Kvika banki hf.

Q1 2024 Financial Results

02 May 2024

ISK 1,345 m.	ISK 1,083 m.	12.1%	22.1%
Total profit before tax	Total profit after tax	Total RoTE 3M	CAR

3M 2024

Profit before tax from continuing operations of ISK 1,215 million, a 35% increase YoY as all business segments provide a solid performance and costs remain controlled

Profit before tax of ISK 1,345 m. for 3M 2024, including TM Insurance, resulting in RoTE of 12.1%

Net interest income increases 17% YoY, mainly due to increased lending and higher interest rates

Net fee and commission income increases 10% YoY, mainly driven by strong performance in Commercial Banking and in the UK

TM’s insurance operations were in line with expectations in a traditionally claims heavy quarter, but challenging market conditions continue to negatively affect net financial income

Sales process of TM is ongoing

Commercial Banking

Segment highlights

Continued revenue growth with net operating income growing over 20% YoY

- Loan portfolio has exhibited healthy growth, despite prevailing high interest rates and a deceleration in private consumption. This has resulted in continued improvement in net interest income which grew over 22% YoY

- Net fee and commission income also exhibiting strong growth, supported by Straumur´s successful entrance into the domestic retail payments market

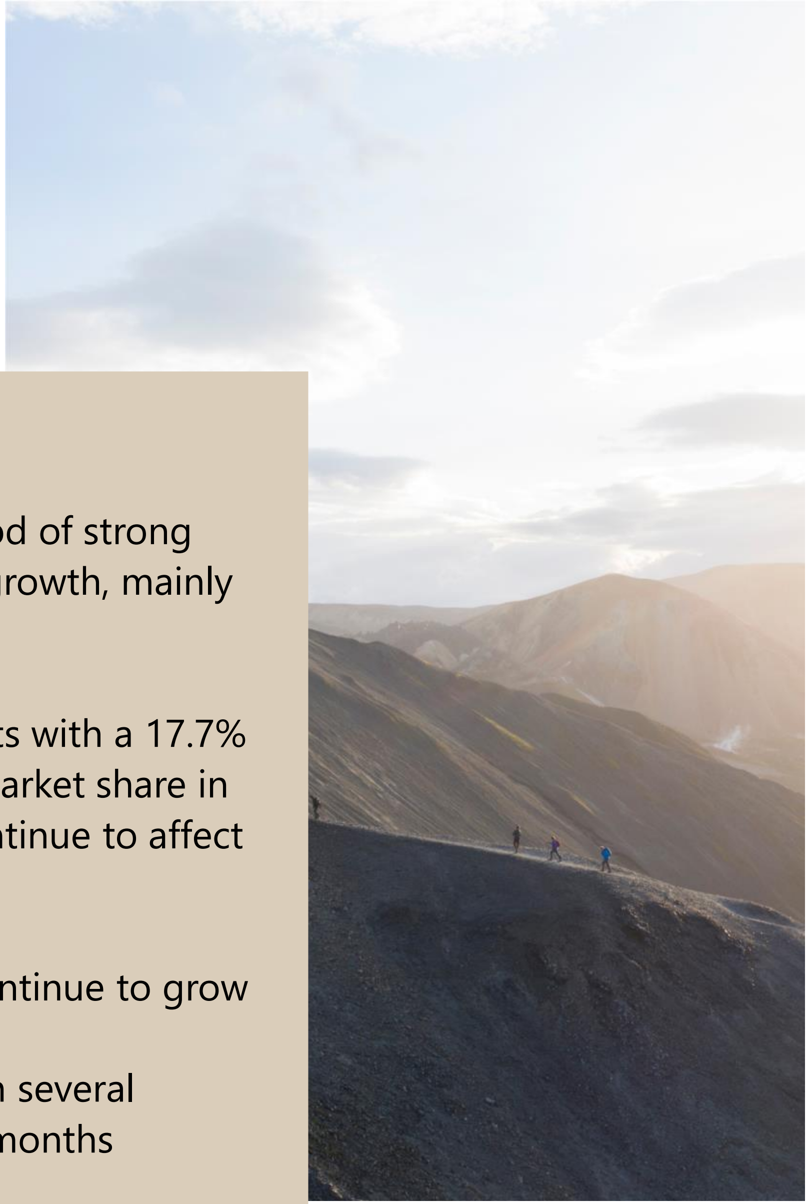
- Continued focus on expanding Kvika´s banking services to retail clients via Aur. Over 31,000 new cards have been issued to individuals since the launch of the Aur platform in August 2023. Further development in the Aur app is underway with a more focused marketing approach

Corporate Banking & Capital Markets

Segment highlights

Strong presence in capital markets and Corporate Banking loan book continues to grow

- Moderate lending growth in Q1 after period of strong growth in 2023 as reflected in a 55% YoY growth, mainly driven by property backed loans
- Ongoing strong presence in capital markets with a 17.7% market share in fixed income and 13.2% market share in equity trading. Poor market conditions continue to affect trading volumes
- Customer base and volumes in FX sales continue to grow
- Pick up in Corporate Finance activities with several projects expected to complete in coming months



Asset Management

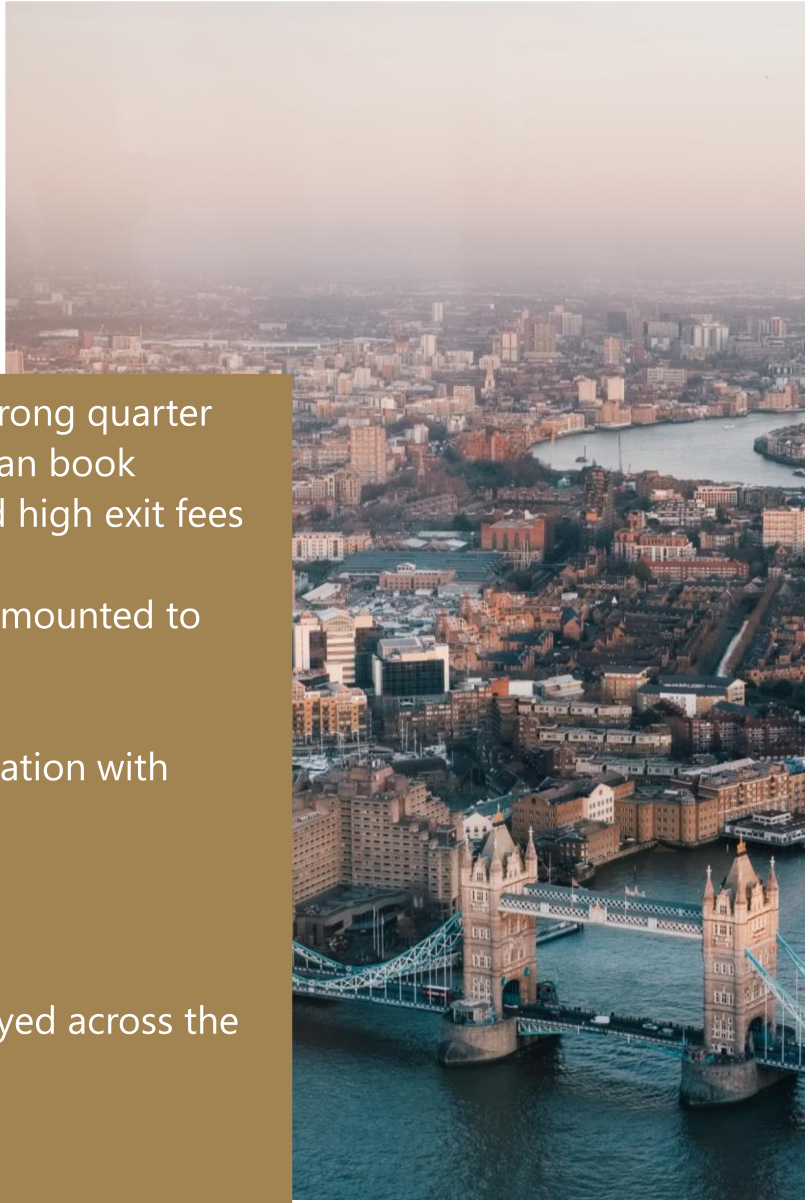
Segment highlights

Growth in assets under management and strong mutual fund performance

- Assets under management ISK 474.5 billion at end of March 2024 an increase of ISK 4.5 billion during the quarter
- Increased marketing presence and net positive inflow into actively managed retail funds during the quarter
- Launch of a fund investment feature in the Kvika Asset Management app in March
- Continued strong performance by Kvika´s mutual funds in Q1

UK

Segment highlights



Record quarter as interest margin continues to rebound and high exit fees result in robust performance

- Robust performance in Q1 driven by very strong quarter for Ortus Secured Finance due to healthy loan book growth, continued improvement in NIM and high exit fees
- Q1 PBT of the consolidated UK operations amounted to ISK 245 million (GBP 1.4 million)
- Upcoming launch of UK PE fund, in collaboration with Kvika Asset Management
- Improvements in corporate finance pipeline
- Multiple cost management strategies deployed across the UK division in line with the group strategy

