



# Financial statement of Landsbankinn

January - March 2014

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15 May 2014

## News release for Q1 financial statements

# Landsbankinn reports an ISK 4.3bn profit in the first three months of 2014

In the first three months of 2014, Landsbankinn's net after-tax profit was ISK 4.3bn. Landsbankinn's after-tax profit for the same period in 2013 was just under ISK 8bn. Landsbankinn paid just under ISK 20bn in dividends to its owners in the first quarter; despite that payment, the Bank's equity and capital adequacy ratio remain far above regulatory requirements.

The YoY lower net profits are due for the most part to a decreasing interest spread, decreasing market value of financial assets and higher taxes. However, positive value changes on the loan portfolio and increase in net commission income offsets these lower profits. The main reason for the decreasing interest spread is the YoY drop in inflation.

Falling income leads to a higher cost-income ratio between these periods. General operating expenses increase slightly on the back of collective bargaining agreements concluded in the first quarter. Disregarding fluctuations in income from marketable bonds, operating expenses are on track and a decrease, in real terms, is expected during the course of the year.

Steinthór Pálsson, CEO of Landsbankinn: "Landsbankinn's performance in the first quarter of the year is acceptable in light of a considerable fall in the interest spread and unfavourable price developments in the market. The Bank paid a high dividend to its shareholders in March while maintaining its strong equity and liquidity positions. Defaults continue to decrease parallel to recovery in the local economy. The Bank's market share among individuals has never been as high and, as evidenced by the opening of a new Corporate Service Centre in April, we continuously seek new ways to provide better services to our customers in the most efficient manner. We are optimistic about the outlook for the Bank's performance for the remainder of the year and we will continue to streamline our operations."

In May Landsbankinn and the Winding up Board of LBI reached an agreement on amendments to the bonds of December 2009. Initially, the bonds were issued on the basis of decisions of the Icelandic Financial Supervisory Authority in accordance with provisions of the Emergency Act from 2008. The Principal amount of the bonds was compensation for the net assets and liabilities transferred to Landsbankinn. The final maturity of the bonds is to be extended from October 2018 to October 2026.

Steinthor Palsson says that this is an important step for Landsbankinn: "This agreement strengthens the bank's present position and its future opportunities and puts the bank in a good position and facilitates access to international debt capital markets. Specific restrictions on dividend payments have also been removed, enhancing shareholder value. The agreement is conditional upon the Winding up Board of LBI obtaining certain exemptions from the capital controls."

## Key figures from the profit and loss account and balance sheet for Q1 2014

- » In the first three months of 2014, Landsbankinn's net after-tax profit was ISK 4.3bn as compared to just under ISK 8bn for the same period in 2013.
- » Return on equity (ROE) after taxes for the period was 7.3% as compared to a ROE of 14% for the same period in 2013.
- » Net interest revenue during the first three months of the year was ISK 7.9bn as compared with ISK 9.9bn in the same period in 2013.
- » The interest spread as the annualised ratio of net interest income to the average carrying amount of total assets is falling, was 2.7% in the first three months of the year as compared to 3.6% for the same period in 2013.
- » Net commission income amounted to ISK 1.5bn, increasing by 11% from the same period the previous year.
- » General operating costs remain virtually unchanged.
- » Taxes have increased by 22% YoY.
- » Allowing for inflation, the real decrease of operating expenses amounts to 3.3% YoY.
- » The cost-income ratio for the first three months of the year was 72.0% as compared with 42.9% at the beginning of the year. Operating expenses have changed very little whereas revenues have fallen since the beginning of the year, accounting for the higher cost-income ratio. The Bank aims to further decrease operating costs in real terms.
- » Full-time equivalent positions as at 31 March were 1,178.
- » The Bank's equity amounted to ISK 225.4bn at the end of March 2014 and has decreased by 7% since the beginning of the year. Landsbankinn paid just under ISK 20bn in dividends in Q1 which leads to a decrease in equity and the capital adequacy ratio.
- » The Bank's capital adequacy ratio (CAR) is nonetheless high, well above the minimum requirement of the Financial Supervisory Authority (FME). It is currently 24.8%, down from 26.6% at the end of March 2013.
- » The Bank's total assets amounted to ISK 1,154bn at the end of March 2014, remaining virtually unchanged from the beginning of the year.
- » Customer deposits have increased by 3% since the beginning of the year, or by ISK 12bn.
- » Total lending amounts to ISK 33bn yet, due to instalments and other factors, total lending has only increased by ISK 1.4bn during the period.
- » The Bank's liquidity position is strong, both in foreign currency and Icelandic króna. The liquidity ratio was 49% at the end of March 2014 as compared to 42% at the same time last year.
- » The Bank has a favourable foreign currency position whereby assets in foreign currencies are around ISK 18.9bn in excess of foreign currency liabilities.
- » Total defaults by companies and households were 5% at the end of March 2014 and have decreased during the year.

