



KVČKA

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Kvika Bank
1H 2018 Financial Results

24 August 2018



1H 2018 highlights



Kvika was listed on Nasdaq First North on March 16th. The first Icelandic bank to be listed in over a decade

On July 2nd, Kvika announced its objective to list the Bank's shares on Main Market Nasdaq Iceland within 6-12 months



Kvika announced on June 20th its intention to acquire GAMMA Capital Management hf.

Due diligence is currently ongoing



Finalised merger of Júpíter Capital Management and ALDA Asset Management

Combined company has 30 funds in operations and assets under management of ISK 107.1 billion



Total assets under management ISK 271 billion

AuM grew by ISK 8 billion from year-end 2017



Net operating income continues to grow at a strong 18.1%

Driven by growth in net fee and commission income



Return on equity at 18.5%

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 24.6%

Well above regulatory requirements



Operating environment

24 August 2018

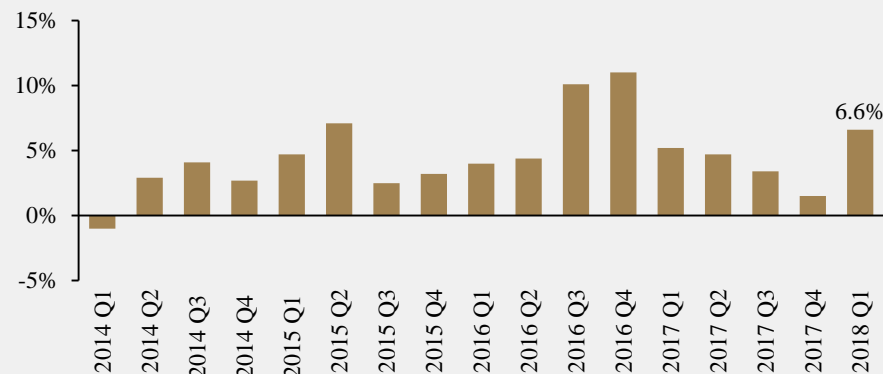
Robust economy

Strong fundamentals underpin current and expected GDP growth



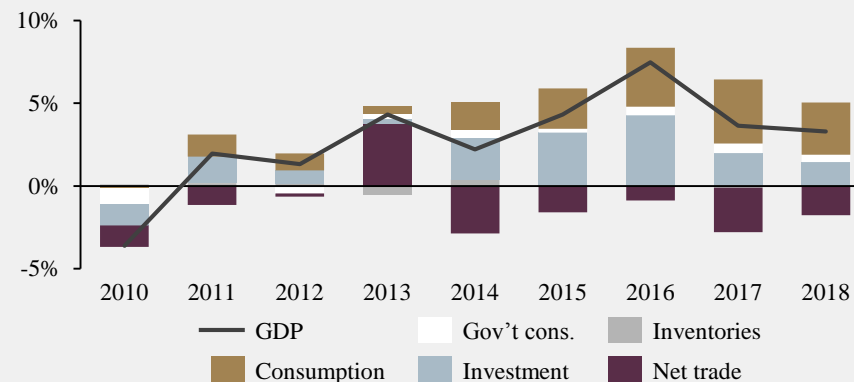
Robust GDP numbers in Q1, with solid 3% growth expected over a 3 year horizon

Quarterly GDP 2014 - 2018



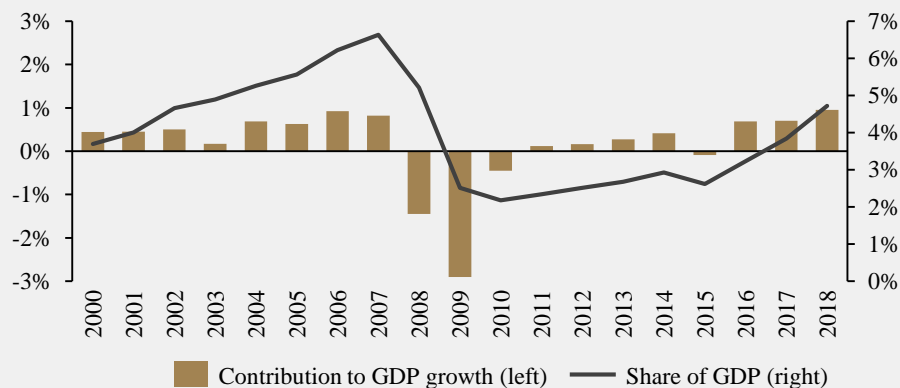
Healthy composition of growth this year, with net trade improving and continued strong investment and consumption...