TM Insurance

Asset held for sale

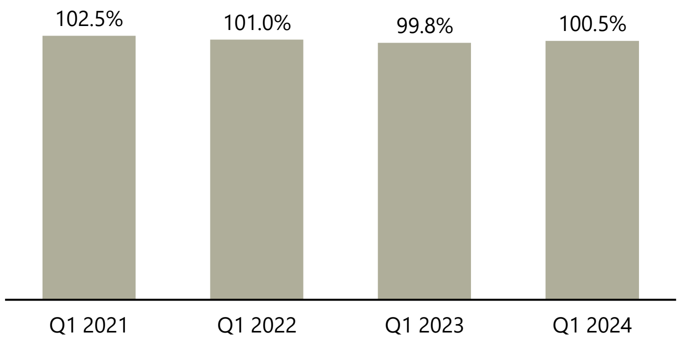
Income statement

ISK 000

	3M 2024	3M 2023 restated
Net interest income	202,733	269,828
Net fee and commissions income	250	99,783
Insurance revenue	5,015,694	4,578,482
Incurred claims and net expense from reinsurance contract held	(4,042,635)	(3,576,652)
Net financial income	55,790	317,277
Other operating income	32,490	34,437
Administrative expenses related to insurance service	(1,179,132)	(1,236,461)
Net impairment	6,591	94
Income tax	(26,236)	(82,099)
Administrative expenses, stranded cost	38,298	30,181
Income tax	(7,660)	(6,385)
Profit for the period	**96,183**	**428,482**
Claims ratio	*75.3%*	*75.9%*
Cost ratio	*19.9%*	*21.7%*
Reinsurance ratio	*5.3%*	*2.3%*
Combined ratio	***100.5%***	***99.8%***

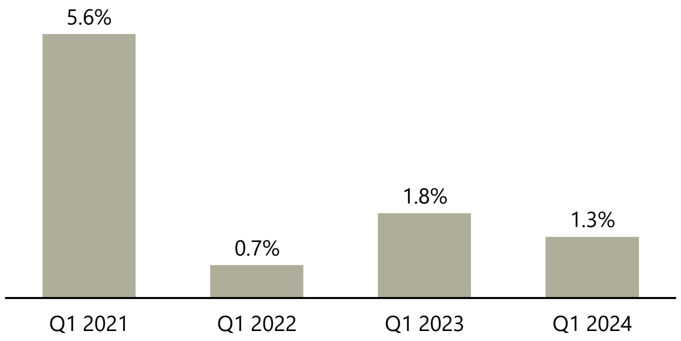
Combined ratio

(%)



Return on investment assets

(%)



- Results from TM's insurance operations overall in line with expectations during a seasonally claims heavy quarter
- Combined ratio of 100.5%, decrease in cost ratio in the period countered by hardening reinsurance markets and less compensation from large claims
- Insurance revenues grew by 9.5% YoY while claims grew by 8.8% as TM places focus on insurance pricing and growing the customer base in line with revised strategy
- Return on investment assets of 1.3%
- Sales process of TM Insurance is ongoing

Financials

Income Statement

3M 2024

Income Statement

ISK m.

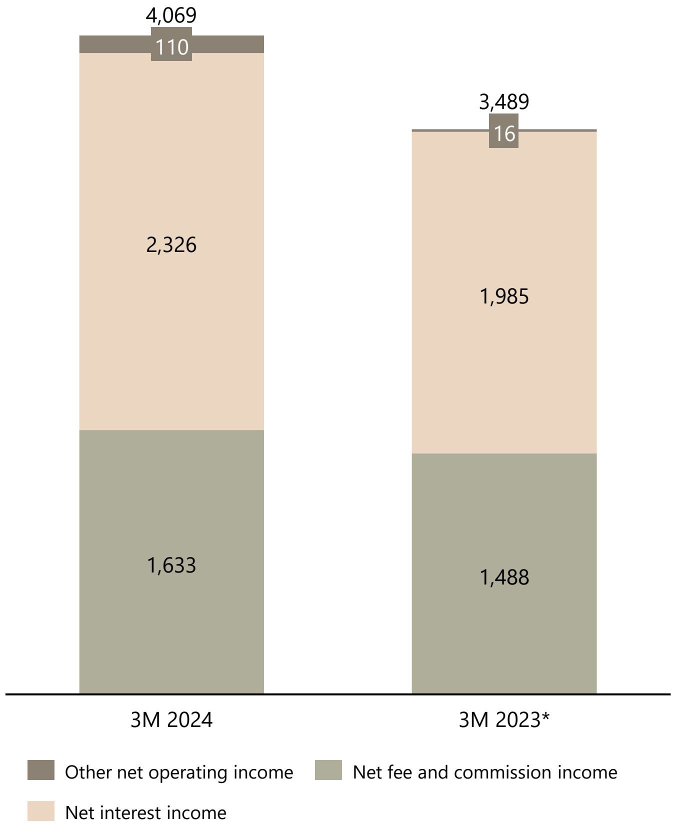
	3M 2024	3M 2023 restated*	Diff.
Net interest income	2,326	1,985	*341*
Net fees and commissions	1,633	1,488	*145*
Other net operating income	110	16	*94*
Net operating income	**4,069**	**3,489**	*580*
Administrative expenses	(2,666)	(2,635)	*(31)*
Net impairment	(188)	41	*(229)*
Revaluation of cont. consideration	-	-	-
Pre-tax profit	**1,215**	**895**	*320*
Income tax	(152)	(104)	*(48)*
Special bank taxes	(76)	(52)	*(24)*
After-tax profit	**987**	**739**	*249*
Profit after tax from discontinued operations	96	428	*(332)*
Profit for the period	**1,083**	**1,167**	*(84)*

Profit before tax of **ISK 1,345** m. for 3M 2024, **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.



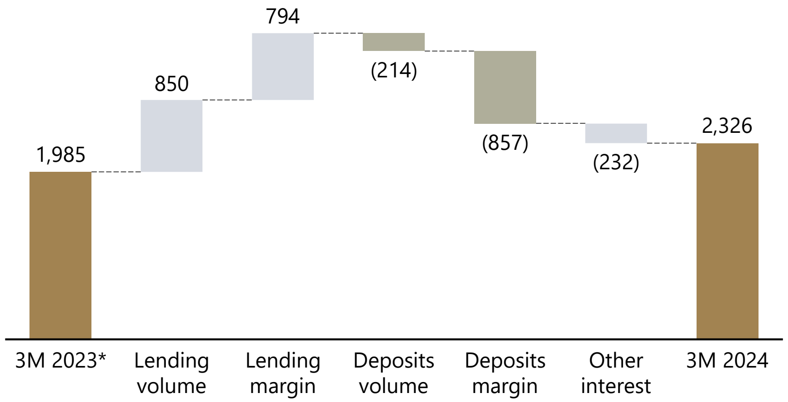
*Comparative information has been restated. Reference is made to note 3 in Kvika's Consolidated Financial Statements dated 31.03.2024 for further information.

Net Interest Income

Interest income stabilizing at higher levels

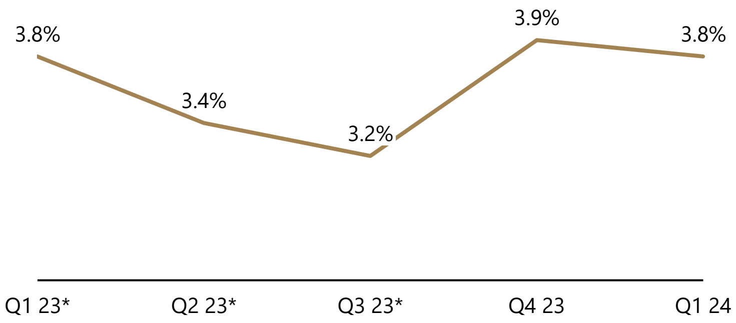
Net interest income 12M comparison

3M 2023* to 3M 2024 / ISK m.



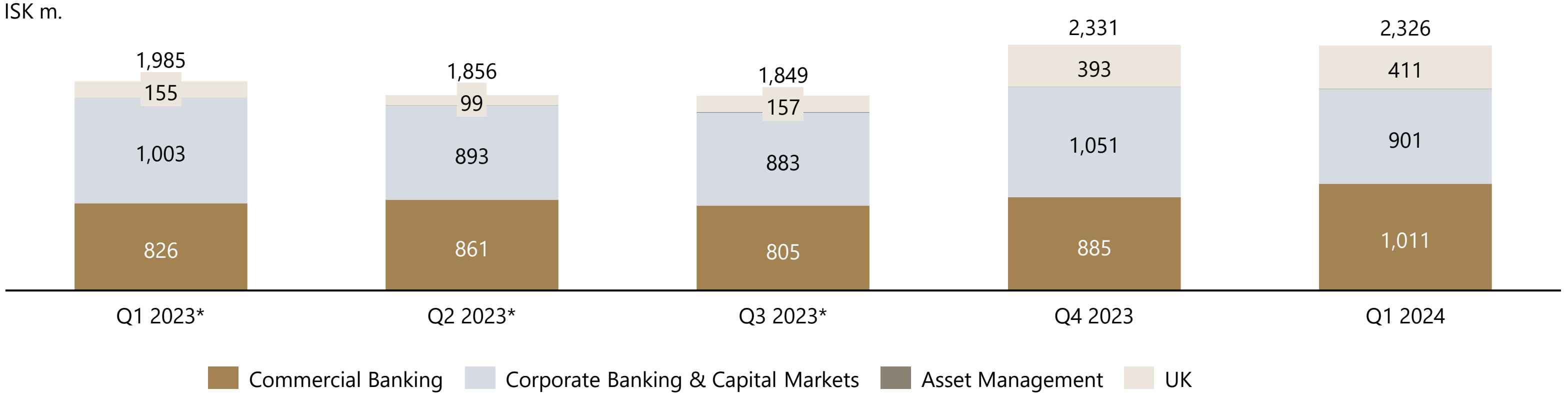
Net interest margin development

ISK m.



