



KVIKA

*Kvika*

*9M 2019 Financial Results*

*15 November 2019*

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# Highlights



## **Profit of ISK 1,913 million (pre-tax ISK 1,996 million) for 9M 2019**

Increase of 36% year-on-year (pre-tax 38% year-on-year)



## **Return on equity 20.3%**

Surpassing long term target of 15%



## **Strong financial position with CAD ratio of 23.6% (22.9% accounting for dividend policy and excl. interim profit)**

Regulatory requirement is 20.75%



## **Board of Directors approved a share buy-back program**

Authorising the purchase of up to 50 million shares - approved by the Financial Supervisory Authority



## **Updated pre-tax earnings forecast of ISK 2,500 - 2,800 million for 2019**

Beginning of year pre-tax earnings forecast was ISK 1,990 million



## **Product selection for Auður expanded**

Term deposits recently launched



## **Positive outlook through further revenue diversification**

Kvika Securities London expected to contribute positively and positive development in Korta

# Income statement / Q3

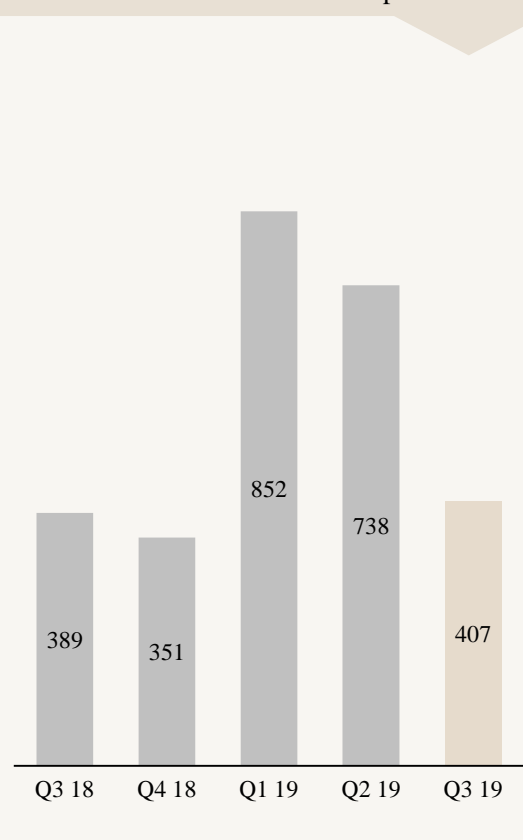
Diversified income generation and expenses in line with expectations



## PRE-TAX PROFIT

ISK m.

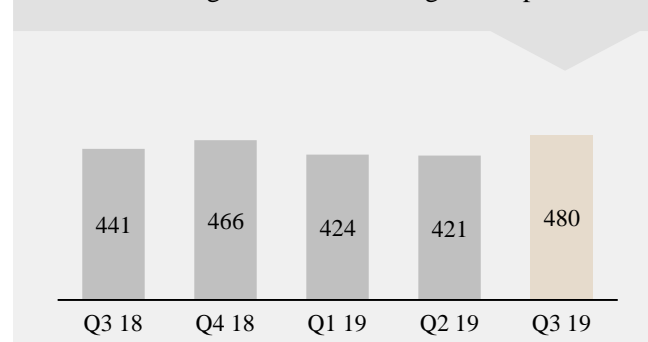
Improved performance Q-o-Q despite unfavorable market development



## NET INTEREST INCOME

ISK m.

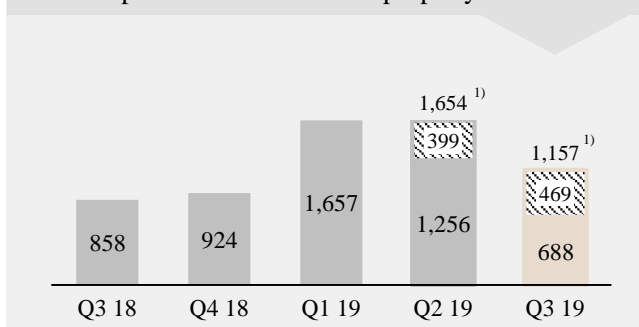
NII increasing as a result of a larger loan portfolio



## NET FEE AND COMMISSION INCOME

ISK m.

