



# Kvika banki hf.

## Q3 2024 Financial Results

07 November 2024

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# Q3 2024

## Summary

### Profit before tax from continuing operations ISK 1,813 million

Profit before tax from continuing operations amounts to ISK 1,813 million in Q3 2024, compared to ISK 234 million in Q3 2023,

### Profit after tax, including TM insurance ISK 2,363 million

ISK 2,363 million in Q3 2024, compared to ISK 544 million in Q3 2023

### Net interest income increases 31% year on year

Driven by 18% year on year growth in loans to customers and net interest margin improvement from 3.2% to 3.7%

### Net fee and commission income increases by 17% year on year

Mainly attributable to loan book growth and increased operations of Straumur

### Administrative expenses decrease by 11% year on year

Result of efficient cost management initiatives

### TM's operating results continue to rebound

Completion of TM divestment pending regulatory approval

Profit before tax,  
continuing operations

ISK 1,813 m.

Profit after tax including  
TM

ISK 2,363 m.

Pre-tax RoTE, continuing  
operations

22.4%

CAR

23.5%



## Commercial Banking

Segment highlights

# Corporate accounts under the Auður brand attracted over 400 customers in the first month

- Net interest income grows across all brands despite prevailing high interest rates
- Milestone quarter for deposit offering Auður, surpassing 50,000 customers and introducing corporate accounts, attracting collective deposits exceeding ISK 2 billion in one month
- Straumur achieved its best quarter since inception, with record transaction volume and profitability
- Solid quarter for Lykill as vehicle loans in Q3 contract minimally year-on-year while sales of new registered passenger cars in Iceland decline by over 40%



## Investment Banking

Segment highlights

# A robust loan portfolio and increased market activity in the period

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- Lending remains primarily supported by property-backed loans, a core focus in recent quarters. A strong pipeline indicates healthy growth in the coming months
- The environment in capital markets improved slightly in Q3. Kvika had a 15.6% market share in fixed income and 13.3% market share in equity trading
- Delays in Corporate Finance project completions are deferring fee income to later in the year, with a robust pipeline expected for H1 2025



## Asset Management

### Segment highlights

# Marketing for UK PE fund Harpa to commence as quarter is marked by market optimism

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- Marketing of new private equity fund Harpa about to commence, the fund is in collaboration with KSL and will invest in the UK
- Credit funds are nearly fully invested, with plans to launch fundraising for a new credit fund in November
- Recent rate cut has ignited market optimism and is expected to stimulate economic activity, supporting performance-related revenues and general investment activity
- Assets under management amounted to ISK 439.8 billion at end of September 2024, a decrease of ISK 30.2 billion from year end 2023 due to outflow related to one institutional client



# UK

## Segment highlights

### Continued strong performance from UK operations across both lending and investments

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- Another robust performance in Q3 driven by pleasing results at Ortus Secured Finance maintaining NIM in line with prior quarters and a strong contribution from KSL
- Approval received to market a UK focused PE fund managed by Kvik Asset Management, closing expected in Q4
- A high level of activity and pipeline in the UK heading into Q4





# Financials





# Income Statement

Q3 2024

## Income Statement

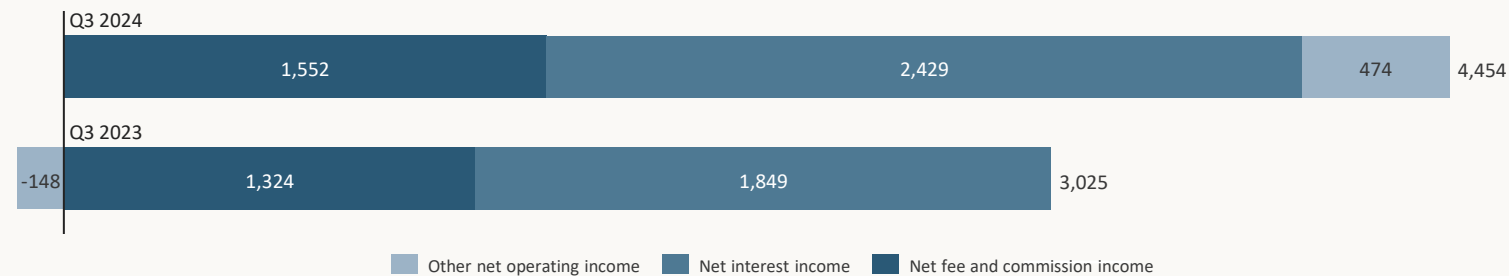
ISK m.

	Q3 2024	Q3 2023	Diff.	Q2 2024	Diff.
Net interest income	2,429	1,849	580	2,428	1
Net fees and commissions	1,552	1,324	228	1,351	201
Other net operating income	474	(148)	622	217	257
<b>Net operating income</b>	<b>4,454</b>	<b>3,025</b>	<b>1,430</b>	<b>3,996</b>	<b>458</b>
Administrative expenses	(2,344)	(2,633)	288	(2,734)	390
Net impairment	(261)	(161)	(100)	(65)	(196)
Revaluation	(36)	3	(39)	(8)	(28)
<b>Pre-tax profit</b>	<b>1,813</b>	<b>234</b>	<b>1,579</b>	<b>1,189</b>	<b>624</b>
Income tax	(288)	(216)	(72)	(282)	(5)
Special bank taxes	(127)	(105)	(22)	(131)	4
<b>After-tax profit</b>	<b>1,398</b>	<b>(87)</b>	<b>1,486</b>	<b>777</b>	<b>621</b>
Profit after tax from discontinued operations	965	631	334	480	485
<b>Profit for the period</b>	<b>2,363</b>	<b>544</b>	<b>1,819</b>	<b>1,256</b>	<b>1,107</b>

- Net Operating Income: Increased by 47% year-over-year (YoY), reflecting substantial gains across all income lines
- Net Interest Income: Robust 31% YoY, driven by a larger balance sheet and improved net interest margin while Q3 and Q2 2024 on same level as loans to customers are relatively unchanged and inflation in Q3 is weak
- Net fee and commission income: Up 17% compared to Q3 2023, where income increases across all business segments
- Other net operating income: ISK 474 m., reversal of ISK 622m compared to Q3 2023 with strong rebound in Net financial income
- Administrative expenses: Down 11% YoY, despite a 6% inflation rate during the same period
- The number of employees is down 10% compared to Q3 2023, reflecting efficient cost management

## Revenue Composition

ISK m.







