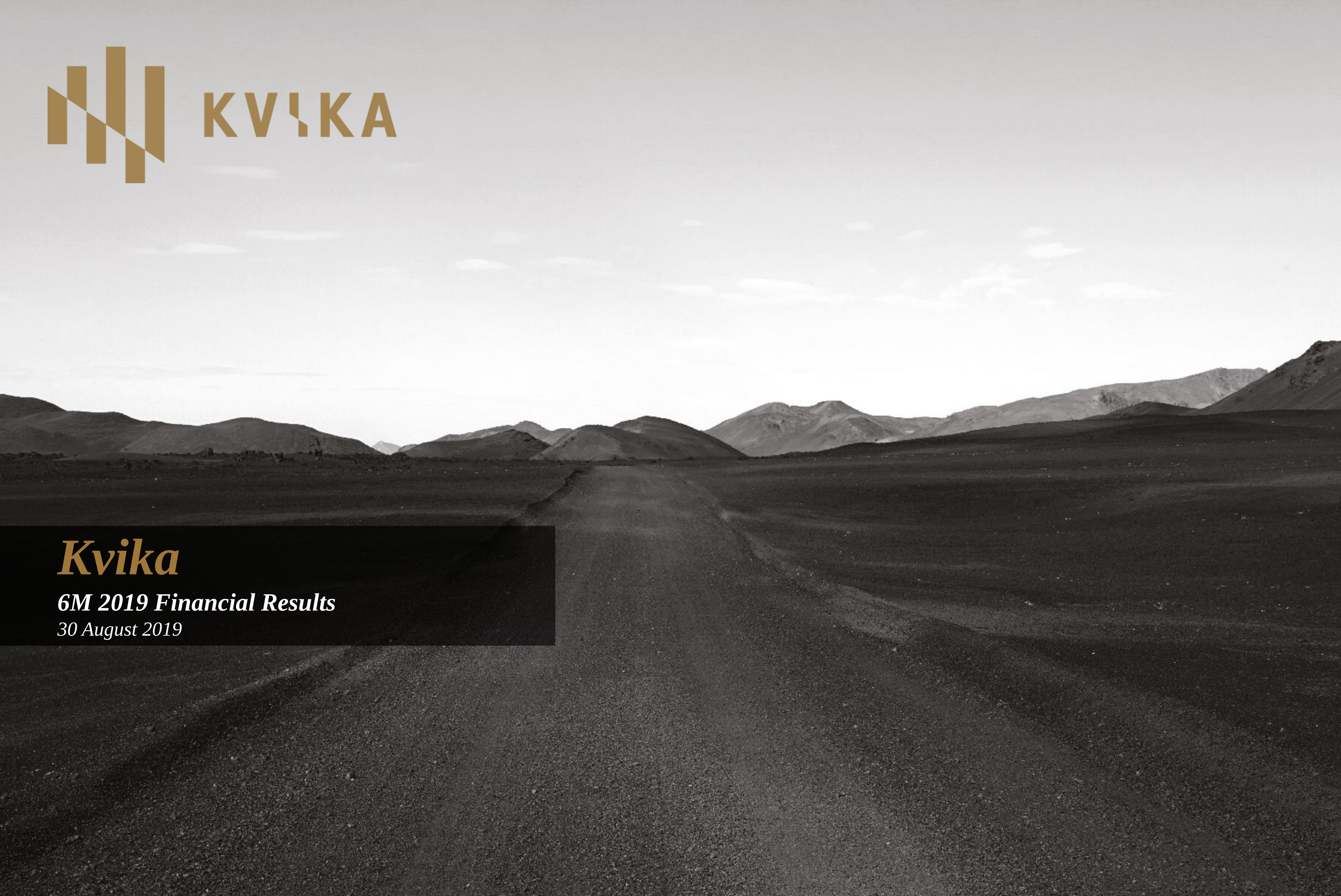

# Kvika

**6M 2019 Financial Results**

*30 August 2019*

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# 6M 2019 Highlights

**Profit of ISK 1,455 million (pre-tax ISK 1,590 million) for the period**
Increase of 42% year-on-year (pre-tax 51% year-on-year)

**Return on equity 23.2%**
Surpassing long term target of 15%

**Strong financial position with CAD ratio of 25.4% (24.6% accounting for dividend policy)**
Regulatory requirement is 20.75%

**Board of Directors has approved a share buy-back program**
Authorising the purchase of up to 50 million shares / Pending approval from the Financial Supervisory Authority