Net interest income development (NII)

ISK m.



*Comparative information has been restated. Reference is made to note 3 in Kvika's Consolidated Financial Statements dated 31.03.2024 for further information.

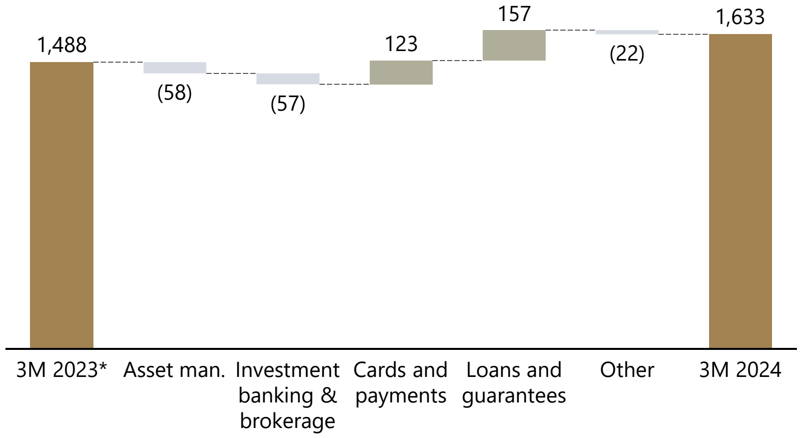
- Net interest income grows by 17.2% from Q1 2023 and remains stable from Q4 2023
- Interest income due to lending grows by ISK 1,644million from Q1 2023, both due to higher rates and increased volume
  - Loan book grows by 7% in Q1 2024, mainly split across Corporate Banking and UK
- Interest expense due to deposits grows by ISK 1,071 million mainly due to increased cost of deposits caused by rising interest rates and somewhat due to increased volume
- Other interest income decreases partly due to less income from interest rate derivatives
- Net interest margin of 3.8% p.a. in 3M 2023
  - Calculated as net interest income to total interest-bearing assets

Net Fee and Commission Income

Fee income continues to gain momentum

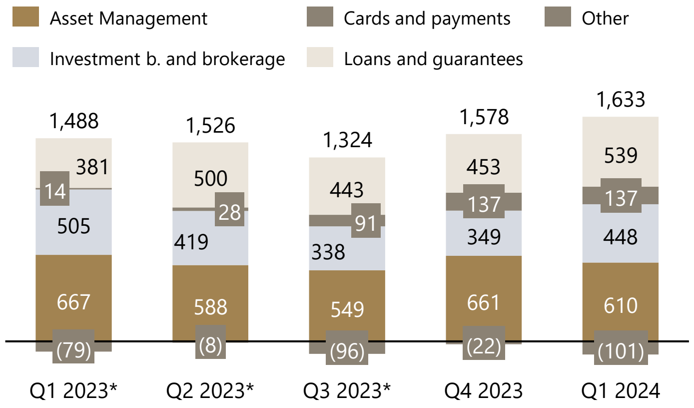
Net fee and commission income

3M 2023* to 3M 2024 / SK m.



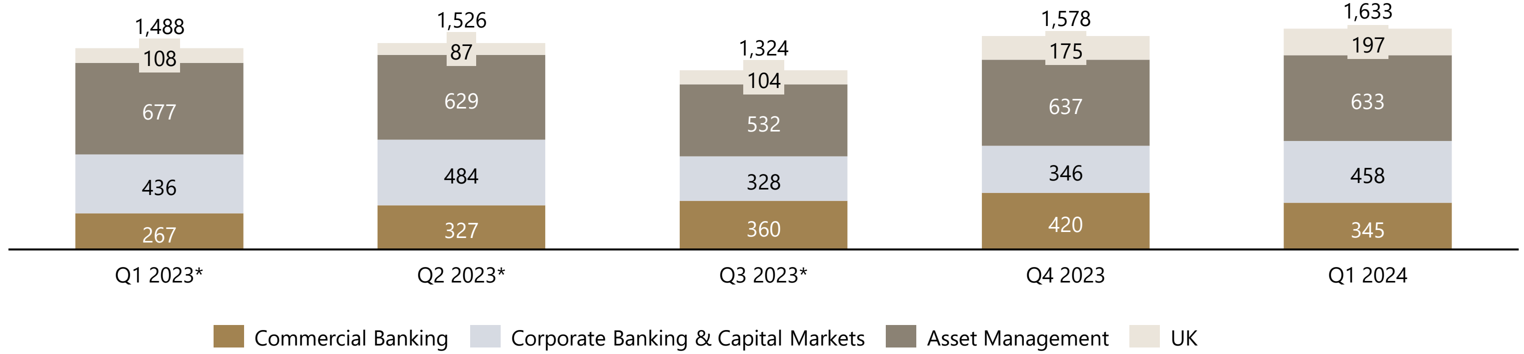
Net fee and commission income

ISK m.



Net fee and commission income development

ISK m.



- Net fee and commission income continues to be a stable source of income and continues to rebound in Q1
- Fee and commission growth YoY driven by fees derived from lending activities as well as cards and payments, as Straumur becomes fully operational in late 2023
- Increase in net fee and commission income in Q1 mainly driven by increased fees in Corporate Banking and Capital Markets as other segments remain stable

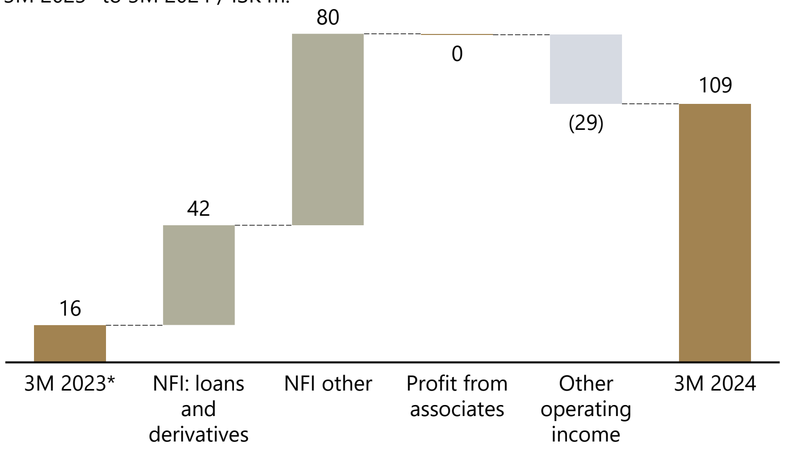
*Comparative information has been restated. Reference is made to note 3 in Kvika's Consolidated Financial Statements dated 31.03.2024 for further information.

Other Net Operating Income

Net financial income impacts the group less as TM is held for sale

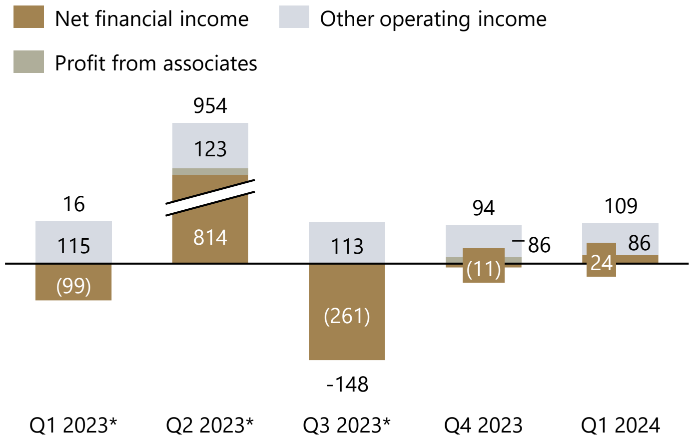
Other net operating income

3M 2023* to 3M 2024 / ISK m.



