



Landsbankinn: Financial Results

January – June 2017



27 July 2017

Press release accompanying the semi-annual financial statements of Landsbankinn for the year 2017

Landsbankinn reports a profit of ISK 12.7 bn in the first half of 2017

In the first six months of 2017, Landsbankinn's after-tax profit was ISK 12.7 bn compared to ISK 11.3 bn for the same period in 2016. Annualised return on equity was 10.6% compared to 8.6% in the same period in 2016. The cost-ratio decreased and is now 43%.

Net interest income amounted to ISK 18.2 bn, up 3.2% between periods. Net commission income amounted to ISK 4.4 bn, up 13.8% from the same period last year. Value adjustments decreased by ISK 1 bn between periods and the percentage of loans in arrears continues to decrease, was 1.1% in the first half of the year compared to 1.7% in the same period in 2016.

The Bank's operating income in the first half of the year amounted to ISK 29.3 bn compared to ISK 28.6 bn in the same period 2016, up 2.5% between periods. Other operating income amounted to ISK 5.4 bn compared to ISK 4.8 bn the same period last year, mainly due to positive fair value adjustments of unlisted equities.

The interest margin on assets and liabilities was 2.5% in the first half of 2017 compared to 2.3% for the same period last year.

The Bank's operating costs amounted to ISK 12 bn in the first half of 2017, down by 1.7% compared to the same period in 2016. Thereof, labour costs were ISK 7.1 bn, decreasing by 2.3% from the same period in 2016. Other operating costs amounted to ISK 4.9 bn, decreasing by 0.8% compared to the same period in 2016.

The cost-income ratio for the first six months of the year was 43.0%, down 4.3 percentage points compared to the same period last year. The reduction in the cost-income ratio is driven by positive financial markets and lower operating costs.

Landsbankinn's equity was ISK 238.9 bn as at 30 June and the equity ratio was 27.6%.

The CEO of Landsbankinn, Lilja Björk Einarsdóttir, commented:

Landsbankinn's performance in the first half of 2017 was good and demonstrates the Bank's stability and solid operations. Growth in operating income is both attributed to general increased economic activity and increased market share. Ongoing rationalisation measures resulted in lower operating costs.

I speak for all the staff at Landsbankinn when I say that it is pleasing to see increased customer satisfaction and that customer confidence in the Bank is growing. Another positive development is seeing the percentage of customers' loans in arrears continues to go down and the level is currently at 1.1% which is a major improvement compared to recent years.

An important milestone was reached when Landsbankinn fully repaid the outstanding balance of the bond that was issued to LBE, formerly Landsbanki Islands hf., in 2009. The early repayment of the bond demonstrates Landsbankinn's improved borrowing terms on international financial markets and we will see significant savings in financing costs. The impact will be fully felt in third quarter of 2017 and improved terms can increase the bank's competitiveness in providing foreign currency loans.

Highlights from the second quarter of 2017

Operations:

- » Landsbankinn's profits for Q2 2017 amounted to ISK 5.1 bn compared to ISK 8.0 bn in the same quarter in 2016.
- » After-tax ROE for the period was 8.6% compared to 12.4% for the same period in 2016.
- » Credit value adjustments were negative by ISK 478 m in Q2 2017, but were positive by ISK 2 bn in the same quarter in 2016.
- » The Bank's net interest income was ISK 10.2 bn compared to ISK 10.1 bn in Q2 2016.
- » Net commission income amounted to ISK 2.3 bn but were roughly ISK 1.9 bn in Q2 2016.
- » The interest margin on assets and liabilities was 2.9% compared to 2.8% in Q2 2016.
- » Salary and related expenses amounted to ISK 3.7 bn, up 2.7% between periods.
- » Operating costs excl. salary and related expenses increase by 1.4% compared to the same period last year.
- » The cost-income ratio for Q2 2017 was 43.6% compared to 40.8% the same time last year.
- » Full-time equivalent positions were 988 as at 30 June 2017, down from 1,040 the same time the previous year.

