



# Results of Landsbankinn

January - September 2014

---



6 November 2014

## News release accompanying the 2014 nine month financial statement of Landsbankinn

# Landsbankinn reports an ISK 20 bn profit in the first 9M of 2014

In the first nine months of 2014, Landsbankinn's after-tax profit was ISK 20 bn as compared with ISK 22 bn for the same period in 2013. This lower margin is due mostly to higher taxes, up by 32% between years. Income taxes and special financial activities tax amount to a total of ISK 8.7 bn for the first nine months of 2014.

The Bank's operating expenses remain unchanged between years, in real terms.

Significant progress has been made in reducing both corporate and household debt and total defaults amounted to 3.3% at the end of September as compared with 6.2% at the same time last year. This decrease in default has, amongst other effects, resulted in positive valuation adjustments in lending.

Steinthór Pálsson, CEO of Landsbankinn: "Landsbankinn's operations during the first nine months of 2014 have been successful. A lower interest spread and falling prices on securities markets contribute to lower profits but this is offset by a value increase in lending, achieved in part through falling default rates. There has been a marked growth in both deposits and lending, a sign of a reviving economy.

We have achieved some important milestones with regard to the Bank's financing, both on domestic and international bond markets, with the result that Standard & Poor's has revised the Bank's outlook from stable to positive. Landsbankinn listed a Euro Medium Term Note (EMTN) programme on the Irish stock exchange in August. This will allow Landsbankinn to issue notes in the equivalent amount of up to EUR 1 billion in various currencies and at fixed or floating rates.

One of the largest challenges facing the Bank is linked to upcoming efforts to ease capital controls and the entry into force of changes to the terms of the secured bonds as agreed upon in May by Landsbankinn and LBI hf. It is the view of Landsbankinn that the agreement between the Bank and LBI hf. furthers the matters repeatedly pointed to by the Central Bank of Iceland as vital to the effective lifting of capital controls for the benefit of the Icelandic economy as a whole.

In addition to extended maturity, the amendments to the terms of the secured bonds negotiated in May will have more extensive consequences. Onerous limitations on dividend payments will be abolished and collateral requirements eased.

As mentioned before, this agreement is conditional upon LBI hf. being granted certain exemptions from the Foreign Exchange Act. The Bank aims to tap into the EMTN programme next year for the purpose of fully discharging the debt owed to LBI hf. by October 2018. Extending the duration of the LBI bonds, provided the agreement enters into force, will make it easier for the Bank to achieve its goal of offering more favourable terms."

## Key figures from the profit and loss account and balance sheet

### Operations:

- » In the first nine months of 2014, Landsbankinn's net after-tax profit was ISK 20 bn as compared with ISK 22 bn for the same period in 2013.
- » Income tax and special financial activities tax increase by ISK 2 bn as compared with the same period in 2013 and amount to ISK 8.7 bn.
- » Return on equity (ROE) after taxes for the period was 11.4% as compared to a ROE of 12.9% for the same period of 2013.
- » Net interest income in the first nine months of the year amounted to ISK 22.3 bn but was ISK 24.3 bn for the same period in 2013.
- » The ratio of interest spread to average capital position is falling, was 2.6% in the first nine months of 2014 as compared to 2.9% for the same period in 2013.
- » Net commission income amounted to ISK 4.2 bn, increasing slightly between periods.
- » Operating expenses remain unchanged in real terms. General operating expenses decrease by 5% while wages and related expenses have risen by 7% as compared with the previous year; this increase is for the most part a result of contractual increases.
- » The cost-income ratio for the first nine months of the year was 55.3%, up from 42.3% for the same period last year. The change is due for the most part to a lower interest spread. Cost as a ratio of total assets is 1.9%.
- » Full-time equivalent positions at the end of September 2014 were 1,166 as compared with 1,183 at the end of 2013.

### Balance Sheet:

- » The Bank's equity was ISK 241 bn at the end of September 2014, remaining virtually unchanged from the beginning of this year. Landsbankinn paid just under ISK 20 bn in dividends to its owners in the first quarter.
- » The Bank's capital adequacy ratio (CAR) remains well above the requirements of the Financial Supervisory Authority (FME). It is currently 27.1%; was 26.2% at the end of September 2013.
- » Landsbankinn's total assets amounted to ISK 1,201 bn at the end of September 2014 which is an increase of just under ISK 50 bn from the beginning of the year.
- » Customer deposits have increased by 9% since the beginning of the year, or by just under ISK 41 bn.
- » Lending to customers in the first nine months of the year amount to ISK 116 bn yet instalments and other factors contribute to a total increase in lending of ISK 39 bn during the period, or 6%.
- » The Bank's liquidity position is strong, both in foreign currency and Icelandic króna. The Bank's liquidity ratio was 49% at the end of September 2014 as compared with 50% at year-end 2013.
- » The Bank's foreign balance is favourable and assets in foreign currencies amount to around ISK 21 bn in excess of foreign currency liabilities.
- » Total defaults by companies and households were 3.3% at the end of September 2014, as compared with 6.2% at the same time in 2013.