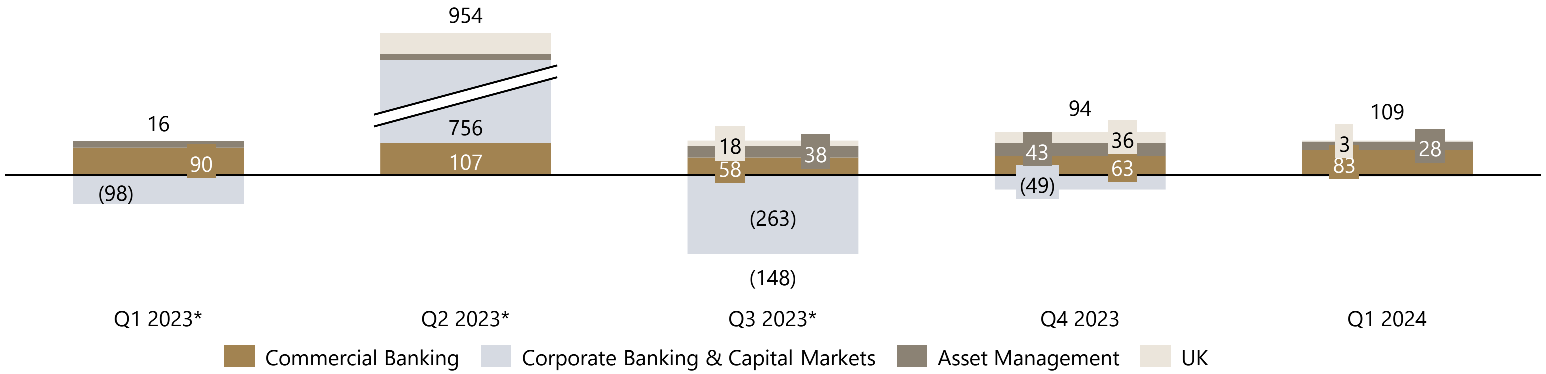
Other net operating income

Composition / ISK m.



Other net operating income

ISK m.



- Other net operating income consists of net financial income, Kvika's share in the profit or loss of associates and other operating income
- Net financial income increases by ISK 164 m. from Q1 2023
  - Kvika's 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
- No profit or loss from associates is incurred in the period and other operating income decreases by ISK 29 million

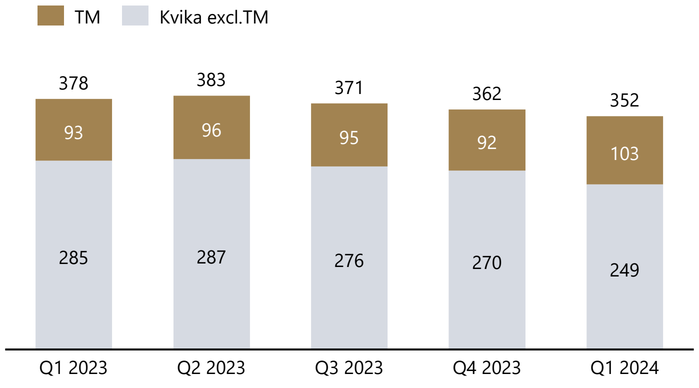
*Comparative information has been restated. Reference is made to note 3 in Kvika's Consolidated Financial Statements dated 31.03.2024 for further information.

Operating Expenses

Administrative expenses decrease from Q4 2023

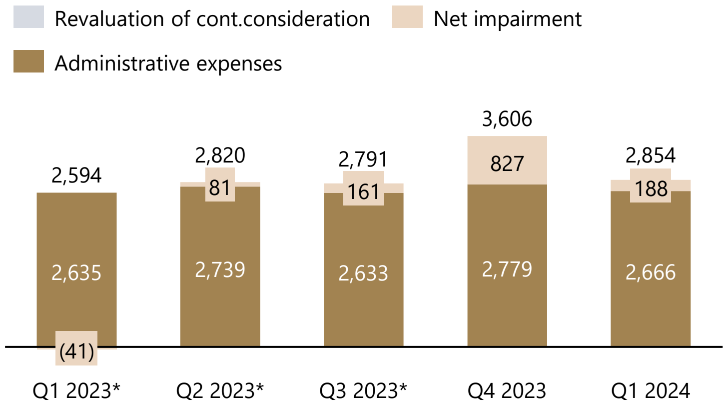
Employee development

Full time employees at the end of each period



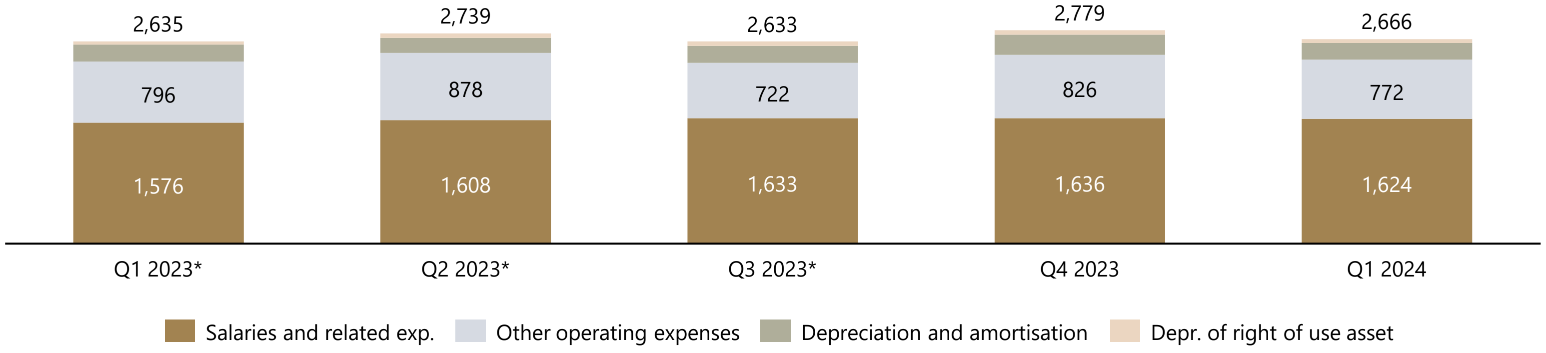
Operating expenses

ISK m. / restated comparative information



Administrative expenses

ISK m. / restated comparative information



- Administrative expenses decrease by 4% from Q4 2023 as actions to increase operational efficiency continue to stabilize costs at lower levels
  - Total operating expenses, administrative expenses, revaluation of contingent consideration and net impairment, amounted to ISK 2,854 million in Q1
- Administrative expenses increase marginally YoY despite average inflation of 8% in the period
- Employee development continues to trend down as infrastructure growth stabilises and development of key products is completed

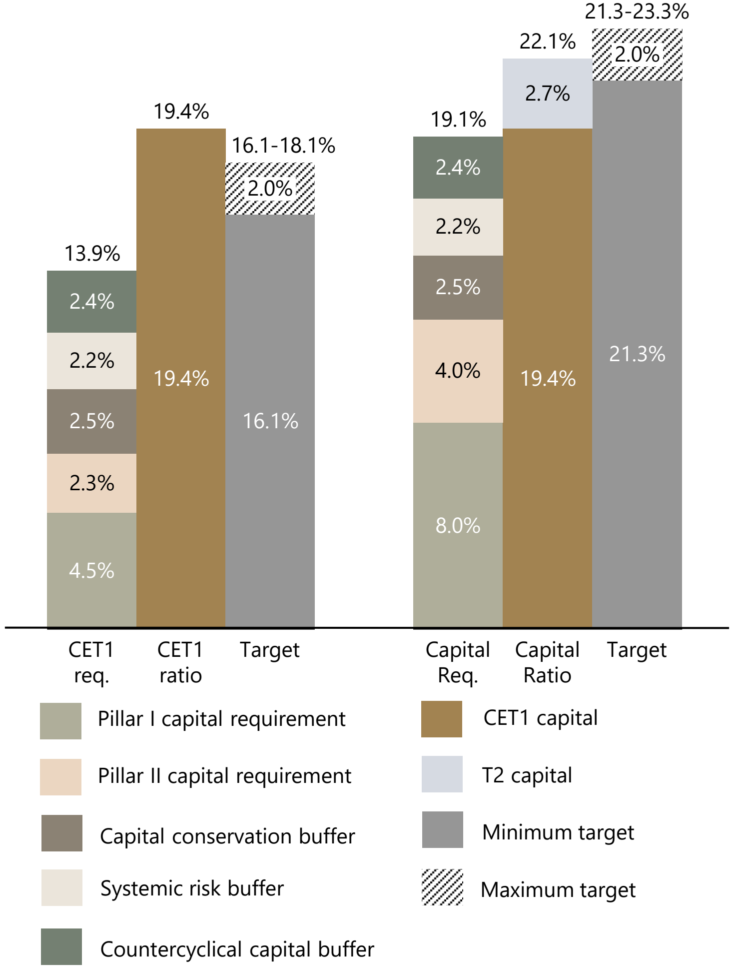
*Comparative information has been restated. Reference is made to note 3 in Kvika's Consolidated Financial Statements dated 31.03.2024 for further information.

