Q1 2020 Results

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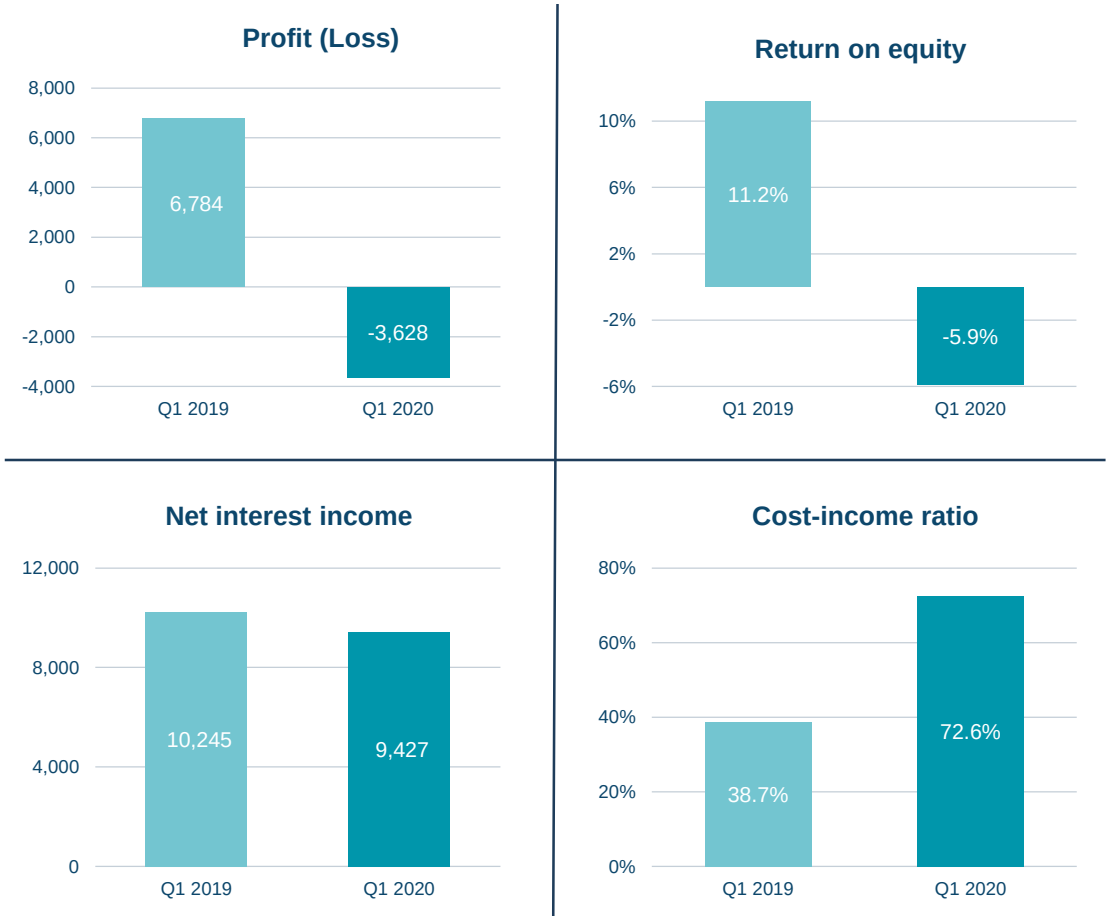
Highlights – Income statement Q1 2020

Highlights of Q1 2020

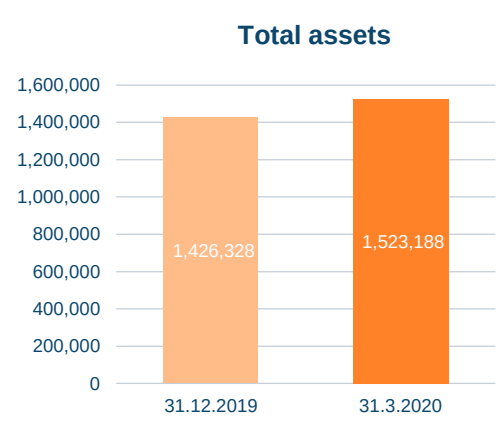
- The Bank's after-tax losses in Q1 of 2020 amounted to ISK 3.6 bn, as compared with a profit of ISK 6.8 bn for the same period of 2019.
- The Bank's net interest income was ISK 9.4 bn, as compared with ISK 10.2 bn in Q1 2019.
- Loan impairment was ISK 5.2 bn, as compared with ISK 1.0 bn in Q1 2019. Increased loan impairment is the effect of the enormous uncertainty the COVID-19 pandemic causes to the Bank's credit portfolio.
- Net commission income for the period amounted to ISK 1.9 bn as compared with ISK 2.1 bn during the same period the previous year.
- Operating cost was ISK 6.7 bn, as compared with ISK 7.2 bn in Q1 2019.
- Return on equity (ROE) after taxes was -5.9% in Q1 2020 as compared with an ROE of 11.2% for the same period in 2019.
- The cost-income ratio during the first quarter of the year was 72.6%, as compared with 38.7% for the same time last year.

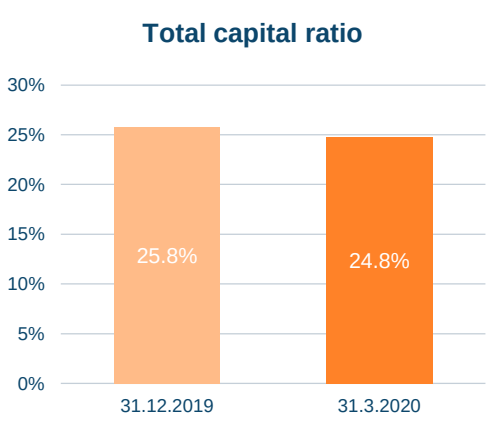


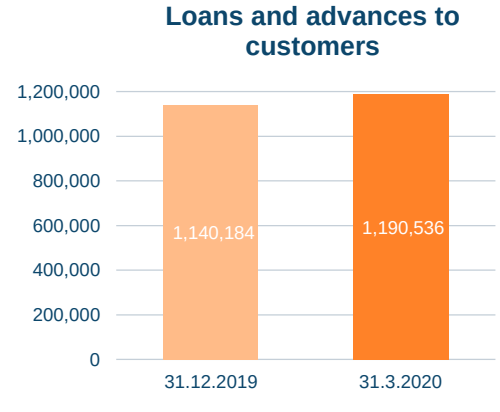
Amounts in ISKm

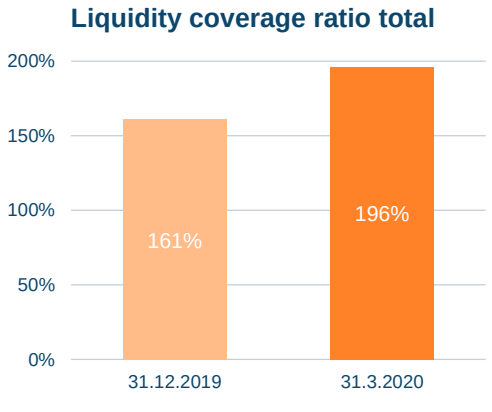
Highlights – Balance sheet

- Total assets amounted to ISK 1,523 bn at the end of March 2020.
- Lending increased by ISK 51 bn from the beginning of the year and the increase is largely attributable to revaluations, or ISK 33 bn. Lending to corporates increased by ISK 8 bn and lending to households by ISK 9 bn.
- Landsbankinn's equity was ISK 244.1 bn at the end of March 2020, down from ISK 247.7 bn at the beginning of this year.
- The total capital ratio is now 24.9%, down from 25.8% at year-end 2019, and well above FSA Iceland's requirement of 18.8%.
- The Bank's AGM, held on 22 April 2020, approved the motion of the Board of Directors to refrain from paying a dividend to shareholders for the operating year 2019. This motion was in response to the economic uncertainty linked to the COVID-19 outbreak and in line with directions from the Central Bank of Iceland.
- The Bank's liquidity coverage ratio (LCR) was 196% at the end of March 2020 as compared with 161% at year-end 2019 and well above regulatory requirements. Action taken by the Central Bank had a positive affect on Landsbankinn's liquidity ratios, to the tune of 18 percentage points for total LCR and 15 percentage points for ISK LCR.



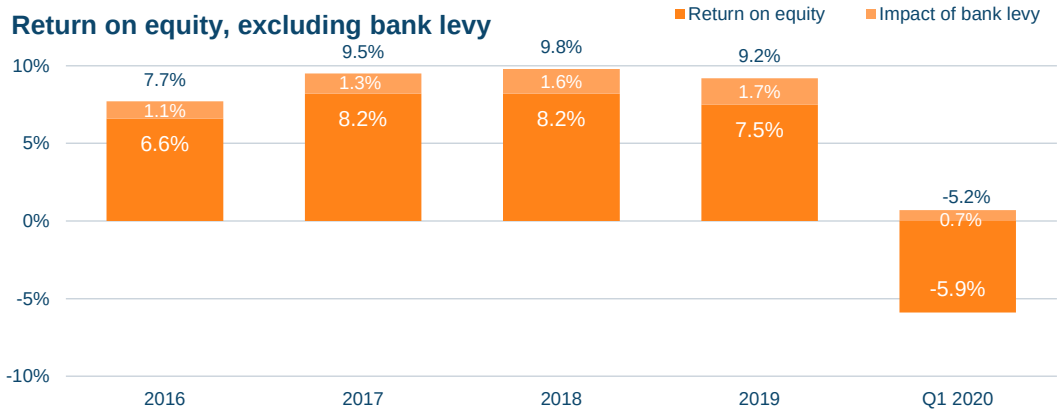


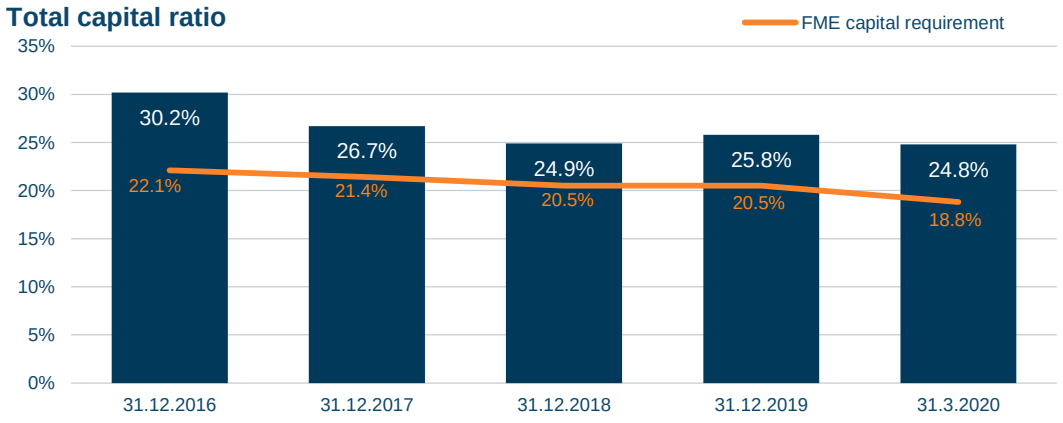


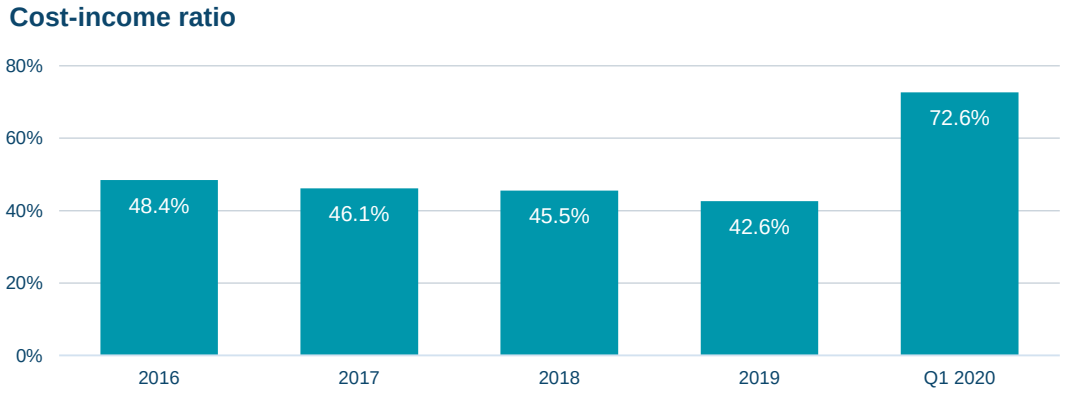


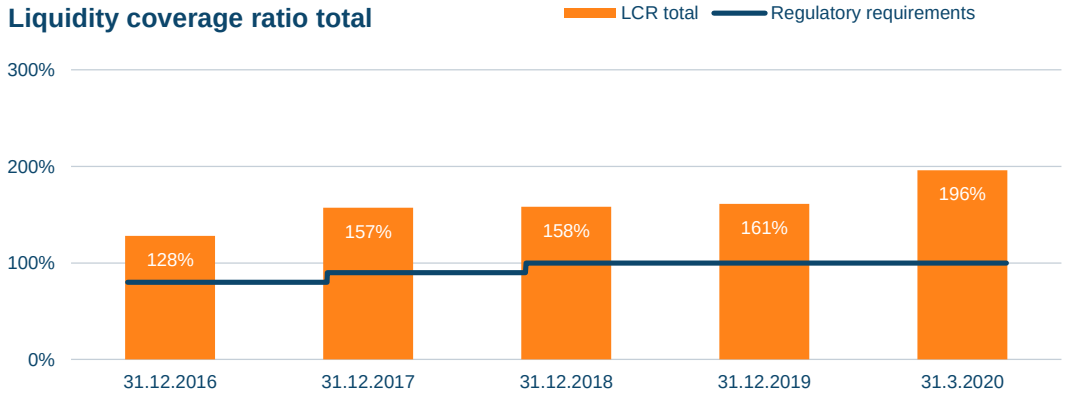
Amounts in ISKm

Development of KPIs









Impact of COVID-19

Activities

There has been a strong focus on assisting customers to utilise digital solutions and services. The Bank's website published detailed information on available solutions and assistance in three languages. The number of employees dedicated to answering phones, online chat and email was increased. Numerous forms to apply for services were digitalised within a short timeframe to make up for reduced access to branch services.

Once restrictions on gatherings had been tightened, branches were closed to all but urgent matters. The majority of employees subsequently worked from home.

Even greater effort was put into dialling up digital services even further and several new solutions were introduced. Landsbankinn was the first bank to offer customers an online application process to defer mortgage payments.

A high degree of emphasis was placed on getting information out to customers, both individuals and companies, and to provide professional financial advice.

The Bank's most significant step was offering a payment holiday, deferral of instalments and interest payments on loans. The Bank was party to an agreement to defer payments on loans to companies for 6 months. In addition, the Bank offered retail customers general deferral of instalments and interest payments on housing loans, also for 6 months.

Income

Volatility in international equity markets was high. The fair value of financial assets decreased by ISK 2.6 billion in Q1.

The impact of COVID-19 on the Bank's commission income was negligible in Q1. The impact is expected to be greater in Q2.

Impairment

Value changes of loans to customers were negative by ISK 5.2 bn in Q1. Increased loan impairment is the effect of the great uncertainty the COVID-19 pandemic causes to the Bank's credit portfolio. Assessment of expected credit losses (ECL) at the end of Q1 2020 is based on economic forecasts from Landsbankinn Economic Research prepared at the outset of the pandemic in Iceland.

What the final impact of the COVID-19 pandemic on the Bank's credit portfolio will be is uncertain, yet it must be considered likely that lower income and/or increased indebtedness will continue to negatively affect credit ratings and contribute to further loan impairment.