Contribution of underlying GDP components 2010 - 2018



...with particularly strong rebound currently in residential investment

Contribution and share of GDP 2000 - 2018



Furthermore, inflation has remained around target despite domestic expansion and low unemployment

Inflation and unemployment 2010 - 2018



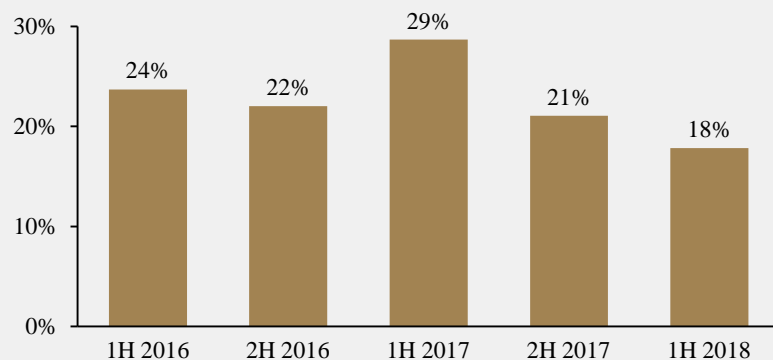
Low turnover in capital markets

Concentrated ownership and capital controls constraining markets



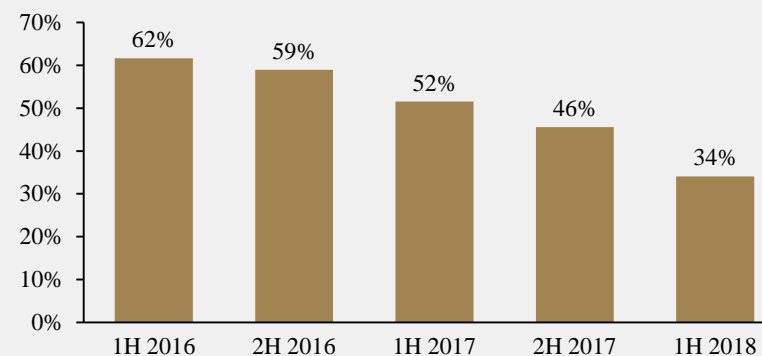
Despite the recent removal of capital controls, ownership in equity markets remains concentrated - resulting in low turnover

Monthly turnover equity market / GDP 2016 - 2018



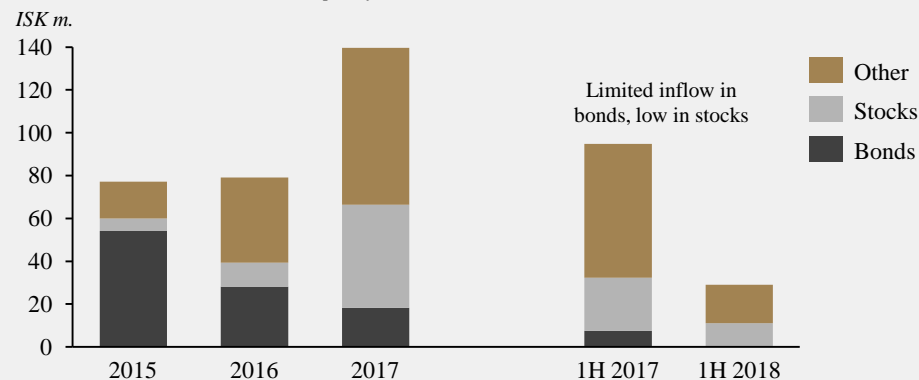
In addition, controls on certain inflows which were strengthened in 2016 have weakened the bond market

Monthly turnover bond market / GDP 2016 - 2018



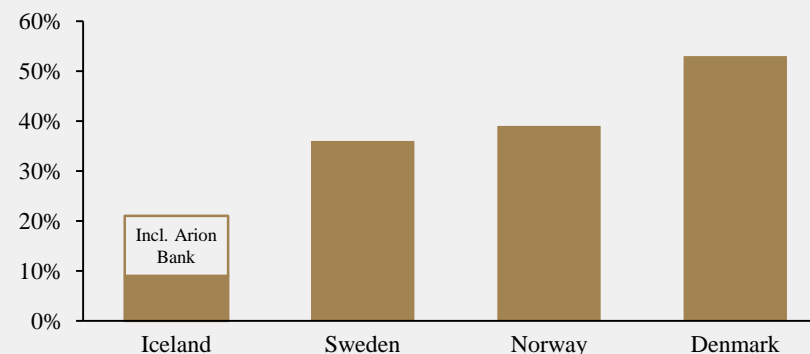
Foreign capital flows due to new investments increased around the lifting of the controls in 2017, but have since fallen

Capital flows due to new investments



Foreign ownership in the stock market remains small. The ratio is set to increase as pension funds increasingly look abroad, leaving room for new and more active investors

