

Earnings report 2016

16 February 2017

Kvika banki hf.

At a Board meeting on 16 February 2017, the Board and CEO endorsed the 2016 consolidated financial statements of Kvika banki hf.

Sigurður Atli Jónsson, CEO of Kvika:

“We are proud of the excellent results achieved in the strategic development of Kvika, the only specialized investment bank in Iceland. The first full operating year of Kvika is behind us and the year's results give us a strong momentum. The year's profit after tax amounted to nearly ISK two billion and return on equity was 34.7%.

Kvika has a unique position in the Icelandic financial market and there is a high demand for our specialized services. The future is bright for the only independent investment bank in Iceland.

The excellent performance of Kvika's staff and the bank's financial strength is based on a clear vision and the bank's focused strategic plan. A strong foundation and disciplined actions enable us to utilize the best opportunities for further expansion, for the benefit of all stakeholders. “

Strong revenue growth and good performance

Kvika's profit in 2016 amounted to ISK 1,928 million and return on equity was 34.7%. Net operating income amounted to ISK 5,318 million during the period, of which income in the second half was ISK 3,154 million.

Net commission income amounted to ISK 2,840 million for the year. There was growth in Asset Management during the year and assets under management amounted to ISK 121 billion at the end of 2016. Fee and commission income of Corporate Banking increased significantly year on year following increased activity and transformation of the loan portfolio. Capital Markets maintained a strong position and there was a significant growth in FX business. Corporate Finance completed major projects during the year, relating to mergers and acquisitions and consulting in the field of infrastructure.

Investment income amounted to ISK 1,283 million for the year. Interest on the bank's bond portfolio and the profit share of Corporate Banking yielded more than a quarter of the year's investment income. The performance of stocks and mutual funds amounted to ISK 484 million, or 12.9% of the year's average position.

The bank's net interest income was ISK 1,064 million during the year and net interest margin of loans was 3.8%.

Operating costs amounted to ISK 3,219 million in 2016. The operating costs of ordinary operations decreased in line with expectations and was 14% lower in 2016 compared to monthly operating costs in second half of 2015.

A strong financial position

At the end of 2016, Kvika's total assets amounted to ISK 59,563 million compared to ISK 61,614 million at the end of 2015, a decrease of 3% during the period. Loans to customers increased during the year and amounted to ISK 26 billion at the end of 2016. Deposits from customers amounted to ISK 32,479 million at the end of 2016 compared to ISK 30,544 million in 2015.

The bank's liquidity is strong and its liquidity coverage ratio (LCR) was 152% at the end of the year, well above requirements of a 90% minimum. Cash at year-end amounted to ISK 12,033 million and other liquid assets amounted to ISK 17,245 million. The ratio between liquid assets and cash of the bank's total debt at the end of year was 56%.

The bank was active in the capital market during the year, substantially improving its terms in regular bills auctions, through which the bank issued bills in the nominal amount of ISK 8,000 million. At the end of 2016, the bank's issued bills and subordinated bonds amounted to ISK 4,494 million.

The bank's equity at year-end was ISK 7,348 million, up from ISK 6,293 million at the end of 2015, despite a reduction in share capital amounting to ISK 1,000 million in the first half of 2016. The equity ratio at the end of December was 20.6% versus 23.5% at the end of 2015. The bank's capital position is strong and the equity ratio is well above regulatory requirements.

Operational highlights

- Kvika has been designated as the best investment management company in Iceland 2016 by the British financial magazine World Finance. The magazine nominates companies annually for outstanding performance and this was the third consecutive year that the bank receives the recognition.
- Kvika signed a collaboration agreement with two international asset management companies in the year, T. Rowe Price and Wellington Management, on the sale and distribution of their asset funds. These agreements come as an addition to Kvika's 13 years of cooperation with Credit Suisse.
- Kvika examined the macroeconomic efficiency of a submarine power cable to the United Kingdom for the Ministry of Industry and Innovation. The report was prepared by Kvika's experts in cooperation with Pöyry, which is one of the most respected European consulting firms in the energy sector.
- Kvika oversaw the sale process of Nova, Iceland's largest mobile phone company.
- Kvika was a consultant to the sale of ISS Iceland and led the sale process on behalf of the seller.
- Kvika was the consultant of GE Capital in acquiring Skakkiturn ehf. which is the distributor of Apple in Iceland and operates stores under the name Epli (Apple).
- Kvika was a recognized consultant of Iceland Seafood International in the First North market, which is a Nordic alternative market for stock trading.
- Kvika advised in the sale of a 40% share in Iceland Seafood International.

- Kvika advised the owner of Húsafell in financing tourism in the Húsafell region.
- Jupiter Capital Management hf., a subsidiary of Kvika, formed two funds in specialized investments in the first half of the year, including JR Mortgages I, specializing in the purchase of mortgage deeds of companies.
- Akta Capital Management hf., a management company of mutual funds, began operations in cooperation with Kvika.

For further information, please contact Sigurður Atli Jónsson, CEO of Kvika, tel.: 540 3230 or 821 2051.

About Kvika

Kvika is a specialised investment bank which serves the needs of customers in specific niches with professional knowledge and a specialized product range. Kvika's backbone is a powerful asset management and the bank provides investors and depositors with comprehensive financial services. Kvika employs a tight team of 86 specialists who achieves success through education, market knowledge and extensive experience. Sigurður Atli Jónsson is CEO and Þorsteinn Pálsson is Chairman of the Board. The ownership of Kvika is transparent and it is the only bank which is wholly owned by private entities, such as pension funds, companies and individuals. Further information can be found at: www.kvika.is.