



KVIKA

Kvika

12M 2020 Financial Results

17 February 2021

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Highlights 12M 2020



Profit of ISK 2,273 million (pre-tax ISK 2,339 million) for 12M 2020 with return on equity of 14.2%

Fourth quarter return on equity of 21.9%,



Business model based on diversified income across segments successful in a challenging environment

Growth in revenue streams year-on-year, driven by increase in net fee and commission income



Strong financial position with CAR of 28.3%

Regulatory requirement, including capital buffers, at end of the period was 20.6%



Liquidity coverage ratio (LCR) 266%

Significantly higher than both regulatory requirement and long term target



Kvika's asset management operations (Kvika and Júpíter) have been merged to form a single company

Kvika eignastýring holds ISK 361 billion in AuM (Kvika consolidated ISK 527 billion, an ISK 101 billion increase from year-end 2019)



Pending merger with TM and Lykill fjármögnun on track

Subject to regulatory and shareholders meetings approvals (expected to be held at end of March)

Cost synergies are expected in the range of ISK 1,200 – 1,500 p.a., excluding transaction and one-off related costs



Pre-tax earnings forecast for 2021 of ISK 2,600 – 3,000 million

Forecast will be updated following the expected merger with TM and Lykill fjármögnun

Diversified business model

Successful in a challenging environment



COVID REACTION FOCUS POINTS

- 1 Focus on operational continuity
- 2 Responding to potential financial impact
- 3 Strategy and focus on a simple business model

No losses incurred on securities financing

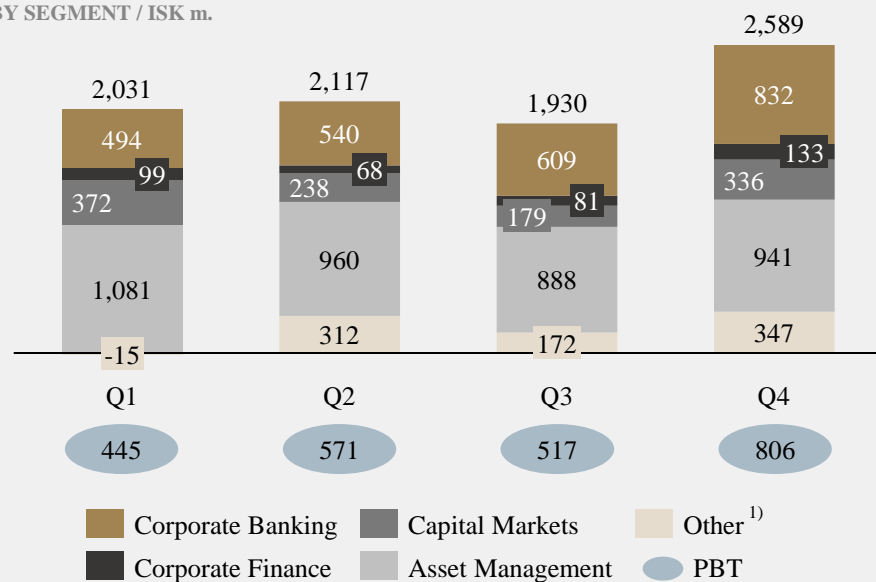
Well secured and diversified loan book

Strong pipeline in Corporate Finance

Resilience in asset management revenues
(less subject to economic cycles)

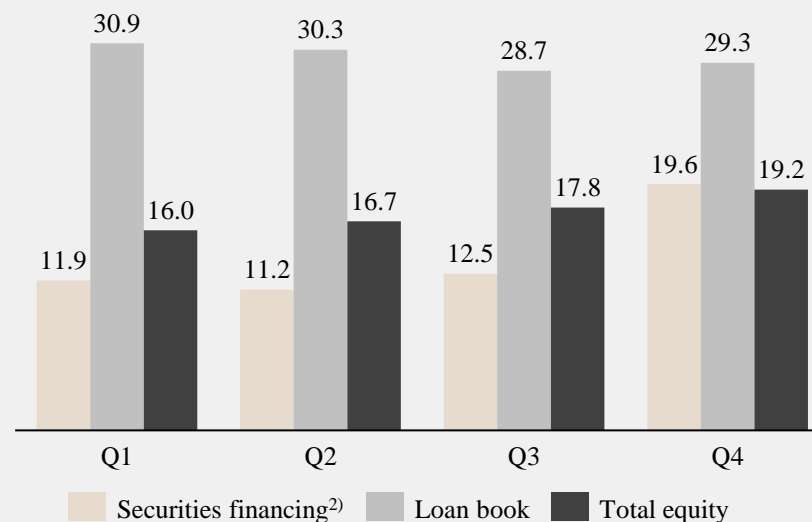
NET OPERATING INCOME

BY SEGMENT / ISK m.



SELECTED BALANCE SHEET HIGHLIGHTS

ISK bn.



1) Other segments include Proprietary trading and Treasury and Support functions and eliminations

2) Securities financing represent securities used for hedging (31.12.2020: Listed equities amounted to ISK 9.9 billion, other listed securities ISK 9.3 billion, other items unlisted ISK 0.5 billion)

Kvika and TM

Subject to regulatory and shareholders meetings approvals



- On 25th November the Boards of Directors of Kvika, TM and Lykill fjármögnun approved the merger of the three companies
- Under the merger agreement approved, TM will become Kvika banki's subsidiary and Lykill fjármögnun, TM's subsidiary, will merge with Kvika banki
- According to the merger agreement, TM's shareholders will receive, in return for their shares in TM, 2,509,934,076 shares in Kvika
- Potential revenue synergies have not been disclosed
- Cost synergies are expected in the range of ISK 1,200 – 1,500 p.a., excluding transaction and one-off related costs. This assessment is based on the companies forecast for 2021, largest part will result from lower funding costs. Majority of the projected synergies are expected to be reached by 2022
- The merger is subject to regulatory approvals and shareholders meeting are expected to be at end of March



Establishment of Kvikastýring hf.

