



Results of Landsbankinn

January - September 2013



21 November 2013

News announcement to accompany 9M financial statement

Landsbankinn reports an ISK 22.3bn profit in the first 9M of 2013

In the first nine months of 2013, Landsbankinn's net after-tax profit was ISK 22.3bn. Landsbankinn's net after-tax profit for the same period in 2012 was ISK 13.5bn. The difference is due mainly to growth of other operating income, reduced operating cost, increase in value of equities and bonds, valuation changes of loans and higher commission income.

Steinthór Pálsson, CEO of Landsbankinn: "The bank's operations and profitability are very satisfactory, showing positive developments in income and expenses and its financial position is sound. The capital adequacy ratio is well in excess of regulatory requirements, as is the bank's liquidity position, both in foreign currency and Icelandic króna. Our efforts to reduce operating expenses have been very successful, with the real decrease of operating expenses in the first 9M of 2013 amounting to 9.4%, having regard for inflation. These results far exceed our expectations."

Commenting on the challenges ahead, Steinthór says: "We will continue emphasising on reducing risk and operating costs while simultaneously working to improve customer services. The Winding-up Board of LBI hf. has agreed to enter into discussions to amend the terms and conditions of the bonds issued to LBI hf. by Landsbankinn. The results of such discussions can materially affect the lifting of capital controls and are one of the most important challenges currently facing the bank. We will continue our efforts to correct recalculated illegal exchange rate indexed loans and the end of that undertaking is clearly in sight."

Key figures from the profit and loss account and balance sheet

- » In the first nine months of 2013, Landsbankinn's after-tax profit was ISK 22.3bn compared to ISK 13.5bn for the same period in 2012. The bank's year-over-year profit has increased by 65% .
- » Profit in Q3 amounted to ISK 6.8bn. This result is just below the outcome in earlier quarters of the year.
- » Net interest income during the first nine months of the year was ISK 24.3bn as compared with ISK 26.4bn in the same period in 2012.
- » The ratio of interest spread to average of total assets is falling, was 2.9% in the first nine months of 2013 as compared to 3.2% for the same period in 2012.
- » Net commission income amounted to ISK 4.1bn, a year-over-year increase of just under ISK 1bn, or 32%.
- » Successful measures have been taken to lower operating expenses. General operating costs decreased by 10% and wages and wage-related expenses fell by 6% year-over-year. This decrease does not include wage provisions due to own shares received from LBI hf.; the same amount is also recognised as income in the financial statements.
- » Having regard for inflation, the decrease of operating expenses in real terms year-over-year has been 9.4%.
- » The cost-income ratio has also decreased, reaching 42.3% at the end of September as compared to 48% 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 September 2013 were 1179, reduced from 54 from the beginning of the year.
- » The bank's equity was ISK 234.7bn at the end of September 2013, rising by 4% since the beginning of the year despite an ISK 10bn cash dividend payment to shareholders, which was declared in Q2 and paid to shareholders in early October.
- » The bank's capital adequacy ratio (CAR) is far higher than required by the Icelandic Financial Supervisory Authority (FME). The CAR is currently at 26.2%, rising from 24.1% at the end of September 2012.
- » After-tax ROE increased despite significantly growing equity. ROE for the first 9 months of 2013 was 12.9%, as compared with 8.6% for the same time last year.
- » The bank's total assets amounted to ISK 1,158bn at the end of September. The year to date increase is about 7%, due mainly to rising deposits and liquid assets. The bank has increased its lending by more than ISK 100bn during the period, yet instalments and other factors contribute to a total increase of lending in the lower amount of ISK 5.3bn.
- » Customer deposits have increased by 11% since the beginning of the year, or ISK 44.7bn.
- » The bank's liquidity position is strong, both in foreign currency and Icelandic króna. The liquidity ratio was 48.0% at the end of September as compared to 45% at the same time last year.
- » The bank has a favourable foreign currency position whereby assets in foreign currencies are around ISK 12.4bn in excess of foreign currency liabilities.
- » Assets held for sale remain unchanged since the beginning of this year, despite the recent acquisition of the construction company Ístak.
- » Total defaults of companies and households were 6.2% at the end of September 2013 and have gone down during the year. The bank aims to reduce defaults to less than 5% by the end of this year.