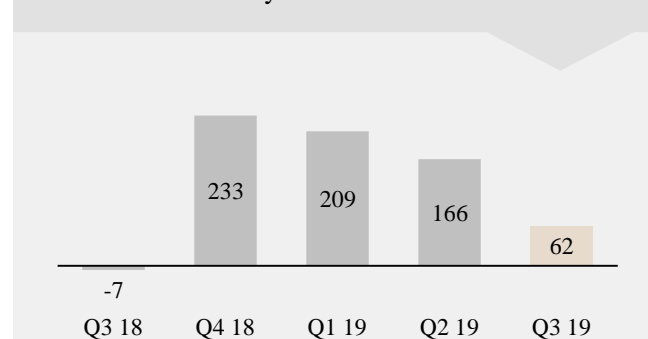
NFC affected by revaluation of unrealised performance fees from property funds



## NET FINANCIAL INCOME

ISK m.

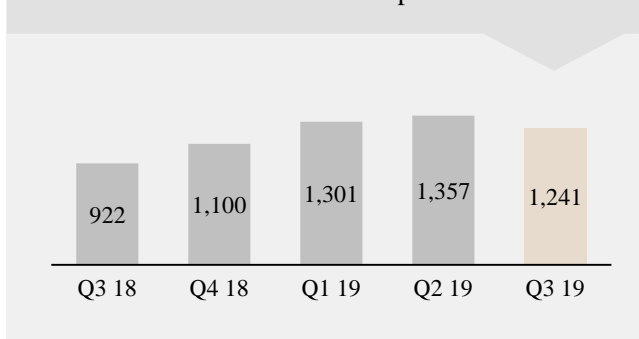
NFI affected by adverse market conditions



## OPERATING EXPENSES (OPEX)

ISK m.

OPEX in line with expectations



1) Q2 2019 (ISK 399 million) and Q3 2019 (ISK 469 million) are fees linked to the purchase price of GAMMA – of which the majority are set off against revaluation of contingent consideration. Adjustments display effects of unrealised performance fees linked to the purchase price of GAMMA

# Income statement / 9M

## Return on equity 20.3% during the period



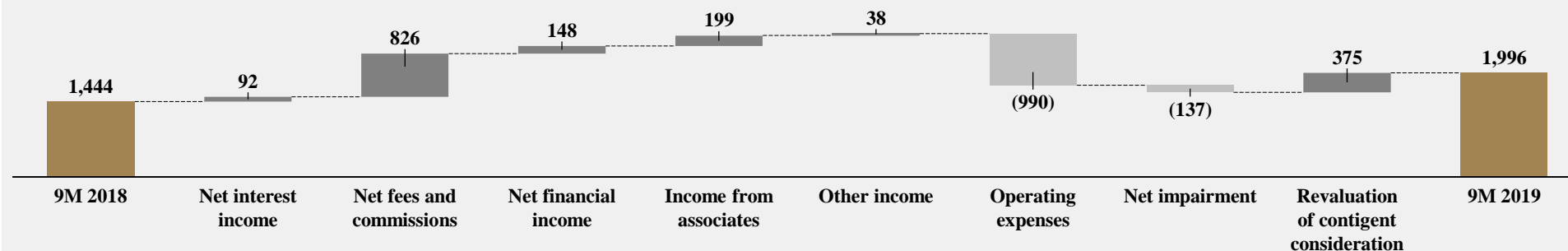
- Profit for the period amounted to ISK 1,913 million, an increase of 36% year-on-year
- Corresponding to an annualised 20.3% return on equity
- Net interest income increased 7.4% year-on-year
- Net fee and commissions ISK 3,600 million, an increase of 30% year-on-year
  - Net fees and commissions without the effects of a reduction in unrealised performance fees due from property funds which are linked to the final purchase price of GAMMA were ISK 4,468 million in 9M 2019 (effect in Q2: ISK 399 million, Q3: ISK 469 million)
- Operating expenses amounted to ISK 3,899 million and increased 34% year-on-year in line with expectations
- Net impairments amounted to ISK 95 million
- Net financial income ISK 436 million, an increase of 51% year-on-year despite adverse market conditions in Q3
- Income from associates ISK 163 million, mainly driven by positive development in Korta hf.