**Total assets under management ISK 445 billion**
AuM grew by ISK 154 billion from year-end 2018 in large due to GAMMA acquisition and internal growth

**Updated pre-tax earnings forecast of ISK 2,900 million for 2019**
Beginning of year pre-tax earnings forecast was ISK 1,990 million

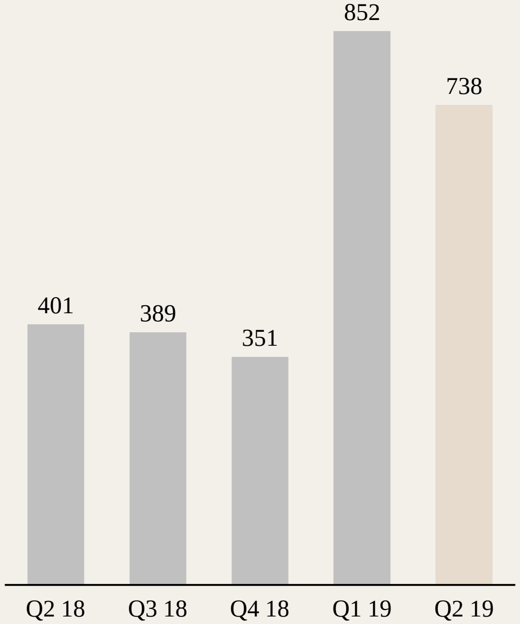
**Marinó Örn Tryggvason appointed CEO in May**
Ármann Þorvaldsson assumed the position as Deputy CEO

# *Income statement / Q2*

## *Positive trends in all major categories*

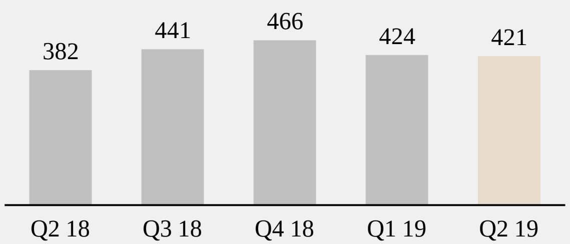
### PRE-TAX PROFIT
ISK m.

Well above earnings forecast and GAMMA positively impacting results



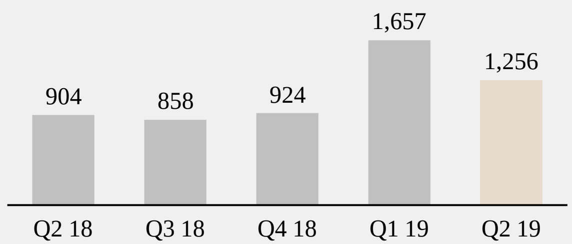

### NET INTEREST INCOME
ISK m.

Net interest income remains stable



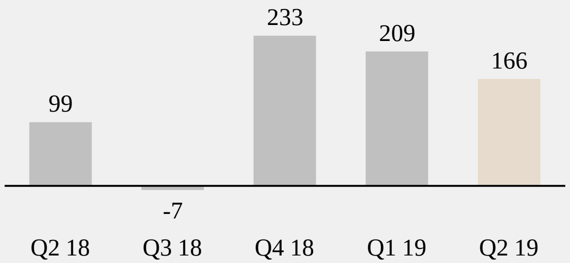

### NET FEE AND COMMISSION INCOME
ISK m.

Increased fees and commission with the addition of GAMMA to the group



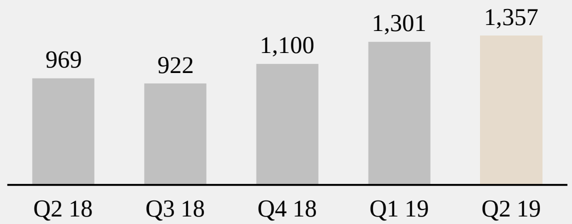

### NET FINANCIAL INCOME
ISK m.

Favourable market conditions




### OPERATING EXPENSES (OPEX)
ISK m.

OPEX in line with expectations



# Income statement / 6M

## Strong results on the back of favourable market conditions

- Profit for the period amounted to ISK 1,455 million, an increase of 42% year-on-year
- Corresponding to an annualised 23.2% return on equity
- Net interest income increased 7% year-on-year
- Net fee and commissions ISK 2,912 million, an increase of 52% year-on-year
  - Majority of the increase contributed by asset management and strong performance by capital markets
- Operating expenses amounted to ISK 2,658 million and increased 34% year-on-year in line with expectations
  - Mainly attributable to the inclusion of GAMMA and reserve for potential performance based payments
  - Cost income ratio at 63.8% compared to 65.4% year-on-year
- Income from associates negative in first half with positive outlook for the remainder of the year