	9M 2013	9M 2012	2012	2011
After-tax profit	22,276	13,541	25,494	16,957
Return on Equity (ROE)	12.9%	8.6%	12.0%	8.4%
Net interest spread / total assets	2.9%	3.2%	3.2%	2.9%
Cost-income ratio*	42.3%	48.0%	45.0%	40.6%
(+)Increase/(-)Decrease in operating expenses in real terms	-9.4%	10.8%	4.9%	13.3%
Full-time equiv. positions	1,179	1,269	1,233	1,311
Total assets	1,158,154	1,056,825	1,084,787	1,135,482
Loans to customers	671,378	657,050	666,087	639,130
Customer deposits	465,742	439,853	421,058	443,590
CAR	26.2%	24.1%	25.1%	21.4%
Liquidity ratio	48.0%	45.0%	48.4%	42.9%
Currency imbalance	12,434	37,824	-20,035	20,034
Loans in arrears (>90 days)	6.2%	9.2%	8.3%	13.9%

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

Key aspects of operations in 2013

- » Landsbankinn issued secured bonds to LBI hf. in April in the amount of ISK 92bn. At the same time, LBI surrendered all its shareholding in Landsbankinn to the State and to Landsbankinn. These events mark the finalisation of settlement with LBI and a milestone in the bank's development.
- » A new Board of Directors took over following the annual general meeting in April. Tryggvi Pálsson is Chairman of the Board.
- » In June, Landsbankinn concluded its first issuance of covered bond series. These are non-indexed with 3Y fixed rate of 6.30%. As a result, Landsbankinn was able to lower the terms of non-indexed housing loans to customers. The bonds were listed for trading on NASDAQ OMX Iceland in October which was the first listing of bonds issued by the bank on an exchange. Straumur fjárfestingarbanki hf. is market maker for the bonds.
- » Landsbankinn sold its 25% holding in the facilities management company Reginn hf. in June for just over ISK 4bn. In 2012, the bank had already sold 75% of shares in the company upon its listing on the stock exchange.
- » In September, Landsbankinn acquired all shares in construction company Ístak, previously a subsidiary of Danish construction company E. Phil&Søn A/S which entered into bankruptcy proceedings in August. The company has just been put up for sale.
- » An agreement was reached on the allocation of the bank's own shares to employees in accordance with an agreement between LBI hf., the Ministry of Finance and Landsbankinn concluded in the fall of 2009.
- » In 2013 Landsbankinn paid dividends to its owners for the first time. The dividend payment is in accordance with the approval of the Annual General Meeting of Landsbankinn hf. on 17 April and amounted to 39% of last year's profit, or ISK 10bn. It was declared in Q2 and paid to shareholders in early October.
- » Landsbankinn was awarded the transportation prize of the City of Reykjavík this year for its outstanding efforts among large companies in implementing eco-friendly transportation.

Principal tasks ahead

Correction of illegal foreign exchange indexed loans

Landsbankinn continues to work on correcting the recalculation of illegal foreign exchange indexed loans and expects to finalise correction of loans to which current legal precedents apply around the end of this year. Court verdicts are currently being awaited in several matters of contention.

Agreement with LBI

At the end of Q3 2013, the outstanding liability due to LBI hf. amounts to ISK 298 billion in foreign currencies. In Q2 of 2012, Landsbankinn pre-paid the first five instalment dates of the bonds issued by the bank to LBI hf. and the next due date for payment is in 2014. The bonds mature in 2018, according to current terms and conditions. The bank has accumulated considerable foreign currency reserves and is in a position to make further pre-payments and still comply with the stringent requirements the Central Bank of Iceland makes with regard to FX liquidity positions.

Despite its solid financial standing and robust liquidity position, the bank is still faced with uncertainties concerning the above-mentioned foreign currency liabilities and conditions in international credit markets. Landsbankinn will need to refinance its foreign debt before 2016 and therefore seeks renegotiations with LBI hf. over the repayment terms of above-mentioned bonds. The Winding-up Board of LBI hf. agreed in October to enter into discussions on amendments to terms of the bonds.

Innovation in Landsbankinn branch operations

Extensive changes to Landsbankinn's branch operations are impending and in the latter part of November, the first branch of its kind in Iceland will open at Hagatorg Reykjavík. The changes are an important step in the bank's development into the future. The aim of the changes is first and foremost to make the bank's service offering more flexible and personal and banking more efficient. The most noticeable change will be that handling of cash. Service counters and cashiers' wickets disappear while automation increases significantly, relying among other things on a new generation of ATMs (so-called kiosks) that partly replace traditional cashiers. The Hagatorg branch is a developmental project.