Kvika banki hf.

12M 2023 Financial Results

15 February 2024

ISK 5,245 m.	ISK 4,034 m.	12.1%	22.6%
Total profit before tax	Total profit after tax	RoTE 12M	CAR

12M 2023

Profit before tax of ISK 5,245 m. for 12M 2023, including TM Insurance which is classified as held for sale

RoTE 12.1% for 12M 2023, 13.9% in Q4

Net interest income increases 13% YoY due to higher lending volumes and rates, loan book growth of over 27% in 2023

Net fee and commission income down 8% YoY as fee generation is affected by market conditions, growing fee income from new payment facilitation offering Straumur

Net financial income of ISK 442 m., excluding TM Insurance

TM Insurance provides a robust performance in 2023, with a decreased combined ratio of 93.6%, over 12% revenue growth and a 6% return on investments. Sales and listing process ongoing

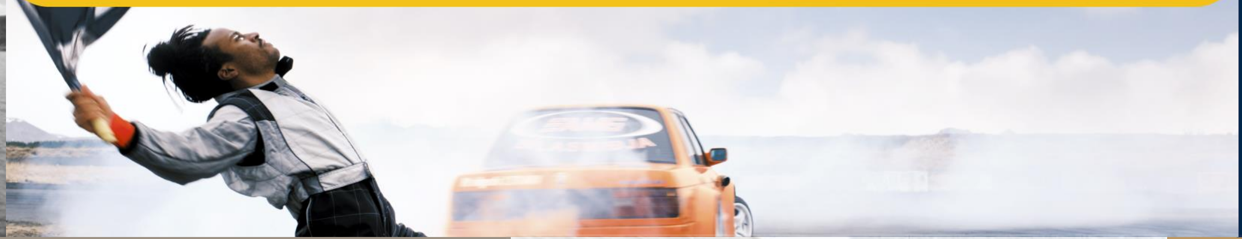
Key Milestones in 2023

Top performance of mutual funds

#1 medium term bond fund
#1 short term bond fund
#1 domestic equity fund

Over 27,000 cards issued since launch

Launch of retail banking solutions through the **Aur app**



straumur

Launch of **Straumur**
25% market share in payment facilitation

UK loanbook NIM over 4% at year end

Rebound in UK NIM

27%

Loan book growth in 2023

#1

Capital Markets had the highest volume in the domestic market in bond trading and increased its share in equities

87/100 ESG score

Kvika receives a score of 87/100 in Reitun's ESG rating, raising its score for the third year in a row

Commercial Banking

Segment highlights

A year of innovation with efforts focused on launching new products and services

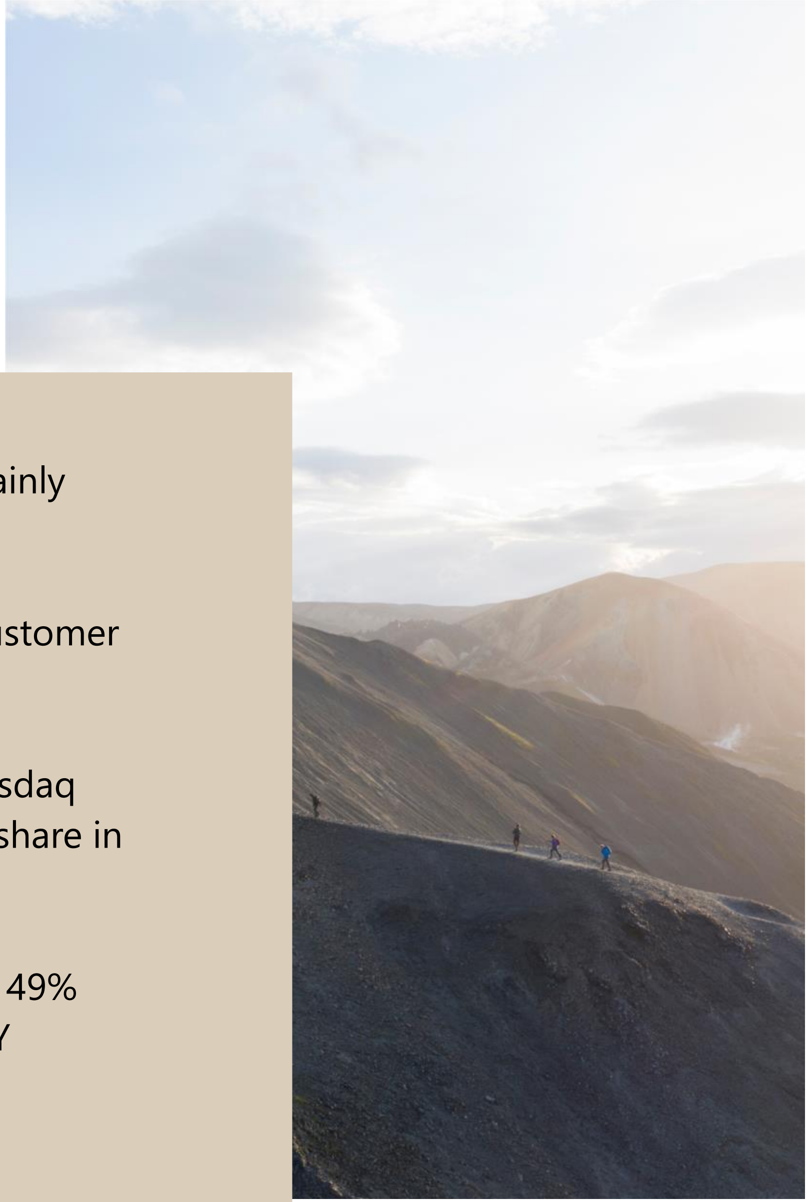
- Stable growth in both loans (+13%) and deposits (+19%) in 2023 with notable and robust performance by **Lykill**
- Continued success of **Auður** with close to 50% growth in deposits and over 40% growth in number of customers
- **Netgíró** celebrated its 10-year anniversary with solid performance and saw its loan book balance grow over ISK 5 bn. for the first time
- Over 27,000 new cards issued by **Aur** since launch
- **Straumur** started onboarding customers in Q2 2023 and reached 25% market share for retail payments in Iceland at the end of the year. The operation of Straumur was profitable in 2023.

Corporate Banking & Capital Markets

Segment highlights

Capital Markets gain market share in a turbulent year and Corporate Banking loan book at an all-time high

- Healthy lending growth of over 30% YoY, mainly driven by property backed loans
- FX sales up by 19% YoY due to a growing customer base
- Largest market share in bond trading on Nasdaq OMX Iceland with 20.6% and 15.4% market share in equity trading
- Trading volume in the bond market is up by 49% while the equity volume is down by 29% YoY



Asset Management

Segment highlights

Assets under management remain robust in challenging market conditions

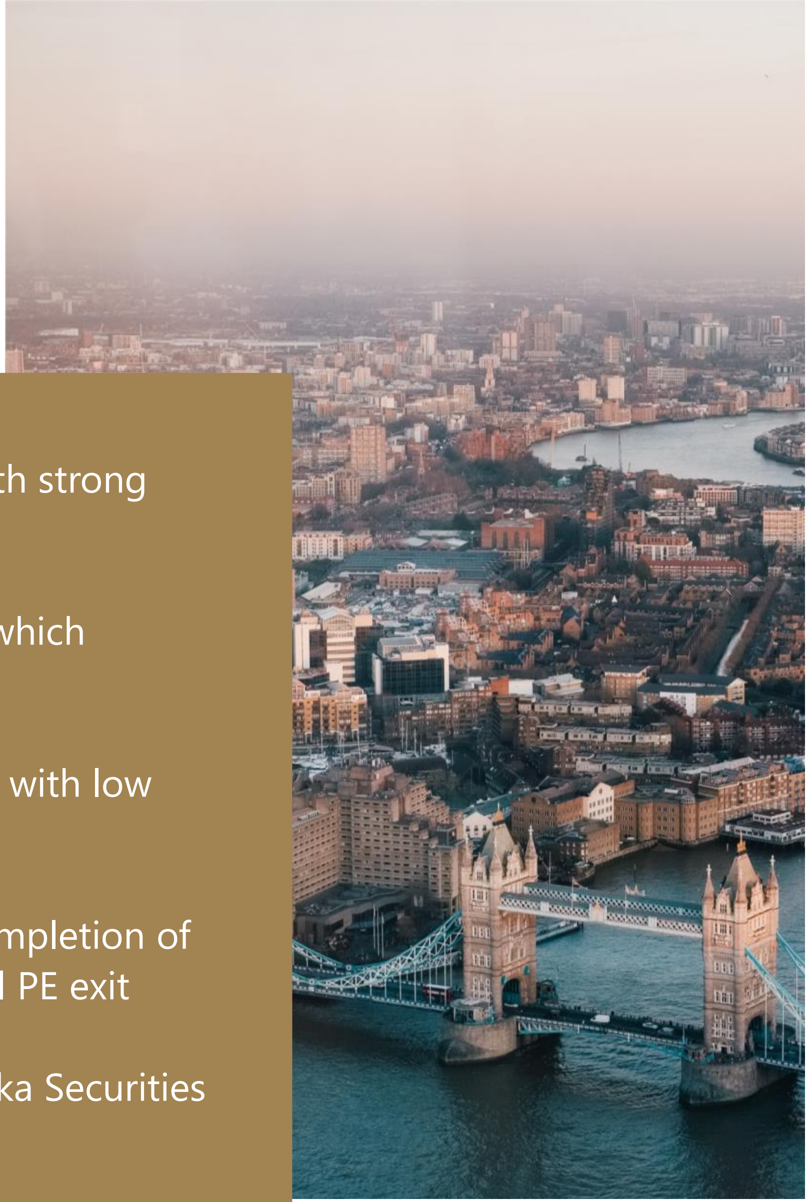
- Assets under management ISK 470 bn. at end of 2023 and increased by ISK 8 bn. during the year
- Management fees remain stable as performance fees are affected by challenging market conditions
- Market share in retail investment funds remains constant despite new participants entering the market
- All actively managed retail funds delivered positive returns despite challenging market environment
- New credit fund launched in the fourth quarter of 2023

UK

Segment highlights

Continued improvement in performance with healthy loan book growth and further improved net interest margin

- Positive developments across loan book with strong origination volumes
- Continued increase in net interest margin, which reached 4% in Q4
- Portfolio remains conservatively positioned with low LTV of 54%
- Strong end to the year with a successful completion of an M&A project and separately a successful PE exit
- Richard Beenstock takes over as CEO of Kvika Securities