Proportion of foreign investors in the stock market in the beginning of 2018



Icelandic banking environment

Country specific regulations and taxes



1	High capital requirements	19.8-21.4%¹⁾	<i>The capital requirements remain one of the highest in Europe despite healthy balance sheets and low non-performing loans</i>
2	Special tax on salaries	5.5%	<i>Levied on the total salary expense of all financial institutions</i>
3	Special tax on profits	6.0%	<i>An additional income tax on income base in excess of ISK 1.0 billion</i>
4	Special tax on liabilities	0.376%	<i>Banks must pay annually a tax based on the carrying amount of their liabilities in excess of ISK 50 billion</i>
5	Regulation on remuneration	25% cap	<i>Bonuses can't exceed 25% of the annual salary of any employee, as well as deferring the payment of at least 40% of the calculated bonus for at least three years</i>
6	Minimum reserve requirement	0% interest	<i>A recent change in minimum reserve requirements for credit institutions reduces interest on one half of the reserve requirement to zero</i>

1) Range of capital requirements for Arion Bank, Íslandsbanki, Landsbanki and Kvika Bank at the end of 1H 2018
Sources: <https://www.cb.is/publications/news/news/2018/06/05/Change-in-credit-institutions-minimum-reserve-requirements/>
<https://en.fme.is/media/utgefud-efni/Rules-on-Bonus-Schemes-Unofficial-translation.pdf>



Financials

1H 2018

24 August 2018

Income statement

Strong revenue growth with profitability above estimations



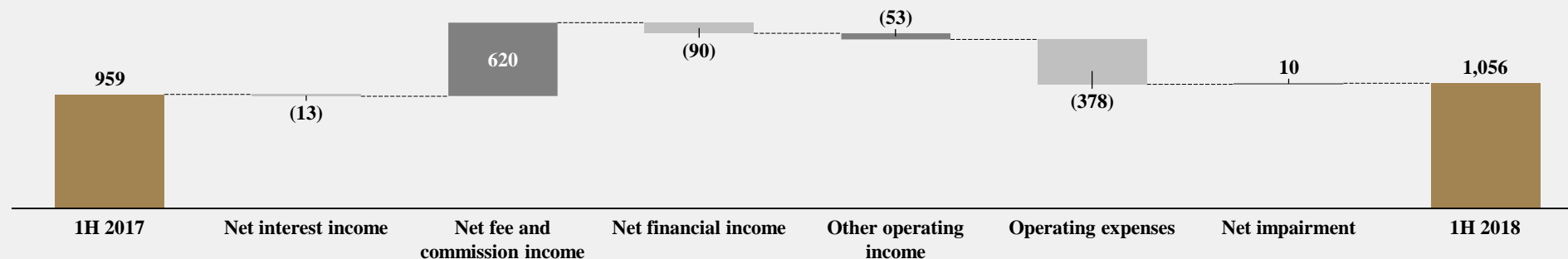
- After-tax profit for the period amounts to ISK 1,023 million, an increase of 8.1% year-on-year
- Return on equity slightly above estimations for the period, at 18.5%
- Small decrease in net interest income year-on-year
 - A contributing factor is a significant increase in long-term funding through bond issuance and subordinated debt
- Net fee and commissions increase substantially
 - 48% year-on-year increase driven by asset management
- Operating expenses amount to ISK 1,987 million and increased 23.5% year-on-year
 - Mainly due to increased number of employees following acquisitions of Virðing and Alda
 - According to forecast for 2018, realized cost synergies will exceed the forecasted ISK 600 millions
- 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
- An estimate of the tax loss carry forward was not carried out at the end of 1H 2018, but changes from previous estimates can have a material effect on the Bank's profit after tax

INCOME STATEMENT

ISK m.	2018 1H	2017 1H
Net interest income	794	807
Net fee and commissions	1,916	1,296
Net financial income	295	385
Other income	32	84
Net operating income	3,037	2,573
Operating expenses	(1,987)	(1,609)
Net impairment	5	(5)
Pre-tax profit	1,056	959
Taxes		
Income tax	(33)	(13)
After-tax profit	1,023	946
Earnings per share (EPS)	0.55	0.68
Diluted EPS	0.50	0.66

PRE-TAX PROFIT

FROM 1H 2017 to 1H 2018 ISK m.



Segment reporting

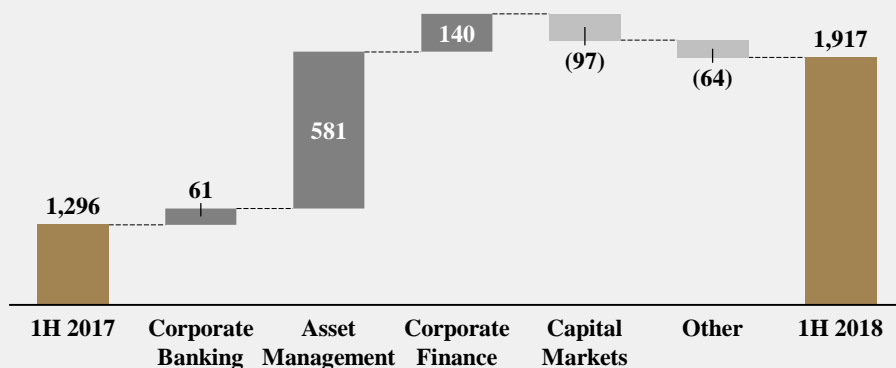
Large increase in fee and commission driven by asset management