	Q1 2014	Q1 2013	2013	2012	2011
	Amounts in ISKm				
After-tax profit	4,288	7,989	28,759	25,494	16,957
Return on equity (ROE)	7.3%	14.0%	12.4%	12.0%	8.4%
Net interest spread / total assets	2.7%	3.6%	3.1%	3.2%	2.9%
Cost-income ratio*	72.0%	36.6%	42.9%	45.0%	40.6%
Real change of operating expenses	3.3%	-6.4%	-10.1%	4.9%	13.3%
Full-time equiv. positions	1,178	1,209	1,183	1,233	1,311
Total assets	1,153,804	1,085,405	1,151,516	1,084,787	1,135,482
Loans to customers	681,883	663,719	680,468	666,087	639,130
Customer deposits	468,661	433,647	456,662	421,058	443,590
CAR	24.8%	26.6%	26.7%	25.1%	21.4%
Liquidity ratio	49%	42.0%	49.8%	48.4%	42.9%
Total LCR	104%	-	102.0%	-	-
Total FX LCR	224%	-	208.0%	-	-
FX position	18,863	-12,272	14,457	-20,035	20,034
Loans in arrears (>90 days)	5.0%	7.3%	5.3%	8.3%	13.9%

\*Cost-income ratio = Total operating expenses total equity-settled employee share based payments / (Total operating income – net adjustments in valuation)

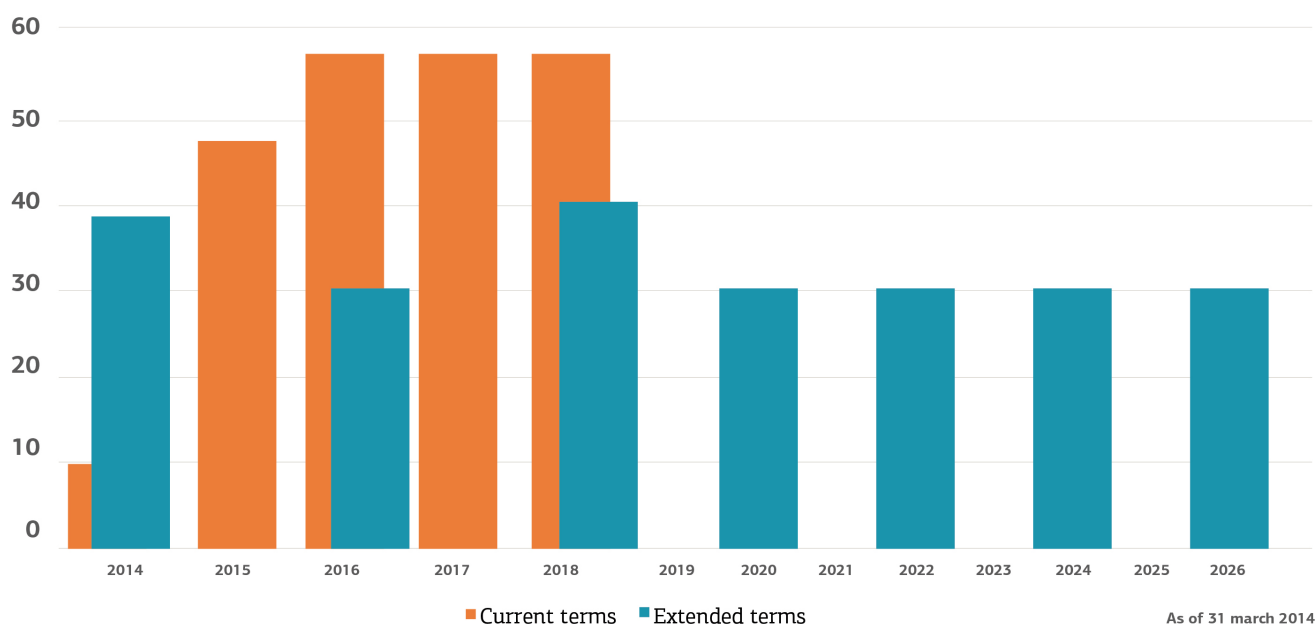
### Key aspects of operations in the first three months of 2014