Capital Position

Strong capital position well above regulatory requirements

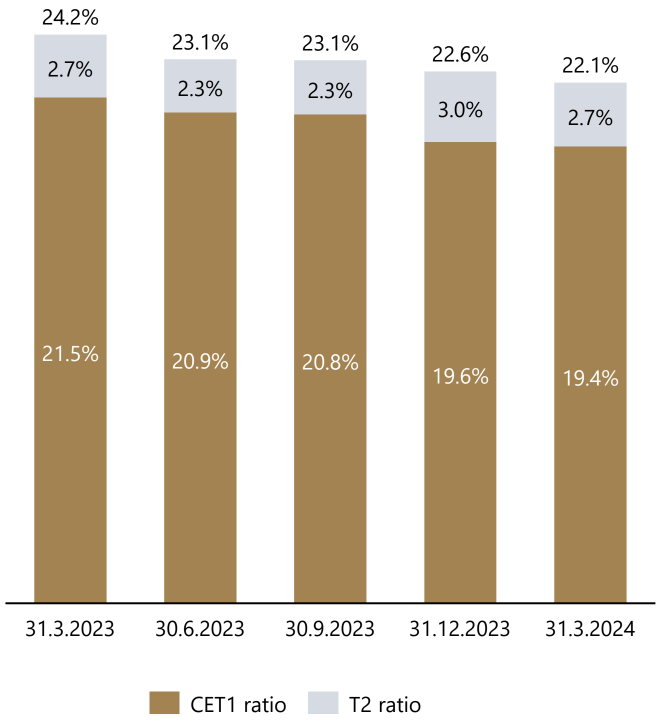
Capital position and requirements

31.03.2024/ (%)



Capital ratio

31.03.2024 / (%)



- CAR of 22.1% at the end of March 2024, within management target
  - CAR of 21.7% excluding unaudited retained earnings for Q1 2024
  - Kvika aims to maintain a management buffer of 2% to 4% over current and anticipated CAR requirements
- The systemic risk buffer is expected to increase 0.2pp for Kvika due to changes in composition of risk weighted exposure between Iceland (3% SyRB) and UK (0%* SyRB)
- On a financial conglomerate basis, Kvika has a group solvency of 1.18 at the end of March 2024
  - Solvency of 1.16 excluding unaudited retained earnings for Q1 2024
  - Insurance operations solvency of 1.4 at 31 March 2024
- Capital, including unaudited retained earnings for Q1, exceeds regulatory requirements by ISK 7.6 bn. on consolidated solvency basis for the group and ISK 5.5 bn. on CAR basis excluding insurance activities

*For institutions with RWA less than GBP 175 billion

Liquidity and Funding Ratios

Continued strong liquidity position

Liquidity coverage ratio (LCR)

31.03.2024 / ISK bn.

High quality liquid assets	76.1
Net outflow	26.6
Liquidity coverage ratio	**286%**
Minimum regulatory requirement	100%

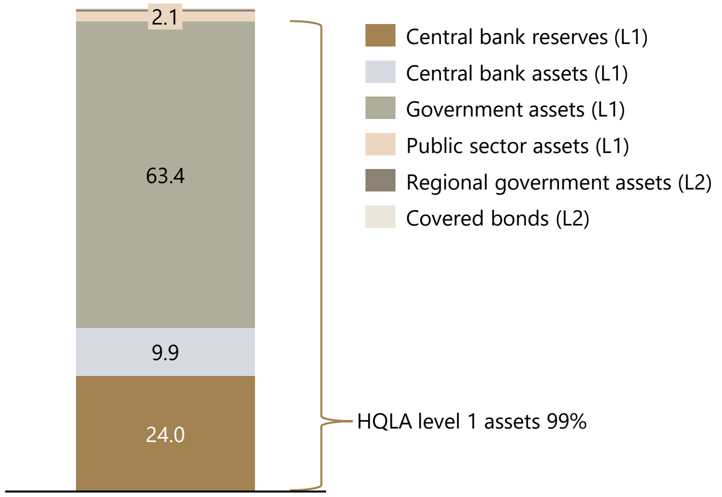
Net stable funding ratio (NSFR)

31.03.2024 / ISK bn.

Available stable funding	235.9
Required stable funding	171.9
Net stable funding ratio	**137%**
Minimum regulatory requirement	100%

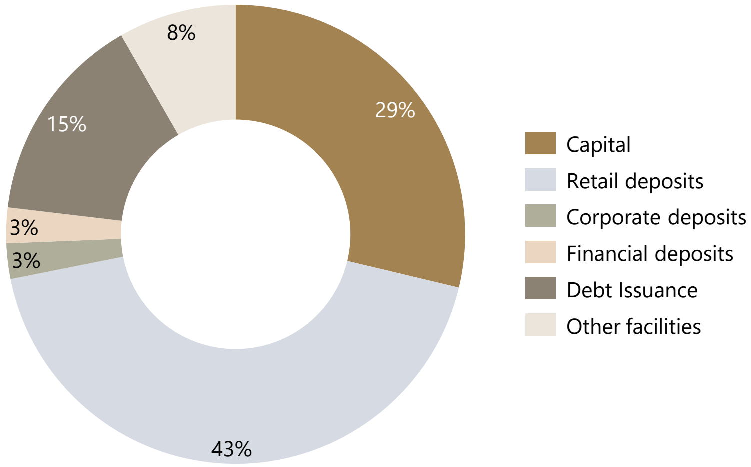
High quality liquid assets (HQLA)*

31.03.2024 / (%)



Available stable funding

31.03.2024 / (%)



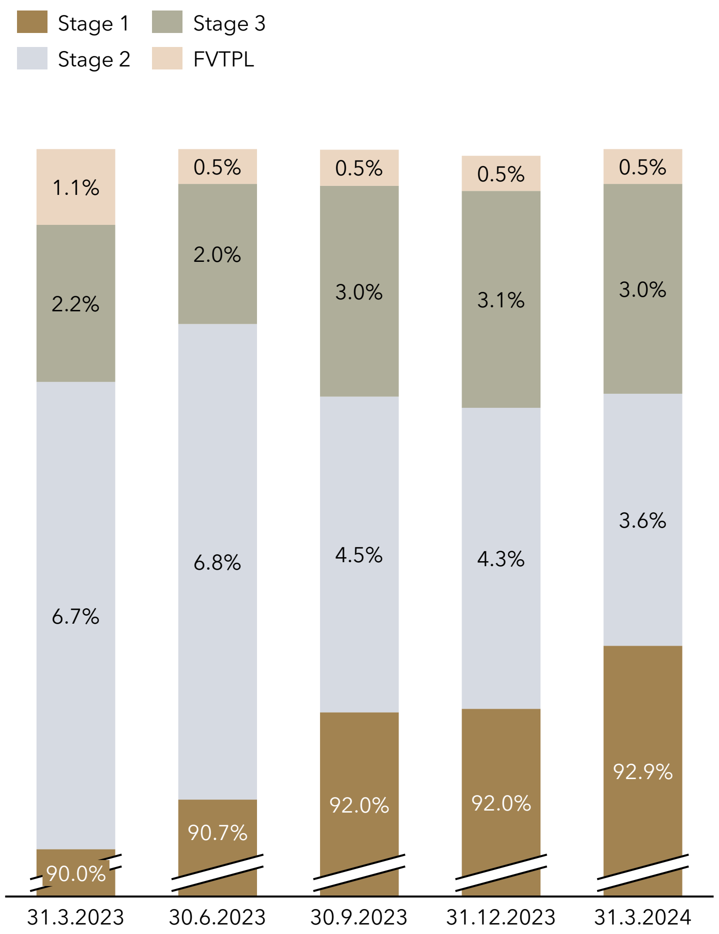
- High Quality Liquid Assets (HQLA) ISK 76 bn. excluding mandatory reserves and collateral to the Central Bank
- Liquidity coverage ratio is strong at 286%, where the regulatory minimum is 100%
- Net stable funding ratio is strong at 137%, where the regulatory minimum is 100%
- Asset and liability management 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

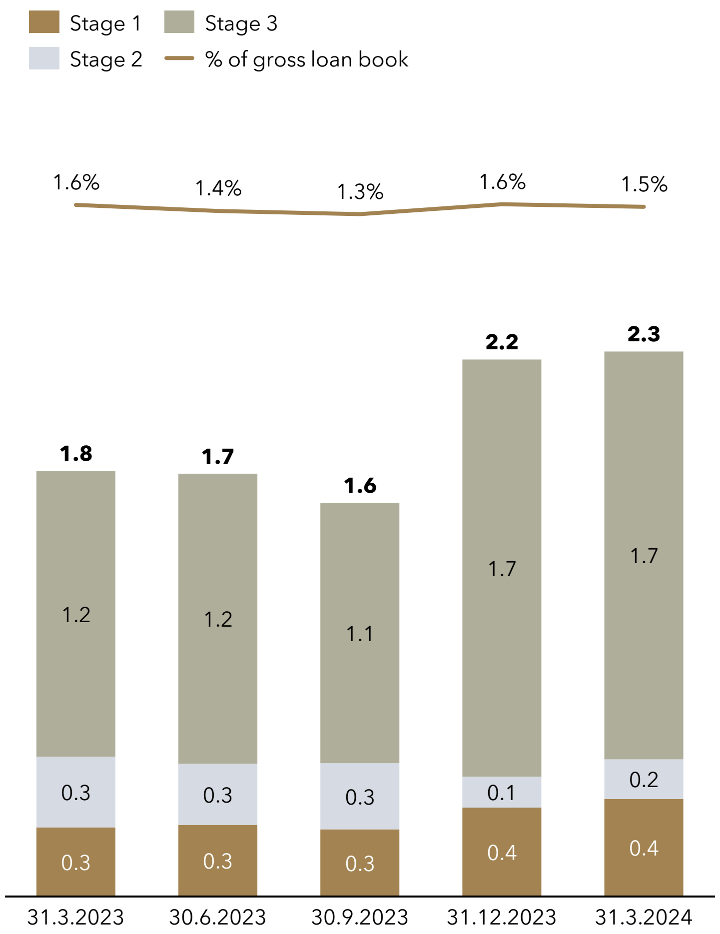
Credit Quality

Considerable improvement in Q1

Loans to customers risk stage allocation
Net loan book / (%)