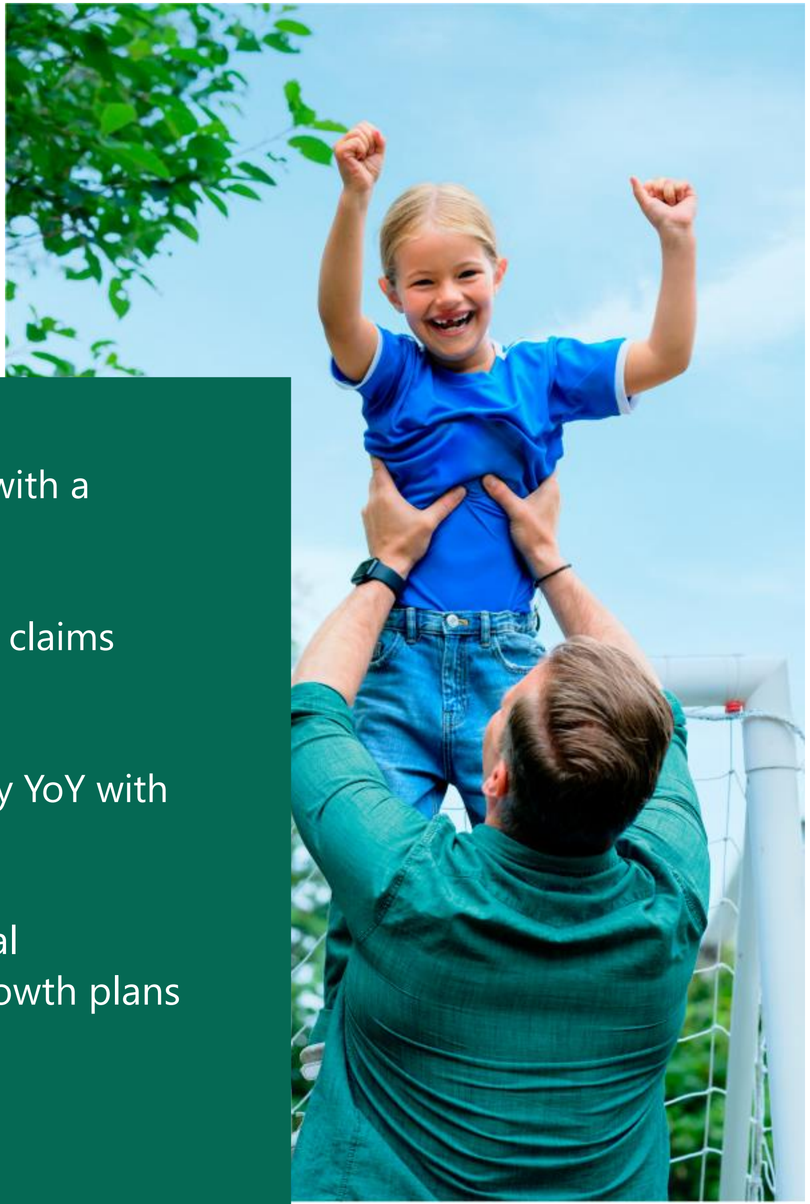


Insurance

Highlights

Excellent insurance result in 2023 with a combined ratio of 93.6% and strong revenue growth

- Excellent insurance service results in 2023 with a combined ratio of 93.6%
- Insurance revenues grew by 12% YoY while claims only grew by 9%
- Net financial income improved substantially YoY with an overall yield of 6.4%
- Revised strategy resulting in organizational changes, rationalization and enhanced growth plans




Financials

Financial Statements Reflect TM Sale/Listing

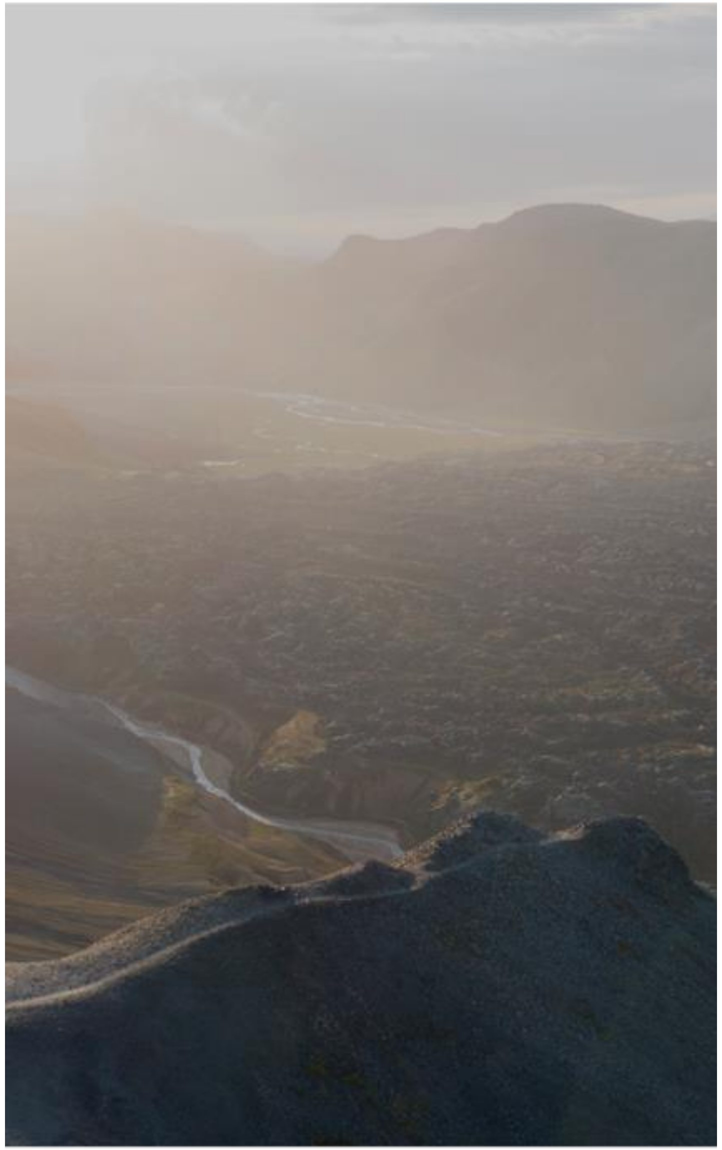
Changes as of 31.12.2023

TM Insurance is classified as held for sale in Kvika's consolidated financial statements and comparative figures in the income statement for 2022 are restated

1. **Net insurance service income is removed** from the income statement as well as other cost and income related to TM Insurance

2. **Assets and liabilities** directly associated with TM Insurance **are presented separately** of other assets and liabilities

3. TM Insurance's **contribution to group profit is on a post-tax basis**, presented as 'Profit after tax from discontinued operations'



Income Statement

12M 2023

Income Statement

ISK m.

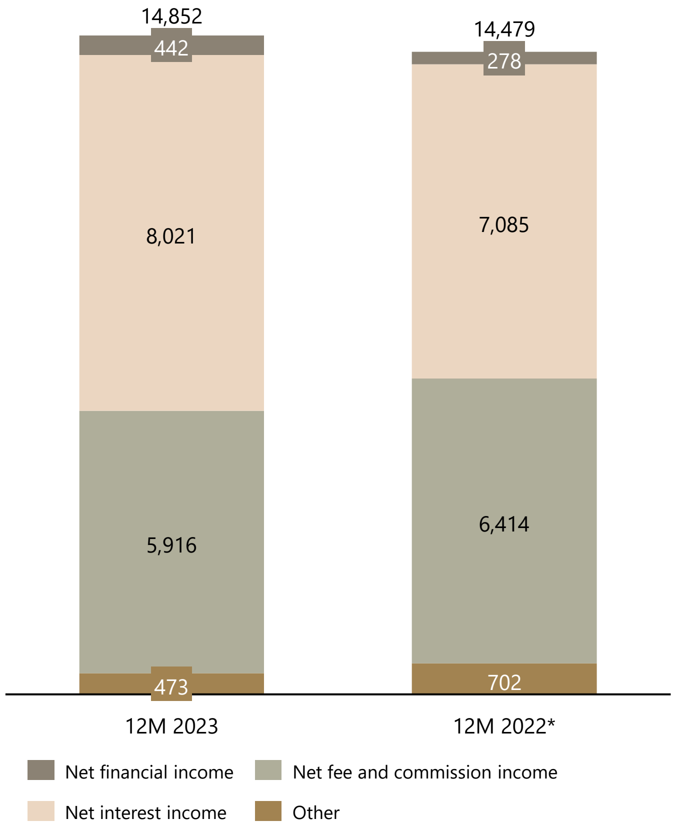
	12M 2023	12M 2022 restated*	Diff.
Net interest income	8,021	7,085	*936*
Net fees and commissions	5,916	6,414	*(497)*
Net financial income	442	278	*164*
Other income	473	702	*(229)*
Net operating income	**14,852**	**14,479**	*373*
Administrative expenses	(10,785)	(9,092)	*(1,693)*
Net impairment	(1,027)	(567)	*(460)*
Revaluation of cont. consideration	(31)	(18)	*(13)*
Pre-tax profit	**3,009**	**4,802**	*(1,793)*
Income tax	(472)	(264)	*(208)*
Special bank taxes	(234)	(185)	*(49)*
After-tax profit	**2,304**	**4,353**	*(2,049)*
Profit after tax from discontinued operations	1,730	560	*1.170*
Profit for the year	**4,034**	**4,913**	*(879)*

Profit before tax of **ISK 5,245** m. for 12M 2023**, including TM Insurance**

TM Insurance's contribution to group profit is presented on a post-tax basis in the consolidated financial statements

Revenue growth YoY

Net operating income by type / ISK m.



*Comparative information has been restated. Reference is made to note 4 in Kvika's Consolidated Financial Statements dated 31.12.2023 for further information.

Income Statement

Q4 2023

Income Statement

ISK m.

