



Consolidated Interim Financial Results

1H 2012



Satisfactory results for the first six months of the year:

Landsbankinn's financial position grows from strength to strength

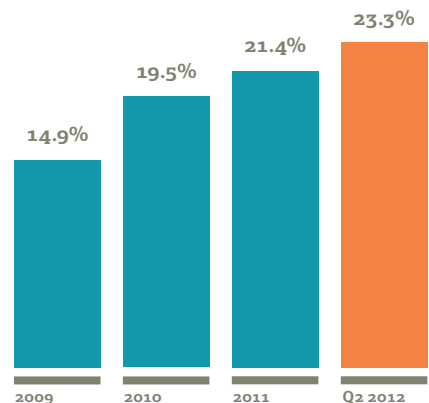
Landsbankinn's net after-tax profit was ISK 11.9 bn in the first half of 2012. Profit in the second quarter was, however, significantly less than in the first quarter, which is primarily due to an expense recognised in the bank's operations relating to a revaluation of SpKef's assets. The bank's profit in the first half of the year has decreased by half compared to the same time last year when profit amounted to ISK 24.4 bn. This difference is primarily due to less income from irregular items e.g. lower trading gains on equities and profit from discontinued operations.

ROE in the first half of 2012 was 11.5% but was just under 25% same time last year. Landsbankinn's CAD ratio is currently 23.3% compared to 22.4% same time last year. The CAD ratio is well above the 16% minimum requirement of the Financial Supervisory Authority. Landsbankinn's financial position is sound, but return on operations reflects little growth in the Icelandic economy.

The main changes to Landsbankinn's balance sheet are twofold, on the one hand the sale of a 75% share in the bank's subsidiary Reginn hf., which generated around ISK 1,650 m in profits, while also making the balance sheet lighter, and decreasing the value of assets classified as held for sale on the balance sheet from ISK 53 bn at year-end 2011 to ISK 26 bn. Furthermore, assets classified as held for sale decreased by ISK 8.4 bn.

The significant change to the balance sheet is also caused by the agreement reached between Landsbankinn hf. and Landsbanki Íslands hf. (LBI) regarding the prepayment of a quarter of the principal of the so-called A-bonds, which were issued in 2010 in relation to the difference between the value of acquired assets and liabilities from LBI. The prepayment is equal to just over ISK 73 billion in euros, dollars and pounds. Subsequently, the bank's financing cost will decrease and that decrease will outweigh the bank's returns from liquid assets in foreign currencies. At the same time the bank's balance sheet shrinks and profitability increases. This is therefore an important disposition. The bank's liquidity in ISK and foreign currencies continues to be strong and gives the owners of the bank the opportunity to pay out dividends in the coming years.

CAD ratio



Key figures 1H 2012

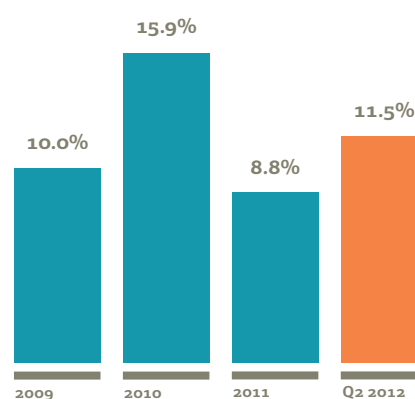
Key figures	H1 2012	H1 2011
Profit after taxes	11,877	24,434
Return on equity after taxes	11.5%	24.9%
Capital ratio	23.3%	22.4%
Interest spread as a ratio of average total assets	3.3%	3.1%
Cost-income ratio	55.5%	53.3%
Total assets	1,048,573	1,126,280
Loans / deposits ratio	151.4%	153.6%
Positions at period-end	1,269	1,258

Cost-income ratio = (Salaries + other adm expenses + depreciation) / (Net interest income + net commissions and fees)

