Kvika

9M 2018 Financial Results

25 October 2018

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9M 2018 highlights

Kvika aims to complete its listing on the Nasdaq Iceland Main Market in the first half of 2019
Kvika is currently listed on the Nasdaq First North market

Kvika announced on June 20th its intention to acquire GAMMA Capital Management hf.
Due diligence is currently ongoing and is expected to be completed shortly

Kvika has reviewed and revised its mission statement, values and strategy
A revised strategy has been approved by the board of directors

Total assets under management ISK 274 billion
AuM grew by ISK 11 billion from year-end 2017

Net operating income continues to grow at a strong 22.7% year-on-year
Driven by growth in net fee and commission income

Pre-tax return on equity at 17.3%
In line with Q1 updated earnings forecast, from initial pre-tax profit of ISK 1,816 million to 1,931 million for the year

Strong financial position with CAD ratio of 23.5%
Well above regulatory requirements

Revised strategy

25 October 2018

Long-term focus

Mission statement

Specialised bank and leading player in asset management and investment banking

Business model

Utilise internal infrastructure and balance sheet as a source of revenue generation

Return target

Target of at least 15% return on equity

Responsibility

Positive long-term impact on the community

Mission statement

Kvika is a specialised bank and market leader in asset management and investment banking services. The bank places emphasis on developing long term partnerships with clients through responsive and versatile services.

Values

Long-term focus.

A long-term focus is the core of Kvika's strategy. Establishing reliable business connections takes time. Emphasis is placed on servicing current clients and on repeat business, making clients' interests the first priority.

Profitability and risk appetite

A bank's return on equity is the result of the decisions it takes. Those decisions need to be consistent with its risk appetite. The risk appetite reflects the bank's profitability target: Kvika emphasises making the most efficient use of its balance sheet resources considering the risk involved.

The bank's objective is to achieve a return on equity of at least 15%. The return consists of revenue generated from its balance sheet plus commissions from activities which tie up minimum capital.

The goal is to pay dividends amounting to at least 25% of profits. Dividends are, however, dependent on an assessment of the opportunities which are available for reinvestment of earnings in operations and the bank's growth. Decisions on balance sheet structure are taken based on optimal capital utilisation for revenue generation, but limited by the bank's risk appetite and funding at any given time.

Targeted range of services

Kvika focuses on specific groups and clients, emphasising exceptional, tailor-made services. The bank's size enables it to adapt to its environment with the aim of maintaining profitability and customer service. The bank is prepared to make use of its infrastructure and balance sheet to generate income, e.g. by utilising its loan processes to loan in tandem with other lenders.

Corporate Banking finances enterprises and the investments of the bank's clients. Corporate Banking also makes use of the bank's expertise and network to broker loans to other institutional investors.

Asset and Fund Management emphasises offering clients a broad range of services for investing in Iceland as well as on foreign markets. The aim is to provide the best asset and fund management services, guided by clients' long-term interests.

Capital Markets offers clients comprehensive securities brokerage and FX market services.

Corporate Finance provides various types of advisory services in connection with investments and financing. The principal focus is on corporate acquisitions and divestments, as well as initial public offerings.

Corporate Social Responsibility

The bank's aim is to have a positive, long-term impact on the community, with particular emphasis on education.

Kvika can have a major impact on the society in which it operates. One aspect of this is special emphasis on positively influencing the development and efficiency of financial markets.

Financials

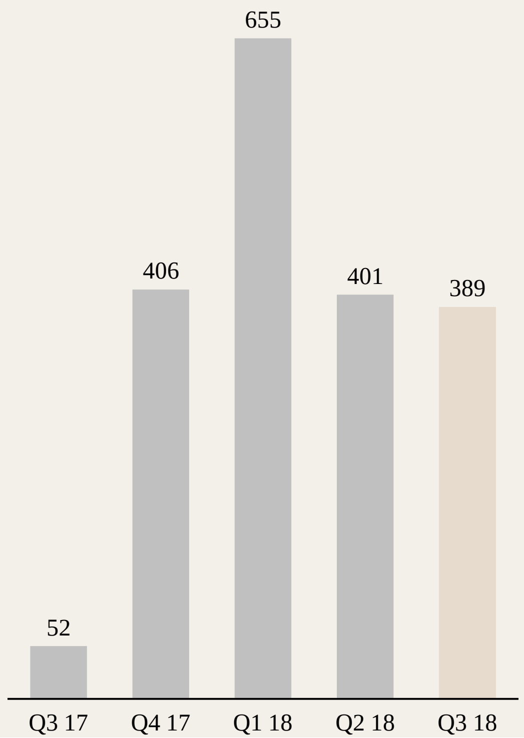
9M 2018

25 October 2018

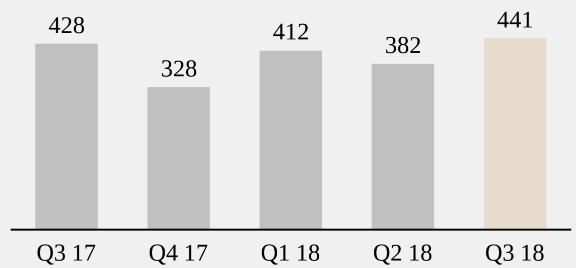
Income statement / Q3

Synergies from recent mergers are reflected in the results

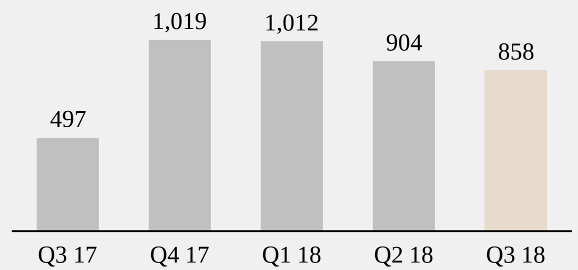
PRE-TAX PROFIT
ISK m.