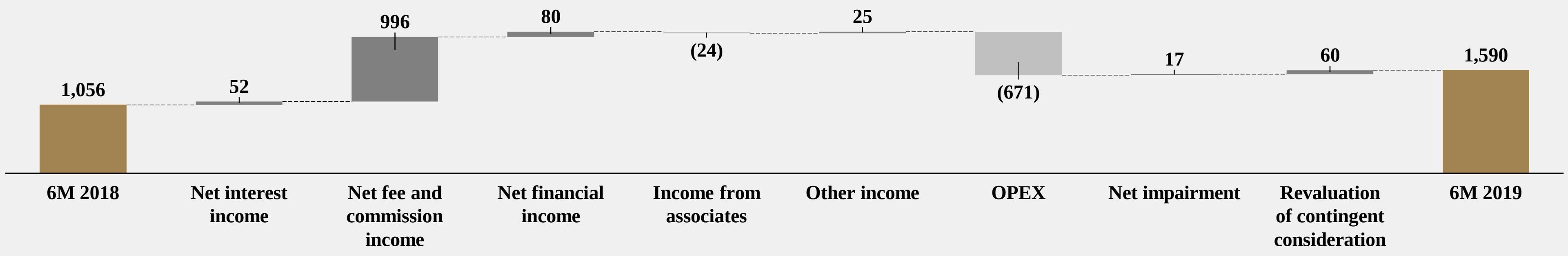
**INCOME STATEMENT**

ISK m.

| | *6M 2019* | *6M 2018* |
|---|---|---|
| Net interest income | 846 | 794 |
| Net fees and commissions | 2,912 | 1,916 |
| Net financial income | 374 | 295 |
| Income from associates | (27) | (4) |
| Other income | 60 | 36 |
| ***Net operating income*** | ***4,165*** | ***3,037*** |
| | | |
| Operating expenses | (2,658) | (1,987) |
| Net impairment | 22 | 5 |
| Revaluation of contigent consideration | 60 | 0 |
| ***Pre-tax profit*** | ***1,590*** | ***1,056*** |
| | | |
| ***Taxes*** | | |
| Income tax | (52) | (33) |
| Special bank taxes | (83) | |
| ***After-tax profit*** | ***1,455*** | ***1,023*** |
| | | |
| ***Earnings per share (EPS)*** | ***0.79*** | ***0.55*** |
| ***Diluted EPS*** | ***0.68*** | ***0.50*** |

**PRE-TAX PROFIT**

FROM 6M 2018 to 6M 2019 ISK m.




*GAMMA is part of the financial statements from March 1st 2019*

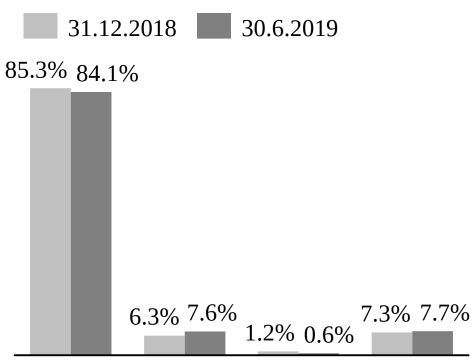
# Balance sheet

## Growth driven by an increase in liquid assets

- In total, liquid assets amount to ISK 65.5 billion or 57% of total assets and 113% of all deposits from customers
  - Cash and balances with the Central Bank at ISK 30.8 billion
  - Other liquid assets include ISK 7.5 billion in listed government bonds and ISK 27.2 billion of other listed securities
- Financial instruments ISK 39.0 billion of which ISK 29.6 billion are for hedging
- Loans to customers decreased ISK 0.85 billion from year-end 2018
  - The weighted average duration of the loan book was 1.0 year at the end of June
- Other assets increased by ISK 3.5 billion from year-end 2018
  - Largely due to increase in accounts receivables