### INCOME STATEMENT

ISK m.	9M 2019	9M 2018
Net interest income	1,326	1,234
Net fees and commissions	3,600	2,774
Net financial income	436	288
Income from associates	163	(36)
Other income	89	51
<b>Net operating income</b>	<b>5,615</b>	<b>4,311</b>
Operating expenses	(3,899)	(2,909)
Net impairment	(95)	42
Revaluation of contingent consideration	375	0
<b>Pre-tax profit</b>	<b>1,996</b>	<b>1,444</b>
<b>Taxes</b>		
Income tax	35	(41)
Special bank taxes	(119)	0
<b>After-tax profit</b>	<b>1,913</b>	<b>1,403</b>
<b>Earnings per share (EPS)</b>	<b>1.04</b>	<b>0.76</b>
<b>Diluted EPS</b>	<b>0.91</b>	<b>0.68</b>

### PRE-TAX PROFIT BRIDGE

FROM 9M 2018 to 9M 2019 ISK m.





# Balance sheet

## Composition relatively unchanged

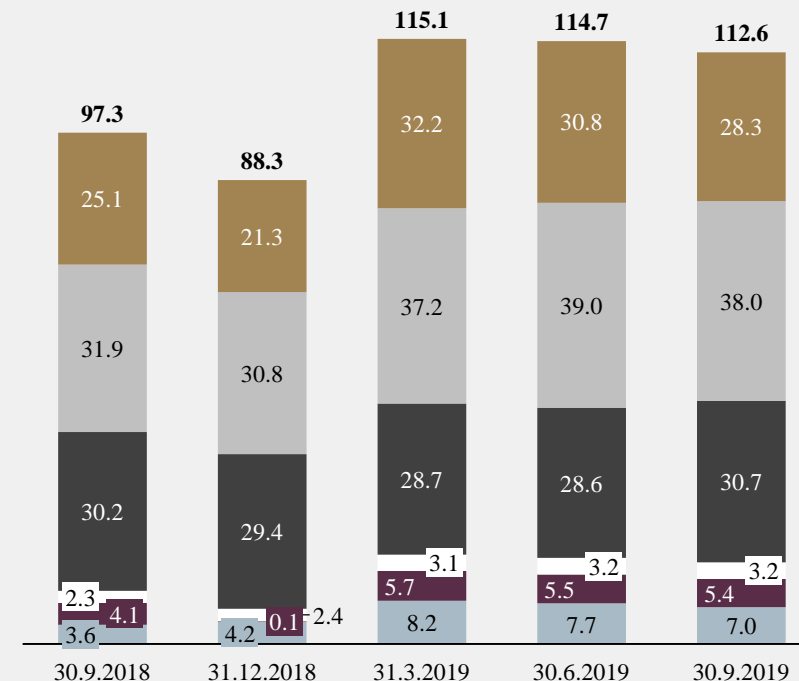


- In total, liquid assets amount to ISK 61.3 billion or 54% of total assets and 105% of all deposits from customers
  - Cash and balances with the Central Bank at ISK 28.3 billion
  - Other liquid assets include ISK 11.1 billion in listed government bonds and ISK 21.8 billion of other listed securities
- Financial instruments ISK 38.0 billion of which ISK 27.1 billion are for hedging
- Loans to customers increased ISK 1.3 billion from year-end 2018
  - The weighted average duration of the loan book was 1.0 year at the end of the quarter

### ASSETS

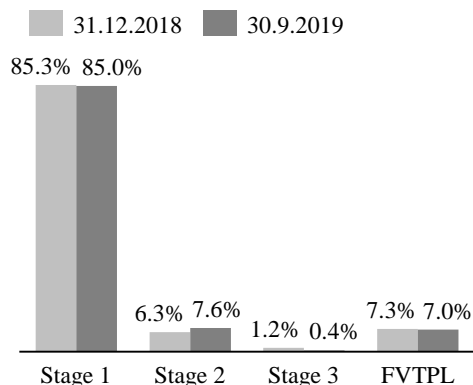
30.09.2018 to 30.09.2019 ISK bn.

