



# Landsbankinn's 2015 results

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## News announcement 25 February 2016

# Landsbankinn's 2015 profit totals ISK 36.5 billion

- » Profit after tax in 2015 was ISK 36.5 billion.
- » Return on equity (ROE) was 14.8% compared to 12.5% in 2014.
- » The cost-income ratio decreased substantially year-on-year while income grew strongly and cost decreased.
- » After-tax income from positive value adjustments to loans was ISK 13.5 billion compared to ISK 14.9 billion in 2014.
- » Equity amounted to ISK 264.5 billion and the capital adequacy ratio (CAR) was 30.4%.
- » A proposed dividend of ISK 28.5 billion will be submitted at the Annual General Meeting.

Landsbankinn hf. reported an after-tax profit for 2015 of ISK 36.5 billion, compared to ISK 29.7 billion in 2014. After-tax return on equity was 14.8% in 2015, compared to 12.5% in 2014.

The Bank's cost-income ratio decreased substantially year-on-year, from 56% in 2014 to 43.8% in 2015.

Income grew markedly this past year due to the increased scope of the Bank's activities and favourable financial market developments. Loans increased by 13% during the year while balance sheet expansion was less than 2%. A relatively larger share of Landsbankinn's total assets now bear interest, resulting in higher interest income; net interest income grew by over ISK 4 billion year-on-year. Landsbankinn's net fees and commissions grew by 17% from the previous year, due to increased capital markets, asset management activities and changes to the payment card market. These changes are offset to some extent by the Bank's higher interest expense on card transactions.

Other operating income increased by almost ISK 6 billion as a result of favourable securities markets developments and profit on sale of assets.

Net valuation adjustments of loans results in an entry of ISK 18 billion in pre-tax income in the financial statements. This is due to the reversal of a past year provisions on foreign currency linked loans to companies, which has now been resolved, as well as to improved quality of the Bank's loan portfolio. As in 2014 positive value adjustments make a substantial impact on the Bank's profit, although in 2014 pre-tax income recognised due to net valuation adjustment was ISK 2 billion higher, around ISK 20 billion.

The Bank's operating expenses decreased by 1.5% from the previous year. Salaries and related expenses increased by 1% while other operating expenses decreased by 5%.

Pre-tax profit in 2015 amounted to ISK 48.9 billion, as compared to ISK 39.5 billion in 2014. Taxes, including special financial activities tax on salaries, amount to ISK 13.1 billion in the 2015 statements, compared to ISK 10.5 billion in 2014.

Landsbankinn's total assets increased by ISK 20.3 billion during the year, amounting to ISK 1,119 billion at year-end 2015. Lending increased by ISK 93 billion, the major portion of which is housing mortgages to households plus the increase resulting from mergers with the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands. Corporate lending has also grown. The default rate continues to decline: it was 1.8% at year-end 2015, compared to 2.3% at year-end 2014.

At year-end 2015 customer deposits totalled ISK 559 billion, compared to ISK 551 billion at year-end 2014. Deposits increased by ISK 8 billion during the year despite a substantial outflow of the deposits of financial undertakings in winding-up proceedings prior to year-end.

At year-end 2015 Landsbankinn's equity was ISK 264.5 billion, almost ISK 14 billion higher than at year-end 2014, despite a dividend payment of ISK 23.7 billion to shareholders in March 2015.

At year-end 2015 Landsbankinn's capital adequacy ratio (CAR) was 30.4%, an increase of almost one percentage point from the previous year. By comparison, the capital requirement set by the Icelandic Financial Supervisory Authority (FME) for Landsbankinn is currently 21.8%.

A motion will be proposed to the Annual General Meeting, which has been moved to 14 April 2016, that a dividend be paid to shareholders equivalent to ISK 1.2 per share, or ISK 28.5 billion in total. The dividend is equivalent to almost 80% of 2015 profit.