Steinþór Pálsson, CEO of Landsbankinn, commented:

“The rebuilding of Landsbankinn is progressing well. We have made important achievements during the first half of the year through, among other things, the listing of Reginn, the agreement with LBI. hf. on the prepayment of a part of the bond issued in 2010, and through streamlining measures, which will strengthen the bank in the long term. However, there are still clouds on the horizon; court rulings relating to exchange rate linked loans are being awaited, and the position of homes and companies are still subject to some uncertainty despite debt having been written down to what amounts to hundreds of billions in ISK. This is reflected in the economy, which is still on hold instead of boldly taking steps that contribute to the rebuilding of the economy. The bank’s operations are characterised by this situation, but it is well positioned to support individuals and companies in their investments in the future.

After-tax ROE

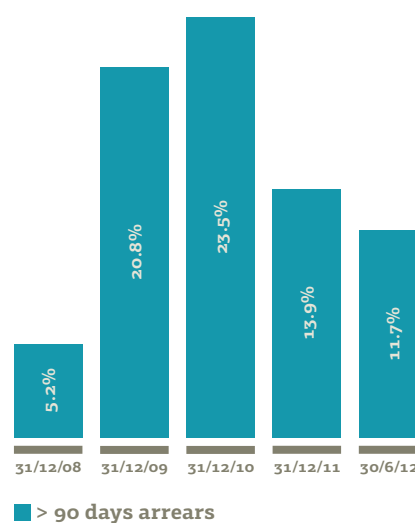


Restructuring of customer debt

Restructuring of customer and corporate debt has been Landsbankinn's main task in the past few years.

- » At the end of June, Landsbankinn had completed the restructuring of debt in over 1000 companies. Most of the companies experiencing difficulties, which the bank assessed as being viable when the extensive restructuring of Icelandic corporate debt began following the collapse in October 2008, have now had their financial difficulties resolved.
- » In the last 24 months, Landsbankinn has completed the sale of all viable companies engaged in unrelated activities, which the bank gained control over in relation to their operating difficulties, and the value of assets classified as held for sale by Landsbankinn has decreased by close to ISK 100 bn.
- » All exchange rate linked loans in Landsbankinn have been recalculated, but due to ruling no. 600/2011 passed by the Supreme Court of Iceland, there is still some uncertainty prevailing regarding the outstanding balance of some of those loans. Eleven test cases have been submitted to the courts, which are intended to resolve all the main issues still to be resolved. It is possible that some loans will have to be recalculated in accordance with the conclusions of these court cases.
- » Loans in arrears have decreased significantly in the bank's books. After the second quarter in 2011, they were 24% but have now decreased to 11.7%. This speaks volumes of the effectiveness of the measures on offer. The percentage of loans in arrears in Iceland is, however, still too high.

Arrears

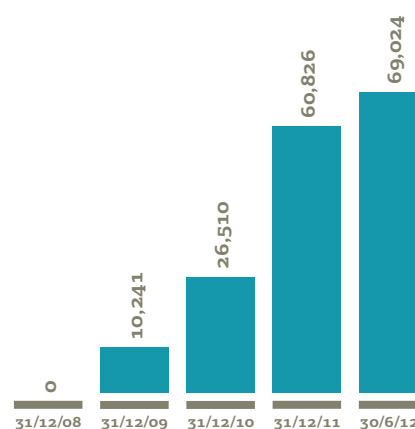


Settlement with Landsbanki Íslands hf. (LBI hf.)

