



KVIKA

*Kvika*

*3M 2019 Financial Results*

*27 May 2019*

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# 3M 2019 highlights



## **Highest pre-tax profit in a single quarter in Kvika's history**

Profit of ISK 709 million (852 million pre-tax) for 3M 2019 up from ISK 644 million (654 million pre-tax) in 3M 2018 resulting in return on equity of 22.4%



## **Strong financial position with CAD ratio of 22.5% and Liquidity Coverage Ratio of 175%**

Well above regulatory requirements



## **Total assets under management ISK 442 billion**

AuM grew by ISK 151 billion from year-end 2018 in large due to GAMMA acquisition in addition to internal growth



## **Updated pre-tax earnings forecast of ISK 2,700 million for 2019**

36% increase from initial forecast of ISK 1,990 million



## **First major step into fintech with brand Auður**

Reception exceeded expectations with over 5,000 new clients and ISK 10 billion in deposits to date



## **Acquisition of GAMMA Capital Management finalised in March 2019**

Synergies from acquisition expected to increase economies of scale and strengthen fee and commission income



## **Kvika was listed on the Nasdaq Iceland Main Market in March 2019**

Transitioning from Iceland Nasdaq First North





# *Financials*

*3M 2019*

*27 May 2019*



# Income statement

## Strong results on the back of favourable market conditions



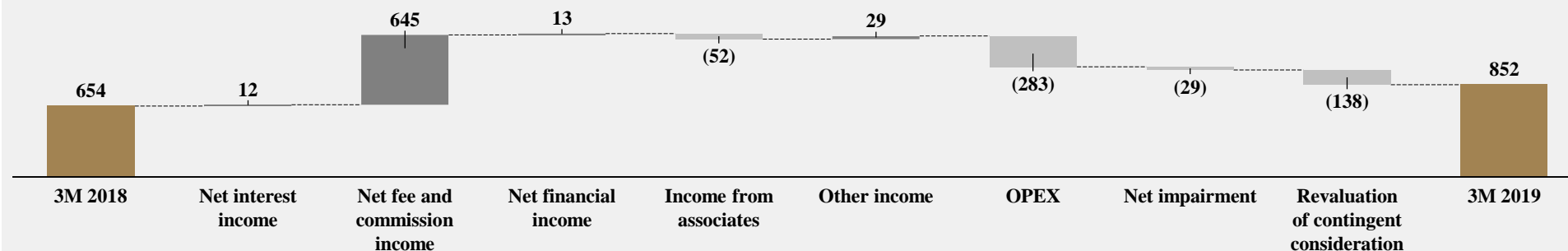
- Profit for the period amounted to ISK 709 million, an increase of 10% year-on-year
- Corresponding to an annualised 22.4% return on equity
- Net interest income increased 3% year-on-year
- Net fee and commissions ISK 1,657 million, an increase of 64% year-on-year
  - Majority of the increase contributed by asset management
- Operating expenses amounted to ISK 1,301 million and increased 27.8% year-on-year
  - Mainly attributable to the inclusion of GAMMA and reserve for potential performance based payments
  - Cost income ratio at 56.8% compared to 62.0% year-on-year
- GAMMA is part of the financial statements from 1 March 2019

### INCOME STATEMENT

ISK m.	3M 2019	3M 2018
Net interest income	424	412
Net fees and commissions	1,657	1,012
Net financial income	209	196
Income from associates	(27)	25
Other income	26	(2)
<b>Net operating income</b>	<b>2,289</b>	<b>1,643</b>
Operating expenses	(1,301)	(1,018)
Net impairment	1	30
Revaluation of contingent consideration	(138)	0
<b>Pre-tax profit</b>	<b>852</b>	<b>654</b>
<b>Taxes</b>		
Income tax	(99)	(10)
Special bank taxes	(44)	
<b>After-tax profit</b>	<b>709</b>	<b>644</b>
<b>Earnings per share (EPS)</b>	<b>0.38</b>	<b>0.36</b>
<b>Diluted EPS</b>	<b>0.34</b>	<b>0.33</b>

### PRE-TAX PROFIT

FROM 3M 2018 to 3M 2019 ISK m.