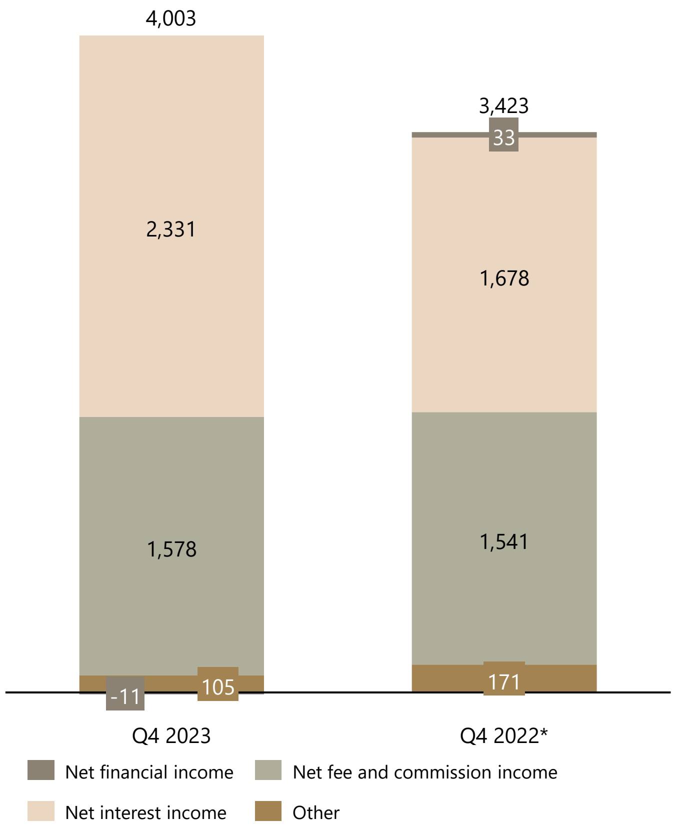
	Q4 2023	Q4 2022 restated*	Diff.
Net interest income	2,331	1,678	*653*
Net fees and commissions	1,578	1,541	*37*
Net financial income	(11)	33	*(44)*
Other income	105	171	*(66)*
Net operating income	**4,003**	**3,422**	*581*
Administrative expenses	(2,779)	(2,552)	*(227)*
Net impairment	(827)	(389)	*(438)*
Revaluation of cont. consideration	(34)	5	*(39)*
Pre-tax profit	**363**	**487**	*(124)*
Income tax	297	277	*20*
Special bank taxes	(72)	(59)	*(13)*
After-tax profit	**589**	**706**	*(117)*
Profit (loss) after tax from discontinued operations	914	1,005	*(91)*
Profit for the period	**1,502**	**1,711**	*(209)*

Profit before tax of **ISK 1,427** m. for Q4 2023, **including TM Insurance**

TM Insurance's contribution to group profit is presented on a post-tax basis in the consolidated financial statements

Strong net interest income growth

Net operating income by type / ISK m.



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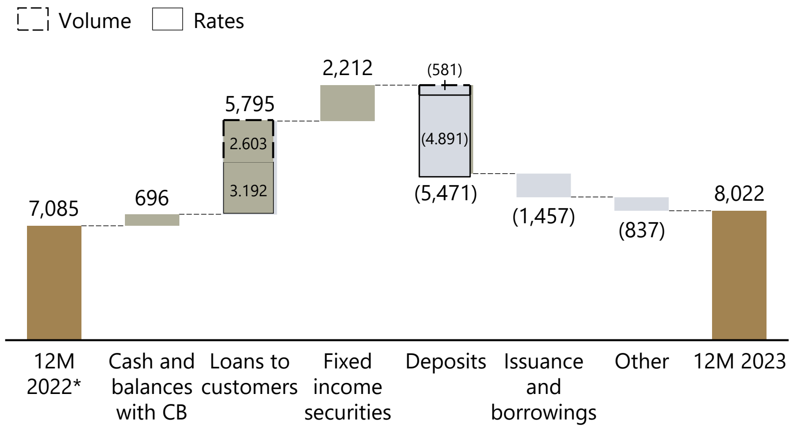
Net Interest Income

Strong growth across all segments in Q4

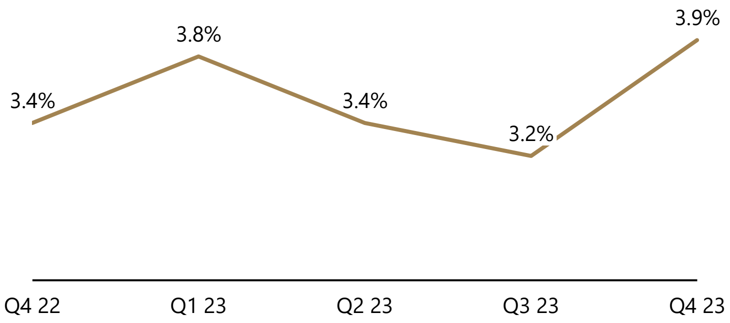
Net interest income 12M comparison

12M 2022* to 12M 2023 / ISK m.



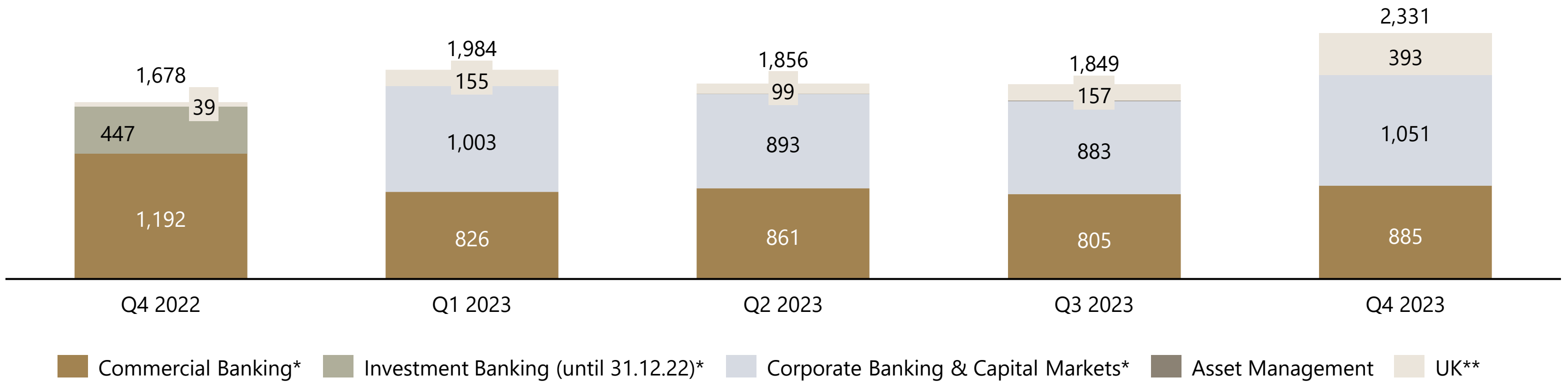
Net interest margin development

ISK m.



Net interest income development (NII)

ISK m.



- Net interest income grows by 13% from 12M 2022, both due to higher rates and loan book growth
  - Loan book grows by 27.3% in 2023, split across Corporate Banking, Commercial Banking and UK
- Net interest income of ISK 2,331 m. in Q4 compared to ISK 1,678 in Q4 2022, equivalent to 39% growth
- Interest expense increase YoY mainly due to increased cost of deposit caused by rising interest rates
- Other interest income decreases partly due to less income from interest rate derivatives
- Net interest margin of 3.6% p.a. in 12M 2023, 3.9% in Q4
  - Calculated as net interest income to total interest-bearing assets

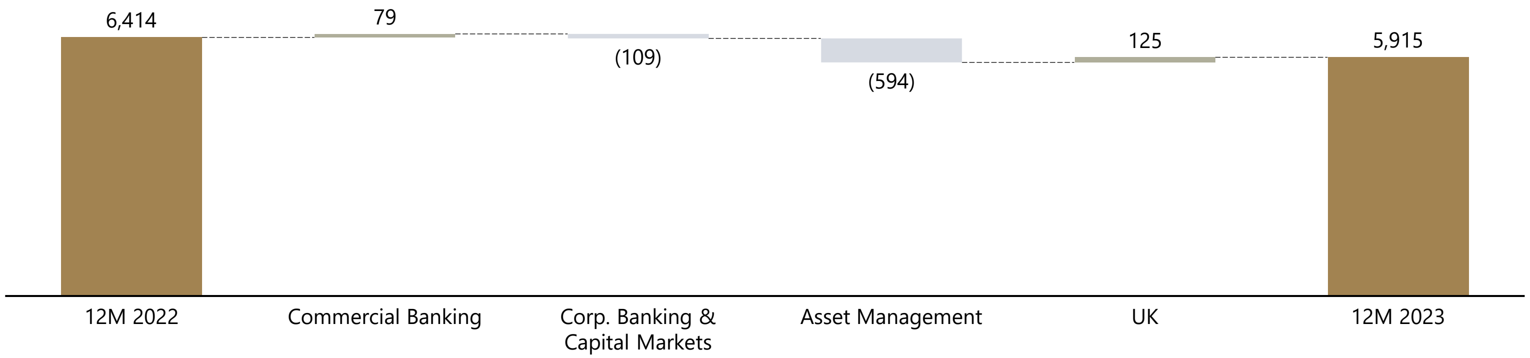
*The Group changed the structure of its internal reporting and reportable segments, taking effect on 1 January 2023. The figures for the period in 2023 reflect this structure, comparison amounts have not been restated
**Comparative information has been restated. Reference is made to note 4 in Kvika's Consolidated Financial Statements dated 31.12.2023 for further information.

Net Fee and Commission Income

Fee income gaining momentum after reaching bottom levels in Q3

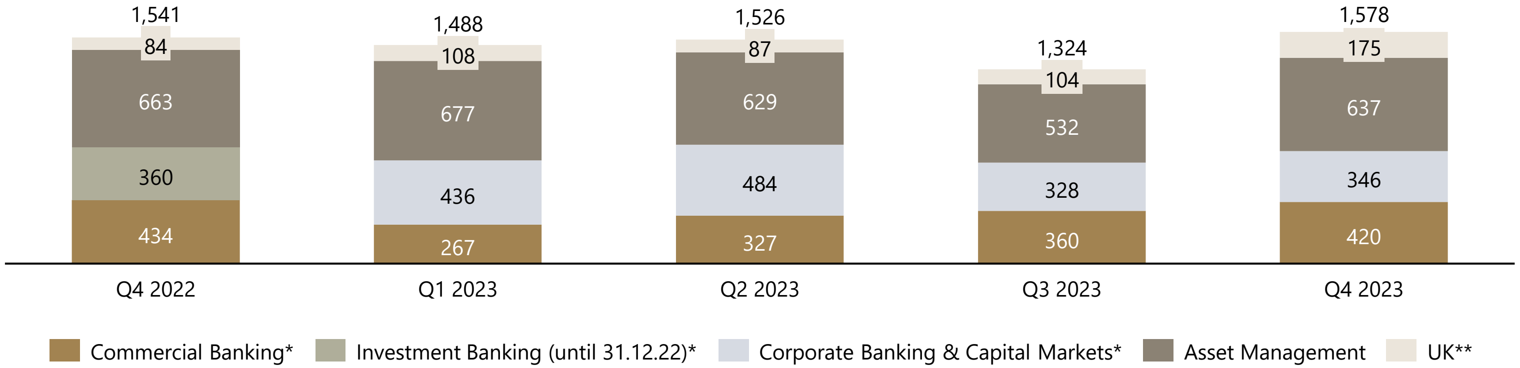
NFC YoY comparison

12M 2022 to 12M 2023 / ISK m.



Net fee and commission development (NFC)

ISK m.