Strategic focus on asset management



- Successful merger of Kvikastýring hf.'s asset management operations in a single company Kvikastýring hf.
- Kvikastýring hf. is now one of the largest asset and fund management companies in Iceland with ISK 361 bn. of assets under management
- Focus on providing customers with a broad range of services for investment domestically as well as in foreign markets with emphasis on leading the way in asset and fund management with the long-term interests of customers in mind
- In July 2020 the company successfully funded an ISK 19.5 bn. credit fund, ACF III slhf. This is the largest credit fund that has been established in Iceland

Kvikastýring hf., subsidiary of Kvikabanki hf.



Fund management

Private banking

Institutional investors

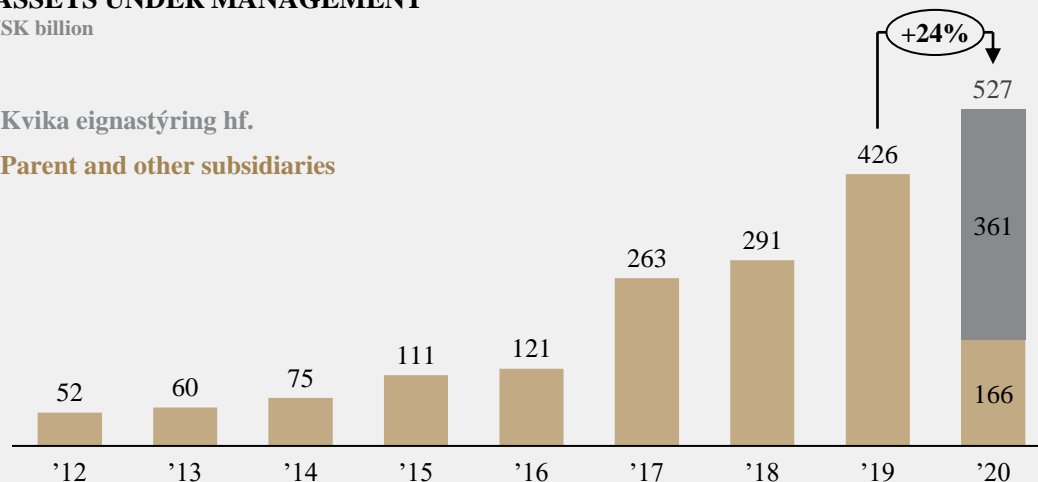
Private equity

ASSETS UNDER MANAGEMENT

ISK billion

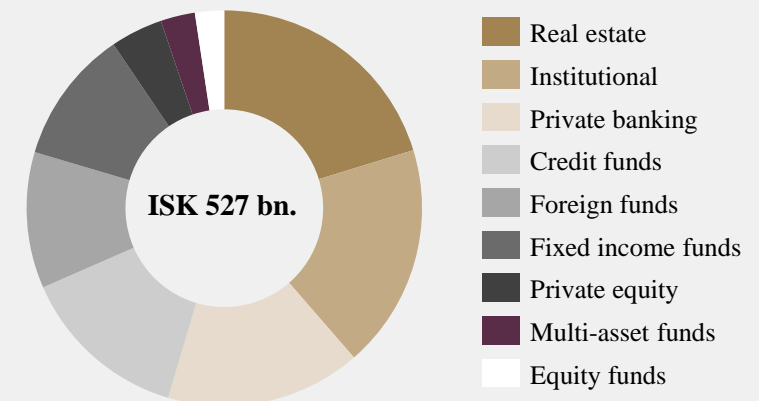
Kvikastýring hf.

Parent and other subsidiaries



BREAKDOWN OF ASSETS UNDER MANAGEMENT

31.12.2020



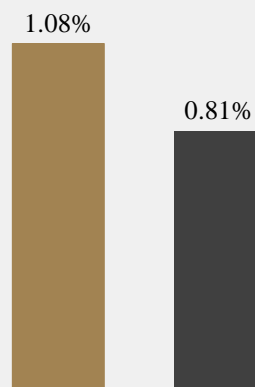
Strategic focus

Diversified income across segments basis of a profitable period



NET IMPAIRMENT / LOAN BOOK

12M 2020

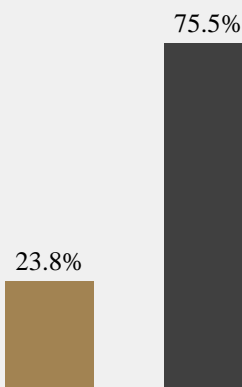


Kvika
Domestic
banks average

Net impairments in line
with other domestic
banks

LOAN BOOK / TOTAL ASSETS

12M 2020

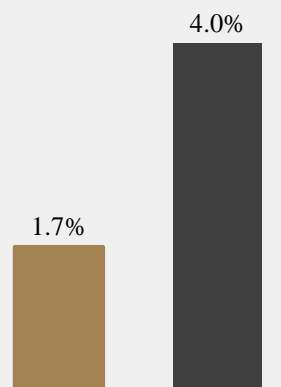


Kvika
Domestic
banks average

Loan book is relatively
small in proportion to
total assets

NET IMPAIRMENT / TOTAL EQUITY

12M 2020

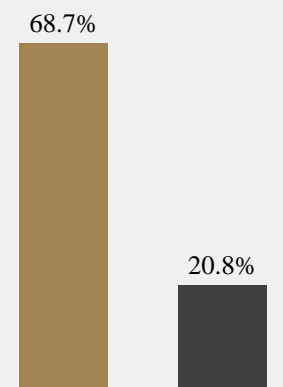


Kvika
Domestic
banks average

Net impairments
relatively small due to
size of loan book and
solid capital structure

