

Landsbankinn hf.

H1 2014 Results

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CFO



Highlights

Operations

- » Landsbankinn's after-tax profit in H1 2014 was ISK 14.9 bn, down by 4% compared to H1 2013
- » The value increase of assets accounts for an unusually large portion of profits for the year while the interest margin falls considerably below last year's levels
- » Since its establishment, the Bank has in aggregate recognised net impairment losses on the Bank's loan portfolio
- » Taxes are up by 53% despite lower operating profits
- » Net interest income amounted to ISK 15.2 bn, down by 10% as compared with the same period in 2013
- » Net commission income remains virtually unchanged
- » Return on equity (ROE) after taxes was 12.8% compared with 13.5% during the same period in 2013

Operating costs*

- » Operating costs increased by 2.5% between years, yet remain virtually unchanged in real terms.
- » While wages and related expenses are up by 7%, general operating expenses are down by 3%

*Comparison adjusted to account for one-off operating expenses in 2013

Balance sheet

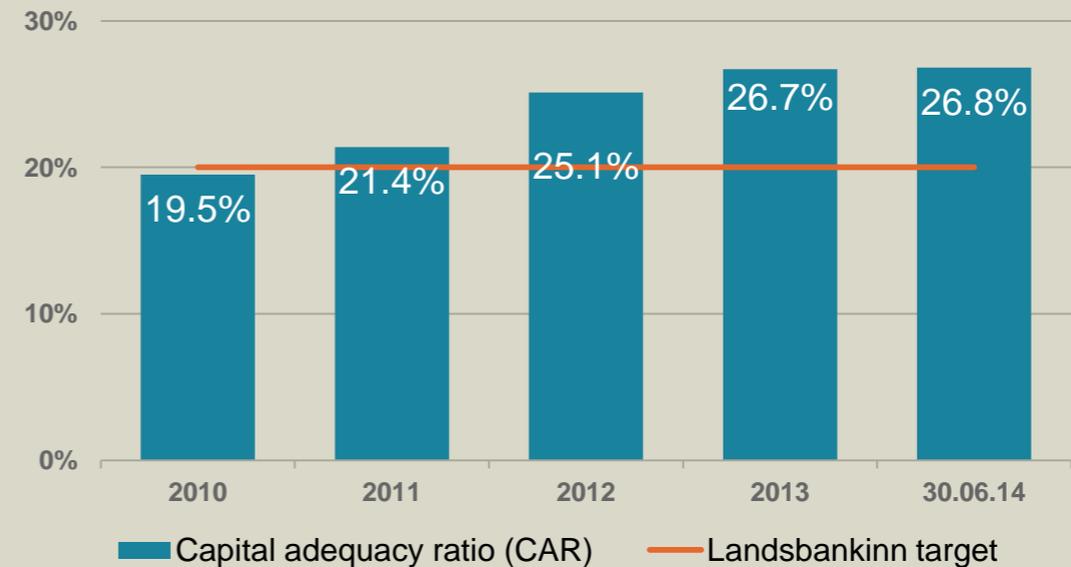
- » Landsbankinn's total assets amounted to ISK 1,155 bn as of the end of Q2 2014.
- » The Bank's liquidity position is very strong, both in foreign currency and Icelandic *króna*.
- » The Bank's liquidity ratio was 47% at the end of June 2014 as compared with 50% at year-end 2013.
- » Loans 90 days in arrears continue to decrease and were 4.0% at the end of June 2014.
- » The Bank's equity amounted to ISK 235.9 bn at the end of the period and has decreased by 2.3% since the beginning of the year.
- » Landsbankinn paid just under ISK 20 bn in dividends to its owners in Q1.
- » The Bank's capital adequacy ratio (CAR) is now 26.8%, up from 26.7% at the end of 2013.

Development of KPIs

Return on equity



Capital adequacy ratio (CAR)



Cost-income ratio excl. adjustments



Arrears (> 90 days)

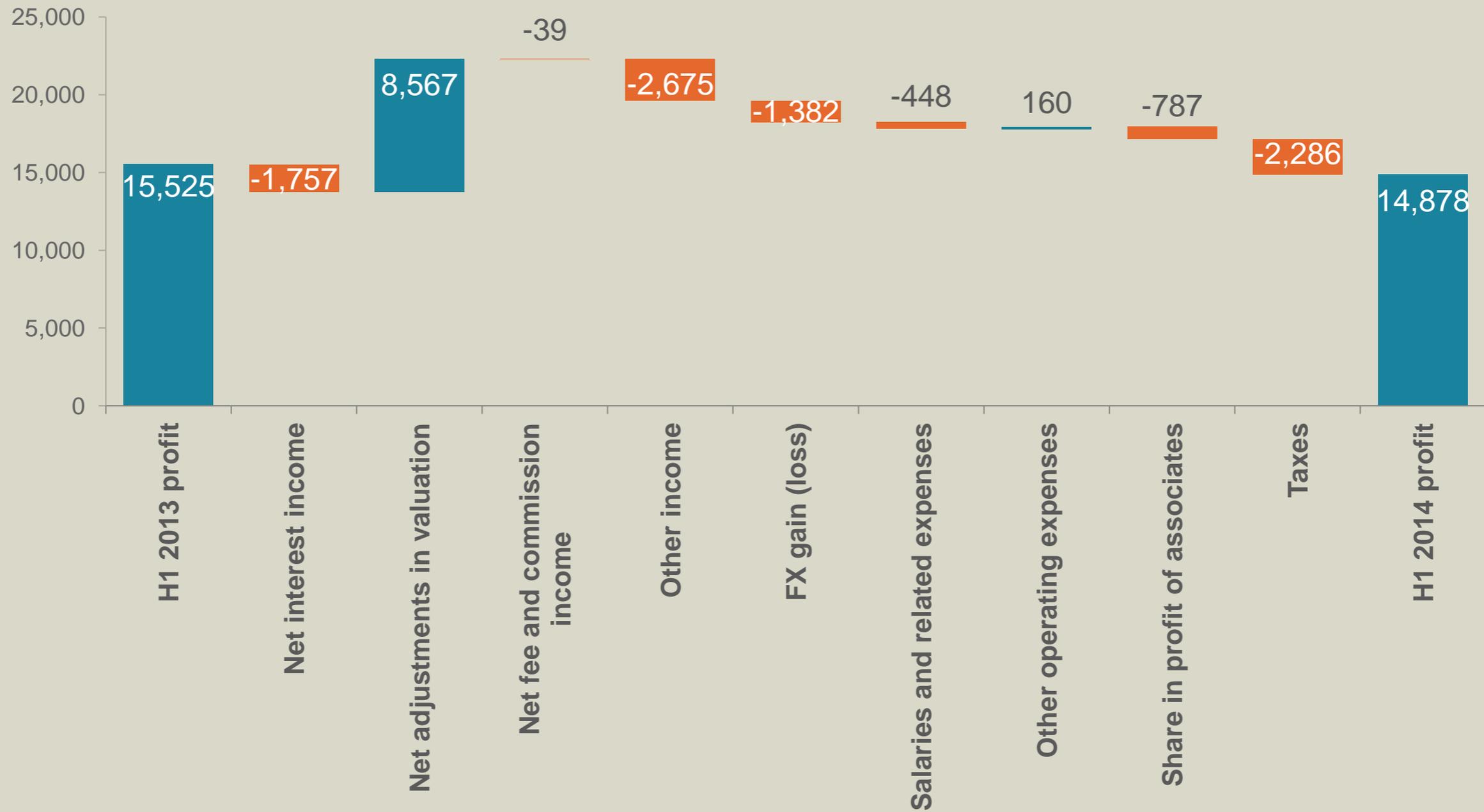


H1 2014 Results

Income Statement

Amounts in ISKm

Change from H1 2013 to H1 2014



* The figure does not take into account the effect that reception of shares and related costs had on 2013 results as the same amount is entered as both income and expense, nullifying any impact.

Income Statement

Amounts in ISKm

	H1 2014	H1 2013	Change	
Net interest income	15,240	16,997	-1,757	-10%
Net valuation adjustments	11,446	2,879	8,567	298%
Change in contingent bond - liability to purchase own shares	0	4,691	-4,691	
Net interest income after adjustments in valuation	26,686	24,567	2,119	9%
Net fee and commission income	2,921	2,960	-39	-1%
Other net operating income	3,310	7,367	-4,057	-55%
Total operating income	32,917	34,894	-1,977	-6%
Salaries and related expenses	6,743	6,295	448	7%
Equity-settled employee share-based salaries	0	4,691	-4,691	
Other operating expenses	5,044	5,204	-160	-3%
Total operating expenses	11,787	16,190	-4,403	-27%
Share in profit of associates, net of income tax	340	1,127	-787	-70%
Profit before tax	21,470	19,831	1,639	8%
Profit before tax	6,592	4,306	2,286	53%
Profit for the period	14,878	15,525	-647	-4%

- » Net interest income decreases by 10%
 - » Due mostly to fluctuations in inflation
- » Net commission income remains unchanged between periods
- » Other operating income falls significantly between years, due mostly to lower equity and bond prices.
- » Valuation adjustments in lending are positive by over ISK 11bn
- » Reception of shares in relation to the settlement with LBI is recognised as both income and expense in the 2013 income statement
- » Operating costs decrease by 3%
- » Wages and related expenses increase mostly due to contractual increases
- » Effective tax rate is 25%