# Income statement

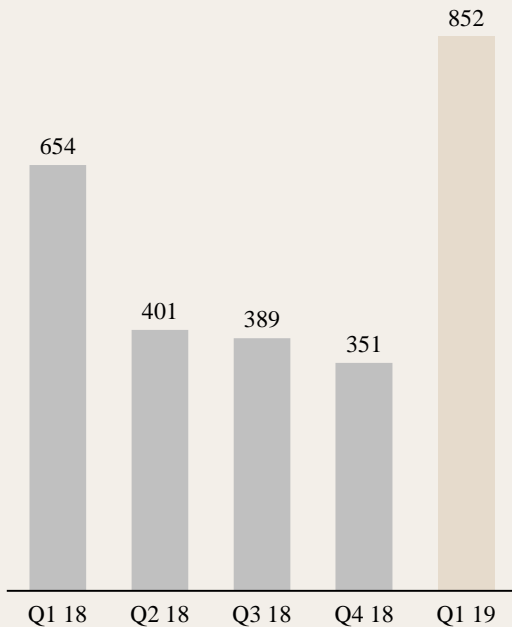
Positive trends in all major categories



## PRE-TAX PROFIT

ISK m.

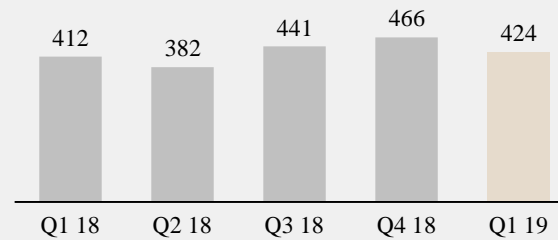
Highest pre-tax profit in a single quarter in Kvika's history



## NET INTEREST INCOME

ISK m.

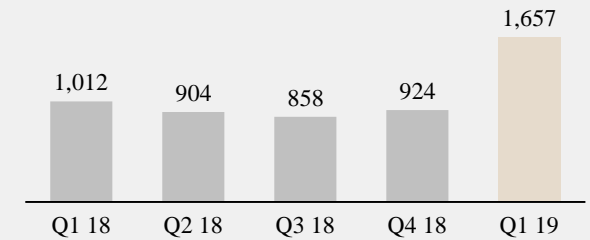
Net interest income remains stable



## NET FEE AND COMMISSION INCOME

ISK m.

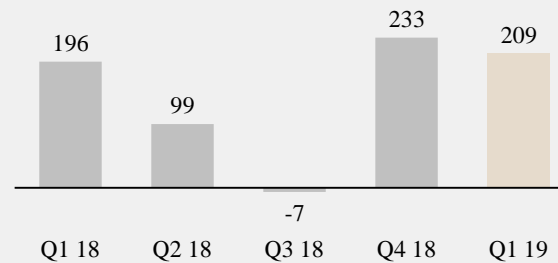
High growth and strong recurring fee and commission income



## NET FINANCIAL INCOME

ISK m.

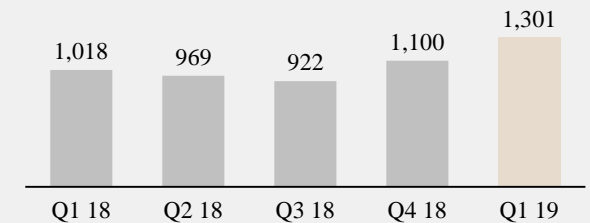
Favourable market conditions



## OPERATING EXPENSES (OPEX)

ISK m.