NET FEE AND COMM. / OPERATING INCOME

12M 2020

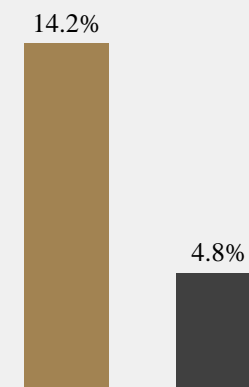


Kvika
Domestic
banks average

Business model focuses
on net fee and
commission income

RETURN ON EQUITY

12M 2020



Kvika
Domestic
banks
average

Kvika's strategy is
reflected in its
profitability

UK operations

Key projects remain on track against challenging COVID backdrop



UK 2020 HIGHLIGHTS

- Managing existing investment projects through operational challenges posed by COVID in the UK remained key priority throughout 2020
- Existing projects have remained broadly on track despite challenges
- Considering the UK macroeconomic backdrop, new projects were largely halted during 2020, however, the project pipeline for 2021 is robust

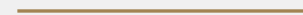


KKV INVESTMENT MANAGEMENT UPDATE

- KKV Investment Management Ltd. is a fund management subsidiary of Kvika Securities Ltd. (KSL)
- KKV has been the appointed investment manager of two secured loan trusts listed on the London Stock Exchange since June 2020
- Shareholders of both funds have voted to place the trusts in wind-down, which continues to be managed by KKV
- New investment products are under development, with marketing to investors expected to launch later in 2021

UK OPERATIONS AT A GLANCE

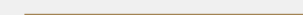
Strong growth in recurring revenues



Platform to grow UK asset management



Experienced team with extensive distribution network



Robust project pipeline for 2021



Financials

Good results in a challenging year



Income statement / Q4

Solid quarter with return on equity of 21.9%

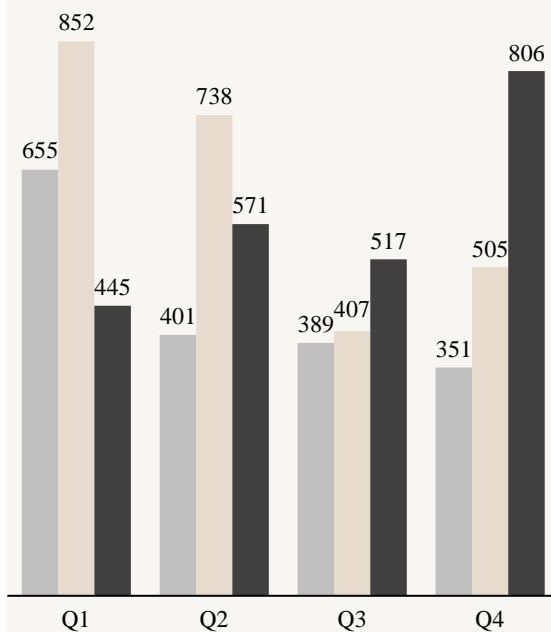


PRE-TAX PROFIT

ISK m.

Good results despite high one-off related costs

'18 '19 '20

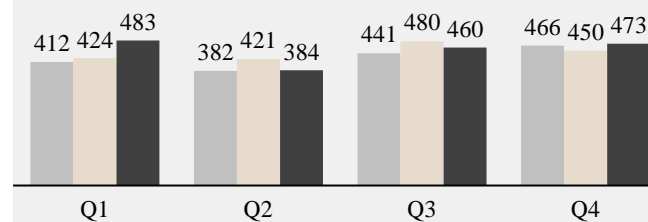


NET INTEREST INCOME (NII)

ISK m.

Positive reversal in NIM following negative impact of policy rate cuts in first half

'18 '19 '20

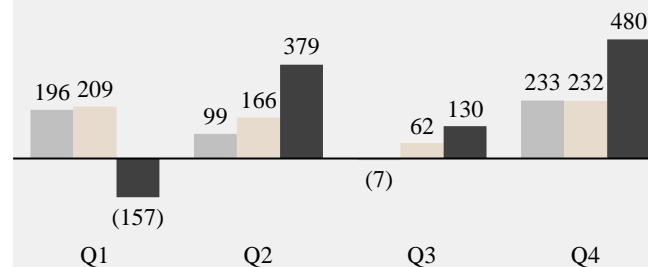


NET FINANCIAL INCOME (NFI)

ISK m.

Favorable market conditions

'18 '19 '20

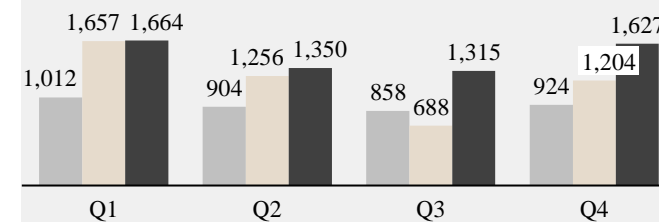


NET FEE AND COMMISSION INCOME (NFC)

ISK m.

Strong performance across all segments

'18 '19 '20

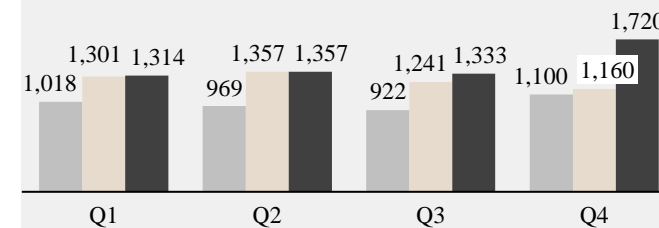


OPERATING EXPENSES (OPEX)

ISK m.

