



# 9m 2014 Results

Landsbankinn hf.

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Steinþór Pálsson  
CEO

Hreiðar Bjarnason  
CFO

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# Highlights

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## Operations

- » The Bank's after-tax profit for the first nine months of 2014 was ISK 20 billion
- » Net interest income amounted to ISK 22.3 bn, down by 8% as compared with the same period in 2013
- » Net commission income increased by 2% from the previous year
- » The ratio of interest spread to average capital position is falling, was 2.6% in the first nine months of 2014 as compared to 2.9% for the same period in 2013
- » Pre-tax profit is comparable to the same period in 2013 but a 32% tax increase reduces after-tax profit by 10% as compared to the previous year
- » After-tax return on equity (ROE) was 11.4% as compared with 12.9% for the same period in 2013
- » Operating expenses remain unchanged in real terms\*
- » The cost-income ratio increases as net interest income decrease to stand at 55.3% at the nine month mark
- » Cost as a ratio of total assets is 1.9%

\* Comparison adjusted to account for one-off operating expenses in 2013

## Balance sheet

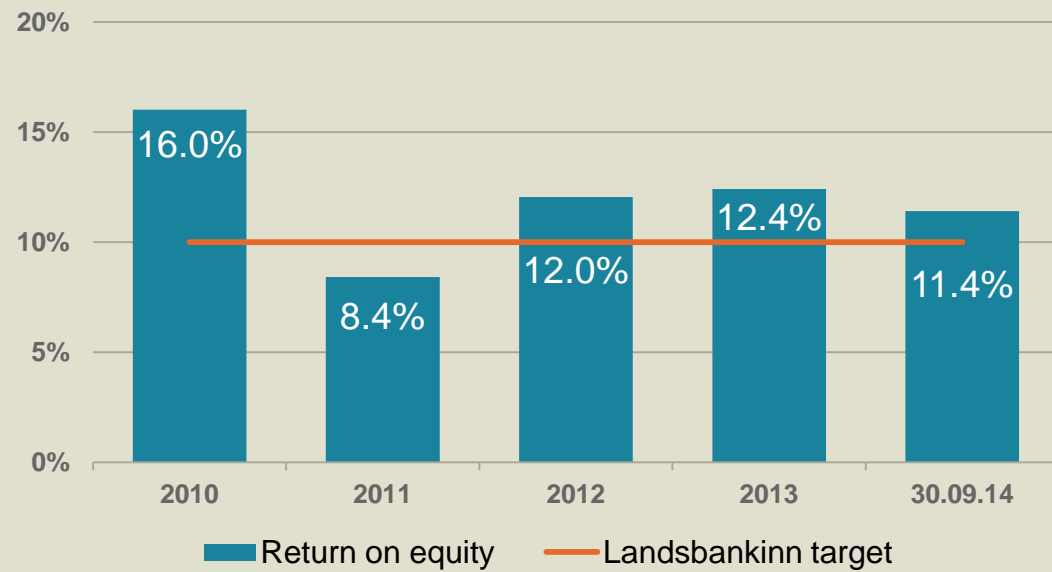
- » Landsbankinn's total assets amounted to ISK 1,201 bn as of the end of Q3 2014
- » Deposits from customers have grown by 9% during the year and lending by 6%
- » The Bank's liquidity position is very strong, both in foreign currency and Icelandic króna
- » The Bank's liquidity ratio was 49% at the end of September 2014 as compared with 50% at year-end 2013
- » Loans 90 days in arrears continue to decrease and were 3.3% at the end of September 2014 as compared with 6.2% the previous year
- » The Bank's equity currently amounts to ISK 241 bn and remains unchanged from the end of 2013 despite the ISK 20 bn dividend paid to Landsbankinn's owners in the first quarter
- » The Bank's capital adequacy ratio (CAR) is now 27.1%, up from 26.7% at the end of 2013



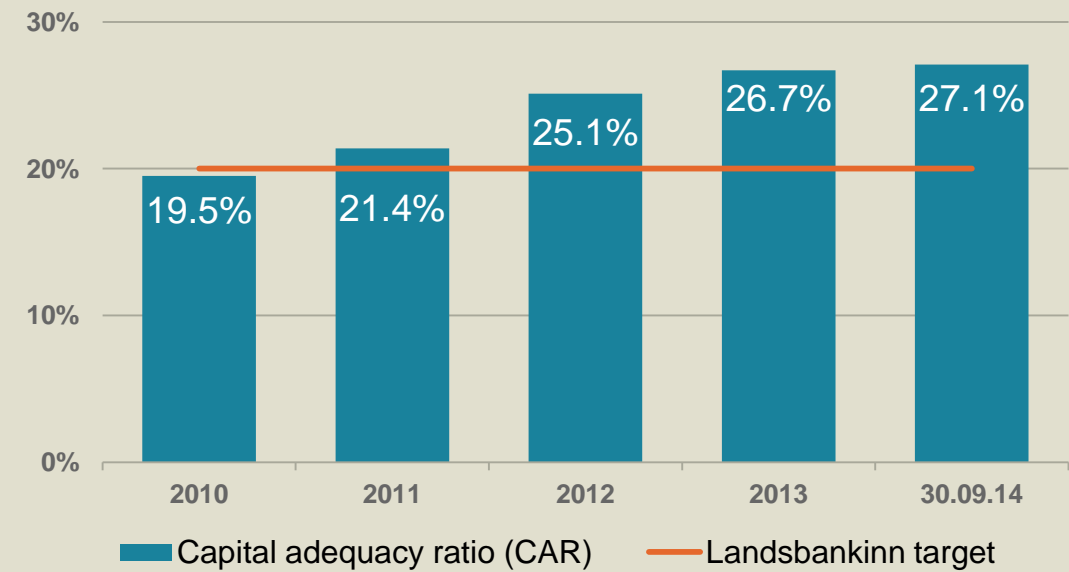
# Development of KPIs

Amounts in ISKm

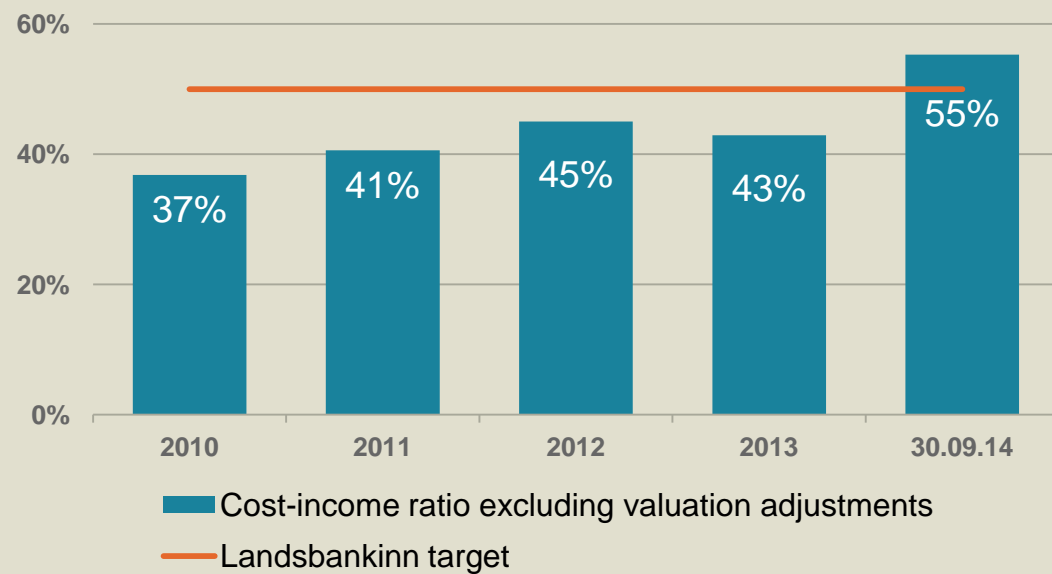
## Return on equity



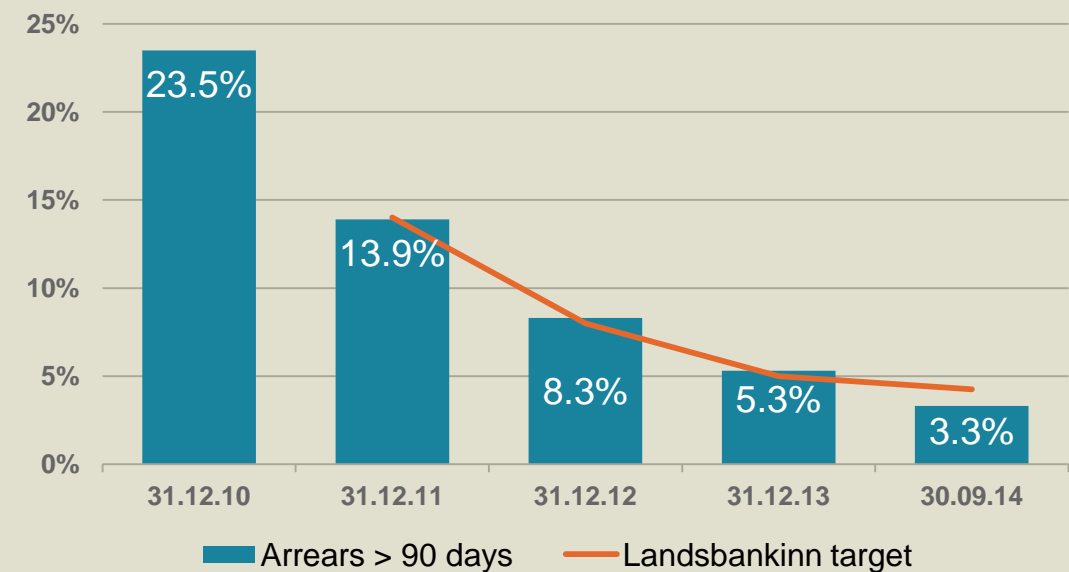
## Capital adequacy ratio (CAR)