Net interest income and valuation adjustments

Amounts in ISKm

	H1 2014	H1 2013	Change	
Interest income	28,665	31,626	-2,961	-9%
Interest expense	-13,425	-14,629	1,204	8%
Net interest income	15,240	16,997	-1,757	-10%
Net adjustments to loans and advances acquired at deep discount	11,012	14,945*	-3,933	-26%
Net impairment on loans	434	-8,694	9,128	105%
Change of contingent bond, equity settled employee share	0	1,319	-1,319	
Net valuation adjustments	11,446	7,570	3,876	51%
Net interest income after net valuation adjustments	26,686	24,567	2,119	9%

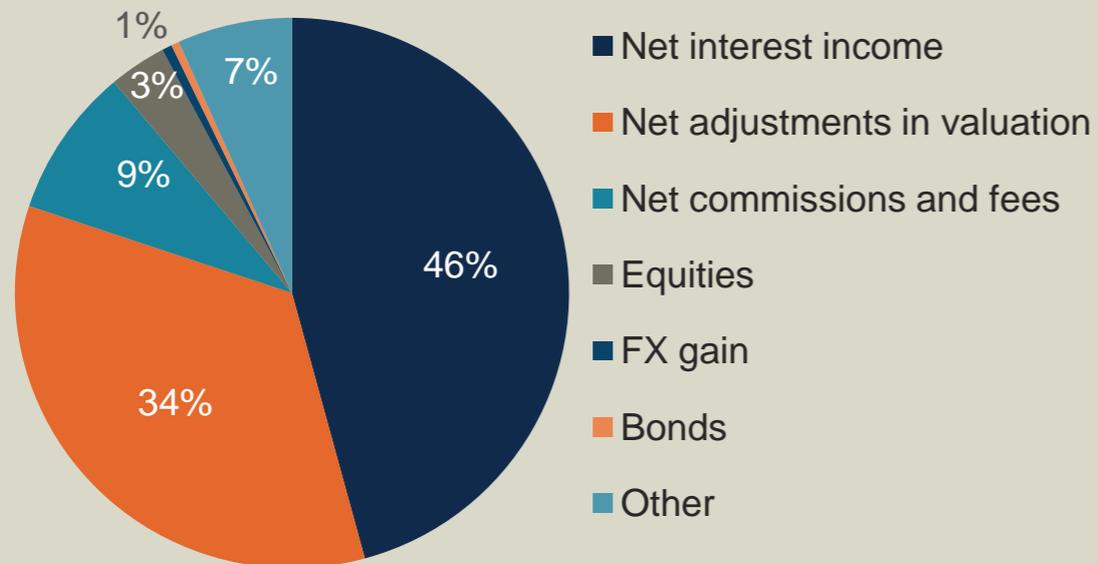
*Recognition of equity-settled employee share-based salaries included in the amount

- » Lower inflation has a deciding influence on decreased interest revenues
- » Valuation adjustments in lending result in ISK 11,4 bn in revenue in H1 2014, up by 51% between years
- » The Bank's net interest spread decreases to 2.6% in H1 2014, from 3.1% in H1 2013

