



Landsbankinn's Results

January - June 2020



News Release, 30 July 2020

Financial results of Landsbankinn in H1 of 2020

- » Landsbankinn's profit in the second quarter of 2020 was ISK 341 million.
- » After-tax performance was negative by ISK 3.3 bn during the first half of 2020.
- » Landsbankinn allocated ISK 13.4 bn to the impairment fund in the first half of the year.
- » Operating costs decreased between years.
- » Landsbankinn has never granted as many loans to households as in the first part of the year 2020, and has significantly increased its market share with regard to residential mortgages.
- » Deposits grew by ISK 51 bn from the beginning of the year, representing a 7.2% increase.
- » Landsbankinn is in a strong position with regard to its equity and liquidity, well above regulatory limits.

Landsbankinn's after-tax performance was negative by ISK 3.3 billion during the first half of 2020, compared with a profit of ISK 11.1 billion during the same period in 2019. Loan impairment amounted to ISK 13.4 billion during the period, equal to about 1.1% of the bank's loan portfolio, compared with an impairment of ISK 2.4 billion in the same period last year. Return on equity (ROE) for the period was -2.7% on an annualised basis, compared with 9.1% during the same period of 2019.

In the first half of the year, net interest income amounted to ISK 18.9 billion, compared with ISK 20.5 billion in the same period of 2019, which is a decrease of 7% between periods. Net commission income amounted to ISK 3.6 billion, decreasing by 13% from the same period the previous year.

Loan impairment was negative by ISK 13.4 billion during the first half of the year, compared with ISK 2.4 billion during the same period in 2019. Assessment of expected credit losses (ECL) at the end of the first half of 2020 is based on the most recent economic forecast from Landsbankinn's Economic Research Department. The effects of the updated economic forecast explains the ISK 6.6 billion increase in expected credit losses during the first half of the year, and Landsbankinn Economic Research now considers it likely that there will be a 8.7% downswing in domestic production and 9.1% unemployment in the year 2020. Expected credit loss from loans in risk levels 1 and 2, i.e. loans that are not credit impaired, has increased significantly since the beginning of the year, by about ISK 9.6 billion. The expected credit loss plan is based among other things on a comprehensive assessment of the effects from COVID-19 on the Bank's loan portfolio, which was performed in the second quarter, and customers who account for 16% of the Bank's loans have availed themselves of the option to temporarily defer payments and interest.

The Bank's net interest margin for the first half of 2020 was 2.1%, while for the same period of 2019 it was 2.4%. The Bank's operating costs decreased by ISK 1.1 billion between periods and amounted to ISK 13.2 billion in the first half of the year 2020, compared with ISK 14.3 billion for the same period in 2019, which is a decrease of 8%. Of this, wage expenses amounted to ISK 7.6 billion, compared with ISK 7.4 billion for the same period last year. Other operating expenses were ISK 4.6 billion, compared with ISK 4.9 billion for the same period last year.

In H1 2020, the cost-income ratio was 54.1%, whereas for the same period in 2019 this was 40.4%.

Lending to private customers and companies increased by 5.1% since the beginning of the year, or by just over ISK 58 bn, whereof about ISK 30 bn were due to exchange rate changes. Landsbankinn has never granted as many loans to households as in the first part of the year 2020. In total, 3,963 individuals and families obtained residential mortgages from the Bank in the first half of the year, to the amount of ISK 36 billion. Deposits with Landsbankinn grew by ISK 51 billion from the beginning of the year, representing a 7.2% increase.

As of 30 June this year, Landsbankinn's equity was ISK 244.4 billion and its capital ratio was 24.9%.

Lilja Björk Einarsdóttir, CEO of Landsbankinn:

"The assessed credit loss that is entered as a contribution to the impairment fund is at center stage in the Bank's settlement for the first half of the year, and in accordance with the deteriorating economic outlook. The Bank's strong economic position constitutes a good resource in the uncertain times that loom ahead, even though profitability in this year is significantly lower than the Bank's long-term objectives.

In addition, the Bank's performance in the first half of the year was good, which is reflected among other things in the high market share, the great increase in residential mortgages, more customer satisfaction and international recognition.

Landsbankinn has endeavored to offer competitive interest rates and simple procedures with regard to residential mortgages. This policy has resulted in great demand for new residential mortgages, as well as refinancing of older loans, and many new customers have joined the ranks of the Bank's satisfied clients. The Bank's residential mortgage market share has increased substantially, and in July this year the number of residential mortgages granted has yet again surpassed the previous record and has never been higher. Surveys indicate great satisfaction with the Bank's services, and it is clear that the well-designed digital presentation of products and services has been met with approval from customers.

