



KVIKA

# *Kvika*

*2018 Financial Results*



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# 2018 highlights



**Profit of ISK 1,752 million (ISK 1,795 million pre-tax) for 2018 up from ISK 1,591 million (ISK 1,418 million pre-tax) resulting in return on equity of 15.7%**

Strong core operations in challenging markets



**Net operating income continued to grow at a strong 14% year-on-year**

Driven by growth in net fee and commission income



**Strong financial position with CAD ratio of 25.1% and Liquidity Coverage Ratio of 277%**

Well above regulatory requirements



**Total assets under management ISK 291 billion**

AuM grew by ISK 28 billion from year-end 2017 or by 11%



**Mission statement, values and strategy reviewed and revised**

A revised strategy was approved by the board of directors during 2018



**Intention to acquire GAMMA Capital Management hf. announced**

The acquisition has been approved by the Icelandic FSA. Approval of the Icelandic Competition Authority and British Financial Conduct Authority is still pending



**Kvika aims to complete its listing on the Nasdaq Iceland Main Market in the first quarter of 2019**

Kvika is currently listed on the Nasdaq Iceland First North market



# *Financials*

*2018*

*1 March 2019*



# Income statement / Q4

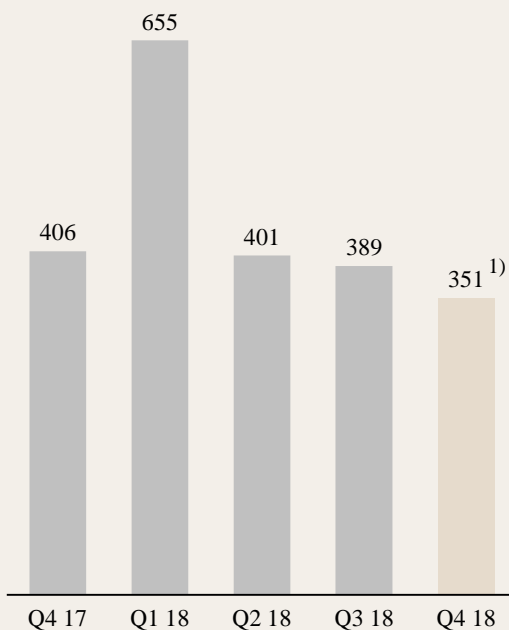
## Strong quarter despite loss from associates



### PRE-TAX PROFIT

ISK m.

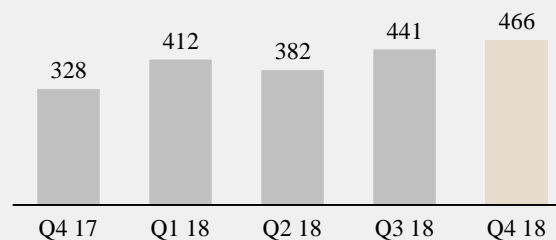
Core operations strong but affected by share in loss of associates in Q4



### NET INTEREST INCOME

ISK m.

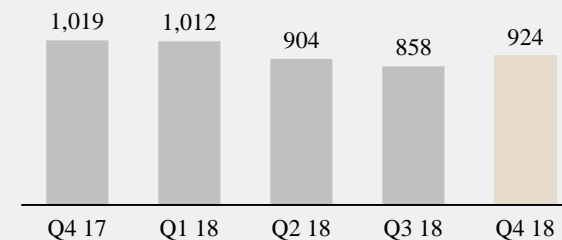
Continued upwards trend in NII



### NET FEE AND COMMISSION INCOME

ISK m.

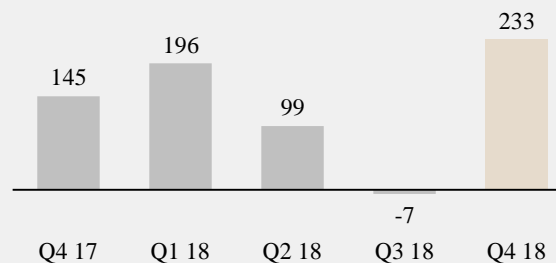
Strong recurring fee and commission income



### NET FINANCIAL INCOME

ISK m.

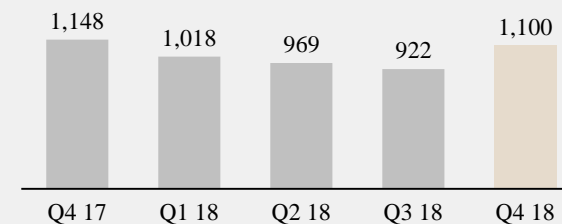
Good quarter in a challenging year



### OPERATING EXPENSES (OPEX)

ISK m.