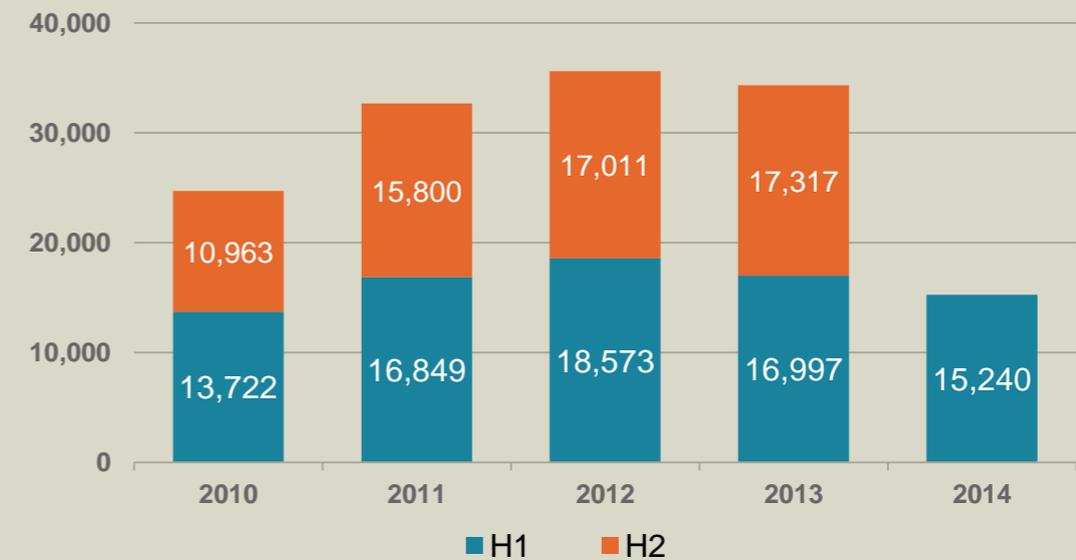
Net operating income

Amounts in ISKm

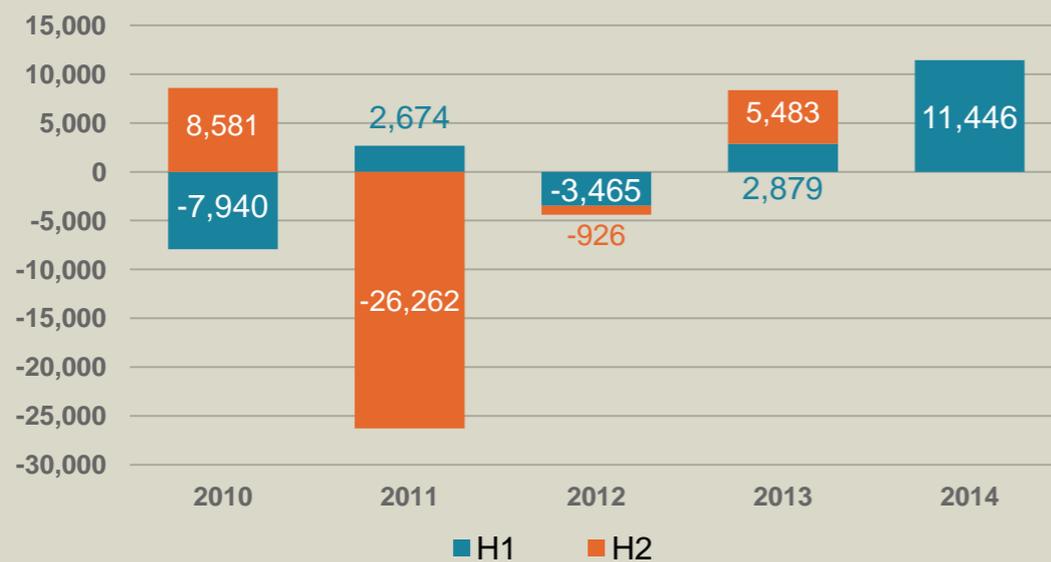
Income mix



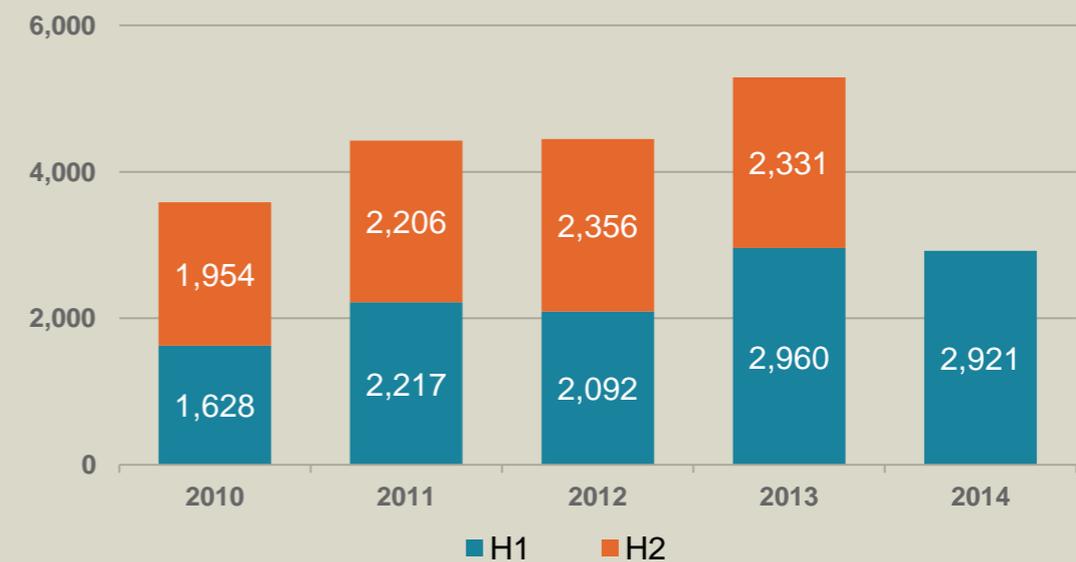
Net interest income



Valuation adjustments



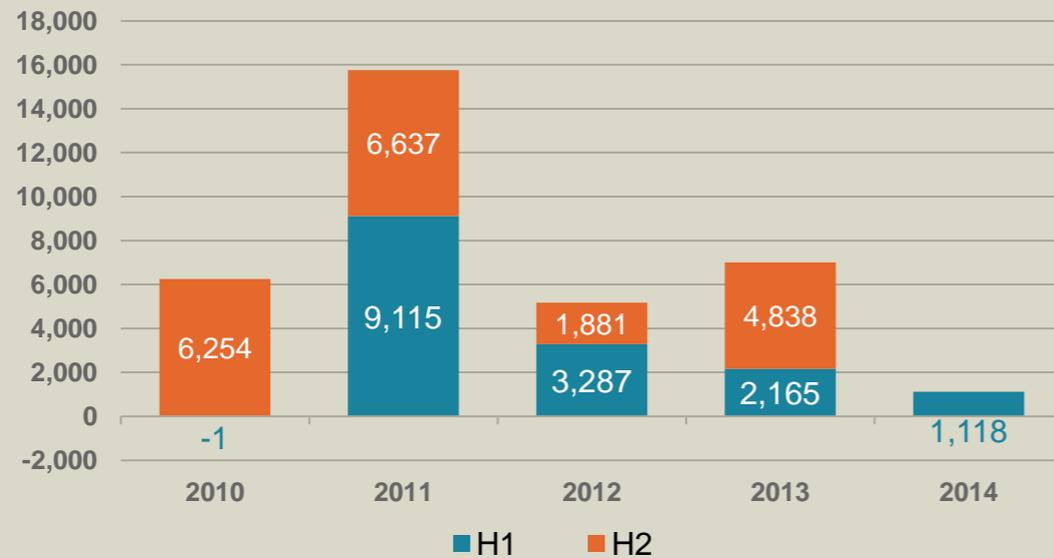
Net commissions and fees



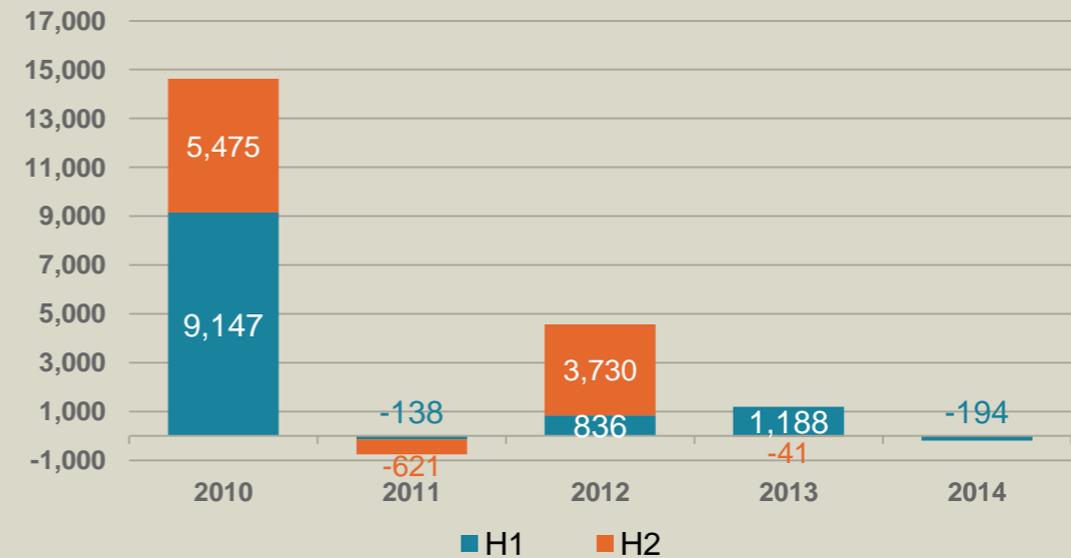
Net operating income

Amounts in ISKm

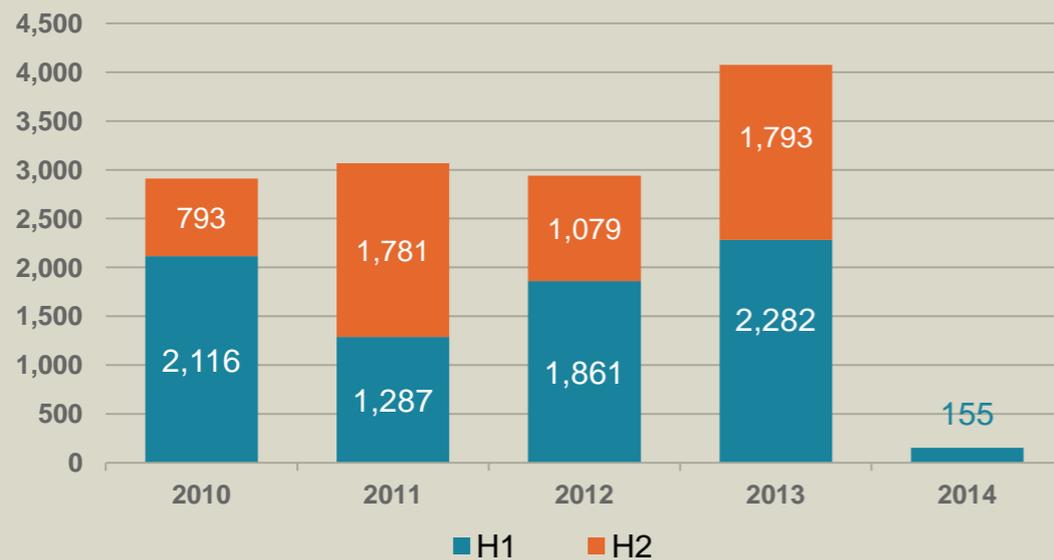
Equities



FX gain



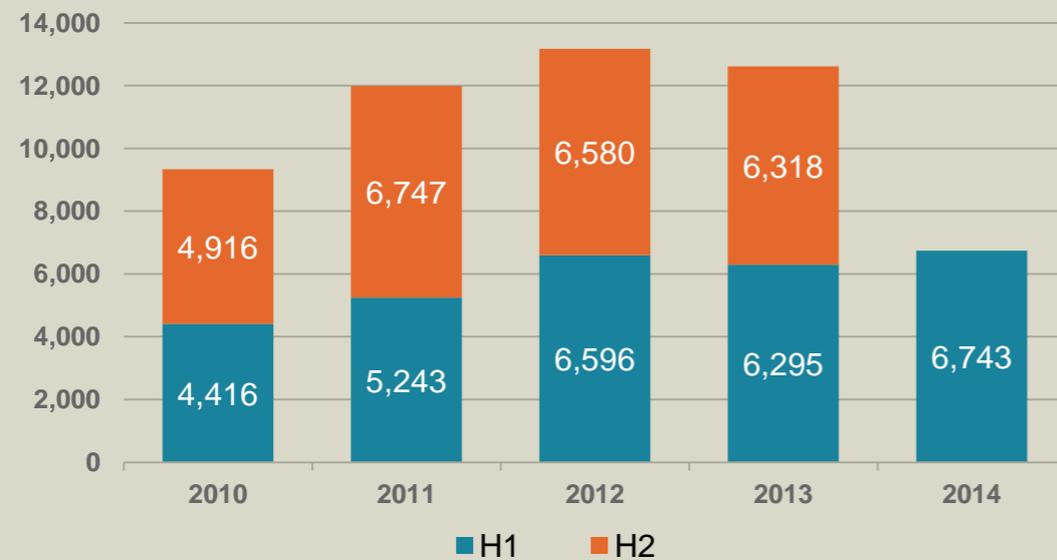
Bonds



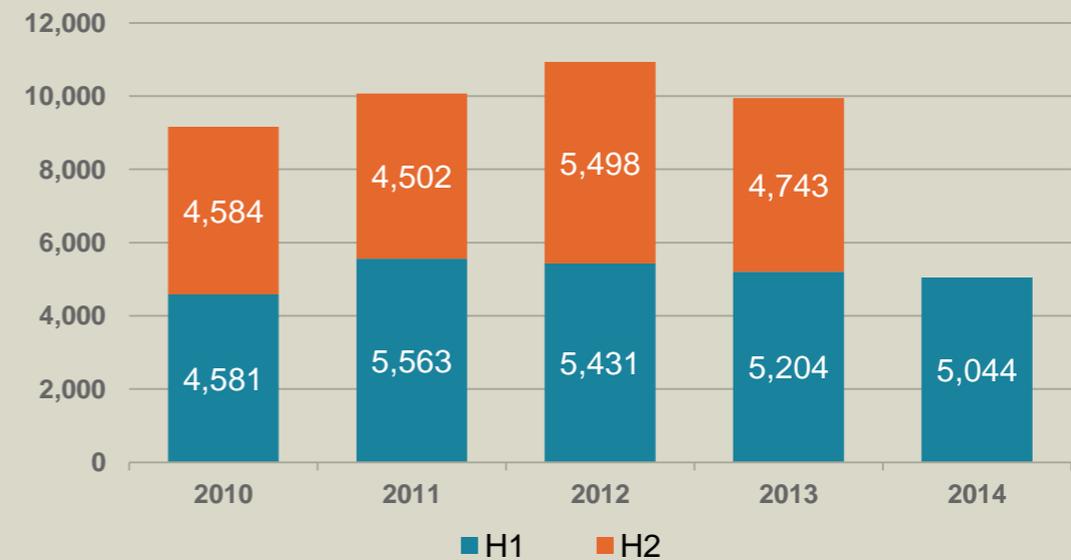
Operating expenses

Amounts in ISKm

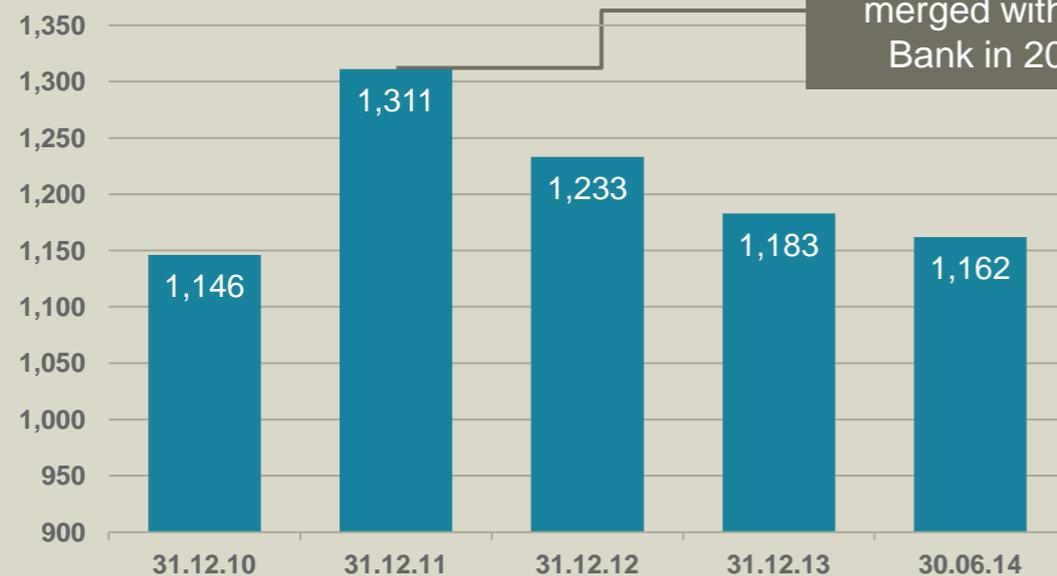
Salaries and related expenses



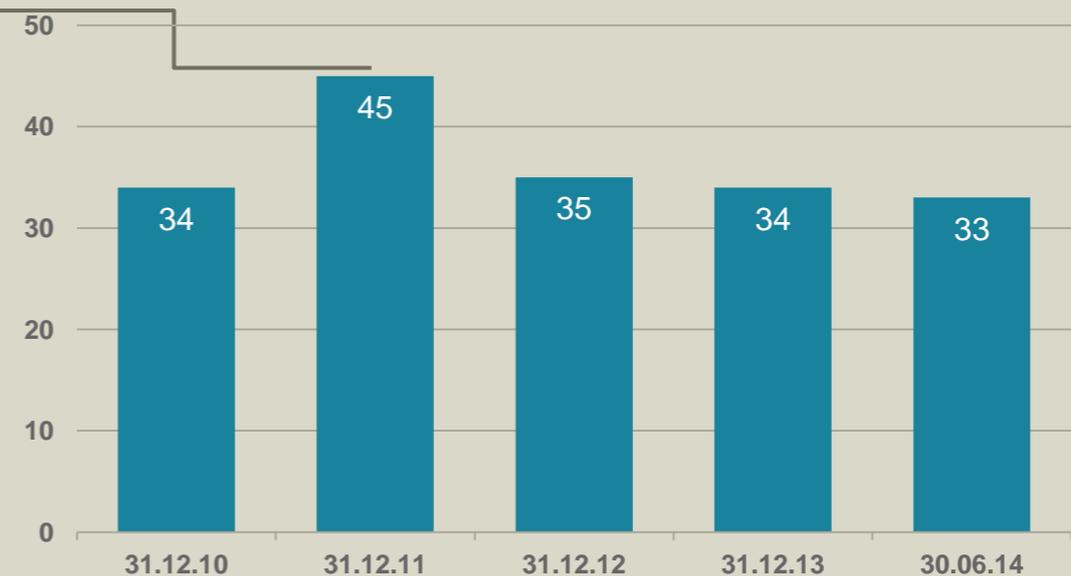
Other operating expenses



Full time employees



Number of branches



Salaries and related expenses

Amounts in ISKm

	H1 2014	H1 2013	Change	
Salaries	5,230	4,776	454	10%
Contributions to defined pension plans	712	670	42	6%
Social security contributions, special financial activities tax on salaries and other expenses	801	849	-48	-6%
	6,743	6,295	448	7%
Recognition of equity-settled employee share-based salaries	0	4,017	-4,017	
Recognition of equity-settled employee share-based social security contributions and special financial activities tax on salaries	0	674	-674	
	0	4,691	-4,691	
Total salaries and related expenses*	6,743	10,986	-4,243	-39%

*The reason for a 39% reduction in salaries and related expenses is mostly due to a ISK 4,691 million recognition of equity-settled employee share-based salaries

