



Landsbankinn hf.

Q1 2014 Results

Steinþór Pálsson

CEO

Hreiðar Bjarnason

CFO

Highlights

Operations

- » Landsbankinn's after-tax operating profit in Q1 2014 was ISK 4.3bn, down by 46% compared with the same period in 2013
- » Despite the reduction in profit, taxes increase by 22%
- » Main changes from the same period in 2013 are due to lower net interest margin and a loss on bonds and equities. Off-setting this development are positive value changes on the loan portfolio
- » Net commission income increased by 11% as compared with the same period in 2013
- » Return on equity (ROE) after taxes was 7.3% for the period as compared with a ROE of 14.0% for the same period in 2013

Operating cost

- » The increase in wages and related expenses is due mostly to new collective bargaining agreements
- » General operating costs remain virtually unchanged
- » Operating expenses increased by 3.3% in real terms
- » The number of full-time positions continues to decrease in line with the Bank's aims

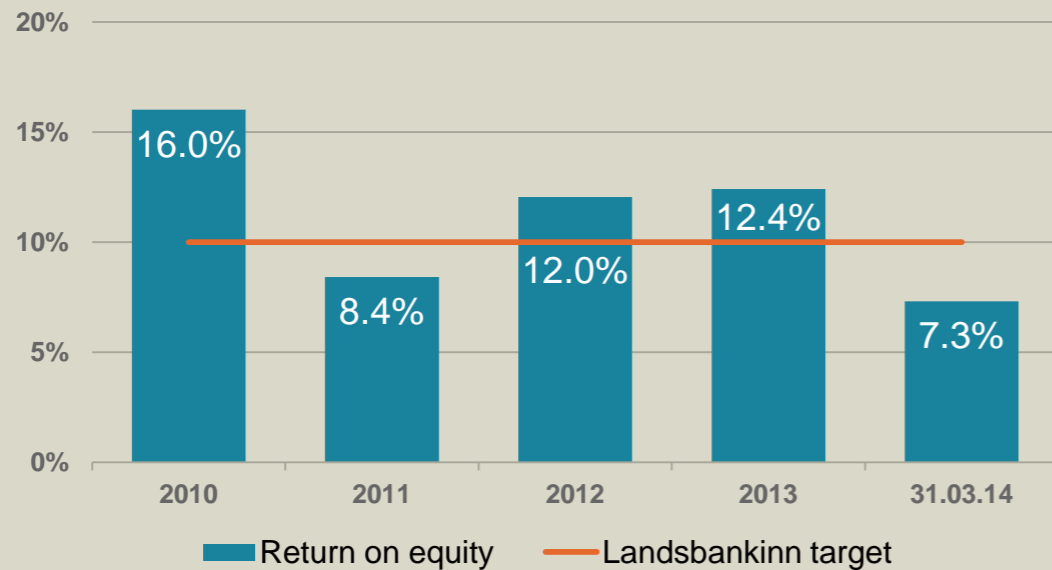
Balance sheet

- » Landsbankinn's total assets amounted to ISK 1,154bn as of the end of Q1 2014
- » The Bank's liquidity position is very strong, both in foreign currency and Icelandic króna
- » The liquidity ratio was 49% at the end of Q1 2014. It was 50% at year end 2013
- » Loans 90 days in arrears were at 5,0% at the end of Q1 2014
- » Landsbankinn paid just under ISK 20bn in dividends in Q1 which leads to a decrease in equity and CAR
- » The Bank's equity amounts to ISK 225.4bn and has decreased by 7% since the beginning of the year
- » The Bank's capital adequacy ratio (CAR) is now 24.8%, it was 26.7% at the end of 2013

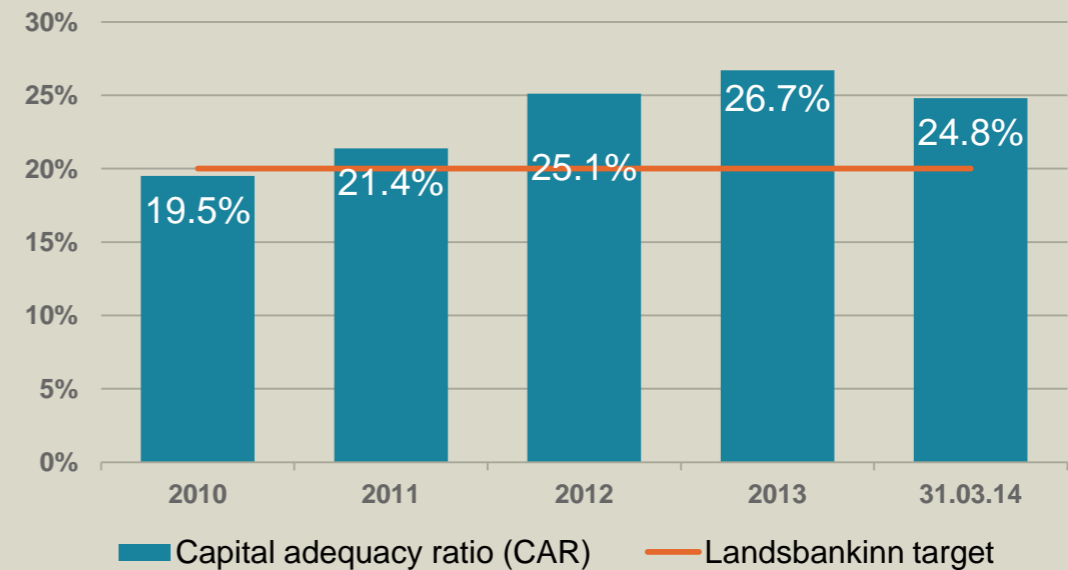
Development of KPIs

Amounts in ISKm

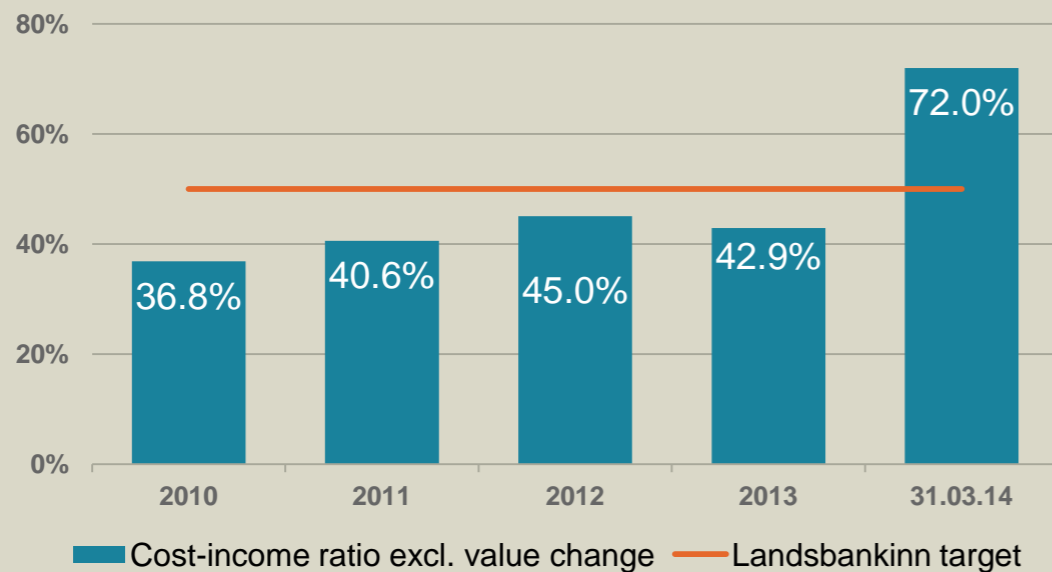
Return on equity



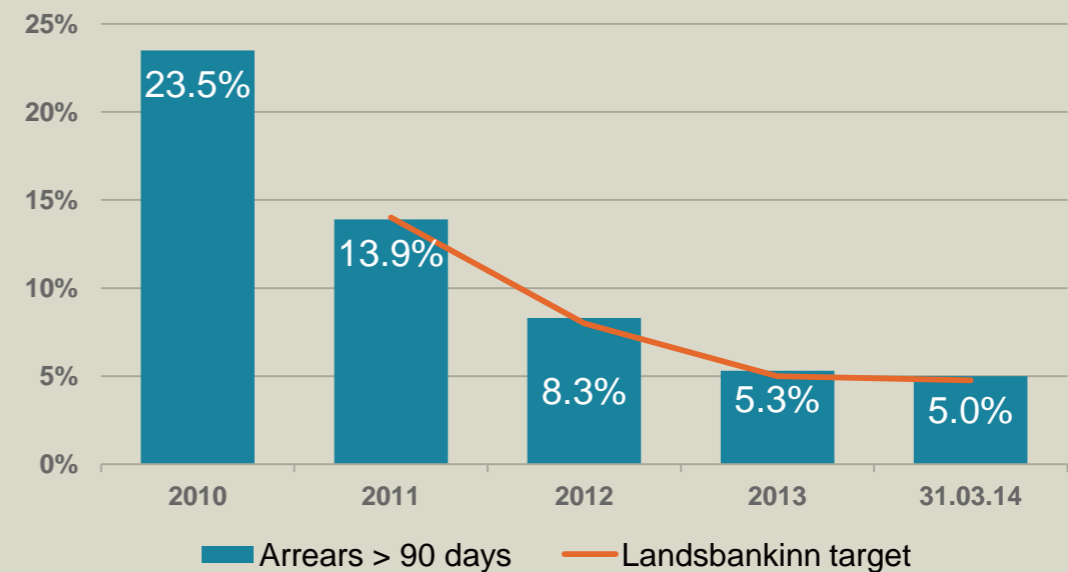
Capital adequacy ratio (CAR)



Cost-income ratio excl. value change



Arrears (> 90 days)