Impairment loss allowance
ISK billions



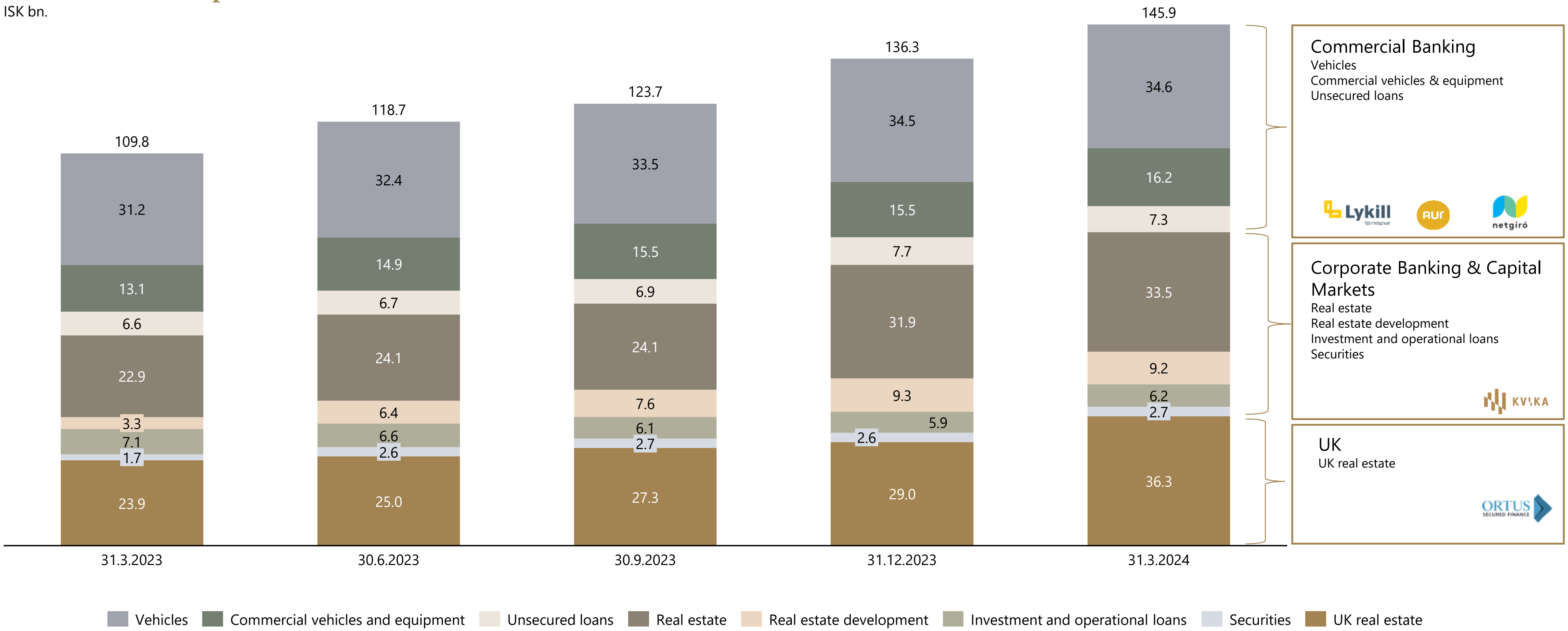
- Stage 1 loans amount to 92.9% of the net loan book, a significant increase from 92.0% at the end of Q4 2023, as exposures mainly categorized as stage 2 loans are resolved and/or returned to stage 1
- Stage 3 loans remain stable between quarters
  - Average LTV of stage 3 loans is 65% (exposures larger than ISK 10 m.)
- Impairment loss allowance from stage 3 loans increased in Q4 due to an ISK 530 m. special impairment of a single domestic loan exposure

Loans to customers

Lending growth 7% in Q1 2024

Loan book development

ISK bn.

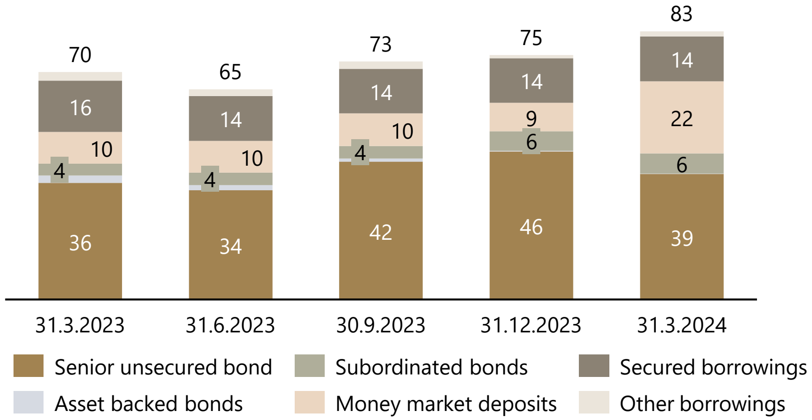


Diversified Funding Program

Solid investment grade rating by Moody's

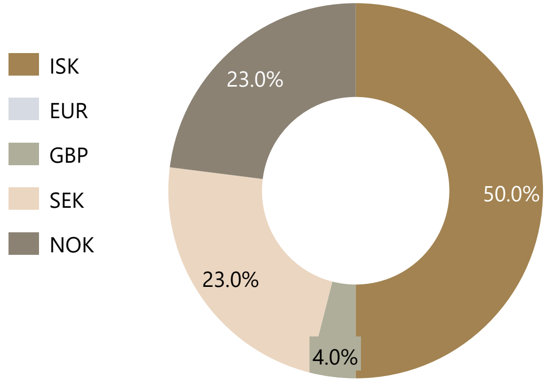
Development of market funding

31.3.2024 / ISK bn.



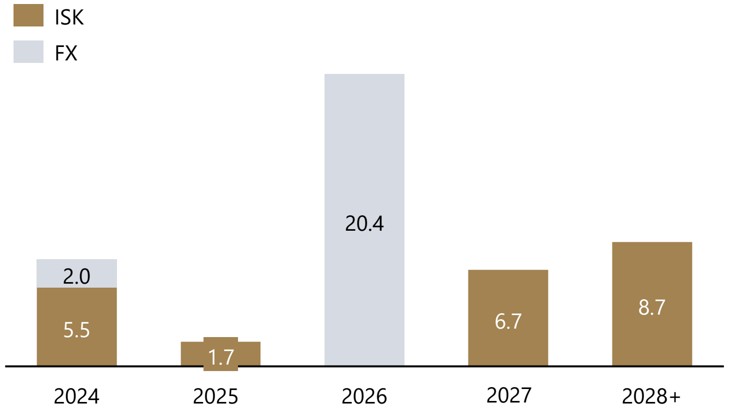
Issue currency

31.3.2024



Maturity of issuance

31.3.2024 / 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 39 bn. of senior bonds outstanding on 31 March 2024 whereof 50% is 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 2023 Kvika issued senior unsecured bonds to the amounts of NOK 250 m. and SEK 500 m. maturing in 2026
- In December 2023 Kvika issued subordinated Tier 2 bonds in the amount of ISK 2 bn. with earliest callable date in 2029 and maturing in 2034

Financial Targets

	Target	12M 2023	Q1 2024
Return on Tangible Equity Pre-Tax	>20%	12.1%	12.1% RoTE of continuing operations: 15.5%
Capital Adequacy Ratio (CAR) Buffer Over Requirement (basis points)	200-400bps	390bps	300bps
Dividend Payout Ratio Dividends and Share Buybacks as % of Profit after Tax	25%	59%	N/A


UK update

UK Developments

Strong Q1 2024 performance underscores strengthened loan book position and the reorganisation of operations

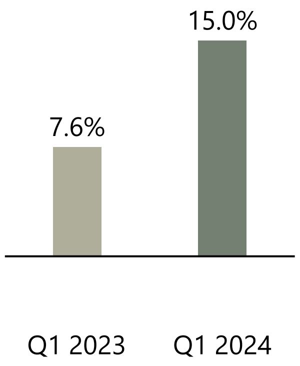
Income Statement

ISK m.

