



Consolidated Interim Financial Results

Q3 2012



15 November 2012

Press release

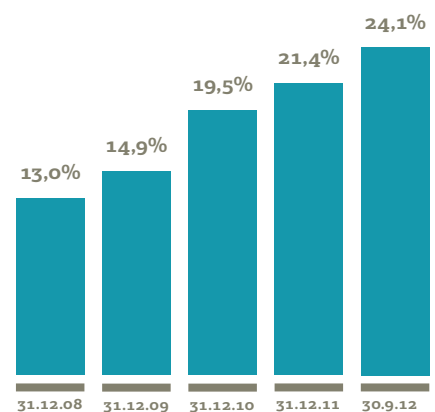
Interim results for the first nine months of 2012

Profits in Q3 roughly ISK 1.7 bn

Landsbankinn's net after-tax profit was ISK 13.5 bn in the first nine months of 2012. Profit in the third quarter was roughly ISK 1.7 billion, which is considerably less than in the first half of the year. This is primarily due to the impairment of the loan portfolio and increased operating cost that is partly a result of an expense recognised in relation to the termination of employment contracts following rationalisation measures. The bank's profit in the first nine months of the year has decreased by half compared with the same time last year when profit amounted to ISK 27 bn. The bank's performance, however, fluctuated considerably in 2011 making comparisons between years difficult.

ROE in the first nine months of 2012 was 8.6% but was 17.9% same time last year. Landsbankinn's CAD ratio is currently 24.1% compared to 21.4% at year-end 2011. Landsbankinn's financial position is sound, but as before, return on operations reflects limited activity in the Icelandic economy.

Capital ratio (CAD)



Key figures (all amounts in ISK millions)

	9m 2012	9m 2011
After-tax profit	13.541	26.953
After-tax ROE	8,6%	17,9%
CAD ratio	24,1%	23,6%
Interest margin on average total asset position	3,2%	2,9%
Cost-income ratio	57,7%	52,4%
Total assets	1.056.825	1.124.250
Customer deposits as a ratio of loans	149,4%	143,0%
Full-time equiv. positions	1.252	1.297

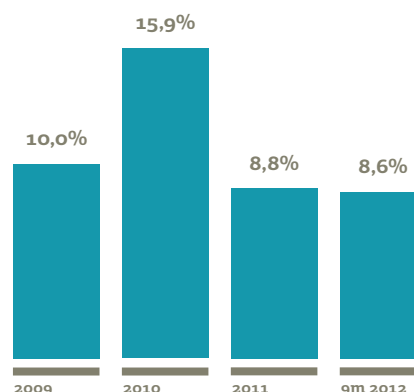
Adjusted cost-income ratio= (Salaries+other operating expenses+depreciation) / (Net interest income + net commission income)

Steinþór Pálsson, CEO of Landsbankinn, commented:

“Significant redevelopment efforts have been undertaken within the bank in recent years and most of the bank’s objectives in relation thereto have been achieved. The focus has been on strengthening the bank’s financial position and its infrastructure while also working towards the resolution of corporate and household debt problems. Significant achievements have been made in this area as is evident from the positive development of loans in arrears.

The bank’s performance in the first nine months of the year is characterised by a negative trend in the value change of loans. This autumn Landsbankinn sharpened its strategic focus and changed its organisational chart in order to address the projects at hand and to ensure the bank’s competitiveness going forward. Rulings that have been passed during the year on illegitimate exchange rate linked loans demonstrate that there is still some delay to be expected before the matter can be resolved conclusively. It is important that this is clarified as soon as possible as there are significant interests at stake for everyone.”

Return on equity after tax



Income statement:

The negative development of the change in value to the bank’s loan portfolio has considerable impact on the bank’s operations during the year. The bank’s total operating income, however, goes down by proximately 25% between years, was ISK 39.7 bn after the first nine months last year but is now ISK 30 bn. The main cause is the change in value of loans due to, inter alia, an expense in relation to Landsbankinn’s acquisition of SpKef and an additional expense recognised in relation to a recent court ruling on interests in recalculated exchange rate linked loans. Landsbankinn’s net interest income has increased by ISK 1.8 bn from the same time last year.