Positive development in cost income ratio

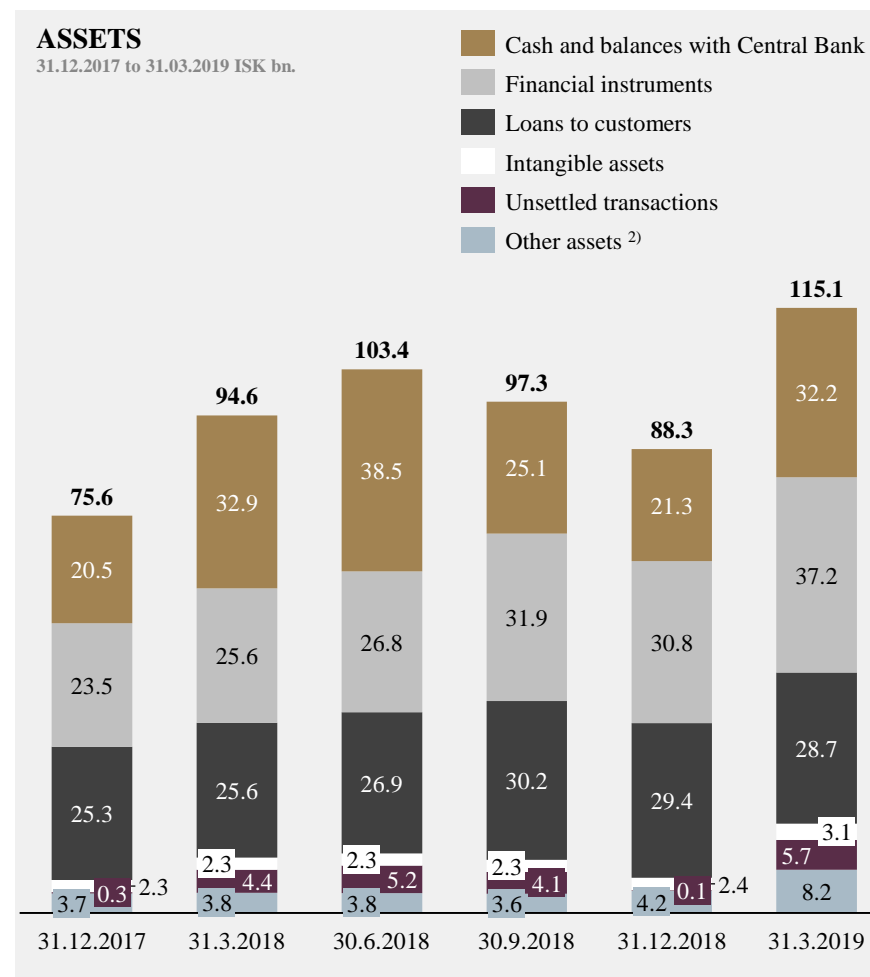


# Balance sheet

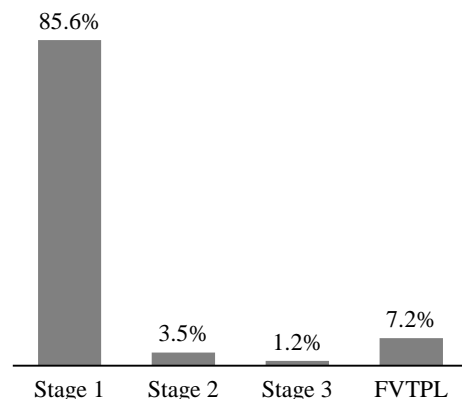
## Larger balance sheet driven by an increase in liquid assets