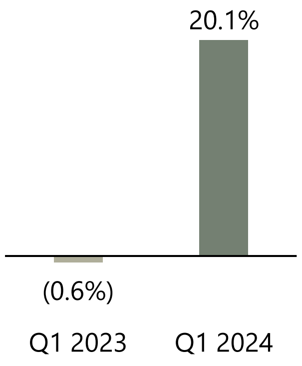
	Q1 2024	***Q1 2023****	*Diff.*
Net interest income	411.3	154.7	256.6
Net fees and commissions	197.0	108.3	88.6
Net financial income	(1.2)	1.8	3.0
Other income	3.8	(0.9)	4.6
Net operating income	**610.8**	**264.0**	**346.8**
Salaries and related expenses	(173.3)	(120.5)	(52.8)
Operating expenses	(102.7)	(155.6)	52.9
Net impairment[1]	(37.9)	92.9	(130.8)
Cost allocation	(52.1)	(86.1)	34.0
Pre-tax profit	**244.8**	**(5.4)**	**250.2**

Notes: 1) Net impairment figure is positive due to the sale of single loan offsetting impairmenst in the quarter

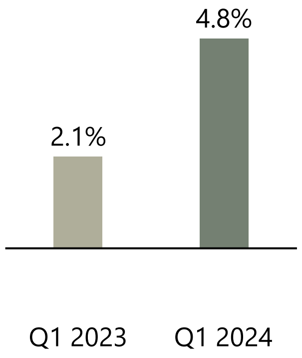
NOI
% of Group



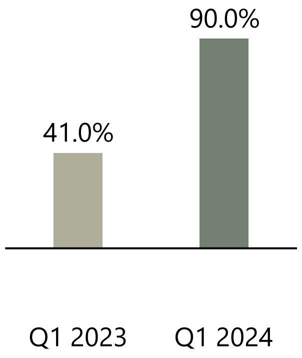
Pre-tax profit
% of Group



Net interest margin
(LTM)



Floating rate
% of loan book



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- Net interest income more than doubles year-on-year due to significant loan book growth and a higher proportion of floating rate loans, enhancing NIM and NFC
  - Floating rate loan share: 0% in Q1 2022, 41% in Q1 2023, and 90% in Q1 2024
- While lending activity is expected to continue to trend favourably quarter-on-quarter, Q1 results outperformed, as income generation during the period was accelerated by prepayments on loans that had a minimum guaranteed return and high prepayment fees
- Opportunities exist to reduce funding costs as UK policy rates likely peak, with anticipated cuts in 2024.
- Cost-saving initiatives launched in Q4 2023 focused on reducing headcount, cutting office costs and improving utilisation of internal back-office capabilities.
  - Main drivers of OPEX cost savings include professional fees and broad savings across the cost structure
  - Salaries increased year-on-year, partly due to heightened business activity. However, the number of FTEs has decreased both year-on-year and quarter-on-quarter, which supports a lower salary base going forward
- New business development initiatives to increase assets under management (AuM) are being pursued, thereby building a stronger base of recurring revenues and carry potential, which will also support the corporate finance pipeline

Growing UK Investments and Revenue Streams

Well-thought-out strategic journey for KSL in as new initiatives to grow AuM are underway

Current UK Investments & AuM[1]

Cornerstone Healthcare Group

Leading provider of complex care with a strong buy and build story

Year: 2018 Sector: Healthcare

c. ISK 282m. Invested | **c. ISK 5.1 bn.** AuM

Refined Brands.

Buy and build emphasis with collection of online ethical fashion brands

Year: 2021 Sector: E-commerce

c. ISK 418m. Invested | **c. ISK 650m.** AuM

Arcanologists

Alternative fashion retailer with significant growth potential

Year: 2023 Sector: E-commerce

c. ISK 346m. Invested

c. ISK 1.0 bn. Total Invested | **c. ISK 5.7 bn.** Total AuM

Building Pipeline of Opportunities over the next 3 years

Focus on new fund initiatives leading to AuM growth

- Upcoming launch of UK focused PE fund with ISK 3.5 – 5.0 bn. (GBP 20-30m) initial target fund raise in collaboration with Kvika Asset Management
- Focus on private equity investments in UK's lower to mid-market through partnerships, building on successful track record

Focus on specialised projects leading to AuM growth

- Target areas with competitive advantages to enhance success rates
- Build niche investment opportunities through existing relationships
- Leverage licenses and infrastructure to back new initiatives, such as IFA and family offices with UK partners

Stronger fee generation

- Enhance recurring fee generation and carry potential
- Corporate finance pipeline with ad hoc advisory mandates

Ambition FY26: ISK 20 bn. of total AuM invested in the UK

1) As at 31.03.2024

The Ortus Loan Book

Successful emphasis on increasing share of floating rate loans in high interest rate environment

Q4 2021	Q1 2023	Q1 2024
ISK 21.8 bn. Size of portfolio	ISK 23.1 bn. Size of portfolio	ISK 36.2 bn. Size of portfolio
ISK 160 m. Average loan size	ISK 155 m. Average loan size	ISK 210 m. Average loan size
28% Residential property share of collateral mix	59% Residential property share of collateral mix	47% Residential property share of collateral mix
34% Top ten loan concentration	30% Top ten loan concentration	37% Top ten loan concentration
0% Share of floating rate loans	41% Share of floating rate loans	90% Share of floating rate loans
11.2% Share of Stage 3 loans (Q2 22)	2.8% Share of Stage 3 loans	4.6% Share of Stage 3 loans

Highlights

- Strong demand has allowed the Ortus team to grow the overall gross book year-on-year from ISK 23.1 bn. to ISK 36.2 bn. as at the end of March 2024 while maintaining strict underwriting standards
- In response to rising short-term rates in the UK, a concerted effort has been made to move the book to variable rate lending to reduce interest rate risk
- Loan book continues to maintain a significant share of more liquid residential property in the collateral mix
  - Residential property >45% of loan book

Footnotes

UK Business Outlook

Three-year growth horizon

Three-year targets aim to reach a loan portfolio of ISK 55 billion and total assets under management invested in the UK of ISK 20 billion

1

Lending / Ortus

- Continued growth of loan book through a combination of on-and-off balance sheet strategies to ISK 55 bn. (from ISK 36.2 bn. today)
- Room for growth in the market with current product offering
- Opportunities in funding as external environment improves

2

Asset Management and Corporate Finance / KSL

- Upcoming launch of UK focused PE fund with an initial raise of ISK 3.5 – 5.0 bn. (GBP 20-30m)
- Converting Corporate Finance deals in the pipeline to support fee income
- Aim to have ISK 20 billion of AuM invested in the UK within three years through a combination of:
    - Growth from existing investments, although we do expect some exits
    - Second closing of a UK focused PE fund
    - New funds that are currently at early stages