## Cost-income ratio excluding valuation adjustments



## Arrears (> 90 days)



9m 2014

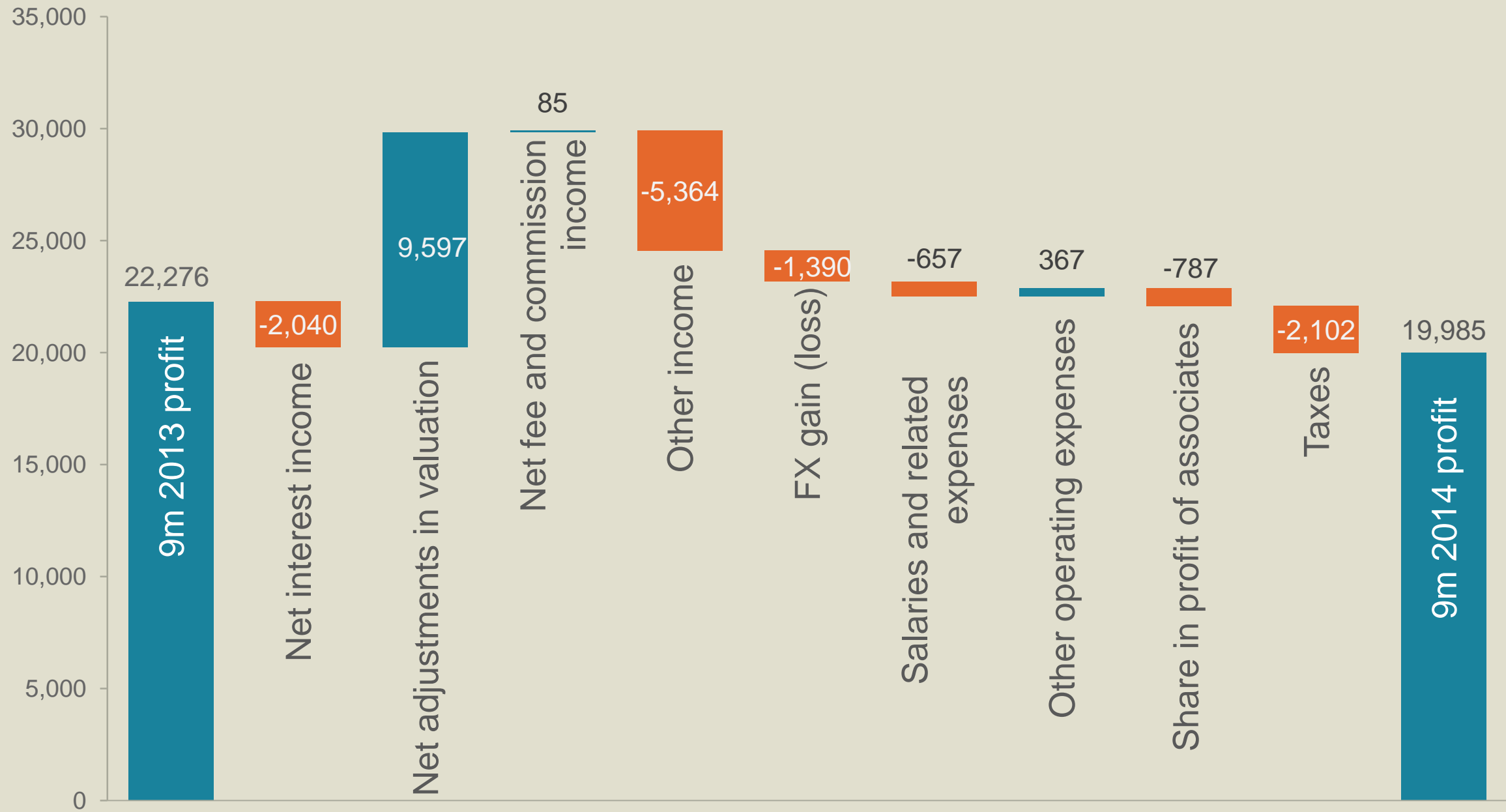
Results

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# Income Statement

Amounts in ISKm

## Change from 9m 2013 to 9m 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

	9m 2014	9m 2013	Change	
Net interest income	22,297	24,337	-2,040	-8%
Net adjustments in valuation	14,027	4,430	9,597	217%
Change in contingent bond - liability to purchase own shares	0	4,691	-4,691	
<b>Net interest income after adjustments in valuation</b>	<b>36,324</b>	<b>33,458</b>	<b>2,866</b>	<b>9%</b>
Net fee and commission income	4,196	4,111	85	2%
Other net operating income	4,198	10,952	-6,754	-62%
<b>Total operating income</b>	<b>44,718</b>	<b>48,521</b>	<b>-3,803</b>	<b>-8%</b>
Salaries and related expenses	9,762	9,105	657	7%
Equity-settled employee share-based salaries	0	4,691	-4,691	
Other operating expenses	7,208	7,575	-367	-5%
<b>Total operating expenses</b>	<b>16,970</b>	<b>21,371</b>	<b>-4,401</b>	<b>-21%</b>
Share in profit of associates, net of income tax	340	1,127	-787	-70%
<b>Profit before tax</b>	<b>28,088</b>	<b>28,277</b>	<b>-189</b>	<b>-1%</b>
Income tax expense	8,103	6,001	2,102	35%
<b>Profit for the period</b>	<b>19,985</b>	<b>22,276</b>	<b>-2,291</b>	<b>-10%</b>

- » Net interest income decreases by 8%
- » Net commission income increases by 2%
- » Other operating income falls by 62% mostly due to lower equity and bond prices
- » Valuation adjustments in lending are positive by over ISK 14bn
- » Operating costs decreases by 5%
- » Wages and related expenses increase by 7% mostly due to contractual increases
- » Effective tax rate is 21.6%

# Net interest income and valuation adjustments

Amounts in ISKm

	9m 2014	9m 2013	Change	
Interest income	42,410	45,988	-3,578	-8%
Interest expense	-20,113	-21,651	1,538	-7%
<b>Net interest income</b>	<b>22,297</b>	<b>24,337</b>	<b>-2,040</b>	<b>-8%</b>
Net adjustments to loans and advances acquired at deep discount	13,543	11,571*	1,972	17%
Net impairment loss on loans	484	-8,460	8,944	106%
Change of contingent bond, equity settled employee share	0	1,319	-1,319	
<b>Net valuation adjustments</b>	<b>14,027</b>	<b>9,121</b>	<b>4,906</b>	<b>54%</b>
<b>Net interest income after net valuation adjustments</b>	<b>36,324</b>	<b>33,458</b>	<b>2,866</b>	<b>9%</b>

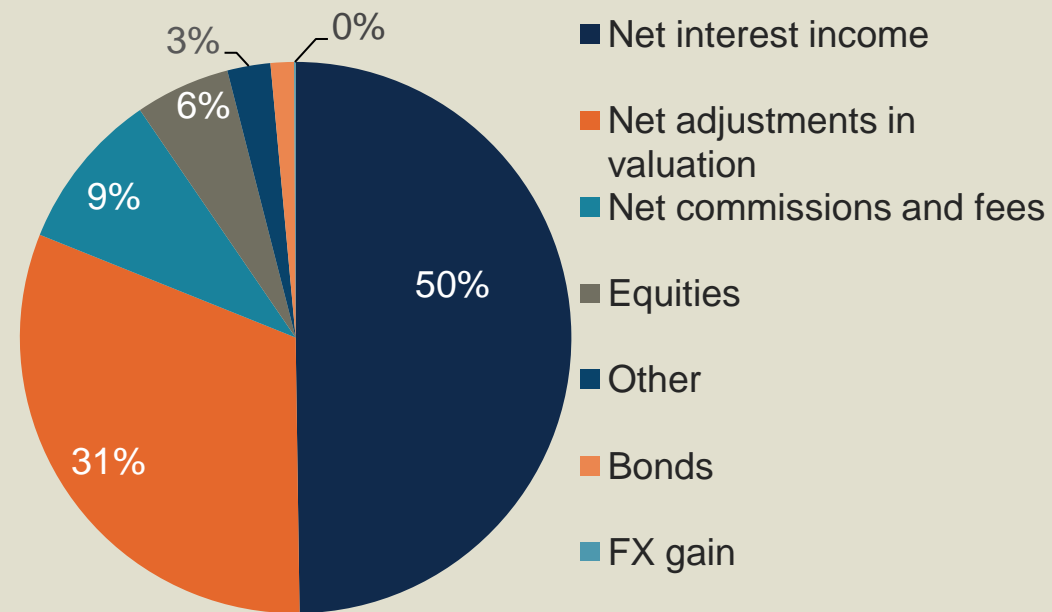
- » Lower inflation has a deciding influence on decreased interest revenues
- » Valuation adjustment in lending result in ISK 14bn in revenue in 9m 2014, up by 54% between years
- » The Bank's net interest spread decreases to 2.6% in 9m 2014, from 2.9% in 9m 2013

