Kvika banki hf.

Q2 2025 Financial Results

13 August 2025

Q2 2025

- Profit before tax ISK 2,025 million compared to ISK 1,189 million in Q2 2024
  Increasing by ISK 836 million from previous year or 70.3%
- Net interest income ISK 2,962 million compared to ISK 2,428 million in Q2 2024
  Increasing by ISK 534 million from previous year or 21.9%
- Net fee and commission income ISK 1,935 million compared to ISK 1,351 million in Q2 2024
  Increasing by ISK 584 million from previous year or 43.2%
- Administrative expenses ISK 2,981 million compared to ISK 2,733 million in Q2 2024
  Increasing by ISK 248 million from previous year or 9.1%
- Merger discussions with Arion banki hf. in progress
  Process expectation of at least 9-12 months with milestones anticipated before end of year

Profit before tax	ISK 2,025 m.
Profit after tax	ISK 1,439 m.
Pre-tax RoTE	18.5%
CAR	23.3%

Launch of Auður Heima met with exceptional demand

- The Auður Heima mortgage offering launched in May, building on the trust and strength of the Auður brand. The product was met with exceptional demand, with applications totaling about ISK 18 billion by quarter-end
- The success of Auður Heima marks Kvika's strategic entry into a new market, diversifying the loan book and demonstrating strong customer trust in its digital-first approach. While launch costs somewhat impact Q2 results, financial benefits are expected from Q3 onward
- The Commercial Banking loan book expanded by 7.2% in Q2, driven primarily by Auður heima while underlying growth across the rest of the portfolio amounted to 2.3%. Retail deposits saw a marginal contraction, mainly due to the successful ISK 90 bn. Íslandsbanki retail offering in May

Investment Banking

Segment highlights

Good quarterly performance amid market volatility

- The successful public offering of the state's stake in Íslandsbanki during Q2 supported sustained equity market turnover. However, elevated and persistent inflation continued to weigh on activity in both bond and equity markets. The króna experienced moderate fluctuations over the quarter, ending June near its strongest level against the euro since September 2022.
- Lending growth remained strong in Q2, and despite the early repayment of the single largest exposure during the quarter, the period closed with a modest net increase. Looking ahead to Q3, a solid pipeline supports expectations for continued expansion in corporate lending.
- Corporate Finance delivered a solid performance, highlighted by the successful completion of the equity sale of Íslandsbanki.

Establishment of ISK 8.5bn Credit Fund ACF V Fuels Asset Growth in Q2

- A new ISK 8.5 billion credit fund, ACF V slhf., was launched in Q2, with ISK 6 billion already committed to new loans by the end of July
- Equity markets came under pressure in early April due to Trump's tariff policy but recovered later in the quarter. Higher-than-anticipated inflation in Iceland in June dampened expectations for interest rate reductions in August and affected bond markets
- Assets under management amounted to ISK 453 billion at end of June 2025, increasing by ISK 11 billion from the end of the first quarter, primarily driven by the establishment of ACF V slhf. as well as net positive inflow in funds and private banking during the second quarter

UK

Segment highlights

Continued Positive Q2 Performance with Increased Activity Across UK Operations

- Another strong quarter, underpinned by sustained positive results across both lending and corporate finance. Net Interest Margin (NIM) remains on target, supported by disciplined loan management and stable pricing
- Operating leverage continues to improve as revenue growth outpaces cost increases. Expenses remain tightly controlled and within budget, contributing to increased profitability
- The lending business maintains strong momentum, supported by a record pipeline that reflects the team’s origination strength and broad market reach
- The Harpa investments team continues to demonstrate robust sourcing and screening activity, with a high volume of opportunities reviewed and a focused set advancing through due diligence

Financials

Income Statement

Q2 2025

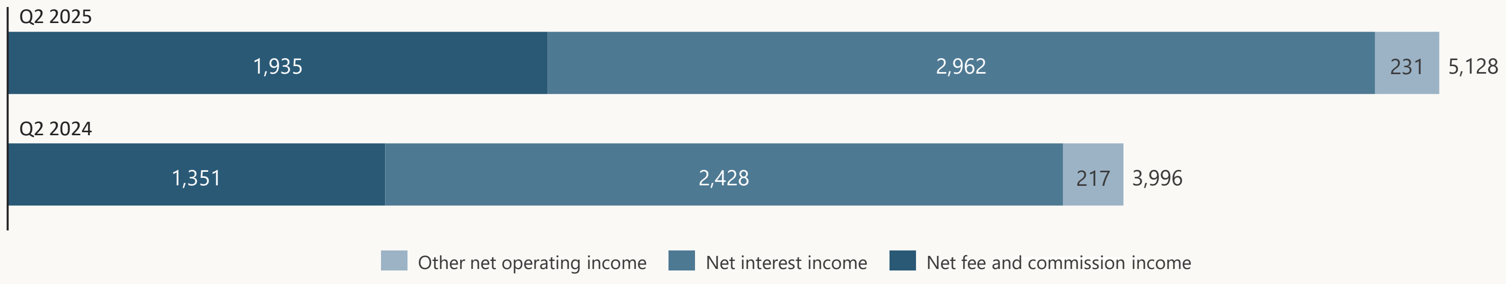
Income Statement

ISK m.

	Q2 2025	Q2 2024	Diff.	Q1 2025	Diff.
Net interest income	2,962	2,428	*534*	2,917	*45*
Net fees and commissions	1,935	1,351	*584*	1,520	*415*
Other net operating income	231	217	*14*	12	*219*
Net operating income	***5,128***	***3,996***		***4,449***	
Administrative expenses	(2,981)	(2,733)	*248*	(3,090)	*(109)*
Net impairment	(122)	(65)	*57*	(65)	*57*
Revaluation	-	(8)	*(8)*	(593)	*(593)*
Pre-tax profit	***2,025***	***1,189***		***701***	
Income tax	(424)	(282)	*142*	(438)	*(14)*
Special bank taxes	(162)	(131)	*31*	(77)	*85*
After-tax profit	***1,439***	***777***		***186***	
Profit after tax from discontinued operations	-	480	*(480)*	1,901	*(1,907)*
Profit for the period	***1,439***	***1,256***		***2,086***	

Revenue Composition

ISK m.



- Strong quarterly performance, with pre-tax profit from continuing operations exceeding ISK 2 billion up 70.3% YoY
- Net interest income grew 21.9% YoY, driven by balance sheet growth and lower interest expenses
- Net fee and commission income rose 43.2% YoY, largely driven by elevated Investment Banking fees
- Net operating income ISK 5.1 billion, up over 28.3% YoY, supported by strong growth in both interest and fee income
- Administrative expenses rose 9.1% YoY, reflecting business growth while remaining within budget expectations

Income Statement

6M 2025

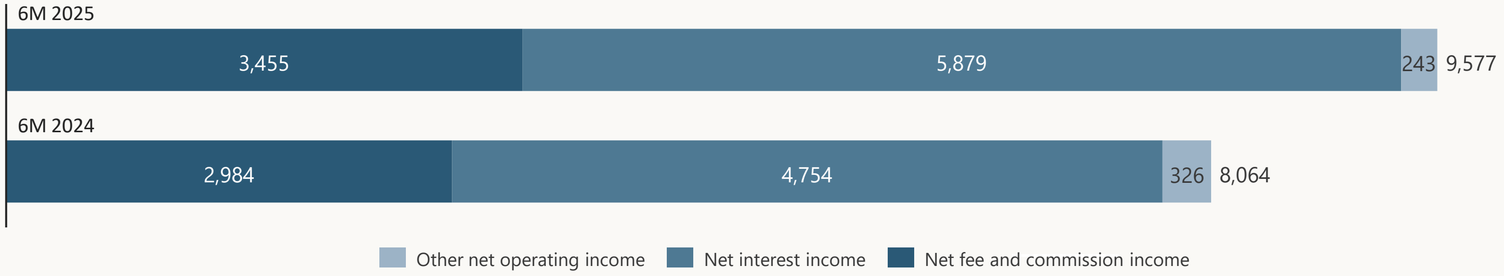
Income Statement

ISK m.

