



KVIKA

*Kvika*

*2019 Financial Results*

*27 February 2020*

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# Highlights



## **Profit for the year amounts to ISK 2,660 million (pre-tax ISK 2,501 million)**

Increase of 52% year-on-year (pre-tax 39% year-on-year) - Initial budget for 2019 amounted to ISK 1,990 million



## **Return on equity 21.0%**

Surpassing long term target of 15%



## **Strong financial position with CAD ratio of 24.1%**

Regulatory requirement at year-end was 21.35%



## **Fintech deposit platform Auður launched in March 2019**

Positive reactions reflected in growth in deposits



## **Work started on consolidating Kvika's asset management operations**

In line with strategic focus – estimated to be concluded in 2020



## **Issuance of a five year senior unsecured bond**

Issue size of ISK 1,520 million with total issue limited to ISK 5,000 million



## **Pre-tax earnings forecast of ISK 2,300 - 2,700 million for 2020**

Corresponding to return on equity of 15% - 18%





# *Kvika*

*Overview*

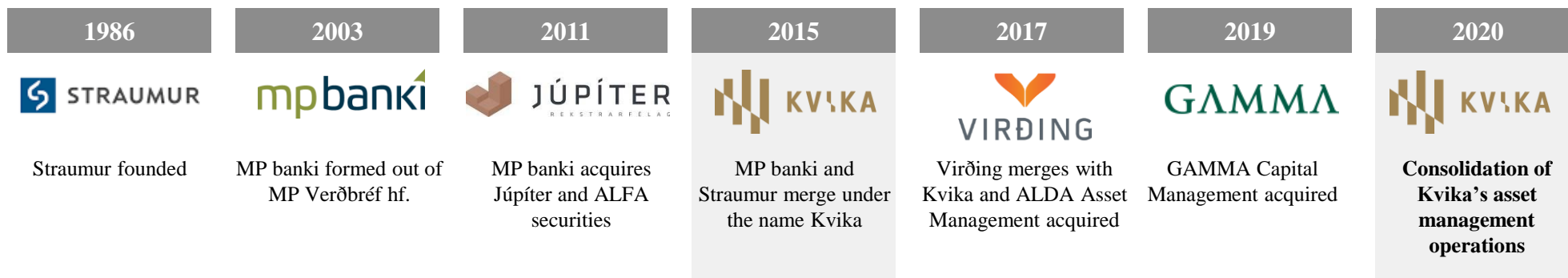


# Strong foundation through consolidations

Track record in obtaining increased efficiency, specialisation and lowering costs



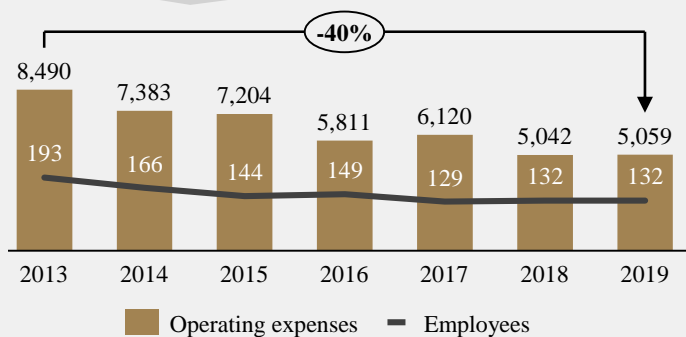
## TIMELINE



## DEVELOPMENT OF OPEX AND EMPLOYEES

OPEX in ISK m., real wages at 2019 price levels<sup>1)</sup>

Combined operating costs and employee numbers at Kvika and companies which have joined the Kvika group



	2012	2015	2018	2019
MP banki	125	<b>Kvika</b>		
Straumur	35	<b>86</b>		
Virðing	19	Virðing	<b>Kvika</b>	<b>109</b>
Auður	30	Virðing		<b>Kvika</b>
ALDA	1	ALDA		<b>132</b>
GAMMA	9	GAMMA	GAMMA	
<b>Employees</b>	<b>219</b>	<b>Employees</b>	<b>132</b>	<b>Employees</b>
		<b>144</b>	<b>132</b>	<b>132</b>

1) Statistics Iceland, based on real wage index, annual average for the period 2013-2019  
Virðing and Auður merged in 2014

# Market position

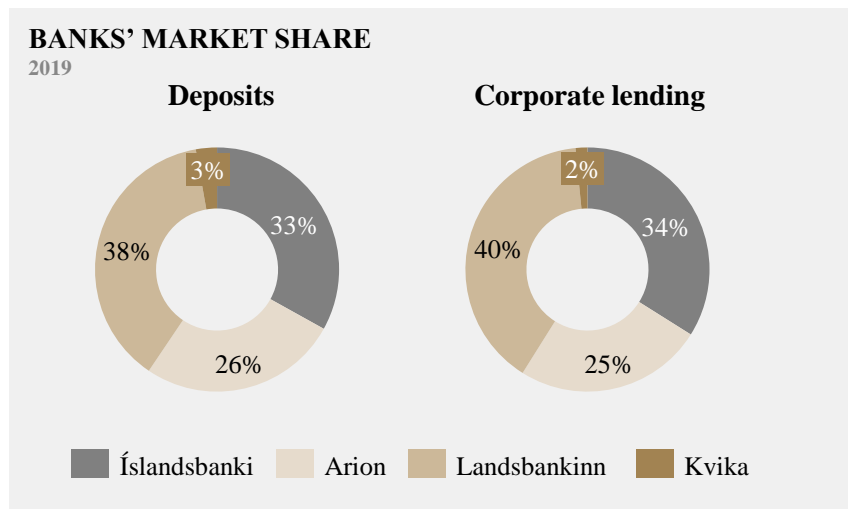
*Kvika can differentiate through selective product and service offering*



<b>Employees</b>	801 – 984
<b>AuM</b>	ISK ~400 – 1,103 bn.
<b>Deposits</b>	ISK 493 – 708 bn.
<b>Lending</b>	ISK 774 – 1,140 bn.
<b>CAD</b>	22.4% – 25.8%
<b>LCR</b>	155% – 188%

<b>Employees</b>	132
<b>AuM</b>	ISK 426 bn.
<b>Deposits</b>	ISK 51 bn.
<b>Lending</b>	ISK 30 bn.
<b>CAD</b>	24.1%
<b>LCR</b>	246%

<b>Employees</b>	<40
<b>AuM</b>	ISK 0 – ~100 bn.
<b>Deposits</b>	ISK 0 bn.
<b>Lending</b>	ISK 0 – 30 bn.