Taxes

Amounts in ISKm

	H1 2014	H1 2013	Change	
Income tax	3,744	3,486	258	7%
Additional tax on profits ¹	1,213	635	578	91%
Tax on liabilities of financial institutions ²	1,635	185	1,450	784%
	6,592	4,306	2,286	53%
Special financial activities tax on salaries ³	391	372	19	5%
Total	6,983	4,678	2,305	49%

¹A 6% additional tax on pre-tax profit over ISK 1 bn

²Special tax on financial institutions is 0.376%, levied on the carrying amount of total liabilities at year-end in excess of ISK 50 bn

³5.5% tax (was 6.75% in 2013) on salaries and is expensed in the line item "Salaries and related expenses" in the income statement

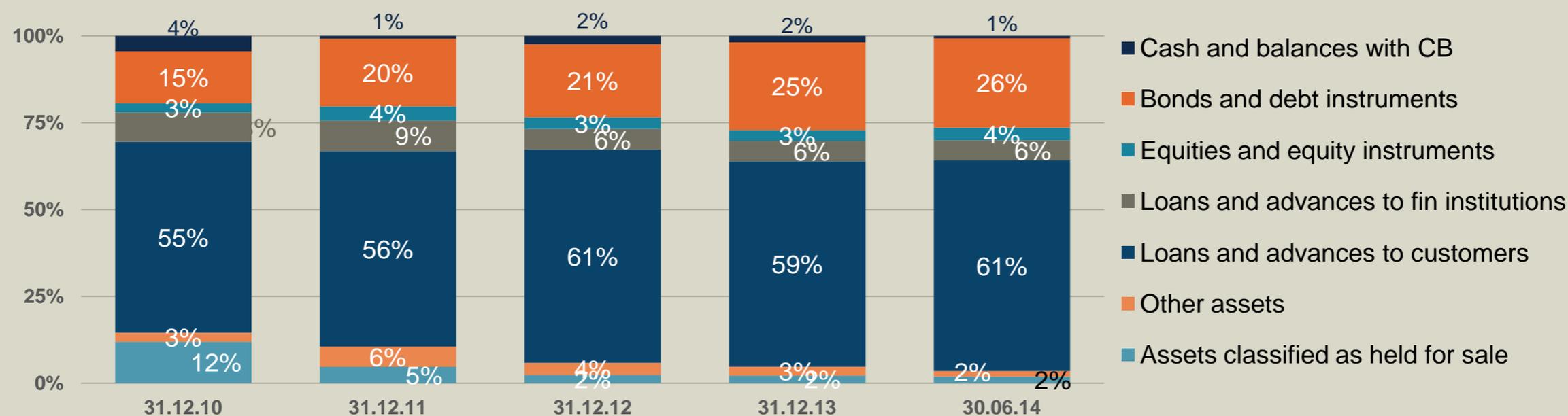
Balance sheet - assets

Amounts in ISKm

	30.06.14	31.12.13	2013 change	
Cash and balances with CB	7,964	21,520	-13,556	-63%
Bonds and debt instruments	297,141	290,595	6,546	2%
Equities and equity instruments	42,221	36,275	5,946	16%
Loans and advances to fin institutions	67,163	67,916	-753	-1%
Loans and advances to customers	699,648	680,468	19,180	3%
Other assets	18,342	29,719	-11,377	-38%
Assets classified as held for sale	22,119	25,023	-2,904	-12%
Total	1,154,598	1,151,516	3,082	0%

- » Lending to customers amounts to ISK 71 bn in the first six months of the year; taking instalments and other factors into account results in an increase in total lending of ISK 19 bn during the period
- » The Bank's total assets have increased by ISK 3 bn in the first six months of 2014