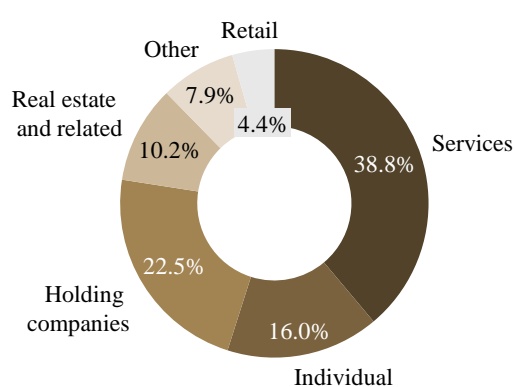
- In total, liquid assets amount to ISK 64.8 billion or 56% of total assets and 114% of all deposits from customers
  - Cash and balances with the Central Bank at ISK 32.2 billion
  - Other liquid assets include ISK 8.5 billion in listed government bonds and ISK 24.1 billion of other listed securities
- Financial instruments ISK 37.2 billion of which ISK 27.3 billion are for hedging
- Loans to customers decreased ISK 0.7 billion from year-end 2018 while the weighted duration of the loan portfolio decreased and is now 1.04 years
- Increase in other assets mainly due to acquisition of GAMMA
  - Mainly increase in sundry assets, accounts receivable and property and equipment



**CREDIT QUALITY OF LOAN BOOK<sup>1)</sup>**  
31.03.2019



**BREAKDOWN OF LOAN BOOK**  
31.03.2019



1) Credit quality based on IFRS 9. Gross carrying amount by rating class / Total gross amount

2) Other assets include Investment properties, Investment in associates, Property and equipment, Deferred tax assets, Accounts receivable, Right of use assets, Sundry assets and Assets classified as held for sale

# Balance sheet

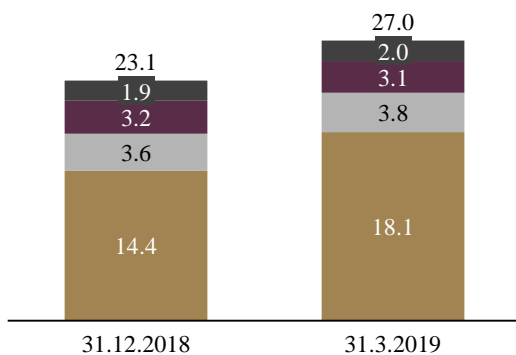
## Growth in balance sheet driven by deposits



- Deposits to loans ratio is high (approximately 200%) and provides cover from fluctuations in wholesale funding
- Liquidity coverage ratio (LCR) 175% at end of March
- Deposits grew by ISK 8.9 billion during the quarter
  - Mainly due to an ISK 5.3 billion increase in a new deposit product Auður
  - Time deposits increased by ISK 1.1 billion
- Outstanding debt securities at end of March amounted to ISK 8.9 billion
- Money market borrowings ISK 18.1 billion
- Other liabilities increase due to acquisition of GAMMA and increase in derivatives
  - Effects from GAMMA mainly in contingent consideration and other borrowings

### SECURITIES & BORROWINGS

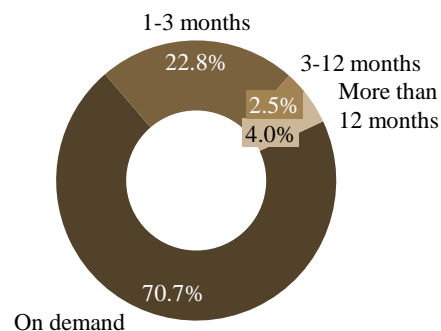
31.12.2018 and 31.03.2019 ISK bn.