Substantial market changes	
<b>Drivers</b>	Efficiency → Profitability → Fintech
<b>Competitor focus</b>	Escalating shifts in strategies (e.g. intention to shrink, broaden platform, potential sale)
<b>Dynamics</b>	Mismatch in supply and demand in direct lending Increase in off-balance sheet financing
<b>Opportunity</b>	Opportunity to grow and maintain profitability in direct lending and through a strong foothold in fund and asset management services

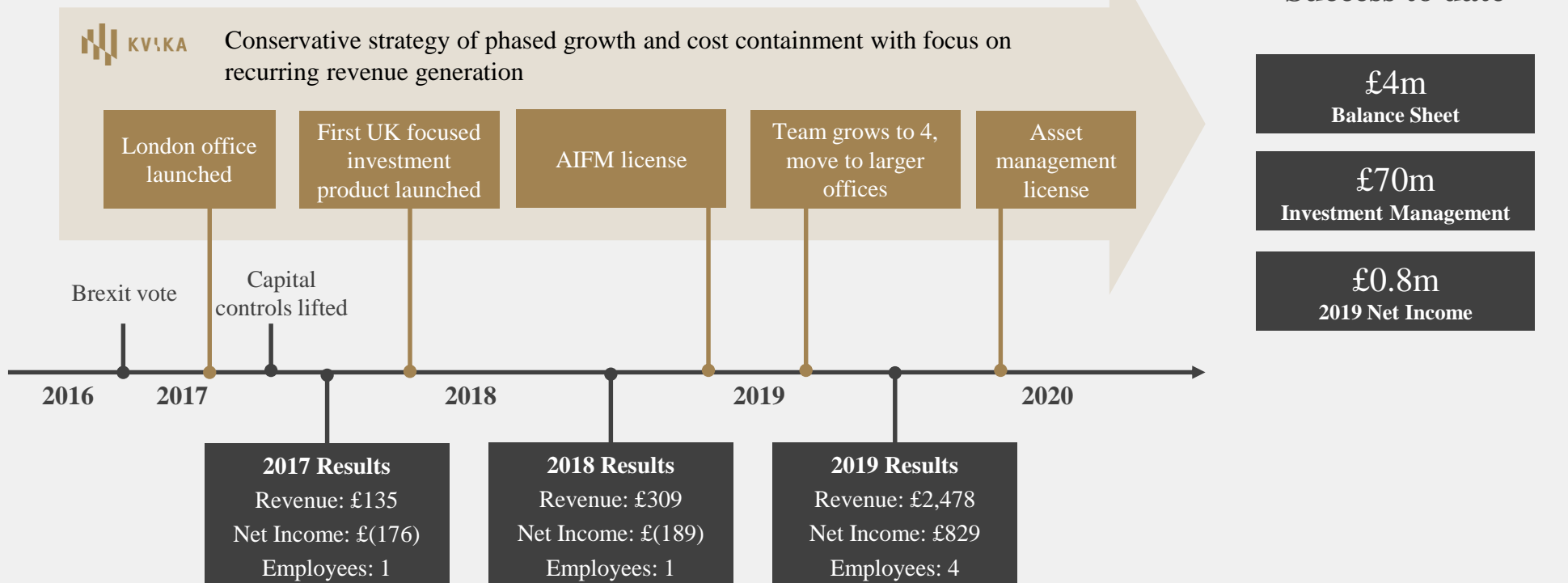
Source: Statistical information on competitors on a consolidated basis, based on 2019 financial statements. Where statistical information on competitors is not available, figures reflect independent estimates based on the latest data and may therefore not be precise.

# UK operation - Kvika Securities Ltd.

## Logical expansion following capital control liberalisation



### HISTORY AND DEVELOPMENT OF KVIKA SECURITIES LTD



Revenue and profit figures in thousands

### Success to date

- £4m Balance Sheet
- £70m Investment Management
- £0.8m 2019 Net Income





# *Financials*

*Continuing growth in net operating income*





# Income statement / Q4

Diversified income generation and expenses in line with expectations

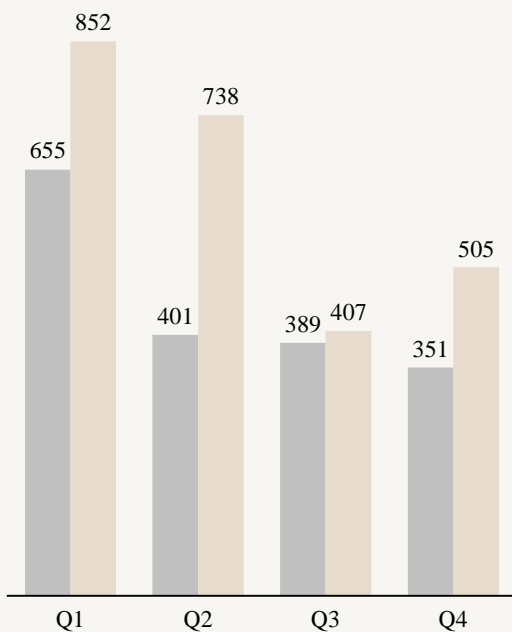


## PRE-TAX PROFIT

ISK m.

Improved performance driven by net fee and commission income

■ 2018 ■ 2019

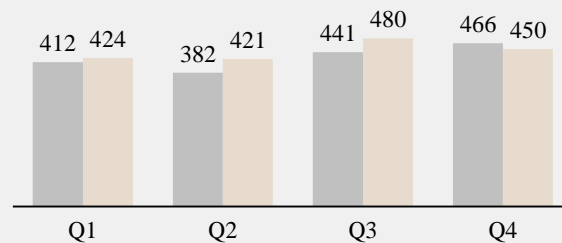


## NET INTEREST INCOME (NII)

ISK m.

Relatively unchanged size of loan book

■ 2018 ■ 2019

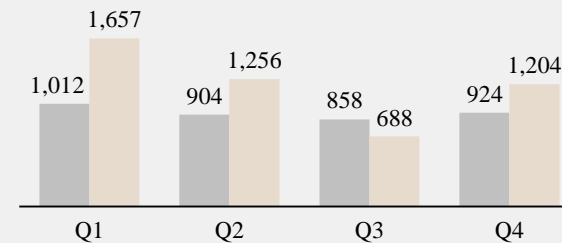


## NET FEE AND COMMISSION INCOME (NFC)

ISK m.