In line with expectations



1) Negative impact of loss from associates was ISK 267 m. during Q4 2018

# Income statement

## Strong core operations



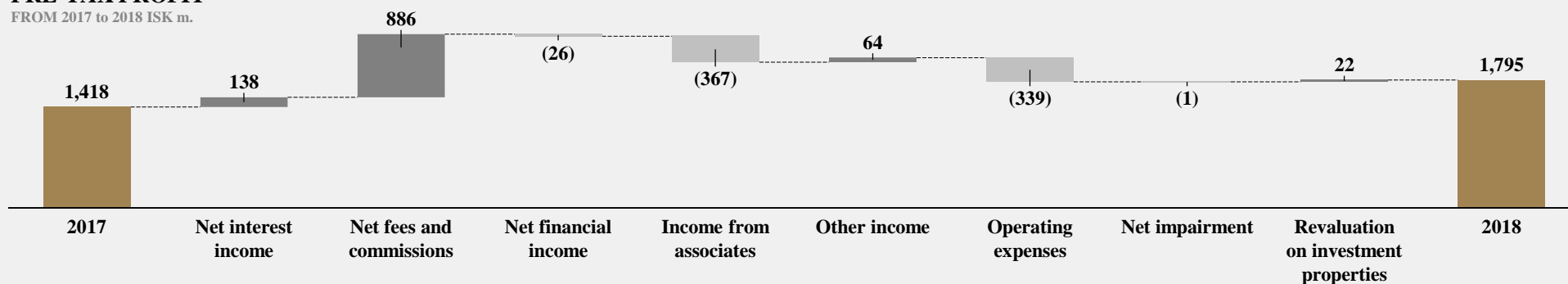
- Profit for the period amounted to ISK 1,752 million, an increase of 10% year-on-year
- Return on equity for the period at 15.7%
- Net interest income increased 9% year-on-year
  - Mostly contributed by increased lending
- Net fee and commissions ISK 3,698 million, an increase of 32% year-on-year
  - 85% of the increase contributed by asset management
- Operating expenses amounted to ISK 4,009 million and increased 9% year-on-year
  - Attributable to an increase in number of employees following the acquisitions of Virðing and Alda
- Loss from associates amounted to ISK 303 million

### INCOME STATEMENT

ISK m.	2018	2017
Net interest income	1,701	1,563
Net fees and commissions	3,698	2,812
Net financial income	522	547
Income from associates	(303)	64
Other income	87	23
<b>Net operating income</b>	<b>5,705</b>	<b>5,009</b>
Operating expenses	(4,009)	(3,670)
Net impairment	(15)	(14)
Revaluation on investment properties	115	92
<b>Pre-tax profit</b>	<b>1,795</b>	<b>1,418</b>
<b>Taxes</b>		
Income tax	110	249
Special bank taxes	(153)	(75)
<b>After-tax profit</b>	<b>1,752</b>	<b>1,591</b>
<b>Earnings per share (EPS)</b>	<b>0.95</b>	<b>1.07</b>
<b>Diluted EPS</b>	<b>0.86</b>	<b>1.03</b>

### PRE-TAX PROFIT

FROM 2017 to 2018 ISK m.





# Segment reporting

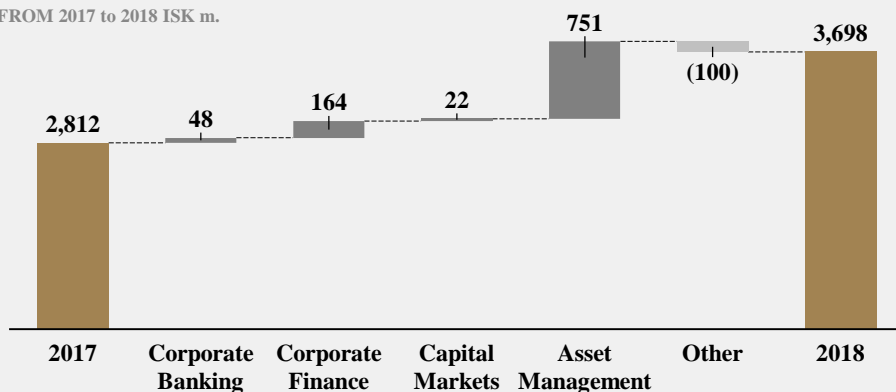
## Large increase in net fee and commission income driven by asset management



Asset Management	Corporate Finance	Corporate Banking	Capital Markets
<ul style="list-style-type: none"> <li>Assets under management grew by 11% to ISK 291 bn. year-on-year                             <ul style="list-style-type: none"> <li>Despite challenging market conditions during the period</li> </ul> </li> <li>Increase in AuM mainly attributable to new agreements with a number of institutional investors and private banking clients</li> <li>Private equity fund, Freyja, launched with total fund size of ISK 8 bn.</li> <li>Increased focus on asset management in the London office</li> </ul>	<ul style="list-style-type: none"> <li>Healthy pipeline of versatile mandates</li> <li>Several M&amp;A and advisory projects executed and closed, including:                             <ul style="list-style-type: none"> <li>Sale of OceanPath</li> <li>Sale of a stake in Arion Bank</li> <li>Sale of Lyfja</li> </ul> </li> <li>London office led a group of investors to acquire a majority share in a UK health services company</li> </ul>	<ul style="list-style-type: none"> <li>Continued upwards trend in net interest income</li> <li>Loan book duration has gradually decreased and is about 1 year</li> <li>Diversification of loan book increased</li> <li>Continuously exploring FinTech opportunities</li> <li>New product has been developed and scheduled to be launched in Q1 2019</li> </ul>	<ul style="list-style-type: none"> <li>Challenging market environment during the year</li> <li>Decreasing turnover in the market</li> <li>Strong market share in buy-back programs</li> <li>Positive development and strong market share in derivatives and securities financing</li> <li>Joined Nasdaq Copenhagen and Nasdaq Stockholm stock exchanges</li> </ul>

