



# Landsbankinn: Financial Results

January- June 2015

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20. August 2015

## News release accompanying the semi-annual financial statement of Landsbankinn for the year 2015

# Landsbankinn reports a profit of ISK 12.4 bn in H1 2015

In the first six months of 2015, Landsbankinn's after-tax profit was ISK 12.4 bn as compared with ISK 14.9 bn for the same period in 2014. Net interest income amounted to ISK 16.2 bn, up by 6% as compared with the same period in 2014. Net commission income amounted to 3.4 bn increasing by 16% from the same period the previous year. Value adjustments to lending decreased by ISK 9.6 bn YoY; earnings from equities increased by just under ISK 5 bn during the same period. Annualised ROE was 10.4% as compared with 12.8% for the same period the previous year.

The cost-income ratio decreased considerably; was 44.8% in H1 2015 as compared with 54.9% for the same period last year. Operating expenses increased by 2% YoY but a healthier revenue composition accounts for the decreasing cost-income ratio. Customer deposits have increased by 13% during the year and lending by 6%, partly due to the merger with the savings bank Sparisjóður Vestmannaeyja in late March. The impact of its operations now appears in the Bank's Income Statements for the first time. During the first half of the year, new housing loans amounted to ISK 31.7 bn as compared with ISK 21.5 bn for the same period last year. Landsbankinn had the largest market share on the Icelandic stock exchange in both equities and bonds during the first six months of the year.

Steinthór Pálsson, CEO of Landsbankinn: "Landsbankinn's performance in the first half of 2015 has been good, its income composition improving and its financial position sound. The Bank has benefited from positive developments in the economy and on financial markets and transaction volume has increased considerably. The Bank's market share in lending and deposit-taking, as well as capital markets, continues to increase. According to a survey undertaken by Gallup in June, Landsbankinn has the largest market share in the retail market, or 35.1% - a record high. This shows that customers appreciate Landsbankinn's activities.

Towards the end of March, Landsbankinn and Sparisjóður Vestmannaeyja merged. Integration of the two banks' operations has proceeded smoothly and the Bank emphasises providing sound financial services where the savings bank used to operate for the benefit of locals and the economy.

In July, international rating agency Standard & Poor's (S&P) raised the Bank's rating grade to BBB- with a positive outlook. Landsbankinn has now achieved an investment grade which boosts trust in the Bank on international markets and will facilitate its financing in the near future, both on domestic and international markets.

The government's plan to ease capital controls is likely to impact various figures in the Bank's balance sheet. Landsbankinn is well positioned to meet the inevitable outflow of deposits owned by the failed estates in the event that capital controls are lifted.

During the first half of this year, Landsbankinn has worked to implement a new strategy for the years until 2020. This new strategy involves significant changes which are intended to deliver both short and long-term success. The strategy involves increasing operating efficiencies still further through such measures as moving the Bank's centralised activities under one roof. Landsbankinn has temporarily suspended plans to build such facilities to review various opinions presented on the subject. The Bank's strategy emphasises providing exemplary service to customers, developing electronic service solutions, increasing the efficiency of support functions, modernising technology and ensuring economy in the balance sheet while limiting risk. Special emphasis is placed on promoting a performance-oriented culture in the Bank. These factors, developed as 7 individual strategic project flows, are intended to boost customer and employee satisfaction and loyalty, increase efficiency and support satisfactory return on equity for the future."

## Key figures from the profit and loss account and balance sheet for Q2 2015

- » Landsbankinn's profit in Q2 2015 amounted to ISK 6 bn as compared with ISK 10.6 bn for the same period in 2014.
- » After-tax return on equity decreased between periods; was 10.1% in Q2 2015 as compared with 18.4% in Q2 2014.
- » Value changes in lending decreased considerably between periods, to ISK 0.2 bn now as compared with ISK 7.3 bn in Q2 2014.
- » Net interest income increased between periods, to ISK 8.9 bn in Q2 2015 as compared with ISK 7.4 bn in Q2 the previous year.
- » Net commission income increased between periods, was ISK 1.8 bn in Q2 2015 as compared with ISK 1.4 bn during the same period the previous year.

## Key figures from the profit and loss account and balance sheet for H1 2015

### Operations:

- » In the first six months of 2015, Landsbankinn's after-tax profit was ISK 12.4 bn as compared with ISK 14.9 bn for the same period in 2014.
- » Return on equity (ROE) after taxes for the period was 10.4% as compared to a ROE of 12.8% for the same period of 2014.
- » Net interest revenue during the first six months of the year amounted to ISK 16.2 bn as compared with ISK 15.2 bn in the same period in 2014.
- » Net interest income as a ratio of average capital position was 2.8% in the first six months of 2015 as compared to 2.6% for the same period in 2014.
- » Net commission income amounted to ISK 3.4 bn, increasing by 16% from the same period the previous year, mostly due to changes in the payment card market and increased capital markets activities.
- » Other operating revenues increased by ISK 4 bn due, for the most part, to higher profit from equities.
- » Value changes to lending in the first six months of 2015 were positive by ISK 1.8 bn, decreasing considerably, or from ISK 11.4 bn for the same period in 2014.
- » Salaries and related expenses increase by 2% between periods due for the most part to the cost of severance agreements. Operating expenses less salaries and related expenses increased by 3% due mostly to increased contributions to the Depositors' and Investors' Guarantee Fund and the impact of merger.
- » The cost-income ratio for the first six months of the year was 44.8%, as compared with 54.9% for the same time last year.

