Financial statement of Landsbankinn

January - March 2016

12 May 2016

News release

Landsbankinn reports profit of ISK 3.3 billion in Q1

Landsbankinn's operations returned an after-tax profit of ISK 3.3 billion in the first three months of 2016, while profit for the same period of 2015 amounted to ISK 6.4 billion.

Operating income in Q1 amounted to ISK 11.5 billion, compared to ISK 14.7 billion in Q1 2015. Higher salary costs arising from new collective bargaining agreements were offset by a decrease in other operating expenses, with the result that the bank's total operating expenses in Q1 decreased by 0.5% YoY.

Net interest margin in Q1 2016 was 1.9% compared to 2.0% in Q1 of 2015.

Despite stiff and increasing competition in credit markets, Landsbankinn's lending has increased from that of Q1 the previous year. Fees and commissions also increased due to a higher business volume.

The default ratio continues to fall, and averaged 1.7% in Q1 this year compared to 2.3% during the same period last year.

A rise in the cost-income ratio is due in particular to lower income from securities. During the first three months of this year Landsbankinn's cost-income ratio was 55.8% compared to 48% in Q1 of the previous year.

As of 31 March this year Landsbankinn's equity amounted to ISK 267.8 billion and its capital adequacy ratio was 31.2%. In 2016 the bank will pay dividends of ISK 28.5 billion in two payments, firstly on 20 April and then on 21 September; as a result the dividend payment does not affect these results.

Landsbankinn's CEO Steinþór Pálsson: "Landsbankinn has delivered an acceptable performance in Q1. The bank has for some time pointed out that the impact of one-off items, such as positive revaluations of loans, would decrease and such effects cannot be expected in the longer term. This has proven to be the case and this quarter's results reflect the bank's normal operations, without significant effects from irregular items.

While Landsbankinn needs to deliver an acceptable return, it must at the same time keep risk within limits, ensuring both sound and efficient operations. In accordance with its strategy, Landsbankinn directs continuous efforts towards reducing risk and increasing efficacy. In some instances these cost-containment measures call for expenditures and investment in the near term but eventually result in major savings. This applies, for example, to the renewal of the bank's core IT systems, which is now under way in collaboration with the Icelandic Banks' Data Centre (RB).

Landsbankinn's position is strong, as witnessed by its large and growing market share, solid financial basis and dividends. Implementing the bank's strategy has progressed well, with its key focus on having customers feel that by working with Landsbankinn they achieve their goals and benefit from doing business with the bank."

Highlights of Q1 2016 performance

Income statement

- Landsbankinn's profit in Q1 2016 amounted to ISK 3.3 billion, as compared to ISK 6.4 billion in Q1 2015.
- After-tax ROE was 5.0%, compared to 10.6% for the same period in 2015.
- Loan revaluations during the first three months of this year were positive by ISK 311 million.
- Net interest income amounted to ISK 7.5 billion in Q1 this year compared to ISK 7.3 billion for the same period in 2015.
- Net fees and commissions amounted to almost ISK 2 billion compared to ISK 1.6 billion in Q1 2015. This is a 21% increase YoY, resulting from increased trading.
- Net interest margin was 1.9% compared to 2.0% in Q1 of the previous year.
- Salaries and related expenses amounted to ISK 3.8 billion, an increase of 1.4% between periods.
- If salaries and related expenses are excluded operating expenses decreased by 3.1% YoY.
- During the first three months of this year Landsbankinn's cost-income ratio was 55.8% compared to 48% in Q1 of the previous year.
- Full-time equivalent positions as of 31 March were 1,063, compared to 1,102 a year earlier.

Balance sheet

- At the end of March Landsbankinn's equity was ISK 267.8 billion, an increase of 1.25% since the beginning of this year.
- The bank's capital adequacy ratio as of 31 March this year was 31.2%, compared to 26.7% as of the end of March 2015. This is well above the 21.8% equity requirement set by the Icelandic Financial Supervisory Authority (FME).
- Landsbankinn's total assets amounted to ISK 1,107 billion as of the end of March 2016.
- Customer deposits were ISK 545 billion at the end of March 2016 as compared to ISK 559 billion at the beginning of this year.
- New lending to customers in Q1 amounted to around ISK 49 billion, while if regard is had for instalments, revaluations and other factors total lending increased by ISK 3.1 billion during the quarter.
- The bank's liquidity remains extremely high, both in foreign currency and in ISK, and well above regulatory requirements. Both total liquidity and FX liquidity exceed the Central Bank's benchmarks. At the end of March 2016 the bank's liquidity ratio (LCR) was 134%.
- Its foreign balance remains very strong, as its FX assets exceed obligations in foreign currency by ISK 17 billion.
- Total corporate and household defaults were 1.7% as of the end of March 2016, compared to 1.8% at year-end 2015.

	Q1 2016	Q1 2015	2015	2014
				(ISKm)
After-tax profit	3,315	6,412	36,460	29,737
After-tax ROE	5.0%	10.6%	14.8%	12.5%
Adjusted ROE after taxes*	5.7%	10.0%	10.6%	7.5%
Net interest margin**	1.9%	2.0%	2.2%	1.9%
Cost-income ratio***	55.8%	48.0%	43.8%	56.0%

	31/3/2016	31/3/2015	31/12/2015	31/12/2014
Total assets	1,106,700	1,172,380	1,118,658	1,098,370
Loans to customers	814,669	735,479	811,549	718,355
Customer deposits	545,208	624,063	559,051	551,435
Equity	267,846	233,860	264,531	250,803
Capital adequacy ratio (CAR)	31.2%	26.7%	30.4%	29.5%
Funding ratio (NSFR FX)	133%	142%	136%	134%
Total liquidity cover ratio (LCR)	134%	118%	113%	131%
FX liquidity cover ratio	496%	379%	360%	614%
Foreign balance	17,071	19,905	23,795	20,320
Default ratio (over 90 days)	1.7%	2.3%	1.8%	2.3%
Full-time equiv. positions	1,063	1,102	1,063	1,126

* Adjusted after-tax ROE = (After-tax profit – positive value adjustments after taxes – taxes on financial undertakings' total liabilities – after-tax profit on discontinued operations) / avg. equity position

** Net interest margin = (Interest income / avg. assets) – (interest expenses / avg. liabilities)

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