Consolidated Financial Results
January – March 2013

24. May 2013

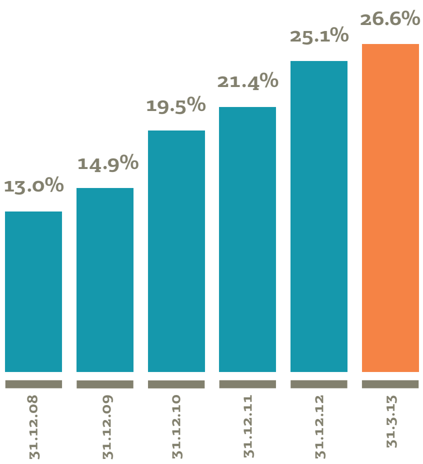
Landsbankinn returns ISK 8 billion profit in Q1 2013

In Q1 2013, Landsbankinn's after-tax operating profit was ISK 8.0bn compared to ISK 7.7bn in Q1 2012. After-tax return on equity (ROE) in Q1 was 14.0% as compared with a ROE of 15.2% for 2012 as a whole. The bank's capital adequacy ratio (CAR) has never been higher, reaching 26.6% at the end of March 2013 as compared with 22.1% at the same time last year.

Steinthór Pálsson, CEO of Landsbankinn:
"The most important news is without doubt the settlement between Landsbankinn hf. and LBI hf. The settlement represents an important milestone in the bank's development. The simultaneous change in ownership results in a significant profit to the National Treasury. Based on the book value of the bank's capital at the end of Q1, the State's holding in Landsbankinn has increased in value by ISK 62bn in excess of capital cost."

Steinthór continues: "Landsbankinn has continued to strengthen its position during the quarter, return on equity is quite satisfactory, equity and liquidity positions are strong by international comparison and, last but not least, the bank has managed to attain its goal of reducing operating expenses. The bank is paying dividends for the first time since its establishment and is very well positioned to do so. The bank's position is robust and uncertainties in operations grow fewer and fewer."

CAR



Key financial ratios (all amounts in ISKm)	Q1 2013	Q1 2012
After-tax profit	7,989	7,729
ROE after taxes	14.0%	15.2%
CAR*	26.6%	22.1%
Interest margin on average total asset position	3.6%	3.0%
Cost-income ratio**	36.6%	38.7%
Total assets	1,085,405	1,174,262
Deposits as a ratio of lending	153.1%	143.6%
Full-time equiv. positions	1,209	1,308

*Capital Adequacy Ratio
**Cost-income ratio = Total operating expenses less wages due to reception of shares / (Net operating revenue – value change of lending)

Income statement

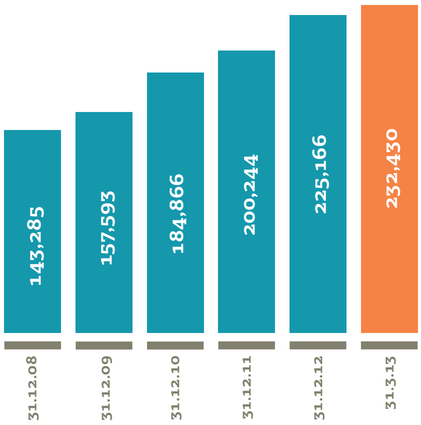
Landsbankinn's salary costs from regular operations have decreased between years and profit increased by 6% between years, which is a positive development. As mentioned above, the bank's operating profit in Q1 2013 amounted to ISK 8.0 bn as compared to ISK 7.7 bn during the same period last year.

Discounting the expensed obligation to disburse to employees the shares received by the bank in connection with the settlement with LBI hf., operating expenses also decrease for the period. The impact on expense items in the accounts is, however, quite noticeable as the bank expenses this obligation towards its employees as a wage item in the accounts. Considering the positive effects of the reception of the shares, the end effect on the operating outcome is nil.

Work is currently under way on a plan to disburse the shares to employees.

This is discussed in more detail below.

Equity



Interest income

Net interest revenue in Q1 2013 was ISK 9.879bn as compared with ISK 8.553bn in the same period in 2012. The ratio of interest spread to average capital position was 3.6% in Q1 of 2013 as compared to 3.0% for the same period in 2012.