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**Comparative information has been restated. Reference is made to note 4 in Kvika's Consolidated Financial Statements dated 31.12.2023 for further information.

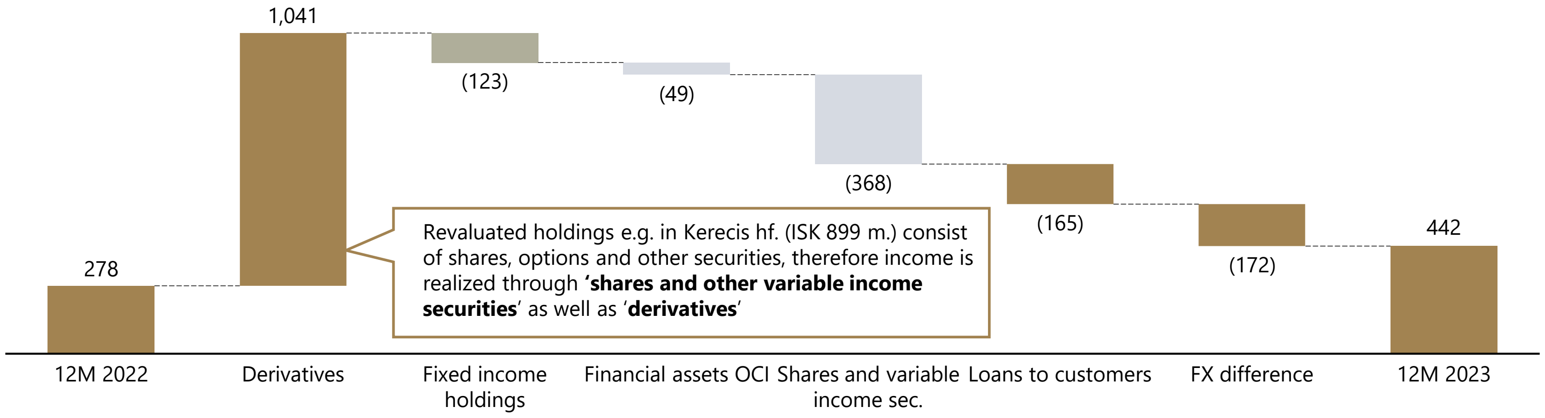
- Net fee and commission income continues to be a stable source of income despite a decrease YoY mainly attributable to less fees from asset management
- Fees grow between Q3 and Q4 2023 due to growth in Asset management fees and fees from commercial banking, especially from the payment facilitator Straumur that started operations in Q2 2023 and ended the year with 25% market share
- Similarly Corporate Banking & Capital Markets experience a decrease in fee and commission income in 2023 as business volumes remained low
- Fee and commission income growth in the UK due to increased lending activity in the year

Net Financial Income

Significant decrease in investment portfolio as TM is classified as held for sale

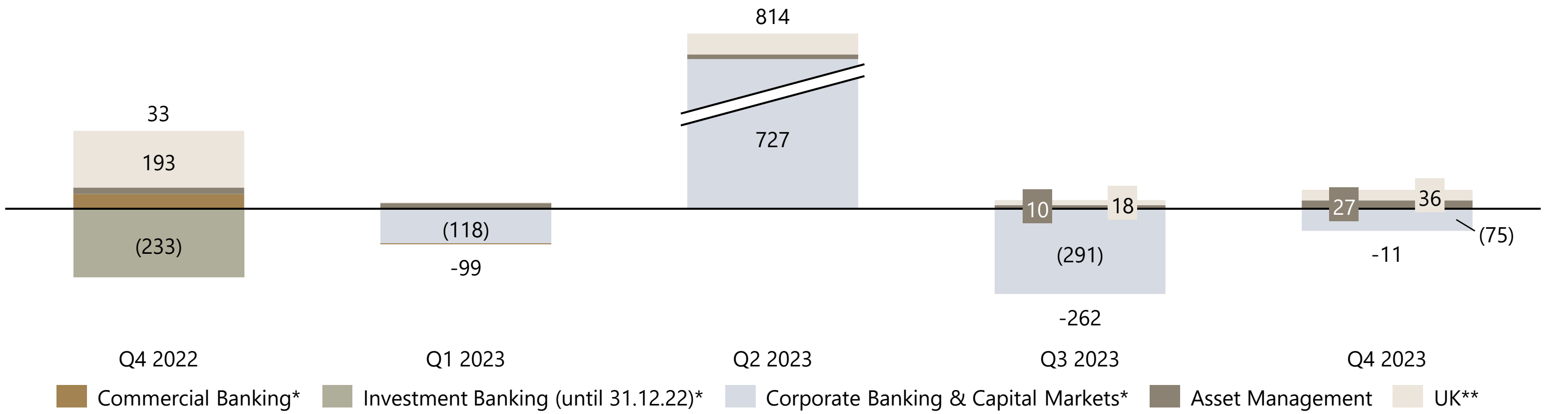
Net financial income (expense) composition

12M 2023 / ISK m.



Net financial income development (NFI)

ISK m.



- Investment portfolio decreases significantly as TM's assets and operations are classified as held for sale, resulting in net financial income impacting the consolidated revenue statement considerably less
- Net financial income increases by ISK 164 m. YoY, driven by profit from derivatives and variable income securities attributable to corporate banking operations

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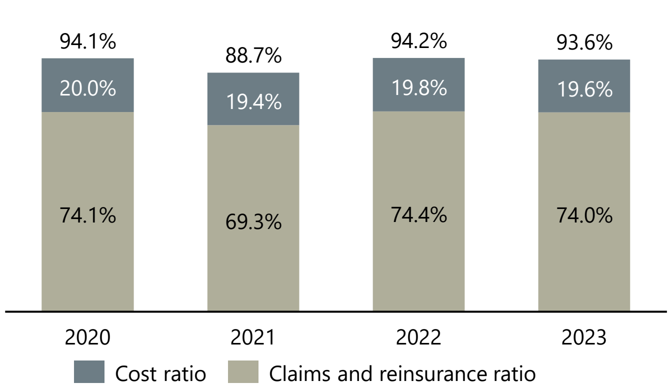
TM Insurance

Continued strong performance

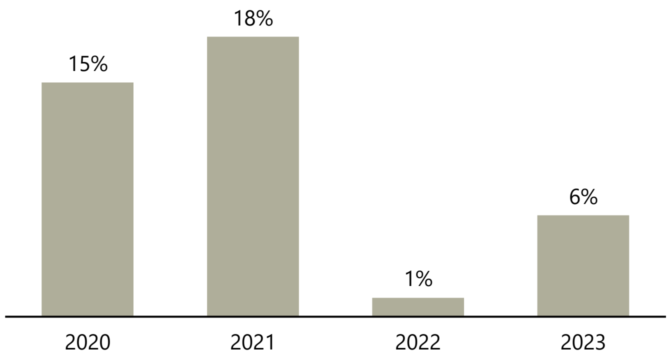
Combined ratio

(%)



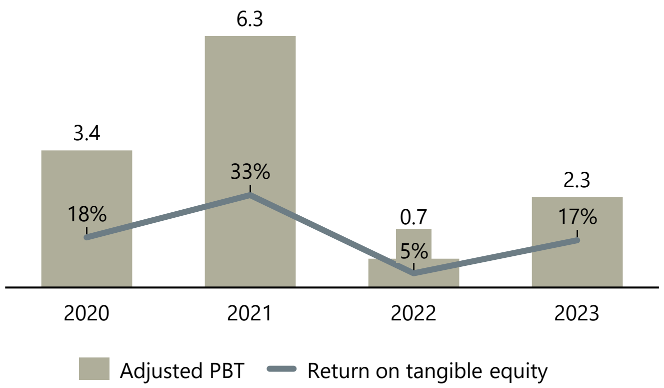
Return on investment assets

(%)



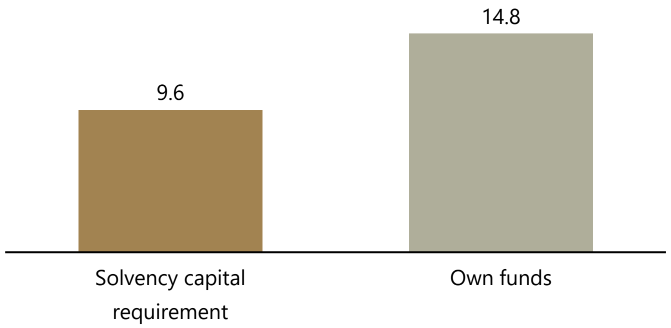
Adjusted[1] PBT and RoTE

ISK bn. / (%)



Solvency position

ISK bn.



- Insurance revenues grew 11.6% YoY overall, with a notable increase in life insurance revenues
- Continued profitable performance of insurance operations resulted in a combined ratio of 93.6% compared to 94.2% in 2022
  - Claims ratio was 70.5% in 2023, compared to 72.3% in 2022, mainly driven by lower claims ratio in motor insurance
  - Cost ratio was 19.6% or slightly lower than in 2022 where it was 19.8%
  - The reinsurance ratio increased and was 3.5% in 2023, compared to 2.0% in 2022, affected by hardening reinsurance markets and less compensation from large claims
- Investment income was variable over the quarters in 2023 but improved substantially in Q4, resulting in investment income of ISK 2.3 bn.
- Adjusted profit before taxes (PBT) was ISK 2.3 bn. in 2023, compared to ISK 0.7 bn. in 2022
- TM's solvency position is strong at year end 2023, with the company reporting a year-end solvency ratio of 1.53

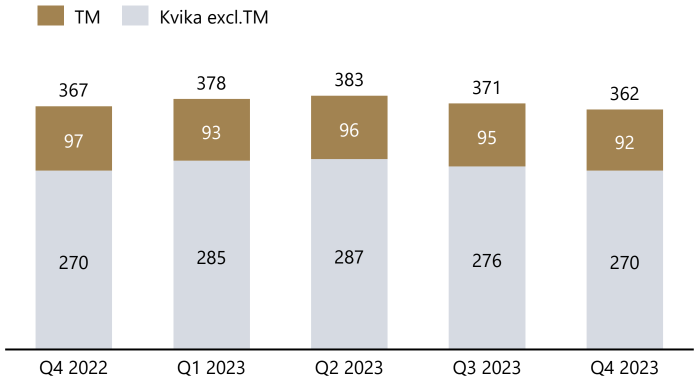
1) Adjusted for the effects of PPA amortization. Includes value adjustments through FVOCI. Excluding Lykill in 2020.