Due to the prevailing uncertainty, the Bank cannot make a decisive assessment of specific provision at an individual level for the Bank's entire loan portfolio and has instead made a collective executive assessment of the most vulnerable segments of its portfolio and recognised a general provision of ISK 1,752 million. The need for individual and collective provisions due to loan impairment caused by COVID-19 will be assessed in more detail in Q2.

Impact of COVID-19

Liquid assets and funding

Landsbankinn's liquidity position is strong at the end of Q1 and action taken by the Central Bank, pertaining to reserve requirements, had a positive affect on the Bank's liquidity ratios, to the tune of 18 percentage points for total LCR and 15 percentage points for ISK LCR

The largest part of the Bank's funding is in the form of customer deposits which have increased by ISK 47 bn since year-end 2019.

The Bank issued bonds under its EMTN programme in February alongside buy-backs of previously issued bonds, and has limited refinancing needs for the remainder of the year. The Bank will continue to evaluate possible opportunities to optimise its capital structure.

Equity

The total capital ratio is now 24.8%, down from 25.8% at year-end 2019, and well above the regulatory requirement of 18.8%.

In response to COVID-19, the Financial Stability Committee of the Central Bank of Iceland decided to abolish the 2% domestic countercyclical capital buffer requirement.

Landsbankinn's AGM approved the motion of the Board of Directors to refrain from paying a dividend for the operating year 2019 in light of economic uncertainty and in line with directions from the Central Bank of Iceland.

Miscellaneous

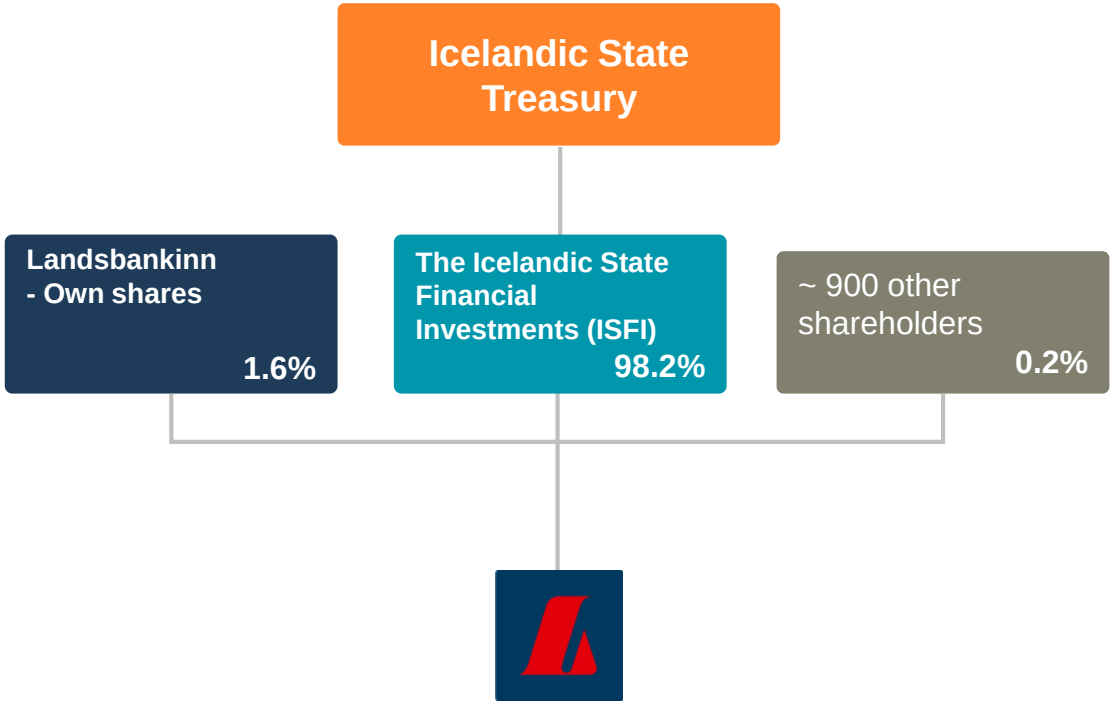
International rating agency S&P Global Ratings lowered the Bank's long-term credit rating by one notch. The Bank's current credit rating is BBB/A-2 with stable outlook.

Ownership

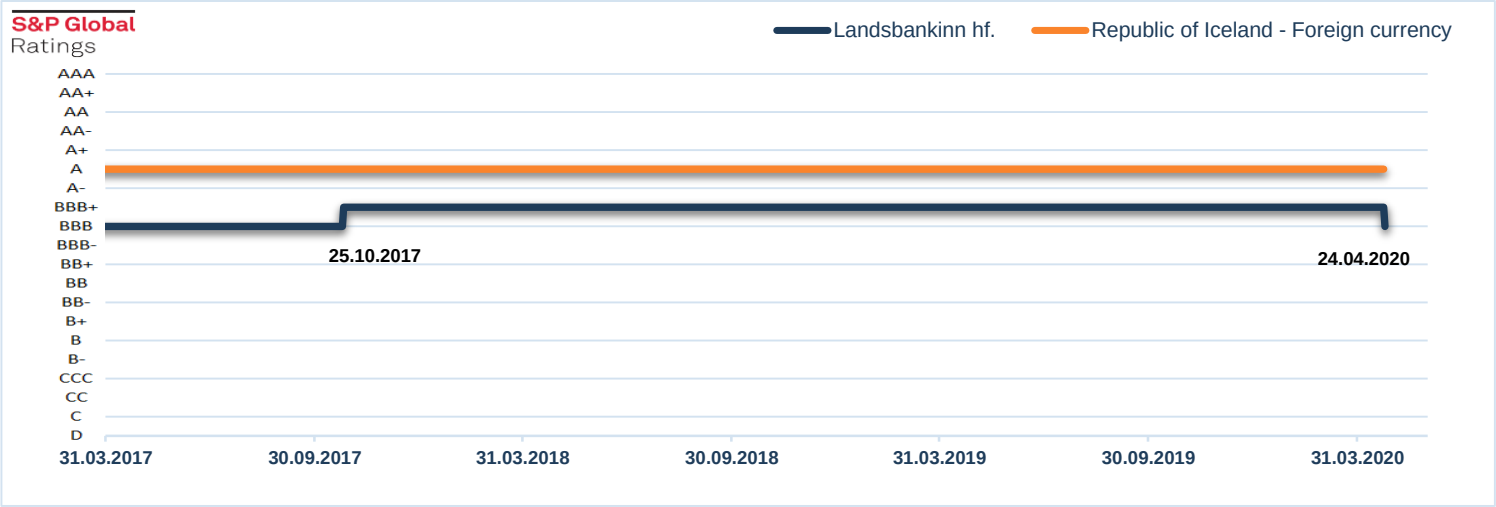
- The Finance Ministry published an ownership policy in July 2017 in regards to equity holdings in financial companies that are supervised by the Icelandic State Financial Investments (ISFI).

In regards to Landsbankinn the policy states

- The government will retain a significant equity stake in the bank (34-40%) to ensure stability in the domestic financial sector.
- The remaining equity stake will be sold in the next few years given favorable market conditions.
- Equity in Landsbankinn will be listed on a stock exchange.



Credit rating



Fundamental factors for Landsbankinn:

- Very strong capital and earnings
- Adequate liquidity position
- Average funding profile
- Adequate business position
- Moderate risk position

	Icelandic sovereign	Landsbankinn hf.
Long-term rating	**A**	**BBB**
Short-term rating	A-1	A-2
Outlook	Stable	Stable
Last rating action	March 2017	April 2020

Financial Targets

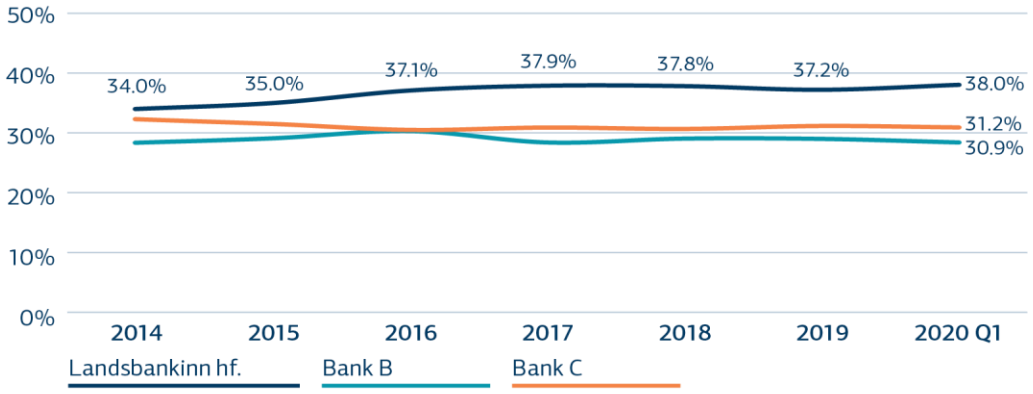
	Objective	Q1 2020	Guidelines
Return on equity, excluding bank levy [1] (ROE)	≥ 10%	-5.2%	Due to the enormous uncertainty COVID-19 has on the Bank's ROE, the forecast for expected ROE in 2020 has been rescinded.
Cost-income ratio (C/I ratio)	≤ 45%	72.6%	Due to the enormous uncertainty COVID-19 has on the Bank's cost-income ratio, the forecast for expected cost-income ratio in 2020 has been rescinded.
Total capital ratio (TCR)	≥ 23%	24.8%	The Bank's target is to maintain capital ratios above FSA Iceland's capital requirements at any given time, plus a 1.5-2.5% management buffer. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies. The Bank will seek to issue subordinated funding on the market, provided that is deemed economic and favourable for its funding structure.
Common Equity Tier 1 capital (CET1)	≥ 18%	22.7%	
Dividend payout ratio	≥ 50%	-	The aim is also to make special dividend payments to optimise the Bank's capital structure.

[1] Special tax on financial institutions of 0.145% is levied of the carrying amount of total liabilities at year-end, excluding tax liabilities, in excess of ISK 50,000 million as determined for tax purposes. The special income tax on financial institutions is a non-deductible expense

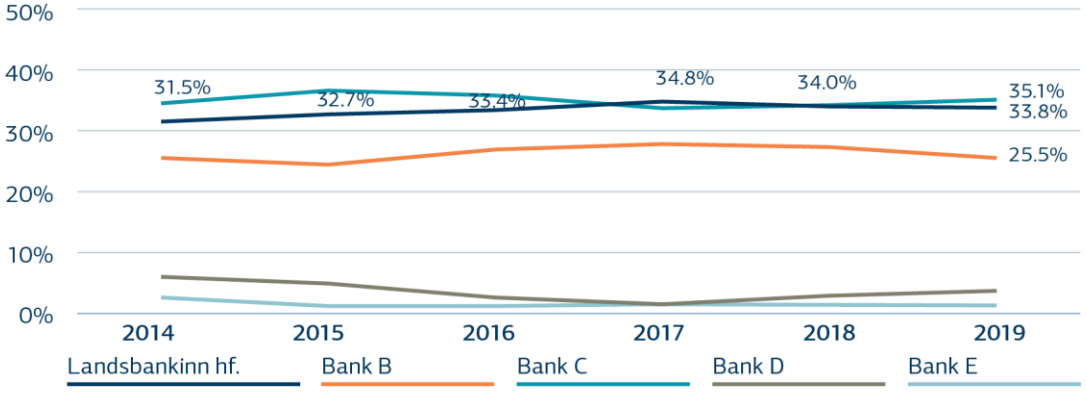
[2] Regular dividend payout ratio of last year profit.

Landsbankinn´s successes

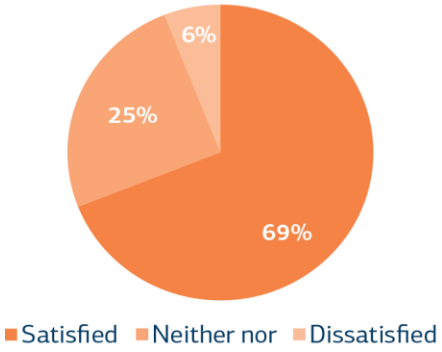
Market share – Retail banking



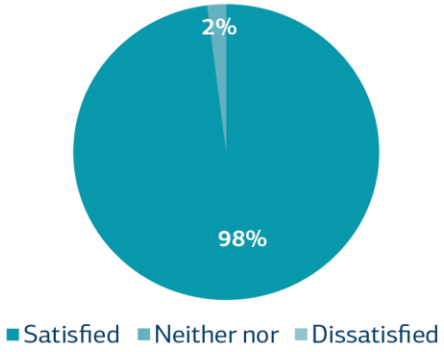
Market share – Corporate banking



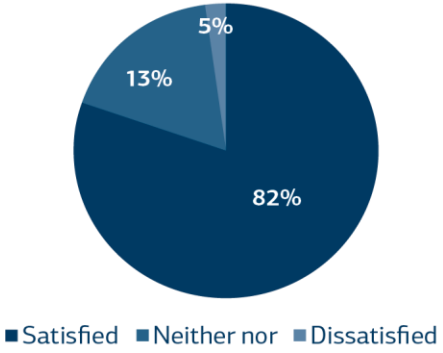
Customer satisfaction – Individuals



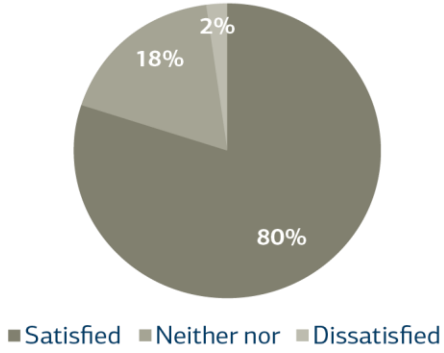
Satisfaction with 360° advice – Individuals



