



Landsbankinn's 2014 results



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Landsbankinn's profit in 2014 was ISK 29.7 billion

Landsbankinn's after-tax profit amounted to ISK 29.7 bn in 2014, as compared with ISK 28.8 bn in 2013. After-tax return on equity was 12.5% in 2014. Net interest revenue decreased by a significant amount, or by ISK 6.2 bn from the previous year and the ratio of interest spread to average capital position was 2.4% in 2014 as compared to 3.1% in 2013. Landsbankinn's after-tax profit in Q4 amounted to ISK 9.8 billion as compared with ISK 6.5 bn for the same period the previous year.

The Bank's total assets decreased by ISK 53.1 billion YoY and were ISK 1,098 bn at year-end 2014. Loans increased by 6% during the year and were ISK 718 bn at end-of-year. The increase is largely due to a sizeable increase in housing loans. Non-performing loans were 2.3% at end of 2014 and decreased considerably during the year. In accordance with the Bank's objectives, its assets in the form of equities, shares in associates, and held-for-sale assets have decreased by about ISK 27 billion during the year, which is a considerable decrease.

Customer deposits were ISK 551.4 bn at year-end 2014, having increased considerably during the year. However, deposits by financial institutions decreased during the same period.¹ The bank's equity was ISK 250.8 bn at end-of-year, having increased by 9.4 billion despite a payout of dividends to shareholders of about ISK 20 billion in 2014. The Bank's capital adequacy ratio (CAR) is based solely on Tier 1 capital and was 29.5% at end of 2014, but it was 26.7% at end of year 2013.

CEO Steinþór Pálsson says:

"Landsbankinn's performance in 2014 was good and its financial position is strong. The Bank's capital adequacy ratio is among the highest among banks worldwide and its liquidity is strong, despite the Bank having paid out ISK 20 billion in dividends to shareholders this year, a considerable growth in new lending and a sizeable prepayment of the Bank's debt to LBI hf.

Both loans and assets continue to strengthen, as indicated by decreases in non-performing loans, and sales of equities and other assets. We must acknowledge, however, that positive value adjustments of loans and revenues from

¹ Deposits by financial institutions undergoing winding-up proceedings that have lost their license fully or in part are entered as general deposits.

equities have been large factors in the Bank's income. Nonrecurring items have significantly impacted our profit in recent years but we expect their impact to decrease considerably in the near future. Landsbankinn is now faced with the necessity of improving the efficiency of day-to-day operations by lowering costs and improving revenue structure, so that we can continue to provide acceptable returns on the Bank's equity.

The restructuring and corrections of tens of thousands of loans, which the Bank took over when it was established, has now been completed. Adding up all figures concerning the value adjustments of those loans transferred from LBI hf. to Landsbankinn, it emerges that entries as expenses in the Bank's profit and loss statement due to loans to individuals is just over ISK 12 billion, equivalent to -7% of the loans' acquisition price and entries as income due to loans to companies are just under ISK 25 billion, equivalent to +5% of the acquisition price.

An important milestone was reached in December 2014 when an agreement between Landsbankinn and the Winding-up Board of LBI hf., providing for changes to settlement bonds, became effective. The agreement significantly reduces the Bank's refinancing risk in foreign currencies and will in the future enable the Bank to refinance its obligations in international financial markets on acceptable terms. .

We are proud that Landsbankinn's market share is increasing and that the Bank benefits for the whole of society. Taxes paid in 2014 are about ISK 10.5 bn, and a payment of dividends to shareholders of just under ISK 24 billion will be proposed to the annual general meeting. Total dividends paid to shareholders over the last three business years will therefore amount to ISK 53.5 billion.

We look forwards to an exciting future developing Landsbankinn's operations, continuously improving our services to individuals and the economy as a whole, and working on changes of ownership, which the Bank's largest owner has stated may occur soon.“

Key figures from the profit and loss account for Q4 2014

- » Landsbankinn's after-tax profit in Q4 2014 amounted to ISK 9.8 billion as compared with ISK 6.5 bn for the same period in 2013.
- » Return on equity in Q4 2014 exceeded by a significant amount figures for the same period the previous year, was 15.9% in Q4 2014 as compared with 10.9% in Q4 2013.
- » Net interest income decreased between periods, was ISK 5.8 bn in Q4 2014 as compared with less than ISK 10 bn the previous year.
- » Value changes in Q4 2014 amounted to ISK 6.1 bn as compared to ISK 3.9 bn in Q4 2013.
- » Net commission income increased between periods, was ISK 1.6 bn in Q4 2014 as compared with ISK 1.2 bn in Q4 2013.