# Income Statement

9M 2024

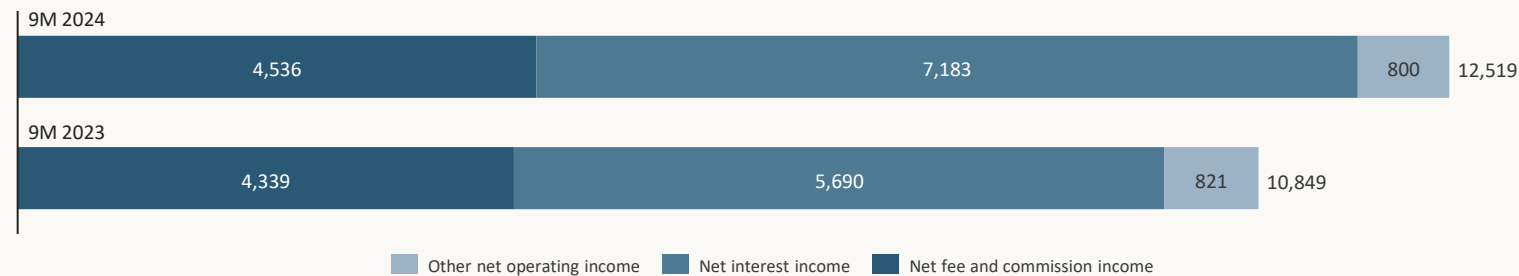
## Income Statement

ISK m.

	9M 2024	9M 2023	Diff.
Net interest income	7,183	5,690	1,493
Net fees and commissions	4,536	4,339	197
Other net operating income	800	821	(21)
<b>Net operating income</b>	<b>12,519</b>	<b>10,849</b>	<b>1,670</b>
Administrative expenses	(7,744)	(8,006)	262
Net impairment	(514)	(201)	(313)
Revaluation	(44)	3	(47)
<b>Pre-tax profit</b>	<b>4,217</b>	<b>2,646</b>	<b>1,571</b>
Income tax	(721)	(654)	(67)
Special bank taxes	(333)	(276)	(57)
<b>After-tax profit</b>	<b>3,162</b>	<b>1,715</b>	<b>1,447</b>
Profit after tax from discontinued operations	1,541	741	801
<b>Profit for the period</b>	<b>4,703</b>	<b>2,456</b>	<b>2,247</b>

## Revenue Composition

ISK m.



- Profit before tax from continuing operations: ISK 4,217 million, a 59% year-over-year (YoY) increase. This growth is driven by a 26% rise in net interest income, a 5% increase in fee and commission income, and a 3% reduction in administrative expenses
- Profit after tax: ISK 4,703 million, including TM Insurance, which is classified as discontinued operations. This represents a 91% YoY increase
- Net interest income: Robust 26% YoY growth driven by a larger balance sheet and improved net interest margin
- Net fee and commission income: Up 5% compared to Q2 2023
- Other net operating income: ISK 800 million, marking a 3% YoY decrease
- Administrative expenses: Down 3% YoY, despite a 6% inflation rate over the same period
- Net impairment: ISK 514 million up 156% YoY
- Employee count: Decreased by 13% YoY, based on the average number of employees (excluding TM Insurance)

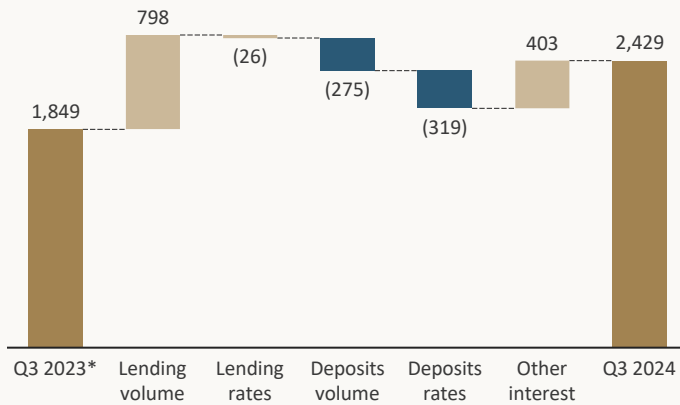


# Net Interest Income

Robust 26% growth year on year

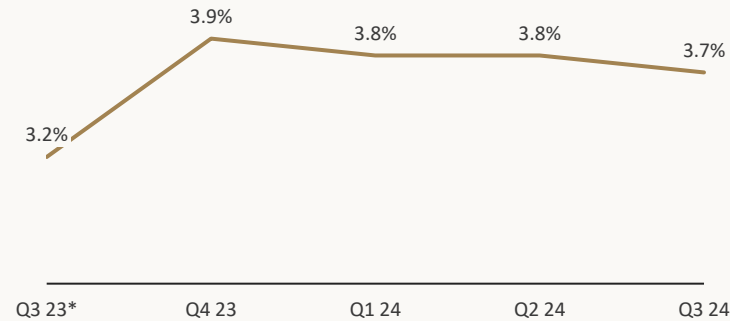
## Net interest income

Q3 2023 to Q3 2024 / ISK m.



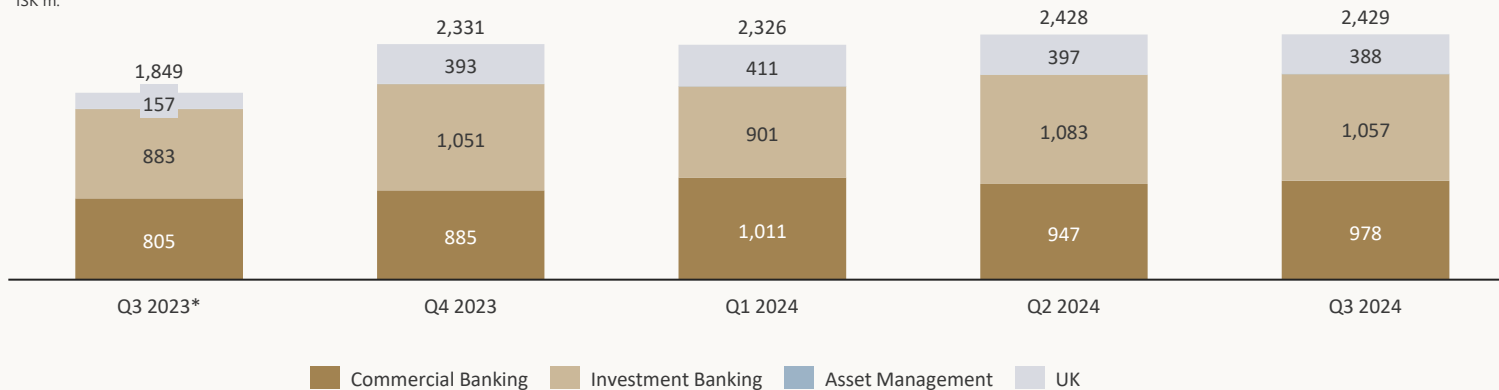
## Net interest margin development

ISK m.



## Net interest income development (NII)

ISK m.