Income statement (all amounts in ISKm)	Q1 2013	Q1 2012	Change	%
Net interest income	9,879	8,553	1,326	16%
Value change	-438	327	-765	-234%
Value change due to reception of shares	4,691	0	4,691	
Net interest income after value change	**14,132**	**8,880**	**5,252**	**59%**
Net fee & commission income	1,363	1,002	361	36%
FX gain or loss	1,172	2,116	-944	-45%
Other operating income	3,385	3,714	-329	-9%
Net income before operating expenses	**20,052**	**15,712**	**4,340**	**28%**
Regular operating expenses	5,784	5,947	-163	-3%
Expenditure due to shareholding-linked wage items	4,691	0	4,691	
Share in performance of affiliated companies, less tax	261	0	261	
Pre-tax profit	**9,838**	**9,765**	**73**	**1%**
Estimated income and bank tax	1,849	2,208	-359	-16%
Earnings from regular activities	**7,989**	**7,557**	**432**	**6%**
After tax profit from discontinued operations, less tax	0	172	-172	-100%
Net profit for the period	**7,989**	**7,729**	**260**	**3%**

Taxes (ISKm)	Q1 2013	Q1 2012	Change	%
Imputed income tax	1,670	1,549	121	8%
Special financial management tax on profits[1]	89	328	-239	-73%
Special tax on financial undertakings[2]	90	331	-241	-73%
	1,849	**2,208**	**-359**	**-16%**
Special financial management tax on wages[3]	183	141	42	30%
Total	**2,032**	**2,349**	**-317**	**-13%**

1 6% additional tax on a taxable income base in excess of ISK 1bn
2 Tax based on the book value of liabilities at year-end
3 6.75% tax on wages. Entered as wages and related expenses in the interim financial statements

Operating cost

The effects of cost-containment measures implemented in Landsbankinn's operations are beginning to be felt and wage expenses from regular operations have decreased by 2% YoY. The cost-income ratio is 36.6% in Q1 as compared with 38.7% for the same period last year. The bank's objective is to maintain a cost-income ratio below 50%. The cost-income ratio is the ratio between the bank's operating expenses and net operating revenue with the exception of value change of lending and less the cost of receiving shares on behalf of employees.

Balance sheet

Landsbankinn's total assets amounted to ISK 1,085 bn as of the end of Q1. Main changes to individual asset items include a considerable increase in market bonds by just over ISK 20bn.

While lending increased during the period, the appreciation of the Icelandic króna caused FX-denominated loans to decrease with the result that the lending at the end of the period remains more or less unchanged from the beginning of Q1.

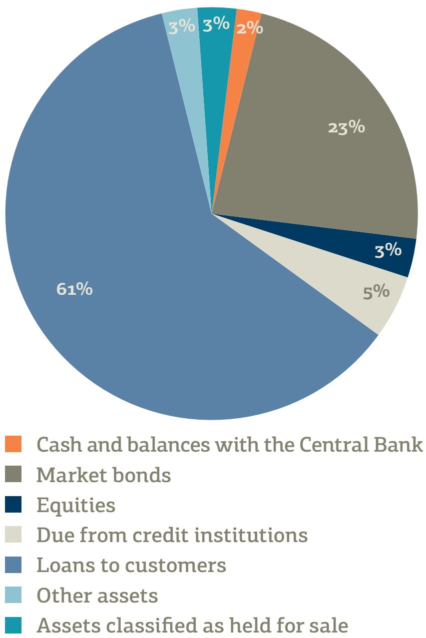
Defaults have declined steadily, both in loans to individuals and corporates. Total default was 7.3% at the end of Q1, down from 8,0% at year-end 2012. Defaults were at 23.5% at the end of 2010.

Work on resolving the debt problems of both individuals and corporate customers continues.

All illegitimate exchange rate linked loans issued by Landsbankinn have been recalculated; however, due to Supreme Court rulings No. 600/2011 and 464/2012, the bank has readjusted previous calculations based on these rulings. The bank has made great inroads on correcting interest calculation on all housing mortgages to individuals that fall under the scope of current legal precedent.

The majority of companies in financial difficulties deemed viable by the bank when work began on the vast task of restructuring the debt of Icelandic companies following the financial crisis of October 2008 have now received resolution of their problems through solutions offered by the bank.

Assets



Liquidity position

The bank's liquidity position, both in Icelandic krónur and foreign currencies, remains very strong. Liquid assets amounted to ISK 223bn at the end of Q1 2013. Total payment capacity ratio of deposits was 42.0% at year-end compared to 48.8% at the beginning of the year. This ratio measures immediately available funds against total deposits. The ratio in foreign currencies is well over 100%. The Icelandic Financial Supervisory Authority (FME) requires a minimum ratio of 5% and the bank has set the internal requirement at 20%.

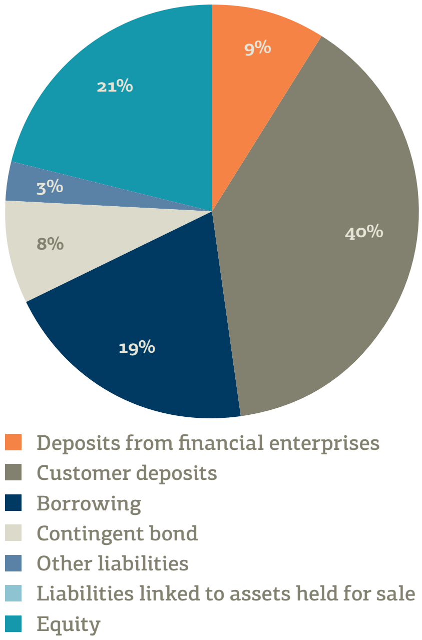
Foreign debt

Despite the final value of the contingent bond having been higher than expected in the 2012 annual results, the book value of FX debt with LBI hf. decreased by just under ISK 14bn due to appreciation of the Icelandic króna during the period.