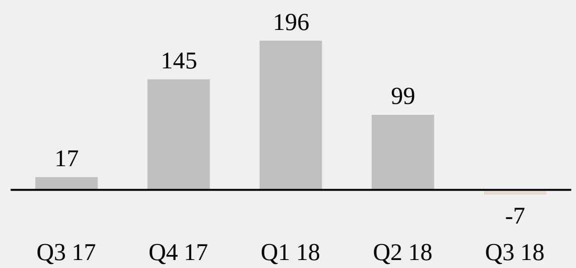
NET INTEREST INCOME
ISK m.



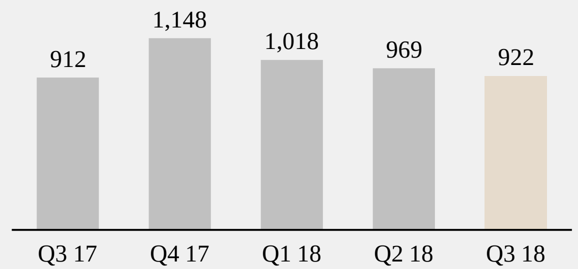
NET FEE AND COMMISSION INCOME
ISK m.



NET FINANCIAL INCOME
ISK m.



OPERATING EXPENSES (OPEX)
ISK m.



Income statement / 9M

Strong revenue growth with profitability in line with budget

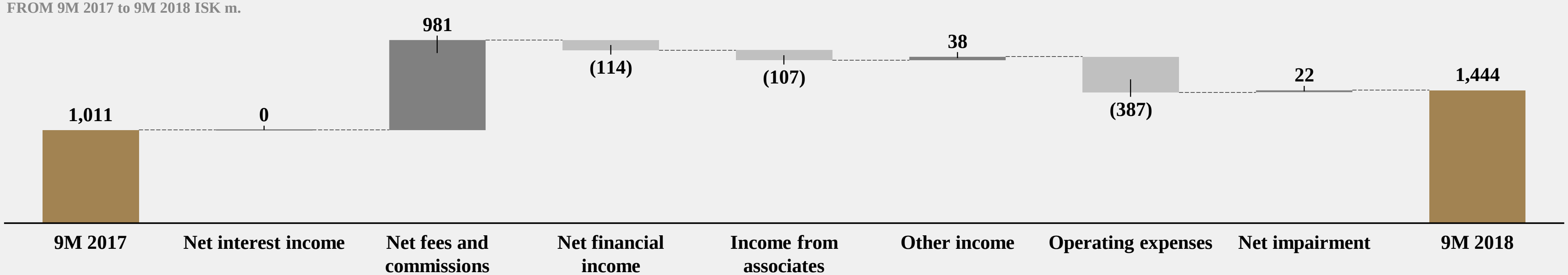
- Pre-tax profit for the period amounts to ISK 1,444 million, an increase of 43% year-on-year
- Pre-tax return on equity for the period at 17.3%
- Net interest income unchanged year-on-year
  - Despite a significant increase in long-term funding through bond issuance and subordinated debt
- Net fee and commissions increased substantially
  - 55% year-on-year increase driven by asset management
- Operating expenses amount to ISK 2,909 million and increased 15% year-on-year
  - Mainly due to increased number of employees following acquisitions of Virðing and Alda
  - According to the budget for 2018, realised cost synergies will exceed the forecast ISK 600 million
- Income statement does not include special tax on financial institutions as it is calculated at year-end, nor special tax on financial activity as the tax base has not yet exceeded ISK 1.0 billion [1)]

INCOME STATEMENT

ISK m.	*9M 2018*	*9M 2017*
Net interest income	1,234	1,235
Net fees and commissions	2,774	1,793
Net financial income	288	402
Income from associates	(36)	71
Other income	51	13
Net operating income	***4,311***	***3,513***
Operating expenses	(2,909)	(2,522)
Net impairment	42	19
Pre-tax profit	***1,444***	***1,011***
Taxes		
Income tax	(41)	(20)
After-tax profit	***1,403***	***991***
Earnings per share (EPS)	***0.76***	***0.70***
Diluted EPS	***0.68***	***0.68***

PRE-TAX PROFIT

FROM 9M 2017 to 9M 2018 ISK m.