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

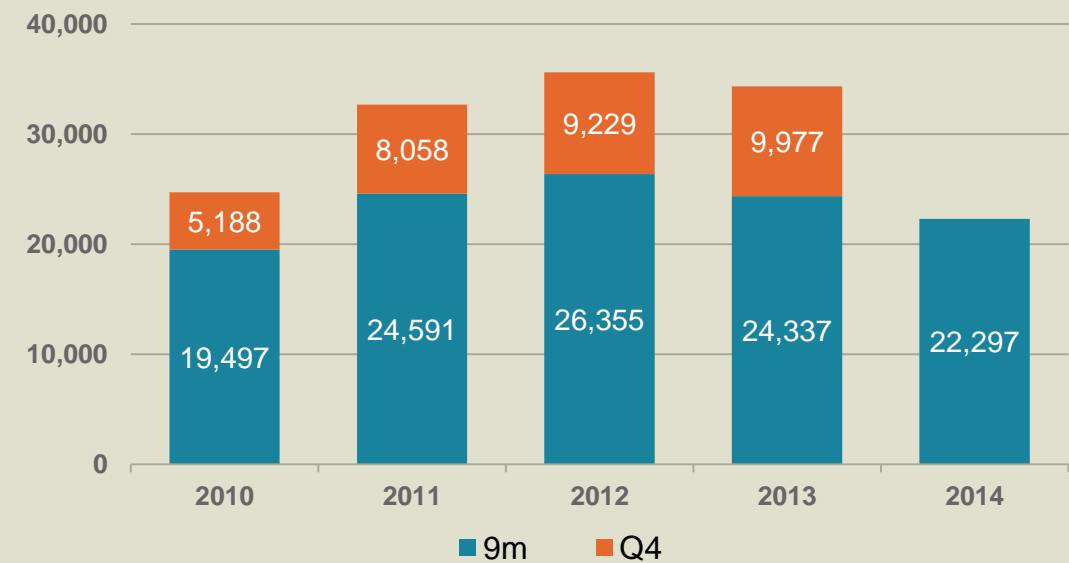
# Net operating income

Amounts in ISKm

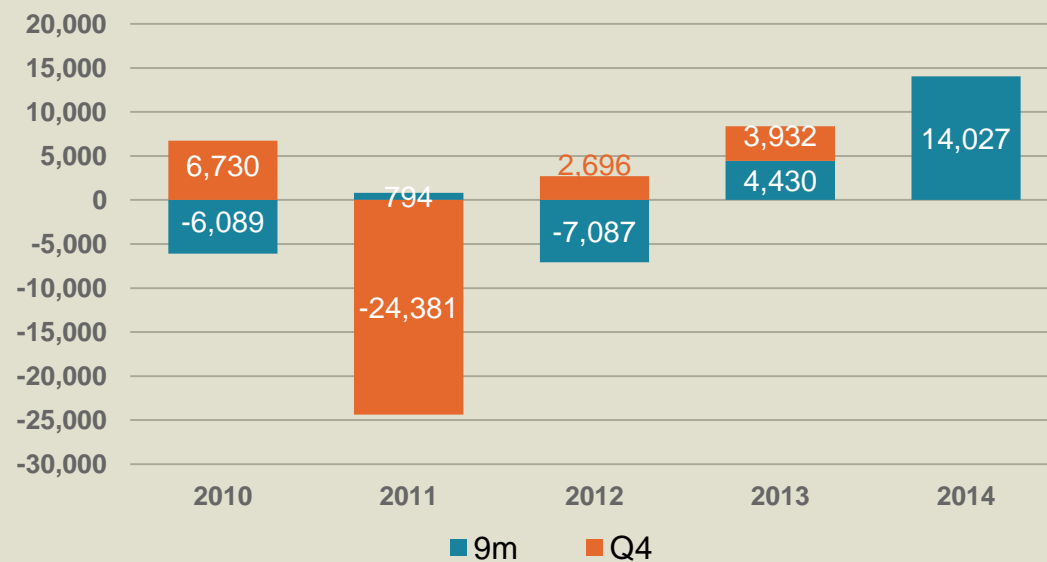
### Income mix



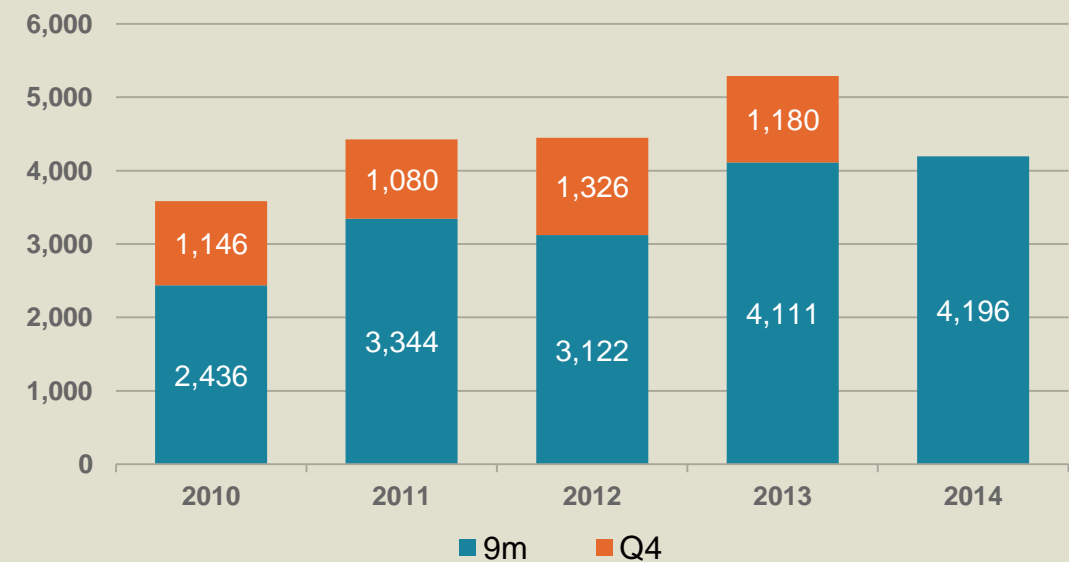
### Net interest income



### Net valuation adjustments



### Net commissions and fees

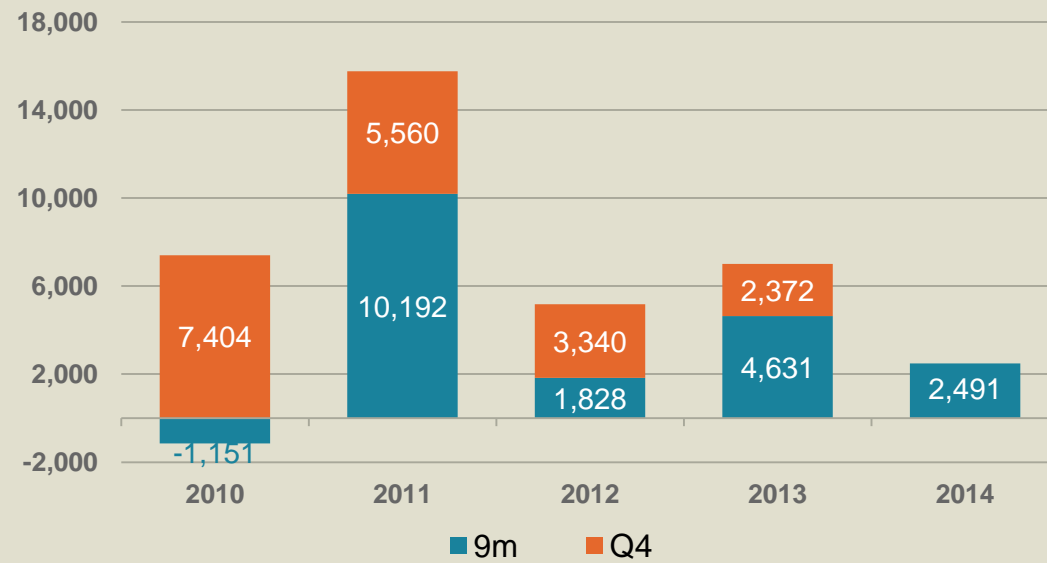




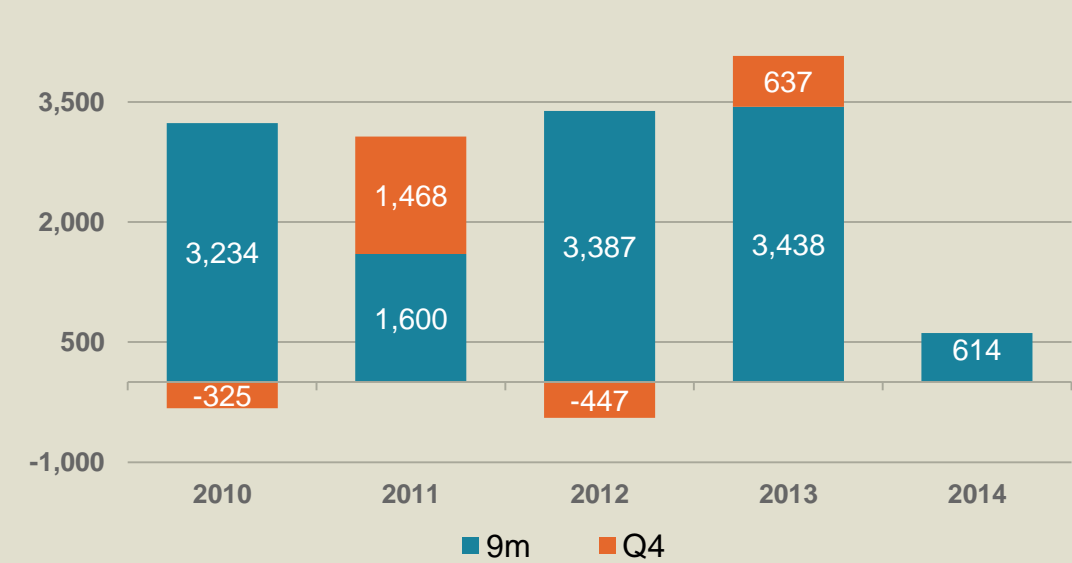
# Net operating income

Amounts in ISKm

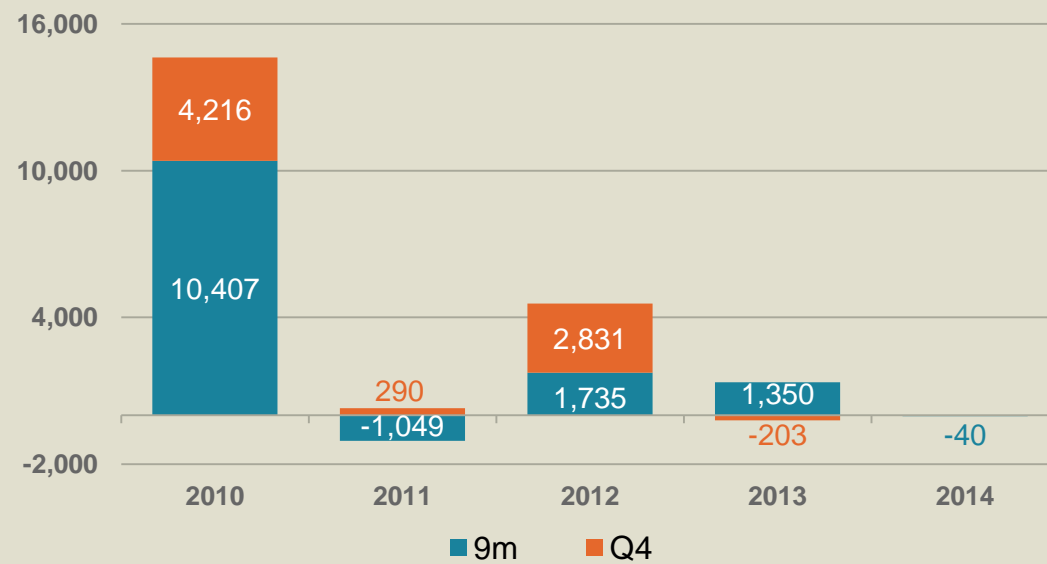
## Equities



## Bonds



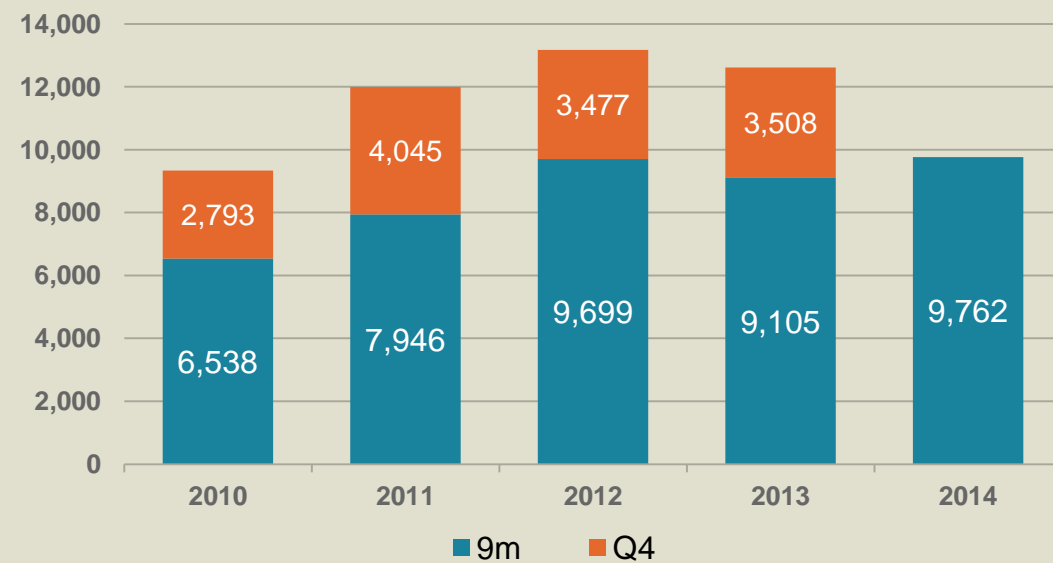
## FX gain



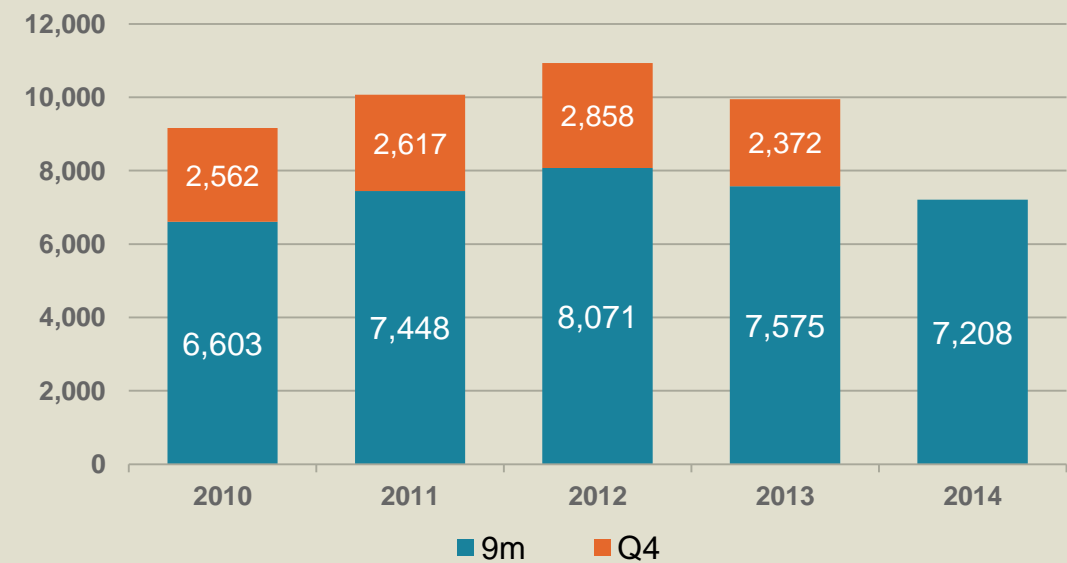
# Operating expenses

Amounts in ISKm

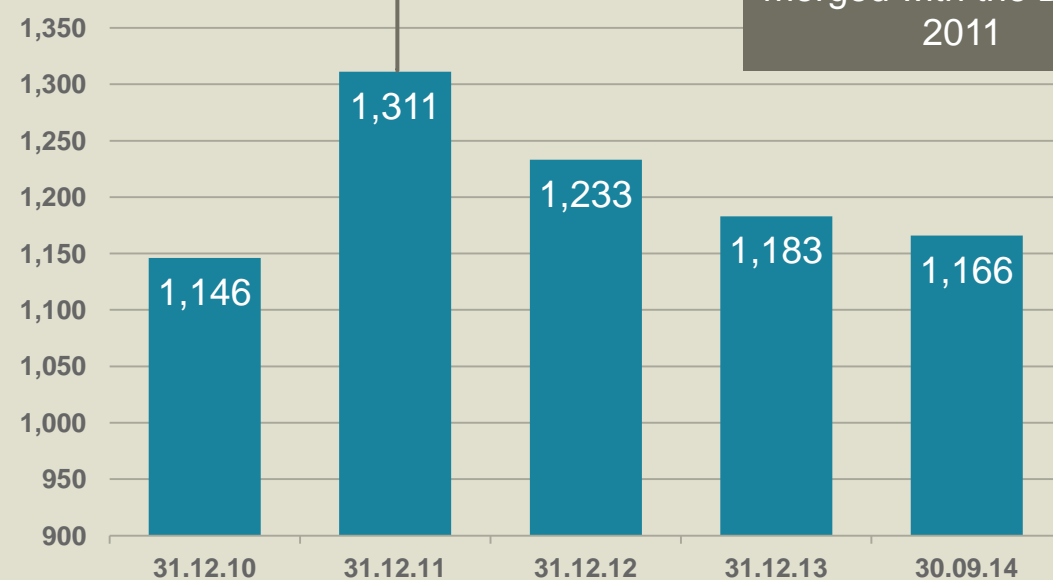
## Salaries and related expenses



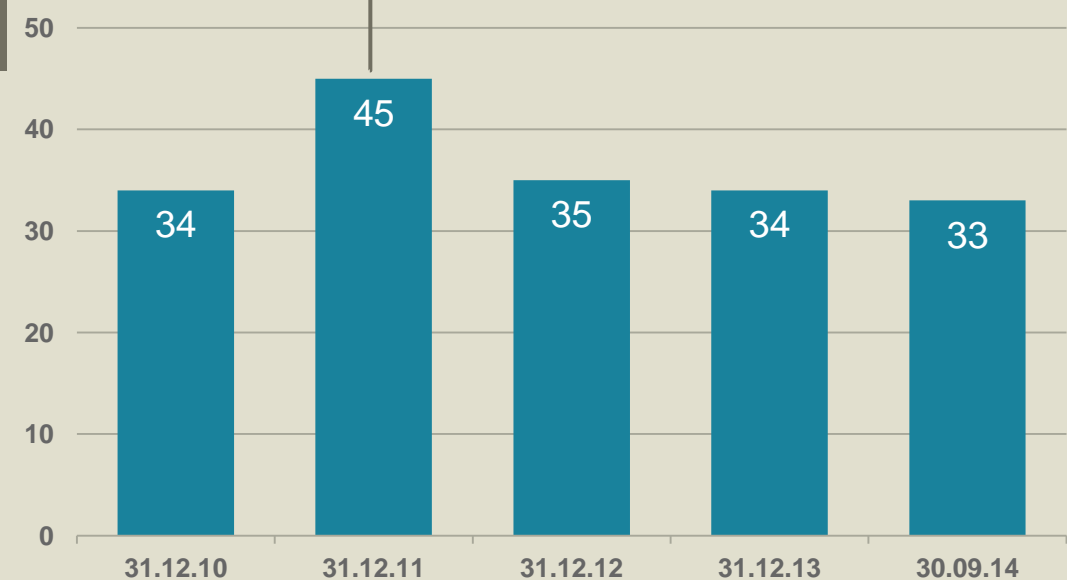
## Other operating expenses



## Full time employees



## Number of branches



# Taxes

Amounts in ISKm

	9m 2014	9m 2013	Change	
Income tax	4,162	4,691	-529	-11%
Special financial activities tax on profits <sup>1</sup>	1,361	1,025	336	33%
	<b>5,523</b>	<b>5,716</b>	<b>-193</b>	<b>-3%</b>
Tax on liabilities of financial institutions <sup>2</sup>	2,580	285	2,295	805%
