



# Landsbankinn: Financial Results

January- September 2017

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News Release, 26 October 2017

## Landsbankinn profits by ISK 16.8 bn in the first nine months of 2017

In the first nine months of 2017, Landsbankinn's after-tax profit was ISK 16.8 bn as compared with ISK 16.4 bn for the same period in 2016. Annualised ROE was 9.4% as compared with 8.5% for the same period the previous year.

Net interest income was ISK 27.1 bn, up by 3.3% between periods. Net commission income amounted to ISK 6.6 bn, increasing by 11.5% from the same period the previous year. Positive value changes amounted to ISK 2.1 bn in the first nine months of 2017 and this amount is 53% lower than for the same period last year.

Other operating income amounted to ISK 5.9 bn as compared with ISK 5.2 bn in the same period of 2016, which is a 15% increase. The increase is caused mostly by positive changes in the fair value of unlisted equities.

The default ratio continued to drop, was 1.0% during the first nine months of the year as compared with 1.8% during the same period of 2016.

The interest margin on assets and liabilities was 2.5% in the first nine months of 2017, up from 2.3% in the same period of 2016.

The Bank's operating expenses for the first nine months of 2017 amounted to ISK 17.7 bn as compared with ISK 17.6 bn in the same period in 2016; an increase of just under 1%. Labour cost accounts for ISK 10.3 bn of that figure as compared with ISK 10.4 bn for the same period in 2016, which is a 1% decrease. Other operating expenses are up by 2.9% compared to the same period last year and amount to ISK 7.4 bn. This increase is mostly due to higher contributions to the Financial Supervisory Authority and the Debtors' Ombudsman.

The cost-income ratio for the first nine months of the year was 44.7%, down by 3 percentage points from the same period of 2016. This decrease is due mostly to positive market developments.

Lending increased by 6.2% since the beginning of the year, or by just over ISK 52 bn. New loans issued in 2017 are both to households and corporates. The default ratio continues to drop and currently stands at 1%. Customer deposits with Landsbankinn increased by 8.3% between periods. Deposits by individuals increased by ISK 28 bn which is an indication of improved household finances.

Landsbankinn's equity amounted to ISK 243.1 bn as at 30 September this year and its CAR was 26.8%. Landsbankinn has paid dividend in the total amount of ISK 24.8 bn this year.

## **Lilja Björk Einarsdóttir, CEO of Landsbankinn:**

"Landsbankinn is performing well, as evidenced by its results. A growing market share in both the individual and the corporate market, favourable economic conditions and increasing economic activity are the main reasons for the Bank's results exceeding expectations. Continued efforts to increase cost efficiency result in more or less unchanged operating costs in Q3 as in the same period of 2016. Landsbankinn's share in housing loans to young people continues to grow and it is gratifying to see that the Bank is able to support individuals who are taking their first steps in the real estate market. Young people increasingly turn to Landsbankinn not least because the Bank offers up to 85% loans, which suits the needs of first-time home buyers. It is difficult for the Bank to compete with the terms pension funds offer on housing loans, as the bank tax on credit issued by large financial undertakings is not leveraged in pension funds. The bank tax skews competition and negatively impacts terms to customers.

Yesterday it was announced that S&P Global Ratings upgraded Landsbankinn's rating to BBB+/A-2 with a stable outlook. This is a gratifying confirmation of increasing confidence in the Bank. Terms offered the Bank on international financial markets have continuously improved and a higher rating grade will, all things remaining equal, allow the Bank to secure foreign funding on even better terms.

The improved rating grade reflects the Bank's strong financial position. Landsbankinn paid dividend in the amount of ISK 11.8 in Q3, bringing total dividend payments in 2017 to ISK 24.8 bn. Since 2013, the Bank has paid a total of ISK 107 bn in dividends. The Bank will continue to improve its capital structure by paying off unfavourable loans and reducing equity by paying dividends while simultaneously maintaining a strong financial position. The Bank's equity following this latest dividend payment is strong, amounting to ISK 243.1 bn. Its capital ratio is 26.8%, which is well above regulatory requirements."