(1) *Additionally, The Bank has a tax loss carry forward which offsets the calculated income tax. A part of the tax loss carry forward has been recognised as a deferred tax asset in the statement of financial position. The deferred tax asset is reviewed at each reporting date and should the revisions lead to changes being made they will have an impact on the profit after tax in the income statement.*

Segment reporting

Large increase in net fee and commission income driven by asset management

Asset Management

- Growth in assets under management from Y/E 2017 despite negative market returns during the period
  - Driven by private banking
- Private equity fund, Freyja, launched in June 2018, has expanded to ISK 7 bn. and is expected to close at ISK 8 bn. before the year-end
- Agreement signed between Kvika and TIF on the management of TIF's foreign assets [1)]
- New partnership agreement signed with Europe's largest asset management company, Amundi, for the sale of its funds

Corporate Finance

- Healthy pipeline of versatile mandates in process with several M&A and advisory projects executed and closed:
  - Sale of OceanPath
  - Sale of Reykjavik Apartments
  - Sale of a stake in Arion Bank
  - Fund raising of OSF II fund for Ortus Secured Finance UK
  - Sale of Lyfja
  - Sale of a minority stake in HS Orka
- London office completed an investment project in the UK as it led a group of investors to acquire a majority share in UK health services company Cornerstone Healthcare

Corporate Banking

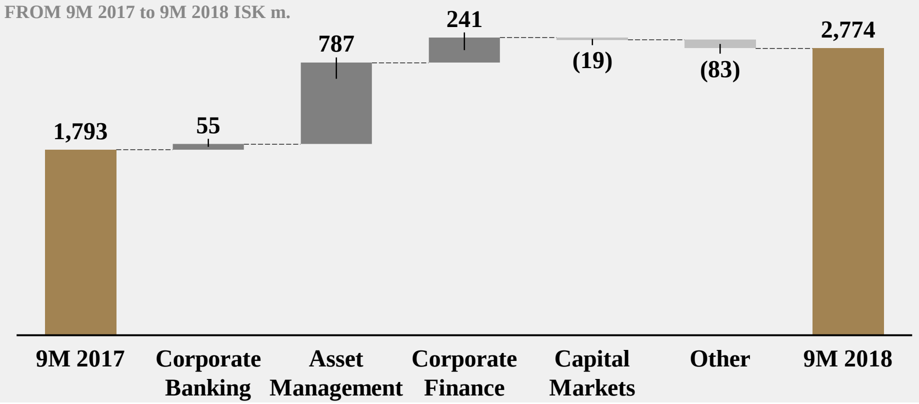
- Diversification of loan book increased with approximately 15,000 end-borrowers
- Loan book duration has gradually decreased and is now less than 1 year
  - Resulting in a higher proportion of fees and lower risk
- Operating expenses remain relatively unchanged despite an increase in customers and a broader product range
- The adoption of IFRS 9 has resulted in a positive net impairment for 2018 9M. The implementation of the standard is expected to lead to increased volatility in impairment recognition in the income statement

Capital Markets

- Challenging market environment during the year
- Increased ISK volatility in Q3 results in increased FX brokerage revenues
- Buy-back programs have been initiated as a result of poor overall market performance with declining equity and bond market turnover. Kvika has executed a number of those, e.g. for Marel, VÍS and Reitir
- Highlighted projects include
  - Sale of a 5% stake in ICESEA
  - Advisory of Iceland Seafood's Int. acquisition of Solo Seafoods

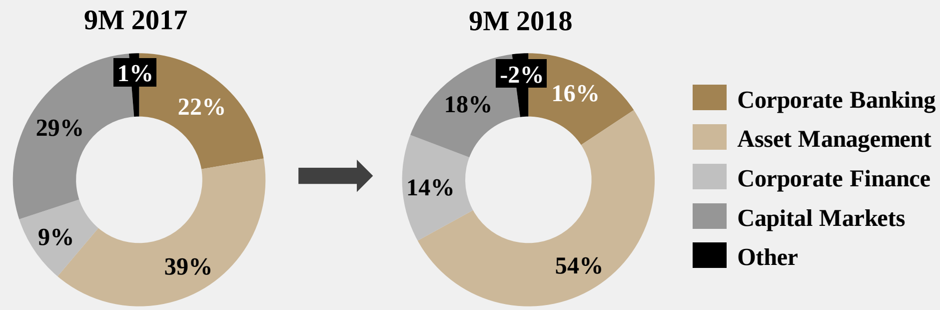
NET FEE AND COMMISSION INCOME

FROM 9M 2017 to 9M 2018 ISK m.



CHANGE IN NET FEE AND COMMISSION INCOME SPLIT

FROM 9M 2017 to 9M 2018



(1) *Tryggingarsjóður innstæðueigenda og fjárfesta / The Icelandic Depositors' and Investors' Guarantee Fund*