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



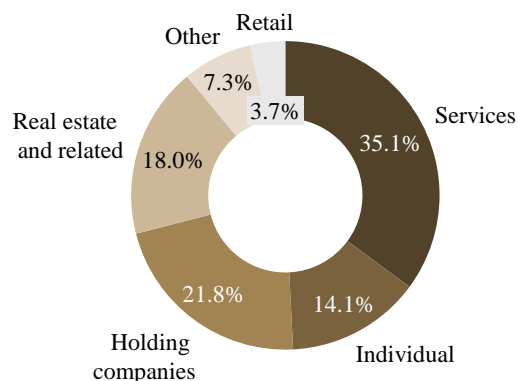
### CREDIT QUALITY OF LOAN BOOK <sup>1)</sup>

31.12.2018 and 30.09.2019



### BREAKDOWN OF LOAN BOOK

30.09.2019



1) Credit quality based on IFRS 9. Gross carrying amount by rating class / Total gross amount

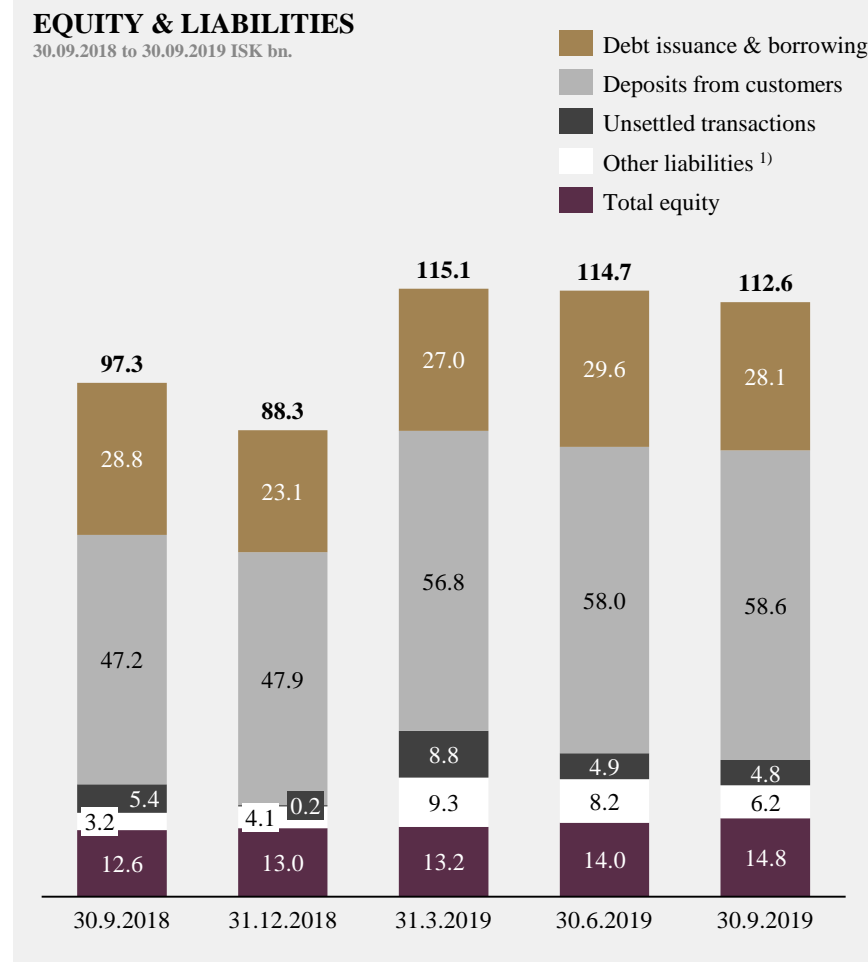
2) Other assets include Investment properties, Investment in associates, Property and equipment, Deferred tax assets, Accounts receivable, Right of use assets, Sundry assets and Assets classified as held for sale

# Balance sheet

## Composition relatively unchanged

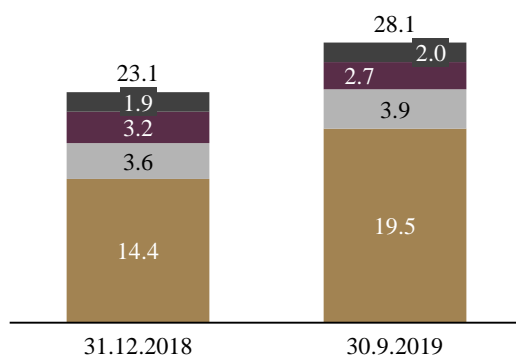


- Liquidity coverage ratio (LCR) 260% at end of September
- Deposits to loans ratio remains high at 191% and provides cover from fluctuations in wholesale funding
- Deposits have increased by ISK 10.7 billion from year-end 2018
  - Deposits through Auður, launched in mid March, were ISK 13.8 billion at end of September (end of June: ISK 11.9 billion)
- Outstanding issued debt securities amounted to ISK 8.6 billion
- Money market borrowings amounted to ISK 19.5 billion