- Net interest income in Q3 2024 up 31% from Q3 2023 and up 26% from 9M 2023 to 9M 2024
- Increase in Net interest income driven by 18% YoY growth in lending to customers as well as more favorable central bank rate backdrop
- Net interest margin of 3.7% in Q3 2024, 0.1% lower than in Q2 2024. Balance sheet grew slightly between quarters while Net interest income remained unchanged. Net interest margin is calculated as net interest income to total average interest-bearing assets

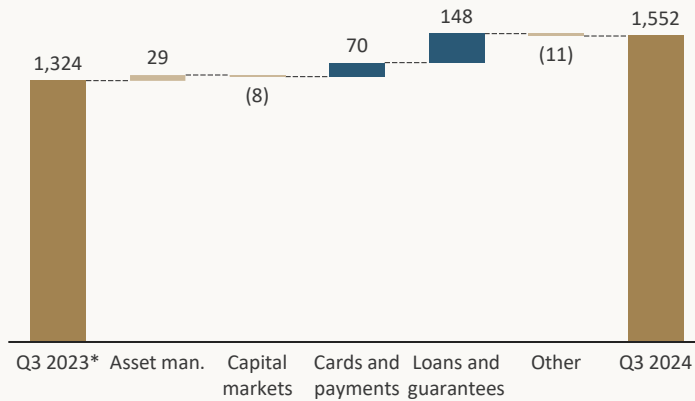


# Net Fee and Commission Income

Improvement in fee and commission income for all business units

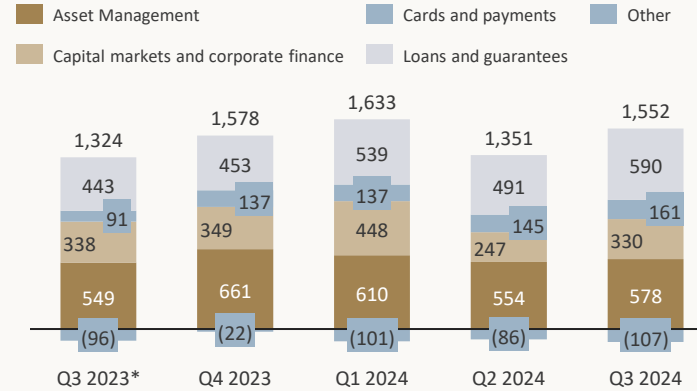
## Net fee and commission income

Q3 2023 to Q3 2024 / ISK m.



## Net fee and commission income

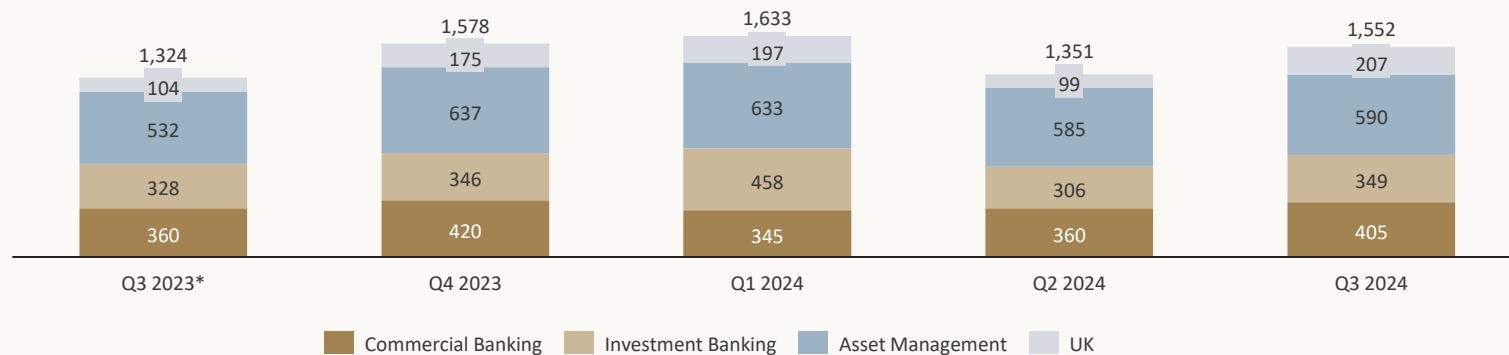
ISK m.



- Fee and commission income improves for all business units YoY
- Improvement in lending related fees driven by robust lending growth
- Strong fee and commission income in the UK
- Increase in cards and payment fees through the operations of Kvika's subsidiary Straumur that started operations in 2023

## Net fee and commission income development

ISK m.



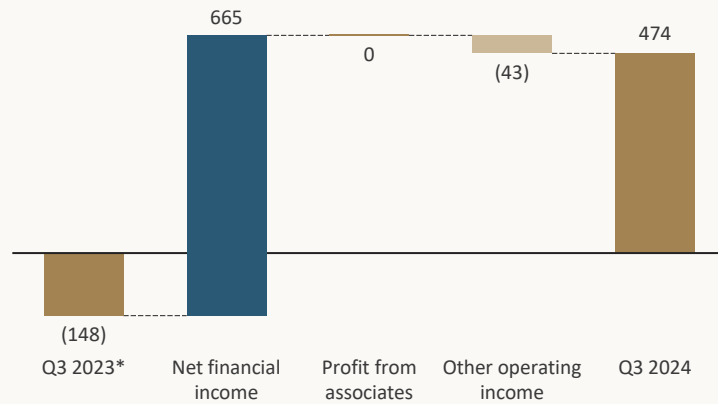


# Other Net Operating Income

Rebound in net financial income

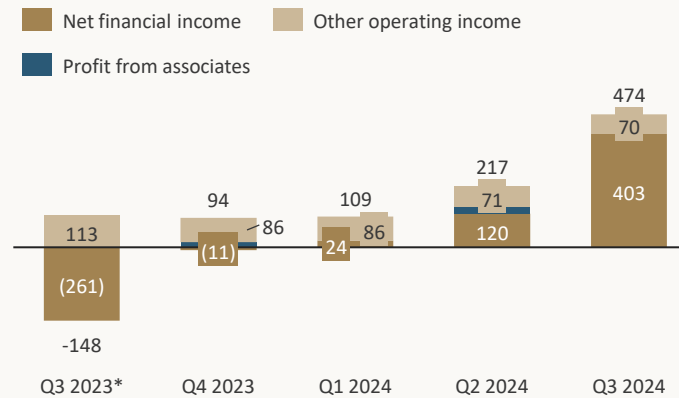
## Other net operating income

Q3 2023 to Q3 2024 / ISK m.