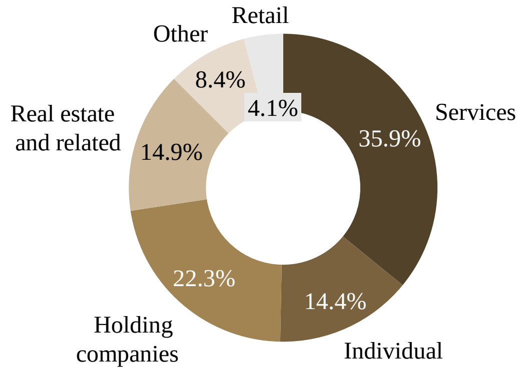
### CREDIT QUALITY OF LOAN BOOK [1]

31.12.2018 and 30.06.2019



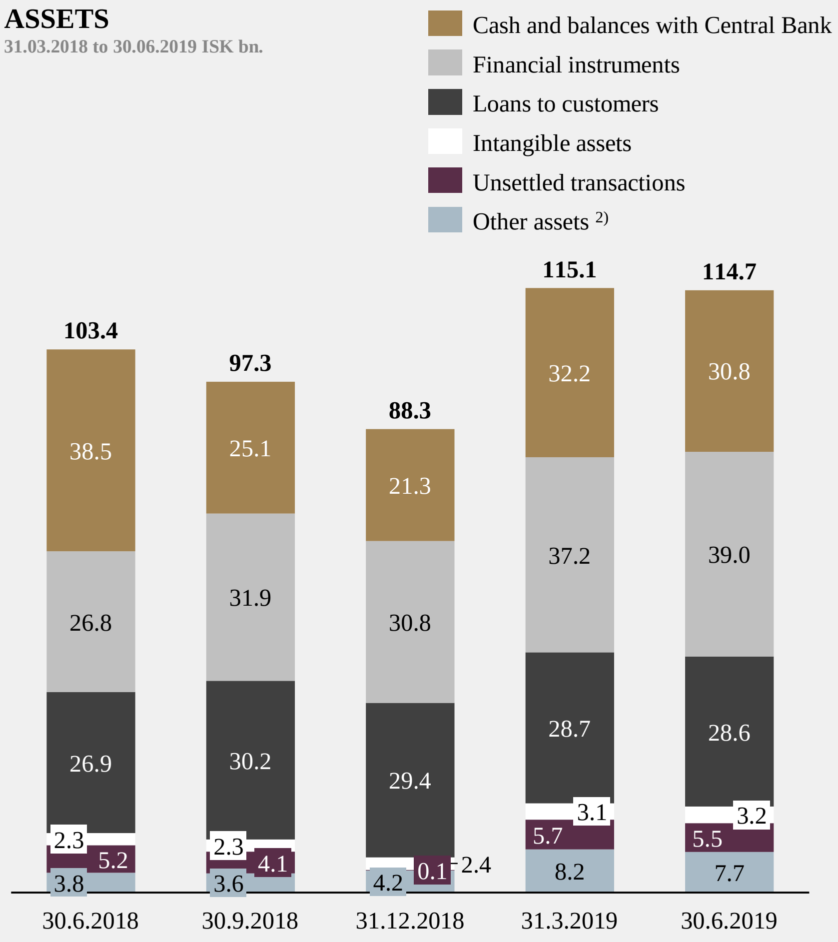

### BREAKDOWN OF LOAN BOOK

30.06.2019




### ASSETS

31.03.2018 to 30.06.2019 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, Right of use assets, Sundry assets and Assets classified as held for sale*