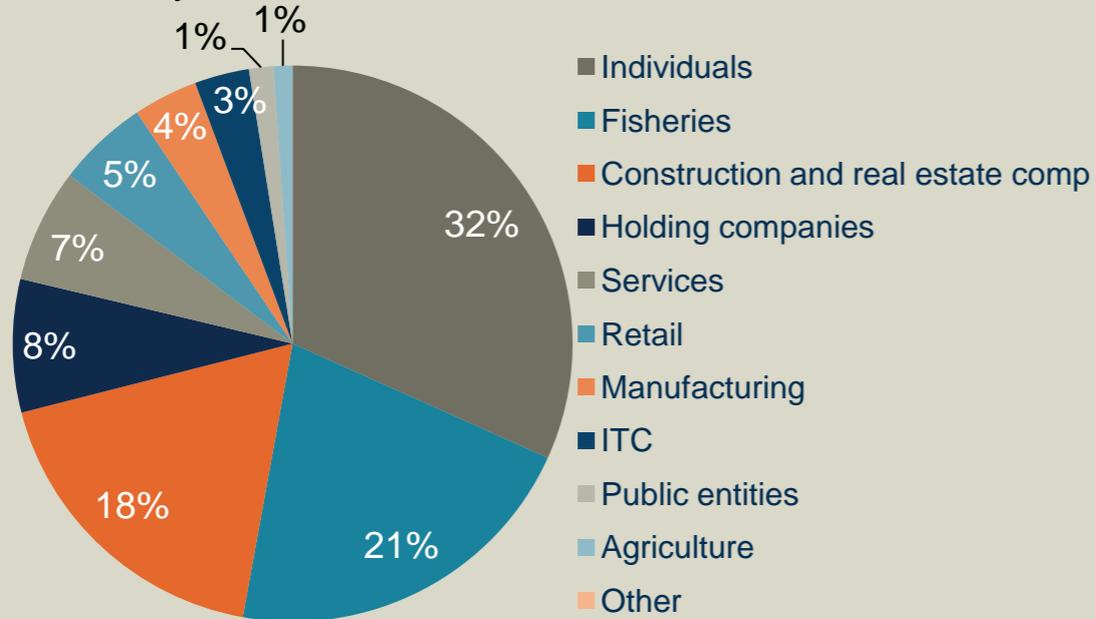
Assets



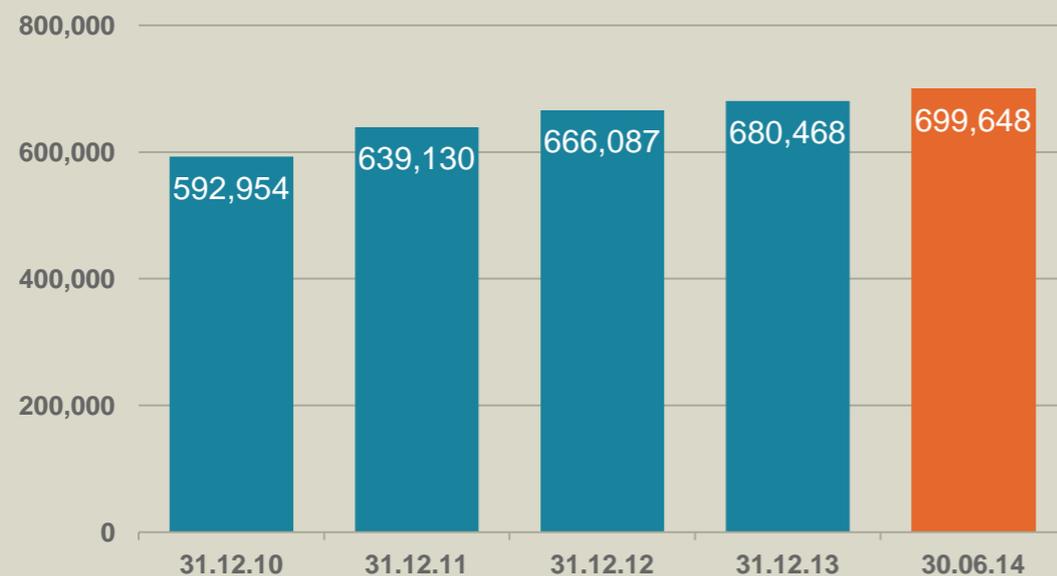
Balance sheet - loans

Amounts in ISKm

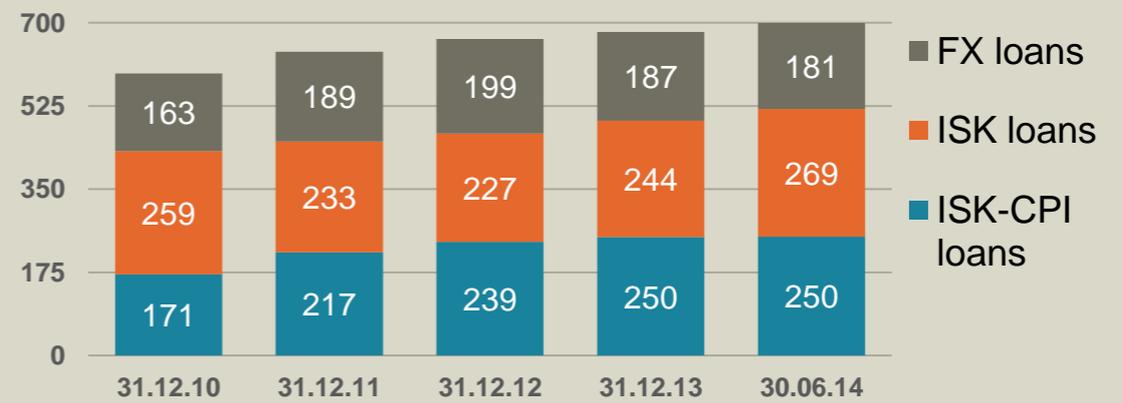
Loans by sectors 30.06.14



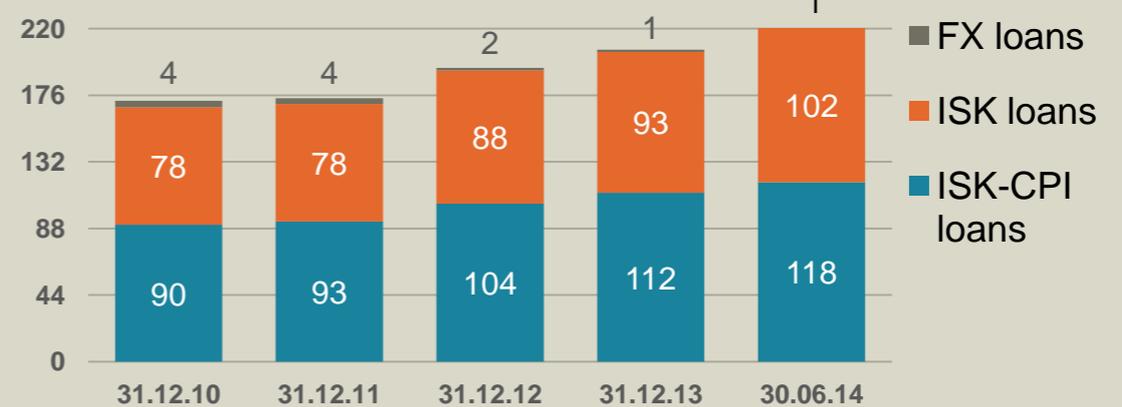
Loans and advances to customers



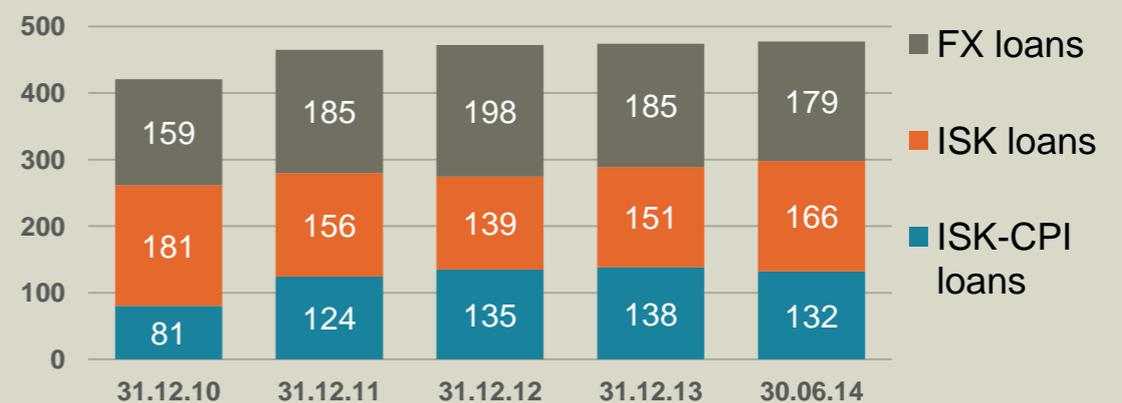
Total lending



Loans to individuals

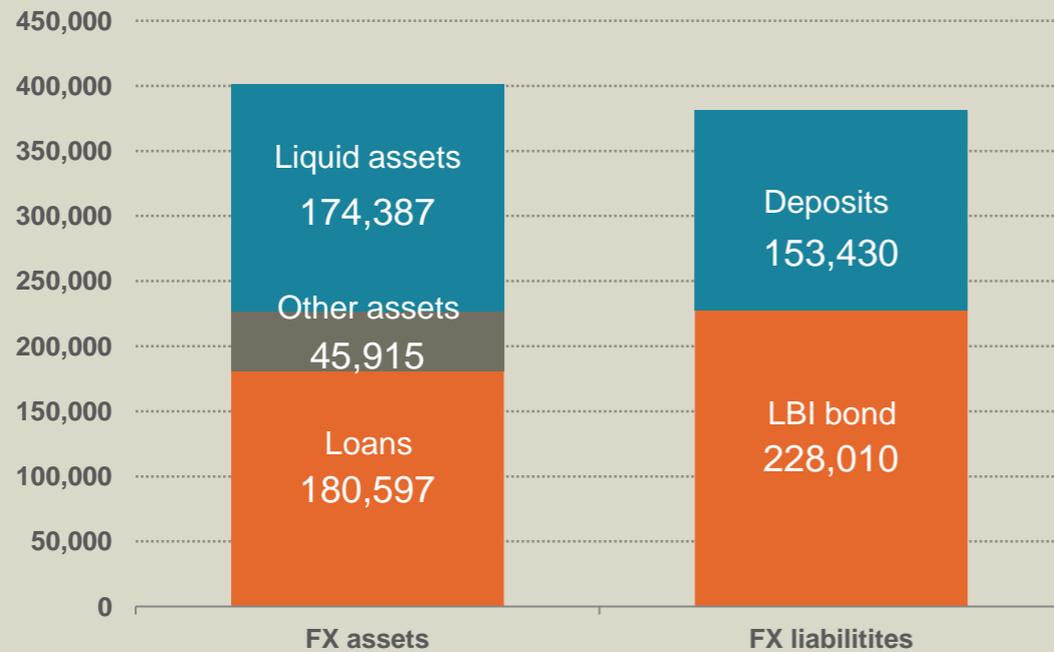


Loans to corporates

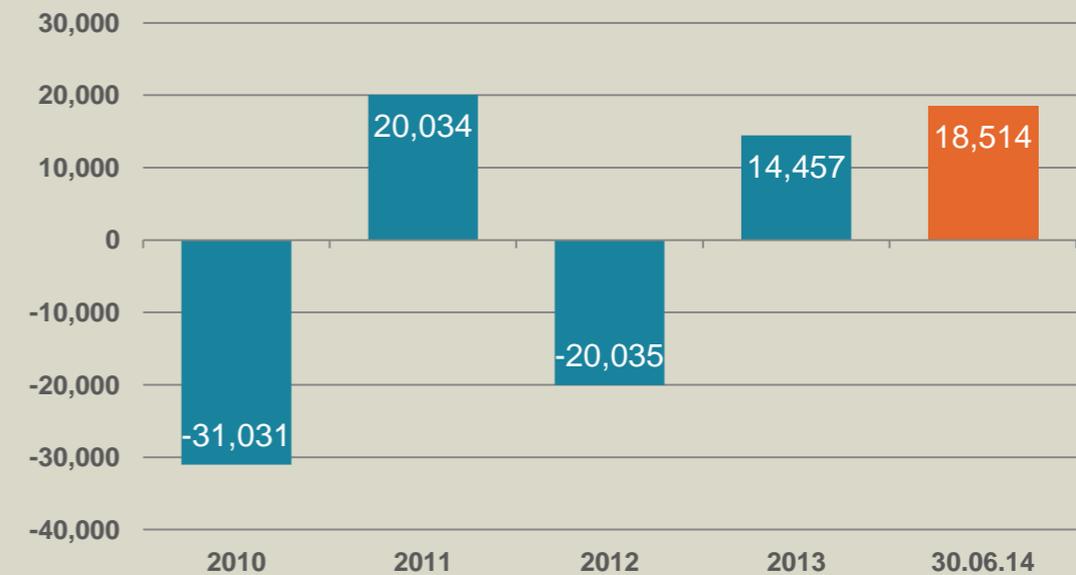


FX assets and liabilities

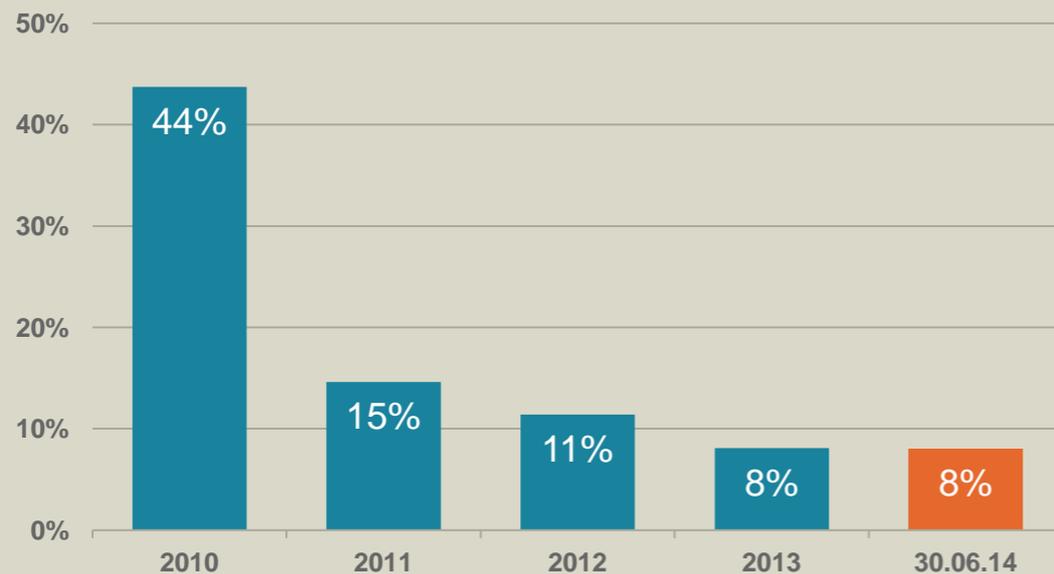
Amounts in ISKm