## Other net operating income

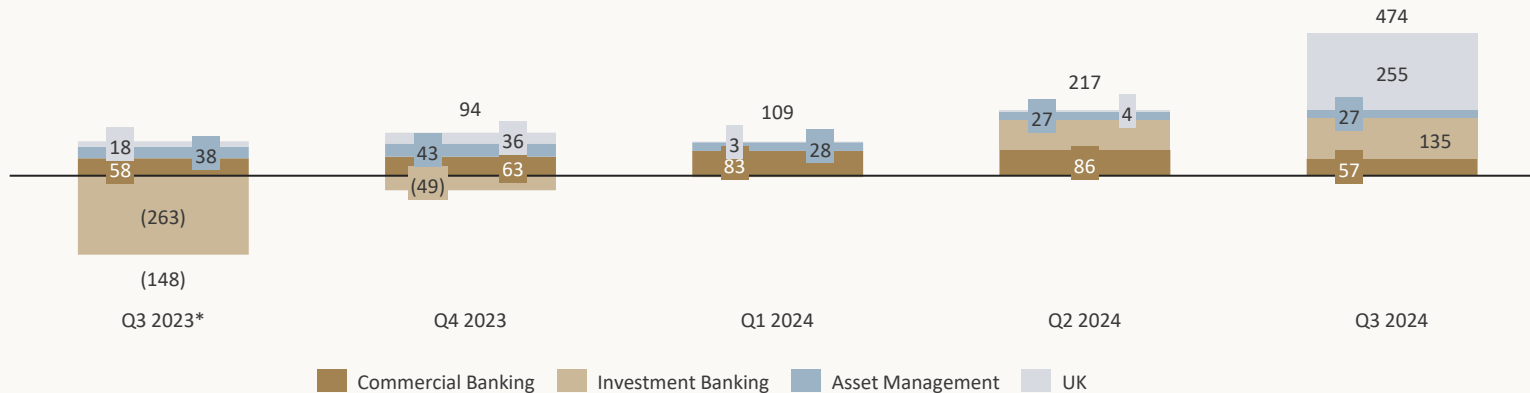
Composition / ISK m.



- Other net operating income improves YoY driven by robust financial income in the quarter
- Improving market conditions affect financial income from market making while UK and Investment banking benefit from a revaluation of unlisted equity holdings

## Net interest income development (NII)

ISK m.



Comparative information has been restated. Reference is made to note 3 in Kvika's Condensed Interim Consolidated Financial Statements dated 30.09.2024 for further information.

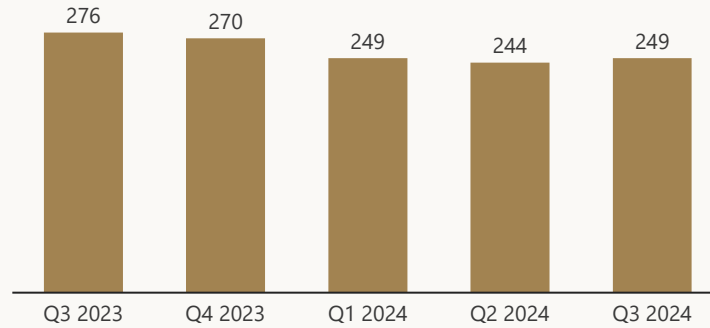


# Operating Expenses

Efficient cost management

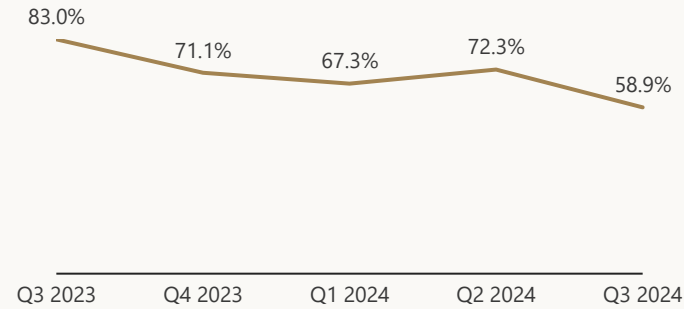
## Employee development

Full time employees at the end of each period



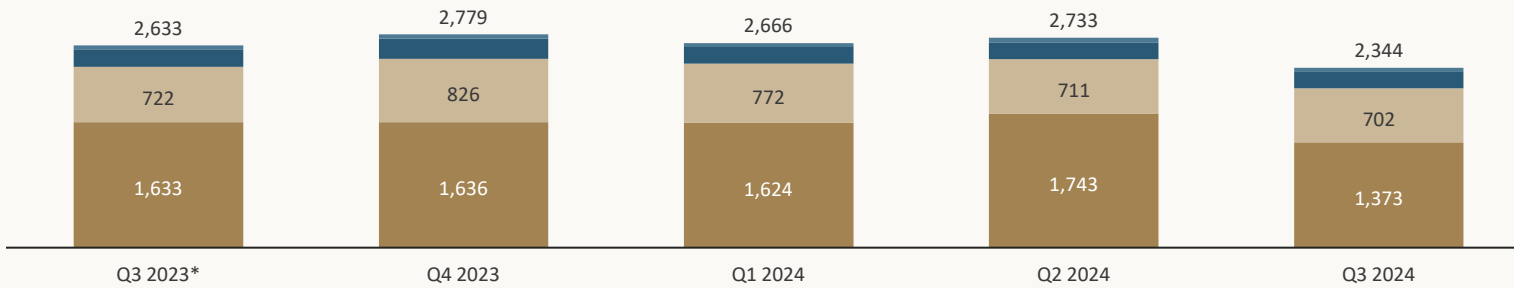
## Cost to core income

ISK m. / restated comparative information



## Administrative expenses

ISK m.



Salaries and related exp.
  Other operating expenses
  Depreciation and amortisation
  Depr. of right of use asset

- Salaries and related expenses decrease by 11% from Q3 2023 and other operating expenses by 3% while average inflation amounted to 6% in the period
- Number of employees of Kvika bank lower by 10% compared to Q3 2023
- Continued focus on cost management