Operating Expenses

Operating expenses stabilize in the second half of the year

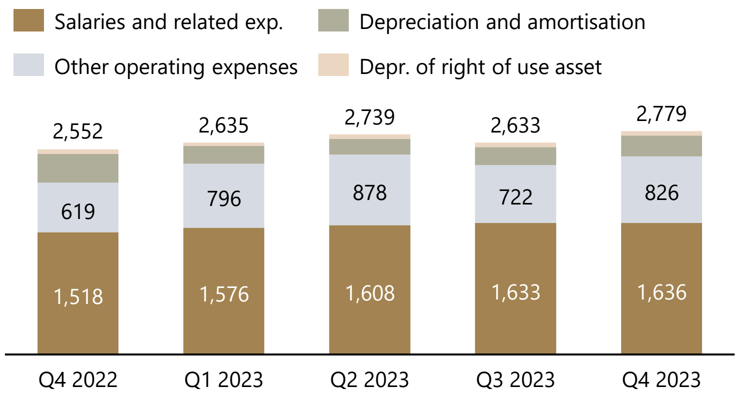
Employee development

Full time employees at the end of each period (incl.TM)



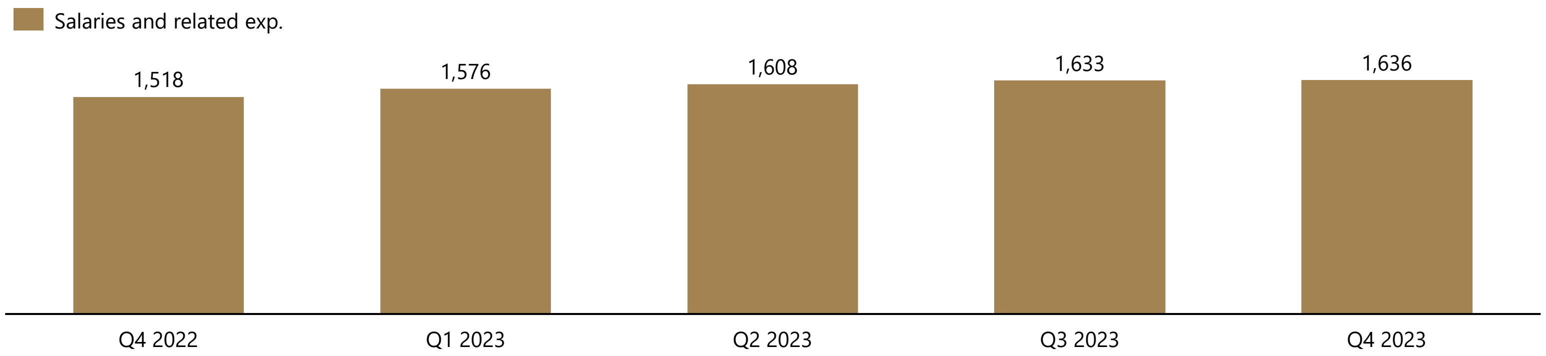
Administrative expenses

ISK m. / restated comparative information



Salaries and related expenses

ISK m. / restated comparative information



**Comparative information has been restated. Reference is made to note 4 in Kvika's Consolidated Financial Statements dated 31.12.2023 for further information.

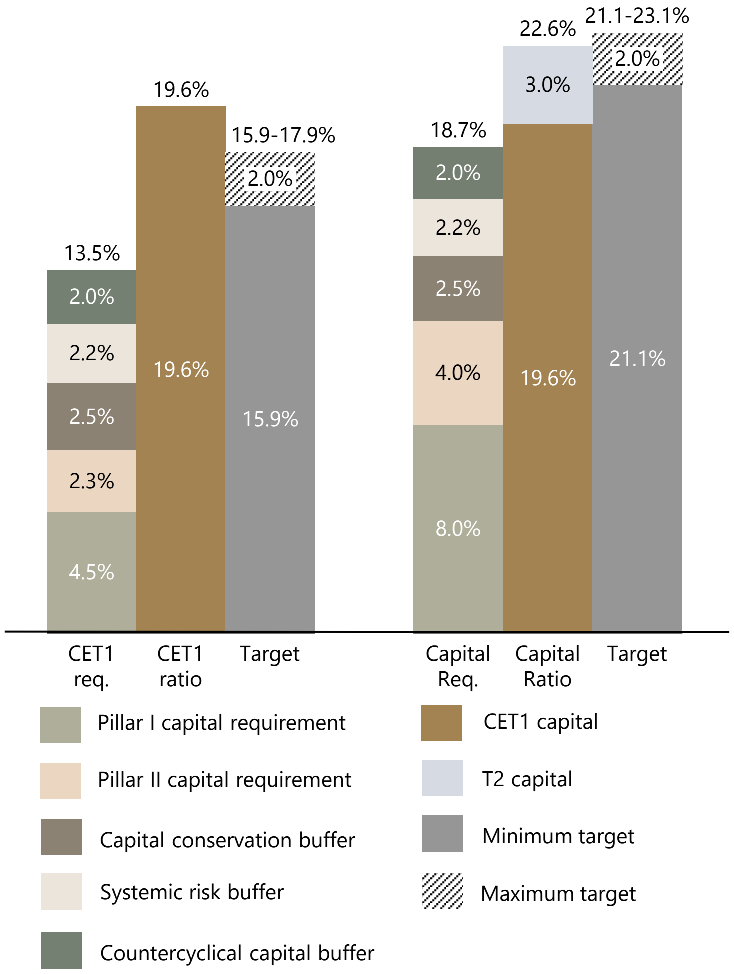
- Operating expenses grow by 8.9% from Q4 2022 to Q4 2023, stabilizing í 2023 when actions are taken to increase operational efficiency
- Salaries and related expenses grow by 7.8% from Q4 2022 to Q4 2023, inflation during the period was 8%
- Cost rationalization from Q2 2023 with headcount reduction and other cost saving measures
- PPA amortization of ISK 228 m. in 12M, a non-cash operating expense resulting in lower PBT and reduction in intangible assets

Capital Position

Strong capital position well above regulatory requirements

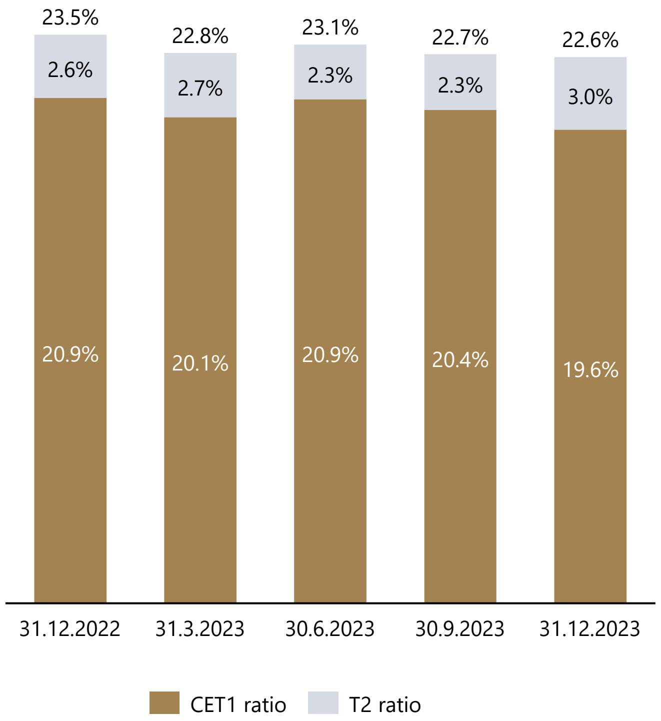
Capital position and requirements

31.12.2023/ (%)



Capital ratio

31.12.2023 / (%)



- CAR of 22.6% at the end of December 2023, within management target
  - Kvika aims to maintain a management buffer of 2% to 4% over current and anticipated CAR requirements
- The countercyclical capital buffer in Iceland will increase from 2.0% to 2.5% in March 2024 which is expected to have a weighted impact increase of ~0.4pp for Kvika
- On a financial conglomerate basis, Kvika has a group solvency of 1.25 at the end of December 2023
  - Insurance operations solvency of 1.5 at 31 December 2023
- Capital exceeds regulatory requirements by ISK 10.0 bn. on consolidated solvency basis for the group and ISK 6.8 bn. on CAR basis excluding insurance activities
- Tier-2 headroom fully utilized with ISK 2 bn. issuance of new series KVIKA 34 1211 T2i subordinated bonds in December 2023

Liquidity and Funding Ratios

Continued strong liquidity position

Liquidity coverage ratio (LCR)

31.12.2023 / ISK bn.

High quality liquid assets	76.2
Net outflow	30.9
Liquidity coverage ratio	**247%**
Minimum regulatory requirement	100%

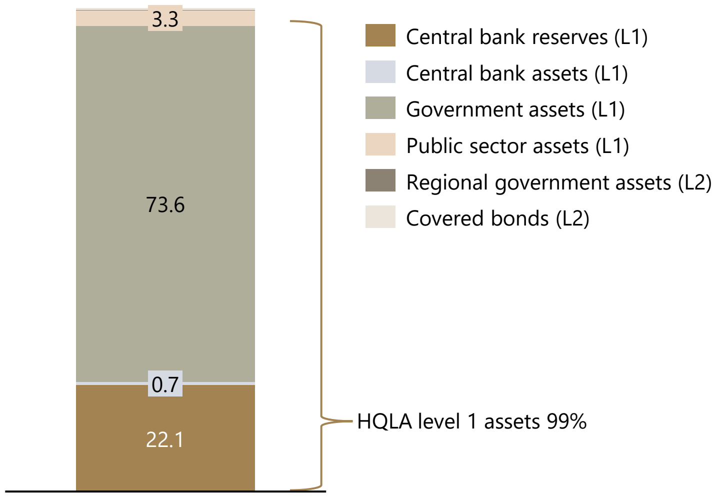
Net stable funding ratio (NSFR)

31.12.2023 / ISK bn.