Increase in NFC mainly attributable to asset management and capital markets

■ 2018 ■ 2019

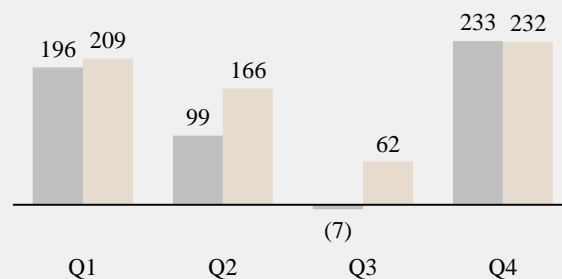


## NET FINANCIAL INCOME (NFI)

ISK m.

Volatile NFI due to market conditions

■ 2018 ■ 2019

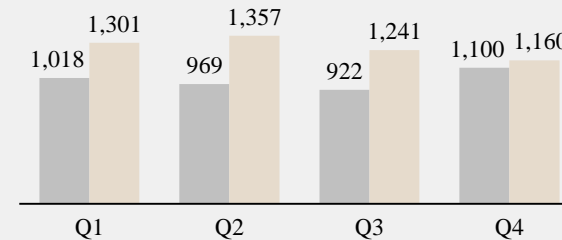


## OPERATING EXPENSES (OPEX)

ISK m.

OPEX in line with expectations

■ 2018 ■ 2019



# Income statement / 2019

## Return on equity 21.0% during the year



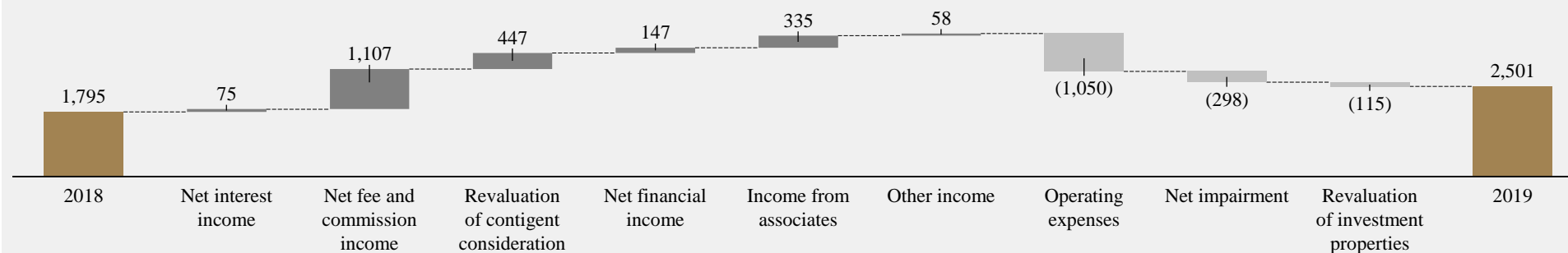
- Profit for the year amounted to ISK 2,660 million, an increase of 52% year-on-year
- Corresponding to an annualised 21.0% return on equity
- Net interest income increased 4.4% year-on-year despite cuts in policy rates
- Net fee and commission income ISK 4,804 million, an increase of 30% year-on-year driven by asset management
- Operating expenses ISK 5,059 million and increased 26% year-on-year in line with expectations
  - Average salary increased by 0.7% year-on-year, compared to wage index increase of 4.5%
- Increase in net impairments mainly in Q4
  - In line with budget
- Net financial income ISK 668 million, an increase of 28% year-on-year

### INCOME STATEMENT

ISK m.	2019	2018
Net interest income	1,776	1,701
Net fee and commission income	4,804	3,698
Net financial income	668	522
Income from associates	32	(303)
Other income	145	87
<b>Net operating income</b>	<b>7,426</b>	<b>5,705</b>
Operating expenses	(5,059)	(4,009)
Net impairment	(314)	(15)
Revaluation of contingent consideration	447	-
Revaluation of investment properties	-	115
<b>Pre-tax profit</b>	<b>2,501</b>	<b>1,795</b>
<b>Taxes</b>		
Income tax	362	110
Special tax on financial activity and institutions <sup>1)</sup>	(202)	(153)
<b>After-tax profit</b>	<b>2,660</b>	<b>1,752</b>
<b>Earnings per share (EPS)</b>	<b>1.41</b>	<b>0.95</b>
<b>Diluted EPS</b>	<b>1.27</b>	<b>0.86</b>

### PRE-TAX PROFIT BRIDGE

FROM 12M 2018 to 12M 2019 ISK m.



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

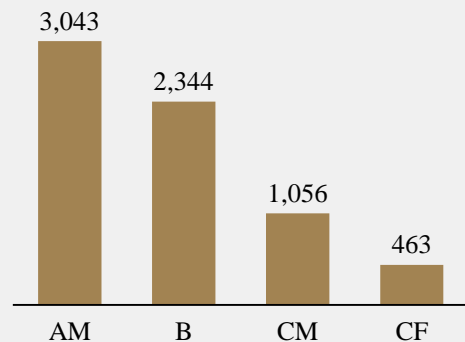
1) Special tax on financial activity amounted to ISK 57 million and special tax on financial institutions amounted to ISK 145 million

# Strategic focus on fee and commission income

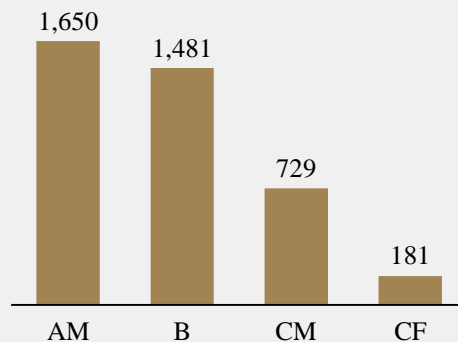
## Improvements in core operations



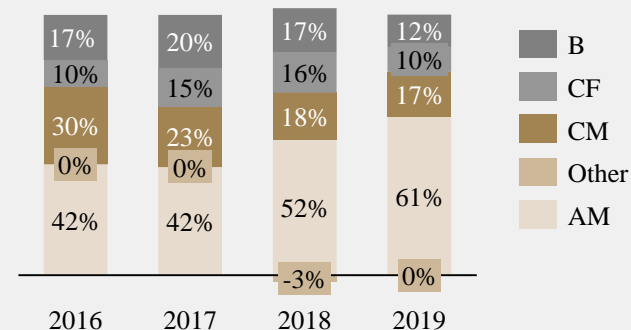
**NET OPERATING INCOME**  
BY SEGMENT / 2019 ISK m.