#### *Landsbankinn's CEO Steinhólr Pálsson:*

"2015 has proven to be a highly successful year for Landsbankinn. The Bank's income has risen significantly over the previous year while at the same time operating expenses have decreased. Uncertainty and risk have been reduced. Asset quality has risen and the Bank's funding has been reinforced through improved access to domestic and foreign credit markets. Liquidity is strong, and the Bank's equity is among the highest on record, despite large dividends paid. The integration of the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands was accomplished effectively, further strengthening Landsbankinn's presence outside the capital region.

In recent years return on equity has been high and exceeded expectations in 2015. Large, irregular income items have been a major factor here, primarily income recognised on valuations of loans. In 2015 the impact of these was an increase in after-tax profit of ISK 13.5 billion and of ISK 14.9 billion in 2014. Profits can be expected to decline considerably in the near term as the impact of these one-off items on the Bank's operations will ebb as time progresses.

Landsbankinn's strategy is to be a trusted financial partner for its customers and to ensure that customers, owners and society as a whole benefit from the Bank's work. The Bank emphasises economical and efficient operations, providing an acceptable return when large, irregular items are excluded. At the same time, we make it our aim to provide customers with exemplary services on competitive terms.

At the beginning of 2015 Landsbankinn adopted a new and ambitious strategy to 2020. Determined effort has been focused on implementing this strategy, the success of which is assessed regularly. The strategy has already brought visible results, both for customers and for the bank, and has contributed in no small part to the bank's highly successful outcome in 2015."

## Highlights of Q4 2015 performance

- » Landsbankinn's profit in Q4 2015 amounted to ISK 12 billion, as compared to ISK 9.8 billion in Q4 2014.
- » Return on equity rose substantially year-on-year and was 18.6% in Q4 2015 compared to 15.9% during this same period the previous year.
- » Value changes were positive by ISK 5.9 billion in Q4 2015 and by ISK 6.1 in Q4 2014.
- » Net interest income amounted to ISK 7.3 billion compared to ISK 5.8 billion in Q4 2014.
- » Net fees and commissions amounted to ISK 1.7 billion compared to ISK 1.6 billion in Q4 2014.

## Key 2015 income statement and balance sheet figures

### *Income statement*

- » Landsbankinn hf. reported a profit for 2015 of ISK 36.5 billion, compared to ISK 29.7 billion in 2014.
- » After-tax ROE increased, despite an increase in equity, rising to 14.8% compared to 12.5% in 2014.
- » Net interest income rose by ISK 4.3 billion year-on-year, totalling ISK 32.3 billion in 2015, as compared with ISK 28 billion in the previous year.
- » The interest spread as a ratio of assets and liabilities rose year-on-year, increasing from 1.9% in 2014 to 2.2% in 2015.
- » Landsbankinn's net fees and commissions income increased by 17% year-on-year, due to increased capital markets trading and changes in the payment card market. These changes are offset to some extent by the Bank's higher interest expense on card transactions.
- » Revaluations of loans were positive by ISK 18.2 billion in 2015, primarily as a result of the precedent-setting Supreme Court judgements in cases no. 34/2015 and 35/2015, and judgements by the Reykjavík District Court in November 2015 and January 2016. Reversal of a past years provisions on foreign currency linked loans to companies explains around ISK 13.8 billion in net valuation adjustments.
- » Salaries and related expense rose by 1% in 2015, attributable mainly to contractual wage increases.
- » The Bank's cost-income ratio decreased year-on-year, from 56% in 2014 to 43.8% in 2015.
- » In 2015 the savings banks Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands were merged with Landsbankinn. Despite the impact of these mergers, the Bank's operating costs decreased in total by 1% year-on-year.
- » Full-time equivalent positions decreased by 63 during the year, to 1,063 at year-end. If mergers with other financial undertakings are taken into consideration, the number of full-time equivalent positions at Landsbankinn has decreased by 21.1% since 2011.
- » Landsbankinn hf. taxes in 2015 were ISK 13.1 billion, compared to ISK 10.5 billion in 2014.

