



Landsbankinn hf.

H1 2013 Results

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29. ágúst 2013

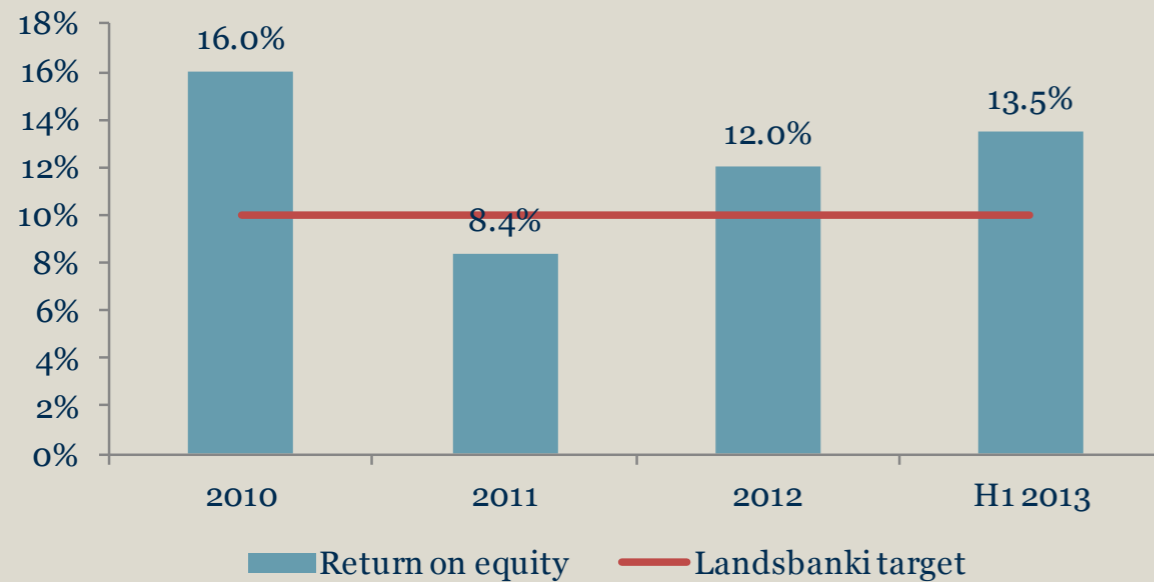
Highlights

- **Profit** - Landsbankinn's operating profit increased by 31% since end of June 2012, amounting to ISK 15.5bn after tax in H1 2013.
- **Revenue** – The bank's revenue has been on the increase as of mid-2012 due in part to income entries in relation to the reception of shares from LBI hf.
- **Operating expenses** - Allowing for inflation, the real decrease of operating expenses in H1 amounts to 7.9%. General operating costs have decreased by 4% and wages by 8% but due to increased wage-related expenses, wage items are down by only 5%. Full-time equivalent positions have been reduced by 104, or just over 8% YoY, and branches and outlets by 16 since mid-2011.
- **ROE** - Return on equity after taxes for the first 6 months of 2013 was 13.5%, as compared with 11.5% for the same time last year.
- **Balance sheet** - The bank's total assets amounted to ISK 1,126bn at the end of June. The bank's liquidity position is very strong, both in foreign currency and Icelandic *króna*. The liquidity ratio was 44.8% at the end of June as compared to 39.8% the same time last year.
- **Defaults** - Defaults, both corporate and household, have been decreasing steadily. Total defaults stood at 6.2% at the end of June 2013. Defaults were 11.7% at mid-year 2012 and 24% in mid-2011.
- **CAR** - The bank's capital adequacy ratio is now 25.9%, up from 23.3% at the end of June 2012.

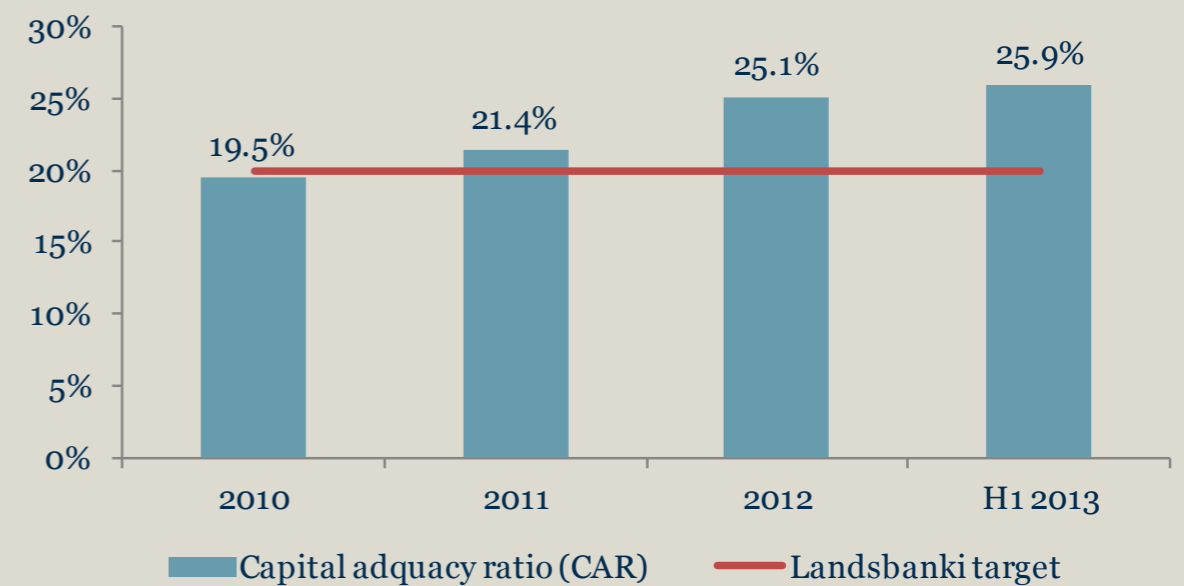


Development of KPIs

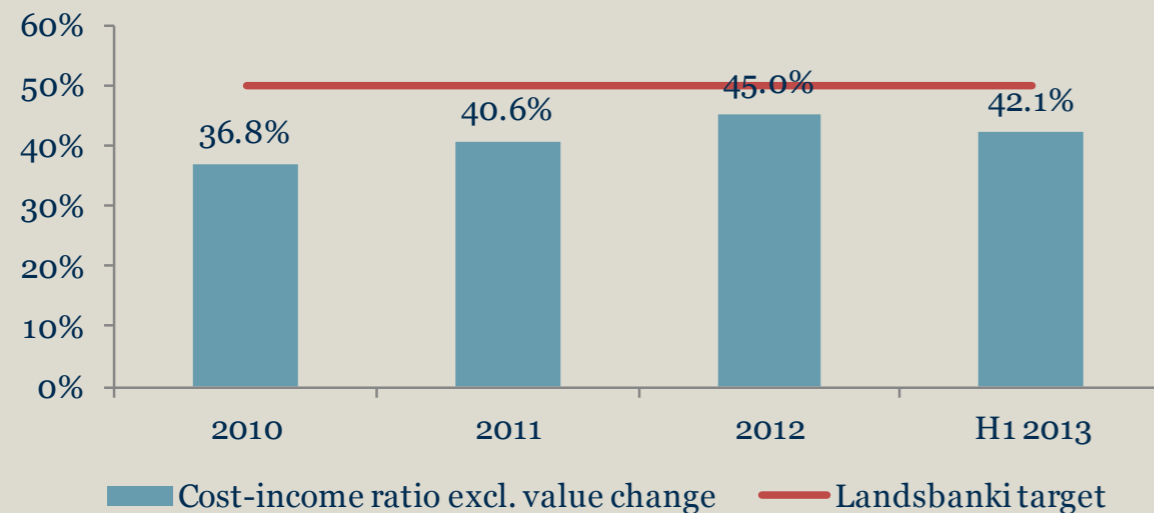
Return on equity



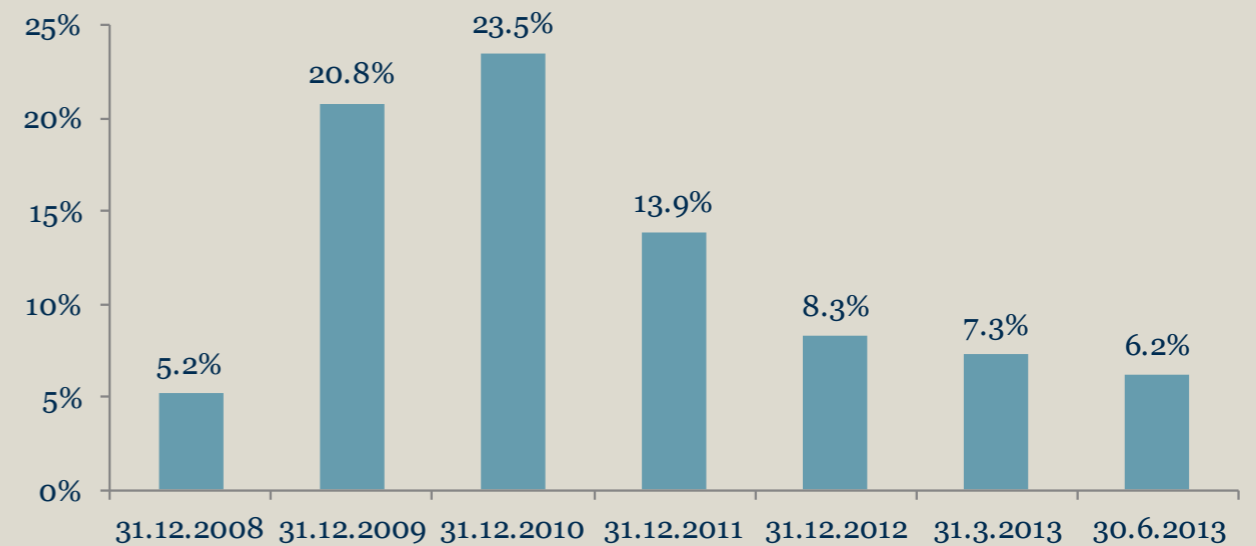
Capital adequacy ratio (CAR)



