



**Consolidated
Financial Results**

2012



7. Mars 2013

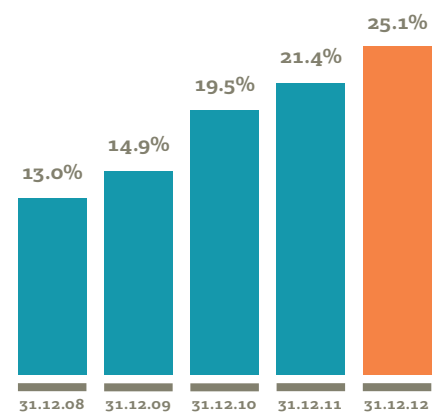
2012 profit ISK 25.5 billion

Landsbankinn's after-tax operating profit amounted to ISK 25.5bn in 2012, as compared with ISK 17.0bn in 2011. Return on equity (ROE) was 12.0% after tax as compared with a ROE of 8.4% in 2011. The bank's Capital Adequacy Ratio (CAR) has never been stronger and was 25.1% at year-end 2012. At the beginning of 2010 this was 14.9%.

Steinthór Pálsson, CEO of Landsbankinn:

“The bank's performance in 2012 was good and the bank's strong equity and liquidity positions provide possibilities for growth. Because our customers are one of the cornerstones of our success we were very pleased to see that according to Íslenska ánægjuvogin, Landsbankinn scores highest in customer satisfaction among financial undertakings. But we still have work to do. We must secure solid, long-term funding no later than 2015, finalise restructuring customer debt, await the finalisation of legal proceedings on the recalculation of exchange rate indexed loans and finally increase cost-efficiency in order to continuously improve service to customers and work to ensure long-term benefits for our customers, shareholders and the community.”

Capital Adequacy Ratio (CAR)



Key figures (ISKbn)	2012	2011
After-tax profit	25,494	16,957
ROE after taxes	12.0%	8.4%
CAR*	25.1%	21.4%
Interest margin on average total asset position	3.2%	2.9%
Cost-income ratio**	45.0%	40.6%
Total assets	1,084,787	1,135,482
Deposits as a ratio of lending	158.2%	144.1%
Full-time equiv. positions	1,233	1,311

* Capital Adequacy Ratio (CAR) ** Kostnaðarhlutfall = Rekstrargjöld alls / (Hreinar rekstrartekjur - virðisbreytingar útlána)

Income Statement

Earnings before interest and taxes in 2012 amounted to ISK 25.5bn, as compared to ISK 17.0bn in 2011. Significant fluctuations in operational items reflect the uncertainty still prevalent in the bank's operating environment. In 2011, the bank expensed large amounts due to rulings on exchange rate indexed loans while also deriving significant income from the sale of equities and other assets. Operating costs rose in 2012 due, inter alia, to increased tax on salaries, higher dues to regulators and increased contributions to the Depositors' and Investors' Guarantee Fund. Performance fluctuations will decrease in step with more stability, leading to clarification of core operations.

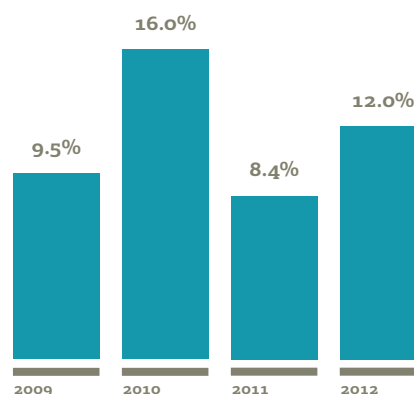
The bank's net interest revenue was ISK 35.6bn in 2012, as compared with ISK 32.6bn in 2011. The increase in net interest income is explained in part by down-payment of the bond issued to LBI and the impact of the takeover of SpKef, which was not fully entered in the income statement for 2013. Interest spread as a ratio of average asset position was 3.2% in 2012, up from 2.9% in 2011. In addition to growth in net interest income, the increase is explained by a higher proportion of interest-bearing assets in the bank's total assets, lower debt and a better equity position.

Net fees and commissions amounted to ISK 4.4bn in 2012 which is equivalent to that of 2011.

In 2012, the bank entered ISK 4.6bn as income under FX gain or loss as opposed to ISK 800m entered as expenses in 2011 due to its foreign currency position.

Other operating income totalled ISK 8.9bn in 2012, as compared with ISK 18.0bn in 2011. The difference is due mostly to income from sold assets, for example, the bank's large holding in Framtakssjóður Íslands divested in 2011. Other operating income in 2012 is derived from equities (ISK 6bn) and income from market bonds (ISK 3bn).