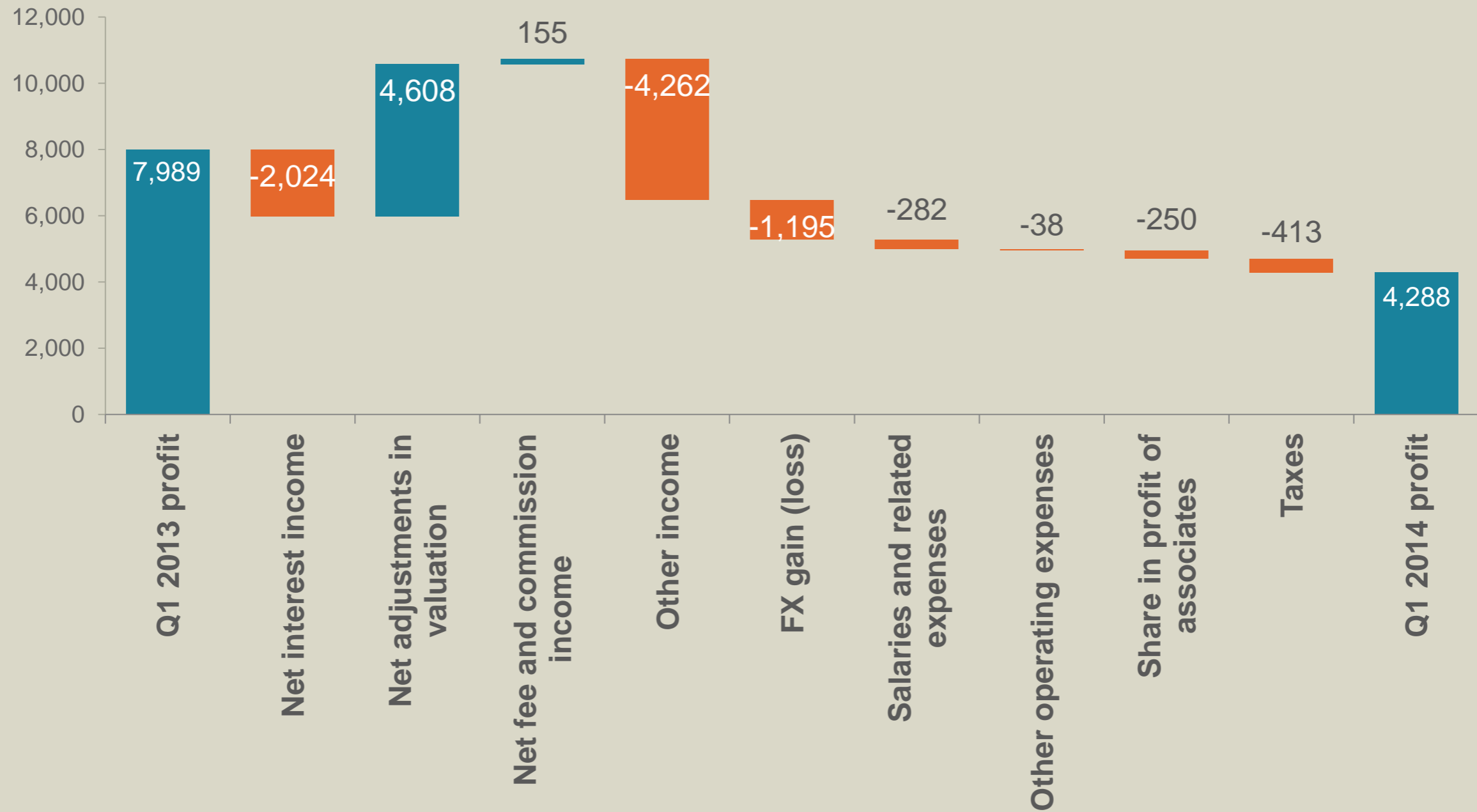


Q1 2014 Results

Income Statement

Amounts in ISKm

Change from Q1 2013 to Q1 2014



* The figure does not take into account the effect that reception of shares and related costs had on 2013 results as the same amount is entered as both income and expense, nullifying any impact.

Income Statement

Amounts in ISKm

	Q1 2014	Q1 2013	Change	
Net interest income	7,855	9,879	-2,024	-20%
Net adjustments in valuation	4,170	-438	4,608	1052%
Change in contingent bond - liability to purchase own shares	0	4,691	-4,691	
Net interest income after adjustments in valuation	12,025	14,132	-2,107	-15%
Net fee and commission income	1,518	1,363	155	11%
Other net operating income	-900	4,557	-5,457	-120%
Total operating income	12,643	20,052	-7,409	-37%
Salaries and related expenses	3,455	3,173	282	9%
Equity-settled employee share-based salaries	0	4,691	-4,691	
Other operating expenses	2,649	2,611	38	1%
Total operating expenses	6,104	10,475	-4,371	-42%
Share in profit of associates, net of income tax	11	261	-250	-96%
Profit before tax	6,550	9,838	-3,288	-33%
Income tax expense	2,262	1,849	413	22%
Profit for the period	4,288	7,989	-3,701	-46%

- » Net interest income decreases by 20%
 - » Due mostly to fluctuations in inflation
- » Net commission income increases by 11%
 - » The lion's share of the increase comes from the capital markets and corporate banking sections, as well as asset management
 - » Other operating income falls significantly between years, due mostly to lower equity and bond prices.
- » Value changes in lending are positive by over ISK 4bn
- » Reception of shares in relation to the settlement with LBI is entered as both income and expense in the 2013 income statement
- » Operating costs remain unchanged between periods
- » Wages and related expenses increase mostly due to contractual increases
- » Effective tax rate is 24.9%

Net interest income and adjustment in valuation

Amounts in ISKm

	Q1 2014	Q1 2013	Change	
Interest income	14,450	17,915	-3,465	-19%
Interest expense	-6,595	-8,036	1,441	-18%
Net interest income	7,855	9,879	-2,024	-20%
Net adjustments to loans and advances acquired at deep discount	6,711	3,593*	3,118	87%
Net impairment loss on loans	-2,541	-659	-1,882	286%
Fair value change of contingent bond	0	1,319	-1,319	
Net adjustments in valuation	4,170	4,253	-83	-2%
Net interest income after net adjustments in valuation	12,025	14,132	-2,107	-15%

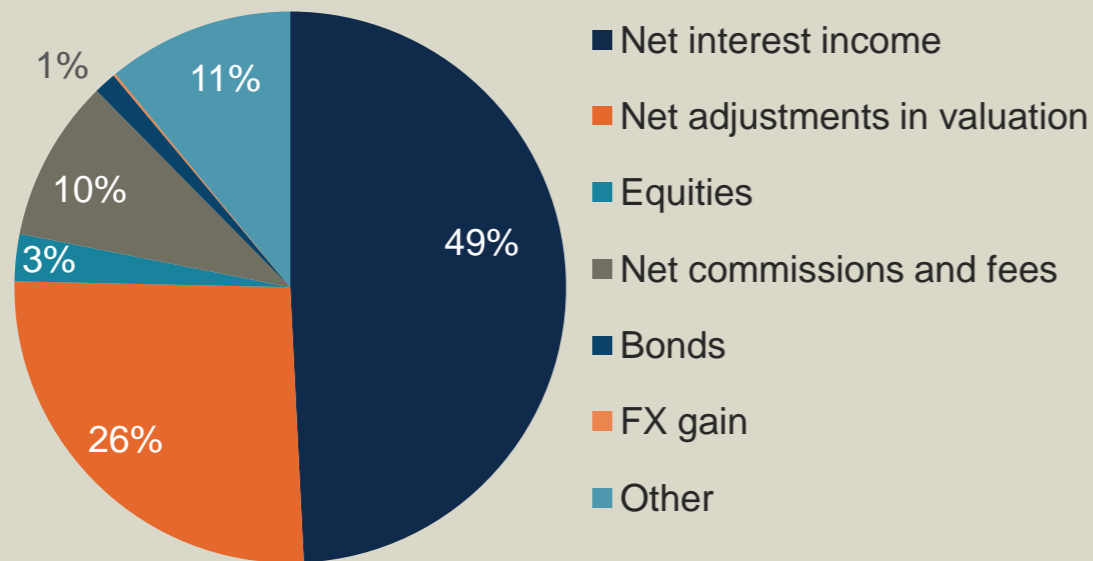
*Recognition of equity-settled employee share-based salaries included in the amount

- » Lower inflation has a deciding influence on decreased interest revenues
- » Value changes in lending result in ISK 4,2bn in revenue in Q1 2014, down by 2% between years
- » The Bank's net interest spread decreases to 2.7% in Q1 2014, from 3.6% in Q1 2013