## Balance sheet

- » At year-end 2015 Landsbankinn's equity was ISK 264.5 billion, almost ISK 14 billion higher than at year-end 2014, despite a dividend payment of ISK 23.7 billion to shareholders in March 2015.
- » The Bank's capital adequacy ratio (CAR) has risen to 30.4% at year-end 2015 from 29.5% as of year-end 2014, and is considerably above its 21.8% capital requirement set by the Icelandic Financial Supervisory Authority (FME).
- » The Bank's total assets amounted to ISK 1,119 billion at year-end 2015, increasing by around 2% year-on-year.
- » New lending by Landsbankinn during the year totalled ISK 225 billion, but due to instalments paid, value changes and other factors total lending increased by ISK 93 billion, making total loans outstanding ISK 811 billion as of year-end 2015.
- » Customer deposits, excluding deposits of financial undertakings, rose by 1.4% in 2015, or by ISK 7.6 billion.
- » The Bank's liquidity has never been higher, both in foreign currency and in ISK, well exceeding regulatory requirements. At year-end 2015 the liquidity ratio (LCR) was 113%.
- » The Bank's foreign balance remains very strong, as its FX assets exceed obligations in foreign currency by ISK 23.8 billion.
- » In 2015 assets held for sale decreased by ISK 6.3 billion. Total corporate and household defaults decreased from 2.3% at year-end 2014 to 1.8% at year-end 2015. In 2013 the default rate was 5.8%.
- » In 2014 the Bank sold its 38% stake in Valitor Holding hf. to Arion Bank. In addition to a monetary payment of around ISK 3.6 billion the Banks concluded an agreement for an additional consideration as part of the purchase price. The agreement was subject to Valitor, or a subsidiary of Valitor, receiving payment from VISA Europe in connection with an option between VISA Europe and VISA Inc. The option was exercised near the end of 2015. According to an announcement by VISA Inc. payment will be made to VISA Europe in three parts. Landsbankinn has assessed the fair value of its additional consideration and recognized in this connection income amounting to ISK 2.4 million in its 2015 financial statements. Further details of the income recognized are provided in Note 24.

|                           | 2015            | 2014   | 4Q 2015 | 4Q 2014 |
|---------------------------|-----------------|--------|---------|---------|
|                           | Amounts in ISKm |        |         |         |
| After-tax profit          | 36,460          | 29,737 | 12,047  | 9,752   |
| ROE after taxes           | 14.8%           | 12.5%  | 18.6%   | 15.9%   |
| Adjusted ROE after taxes* | 10.6%           | 7.5%   | 12.8%   | 9.2%    |
| Net interest margin**     | 2.2%            | 1.9%   | 1.9%    | 1.5%    |
| Cost-income ratio***      | 43.8%           | 56.0%  | 39.1%   | 57.7%   |

|                                 | 31/12/15  | 31/12/14  | 30/09/15  | 30/06/15  |
|---------------------------------|-----------|-----------|-----------|-----------|
| Total assets                    | 1,118,658 | 1,098,370 | 1,175,804 | 1,172,669 |
| Loans to customers              | 811,549   | 718,355   | 807,033   | 761,290   |
| Customer deposits               | 559,051   | 551,435   | 624,924   | 621,023   |
| Equity                          | 264,531   | 250,803   | 252,484   | 239,852   |
| Equity ratio (CAR)              | 30.4%     | 29.5%     | 29.2%     | 28.0%     |
| Net stable funding ratio (NSFR) | 136%      | 134%      | 120%      | 139%      |
| Liquidity coverage ratio (LCR)  | 113%      | 131%      | 109%      | 119%      |
| FX liquidity coverage ratio     | 360%      | 614%      | 190%      | 377%      |
| Foreign currency balance        | 23,795    | 20,320    | 22,842    | 19,446    |
| Loans in arrears (>90 days)     | 1.8%      | 2.3%      | 2.0%      | 2.3%      |
| Full-time equiv. positions      | 1,063     | 1,126     | 1,092     | 1,088     |

\* 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 differential between interest-bearing assets and liabilities