Subordinated liabilities
  Issued bills  
 Issued bonds
  Money market deposits

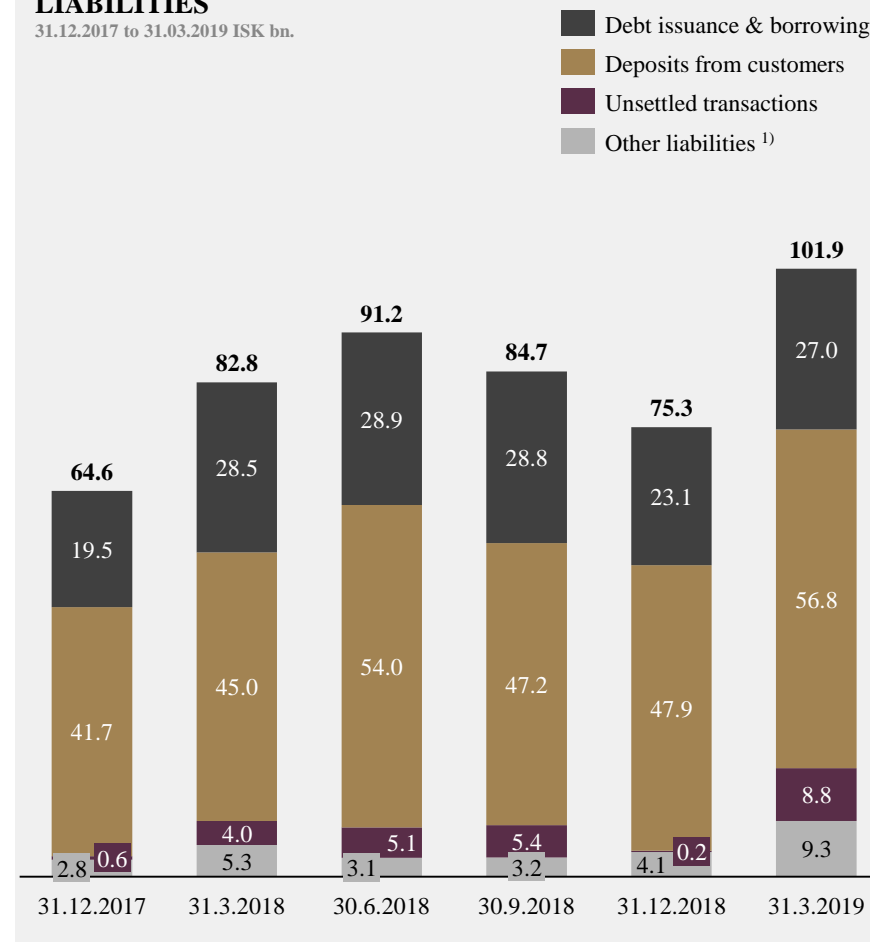
### MATURITY OF DEPOSITS

31.03.2019



### LIABILITIES

31.12.2017 to 31.03.2019 ISK bn.



1) Other liabilities include Current tax liabilities, Deferred tax liabilities, Account payable and accrued expenses, Expected credit loss allowance for loan commitments, guarantees and unused credit facilities, Special taxes on financial institutions and financial activities, Short positions held for trading and used for hedging, Derivatives, Withholding taxes, Salaries and salary related expenses, Loans from credit institutions, Other borrowings and Other liabilities



# *Solid capital position*

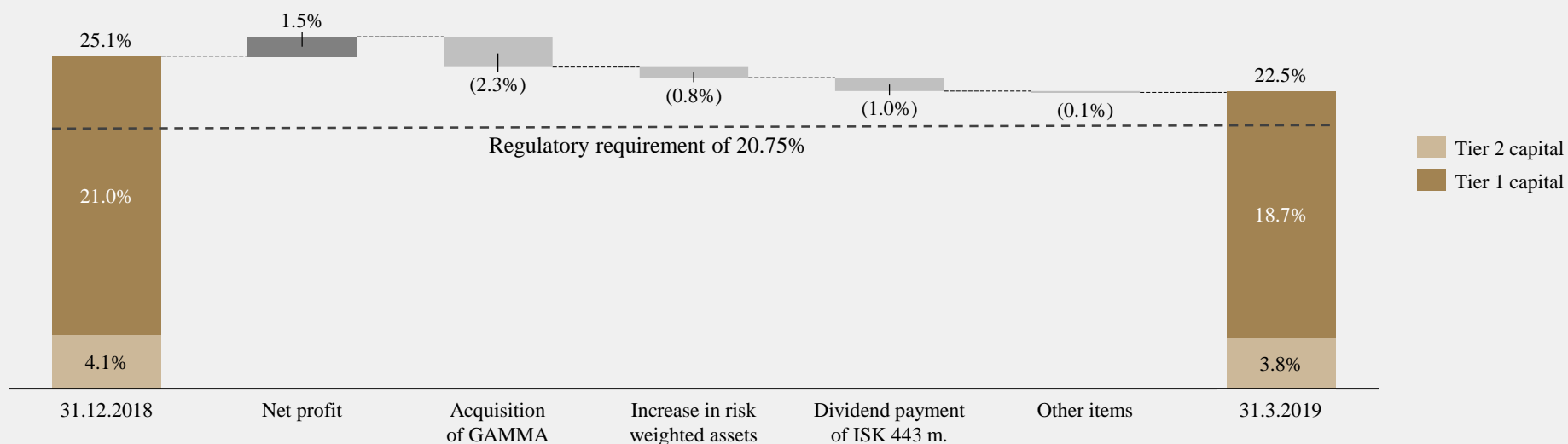
## *Capital adequacy ratio exceeds required capital buffers*



