



Landsbankinn's 2017 results



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Financial results of Landsbankinn for 2017

- » Landsbankinn's after-tax profit in 2017 was ISK 19.8 billion.
- » Return on equity (ROE) was 8.2% in 2017, as compared to 6.6% in 2016.
- » The cost-income ratio decreased between years and was 46.1% in 2017.
- » Landsbankinn's credit portfolio grew by ISK 72 bn. The increase is equal parts in loans to corporates and housing loans to individuals. The default percentage continues to decrease and was 0.9% at year-end 2017.
- » Landsbankinn's equity amounted to ISK 246.1 bn at year-end 2017 and its capital ratio was 26.7% of risk-weighted assets.
- » A proposal will be made to the AGM on 21 March to pay an ISK 15.4 bn dividend to shareholders for the year 2017.
- » Landsbankinn's annual report is published alongside the annual financial statement. The report is available on the Bank's website.

The profit of Landsbankinn hf. in 2017 was ISK 19.8 bn after taxes, as compared with ISK 16.6 bn in 2016. Return on equity (ROE) after-taxes was 8.2% for the year 2017, as compared with an ROE of 6.6% in 2016. Net interest income increased by ISK 1.6 bn between years, amounting to ISK 36.3 bn in 2017. Landsbankinn's net commission income is up by 8% between years and amounted to ISK 8.4 bn. This increase is derived mostly from an increased business volume in lending, capital markets and asset management. Other operating income amounted to ISK 7 bn, a YoY increase of 7%. The increase is caused largely by positive changes in the fair value of unlisted equities. Positive value changes in the credit portfolio amounted to ISK 1.8 bn as compared with a negative value change of ISK 318 bn in 2016.

Operating expenses were ISK 23.9 bn, up by 1.4% between years. Wages and related expenses were unchanged between years. Other operating expenses increased by 3.4%, largely due to higher contributions to the FME and the Debtors' Ombudsman, and higher costs associated with IT.

Pre-tax profit in 2017 amounted to ISK 29.7 bn, as compared to ISK 25.2 bn in 2016. Imputed taxes, including a special financial management tax on wages, amount to ISK 10.6 bn in 2017 as compared with ISK 9.2 bn in 2016.

Landsbankinn's total assets increased by ISK 81.7 bn between years and amounted to ISK 1,193 bn at year-end 2017. Lending increased by 8.5% between years, or by just over ISK 72 bn. The increase is equal parts in loans to corporates and housing loans to individuals. The default ratio continues to fall and stood at 0.9% at year-end 2017 as compared with 1.5% at year-end 2016.

At the end of 2017, deposits from customers amounted to ISK 605 bn as compared with ISK 590 bn at year-end 2016.

Landsbankinn's equity at year-end 2017 was ISK 246.1 bn, as compared with ISK 251.2 bn at year-end 2016. In 2017, Landsbankinn paid an ISK 24.8 bn dividend to shareholders. Landsbankinn's capital ratio at year-end 2017 was 26.7%, as compared to 30.2% at year-end 2016. The FME sets the total capital requirement for Landsbankinn at 21.4%.

The Board of Directors will propose to the AGM on 21 March 2018 that shareholders be paid a dividend of ISK 0.65 per share for the year 2017, a total amount of ISK 15.4 bn. The dividend payment represents around 78% of the year's profit.

Lilja Björk Einarsdóttir, CEO of Landsbankinn:

Landsbankinn had positive operating results in 2017 and the Bank's performance was in line with expectations. Market share grew to reach a record high in the retail market, surveys showed increasing confidence in the Bank and customers are better satisfied with its services.

Increasing economic activity and marketing efforts have resulted in a year-over-year increase in the Bank's commission income, most of the increase coming from corporate banking activity and services to institutional investors. The same underlying factors contribute to the increase in lending to both corporate and retail customers. Operating expenses remained more or less constant and the cost-income ratio was close to the Bank's target of 45%.

In 2017, the Bank's profit was ISK 19.8 bn and return on equity was 8.2%. Landsbankinn is well funded and at year-end, its equity amounted to ISK 246 bn. The capital ratio was 26.7%, which is quite considerably higher than regulatory demands. The Bank's objective is to achieve a 10% return on equity by 2020.

Landsbankinn has followed a strategy of growing the balance sheet responsibly in line with the economy. The bank is operationally stable and generates a reasonable return on equity. Dividend payments have been a part of effective liquidity management and the bank has made considerable dividend payments in recent years.

