



Landsbankinn's Results

January – June 2019



News Release, 25 July 2019

Financial results of Landsbankinn in H1 of 2019

Landsbankinn's performance was positive by ISK 11.1 billion after taxes during the first half of 2019, compared with an after-tax profit of ISK 11.6 billion during the same period in 2018. Return on equity (ROE) during the period was 9.1% on an annualised basis, compared to 9.9% in the same period of 2018. Salaries and related expenses decreased by 2% between periods.

Net interest income amounted to ISK 20.5 billion, an increase of 5% between periods. Net fees and commissions amounted to ISK 4.1 billion, compared to ISK 3.9 billion for the same period last year. Impairment on loans amounted to ISK 2.4 billion during the period, compared with positive net valuations adjustments of ISK 1.7 billion over the same period the year before. The default ratio for H1 2019 was 0.9% compared to 0.6% in the same period of 2018.

The Bank's operating income for the first half of the year amounted to ISK 27.9 billion, compared to ISK 29.0 billion for the same period the year before. Other income from operations were ISK 5.7 billion, compared to ISK 3.9 billion for the same period last year.

The Bank's net interest margin for the first half of 2019 was 2.4%, while for the same period of 2018 it was 2.7%.

The Bank's operating expenses amounted to ISK 12.2 billion in the first half of 2019, remaining unchanged from the first half of 2018. Of this, wage expenses amounted to ISK 7.4 billion, compared to ISK 7.5 billion for the same period in 2018. Other operating expenses were ISK 4.9 billion, compared to ISK 4.6 billion for the same period last year.

In H1 2019, the cost-income ratio was 40.4%, whereas for the same period in 2018 this was 44.5%.

Lending to individuals and corporates increased by 6.2% from the beginning of the year, or by ISK 66 billion. Since the beginning of 2019, deposits have increased by almost ISK 5 billion.

As of 30 June this year, Landsbankinn's equity was ISK 240.6 billion and its total capital ratio was 23.7%.

Lilja Björk Einarsdóttir, CEO of Landsbankinn:

“Landsbankinn has delivered good results for the first half of this year. The Bank’s revenues were higher and costs lower than expected, demonstrating clearly that its core business is sound and yields a good profit. Cost restraint in the Bank’s operations has played a major role in ensuring that the Bank’s operating costs remain unchanged from those of the previous year. Efficiency has also increased through the use of digital technology and innovations in services have been well received by our customers. The Bank’s cost-income ratio in the first half of the year was just over 40%, which is lower than for the same period last year and lower than the Bank’s target.

The steady progress in our activities reflects our determination to offer good and competitive services. Landsbankinn was the first Icelandic bank to offer mobile phone payment services for all mobile phone users. We were also the first bank to offer access to an A2A payment solution, an important step towards an open banking system.

While it is undeniably disappointing to learn that the rating agency S&P Global Ratings now views the Bank’s outlook as negative, this is to some extent understandable given the current Icelandic economic situation and competitive environment to which S&P refers. On the other hand, we can point out that both S&P and Euromoney regard Landsbankinn as having achieved the best operating results of Icelandic banks recently.”

Highlights of Q2 2019 performance

Operations:

- » Landsbankinn’s profit in Q2 2019 was ISK 4.3 billion, compared to a profit of ISK 3.5 billion in the same quarter of 2018.
- » Return on equity after taxes was 7.1%, compared to 6.1% for the same period in 2018.
- » Net interest income was ISK 10.2 billion, compared to ISK 9.8 billion for the same period last year.
- » Net valuations adjustments on loans were negative by ISK 1.4 billion on Q2 2019, compared to positive changes of ISK 703 million in the same quarter of 2018.
- » Net fee and commission income amounted to ISK 2.1 billion, compared to ISK 2.2 in Q2 of 2018.
- » The net interest margin was 2.3%, compared to 2.7% in Q2 2018.
- » Salaries and related expenses amounted to ISK 3.7 billion, compared with ISK 3.9 billion in Q2 2018, a decrease of 5%.
- » Operating expenses less wages and related expenses increase by 2% as compared to the same period the previous year.
- » In Q2 2019, the cost ratio was 42.3%, whereas for the same period in 2018 this was 53.6%.
- » Full-time equivalent positions at Landsbankinn were 903 as at 30 June 2019, down from 955 the same time the previous year.

Balance sheet:

At the end of June this year, Landsbankinn's equity was ISK 240.6 billion, increasing by 0.4% since the beginning of the year.

