios well above regulatory requirements

- 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 assets 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 16.9 billion on consolidated solvency basis for the group and ISK 12.7 billion on CAR basis excluding insurance activities
- Numbers include expected dividends from Insurance (2.5 billion) and Asset Management (1 billion)



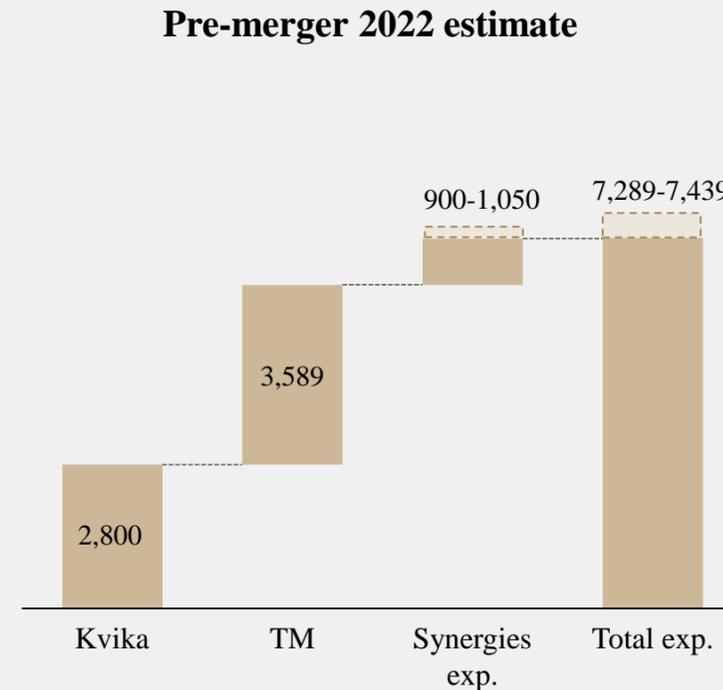
Outlook 2022

PBT of ISK 8,000-9,000 million

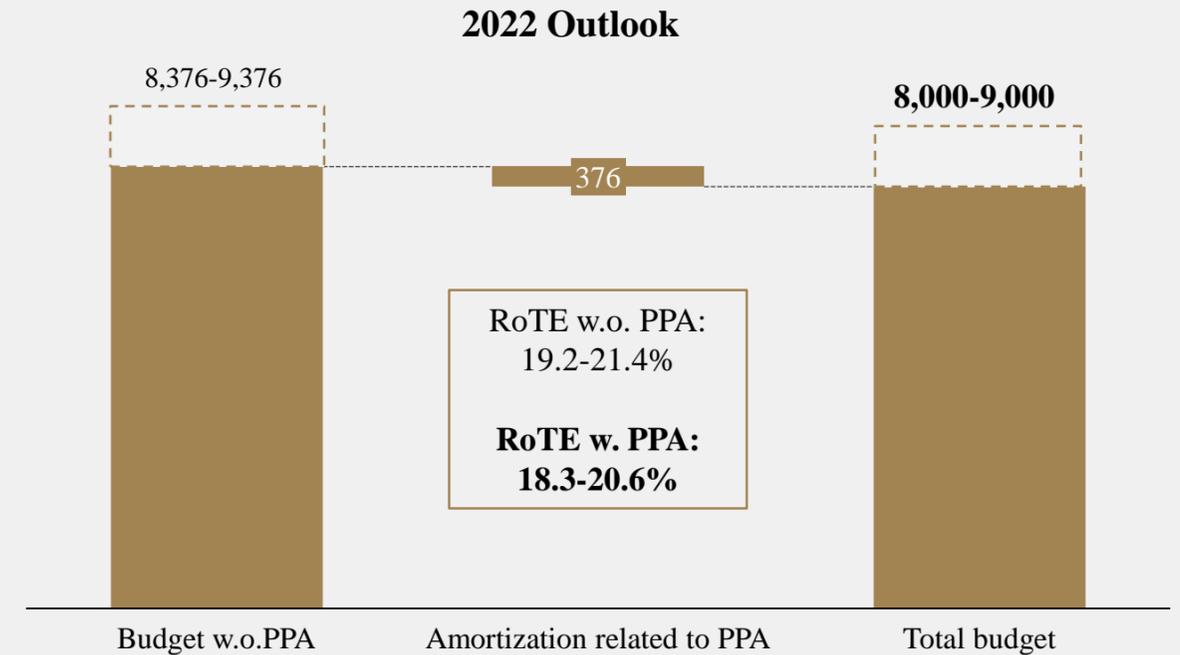


- With the acquisition of Ortus Secured Finance, Kviká UK will become the fifth business unit of the group, further diversifying income streams
- It is expected that Kviká's strong and stable profitability will continue in 2022, though noting that market conditions in 2021 were unusually favourable
- Key assumptions underlying Kviká's 2022 outlook include:
 - Ortus Secured Finance acquisition
 - TM: 6.4% return on investment, compared to 17.7% in 2021
 - TM: Combined ratio of 92.8%, compared to 88.7% in 2021
 - Increase in net impairment of ISK 828 million YoY from positive 139 at year-end 2021 to negative 689 million expected at year-end 2022
 - Organic loan book growth of 7% YoY
 - Considerable costs due to product- and business development, not expected to result in revenues in 2022, affect PBT short term

OUTLOOK 2022 ISK million



- Post-merger baseline estimate for 2022 in the range of ISK 7,289-7,439 million PBT
- Expected merger synergies to be realized in 2022: ISK 900-1,050 million
- Expected merger synergies to be realized in 2023: ISK 1,200-1,500 million



- Purchase price allocation (“PPA”) related to M&A activities in 2021 completed, resulting in the recognition of:
 - ISK 5.7 billion of intangible assets to be amortized throughout their estimated useful lifespan (range of 5-20 years)
 - tax liability amounting to ISK 515 million
 - deferred tax assets amounting to ISK 971 million
 - In total an ISK 5.9 billion reduction in the group's goodwill
- PPA will impact the group's consolidated income statement for the coming years, in 2022 it is expected that the impact will be an amortization amounting to ISK 376 million



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