



**Landsbankinn:  
Financial Results**

January – June 2018

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News Release, 26 July 2018

# Financial results of Landsbankinn in H1 of 2018

In the first half of 2018, Landsbankinn's net after-tax profit was ISK 11.6 billion as compared with an ISK 12.7 billion profit for the same period in 2017. Return on Equity (ROE) for the period was 9.9% on an annualised basis as compared with 10.6% for H1 in 2017. Operating costs remained near as unchanged between H1 2018 and H1 2017.

Net interest income was ISK 19.5 billion, up by 7.2% between periods. Net fee and commission income amounted to ISK 3.9 billion, compared to ISK 4.4 billion during H1 of 2017. Value changes in the credit portfolio were positive by ISK 1.7 billion as compared with ISK 1.3 billion during the same period of 2017. The default ratio was 0.6% in H1 of 2018 as compared with 1.1% in H1 of 2017.

Total operating income in H1 2018 amounted to ISK 29.0 billion, compared to ISK 29.3 billion in H1 2017. Other operating income amounted to ISK 3.9 billion, compared to ISK 5.4 billion a year earlier, with the decline due primarily to adverse conditions on securities markets.

The interest margin on assets and liabilities was 2.7% in H1 of 2018, up from 2.5% in the same period of 2017.

The Bank's operating costs amounted to ISK 12.2 billion in H1 2018, which is a 0.9% increase from H1 2017. Labour cost accounts for ISK 7.5 billion of that figure as compared with ISK 7.1 billion for the same period in 2017, which is a 5.4% increase due mostly to contractual wage increases. Other operating expenses dropped by 5.7% as compared with H1 2017 and amounted to ISK 4.6 billion as compared with ISK 4.9 billion in H1 of 2017.

As of 30 June this year, Landsbankinn's equity amounted to ISK 232.1 billion and its capital adequacy ratio was 24.1%.

*Lilja Björk Einarsdóttir, CEO of Landsbankinn:*

“Landsbankinn’s performance in the first half of 2018 was good and the results confirm that the Bank’s operations are robust whether one looks to profit, lending or operating expenses.

The success of cost-efficiency measures implemented throughout the Bank’s operations can be seen in stable operating costs, despite considerable investment in the continued development of core systems, net security and digital solutions. Landsbankinn is placing increased emphasis on digital services and the solutions introduced recently by the Bank have all been very well received. More new digital service solutions will be introduced in the near future, as customers clearly wish to be able to tend to their banking business quickly and safely, any time and any place. Moving forward we will see significant changes to the framework of the financial system. Landsbankinn will participate fully in these developments and is well positioned to take advantage of the opportunities they bring.

Lending and deposits with Landsbankinn grew considerably between periods, reflecting stronger economic activity and the Bank’s increased market share, currently 37.9% of the retail market and 37.1% in the corporate market. Landsbankinn is strongly positioned to provide universal financial services to companies and the Bank’s asset management function has garnered good results, despite challenging conditions in equity markets recently.

International rating agency S&P Global Ratings recently confirmed the Bank’s rating grade at BBB+ with stable outlook. S&P’s announcement mentions various characteristics of the Icelandic financial market, both advantage differences on the credit market and impact from the small scale of the market. It is satisfying to see that Landsbankinn has managed to achieve good results despite various challenges and we will continue to do our utmost to provide customers with responsible and competitive financial services.”

## **Highlights of Q2 2018 performance**

### *Operations:*

- » Landsbankinn’s profit in Q2 2018 amounted to ISK 3.5 bn, as compared to ISK 5.1 bn in Q2 of 2017.
- » Return on equity (ROE) after taxes was 6.1% as compared to an ROE of 8.6% for the same period of 2017.
- » The Bank’s net interest income was ISK 9.8 bn, as compared with ISK 10.2 bn in the same quarter of 2017.
- » Value changes to lending were positive by ISK 703 m in Q2 2018 as compared to negative changes in the amount of ISK 478 m in Q2 of 2017.
- » Net fee and commission income was ISK 2.2 bn as compared with ISK 2.3 bn in Q2 of 2017.
- » The interest margin on assets and liabilities was 2.7% as compared with 2.9% in Q2 of 2017.
- » Wages and related expenses amounted to ISK 3.9 bn, an increase of 5.9% between periods.
- » Operating expenses less salaries and related expenses decreased by ISK 190 m in Q2 2018, or by 7.7% from the same period the previous year.
- » The cost-income ratio for Q2 of 2018 was 53.6%, as compared with 43.6% for the same time last year.
- » Full-time equivalent positions were 955 as at 30 June 2018, down from 988 the same time the previous year.