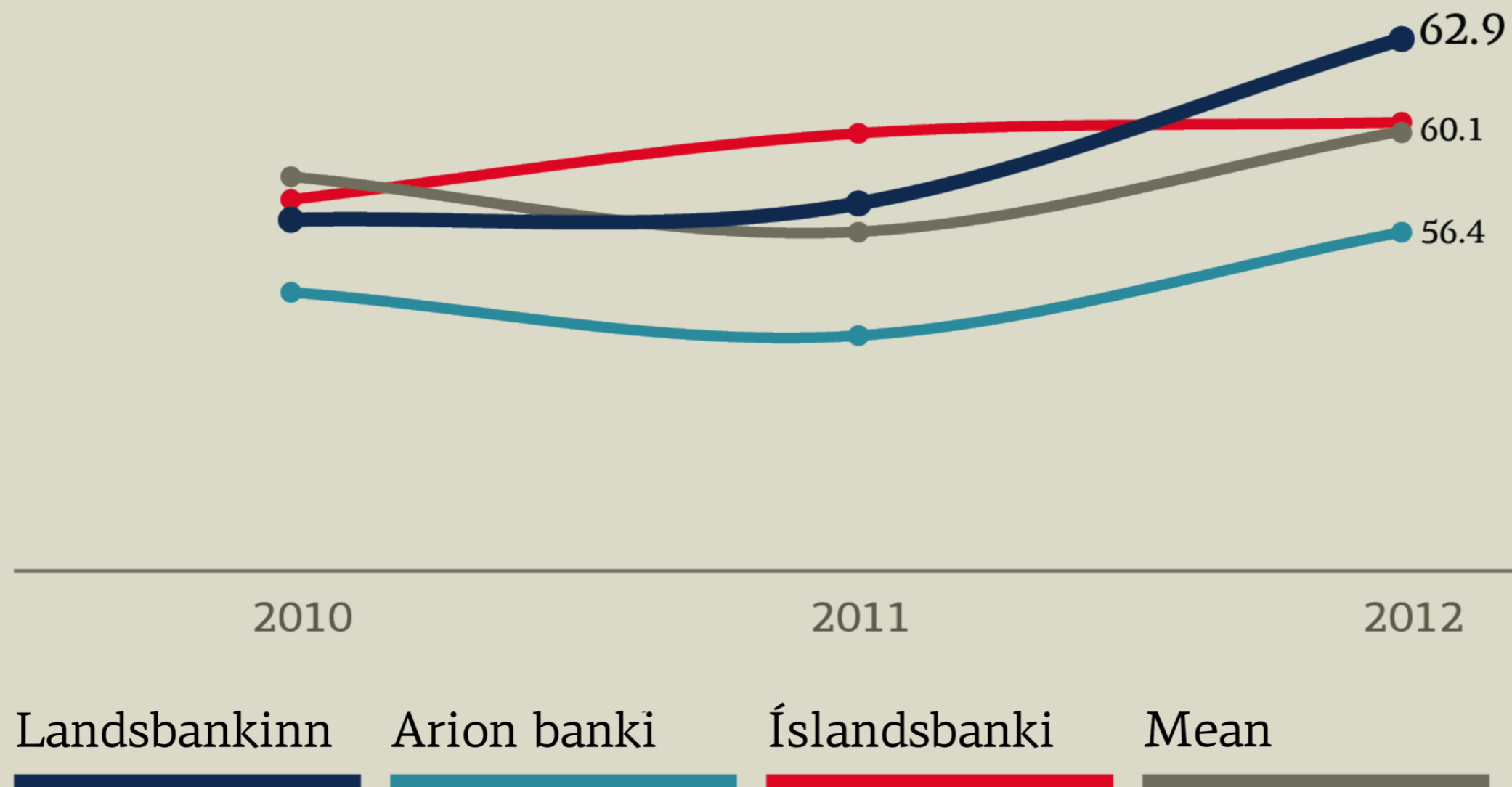
Cost-income ratio excl. value change



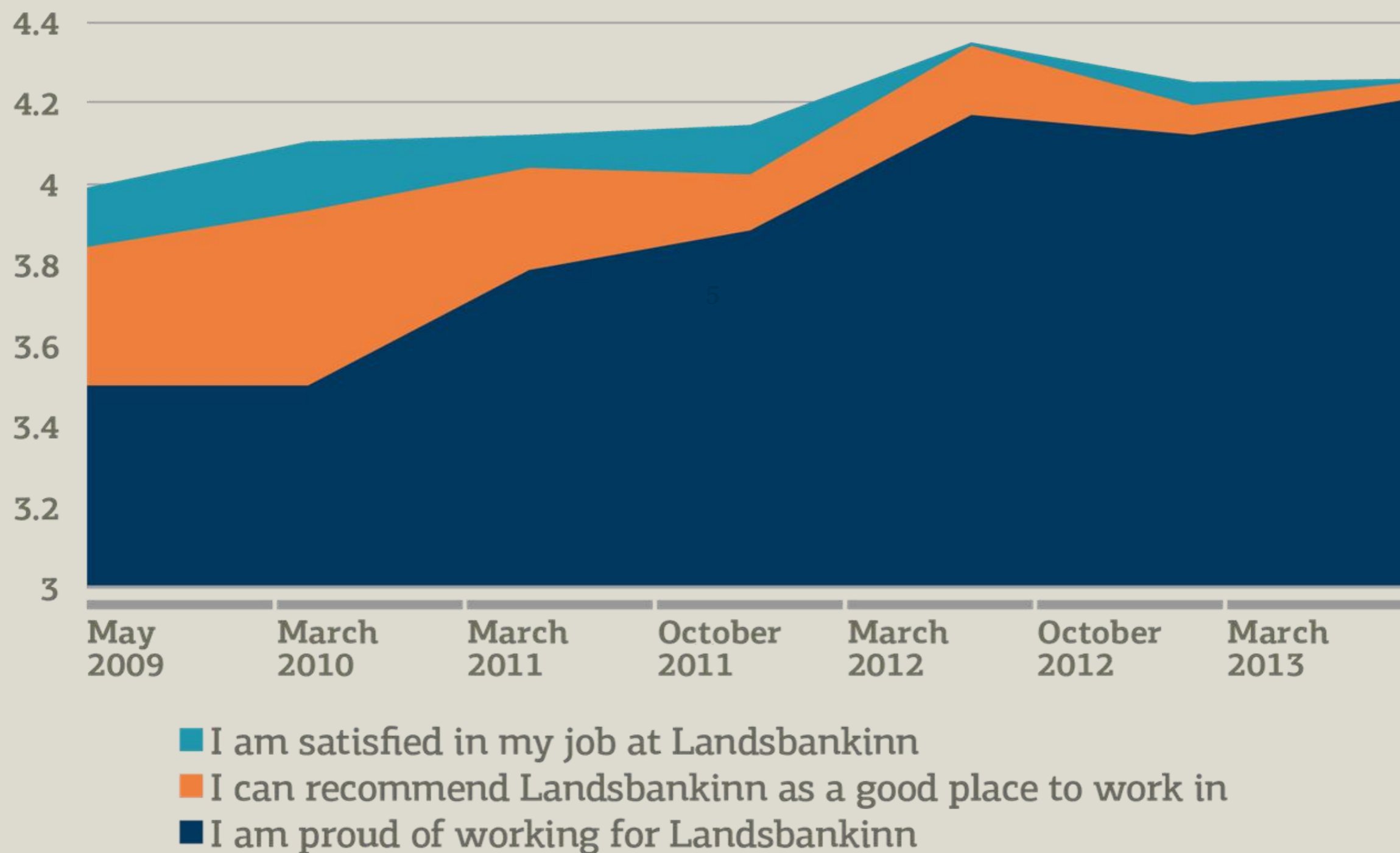
Arrears (> 90 days)