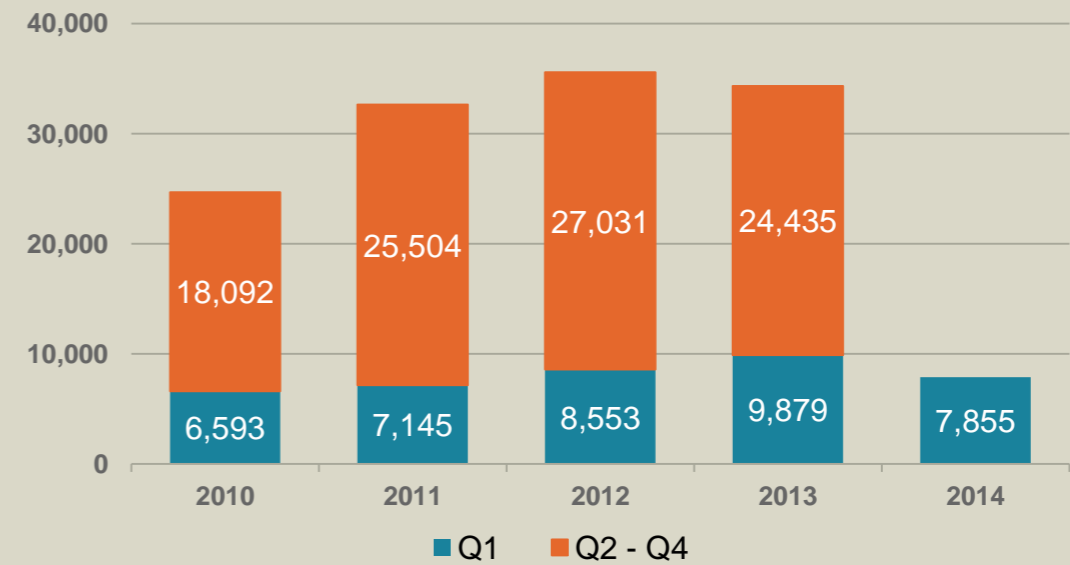
Net operating income

Amounts in ISKm

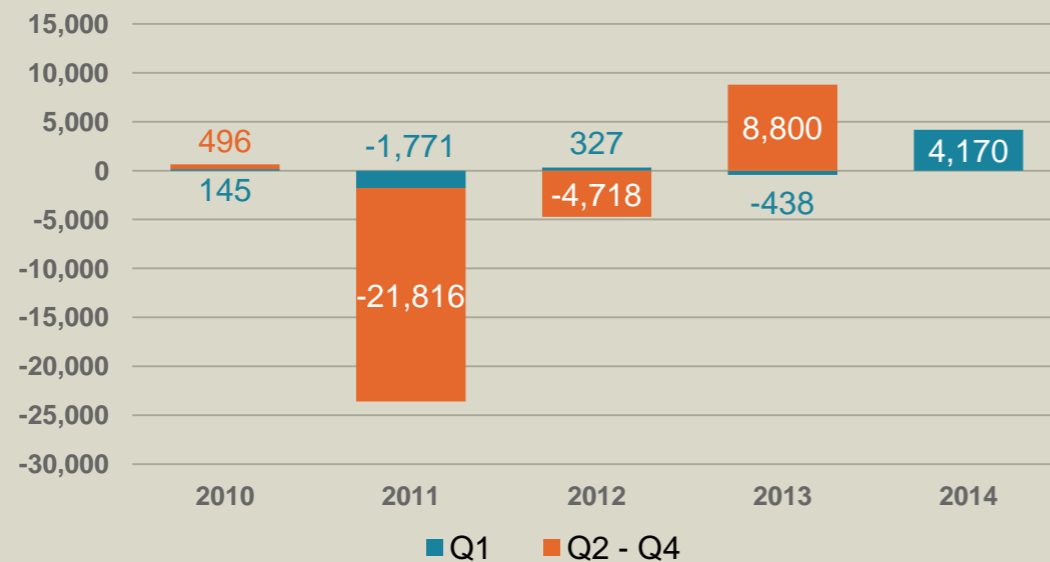
Income mix



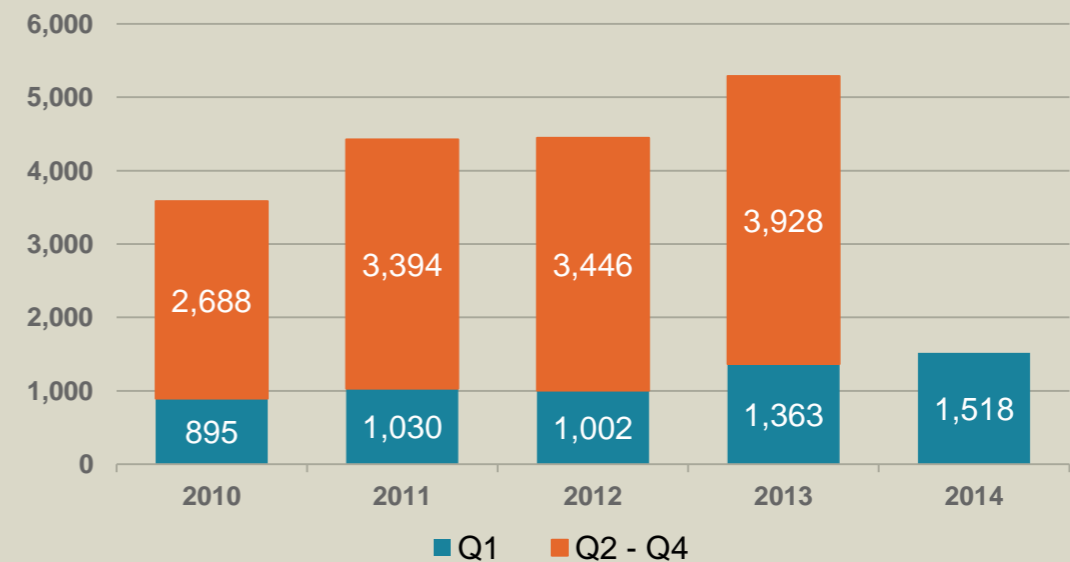
Net interest income



Net adjustments in valuation



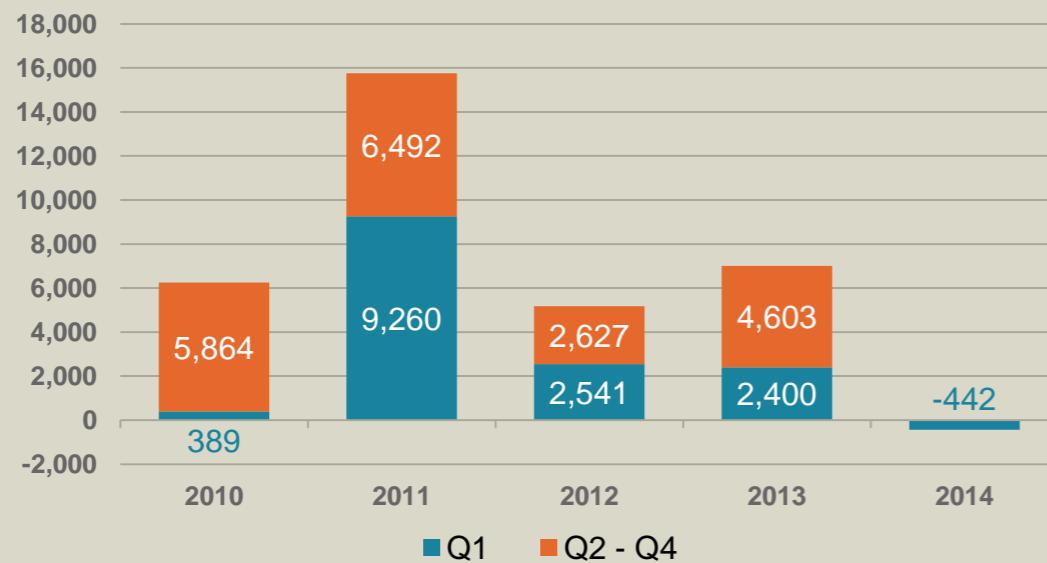
Net commissions and fees



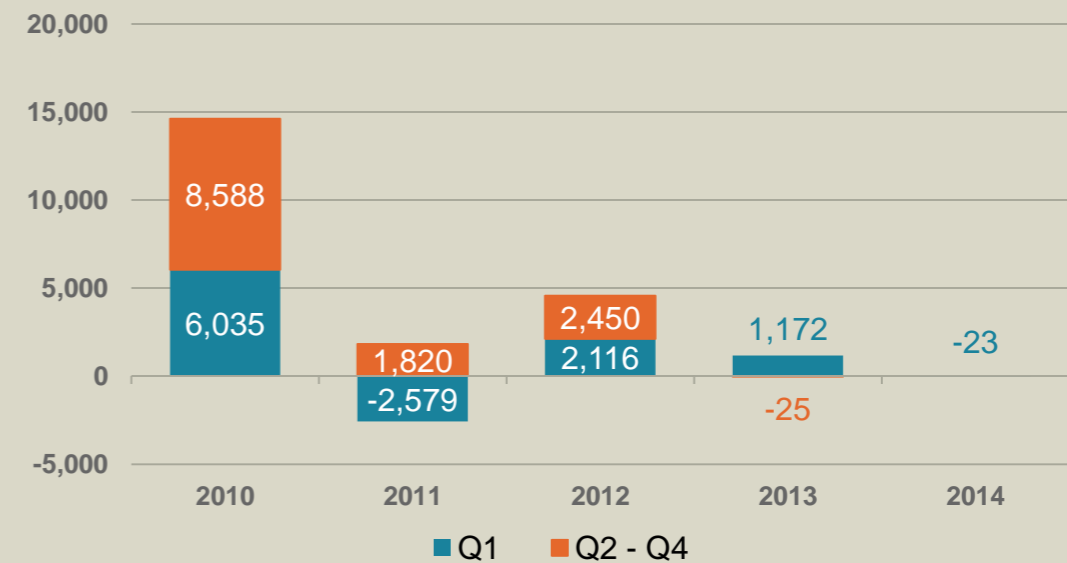
Net operating income

Amounts in ISKm

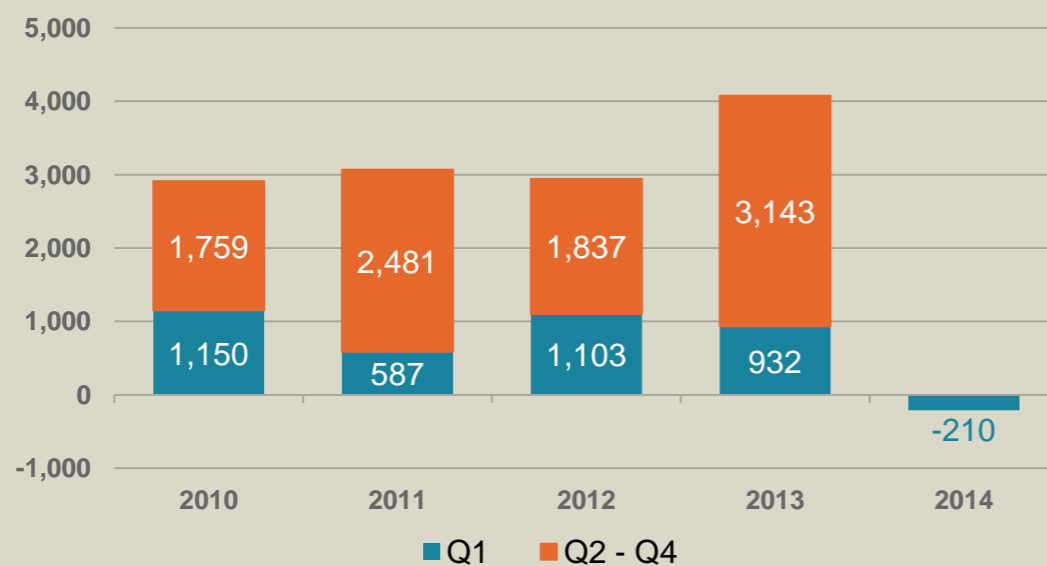
Equities



FX gain



Bonds



Equities:

Equities held at fair value have decreased between years

Market bonds:

Market bonds held at fair value have decreased between years

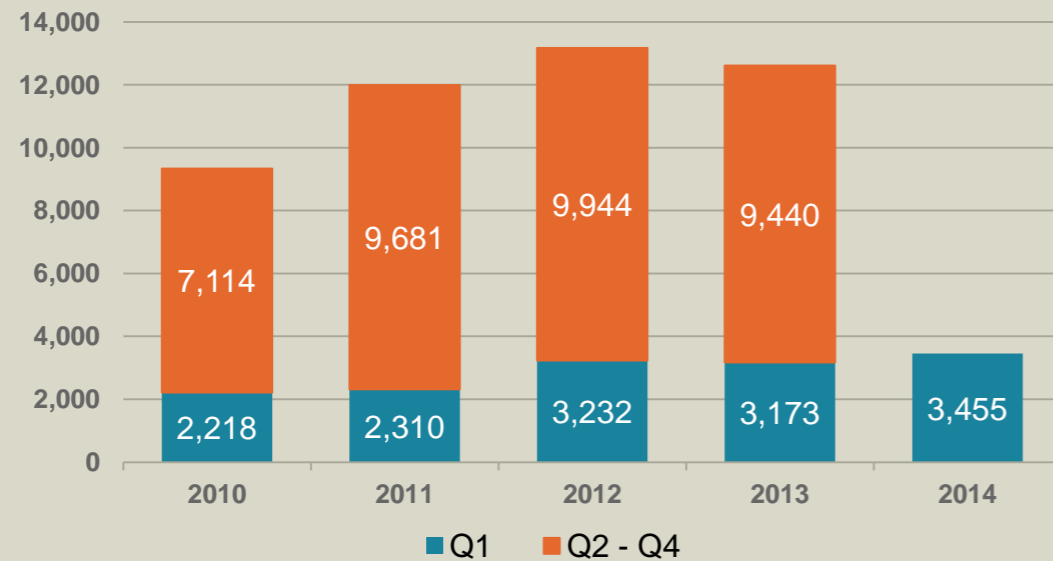
Currency gains:

Appreciation of the ISK and fluctuations in foreign currency crosses have had a minor negative effect on the Bank's currency balance in Q1

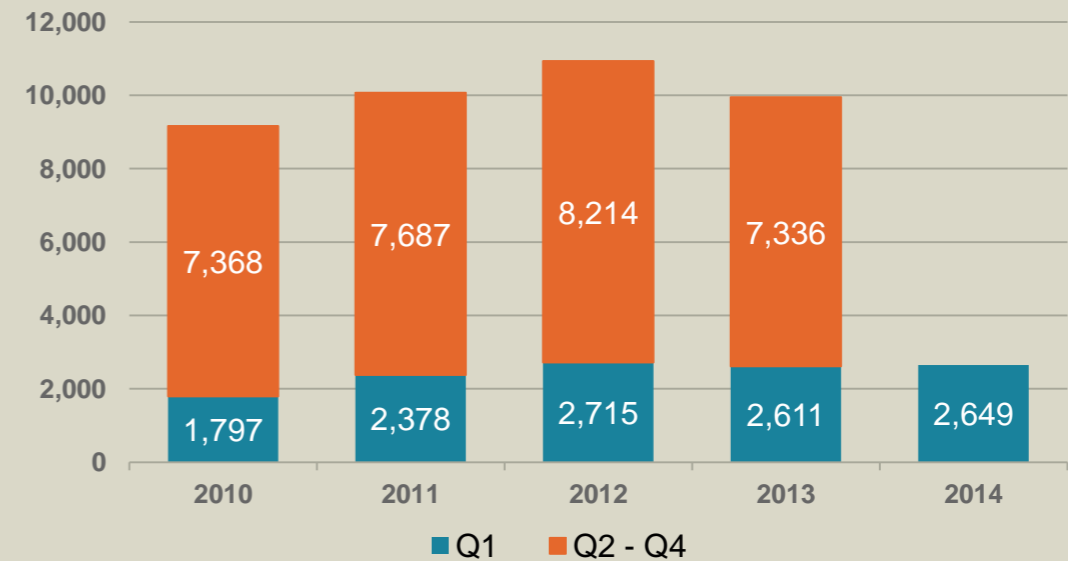
Operating expenses

Amounts in ISKm

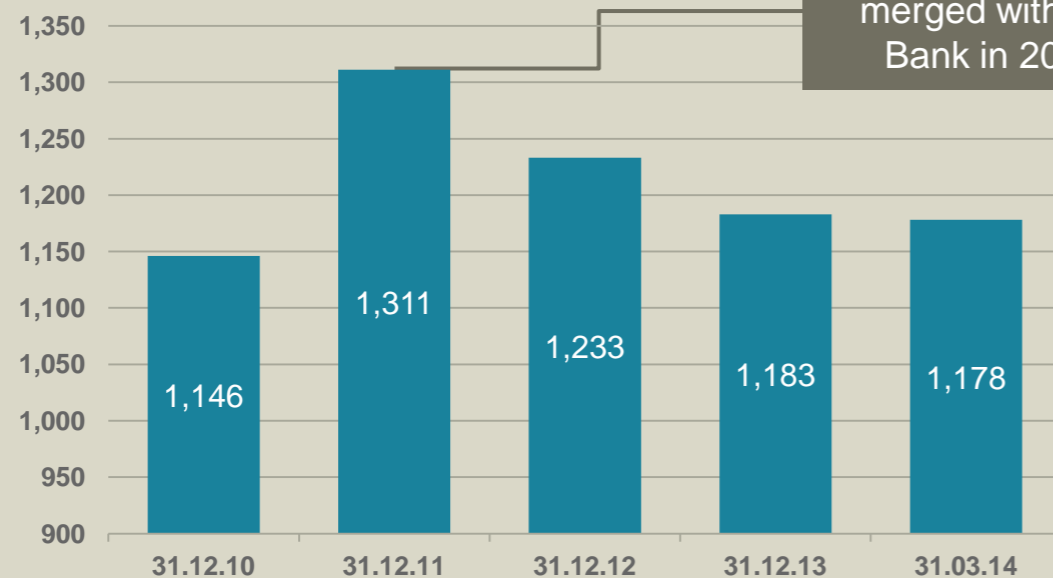
Salaries and related expenses



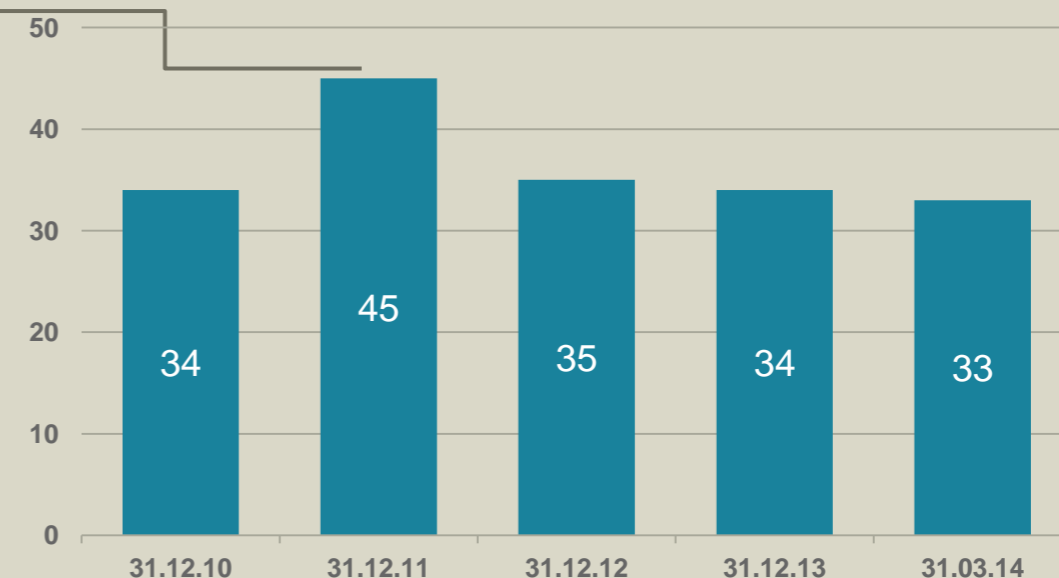
Other operating expenses



Full time employees



Number of branches



Salaries and related expenses

Amounts in ISKm

	Q1 2014	Q1 2013	Change	
Salaries	2,737	2,436	301	12%
Contributions to defined pension plans	331	330	1	0%
Social security contributions, special financial activities tax on salaries and other expenses	387	407	-20	-5%
	3,455	3,173	282	9%
Recognition of equity-settled employee share-based salaries	0	4,017	-4,017	
Recognition of equity-settled employee share-based social security contributions and special financial activities tax on salaries	0	674	-674	
	0	4,691	-4,691	
Total salaries and related expenses*	3,455	7,864	-4,409	-56%

*The reason for 56% reduction in salaries and related expenses is mostly due to 4,691 million ISK recognition of equity-settled employee share-based salaries

Taxes

Amounts in ISKm

	Q1 2014	Q1 2013	Change	
Income tax	1,076	1,670	-594	-36%
Loss from foreign currency linkage of loans and advances to customers ¹	351	89	262	294%
Tax on liabilities of financial institutions ²	835	90	745	828%
	2,262	1,849	413	22%
Special financial activities tax on salaries ³	225	183	42	23%
Total	2,487	2,032	455	22%

¹ A 6% additional tax on pre-tax profit over ISK 1,000 million

² Special tax on financial institutions is 0.376% levied on the carrying amount of total liabilities at year-end in excess of ISK 50,000.

³ 5.5% tax (was 6.75% in 2013) on salaries and is expensed in the line item "Salaries and related expenses" in the income statement

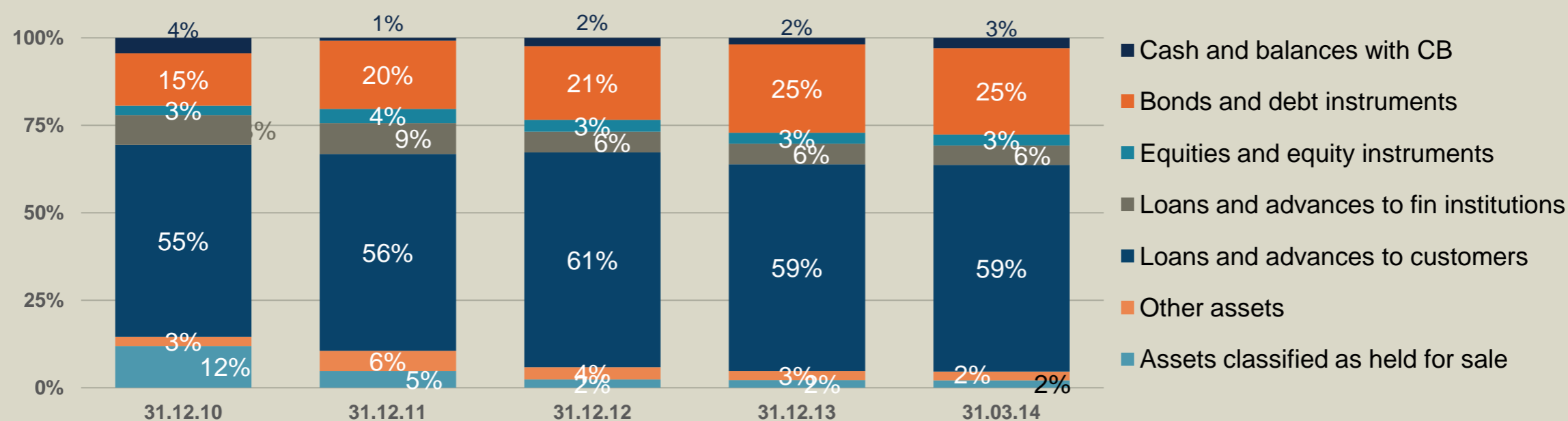
Balance sheet - assets

Amounts in ISKm

	31.03.14	31.12.13	2014 change	
Cash and balances with CB	34,024	21,520	12,504	58%
Bonds and debt instruments	284,418	290,595	-6,177	-2%
Equities and equity instruments	36,414	36,275	139	0%
Loans and advances to fin institutions	63,896	67,916	-4,020	-6%
Loans and advances to customers	681,883	680,468	1,415	0%
Other assets	28,615	29,719	-1,104	-4%
Assets classified as held for sale	24,554	25,023	-469	-2%
Total	1,153.804	1,151,516	2,288	0%