# Capital Position

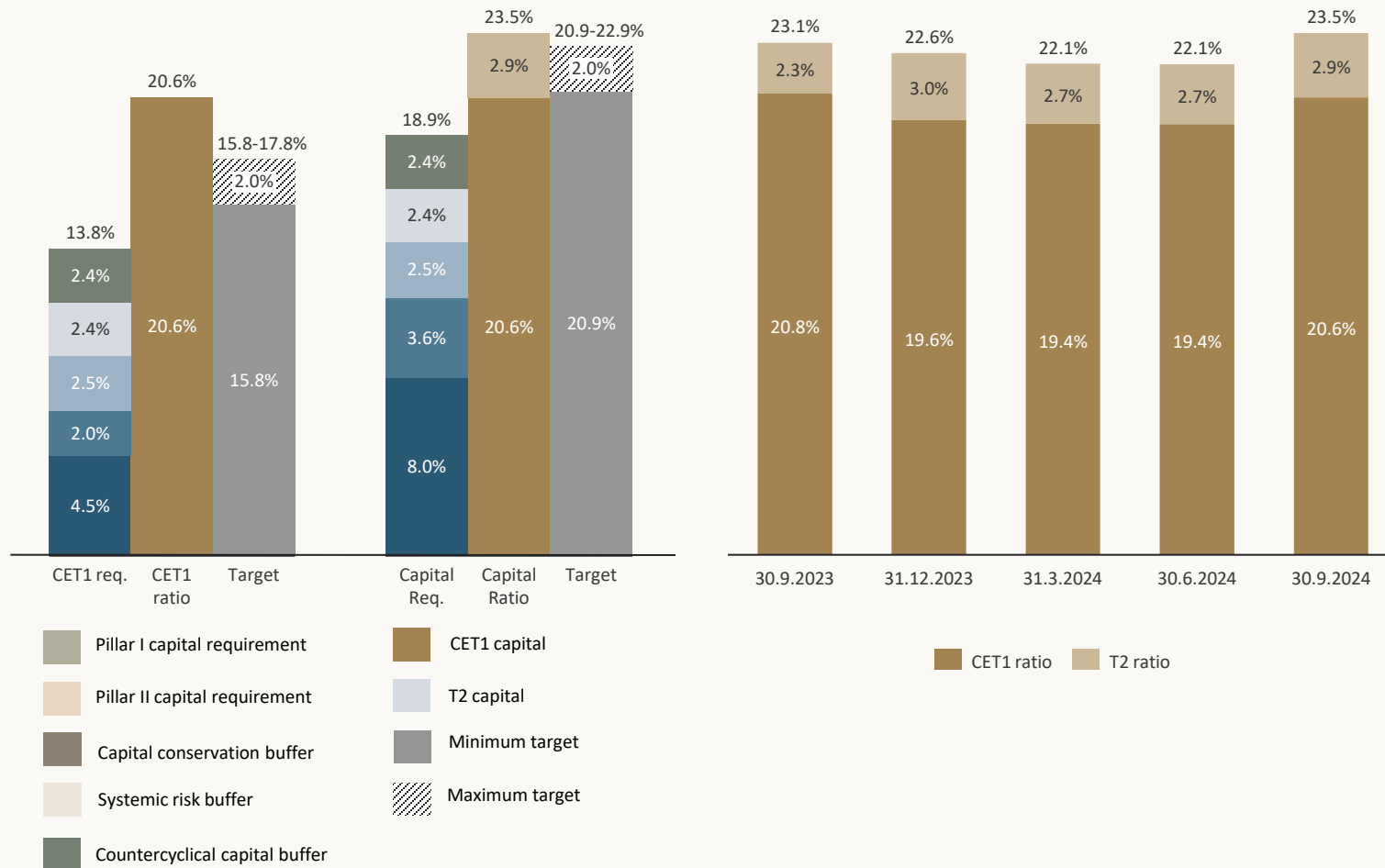
Strong capital position well above regulatory requirements

## Capital position and requirements

30.9.2024 / (%)

## Capital ratio

30.9.2024 / (%)



- CAR of 23.5% at the end of September 2024, above management target
  - CAR of 22.5% excluding unaudited retained earnings for Q3 2024
- Kvika aims to maintain a management buffer of 2% to 4% over current and anticipated CAR requirements
- On a financial conglomerate basis, Kvika has a group solvency of 1.28 at the end of September 2024
  - Solvency of 1.24 excluding unaudited retained earnings for Q3 2024
  - Insurance operations solvency of 1.56 at 30 September 2024
- Capital exceeds regulatory requirements by ISK 12.0 bn. on consolidated solvency basis for the group and ISK 8.3 bn. on CAR basis excluding insurance activities



# Liquidity and Funding Ratios

Continued strong liquidity position

## Liquidity coverage ratio (LCR)

30.9.2024 / ISK bn.

High quality liquid assets	88.9
Net outflow	11.4
<b>Liquidity coverage ratio</b>	<b>780%</b>
Minimum regulatory requirement	100%

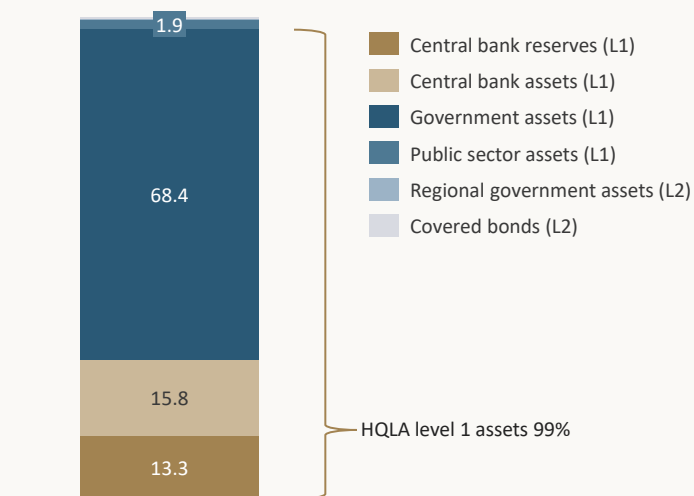
## Net stable funding ratio (NSFR)

30.9.2024 / ISK bn.

Available stable funding	248.1
Required stable funding	167.5
<b>Net stable funding ratio</b>	<b>148%</b>
Minimum regulatory requirement	100%

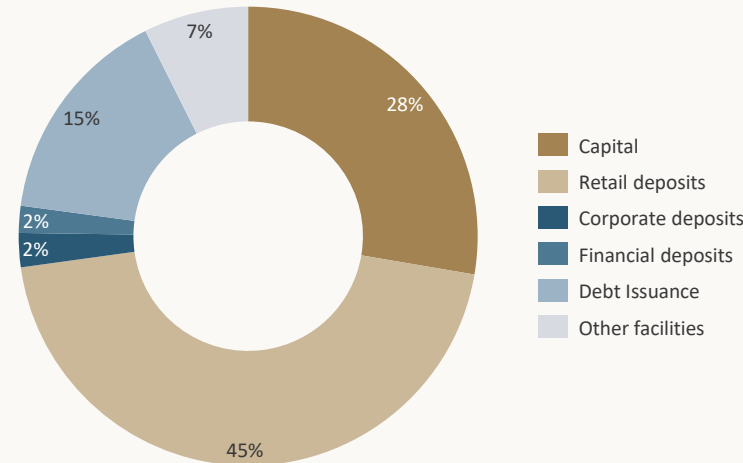
## High quality liquid assets (HQLA)

30.9.2024 / (%)



## Available stable funding

30.09.2024 / (%)



- High Quality Liquid Assets (HQLA) ISK 88.9 bn. excluding mandatory reserves and collateral to the Central Bank
- Liquidity coverage ratio is strong at 780%, where the regulatory minimum is 100%, an unusually strong position partially resulting from inflows due to proceeds from a bond issuance towards the end of Q2 2024 and increase in deposits
- Net stable funding ratio is strong at 148%, where the regulatory minimum is 100%
- When capital increases from sale of TM insurance the group is already fully funded to seek new opportunities and grow the balance sheet
- Asset and liability management is aimed at maintaining stable funding sources such as core retail deposits and long-term funding via debt issuance