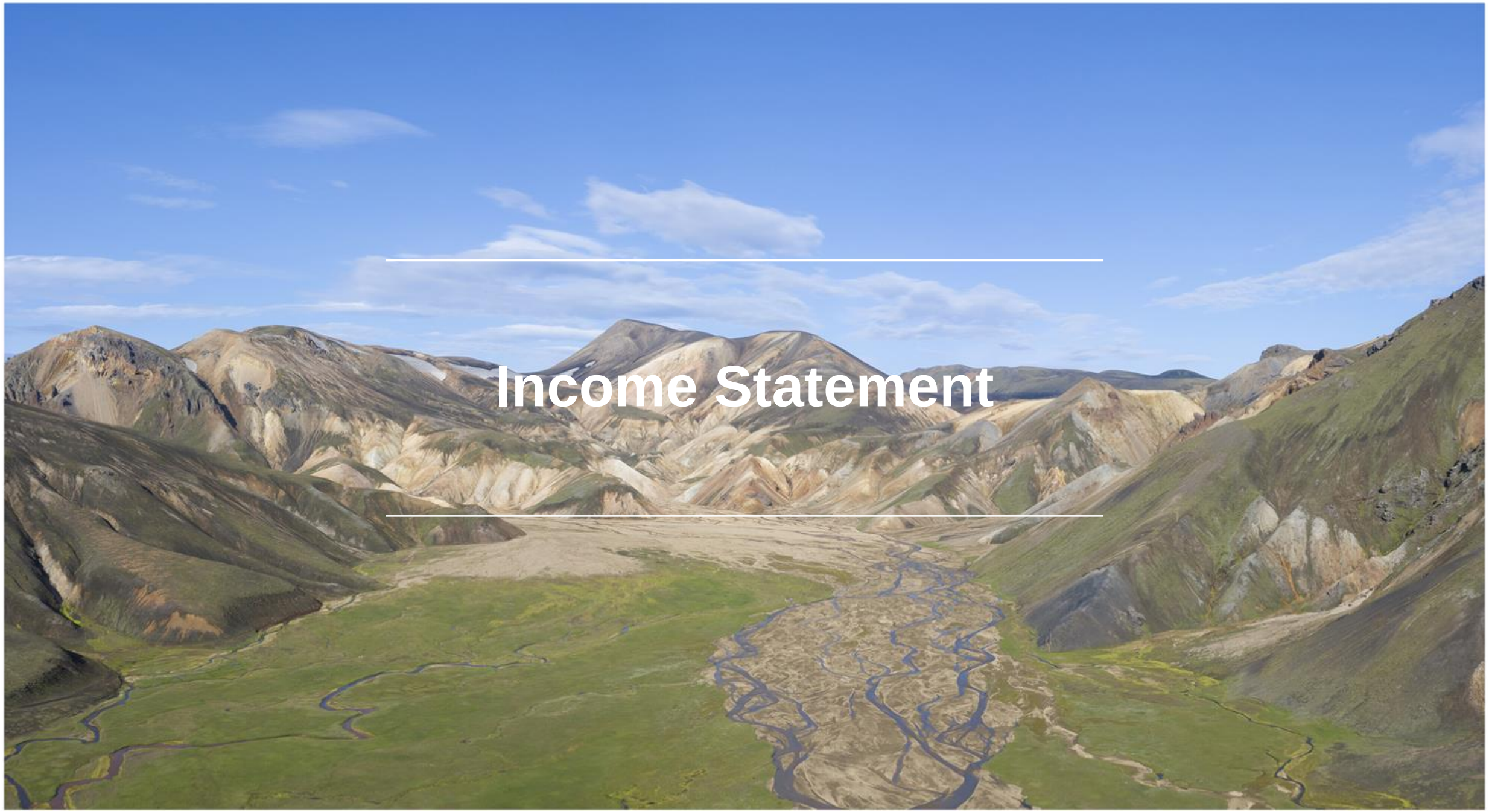
Customer satisfaction – Corporates



Satisfaction with self-service solutions –Corporates

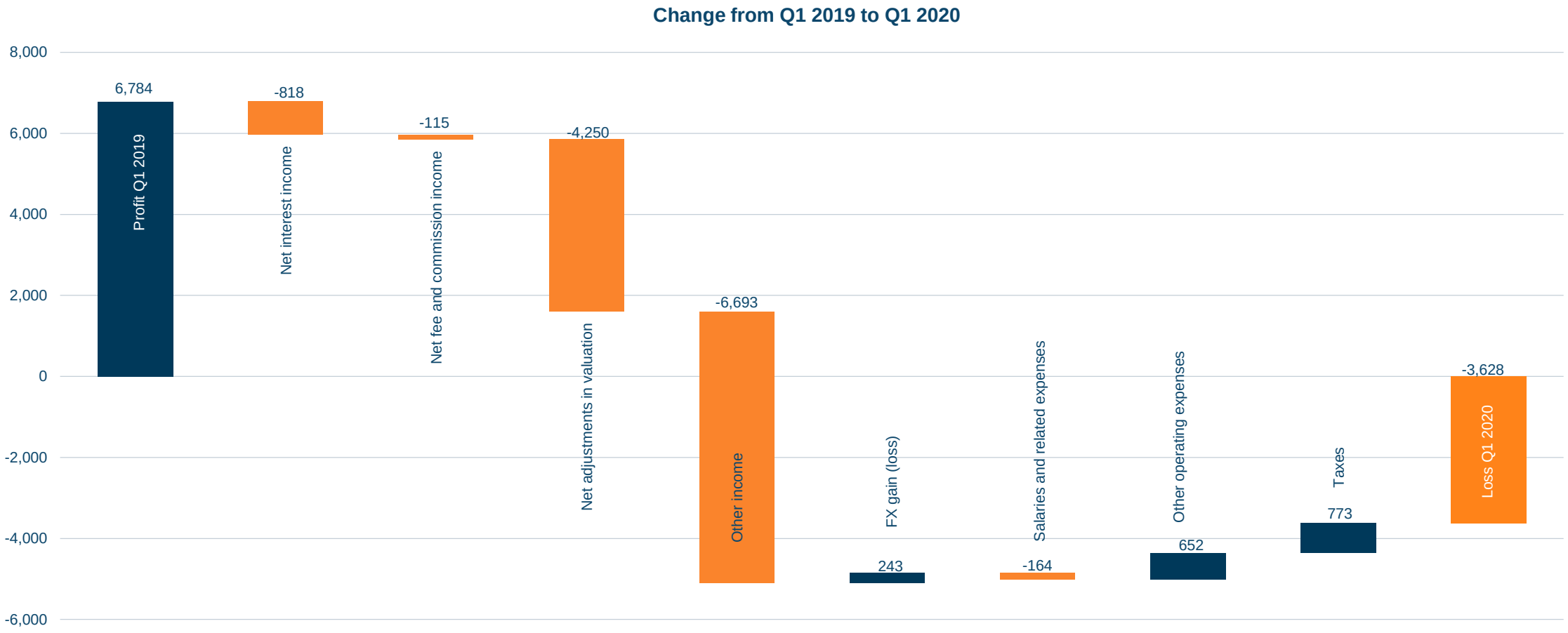


Source: Gallup



Income Statement

Income statement



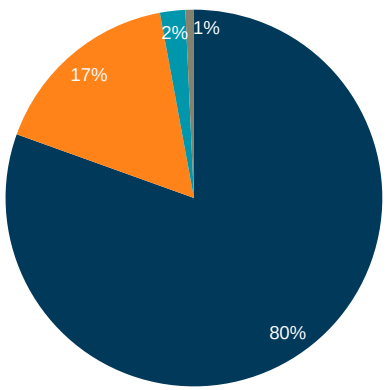
Amounts in ISKm

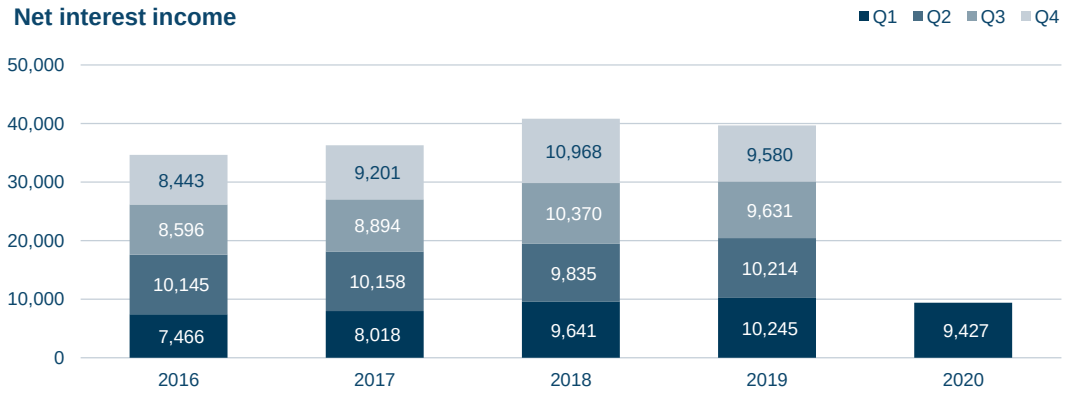
Income statement

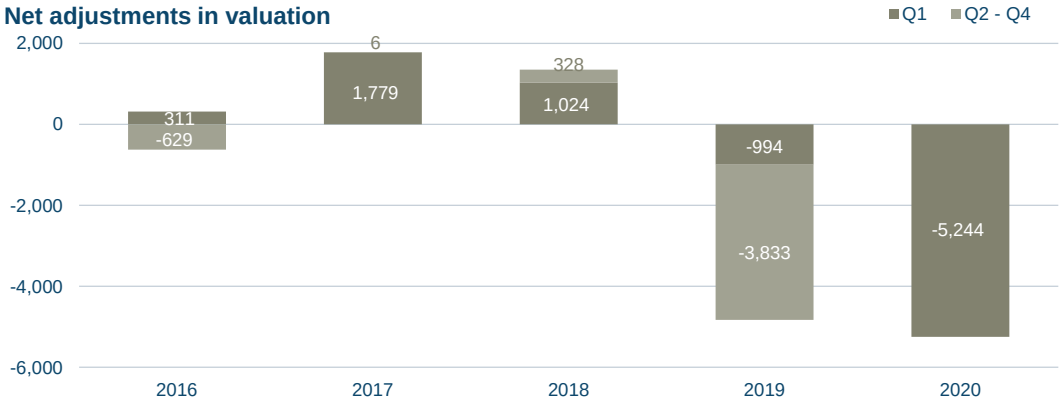
	Q1 2020	Q1 2019	Change	
Net interest income	9,427	10,245	-818	-8%
Net fee and commission income	1,945	2,060	-115	-6%
Net adjustments and impairment	-5,244	-994	-4,250	428%
Other net operating income	-2,728	3,722	-6,450	-173%
Total operating income	**3,400**	**15,033**	**-11,633**	**-77%**
Salaries and related expenses	3,844	3,680	164	4%
Other operating expenses	2,430	2,522	-92	-4%
Tax on liabilities of financial institutions	450	1,010	-560	-55%
Total operating expenses	**6,724**	**7,212**	**-488**	**-7%**
Profit (loss) before tax	**-3,324**	**7,821**	**-11,145**	**-143%**
Income tax	304	1,037	-733	-71%
Profit (loss) for the period	**-3,628**	**6,784**	**-10,412**	**-153%**