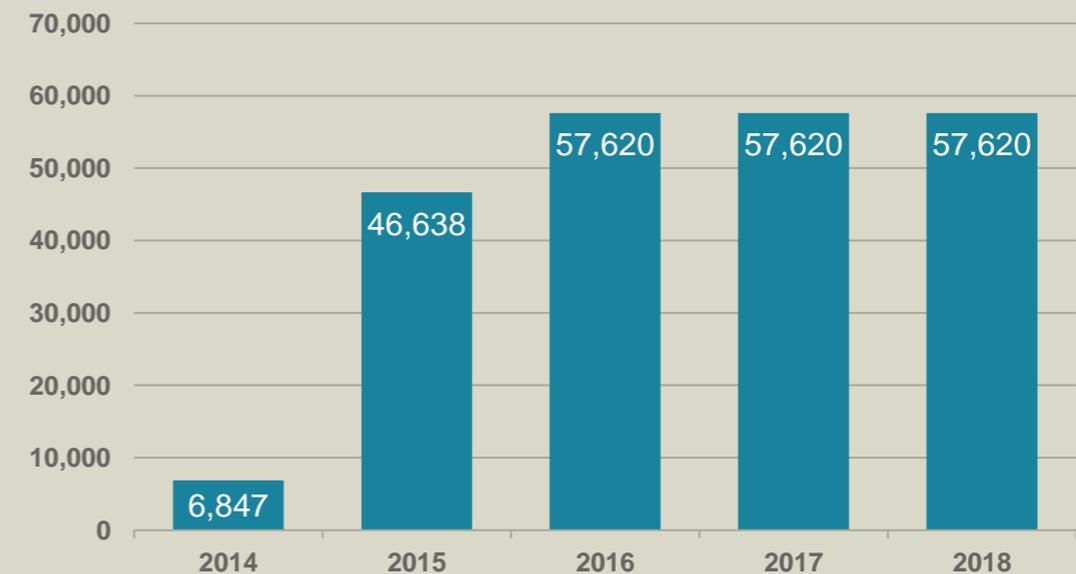
Net FX balance



FX risk / risk-weighted assets



Installments to LBI*



*Installment according to original repayment schedule – less H1 2014 repayment

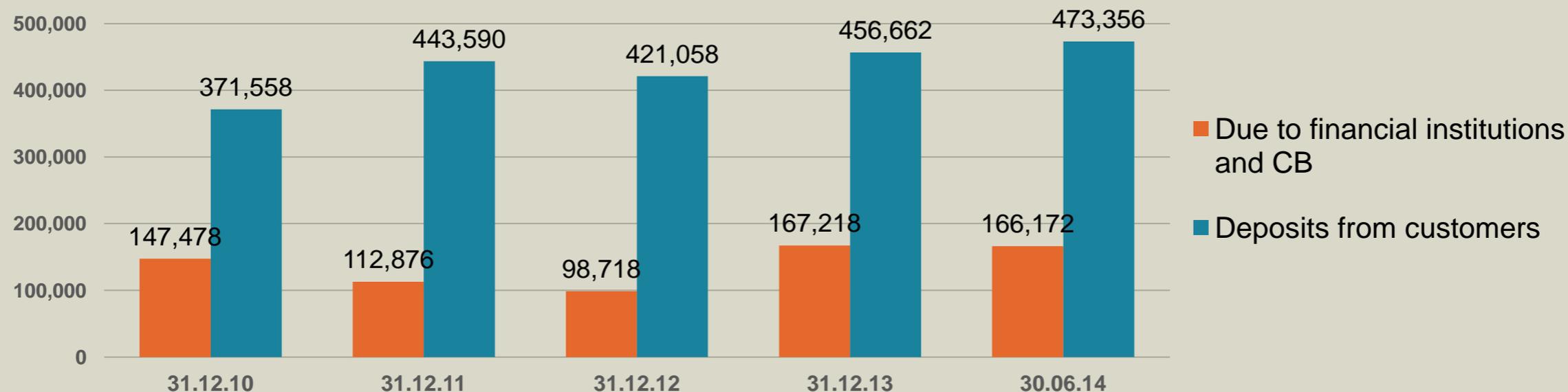
Balance sheet – liabilities and equity

Amounts in ISKm

	30.06.14	31.12.13	Change 2014	
Due to financial institutions and CB	166,172	167,218	-1,046	-1%
Deposits from customers	473,356	456,662	16,694	4%
Secured bonds	231,378	239,642	-8,264	-3%
Other liabilities	47,798	46,635	1,163	2%
Equity	235,894	241,359	-5,465	-2%
Total	1,154,598	1,151,516	3,082	0%