Special financial activities tax on salaries <sup>3</sup>	568	571	-3	-1%
<b>Total</b>	<b>8,671</b>	<b>6,572</b>	<b>2,099</b>	<b>32%</b>

<sup>1</sup> A 6% additional tax on pre-tax profit over ISK 1,000 million

<sup>2</sup> 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.

<sup>3</sup> 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

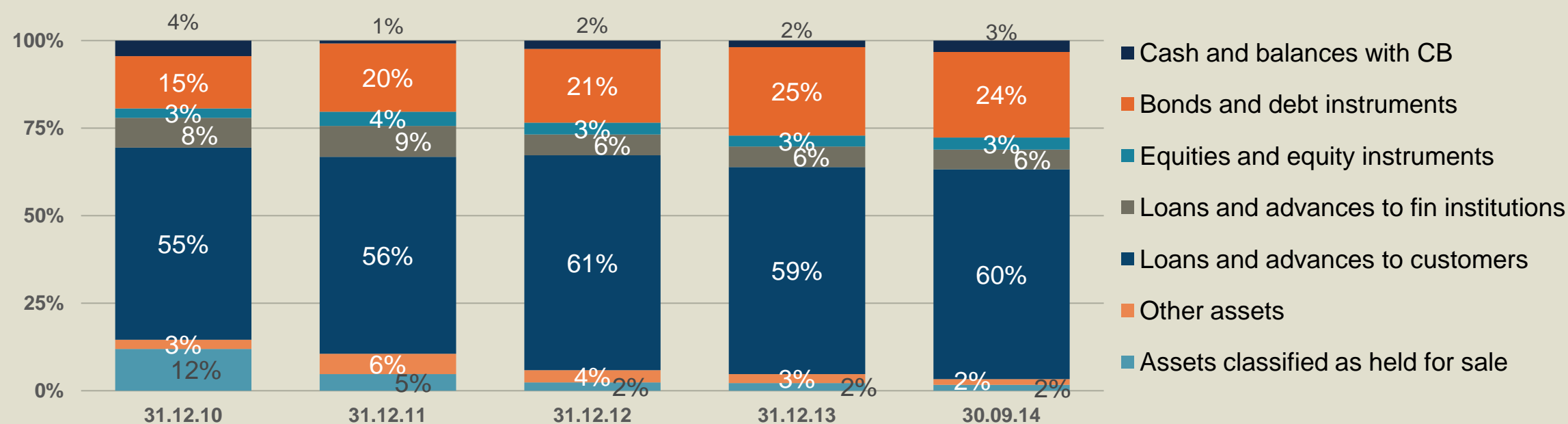
# Balance sheet - assets

Amounts in ISKm

	30.09.14	31.12.13	2014 change	
Cash and balances with CB	38,820	21,520	17,300	80%
Bonds and debt instruments	293,796	290,595	3,201	1%
Equities and equity instruments	40,991	36,275	4,716	13%
Loans and advances to fin institutions	68,192	67,916	276	0%
Loans and advances to customers	719,627	680,468	39,159	6%
Other assets	20,222	29,719	-9,497	-32%
Assets classified as held for sale	19,599	25,023	-5,424	-22%
<b>Total</b>	<b>1,201,247</b>	<b>1,151,516</b>	<b>49,731</b>	<b>4%</b>

- » Lending to customers amounts to ISK 116bn the first months of the year yet installments and other factors contribute to a total increase in lending of ISK 39bn during the period
- » The Bank's total assets have increased by ISK 49bn in 2014