- » Lending to customers amounts to ISK 33bn during the quarter yet instalments and other factors contribute to a total increase in lending of ISK 1.4bn during the period
- » The Bank's total assets have increased by ISK 2.3bn in Q1 2014

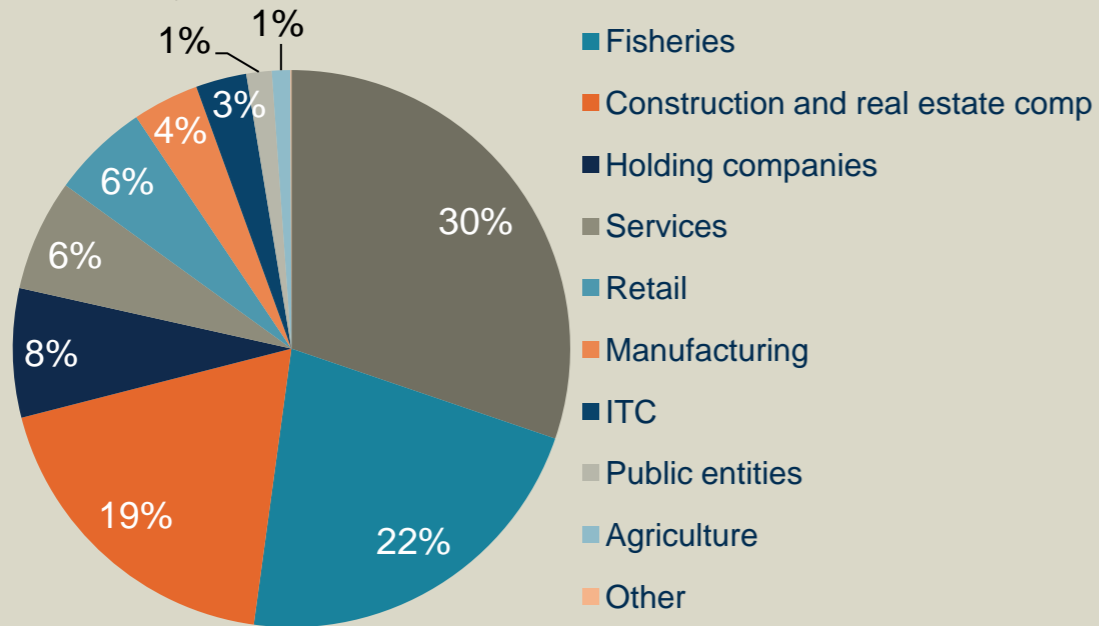
Assets



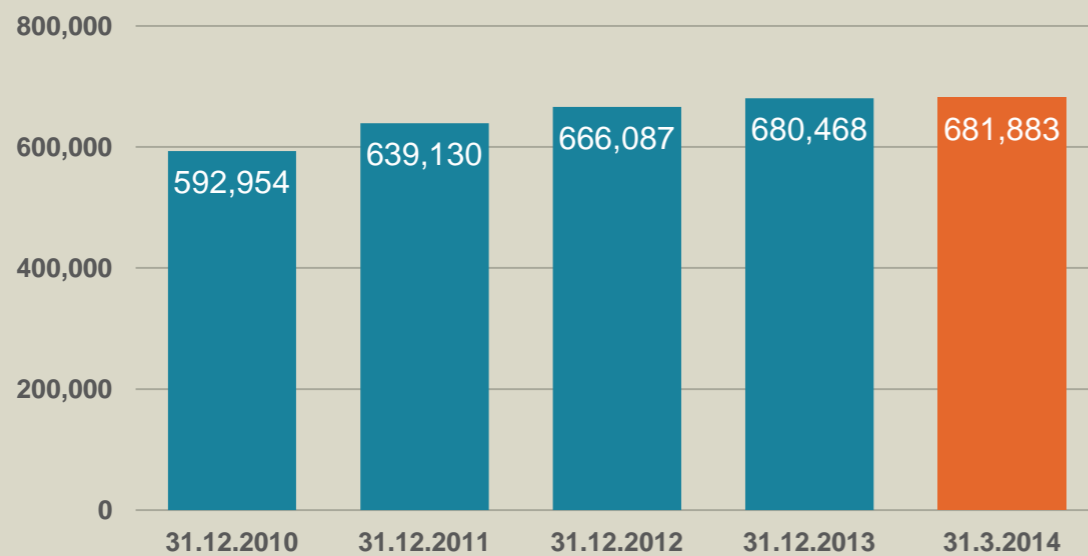
Balance sheet - loans

Amounts in ISKm

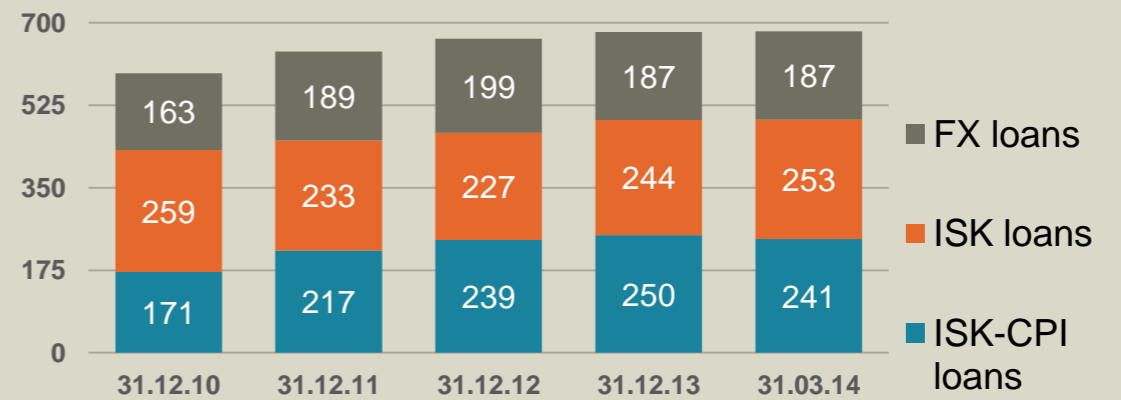
Loans by sectors 31.03.14



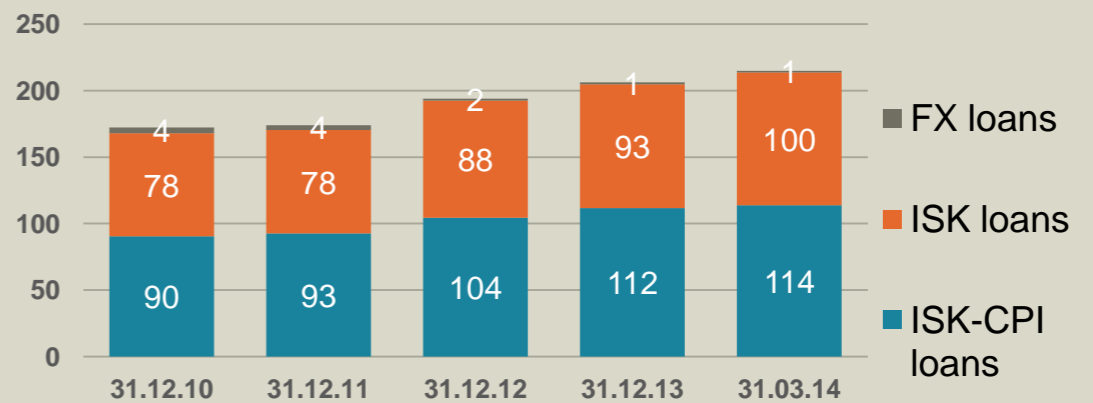
Loans and advances to customers



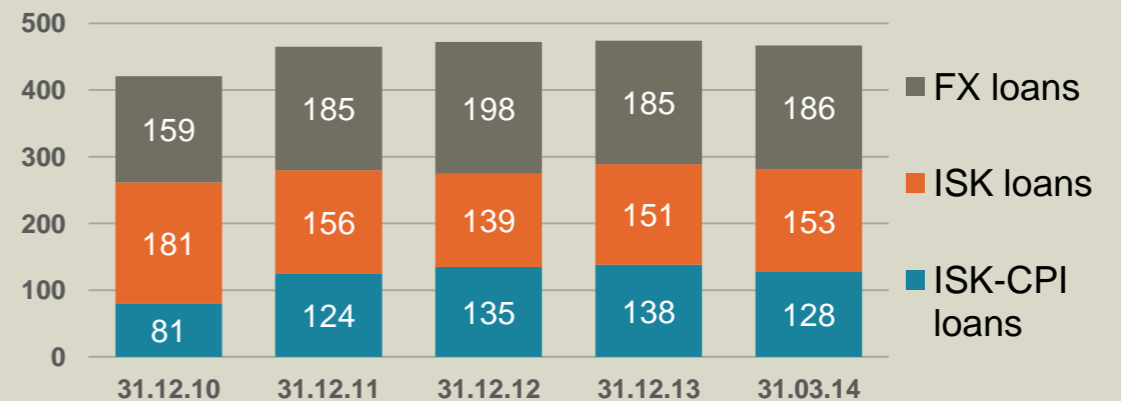
Loans to customers



Loans to individuals

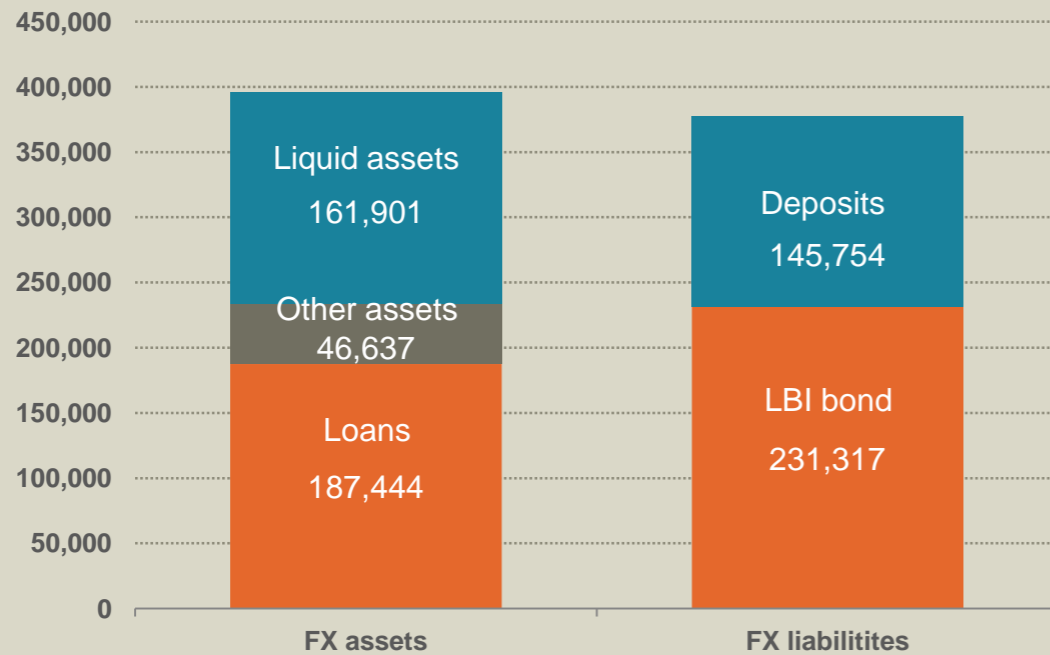


Loans to corporates

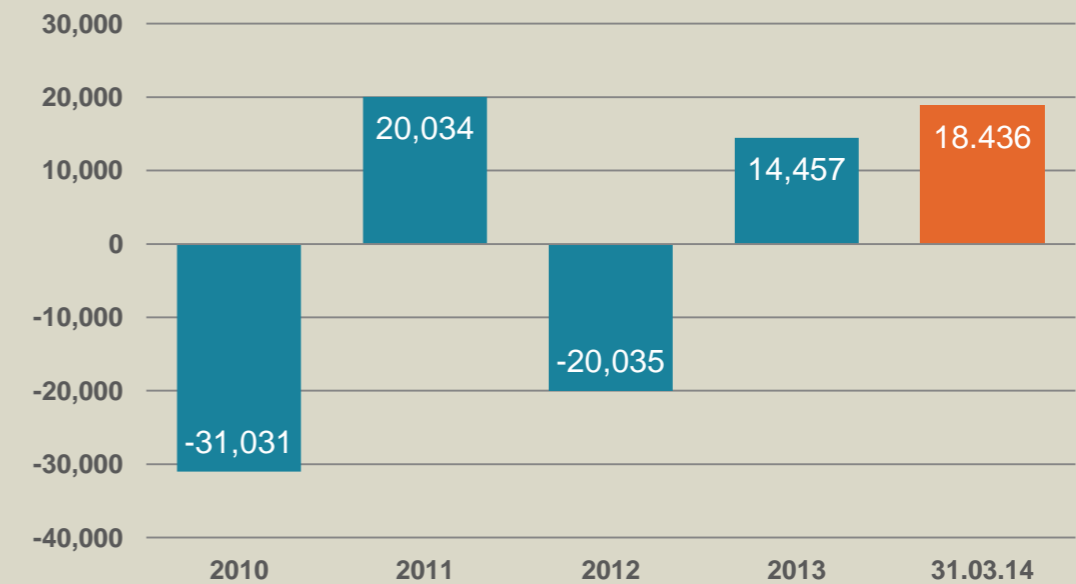


FX assets and liabilities

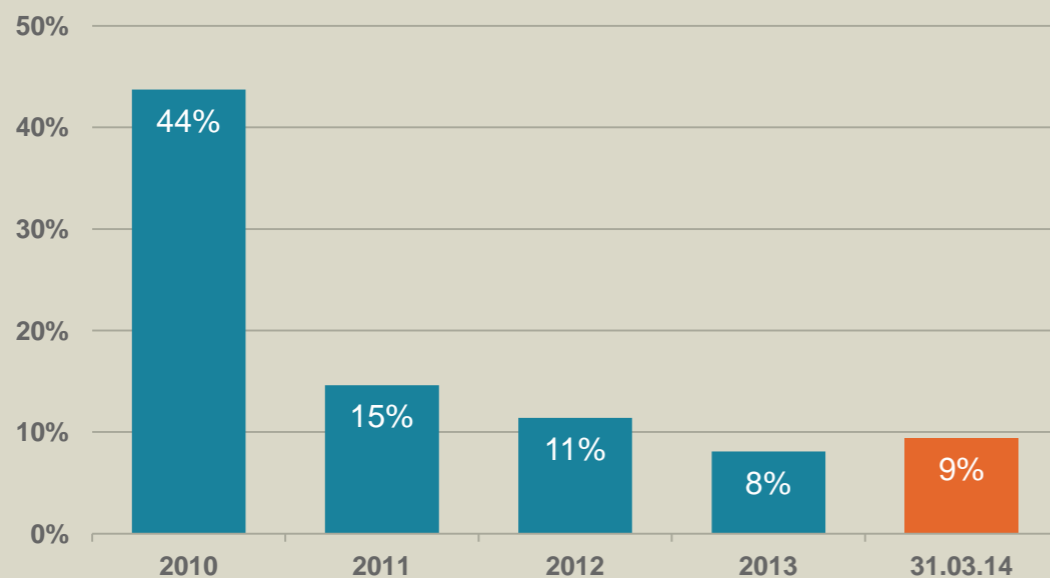