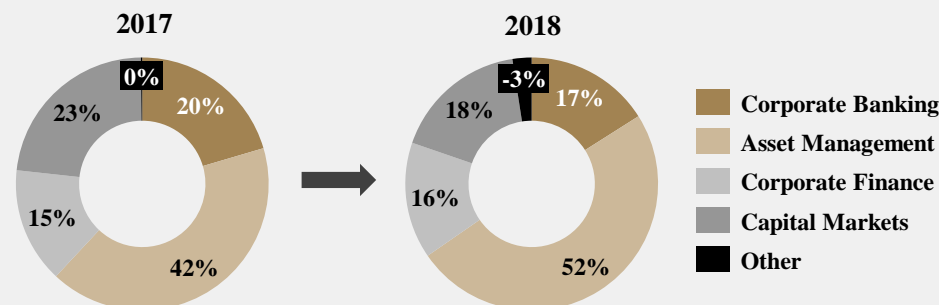
### NET FEE AND COMMISSION INCOME

FROM 2017 to 2018 ISK m.



### CHANGE IN NET FEE AND COMMISSION INCOME SPLIT

FROM 2017 to 2018 (%)

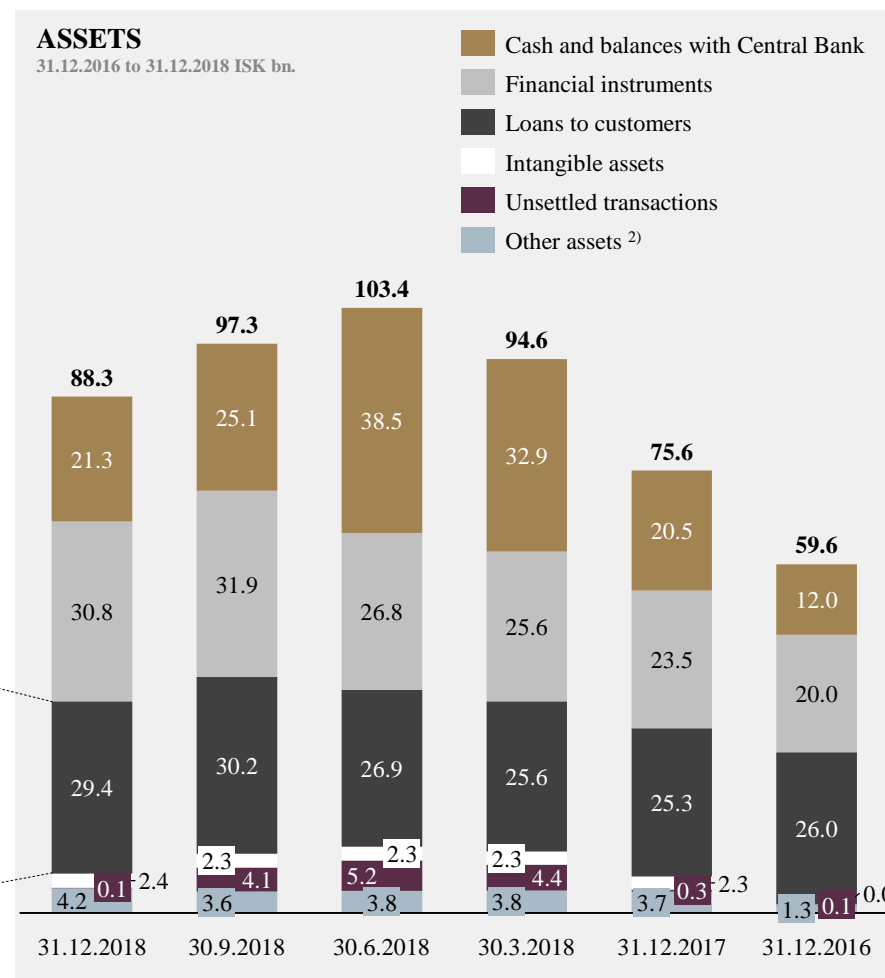


# Balance sheet

## Highly liquid balance sheet and a strong capital ratio

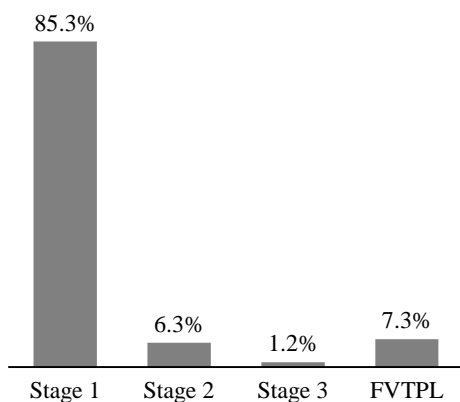


- In total, liquid assets amount to ISK 48.6 billion or 55% of total assets and 101% of all deposits from customers
  - Cash and balances with the Central Bank at ISK 21.3 billion
  - Other liquid assets include ISK 9.5 billion in listed government bonds and ISK 17.8 billion of other listed securities
- Financial instruments ISK 30.8 billion of which ISK 21.5 billion are for hedging
- Lending increased ISK 4.1 billion year-on-year while the weighted duration of the loan portfolio decreased and is now 1.06 years
  - Fees and commissions from lending remain high
  - 85.3% of gross loans to customers in stage 1