High one-off costs largely related to organizational changes and M&A in Q4 (approx. ISK 300 m. in total)

'18 '19 '20



Income statement / 12M 2020

Return on equity 14.2% during the year



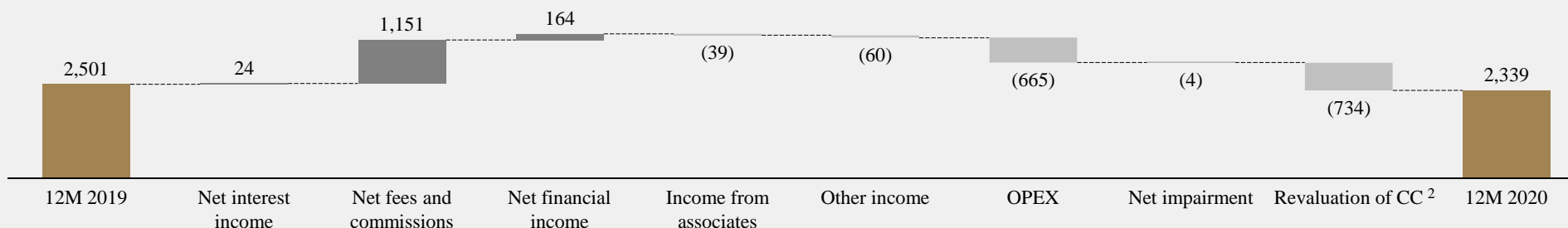
- Profit for the year amounted to ISK 2,273 million, driven by increase in net fees and commission income and net financial income
- Corresponding to 14.2% return on equity
- Net interest income increased 1.4% year-on-year despite temporary negative effects of cuts in policy rate in first half
- Net fee and commission income ISK 5,956 million, an increase of 24.0% year-on-year
- Operating expenses ISK 5,724 million in line with expectations
 - Costs related to expected merger with TM and Lykill fjármögnun and acquisition of Netgró were expensed during the period
- Net impairments ISK 317 million largely related to COVID impact
- Net financial income ISK 833 million

INCOME STATEMENT

ISK m.	12M 2020	12M 2019
Net interest income	1,800	1,776
Net fees and commissions	5,956	4,804
Net financial income	833	668
Income from associates	(7)	32
Other income	85	145
Net operating income	8,666	7,426
Operating expenses	(5,724)	(5,059)
Net impairment	(317)	(314)
Revaluation of contingent consideration	(286)	447
Pre-tax profit	2,339	2,501
Taxes		
Income tax	28	362
Special bank taxes ¹	(94)	(202)
After-tax profit	2,273	2,660
Earnings per share (EPS)	1.10	1.41
Diluted EPS	1.02	1.27

PRE-TAX PROFIT BRIDGE

FROM 12M 2019 to 12M 2020 ISK m.



1) Special tax on financial activity ISK 16.6 million and special tax on financial institutions ISK 77.4 million for 12M 2020

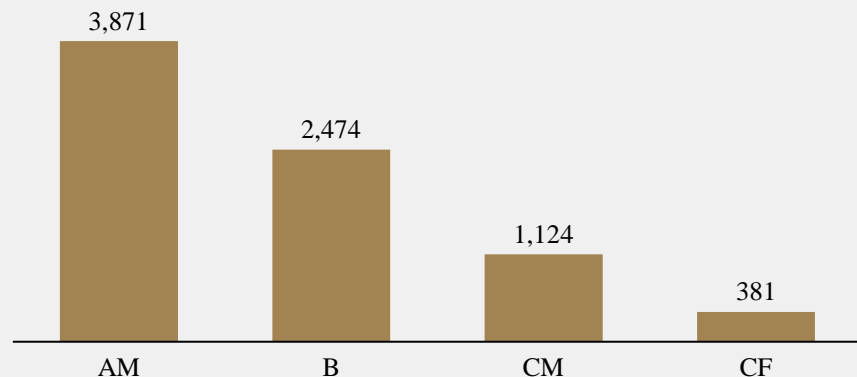
2) Revaluation of contingent consideration

Strategic focus on fee and commission income

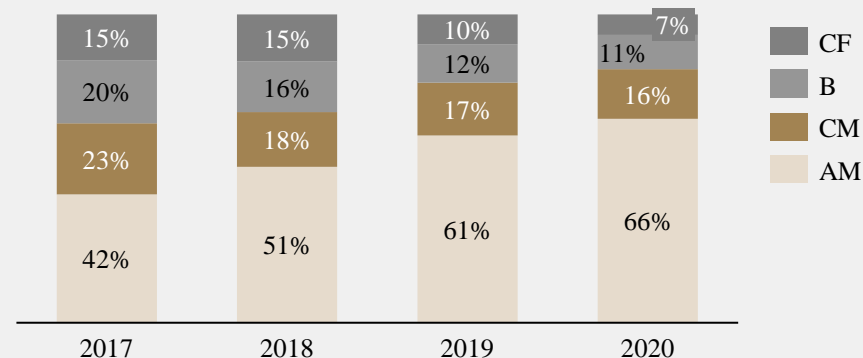
Continued increase in recurring income



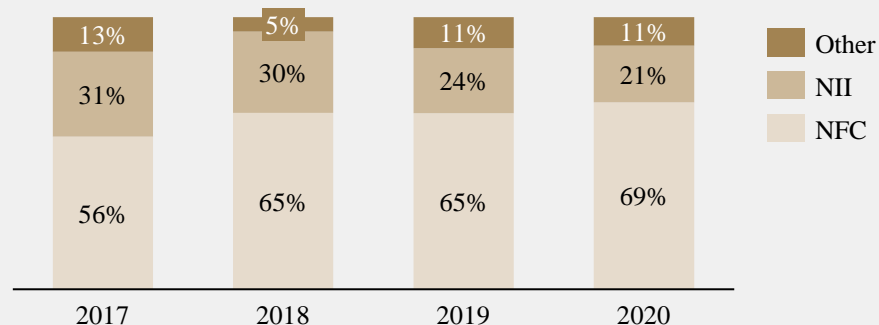
NET OPERATING INCOME
BY SEGMENT / 2020 ISK m.