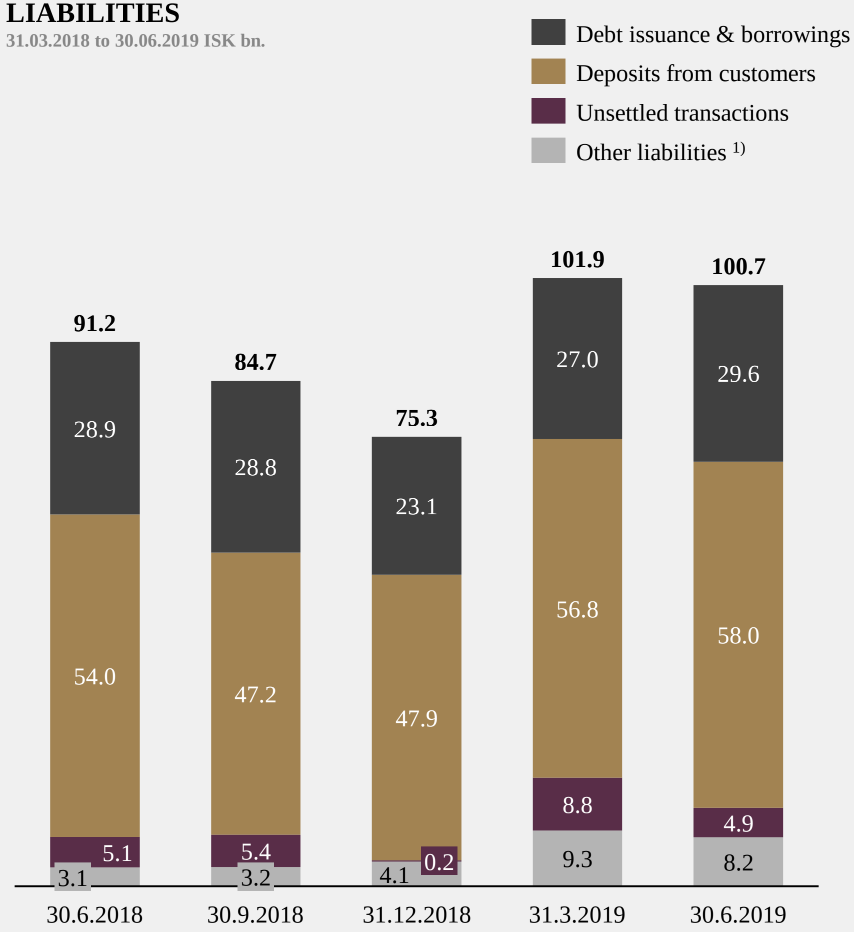
# *Balance sheet*

## *Growth in balance sheet driven by deposits*

- Liquidity coverage ratio (LCR) 193% at end of June
- Deposits to loans ratio remains high at 203% and provides cover from fluctuations in wholesale funding
- Deposits grew by ISK 10.1 billion from year-end 2018
  - Deposits through Auður, launched in mid March, were ISK 11.9 billion at end of June (end of March: ISK 5.3 billion)
- Outstanding issued debt securities amounted to ISK 9.0 billion
- Money market borrowings ISK 20.5 billion

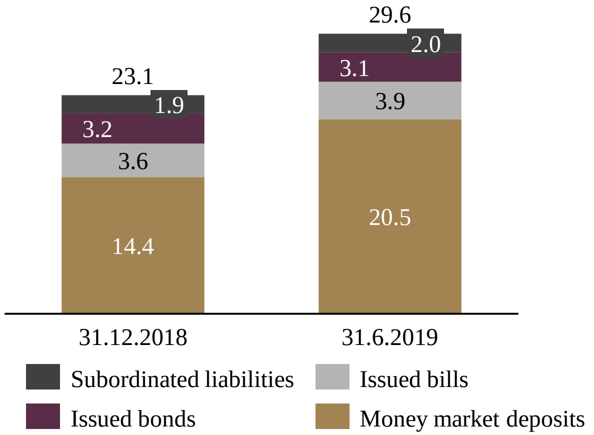
**LIABILITIES**

31.03.2018 to 30.06.2019 ISK bn.



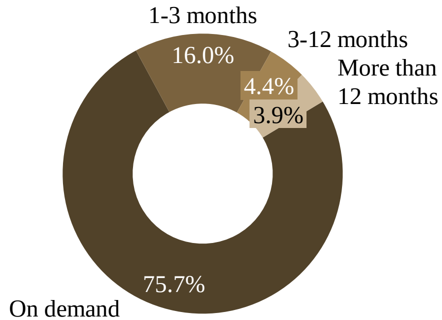

**SECURITIES & BORROWINGS**

31.12.2018 and 30.06.2019 ISK bn.




