



# Landsbankinn: Financial Results

January- June 2016

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11 August 2016

## News announcement on Landsbankinn's six-month results for 2016

# Landsbankinn reports profit of ISK 11.3 billion in first half of 2016

Landsbankinn's net profit for the first half of 2016 was ISK 11.3 billion, compared to a net profit of ISK 12.4 billion for the same period in 2015.

Net interest income amounted to ISK 17.6 billion, an increase of 9% between periods, while fees and commissions were ISK 3.9 billion, a YoY increase of 14.7%. Loan revaluations increased by ISK 0.4 billion over the same period of the previous year. Other operating income amounted to ISK 4.4 billion, compared to ISK 7.3 billion a year earlier, with the decline due primarily to lower profit on equities. ROE for the period was 8.6% compared to 10.4% during the same period of 2015.

Total operating income in H1 amounted to ISK 28.2 billion, compared to ISK 28.8 billion in H1 2015. Operating expenses increased by 1.6% YoY. Salaries rose in line with latest collective bargaining agreements while the other items of operating expenses decreased by 4.5% between periods.

Landsbankinn's total assets as of the end of June 2016 amounted to ISK 1,110 billion, compared to ISK 1,173 billion a year earlier; the bank's balance sheet has therefore decreased by just over 5% during the past year. At the bank's AGM in April this year, a motion was passed to pay shareholders a total dividend of ISK 28.5 billion. As of the end of June the bank's equity was ISK 247.3 billion.

**Landsbankinn's CEO Steinþór Pálsson:** "Landsbankinn's performance during the first half of this year has been very satisfactory, especially during the second quarter. The bank has been able to use its strong position to advance on most fronts: In retail banking, Landsbankinn now has a market share of 37.6%, according to a Gallup survey in June, the highest ever. Its share of the corporate market has also increased and the results of service surveys show that both individuals and corporates appreciate the bank's services. The scope of asset management services is increasing steadily and the bank is a leading trader on the stock exchange. We are extremely pleased at the growing number of households and companies who see it to their advantage to do business with Landsbankinn.

Both its operating performance in the first half of this year and its growing market share show that Landsbankinn is on the right track in implementing its strategy – although there is still work to be done."

## Highlights of Q2 2016 performance

- » Landsbankinn's net profit in Q2 2016 amounted to ISK 8 billion, as compared to ISK 6 billion in Q2 2015.
- » After-tax ROE rose to 12.4% in Q2 2016, compared to 10.1% for the same quarter in 2015.
- » Loan revaluations rose over the same period last year, amounting to ISK 2 billion in Q2 2016 compared to ISK 0.2 billion during the same quarter of 2015.
- » Net interest income rose YoY, amounting to ISK 10.1 billion in Q2 2016 compared to ISK 8.9 billion in Q2 2015.
- » Net fees and commissions also increased, totalling ISK 1.9 billion in Q2 2016 compared to ISK 1.8 billion in the same quarter of 2015, an increase of 9.2% due primarily to trading and asset management.
- » Other operating income decreased between periods, amounting to ISK 2.7 billion compared to ISK 3.2 billion in Q2 2015.

## Key income statement and balance sheet figures in H1 2016

### Income statement

- » Landsbankinn's net profit for the first six months of 2016 was ISK 11.3 billion, compared to ISK 12.4 billion during the same period of 2015.
- » After-tax ROE was 8.6%, compared to 10.4% for the same period in 2015.
- » Loan revaluations during the first six months of this year were positive by ISK 2.3 million.
- » Net interest income amounted to ISK 17.6 billion during the first six months of this year, while it was ISK 16.2 billion during this same period in 2015.
- » The net interest margin was 2.3% compared to 2.2% in H1 of the previous year, while fees and commissions were ISK 3.9 billion, a YoY increase of 14.7% as a result of trading and asset management.
- » Other operating income decreased considerably YoY, amounting to ISK 4.4 billion compared with ISK 7.3 billion in H1 last year, which is a drop of 40% as a result of lower profit on equities.
- » Salaries and related expenses amounted to ISK 7.3 billion, an increase of 6.3% between periods.
- » If salaries and related expenses are excluded operating expenses decrease by 4.5% YoY.
- » During the first six months of this year Landsbankinn's cost-income ratio was 47.3% compared to 44.8% in H1 of the previous year.
- » Full-time equivalent positions as of 30 June 2016 were 1,040, compared to 1,088 a year earlier.

