



# Landsbankinn's 2018 results

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News Release, 7 February 2019

## Financial results of Landsbankinn for 2018

- » Landsbankinn's after-tax profit in 2018 was ISK 19.3 bn.
- » Return on equity (ROE) was 8.2% in 2018, the same as in 2017.
- » The cost-income ratio decreased between years and was 45.5% in 2018.
- » Landsbankinn's credit portfolio grew by ISK 138.9 bn. The default ratio was 0.8% at year-end as compared to 0.9% at the end of 2017.
- » Landsbankinn's equity amounted to ISK 239.6 bn at year-end 2018 and its total capital ratio was 24.9% of risk-weighted assets.
- » A proposal will be made to the AGM to pay an ISK 9.9 bn dividend to shareholders for the year 2018.
- » Landsbankinn's annual report and risk report for 2018 are published alongside the annual financial statements.

The profit of Landsbankinn hf. in 2018 was ISK 19.3 bn after taxes, as compared with ISK 19.8 bn in 2017. After-tax ROE was 8.2% in 2018, the same as in 2017. Net interest income increased by ISK 4.5 bn between years, amounting to ISK 40.8 bn in 2018. Net fee and commission income amounted to ISK 8.2 bn, more or less unchanged from the previous year. Other operating income amounted to ISK 3.6 bn, a YoY decrease of 49%. Unfavourable conditions on securities markets are the main reason for the decrease. Positive value changes in 2018 amounted to ISK 1.4 bn as compared with a positive value change of ISK 1.8 bn in 2017. The net interest margin on assets and liabilities was 2.7% compared to 2.5% the previous year.

Operating expenses were ISK 23.9 bn, up by 0.4% between years. Wages and related expenses amounted to ISK 14.6 bn as compared with ISK 14.1 bn the previous year, which is a 3.8% increase between years. Other operating expenses decreased by 4.5%.

Pre-tax profit in 2018 amounted to ISK 30 bn, as compared to ISK 29.7 bn in 2017. Imputed taxes, including a special financial management tax on wages, amount to ISK 11.4 bn in 2018 as compared with ISK 10.6 bn in 2017.

Landsbankinn's total assets increased by ISK 133.2 bn between years and amounted to ISK 1,326 bn at year-end 2018. Lending increased by 15.0% between years, or by just over ISK 138.9 bn. There was an increase in lending to

both retail and corporate customers. The default ratio continues to decline and stood at 0.8% at year-end 2018 as compared with 0.9% at year-end 2017.

At the end of 2018, deposits from customers amounted to ISK 693 bn as compared with ISK 605 bn at year-end 2017.

Landsbankinn's equity at year-end 2018 was ISK 239.6 bn, as compared with ISK 246.1 bn at year-end 2017. In 2018, Landsbankinn paid ISK 24.8 bn in dividend to shareholders. Landsbankinn's capital ratio at year-end 2018 was 24.9%, compared to 26.7% at year-end 2017. Landsbankinn shall maintain a minimum core capital of 20.5%, according to FME's total requirements.

The Board of Directors of Landsbankinn will propose to the AGM on 20 March 2019 that shareholders be paid a dividend amounting to ISK 0.42 per share for the year 2018, a total amount of ISK 9.9 bn. The dividend payment represents around 52% of the year's profit.

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

"Landsbankinn has strengthened its position in 2018 - increased market share, improved operating outcome and increased customer satisfaction and trust encourages us to do even better.

Successful introduction of new digital service solutions for customers have resulted in increased operating efficiency. The credit portfolio grew considerably, somewhat in excess of plans, yet in line with the Bank's strategy and its lending policy. Results from a focus on increasing operating efficiencies clearly manifested in unchanged total operating costs between years, despite contractual wage increases, as operating expenses other than wages decreased by 4.5%. The Bank's cost-income ratio fell to 45.5%. Return on equity (ROE) was 8.2% in 2018.

Landsbankinn places key emphasis on ensuring that services meet customer needs and that the Bank's operation is sound in both the short and long term. There are great opportunities in the current technological advances and changes to financial services; simultaneously, the Bank faces a significant challenge in meeting increased demands in this field.

We are grateful for the degree of trust and confidence our customers have in the Bank. Landsbankinn's market share has grown steadily and is now the largest among the country's banks, for the fifth consecutive year. The Bank's market share in retail banking is 38% and 34% in the corporate sector. Customer satisfaction scores higher than before, confidence in the Bank has increased and it is especially pleasing that surveys show that Landsbankinn's customers are more likely to recommend their bank than are the customers of other banks.