- » The contingent bond, which Landsbankinn hf. will issue to LBI hf. and determines how much LBI hf. will acquire of Landsbankinn's assets is now ISK 69 bn. If the value of the bond will be ISK 92 bn by the end of the year, LBI hf. will waive its 18.7% shareholding in Landsbankinn completely.
- » Landsbankinn hf. and Landsbanki Íslands hf. (LBI), which is currently in the process of being wound up, have agreed that Landsbankinn prepay a quarter of the principal of the so-called A-bonds issued in 2010 in relation to the difference in value of acquired assets and liabilities from LBI. The prepayment is equal to just over ISK 73 billion in euros, dollars and pounds. Subsequently, the bank's financing cost will be lower and that decrease will outweigh the bank's returns from liquid assets in foreign currencies. The agreement is an important milestone in the rebuilding of Landsbankinn as the aforementioned prepayment will reduce the bank's debt substantially and facilitate the bank's refinancing. The prepayment goes fully towards the first five of the bond's twenty quarterly due dates, which were scheduled to commence in January 2014. The next repayment of the principal will thus be in April 2015 instead of January 2014; the final due date is in October 2018.

Contingent bond

ISKm



Income statement:

The operations of Landsbankinn are, for the most part, in accordance with plans during the year, however, the bank's total income decreases by roughly 25% between years, and was ISK 31.6 bn in the first half of last year, but is now ISK 23.6 bn. This is primarily caused by an expense relating to SpKef and lower trading gains on equities. Landsbankinn's interest income has increased by ISK 1.7 bn from the same time last year, thereof are ISK 900 m relating to the acquisition of assets from SpKef. Commission income remains practically the same.

Value changes to the loan portfolio

In the first half of 2012, the bank recognised an expense in the amount of ISK 3.5 bn in relation to the negative development of the bank's loan portfolio. This item is based on credit losses and the bank's assessment of loan recovery. A significant part of this is an expense relating to the difference in the bank's valuation of loans with SpKef and the valuation of the arbitration committee, which was appointed to resolve a dispute between Landsbankinn and the Icelandic State. Landsbankinn applied the same methodology to this valuation as it does to other loans in general, while the methodology of the arbitration committee was different. The bank's valuation is therefore more cautious than the committee's valuation.

Since Landsbankinn's acquisition of LBI hf.'s assets were finalised, the bank has recognised as an expense ISK 19.4 bn in relation to the impairment of the loan portfolio. Thereof, the bank has recognised ISK 16.4 bn as an expense in relation to the loan portfolio of retail customers and around ISK 3 bn in relation to the impairment of the corporate loan portfolio. In public discussions, it is often maintained that a large part of the banks' profits are related to the value increase of loan portfolios acquired from the old banks. That is not the case with Landsbankinn.

There was significant uncertainty surrounding the value of loans when the agreement between Landsbankinn and LBI hf. was finalised at year-end 2009 and considerable disagreement existed regarding the value of loans. It was agreed that Landsbankinn would issue a contingent bond that would reflect the possible increase in value of certain assets until the end of 2012, its value, however, would not exceed ISK 92 bn. It's the bank's assessment that since the agreements were entered into that the value of assets has risen by ISK 69 bn and that is the value of the contingent bond mid-year 2012. Independent advisors value the assets and rule on those cases which Landsbankinn and LBI are in disagreement of. The value of assets thus increases in the bank's statements while liabilities with LBI hf. increase by the same amount; this change in value does therefore not affect the bank's operations.

Operating cost

The operating cost of Landsbankinn is still too high despite the streamlining measures, which have been taken. The operating cost has increased by 11% compared to the first half of 2011. Thereof, salaries and related expenses have increased by 26% or what corresponds to ISK 1,350 m, but wage increases do not account for a large amount of the rise. Contractual wage increases amount to ISK 400 m while the new financial transaction tax on salaries amounted to ISK 350 m. Cost relating to the merger of SpKef and termination of employment in relation to restructuring measures amount to ISK 480 m.

Estimated income and banking tax increased by 22% between years and is now roughly ISK 2.8 bn. In the first half of the year Landsbankinn has paid the Financial Supervisory Authority and the Debtors' Ombudsman ISK 390 m.