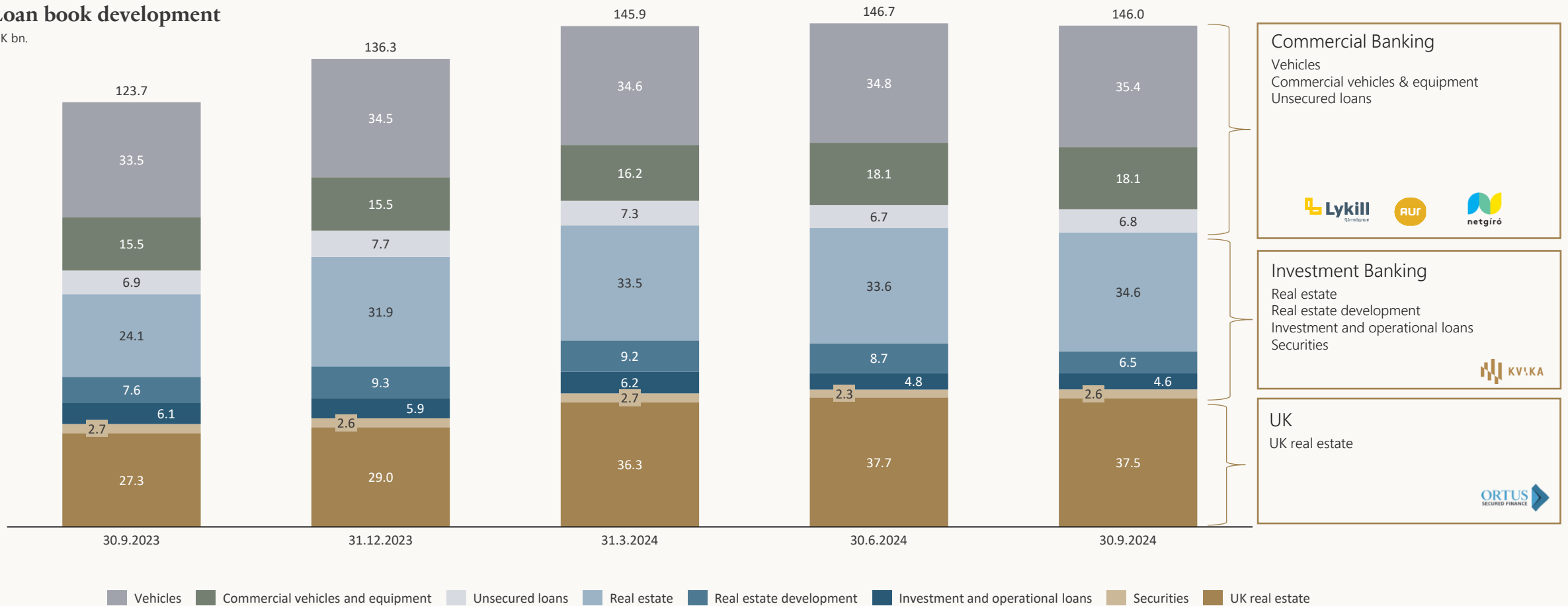


# Loans to Customers

Well diversified loan book

## Loan book development

ISK bn.







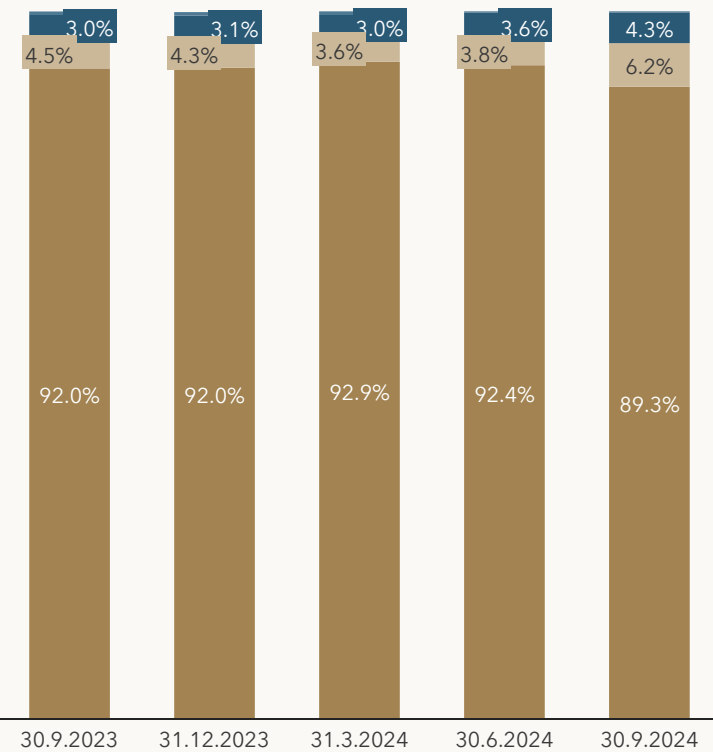
# Credit Quality

Increase in stage 3 loans in Q3 is due to well secured loans

## Loans to customers risk stage allocation

Net loan book / (%)

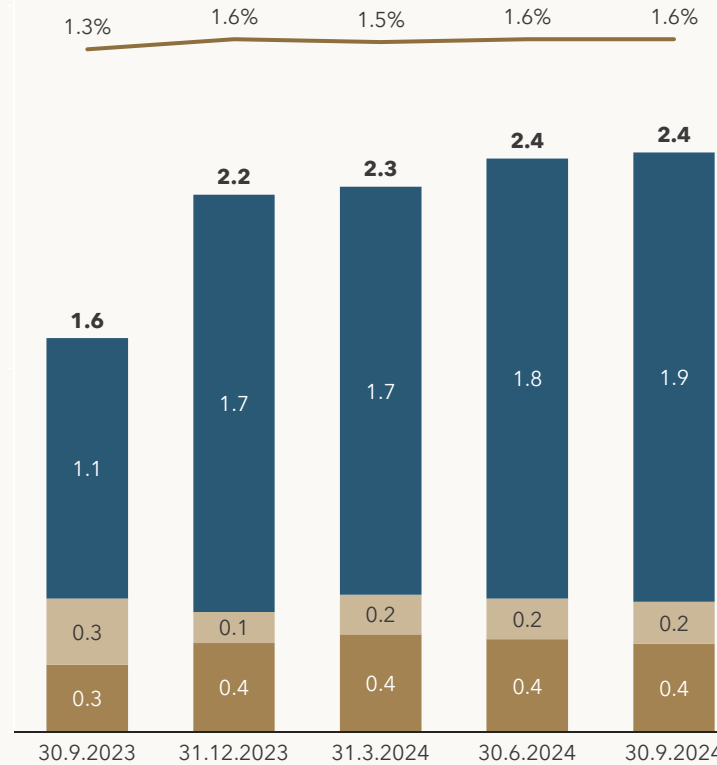
Stage 1 Stage 3  
Stage 2 FVTPL



## Impairment loss allowance

ISK bn.