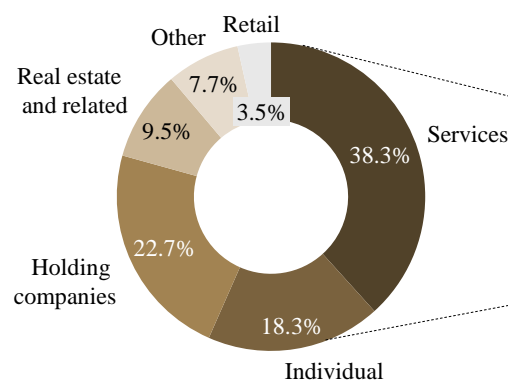
### CREDIT QUALITY OF LOAN BOOK <sup>1)</sup>

31.12.2018



### BREAKDOWN OF LOAN BOOK

31.12.2018



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

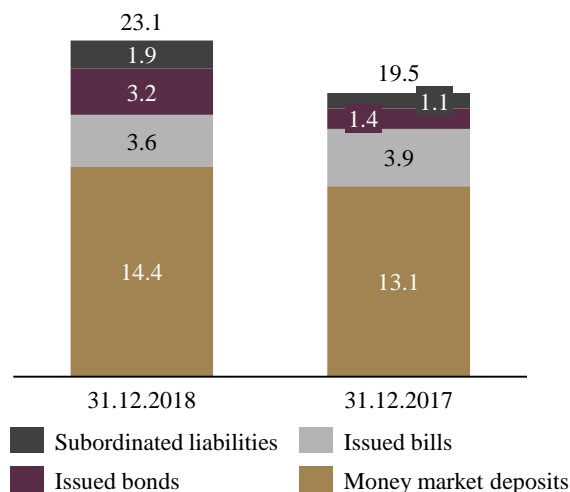
## Well balanced funding with a high ratio of deposits



- Deposits in relation to loans to customers is high (over 163%) and provides cover from fluctuations in wholesale funding
- Liquidity coverage ratio (LCR) 277% at year end 2018
- Deposits grew by ISK 6.1 billion from year-end 2017
  - Time deposits increased by ISK 6.7 billion
- Bond issuance increased during the year
  - Three and two year senior unsecured bond issuance increased by 2.8 billion
  - New ten-year subordinated bond issuance of ISK 800 million
  - Total debt issuance at year-end amounted to ISK 8.7 bn.

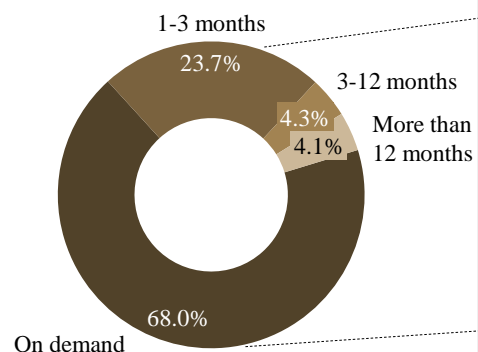
### DEBT ISSUANCE & BORROWINGS

31.12.2018 and 31.12.2017 ISK bn.