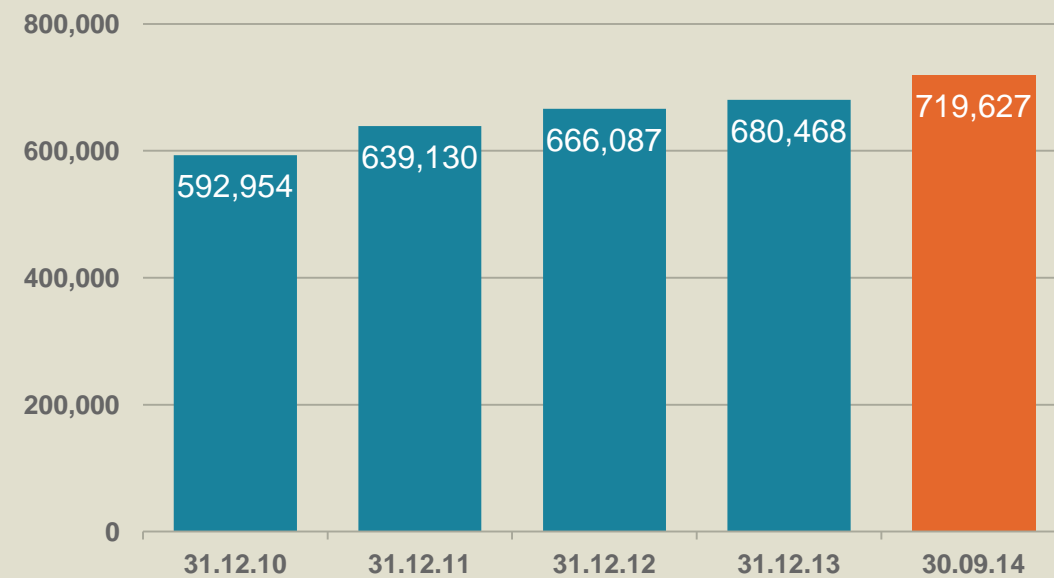
## Assets



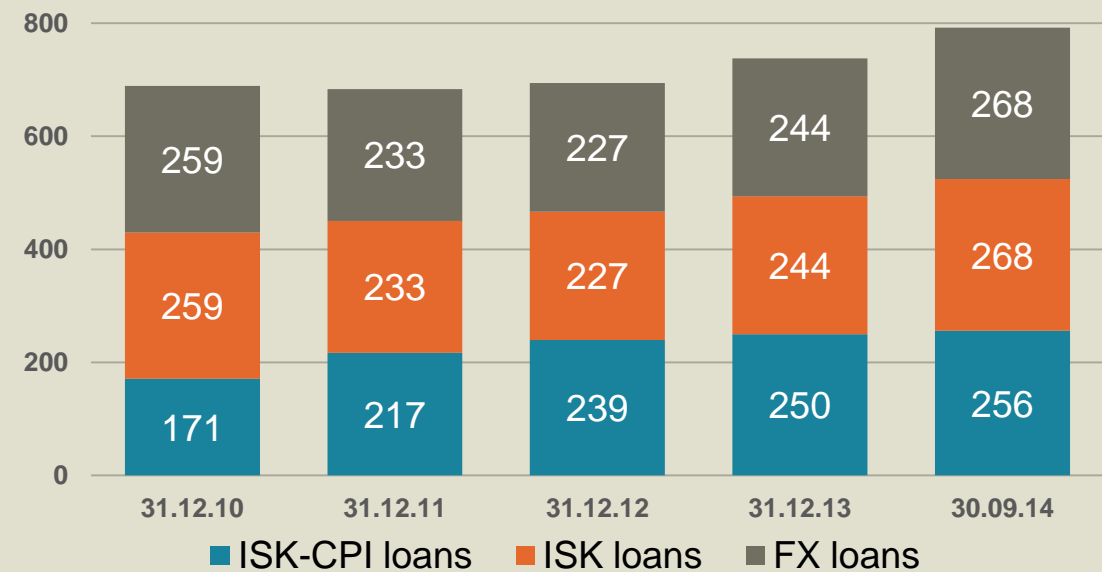
# Balance sheet - loans

Amounts in ISKm

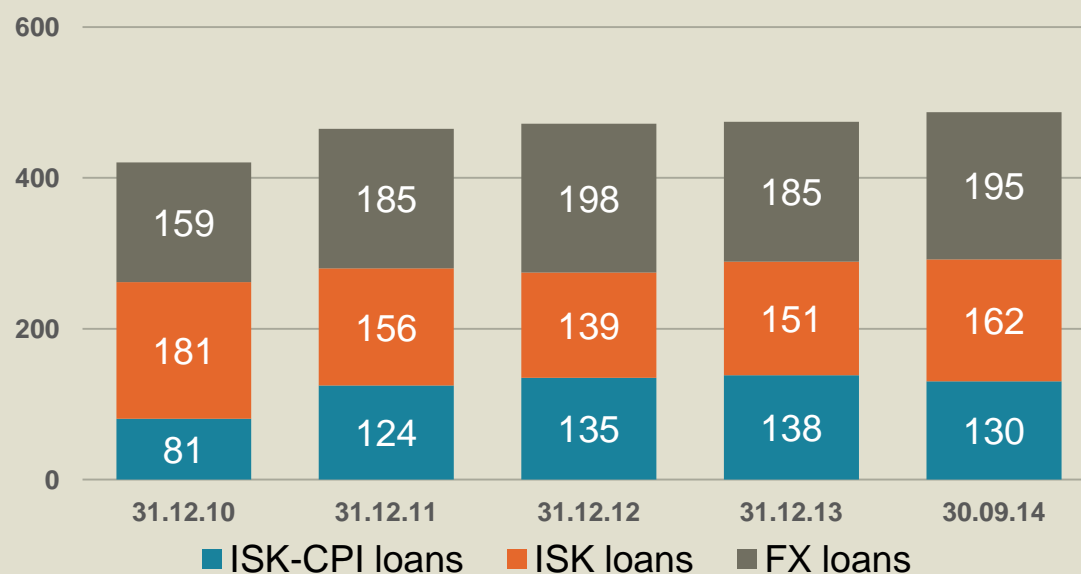
## Total loan and advances



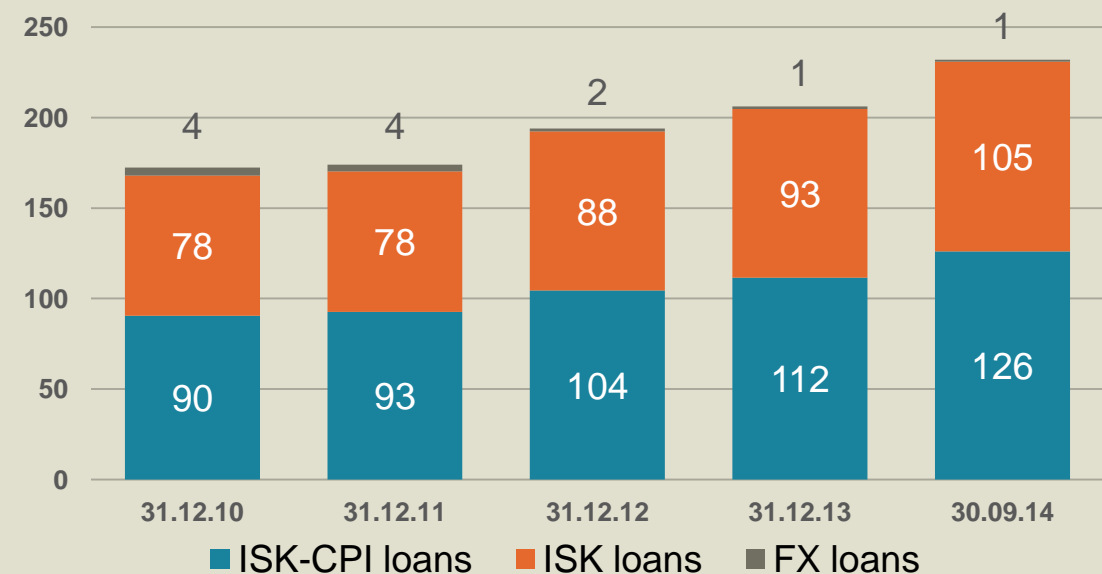
## Breakdown of lending



## Loans to corporates



## Loans to individuals

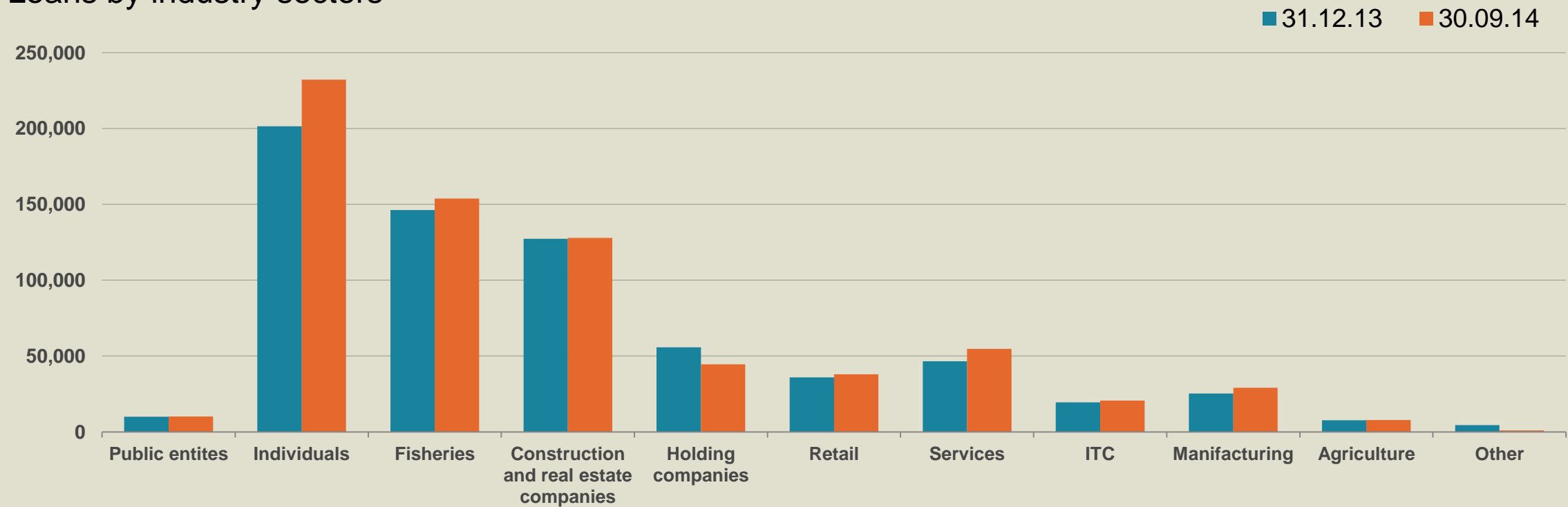




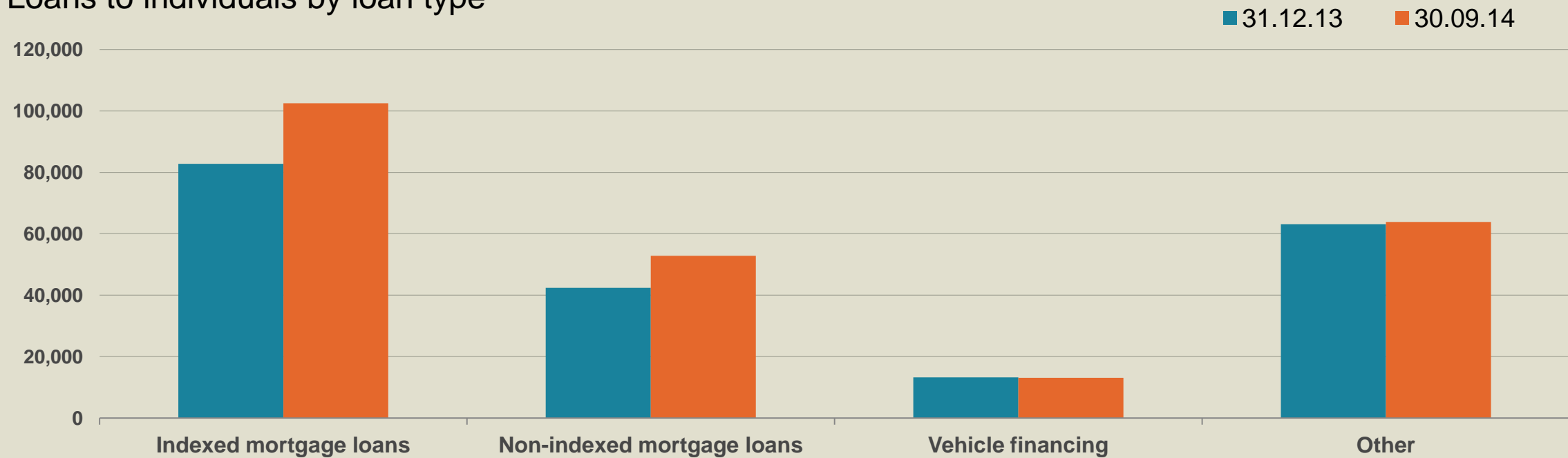
# Balance sheet - loans

Amounts in ISKm

## Loans by industry sectors

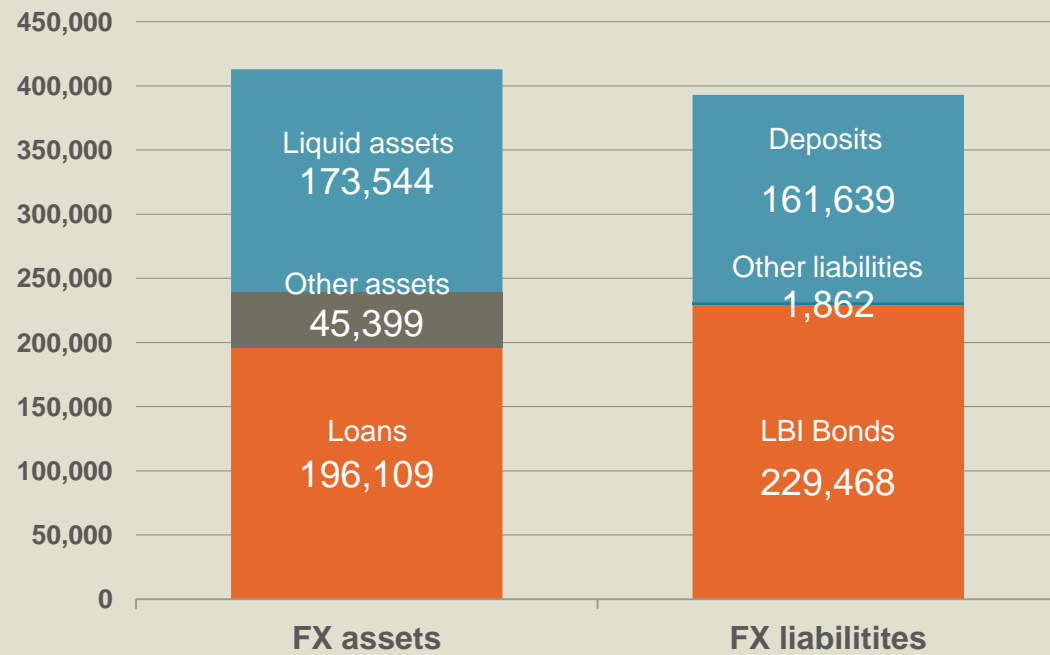


## Loans to individuals by loan type

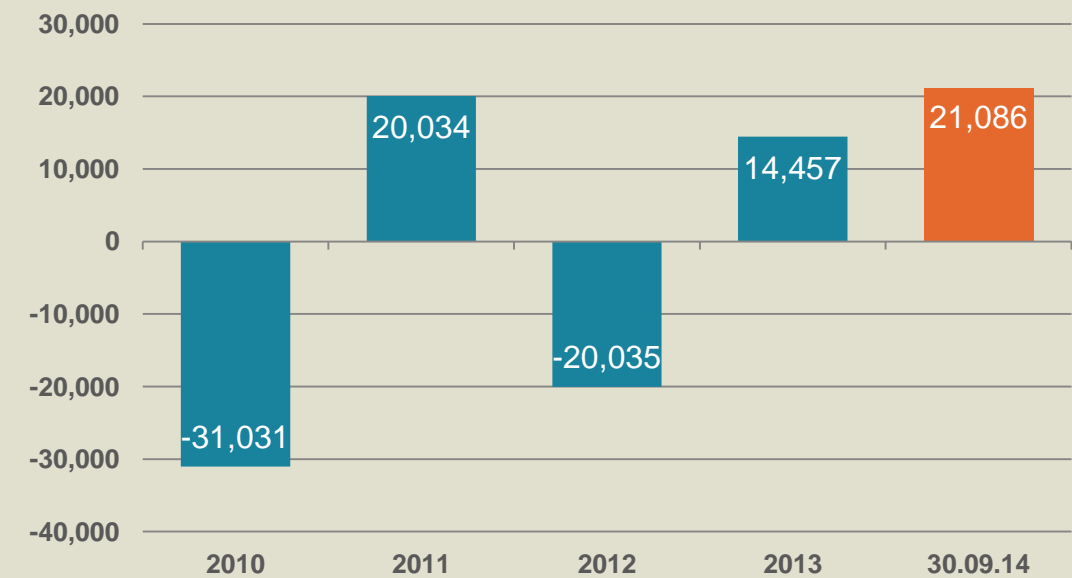