The Icelandic Performance Satisfaction Index 2012

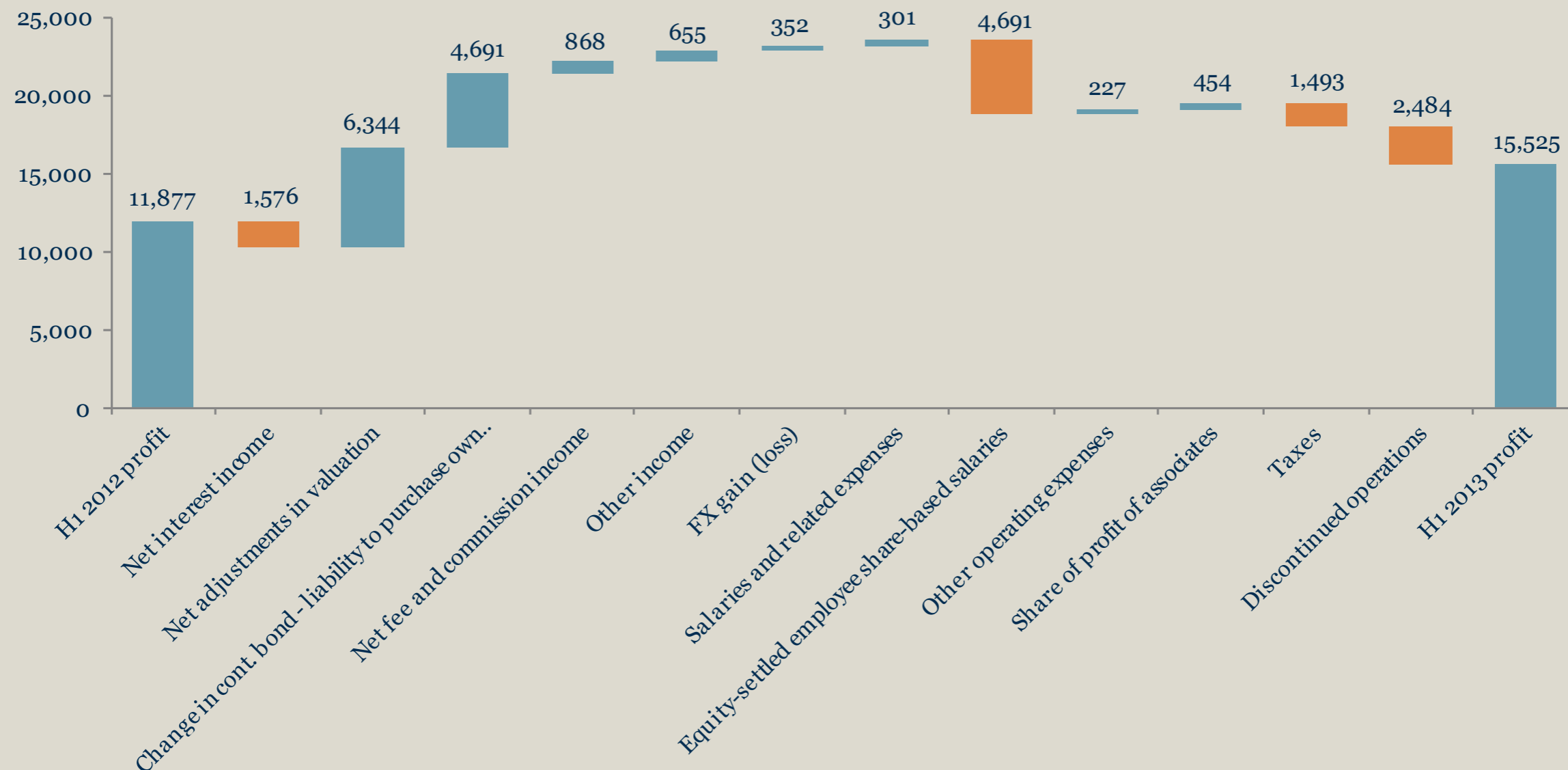


Employee satisfaction on the rise



Income Statement

Change from H1 2012 to H1 2013



Income Statement

	H1 2013	H1 2012	Change	
Net interest income	16,997	18,573	-1,576	-8%
Net adjustments in valuation	2,879	-3,465	6,344	-183%
Change in contingent bond - liability to purchase own shares	4,691	0	4,691	
Net interest income after adjustments in valuation	24,567	15,108	9,459	63%
Net fee and commission income	2,960	2,092	868	41%
Other net operating income	7,367	6,360	1,007	16%
Total operating income	34,894	23,560	11,334	48%
Salaries and related expenses	6,295	6,596	-301	-5%
Equity-settled employee share-based salaries	4,691	0	4,691	
Other operating expenses	5,204	5,431	-227	-4%
Total operating expenses	16,190	12,027	4,163	35%
Share of profit of associates, net of income tax	1,127	673	454	67%
Profit before tax	19,831	12,206	7,625	62%
Income tax expense	4,306	2,813	1,493	53%
Profit for the period from continuing operations	15,525	9,393	6,132	65%
Profit from disc operations, net of income tax	0	2,484	-2,484	-100%
Profit for the period	15,525	11,877	3,648	31%

- Net interest income decreases by 8%
- Value changes in H1 are positive by just under ISK 3bn:
 - Reception of shares in relation to the settlement with LBI is entered as both income and expense in the income statement and the amounts excluded from calculation of the cost-income ratio
- Net commission income increased by 41% between periods
 - The lion's share of the increase comes from the capital markets and corporate banking sections, as well as asset management
- Turnaround in operating expenses - operating costs drop
- Cost-efficiency measures have begun to deliver results
- Wages drop by 5% in parallel with reduction of full-time equivalent positions
- Effective tax rate is just under 22%



Net interest income

	H1 2013	H1 2012	Change	
Interest income	31,626	35,075	-3,449	-10%
Interest expense	-14,629	-16,502	1,873	-11%
Net interest income	16,997	18,573	-1,576	-8%
Net adjustments to loans and advances acquired at deep discount	14,945	7,562	7,383	98%
Net adjustments to loans to financial institutions	269	3,480	-3,211	-92%
Net impairment loss on loans and advances	-8,963	-4,768	-4,195	88%
Fair value change of contingent bond	1,319	-5,947	7,266	-122%
Net adjustments in valuation	7,570	327	7,243	2215%
Net interest income after net adjustments in valuation	24,567	18,900	5,667	30%

- Work on restructuring the loan portfolio is well advanced, lowering interest revenues
- The bank's net interest spread fell from 3.3% to 3.1% in the first 6 months of the year



Adjustments in valuation

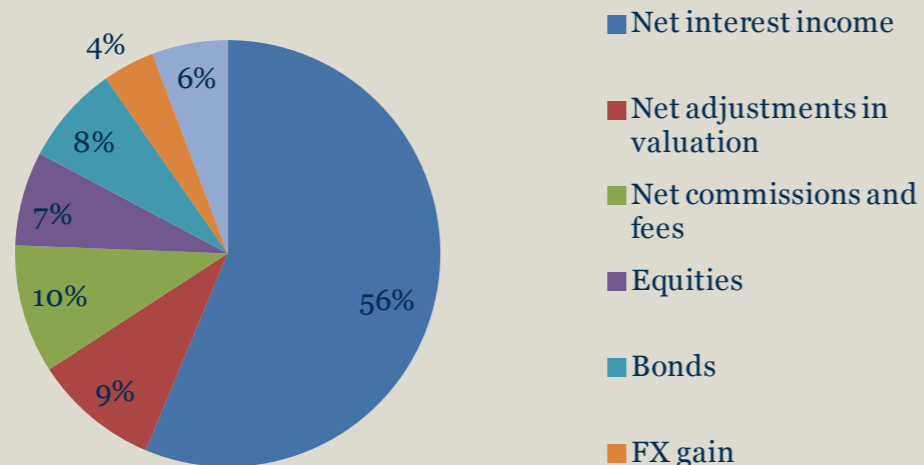
Net adjustments in valuation	2009-2013	H1 2013	H1 2012	Change	
Corporates	86,246	2,666	5,632	-2,966	-53%
Individuals	-16,913	-1,106	-899	-207	23%
Change in contingent bond - liability to purchase own shares	4,691	4,691	0	4,691	
	74,024	6,251	4,733	-3,173	32%
LBI share	-86,838	1,319	-8,198	9,517	-116%
Net effect on Landsbanki	-12,814	7,570	-3,465	6,344	-318%

- The value change in lending to individuals is negative by ISK 17bn since 2009
- Value changes allowing for the reception of shares (expensed as wage item) amount to ISK 2.9bn
- Recognised losses due to value changes in lending amount to ISK 13bn since the bank's establishment