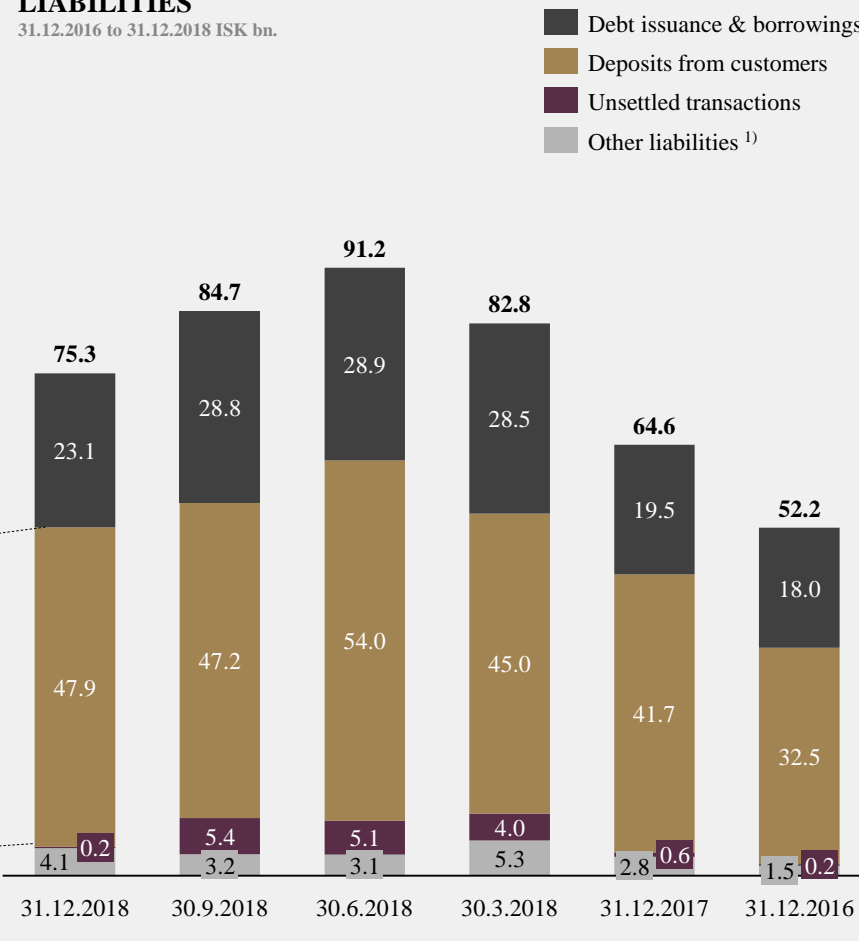
### MATURITY OF DEPOSITS

31.12.2018



### LIABILITIES

31.12.2016 to 31.12.2018 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

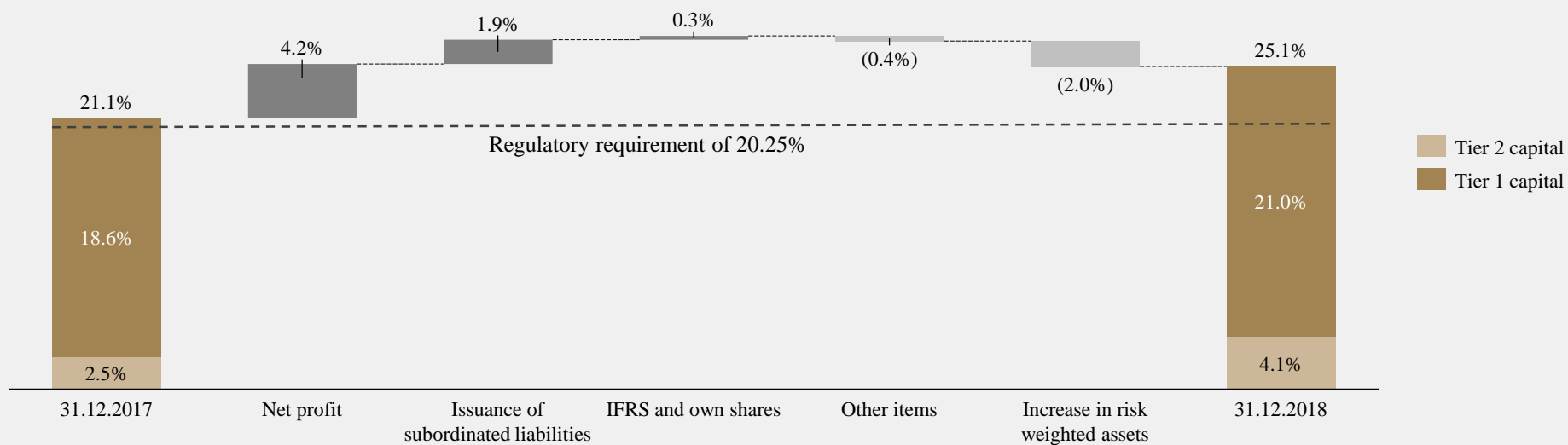
# Solid capital position

## Capital adequacy ratio exceeds required capital buffers



- Capital adequacy ratio 25.1% at end of year 2018
  - Well above 20.25% regulatory requirements
  - Regulatory requirement with capital buffers 20.75% as of 15.5.2019
- Proposed dividend of 443 million reduces CAD by 1% to 24.1%
- 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 800 million increases CAD by 1.9%
- Capital base amounts to ISK 11,642 million but book value of equity at year-end was ISK 12,908 million