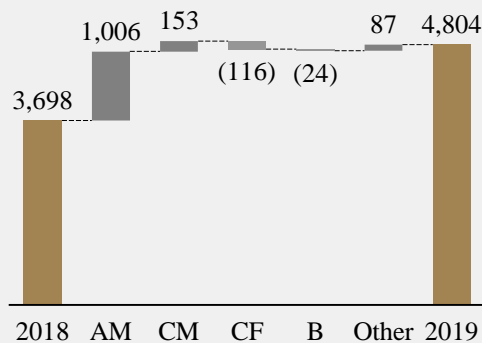
**PROFIT OR LOSS BEFORE COST ALLOCATION**  
BY SEGMENT / 2019 ISK m.



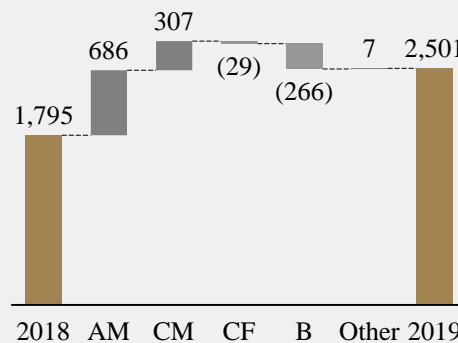
**NET FEE AND COMMISSION INCOME SPLIT**  
FROM 2016 to 2019 (%)



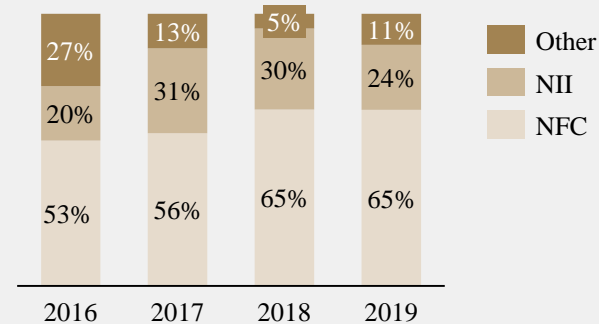
**NET FEE AND COMMISSION INCOME**  
SEGMENT CHANGE / FROM 2018 to 2019 ISK m.



**PROFIT OR LOSS BEFORE COST ALLOCATION**  
SEGMENT CHANGE / FROM 2018 to 2019 ISK m.



**NET OPERATING INCOME SPLIT**  
FROM 2016 to 2019 (%)



B = Banking  
AM = Asset Management  
CF = Corporate Finance  
CM = Capital Markets

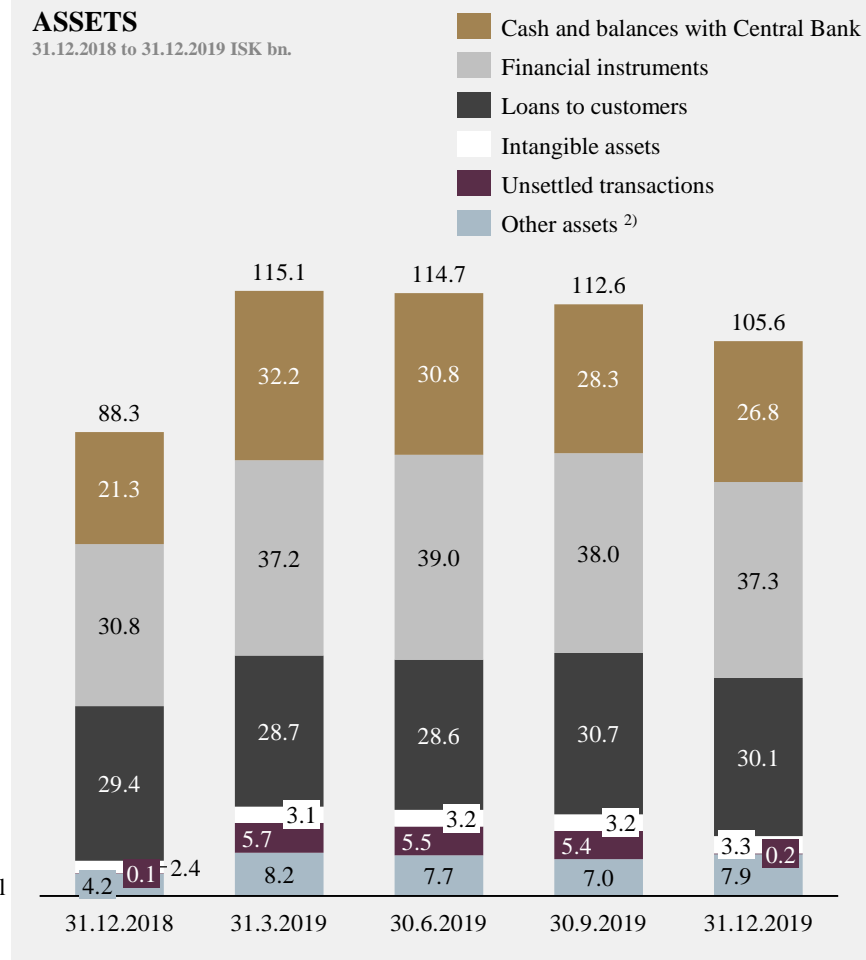
NII = Net interest income  
NFC = Net fee and commission income

# Balance sheet

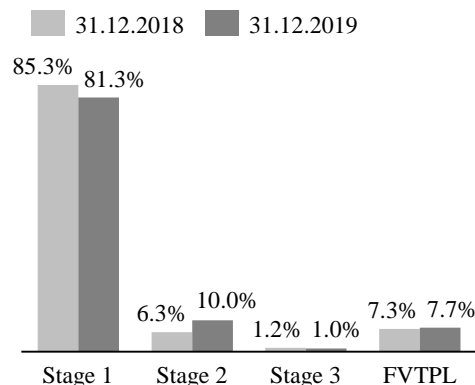
## Growth in short-term and liquid assets