In the second quarter, as in the first, the Bank allocated significant amounts to the impairment fund in order to respond to possible setbacks due to the pandemic. The economic outlook worsened considerably between end of March and end of June, which had an effect on the managers' assessments and actions taken to address expected credit loss. The Bank's forecast regarding economic growth was lowered significantly, i.e. from an economic growth of 2% to a downswing of 8.7%. It is likely that there will be more unemployment and we now assume that the unemployment level will be 9.1% instead of 4%. Following assessment from the Bank's managers the Bank now allocates ISK 8.2 billion to the impairment fund in addition to the ISK 5.2 impairment during the first quarter. This impairment is five to sixfold that which may be expected under normal conditions, and reflects the high level of uncertainty regarding the effects of the pandemic.

The Bank's operations yielded a profit in the second quarter, operations resulted in a positive rate of return, and the cost-income ratio was only 42.7%.

Landsbankinn is run in a reliable manner and, as the largest bank in the country, it is important that it is able to provide support for the economy, individuals and families. As ever, we do our utmost to provide excellent service, to realistically assess the altered economic situation and prepare for the continued uncertain times."

Principal items from the operations of the second quarter (Q2) of 2020

Operations:

- » Landsbankinn's profit in Q2 of 2020 was ISK 341 million, compared to a profit of ISK 4.3 bn for the same quarter of 2019.
- » Return on equity (ROE) after taxes was 0.6%, compared to an ROE of 7.1% for the same period of 2019.
- » Net interest income was ISK 9.5 bn, compared to ISK 10.2 bn in same quarter of 2019.
- » Value changes to loans were negative by ISK 8.2 bn in Q2 2020, compared with negative changes of ISK 1.4 bn in the same quarter of 2019. Impairment of loans in Q2 is equivalent to around 0.7% of the Bank's credit portfolio.
- » Net commission income amounted to ISK 1.7 bn, compared to ISK 2.1 in Q2 of 2019.
- » The net interest spread was 2.1%, compared to 2.3% in Q2 2019.
- » Salaries and related expenses amounted to ISK 3.8 bn, compared with ISK 3.7 bn in Q2 2019.
- » Other operating expenses decreased by 5.7%, compared with the previous year.
- » In Q2 2020, the cost-income ratio was 42.7%, whereas for the same period in 2019 it was 42.3%.
- » Full-time equivalent positions at Landsbankinn were 872 on 30 June 2020, down from 903 at the same time the previous year.

Balance sheet:

- » Landsbankinn's equity amounted to ISK 244.4 bn at the end of June, a decrease of 1.3% since the beginning of the year.
- » The total capital ratio on 30 June 2020 was 24.9%, as compared to 23.7% at the end of June 2019. This is well above the 18.8% minimum requirement of the Financial Supervisory Authority of the Central Bank of Iceland.
- » The Bank's total assets amounted to ISK 1,501 bn at the end of June 2020.
- » Customer deposits amounted to ISK 758.8 bn at the end of June 2020, compared with ISK 707.8 bn at year-end 2019.
- » Lending increased by 5.1% in the first half of the year, i.e. by ISK 58 bn. Lending to corporations grew by ISK 22 bn, while loans to individuals increased by ISK 36 bn.
- » The Bank closely monitors and manages its overall liquidity risk, in both foreign currencies and ISK. At the end of June 2020, Landsbankinn's liquidity coverage ratio (LCR) was 191%
- » Total defaults by companies and households were 0.8% at the end of June 2020, the same as at year-end 2019.

	H1 2020	H1 2019	Q2 2020	Q2 2019
	Amounts in ISK millions			
After-tax profit (loss)	(3,287)	11,113	341	4,329
ROE after taxes	-2.7%	9.1%	0.6%	7.1%
Net interest spread on assets and liabilities*	2.1%	2.4%	2.1%	2.3%
Cost-income ratio **	54.1%	40.4%	42.7%	42.3%

	30.6.2020	30.6.2019	31.12.2019	31.12.2018
Total assets	1,501,110	1,402,835	1,426,328	1,326,041
Loans to customers	1,198,210	1,130,915	1,140,184	1,064,532
Customer deposits	758,790	697,898	707,813	693,043
Equity	244,447	240,612	247,734	239,610
Total equity ratio	24.9%	23.7%	25.8%	24.9%
Net stable funding ratio for foreign currency	121%	164%	143%	166%
Total LCR	191%	174%	161%	158%
Foreign currency LCR	476%	555%	769%	534%
Loans in arrears (>90 days)	0.8%	0.9%	0.8%	0.8%
Full-time equiv. positions	872	903	893	919

* Net interest spread = (Interest income/average total asset position) – (interest expense/average total liabilities).