Available stable funding	231.1
Required stable funding	164.3
Net stable funding ratio	**141%**
Minimum regulatory requirement	100%

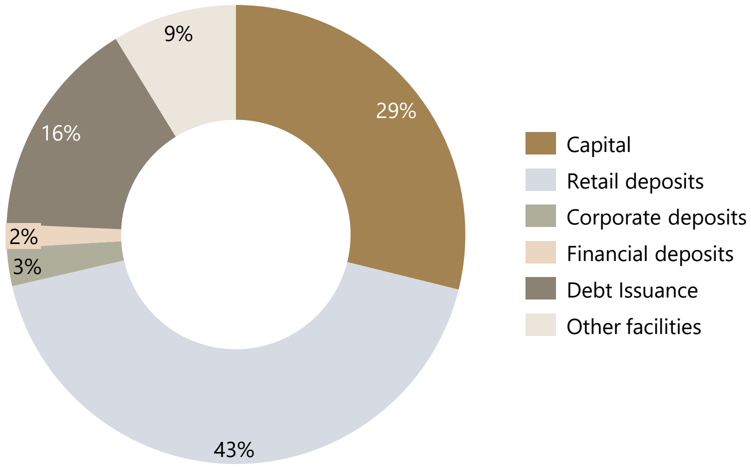
High quality liquid assets (HQLA)*

31.12.2023 / (%)



Available stable funding

31.12.2023 / (%)



- High Quality Liquid Assets (HQLA) ISK 76 bn. excluding mandatory reserves and collateral to the Central Bank
- Liquidity coverage ratio is strong at 247%, where the regulatory minimum is 100%
- Net stable funding ratio is strong at 141%, where the regulatory minimum is 100%
- Asset and liability management is aimed at maintaining stable funding sources such as core retail deposits and long-term funding via debt issuance
- The group's capital and deposits are the largest funding sources

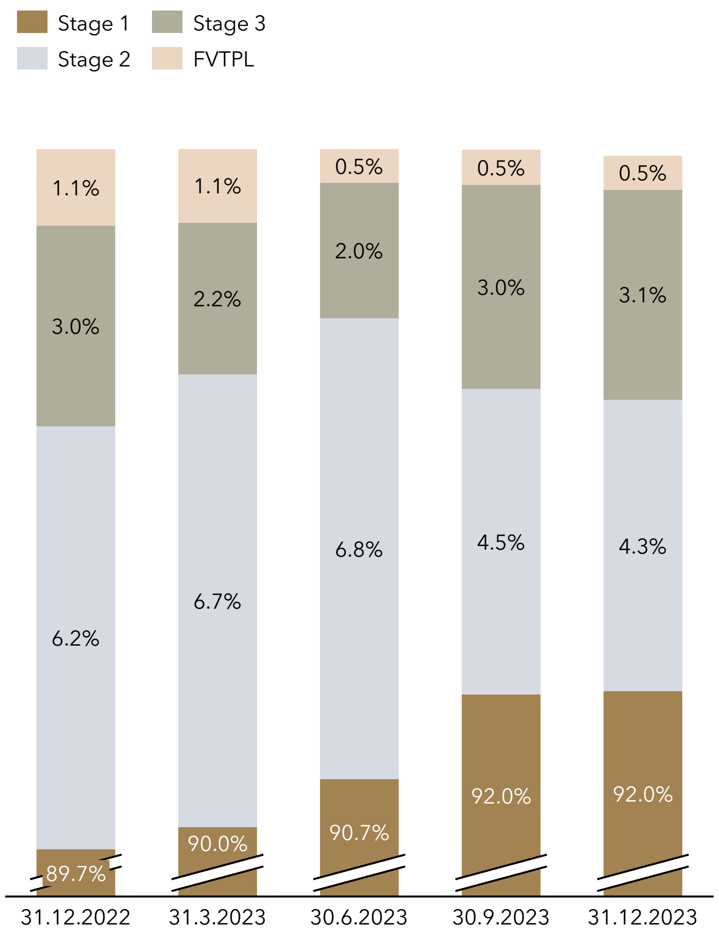
*L1: Level 1 assets , L2: Level 2 assets

Credit Quality

Large one-off impairment in Q4

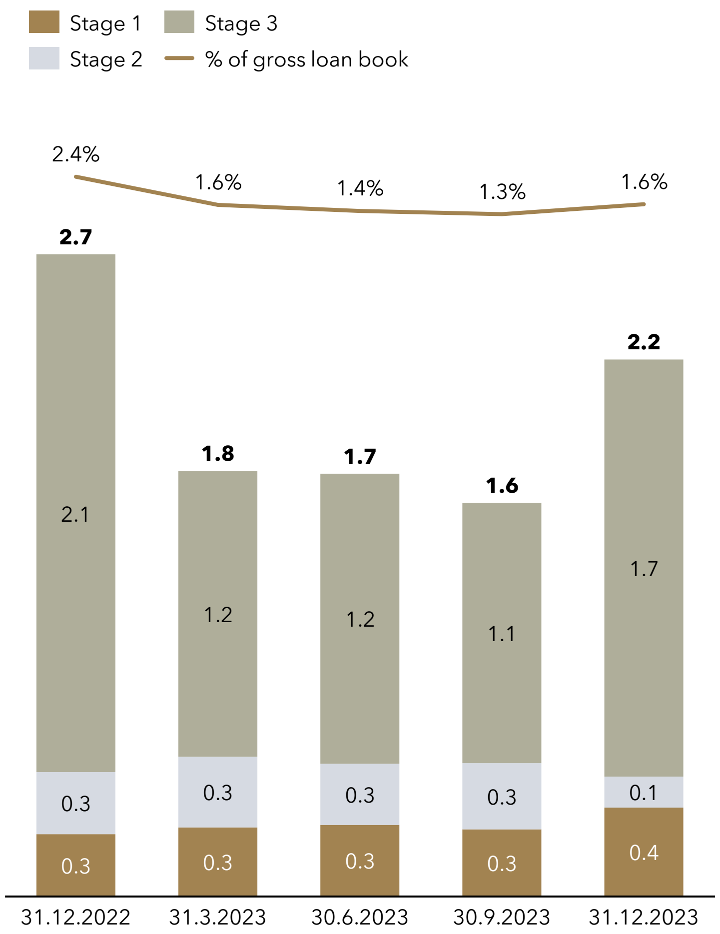
Loans to customers risk stage allocation

Net loan book / (%)



Impairment loss allowance

ISK billions



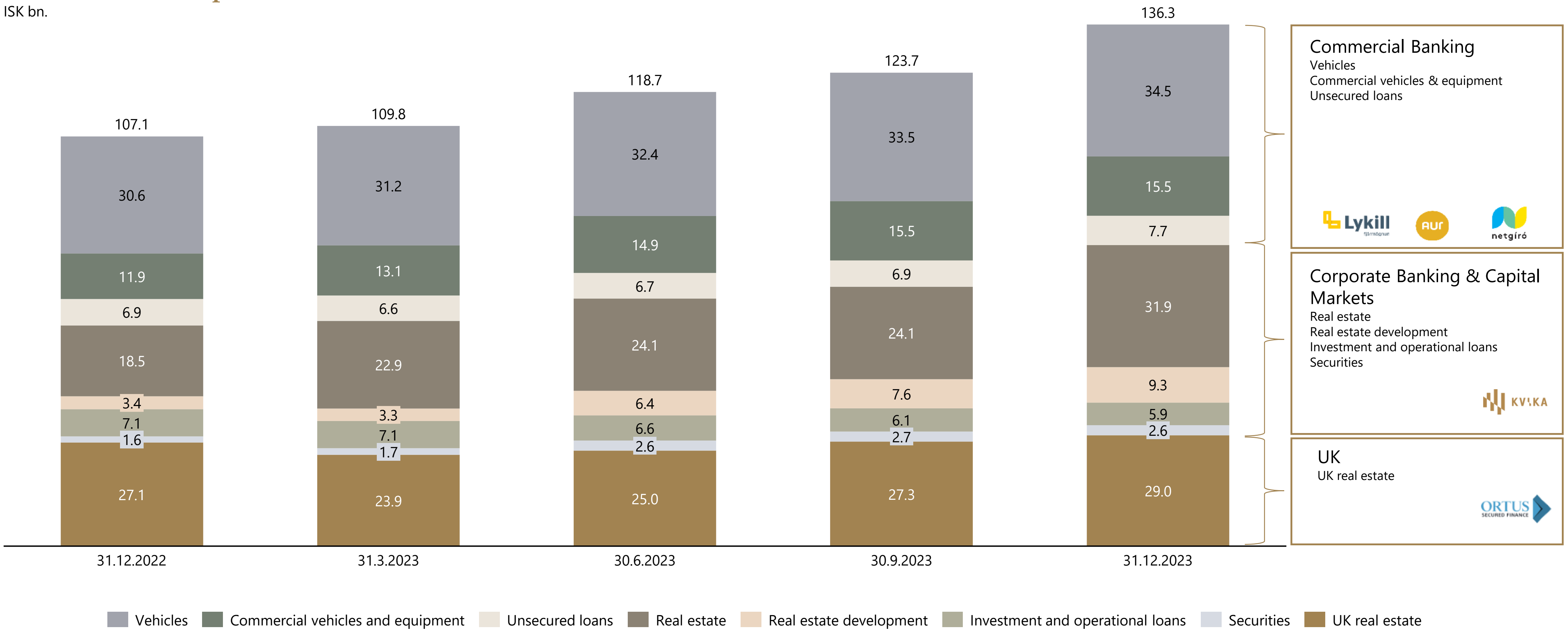
- Stage 3 loans remain stable between quarters as increases witnessed in Q3 remain in stage 3
- Average LTV of stage 3 loans is 69% (exposures larger than ISK 10 m.)
- Impairment loss allowance from stage 3 loans increases significantly due to an ISK 530 m. special impairment of a single domestic loan exposure

Loans to customers

Lending growth 27% YoY

Loan book development

ISK bn.

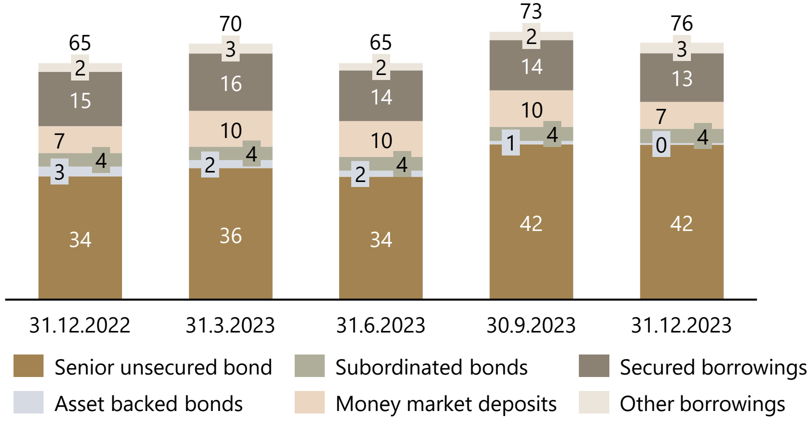


Diversified Funding Program

Solid investment grade rating by Moody's

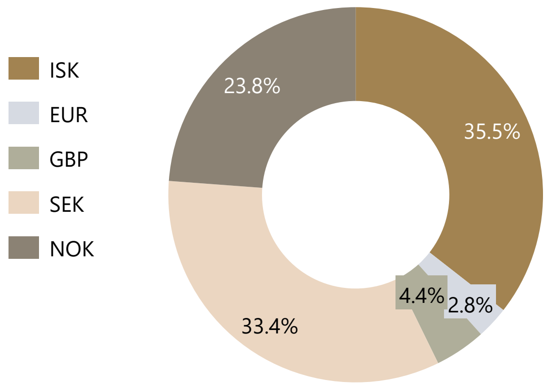
Development of market funding

ISK bn.