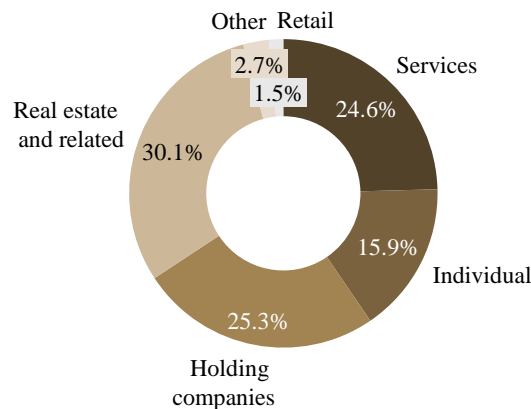
- In total, liquid assets amount to ISK 59.4 billion or 56% of total assets and 115% of all deposits from customers
  - Cash and balances with the Central Bank at ISK 26.8 billion
  - Other liquid assets include ISK 11.4 billion in listed government bonds and ISK 21.2 billion of other listed securities
- Financial instruments ISK 37.3 billion of which ISK 24.3 billion are for hedging
- Loans to customers increased ISK 0.7 billion from year-end 2018
  - The weighted average duration of the loan book was 1.07 year at the end of the year



**CREDIT QUALITY OF LOAN BOOK<sup>1)</sup>**  
31.12.2018 and 31.12.2019



**BREAKDOWN OF LOAN BOOK**  
31.12.2019



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

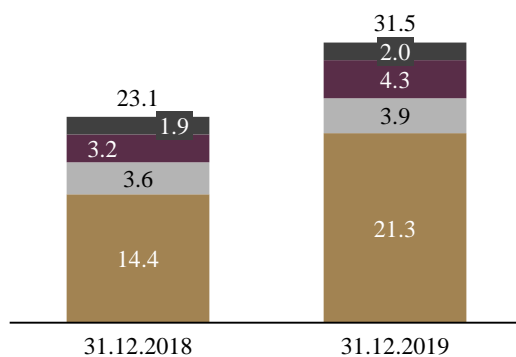
## Increased diversification in funding



- Liquidity coverage ratio (LCR) 246% at year-end
- Deposits to loans ratio remains high at 171% and provides cover from fluctuations in wholesale funding
- Deposits have increased by ISK 3.6 billion from year-end 2018
  - Positive reactions in successful launch of Auður deposit platform in mid March 2019
  - Increase in stable and diversified retail deposits replaces less stable deposits from corporates and financial entities
- Outstanding issued debt securities amounted to ISK 10.2 billion
  - Issuance of senior unsecured five year bond in 2019 of ISK 1.5 billion
- Money market borrowings amounted to ISK 21.3 billion

### SECURITIES & BORROWINGS

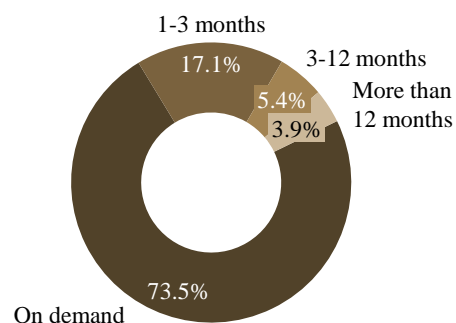
31.12.2018 and 31.12.2019 ISK bn.



Subordinated liabilities   
  Issued bills  
 Issued bonds                     
  Money market deposits

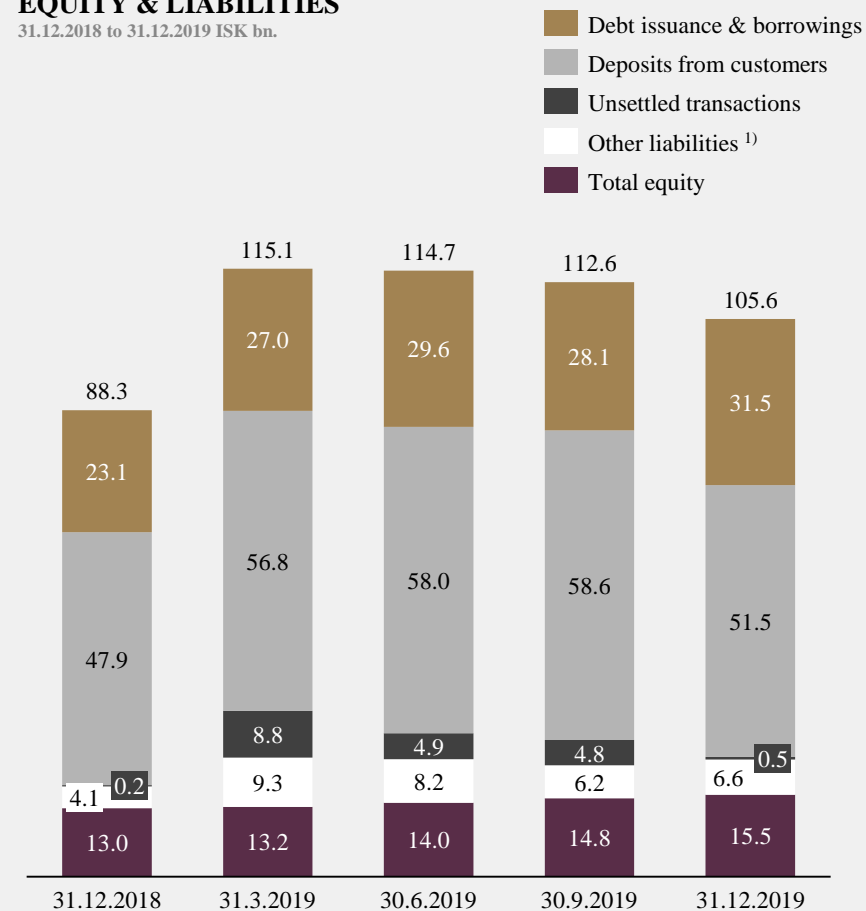
### MATURITY OF DEPOSITS

31.12.2019



### EQUITY & LIABILITIES

31.12.2018 to 31.12.2019 ISK bn.