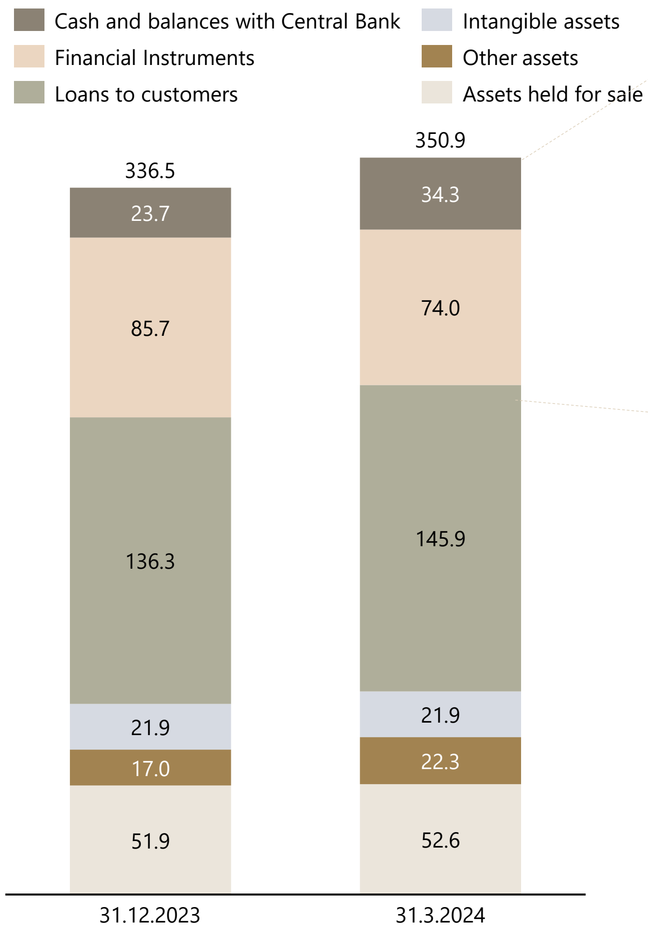
Appendix

Balance Sheet: Assets

Over 30% of the balance sheet consists of liquid assets

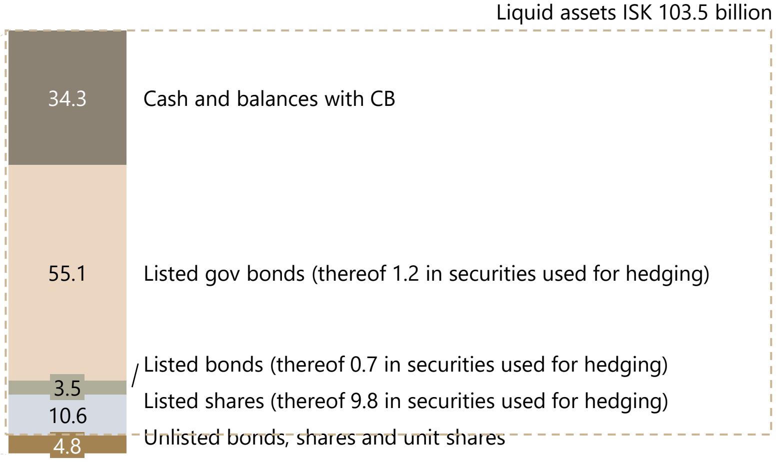
Assets

ISK billions



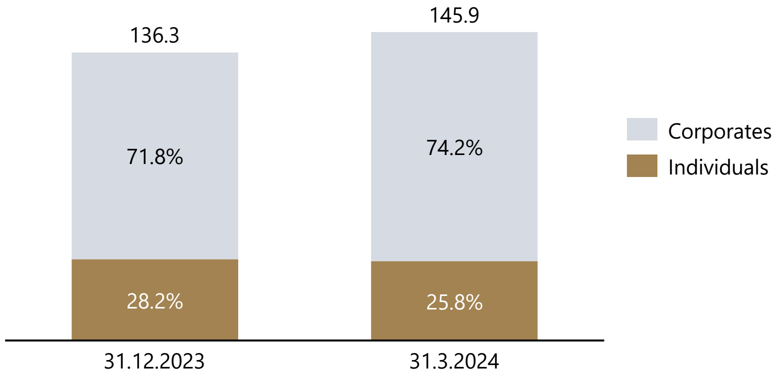
Cash and financial instruments

31.03.24 / ISK billions



Loan book by customer type

ISK billions



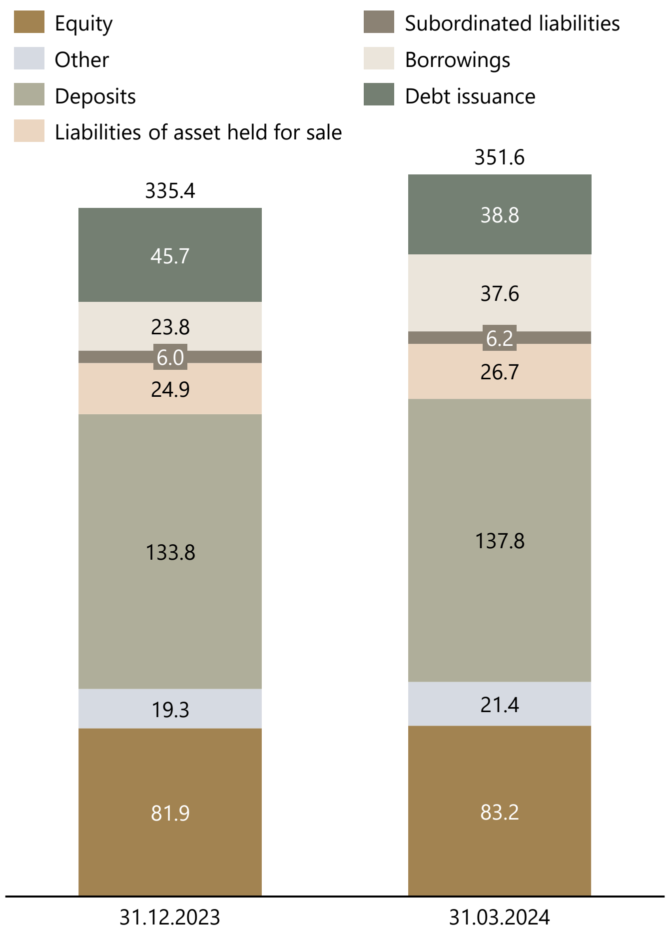
- An increase of ISK 15.1 bn. in assets since year-end 2023
- Loan book increase of ISK 9.6 bn. since year-end 2023
  - 32.9% from Q1 2023
- Loan book growth in the period is mainly attributable to the UK loan book which had been low during 2023
- Liquid assets amount to ISK 103.5 bn., 29.5% of total assets and 71% of loans to customers
- ISK 12.7 bn. positive CPI balance at 31.03.2024

Balance Sheet: Liabilities

Significant growth in retail deposits

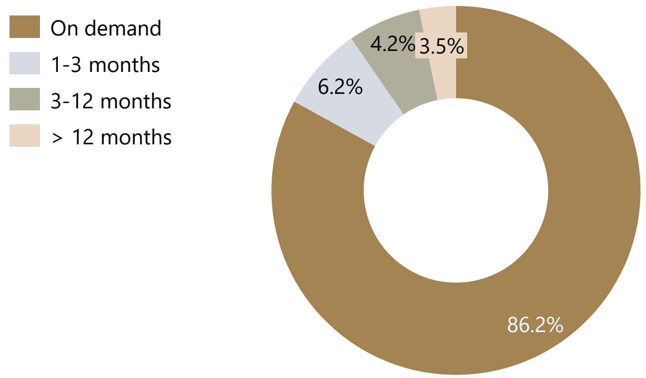
Liabilities and equity

ISK billions



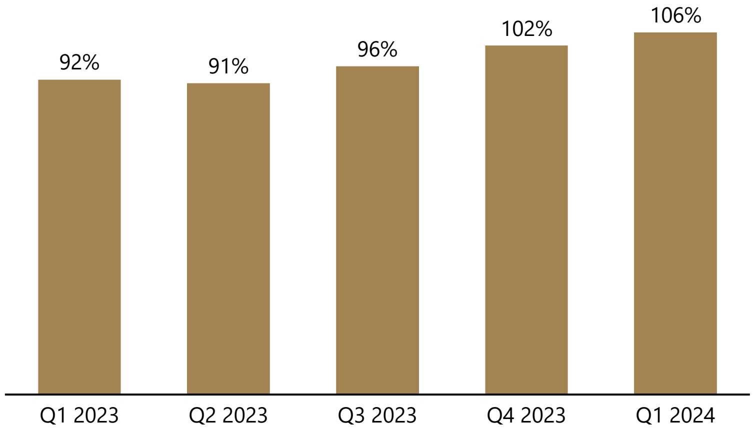
Maturity of deposits

31.03.24 / (%)



Loans to deposits

(%)



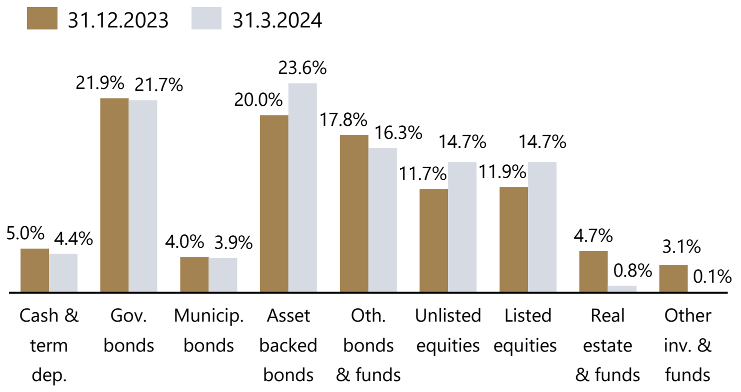
- Liabilities increase by ISK 16.2 bn. since year-end 2023, mainly driven by growth in deposits and borrowings
  - Deposits increased by ISK 4 billion in Q1 2024, driven by growth in retail deposits
  - Increase in money market deposits result in increased borrowings by 14 billion in Q1 2024
- Liabilities related to the insurance entity, TM hf., amounting to ISK 26.7 bn. are now categorized as liabilities associated with assets classified as held for sale

Financial Instruments: TM Insurance

Additional information

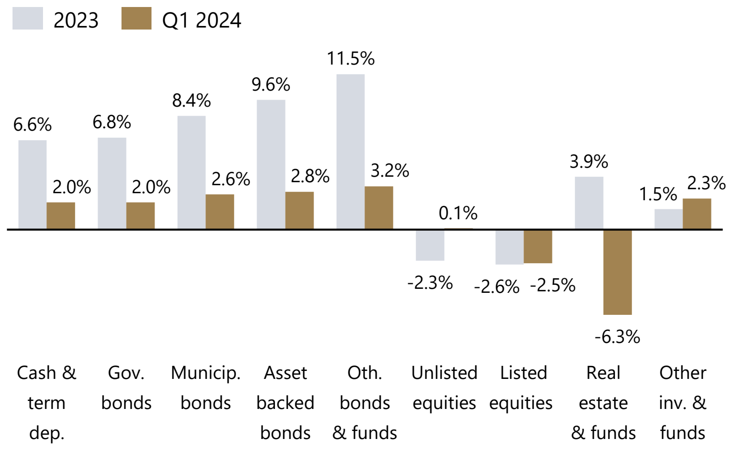
Investment asset composition

(%)



Investment asset returns

(%)



Largest exposures

31.03.2024 / ISK m.

	Book value 31.03.2024	Book value 31.12.2023
Fixed income		
RIKS 26	2,694	2,620
RIKB 25	1,350	1,323
OSF V	1,137	1,127
RIKB 24	1,124	1,297
LSS 150434	1,037	1,002
Variable income - listed		
Arion	616	693
Ölgerðin	486	465
Ísfélag	429	260
Alvotech	425	339
Hampiðjan	423	336
Variable income - unlisted		
Eskja (through EE ehf.)	1,569	1,569
Rafklettur (real estate)	1,225	1,225
JR – TRF (equity fund)	604	603
Eyrir Invest	573	594
Freyja framtakssjóður (PE fund)	428	428

- 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 1.6% in Q1 2024 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 39.5 bn. at 31 March 2024, thereof 65.4% was held in fixed income instruments, 29.4% in equity and 5.2% in cash, funds and other investments
  - Note that a majority of assets held as 'real estate & funds' and 'other investments & funds' were reclassified in Q1 2024 and are now included among the categories listed- and unlisted equities
- 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 March 2024, unchanged from 2.2. years at 31.12.2023. At 31 March 2024 37% of the portfolio is indexed

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