Return on equity after tax



Income statement (ISKm)	2012	2011	Change	%
Net interest income	35,584	32,649	2,935	9%
Value change	-4,391	-23,587	19,196	-81%
Net interest income after value change	31,193	9,062	22,131	224%
Net fee & commission income	4,448	4,424	24	1%
FX gain or loss	4,566	-759	5,325	701%
Other operating income	8,934	18,017	-9,083	-50%
Net income before operating expenses	49,141	30,743	18,398	60%
Operating cost	24,105	22,055	2,050	9%
Share in performance of affiliated companies, less tax	2,449	1,418	1,031	73%
Pre-tax profit	27,485	10,105	17,380	172%
Estimated income and bank tax	4,125	-597	4,722	-791%
Profit from regular activities	23,360	10,703	12,657	118%
After tax profit (loss) of discontinued operations, less tax	2,134	6,255	-4,121	-66%
Net profit for the period	25,494	16,957	8,537	50%

Taxes and levies	2012	2011	Change	%
Special tax levied on financial institutions ¹	1,200	814	386	47%
Special financial transaction tax levied on salaries ²	620	0	620	
The Financial Supervisory Authority (FME) and Debtors' Ombudsman	620	517	103	20%
Depositors' and Investors' Guarantee Fund	1,042	583	459	79%
Imputed income tax	2,925	-1,411	4,336	

Operating cost

Operating cost rose somewhat in 2012. Higher public levies and costs due to mergers with other financial undertakings account for a lion's share of the increase, in addition to expenses from efficiency measures and restructuring of customer debt. Despite increased operating expenses, the cost-income ratio in 2012 was acceptable at 45%. The bank's objective is to maintain a ratio below 50%. The cost-income ratio shows the ratio of the bank's operating expenses to net operating income, less value changes to lending.

Labour cost increases by 10% between years, half of which is due to a special financial transactions tax levied on financial undertakings.

Value changes to the loan portfolio

Value changes to lending continue to cause significant fluctuation in the bank's performance. Impairment to loans entered in 2012 amounts to ISK 4.4bn as opposed to ISK 23.6bn in 2011. The change between years is due in most part to 2011 rulings on the illegality of exchange rate indexed loans and related precautionary entries.

Since Landsbankinn's acquisition of LBI hf.'s assets was finalised, the bank has recognised an expense of ISK 20.4bn in relation to impairment of the loan portfolio, divided into ISK 15.8bn in loans to individuals and around ISK 4.6bn in the corporate loan portfolio.

¹ Tax based on book value of debt at year-end.

² 5.45% tax on salaries. Entered under salaries and related expenses in financial statements.

Restructuring of customer debt

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

All illegal exchange rate linked loans issued by Landsbankinn have been recalculated but due to the rulings of the Supreme Court of Iceland in cases no. 600/2011 and 464/2012, the bank must again recalculate loans in accordance with these rulings. Landsbankinn is of the opinion that rulings passed by the Supreme Court will not affect the financial position of the bank significantly above and beyond what has already been reported. In the bank's financial results for 2011, ISK 38bn was recognised as an expense under the item "Losses on exchange rate indexed loans and claims on customers" in accordance with a scenario which the Financial Supervisory Authority required financial institutions to use as a frame of reference to calculate the impact of ruling no. 600/2011. In addition, ISK 2.1bn were expensed in 2012 following ruling no. 464/2012. Landsbankinn is of the opinion that more court rulings are needed before all recalculations can be completed.

At year-end 2012, Landsbankinn had finalised restructuring the debt of over 1200 companies. Most of the indebted companies experiencing difficulties yet deemed viable by the bank when the extensive restructuring of Icelandic corporate debt began following the collapse in October 2008, have now had their financial difficulties resolved.

Funding

Landsbankinn's funding is divided into four parts. Deposits from customers form the bank's primary funding and they amounted to just under ISK 421bn at the end of 2012, dropping slightly. The bank also funds itself through borrowing by issuing bonds, as well as with deposits from financial institutions. Contributions from owners in the form of equity account for the final funding source.

Deposits from financial institutions

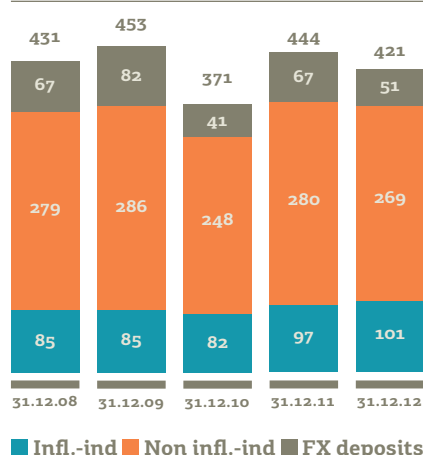
Deposits from financial institutions amount to over ISK 90bn. Deposits from foreign financial institutions in ISK (off-shore ISK) are of primary importance. Deposit levels have decreased in the past two years as a result of participation by non-Icelandic financial institutions in the currency auctions of the Central Bank of Iceland whereby off-shore ISK can be exchanged for euros.