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

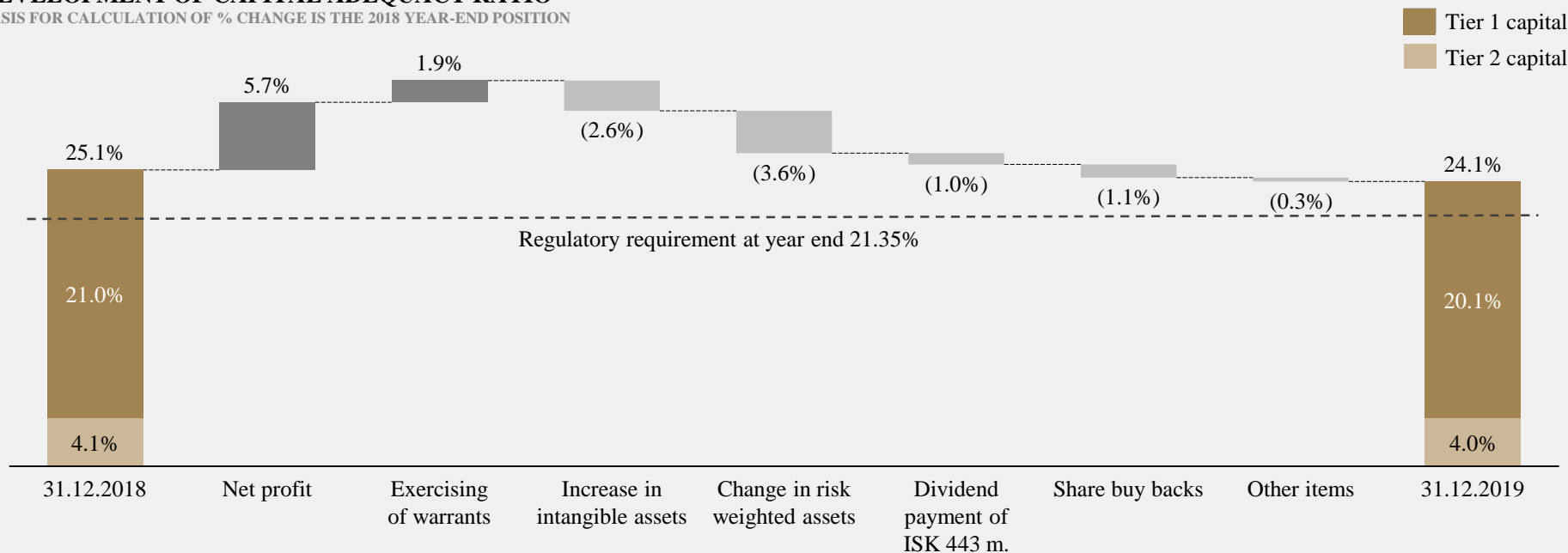
## Capital adequacy ratio exceeds required capital buffers



- Capital adequacy ratio 24.1% at year end
  - Capital base amounted to ISK 13,051 million and book value of equity at ISK 15,515 million
- Issues of new shares for warrants exercised and sale of new warrants in 2019 increased capital by ISK 859 million and raised CAD by 1.9%
- Acquisition of GAMMA Capital Management resulted in increased goodwill of 699 million
- Increase in risk-weighted assets mainly attributable to loan portfolio and other investments
- Dividend payment of ISK 443 million in March reduced CAD by 1.0%
- Share buyback program of 50 million nominal shares (ISK 520 million purchase price) in Q4 reduced CAD by 1.1%

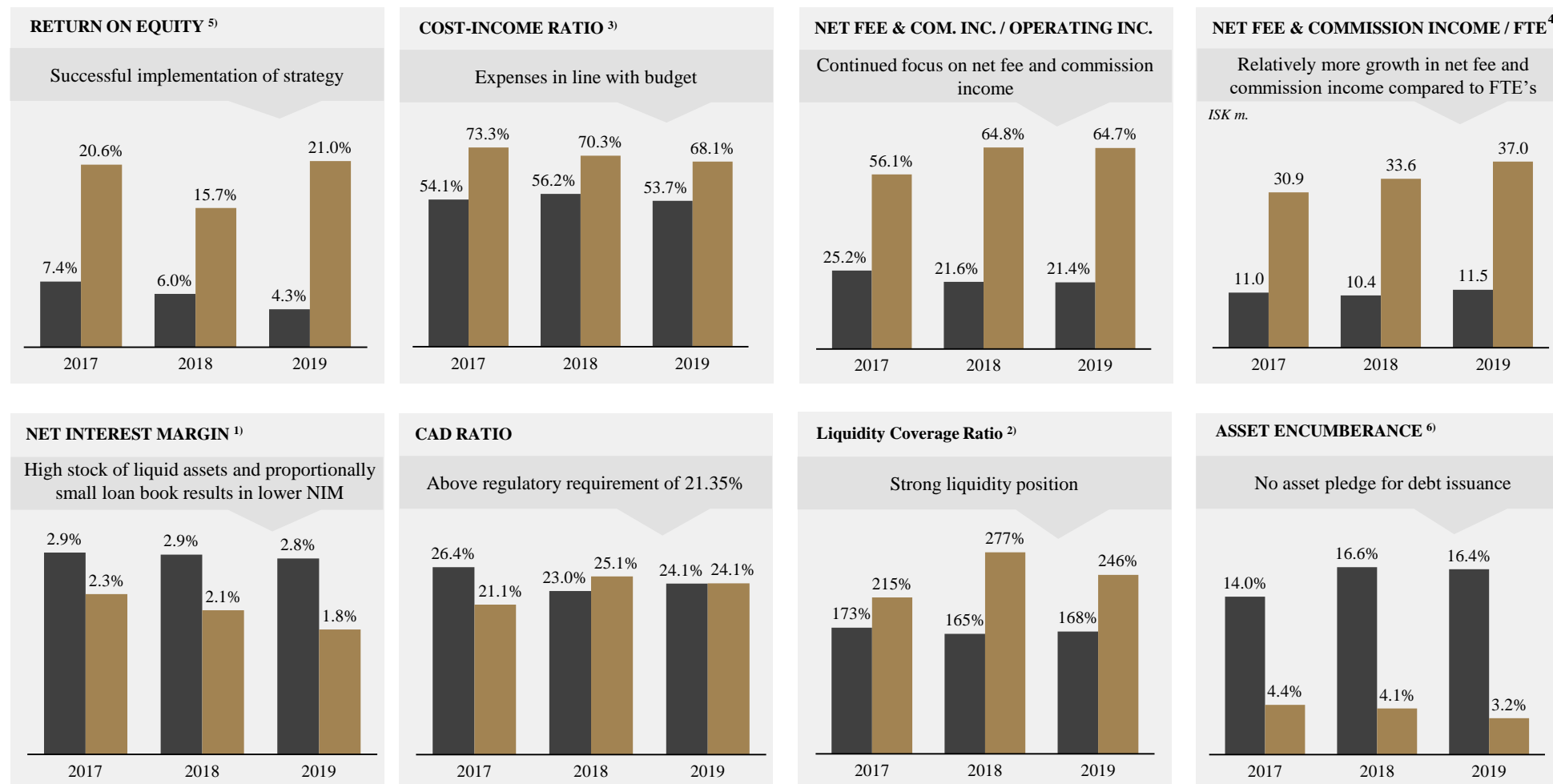
### DEVELOPMENT OF CAPITAL ADEQUACY RATIO

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



# Comparison

## Strategic focus reflected in key ratios



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

- 1) On average carrying total book value of assets
- 2) As reported
- 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