Asset Management	Corporate Finance	Corporate Banking	Capital Markets
<ul style="list-style-type: none"> Growth in AuM from Y/E 2017 despite negative market returns during the period <ul style="list-style-type: none"> Driven by private banking New private equity fund, Freyja, launched with first closing of ISK 3.5 bn. <ul style="list-style-type: none"> Second closing expected in Q3 2018 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 	<ul style="list-style-type: none"> Healthy pipeline of versatile mandates in process Several M&A and advisory projects executed and closed Deals closed include: <ul style="list-style-type: none"> Sale of OceanPath Sale of Reykjavik Apartments Sale of a stake in Arion Bank Sale of Vellir 15 Fund raising of OSF II fund for Ortus Secured Finance in the UK 	<ul style="list-style-type: none"> Diversification of loan book increased with more than 15,000 end-borrowers Duration of loan book has gradually decreased and is now 1.0 year <ul style="list-style-type: none"> Resulting in a higher proportion of fees and lower risk Fees and commissions 26.8% of the division's total operating income, up from 22.2% in 1H 2017 Operating expenses remain relatively unchanged despite an increase in customers and a broader product range 	<ul style="list-style-type: none"> Challenging market environment in 1H 2018 ISK has remained relatively stable during the period, resulting in lower spreads for FX trading Buy-back programs have been initiated as a result of poor overall market performance with declining equity and bond market turnover. Capital markets has executed a number of those, e.g. for Marel Projects include <ul style="list-style-type: none"> Sale of a stake in Arion Bank Advisory of Iceland Seafood's International acquisition of Solo Seafoods

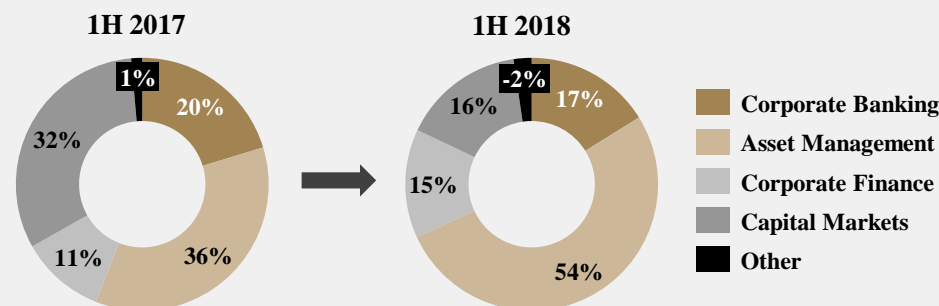
NET FEE AND COMMISSION INCOME

FROM 1H 2017 to 1H 2018 ISK m.



CHANGE IN NET FEE AND COMMISSION INCOME SPLIT

FROM 1H 2017 to 1H 2018 ISK m.



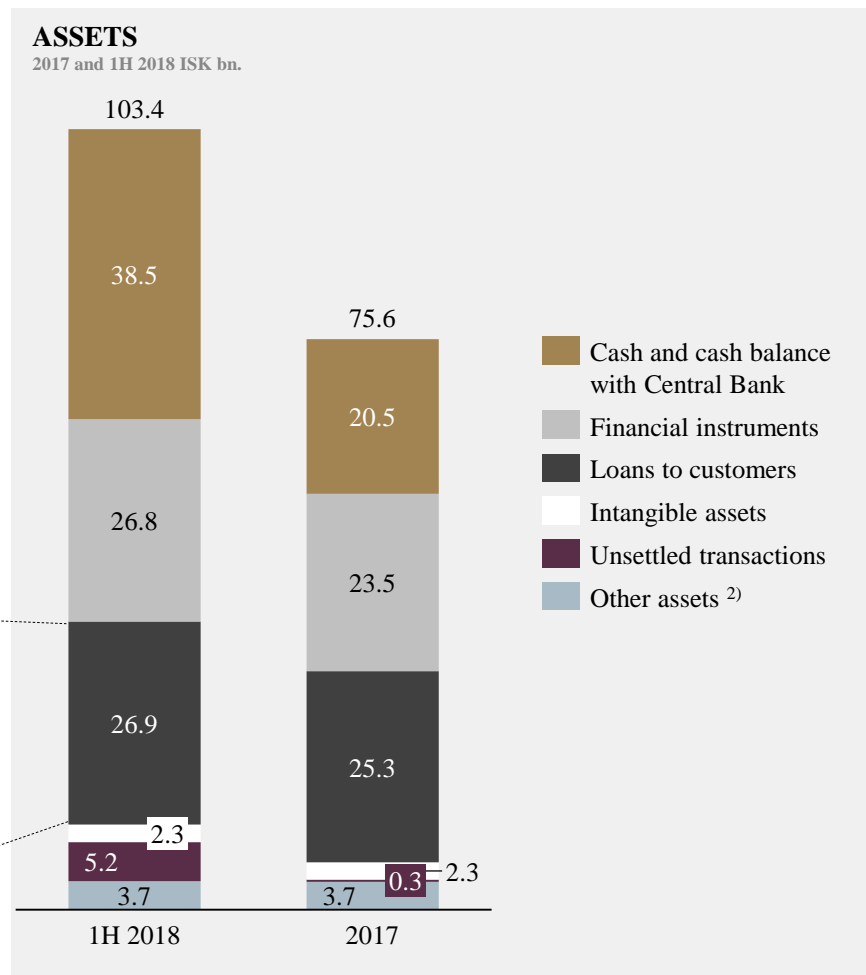
(1) Tryggingarsjóður innstæðueigenda og fjárfesta / The Icelandic Depositors' and Investors' Guarantee Fund