- Capital adequacy ratio 22.5% at end of first quarter
  - Including net profit for 3M 2019
  - The regulatory requirement is 20.75% (as of May 2019)
- Acquisition of GAMMA Capital Management results in increased goodwill of 699 million in addition to other assets taken on balance sheet
- Dividend payment of 443 million in March reduced CAD by 1.0%
- Increase of risk-weighted assets is largely related fluctuations in NOSTRO accounts and short term claims
- Capital base amounts to ISK 11,152 million and book value of equity at ISK 13,220 million

### DEVELOPMENT OF CAPITAL ADEQUACY RATIO

BASIS FOR CALCULATION OF % CHANGE IS THE 2018 YEAR-END POSITION



# Key performance ratios

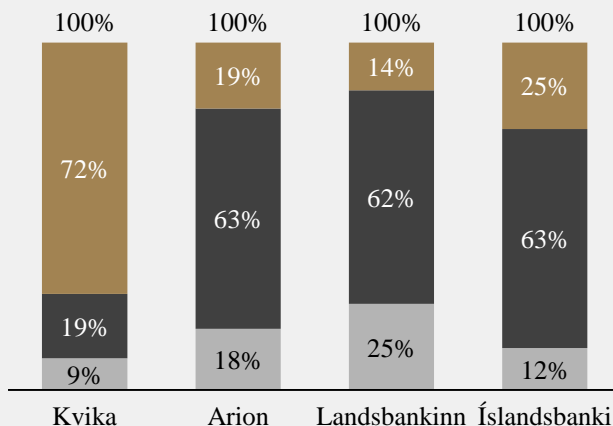
Strategic focus results in high proportion of fees and commission income



## NET OPERATING INCOME SPLIT

(%) / 3M 2019

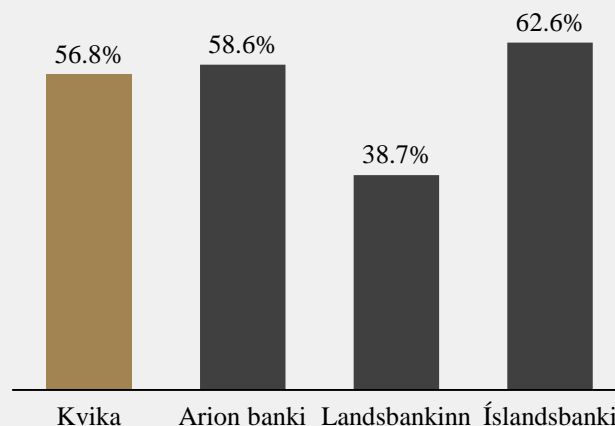
The net fee and commission income of Kvika weighs far more compared to the other banks ...