Full-time equivalent positions numbered 1,088 as at 30 June 2015, down from 1,162 the same time the previous year. Since year-end 2011, full-time equivalent positions with Landsbankinn have been reduced by 18.4%, or by 245.

### Balance sheet:

- » The Bank's equity amounted to ISK 239.9 bn and has decreased by 4% since the beginning of the year. Dividends in the amount of ISK 24 bn were paid to shareholders in Q1 2015.
- » The Bank's capital adequacy ratio (CAR) is now 28.0%, up from 26.8% at the end of June 2014.
- » Landsbankinn's total assets amounted to ISK 1,173 bn as at the end of June 2015.
- » Customer deposits have increased considerably and amount to ISK 621 bn as of the end of June 2015.
- » New lending to customers in H1 amounts to ISK 95 bn, yet instalments, value changes and other factors contribute to a total increase in lending of ISK 43 bn during the period. Of that amount, ISK 7 bn are due to the merger with Sparisjóður Vestmannaeyja in Q1.
- » The Bank's liquidity position is very strong, both in foreign currency and Icelandic króna and well above regulatory limits.
- » The Bank has a favourable foreign currency balance and assets in foreign currencies amount to around ISK 19 bn in excess of foreign currency liabilities.
- » Total defaults by companies and households were 2.3% at the end of June 2015 and remain unchanged this year to date.

	H1 2015	H1 2014	Q2 2015	Q2 2014
	<i>All amounts are in ISK million</i>			
Profit after taxes	12,405	14,878	5,993	10,590
Return on equity after taxes	10.4%	12.8%	10.1%	18.4%
After tax return on average assets	2.2%	2.6%	2.0%	3.7%
Interest spread as a ratio of av. total assets	2.8%	2.6%	3.1%	2.6%
Cost-income ratio*	44.8%	54.9%	41.7%	43.7%
	H1 2015	H1 2014	2014	2013
Total assets	1,172,669	1,154,598	1,098,370	1,151,516
Loans to customers	761,290	699,648	718,355	680,468
Deposits from customers	621,023	473,356	551,435	456,662
Equity	239,852	235,894	250,803	241,359
Capital ratio (CAR)	28.0%	26.8%	29.5%	26.7%
Net stable funding ratio NSFR FX	139%		134%	
Liquidity ratio LCR total	119%	110%	131%	102%
Liquidity ratio LCR FX	377%	208%	614%	208%
Net FX position	19,446	18,514	20,320	14,457
Arrears (>90 days)	2.3%	4.0%	2.3%	5.3%
Full-time equiv. positions	1,088	1,162	1,126	1,183

\*Cost-income ratio = Total operating expenses less expensed equity-based wage items/ (Net operating revenue-value change of lending)

## Other aspects of operations in the first six months of 2015

- » Landsbankinn hf. and Sparisjóður Norðurlands ses. signed a merger schedule on 30 June. The merger has not become effective, as it is subject to certain qualifications that have yet to be fulfilled.
- » According to a survey undertaken by Gallup in June, Landsbankinn held the largest market share on the retail market during the first half of the year, or 35.1%, a record high. New housing loans also increased sharply, amounting to ISK 31.7 bn in H1 2015 as compared with ISK 21.5 bn for the same period last year.
- » At the end of June, Landsbankinn had the largest market share on the Icelandic stock exchange in both equities and securities. The Bank's market share in equities turnover was 30.3% and 21.5% in securities.
- » In May, Ístak hf., a subsidiary of Landsbankinn, sold the company Ístak Ísland ehf. to Danish contractor Per Aarsleff AS.
- » A survey by Gallup in March 2015, undertaken on behalf of Landsbankinn, showed that most respondents, or 40%, would select Landsbankinn as an asset management service.
- » The Bank's AGM, held on 18 March, approved an ISK 24 bn dividend payment to the Bank's owners. Landsbankinn has paid over ISK 53 bn in dividends for the past three operating years.
- » In March, Landsbankinn was the first bank in Iceland to be awarded the golden seal of PwC's Equal Pay Audit. Landsbankinn is also the largest company to participate in and pass the Equal Pay Audit.
- » For the second year running, the magazine Global Finance has named Landsbankinn the best bank in Iceland.
- » Also for the second year in a row, International Finance magazine named Landsbankinn the best bank in Iceland and Landsbankinn's online bank the best online banking service.
- » A new version of online banking for individuals was introduced in January. In February, the panel of the Icelandic Web Awards named it the best service website.