Landsbankinn enjoys increasing trust on international financial markets which is reflected in better terms for the bank as well as oversubscription of debt issuance. The Bank will continue its efforts to optimise its capital structure in the near future and is considering the issuance of subordinated bonds.

Towards the end of the year, Landsbankinn implemented new deposit and payment systems, considerably strengthening its IT infrastructure. Implementation of the new systems also reduced the operational risk posed by older core banking systems. In coming years, Landsbankinn will place increased emphasis on digital banking solutions that improve the Bank's services even further, making them more efficient and accessible to customers.

Landsbankinn is a leading provider of financial services in Iceland and is well positioned to handle coming changes in banking. We will continue to focus on providing individuals and companies throughout Iceland with first-class service.

Key figures from the profit and loss account for Q4 2017

- » Landsbankinn's profit for Q4 of 2017 was ISK 2,9 bn , as compared with ISK 243 m for the same period of 2016.
- » Return on equity decreased considerably between periods and was 4.8% in Q4 2017 as compared with 0.4% for the same period in 2016.
- » Value changes in the credit portfolio were negative by ISK 282 m in Q4 2017 as compared with a negative value change of ISK 5.8 bn in Q4 2016.
- » Net interest income amounted to ISK 9.2 bn as compared with ISK 8.4 bn in Q4 of 2016.
- » Net commission income was ISK 1.8 bn as compared with ISK 1.9 bn in Q4 of 2016.

Key figures from the profit and loss account and balance sheet for 2017

Operations:

- » Landsbankinn's profit in 2017 amounted to ISK 19.8 bn, as compared to ISK 16.6 bn in 2016.
- » Return on equity (ROE) after taxes increases. ROE was 8.2%, as compared to 6.6% in 2016.
- » Net interest income increased by ISK 1.6 bn between years. Interest income amounted to ISK 36.3 bn in 2017, as compared with ISK 34.7 bn in 2016.
- » The interest margin on assets and liabilities increased between years, was 2.5% in 2017 and 2.3% in 2016.
- » Landsbankinn's net commission income increased by 8% between years, primarily due to a higher business volume and increased income from asset management and payment cards. The largest portion of the Bank's commission income is derived from transactions with companies and institutional investors.
- » Value changes in the credit portfolio were positive by ISK 1.8 bn in 2017 as compared with a negative change in the amount of ISK 318 m in 2016.
- » Other operating income amounted to ISK 7 bn, as compared to ISK 6.6 bn in 2016. The increase is caused mostly by positive changes in the fair value of unlisted equities.
- » Wages and related expenses remain unchanged between years.
- » Operating expenses less wages and related expenses increases by 3.4% between years.
- » The cost-income ratio decreases between years. It was 46.1% in 2017, as compared to 48.4% in 2016.
- » The total number of full-time equivalent positions at Landsbankinn dropped by 15 in 2017, to 997 at year-end.
- » Taxes paid by Landsbankinn in 2017 amounted to ISK 9.9 bn, as compared to ISK 8.5 bn in 2016.

Balance sheet:

- » Landsbankinn's equity at year-end 2017 was ISK 246.1 bn, a decrease of ISK 5.2 bn as compared with equity at year-end 2016. In 2017, Landsbankinn paid an ISK 24.8 bn dividend to shareholders.
- » The Bank's total capital ratio at year-end 2017 was 26.7% as compared with 30.2% at the end of 2016. This is significantly in excess of the 21.4% capital requirement determined by the FME.
- » The Bank's total assets amounted to ISK 1,193 bn at year-end 2017, an increase of just over 7% from the previous year.
- » Landsbankinn issued ISK 279 bn in new loans in 2017; having regard for instalments, value changes and other factors, total lending increased by ISK 72 bn. Total lending amounted to ISK 926 bn at year-end 2017.
- » Customer deposits, not counting financial undertakings, grew by 2.6% during the year, or by ISK 15.4 bn. Deposits from financial undertakings increased by just under 12 bn in 2017.
- » The Bank's liquidity position remains strong and well above regulatory limits. The Bank's liquidity coverage ratio (LCR) was 157% at year-end 2017.
- » In 2017, the item assets held for sale decreased by ISK 3.8 bn.
- » Total defaults by companies and households were down to 0.9% at the end 2017, as compared with 1.5% at year-end 2016.