	6M 2025	6M 2024	Diff.
Net interest income	5,879	4,754	1,125
Net fees and commissions	3,455	2,984	471
Other net operating income	243	326	(83)
Net operating income	***9,577***	***8,064***	
Administrative expenses	(6,071)	(5,399)	672
Net impairment	(188)	(253)	(65)
Revaluation	(593)	(8)	585
Pre-tax profit	***2,726***	***2,404***	
Income tax	(862)	(434)	428
Special bank taxes	(239)	(207)	32
After-tax profit	***1,625***	***1,764***	
Profit after tax from discontinued operations	1,901	576	574
Profit for the period	***3,525***	***2,340***	

Revenue Composition

ISK m.



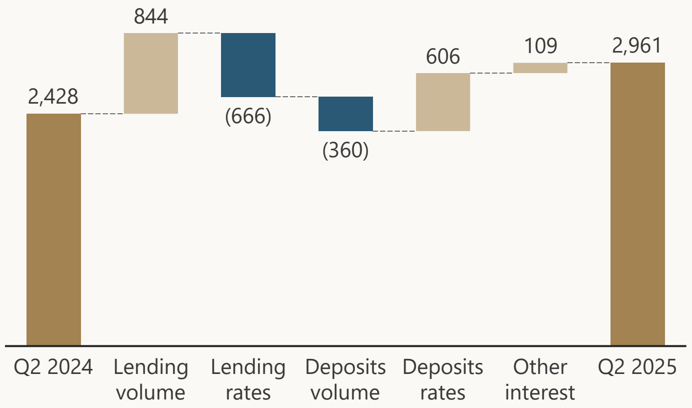
- Net interest income increased by 23.7% YoY, driven by loan book growth and a favorable deposit rate environment
- Net fee and commission income rose 15.8% YoY, supported by strong performance in Investment Banking and stable Asset Management flows
- Other net operating income declined by ISK 83 million, reflecting a challenging Q1 in financial markets
- Net operating income grew by 18.8% YoY, reflecting broad-based revenue growth across core business lines
- Administrative expenses rose 12.4% YoY, including one-off costs in Q1 related to TM divestment and other restructuring costs

Net Interest Income

Strong net interest margin

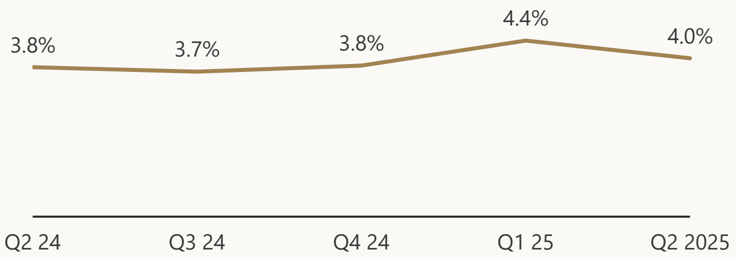
Net interest income

Q2 2024 to Q2 2025 / ISK m.



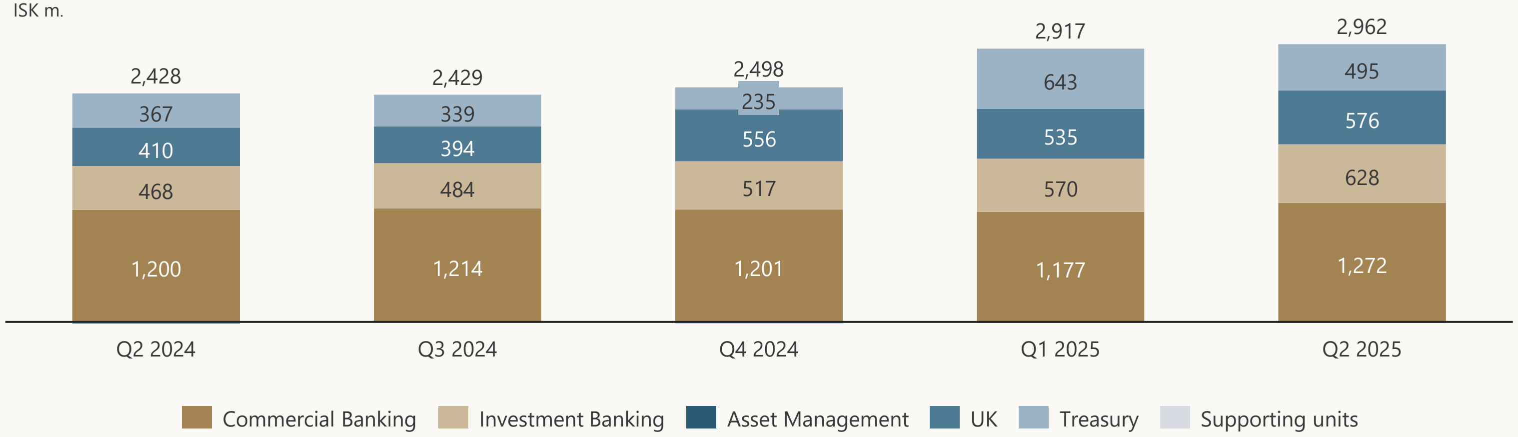
Net interest margin development

(%) / net interest income divided by total average interest-bearing assets



Net interest income development (NII)

ISK m.



- Net interest income increased by 21.9% from Q2 2024, reaching ISK 2,962 million in Q2 2025, primarily supported by loan book growth of 17.3% as well as lower cost of deposits
- Strong 4.0% net interest margin in Q2. Net interest margin of 4.4% in Q1 positively affected by sale of TM.

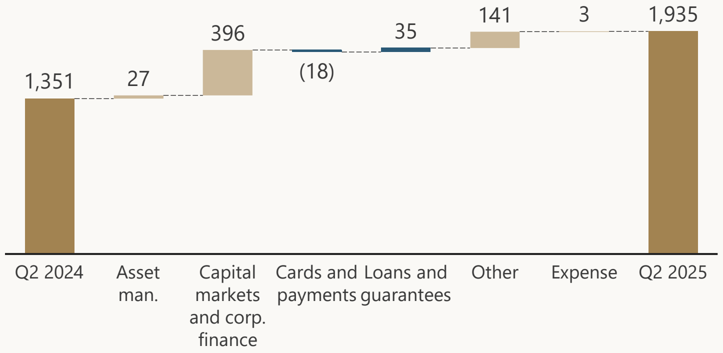
Note that single-digit figures may be omitted from certain graphs to improve readability.

Net Fee and Commission Income

Growth driven by strong Investment Banking activity

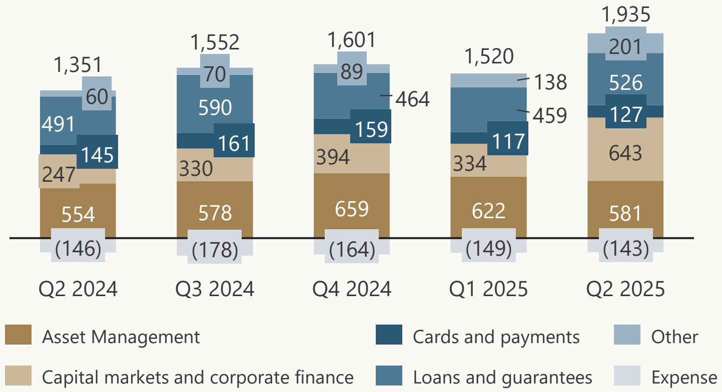
Net fee and commission income

Q2 2024 to Q2 2025 / ISK m.



