



Landsbankinn: Financial Results

January - June 2014



21 August 2014

News announcement to accompany the semi-annual financial statement of Landsbankinn for the year 2014

Landsbankinn reports a profit of ISK 14.9 bn in H1 2014

In the first six months of 2014, Landsbankinn's after-tax profit was ISK 14.9 bn as compared with ISK 15.5 bn for the same period in 2013. A profit in the amount of ISK 4.9 bn was recognised in the second quarter from Landsbankinn's sale of a 9.9% share in FSÍ (Framtakssjóður Íslands) slhf. and the Bank's entire holding in IEI slhf., as well as fair value changes in the Bank's remaining share in FSÍ.

Interest revenues are down by 10% from the previous year while net commission income remains virtually unchanged. Operating costs remain virtually the same between periods when regard is had for equity-related payments to employees in the previous year. Return on equity (ROE) after taxes for the period was 12.8% as compared to an ROE of 13.5% for the same period of the previous year.

Steinthór Pálsson, CEO, on H1 results: "Landsbankinn's performance and financial position is very sound. The value increase of assets accounts for an unusually large portion of profits for the period while the interest margin falls considerably below last year's levels. Since the establishment of the Bank, the Bank has in aggregate recognised net impairment losses on the Bank's loan portfolio.

A comparison of 1,000 banks from every corner of the globe made by The Banker - a magazine owned by Financial Times - this summer found that Landsbankinn is well positioned as regards equity position and return on assets. No bank in Western Europe has a stronger equity position and only a few dozen banks show a stronger return on assets, according to the analysis undertaken by The Banker. This position allows Landsbankinn to support growth in the economy and meet the increasing demand for financial services from households and companies.

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. The entry into effect of 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.

The outlook for the Bank's operations for the remainder of the year is good with certain uncertainties remaining in the form of on-going court cases."

Key figures from the profit and loss account and balance sheet

Operations:

- » In the first six months of 2014, Landsbankinn's after-tax profit was ISK 14.9 bn as compared with ISK 15.5 bn for the same period in 2013.
- » Return on equity (ROE) after taxes for the period was 12.8% as compared to an ROE of 13.5% for the same period of 2013.
- » Net interest income in the first six months of the year amounted to ISK 15.2 bn but was ISK 17 bn for the same period in 2013.
- » The ratio of interest spread to average capital position is falling, was 2.6% in the first six months of the year as compared to 3.1% for the same period in 2013.
- » Net commission income amounted to ISK 2.9 bn and remains more or less unchanged between periods.
- » The cost-income ratio for the first six months of the year was 54.9%, up from 42.1% for the same period last year. The Bank's operating costs have changed but little, with lower income in Q1 2014 accounting for a higher cost-income ratio in the first half of 2014.
- » Operating costs are up by 0.2% from the previous year in real terms.
- » Full-time equivalent positions at the end of June were 1162 as compared with 1183 at the end of 2013.

Balance Sheet:

- » The Bank's equity amounted to ISK 236 bn at the end of June 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 2014 which lowers equity and CAR.
- » The Bank's capital adequacy ratio (CAR) is well above the requirements of the Financial Supervisory Authority (FME). It is currently 26.8%; was 25.9% at the end of June 2013.
- » The Bank's total assets amounted to ISK 1,155 bn at the end of June 2014, increasing by ISK 3 bn since the beginning of the year.
- » Customer deposits have increased by 4% since the beginning of the year, or by just under ISK 17 bn.
- » Total lending amounts to ISK 71 bn yet, due to instalments on other loans, value changes and other factors, total lending has increased by ISK 19 bn during the period.
- » The Bank's liquidity position is 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.
- » The Bank's foreign balance is good and assets in foreign currencies amount to around ISK 18.5 bn in excess of foreign currency liabilities.
- » Total defaults by companies and households were 4.0% at the end of June 2014, as compared with 5.3% at year-end 2013.

	H1 2014	H1 2013	2013	2012	2011
After-tax profit	14,878	15,525	28,759	25,494	16,957
Return on equity (ROE)	12.8%	13.5%	12.4%	12.0%	8.4%
Net interest spread / total assets	2.6%	3.1%	3.1%	3.2%	2.9%
Cost-income ratio*	54.9%	42.1%	42.9%	45.0%	40.6%
Real change of operating expenses	0.2%	-7.9%	-10.1%	4.9%	13.3%
Full-time equiv. positions	1,162	1,165	1,183	1,233	1,311
Total assets	1,154,598	1,126,094	1,151,516	1,084,787	1,135,482
Loans to customers	699,648	665,411	680,468	666,087	639,130
Customer deposits	473,356	448,931	456,662	421,058	443,590
CAR	26.8%	25.9%	26.7%	25.1%	21.4%
Liquidity ratio	47%	45%	50%	48%	43%
Total LCR	110%	-	102%	-	-
Total FX LCR	208%	-	208%	-	-
Foreign currency balance	18,514	5,144	14,457	-20,035	20,034
Loans in arrears (>90 days)	4.0%	6.2%	5.3%	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 the first half of 2014

- » International rating agency Standard & Poor's (S&P) issued Landsbankinn the rating grade BB+ with a stable outlook in January.
- » Landsbankinn paid dividends to its owners in March, in accordance with a motion approved by its AGM, amounting to 70% of last year's profit, or just under ISK 20 bn. The dividend payment led to a decrease in equity in Q1.
- » The Bank added ISK 1.5 bn to its issuance of covered bonds during the period.
- » 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.
- » 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 services to small and medium-sized enterprises are now provided through a new Corporate Service Centre at Borgartún 33.

- » In May, an agreement was signed to amend the terms of bonds issued by Landsbankinn to LBI hf. in accordance with an agreement from December 2009. The final maturity date of the bonds is now in 2026 rather than 2018. This agreement is conditional upon LBI hf. being granted certain exemptions from the Foreign Exchange Act.
- » In June, Landsbankinn sold a 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.

Key tasks ahead in the Bank's operation

- » LBI hf. still awaits a decision by the CBI and the Ministry of Finance and Economic Affairs on the requested exemption from the Foreign Exchange Act.
- » 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.