



Landsbankinn's 2016 results



News Release, 9 February 2017

Landsbankinn profits by ISK 16.6 bn in 2016

- » Landsbankinn's after-tax profit in 2016 was ISK 16.6 billion.
- » Landsbankinn held a 37.1% market share in the retail market according to a Gallup survey. This is a record high.
- » Return on equity (ROE) was 6.6% in 2016, as compared to 14.8% in 2015.
- » Landsbankinn's cost-income ratio increased between years and was 48.4% in 2016.
- » Value changes in the credit portfolio were negative by ISK 318 m as compared with positive value changes in the amount of ISK 18.2 bn in 2015. Landsbankinn expensed a total of ISK 5.4 bn in Q4 of 2016 to meet four Supreme Court rulings.
- » Landsbankinn's equity amounted to ISK 251.2 bn at year-end 2016 and its CAR was 30.2% of risk-weighted assets.
- » A proposal will be made to the AGM on 22 March to pay ISK 13 bn in dividend to shareholders for the year 2016. In addition, the Board of Directors intends to propose that the AGM approve payment of a special dividend.
- » Landsbankinn's annual report and risk report for 2016 are now published alongside the annual financial statements. The reports are available on the Bank's website.

The profit of Landsbankinn hf. in 2016 was ISK 16.6 bn after taxes, as compared with ISK 36.5 bn in 2015. Return on equity (ROE) after-taxes was 6.6% for the year 2016 as compared with a ROE of 14.8% in 2015. Net interest income amounted to ISK 34.7 bn and net commission income was ISK 7.8 bn. Other operating income amounted to ISK 6.1 bn. Value changes to the credit portfolio were negative by 318 m. Operating costs were ISK 23.5 bn.

Lending increased by 5% between years while the balance sheet contracted by 1%. A proportionately larger share of Landsbankinn's assets is now interest-bearing, which leads to increased interest revenue, and net interest income grew by over ISK 2.3 bn between years. Landsbankinn's net commission income is up by 14% between years. This is due mostly to increased activity on capital markets and in asset management, and changes in the payment card market which return increased commission income. At the same time, the Bank's financing cost for payment cards also increases.

As a result of market developments, other operating income dropped by just under ISK 9 bn between years.

Negative value changes to loans amounted to ISK 318 m. This is a turnaround from 2015 when value changes to loans were positive by ISK 18.2 bn. The recalculation of foreign currency indexed loans has had a large impact on the Bank's financial statements. In 2015, the Bank capitalised ISK 13.8 bn as a result of the precedent set by rulings of the Supreme Court in cases No. 34/2015 and 35/2015 and rulings of the District Court of Reykjavík in November 2015 and January 2016. The main reason for the negative value changes in lending in 2016 is that in December of 2016 and January of 2017, the Supreme Court ruled against the Bank in four cases disputing the right of the

Bank to an additional claim as a result of recalculations of foreign currency indexed loans in accordance with Central Bank interest rates instead of contractual interest rates in accordance with final receipts. In these cases, the Supreme Court found the impact of the additional claim to be so severe for the companies involved that the Bank should absorb the disputed interest margin. These rulings may set a precedent for cases involving other foreign currency indexed loans to corporates, where circumstances are similar, yet further rulings are necessary to clarify the precedent. As a result, the assessment of the financial impact of the rulings might change to reflect future rulings. Expenses in the amount of ISK 5,435 million were recognised in Landsbankinn's consolidated income statement as a result of these rulings towards the end of Q4 2016.

Salaries and other operating expenses decreased by 1.0% between years. Salaries and related expenses increased by 2% while general operating expenses decreased by 5%.

Pre-tax profit in 2016 amounted to ISK 25.2 bn, as compared to ISK 48.9 bn in 2015. Imputed taxes, including a special financial management tax on salaries, amount to ISK 9.2 bn in 2016 as compared with ISK 13.1 bn in 2015.

Landsbankinn's total assets decreased by ISK 7.5 bn between years and at year-end 2016, the Bank's assets amounted to a total of ISK 1,111 bn. Lending increased by ISK 42 bn, due mostly to an increase in housing loans to private individuals and increased lending to corporates. The default ratio continues to decrease and stood at 1.5% at year-end 2016 as compared with 1.8% at year-end 2015.