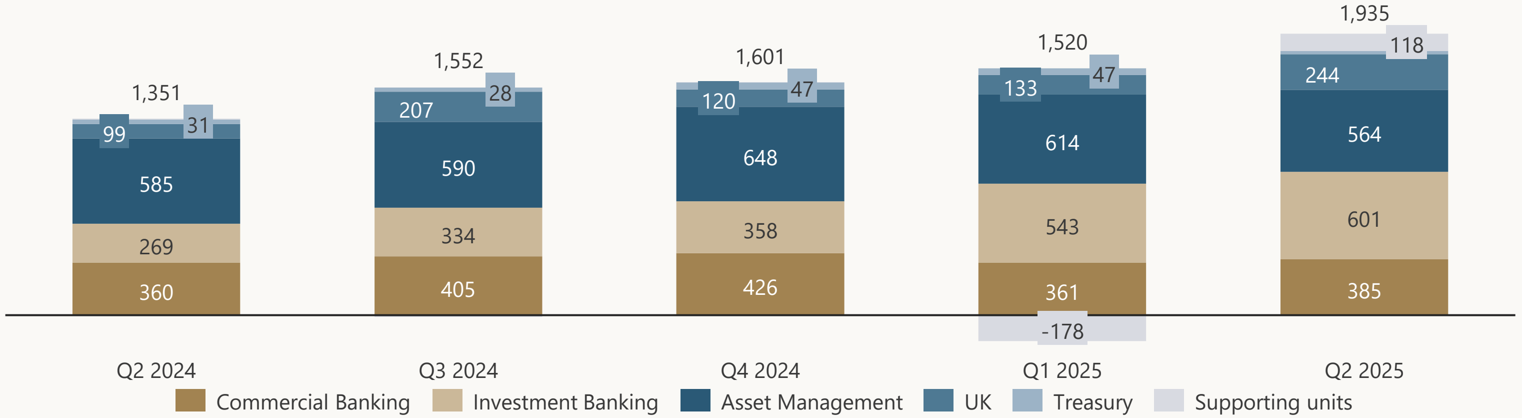
Net fee and commission income

ISK m.



Net fee and commission income development

ISK m.



- Net fee and commission income increased by ISK 584 million from Q2 2024, or 43.2%, reaching ISK 1,935 million in Q2 2025
- The rebound is largely driven by strong Investment Banking activity, including advisory fees from large mandates such as the state's divestment of its holding in Íslandsbanki
- Fees from Asset Management, Cards & Payments and Loans & Guarantees remained broadly stable YoY

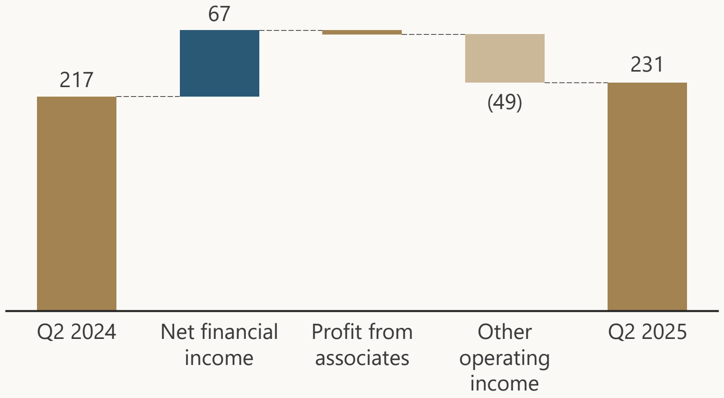
Note that single-digit figures may be omitted from certain graphs to improve readability.

Other Net Operating Income

Stable contribution, primarily from net financial income

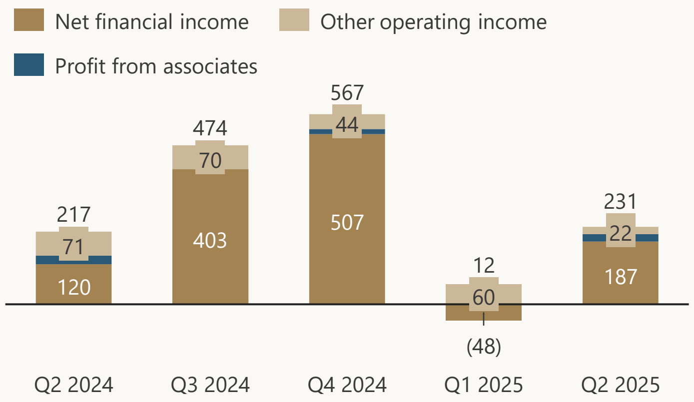
Other net operating income

Q2 2024 to Q2 2025 / ISK m.



Other net operating income

Composition / ISK m.



Other net operating income development

ISK m.

- Other net operating income totaled ISK 231 million in Q2 2025, broadly in line with Q2 2024
- Improvement in Net financial income YoY, which is largely balanced out by a decrease in other income

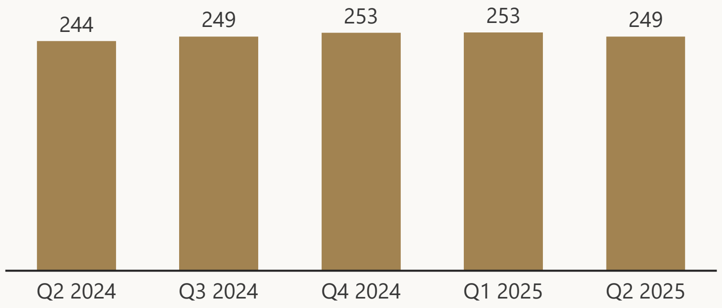
Note that single-digit figures may be omitted from certain graphs to improve readability.

Operating Expenses

Cost to core income continues to trend down

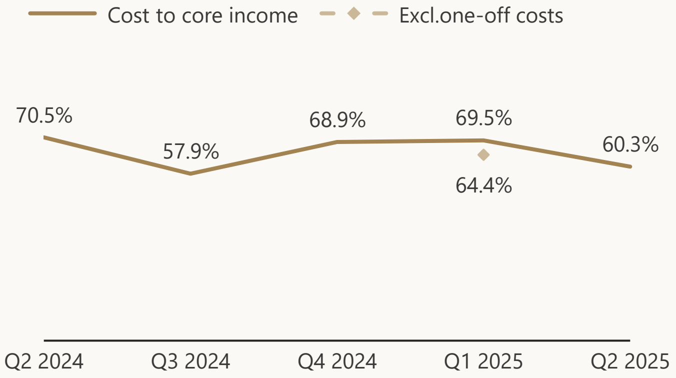
Employee development

Full time employees at the end of each period



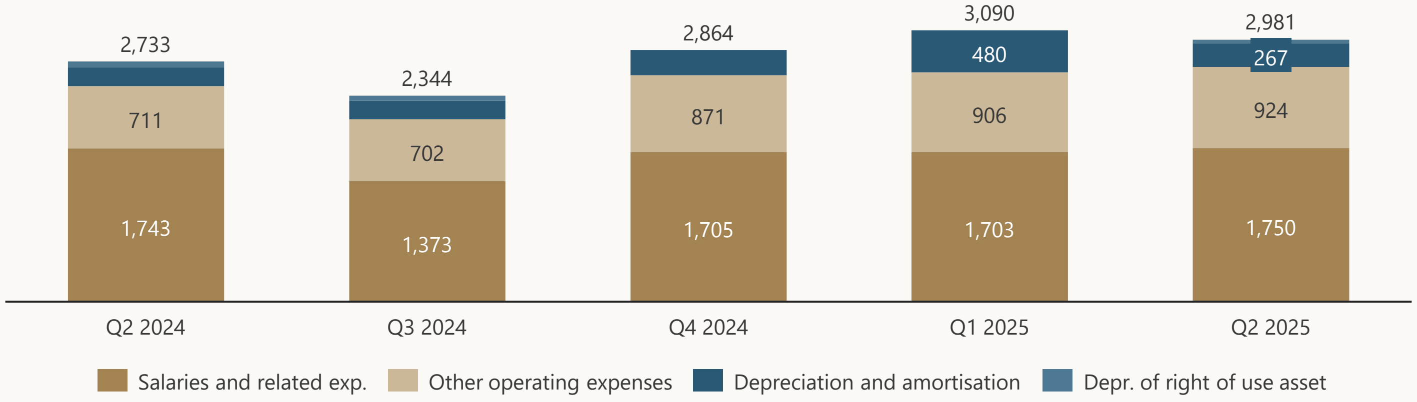
Cost to core income

(%)



Administrative expenses

ISK m.