Balance sheet:

- » Landsbankinn's equity amounted to ISK 238.9 bn and has decreased by 5% since the beginning of the year.
- » The Total Capital Ratio as at 30 June 2017 was 27.6% but was 28.9% at the end of June 2016. This is well above the 22.1% minimum requirement of the Financial Supervisory Authority.
- » The Bank's total assets amounted to ISK 1,171 bn at the end of June 2017.
- » Customer deposits were ISK 628 bn at the end of June compared to ISK 589.7 bn at the end of 2016.
- » New lending to customers in the second quarter was roughly ISK 57 bn, but taking into consideration instalments, value adjustments and other factors, lending in total decreased by ISK 1.9 bn in the period.
- » The Bank's liquidity position remains strong, both in terms of foreign currency as well as Icelandic kronas and is well above the minimum requirements of regulatory authorities. At the end of June 2017, the Bank's total LCR was 183%.

| Amounts in ISKm | H1 2017 | H1 2016 | Q2 2017 | Q2 2016 |
|---|-----------|-----------|------------|------------|
| After-tax profit | 12,653 | 11,298 | 5,077 | 7,983 |
| After-tax ROE | 10.6% | 8.6% | 8.6% | 12.4% |
| Adjusted ROE after taxes* | 11.1% | 8.5% | 9.9% | 10.1% |
| Interest margin on assets and liabilities** | 2.5% | 2.3% | 2.9% | 2.8% |
| Cost-income ratio*** | 43.0% | 47.3% | 43.6% | 40.8% |
| | 30.6.2017 | 30.6.2016 | 31.12.2016 | 31.12.2015 |
| Total assets | 1,170,628 | 1,109,844 | 1,111,157 | 1,118,658 |
| Loans to customers | 870,483 | 827,241 | 853,417 | 811,549 |
| Customer deposits | 627,954 | 556,841 | 589,725 | 559,051 |
| Equity | 238,944 | 247,291 | 251,231 | 264,531 |
| Total Capital Ratio | 27.6% | 28.9% | 30.2% | 30.4% |
| NSFR FX | 125% | 123% | | |
| Fjármögnunarkerja erlendra mynta | 169% | 145% | 154% | 136% |
| Total LCR | 183% | 123% | 128% | 113% |
| LCR FX | 470% | 684% | 743% | 360% |
| Foreign currency balance | 1,535 | 6,458 | 3,480 | 23,795 |
| Loans in arrears (>90 days) | 1.1% | 1.7% | 1.5% | 1.8% |
| Full-time equiv. positions | 988 | 1,040 | 1,012 | 1,063 |

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

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

*** Cost-income ratio = Total operating costs/ (Net operating income - credit value adjustments).

Other aspects of the Bank's operations in the first half of 2017

- » Landsbankinn's market share in personal banking in the first half of 2017 was 38.8% according to Gallup's survey, but was 37.6% in the same period in 2016.
- » The Bank's market share in corporate banking is currently 35.3% on an annual basis according to Gallup's survey.
- » Landsbankinn's Markets division continues to lead the way in terms of turnover on the Icelandic Stock Exchange, both in stocks and bonds.
- » Gallup's survey shows increased customer satisfaction at Landsbankinn and that customers' confidence in the Bank is growing.
- » Lilja Björk Einarsdóttir, financial engineer, was appointed CEO of Landsbankinn in January.
- » Landsbankinn received the Icelandic Web Award for the best content and news site for the Bank's new website, Umræðan, and Landsbankinn's mobile website, l.is was chosen the best web application by the judging panel of Icelandic Web Awards for 2016.
- » The Bank's Annual General Meeting voted to pay dividend in 2017 in the amount of ISK 24.8 billion. The dividend consisted of a 13bn payment attributed to the 2016 results and a special dividend of 11.8 billion.
- » Landsbankinn has been certified compliant with ISO 27001:2013 for the next three years, an international standard for information security management. The Bank has been certified for ISO 27001 since 2007.
- » Landsbankinn accepted the highest bids for all of the Bank's property in area 2 in Vogabyggð in Reykjavík in May.
- » The Board of Landsbankinn decided in May to build facilities for the Bank's operations at Austurhöfn in Reykjavík. The Bank will utilise around 10,000 m² in the new building, which is approx. 60% of the total floor space. The rest, approx. 6,500 m², will be sold or let to retailers and utilised for other services.
- » Landsbankinn was the first of the Icelandic banks to settle with the Icelandic Competition Authority in June. The settlements includes measures to be taken by the Bank which are intended to stimulate banking competition in the retail market and banking services for small companies.
- » Landsbankinn fully repaid the outstanding balance of bonds issued by the old Landsbanki Íslands, now LBI ehf., relating to assets and debts that were transferred from LBI to the Bank in October 2008. The original amount of the bond was ISK 350 bn, including the amount of the conditional bond which was part of the agreement.
- » The Nordic Investment Bank and Landsbankinn signed a new loan agreement in June in the amount of USD 75 m, the equivalent of ISK 7.8 bn. Landsbankinn will use this amount to lend to SMEs and environmentally-friendly projects in Iceland.
- » Landsbankinn completed a bond issuance in Swedish kronas in June; 3-year bonds were issued in the total amount of SEK 1 bn. The bonds were considerably oversubscribed.