Amounts in ISKm



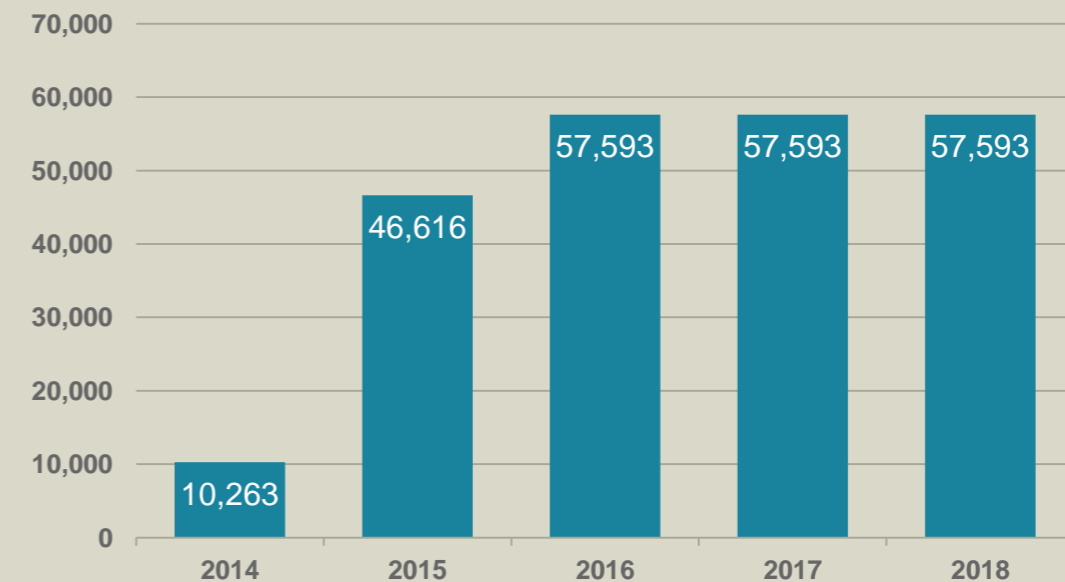
Net FX balance



FX risk / risk-weighted assets



Installments to LBI*



Instalments according to March 31 position – less Q1 2014 payment
Information on the new instalment programme on slides 22 and 23

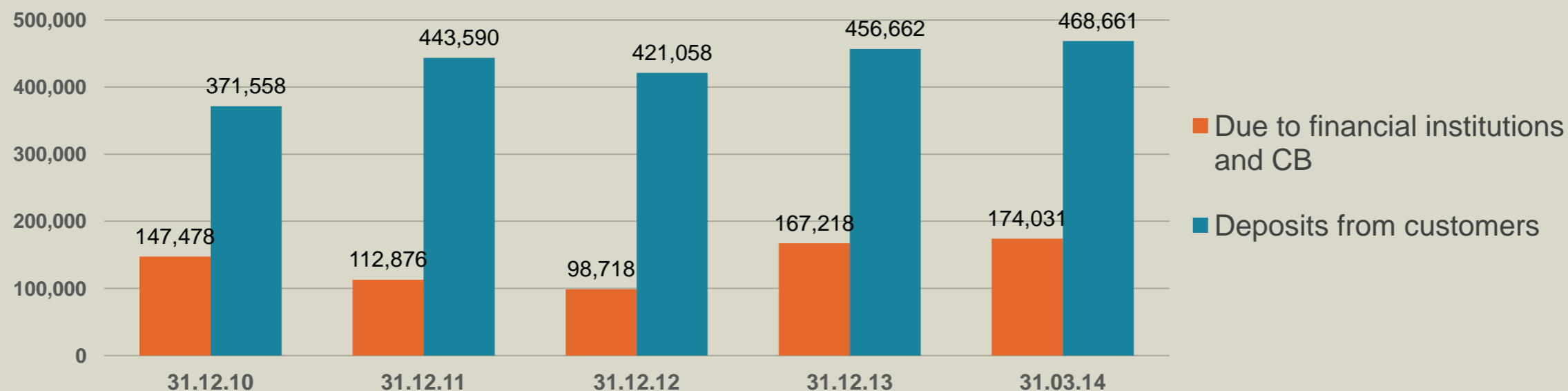
Balance sheet – liabilities and equity

Amounts in ISKm

	31.03.14	31.12.13	Change 2014	
Due to financial institutions and CB	174,031	167,218	6,813	4%
Deposits from customers	468,661	456,662	11,999	3%
Secured bonds	234,844	239,642	-4,798	-2%
Other liabilities	50,876	46,635	4,241	9%
Equity	225,392	241,359	-15,967	-7%
Total	1,153,804	1,151,516	2,288	0%

» Half of the Bank's funding is derived from customer deposits and deposits from financial undertakings