### SECURITIES & BORROWINGS

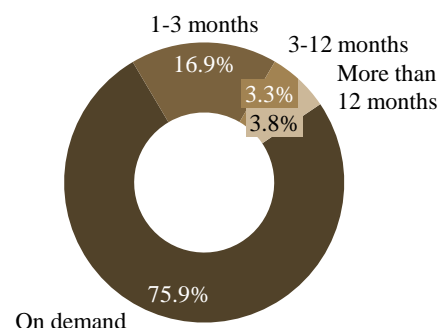
31.12.2018 and 30.09.2019 ISK bn.



Subordinated liabilities
  Issued bills  
 Issued bonds
  Money market deposits

### MATURITY OF DEPOSITS

30.09.2019



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

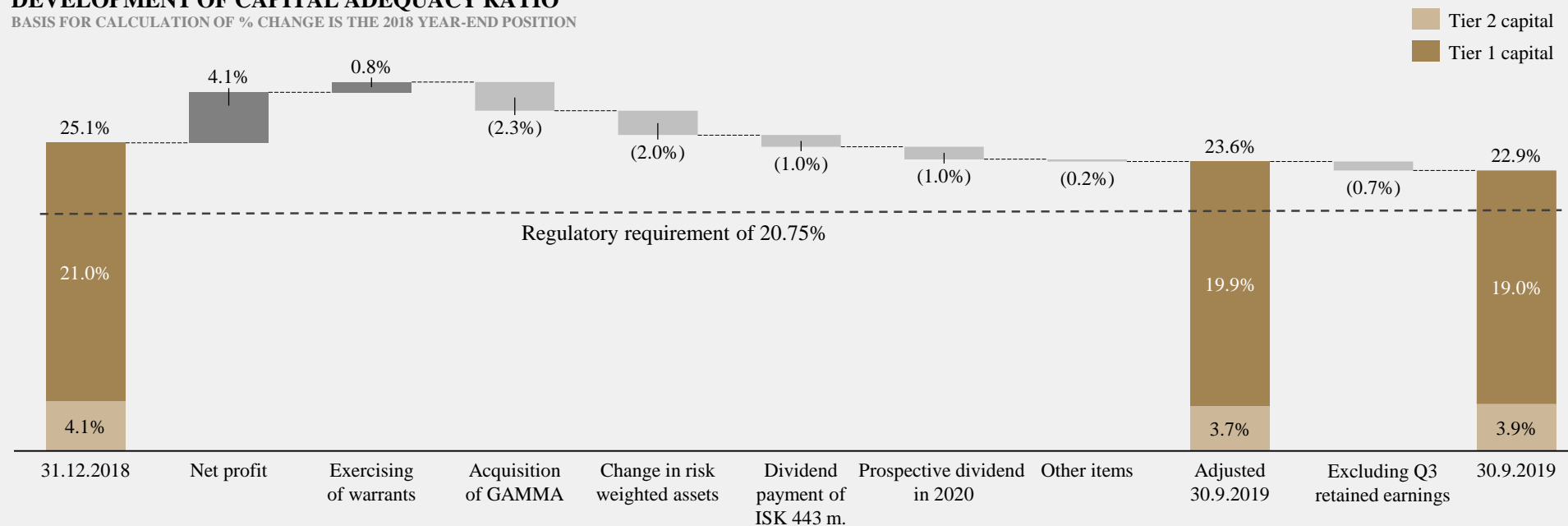
## Capital adequacy ratio exceeds required capital buffers



- Capital adequacy ratio 22.9% at end of September (23.6% excluding unaudited (positive) retained earnings and expected dividends)
  - The regulatory requirement including additional capital buffer is 20.75% (as of 30 September 2019)
- Acquisition of GAMMA Capital Management results in increased goodwill of 699 million in addition to other assets taken on balance sheet
- Dividend payment of ISK 443 million in March reduced CAD by 1.0%
  - Prospective dividend in 2020 according to dividend policy further reduces CAD by 1.0%
- Capital base amounts to ISK 11,982 million (ISK 12,324 million adjusted) and book value of equity at ISK 14,849 million
- In Q3 warrants were exercised for an amount of 82 million shares increasing CAD by 0.8%
  - Outstanding issued warrants as of 30 September 2019 were for 652 million shares