	9M 2014	9M 2013	2013	2012	2011
After-tax profit	19,985	22,276	28,759	25,494	16,957
Return on equity (ROE)	11.4%	12.9%	12.4%	12.0%	8.4%
Net interest spread / total assets	2.6%	2.9%	3.1%	3.2%	2.9%
Cost-income ratio*	55.3%	42.3%	42.9%	45.0%	40.6%
Real change of operating expenses	0.0%	-9.4%	-10.1%	4.9%	13.3%
Full-time equiv. positions	1,166	1,179	1,183	1,233	1,311
Total assets	1,201,247	1,158,154	1,151,516	1,084,787	1,135,482
Loans to customers	719,627	671,378	680,468	666,087	639,130
Customer deposits	497,583	465,742	456,662	421,058	443,590
CAR	27.1%	26.2%	26.7%	25.1%	21.4%
Liquidity ratio	49%	48%	50%	48%	43%
Total LCR	108%	-	102.0%	-	-
Total FX LCR	222%	-	208.0%	-	-
Foreign currency balance	21,086	12,434	14,457	-20,035	20,034
Loans in arrears (>90 days)	3.3%	6.2%	5.3%	8.3%	13.9%

\*Cost-income ratio = Total operating expenses less total equity-settled employee share-based payments / (Total operating income - net valuation adjustments)

### Key aspects of operations in the first nine months of 2014

- » International rating agency Standard & Poor's (S&P) issued Landsbankinn the rating grade BB+ with a stable outlook in January. In October, S&P's changed its outlook for the Bank from stable to positive and affirmed the Bank's long and short-term rating of 'BB+/B'.
- » Landsbankinn paid dividends to its owners in March in accordance with a motion approved by its AGM. Dividends amounted to 70% of last year's profit, or just under ISK 20 bn. The dividend payment led to a decrease in equity in Q1.
- » A new organisational structure of Landsbankinn's branches in the capital region became effective in March. As a result, all branches in the region are now devoted to personal banking. All corporate services for small and medium-sized enterprises were transferred to a new Corporate Service Centre in Borgartún 33.
- » In May, an agreement was signed to amend the terms of the secured bonds issued by Landsbankinn to LBI hf. in accordance with an agreement from December 2009. The maturity date of the bonds is thereby pushed from 2018 to 2026, onerous limitations on dividend payments abolished and collateral coverage requirements reduced. This agreement is conditional upon LBI hf. being granted certain exemptions from the Foreign Exchange Act.
- » In June, Landsbankinn sold its 9.9% share in FSÍ (Framtakssjóður Íslands) slhf. and its entire holding of 27.6% in IEI slhf. At year-end 2013, FSÍ was split into two entities, FSÍ slhf. and IEI slhf. The total sale value was just over ISK 7 bn.
- » Landsbankinn listed a Euro Medium Term Note (EMTN) programme on the Irish stock exchange in August. This will allow Landsbankinn to issue notes in the equivalent amount of up to EUR 1 billion in various currencies and at fixed or floating rates.

- » In September, Landsbankinn issued a new series of covered bonds, LBANK CB 19. These bonds are non-indexed 5-year fixed rate notes. The issue amounts to ISK 960 bn. Earlier this year, the Bank tapped into its series of covered bonds, increasing the issue by ISK 1.5 bn.
- » New housing loans have increased sharply or by 129% in the first nine months of the year as compared with the same period the previous year. Housing mortgages now account for just over 67% of the Bank's lending to individuals.
- » Landsbankinn placed a great deal of emphasis on advertising the advantages of supplementary pension savings as a part of the government's debt adjustment plan. New pension savings agreements tripled during the first nine months of the year as compared with the same period in 2013.
- » In July, the Banker, a magazine run by the Financial Times, published its assessment of the strength and performance of the world's one thousand most prominent banks. Landsbankinn ranked number 20 in financial strength on the global list and number 1 in Western Europe.
- » Landsbankinn was one of four companies nominated for the Icelandic Employers' Education Award in 2014.
- » Global Finance magazine named Landsbankinn the best bank in Iceland.
- » International Finance magazine selected Landsbankinn as the best Icelandic bank and Landsbankinn's online banking the best Internet banking option.