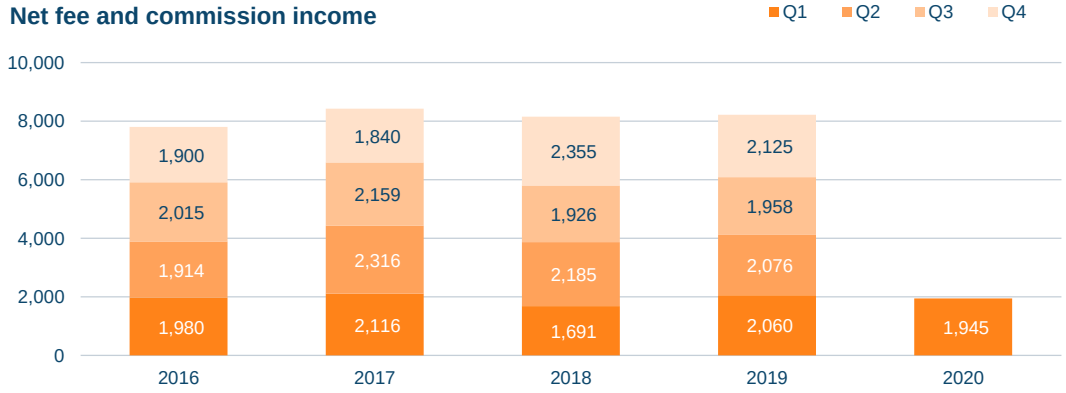
Amounts in ISKm

Net operating income



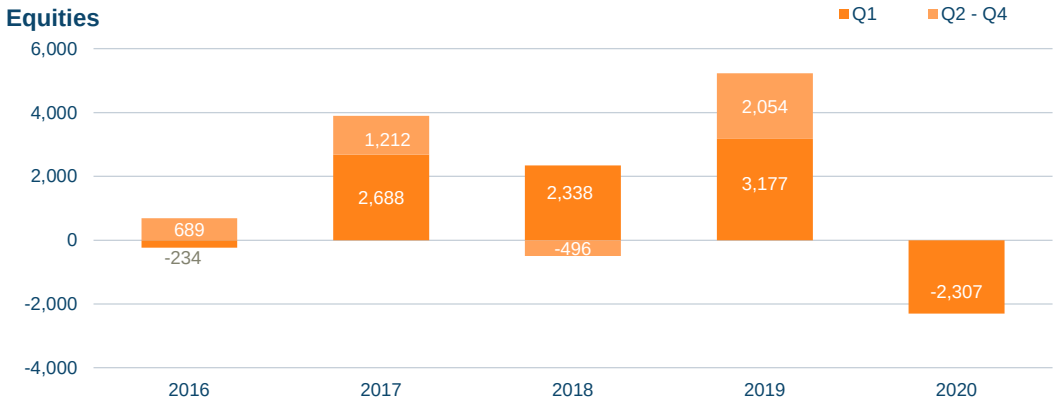


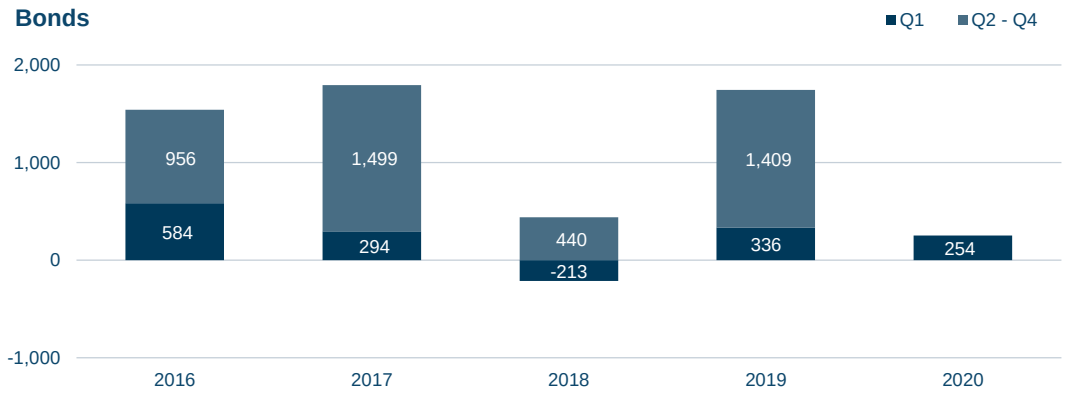


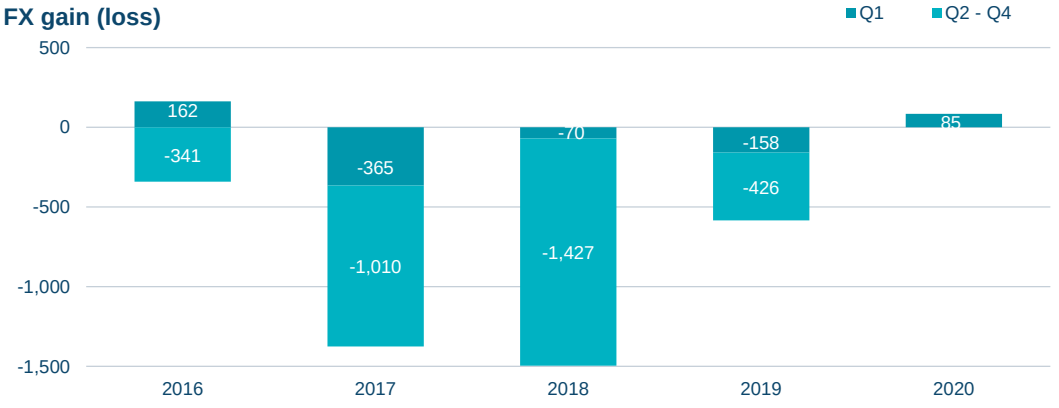


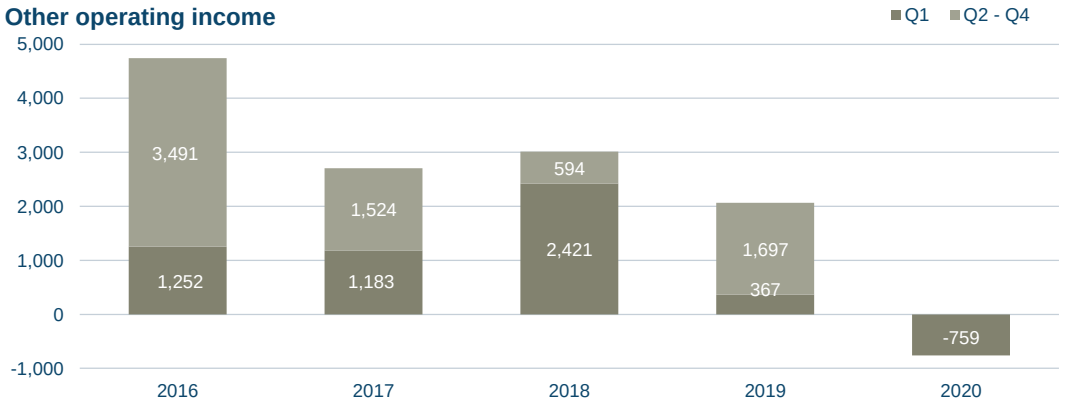
Amounts in ISKm

Net operating income



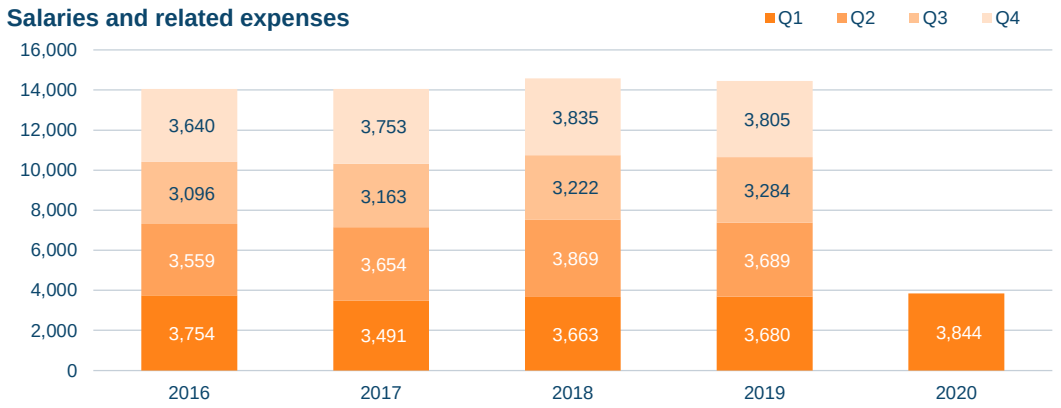


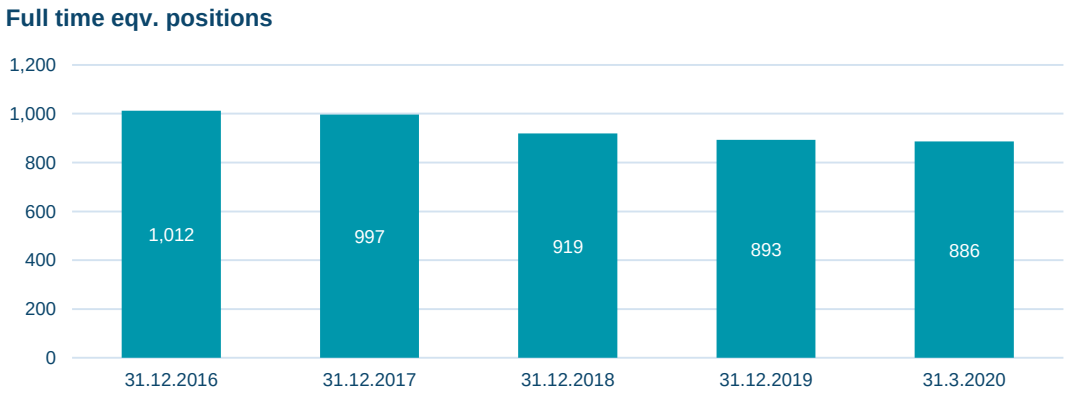


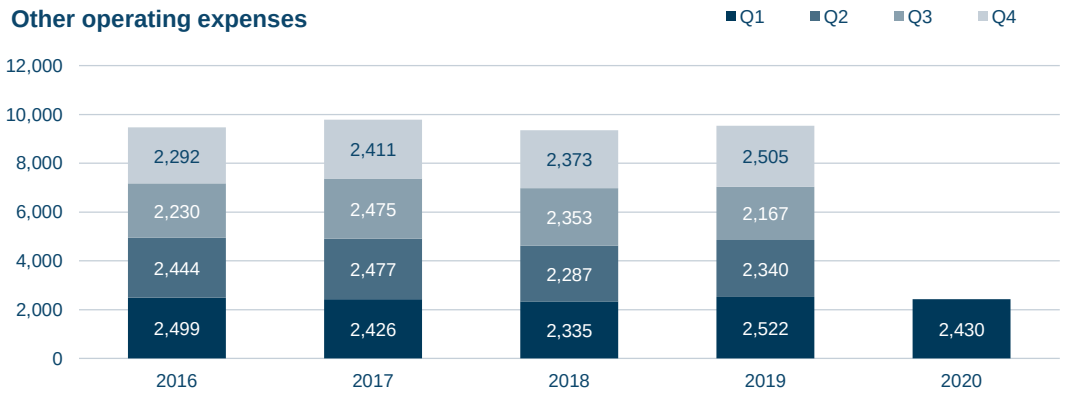


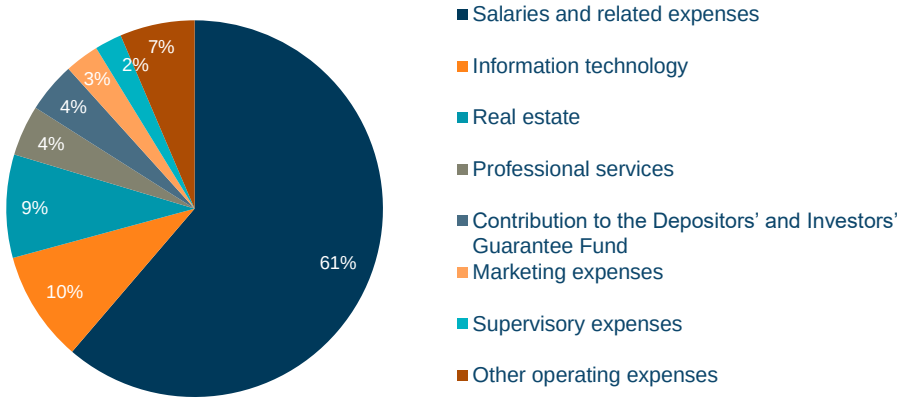
Amounts in ISKm

Operating expenses









Amounts in ISKm

Taxes

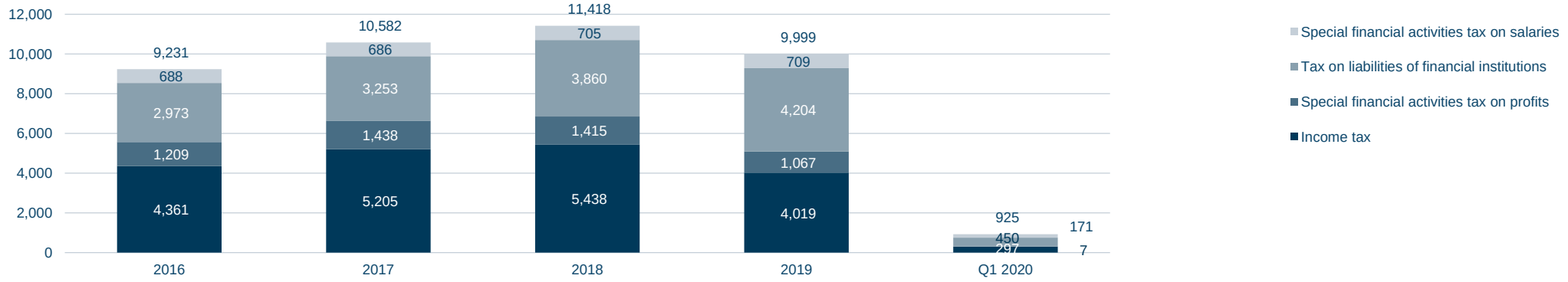
	Q1 2020	Q1 2019	Change	
Income tax	297	865	-568	-66%
Special financial activities tax on profits[1]	7	172	-165	-96%
Income Tax	**304**	**1,037**	**-733**	**-71%**
Tax on liabilities of financial institutions[2]	450	1,010	-560	-55%
Special financial activities tax on salaries[3]	171	173	-2	-1%
Total	**925**	**2,220**	**-1,295**	**-58%**

[1] A 6% additional tax on pre-tax profit over ISK 1 bn

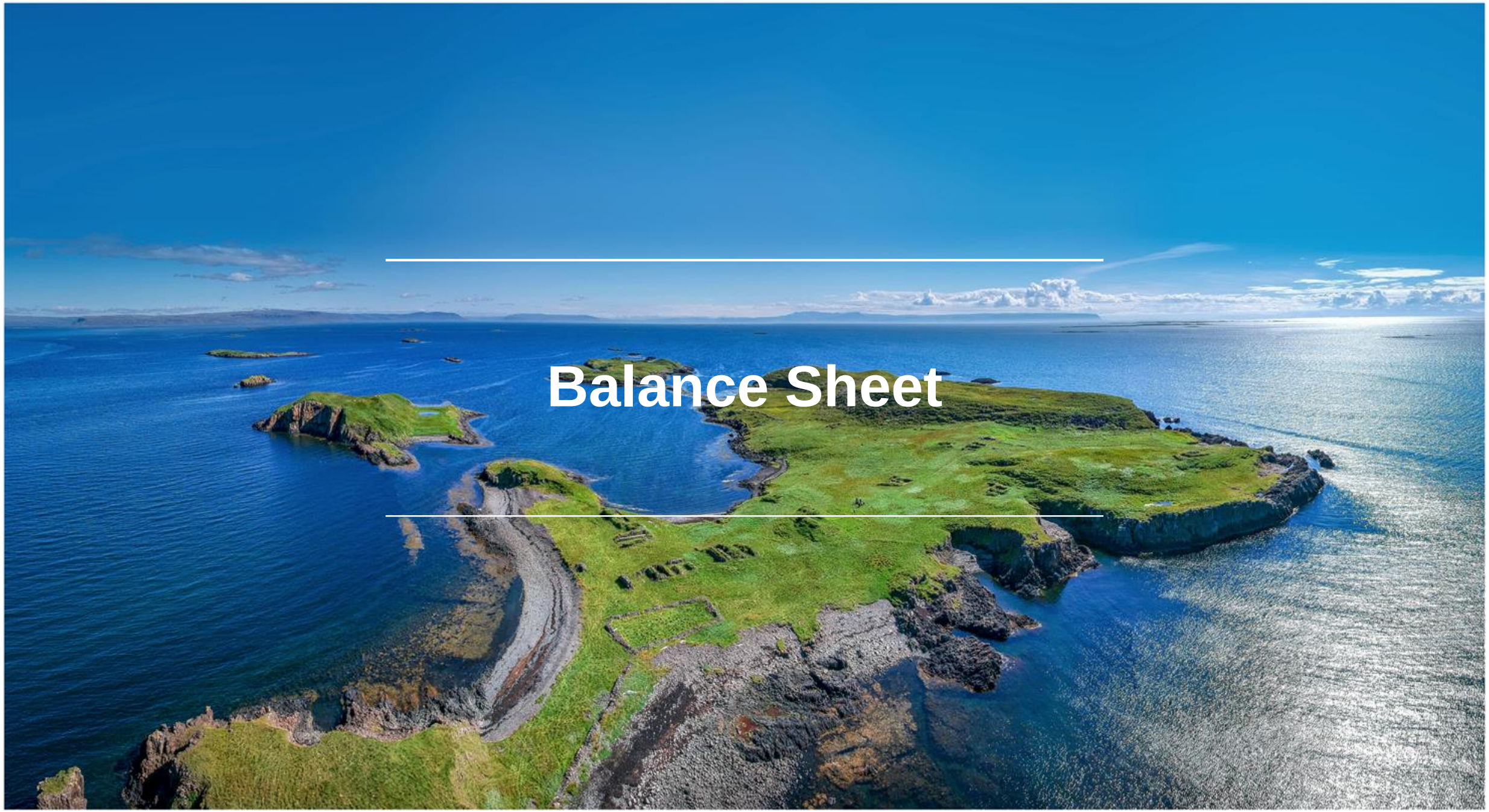
[2] Special tax on financial institutions of 0.145% (2019 0.376%) is levied of the carrying amount of total liabilities at year-end, excluding tax liabilities, in excess of ISK 50,000 million as determined for tax purposes. The special income tax on financial institutions is a non-deductible expense

[3] A 5.5% tax on salaries which is expensed in the line item “Salaries and related expenses” in the income statement

Taxes



Amounts in ISKm

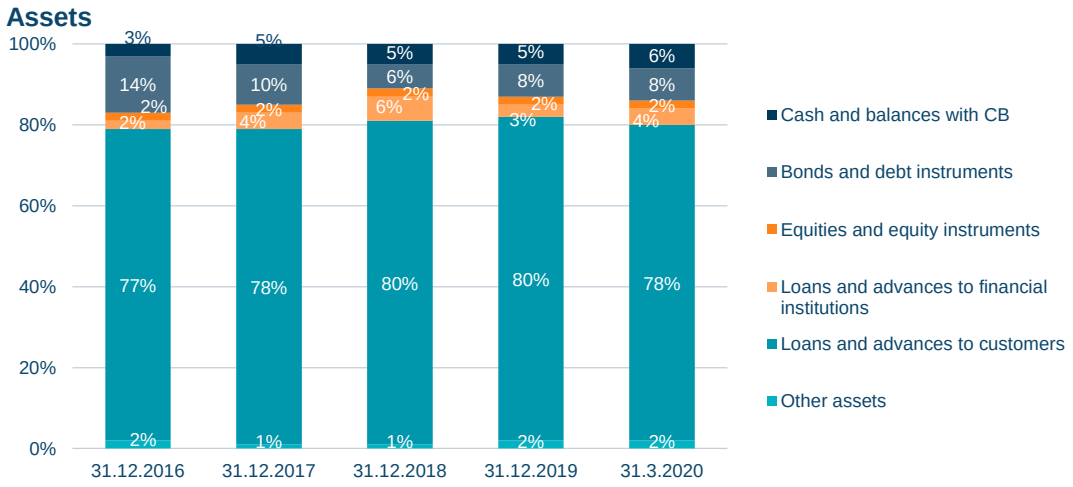


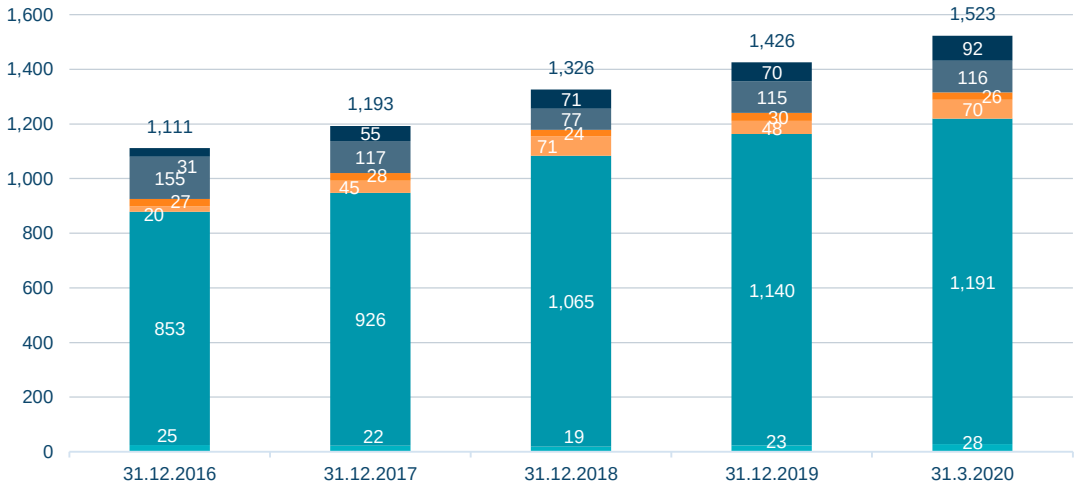
Balance Sheet

Total assets

	31.3.2020	31.12.2019	Change	
Cash and balances with CB	92,440	69,824	22,616	32%
Bonds and debt instruments	116,568	115,262	1,306	1%
Equities and equity instruments	25,923	30,019	-4,096	-14%
Loans and advances to financial institutions	69,740	47,929	21,811	46%
Loans and advances to customers	1,190,536	1,140,184	50,352	4%
Other assets	27,981	23,110	4,871	21%
Total	**1,523,188**	**1,426,328**	**96,860**	**7%**