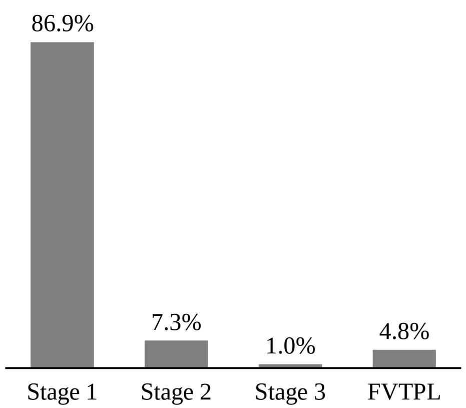
Balance sheet

Transparent and flexible balance sheet with highly liquid assets

- In total, liquid assets amount to ISK 53.1 billion or 55% of total assets and 112% of all deposits
  - Cash and balances with the Central Bank at ISK 25.1 billion
  - Other liquid assets include ISK 10.4 billion in listed government bonds and ISK 17.6 billion of other listed securities
- Financial instruments ISK 31.9 billion of which ISK 22.9 billion are for hedging
- Lending increased 19% from year-end 2017 while the weighted duration of the loan portfolio decreased and is now less than one year
  - Fees and commissions from lending remain high
  - 86.9% of gross loans to customers in stage 1

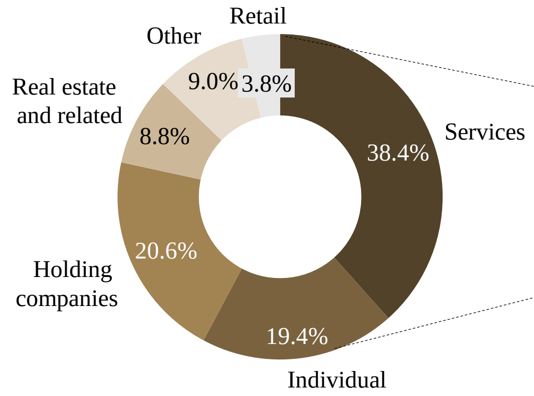
CREDIT QUALITY OF LOAN BOOK [1]

30.09.2018



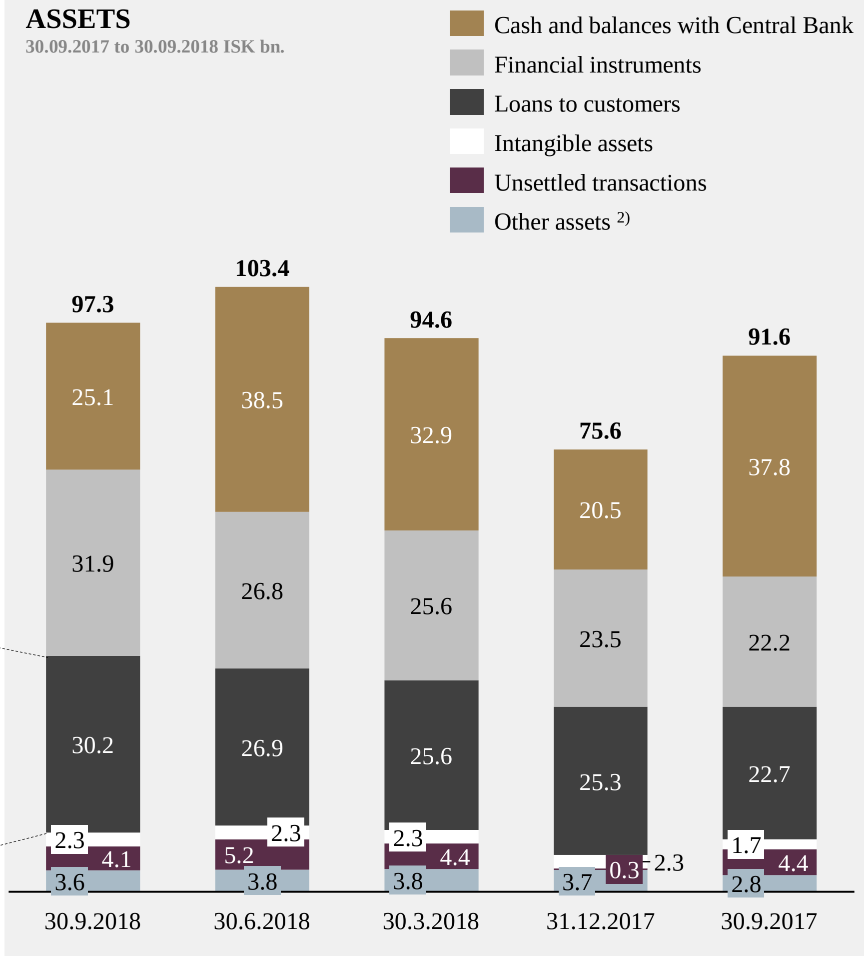
BREAKDOWN OF LOAN BOOK

30.09.2018



ASSETS

30.09.2017 to 30.09.2018 ISK bn.