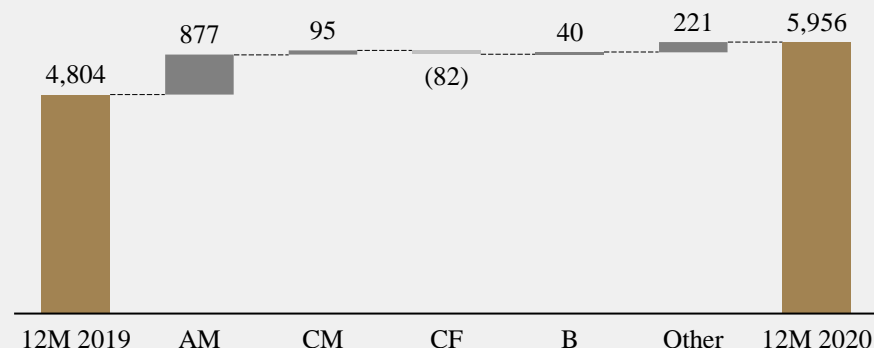
NET FEE AND COMMISSION INCOME SPLIT
FROM 2017 to 2020 (%)



NET OPERATING INCOME SPLIT
FROM 2017 to 2020 (%)



NET FEE AND COMMISSION INCOME
SEGMENT / FROM 2019 to 2020 ISK m.



B = Banking
AM = Asset Management
CF = Corporate Finance
CM = Capital Markets

NII = Net interest income
NFC = Net fee and commission income

Assets

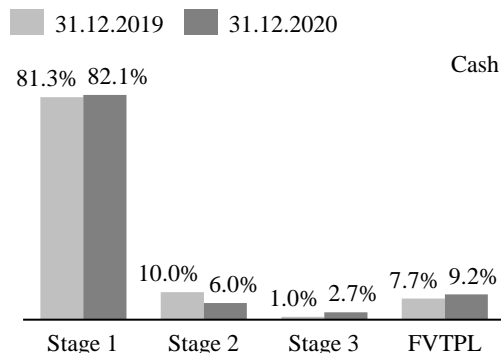
Strong balance sheet supported by high proportion of liquid assets



- In total, liquid assets amount to ISK 76.2 billion or 61.8% of total assets and 127% of all deposits from customers
 - Cash and balances with the Central Bank at ISK 28.9 billion. Other liquid assets include ISK 33.0 billion in government backed securities and ISK 14.3 billion of other listed securities
- Financial instruments ISK 53.9 billion of which ISK 19.6 billion are for hedging
- Loans to customers decreased by ISK 0.8 billion from year-end 2019
 - The weighted average duration of the loan book was 2.05 year at end of period
 - Stage 1 has increased by 0.8% and Stage 2 decreased by 4.0% since year-end 2019, loan prepayments and resolutions have had a positive impact
 - Temporary COVID measures / moratoriums peaked at the end of Q2 at ISK 3.1 billion while at year end 2020 it was only ISK 0.8 billion

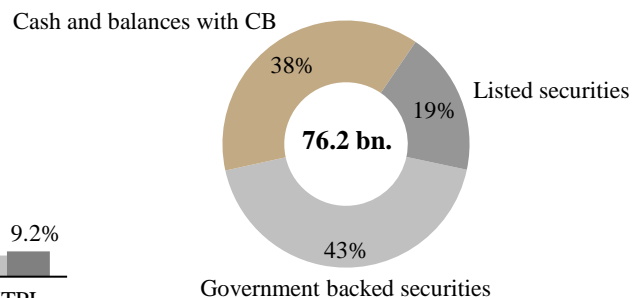
CREDIT QUALITY OF LOAN BOOK ¹⁾

31.12.2019 and 31.12.2020



LIQUID ASSETS ³⁾

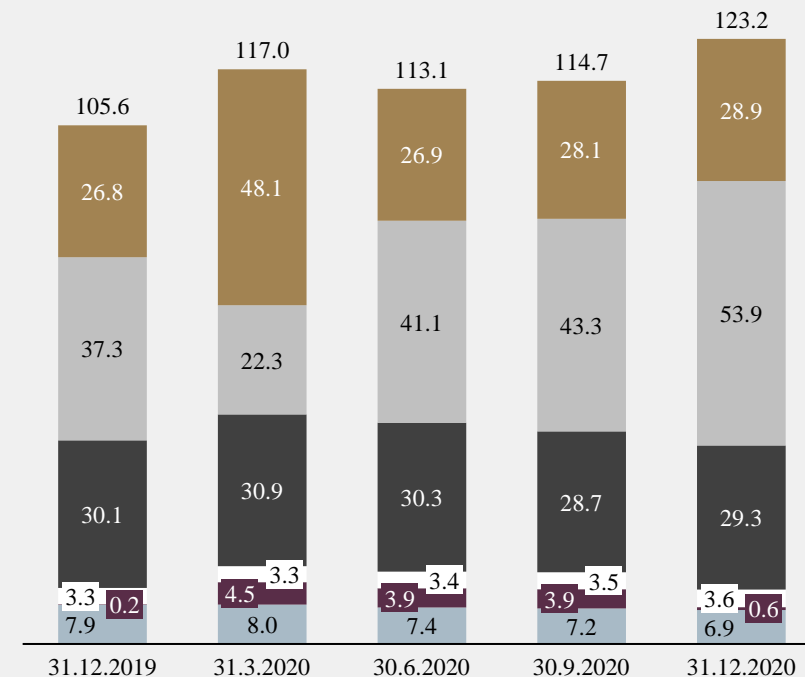
31.12.2020



ASSETS

31.12.2019 to 31.12.2020 ISK bn.