In total, Landsbankinn was indebted to LBI to the amount of ISK 292bn in foreign currencies at the end of March. This is a 10Y debenture with the first payment of the principal due in 2014 and final payment in 2018. In Q2 of 2012, Landsbankinn prepaid the first five instalments on the bond. The bank aims to extend the lifetime of these bonds well in advance in 2016 and concerted efforts are directed at preparations.

It is of primary concern to Landsbankinn to secure at any given time the best possible funding for the bank. Access to international credit markets is key in this respect. One future possibility under consideration is to refinance at least part of the bank's debt with LBI hf. with a bond issuance on international credit markets. The bank is currently working on achieving a credit rating with international rating agencies.

Liabilities and equity



Balance sheet (all amounts in ISKm)	31.2.2013	31.12.2012	Change in 2013	%
Cash and balances with the Central Bank	21,966	25,898	-3,932	-15%
Due from credit institutions	56,551	64,349	-7,798	-12%
Market bonds	248,571	228,208	20,363	9%
Equities	32,549	36,881	-4,332	-12%
Loans to customers	663,719	666,087	-2,368	0%
Other assets	36,396	38,044	-1,648	-4%
Assets classified as held for sale	25,653	25,320	333	1%
Total	**1,085,405**	**1,084,787**	**618**	**0%**
Deposits from financial enterprises	97,352	98,718	-1,366	-1%
Customer deposits	433,647	421,058	12,589	3%
Borrowing	206,491	221,791	-15,300	-7%
Contingent bond	85,953	87,474	-1,521	-2%
Other liabilities	28,569	29,687	-1,118	-4%
Liabilities linked to assets held for sale	963	893	70	8%
Equity	232,430	225,166	7,264	3%
Total	**1,085,405**	**1,084,787**	**618**	**0%**

Covered bonds

Landsbankinn has been licensed by the Financial Supervisory Authority (FME) to issue covered bonds in accordance with Act No. 11/2008. The bonds will be listed at OMX Nordic Exchange Iceland for the short term. The issuance is primarily intended to fund the bank's non-indexed housing loans and to limit its fixed interest risk. The issuance strengthens the bank's funding and increases its options to offer non-indexed housing loans in the future.

The license took effect as of 29 April 2013 and the bank is initially licensed to raise ISK 10bn with the issuance. The bonds will be issued in ISK and the aim is to offer the bonds for sale to investors.

Delivery of shares to employees in accordance with an agreement from December 2009

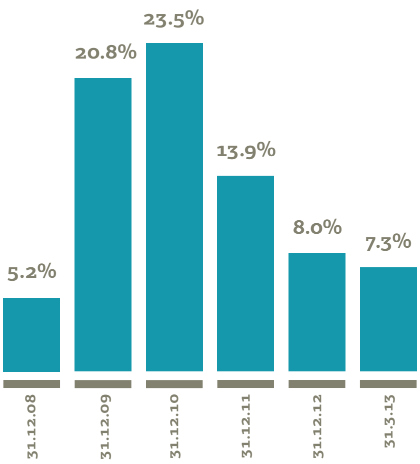
On 15 December 2009, Landsbankinn hf. (then NBI hf.), LBI hf. (then Landsbanki Íslands hf.) and the Minister of Finance on behalf of the Icelandic State concluded an agreement on a financial settlement between Landsbankinn hf. and LBI hf., the so-called FABIA agreement. With the State's approval, LBI hf. required that Landsbankinn create an employee incentive programme for all employees to be linked to the value of certain asset portfolios of larger companies on which the final amount of the contingent bond provided for in the settlement agreement was based.

Under the terms of this agreement, LBI hf. was to allocate up to 2% of the estate's and therefore the creditor's holding in the bank to employees in accordance with allocation rules determined by Landsbankinn. The aims on which the incentive programme was based were achieved in full and a shareholders' meeting of Landsbankinn hf. on 27 March 2012 confirmed with an agreement between the parties to FABIA in April to hand the aforementioned shares over to Landsbankinn under the condition that Landsbankinn oblige itself to distribute them to employees.

The book value of the shares intended for distribution to employees as a ratio of own funds in the bank's 2012 results is ISK 4.7bn. It should be kept in mind that a large portion of the amount will be paid to the State in the form of taxes.

Work is under way on the means and ways in which the shares will be transferred to employees. Such transfer must be in accordance with the rules of the Financial Supervisory Authority (FME) and is also subject to a shareholders' meeting approval.

Default developments (> 90 days in arrears)



Borrowing / contingent bond