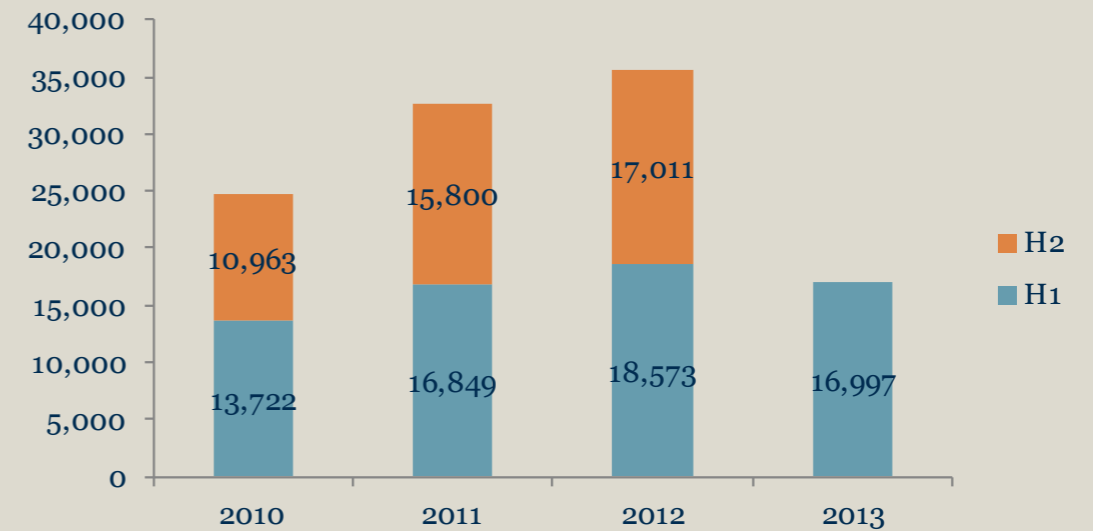


Net operating income

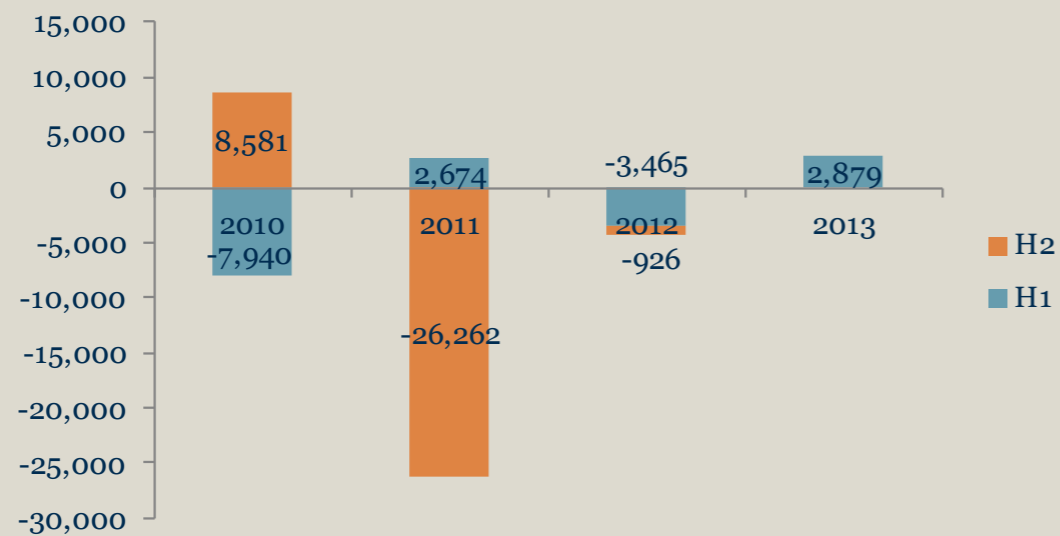
Income mix



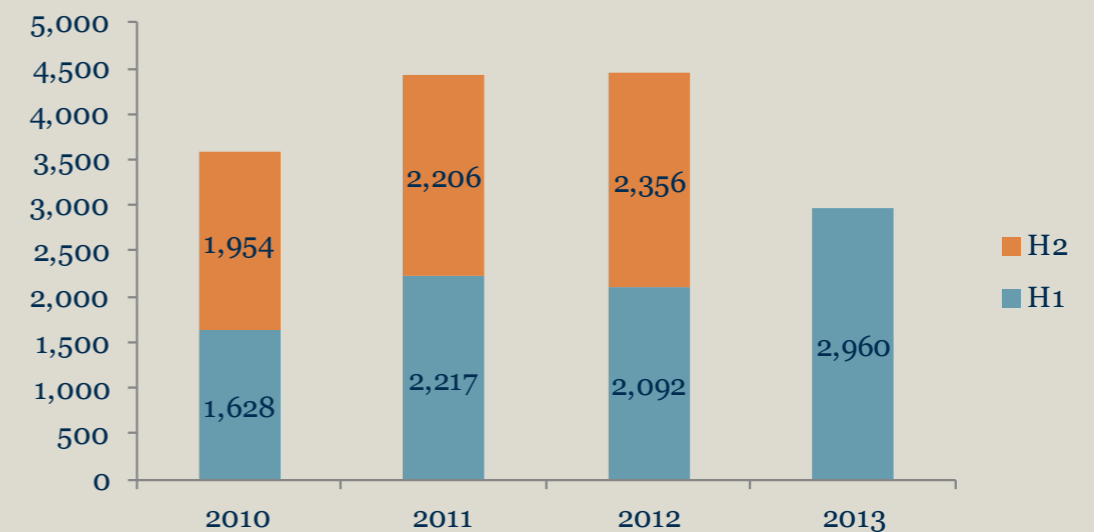
Net interest income



Net adjustments in valuation



Net commissions and fees

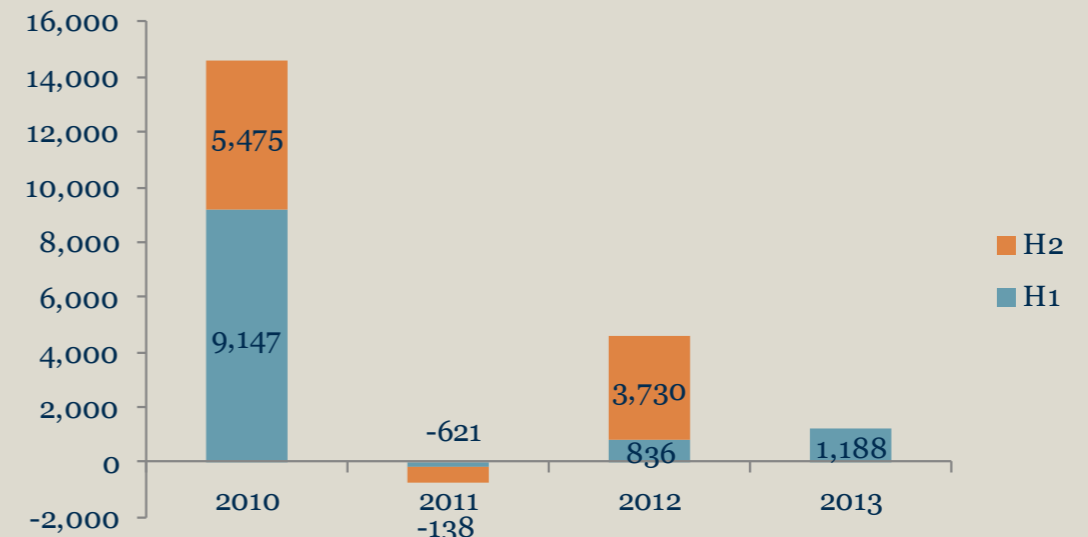


Net operating income

Equities



FX gain



Bonds

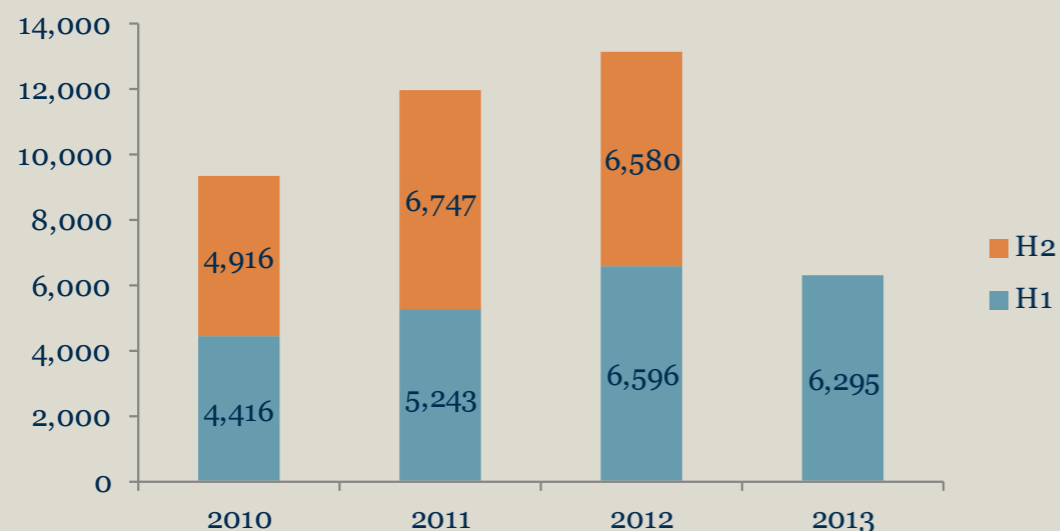


- Equities: Equity holdings decrease yet returned an acceptable yield in H1 2013
- Market bonds: A large portion of the bank's liquid assets are invested in market bonds
- Currency gains: The currency imbalance has decreased significantly which will reduce fluctuations in future performance

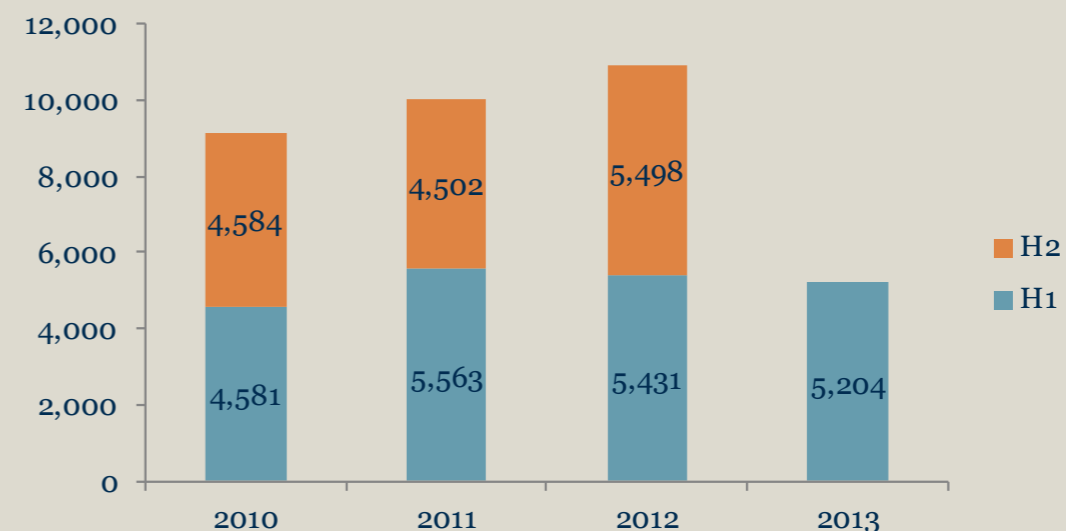


Operating expenses

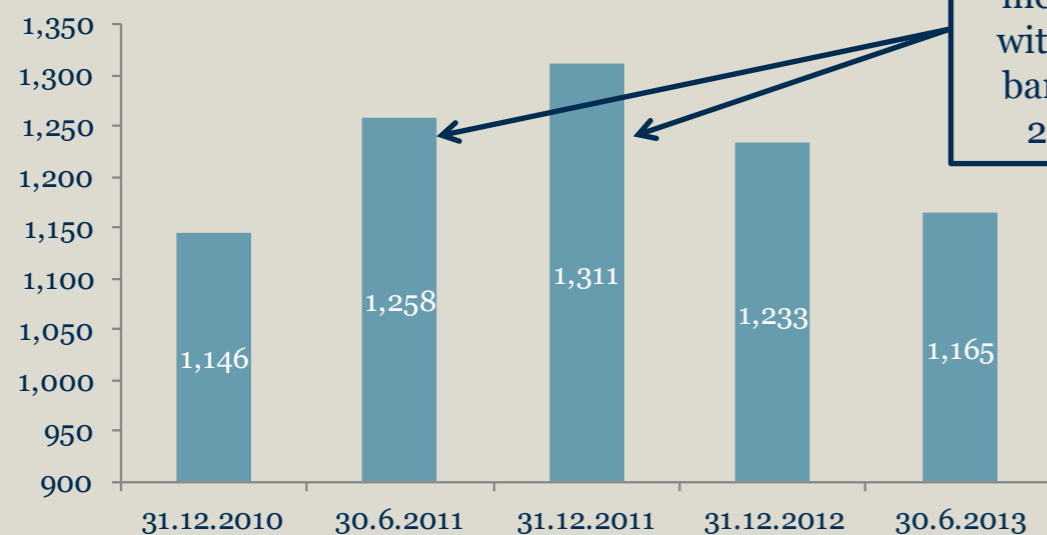
Salaries and related expenses



Other operating expenses

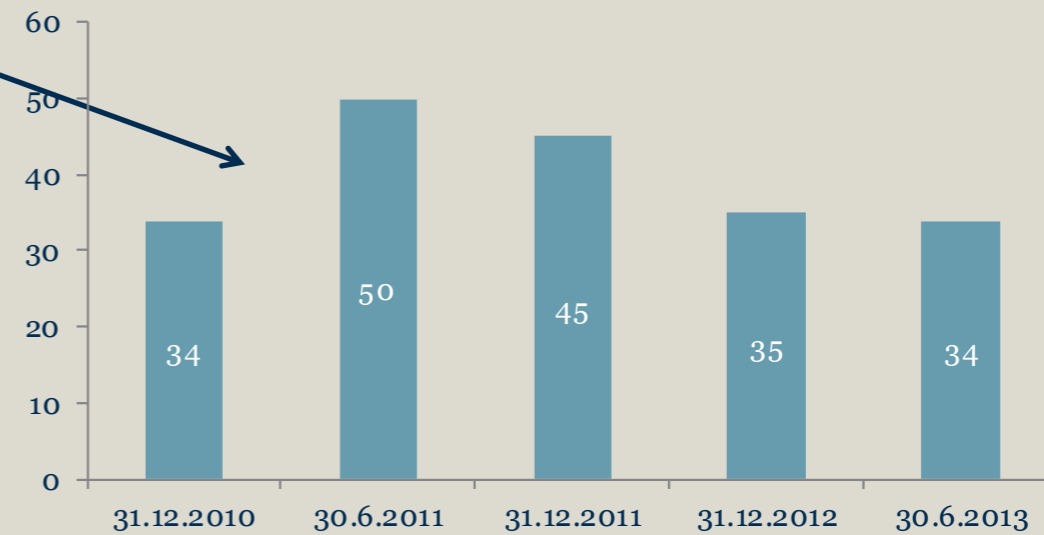


Full time employees



SpKef og
Avant
merged
with the
bank in
2011

Number of branches



Salaries and related expenses

	H1 2013	H1 2012	Change	
Salaries	4,776	5,186	-410	-8%
Contributions to defined contribution pension plans	670	653	17	3%
Social security contributions, special financial activities tax on salaries and other expenses	849	757	92	12%
	6,295	6,596	-301	-5%
Recognition of equity-settled employee share-based salaries	4,017	0	4,017	
Recognition of equity-settled employee share-based social security contributions and special financial activities tax on salaries	674	0	674	
	4,691	0	4,691	
Total Salaries and related expenses	10,986	6,596	4,390	67%