Balance sheet

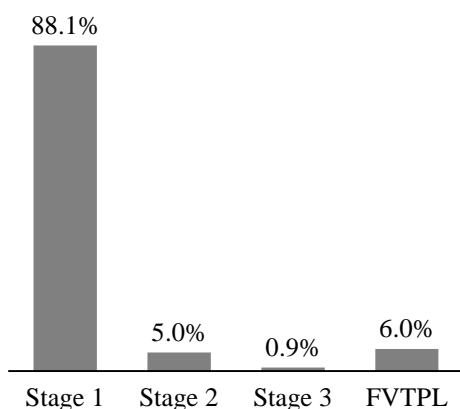
Transparent and flexible balance sheet with highly liquid assets



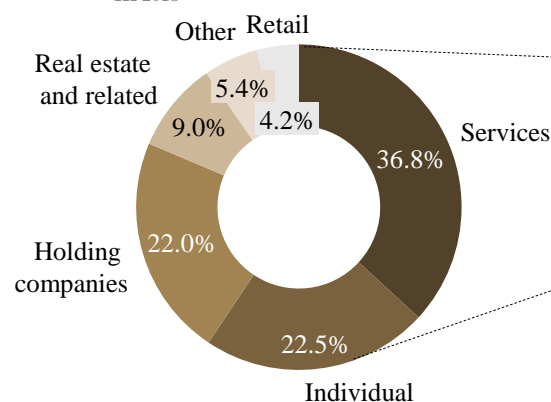
- Cash and balances with the Central Bank at ISK 38.5 billion
 - Increase of 87.6% from 31.12.2017 as a result of a large increase in deposits, borrowings and bond issuance
- In total, liquid assets account for 60% of total assets and 115% of all deposits
- Financial instruments ISK 26.8 billion where ISK 18.0 billion are for hedging
 - Thereof ISK 8.3 billion government backed securities
- Lending increased 6% from year-end 2017 while the weighted duration of the loan portfolio decreased and is now 1.0 year
 - Fees and commissions from lending remain high
 - 88.1% of gross loans to customers in stage 1



CREDIT QUALITY OF LOAN BOOK ¹⁾
1H 2018



BREAKDOWN OF LOAN BOOK
1H 2018



(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

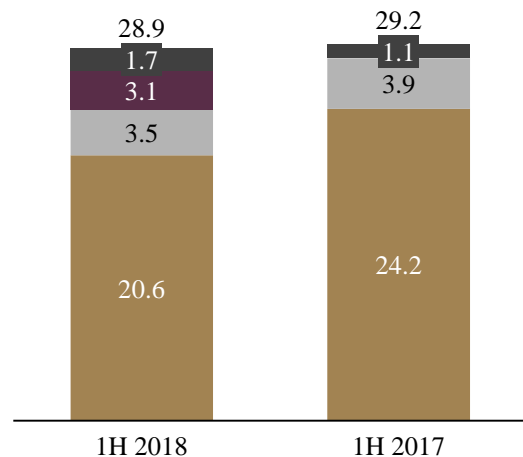
Well balanced funding with a high ratio of deposits



- Deposits in relation to loans to customers is high (over 200%) and provides cover from fluctuations in wholesale funding
- Liquidity coverage ratio (LCR) 324% at mid-year 2018
- Deposits grew by 29.5% from year-end 2017
 - 50% 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

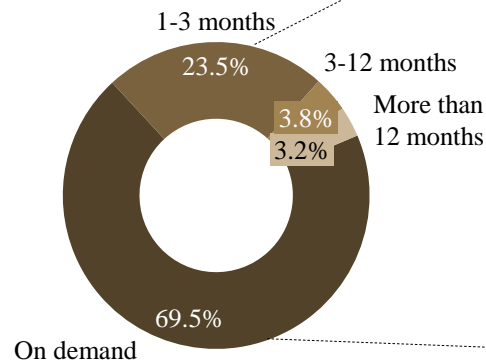
1H 2018 and 1H 2017 ISK bn.