- » In January, the international rating agency Standard & Poor's (S&P) assigned Landsbankinn a BB+ long-term counterparty credit rating with a stable outlook.
- » Landsbankinn paid dividends to its shareholders in March. The dividend payment was in accordance with a motion approved by the Annual General Meeting of Landsbankinn hf. on 19 April and amounted to 70% of last year's profit, or just under ISK 20bn. The dividend payment led to a decrease in equity in Q1.
- » The Bank added ISK 1.5bn to its issue of covered bonds during the period.
- » Landsbankinn was one of four companies nominated for the Icelandic Employers' Education Award in 2014.
- » Landsbankinn received two nominations for the Icelandic Ad Awards, hosted 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 as the best Internet banking option.
- » 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 will be provided out of a new Corporate Service Centre.
- » Landsbankinn's share in the retail market has, according to surveys, increased recently and is now 35.4%. This is the highest it has measured.

## New agreement with LBI hf.

- » A new agreement between Landsbankinn hf. and LBI hf. was signed on March 8, 2014 amending the 2009 bond agreement. The final maturity of the bonds will be extended from October 2018 to October 2026. According to the agreement Landsbankinn has an option to make aluable and flexible prepayments of the bonds without any additional costs which is highly important for the bank.
- » Interest rate terms will remain unchanged until October 2018, i.e. LIBOR + 2.90% but in October 2018 the margin will be stepped up and will be 3.50–4.05% for individual instalments due in 2020 – 2026. Each of the maturities between 2020 and 2026 will be equivalent to approximately 30 billion ISK.
- » This change will see considerable lowering of the debt burden of Landsbankinn and it strengthens the banks overall financial position. Furthermore, this change will lower the minimum coverage ratio reduced from 124.8% to 115% which in itself will help facilitate financing on international markets. Also it will be possible to pay dividend to owners without paying an equal amount to LBI hf.
- » The agreement is conditional upon LBI receiving certain exemptions, in accordance with the Foreign Exchange Act.

## New repayment profile



## Outlook and principal tasks ahead

- » Performance in the first quarter is strongly influenced by unfavourable market developments, but prospects for the remainder of the year remain good. Work on refinancing continues.
- » Efforts to increase cost-efficiency are on-going. A part of that plan is the construction of new headquarters – now being considered – with the aim to reduce significantly the square meters occupied by head office operations.
- » In the past four years, Landsbankinn has reduced square meters used by branch operations by just under 30%.
- » Emphasis on increasing loan quality and reducing equity holdings.
- » Emphasis on responsible market expansion, for example, in housing loans and asset management.
- » Finalise the correction of illegal exchange rate indexed loans.
- » Work on debt adjustment in accordance with the government's actions and laws passed by parliament.