	2017	2016	4Q 2017	4Q 2016
Amounts in ISKm				
After-tax profit	19,766	16,643	2,925	243
ROE after taxes	8.2%	6.6%	4.8%	0.4%
Adjusted ROE after taxes*	9.0%	7.7%	6.0%	1.5%
Interest margin on assets and liabilities**	2.5%	2.3%	2.5%	2.2%
Cost-income ratio***	46.1%	48.4%	50.7%	50.7%

	31.12.2017	31.12.2016
Total assets	1,192,870	1,111,157
Loans to customers	925,636	853,417
Customer deposits	605,158	589,725
Equity	246,057	251,231
Total capital ratio (TCR)	26.7 %	30.2%
Net stable funding ratio on foreign currency	179%	154%
Total liquidity coverage ratio (LCR)	157%	128%
FX LCR	931%	743%
Loans in arrears (>90 days)	0.9%	1.5%
Full-time equiv. positions	997	1,012

* 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)

Other aspects of Landsbankinn's operations in 2017

- » According to Gallup surveys, Landsbankinn held a 37.9% market share on average in the retail market in 2017 and the Bank has held the largest share of the retail market for the past four consecutive years. Landsbankinn's current share of the retail market is a record high.
- » Market share in the corporate market has grown steadily in recent years and was 34.8% at year-end 2017.
- » The Bank continues to lead the market in listed securities. In 2017, Landsbankinn held the largest market share in the bond market on the Stock Exchange and the second largest share in equities.
- » In January, Landsbankinn's new website, Umræðan, was judged the best content and news site and the Bank's mobile bank, l.is, the best web app of 2016 by the panel of the Icelandic Web Awards.
- » Lilja Björk Einarsdóttir took up the post of CEO of Landsbankinn on 15 March 2017.
- » The AGM of Landsbankinn, held on 22 March 2017, approved a motion of the Board of Directors to pay an ISK 24.8 bn dividend for the operating year 2017. Dividends were paid in two instalments, ISK 13 bn in dividend for the operating year 2016, which is equivalent to 78% of that year's profit, and a special dividend to shareholders in the amount of ISK 11.8 bn. As a result, total dividends paid by the Bank in 2013-2017 amount to ISK 107 bn.
- » In March, the Centre of Corporate Governance renewed its recognition of Landsbankinn as a model of corporate governance for the period 2016-2017.
- » In May, the Board of Directors of Landsbankinn decided to construct housing for the Bank's operation at Austurhöfn in Reykjavík. Six architect teams submitted initial proposals for the design of a new building to house Landsbankinn at Austurhöfn in Reykjavík on 19 January. The Board of Directors and Executive Board are currently reviewing these proposals with the assistance of a three-person advisory council. The decision will be announced at the end of February.
- » On 22 June, Landsbankinn paid in full the outstanding amounts on bonds issued to Old Landsbanki Íslands, now LBI ehf., as a consideration for the assets and liabilities transferred from LBI to the Bank in October 2008. On the payback date, the outstanding amount of the debt was ISK 16.2 bn; upon issuance to LBI, the total amount of the bonds was ISK 350 bn, at the then current exchange rate.
- » S&P Global Ratings raised Landsbankinn's rating grade a notch in October, to BBB+/A-2 with a stable outlook.
- » In November, Landsbankinn implemented a new deposit and payment system in collaboration with the Icelandic Banks' Data Centre (RB) and Sopra Banking Software. Landsbankinn is the first Icelandic bank to take the system into use.
- » Landsbankinn was a founder member of IcelandSIF in November. The aim of IcelandSIF is to promote awareness and debate about the methods of sustainable and responsible investment. In the same month, Landsbankinn joined Nordic Financial CERT, a collaborative platform by Nordic financial undertakings that aims to strengthen cyber security and combat cybercrime.

Teleconference to present results

A teleconference to present the Bank's 2017 financial statement will be held for analysts at 10:00 (GMT+0), on Friday 16 February. The meeting will be held in English. Please register for participation by emailing ir@landsbankinn.is.

Landsbankinn's financial calendar

21 March 2018 – Annual General Meeting
3 May 2018 – Q1 2018 results
26 July 2018 – H1 2018 results
25 October 2018 – Q3 2018 results
7 February 2019 – Annual Financial Statements 2018