- Cash and balances with Central Bank
- Financial instruments
- Loans to customers
- Intangible assets
- Unsettled transactions
- Other assets ²⁾



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

3) Government bonds include bonds with government guarantees

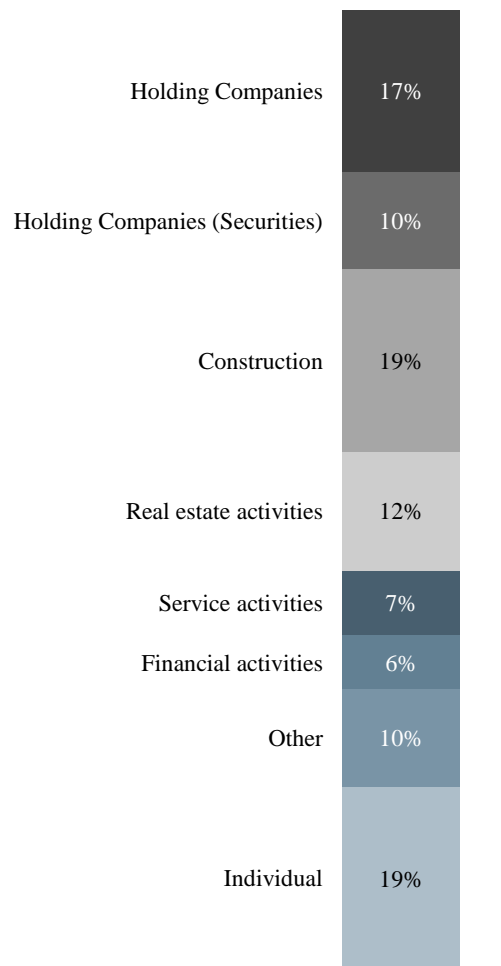
Loan book composition

High credit quality in loans to COVID affected industries



LOAN BOOK SPLIT

31.12.2020



31.12.2020

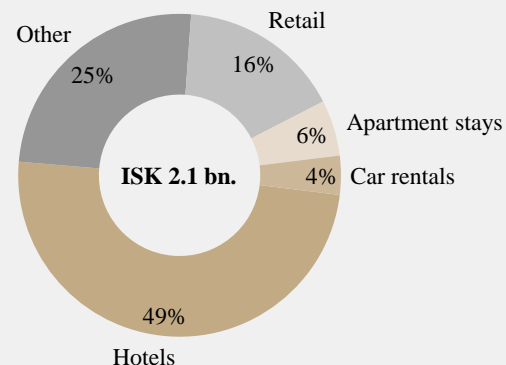
TOURISM (6.5% of loan book)

By selected industry classification

BREAKDOWN OF TOURISM

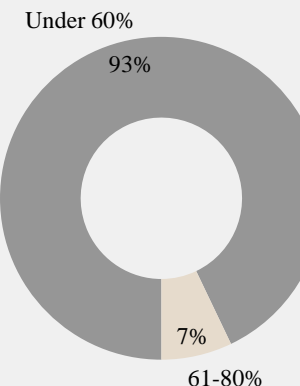
31.12.2020

- Tourism accounts for 6.5% of loans to customers
- Majority of loans under 60% LTV (Q3: 76%)



LTV FOR TOURISM

31.12.2020



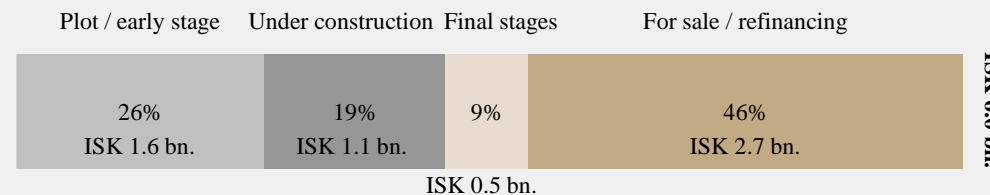
REAL ESTATE DEVELOPMENT (19% of loan book)

By selected industry classification

BREAKDOWN OF REAL ESTATE DEVELOPMENT

31.12.2020

- Approximately 19% of loans to customers are in real estate development
- Majority are in the Capital Region and around 46% are for sale and/or refinanced



Liabilities

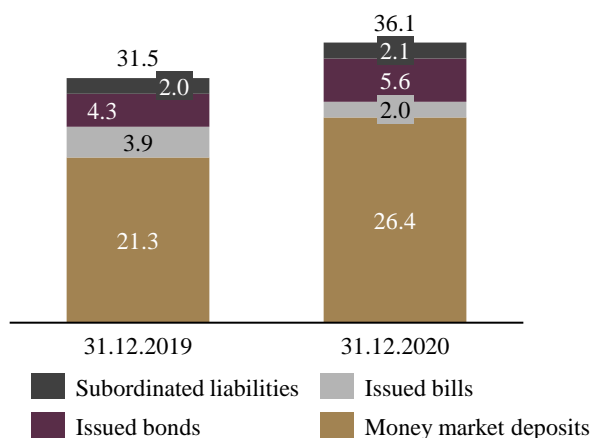
Funding continues to be strong and steady growth in deposits



- Liquidity coverage ratio (LCR) 266% at end of the period
- Deposits to loans ratio remains high at 204%
- Deposits have increased by ISK 8.5 billion from year-end 2019
 - Increase mainly driven by retail deposits from individuals
- Outstanding issued debt securities amounted to ISK 9.6 billion
- Money market borrowings amounted to ISK 26.4 billion
- Five-year senior unsecured KVB 19 01 increased to nominal amount of ISK 4.3 billion
- Issuance of ISK 2.2 billion in KVB 20 01, a new series of three-year senior unsecured bonds

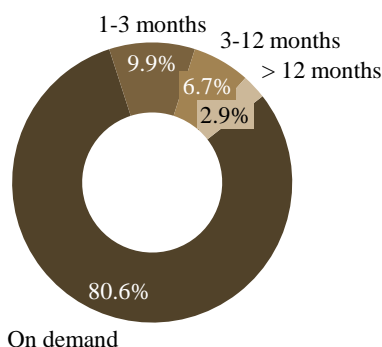
SECURITIES & BORROWINGS

31.12.2019 and 31.12.2020 ISK bn.