## COST INCOME RATIO

(%) / 3M 2019

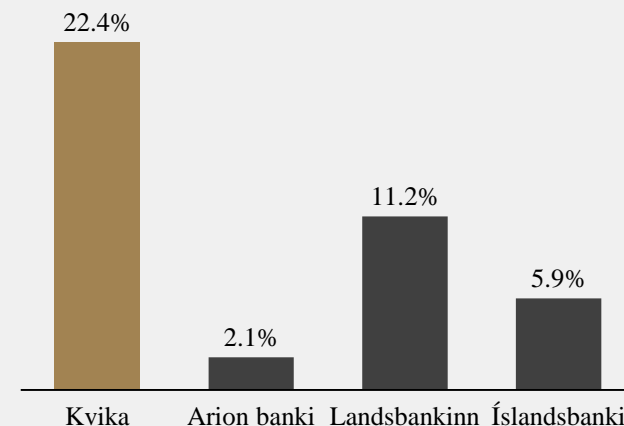
...nonetheless resulting in a similar cost income ratio...



## RETURN ON EQUITY

(%) / 3M 2019

...with considerably higher return on equity reflecting less capital intensive operations



- Net fee and commission income
- Net interest income
- Other income



# *Earnings forecast 2019*

*27 May 2019*



# Updated earnings forecast for 2019

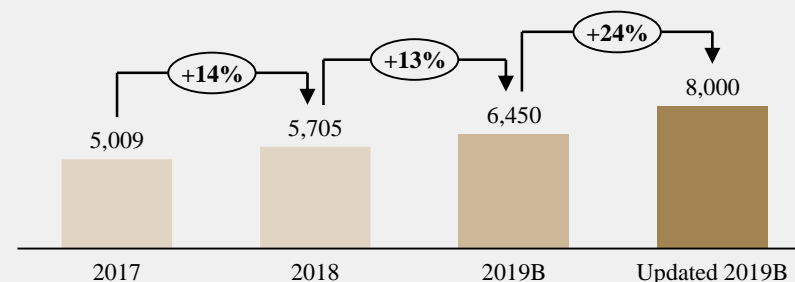
## Profit before tax expected to amount to ISK 2,700 million



- Updated earnings forecast for 2019 includes GAMMA, which is part of Kvika's financial statements from 1 March 2019
- Net operating income for 2019 is estimated at ISK 8,000 million up from ISK 6,450 million
  - 67% as net fee and commission income
  - 23% as net interest income
  - 9% as net financial income
  - 1% other income
- Profit before taxes expected to be ISK 2,700 million
  - Expected increase of about ISK 905 million year-on-year and 36% increase from original budget of ISK 1,990 million

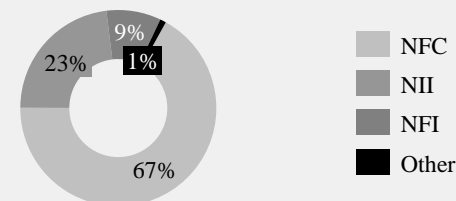
### NET OPERATING INCOME

2017 to updated 2019B ISK m.



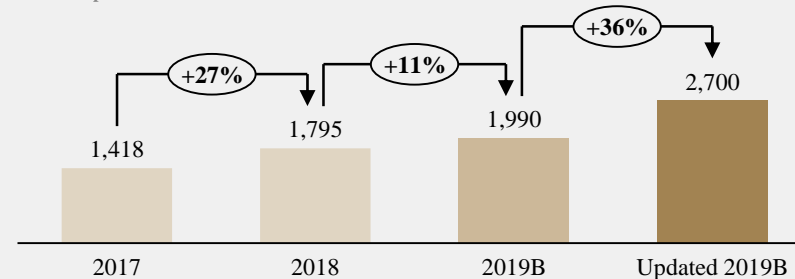
### NOI UPDATED 2019B SPLIT

(%)



### PROFIT BEFORE TAX

2017 to updated 2019B ISK m.



1) NFC = Net fees and commission income; NII = Net interest income; NFI = Net financial income