(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, Sundry assets and Assets classified as held for sale

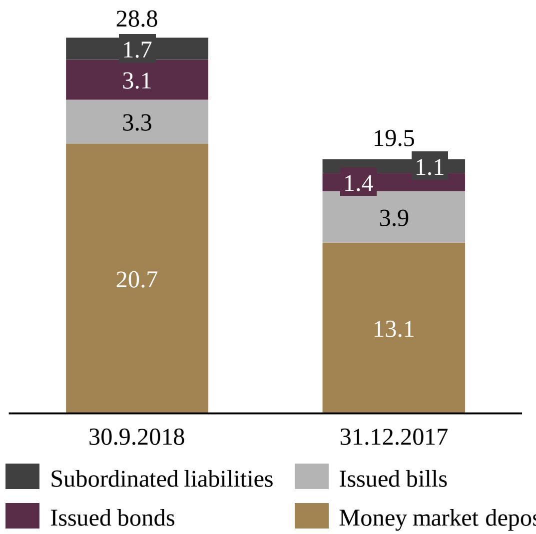
Balance sheet

Well balanced funding with a high ratio of deposits

- Deposits in relation to loans to customers is high (over 156%) and provides cover from fluctuations in wholesale funding
- Liquidity coverage ratio (LCR) 201% at the end of September 2018
- Deposits grew by 13% from year-end 2017
  - 52% of deposits and other borrowings are fixed-term
- Bond issuance increased during the year
  - Three and two year senior unsecured bond issuance increased to ISK 3.1 billion
  - New ten-year subordinated bond issuance of ISK 0.6 billion

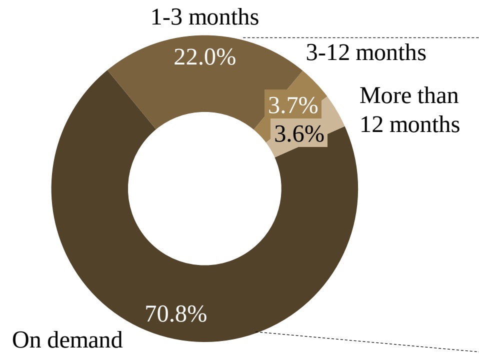
DEBT ISSUANCE & BORROWINGS

30.09.2018 and 31.12.2017 ISK bn.



