# Landsbankinn's Results

## January- March 2020

## News Release, 7 May 2020

# Financial results of Landsbankinn for the first three months of 2020

In the first three months of 2020, Landsbankinn's after-tax results were negative by ISK 3.6 billion, compared with an ISK 6.8 billion profit for the same period in 2019. Loan impairment amounted to ISK 5.2 billion in the period, compared with impairment of ISK 1 billion in the same period last year. Return on equity (ROE) for the period was -5.9% on an annualised basis, compared with 11.2% during the same period of 2019.

Net interest income amounted to ISK 9.4 billion, compared with ISK 10.2 billion in the same period of 2019, which is an 8% decrease. Net commission income amounted to ISK 2.0 billion, decreasing by 5.6% from the same period the previous year.

Impairment of loans in Q1 is equivalent to around 0.4% of the Bank's credit portfolio. At the end of March 2020, the default rate was 0.7%, the same as at the end of Q1 2019.

The Bank's operating income in the first three months of 2020 was ISK 3.4 billion, compared with ISK 15.0 billion for the same period the previous year. Other operating income was negative by ISK 8 billion, compared with a profit of ISK 2.7 billion during the same period of 2019.

The interest margin on assets and liabilities was 2.2% in the first three months of 2020, compared with 2.5% in the same period of the previous year.

The Bank's operating cost decreased by ISK 488 million between periods and was ISK 6.7 billion in the first three months of the year, compared with ISK 7.2 billion for the same period in 2019, which is a decrease of 6.8%. Of this, wage expenses amounted to ISK 3.8 billion, compared with ISK 3.7 billion for the same period in 2019. Other operating expenses were ISK 2.4 billion, compared with ISK 2.5 billion for the same period last year.

The cost-income ratio for the first three months of the year was 72.6%, compared with 38.7% for the same time last year.

Lending to private customers and companies increased by 4.4% since the beginning of the year, or by just over ISK 50 billion, thereof ISK 33 billion due to exchange rate changes. Deposits with Landsbankinn grew by ISK 47 billion from the beginning of the year, representing a 6.7% increase.

As at 31 March this year, Landsbankinn's equity amounted to ISK 244.1 billion and its capital adequacy ratio was 24.8%. Landsbankinn's Annual General Meeting, held on 22 April 2020, approved the motion of the Board of Directors to refrain from paying a dividend for the operating year 2019 in light of economic uncertainty caused by COVID-19 and in line with directions from the Central Bank of Iceland. The Bank's dividend policy is unchanged. It provides that Landsbankinn shall aim to pay the lion's share of profit in dividend to shareholders. Since 2013, the Bank has paid ISK 142 billion in dividend.

*Lilja Björk Einarsdóttir, CEO of Landsbankinn:*

"The Bank's results and radical changes from Q1 2019 clearly reflect the impact of COVID-19 on the country's economy.

Landsbankinn was quick to respond to the challenges posed by COVID-19 and has offered customers various solutions to tackle temporary payment difficulties. To date, around 1,237 individuals and families have applied to postpone mortgage payments for six months, and these loans represent 7% of the Bank's loans to retail customers. More than 600 companies have applied for a payment holiday on loans that account for 8% of the Bank's corporate credit portfolio. Emphasis was placed on swift processing of customers' payment holiday applications and other solutions, through among other things digitalisation of the entire application process.

Our customers have also showed great willingness to take advantage of new solutions offered by the Bank after tighter restrictions on gatherings led to severely limited access to its branches and outlets. In April, ten times as many customers contacted the Bank through the online chat function than the same time last year. As of today, we are increasing branch services again. We envision that many of the new solutions, such as specialist appointments, will remain part of the Bank's services as customers appreciate having the option to make appointments with the Bank's experts to receive appropriate financial advice at a time of their choosing.

Loan impairment amounted to ISK 5.2 billion, the result of the conditions caused by the COVID-19 pandemic. Impairment is assessed in line with international accounting standards and directions from the European Banking Authority and the Central Bank of Iceland. This precautionary entry, compounded by volatility in equities markets, is the main reason that the Bank recognises a loss of ISK 3.6 billion in Q1 2020, compared with a profit of ISK 6.8 billion in Q1 2019. Lending to the travel sector amounts to ISK 95.7 billion, or 8.7% of the Bank's total credit portfolio, and has decreased by just over ISK 0.5 billion since year-end 2019.

The final impact of the pandemic cannot be determined. It must be considered likely that lower customer income and increased indebtedness will negatively affect their credit ratings, which leads to further loan impairment. Landsbankinn is well placed to face these challenges. The Bank's equity amounts to over ISK 244 billion, its capital and liquidity positions are strong and the success of a EUR 300 million bond issuance in February reflects confidence in the Bank on international financial markets.

The Bank's operation is otherwise stable and in line with current objectives. Satisfaction with services and trust in the Bank grows and Gallup's surveys in Q1 show that its market share in the retail market has reached 38.0%, a historic high. Deposits have increased and favourable interest rates offered by the Bank have led to increased demand for new housing loans, beyond expectations.