Subordinated liabilities
 Issued bills
 Issued bonds
 Money market deposits

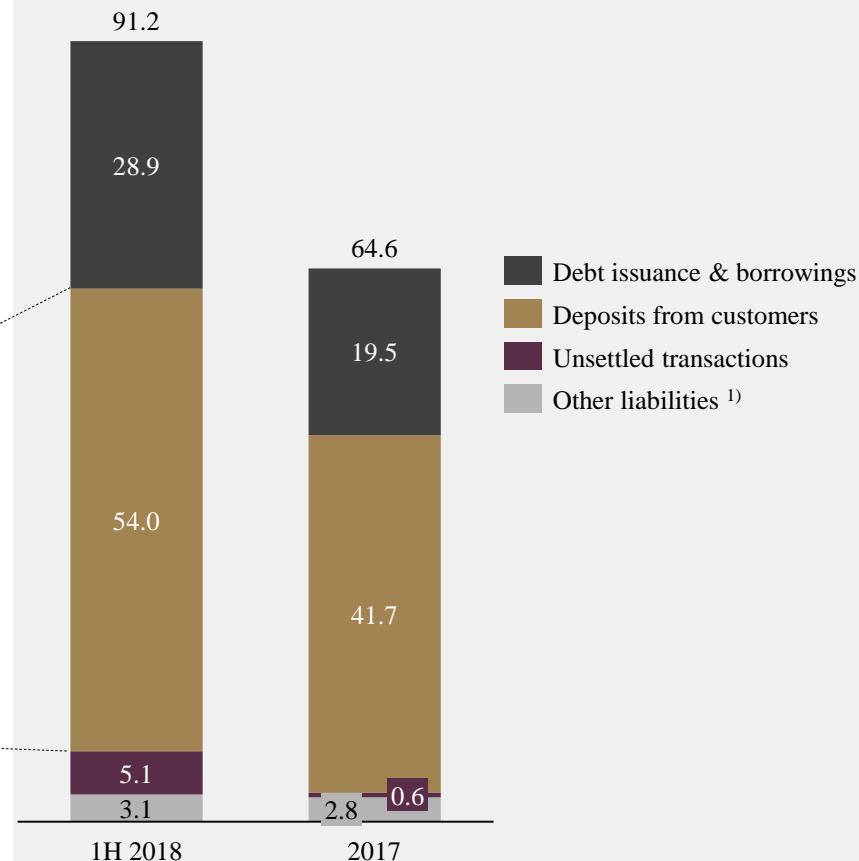
MATURITY OF DEPOSITS

1H 2018



LIABILITIES

2017 and 1H 2018 ISK bn.



Debt issuance & borrowings
 Deposits from customers
 Unsettled transactions
 Other liabilities ¹⁾

(1) Other liabilities include Current tax liabilities, Deferred tax liabilities, Short positions held for trading, Derivatives, Loans from credit institutions, Other borrowings and Other liabilities

Solid capital position

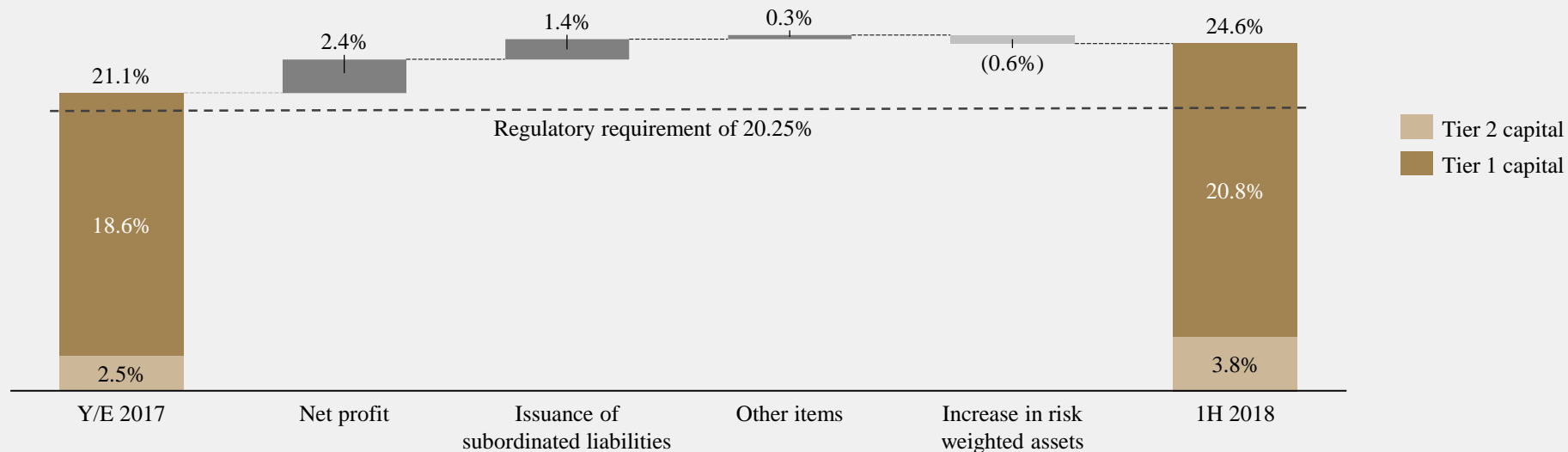
Capital adequacy ratio exceeds expected capital buffers