- Salaries and related nearly unchanged YoY
- Administrative expenses increased by ISK 248 million YoY, or 9.1%, reflecting business growth while remaining within budget expectations
- Cost-to-core income ratio improved to 60.3%, down from 70.5% in Q2 2024, as revenue growth outpaced cost increases
- Number of employees decreases slightly from Q1 2025, marginally increasing from Q2 2024
- Management remains committed to continued focus on cost management and efficient growth

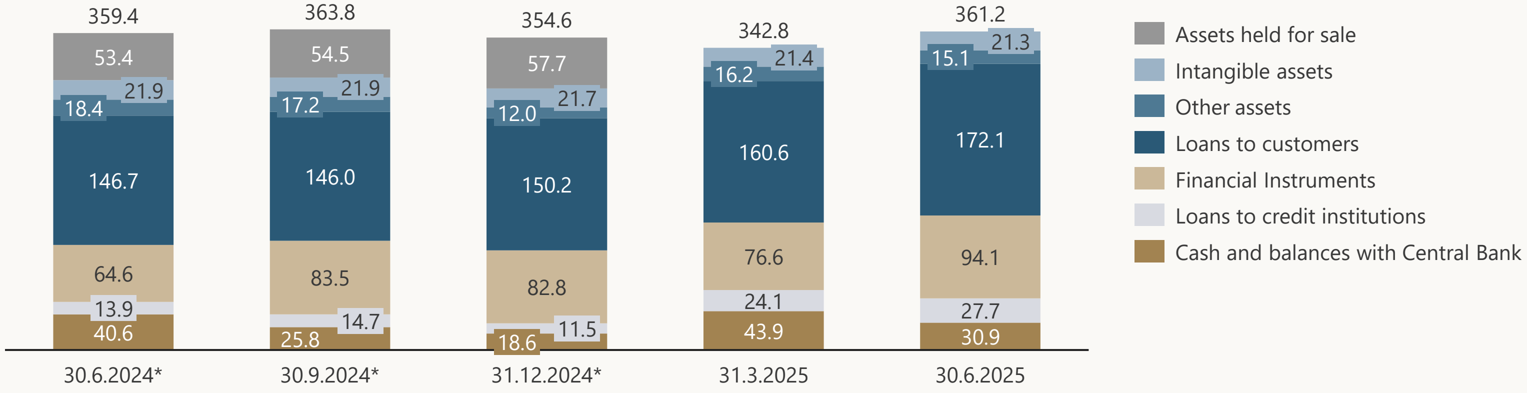
Core income is defined as net operating income excluding net financial income

Balance Sheet: Assets

Strong liquidity position supports loan book growth

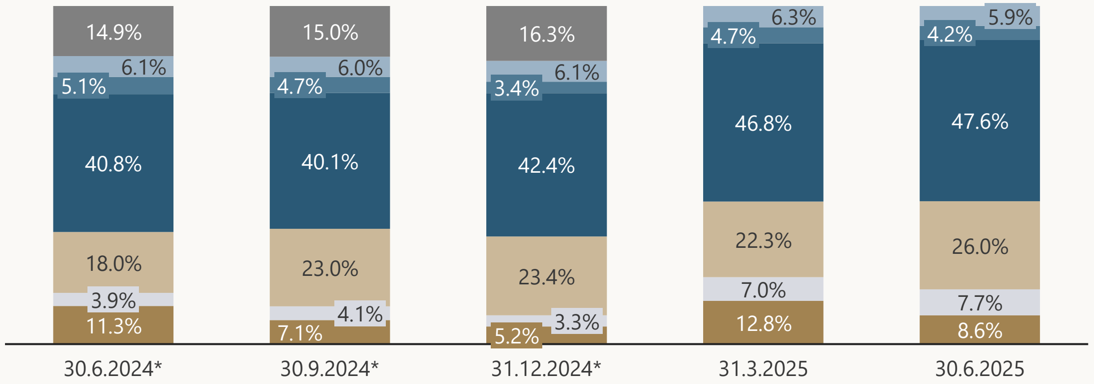
Assets

ISK bn.



Assets

(%)



- The balance sheet expanded in Q2, primarily driven by growth in loans to customers and financial instruments. The increase in financial instruments reflects a temporary cash surplus from the EUR issuance in May, which has not yet been fully deployed
- As of 30.6.2025, 37.8% of total assets (ISK 136.6 billion) consist of cash, non-maturing bank balances, and liquid financial instruments, highlighting a strong liquidity position that supports further loan book growth
- The bank holds a positive CPI balance of ISK 7.4 billion, of which ISK 2.1 billion is held in securities for market making.

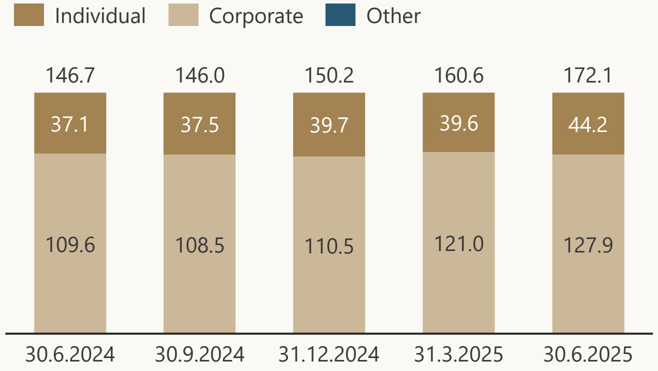
*The Group has changed the way it presents cash and balances with central bank, comparative figures for 31 December 2024 have been restated. For more information see note 2 in Kvika's Condensed Interim Consolidated Financial Statements dated 31.3.2025

Loans to Customers

Mortgages launched in Q2 quickly gained traction

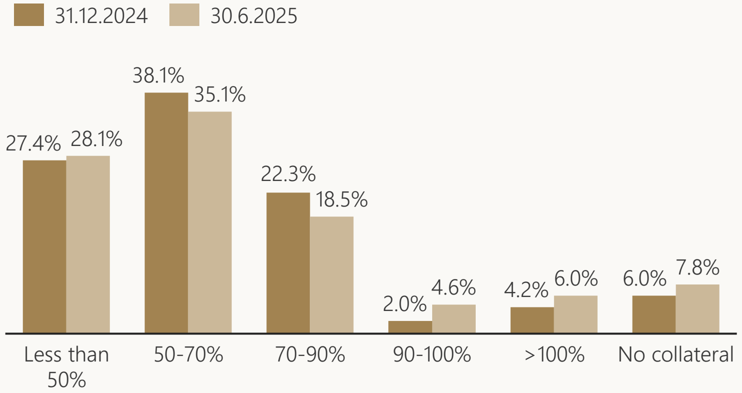
Loans to customers

ISK bn.