Customer deposits

Deposits from customers are, as previously mentioned, the largest single funding item of the bank. A large majority of deposits with the bank are non-indexed and unrestricted.

Fixed interest deposits, a 2011 addition to the bank's product offering, form an exception. These deposits have provided a solid source of funding of late. Inflation-indexed deposits amounted to ISK 100bn at year-end 2012.

Deposits from Customers



Borrowing and settlement with LBI hf.

Currently, the only form of borrowing undertaken by Landsbankinn is a bond issued to LBI. Its terms were negotiated when the assets and liabilities of Landsbanki Íslands hf. were transferred to Landsbankinn. There are two types, referred to as bond “A” and a contingent bond.

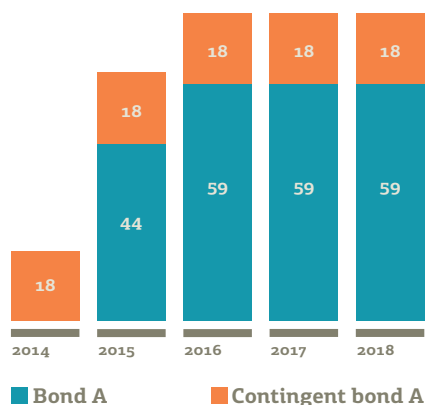
» Bond A

The bond is denominated in EUR, USD and GBP. Interest on the bond is paid quarterly. The first instalment on the principal was set for 2014 with final payment due in 2018. Landsbankinn’s next instalment will be made in 2015; the bank pre-paid the first five instalments in Q2 2012.

» Contingent bond

The contingent bond is linked to the possible value increase of a designated portion of Landsbankinn’s loan portfolio. The interest terms and payment process of the contingent bond are the same as on the above-mentioned bond. The contingent bond will be issued at the end of March 2013 and will bear interest from the beginning of that year. The balance of the contingent bond as of 30 December 2012 was just over ISK 87bn. The bond’s final value will be based on an assessment by non-Icelandic experts on the designated assets mentioned above. There is an in-built ceiling of ISK 92bn. Should this assessment exceed that by the bank the value of the bond will be adjusted accordingly which may result in concomitant changes to assets. Any such alterations will be entered in the bank’s accounts for 2013. Should the bond be issued in full, LBI hf. will transfer its entire holding in Landsbankinn; otherwise the holding transferred will be in proportion to the final value of the bond. The majority of the shares will go to the State while up to 2% of total equity in Landsbankinn will go to its employees.

Instalments to LBI,
all things equal



International refinancing

Landsbankinn aims to secure the best possible financing for the bank at any given time. Access to foreign credit markets is vital in that respect. The aim is to refinance the bank’s debt to LBI hf. at least in part through bond issuance on international credit markets no later than 2015, should no other solution present itself. In order to pave the way towards that goal, the bank is currently working on attaining a credit rating from international rating agencies.

Covered bonds

Landsbankinn aims to issue covered bonds that will be listed on OMX Nordic Exchange in Iceland. The issue of covered bonds is considered to be a means of funding for the bank’s housing mortgages and to reduce the bank’s fixed interest rate risk.

Impact of agreement with LBI hf. on the operations of Landsbankinn

Revaluation of loan portfolios	127,520
Recorded loss due to illegal exchange rate indexation	- 61,003
Contingent bond	- 87,474
Total	- 20,957

Taking into consideration the re-assessment of Landsbankinn's asset portfolio, the impact of illegal exchange rate indexation of loans and issuance of the contingent bond, the total impact on the bank's operations is negative by ISK 21 bn.