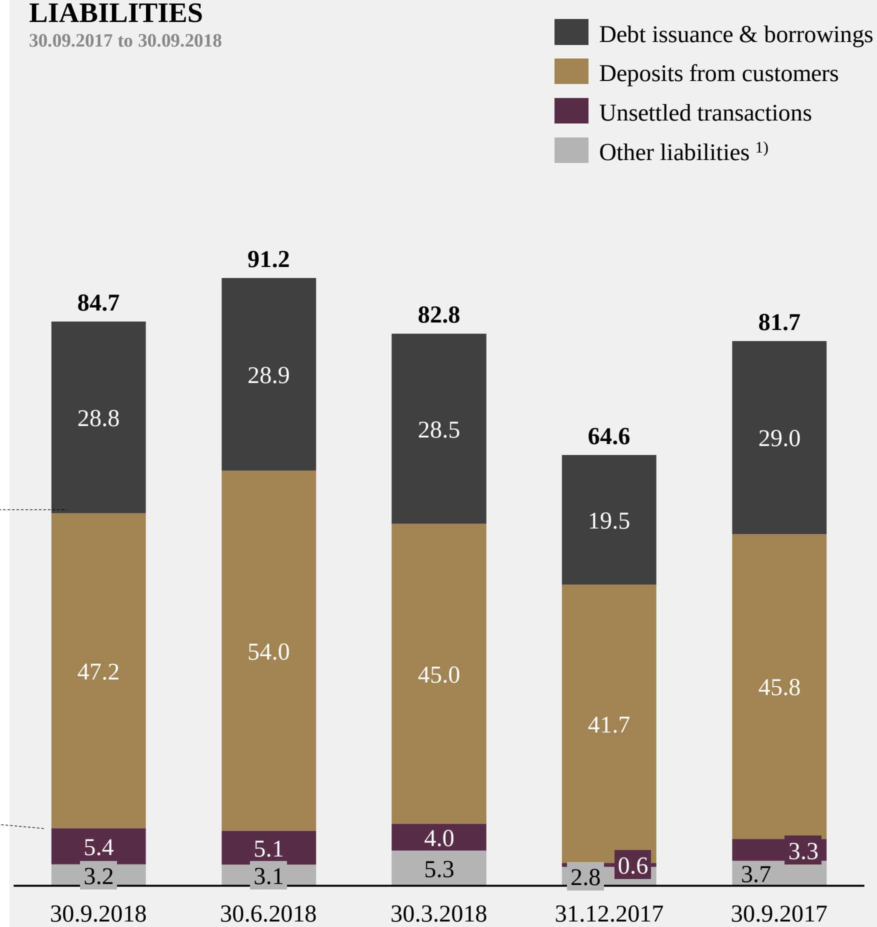
MATURITY OF DEPOSITS

30.09.2018



LIABILITIES

30.09.2017 to 30.09.2018



(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 and Other liabilities*

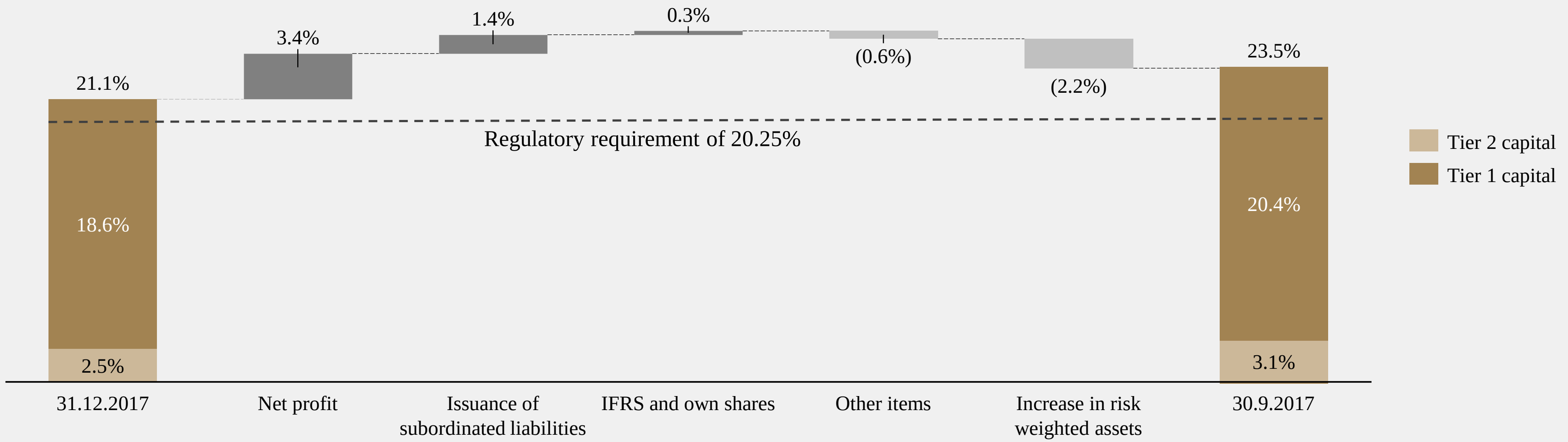
Solid capital position

Capital adequacy ratio exceeds required capital buffers

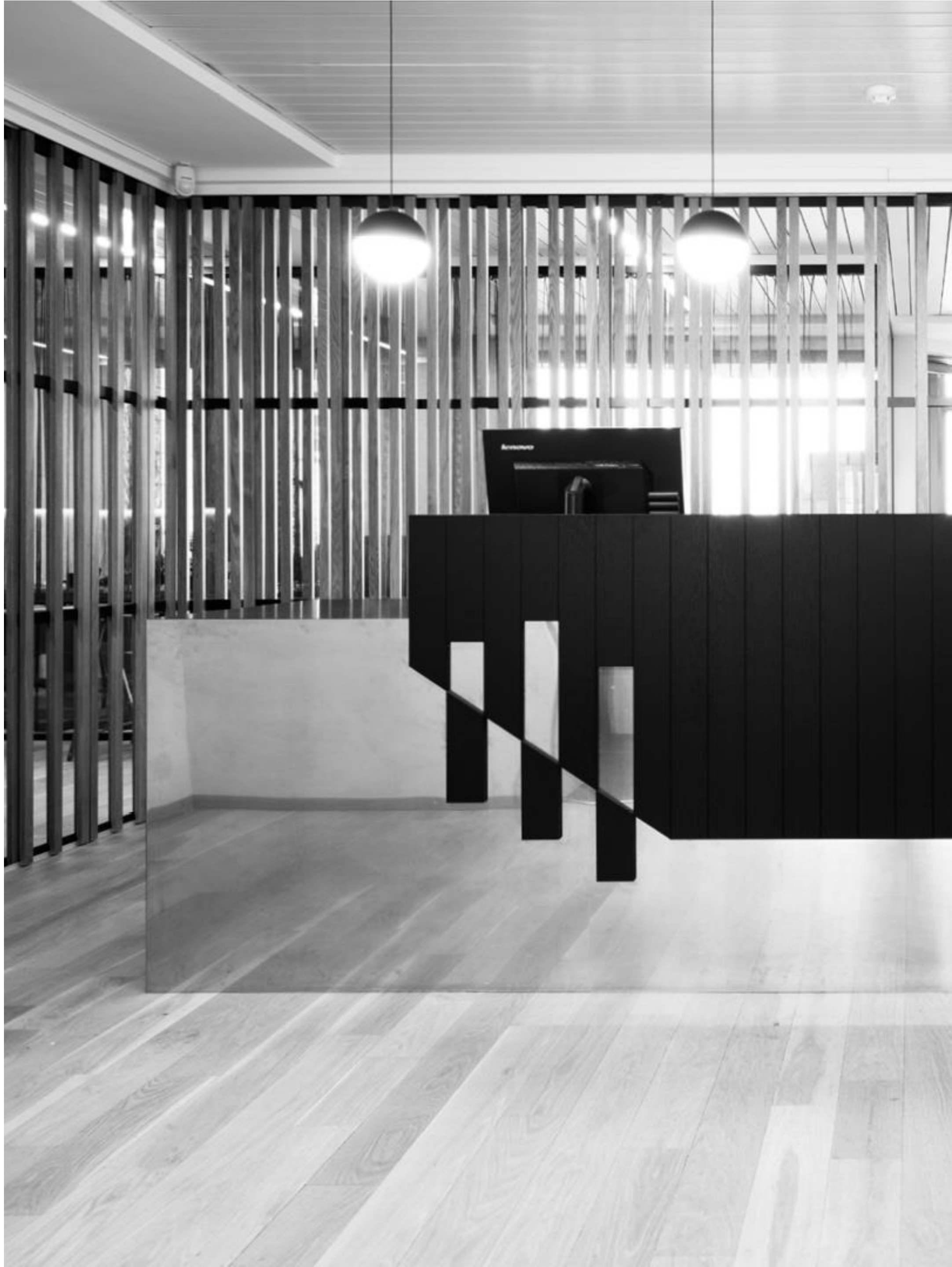
- Capital adequacy ratio 23.5% at end of Q3 2018
  - Regulatory CAD, according to capital base at mid-year 2018, was 22.7%
  - Well above 20.25% regulatory requirements
  - Regulatory requirement with capital buffers 20.75% as of 15.5.2019
- The Bank's objective is to maintain a capital ratio above regulatory requirements including capital buffers which will be fully implemented in 2019
- New ten-year subordinated bond for a total of ISK 600 million increases CAD by 1.4%
- Capital base amounts to ISK 11,014 million but book value of equity at end of Q3 2018 was ISK 12,615 million