Taxes

	H1 2013	H1 2012	Change	
Income tax	3,486	1,775	1,711	96%
Special income tax on financial institutions 1	635	502	133	26%
Tax on liabilities of financial institutions 2	185	536	-351	-65%
	4,306	2,813	1,493	53%
Special financial activities tax on salaries 3	372	295	77	26%
Total	4,678	3,108	1,570	50%

1 A 6% additional tax on pre-tax profit over ISK 1,000 million

2 Tax based on book value of end of year liabilities

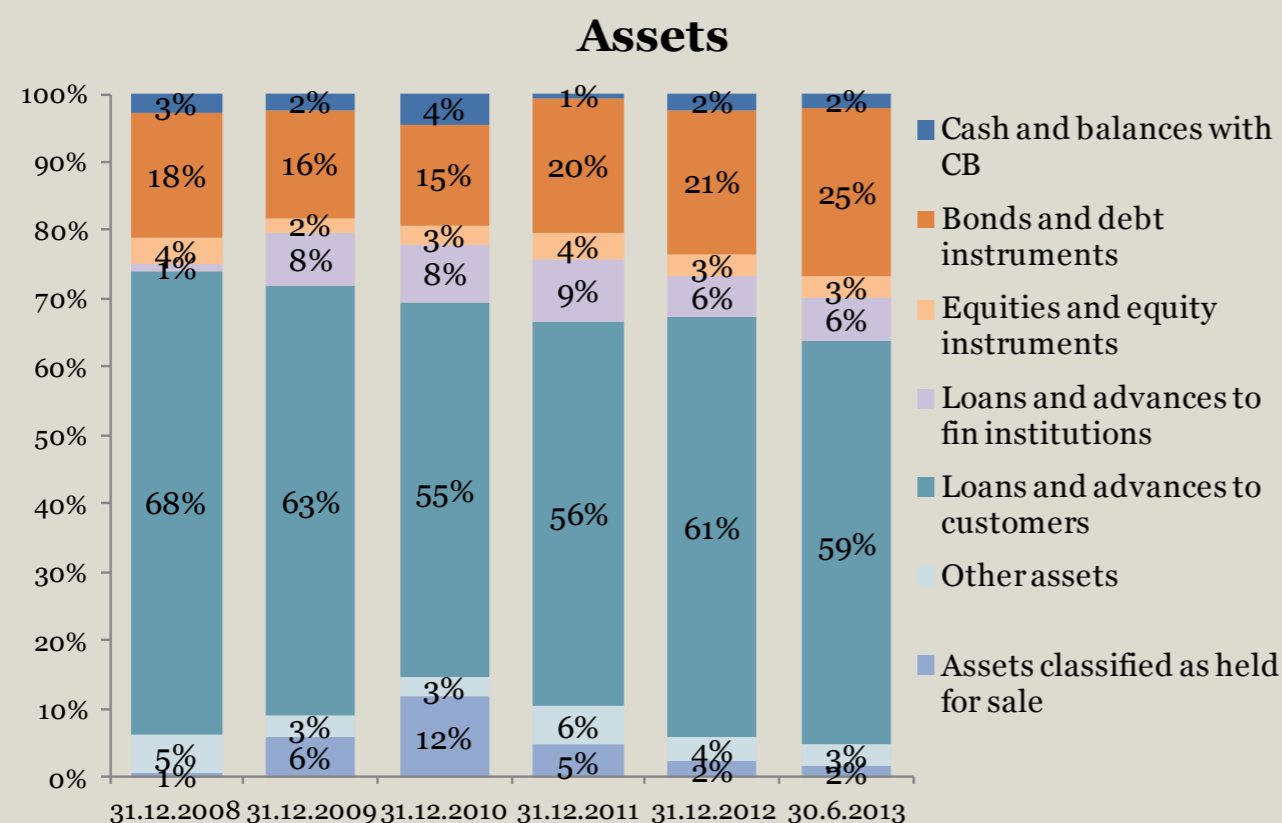
3 6,75% tax on salaries and is expensed in the line item "Salaries and related expenses" in the income statement



Balance sheet - assets

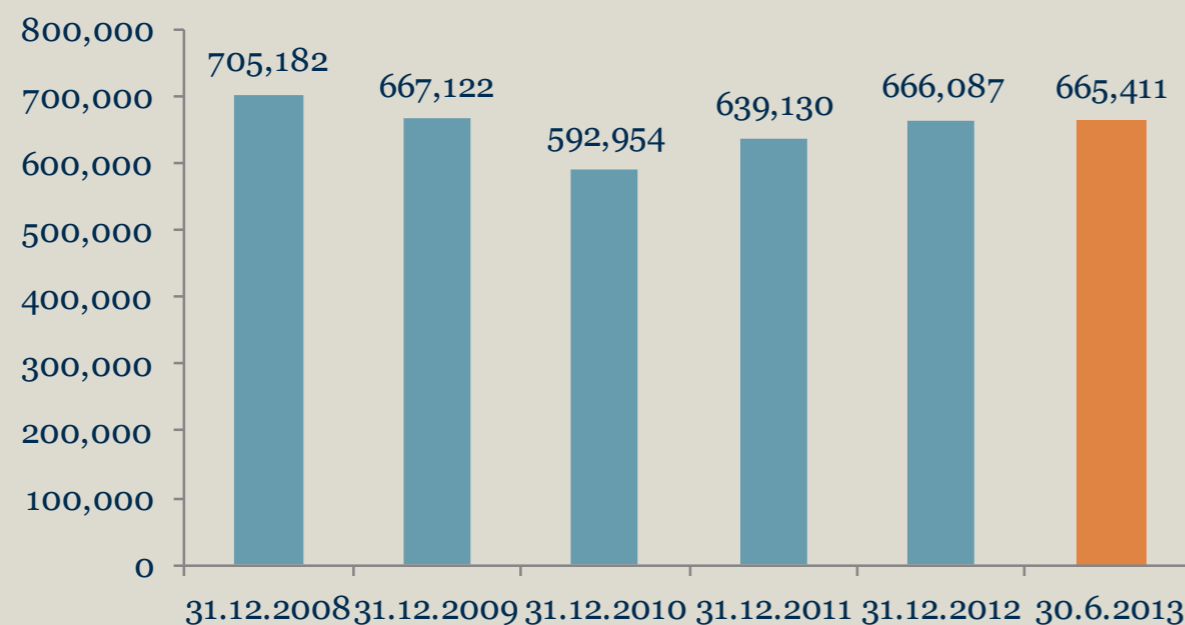
	30.6.2013	31.12.2012	2013 change	
Cash and balances with CB	23,643	25,898	-2,255	-9%
Bonds and debt instruments	278,386	228,208	50,178	22%
Equities and equity instruments	34,029	36,881	-2,852	-8%
Loans and advances to fin institutions	70,671	64,349	6,322	10%
Loans and advances to customers	665,411	666,087	-676	0%
Other assets	34,219	38,044	-3,825	-10%
Assets classified as held for sale	19,735	25,320	-5,585	-22%
Total	1,126,094	1,084,787	41,307	4%

- Liquid resources have increased sharply during the year and this position is reflected in an increased holding of market bonds and claims on credit institutions
- The bank has granted new loans in the amount of ISK 70bn in 2013 but total lending remains almost unchanged due to repayment of other loans and exchange rate movements.
- The reduction of assets held for sale continues, down by ISK 100bn since the beginning of 2011