Return on the State's investment in Landsbankinn

Original investment	122,000
Value of holding 2012 ³	218,822
Value change	96,822

Interest paid	36,495
Dividend paid	-
Present value of interest and dividend payments	5,090
Financing costs	41,585

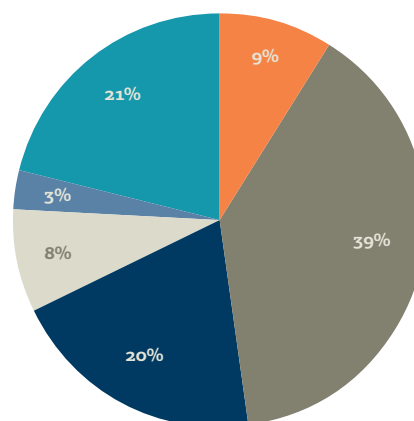
Net income of the State	55,237
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Despite losses on the above-mentioned items, the State has profited nicely from its investment in Landsbankinn. The National Treasury's payment for its holding in Landsbankinn was in the form of a bond, RIKH18, the nominal value of which is ISK 122bn. Since the contract was signed, the National Treasury has paid about ISK 36.5bn in interest on the bond. The present value of the interest expenses is about ISK 41.5bn based on the bond's interest rate discounted at present value. The State's share in equity at book value has increased by ISK 97bn since the founding of the bank, having regard for equities that will be transferred from LBI hf. to the State upon issuance of the contingent bond by Landsbankinn. The State's returns thus amount to ISK 55bn, with financing cost taken into consideration.

Balance sheet

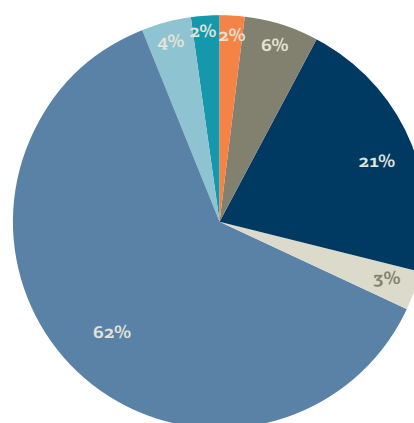
The bank's total assets amounted to ISK 1,085bn at year-end 2012, decreasing by 4% during the year. The main changes to Landsbankinn's balance sheet are twofold. First, the sale of 75% of shares in subsidiary Reginn hf. resulted in ISK 1.7bn in capital gains and relieved the bank's balance sheet in that assets classified as held for sale dropped from ISK 53.6bn to ISK 25.3bn during the year. Second, Landsbankinn hf. and LBI hf. agreed that Landsbankinn would prepay a quarter of the principal of so-called A-bonds, issued in 2010, due to the difference between the value of assets and liabilities acquired from LBI.

Liabilities and equity



- Deposits from financial undertakings
- Deposits from customers
- Borrowing
- Contingent bond
- Other liability
- Liability linked to assets held for sale
- Equity

Assets



- Cash and balances with the CB
- Due fr. credit inst.
- Market bonds
- Equities
- Loans to customers
- Other assets
- Assets held for sale

³ Based on share in Landsbankinn's equity at book value

Balance sheet (mISK)	2012	2011	Change in 2012 %	
Cash and balances with the Central Bank	25,898	8,823	17,075	194%
Due from credit institutions	64,349	100,133	-35,784	-36%
Market bonds	228,208	221,848	6,360	3%
Equities	36,881	46,037	-9,156	-20%
Loans to customers	666,087	639,130	26,957	4%
Other assets	38,044	65,959	-27,915	-42%
Assets classified as held for sale	25,320	53,552	-28,232	-53%
Total	1,084,787	1,135,482	-50,695	-4%
Deposits from financial institutions	98,718	112,876	-14,158	-13%
Customer deposits	421,058	443,590	-22,532	-5%
Borrowing	221,791	277,076	-55,285	-20%
Contingent bond	87,474	60,826	26,648	44%
Other liabilities	29,687	31,485	-1,798	-6%
Liabilities linked to assets classified as held for sale	893	9,385	-8,492	-90%
Equity	225,166	200,244	24,922	12%
Total	1,084,787	1,135,482	-50,695	-4%

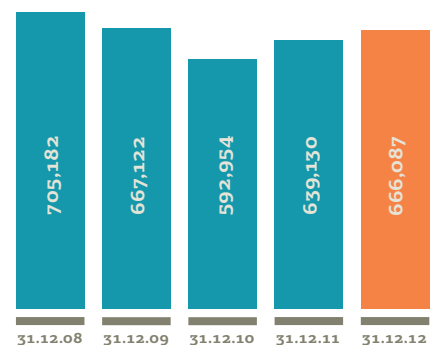
Landsbankinn's liquidity position in both ISK and foreign currencies continues to be strong. Liquid assets amounted to ISK 250bn at year-end 2012. The payment capacity ratio of deposits was 47.9% at year-end compared to 43.2% at the beginning of the year. This ratio measures immediately available funds as a ratio of total deposits. The Icelandic Financial Supervisory Authority requires a minimum ratio of 5% and the bank has adopted an internal requirement of 20%.