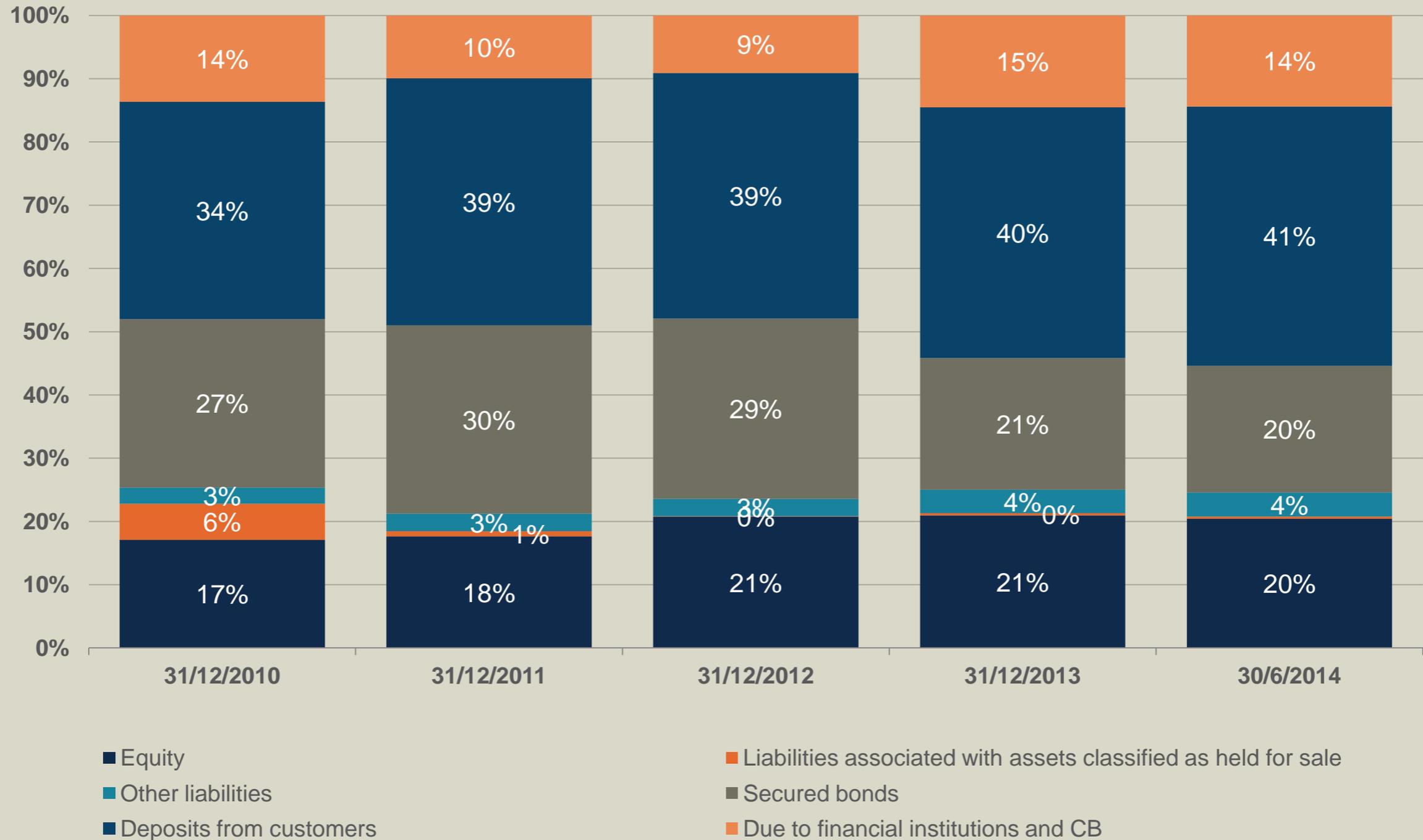
- » Half of the funding is derived from customer deposits and deposits from financial undertakings
- » In Q1 2014, Landsbankinn paid just under ISK 20bn in dividends to its owners which leads to a decrease in equity

Deposits



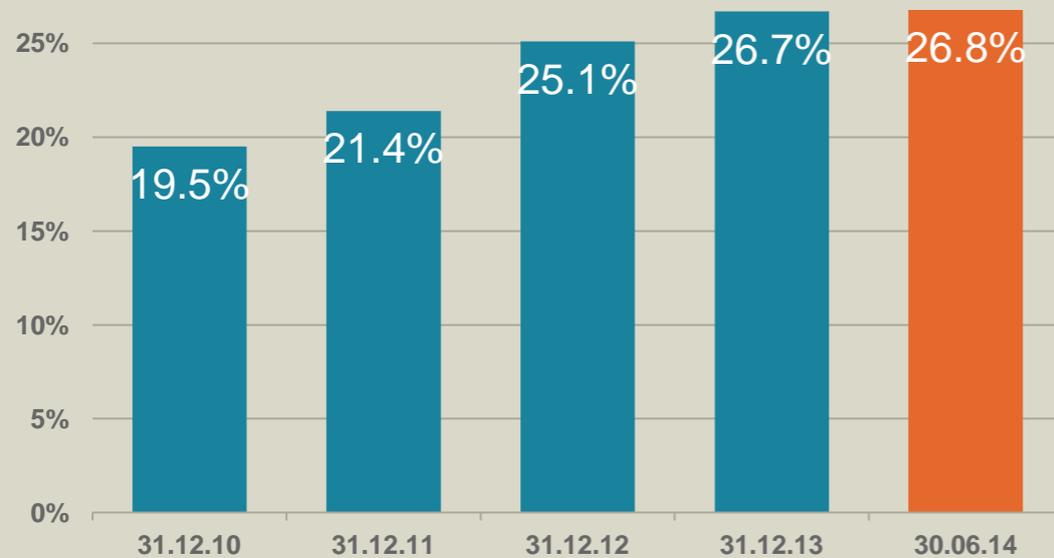
Balance sheet – liabilities and equity

Liabilities and equity



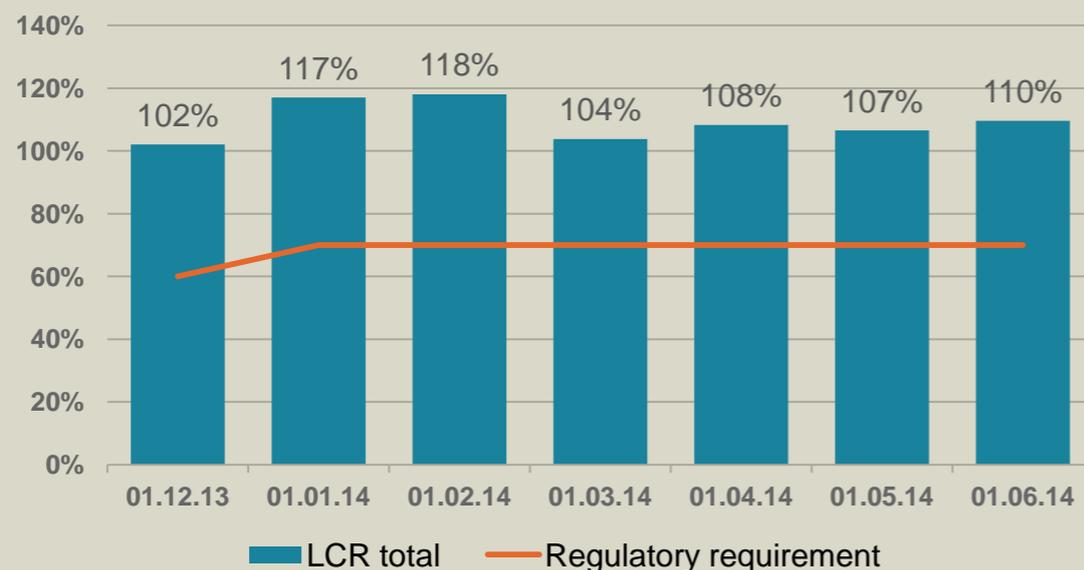
Capital ratio and liquid assets

Capital ratio (CAR)

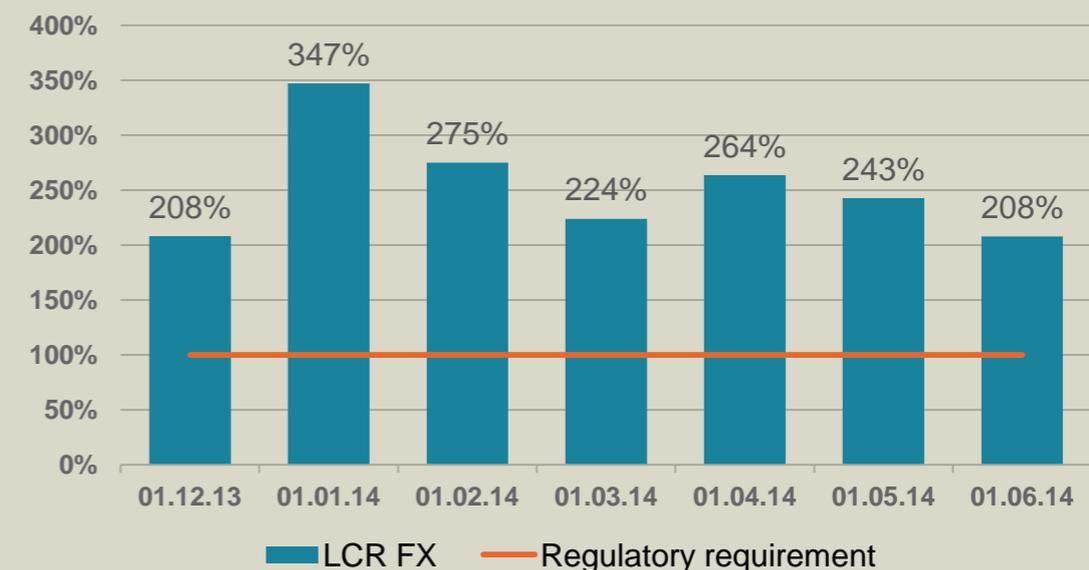


- » The Bank's capital ratio is based solely on Tier 1 capital
- » Growing CAR is attributable to good performance and effective risk management
- » The Bank is well above its 20% CAR benchmark