Amounts in ISKm

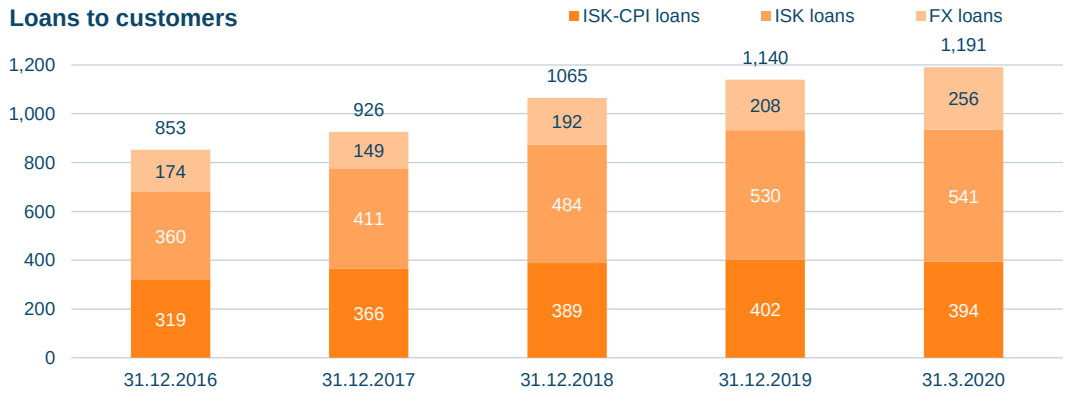




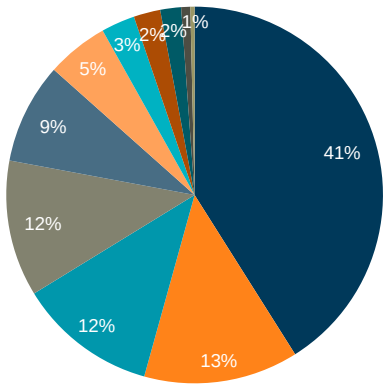
Amounts in ISKbn

Loans

Loans to customers

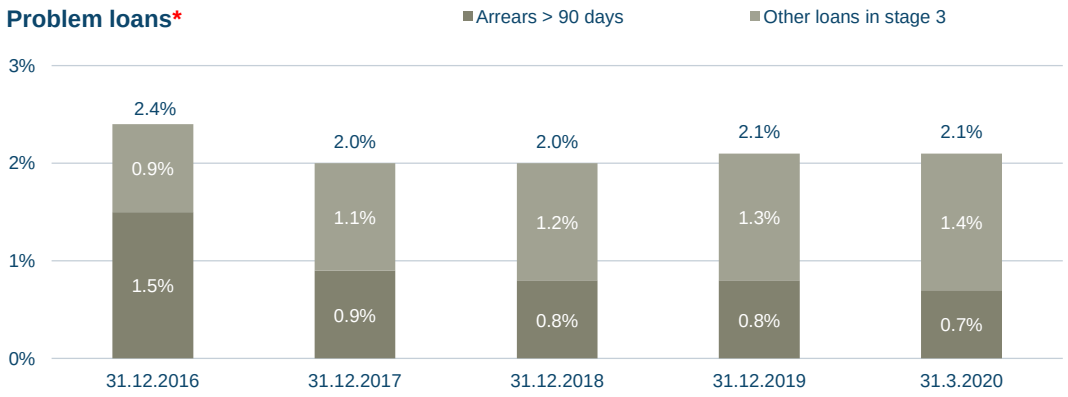


Loans by industry sectors

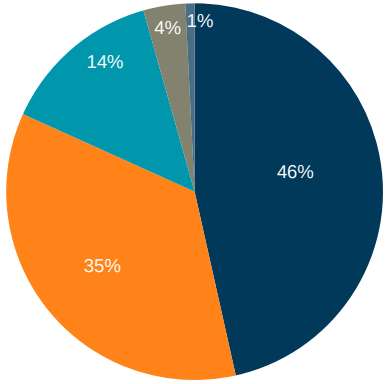


- Individuals
- Fisheries
- Real estates companies
- Services
- Construction companies
- Retail
- ITC
- Holding companies
- Manifacturing
- Agriculture
- Public entities and other

Problem loans*



Loans by currencies



- ISK CPI
- ISK
- EUR
- USD
- Other currencies

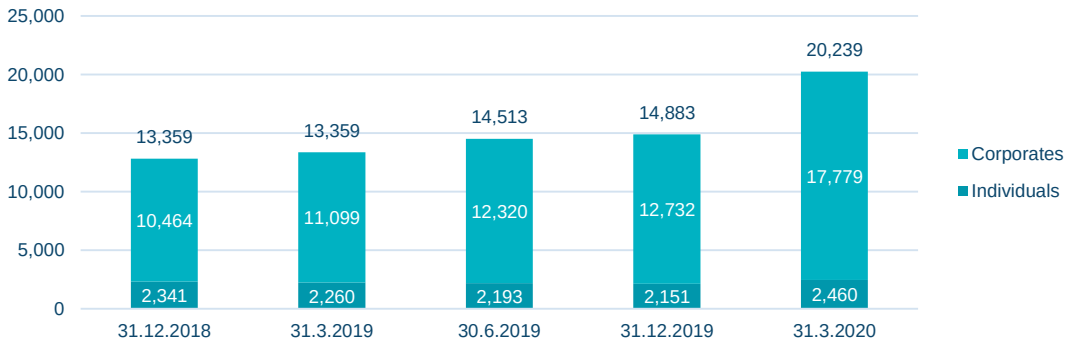
Amounts in ISKbn

* until 31.12.2017 problem loans were defined as loans and advances with individual allowance and/or more than 90 days in arrears

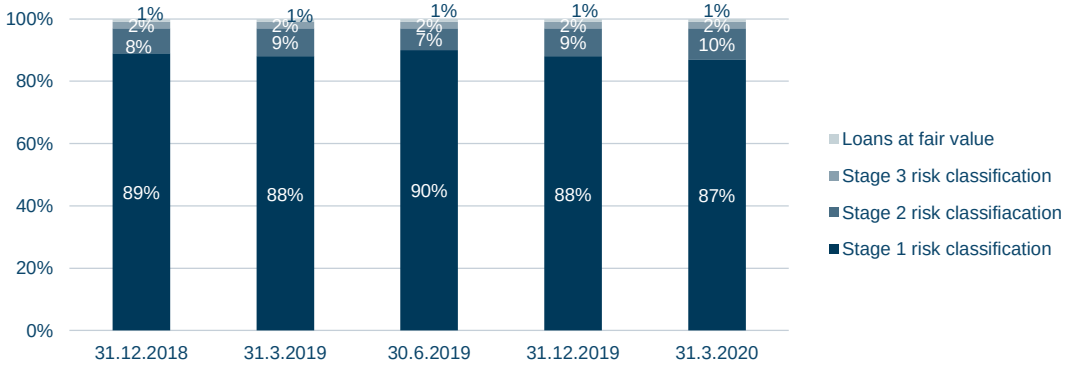
Loans

	Individuals	Corporates	Total impairments
Changes in molels/risk parameters and macroeconomic variables	-319	-2,292	-2,611
Allowance for credit-impaired loans	11	-1,278	-1,267
General provision	-108	-1,644	-1,752
Write-offs	-38	-27	-65
Other changes	20	431	451
Total impairments	**-434**	**-4,810**	**-5,244**

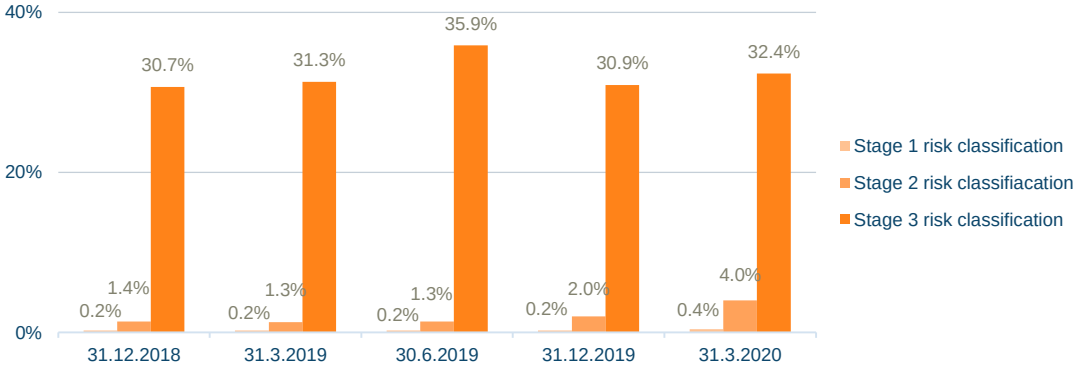
Allowance for impairment on loans and advances to customers



Loans by allocation

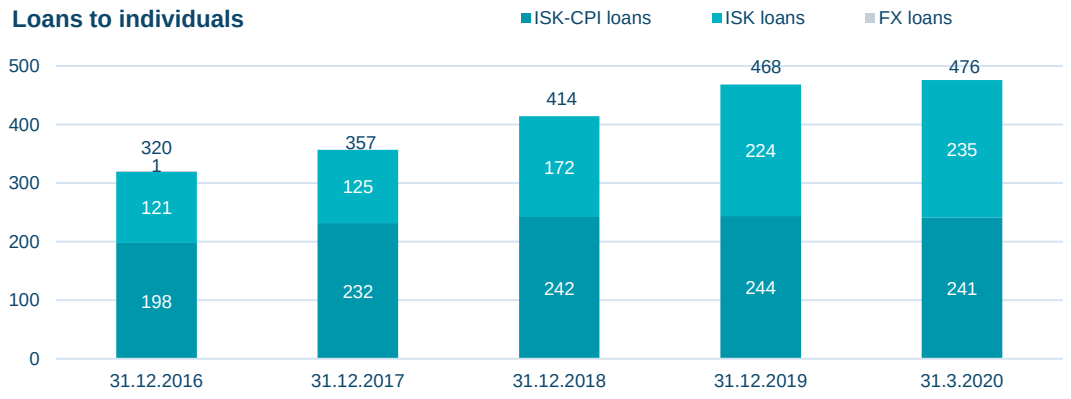


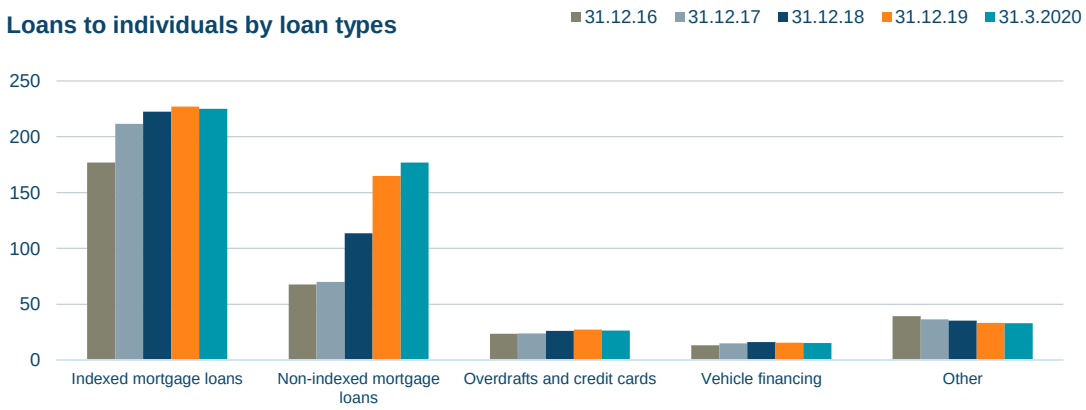
Allowance as percentage of gross carrying amount