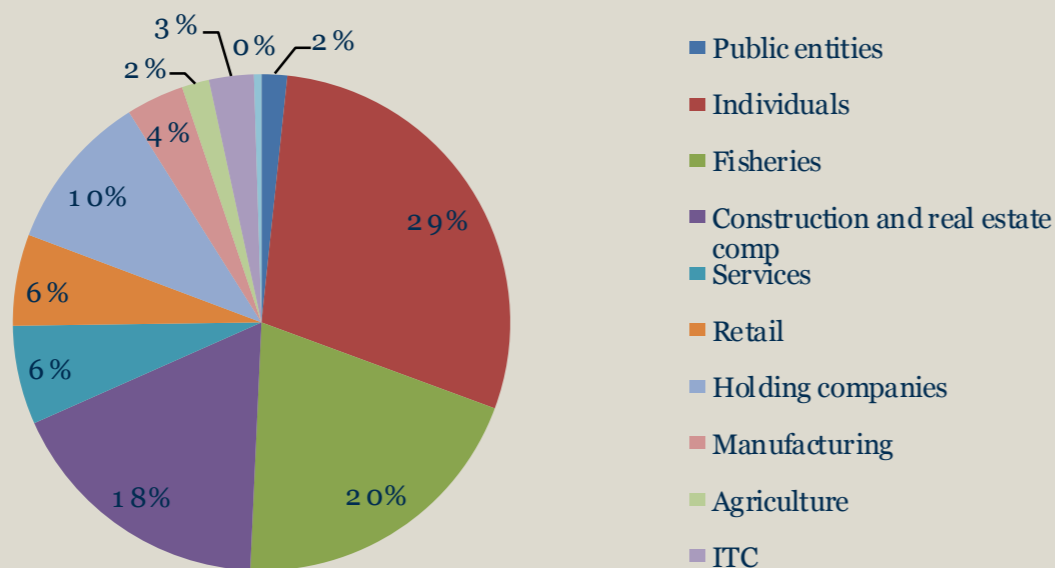


Balance sheet - loans

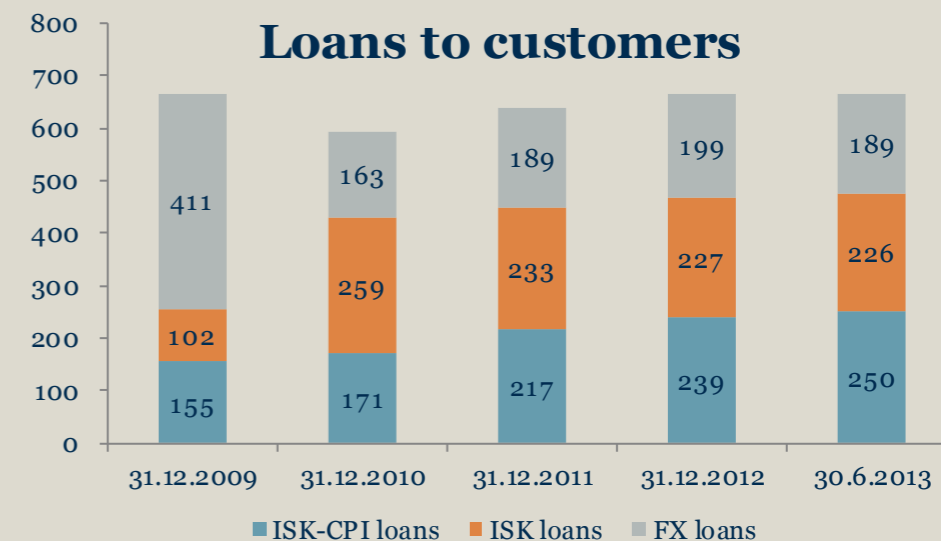
Loans and advances to customers



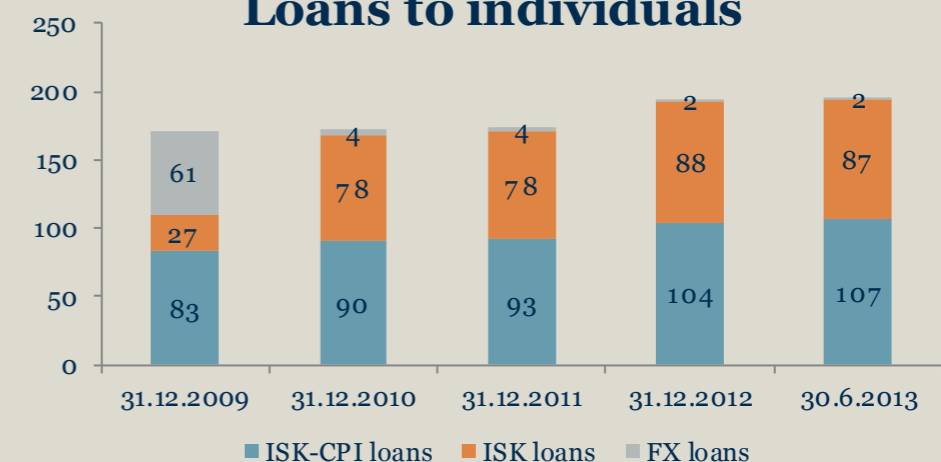
Loans by sectors 30.6.2013



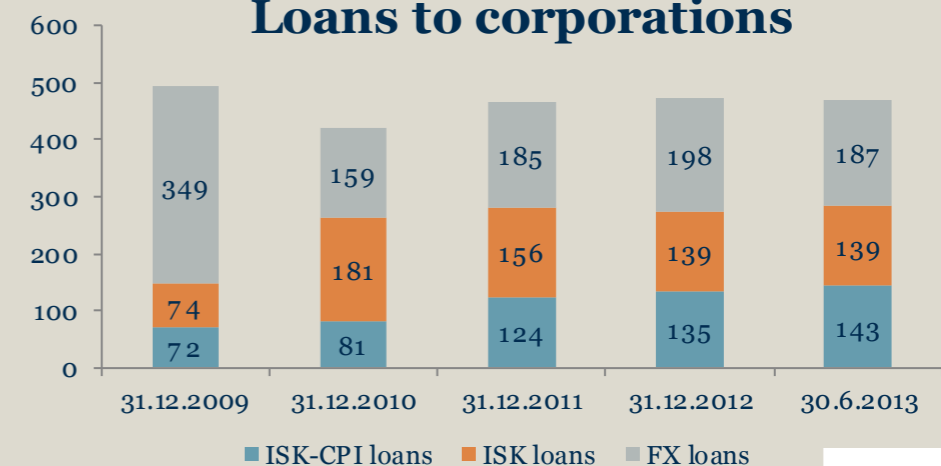
Loans to customers



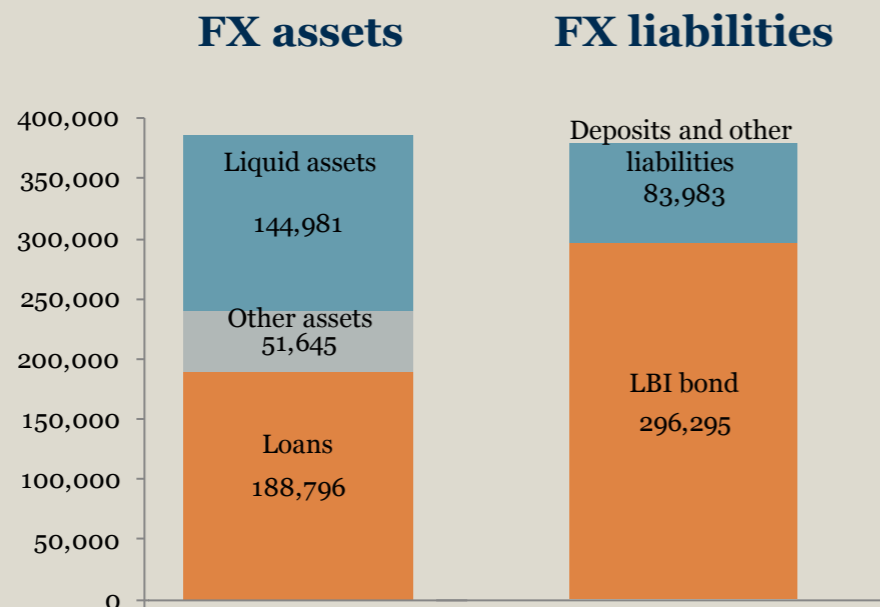
Loans to individuals



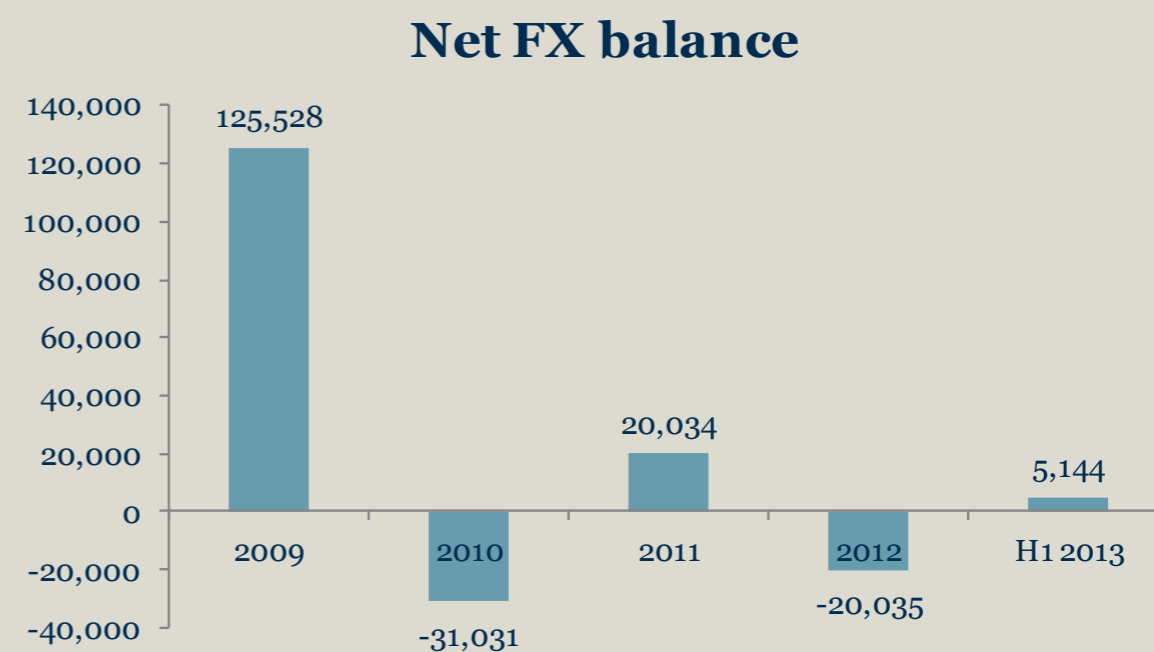
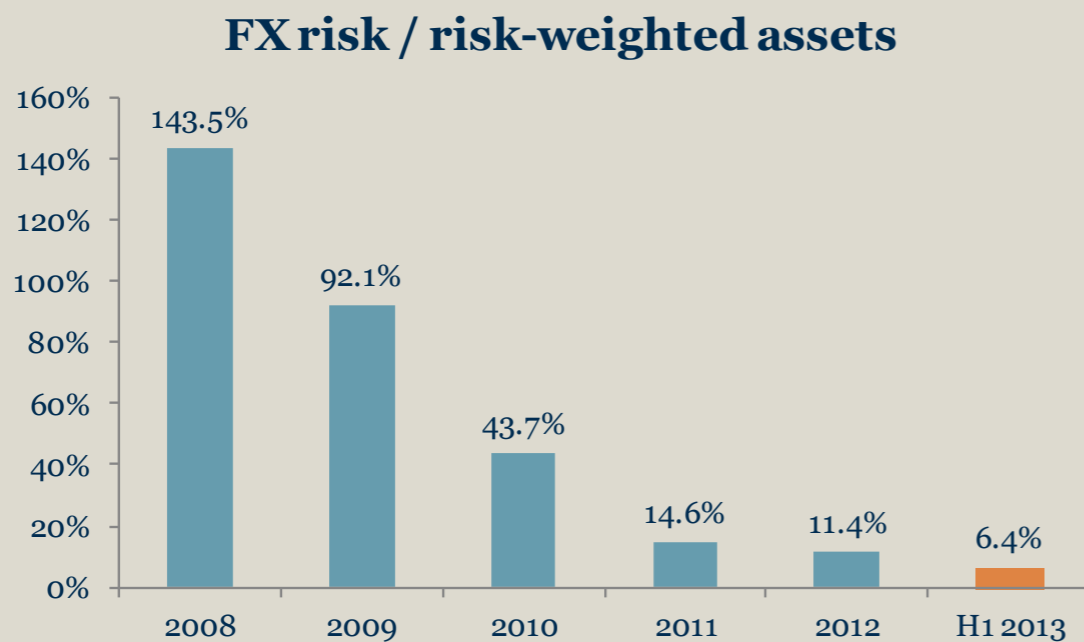
Loans to corporations