Operation	H1 2012	H1 2011	Change	%
Net interest income	18,573	16,849	1,724	10%
Net adjustments in valuation	-3,465	2,675	-6,140	-230%
Net interest income after adjustments in valuation	15,108	19,524	-4,416	-23%
Net fee and commission income	2,092	2,217	-125	-6%
Net foreign exchange gain (loss)	836	-139	975	-702%
Other net operating income	5,524	10,016	-4,492	-45%
Total operating income	23,560	31,618	-8,058	-25%
Operating expenses	-12,027	-10,806	-1,221	11%
Share of profit of associates, net of income tax	673	1,172	-499	-43%
Profit before tax	12,206	21,985	-9,779	-44%
Income tax expense	-2,813	-2,299	-514	22%
Profit for the year from continuing operations	9,393	19,685	-10,292	-52%
Profit for the year from disc operations, net of income tax	2,484	4,749	-2,265	-48%
Profit for the year	11,877	24,434	-12,557	-51%

Balance sheet:

As previously mentioned, the sale of the 75% share in Reginn hf. and the prepayment to LBI hf. of the issued bond cause the most significant change to Landsbankinn's balance sheet. The bank's total assets have decreased compared to the same time last year by just under ISK 87 bn. The bank's equity is now ISK 212 bn and has increased by ISK 12 bn from the beginning of the year.

The bank's liquidity ratio is still quite high despite the aforementioned prepayment, and is now 39.2%, which is equal to Landsbankinn being able to pay just under 40% of all deposits on demand. The CAD ratio is also very high and gives the owners an opportunity to pay dividends from the bank's operations in the near future.

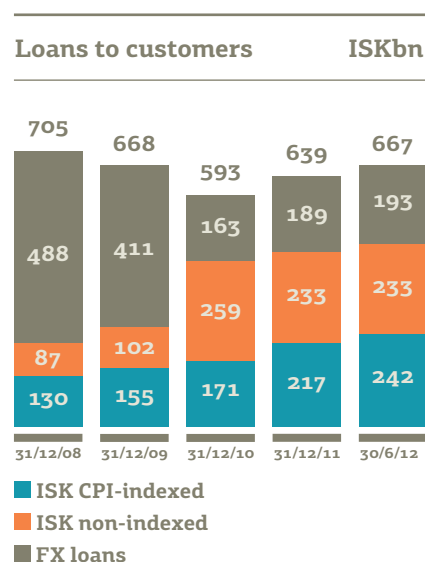
The bank's indexation balance increased by ISK 35 last year. This is primarily due to the fact that when the illegitimate exchange rate linked loans were recalculated, a number of the bank's customers chose to change them into indexed rather than non-indexed loans. The proportion of indexed and non-indexed loans in Landsbankinn's loan portfolio has increased since 2008. Furthermore, Landsbankinn's acquisition of Spkef and Avant increased indexed assets in excess of indexed liabilities. The same trend has continued due to, among other things, the sale of Reginn hf. from Landsbankinn.

Balance sheet	6/30/12	12/31/11	2012 change %	
Cash and balances with CB	16,364	8,823	7,541	85%
Loans and advances to fin institutions	59,529	100,133	-40,604	-41%
Bonds and debt instruments	203,863	221,848	-17,985	-8%
Equities and equity instruments	38,161	46,037	-7,876	-17%
Loans and advances to customers	666,890	639,130	27,760	4%
Other assets	37,082	65,959	-28,877	-44%
Assets classified as held for sale	26,684	53,552	-26,868	-50%
Total assets	1,048,573	1,135,482	-86,909	-8%
Due to financial institutions and CB	91,018	112,876	-21,858	-19%
Deposits from customers	440,392	443,590	-3,198	-1%
Secured bonds	209,028	277,076	-68,048	-25%
Contingent bond	69,024	60,826	8,198	13%
Other liabilities	26,130	31,485	-5,355	-17%
Liabilities associated with AHFS	959	9,385	-8,426	-90%
Equity	212,022	200,244	11,778	6%
Total liabilities and equity	1,048,573	1,135,482	-86,909	-8%