DEVELOPMENT OF CAPITAL ADEQUACY RATIO

BASIS FOR CALCULATION OF % CHANGE IS THE 2017 YEAR-END POSITION



Kvika's unique market position



25 October 2018

Competitive environment

Kvika enjoys a unique market position

- Three large commercial banks
- General retail and corporate services
- Branch network
- Emphasis on commercial banking
- Comprehensive investment banking activities

Employees	955 - 1,301
AuM	ISK 300 – 971 bn.
Deposits	ISK 476 – 654 bn.
Lending	ISK 799 – 989 bn.

KVIKA

- Strong player in its areas of operation
  - Asset Management
  - Corporate Finance
  - Corporate Banking
  - Capital Markets

		Including GAMMA
Employees	110	<140
AuM	ISK 274 bn.	400 bn.
Deposits	ISK 47 bn.	
Lending	ISK 30 bn.	

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- Operating license as a securities company or fund management company
- Specialised financial undertaking
- Services in asset management, securities trading, transactions and/or advisory

Employees	<40
AuM	ISK 0 – ~140 bn.
Deposits	ISK 0 bn.
Lending	ISK 0 bn.

Statistical information on competitors on a consolidated basis, based on 1H 2018 financial statements. Where statistical information on competitors is not available, figures reflect independent estimates based on the latest data and are therefore not precise
Kvika figures are based on Q3 2018.

Recent mergers and acquisitions

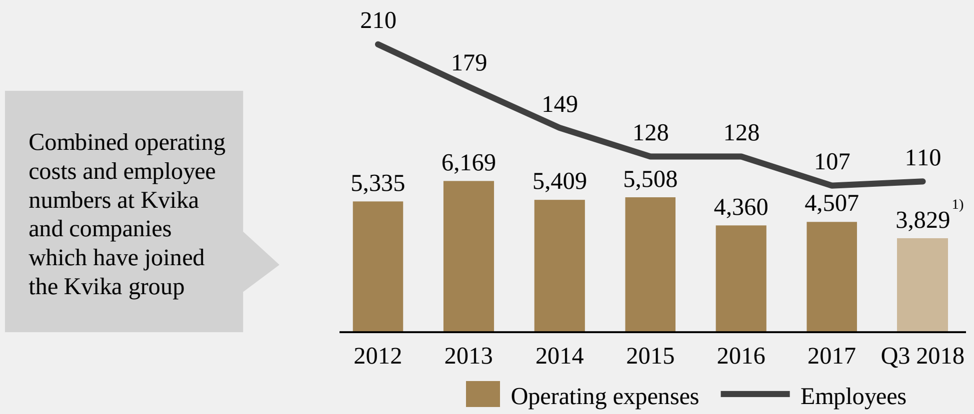
Positive impact on operations

2012		2013		2014		2015		2016		2017		Q3 2018	
MP Bank	125	MP Bank	117	MP Bank	75	Kvika	86	Kvika	86	Kvika	107	Kvika	110
Straumur	35	Straumur	32	Straumur	33								
Virðing	19	Virðing	27	Virðing	37	Virðing	38	Virðing	37				
Auður	30												
ALDA	1	ALDA	3	ALDA	4	ALDA	4	ALDA	5				
Employees	210	Employees	179	Employees	149	Employees	128	Employees	128	Employees	107	Employees	110

- Recent mergers have enabled Kvika to become a leader in cost efficiency in the domestic financial market
- Mergers of recent years have delivered substantial synergies visible in the reduction in operating expenses
  - These are even greater if price level increases are considered
- At Q3 2018 employees numbered 110 compared to 210 at year-end 2012 in those financial undertakings which have merged to form Kvika

DEVELOPMENT OF OPEX AND EMPLOYEES

DEVELOPMENT ISK m. / EMPLOYEES #

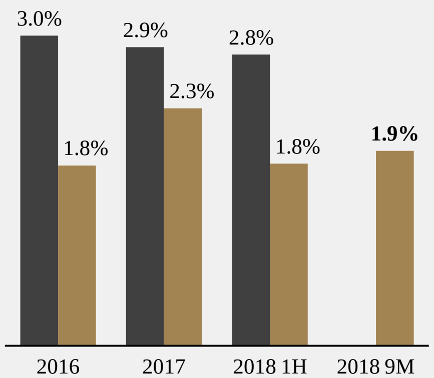


(1) Annualised. Based on actual figures for first 9M 2018, where Q4 OPEX is estimated to be the same figure as Q3.