FX assets and liabilities



- Net foreign currency assets increased by ISK 25bn in H1 2013
- Assets and liabilities in foreign currency are currently nicely balanced
- The bank's foreign currency balance is positive by ISK 5bn

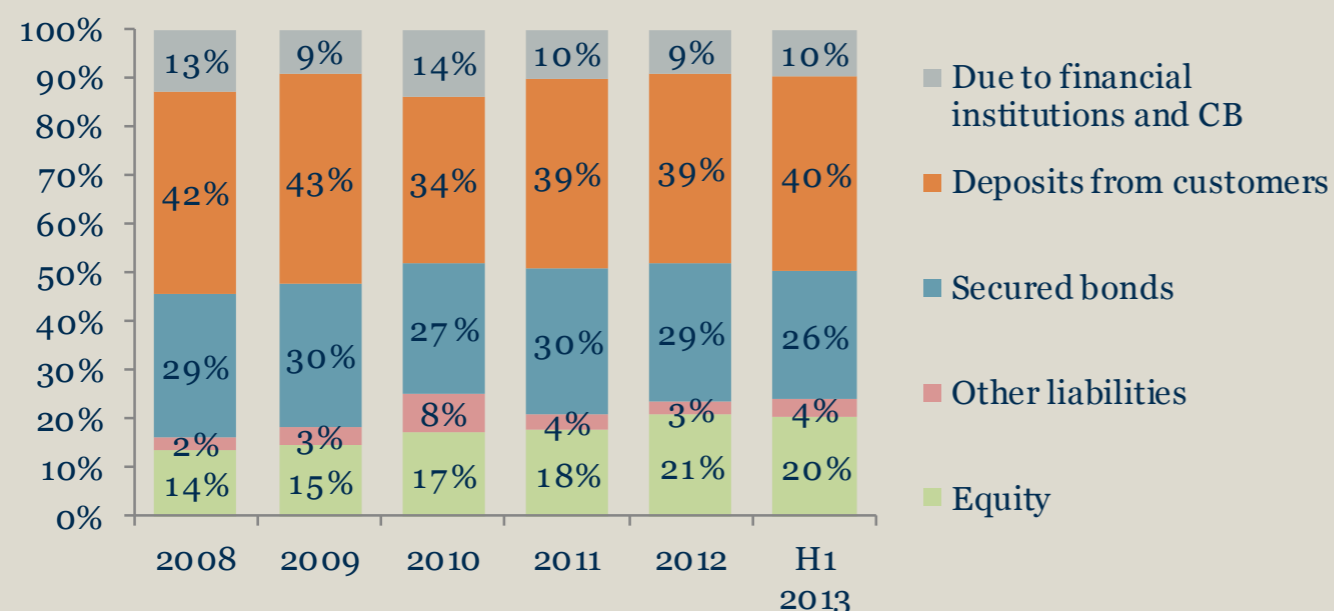


Balance sheet – liabilities and equity

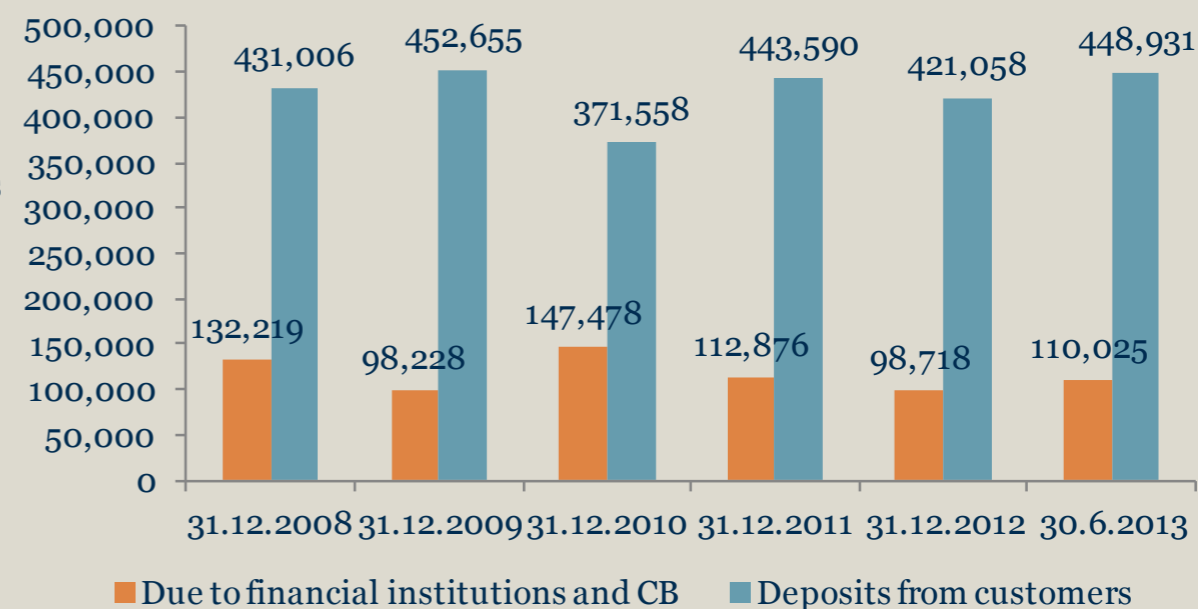
	30.6.2013	31.12.2012	2013 change	
Due to financial institutions and CB	110,025	98,718	11,307	11%
Deposits from customers	448,931	421,058	27,873	7%
Secured bonds	297,459	309,265	-11,806	-4%
Other liabilities	39,849	30,580	9,269	30%
Equity	229,830	225,166	4,664	2%
Total	1,126,094	1,084,787	41,307	4%

- Half the bank's funding is derived from customer deposits and deposits from financial undertakings
- Customer deposits grew by 7% after having decreased in 2012
- The bank issued covered bonds in H1 2013
- An approved ISK 10bn dividend payment is expensed and entered against equity in Q2

Liabilities and equity

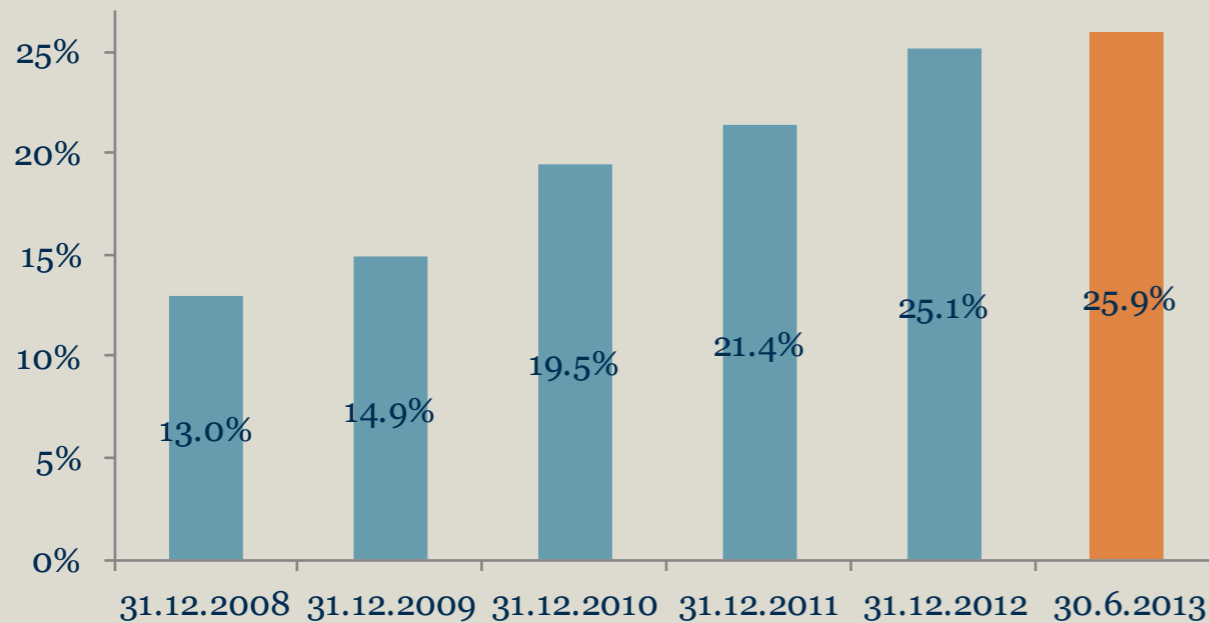


Deposits



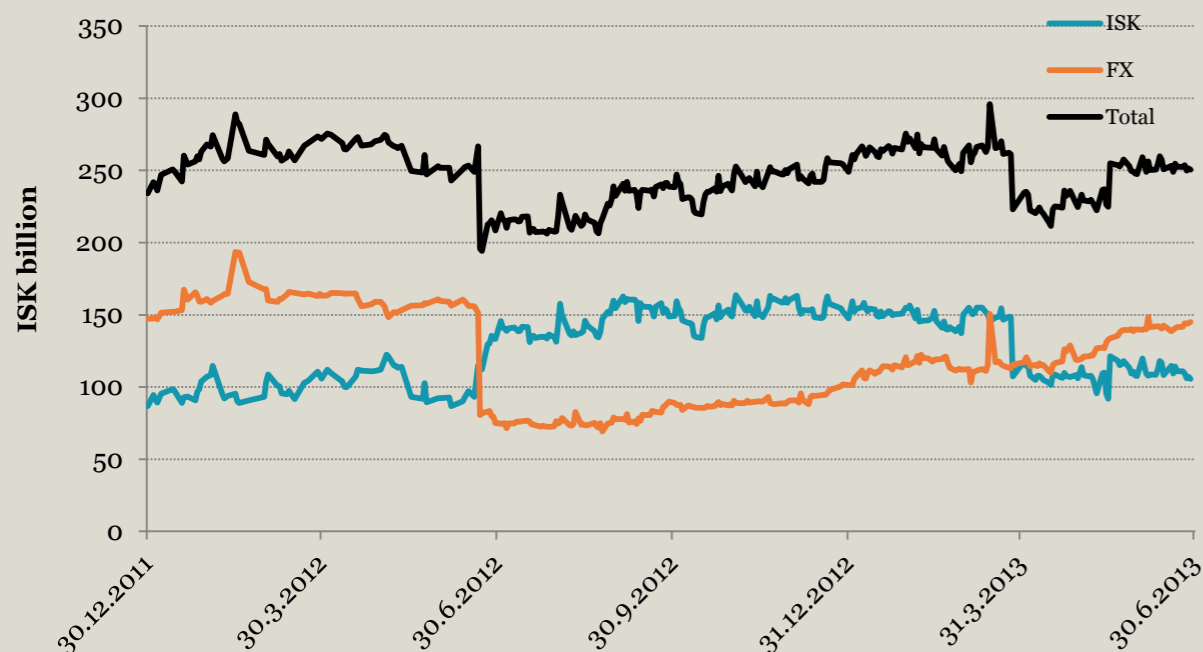
Capital ratio and liquid assets

Capital ratio (CAR)