Income statement (all amounts in ISK millions)	9m 2012	9m 2011	Change	%
Net interest income	26.355	24.591	1.764	7%
Value change	-7.087	794	-7.881	-992%
Net interest income after value change	19.268	25.385	-6.117	-24%
Net fee & commission income	3.122	3.344	-222	-7%
FX gain or loss	1.735	-1.049	2.784	265%
Other operating income	5.816	12.012	-6.196	-52%
Net income before operating expenses	29.941	39.691	-9.750	-25%
Operating cost	17.770	15.394	2.376	15%
Share in performance of affiliated companies, less tax	687	1.160	-473	-41%
Pre-tax profit	12.858	25.458	-12.600	-49%
Estimated income and bank tax	1.801	3.214	-1.413	-44%
Profit from regular activities	11.057	22.243	-11.186	-50%
After tax profit (loss) of discontinued operations, less tax	2.484	4.709	-2.225	-47%
Net profit for the period	13.541	26.953	-13.412	-50%

Commission income remains practically the same. The foreign currency balance was positive by ISK 1.7 bn in the third quarter but was negative by ISK 1 bn same time last year. Other operating income amounted to ISK 5.8 bn in the first nine months of the year, which is considered satisfactory.

Value changes to the loan portfolio

Since Landsbankinn's acquisition of LBI hf.'s assets was finalised, the bank has recognised an expense of ISK 23 bn in relation to the impairment of the loan portfolio. Thereof, the bank has recognised ISK 17.8 bn as an expense in relation to the loan portfolio of retail customers and around ISK 3.1 bn in relation to the corporate loan portfolio. The change in value to the bank's loan portfolio was negative by ISK 7 bn after the first nine months of the year but was positive by ISK 798 m same time last year. During the third quarter, ISK 3.6 bn was recognised as an expense in relation to the change in value of the loan portfolio, the most significant cause is the ISK 2.1 bn expense recognised after the ruling of the Supreme Court of Iceland no. 462/2012.

Operating cost

The operating cost of Landsbankinn is still too high despite the streamlining measures that have been undertaken. Operating cost has increased by 15% year-on-year. Salaries and related expenses have increased by 22% or what corresponds to ISK 1,753 m, but wage increases do not account for the largest part of the rise. Contractual wage increases amount to ISK 500 m while the new financial transaction tax on salaries amounted to ISK 446 m. Cost relating to the merger of SpKef and terminations of employment in relation to rationalisation measures amount to ISK 520 m. Imputed taxes in the first nine months of the year amount in total to ISK 2.2 bn. The bank's cost in relation to the operation of the Financial Supervisory Authority and the Debtors' Ombudsman amounted to ISK 598 m in the first nine months of the year, these items have increased by ISK 279 m from the same time last year.

Taxes and levies due to the operation of government institutions

Taxes	30/9/12	30/9/11	Change	%
Income tax	1.000	1.959	-959	-49%
Tax levied on financial institutions	801	340	461	136%
Financial transaction tax levied on salaries	446	0	446	
The Financial Supervisory Authority and Debtors' Ombudsman	598	319	279	87%
Depositors' and Investors' Guarantee Fund	767	506	261	52%