Lending to customers totalled ISK 666bn at the end of 2012, up 4% from ISK 639bn at the beginning of the year. The increase in 2012 is comprised of ISK 49bn from new loans, ISK 20bn from currency and inflationary impact, ISK 13bn from the sale of Reginn exiting the group and ISK 23bn in value increase. In addition, ISK 77bn are instalments from customers.

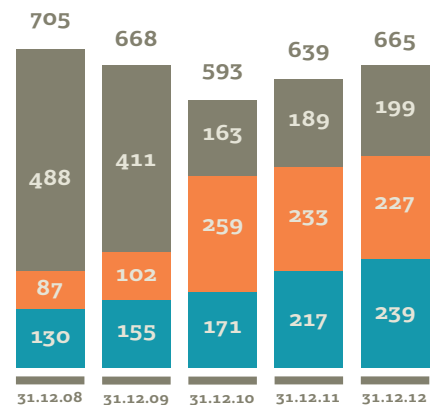
Loans

Lending development in 2012 has resembled previous years. This points primarily to limited interest in loans and is in line with limited investment in Iceland. The bank's total loans currently amount to ISK 666bn.

Loans to customers



Loans ISK bn



■ Infl.-ind ■ Non infl.-ind ■ FX deposits

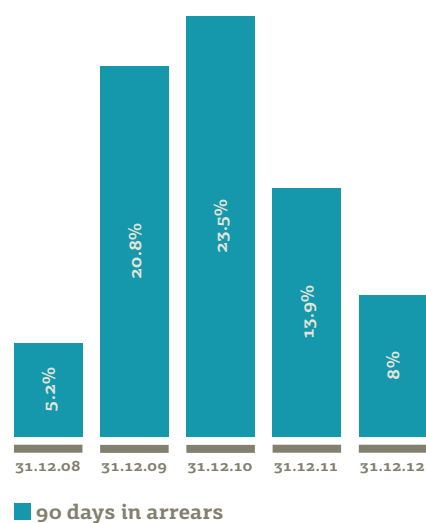
Default:

Defaults on lending have decreased steadily at Landsbankinn, both in the retail and corporate loan portfolios. At the end of 2012, defaults amounted to 23.5%. Since then, they have decreased dramatically. The total amount of loans in arrears was 8% at year-end 2012.

News from operations

- » In March, the Financial Supervisory Authority, Iceland (FME) approved the sale and transfer of all funds from management company Landsvaki hf. to management company Landsbréf hf. The sale price was ISK 530m.
- » Measures to increase cost-efficiency included the merger and closure of branches in East Iceland, the West Fjords, on Snæfellsnes and in Reykjavík, and the merger of departments in the bank's headquarters. Savings resulting from these measures are estimated at ISK 400m per annum.
- » An agreement was reached between Landsbankinn and LBI to the effect that Landsbankinn would prepay a quarter of the principal of the so-called A-bonds, which were issued in 2010 to address the value difference between assets and liabilities acquired from LBI. The prepayment equals just over ISK 73bn in euros, dollars and pounds.
- » In June, an arbitration committee appointed to address financial settlement because of the acquisition of SpKef ruled that the State was to pay Landsbankinn ISK 19.2bn. Landsbankinn expensed ISK 2.9bn due to the acquisition.
- » Landsbankinn sold 75% of its holding in Reginn hf. in a public offering in June. The holding company Eignarhaldsfélag Landsbankans retains a 25% share in Reginn.
- » In June, Landsbankinn divested the last of viable companies in unrelated activities acquired as a result of operating difficulties. The bank has reduced the value of assets classified as held for sale by nigh on ISK 100bn in the past two years.
- » In July, the European Surveillance Authority (ESA) approved state aid provided in relation to the restructuring of Landsbankinn following the collapse of the financial system in Iceland in 2008.
- » In September, Landsbankinn presented new points of emphasis in its strategy leading up to 2015. At the same time, Landsbankinn introduced considerable changes to the bank's organisational chart that took effect on 1 October. Following these changes, the bank's divisions were reduced in number from nine to seven.
- » In September, it was announced that Landsbankinn's branches in the municipality of Reykjanes and outlets in Garður and Vogar were to be merged into one branch. The merged branch will be located in Reykjanesbær. An outlet in Sandgerði remains open.

Loans in arrears (> 90 days)



- » In September, Landsbréf was licensed by the Financial Supervisory Authority, Iceland (FME) to undertake asset management. Landsbréf will control and manage Horn's assets, also a subsidiary of Landsbankinn.

- » Landsbankinn's branch at Holtagarðar was closed in December and its merger with the branch at Laugavegur 77 finalised. The merged branch has relocated to attractive new premises at Borgartún.