Liquidity coverage ratio total



Liquidity coverage ratio FX



Main results

Amounts in ISKm

	1H 2014	1H 2013	2013	2012	
Profit after taxes	14,878	15,525	28,759	25,494	» Net operating income decreased by 4% as compared with the same period in 2013
Return on equity after taxes	12.8%	13.5%	12.4%	12.0%	» Return on equity (ROE) after taxes was 12.8% for the period as compared with a ROE of 13.5% in 2013
Interest spread as a ratio of av. total assets	2.6%	3.1%	3.1%	3.2%	
Cost-income ratio *	54.9%	42.1%	42.9%	45.0%	» Operating expenses increased by 0.2% in real terms
Real change in operating expenses	0.2%	-7.9%	-10.1%	4.9%	» Wages and related expenses increase by 7% while the number of full-time positions continues to fall
Positions at period-end	1,162	1,165	1,183	1,233	
Total assets	1,154,598	1,126,094	1,151,516	1,084,787	» Landsbankinn's total assets amounted to ISK 1,155bn at the end of H1 2014
Loans to customers	699,648	665,411	680,468	666,087	» The Bank's liquidity position is very strong, both in foreign currency and Icelandic <i>króna</i> . At the end of the period, the Bank's liquidity ratio was 47%
Deposits from customers	473,356	448,931	456,662	421,058	
Capital ratio (CAR)	26.8%	25.9%	26.7%	25.1%	» Loans 90 days in arrears were at 4% at the end of June 2014 and continue to decrease
Liquidity ratio	47%	45%	50%	48%	
Liquidity ratio LCR total	110%	-	102%	-	
Liquidity ratio LCR FX	208%	-	208%	-	» The Bank's capital adequacy ratio (CAR) is now 26.8% as compared with 25.9% at the end of June 2013
Net FX position	18,514	5,144	14,457	-20,035	
Arrears (>90 days)	4.0%	6.2%	5.3%	8.3%	

* Cost-income ratio = Total operating expenses excluding equity settled employee share-based payments / (Net operating revenue – value change of lending)

Key tasks ahead in the Bank's operation

- » In May, Landsbankinn signed an agreement to amend the terms of bonds issued by the Bank to LBI hf. The final maturity date of the bonds will be in 2026 rather than 2018. This extension significantly reduces risk to the national balance of payments in coming years and simultaneously increases the possibility of taking effective steps towards the lifting of capital controls. This agreement is conditional upon LBI hf. being granted certain exemptions from the Foreign Exchange Act. The CBI and the Ministry of Finance and Economic Affairs have yet to grant these exemptions. Landsbankinn considers it urgent to settle the matter as promptly as possible to reduce uncertainty in the national balance of payments and the foreign currency refinancing of Landsbankinn.
- » Landsbankinn is finalising an EMTN programme which will allow the Bank to issue foreign currency notes abroad.
- » Efforts to increase efficiency are on-going, through the simplification of work processes and cost-reductions while simultaneously improving services to customers. A great deal of headway has been made in optimising the Bank's facilities. Still further improvements can be made with the main opportunity now lying in centralised offices for the Bank.
- » Work on correcting illegal exchange rate indexed loans continues and is very well advanced.
- » Preparations to implement debt adjustment solutions in line with the government's action plan are proceeding apace.

Annex – further information

Key financial ratios

Amounts in ISKm

	H1 2014	H1 2013	2013	2012	2011	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Profit after taxes	14,878	15,525	28,759	25,494	16,957	10,590	4,288	6,483	6,751	7,536
Return on equity before taxes	18.5%	17.2%	17.6%	14.0%	8.1%	25.9%	11.2%	21.5%	14.5%	17.3%
Return on equity after taxes	12.8%	13.5%	12.4%	12.0%	8.4%	18.4%	7.3%	10.9%	11.6%	13.0%
Capital ratio (CAR)	26.8%	25.9%	26.7%	25.1%	21.4%	26.8%	24.8%	26.7%	26.2%	25.9%
Net interest income	15,240	16,997	34,314	35,584	32,649	7,385	7,855	9,977	7,340	7,118
Interest spread as a ratio of average total assets	2.6%	3.1%	3.1%	3.2%	2.9%	2.6%	2.7%	3.5%	2.6%	2.6%
Cost-income ratio *	54.9%	42.1%	42.9%	45.0%	40.6%	43.7%	72.0%	44.8%	42.9%	49.6%
Liquidity ratio	47%	45%	50%	48%	43%	47%	49%	50%	48%	45%
Liquidity ratio LCR total	110%		102%			110%	102%	102%		
Liquidity ratio LCR FX	208%		208%			208%	216%	208%		
Operating expenses as a ratio of average total assets**	2.0%	2.1%	2.0%	2.2%	2.0%	2.0%	2.1%	2.0%	1.8%	2.1%
Total assets	1,154,598	1,126,094	1,151,516	1,084,787	1,135,482	1,154,598	1,153,804	1,151,516	1,158,154	1,126,094
Loans / deposits ratio	147.8%	148.2%	149.0%	158.2%	144.1%	147.8%	145.5%	149.0%	144.0%	148.2%
Positions at period-end	1,162	1,165	1,183	1,233	1,311	1,162	1,178	1,183	1,179	1,165

* Cost-income ratio = Total operating expenses excl. equity settled employee share-based salaries / (Total operating income - net adjustments in valuation)

** Excluding equity settled employee share-based payments

Operations

Amounts in ISKm

	H1 2014	H1 2013	Change		2013	2012	2011	2010
Net interest income	15,240	16,997	-1,757	-10%	34,314	35,584	32,649	24,685
Net adjustments in valuation	11,446	2,879	8,567	298%	8,362	-4,391	-23,587	641
Change in contingent bond - liability to purchase own shares	0	4,691	-4,691		4,691	0	0	0
Net interest income after adjustments in valuation	26,686	24,567	2,119	9%	47,367	31,193	9,062	25,326
Net fee and commission income	2,921	2,960	-39	-1	5,291	4,448	4,424	3,582
Net foreign exchange gain (loss)	-194	1,188	-1,382	-116%	1,147	4,566	-759	14,623
Other net operating income	3,504	6,179	-2,675	-43%	11,776	8,934	18,017	7,318
Total operating income	32,917	34,894	-1,977	-6%	65,581	49,141	30,743	50,849
Salaries and related expenses	6,743	6,295	448	7%	12,613	13,176	11,990	9,331
Equity-settled employee share-based salaries	0	4,691	-4,691		4,691	0	0	0
Other operating expenses	4,170	4,198	-28	-1%	8,005	8,878	8,466	7,312
Depreciation and amortisation	352	423	-71	-17%	818	719	771	1,311
Contribution to the Depositors' and Investors' Guarantee Fund	522	538	-16	-3%	1,079	1,042	583	0
Acquisition-related costs	0	45	-45		45	290	245	542
Total operating expenses	11,787	16,190	-4,403	-27%	27,251	24,105	22,055	18,496
Share in profit of associates, net of income tax	340	1,127	-787	-70%	2,712	2,449	1,418	291
Profit before tax	21,470	19,831	1,639	8%	41,042	27,485	10,105	32,644
Income tax expense	6,592	4,306	2,286	53%	12,283	4,125	-597	8,182
Profit for the period from continuing operations	14,878	15,525	-647	-4%	28,759	23,360	10,703	24,462
Profit from disc operations, net of income tax	0	0	0		0	2,134	6,255	2,769
Profit for the period	14,878	15,525	-647	-4%	28,759	25,494	16,957	27,231

Operations

Amounts in ISKm

	30.06.14	31.12.13	Change 2014		31.12.12	31.12.11	31.12.10
Cash and balances with CB	7,964	21,520	-13,556	-63%	25,898	8,823	47,777
Bonds and debt instruments	297,141	290,595	6,546	2%	228,208	221,848	161,559
Equities and equity instruments	42,221	36,275	5,946	16%	36,881	46,037	29,429
Loans and advances to fin institutions	67,163	67,916	-753	-1%	64,349	100,133	91,882
Loans and advances to customers	699,648	680,468	19,180	3%	666,087	639,130	592,954
Other assets	18,342	29,719	-11,377	-38%	38,044	65,959	28,743
Assets classified as held for sale	22,119	25,023	-2,904	-12%	25,320	53,552	128,789
Total	1,154,598	1,151,516	3,082	0%	1,084,787	1,135,482	1,081,133
Due to financial institutions and CB	166,172	167,218	-1,046	-1%	98,718	112,876	147,478
Deposits from customers	473,356	456,662	16,694	4%	421,058	443,590	371,558
Secured bonds	231,378	239,642	-8,264	-3%	309,265	337,902	287,822
Other liabilities	43,972	42,750	1,222	3%	29,687	31,485	27,800
Liabilities associated with assets classified as held for sale	3,826	3,885	-59	-2%	893	9,385	61,609
Equity	235,894	241,359	-5,465	-2%	225,166	200,244	184,866
Total	1,154,598	1,151,516	3,082	0%	1,084,787	1,135,482	1,081,133

Operating segments

Amounts in ISKm

H1 2014	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Reconciliation	Total
Net interest income (expense)	7,629	8,073	365	-191	4	-640	15,240
Net adjustments in valuation	3,078	8,137	0	-15	246	0	11,446
Net fee and commission income	1,525	354	1,304	-89	25	-198	2,921
Other net operating income	-468	379	-424	3,780	-587	630	3,310
Total operating income (expense)	11,764	16,943	1,245	3,485	-312	-208	32,917
Operating expenses	-3,090	-688	-1,019	-642	-6,556	208	-11,787
Share in profit of equity-accounted associates, net of income tax	315	0	0	25	0	0	340
Profit (loss) before cost allocation and tax	8,989	16,255	226	2,868	-6,868	0	21,470
Cost allocated from support functions to business segments	-2,727	-1,708	-608	-513	5,556	0	0
Profit (loss) before tax	6,262	14,547	-382	2,355	-1,312	0	21,470
Total assets	489,201	452,125	30,239	529,024	29,709	-375,700	1,154,598
Total liabilities	440,496	343,899	23,099	457,201	29,709	-375,700	918,704
Allocated capital	48,705	108,226	7,140	71,823	0	0	235,894