At the end of 2016, deposits from customers amounted to ISK 590 bn as compared with ISK 559 bn at year-end 2015.

Landsbankinn's equity at year-end 2016 was ISK 251.2 bn, as compared with ISK 264.5 bn at year-end 2015. In 2016, Landsbankinn paid ISK 28.5 bn in dividend to shareholders.

Landsbankinn's total capital ratio at year-end 2016 was 30.2%, down by 0.2 percentage points from the previous year. The Financial Supervisory Authority, Iceland (FME), sets the minimum requirement for total capital at 22.1%.

A proposal will be made to the AGM on 22 March 2017 that shareholders be paid a dividend amounting to ISK 0.55 per share for the year 2016, a total amount of ISK 13 bn. The dividend payment represents 78% of the year's profit. In addition, the Board of Directors intends to propose that the AGM approve payment of a special dividend, the amount of which will be disclosed in motions to the AGM.

Hreiðar Bjarnason, interim CEO of Landsbankinn:

"Landsbankinn continues to be the largest financial undertaking in Iceland and its financial position is very sound. The Bank's core operations yielded positive results in 2016, net interest and commission income increased considerably between years while operating expenses decreased.

Our market share in the retail market has never been higher and the Bank's position in the corporate market and on financial markets remains strong. Surveys show that customer satisfaction increased considerably during the year, a fact we consider tremendously important, as the Bank emphasises providing customers throughout Iceland with exemplary service at competitive terms.

For the second year running, Standard & Poor's raised the Bank's credit rating. The Bank's current rating is BBB with a continued positive outlook. This is a welcome recognition of the great work that has been done at the Bank in previous years. Landsbankinn has emphasised ensuring profitability from core operations, discounting large, irregular items. This strategy has yielded positive results and the Bank will continue along this path."

Key figures from the profit and loss account for Q4 2016

- » Landsbankinn's profit for Q4 of 2016 was ISK 243 m, as compared with ISK 12 bn for the same period of 2015.
- » Return on equity decreased considerably between periods and was 0.4% in Q4 2016 as compared with 18.6% for the same period in 2015.
- » Value changes in the credit portfolio were negative by ISK 4.7 bn in Q4 2016 as compared with positive value changes of ISK 5.9 bn in Q4 2015.
- » Net interest income amounted to ISK 8.4 bn as compared with ISK 7.3 bn in Q4 of 2015.
- » Net commission income was ISK 1.9 bn as compared with ISK 1.7 bn in Q4 of 2015.

Key figures from the profit and loss account and balance sheet for 2016

Operations:

- » Landsbankinn's profit in 2016 amounted to ISK 16.6 bn, as compared to ISK 36.5 bn in 2015.
- » Return on equity (ROE) after taxes decreases. ROE was 6.6%, as compared to 14.8% in 2015.
- » Net interest income increased by ISK 2.3 bn between years. Interest income amounted to ISK 34.7 bn in 2016, as compared with ISK 32.3 bn in 2015.
- » The interest margin on assets and liabilities increased between years, was 2.3% in 2016 and 2.2% in 2015.
- » Landsbankinn's net commission income increased by 14% between years, primarily due to a higher transaction volume and increased revenue from asset management.
- » Value changes in the credit portfolio were negative by ISK 318 m in 2016 as compared with a positive change in the amount of ISK 18.2 bn in 2015. At the end of 2016 and in early 2017, the Supreme Court ruled against the Bank in four cases involving exchange rate indexed loans to corporates. As a result, ISK 5.4 were expensed in the Group's consolidated income statement at the end of Q4 2016.
- » The Bank's operating income for 2016 amounted to ISK 6.1 bn, as compared to ISK 15 bn in 2015.
- » Salaries and related expenses increased by 2%, due mostly to contractual pay hikes.
- » Operating expenses less wages and related expenses drop by 5% between years.
- » The cost-income ratio increased between years. It was 48.4% in 2016 as compared with 43.8% in 2015.
- » The total number of full-time equivalent positions dropped by 51 in 2016, to 1,012 at year-end.
- » Taxes paid by Landsbankinn in 2016 amounted to ISK 8.5 bn, as compared to ISK 12.4 bn in 2015.