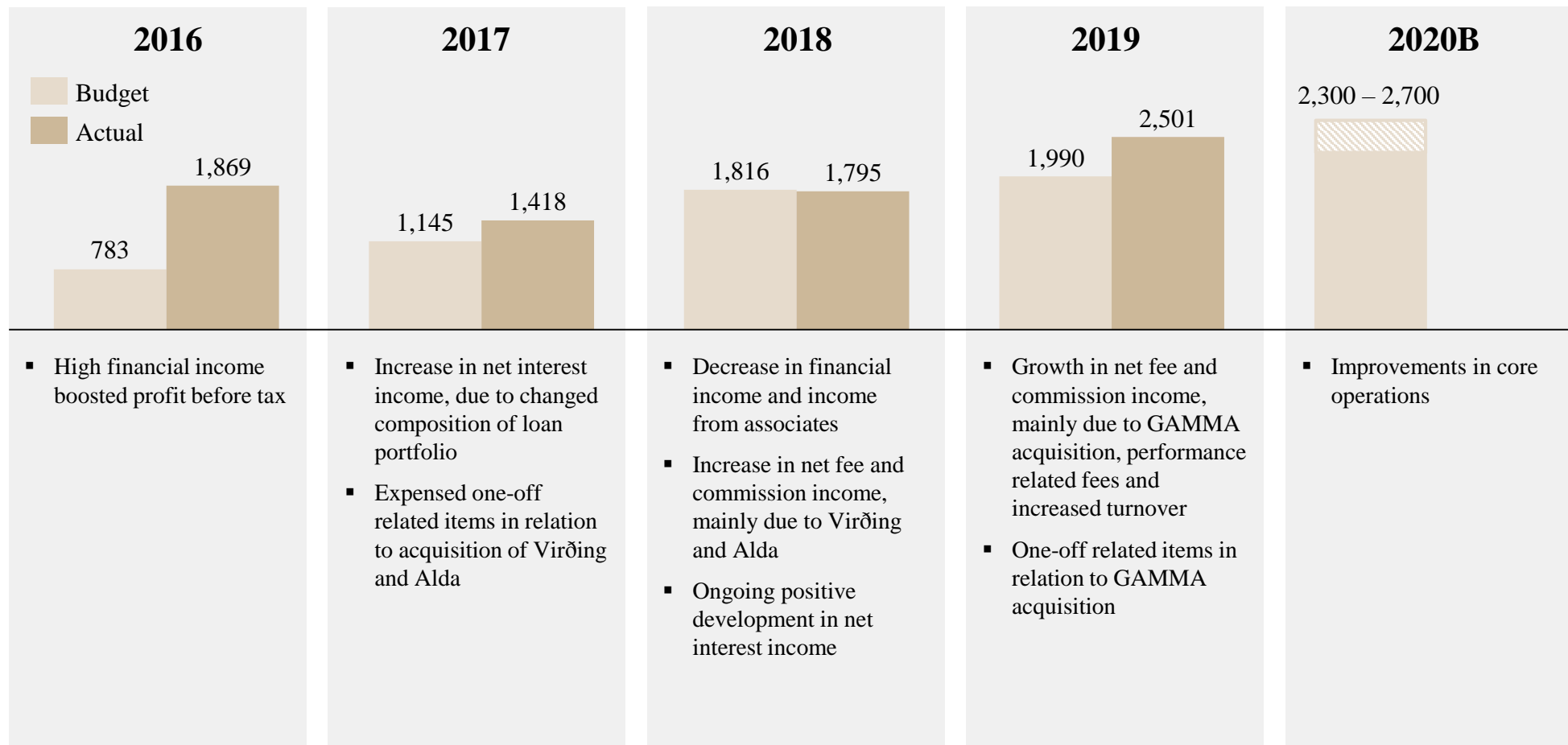
# Outlook for 2020

Profit before tax expected to be ISK 2,300 – 2,700 million



## PROFIT BEFORE TAX

2016 to 2020B ISK m.