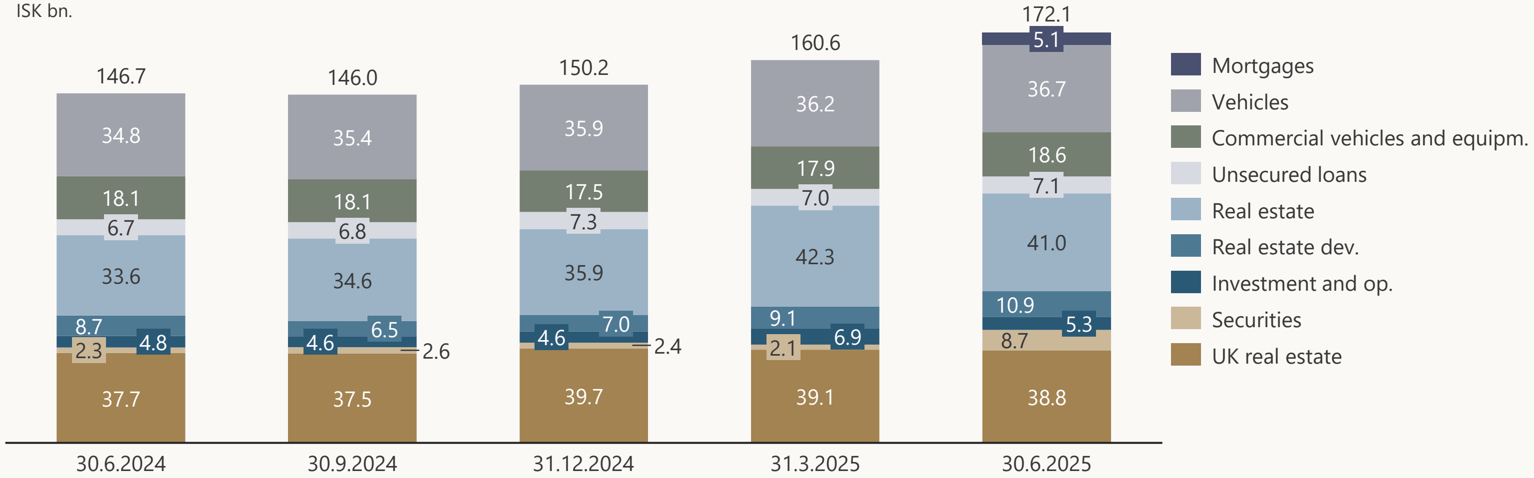
Loan to value distribution

ISK bn.



Loans to customers by type

ISK bn.



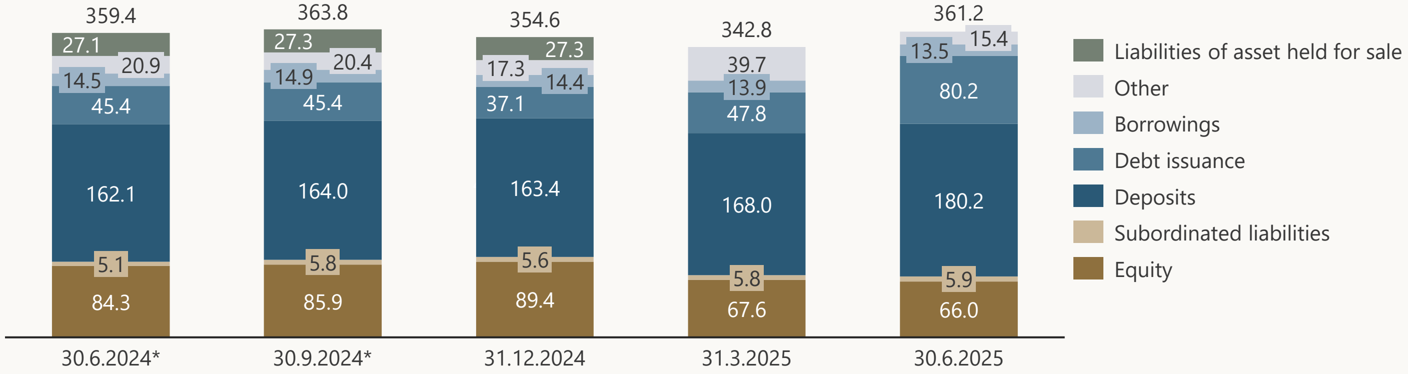
- Mortgage lending launched in late May, with ISK 3 billion disbursed in Q2 and a pipeline of ISK 15 billion being processed
    - Total amount of mortgages ISK 5 billion at end of Q2 includes ISK 2 billion legacy mortgage portfolio
- Securities lending increased within Investment Banking, partially driven by elevated demand related to the Íslandsbanki share offering
- LTV profile remains stable, with the majority of loans below 70% LTV

Balance Sheet: Liabilities

EUR issuance strengthens funding mix alongside deposit growth

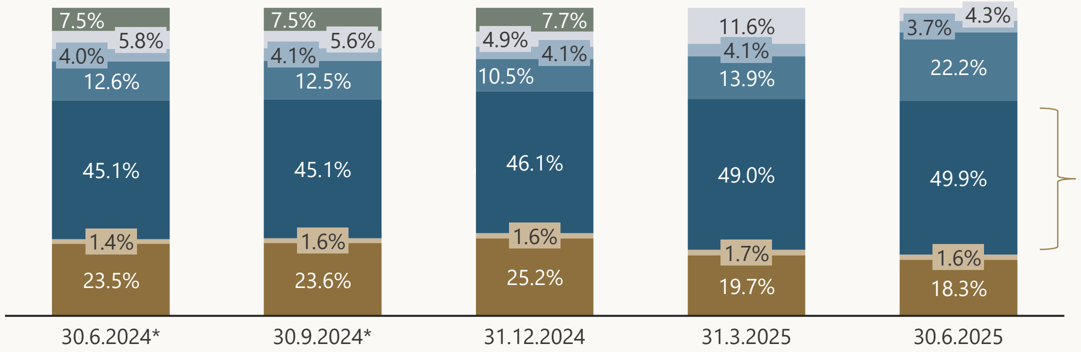
Liabilities and equity

ISK bn.



Liabilities and equity

ISK bn.



Deposits are a key source of funding that is supplemented with debt issuance and other borrowings

- Debt issuance increased significantly in Q2, primarily driven by Kvika's inaugural EUR 200 million issuance in May. A portion of the proceeds used to repay a UK debt facility not reflected in the quarter
- Deposits continue to grow, increasing by ISK 12 billion from the previous quarter

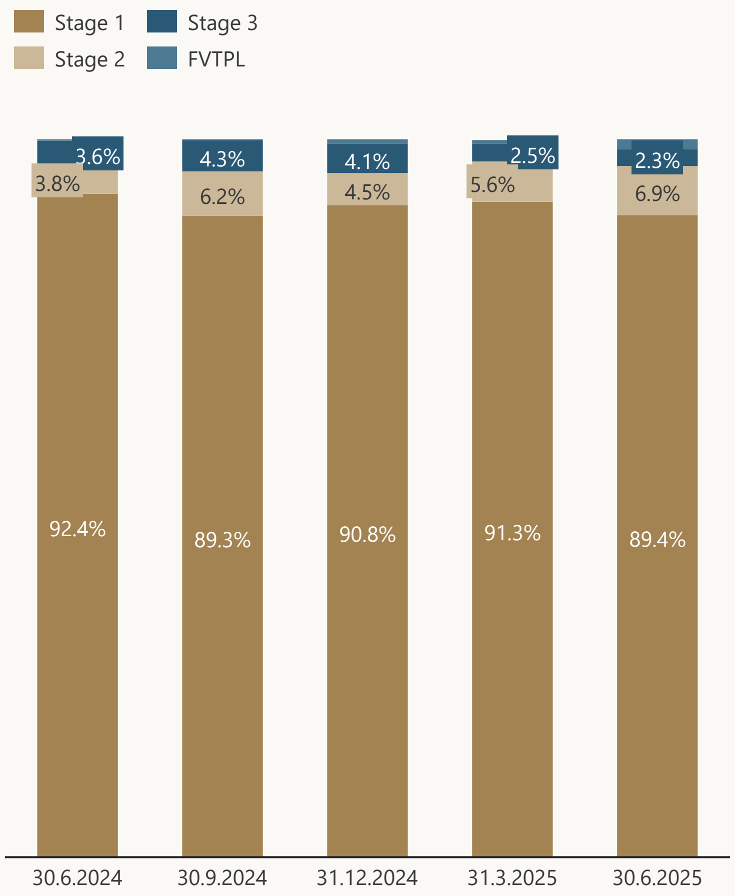
*Money market deposits were previously presented as part of borrowings but are now presented as part of deposits. Comparative figures have been restated. Reference is made to note 2 in Kvika's Consolidated Financial Statements dated 31.12.2024 for further information