Product development, changes and innovation are a constant and necessary aspect of the Bank's growth and operation, and improved service to customers. The year 2018 was characterised by many exciting innovations in digital services and it can safely be said that the Bank's services have never changed as dramatically in as short a time before. The Bank's offering of new solutions builds on a solid foundation where robust technological capability, exceptional employees, a strong market share, varied service channels and emphasis on strengthening and maintaining personal business relationships are key."

### Key figures from the profit and loss account for Q4 2018

- » Landsbankinn's profit for Q4 of was ISK 3.9 bn, as compared with ISK 2.9 bn for the same period of 2017.
- » Return on equity increased considerably between periods and was 6.5% in Q4 as compared with 4.8% for the same period the previous year.
- » Value changes in the credit portfolio were negative by ISK 286 m in Q4 2018 as compared with negative value changes of ISK 282 m in Q4 2017.
- » Net interest income in the quarter amounted to ISK 11 bn as compared with ISK 9.2 bn in Q4 of 2017.
- » Net commission income was ISK 2.4 bn as compared with ISK 1.8 bn in Q4 of 2017.

### Key figures from the profit and loss account and balance sheet for 2018

#### Operations:

- » Landsbankinn's profit in 2018 amounted to ISK 19.3 bn, as compared to ISK 19.8 bn in 2017.
- » After-tax ROE was 8.2% in 2018, the same as in 2017.
- » Net interest income increased by ISK 4.5 bn between years. Interest income amounted to ISK 40.8 bn in 2018, as compared with ISK 36.3 bn in 2017.
- » The interest margin on assets and liabilities increased between years, was 2.7% in 2018 and 2.5% in 2017.
- » Net fee and commission income remained more or less unchanged between years at ISK 8.2 bn
- » Value changes were positive by ISK 1.4 bn in 2018 as compared with a positive change in the amount of ISK 1.8 bn in 2017.
- » Other operating income amounted to ISK 3.6 bn, as compared to ISK 7 bn in 2017. Unfavourable conditions on securities markets are the main reason for the decrease.
- » Wages and related expenses increase by 3.8% between years.
- » Operating expenses less wages and related expenses drop by 4.5%.
- » The cost-income ratio decreased between years. It was 45.5% in 2018, as compared to 46.1% in 2017.
- » The total number of full-time equivalent positions at Landsbankinn decreased by 78 in 2018, to 919 at year-end.
- » Taxes amounted to ISK 10.7 bn as compared to ISK 9.9 bn in 2017.

### Balance Sheet:

- » Landsbankinn's equity at year-end 2018 was ISK 239.6 bn, a decrease of ISK 6.4 bn as compared with equity at year-end 2017. In 2018, Landsbankinn paid ISK 24.8 bn in dividends to shareholders.
- » The Bank's total capital ratio at year-end 2018 was 24.9% as compared with 26.7% at the end of 2017. This is significantly in excess of the 20.5% capital requirement determined by the FME.
- » The Bank's total assets amounted to ISK 1,326 bn at year-end 2018, an increase of just over 11% from the previous year.
- » The credit portfolio grew by 15.0% between years, or by just over ISK 138.9 bn. Lending to corporates grew by ISK 81.9 bn, while loans to retail customers increased by ISK 57 bn.
- » Customer deposits, not counting financial undertakings, grew by 14.5% during the year, or by ISK 87.9 bn. Deposits from financial undertakings increased by ISK 2.5 bn in 2018.
- » The Bank's liquidity position is strong and well above regulatory limits. The Bank's liquidity coverage ratio (LCR) was 158% at year-end 2018.
- » In 2018, the item assets held for sale decreased by ISK 2.3 bn.
- » Total defaults by companies and households were down to 0.8% at the end of 2018, as compared with 0.9% at year-end 2017.