Stage 1 Stage 3  
Stage 2 % of gross loan book



- Stage 3 loans increase from 3.6% to 4.3% between quarters. The increase is due to a few real estate backed loans in the UK and Iceland, and to a small degree due to consumer loans in Iceland
- Average LTV of stage 3 loans continues to be strong at 70.4%
- Increase in stage 2 loans from 3.8% to 6.2% is primarily due to forbearance measure of a single corporate loan in Iceland
- Loans that entered into Stage 3 in Q3 are well secured with real estate hence the increase in Stage 3 loans lead to a limited increase in impairment reserve between quarters

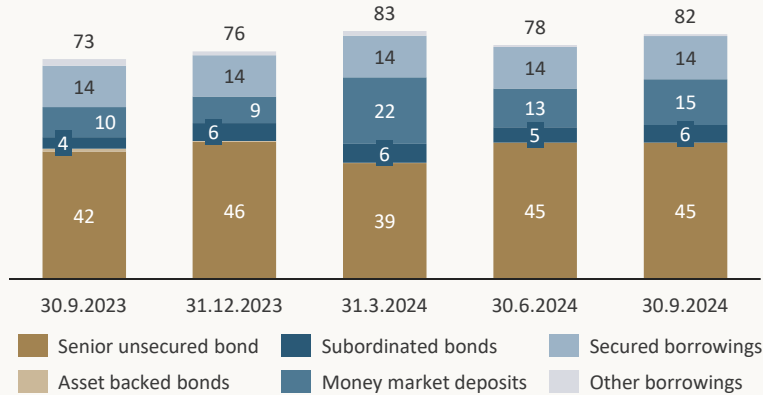


# Diversified Funding Program

Solid investment grade rating by Moody's

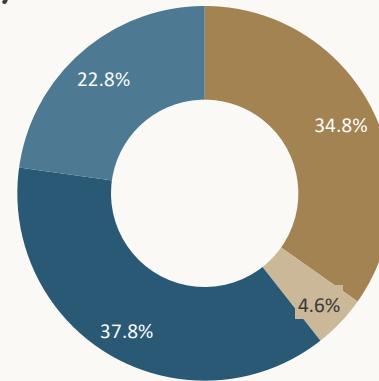
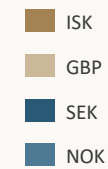
## Development of market funding

30.9.2024 / ISK bn.



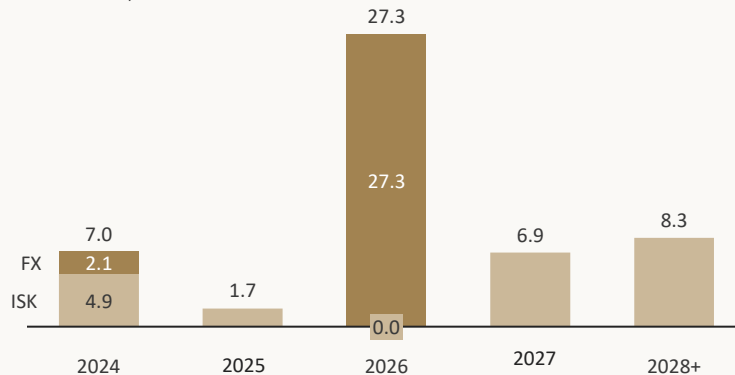
## Issue Currency

30.9.2024



## Maturity of issuance

30.9.2024 / ISK bn.



## Rating

Rating

	Bank deposit rating	Issuer rating
Long term	Baa1	Baa2
Short term	P-2	P-2
Outlook	Stable	Stable
Last update	4 July 2024	4 July 2024

- Kvika is an active issuer of bonds in the public bond markets in Iceland, Norway and Sweden from its EMTN programme and obtained a credit rating from Moody's Investors Service
- ISK 45.4 bn. of senior bonds outstanding on 30 September 2024 whereof 35% is issued in 2021
- In July 2024 Moody's confirmed Kvika's ratings which includes a long-term issuer rating of Baa2
- Kvika is committed on maintaining a solid investment grade credit rating
- Kvika will continue developing its funding profile in the future and may consider issuing bonds in other markets in the future than it is currently represented in



# Financial Targets

	Target	9M 2023	Q3 2024
Return on Tangible Equity <small>Pre-tax</small>	>20%	18.1%	22.4%
Capital Adequacy Ratio (CAR) <small>Buffer Over Requirement (basis points)</small>	200-400 bps.	460 bps.	460 bps.
Dividend Payout Ratio <small>Dividends and Share Buybacks as % of Profit after Tax</small>	25%	25%	25%



# Appendix



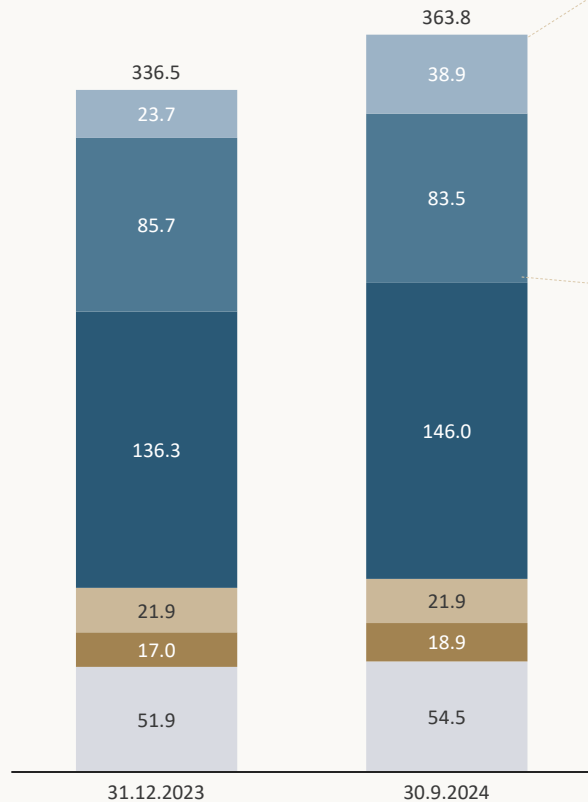
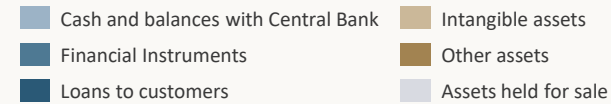


# Balance Sheet: Assets

Over 33% of the balance sheet consists of liquid assets

## Assets

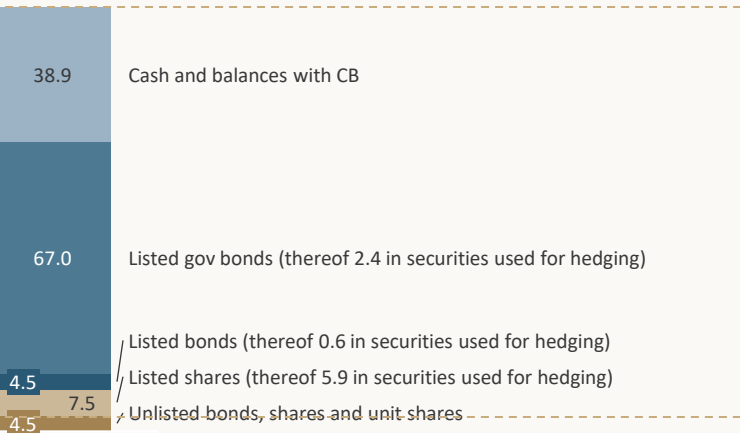
ISK bn.