Credit Quality

Stage 3 loan ratio continues to improve

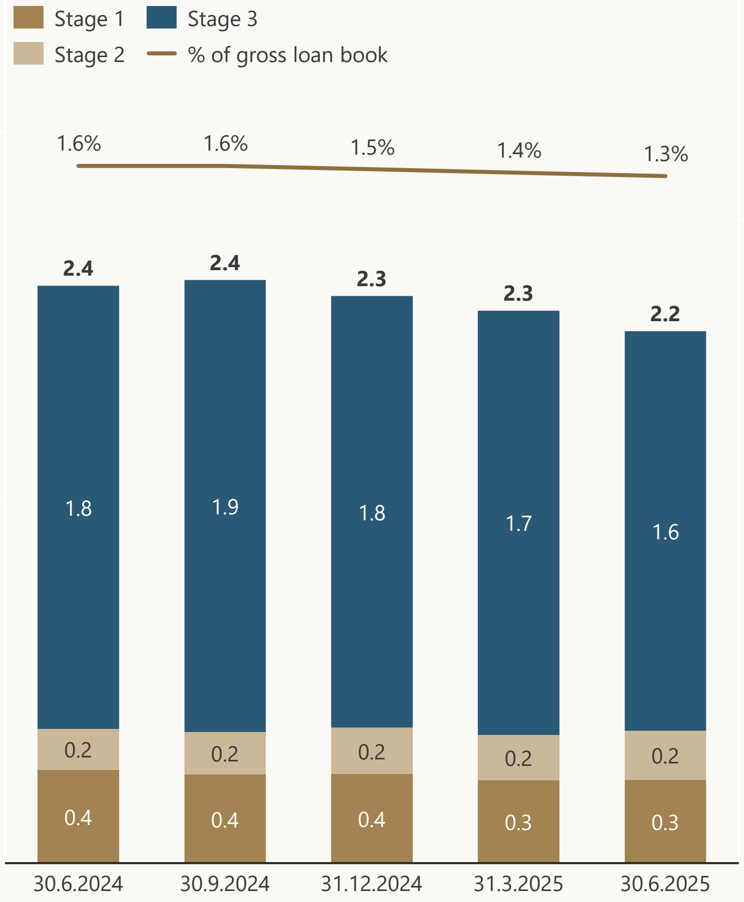
Loans to customers risk stage allocation

Net loan book / (%)



Impairment loss allowance

ISK bn.



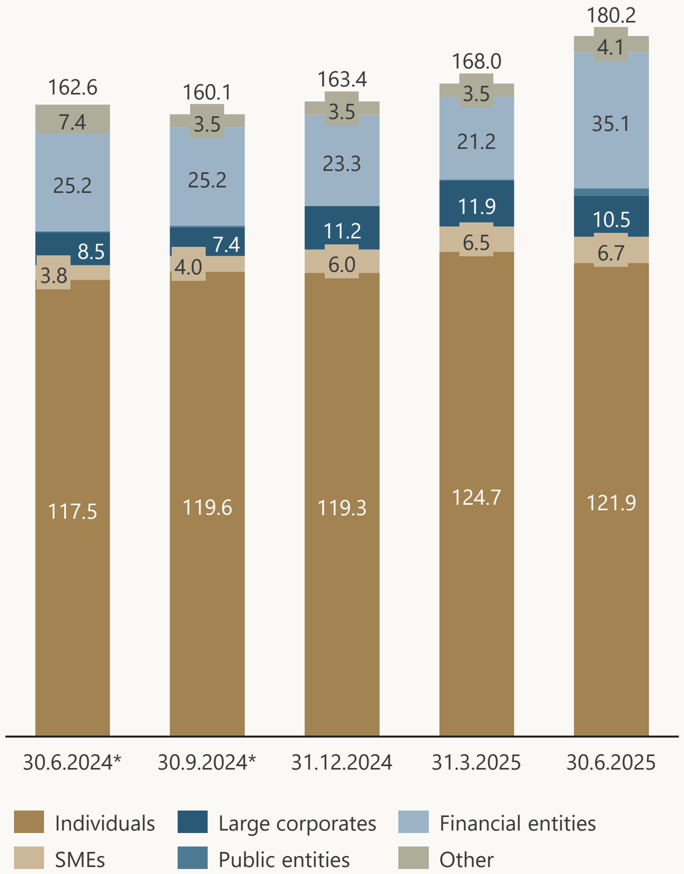
- Loan book quality remains stable, with continued improvement between quarters
- Stage 3 loans declined from 2.5% to 2.3% on a net loan book basis during the quarter, reflecting resolution of non-performing exposures
- Stage 3 loans remain well-collateralised, with an average loan-to-value (LTV) of 68.5%

Deposits

Retail deposits remain a stable core funding base

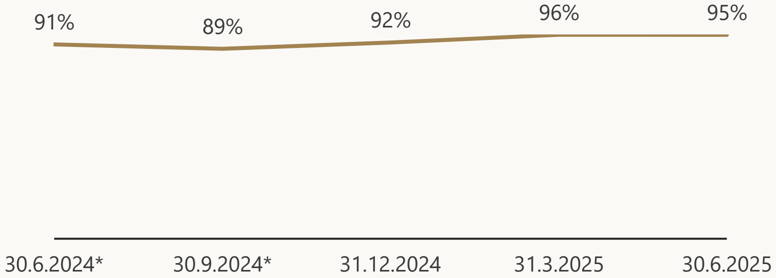
Deposits by type

ISK bn.



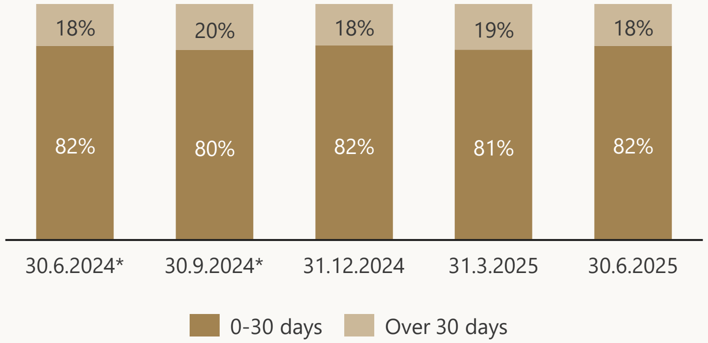
Loans to deposits

(%)



Maturity of deposits

30.06.2025 / ISK bn.



- Total deposits increased by 10.8% YoY, reaching ISK 180.2 billion, primarily driven by growth in retail and money market balance
- Retail deposits remained resilient, with only a slight contraction from Q1 despite lower interest rates and significant retail participation in the Íslandsbanki share offering
- Deposit maturity continues to be consistent as over 80% of deposits remain on-demand

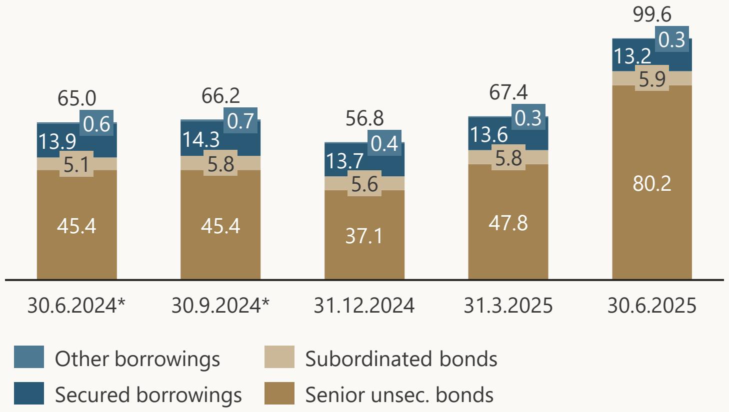
*Money market deposits were previously presented as part of borrowings but are now presented as part of deposits. Comparative figures have been restated. Reference is made to note 2 in Kvika's Consolidated Financial Statements dated 31.12.2024 for further information

Debt Issuance

First EUR bond issuance marks key milestone in market funding

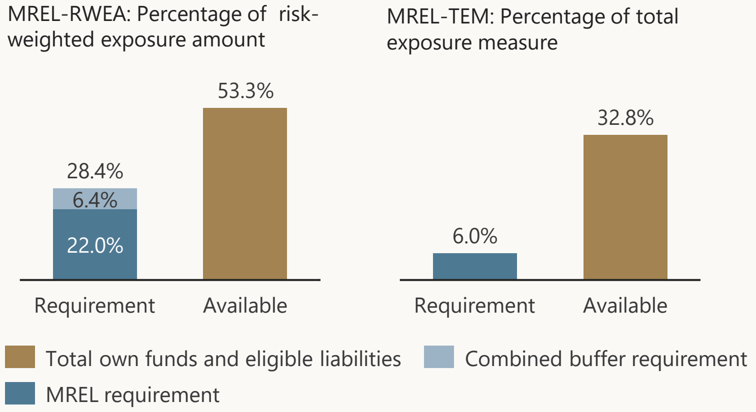
Development of market funding

ISK bn.