**DEVELOPMENT OF CAPITAL ADEQUACY RATIO**  
BASIS FOR CALCULATION OF % CHANGE IS THE 2017 YEAR-END POSITION





# *Financials*

*Budget 2019*

*1 March 2019*

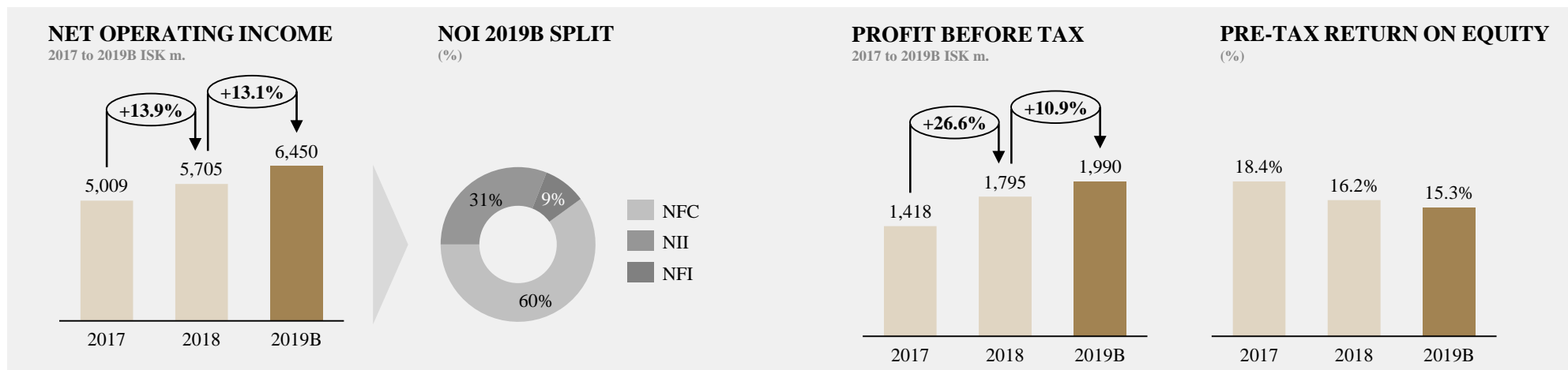


# Budget 2019

## Profit before tax expected to reach ISK 1,990 million



- Net operating income for 2019 is estimated at ISK 6,450 million
  - 60% as net fee and commission income
  - 31% as net interest income
  - 9% as net financial income
- Profit before taxes expected to be ISK 1,990 million
  - Expected increase of ISK 195 million year-on-year
- Pre-tax return on equity expected to be 15.3%
- Total assets expected to amount to ISK 108 billion at year-end 2019
- The potential acquisition of GAMMA Capital Management hf. is not included in the budget
  - The Bank's pre-tax profit is expected to increase by ISK 300-400 million per year following the acquisition
  - The impact for 2019 will, among other things, be determined by the date of completion

