



Landsbankinn's
2013 results



4 March 2014

News announcement on the 2013 annual financial statements

Landsbankinn's profit in 2013 was ISK 28.8 billion

Landsbankinn's profit after taxes amounted to ISK 28.8bn in 2013, as compared with ISK 25.5bn in 2012. The increase is due mostly to increased commission income, value change of lending and equities as well as cost reductions.

Steinþór Pálsson, CEO of Landsbankinn:

Landsbankinn's performance is good and speaks to sound operations across all units. The bank's revenue is growing while significant reductions have been achieved in operating expenses. Return on equity is acceptable despite a high capital ratio. The bank took advantage of its high foreign currency liquidity position the second year running to make a large instalment on its liability with LBI hf. Landsbankinn paid ISK 10bn in dividends during the year and the Board of Directors has agreed to move that the AGM authorise an ISK 20bn dividend payment based on 2013 results. The benefit of good results to the bank's owners, including the State Treasury as the largest shareholder, is obvious.

In 2013, the bank worked towards gaining a credit rating from an international rating agency and in January 2014, Standard and Poor's (S&P) issued Landsbankinn the rating grade BB+ with a stable outlook. This facilitates the bank's access to international credit markets.

Encumbering taxes have been levied on financial undertakings and Landsbankinn's imputed taxes increased by ISK 8.2bn in 2013, as compared with the previous year, and currently amount to ISK 12.3bn. Such heavy taxation could clearly affect terms offered to customers in the long term.

Landsbankinn places great emphasis on supporting its customers to achieve success and lending has grown steadily, as has the bank's involvement in business and industry. Restructuring of corporates is now near completion; their financial position has improved, creating room for investment.

The year 2013 was, on the whole, favourable for Landsbankinn. Future developments are under way, including in branch operations and electronic payment services. Significant cost-efficiencies have been achieved and we will continue our efforts in that regard.

Key figures from the profit and loss account and balance sheet

Profit and loss:

- » Landsbankinn's profit amounted to ISK 28.8bn in 2013, as compared with ISK 25.5bn in 2012. The bank's earnings have improved by 13% between years.
- » After-tax return on equity (ROE) increases somewhat despite rising equity levels. Profitability was 12.4% in 2013, as compared to 12.0% in 2012.
- » Net interest revenue amounted to ISK 34.3bn in 2013 as compared with ISK 35.6bn in 2012.
- » The ratio of interest spread to average capital position fell slightly, was 3.1% in 2013 as compared to 3.2% in 2012.
- » Net commission income amounted to ISK 5.3bn, increasing by just over ISK 800m from the previous year, or 19%.
- » Allowing for inflation, the real decrease of operating expenses amounts to 10.1% YoY. The bank's aim was to lower the operating expenses by 5% in 2013.
- » Wages and wage-related expenses decrease by 4% between years. This decrease is less wage provisions due to the reception of shares from LBI hf.; the same amount is also entered as income in the bank's accounts.
- » Operating expenses less wages and related expenses drop by 9%.
- » The cost-income ratio also declined between years, was 42.9% in 2013 as compared to 45% in 2012.
- » Taxes for year 2013 amount to 12.3bn. This represents an increase of ISK 8.2bn between years. Imputed income tax grew by ISK 4bn; the special financial management tax and special debt tax on financial undertakings each increased by ISK 2bn.
- » Full-time equivalent positions at year-end were 1,183, down by 50 during the year.

Balance sheet:

- » The bank's equity at year-end 2013 amounted to ISK 241.4bn. Equity has increased by 7% since year-end 2012 despite an ISK 10bn dividend payment in 2013.
- » The bank's capital adequacy ratio (CAR) is high, well above the minimum limit set by the Financial Supervisory Authority (FME). It stood at 26.7% at year-end 2013, up from 25.1% at year-end 2012.
- » Landsbankinn's total assets amounted to ISK 1,152bn at year-end 2013. Growing liquid assets account for the 6% YoY increase. The bank has issued just over ISK 143bn in new lending during the year yet instalments and ISK appreciation, leading to a decrease in the value of foreign currency loans, result in a total increase in lending of ISK 14bn.
- » Customer deposits not counting financial undertakings grew by 8.5% during the year, or around ISK 35.6bn.
- » The bank's liquidity position is very strong, both in foreign currency and Icelandic króna and well above mandatory limits. The ratio of immediately available funds against deposits was 49.8% at year-end 2013, as compared to 48.4% at year-end 2012. The bank's total liquidity position, including its foreign currency liquidity position, is also well above the mandatory minimum prescribed by the CB's new liquidity rules.
- » The bank's foreign balance is good and assets in foreign currencies amount to around ISK 14.5bn in excess of foreign currency liabilities.
- » The item "Assets held for sale" decreased slightly during the year despite the acquisition of Istak by the bank in the fall. The company has been advertised for sale and the sale process is expected to conclude in the next couple of months.
- » Total defaults by companies and households were 5.3% at year-end 2013, as compared with 8.3% at the same time in the previous year.