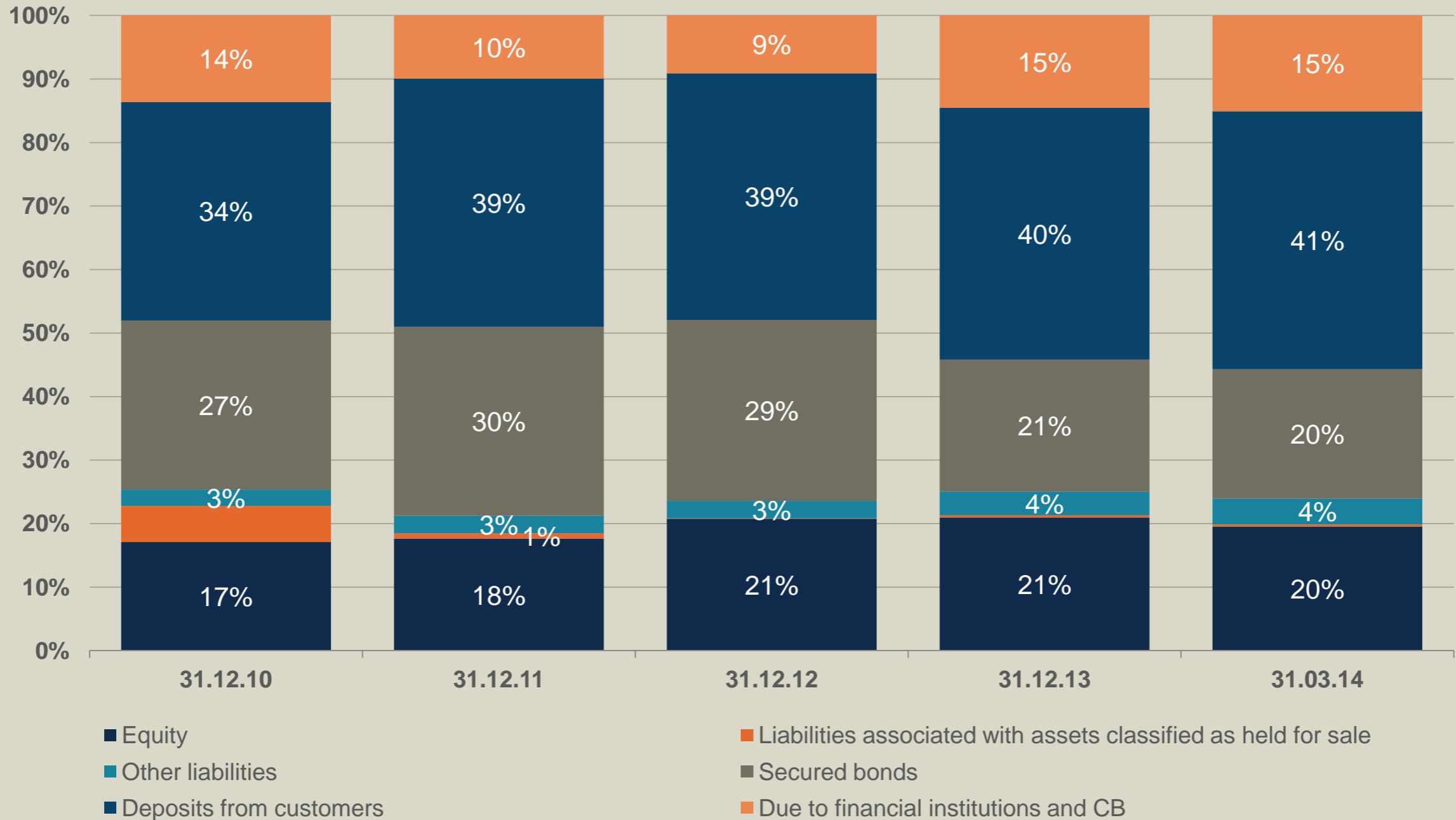
Deposits



Balance sheet – liabilities and equity

Amounts in ISKm

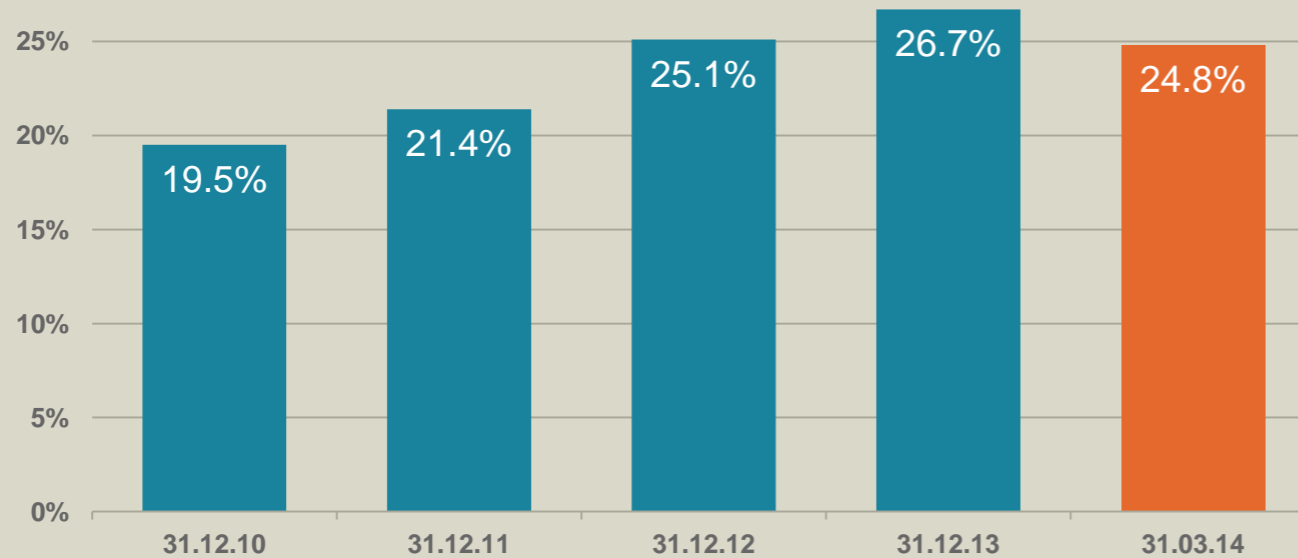
Liabilities and equity



Capital ratio and liquid assets

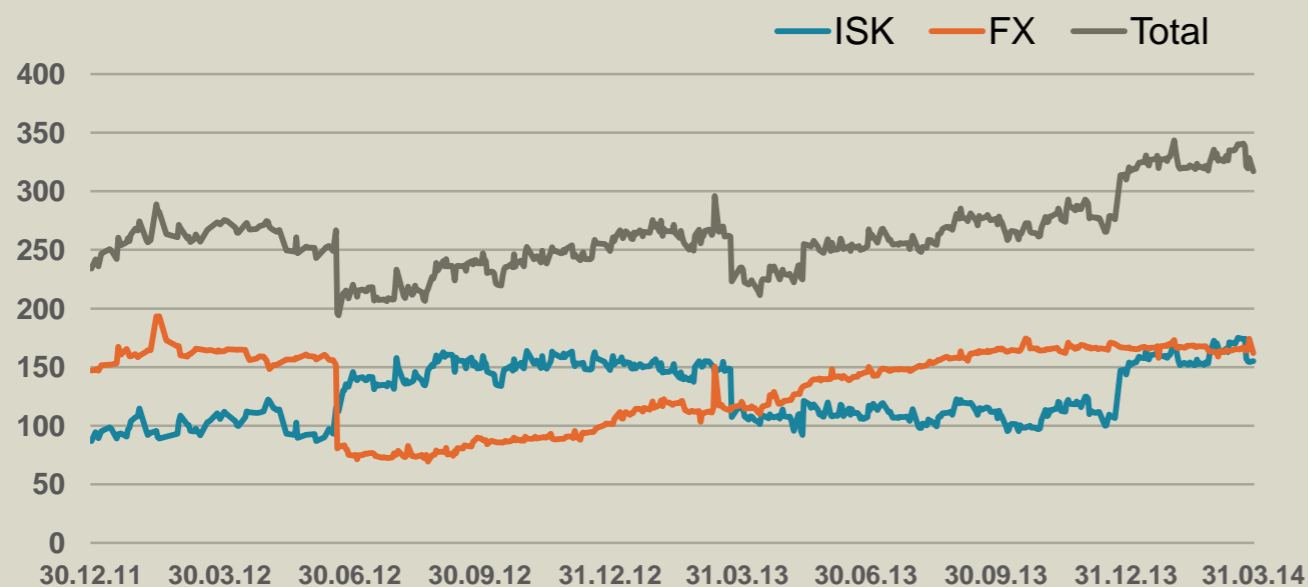
Amounts in ISKm

Capital ratio (CAR)



- » The Bank's capital ratio is based solely on Tier 1 capital
- » Growing CAR is attributable to good performance on the one hand and effective risk management on the other
- » The Bank is well above its 20% CAR benchmark
- » Lower CAR is due to dividends payment in Q1 2014

Liquid assets



- » The drop in liquid FX assets around mid-2012 is due to an ISK 72bn pre-payment of the bond issued to LBI hf.
- » Liquid assets in foreign currencies have since continued to grow
- » The ISK 50bn pre-payment in 2013 freed around ISK 40bn in liquid assets from the portfolio securing the bond to LBI

Main results

Amounts in ISKm

	Q1 2014	Q1 2013	2013	2012	
Profit after taxes	4,288	7,989	28,759	25,494	» Net operating income decreased by 46% as compared with the same period in 2013
Return on equity after taxes	7.3%	14.0%	12.4%	12.0%	» Return on equity (ROE) after taxes was 7.3% for the period as compared with a ROE of 14.0% in 2013
Interest spread as a ratio of av. total assets	2.7%	3.6%	3.1%	3.2%	
Cost-income ratio *	72.0%	36.6%	42.9%	45.0%	» Operating expenses increased by 3.3% in real terms
Real change in operating expenses	3.3%	-6.4%	-10.1%	4.9%	» Wages and related expenses increase by 9% while the number of full-time positions continues to fall
Positions at period-end	1,178	1,209	1,183	1,233	
Total assets	1,153,804	1,085,405	1,151,516	1,084,787	» Landsbankinn's total assets amounted to ISK 1,154bn at the end of Q1 2014
Loans to customers	681,883	663,719	680,468	666,087	» The Bank's liquidity position is very strong, both in foreign currency and Icelandic <i>króna</i> . At the end of Q1, the Bank's liquidity ratio was 49%
Deposits from customers	468,661	433,647	456,662	421,058	
Capital ratio (CAR)	24.8%	26.6%	26.7%	25.1%	» Loans 90 days in arrears were at 5% at the end of March 2014 and continue to decrease
Liquidity ratio	49%	42.0%	49.8%	48.4%	
Liquidity ratio LCR	104%	-	102,0%	-	» The Bank's capital adequacy ratio (CAR) is now 24.8% as compared with 26.6% at the end of March 2013
Liquidity ratio LCR FX	224%	-	208,0%	-	
Net FX position	18,436	-12,272	14,457	-20,035	
Arreas (>90 days)	5.0%	7.3%	5.3%	8.3%	» In Q1 2014, Landsbankinn paid just under ISK 20bn in dividends to its owners which leads to a decrease in equity and CAR

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

Outlook and principal tasks ahead

- » Prospects for the year as a whole continue to be favorable
- » Work towards normal capital markets access and finalize documentation with LBI
- » Efforts to increase cost-efficiency are on-going. A part of that plan is the construction of new headquarters – now being considered – which will 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%
- » Work on debt refinancing continues.
- » 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

Agreement with LBI hf.