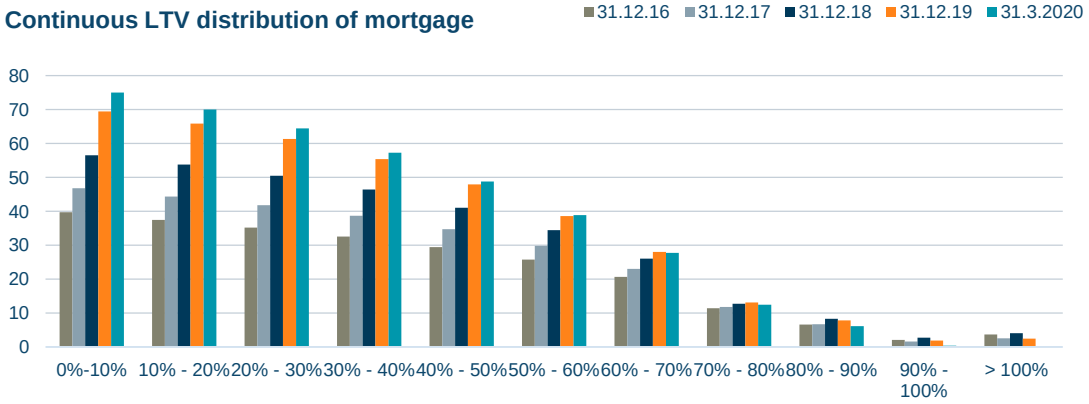


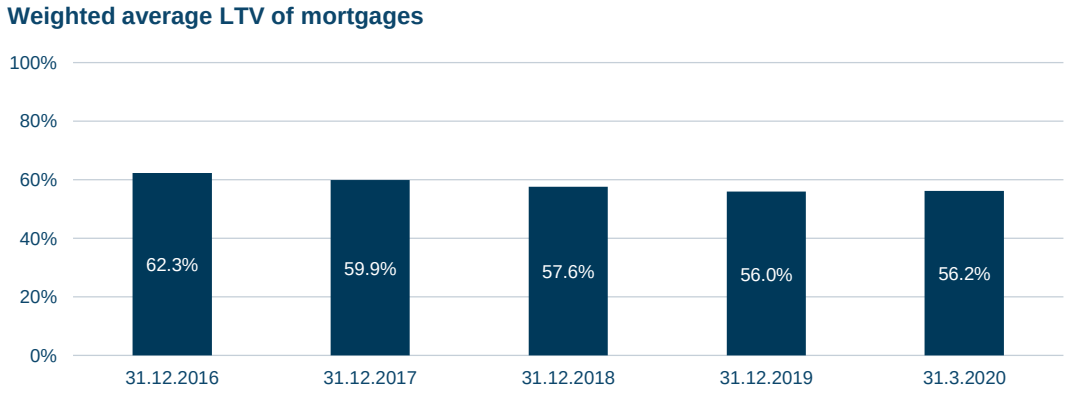
Amounts in ISKm

Loans to individuals



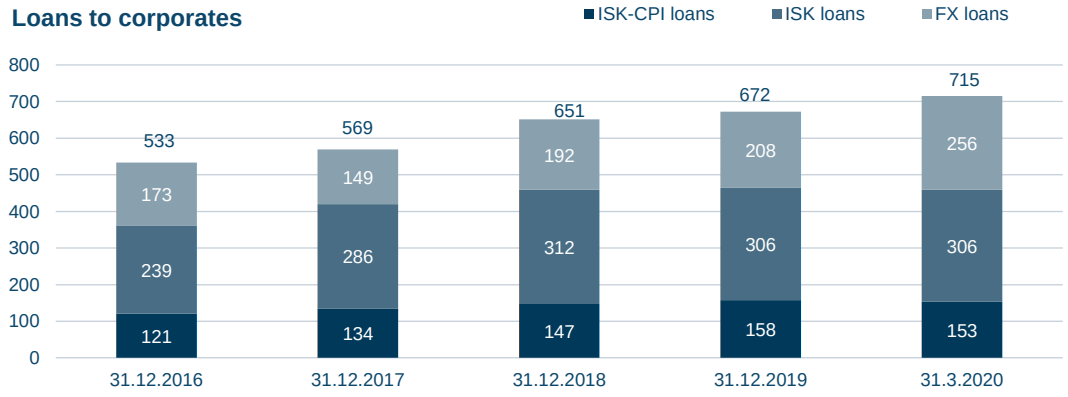


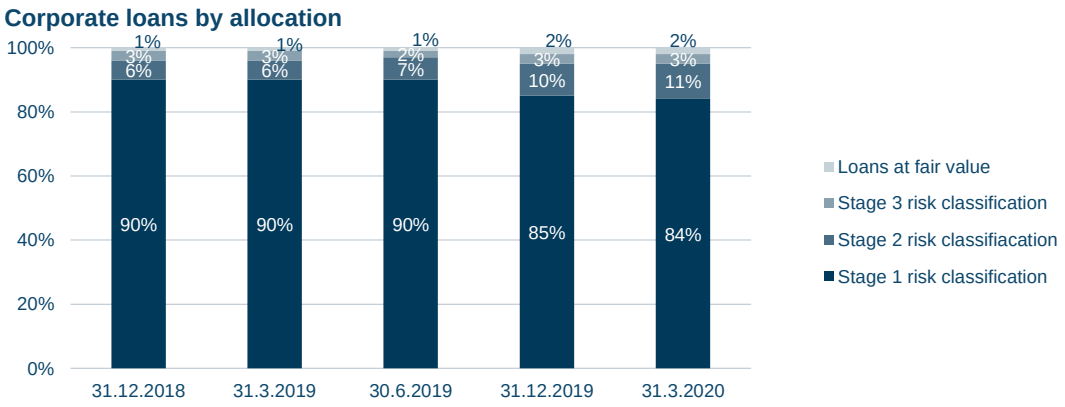


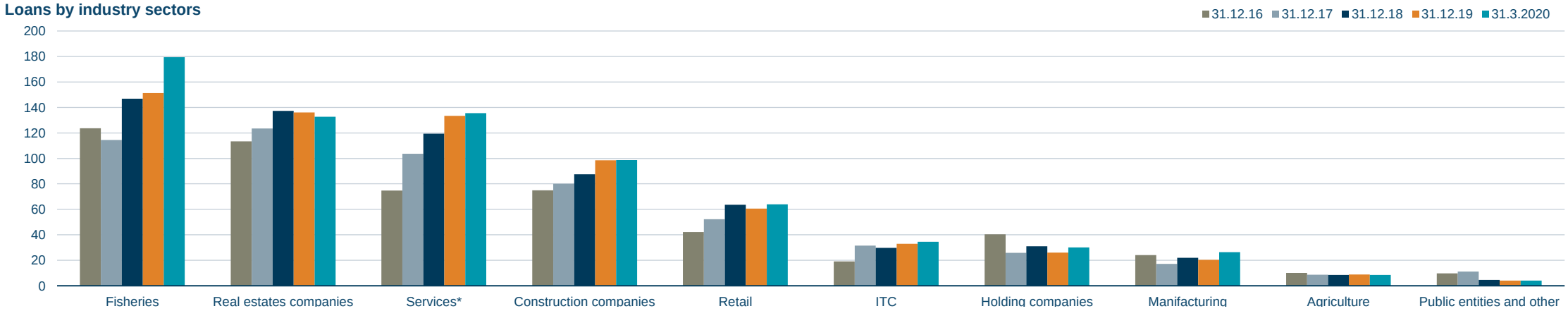


Amounts in ISKm

Loans to corporates







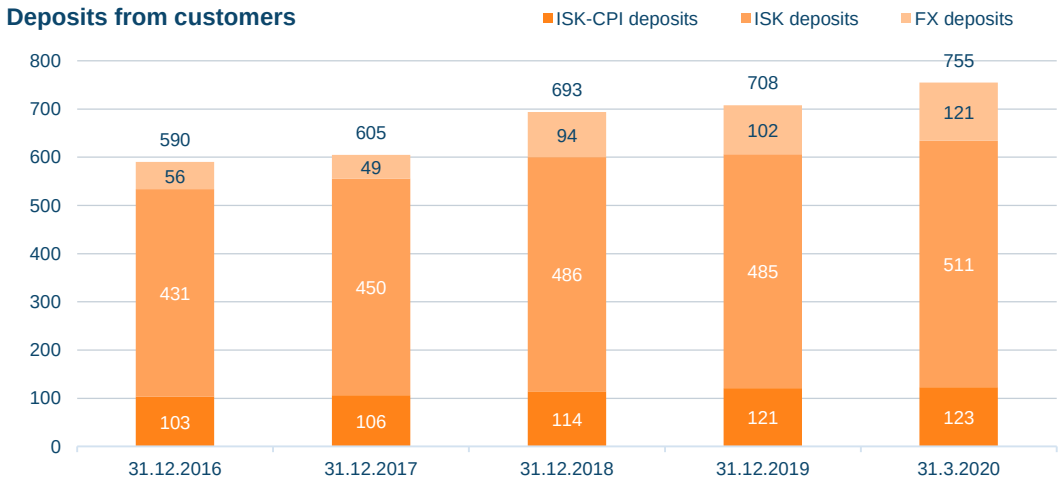
Amounts in ISKbn

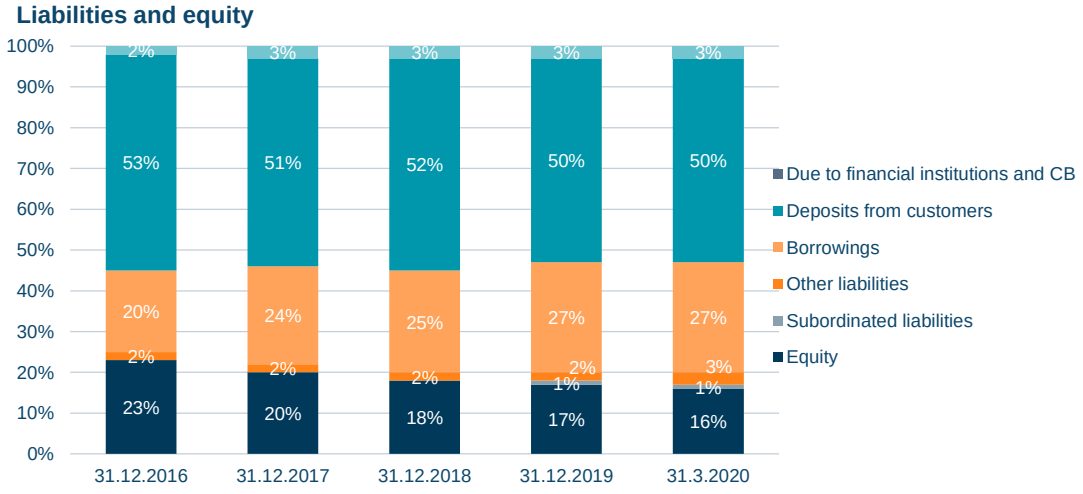
* Loans to travel industry amounted to ISK 95.7 bn 31.3.2020 (ISK 96.3 bn 31.12.2019)

Liabilities and equity

	31.3.2020	31.12.2019	Change	
Due to financial institutions and CB	41,495	48,062	-6,567	-14%
Deposits from customers	755,160	707,813	47,347	7%
Borrowings	412,591	373,168	39,422	11%
Other liabilities	48,457	30,470	17,987	59%
Subordinated liabilities	21,379	19,081	2,298	12%
Equity	244,106	247,734	-3,628	-1%
Total	**1,523,188**	**1,426,328**	**96,860**	**7%**

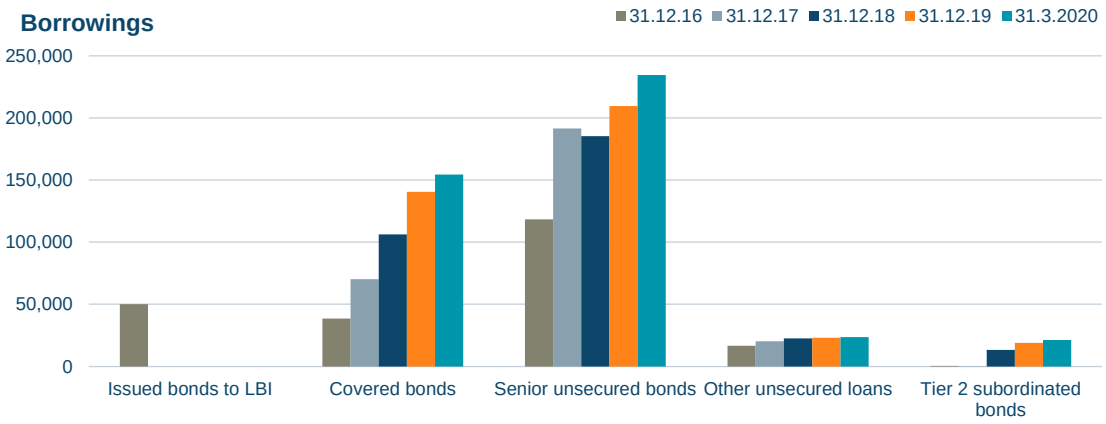
Amounts in ISKm

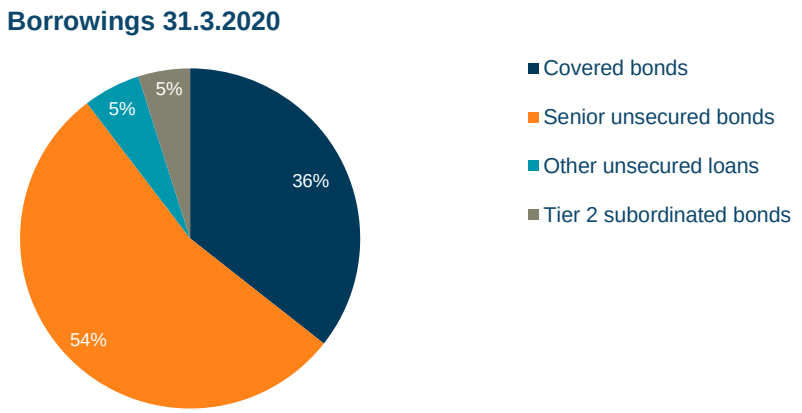


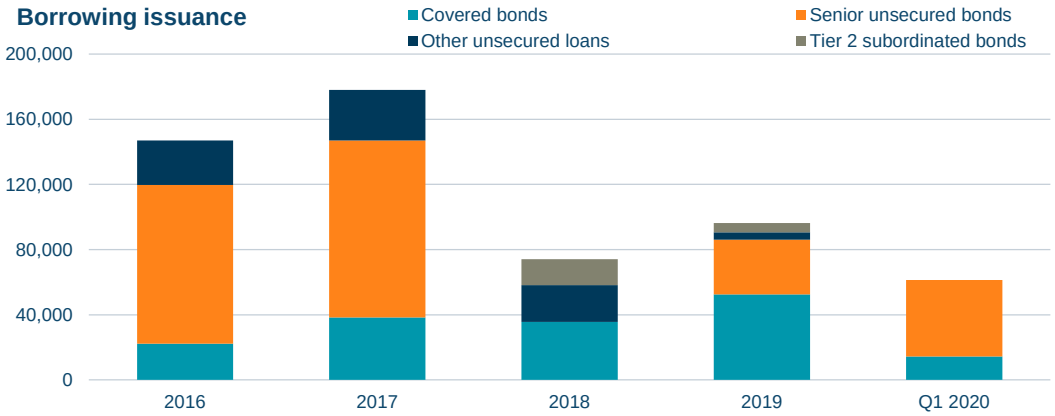


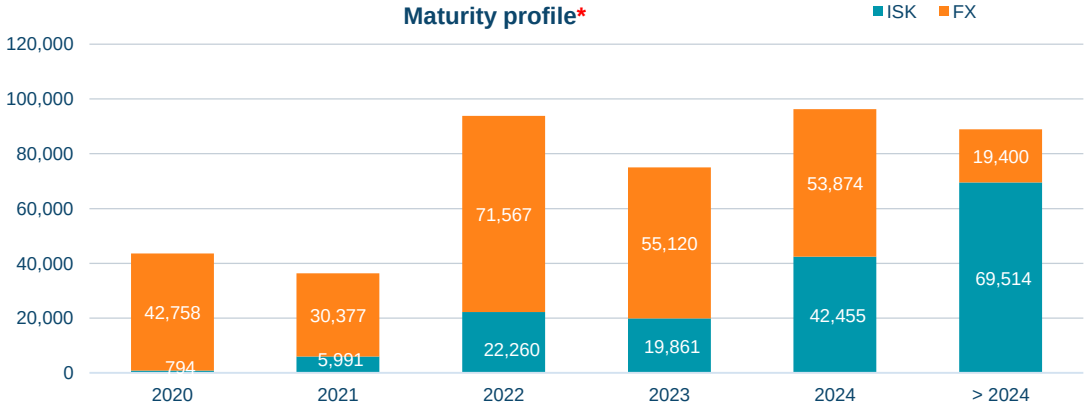
Amounts in ISKbn

Borrowings





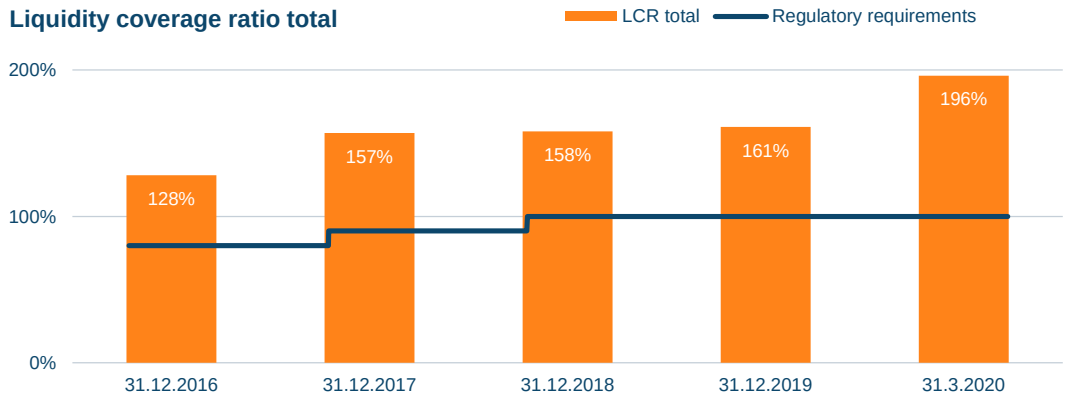


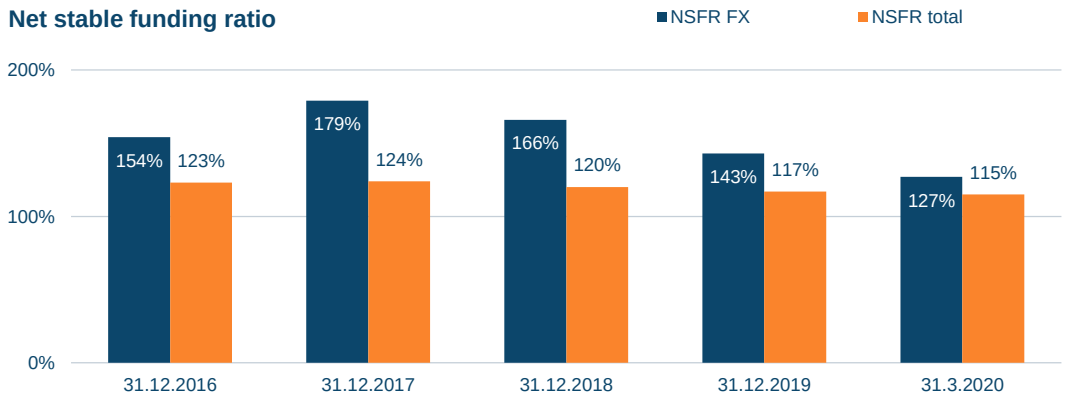


*EUR 100 million Tier 2 Subordinated bonds maturing in 2028 are callable in 2023.
ISK 5.5 bn Subordinated bonds maturing in 2029 are callable in 2024.