## Cash and financial instruments

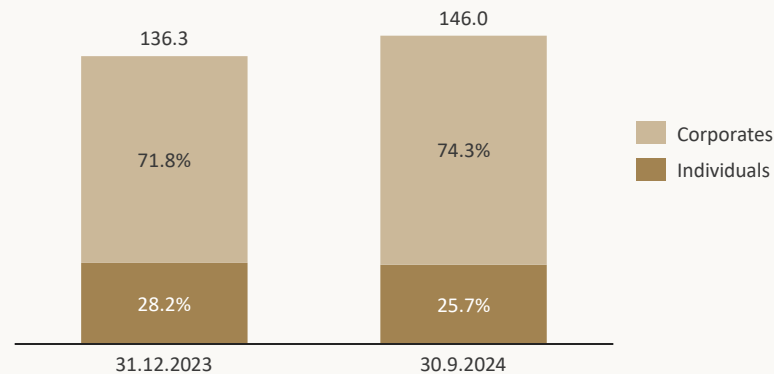
30.9.2024 / ISK bn.

Liquid assets ISK 122.4 billion



## Loan book by customer type

(%)



- An increase of ISK 28.4 bn. in assets since year-end 2023
- Loan book increase of ISK 9.7 bn. since year-end 2023
- Liquid assets amount to ISK 122.4 bn., 33.7% of total assets and 84% of loans to customers
- ISK 12.4 bn. positive CPI balance at 30.09.2024



# Balance Sheet: Liabilities

Significant growth in retail deposits

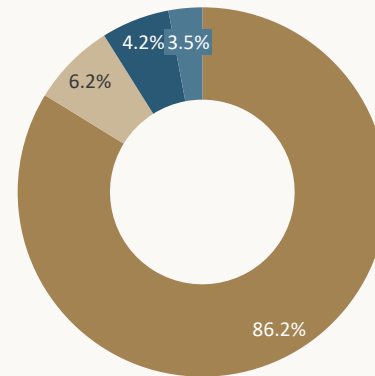
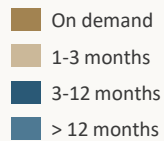
## Liabilities and equity

ISK bn.



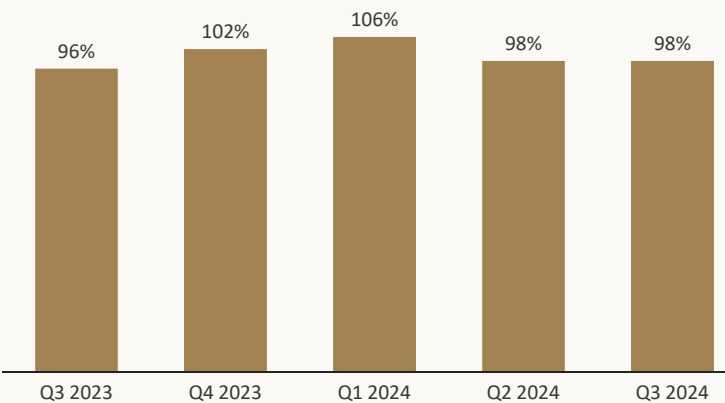
## Maturity of deposits

30.9.2024 / (%)



## Loans to deposits

(%)



- Liabilities increase by ISK 28 bn. since year-end 2023, mainly driven by growth in deposits and borrowings
- Deposits increased by ISK 15 bn. in 9M 2024, driven by growth in retail deposits. Deposits remain largely on-demand
- Liabilities related to the insurance entity, TM tryggingar hf., amounting to ISK 27.3 bn. are now categorized as liabilities associated with assets classified as held for sale



# TM Insurance

Asset held for sale

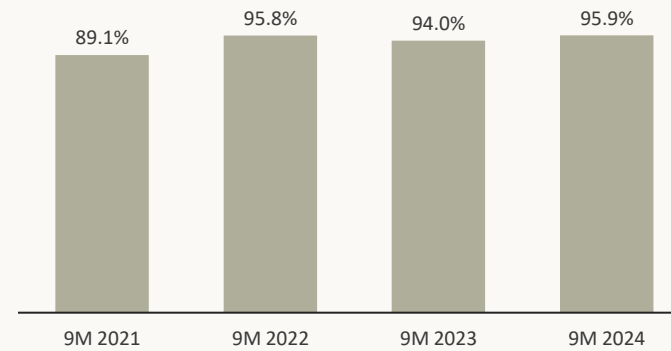
## Income statement

ISK m.

	9M 2024	9M 2023
Net interest income	566	779
Net fee and commission income	1	84
Insurance revenue	15,726	14,505
Incurring claims and net expense from reinsurance contracts held	(12,130)	(10,832)
Net financial income	929	(283)
Other operating income	80	140
Administrative expenses related to insurance service	(3,452)	(3,416)
Net impairment	7	8
Administrative expenses, stranded cost	50	112
Income tax	(235)	(356)
<b>Profit for the period</b>	<b>1,541</b>	<b>741</b>
Claims ratio	75.0%	71.3%
Cost ratio	18.8%	19.3%
Reinsurance ratio	2.1%	3.4%
<b>Combined ratio</b>	<b>95.9%</b>	<b>94.0%</b>

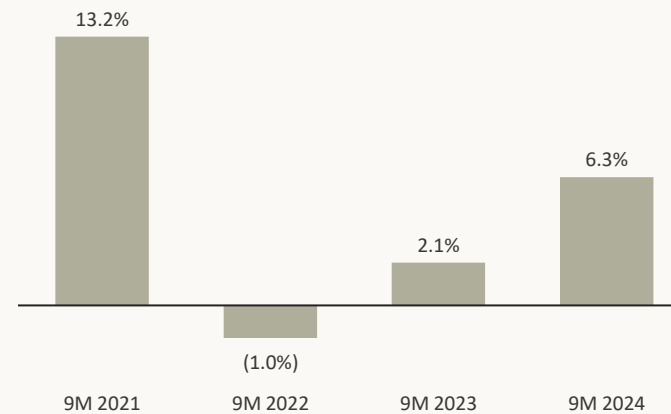
## Combined ratio

(%)



## Return on investment assets

(%)



- Profit from insurance operations increases materially year on year, mainly attributable to a rebound in net financial income
- Insurance service results are negatively impacted by major claims in the period as evidenced by a combined ratio of 95.9%, a 1.9% increase from 9M 2023
- Net financial income improves substantially YoY with an overall yield of 6.3% in the period



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