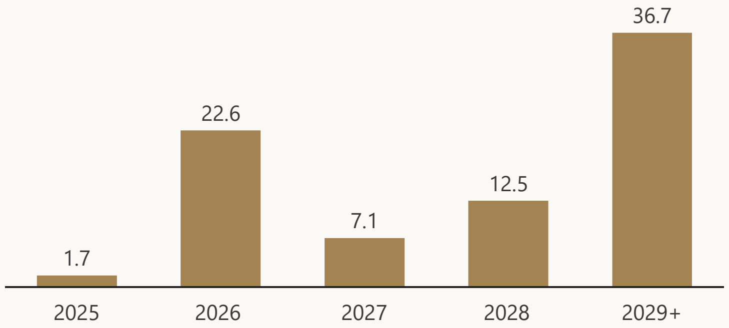
MREL requirements

30.06.2025



Maturity of issuance

30.6.2025 / ISK bn.



Rating

Rating

	Bank deposit rating	Issuer rating
Long term	Baa1	Baa2
Short term	P-2	P-2
Outlook	On review for upgrade	On review for upgrade
Last update	10 June 2025	10 June 2025

- Kvika successfully issued its first EUR-denominated bond in May, a EUR 200 million senior unsecured 4-year note under its EMTN programme, marking a strategic step in broadening its funding base and strengthening its position in international capital markets
- MREL requirements remain comfortably met, with buffers well above both risk-weighted and total exposure measures through a combination of own funds and eligible liabilities
- Kvika holds a long-term issuer rating of Baa2, currently under review for upgrade by Moody's (as of July 2025), following merger proposals from Arion Banki hf. and Íslandsbanki hf. and consequently, the ongoing merger discussions with Arion. The review reflects the potential for long-term credit profile enhancement through consolidation.

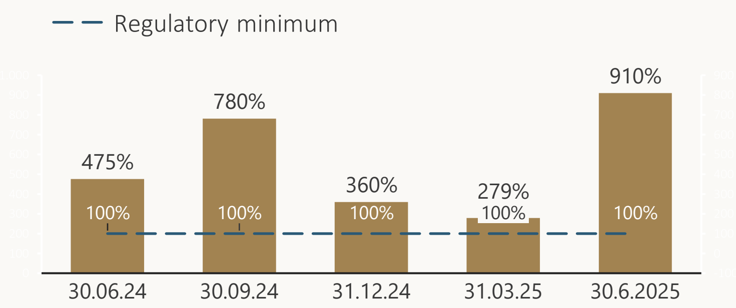
*Money market deposits were previously presented as part of borrowings but are now presented as part of deposits. Comparative figures have been restated. Reference is made to note 2 in Kvika's Consolidated Financial Statements dated 31.12.2024 for further information

Liquidity and Funding Ratios

Continued strong liquidity position

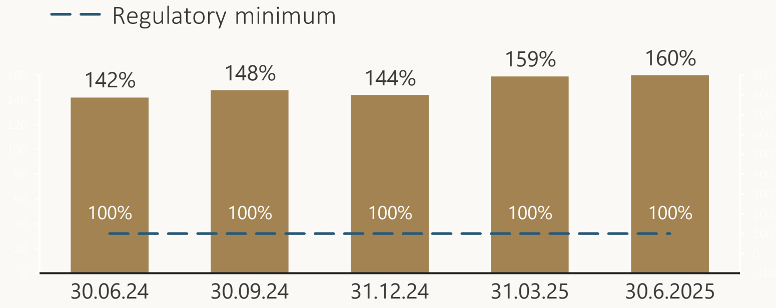
Total liquidity coverage ratio (LCR)

30.6.2025 / (%)



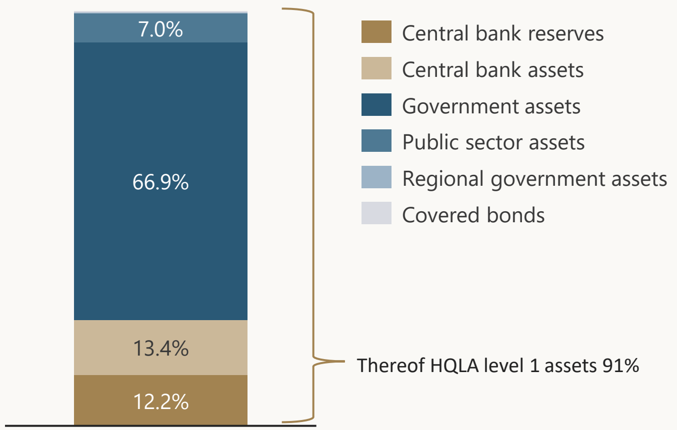
Net stable funding ratio (NSFR)

30.6.2025 / (%)



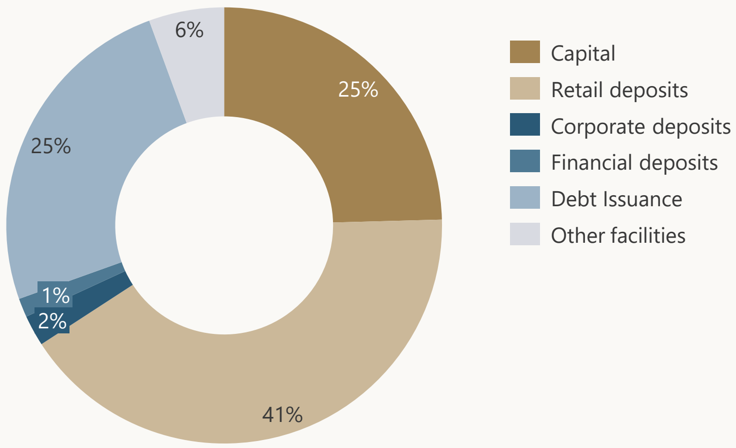
High quality liquid assets (HQLA)

30.06.2025 / (%)



Available stable funding

30.06.2025 / (%)



- The liquidity coverage ratio (LCR) reached 910% at quarter-end, partly reflecting EUR bond proceeds issued in May that had not yet been fully deployed
- Net stable funding ratio (NSFR) is strong at 160%, well above the 100% regulatory requirement
- High-quality liquid assets (HQLA) totaled ISK 101.1 billion, with 91% classified as Level 1 assets
- Kvika maintains a conservative liquidity profile, with funding primarily sourced from retail deposits and long-term debt issuance, supporting balance sheet resilience