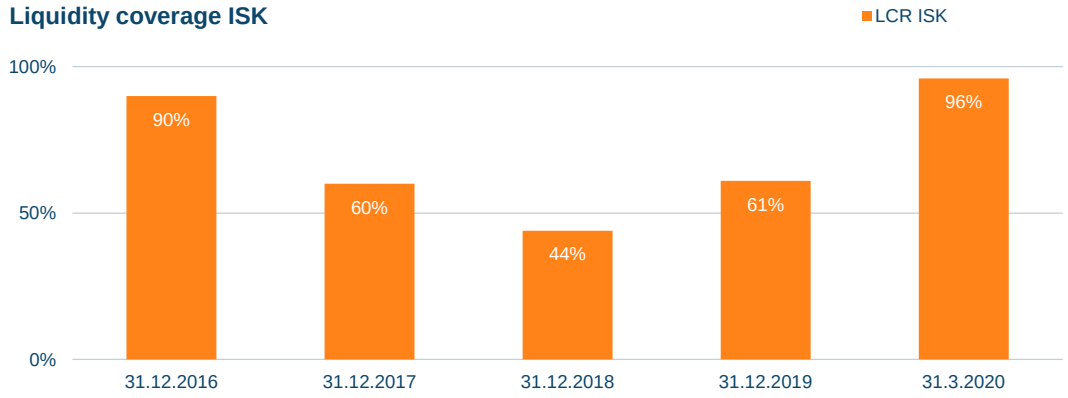
Fjárhæðir í milljónum króna

Liquidity ratios and net stable funding

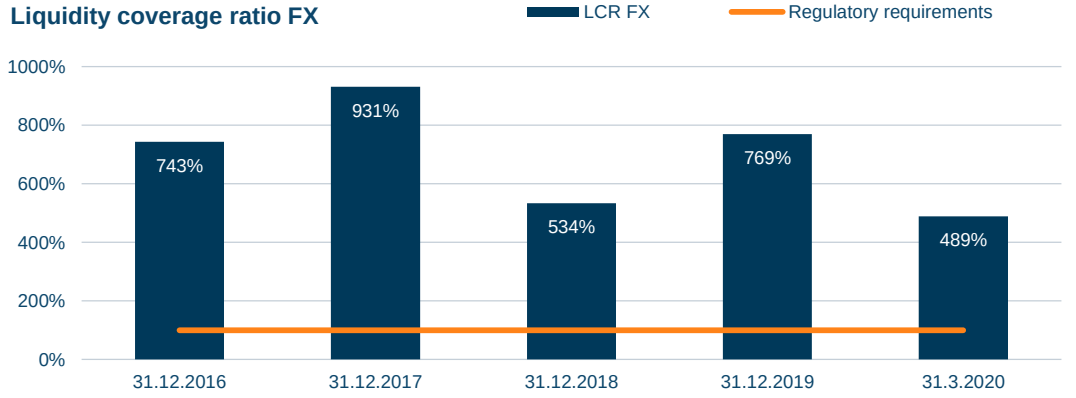




Regulatory requirements NSFR FX: 80% 2016, 90% 2017 and 100% since 2018



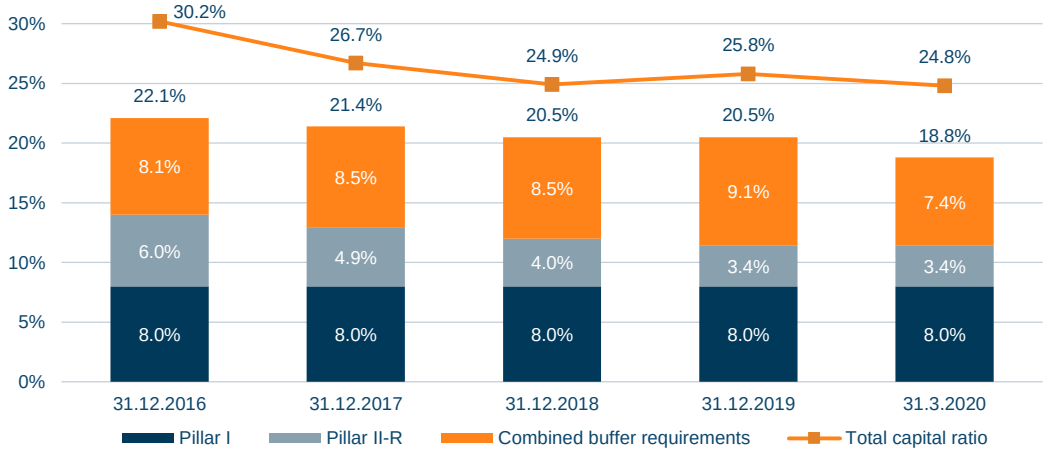
Regulatory requirements 30% from 1.1.2020



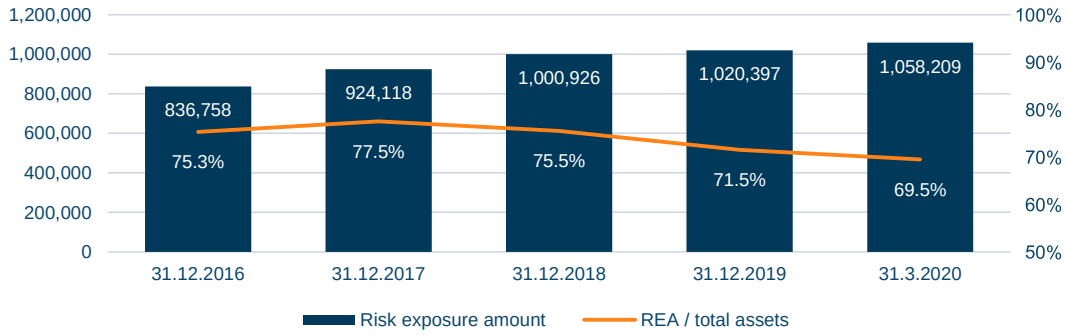
Capital requirements

	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	1.9%	2.6%	3.4%
Minimum requirements undr Pillar I and Pillar II-R	**6.4%**	**8.6%**	**11.4%**
Systemic risk buffer	2.86%	2.86%	2.86%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	0.01%	0.01%	0.01%
Capital conservation buffer	2.50%	2.50%	2.50%
Combined buffer requirements under Pillar II-G	**7.37%**	**7.37%**	**7.37%**
Total capital requirements	**13.8%**	**16.0%**	**18.8%**
Total capital ratio 31.3.2020	**22.7%**	**22.7%**	**24.8%**

Total capital requirements as defined by FME



Risk exposure amount



- The Group basis calculation of Pillar 1 capital requirements for lending and market risk on the standardised approach. The basic indicator approach is used to calculate operational risk.
- The countercyclical capital buffer on domestic exposures was bumped up by 0.5 percentage points in May 2019, from 1.25% to 1.75%. On 1 February 2020, it increased by 0.25 percentage points, from 1.75% to 2%.
  - **On 19 March 2020, it was decided to abolish the 2% countercyclical capital buffer requirement in response to the COVID-19 pandemic. Landsbankinn's total capital requirement at end of March is 18.8%**

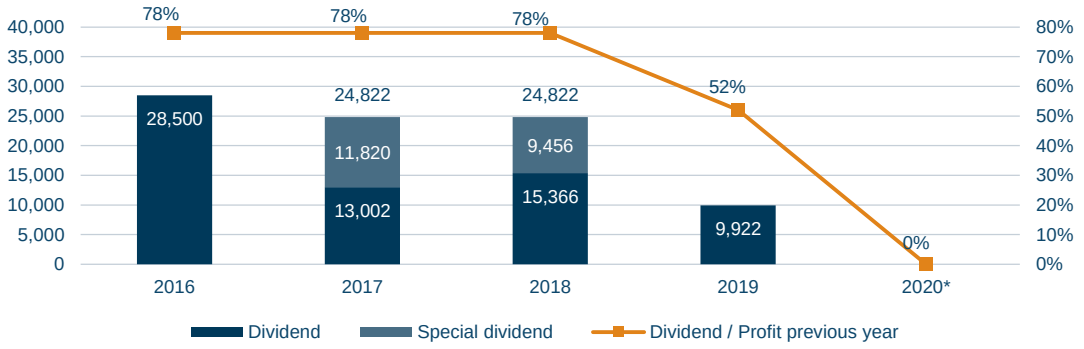
Amounts in ISKm

Dividends and capital ratio

Dividend proposal for 2020

- Landsbankinn’s AGM, 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 and in line with directions from the Central Bank of Iceland

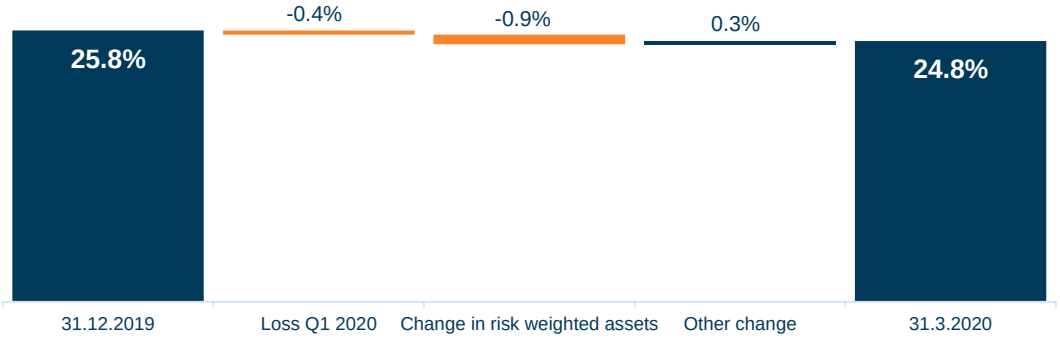
Dividend payments



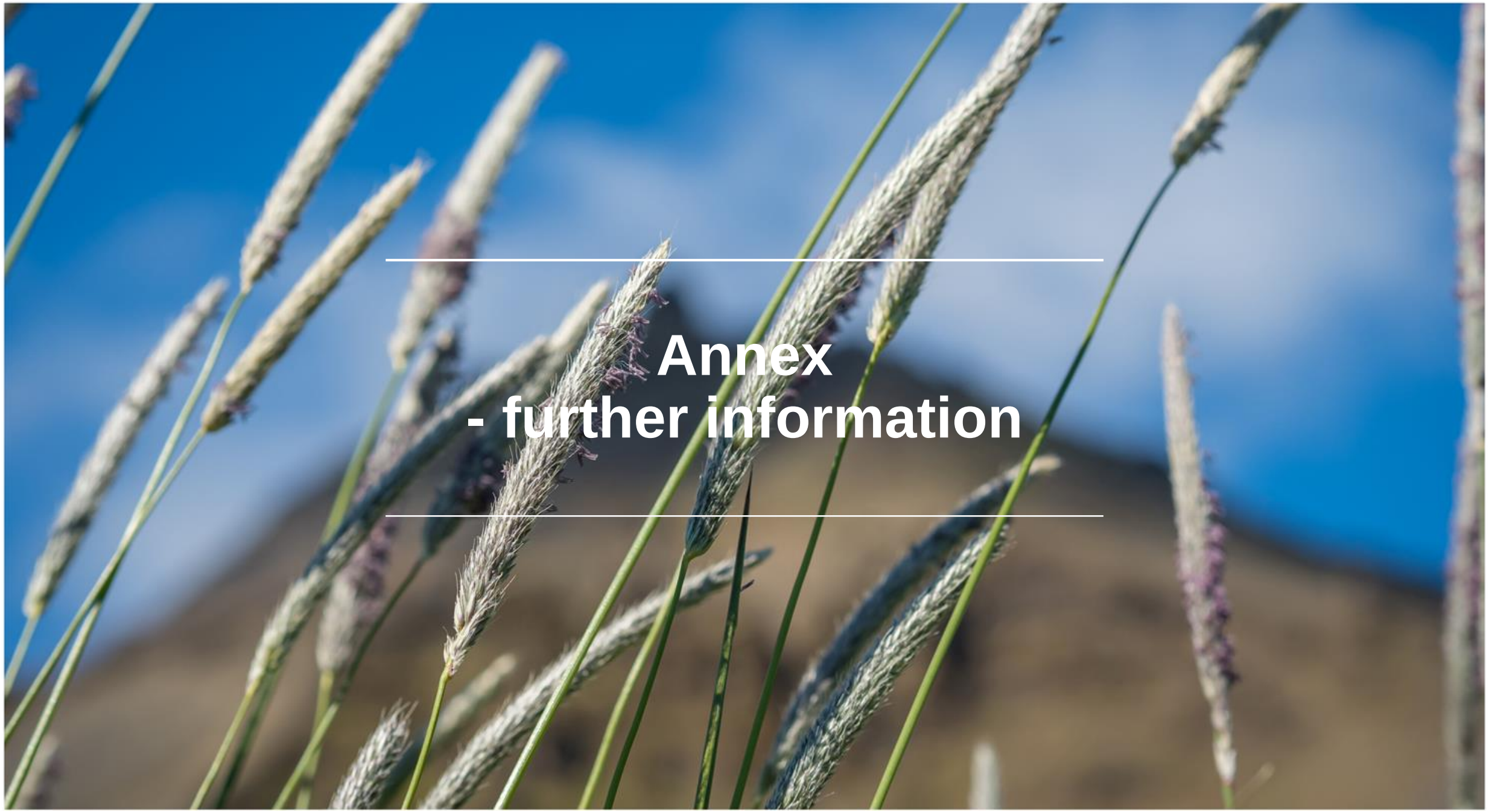
Landsbankinn's dividend policy

- Landsbankinn aims to pay regular dividends to shareholders amounting in general to ≥50% of the previous year's profit. In line with Landsbankinn's target capital ratio, the aim is also to make special dividend payments to optimise the Bank's capital structure.
- In determining the amount of dividend payments, it shall be ensured that the Bank maintain a very strong financial position. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