Balance sheet

- » Landsbankinn's equity at year-end 2016 was ISK 251.2 bn, a decrease of ISK 13.3 bn as compared with equity at year-end 2015. In 2016, Landsbankinn paid ISK 28.5 bn in dividend to shareholders.
- » The Bank's capital adequacy ratio at year-end 2016 was 30.2% as compared with 30.4% at the end of 2015. This is significantly in excess of the 22.1% minimum requirement determined by the Financial Supervisory Authority, Iceland.
- » The Bank's total assets amounted to ISK 1,111 bn at year-end 2016, a decrease of just under 1% between years.
- » Landsbankinn lent ISK 267 bn as new lending in 2016; having regard for instalments, value changes and other factors, total lending increased by ISK 41.9 bn. Total lending amounted to ISK 853 bn at year-end 2016.
- » Customer deposits, not counting financial undertakings, grew by 5.5% during the year, or by ISK 30.7 bn. Deposits from financial undertakings decreased by ISK 36.6 bn, first and foremost in relation to the Central Bank's currency auction in June 2016.
- » The Bank's liquidity position remains very strong, both in foreign currency and Icelandic króna and well above regulatory limits. The liquidity coverage ratio (LCR) was 128% at year-end 2016.
- » The Bank's foreign balance is robust and foreign currency assets amount to around ISK 3.5 bn in excess of foreign currency liabilities.
- » In 2016, the item assets held for sale decreased by ISK 4.5 m. Total defaults by companies and households were down to 1.5% at the end 2016, as compared with 1.8% at year-end 2015.

	2016	2015	4Q 2016	4Q 2015
	Amounts in ISKm			
After-tax profit	16,643	36,460	243	12,047
ROE after taxes	6.6%	14.8%	0.4%	18.6%
Adjusted ROE after taxes*	7.7%	10.6%	1.5%	12.8%
Interest margin on assets and liabilities	2.3%	2.2%	2.2%	1.9%
Cost-income ratio**	48.4%	43.8%	50.7%	39.1%
	31.12.2016	31.12.2015		
Total assets	1,111,157	1,118,658		
Loans to customers	853,417	811,549		
Customer deposits	589,725	559,051		
Equity	251,231	264,531		
CAR	30.2%	30.4%		
Net stable funding ratio on foreign currency	154%	136%		
Aggregate liquidity coverage ratio	128%	113%		
Foreign currency liquidity coverage ratio	743%	360%		
Foreign currency balance	3,480	23,795		
Loans in arrears (>90 days)	1.5%	1.8%		
Full-time equiv. positions	1,012	1,063		

* Adjusted ROE after taxes = [Profit after taxes – positive value adjustments (after taxes) – tax on the total liabilities of financial undertakings – profit from discontinued operations after taxes] / average equity position