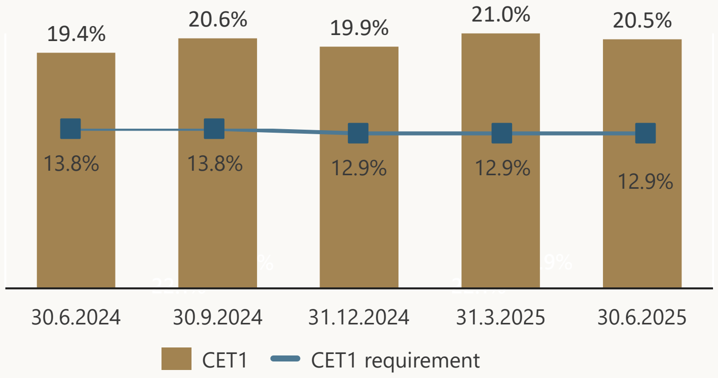
L1: Level 1 assets , L2: Level 2 assets

Capital Position

Strong capital position well above regulatory requirements

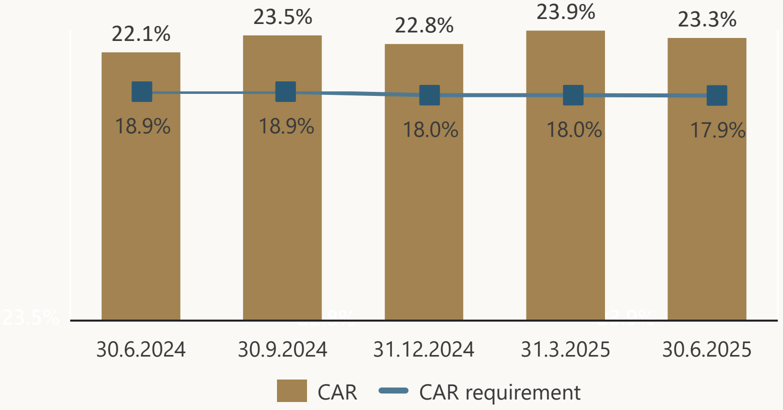
CET1

(%)



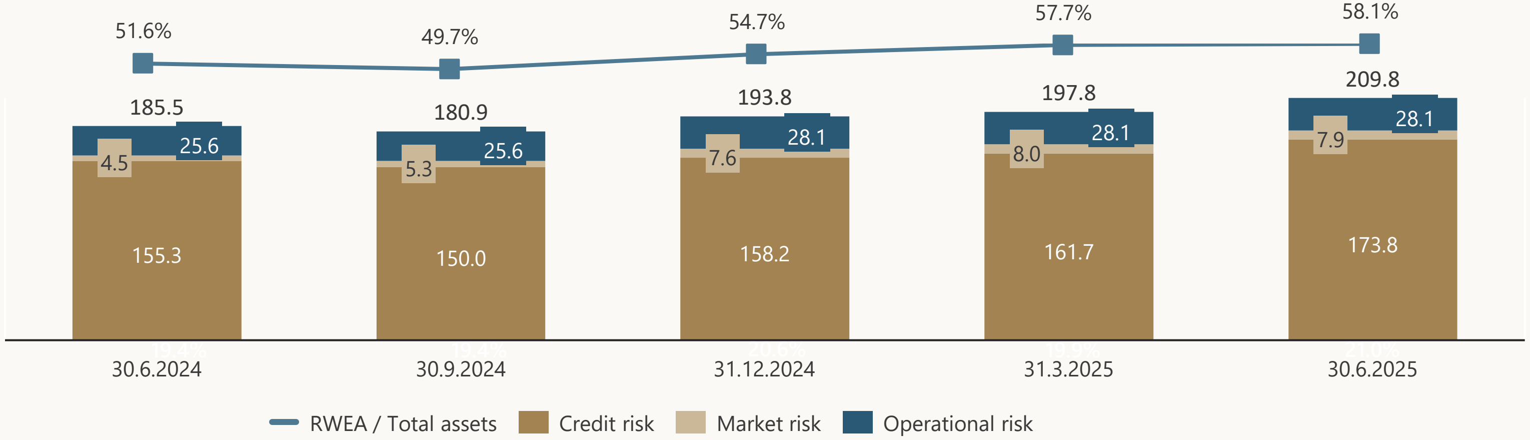
CAR

(%)



Risk-weighted exposure amount (RWEA)

ISK bn.



- CAR of 23.3% at the end of June, well above Kvika's management target as expected during the transitional period post-divestment
  - The CAR includes an ISK 2.1 bn deduction from own funds, reflecting the remaining ISK 1.1 bn portion of the share buyback programme (currently on hold due to the planned merger with Arion), as well as deductions for regular dividends and buybacks in line with the bank's dividend and share buyback policy
- Capital exceeds regulatory requirements by ISK 11.2 bn at the end of Q2
- Kvika's Pillar II capital requirements decreased by 0.1 %point on 30 June as a result of the yearly SREP process based on year-end 2024 financials
- The bank continues to target a management buffer of 2% to 4% over current and anticipated CAR requirements
- CRR III is expected to be implemented later this year. Based on the currently available assumptions and June month-end data, the implementation is projected to reduce the bank's risk-weighted exposure amount by approximately 14%

Financial Targets

	Target	12M 2024	Q2 2025
Return on Tangible Equity Pre-tax	>20%	17.4%	18.5%
Capital Adequacy Ratio (CAR) Buffer Over Requirement (basis points)	200-400 bps.	480 bps.	540 bps.
Dividend Payout Ratio Dividends and Share Buybacks as % of Profit after Tax	25%	25%	-

Special dividend and share buyback due to divestment of TM Insurance not included

Looking ahead

Carrying Momentum into H2

Kvika remains well-positioned to deliver on its strategic ambitions

Loan book growth

- Lending momentum accelerating on the back of increased capital and strong funding base in ISK and FX
- Mortgages off to a strong start with over ISK 3bn. completed in Q2 and over ISK 15 billion in process
- Corporate lending activity growing through new opportunities and strong origination flows

Fee generation

- Focus on fee generation across all segments
- Building on momentum in Corporate Finance, following the execution of successful milestone transactions
- Weak capital markets in Iceland create challenges for Asset Management and Capital Markets
- Strong deal pipeline in the UK expected to result in gradual growth in fee generation

Funding and capital

- Preparation for covered bond issuance in progress with first issuance expected in Q4
- Planned international issuance in Q4 or Q1 2026 to pre-fund May 2026 maturities
- Implementation of CRR III to positively impact capital ratios
- Further capital optimisation with issuance of AT1 capital bonds

Focus on maintaining momentum and delivering value as merger dialogue with Arion progresses

Merger Discussions with Arion Banki

Arion's offer underscores the strength of Kvika, the result of a structured process and strategic review

Arion's bid offers the greatest long-term value	A structured process and strategic review was initiated following interest from Arion and Íslandsbanki. After receiving and evaluating both proposals against Kvika's standalone plan, the board selected the proposal offering the most favorable exchange ratio and the greatest long-term value.
Merger represents an exciting opportunity	The proposed merger represents a unique opportunity to create a leading financial institution in Iceland, built on an efficient cost structure, diversified income streams and strong growth potential. The combination is expected to deliver value for all stakeholders, including customers and shareholders.
Process expected to take 9-12 months	Merger process is expected to take at least 9-12 months. Current phase of due diligence and early engagement with the ICA are designed to confirm feasibility and identify potential regulatory hurdles early in the process.
Focus on continuing operations	Kvika's focus remains firmly on its operations, building on recent strategic milestones and maintaining business as usual.

The combination of Kvika and Arion brings together complementary strengths and has the potential to create meaningful value, not only for shareholders but for all stakeholders. Scaling Kvika's retail brands on a larger balance sheet will enhance both competitiveness and efficiency, delivering clear benefits to customers and the bank alike. UK and Asset Management offerings gain reach and funding strength, while Investment Banking will become best in class. **By combining Arion's size and discipline with Kvika's challenger mindset, the merged institution would be positioned as a market-leading financial partner and an exceptional place to work.**

Process expectations

☑	**Phase I** • Letter of intent signed • Agreement on heads of terms including exchange ratios
Ongoing	**Phase II** • Due diligence process • Pre-notification discussions with the ICA
Pending Phase II	**Phase III** • Merger agreement signed • Merger notification sent to regulatory bodies
Pending Phase III	**Phase IV** • Shareholder meetings once conditions are fulfilled and merger has regulatory approval

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