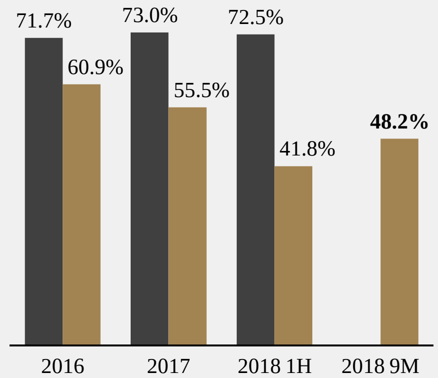
Comparison

Strong key ratios

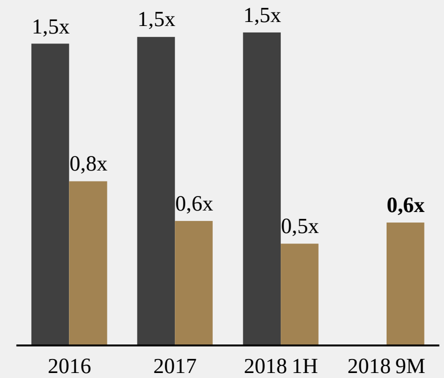
NET INTEREST MARGIN [1]



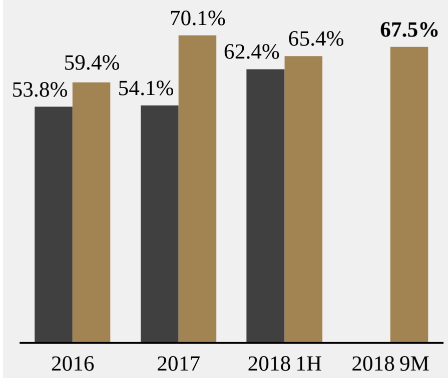
RISK WEIGHTED ASSETS / TOTAL ASSETS



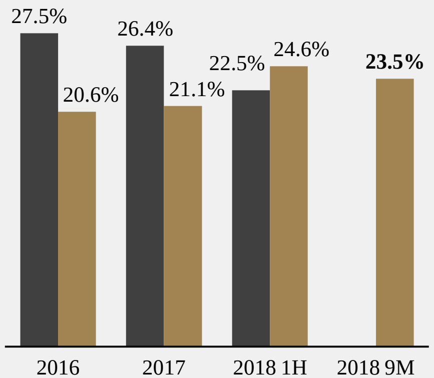
LOANS / DEPOSITS [2]



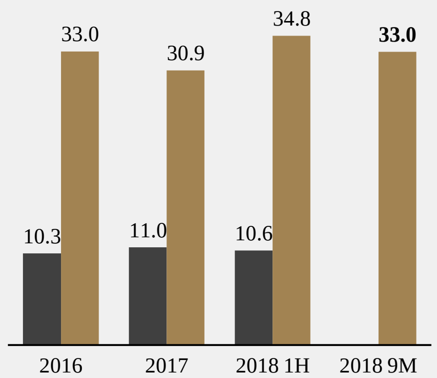
COST-INCOME RATIO [3]



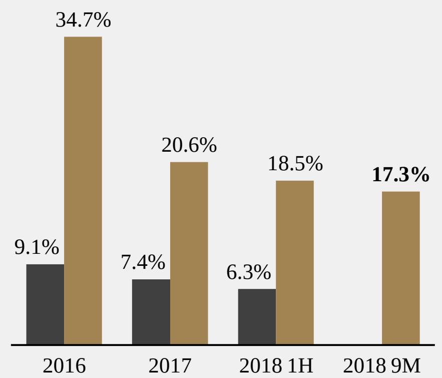
CAD RATIO



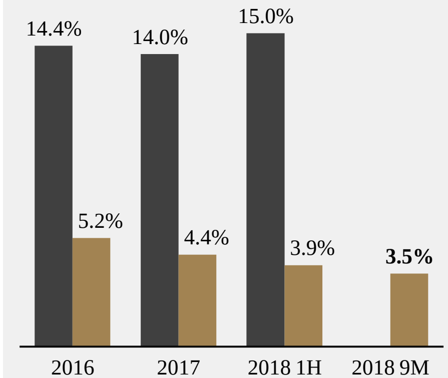
NET FEE & COMMISSION INCOME / AVERAGE FULL-TIME EQUIVALENTS [4]



RETURN ON EQUITY [5]



ASSET ENCUMBERANCE [6]



Simple average of the three largest commercial banks in Iceland   Kvika banki

1) *On average carrying total book value of assets*
2) *Only includes loans and deposits to customers*
3) *As reported*
4) *Net fee & commission income / Average FTE's are annualised figures for 2018 1H and 2018 9M*
5) *As reported. However, 2017 return on equity was 24.9% adjusted for one-off items due to integration and organisational changes*
6) *Defined as encumbered (pledged) assets / total assets*