Restructuring of customer debt

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

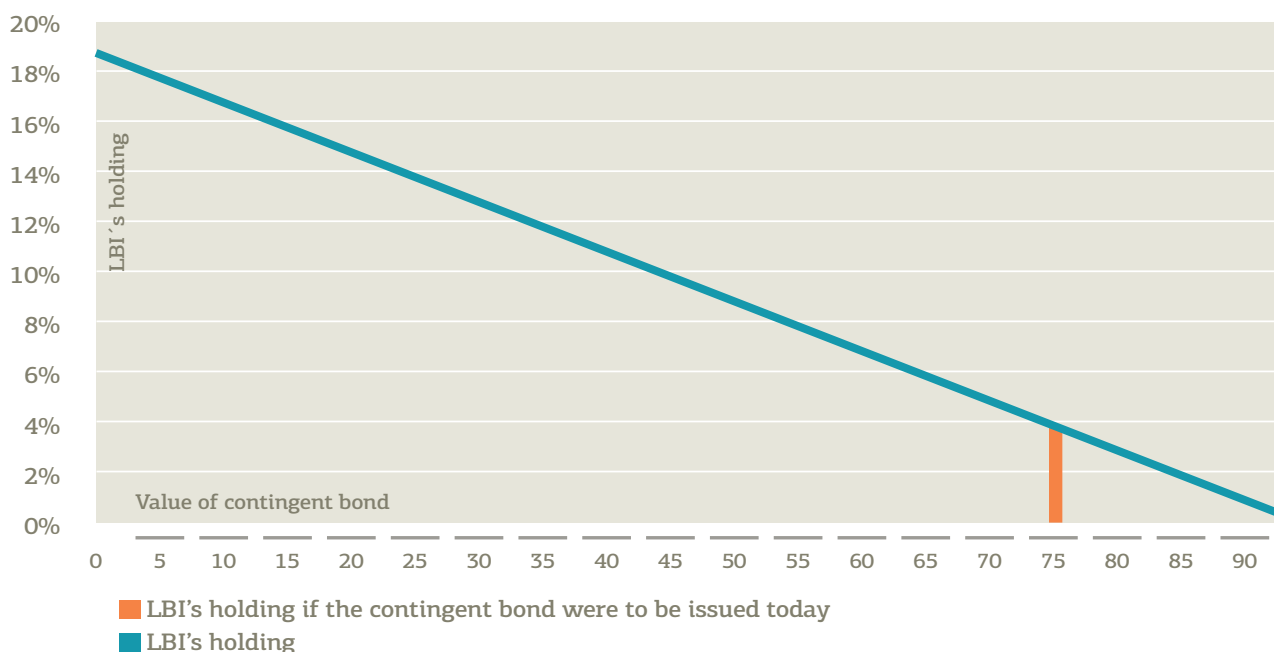
- » All exchange rate linked loans advanced by Landsbankinn have been recalculated but due to the rulings of the Supreme Court of Iceland in cases no. 600/2011 and 464/2012, the bank must recalculate loans in accordance with the findings of these court rulings. Landsbankinn is of the opinion that rulings 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 38 million 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 in Iceland had required financial institutions to use as a frame of reference to calculate the impact of ruling no. 600/2011. In addition, ISK 2.1 bn has been recognised as an expense 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 the end of October, Landsbankinn had completed the restructuring of debt in over 1000 companies. Most of the companies experiencing difficulties, and 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.

Landsbankinn's funding

Earlier this year Landsbankinn hf. prepaid of a quarter of the principal of the so-called A-bonds that were issued in 2010 in connection with 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 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 went fully towards the first five of the bond's twenty quarterly due dates, which were scheduled to commence in January 2014. The next instalment towards the principal will thus not take place until April 2015.

Landsbankinn is preparing the issue of covered bonds to be listed in the Icelandic stock exchange, NASDAQ OMX Iceland. The bank has submitted an application to the Financial Supervisory Authority to that effect and is awaiting its reply. The proposed issue of covered bonds is to be a part of the bank's funding and will strengthen the bank's competitiveness with relation to mortgages.

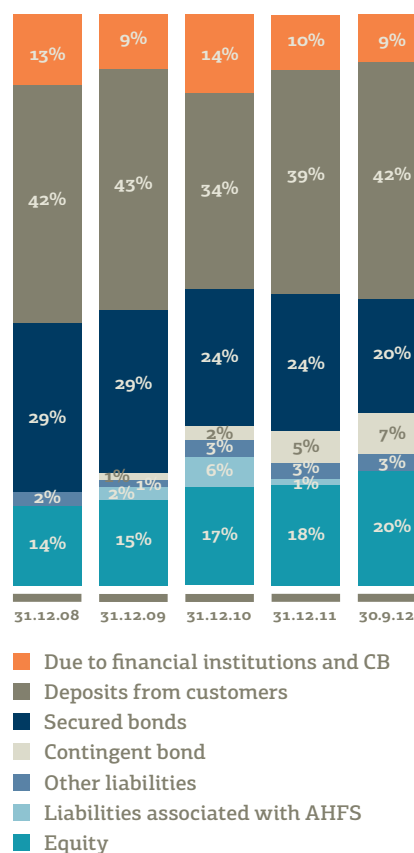
Holding of LBI vs. value of contingent bond



Settlement with Landsbanki Íslands hf. (LBI hf.)

Significant uncertainty surrounded the value of loans when the agreement between Landsbankinn and LBI hf. was finalised at year-end 2009 and there was considerable disagreement 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. Independent advisors value the assets and rule on those cases in which Landsbankinn and LBI are unable to reach an agreement. The value of the contingent bond is currently ISK 74.2 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.