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

Other aspects of the Bank's operations in the first half of the year 2020

- » In January it was revealed that Landsbankinn had topped the Icelandic Performance Satisfaction Index for banking customers.
- » In a Gallup survey, Landsbankinn's market share in the individuals' market was 37.5% in the first half of the year. The Bank has held the largest market share in the individuals' market since the year 2014. In the corporate market, the Bank's market share was 36.2%, according to the Gallup survey. Landsbankinn's share in corporate lending is over 40%.
- » Various innovations to the Landsbankinn app and online banking were introduced in the first half of the year. The application process for resources to address the credit problems for individuals was made electronic, and companies were enabled to sign about 65 types of documents electronically. Companies that did business with the Bank were also given the option to order debit cards and create new bank accounts in the Corporate online bank, which are operations that Landsbankinn was the first to offer on a self-serve basis.
- » This March the Bank introduced Aukalán, a short-term loan option that can be applied for at Landsbankinn in a quick and simple manner. Customers will immediately be able to see the amount of credit available to them and the terms that apply. The loans are immediately transferred into a bank account or credit card, and customers can also use the Aukalán option to pay off overdrafts on more advantageous terms. No borrowing charge is collected for the Aukalán self-serve option.
- » The use of digital solutions is extensive and on the rise. About 92% of customers have completed the electronic due diligence assessment, about 94% alter their card limits electronically, about 85% of customers complete an electronic credit assessment for residential mortgages and 67% of individuals initiate new transactions in an electronic manner.

- » In February the Municipal Loan Fund finalised a private placement of new green bonds, the sale of which was supervised by the Capital Markets of Landsbankinn.
- » After it became clear that the proliferation of COVID-19 would have serious effects to the economy, Landsbankinn presented its customers with various solutions and resources. For instance, individuals were offered to defer payment of residential mortgages by up to six months. Companies were also offered time limits of up to six months for payments. The application process for these resources has been electronic from the beginning.
- » Due to the more restrictions on gathering and in order to fight the spread of COVID-19, the Bank's branches were closed as of 24 March, except for cases of great urgency where no other solution was viable, i.e. through self-service or by contacting the Customer Service Centre. These changes were met with patience and understanding from customers. Branches were opened again for business at the beginning of May.
- » While closed, our staff continued to provide service, respond to inquiries and give advice over the phone and by email. Customers who were unaccustomed with the use of digital service were especially encouraged to contact the Bank. Various services, particularly concerning companies, that previously required a visit to a branch, were made electronic.
- » Before the COVID-19 epidemic hit, the Board of Governors of Landsbankinn had planned to present a proposal in the annual meeting that the Bank would pay dividends to shareholders to the amount of ISK 9.5 billion for the fiscal year 2019. In light of the economic uncertainty, and in accordance with the recommendations from the Central Bank of Iceland, the Board of Governors decided against this and proposed in the annual meeting, held on 22 April, that no dividends would be paid. That proposal was approved.
- » On 24 April the international credit rating company S&P Global Ratings announced a lowering of Landsbankinn's credit rating with regard to long-term commitments. The credit rating was lowered by one notch, and thus the Bank's credit rating is BBB/A-2 with stable outlook.
- » In May, Landsbankinn obtained a better score than ever before in a new ESG risk rating from Sustainalytics, which went down from 17.5 to 13.5 on a scale of 100. Landsbankinn thereby ranked second among 382 banks which the company had assessed in Europe. Sustainalytics considers Landsbankinn at low risk of experiencing material financial impacts from ESG factors.
- » In May Landsbankinn and the Central Bank of Iceland signed an agreement regarding supplemental and support loans that will be available to companies that have suffered significant loss of income due to the COVID-19 pandemic, subject to specific conditions. In early July the Bank opened for applications for supplemental loans and support loans.
- » In mid-July it was announced that the international financial magazine Euromoney had chosen Landsbankinn as the best bank in Iceland in 2020, the second year in a row that the Bank receives this recognition.

Landsbankinn will be hosting an investor call in English covering the main results of H1 2020 on Friday, 31 July, at 10 am local time. Please register participation by emailing ir@landsbankinn.is.