- Capital adequacy ratio 24.6% at mid-year 2018
 - 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 ISK 10,656 million but book value of equity at mid-year 2018 was ISK 12,230 million

DEVELOPMENT OF CAPITAL ADEQUACY RATIO

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





Kvika's unique market position

24 August 2018



Recent mergers and acquisitions

Positive impact on operations

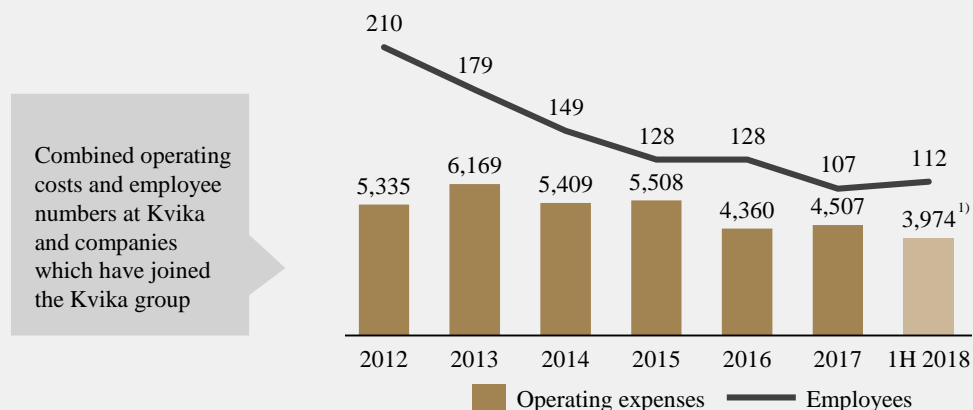


2012		2013		2014		2015		2016		2017		1H 2018	
MP Bank	125	MP Bank	117	MP Bank	75	Kvika	86	Kvika	86	Kvika	107	Kvika	112
Straumur	35	Straumur	32	Straumur	33								
Virðing	19	Virðing	27	Virðing	37	Virðing	38	Virðing	37	Kvika	107	Kvika	112
Auður	30												
ALDA	1	ALDA	3	ALDA	4	ALDA	4	ALDA	5				
Employees	210	Employees	179	Employees	149	Employees	128	Employees	128	Employees	107	Employees	112

- 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 mid-year 2018 employees numbered 112 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) Annualized operating expenses

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.



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

		<i>Including GAMMA</i>
Employees	112	<140
AuM	ISK 271 bn.	400 bn.
Deposits	ISK 54 bn.	
Lending	ISK 27 bn.	