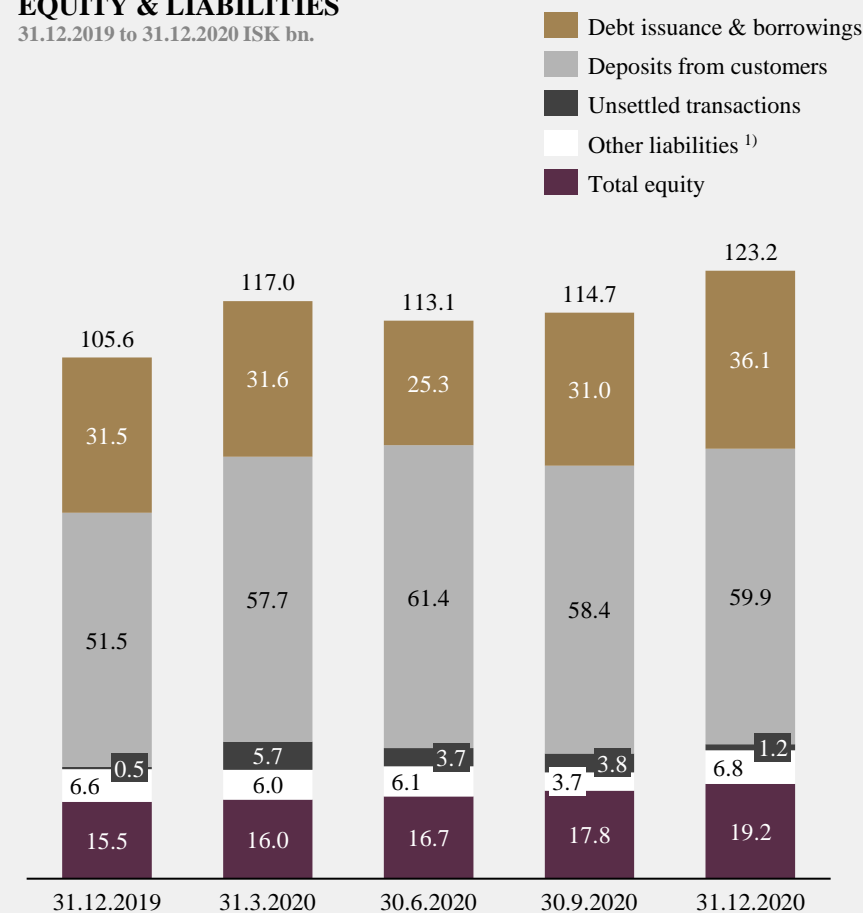
MATURITY OF DEPOSITS

31.12.2020



EQUITY & LIABILITIES

31.12.2019 to 31.12.2020 ISK bn.



1) Other liabilities include Current tax liabilities, Deferred tax liabilities, Impairment on off balance sheet items, Expected credit loss allowance for loan commitments, guarantees and unused credit facilities, Account payable and accrued expenses, Taxes payable, Special taxes on financial institutions and financial activities, Withholding taxes, Salaries and salary related expenses, Lease liability, Contingent consideration and Other liabilities

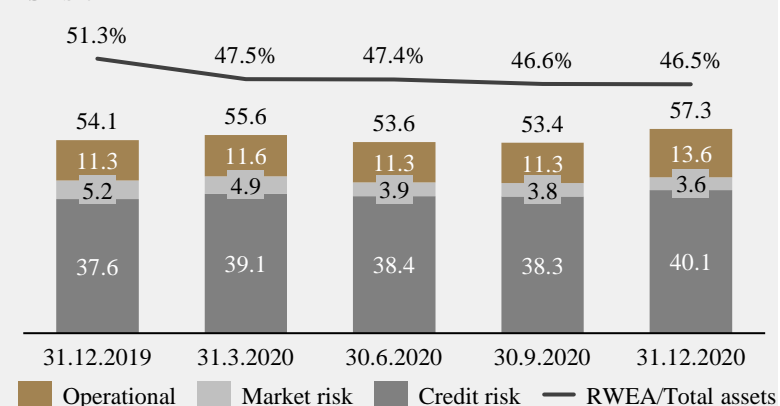
Solid capital position

Capital adequacy ratio exceeds required capital buffers

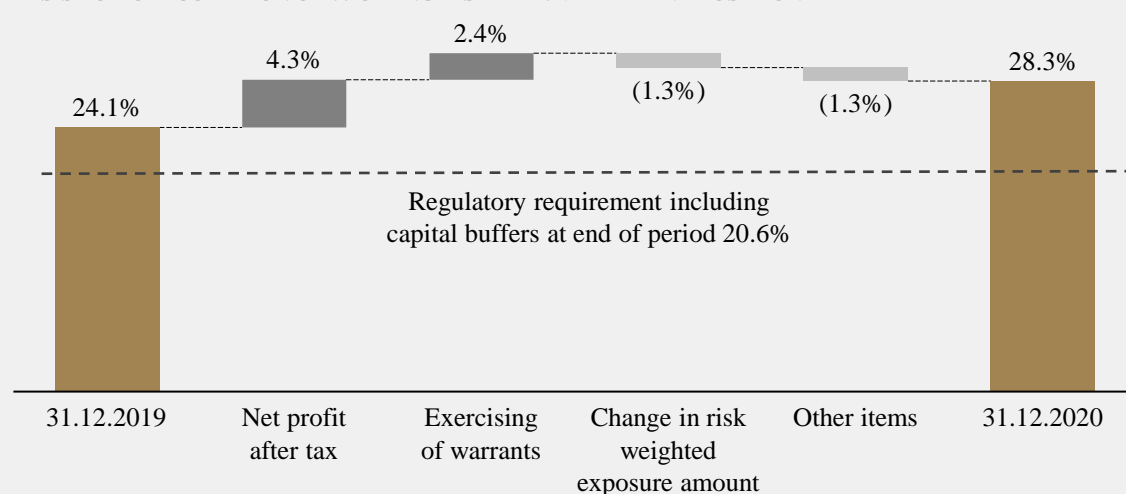


- Capital adequacy ratio 28.3% at end of year
- CET 1 surplus capital relative to 20.6% capital requirements amounts to ISK 4,411 million
- Capital base amounted to ISK 16,217 million and book value of equity at ISK 19,187 million
- Exercise of warrants and stock options increase capital by ISK 1,354 million
- Increase in risk exposure amount mainly attributable to changes in credit and operational risk
 - Operational risk has increased as the bank has grown significantly
- Other balance sheet items relatively unchanged
- Minimum regulatory capital requirement is 15.1% as of 31st December 2018 and 5.5% capital buffers as of 18th March 2020