# FX assets and liabilities

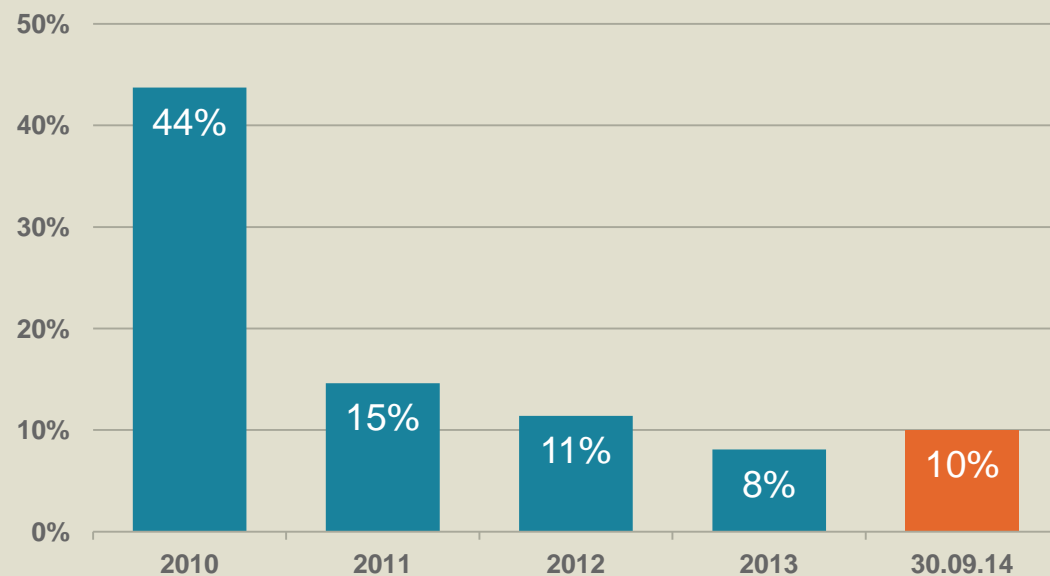
Amounts in ISKm



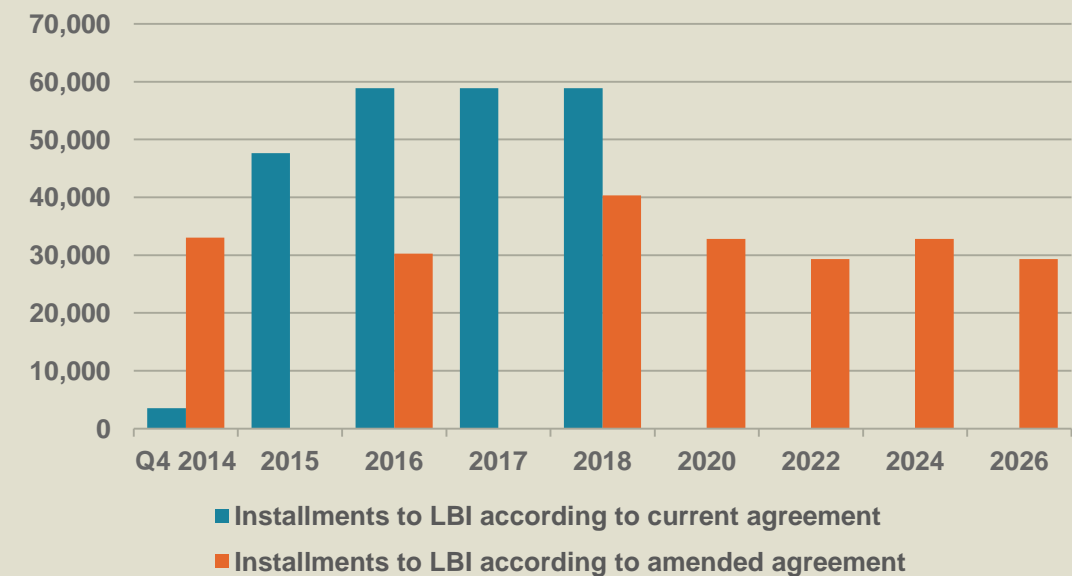
## Net FX balance



## FX risk / risk-weighted assets



## Installments to LBI

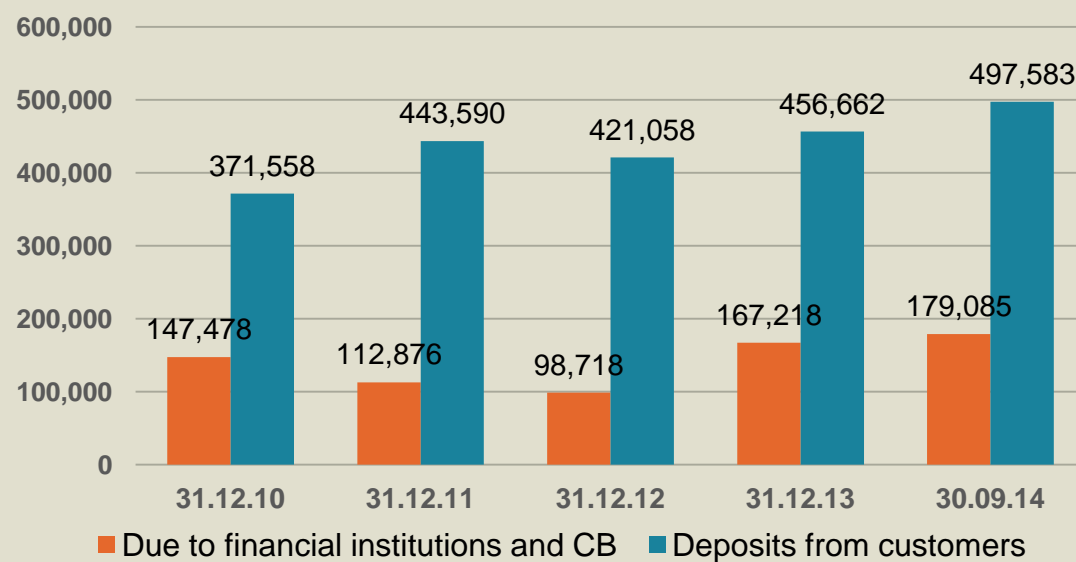


# Balance sheet – liabilities and equity

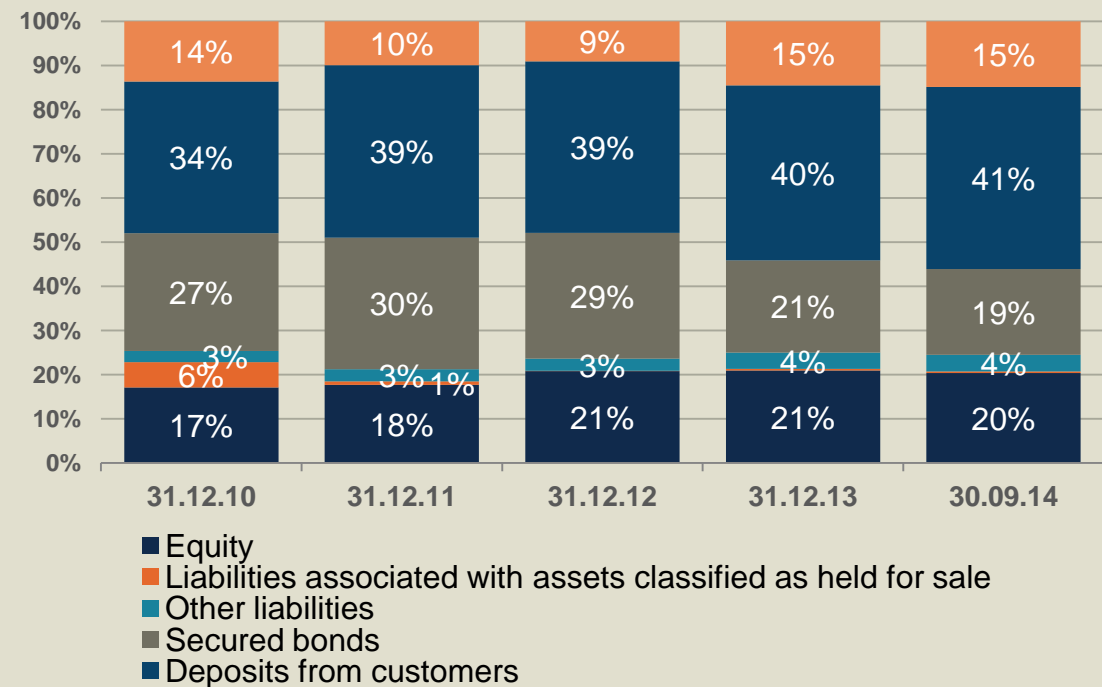
Amounts in ISKm

	30.09.14	31.12.13	2014 Change	
Due to financial institutions and CB	179,085	167,218	11,867	7%
Deposits from customers	497,583	456,662	40,921	9%
Secured bonds	233,785	239,642	-5,857	-2%
Other liabilities	49,807	46,635	3,172	7%