Despite the unexpected economic setback and negative results in Q1, the Bank's team is raring to go and as ever focused on providing customers with reliable, quality service."

### Key figures from the profit and loss account for Q1 2020

*Operations:*

- Landsbankinn›s loss for Q1 of 2020 was ISK 3.6 bn, compared with an ISK 6.8 bn profit for the same quarter of 2019.
- Return on equity (ROE) after taxes was -5.9%, compared to an ROE of 11.2% for the same period of 2019.
- Net interest income was ISK 9.4 bn, compared to ISK 10.2 bn in same quarter of 2019.
- Value changes to loans were negative by ISK 5.2 bn on Q1 2020, compared with negative changes of ISK 994 m in the same quarter of 2019. Loan impairment in Q1 is equivalent to around 0.4% of the Bank's credit portfolio.

- Net commission income was ISK 1.9 bn, compared with ISK 2.1 bn in Q1 of 2019.
- The interest margin on assets and liabilities was 2.2%, compared with 2.5% in Q1 of 2019.
- Salaries and related expenses amounted to ISK 3.8 bn, compared with ISK 3.7 bn in Q1 2019.
- Other operating expenses decreased by 3.6%, compared with the previous year.
- The cost-income ratio for Q1 of 2020 was 72.6%, compared with 38.7% for the same time last year.
- Full-time equivalent positions at Landsbankinn were 886 as at 31 March 2020, down from 922 the same time the previous year.

*Balance sheet:*

- Landsbankinn›s equity amounted to ISK 244.1 bn at the end of March, decreasing by 1.5% since the beginning of the year. The Annual General Meeting of the Bank, held on 22 April 2020, approved the motion of the Board of Directors that no dividend be paid for the accounting year 2019 in light of the economic uncertainty linked to COVID-19 and in line with directions from the Central Bank of Iceland. The Board of Directors had previously stated its intent to propose that the AGM approve a dividend of ISK 0.40 per share, to be paid to shareholders for the operating year 2019 in two equal payments in 2020. The total dividend would be ISK 9,450 m, corresponding to 52% of the consolidated profit in 2019.
- The Bank's total capital ratio as at 31 March 2020 was 24.8%, compared with 23.8% at the end of March 2019. This is well above the 18.8% minimum requirement of the Financial Supervisory Authority of the Central Bank of Iceland.
- Landsbankinn's total assets amounted to ISK 1.523 bn as at the end of March 2020.
- Customer deposits were ISK 755.1 bn at the end of March 2020, compared with ISK 707.8 bn at the end of 2019.
- Lending to customers increased by 4.4% in the first three months of the year, or by ISK 50.4 bn. Lending to corporates grew by ISK 42 bn, while loans to retail customers increased by ISK 8 bn.
- On 19 February 2020, the Bank accepted offers in the amount of EUR 300 million after having made a tender offer to the holders of the Bank's EUR 500 million 1.625% unsecured notes due in March 2021.
- On 20 February 2020, the Bank concluded issuance of new 4.25-year EUR 300 million senior unsecured bonds maturing in May 2024 with a fixed 0.50% coupon. The bonds were sold at terms equivalent to an 83 basis points spread above mid-swap market rates. The tender offer was subject, inter alia, to the outcome of the Bank's new bond issuance.
- The Bank closely monitors and manages its overall liquidity risk, in both FX and ISK. The Bank's liquidity coverage ratio (LCR) was 196% at the end of March 2020.
- Total defaults by companies and households were 0.7% at the end of March 2020, as compared with 0.8% at year-end 2019.

| | Q1 2020 | Q1 2019 | 2019 | 2018 |
|---|---|---|---|---|
| | | | | Amounts in ISKm |
| After-tax profit (loss) | (3,628) | 6,784 | 18,235 | 19,260 |
| ROE after taxes | -5.9% | 11.2% | 7.5% | 8.2% |
| Interest spread on assets and liabilities* | 2.2% | 2.5% | 2.4% | 2.7% |
| Cost-income ratio** | 72.6% | 38.7% | 42.6% | 45.5% |

| | 31.3.2020 | 31.3.2019 | 31.12.2019 | 31.12.2018 |
|---|---|---|---|---|
| Total assets | 1,523,188 | 1,379,298 | 1,426,328 | 1,326,041 |
| Loans to customers | 1,190,536 | 1,095,379 | 1,140,184 | 1,064,532 |
| Customer deposits | 755,160 | 694,820 | 707,813 | 693,043 |
| Equity | 244,106 | 246,206 | 247,734 | 239,610 |
| Total capital ratio | 24.8% | 23.8% | 25.8% | 24.9% |
| Net stable funding ratio on foreign currency | 127% | 165% | 143% | 166% |
| Total LCR | 196% | 243% | 161% | 158% |
| Foreign currency LCR | 489% | 434% | 769% | 534% |
| Loans in arrears (>90 days) | 0.7% | 0.7% | 0.8% | 0.8% |
| Full-time equiv. positions | 886 | 919 | 893 | 919 |

* Net interest margin = (Interest income/average total asset position) – (interest expense/average total liabilities).
** Cost ratio = Total operating expenses/(Net income from operations – loan revaluations).