	2018	2017	4Q 2018	4Q 2017
	<i>Amounts in ISK m</i>			
After-tax profit	19,260	19,766	3,867	2,925
ROE after taxes	8.2%	8.2%	6.5%	4.8%
Interest margin on assets and liabilities*	2.7%	2.5%	2.8%	2.5%
Cost-income ratio**	45.5%	46.1%	47.3%	50.7%

	31.12.2018	31.12.2017
Total assets	1,326,041	1,192,870
Loans to customers	1,064,532	925,636
Customer deposits	693,043	605,158
Equity	239,610	246,057
Total capital ratio	24.9%	26.7%
Net stable funding ratio on foreign currency	166%	179%
Net LCR	158%	157%
Foreign currency LCR	534%	931%
Loans in arrears (>90 days)	0.8%	0.9%
Full-time equiv. positions	919	997

\* 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 2018

- » Landsbankinn's market share in the banking sector has increased steadily in recent years. According to Gallup surveys, Landsbankinn held a 37.8% market share on average in the retail market in 2018 and the Bank has held the largest market share of the Icelandic banks for the past five consecutive years. Landsbankinn's market share among corporates was 34%.
- » The business volume of Landsbankinn Asset Management grew in 2018 and at year-end, total assets under management with the Group amounted to ISK 438 billion, including pension savings. Landsbankinn held a 20% total share in a securities market where eight parties compete.
- » Landsbankinn's app was launched in February and was very well received. In 2018, Landsbankinn launched a total of 20 new digital service solutions.
- » In February, Landsbankinn signed an agreement to become a member of Capacent's Equality Indicator. The Equality Indicator is a strategy that promotes awareness about equality through in-depth analysis of the state of equality at companies or institutions. This analysis is used to plan remedial action and set goals to improve equality.
- » In February, Landsbankinn's Board of Directors decided to partner with Arkþing ehf. and C.F. Møller on the design and development of new facilities for the Bank at Austurhöfn in Reykjavík. Six teams of architects submitted draft proposals for the design of the building.
- » The Annual General Meeting (AGM) of Landsbankinn, held on 21 March 2018, agreed to pay dividends in the total amount of ISK 24.8 billion in 2018. Dividends were paid in two instalments, ISK 15,366 bn in dividend for the operating year 2017 and a special dividend to shareholders in the amount of ISK 9,456 bn. Landsbankinn has in total paid around ISK 132 billion in dividends for the years 2013-2018.
- » In April, the Centre of Corporate Governance renewed its recognition of Landsbankinn as a model of corporate governance for the period 2017-2018.
- » In May, the opening hours of 11 branches and outlets changed, and organisational changes were made to Landsbankinn's Hagatorg branch in Reykjavík.
- » In June, Landsbankinn received recognition for the best CSR report of 2018 from Festa, Excellence Iceland and the Iceland Chamber of Commerce. This was the first time this award was granted. The panel of judges found the report to show that the Bank's CSR strategy has been shaped with extensive input from employees and that CSR is an integral part of the Bank's operation.
- » In July, Landsbankinn introduced its new data protection policy and opened a customer data rights portal on its website, which allows customers to request access to their personal data the Bank processes.
- » In July 2018, S&P Global Ratings confirmed Landsbankinn's short and long-term credit rating (BBB+/A-2), maintaining a stable outlook.
- » In August, Landsbankinn Asset Management concluded a partnership agreement with international asset management firm LGT Capital Partners. Under the agreement, Landsbankinn's customers can invest in the varied investment funds of LGT.
- » In August, the Bank sold its inaugural Tier 2 issuance of EUR 100 million and the notes were admitted for trade on the Irish stock exchange on 6 September.
- » In August, Landsbankinn and the Nordic Investment Bank (NIB) signed a loan agreement whereby Landsbankinn borrows USD 75 million for a 7-year period, earmarked for the financing of small and medium-sized enterprises in Iceland and projects with an environmental component. This is the third such loan agreement between NIB and Landsbankinn.

- » Landsbankinn's card app was introduced in October 2018, the first app in Iceland that allows customers to use their mobiles to pay for goods and services in contactless card readers throughout the world, with no withdrawal limit. The app is developed by Visa and has already been in use in the US and other countries for some time.
- » In November, Landsbankinn sold a 9.2% holding in Eyrir Invest hf. in an open sale process. The sale price of the shareholding amounts to ISK 3.9 bn.
- » Landsbankinn decided in December to endorse UNEP FI's new Principles for Responsible Banking, intended to align the banking industry with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

### **Teleconference to present results**

A teleconference to present the Bank's 2018 financial statement will be held for analysts on Friday, 8 February, at 10 am local time. The meeting will be held in English. Please register for participation by emailing [ir@landsbankinn.is](mailto:ir@landsbankinn.is).

### **Landsbankinn's financial calendar**

20 March 2019 – Annual General Meeting

2 May 2019 - Q1 2019 results

25 July 2019 – H1 2019 results

24 October 2019 - Q3 2019 results

6 February 2020 – Annual Financial Statements 2019