Key figures from the profit and loss account and balance sheet for 2014

Operations:

- » Landsbankinn's profit amounted to ISK 29.7 bn in 2014, as compared with ISK 28.8 bn in 2013.
- » After-tax return on equity (ROE) increases somewhat despite rising equity levels. Profitability was 12.5% in 2014, as compared to 12.4% in 2013.
- » Net interest revenue decreased by ISK 6.2 bn from the previous year, was ISK 28.1 bn in 2014 as compared with ISK 34.3 bn in 2013.

- » The ratio of interest spread to average capital position fell, it was 2.4% in 2014 as compared to 3.1% in 2013.
- » Net commission income amounted to ISK 5.8 bn, increasing slightly from the previous year.
- » Value changes on loans were positive by ISK 20 bn and by 9 bn on financial assets in 2014.
- » Allowing for inflation, the real increase of operating expenses amounts to 5.9% YoY. The Bank's aim was to lower the cost-income ratio.
- » Wages and related expenses increase by 8% between years due for the most part to costs from termination of employment. Operating expenses less wages and related expenses increase by 7%.
- » The cost-income ratio grew between years, was 56% in 2014 as compared to 42.9% in 2013.
- » Landsbankinn paid taxes in the amount of ISK 10.5 bn in 2014 as compared to 13.2 bn in 2013.
- » Full-time equivalent positions at year-end were 1,126, down by 57 during the year.

Balance Sheet:

- » The Bank's equity at year-end 2014 amounted to ISK 250.8 bn. Equity has increased by 4% since year-end 2013 despite an ISK 20bn dividend payment in 2014.
- » Landsbankinn's capital adequacy ratio (CAR) is high, well about the minimum limit set by the Financial Supervisory Authority (FME). It stood at 29.5% at year-end 2014, up from 26.7% at year-end 2013.
- » Landsbankinn's total assets amounted to ISK 1,098 bn at year-end 2014. Total assets decrease by 5% between years due mostly to a decrease in the Bank's shareholdings and fixed-income assets as well as the prepayment of the Bank's debt to LBI hf,
- » Landsbankinn has issued just over ISK 162 bn in new lending during the year yet instalments and ISK appreciation, leading to a decrease in the value of foreign currency loans, accounts for a total increase in lending of ISK 38 bn.
- » Customer deposits not counting financial undertakings grew by 21 % during the year, or approximately ISK 95 bn. Part of this increase is due to that deposits from financial undertakings in a winding-up process are reclassified as customer deposits from the time all of their licenses as financial undertakings have been revoked by the Financial Supervisory Authority.
- » The Bank's liquidity position is very strong, both in foreign currency and Icelandic króna and well above regulatory limits. The ratio of immediately available funds against deposits was 39% at year-end 2014, as compared to 50% at year-end 2013. The Bank's total liquidity position, including its foreign currency liquidity position, is also well above the mandatory minimum prescribed by the Central Bank.
- » The Bank's foreign balance is good and assets in foreign currencies amount to around ISK 20.3 bn in excess of foreign currency liabilities.
- » The item Assets held for sale decreased by just under ISK 7 bn during the year and value of equities and shares in associates decreased around 20 bn.
- » Total defaults by companies and households were 2.3% at year-end 2014, as compared with 5.3% at the same time in the previous year.