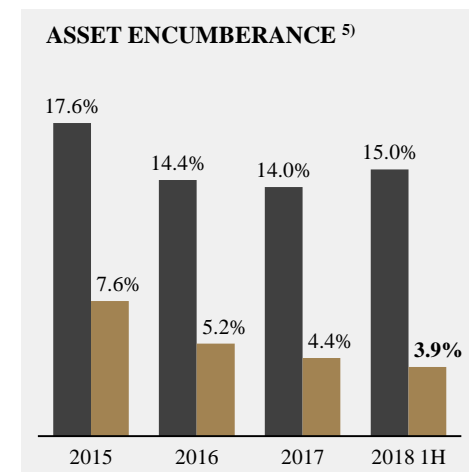
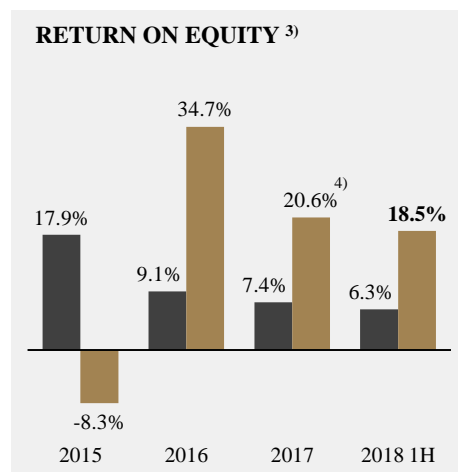
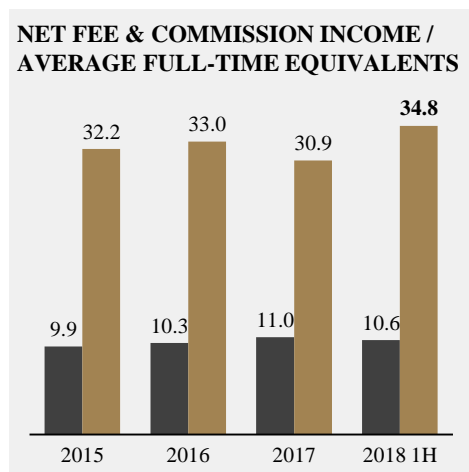
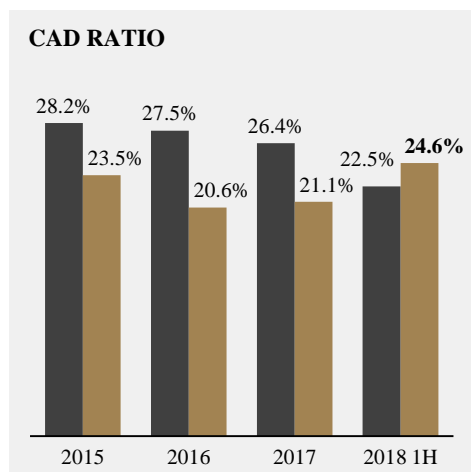
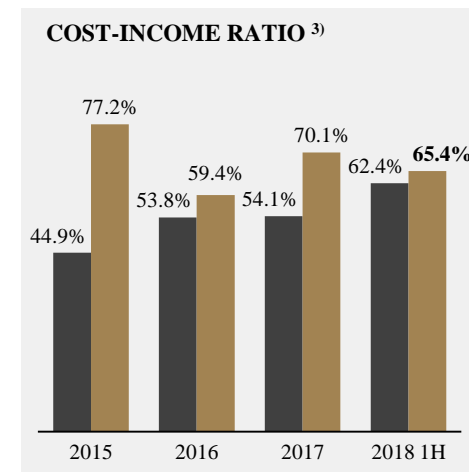
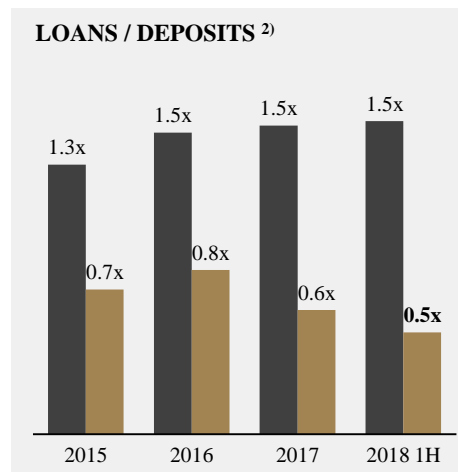
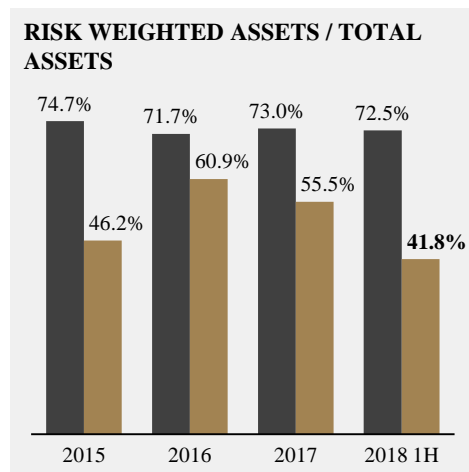
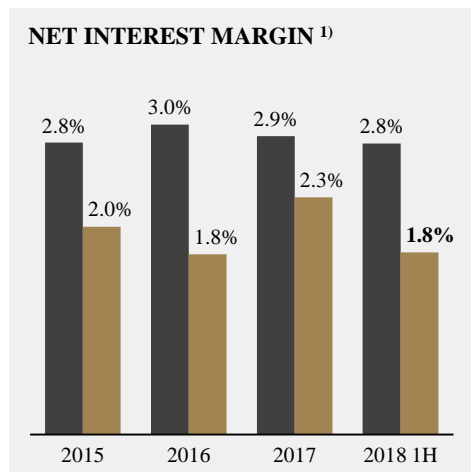


- Operating license as a securities company or fund management company
- Specialized financial undertaking
- Services in asset management, securities trading, transactions and/or advisory

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

Comparison

Strong key ratios



1) On average carrying total book value of assets

2) Only includes loans and deposits to customers

3) As reported

4) Return on equity was 24.9% adjusted for one-off items due to integration and organizational changes

5) Defined as encumbered (pledged) assets / total assets

■ Simple average of the three largest commercial banks in Iceland ■ Kvika bank