### Balance sheet

- » At the end of June 2016 Landsbankinn's equity was ISK 247 billion, a decrease of 6.5% since the beginning of this year as a result of allocated dividends of ISK 28.5 billion to shareholders of the bank for the operating year 2015, payable in April 2016 and in September 2016. The bank's capital adequacy ratio (CAR) was 28.9% as of the end of June this year, increasing from 28.0% as of the end of June 2015. This is well above the 21.8% equity requirement set by the Icelandic Financial Supervisory Authority (FME).
- » Landsbankinn's total assets amounted to ISK 1,110 billion as of the end of June 2016.
- » Customer deposits were ISK 557 billion at the end of June 2016 as compared to ISK 559 billion at the beginning of this year.
- » New lending to customers during the first half of this year totalled ISK 113 billion; if instalments, revaluations and other aspects are taken into consideration total loans to customers increased by ISK 15.7 billion since the beginning of this year.
- » The bank's liquidity remains extremely high, both in foreign currency and in ISK, and well above regulatory requirements. Both total liquidity and FX liquidity exceed the Central Bank's benchmarks. At the end of June 2016 the bank's total liquidity ratio (LCR) was 123%.
- » The bank's foreign balance has decreased in 2016, as foreign-denominated assets now exceed liabilities in foreign currencies by ISK 6.5 billion, while the balance was positive by ISK 23.8 billion at year-end 2015.
- » Total corporate and household defaults were 1.7% as of the end of June 2016, compared to 1.8% at year-end 2015.

	1H 2016	1H 2015	Q2 2016	Q2 2015
				(ISKm)
After-tax profit	11,298	12,405	7,983	5,993
After-tax ROE	8.6%	10.4%	12.4%	10.1%
Adjusted ROE after taxes*	8.5%	10.6%	10.1%	11.3%
Net interest margin**	2.3%	2.2%	2.8%	2.4%
Cost-income ratio***	47.3%	44.8%	40.8%	41.7%

  

	30/06/2016	30/06/2015	31/12/2015	31/12/2014
Total assets	1,109,844	1,172,669	1,118,658	1,098,370
Loans to customers	827,241	761,290	811,549	718,355
Customer deposits	556,841	621,023	559,051	551,435
Equity	247,291	239,852	264,531	250,803
Capital adequacy ratio (CAR)	28.9%	28.0%	30.4%	29.5%
Funding ratio (NSFR FX)	145%	139%	136%	134%
Total liquidity cover ratio (LCR)	123%	119%	113%	131%
FX liquidity cover ratio	684%	377%	360%	614%
Foreign balance	6,458	19,446	23,795	20,320
Default ratio (over 90 days)	1.7%	2.3%	1.8%	2.3%
Full-time equiv. positions	1,040	1,088	1,063	1,126

\* Adjusted after-tax ROE = (After-tax profit – positive value adjustments after taxes – taxes on financial undertakings' total liabilities – after-tax profit on discontinued operations) / avg. equity position

\*\* Net interest margin = (Interest income / avg. gross assets) – (interest expenses / avg. gross liabilities)

\*\*\* Cost-income ratio = Total operating expenses / (Net income from operations – loan revaluations)

## Other aspects of Landsbankinn's operations in H1 2016

- » Landsbankinn had the highest market share among Icelandic banks operating in the retail market in H1 2016, at 37.6%, according to a Gallup survey in June. This is an increase of 1.3 percentage points QoQ, and of 1.5 percentage points since the beginning of this year. The bank's market share has never been higher.
- » Landsbankinn also increased its share of the corporate market this year according to Gallup, and now has around one-third of the market in terms of company numbers. Surveys also show increased satisfaction with Landsbankinn's service.
- » Despite stiff competition, Landsbankinn's Markets division continues to be the leading trader on NASDAQ Iceland. In a recent foreign currency auction by the Central Bank Landsbankinn served as an intermediary for over one-third of the entire transactions, in which seven financial undertakings acted as intermediaries.
- » A new Board of Directors was elected for Landsbankinn in April. Chairman of the Board is Helga Björk Eiríksdóttir and Vice-chairman is Magnús Pétursson.
- » In April, Landsbjörg, the Icelandic Association for Search and Rescue, signed an agreement with Landsbankinn providing for the bank to become one of the Association's primary sponsors. The agreement covers a three-year period.
- » In April, Landsbankinn added a tap issue to its floating rate notes in NOK and SEK; the new notes mature in June 2019. The notes series nominal value total NOK 500 million and SEK 350 million respectively.
- » The Centre of Corporate Governance renewed its recognition of Landsbankinn as a model of good corporate governance for 2015-2016.
- » The panel of the 2015 Icelandic Web Awards selected Landsbankinn's Online Banking as the best service site. This is the second year in a row that the bank's online banking has received this sought-after recognition.