### Balance sheet:

- » At the end of June, Landsbankinn's equity was ISK 232.1 bn, a decrease of 5.7% since the beginning of this year.
- » The Bank's total capital ratio on 30 June 2018 was 24.1%, down from 27.6% at the end of June 2017. This is well in excess of the FME's minimum requirement of 21.4%.
- » Landsbankinn's total assets amounted to ISK 1,250 bn as of the end of June 2018.
- » Customer deposits amounted to ISK 655 bn at the end of June 2018 as compared to ISK 605.2 bn at the end of 2017.
- » New lending to customers in Q2 amounted to ISK 172 bn. Having regard for instalments, value changes and other factors, total lending increased by ISK 53 bn during the period.
- » The Bank's liquidity position is strong, both in foreign currency and Icelandic króna, and well above regulatory limits. The liquidity coverage ratio (LCR) was 164% at the end of June 2018.
- » Total defaults by companies and households were 0.6% at the end of June 2018, as compared with 0.9% at year-end 2017.

	1H 2018	1H 2017	Q2 2018	Q2 2017
				(ISKm)
After-tax profit	11,613	12,653	3,511	5,077
ROE after taxes	9.9%	10.6%	6.1%	8.6%
Adjusted ROE after taxes*	10.3%	11.1%	6.8%	9.9%
Interest margin on assets and liabilities**	2.7%	2.5%	2.7%	2.9%
Cost-income ratio***	44.5%	43.0%	53.6%	43.6%

	30.6.2018	30.6.2017	31.12.2017	31.12.2016
Total assets	1,249,853	1,170,628	1,192,870	1,111,157
Loans to customers	989,481	870,483	925,636	853,417
Customer deposits	654,689	627,954	605,158	589,725
Equity	232,113	238,944	246,057	251,231
Total capital ratio	24.1 %	27.6%	26.7%	30.2%
Net stable funding ratio on foreign currency	165%	169%	179%	154%
Aggregate liquidity coverage ratio	164%	183%	157%	128%
Foreign currency liquidity coverage ratio	743%	470%	931%	743%
Foreign currency balance	3,312	1,535	3,988	3,480
Loans in arrears (>90 days)	0.6%	1.1%	0.9%	1.5%
Full-time equiv. positions	955	988	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 income from operations – loan revaluations)

## Other aspects of Landsbankinn's operations in H1 2018

- » A Gallup poll measured Landsbankinn's market share in the retail market at 37.9% in H1 and 37.1% in the corporate market.
- » In February, Landsbankinn's Board of Directors decided to partner with Arkþing ehf. and C.F. Møller on the design and development of new housing for the Bank at Austurhöfn in Reykjavík.
- » In February, Landsbankinn entered into an agreement to participate in Capacent's Jafnréttisvísir project, the aim of which is to promote general awareness about equality issues.
- » The Annual General Meeting of Landsbankinn held on 21 March agreed to pay ISK 24.8 bn in dividend in 2018. The dividend is paid in two instalments, an ISK 15,366 m dividend for the operating year 2017 paid on 28 March of this year and a special dividend in the amount of ISK 9,456 m, payable to shareholders on 19 September 2018. As a result, total dividends paid by the Bank in 2013–2018 will amount to ISK 131.7 bn.
- » Landsbankinn issued a new app, the Landsbankinn App, in April. Customers can use the app to tend to banking business from their smart devices, anywhere and anytime.
- » Various new features were introduced in online banking and the Landsbankinn App in the first half of 2018, including electronic signatures of documents linked to vehicle loans and agreements, international transfers are now available and new customers can establish a business relationship with Landsbankinn via electronic means. In the coming weeks and months, Landsbankinn will introduce even more new digital service solutions.
- » 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, Landsbankinn managed the IPO of Heimavellir leigufélag, Iceland's largest lease company.
- » In June, new opening hours entered into effect for several Landsbankinn branches and changes were made to the Bank's back office operation.
- » In June, Landsbankinn received recognition for the best CSR report of 2018. The panel of judges found 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.

## Investor call in English

Landsbankinn will be hosting an investor call in English covering the main results of H1 2018 on Friday, 27 July, at 10 am local time. Please register participation by emailing [ir@landsbankinn.is](mailto:ir@landsbankinn.is).