\*\*\*Cost-income ratio = Total operating expenses net of equity-linked wage expense / (Net operating income – value adjustments to loans)

## Other operating highlights in 2015

- » According to Gallup surveys, Landsbankinn held the largest share (36.1%) of the retail market in Q4 2015, its highest figure ever measured.
- » In December, Landsbankinn concluded its first Scandinavian senior unsecured issuance, with bonds totalling NOK 250 million and SEK 250 million nominal value.
- » Landsbankinn and the Nordic Investment Bank (NIB) signed a 5Y loan contract in December totalling EUR 30 million. The contract is a framework agreement providing for Landsbankinn to re-loan the funds for projects to improve the competitiveness of SMEs and finance eco-friendly development in Iceland.
- » The international rating agency Standard and Poor's affirmed its rating for Landsbankinn in November. The Bank's long- and short-term counterparty credit ratings are BBB- and A-3 respectively and the outlook remains positive.
- » In October the Bank issued EUR 300 million in senior unsecured bonds, or the equivalent of ISK 43 million. The bonds have a 3Y maturity, bear fixed 3% interest and were sold at terms equivalent to a 295 bp premium on EURIBOR.
- » In September 2015 Landsbankinn and the Winding-up Board of LBI reached agreement for Landsbankinn to prepay in 2015 foreign-denominated bonds maturing in October 2016 and to prepay in part bonds maturing in October 2018. The amount of the prepayment was equivalent to around ISK 47 billion.

- » In 2015 Landsbankinn was the leading equity trader on NASDAQ Iceland, with a 26.4% market share, and the second-largest bond market trader, with a market share of 20.6%. As NASDAQ Iceland has eight market members, the Bank is clearly the leading trader in listed securities.
- » Landsbankinn was certified compliant with a new version of ISO 27001, an international standard for information security and confidential information management.
- » In 2015, the Bank's Corporate Finance handled the sale of the companies Ístak, Promens and Ellingsen and acted as advisor for acquisitions by the real estate company Reginn of property portfolios of Ósvör hf. and CFV1 ehf.
- » In a Gallup survey in March 2015 carried out for Landsbankinn, the largest number of respondents (40%) said they would choose Landsbankinn for asset management services.
- » The Bank's annual general meeting on 18 March 2015 approved a motion to pay shareholders a dividend of around ISK 24 billion. This brought the total dividends paid by the Bank for the 2012-2014 financial years to around ISK 53.5 billion.
- » Landsbankinn and the savings bank Sparisjóður Norðurlands signed a merger schedule on 30 June and the merger took effect formally on 4 September.
- » Landsbankinn and Sparisjóður Vestmanneyja were merged by an FME Decision on 29 March 2015.
- » At the beginning of July Landsbankinn's Development and Human Resources division was disbanded and the division's units transferred to other divisions, reducing the number of managing directors in the Bank from seven to six.
- » Isavia, the operator of the Leifur Eiríksson air terminal at Keflavík airport, began negotiations with Arion Bank in October after tendering for financial services in the terminal. Landsbankinn will cease its operations at the Keflavík airport terminal on 30 April 2016.
- » Landsbankinn's mobile banking service – l.is – underwent a major overhaul in October, as part of the Bank's strategy to expand e-services.
- » In March Landsbankinn became the first bank in Iceland to be awarded the golden seal of PwC's Equal Pay Audit. Landsbankinn is also the largest company which has undergone and passed this audit.
- » For the second year in a row the financial journal Global Finance judged Landsbankinn the best bank in Iceland.
- » Also for the second year in a row, Landsbankinn was selected as the best bank in Iceland by the financial journal International Finance, and its online banking service the best.
- » A new Personal Online Banking service was launched in January and in February voted best service site by the judges of the Icelandic Web Awards.

### **Financial Calendar**

14 April 2016 - AGM

12 May 2016 – Q1 Report 2016

11 August 2016 – H1 Report 2016

27 October 2016 – Q3 Report 2016

9 February 2017 – Full Year Results 2016