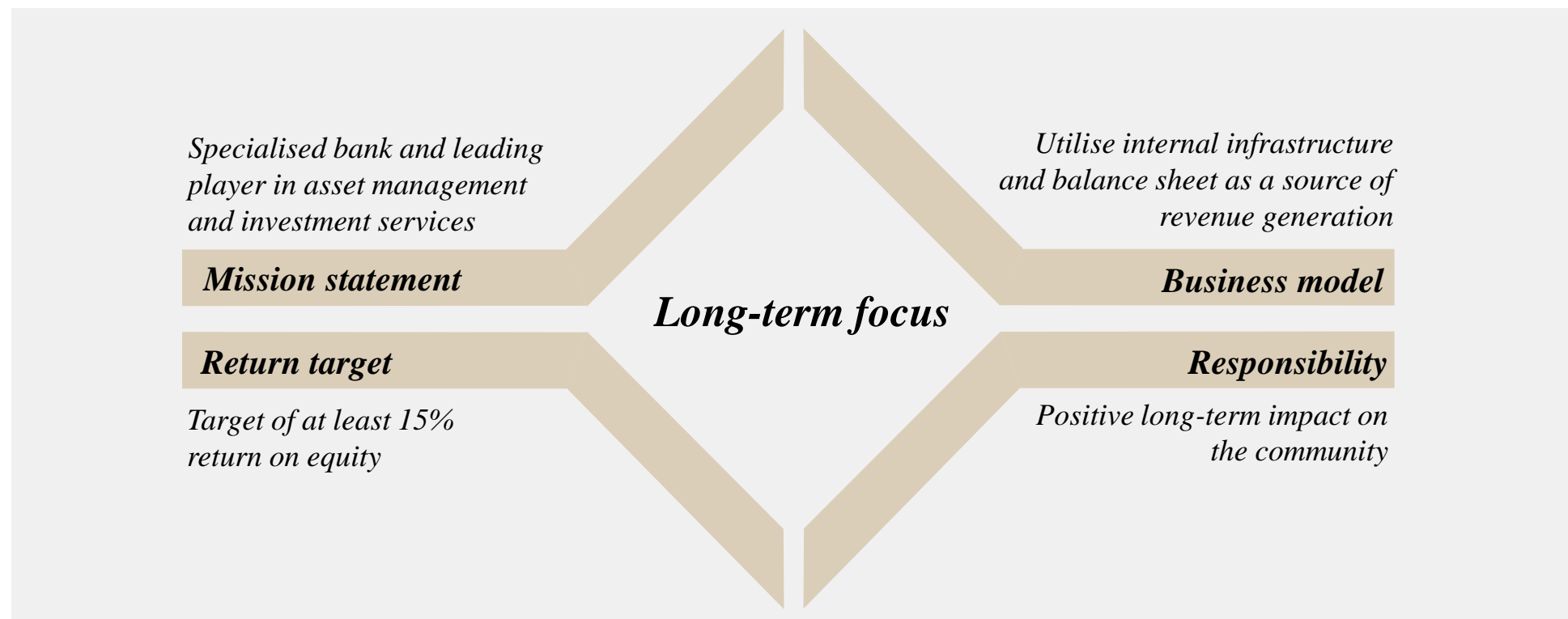
**Improvements in core operations**

# *Kvika's strategy*

## *Strategic focus supports long-term profitability*



- 1** Kvika has evolved through a series of successful consolidations as a profitable bank
- 2** The financial landscape is going through substantial changes as bank's pursue increased efficiency and profitability
- 3** Kvika is in a prime position to use its business model to service the economy and continue to deliver profitability





# *Appendix*





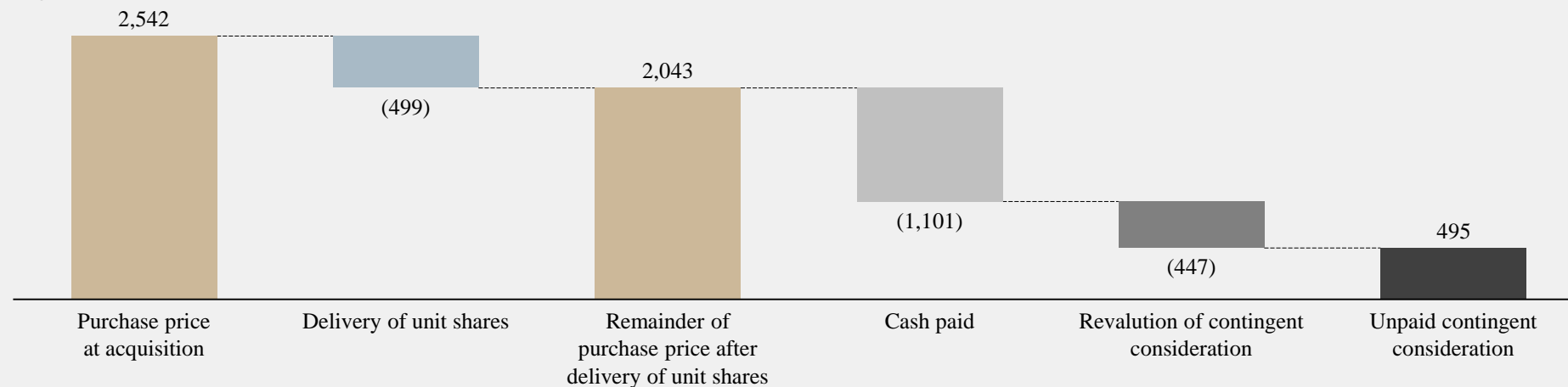
# Acquisition of GAMMA concluded in 2019



- In November 2018 Kvika signed an agreement to acquire GAMMA Capital Management hf.
  - Acquisition finalised in March 2019
  - GAMMA is part of the financial statements from March 1<sup>st</sup> 2019
- Purchase price at the acquisition date amounted to ISK 2,542 million, and was partly based on the book value of accrued performance related fees
- The purchase price ISK 2,542 million was composed of
  - ISK 1,843 million net assets
  - ISK 699 million of goodwill
- The purchase price is partially conditional on certain conditions
  - The amount of performance related fees GAMMA will receive over a certain period affects the purchase price
  - As a result the purchase price can increase or decrease over time
- As at 31 December 2019
  - ISK 1,600 million of the acquisition had been paid for
    - i. Thereof ISK 499 million paid by buying unit shares from GAMMA and delivering to the sellers
  - ISK 495 million recognised as contingent consideration
- In 2019 the purchase price was reduced by ISK 447 million mainly due to revaluation of performance related fees in GAMMA's operations

## ACQUISITION OF GAMMA

ISK million



# Outstanding warrants

## As at year end 2019



- Kvika has sold warrants at fair value, of which the sales price is allocated directly to retained earnings
- Exercising of the warrants increases the number of shares issued and increases equity
  - Shareholders are diluted if the market price is higher than the subscription price
- As of 26<sup>th</sup> of September 2019 nominal value of 91,883,317 have been issued
- Based on Kvika's stock price at end of year 2019 the dilution effect of yet to be exercised warrants is 8.7% <sup>1)</sup>
- If all warrants are exercised, independent of market price at any time, the estimated capital increase (purchase price) is ISK 4.4 billion <sup>2)</sup>

### ISSUANCE

Board meeting	Number of holders	Nominal issued	Capital increase
September	29	23,966,655	148,113,928
October	14	17,416,663	108,037,477
November	18	41,533,332	259,583,325
December	4	8,966,667	56,459,669
<b>Total</b>		<b>91,883,317</b>	<b>572,194,399</b>

### WARRANT OVERVIEW

Subscription period	Issued	Nominal outstanding	Estimated dilution <sup>1)</sup>	Exercised	Capital increase
Until end of December 2020	91,883,317	117,950,016	2.6%	44%	572,194,399
From December 2020 to December 2022	0	232,833,333	2.8%	0%	0
From December 2021 to December 2022	0	232,833,333	3.3%	0%	0
<b>Total</b>	<b>91,883,317</b>	<b>583,616,682</b>	<b>8.7%</b>	<b>13%</b>	<b>572,194,399</b>

1) All warrants that are in-the-money, now and in the future, are evenly exercised in their subscription periods and dilution calculated on EOY 2019 share capital basis

2) All warrants that are in-the-money, now and in the future, are evenly exercised in their subscription periods