	2014	2013	Q4 2014	Q4 2013
	Amounts in ISKm			
Profit after taxes	29,737	28,759	9,752	6,483
Return on equity after taxes	12.5%	12.4%	15.9%	10.9%
Interest spread as a ratio of av. total assets	2.4%	3.1%	2.0%	3.5%
Cost-income ratio*	56.0%	42.9%	57.7%	44.8%
Real change in operating expenses	5.9%	-10.1%	20.1%	-10.9%

	31.12.14	31.12.13	30.9.2014	30.6.2014
Total assets	1,098,370	1,151,516	1,201,247	1,154,598
Loans to customers	718,355	680,468	719,627	699,648
Deposits from customers	551,435	456,662	497,583	473,356
Capital ratio (CAR)	29.5%	26.7%	27.1%	26.8%
Liquidity ratio	39.0%	49.8%	49.0%	47.0%
Liquidity ratio LCR total	131%	102%	108%	110%
Liquidity ratio LCR FX	614%	208%	222%	208%
Net FX position	20,320	14,457	21,086	18,514
Arrears (>90 days)	2.3%	5.3%	3.3%	4.0%
Full-time eqv. positions	1,126	1,183	1,166	1,162

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

Key aspects of operations in 2014

- » International rating agency Standard & Poor's (S&P's) issued Landsbankinn the rating grade BB+ with a stable outlook in January. In October, S&P's changed its outlook for the Bank from stable to positive and reaffirmed the Bank's long and short-term rating of 'BB+/B'.
- » Landsbankinn paid dividends to its owners in March in accordance with a proposal approved by its AGM. Dividends amounted to 70% of last year's profit, or just under ISK 20 bn. The dividend payment led to a decrease in equity in Q1.
- » A new organisational structure of Landsbankinn's branches in the capital region became effective in March. As a result, all branches in the region are now devoted to personal banking. All corporate services for small and medium-sized enterprises were transferred to a new Corporate Service Centre in Borgartún 33.
- » In June, Landsbankinn sold its 9.9% share in FSÍ (Framtakssjóður Íslands) slhf. and its entire holding of 27.6% in IEI slhf. At year-end 2013, FSÍ was split into two entities, FSÍ slhf. and IEI slhf. The total sale value was just over ISK 7 bn.
- » Landsbankinn listed a Euro Medium Term Note (EMTN) programme on the Irish stock exchange in August. This allows Landsbankinn to issue notes in the equivalent amount of up to EUR 1 billion in various currencies and at fixed or floating rates when market conditions turn favourable.
- » In September, Landsbankinn issued a new series of covered bonds, LBANK CB 19. These bonds are non-indexed with 5Y fixed rates at 6.8%. The issue amounts to ISK 960 bn. Earlier this year, the Bank tapped into its series of covered bonds, increasing the issue by ISK 1.5 bn.

- » In line with a settlement between Landsbankinn and the Icelandic Competition Authority, the Bank has been working on changes to payment card issues, intended to simplify and improve service to customers while simultaneously ensuring the Bank's independence in this market. These changes included the sale of the Bank's majority shareholding in both Valitor and Borgun in the second half of 2014.
- » In October, an independent third party concluded a quality assessment of Landsbankinn's Internal Audit function. The conclusion of the quality assessment was that the activities of Landsbankinn Internal Audit are in compliance with international standards and codes of ethics. This is the best possible outcome of a quality assessment performed in accordance with the methodology of the Institute of Internal Auditors.
- » In early December the amendment of the terms of bonds issued by Landsbankinn to LBI hf. came into effect. The maturity date of the bonds is thereby pushed from 2018 to 2026, onerous limitations on dividend payments abolished and collateral coverage requirements reduced.
- » In December, the Centre of Corporate Governance recognised Landsbankinn as a model of good corporate governance following a review of the work procedures of its Board and executives.
- » New housing loans increased sharply during the year, with twice as many new loans issued as the previous year. Housing mortgages now account for just over 66% of the Bank's lending to individuals. Just under 40% of new housing loans during the year were non-indexed as compared with 50% in the previous year. New pension savings agreements tripled in 2014 as compared with 2013.
- » In July, the Banker, a magazine run by the Financial Times, published its assessment of the strength and performance of the world's one thousand most prominent banks. Landsbankinn ranked number 1 in Western Europe in financial strength and number 20 on the global list.
- » Landsbankinn was one of four companies nominated for the Icelandic Employers' Education Award in 2014.
- » Landsbankinn was one of five companies nominated as marketing company of the year in 2014 by ÍMARK, the Icelandic Marketing Association.
- » Global Finance magazine named Landsbankinn the best bank in Iceland.
- » International Finance magazine selected Landsbankinn as the best Icelandic bank and Landsbankinn's online banking the best Internet banking option.
- » In January 2015 the panel of the 2014 Icelandic Web Awards selected Landsbankinn's new version of online banking as the best service site.