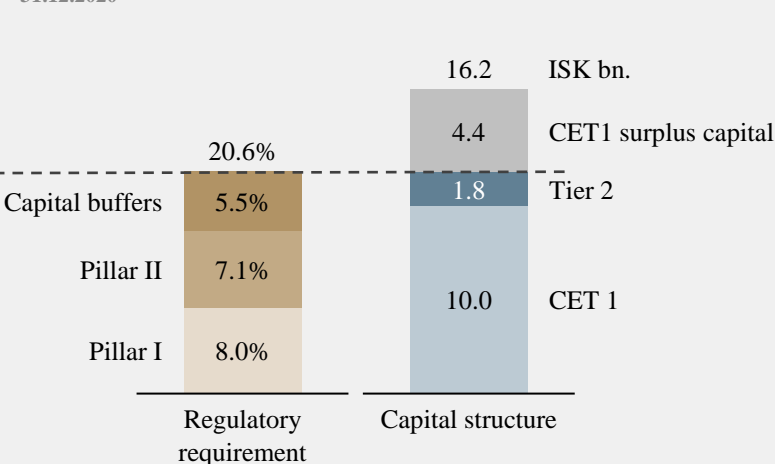
RISK WEIGHTED EXPOSURE AMOUNT (RWEA)
ISK bn.



DEVELOPMENT OF CAPITAL ADEQUACY RATIO
BASIS FOR CALCULATION OF % CHANGE IS THE 2019 YEAR-END POSITION

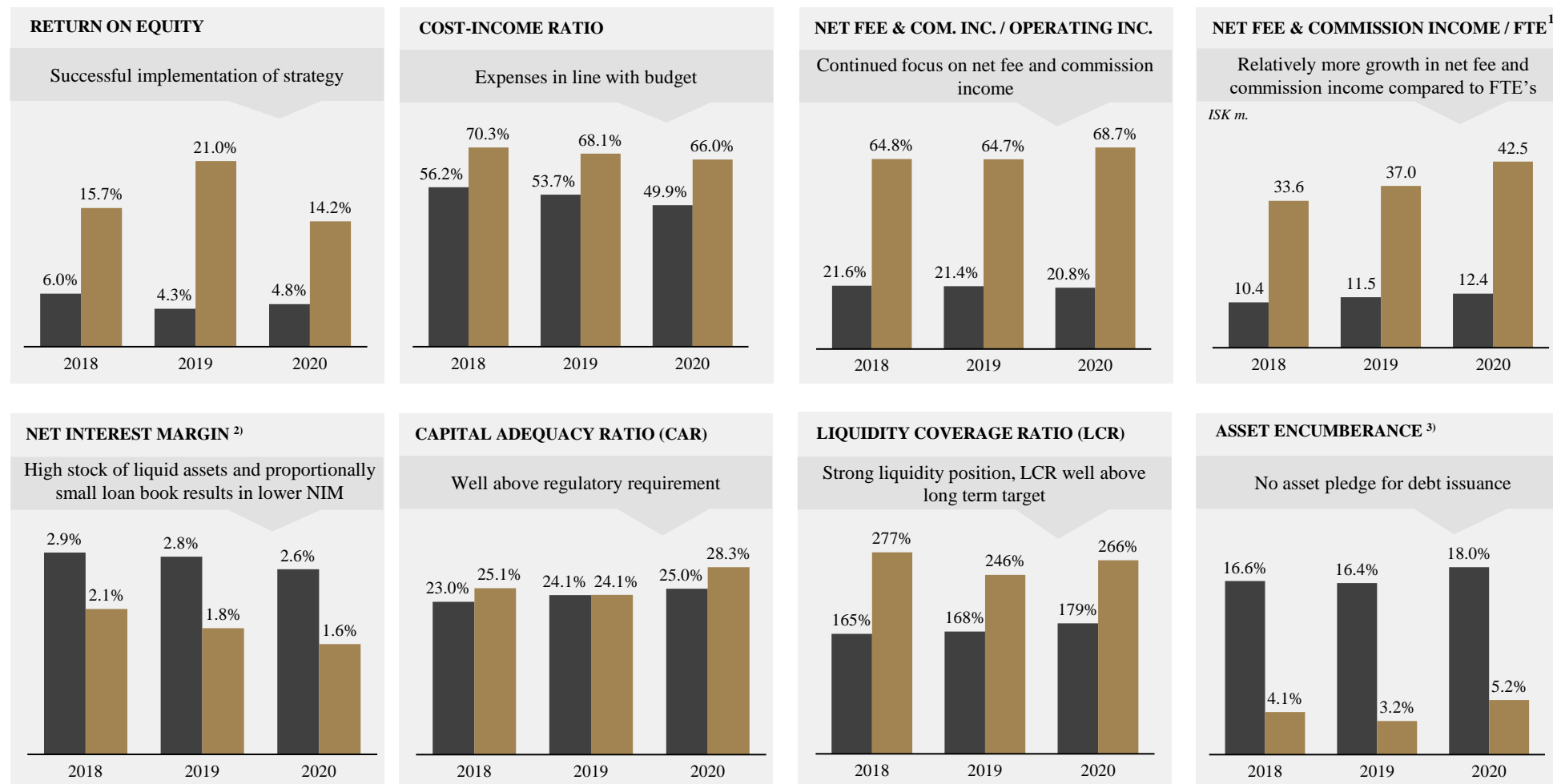


CAPITAL BASE
31.12.2020



Comparison

Strategic focus reflected in key ratios



■ Domestic banks (simple average) ■ Kvika banki

1) Net fee & commission income / Average FTE
 2) On average carrying total book value of assets
 3) Defined as encumbered (pledged) assets / total assets
 Domestic banks consist of Arion, Landsbankinn and Íslandsbanki