	2013	2012	2011
	Amounts in ISKm		
After-tax profit	28,759	25,494	16,957
Return on Equity (ROE)	12.4%	12.0%	8.4%
Net interest spread / total assets	3.1%	3.2%	2.9%
Cost-income ratio*	42.9%	45.0%	40.6%
Real change of operating expenses	-10.1%	4.9%	13.3%
Full-time equiv. positions	1,183	1,233	1,311
Total assets	1,151,516	1,084,787	1,135,482
Loans to customers	680,468	666,087	639,130
Customer deposits	456,662	421,058	443,590
CAR	26.7%	25.1%	21.4%
Liquidity ratio	49.8%	48.4%	42.9%
FX position	14,457	-20,035	20,034
Loans in arrears (>90 days)	5.3%	8.3%	13.9%

*Cost-income ratio = Total operating expenses less expensed equity-based wage items / (Net operating revenue – value change of lending)

Key aspects of operations in 2013

- » Landsbankinn issued a bond to LBI hf. in April in the amount of ISK 92bn. At the same time, LBI hf. surrendered its entire holding in the bank to the State and to Landsbankinn.
- » A new Board of Directors took over the helm following the AGM in April. Tryggvi Pálsson is Chairman of the Board.
- » In June, Landsbankinn concluded its first issuance of covered bonds. These are non-indexed with 3Y fixed rates at 6.3%. The amount of the issuance was ISK 1,920m at year-end 2013. Landsbankinn lowered the terms of non-indexed housing loans parallel to the issuance.
- » In June, Landsbankinn sold the remaining 25% of its holding in the facilities management company Reginn hf. the bank had sold 75% of shares in the company when it was listed on the stock exchange in 2012.
- » In September, Landsbankinn acquired all shares in construction company Istak, previously a subsidiary of a Danish construction company E. Phil&Søn A/S which entered into bankruptcy proceedings in August. The company has already been advertised for sale.
- » An agreement was reached on the distribution of shares in the bank to employees in accordance with an agreement between LBI hf., the Ministry of Finance and Landsbankinn, concluded in December 2009.
- » Landsbankinn's covered bonds were admitted for trade on NASDAQ OMX Iceland on 10 October. This is the first listing of bonds issued by the bank.
- » Landsbankinn paid dividends to its owners for the first time. Dividends amounted to 39% of the previous year's profit, or just under ISK 10bn. The dividend payment led to a decrease in equity in Q2.
- » Landsbankinn opened the first in what will be a new generation of branches at Hagatorg, Reykjavík, in 2013. Service counters and cashiers' wickets disappear in the new branch and key emphasis is placed on more comprehensive advice and personal service to customers.
- » The bank made an optional and partial early redemption of the secured bonds to LBI hf. at the end of the year.
- » In 2013, the bank worked towards gaining a credit rating from an international rating agency and, in January 2014, Standard and Poor's (S&P) issued Landsbankinn the rating grade BB+ with a stable outlook.

Principal tasks ahead

Landsbankinn's operations

Landsbankinn's operations are expected to continue on the same sound track. The bank aims to achieve a 15% real decrease in operating expenses in 2013-2015 and has already achieved a 10% decrease.

Reorganisation of customer services

In 2014, Landsbankinn will continue to develop and improve services to its customers. A Corporate Banking Service Centre will be opened at Borgartún 33, Reykjavík, this spring, merging under one roof the bank's entire range of services to small and medium-sized enterprises in the capital city region. As a result of this change, all other Landsbankinn branches in the area will focus on services to individuals.

Correction of illegal exchange rate indexed loans

In 2013, Landsbankinn finalised the correction of recalculations of 18,000 loans containing provisions on unlawful exchange rate indexation, including vehicle loans, real estate mortgages and credit to corporates. The total amount of these corrections alone is around ISK 21bn. Rulings handed down by the Icelandic Supreme Court in late 2013, on loan contracts paid off in full and financial leasing agreements, provide that an additional 17,000 loans must be corrected and recalculated. Landsbankinn aims to finalise correction of all these loans in the first half of 2014. Work is under way on translation of the government's debt adjustment plan and the bank will implement the plan as soon as all details are known.

Agreement with LBI hf.

As at the end of 2013, Landsbankinn hf. owed LBI hf. ISK 237.7bn in foreign currencies. Due to its strong liquidity position, Landsbankinn made partial pre-payment in the equivalent amount of ISK 70bn in mid-2012 and again pre-paid the equivalent amount of ISK 50bn in December 2013. The bank nevertheless complied with the CB's stringent requirements on foreign currency liquidity positions. The bank's financing cost decreases due to these pre-payments alongside a significant reduction in collateralisation of the bank's assets.

On 2 October 2013, the Winding-up Board of LBI hf. agreed to Landsbankinn's request to commence discussions on possible amendments to the bonds. Under the current terms and conditions, instalments on the bonds are due in 2014 to 2018.