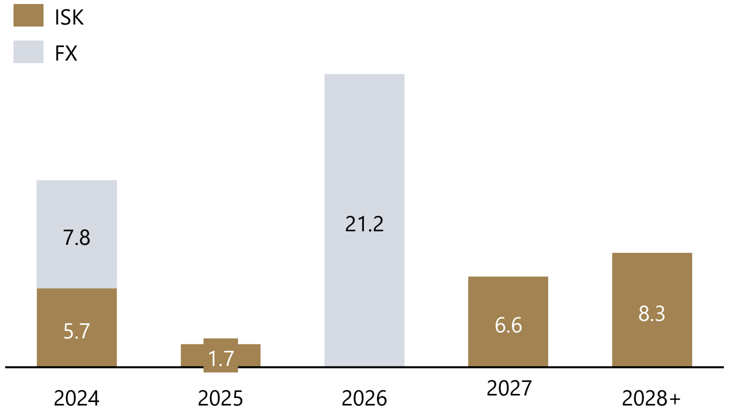
Issue currency

31.12.23



Maturity of issuance

31.12.23 / ISK bn.



Rating

Moody's Investors Service

	Bank deposit rating	Issuer rating
Long term	Baa1	Baa2
Short term	P-2	P-2
Outlook	Stable	Stable
Last update	7 July 2023	7 July 2023

- Kvika has been an active issuer in Iceland since 2015 and in 2021 established an EMTN programme and obtained a credit rating from Moody's Investors Service
- ISK 46 bn. of senior bonds outstanding on 31 December 2023 with 35% issued in ISK
- Among the group's borrowings are secured borrowing facilities which are utilized by Ortus in the UK
  - Facility amounts to GBP 78.3 m. with maturity in Q3 2028
- In July 2023 Moody's confirmed Kvika's ratings which includes a long-term issuer rating of Baa2
- In November Kvika issued senior unsecure bonds to the amounts of NOK 250 m. and SEK 500 m. maturing in 2026

Financial Targets

	Target	Q4 2023	12M 2023
Return on Tangible Equity Pre-Tax	>20%	13.9%	12.1%
Capital Adequacy Ratio (CAR) Buffer Over Requirement (basis points)	200-400bps	390bps	390bps
Dividend Payout Ratio Dividends and Share Buybacks as % of Profit after Tax	25%	N/A	59%


Outlook for 2024

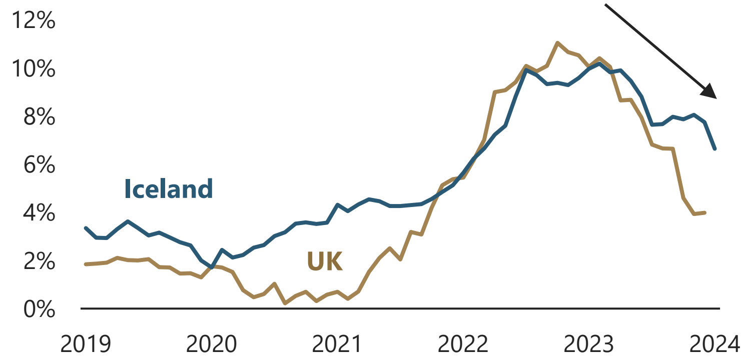
Global Economy Headed for Soft Landing

Policy easing set to start amid faster-than-expected disinflation as global economy reaches inflection point

Key Forces Shaping the Outlook in 2024

1 Inflation subsiding faster than expected

Inflation
CPI Index, % change YoY



Iceland

Persistent inflation due to above average growth and measurement differences relative to peers

Markedly improved inflation outlook for 2024 after recent downside surprises

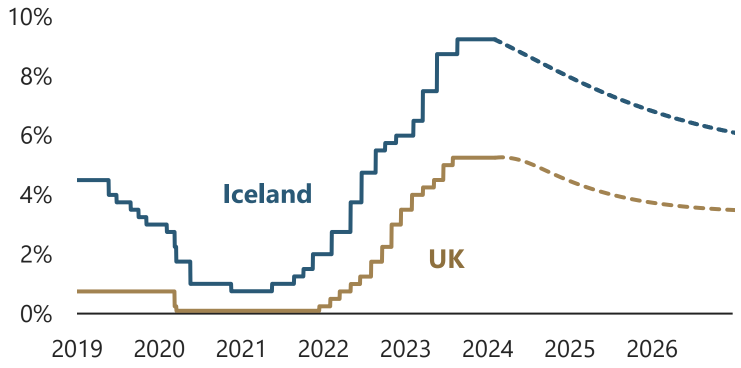
UK

Significant progress made on disinflation in recent months

Inflation expected to touch target in early 2024 due to energy base effects

2 The start of a policy easing cycle

Policy rates and forward curves
%, forward curves as at early February



Iceland

Has grappled with higher rates than peers due to greater inflation persistence and strong economy

Bond markets indicate rates have peaked

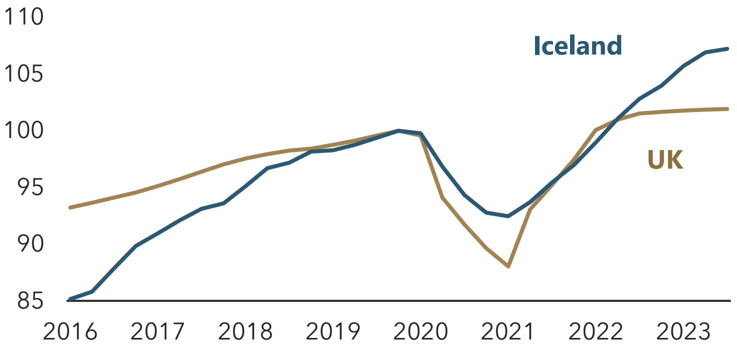
UK

Bank of England policymakers have recently softened forward guidance

Swap markets are pricing in rate cuts from mid-year onwards

3 Growth remains resilient

GDP, 4Q moving sum
Index, 2019=100



Iceland

Economy has outperformed due to energy independence and strong growth of tourist sector

Recently, growth has decelerated due to policy tightening, but is expected to remain in the 2-3% range

UK

Managed to avoid widely forecast contraction, growing 0.1% in 2023

„Soft landing" with growth forecast to increase modestly from to 0.6% in 2024, according to IMF

Sources: Statistics Iceland, ONS, Central Bank of Iceland, Bank of England.

External Environment More Favourable for Kvika

The headwinds of 2023 are likely to turn to tailwinds as 2024 progresses

Macroeconomic Forces	Implication for Kvika		
1 **Inflation subsiding faster than expected**	Diminishing cost pressures	Increased investor confidence positively impacts market volumes and fee generation	Improving market conditions likely to contribute positively to net financial income
2 **The start of a policy easing cycle**	Improved interest margin on liquidity portfolio, consumer finance loans and UK loan book	Lower rates likely to spur demand for credit from corporates and households, supporting loan book growth ambition	Easing global liquidity conditions should support access to international debt capital markets
3 **Growth remains resilient**	Credit quality of loan book should remain robust	Supportive of outlook for insurance operations	Improved sentiment drives increases in activity as year progresses

Current Business Position

Strong equity position

Well-funded balance sheet

Market share growth in Capital Markets

Mutual funds top ranked

Healthy and diversified loanbook

New retail banking offering

New robust payment facilitator

Only bank with operations abroad

The road to 20% Return on Tangible Equity (RoTE)

2023 RoTE 12,1%

Interest income:
Higher interest margin as interest rates level of or fall
- Liquidity portfolio
- Consumer loan book
- UK loan book

Less cash drag on FX funding [due to greater deployment in the UK]

Increased interest income on derivatives book as markets improve

Overall loan book growth in all areas

Fees and Commissions:
Growth in AUM and improved market conditions resulting in increased management and performance fees

Greater market activity increases capital markets and corporate finance fees

Full year income from Straumur´s operations

Increase in lending related fees as loan books in UK and Iceland grow

Financial income:

Healthier markets to positively impact TM´s investment portfolio (until closing of sale) and Kvika´s market making and proprietary investment activities

Impairment levels:

Strong focus on credit quality

Growth in lower risk lending – mortgages

Improved efficiency with cost control and capital management:

Continued headcount control

Salary levels at healthy levels
- Lower inflation levels
- Increased focus on variable pay versus fixed salaries

General cost reductions already approved

Capital:
Management of CAR ratio within 2-4% buffer above capital requirements

Issue Tier 2 and other forms of capital debt instruments if they are economically feasible