Loans by sectors	6/30/12	12/31/11	Change	%
Public entities	11,691	12,139	-448	-4%
Individuals	184,596	173,223	11,373	7%
Fisheries	139,504	135,397	4,107	3%
Construction and real estate comp	116,698	101,958	14,740	14%
Services	51,381	66,121	-14,740	-22%
Retail	41,478	42,401	-923	-2%
Holding companies	55,227	48,622	6,605	14%
Manufacturing	23,405	28,008	-4,603	-16%
Agriculture	8,997	8,505	492	6%
ITC	19,810	20,168	-358	-2%
Other	14,103	2,588	11,515	445%
	666,890	639,130	27,760	4%

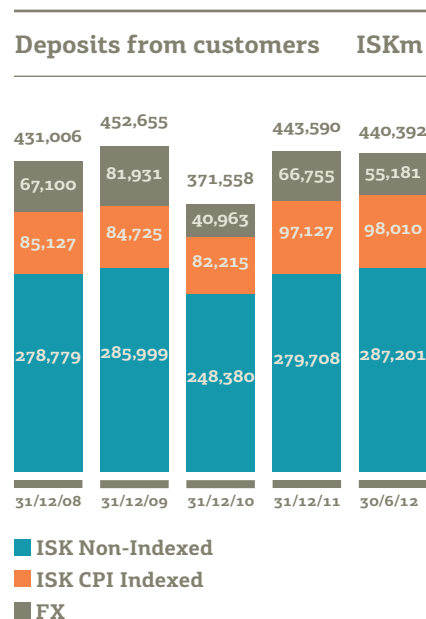
Loans

Landsbankinn's loans in the first half of this year have increased compared to the previous years and the most influential factor is the reclassification of Reginn hf.'s loans in relation to the sale of the company. The following diagram shows how loans have developed. This diagram reflects limited demand for loans, which has now been prevalent for a number of years. When loans according to industry sectors are examined, it can be seen that for many of them a real decrease has taken place while loans to retail customers have increased in excess of inflation during the year. The bank's total loans currently amount to ISK 667 bn.



Deposits

Deposits have decreased during 2012 and amount to ISK 440 bn. It is, however, noteworthy that deposits from retail customers have increased significantly this year. This indicates that the financial position of the general public is improving; Landsbankinn's figures also demonstrate that the percentage of loans in arrears is decreasing. However, a large majority of new deposits are non-indexed as few can save under a fixed term of three years or more. Deposits from companies have decreased somewhat.



Changes to operations

- » Landsbankinn sold 75% in Reginn hf., its subsidiary in a public offering, which concluded on Tuesday 19 July 2012. The shares were oversubscribed. When Reginn was listed, Eignarhaldsfélag Landsbankinn, retained a 25% share in Reginn. Trading with the company's shares commenced on NASDAQ OMX Iceland on 2 July.
- » Landsbankinn announced measures to streamline its operations in May, which extended to the bank's headquarters and the branch network, regional areas as well as the capital area. They included the merger and closure of branches in East Iceland, West Fjords, Snæfellsnes and Reykjavík, and the merger of departments in the bank's headquarters. Estimated savings are ISK 400 m per year.
- » Landsbankinn decided to broaden and strengthen the operations of its subsidiary, Landsbréf hf. by transferring the asset portfolio of Horn hf., also a subsidiary of the bank, to Landsbréf. The objective is to establish one of the most powerful management companies in the field of asset and fund management, and at the same time, create an opportunity to integrate the activities of these companies and rationalise their operations.
- » The Board of Directors of Sparisjóður Svarfdæla and Landsbankinn hf. have reached an agreement whereby Landsbankinn acquires all assets and operations of the savings bank and continues financial activities in Dalvíkurbyggð. The agreement awaits the approval of the relevant authorities.