Equity	240,987	241,359	-372	0%
<b>Total</b>	<b>1,201,247</b>	<b>1,151,516</b>	<b>49,731</b>	<b>4%</b>

## Deposits



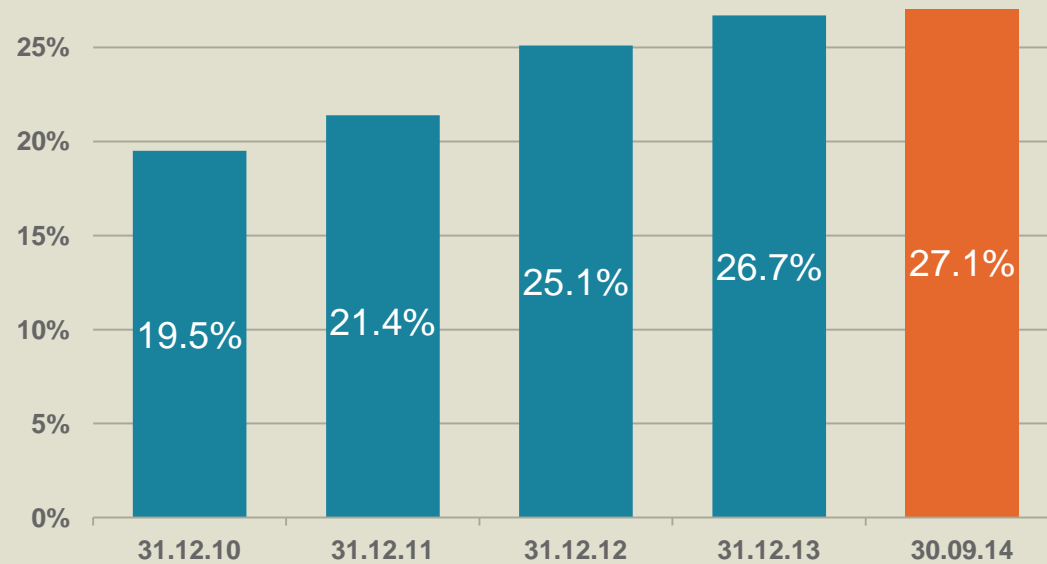
## Liabilities and equity



# Capital ratio and liquid assets

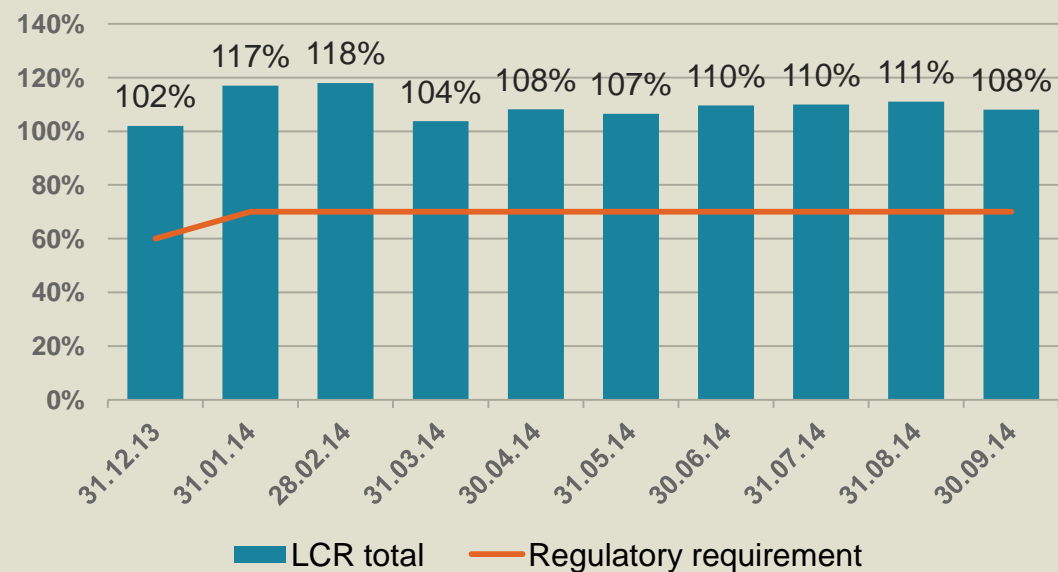
Amounts in ISKm

## Capital ratio (CAR)

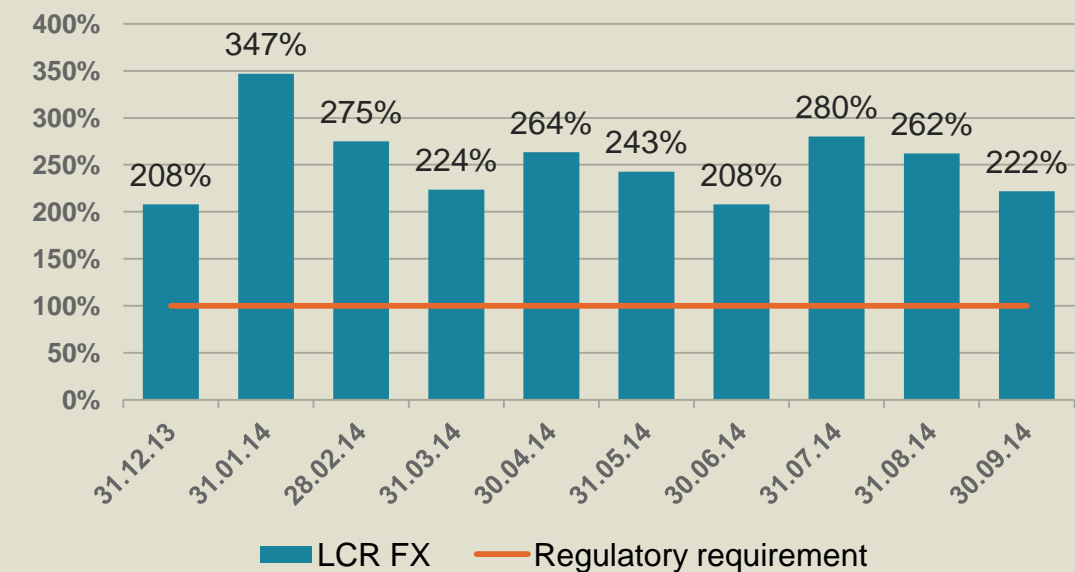


- » The Bank's capital ratio is based solely on Tier 1 capital
- » Growing CAR is attributable to good performance on the one hand and effective risk management on the other
- » The Bank is well above its 20% CAR benchmark