Liabilities and equity



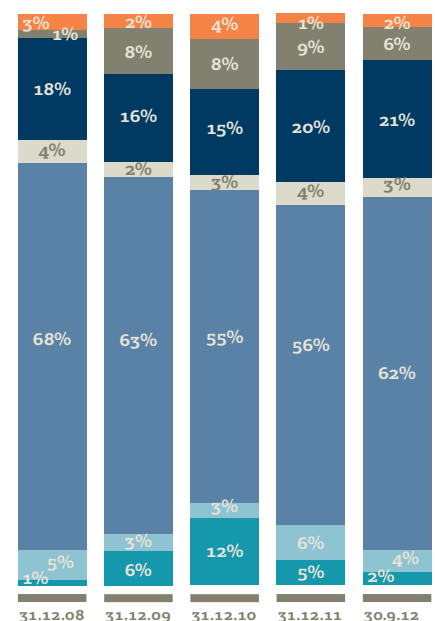
Income statement (all amounts in ISK millions)	30/9/12	31/12/11	Change in 2012 %	
Cash and balances with the Central Bank	25.235	8.823	16.412	186%
Due from credit institutions	60.787	100.133	-39.346	-39%
Market bonds	217.485	221.848	-4.363	-2%
Equities	33.198	46.037	-12.839	-28%
Loans to customers	657.050	639.130	17.920	3%
Other assets	37.688	65.959	-28.271	-43%
Assets classified as held for sale	25.382	53.552	-28.170	-53%
Total	1.056.825	1.135.482	-78.657	-7%
Deposits from financial institutions	90.206	112.876	-22.670	-20%
Customer deposits	439.853	443.590	-3.737	-1%
Borrowing	211.699	277.076	-65.377	-24%
Contingent bond	74.225	60.826	13.399	22%
Other liabilities	26.561	31.485	-4.924	-16%
Liabilities linked to assets classified as held for sale	603	9.385	-8.782	-94%
Equity	213.678	200.244	13.434	7%
Total	1.056.825	1.135.482	-78.657	-7%

Balance sheet

The bank's total assets have decreased from year-end 2011 by roughly ISK 79 bn due to the prepayment to LBI hf. mid-year. The bank's equity, on the other hand, has increased by ISK 13 bn from year-end 2011 and is now ISK 213 bn.

The bank's liquidity position is strong as is reflected in the liquidity ratio, which is currently 46%. This is equal to Landsbankinn being able to pay just under 46% of all deposits on demand. The CAD ratio is also very high and it is important that it remain so because of uncertainties in the bank's operating environment. Assets classified as held for sale have decreased considerably and currently they amount to 2% of Landsbankinn's assets but were 12% at year-end 2010.

Assets



- Cash and balances with CB
- Loans and advances to fin institutions
- Bonds and debt instruments
- Equities and equity instruments
- Loans and advances to customers
- Other assets
- Assets classified as held for sale

Loans

The following diagram shows how Landsbankinn's loans have developed. This diagram reflects well how limited loan demand is; a situation that has been prevalent now for a number of years. Loans to corporates have decreased slightly while loans to retail customers have increased in excess of inflation during the year. The bank's total loans currently amount to ISK 657 bn.

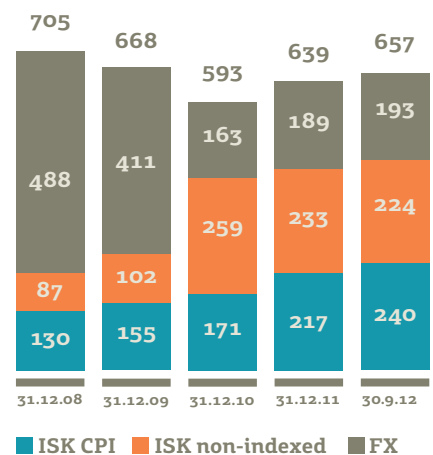
Default

The percentage of loans in arrears has gone down steadily in the bank's books both with retail customers and companies. That is a strong indicator that the quality of the loan portfolio is improving. After the third quarter 2011 defaults amounted to 16.4% but after the third quarter 2012 they had decreased to 9.2%. The ratio of company loans in arrears was 8.5% at the end of October and with retail customers the same ratio was 9.8%. The total ratio of loans in arrears is currently 8.9%.

