# Results of Landsbankinn

January - June 2013

29 August 2013

## News announcement to accompany semi-annual financial statement

# Landsbankinn reports ISK 15.5bn profit in H1 2013

In H1 of 2013, Landsbankinn's net after-tax profit was ISK 15.5bn. Landsbankinn's after-tax profit for the same period in 2012 was ISK 11.9bn. The bank's net income has increased and operating expenses dropped; the net interest spread has decreased and commission income grown. The outlook is for a continuing positive performance for the remainder of the year.

Steinthór Pálsson, CEO, on H1 results: "Landsbankinn's operations are stable and in line with current objectives. The bank's results are quite satisfactory, in our opinion, and we have made great inroads towards lowering operating expenses. Wages and related expenses have fallen, as have general operating costs, due to effective cost-cutting measures. Allowing for inflation, the real decrease in operating expenses amounts to 7.9%.

The bank's financial position remains robust, with a high capital adequacy ratio (CAR) well above FME's requirements, and a solid liquidity position.

Landsbankinn is currently working on correcting the recalculation of loans with illegal exchange rate indexation. This work is proceeding apace and correction of the majority of vehicle loans to which current legal precedents apply is expected to conclude in September and the correction of loans to conclude by the end of the year.

Negotiations with LBI hf. on lengthening the maturity of bonds owed by Landsbankinn to LBI hf. have not begun, though informal discussions have taken place. We hope to begin formal negotiations soon and for talks to yield the intended results."

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

- In H1 2013, Landsbankinn's after-tax profit was ISK 15.5bn compared to ISK 11.9bn in H1 2012. This represents an increase of 31% between years.

- Profits from Q2 amounted to ISK 7.5bn. These results are similar to Q1 figures.

- Net interest revenue in H1 2013 was just under 17bn as compared with ISK 18.6bn in the same period in 2012.

- The ratio of interest spread to average capital position is falling, was 3.1% in H1 of 2013 as compared to 3.3% for the same period in 2012.

- Net commission income amounted to ISK 3bn, increasing by just under 1bn from the same period the previous year, or 41%.

- Considerable success has been achieved in lowering operating expenses in line with the bank's objectives. General operating costs decrease by 4% and wages and wage-related expenses fall by 5% between years. This decrease is less the wage provisions due to the bank's own shares received from LBI hf., as a corresponding income was also recognised in the bank's income statement. Allowing for inflation, the real decrease of operating expenses is 7.9%. The bank aims to lower costs by at least 5% in 2013 in real terms.

- The cost-income ratio has also decreased, reaching 42.1% at the end of June as compared to 44.5% at the same time in 2012. The bank aims to maintain a cost-income ratio below 50% in 2013.

- Full-time equivalent positions as at 30 June numbered 1,165, or just over 100 fewer than in mid-2012.

- The bank's equity continues to increase and is currently at ISK 230bn. The bank's capital adequacy ratio (CAR) is far higher than required by the Financial Supervisory Authority (FME). It is currently at 25.9%, rising from 23.3% at the end of June 2012.

- After-tax ROE increased, for the first 6 months of 2013 ROE was 13.5% as compared with 11.5% for the same time last year.

- The bank's total assets amounted to ISK 1,126bn at the end of June. This is a 4% increase and is due to higher deposit levels on the one hand and growing liquid assets on the other. The bank has granted new loans in the amount of ISK 70bn in 1H 2013 but total lending remains almost unchanged due to repayment of other loans and exchange rate movements.

- The bank's liquidity position is very strong, both in foreign currency and Icelandic króna. The liquidity ratio was 44.8% at the end of June as compared to 39.8% at the same time last year.

- The bank's foreign currency balance is good and assets in foreign currencies amount to around ISK 5bn in excess of foreign currency liabilities.

- Assets held for sale continue to decrease, dropping by ISK 109bn from the beginning of 2011, ISK 5.6bn thereof since the turn of the year.

- Defaults, both corporate and household, have been decreasing steadily. Total defaults stood at 6.2% at the end of June 2013. Defaults were 11.7% at mid-year 2012 and 24% in mid-2011. The bank aims to reduce defaults to below 5% before the end of the year.

| | H1 2013 | H1 2012 | 2012 | 2011 |
|---|---|---|---|---|
| After-tax profit | 15,525 | 11,877 | 25,494 | 16,957 |
| Return on equity (ROE) | 13.5% | 11.5% | 12.0% | 8.4% |
| Net interest spread / total assets | 3.1% | 3.3% | 3.2% | 2.9% |
| Cost-income ratio* | 42.1% | 44.5% | 45.0% | 40.6% |
| Decreased operating expenses in real terms | -7.9% | 6.5% | 4.9% | 13.3% |
| Full-time equiv. positions | 1,165 | 1,269 | 1,233 | 1,311 |
| Total assets | 1,126,094 | 1,048,573 | 1,084,787 | 1,135,482 |
| Loans to customers | 665,411 | 666,890 | 666,087 | 639,130 |
| Customer deposits | 448,931 | 440,392 | 421,058 | 443,590 |
| CAR | 25.9% | 23.3% | 25.1% | 21.4% |
| Liquidity ratio | 44.8% | 39.8% | 48.4% | 42.9% |
| FX position | 5,144 | 27,810 | -20,035 | 20,034 |
| Loans in arrears (>90 days) | 6.2% | 11.7% | 8.3% | 13.9% |

*Cost-income ratio = Total operating expenses less expenditure entry due to equity wage item / (Net operating revenue – value change of lending)

## Key aspects of operations in H1

» An important milestone in the bank's development was attained with the settlement between Landsbankinn and LBI hf. which involved the issuance of an ISK 92bn bond to LBI hf. At the same time, LBI hf. transferred its entire shareholding in the bank to the State and Landsbankinn.

» A shareholders' meeting on 17 July 2013 agreed to distribute the bank's own shares to employees in accordance with an agreement concluded in fall 2009, between LBI hf, the Ministry of Finance and Landsbankinn.

» In June, Landsbankinn concluded its first issuance of covered bonds. These are non-indexed with 3Y fixed rates at 6.3%. Landsbankinn lowered the terms of non-indexed housing loans parallel to the issuance.

» In June, the bank sold its 25% holding in facilities management company Reginn hf. for just over ISK 4bn.

» A new Board of Directors took over the helm following the annual general meeting in April. Tryggvi Pálsson is Chairman of the Board.

## Principal tasks ahead

Correction of illegal housing loans indexed to foreign currencies.

Landsbankinn has for the most part concluded work on correcting illegal housing loans indexed to foreign currencies and correction of other loans is now under way, including corporate credit. Correction of vehicle loans is proceeding well and the first letters announcing corrections to customers were sent in early July. Several thousand such letters have now been sent and correction of the majority of vehicle loans to which current legal precedents apply is expected to conclude in September. Correction of loans is not expected to conclude until around the turn of the year.

Agreement with LBI hf.

At the end of June 2013 the outstanding liability of Landsbankinn to LBI hf. amounts to ISK 296 bn in foreign currency bonds. The debt matures in 2018. Landsbankinn pre-paid the first five instalments of the higher bond in Q2 2012 and the next instalment dates of both bonds are in 2014. As has previously been mentioned, Landsbankinn will need to refinance its foreign debt before 2016 and will therefore seek to renegotiate the terms of these loans with LBI hf.