## **Key figures from the profit and loss account for Q3 2017**

### **Operations:**

- » Landsbankinn's profit for Q3 of 2017 was ISK 4.2 bn, as compared with ISK 5.1 bn for the same quarter of 2016.
- » Return on equity (ROE) after taxes was 6.9% as compared to a ROE of 8.2% for the same period of 2016.
- » Value changes in the credit portfolio were positive by ISK 766 m in Q3 of 2017 as compared to positive changes to the tune of ISK 2.1 bn in Q3 of 2016.
- » Net interest income was ISK 8.9 bn, as compared with ISK 8.6 bn in Q3 of 2016.
- » Net commission income was ISK 2.2 bn as compared with ISK 2 bn in Q3 of 2016.
- » The interest margin on assets and liabilities was 2.5% as compared with 2.4% in Q3 of 2016.
- » Wages and related expenses amounted to ISK 3.2 bn, down by 1% between periods.
- » Operating expenses less wages and related expenses increase by 2.9% as compared to the same period the previous year.
- » The cost-income ratio for Q3 of 2017 was 48.7%, as compared with 48.9% for the same time last year.
- » Full-time equivalent positions were 998 as at 30 September 2017, down from 1,043 the same time the previous year.

### **Balance Sheet:**

- » Landsbankinn's equity amounted to ISK 243.1 bn at the end of September and has decreased by 3% since the beginning of the year. This is because Landsbankinn has paid dividend in the total amount of ISK 24.8 bn in 2017.
- » The Bank's total capital ratio as at 30 September 2017 was 26.8%, down from 29.1% at the end of September 2016. This is well above the 21.2% minimum requirement determined by the Financial Supervisory Authority, Iceland.
- » Landsbankinn's total assets amounted to ISK 1,199 bn at the end of September 2017.
- » Customer deposits amounted to ISK 639 bn at the end of September 2017 as compared to ISK 590 bn at the end of 2016.
- » New loans to customers in the first nine months of the year amount to ISK 203 bn yet instalments, value changes and other factors contribute to a total increase in the credit portfolio of ISK 53 bn during the period.
- » The Bank's liquidity position remains strong, both in foreign currency and Icelandic króna, and well above regulatory limits. The total liquidity coverage ratio (LCR) was 158% at the end of September 2017.

	9M 2017	9M 2016	Q3 2017	Q3 2016
Amounts in ISKm				
After-tax profit	16,841	16,400	4,188	5,102
ROE after taxes	9.4%	8.5%	6.9%	8.2%
Adjusted ROE after taxes*	9.9%	8.0%	7.5%	6.8%
Interest margin on assets and liabilities**	2.5%	2.3%	2.5%	2.4%
Cost-income ratio***	44.7%	47.7%	48.7%	48.9%

	30.9.2017	30.9.2016	31.12.2016	31.12.2015
Total assets	1,198,958	1,133,802	1,111,157	1,118,658
Loans to customers	905,927	837,494	853,417	811,549
Customer deposits	638,781	583,715	589,725	559,051
Equity	243,132	251,146	251,231	264,531
Total capital ratio (TCR)	26.8%	29.1%	30.2%	30.4%
Net stable funding ratio on foreign currency	185%	149%	154%	136%
Total liquidity coverage ratio (LCR)	158%	140%	128%	113%
LCR on foreign currency	873%	594%	743%	360%
Foreign currency balance	5,173	2,425	3,480	23,795
Loans in arrears (>90 days)	1.0%	1.8%	1.5%	1.8%
Full-time equiv. positions	998	1,043	1,012	1,063

\* Adjusted ROE after taxes = [Profit after taxes – positive value adjustments (after taxes) – tax on the total liabilities of financial undertakings – profit from discontinued operations after taxes] / average equity position.

\*\* Interest margin on assets and liabilities = (interest revenue / avg. total assets) – (interest expenses / avg. total liabilities).

\*\*\* Cost-income ratio = Total operating expenses / (Net operating revenue – value change of lending)