** Cost-income ratio = Total operating expenses / (Net operating revenue – value change of lending)

Other aspects of Landsbankinn's operations in 2016

- » According to Gallup surveys, Landsbankinn held a 37.1% market share on average in the retail market in 2016. This is a record high.
- » Market share on the corporate market has grown steadily in recent years and was 33.4% at year-end 2016. The Bank's market share is especially high among larger companies and the Bank's share in lending to corporates was 40% in 2016, based on figures from the banks' 9M statements.
- » The Bank continues to lead the market in listed securities. In 2016, Landsbankinn held the largest market share in equities on the Stock Exchange and the second largest share in securities.
- » Landsbankinn's market share on the vehicle loan market rose to 34% and, for the second year in a row, the Bank had the largest share in this market, according to Gallup surveys.
- » In December, Landsbankinn was awarded the golden seal of PwC's Equal Pay Audit for the second time. The Bank was initially awarded the seal in 2015, the first Icelandic bank to receive it.
- » Steinþór Pálsson stepped down as CEO of Landsbankinn at the end of November 2016. Steinþór had been CEO of Landsbankinn since 1 June 2010. It was announced that Hreiðar Bjarnason, Managing Director of Finance, would act as CEO until a new CEO could take up the position.
- » In November 2016, Landsbankinn issued non-indexed bonds in the amount of SEK 1 bn. The bonds mature in 4 years and bear 1.375% fixed rates on the one hand and a floating rate at STIBOR + 1.5%.
- » In November, Landsbankinn premiered a new and sophisticated online magazine, Umræðan. Umræðan was selected the best content and news site in 2016 by the judging panel of the Icelandic Web Awards.
- » In October, international rating agency Standard and Poor's (S&P) raised both the short and long-term rating grades of Landsbankinn from BBB-/A-3 to BBB/A-2 and deems the outlook to be positive. The Bank's rating grade has now been raised two years in a row.
- » In early October, Landsbankinn announced changes to borrowing charges on housing loans to individuals. In most cases, this means that borrowers pay a much lower borrowing charge than before. Instead of fixing borrowing charges as a percentage of the loan amount, Landsbankinn now collects a set charge, or ISK 52,500, for every loan issued.
- » Around 1.000 Landsbankinn customers took out indexed consumer loans, primarily housing loans, during a period in which the consumer index was wrongly calculated by Statistics Iceland, by mistake. On 1 October, Landsbankinn announced that the Bank's customers would not bear any damages as a result of this mistake and corrected their loans at its own initiative and without any obligation to do so.
- » The Board of Directors of Landsbankinn decided in September to avail itself of authorisation, granted by the Bank's AGM on 14 April 2016, to buy back own shares. The buy-back programme will amount to a maximum of 480 million shares, or 2% of issued stock. Buy-backs are arranged into three periods, two in 2016 and a third set to take place on 13 to 24 February of 2017.
- » In September, the results of a survey showed increased customer satisfaction with the service provided by Landsbankinn's Corporate Banking Service Centre in Borgartún.
- » Landsbankinn issued bonds in the amount of EUR 500 m in September. The bonds are issued for a term of 4.5 years and mature on 15 March 2021. They have a fixed 1.625% coupon and were sold at terms equivalent to a 190 basis point spread above mid-swaps in euros.

- » In May, Landsbankinn was named the best bank in Iceland by Global Finance for the third year in a row.
- » In April, Landsbankinn tapped its SEK and NOK denominated bond series maturing in June 2019 to the amount of NOK 250 m and SEK 100 m.
- » A new Board of Directors was elected at the supplementary AGM on 22 April. Helga Björk Eiríksdóttir was elected the new Chairman of the Board and Magnús Pétursson was elected as an alternate.
- » The Annual General Meeting of Landsbankinn approved a motion of the Board to pay ISK 28.5 bn in dividend for the operating year 2015. Dividend was paid in two equal instalments in April and September. Landsbankinn has paid just under ISK 82 bn in dividends to its owners in 2013-2016.
- » In March, the Centre of Corporate Governance renewed its recognition of Landsbankinn as a model of corporate governance for the period 2015-2016.
- » Also in March, the Board of Directors of Landsbankinn decided to strengthen the Bank's procedures for the sale of assets.
- » Use of all Landsbankinn online banking platforms increased in 2016. The greatest increase was in logins to mobile banking, i.is. The mobile bank was selected the best web app of 2016 by the judging panel of the Icelandic Web Awards.
- » In 2016, extensive improvements were made to the design of corporate online banking with an eye to simplifying use, improving readability and adapting the interface to tablets. A new security system for corporate online banking was taken into use.
- » In January 2017, Lilja Björk Einarsdóttir was hired as CEO of Landsbankinn. Lilja will assume the position on 15 March.
- » Landsbankinn's annual report for 2016 is published alongside its annual financial statements. This is the third time that the Bank's annual report is published in electronic form only. The annual report provides an accessible overview of highlights in the Bank's operation in 2016. The report is available on the Bank's website.
- » Landsbankinn's risk report for 2016 is published alongside its annual financial statements. This is the fifth edition of the report. The report provides an in-depth review of all aspects of the Bank's risk management and risk assessment methods. The report is intended, amongst other things, to provide information on the Bank's risk and capital management, equity composition and other important and related factors. The report is available on the Bank's website.

Landsbankinn's financial calendar

22 March 2017 – Annual General Meeting

4 May 2017 – Q1 2017 results

27 July 2017 – H1 2017 results

26 October 2017 – Q3 2017 results

8 February 2018 – Annual Financial Statements 2017