**MATURITY OF DEPOSITS**

30.06.2019




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*

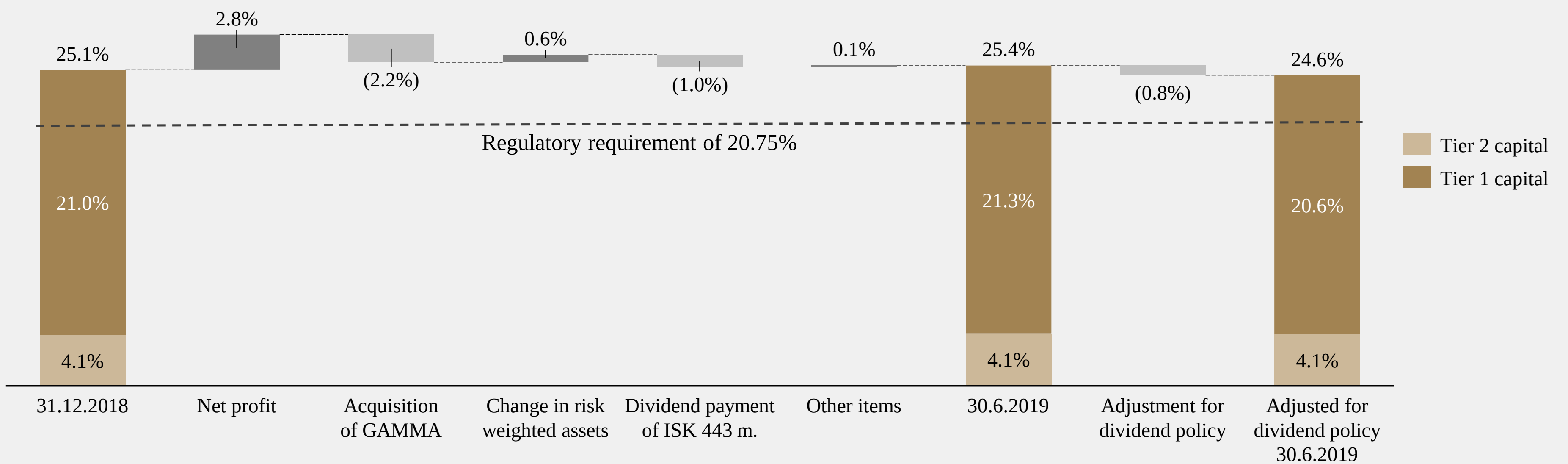
# Solid capital position

## *Capital adequacy ratio exceeds required capital buffers*

- Capital adequacy ratio 25.4% at end of June (24.6% adjusting for dividend policy)
  - CAD ratio now adjusted in order to take into expected dividend in accordance with dividend policy
  - Including net profit for 6M 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
  - Net effect is 2.2% reduction in CAD
- Dividend payment of ISK 443 million in March reduced CAD by 1.0%
- Capital base amounts to ISK 11,972 million  (ISK 11,610 millions adjusting for dividend policy) million and book value of equity at ISK 13,998 million

**DEVELOPMENT OF CAPITAL ADEQUACY RATIO**

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

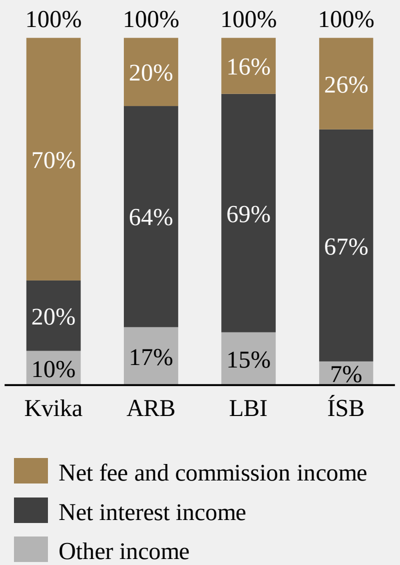


# Performance ratios

## *Strategic focus results in high proportion of fees and commission income*

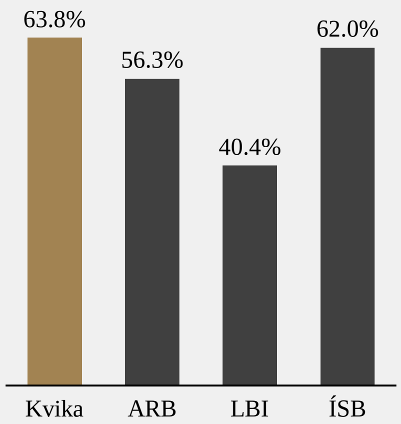
**NET OPERATING INCOME SPLIT**
(%) / 6M 2019