- The bank's capital ratio is based solely on Tier 1 capital
- The growing CAR is attributable to good performance on the one hand and effective risk management on the other
- The bank is well above its 20% CAR benchmark

Liquid assets



- The drop in liquid FX assets around mid-2012 is due to an ISK 72bn pre-payment of the bond issued to LBI hf.
- Liquid assets in foreign currencies have since continued to grow and amounted to ISK 145bn as at 30 June 2013



Main results

	H1 2013	H1 2012	2012	2011
Profit after taxes	15,525	11,877	25,494	16,957
Return on equity after taxes	13.5%	11.5%	12.0%	8.4%
Interest spread as a ratio of av. total assets	3.1%	3.3%	3.2%	2.9%
Cost-income ratio	42.1%	44.5%	45.0%	40.6%
Real change in operating expenses	-7.9%	6.5%	4.9%	13.3%
Positions at period-end	1,165	1,269	1,233	1,311
Total assets	1,126,094	1,048,573	1,084,787	1,135,482
Loans to customers	665,411	666,890	666,087	639,130
Deposits from customers	448,931	440,392	421,058	443,590
Capital ratio (CAR)	25.9%	23.3%	25.1%	21.4%
Liquidity ratio	44.8%	39.8%	48.4%	42.9%
Net FX position	5,144	27,810	-20,035	20,034
Arrears (>90 days)	6.2%	11.7%	8.3%	13.9%

- Profits increase by 31% between years and ROE is up by 2 percentage points
- Operating expenses decrease YoY, by 7.9% in real terms
- The bank is well within its own cost-income ratio limit
- Full-time equivalent positions have been reduced by 104, or just over 8%, since mid-2012
- Total assets have grown by over ISK 40bn, or 4%, since the beginning of the year
- The CAR remains strong, currently at 25.9%. This figure refers to Tier 1 capital only.
- The liquidity ratio grows more robust parallel to increased deposits and is far higher than the legal minimum
- Loans 90 days in arrears decrease to stand at 6.2%



Outlook and activities in H2 2013

- No great changes in the economy are expected in H2.
- The outlook is for a continuing positive performance for the remainder of the year.
- Continued emphasis on cost-efficiency measures.
- Formal negotiations with LBI hf. to change the terms and conditions of bonds must commence.
- Complete work on correcting recalculated exchange rate indexed loans.
- Listing of covered bonds on the Stock Exchange in the near term.



Annex - further information



Key financial ratios

Key figures	H1 2013	H1 2012	2012	2011	2010	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Profit after taxes	15,525	11,877	25,494	16,957	27,231	7,536	7,989	11,953	1,664	4,148
Return on equity before taxes	17.2%	12.8%	14.0%	8.1%	20.8%	17.3%	17.2%	26.0%	1.2%	9.1%
Return on equity after taxes	13.5%	11.5%	12.0%	8.4%	16.0%	13.0%	14.0%	21.8%	3.1%	7.9%
Capital ratio (CAR)	25.9%	23.3%	25.1%	21.4%	19.5%	25.9%	26.6%	26.5%	24.1%	23.3%
Net interest income	16,997	18,573	35,584	32,649	24,685	7,118	9,879	9,229	7,782	10,020
Interest spread as a ratio of average total assets	3.1%	3.3%	3.2%	2.9%	2.3%	2.6%	3.6%	3.4%	3.0%	3.6%
Interest spread + net adj of loans/ average total assets	4.5%	2.7%	2.8%	0.8%	2.4%	3.8%	5.2%	4.5%	1.6%	2.2%
Cost-income ratio *	42.1%	44.5%	45.0%	40.6%	36.8%	49.6%	36.6%	38.4%	57.4%	52.2%
Liquidity ratio	44.8%	39.8%	48.4%	42.9%	45.6%	44.8%	42.0%	48.4%	45.0%	39.8%
Operating expenses as a ratio of average total assets **	2.1%	2.1%	2.2%	2.0%	1.7%	2.1%	2.1%	2.4%	2.2%	2.2%
Total assets	1,126,094	1,048,573	1,084,787	1,135,482	1,081,133	1,126,094	1,085,405	1,084,787	1,056,825	1,048,573
Loans / deposits ratio	148.2%	151.4%	158.2%	144.1%	159.6%	148.2%	153.1%	158.2%	149.4%	151.4%
Positions at period-end	1,165	1,269	1,233	1,311	1,146	1,165	1,209	1,233	1,252	1,269

* 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

	H1 2013	H1 2012	Change		2012	2011	2010	2009
Net interest income	16,997	18,573	-1,576	-8%	35,584	32,649	24,685	14,574
Net adjustments in valuation	2,879	-3,465	6,344	-183%	-4,391	-23,587	641	6,954
Change in contingent bond - liability to purchase own shares	4,691	0	4,691		0	0	0	0
Net interest income after adjustments in valuation	24,567	15,108	9,459	63%	31,193	9,062	25,326	21,528
Net fee and commission income	2,960	2,092	868	41%	4,448	4,424	3,582	4,213
Net foreign exchange gain (loss)	1,188	836	352	42%	4,566	-759	14,623	-1,055
Other net operating income	6,179	5,524	655	12%	8,934	18,017	7,318	6,038
Total operating income	34,894	23,560	11,334	48%	49,141	30,743	50,849	30,725
Salaries and related expenses	6,295	6,596	-301	-5%	13,176	11,990	9,331	8,468
Equity-settled employee share-based salaries	4,691	0	4,691		0	0	0	0
Other operating expenses	4,198	4,516	-318	-7%	8,878	8,466	7,312	6,064
Depreciation and amortisation	423	361	62	17%	719	771	1,311	1,278
Contribution to the Depositors' and Investors' Guarantee Fund	538	554	-16	-3%	1,042	583	0	0
Acquisition-related costs	45	0	45		290	245	542	1,044
Total operating expenses	16,190	12,027	4,163	35%	24,105	22,055	18,496	16,854
Share of profit of associates, net of income tax	1,127	673	454	67%	2,449	1,418	291	383
Profit before tax	19,831	12,206	7,625	62%	27,485	10,105	32,644	14,253
Income tax expense	4,306	2,813	1,493	53%	4,125	-597	8,182	615
Profit for the period from continuing operations	15,525	9,393	6,132	65%	23,360	10,703	24,462	13,638
Profit from disc operations, net of income tax	0	2,484	-2,484	-100%	2,134	6,255	2,769	693
Profit for the period	15,525	11,877	3,648	31%	25,494	16,957	27,231	14,332



Balance sheet

	30.6.2013	31.12.2012	2013 change		31.12.2011	31.12.2010	31.12.2009	31.12.2008
Cash and balances with CB	23,643	25,898	-2,255	-9%	8,823	47,777	26,174	30,071
Bonds and debt instruments	278,386	228,208	50,178	22%	221,848	161,559	165,721	189,121
Equities and equity instruments	34,029	36,881	-2,852	-8%	46,037	29,429	23,411	39,681
Loans and advances to fin institutions	70,671	64,349	6,322	10%	100,133	91,882	83,129	8,845
Loans and advances to customers	665,411	666,087	-676	0%	639,130	592,954	667,122	705,182
Other assets	34,219	38,044	-3,825	-10%	65,959	28,743	31,920	56,907
Assets classified as held for sale	19,735	25,320	-5,585	-22%	53,552	128,789	63,878	7,584
Total	1,126,094	1,084,787	41,307	4%	1,135,482	1,081,133	1,061,354	1,037,391
Due to financial institutions and CB	110,025	98,718	11,307	11%	112,876	147,478	98,228	132,219
Deposits from customers	448,931	421,058	27,873	7%	443,590	371,558	452,655	431,006
Secured bonds	297,459	309,265	-11,806	-4%	337,902	287,822	316,734	305,056
Contingent bond	38,827	29,687	9,140	31%	31,485	27,800	14,456	21,385
Other liabilities	1,022	893	129	14%	9,385	61,609	21,689	4,440
Equity	229,830	225,166	4,664	2%	200,244	184,866	157,593	143,285
Total	1,126,094	1,084,787	41,307	4%	1,135,482	1,081,133	1,061,354	1,037,391



Activities

1 January - 30 June 2013	Personal Banking	Corporate Banking	Markets	Treasury	Support Functions	Reconciliation	Total
Net interest income (expense)	8,706	7,473	206	1,555	-41	-902	16,997
Net adjustments in valuation	-3,585	11,013	0	-139	281	0	7,570
Net fee and commission income	1,308	407	1,386	106	-97	-150	2,960
Other net operating income	-579	-743	1,501	5,814	472	902	7,367
Total operating income (expense)	5,850	18,150	3,093	7,336	615	-150	34,894
Operating expenses	-4,761	-782	-1,118	-684	-8,995	150	-16,190
Share of profit of equity-accounted associates, net of income tax	-35	0	0	1,195	-33	0	1,127
Profit (loss) before cost allocation and tax	1,054	17,368	1,975	7,847	-8,413	0	19,831
Cost allocated from support functions to business segments	-3,195	-1,364	-590	-400	5,549	0	0
Profit (loss) before tax	-2,141	16,004	1,385	7,447	-2,864	0	19,831
Total assets	499,165	402,609	63,515	519,203	31,687	-390,085	1,126,094
Total liabilities	443,973	321,764	56,168	432,757	31,687	-390,085	896,264
Allocated capital	55,192	80,845	7,348	86,445	0	0	229,830