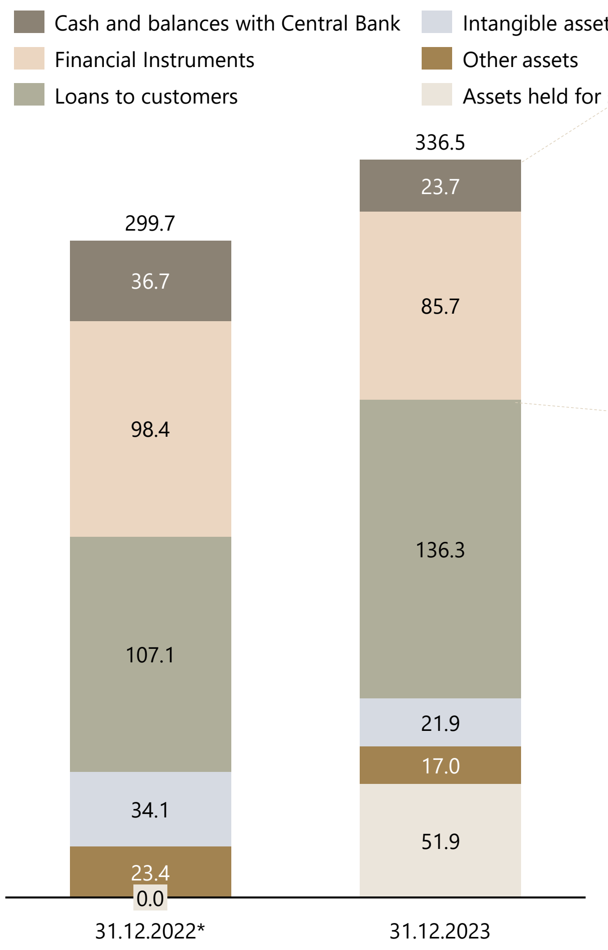
20%+ RoTE

Appendix

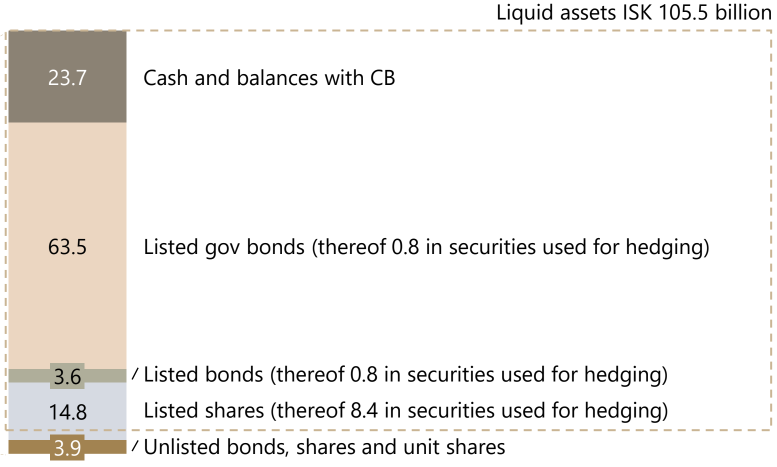
Balance Sheet: Assets

Over 30% of the balance sheet consists of liquid assets

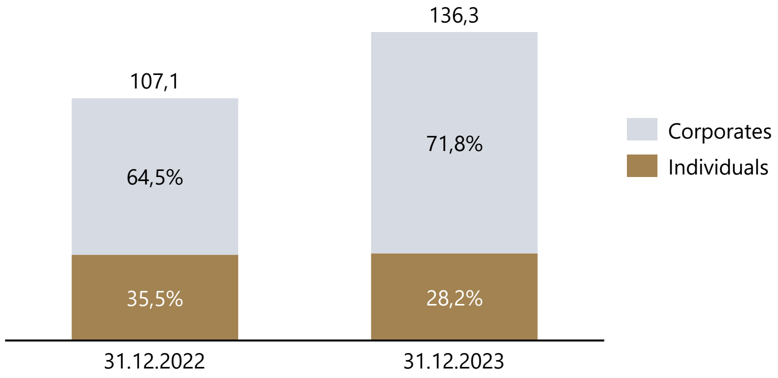
Assets
ISK billions



Cash and financial instruments
31.12.23 / ISK billions



Loan book by customer type
ISK billions



- An increase of ISK 36.8 bn. in assets since year-end 2022
- Loan book increase of ISK 29.2 bn. since year-end 2022
- Loan book growth in the period is mainly attributable to strong growth in corporate domestic lending
- Liquid assets amount to ISK 105.5 bn., 31.4% of total assets and 77% of loans to customers
- ISK 11.7 bn. positive CPI balance at 31.12.2023

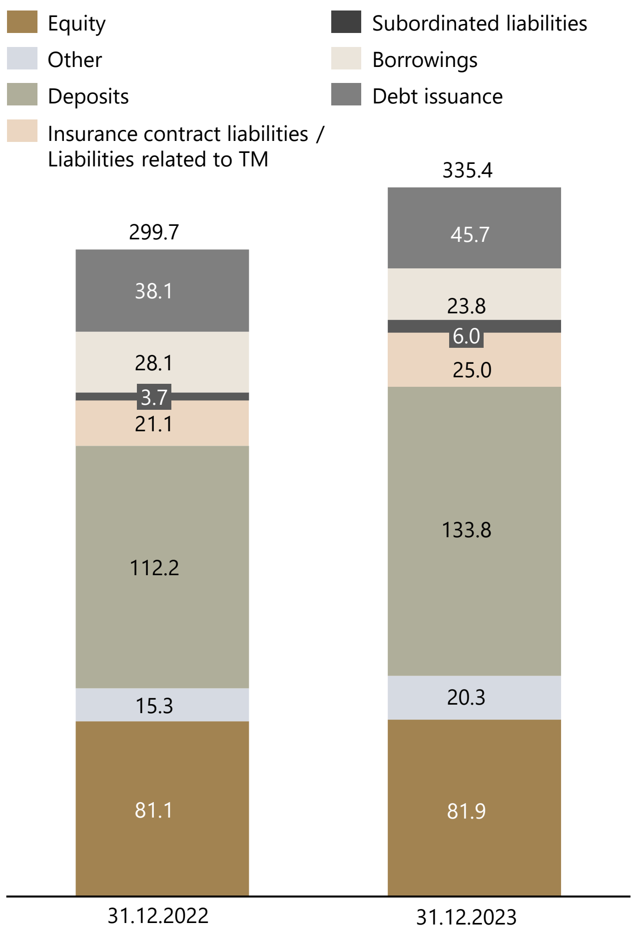
*Comparative information has been restated due to implementation of IFRS17, see notes in the Condensed Consolidated Financial Statements 30 September 2023

Balance Sheet: Liabilities

Significant growth in retail deposits

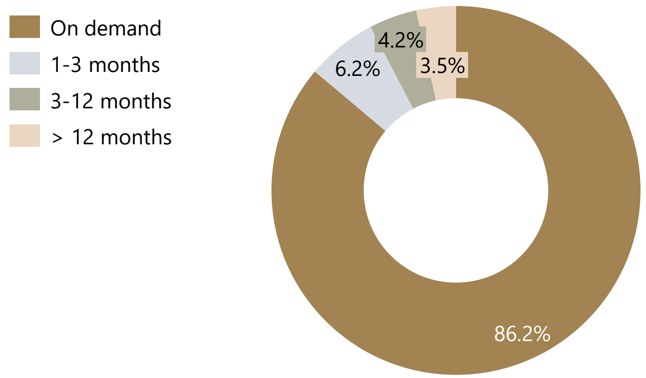
Liabilities and equity

ISK billions



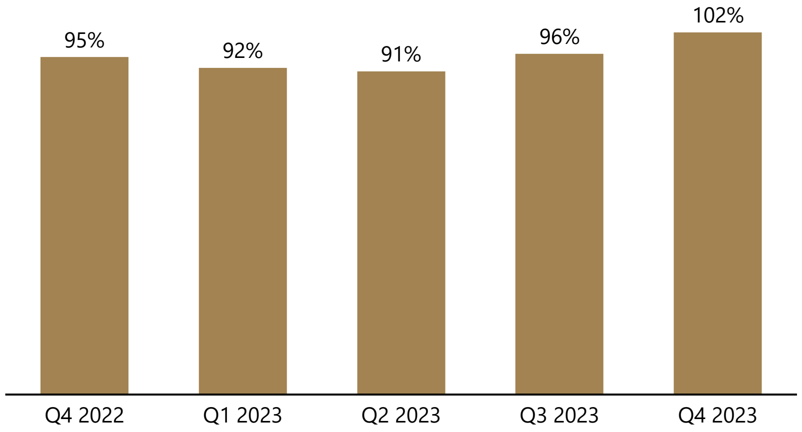
Maturity of deposits

31.12.23 / (%)



Loans to deposits

(%)



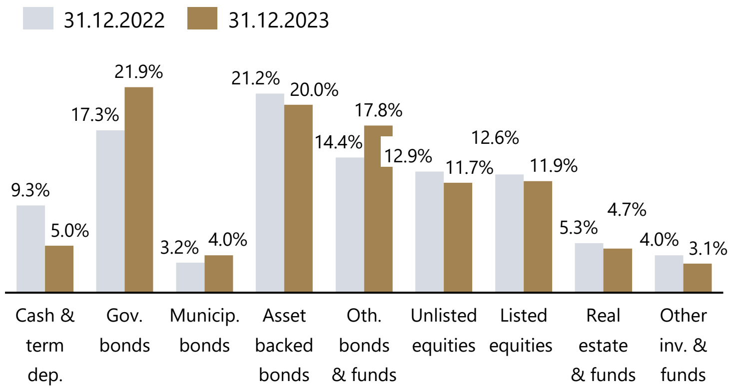
- Liabilities increase by ISK 35.7 bn. since year-end 2022, mainly driven by growth in deposits
  - Deposits increased by ISK 21.6 billion year on year driven by growth in retail deposits
- The Bank issued bonds in NOK and SEK under the EMTN programme as well as issuing ISK 2 bn. of subordinate debt in the domestic market
- Liabilities related to the insurance entity, TM hf., amounting to ISK 25 bn. are now categorized as Liabilities associated with assets classified as held for sale

Financial Instruments: TM Insurance

Additional information

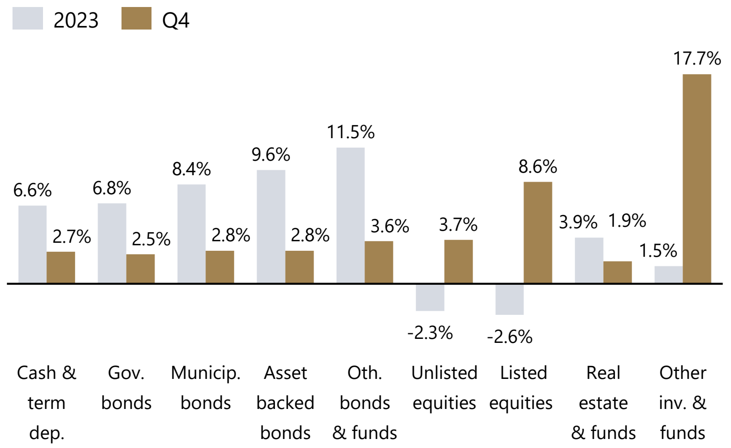
Investment asset composition

(%)



Investment asset returns

(%)



Largest exposures

31.12.2023 / ISK m.

	Book value 31.12.2023	Book value 31.12.2022
Fixed income		
RIKS 26	2,620	1,780
RIKB 25	1,323	1,177
RIKB 24	1,297	869
OSF V	1,127	1,110
LSS 150434	1,002	1,050
Variable income - listed		
Arion	693	683
Ölgerðin	465	44
Nova	395	241
Reitir	379	671
Alvotech	339	405
Variable income - unlisted		
Eskja (through EE ehf.)	1,569	1,634
Rafklettur (real estate)	1,225	1,165
JR – TRF (equity fund)	603	593
Eyrir Invest	594	806
Freyja framtakssjóður (PE fund)	428	408

- Subsidiary and revenue segment TM Insurance holds a significant amount of investment assets due to traditional insurance operations
- TM's investment portfolio yielded a positive return on investment of 4.2% in Q4 and 6.4% in 2023
  - Return on investment includes net financial income as well as interest income from securities held through OCI
- Investment assets held in TM's portfolio amounted to ISK 37.8 bn. at 31 December 2023, thereof 63.7% was held in fixed income instruments, 23.5% in equity and 12.8% in cash, funds and other investments
- Fixed income instruments are partially accounted for through FVPL (generating investment income/loss) and partially held to maturity though OCI (generating interest income)
- TM's fixed income portfolio duration is 2.2 years at 31 December 2023, compared to 2.9 years at 31.12.2022. At 31 December 2023 33% of the portfolio is indexed

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