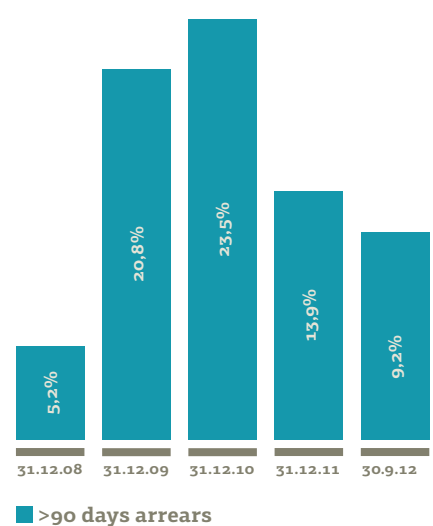
Deposits:

Deposits have decreased somewhat during 2012 and currently amount to ISK 439.9 bn. A large majority of new loans are short-term loans. Deposits from companies have decreased somewhat.

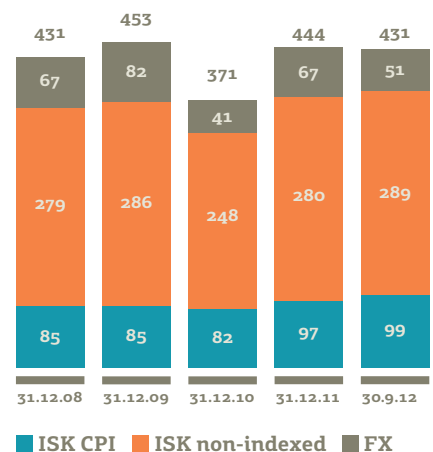
Loans and advances to customers



Loans in arrears



Deposits from customers



News from operations

- » In September an agreement was reached with Sparisjóður Svarfdæla that Landsbankinn would abandon the proposed acquisition of the savings bank. The Board of Directors of Sparisjóður Svarfdæla and Landsbankinn hf. reached an agreement in January whereby Landsbankinn would acquire all of the savings bank's assets and operations, and would continue financial activities in Dalvíkurbyggd. The Financial Supervisory Authority and the European Surveillance Authority had approved the proposed merger. The Competition Authority had the merger under review and encouraged the Board of Directors of the savings bank to seek assistance from the Savings banks' Insurance Fund (Tryggingasjóður sparisjóða) where the savings bank was assured that new funds and a subordinated loan would be secured. As a result, Landsbankinn decided to abandon the acquisition.
- » The European Surveillance Authority approved in July the state aid provided in relation to the restructuring of Landsbankinn following the collapse of the financial system in Iceland in 2008. ESA's announcement declares how the Authority is pleased with Landsbankinn's progress in restructuring the bank. Landsbankinn has now a strong equity position and has progressed well in restructuring loans to indebted customers according to the Authority.
- » Landsbankinn has introduced new emphases in strategy up to 2015 based on the bank's strategy introduced in 2010 under the name Landsbankinn, your financial partner. The new emphases involve increasing operational efficiency by reducing cost, strengthening management and team unity, while also pursuing a responsible marketing and sales strategy. At the same time, Landsbankinn introduced considerable changes to the bank's organisational chart that took effect on 1 October. With the changes, emphasis is placed on increased cooperation between all of the bank's divisions in order to offer better and more effective services to the mutual benefit of customers and the bank. New emphases should promote the objective of efficient and profitable operations. After the changes, the number of the bank's divisions were reduced from nine to seven. Income generating divisions are now three; Personal Banking, Corporate Banking and Markets while the support division are four: Risk Management, Finance, Business Development & HR and Operations & IT.
- » In September, it was announced that Landsbankinn's branches in the municipality of Reykjanes and outlets in Gardur and Vogar were to be merged into one branch. The merged branch will be located in the town of Reykjanes. An outlet will continue to be open in Sandgerði.
- » The Financial Supervisory Authority authorised Landsbréf the license to undertake asset management in September. The licence provides Landsbréf with the opportunity to manage projects in the field of asset management for third parties, whether that may be companies or individuals, and thus expands greatly the company's opportunities to service its customers. Landsbréf will control and manage Horn's assets, which is also Landsbankinn's subsidiary. A new managing director took over at Landsbréf in September.