- » The total capital ratio on 30 June 2019 was 23.7%, as compared to 24.1% at the end of June 2018. This is well above the 21% minimum capital requirement of the Icelandic Financial Supervisory Authority.
- » The Bank's total assets amounted to ISK 1,403 billion at the end of June 2019.
- » Customer deposits amounted to ISK 697.9 billion at the end of June 2019, compared with ISK 693 billion at year-end 2018.
- » Lending increased by 6.2% in the first half of the year, or by ISK 66 billion. Lending to corporates grew by ISK 40 billion, while loans to individuals and households increased by ISK 26 billion.
- » In May, Landsbankinn issued 18-month floating-rate bonds in the total nominal amount of NOK 300 million and SEK 600 million. The bonds sold at terms equivalent to an 83-point spread above the 3M NOK interbank rate and an 85-point spread above the 3M SEK interbank rate.
- » The Bank closely monitors and manages its overall liquidity risk, in both FX and ISK. At the end of June 2019, Landsbankinn's liquidity coverage ratio (LCR) was 174%.
- » Total corporate and household defaults amounted to 0.9% at the end of June 2019, compared to 0.8% at the end of 2018.

	H1 2019	H1 2018	Q2 2019	Q2 2018
	Amounts in ISK millions			
After-tax profit	11,113	11,613	4,329	3,511
ROE after taxes	9.1%	9.9%	7.1%	6.1%
Net interest margin*	2.4%	2.7%	2.3%	2.7%
Cost ratio**	40.4%	44.5%	42.3%	53.6%

	30/06/2019	30/06/2018	31/12/2018	31/12/2017
Total assets	1,402,835	1,249,853	1,326,041	1,192,870
Loans to customers	1,130,915	989,481	1,064,532	925,636
Customer deposits	697,898	654,689	693,043	605,158
Equity	240,612	232,113	239,610	246,057
Total capital ratio	23.7%	24.1%	24.9%	26.7%
Net stable funding ratio for foreign currency (NSFR FX)	164%	165%	166%	179%
Liquidity coverage ratio (LCR)	174%	164%	158%	157%
Foreign currency LCR	555%	743%	534%	931%
Loans in arrears (>90 days)	0.9%	0.6%	0.8%	0.9%
Full-time equiv. positions	903	955	919	997

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

** Cost ratio = Total operating expenses/(Net income from operations – net valuation adjustments)

Other aspects of Landsbankinn's operations in H1 2019

- » In a Gallup survey, Landsbankinn's market share in the individuals' and households' market was 37.1% in the first half of 2019. The Bank has held the largest share of this market since 2014. In the corporate market, the Bank's market share was 31.9%, according to the Gallup survey. Landsbankinn's share in corporate lending is around 40%.
- » The Landsbankinn app was the chosen App of the Year when the Icelandic web prizes were presented in February.
- » Various innovations to the Landsbankinn app and online banking were introduced in the first half of the year. One of these was the ability to create credit cards by self-service; cards which are created through the self-service feature are immediately ready for use in Apple Pay, Landsbankinn's card app, and online, even though the actual card has not yet been received by the user. Another example is a new overview also shows how high is the customer's potential credit authorization for borrowing in self-service through the Landsbankinn app. Landsbankinn is continuing to develop digital solutions to meet customer needs.
- » Customer use of digital solutions continues to grow rapidly. Around 90% of foreign payments are made through self-service. The same is true of around 75% of credit assessments, and about 90% of changes to credit card and overdraft limits, to mention a few uses.
- » In April, Landsbankinn was awarded equal pay certification, confirming that the Bank's equal pay system complies with the requirements of the Equal Pay Standard ÍST 85: 2012. The key aim of the equal pay certification is to counteract a gender-based wage gap and boost gender equality in the labour market.
- » The Bank's Annual General Meeting in April 2019 approved a motion from the Board of Directors to pay a dividend to shareholders for the operating year 2018 amounting to ISK 9,922 million, which corresponds to ISK 0.42 per share. The dividend was to be paid in two equal payments, on 10 April 2019 and 2 October 2019, respectively. The former dividend payment was made to shareholders in April this year, in accordance with the AGM's decision.
- » In April this year, the Centre of Corporate Governance (CCG) of the University of Iceland renewed its recognition of Landsbankinn as a model of good corporate governance. The award is backed by the Iceland Chamber of Commerce, NASDAQ Iceland, the Confederation of Icelandic Employers and the CCG.
- » In April, Landsbankinn reached an agreement with the insurance company Vörður on payment card insurances for Landsbankinn's cardholders for the next five years.
- » Since 8 May this year, Landsbankinn card holders have been able to link their payment cards to Apple Pay, enabling them to pay using their Apple device - an iPhone, iPad, Apple Watch or Apple computer - just as they would use a payment card. The response has been very good and clearly many people had been waiting impatiently to be able to take advantage of this option.
- » Landsbankinn and Arion Bank were joint co-ordinators of a public offering in Iceland held in connection with Marel's listing on the Euronext stock exchange in Amsterdam, which ended on 5 June.

Teleconference to present results

Landsbankinn's results for the first half of 2019 will be presented at a teleconference for market actors at 10:00 am on Friday, 26 July. The presentation meeting will be held in English. Registration is required, by sending an email to ir@landsbankinn.is.