Total Capital Ratio, change Q1 2020

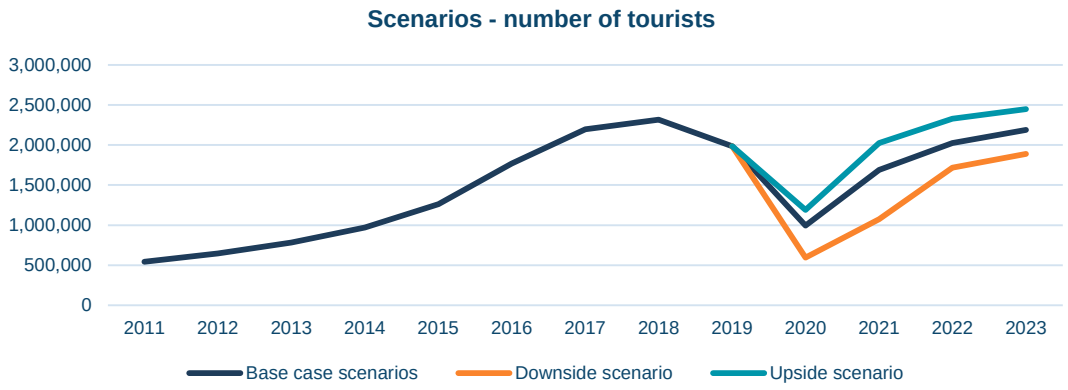


Amounts in ISKm

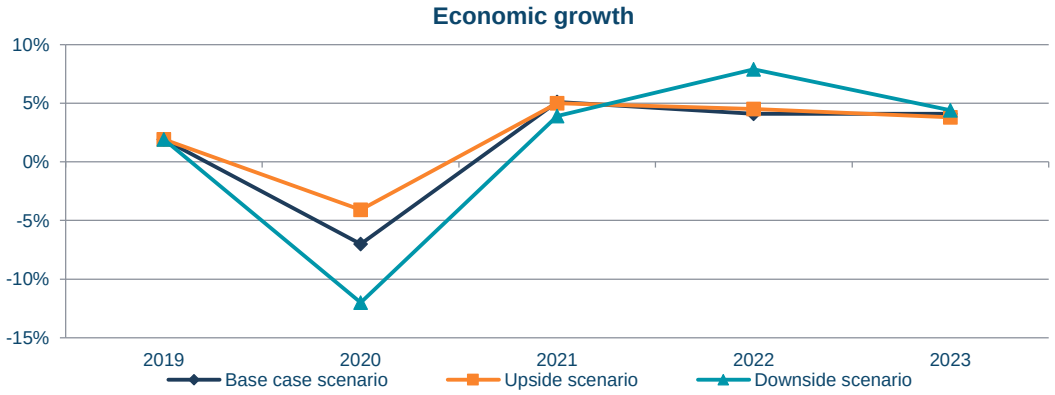


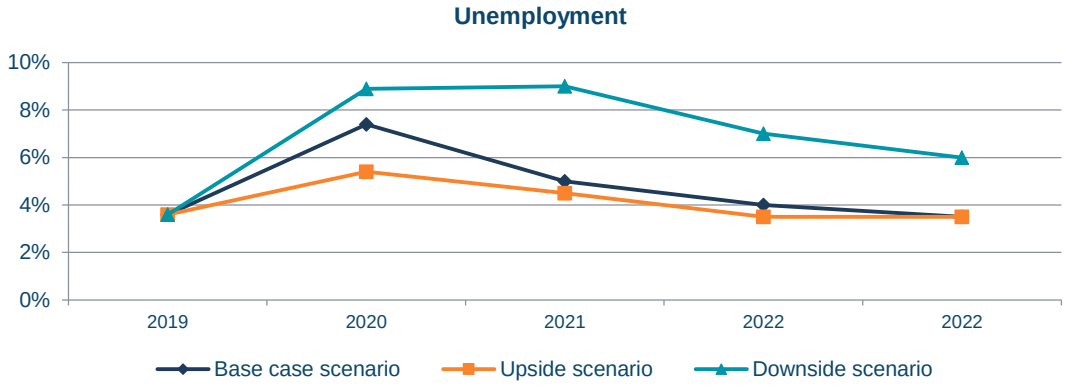
Annex
- further information

Economic scenarios and ECL

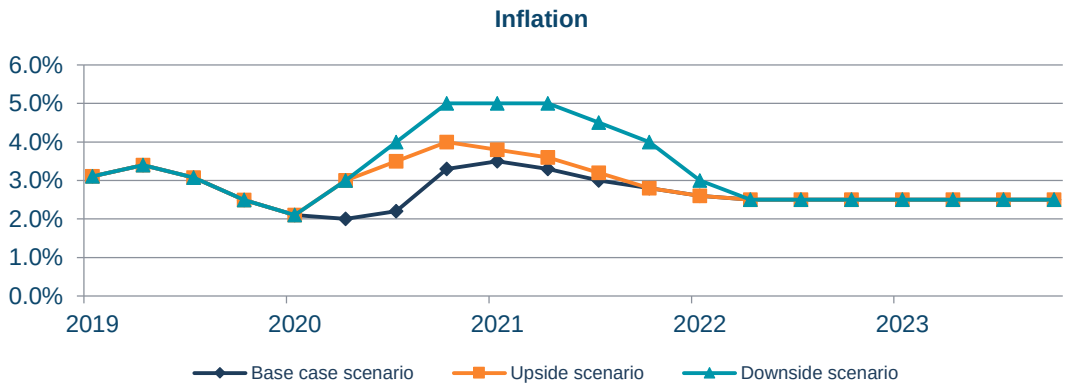


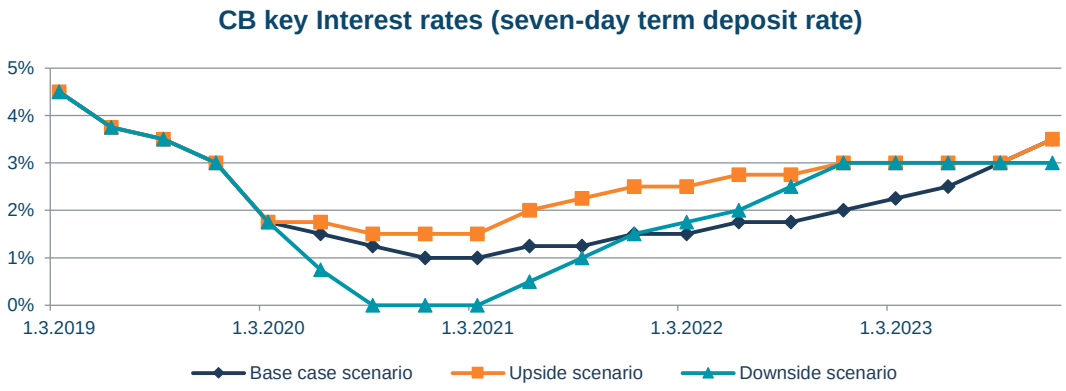
- The Bank's Economic Research Department provides scenarios with forecasts on relevant economic variables.
- Key macroeconomic variables used in modelling the allowance for credit losses for Stage 1 and Stage 2.
- Scenarios are averages for the next 12 months and then for the remainder of the forecast period, which represents a medium-term view.
- The upside scenario is assigned a weight of 25%, the base case scenario is assigned a weight of 50% and the downside scenario is assigned a weight of 25%.

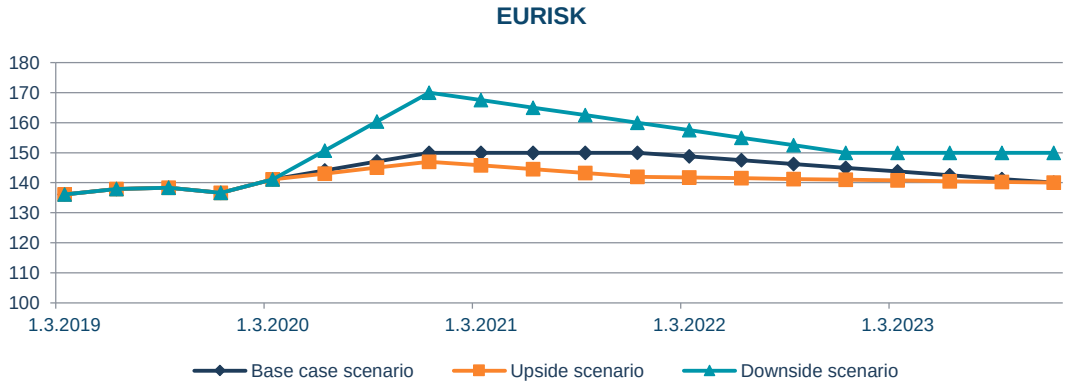


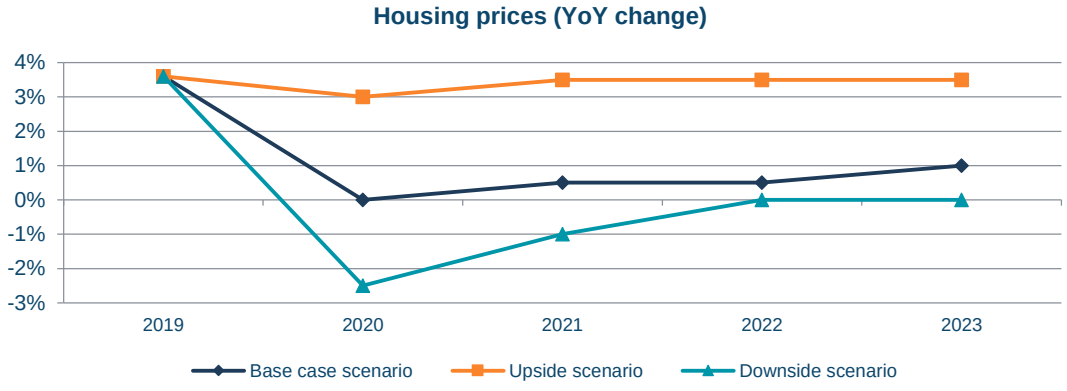


Economic scenarios and ECL









Key financial ratios

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	2019	2018	2017	2016
Profit after taxes	-3,628	3,875	3,247	4,329	6,784	18,235	19,260	19,766	16,643
Return on equity before taxes	-5.4%	8.0%	8.0%	9.5%	12.9%	9.6%	11.1%	11.0%	8.7%
Return on equity after taxes	-5.9%	6.3%	5.4%	7.1%	11.2%	7.5%	8.2%	8.2%	6.6%
Return on equity, excluding bank levy	-5.2%	8.0%	7.1%	8.9%	12.9%	9.2%	9.8%	9.5%	7.7%
After tax return on average assets	-1.0%	1.1%	0.9%	1.2%	2.0%	1.3%	1.5%	1.7%	1.5%
Total capital ratio	24.8%	25.8%	23.6%	23.7%	22.4%	25.8%	24.9%	26.8%	30.2%
Net interest income	9,427	9,580	9,631	10,214	10,245	39,670	40,814	36,271	34,650
Interest spread as a ratio of assets and liabilities	2.2%	2.3%	2.3%	2.3%	2.5%	2.4%	2.7%	2.5%	2.3%
Cost-income ratio	72.6%	46.2%	43.9%	42.3%	38.7%	42.6%	45.5%	46.1%	48.4%
Liquidity ratio LCR total	196%	161%	186%	174%	243%	161%	158%	157%	128%
Liquidity LCR FX	489%	769%	577%	555%	434%	769%	534%	931%	743%
Liquidity LCR ISK	96%	61%	46%	45%	49%	61%	44%	60%	90%
Net stable funding ratio NSFR total	115%	117%	119%	119%	118%	117%	120%	124%	123%
Net stable funding ratio NSFR FX	127%	143%	158%	164%	165%	143%	166%	179%	154%
Operating expenses as a ratio of average total assets	1.7%	1.8%	1.5%	1.7%	1.8%	1.7%	1.9%	2.0%	2.1%
Total assets	1,523,188	1,426,328	1,415,262	1,402,835	1,379,298	1,426,328	1,326,041	1,192,870	1,111,157
Loans / deposits ratio	157.7%	161.1%	161.5%	162.0%	157.6%	161.1%	153.6%	153.0%	144.7%
Full-time eqv.positions	886	893	903	903	922	893	919	997	1,012

Amounts in ISKm

Operations

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	2019	2018	2017	2016
Net interest income	9,427	9,580	9,631	10,214	10,245	39,670	40,814	36,271	34,650
Net fee and commission income	1,945	2,125	1,958	2,076	2,060	8,219	8,157	8,431	7,809
Net valuation adjustments and impairment	-5,244	-1,399	-1,056	-1,378	-994	-4,827	1,352	1,785	-318
Net foreign exchange gain (loss)	85	-300	-39	-87	-158	-584	-1,497	-1,375	-179
Other net operating income	-2,813	2,257	860	2,042	3,880	9,039	5,084	8,400	6,738
Total operating income	**3,400**	**12,263**	**11,354**	**12,867**	**15,033**	**51,517**	**53,910**	**53,512**	**48,700**
Salaries and related expenses	3,844	3,805	3,284	3,689	3,680	14,458	14,589	14,061	14,049
Other operating expenses	2,430	2,505	2,167	2,340	2,522	9,534	9,348	9,789	9,465
Tax on liabilities of financial institutions	450	1,064	1,065	1,065	1,010	4,204	3,860	3,253	2,973
Total operating expenses	**6,724**	**7,374**	**6,516**	**7,094**	**7,212**	**28,196**	**27,797**	**27,103**	**26,487**
Profit (Loss) for the period before tax	**-3,324**	**4,889**	**4,837**	**5,774**	**7,821**	**23,321**	**26,113**	**26,409**	**22,213**
Income tax	304	1,014	1,591	1,444	1,037	5,086	6,853	6,643	5,570
Profit (Loss) for the period	**-3,628**	**3,875**	**3,247**	**4,329**	**6,784**	**18,235**	**19,260**	**19,766**	**16,643**

Amounts in ISKm

Balance Sheet

	31.3.2020	31.12.2018	Change		31.12.2018	31.12.2017	31.12.2016
Cash and balances with CB	92,440	69,824	22,616	32%	70,854	55,192	30,662
Bonds and debt instruments	116,568	115,262	1,306	1%	77,058	117,310	154,892
Equities and equity instruments	25,923	30,019	-4,096	-14%	23,547	27,980	26,688
Loans and advances to fin institutions	69,740	47,929	21,811	46%	71,385	44,866	20,408
Loans and advances to customers	1,190,536	1,140,184	50,352	4%	1,064,532	925,636	853,417
Other assets	27,981	23,110	4,871	21%	18,665	21,886	25,090
Total	**1,523,188**	**1,426,328**	**96,860**	**7%**	**1,326,041**	**1,192,870**	**1,111,157**
Due to financial institutions and CB	41,495	48,062	-6,567	-14%	34,609	32,062	20,093
Deposits from customers	755,160	707,813	47,347	7%	693,043	605,158	589,725
Borrowings	412,590	373,168	39,422	11%	314,412	281,874	223,944
Other liabilities	48,457	30,470	17,987	59%	31,027	27,642	25,776
Subordinated liabilities	21,379	19,081	2,298	12%	13,340	77	388
Equity	244,107	247,734	-3,627	-1%	239,610	246,057	251,231
Total	**1,523,188**	**1,426,328**	**96,860**	**7%**	**1,326,041**	**1,192,870**	**1,111,157**

Amounts in ISKm

Segments

Q1 2020	Personal banking	Corporate Banking	Markets	Treasury	Support functions	Reconciliation	Total
Net interest income	4,315	4,830	653	-348	-21	-2	9,427
Net fee and commission income	802	192	998	-109	120	-58	1,945
Net valuation adjustments and impairments	-1,140	-4,097	0	-7	0	0	-5,244
Other net operating income	-148	-390	-744	-1,422	-19	-5	-2,728
Total operating income (expense)	**3,829**	**535**	**907**	**-1,886**	**80**	**-65**	**3,400**
Operating expenses	-1,631	-584	-613	-466	-3,042	62	-6,274
Tax on liabilities of financial institutions	-138	-153	-5	-150	-4	0	-450
Cost allocated from support functions to business segments	-1,058	-656	-360	-189	2,263	0	0
Profit (loss) before tax	**1,002**	**-858**	**-71**	**-2,691**	**-703**	**-3**	**-3,324**
Income tax	-264	147	-499	171	141	0	-304
Profit (Loss) for the period	**738**	**-711**	**-570**	**-2,520**	**-562**	**-3**	**-3,628**
Total assets	515,108	646,642	23,230	620,474	13,373	-295,639	1,523,188
Total liabilities	480,782	541,916	19,032	519,618	13,373	-295,639	1,279,082
Allocated capital	34,326	104,726	4,198	100,856	0	0	244,106

Amounts in ISKm

Landsbankinn‘s successes

Landsbankinn chosen best bank in Iceland

International financial magazine *Euromoney* selected Landsbankinn as the best bank in Iceland.

ESG risk rating

Landsbankinn ranked 6th out of 376 European banks assessed by Sustainalytics in its ESG risk rating.

Principles for Responsible Banking

Landsbankinn has decided to endorse UNEP FI’s new Principles for Responsible Banking.

Icelandic Performance Satisfaction Index

Landsbankinn was ranked highest by banking customers in the Icelandic Performance Satisfaction Index 2019.

PRI

Landsbankinn is a member of the United Nation’s Principles for Responsible Investment (UNPRI).

Equal pay certification

Landsbankinn received equal pay certification in April 2019. The certification confirms that the Bank’s remuneration system complies with the Equal Pay Standard ÍST 85:2012.