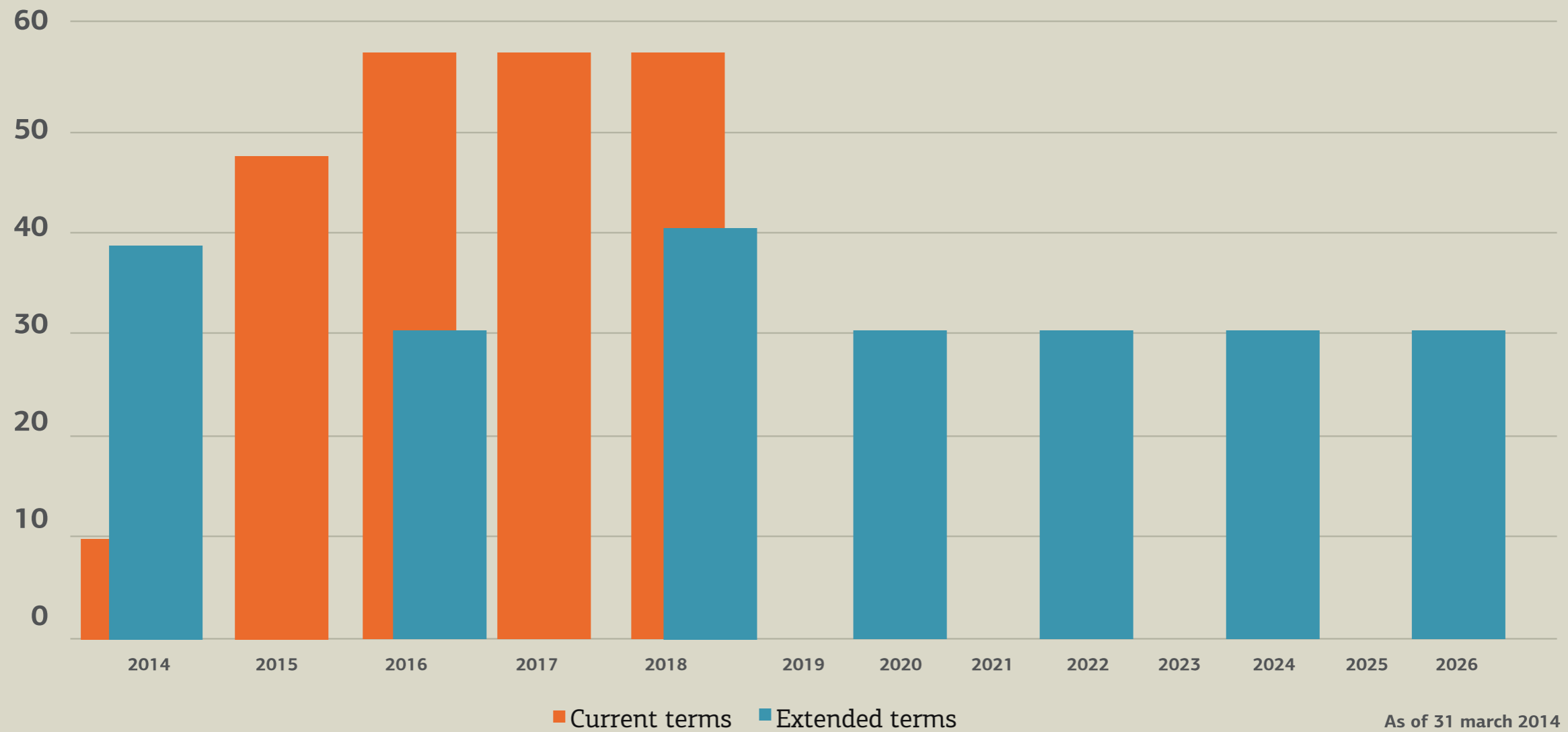
Agreement with LBI hf. from March 8

- » New agreement on bond maturity between Landsbankinn hf. and LBI hf. signed on March 8, 2014
- » Final payment to be made in 2026 instead of 2018
- » Interest rate terms will remain unchanged until October 2018: LIBOR + 2.90%
- » The margin will step-up in October 2018.
 - › Will be 3.50–4.05% for individual instalments due in 2020 – 2026
- » Valuable and flexible prepayment options
- » Minimum coverage ratio reduced from 124.8% to 115%
- » Certain dividend restrictions removed
- » Facilitates future financing in international debt capital markets
- » The agreement is conditional upon LBI receiving certain exemptions, in accordance with the Foreign Exchange Act



Instalments to LBI hf.*

Amounts in ISKbn



Annex – further information

Key financial ratios

Amounts in ISKm

	Q1 2014	Q1 2013	2013	2012	2011	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Profit after taxes	4,288	7,989	28,759	25,494	16,957	6,483	6,751	7,536	7,989
Return on equity before taxes	11.2%	17.2%	17.6%	14.0%	8.1%	21.5%	14.5%	17.3%	17.2%
Return on equity after taxes	7.3%	14.0%	12.4%	12.0%	8.4%	10.9%	11.6%	13.0%	14.0%
Capital ratio (CAR)	24.8%	26.6%	26.7%	25.1%	21.4%	26.7%	26.2%	25.9%	26.6%
Net interest income	7,855	9,879	34,314	35,584	32,649	9,977	7,340	7,118	9,879
Interest spread as a ratio of average total assets	2.7%	3.6%	3.1%	3.2%	2.9%	3.5%	2.6%	2.6%	3.6%
Cost-income ratio *	72.0%	36.6%	42.9%	45.0%	40.6%	44.8%	42.9%	49.6%	36.6%
Liquidity ratio	49%	42.0%	49.8%	48.4%	42.9%	49.7%	48.0%	44.8%	42.0%
Liquidity ratio LCR total	104%		102.0%			102.0%			
Liquidity ratio LCR FX	224%		208.0%			208.0%			
Operating expenses as a ratio of average total assets**	2.1%	2.1%	2.0%	2.2%	2.0%	2.0%	1.8%	2.1%	2.1%
Total assets	1,153,804	1,085,405	1,151,516	1,084,787	1,135,482	1,151,516	1,158,154	1,126,094	1,085,405
Loans / deposits ratio	145.5%	153.1%	149.0%	158.2%	144.1%	149.0%	144.0%	148.2%	153.1%
Positions at period-end	1,178	1,209	1,183	1,233	1,311	1,183	1,179	1,165	1,209

* Cost-income ratio = Total operating expenses excl. equity settled employee share-based salaries / (Total operating income - net adjustments in valuation)

** Excluding equity settled employee share-based payments

Operations

Amounts in ISKm

	Q1 2014	Q1 2013	Change		2013	2012	2011	2010
Net interest income	7,855	9,879	-2,024	-20%	34,314	35,584	32,649	24,685
Net adjustments in valuation	4,170	-438	4,608	1052 %	8,362	-4,391	-23,587	641
Change in contingent bond - liability to purchase own shares	0	4,691	-4,691	-100%	4,691	0	0	0
Net interest income after adjustments in valuation	12,025	14,132	-2,107	-15%	47,367	31,193	9,062	25,326
Net fee and commission income	1,518	1,363	155	11%	5,291	4,448	4,424	3,582
Net foreign exchange gain (loss)	-23	1,172	-1,195	-102%	1,147	4,566	-759	14,623
Other net operating income	-877	3,385	-4,262	-126%	11,776	8,934	18,017	7,318
Total operating income	12,643	20,052	-7,409	-37%	65,581	49,141	30,743	50,849
Salaries and related expenses	3,455	3,173	282	9%	12,613	13,176	11,990	9,331
Equity-settled employee share-based salaries	0	4,691	-4,691	-100%	4,691	0	0	0
Other operating expenses	2,205	2,089	116	6%	8,005	8,878	8,466	7,312
Depreciation and amortisation	177	209	-32	-15%	818	719	771	1,311
Contribution to the Depositors' and Investors' Guarantee Fund	267	268	-1	0%	1,079	1,042	583	0
Acquisition-related costs	0	45	-45	-100%	45	290	245	542
Total operating expenses	6,104	10,475	-4,371	-42%	27,251	24,105	22,055	18,496
Share in profit of associates, net of income tax	11	261	-250	-96%	2,712	2,449	1,418	291
Profit before tax	6,550	9,838	-3,288	-33%	41,042	27,485	10,105	32,644
Income tax expense	2,262	1,849	413	22%	12,283	4,125	-597	8,182
Profit for the period from continuing operations	4,288	7,989	-3,701	-46%	28,759	23,360	10,703	24,462
Profit from disc. operations, net of income tax	0	0	0		0	2,134	6,255	2,769
Profit for the period	4,288	7,989	-3,701	-46%	28,759	25,494	16,957	27,231

Operations

Amounts in ISKm

	31.03.14	31.12.13	Change 2014		31.12.12	31.12.11	31.12.10
Cash and balances with CB	34,024	21,520	12,504	58%	25,898	8,823	47,777
Bonds and debt instruments	284,418	290,595	-6,177	-2%	228,208	221,848	161,559
Equities and equity instruments	36,414	36,275	139	0%	36,881	46,037	29,429
Loans and advances to fin. institutions	63,896	67,916	-4,020	-6%	64,349	100,133	91,882
Loans and advances to customers	681,883	680,468	1,415	0%	666,087	639,130	592,954
Other assets	28,615	29,719	-1,104	-4%	38,044	65,959	28,743
Assets classified as held for sale	24,554	25,023	-469	-2%	25,320	53,552	128,789
Total	1,153,804	1,151,516	2,288	0%	1,084,787	1,135,482	1,081,133
Due to financial institutions and CB	174,031	167,218	6,813	4%	98,718	112,876	147,478
Deposits from customers	468,661	456,662	11,999	3%	421,058	443,590	371,558
Secured bonds	234,844	239,642	-4,798	-2%	309,265	337,902	287,822
Other liabilities	46,681	42,750	3,931	9%	29,687	31,485	27,800
Liabilities associated with assets classified as held for sale	4,195	3,885	310	8%	893	9,385	61,609
Equity	225,392	241,359	-15,967	-7%	225,166	200,244	184,866
Total	1,153,804	1,151,516	2,288	0%	1,084,787	1,135,482	1,081,133

Segments

Amounts in ISKm

Q1 2014	Personal Banking	Corporate Banking	Markets	Treasury	Support Functions	Reconciliation	Total
Net interest income (expense)	4,316	3,765	179	-8	2	-399	7,855
Net adjustments in valuation	1,610	2,675	0	-109	-6	0	4,170
Net fee and commission income	700	240	688	0	-14	-96	1,518
Other net operating income	-276	503	-293	-916	-312	394	-900
Total operating income (expense)	6,350	7,183	574	-1,033	-330	-101	12,643
Operating expenses	-1,574	-264	-498	-339	-3,531	101	-6,105
Share in profit of equity-accounted associates, net of income tax	11	0	0	0	0	0	11
Profit (loss) before cost allocation and tax	4,787	6,919	76	-1,372	-3,861	0	6,550
Cost allocated from support functions to business segments	-1,375	-784	-282	-251	2,692	0	0
Profit (loss) before tax	3,412	6,135	-206	-1,623	-1,169	0	6,550
Total assets	506,456	397,147	30,645	574,725	31,164	- 386,333	1,153,80 4
Total liabilities	450,144	307,707	23,100	502,630	31,164	- 386,333	928,412
Allocated capital	56,312	89,440	7,545	72,095	0	0	225,392