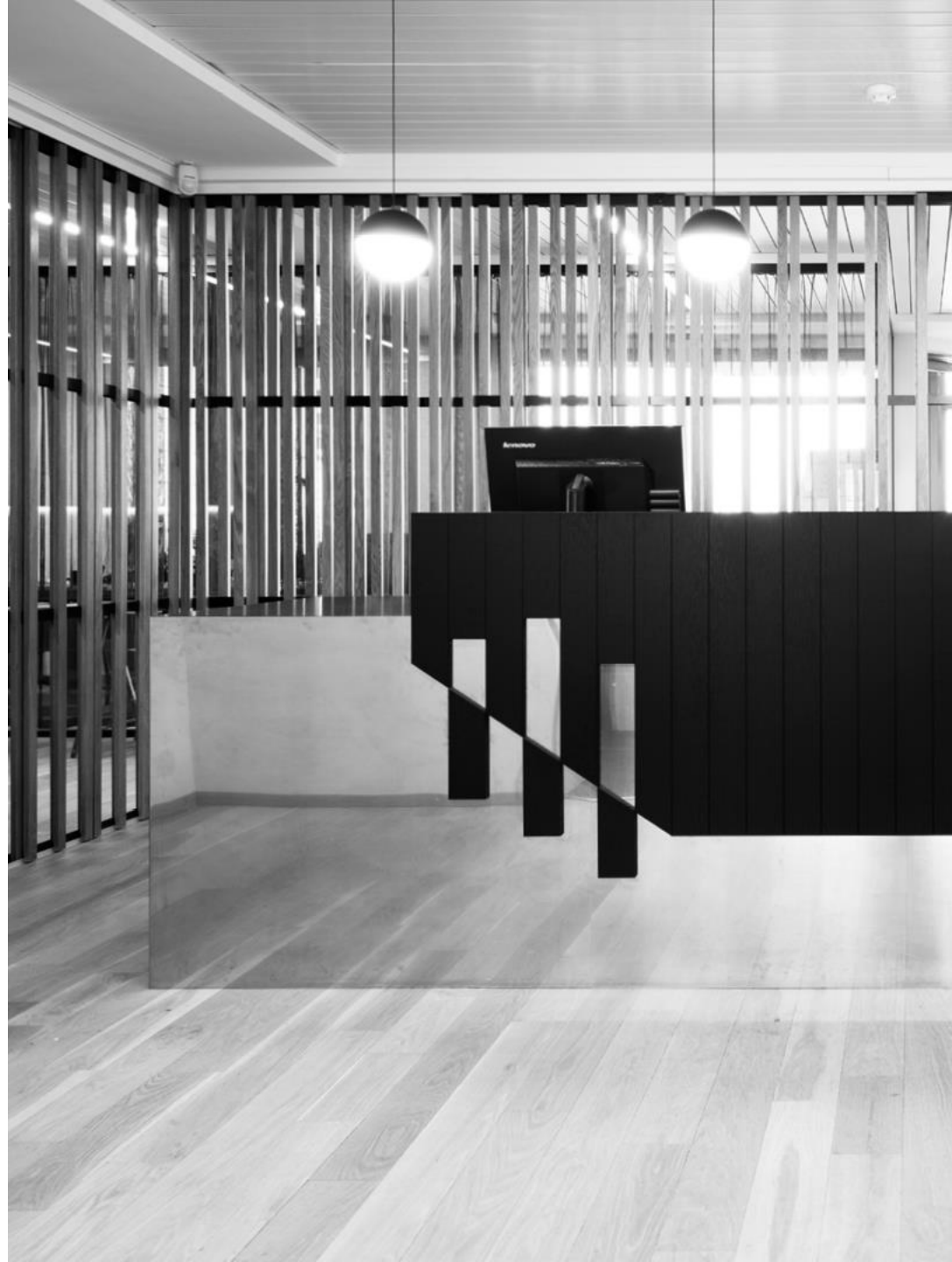


1) NFC = Net fees and commission income; NII = Net interest income; NFI = Net financial income



# *Kvika's unique market position*

*1 March 2019*



# 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

<b>Employees</b>	907 – 1,076
<b>AuM</b>	ISK 382 – 971 bn.
<b>Deposits</b>	ISK 466 – 693 bn.
<b>Lending</b>	ISK 834 – 1,065 bn.



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

		<i>Including GAMMA</i>
<b>Employees</b>	109	<140
<b>AuM</b>	ISK 291 bn.	+400 bn.
<b>Deposits</b>	ISK 48 bn.	
<b>Lending</b>	ISK 29 bn.	



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

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

# Strong track record in consolidations

## Recent mergers and acquisitions

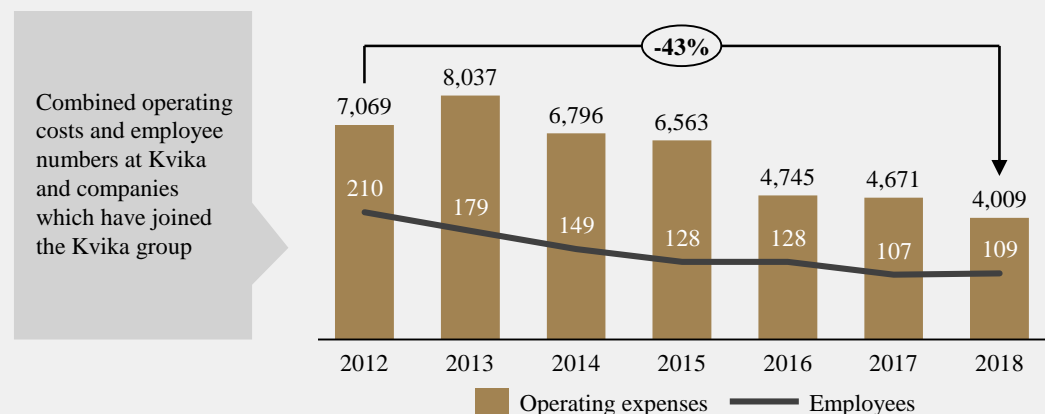


2012		2013		2014		2015		2016		2017		2018	
MP Bank	125	MP Bank	117	MP Bank	75	Kvika	86	Kvika	86	Kvika	107	Kvika	109
Straumur	35	Straumur	32	Straumur	33	Virðing	38	Virðing	37	Kvika	107	Kvika	109
Virðing	19	Virðing	27	Virðing	37	ALDA	4	ALDA	5	Kvika	107	Kvika	109
Auður	30	ALDA	3	ALDA	4	Employees	128	Employees	128	Employees	107	Employees	109
ALDA	1	ALDA	3	ALDA	4	GAMMA	17	GAMMA	24	GAMMA	37	GAMMA	23
Employees	210	Employees	179	Employees	149	Employees	128	Employees	128	Employees	107	Employees	109
GAMMA	9	GAMMA	14	GAMMA	17	GAMMA	17	GAMMA	24	GAMMA	37	GAMMA	23

- Mergers of recent years have delivered substantial synergies visible in the reduction in operating expenses
- At year-end 2018 employees numbered 109 compared to 210 at year-end 2012 in those financial undertakings which have merged to form Kvika
- In 2018 Kvika signed agreements to acquire GAMMA Capital Management hf.
  - The acquisition has been approved by the Icelandic FSA. Approval of the Icelandic Competition Authority and British Financial Conduct Authority is still pending