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



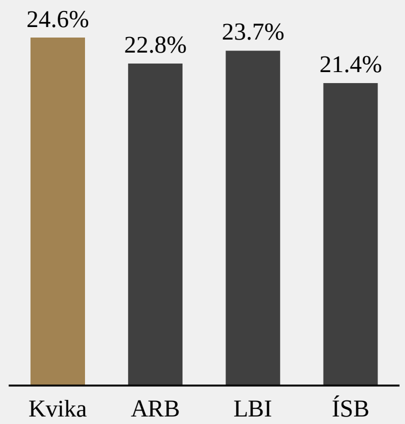

**COST INCOME RATIO**
(%) / 6M 2019

Kvika has reached a similar cost income ratio



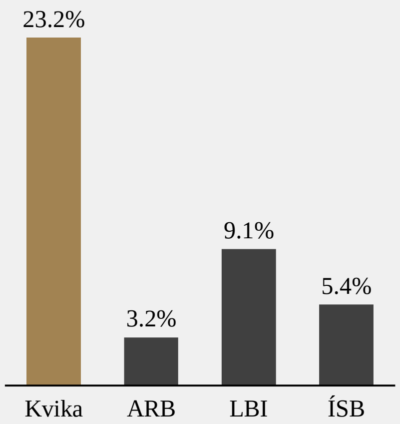

**CAD RATIO** [1)]
(%) / 6M 2019

Robust performance results in a high CAD ratio




**RETURN ON EQUITY**
(%) / 6M 2019

Successful strategic focus reflected in return on equity




*Source: 6M 2019 Financial statements*
*Note: calculations on presented items may vary between companies. ARB = Arion, LBI = Landsbankinn, ÍSB = Íslandsbanki*
*1) For Kvika: CAD ratio of 24.6% is adjusted for dividend policy. CAD ratio without dividend policy is 25.4%*

# Outlook for 2019

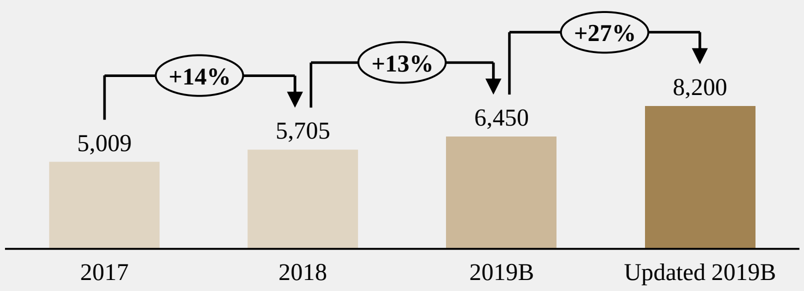
## *Profit before tax expected to amount to ISK 2,900 million*

- Updated earnings forecast for 2019 mainly driven by positive development in capital markets and asset management, in addition to lower loan impairments than expected
- Net operating income for 2019 is estimated at ISK 8,200 million up from ISK 6,450 million
- Profit before tax expected to be ISK 2,900 million
  - Expected increase of approximately ISK 1,100 million year-on-year

- Board of Directors has approved a share buy-back program
  - Authorising the purchase of up to 50 million shares
  - Subject to the Financial Supervisory Authority approval
- Taxable sources of income have increased during the year and it is likely that capitalisation of deferred tax assets will be increased on the carry forward losses at the end of the year
- The environment of financial institutions is changing which will provide interesting opportunities
- Kvika is strategically placed, with a high capital position, to capture profitable growth and/or returning capital to shareholders

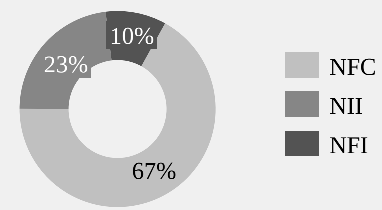
**NET OPERATING INCOME**

2017 to updated 2019B ISK m.



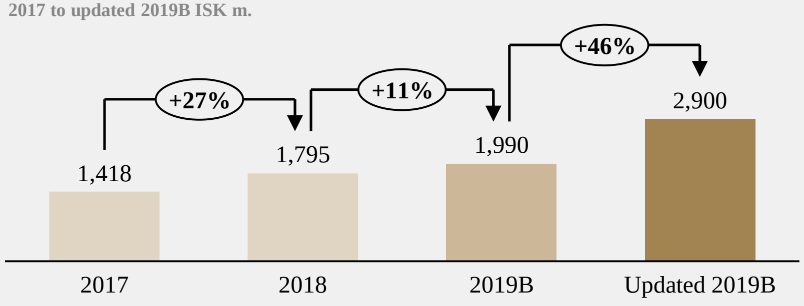

**NOI UPDATED 2019B SPLIT**

(%)




**PROFIT BEFORE TAX**

2017 to updated 2019B ISK m.




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