### DEVELOPMENT OF CAPITAL ADEQUACY RATIO

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





# Performance ratios

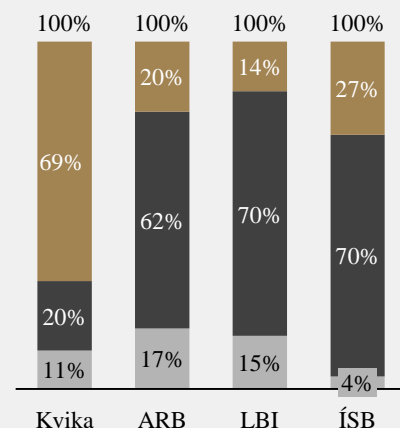
Strategic focus results in high proportion of fees and commission income



## NET OPERATING INCOME SPLIT <sup>1)</sup>

(%) / 9M 2019

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

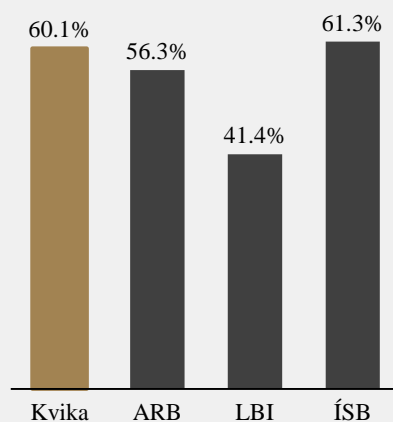


■ Net fee and commission income  
■ Net interest income  
■ Other income

## COST INCOME RATIO <sup>1)</sup>

(%) / 9M 2019

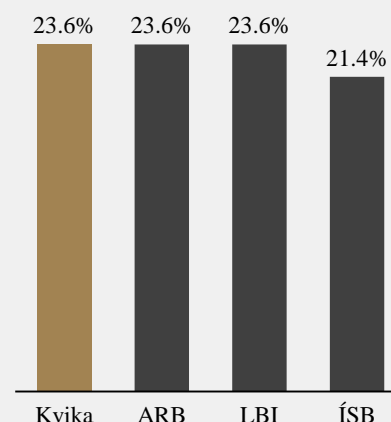
Kvika has reached a similar cost income ratio



## CAD RATIO <sup>2)</sup>

(%) / 9M 2019

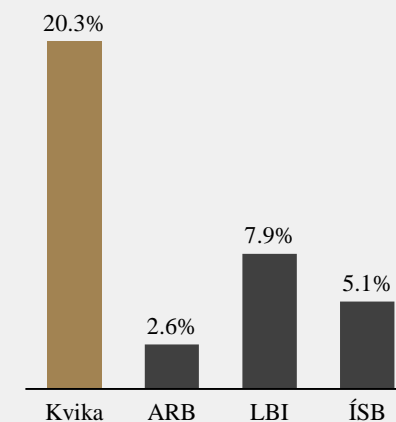
Robust performance results in a high CAD ratio



## RETURN ON EQUITY

(%) / 9M 2019

Successful strategic focus reflected in return on equity



Source: 9M 2019 Financial statements. Note: calculations on presented items may vary between companies. ARB = Arion, LBI = Landsbankinn, ÍSB = Íslandsbanki

1) Net operating income split for Kvika is adjusted for unrealised performance fees linked to the purchase price of GAMMA. Unadjusted split is NFC 64%, NII 24% and other 12%. Similarly, the unadjusted cost-income ratio is 69.4%

2) For Kvika: CAD ratio of 23.6% including unaudited (positive) retained earnings and expected dividends. CAD ratio excluding unaudited (positive) retained earnings and expected dividends is 22.9%. For Arion: CAD of 23.6% includes interim profit, excluding interim profit CAD would amount to 23.5%

# Outlook for 2019



## Expected increase in profit before tax of 36% - 56%

- Profit before tax in 2018 amounted to ISK 1,795 million
- The current earnings estimate is ISK 2,500 - 2,800 million before tax, an increase of 39% - 56% year-on-year
  - The earnings estimate has been changed three times since from initial estimate of ISK 1,990 m.
- Taxable sources of income have increased during the year and it is likely that more of the tax loss carry forward will be capitalised as a deferred tax asset