### DEVELOPMENT OF OPEX AND EMPLOYEES

OPEX in ISK m., real wages at 2018 price levels<sup>1)</sup> / EMPLOYEES #



1) Statistics Iceland, based on real wage index, annual average for the period 2012-2018



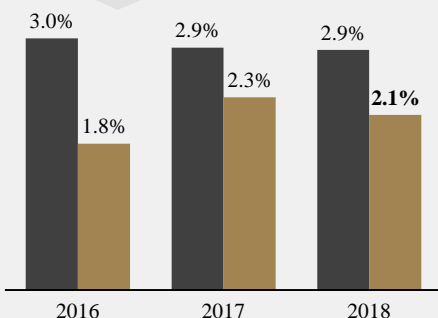
# Comparison

## Strategic focus reflected in key ratios



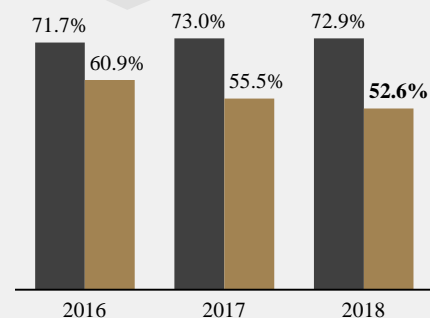
### NET INTEREST MARGIN <sup>1)</sup>

High stock of liquid assets results in lower NIM



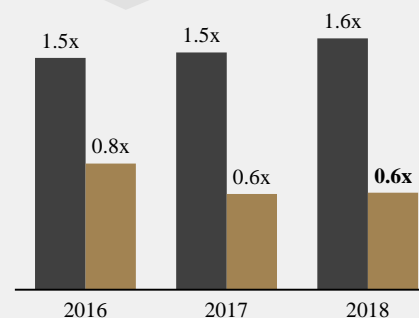
### RISK WEIGHTED ASSETS / TOTAL ASSETS

Third of assets cash and cash equivalents and bonds with government guarantee



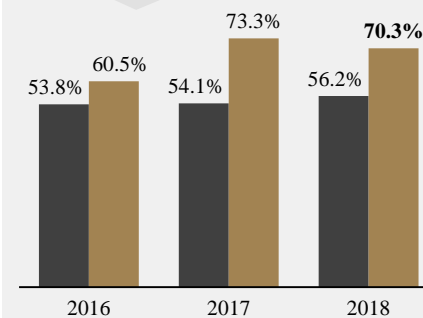
### LOANS / DEPOSITS <sup>2)</sup>

Low ratio reflects strong liquidity position



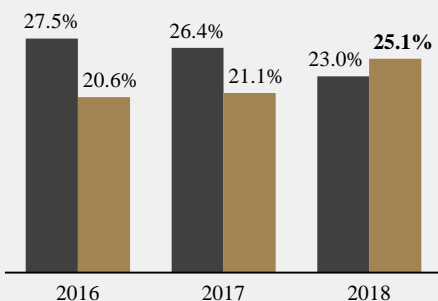
### COST-INCOME RATIO <sup>3)</sup>

Fee and commission focused operation reflected in high administrative expenses



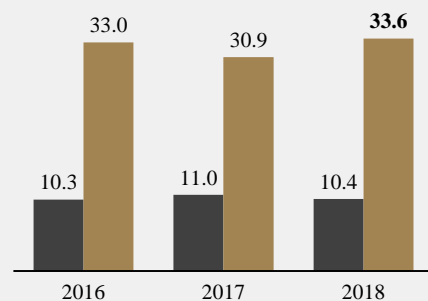
### CAD RATIO

Above regulatory requirement of 20.25%



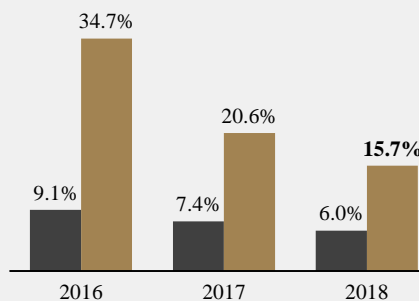
### NET FEE & COMMISSION INCOME / FTE <sup>4)</sup>

Strategic focus on fee and commission income



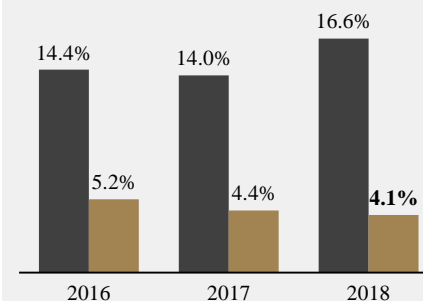
### RETURN ON EQUITY <sup>5)</sup>

Less capital intensive operations result in higher ROE



### ASSET ENCUMBERANCE <sup>6)</sup>

No asset pledge for debt issuance



■ 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

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