## Liquidity coverage ratio total



## Liquidity coverage ratio FX



# Main results

Amounts in ISKm

	9m 2014	9m 2013	2013	2012	
Profit after taxes	19,985	22,276	28,759	25,494	» Return on equity (ROE) after taxes was 11.4% for the period as compared with a ROE of 12.9% in 2013
Return on equity after taxes	11.4%	12.9%	12.4%	12%	» Operating expenses remained unchanged in real terms between years
Interest spread as a ratio of av. total assets	2.6%	2.9%	3.1%	3.2%	» Taxes increased by 32%
Cost-income ratio*	55.3%	42.3%	42.9%	45%	» Landsbankinn's total assets amounted to ISK 1,201bn at the end of September 2014
Real change in operating expenses	0%	-9.4%	-10.1%	4.9%	» The Bank's liquidity position is very strong, both in foreign currency and Icelandic króna. At the end of the period, the Bank's liquidity ratio was 49%
Full-time eqv. positions	1,166	1,179	1,183	1,233	» Loans 90 days in arrears were at 3.3% at the end of September 2014 compared to 6.2% at the same time 2013
Total assets	1,201,247	1,158,154	1,151,516	1,084,787	» Capital adequacy ratio (CAR) is now 27.1% as compared with 26.2% at the end of September 2013
Loans to customers	719,627	671,378	680,468	666,087	
Deposits from customers	497,583	465,742	456,662	421,058	
Capital ratio (CAR)	27.1%	26.2%	26.7%	25.1%	
Liquidity ratio	49%	48%	50%	48%	
Liquidity ratio LCR total	108%	-	102%	-	
Liquidity ratio LCR FX	222%	-	208%	-	
Net FX position	21,086	12,434	14,457	-20,035	
Arreas (>90 days)	3.3%	6.2%	5.3%	8.3%	

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



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## Other aspects of Landsbankinn's operations

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- » In May 2014, Landsbankinn concluded an agreement with the Winding-up Board of LBI hf. on amendments to the terms of secured bonds as provided for in an agreement from December 2009.
  - » The main changes include pushing the maturity date of the bonds from 2018 to 2026, abolishing onerous provisions on dividend payments and reducing collateral coverage requirements.
  - » This agreement is conditional upon LBI hf. being granted certain exemptions from the Foreign Exchange Act. Landsbankinn considers it urgent to settle the matter promptly to reduce uncertainty about the foreign currency refinancing of Landsbankinn.
  - » Extending the maturity of the bonds significantly reduces risk to the national balance of payments in coming years and simultaneously increases the possibility of taking effective steps towards the lifting of capital controls.
- » Landsbankinn listed a Euro Medium Term Note (EMTN) programme on the Irish stock exchange in August. This is an EMTN programme that will allow Landsbankinn to issue notes abroad in the equivalent amount of up to EUR 1 billion in various currencies and at fixed or floating rates. The Bank aims to tap into the EMTN programme in several steps for the purpose of fully discharging the debt owed to LBI hf. by October 2018. An extension to the maturity of the LBI bonds, if it becomes effective, will make it easier for the Bank reach this goal at more favourable terms.
- » Landsbankinn is currently engaged in long-term strategy development work, aided by the international consultancy firm McKinsey. These efforts focus on improving service to customers, increasing efficiency by simplifying work processes and reducing costs, optimising the balance sheet and other strategic issues. The aim is to finish this work by the end of Q1 2015.
- » Work on correcting illegal exchange rate indexed loans and implementing solutions according to the government's debt adjustment plan is coming to an end.

# Annex – further information

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# Key financial ratios

Amounts in ISKm

	9m 2014	9m 2013	2013	2012	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
<b>Profit after taxes</b>	19,985	22,276	28,759	25,494	5,107	10,590	4,288	6,483	6,751
<b>Return on equity before taxes</b>	16.0%	16.3%	17.6%	14.0%	11.1%	25.9%	11.2%	21.5%	14.5%
<b>Return on equity after taxes</b>	11.4%	12.9%	12.4%	12.0%	8.6%	18.4%	7.3%	10.9%	11.6%
<b>Capital ratio (CAR)</b>	27.1%	26.2%	26.7%	25.1%	27.1%	26.8%	24.8%	26.7%	26.2%
<b>Net interest income</b>	22,297	24,337	34,314	35,584	7,057	7,385	7,855	9,977	7,340
<b>Interest spread as a ratio of average capital position</b>	2.6%	2.9%	3.1%	3.2%	2.4%	2.6%	2.7%	3.5%	2.6%
<b>Cost-income ratio *</b>	55.3%	42.3%	42.9%	45.0%	56.2%	43.7%	72.0%	44.8%	42.9%
<b>Liquidity ratio</b>	49%	48%	50%	48%	49%	47%	49%	50%	48%
<b>Liquidity ratio LCR total</b>	108%		102%		108%	110%	102%	102%	
<b>Liquidity ratio LCR FX</b>	222%		208%		222%	208%	216%	208%	
<b>Operating expenses as a ratio of average total assets **</b>	1.9%	2.0%	2.0%	2.2%	1.8%	2.0%	2.1%	2.0%	1.8%
<b>Total assets</b>	1,201,247	1,158,154	1,151,516	1,084,787	1,201,247	1,154,598	1,153,804	1,151,516	1,158,154
<b>Loans / deposits ratio</b>	144.6%	144.2%	149.0%	158.2%	144.6%	147.8%	145.5%	149.0%	144%
<b>Positions at period-end</b>	1,166	1,179	1,183	1,233	1,166	1,162	1,178	1,183	1,179

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

\*\* Excluding equity settled employee share-based payments

# Operations

Amounts in ISKm

	9m 2014	9m 2013	Change		2013	2012	2011	2010
Net interest income	22,297	24,337	-2,040	-8%	34,314	35,584	32,649	24,685
Net valuation adjustments	14,027	4,430	9,597	217%	8,362	-4,391	-23,587	641
Change in contingent bond - liability to purchase own shares	0	4,691	-4,691		4,691	0	0	0
<b>Net interest income after valuation adjustments</b>	<b>36,324</b>	<b>33,458</b>	<b>2,866</b>	<b>9%</b>	<b>47,367</b>	<b>31,193</b>	<b>9,062</b>	<b>25,326</b>
Net fee and commission income	4,196	4,111	85	2%	5,291	4,448	4,424	3,582
Net foreign exchange gain (loss)	-40	1,350	-1,390	-103%	1,147	4,566	-759	14,623
Other net operating income	4,238	9,602	-5,364	-56%	11,776	8,934	18,017	7,318
<b>Total operating income</b>	<b>44,718</b>	<b>48,521</b>	<b>-3,803</b>	<b>-8%</b>	<b>65,581</b>	<b>49,141</b>	<b>30,743</b>	<b>50,849</b>
Salaries and related expenses	9,762	9,105	657	7%	12,613	13,176	11,990	9,331
Equity-settled employee share-based salaries	0	4,691	-4,691		4,691	0	0	0
Other operating expenses	5,910	6,082	-172	-3%	8,005	8,878	8,466	7,312
Depreciation and amortisation	523	642	-119	-19%	818	719	771	1,311
Contribution to the Depositors' and Investors' Guarantee Fund	775	806	-31	-4%	1,079	1,042	583	0
Acquisition-related costs	0	45	-45		45	290	245	542
<b>Total operating expenses</b>	<b>16,970</b>	<b>21,371</b>	<b>-4,401</b>	<b>-21%</b>	<b>27,251</b>	<b>24,105</b>	<b>22,055</b>	<b>18,496</b>
Share in profit of associates, net of income tax	340	1,127	-787	-70%	2,712	2,449	1,418	291
<b>Profit before tax</b>	<b>28,088</b>	<b>28,277</b>	<b>-189</b>	<b>-1%</b>	<b>41,042</b>	<b>27,485</b>	<b>10,105</b>	<b>32,644</b>
Profit before tax	8,103	6,001	2,102	35%	12,283	4,125	-597	8,182
<b>Profit for the period from continuing operations</b>	<b>19,985</b>	<b>22,276</b>	<b>-2,291</b>	<b>-10%</b>	<b>28,759</b>	<b>23,360</b>	<b>10,703</b>	<b>24,462</b>
Profit from disc operations, net of income tax	0	0	0		0	2,134	6,255	2,769
<b>Profit for the period</b>	<b>19,985</b>	<b>22,276</b>	<b>-2,291</b>	<b>-10%</b>	<b>28,759</b>	<b>25,494</b>	<b>16,957</b>	<b>27,231</b>

# Balance Sheet

Amounts in ISKm

	30.09.14	31.12.13	2014 Change		31.12.12	31.12.11	31.12.10
Cash and balances with CB	38,820	21,520	17,300	80%	25,898	8,823	47,777
Bonds and debt instruments	293,796	290,595	3,201	1%	228,208	221,848	161,559
Equities and equity instruments	40,991	36,275	4,716	13%	36,881	46,037	29,429
Loans and advances to fin institutions	68,192	67,916	276	0%	64,349	100,133	91,882
Loans and advances to customers	719,627	680,468	39,159	6%	666,087	639,130	592,954
Other assets	20,222	29,719	-9,497	-32%	38,044	65,959	28,743
Assets classified as held for sale	19,599	25,023	-5,424	-22%	25,320	53,552	128,789
<b>Total</b>	<b>1,201,247</b>	<b>1,151,516</b>	<b>49,731</b>	<b>4%</b>	<b>1,084,787</b>	<b>1,135,482</b>	<b>1,081,133</b>
Due to financial institutions and CB	179,085	167,218	11,867	7%	98,718	112,876	147,478
Deposits from customers	497,583	456,662	40,921	9%	421,058	443,590	371,558
Secured bonds	233,785	239,642	-5,857	-2%	309,265	337,902	287,822
Other liabilities	46,593	42,750	3,843	9%	29,687	31,485	27,800
Liabilities associated with assets classified as held for sale	3,214	3,885	-671	-17%	893	9,385	61,609
Equity	240,987	241,359	-372	0%	225,166	200,244	184,866
<b>Total</b>	<b>1,201,247</b>	<b>1,151,516</b>	<b>49,731</b>	<b>4%</b>	<b>1,084,787</b>	<b>1,135,482</b>	<b>1,081,133</b>



# Segments

Amounts in ISKm

9m 2014	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Reconciliation	Total
Net interest income (expense)	10,928	12,102	565	-357	5	-946	22,297
Net valuation adjustments	4,030	8,025	0	-12	1,984	0	14,027
Net fee and commission income	2,248	469	1,945	-260	73	-279	4,196
Other net operating income	-657	-231	-166	6,078	-1,757	931	4,198
<b>Total operating income (expense)</b>	<b>16,549</b>	<b>20,365</b>	<b>2,344</b>	<b>5,449</b>	<b>305</b>	<b>-294</b>	<b>44,718</b>
Operating expenses	-4,778	-1,093	-1,458	-1,103	-8,832	294	-16,970
Share in profit of equity-accounted associates, net of income tax	315	-11	0	36	0	0	340
<b>Profit (loss) before cost allocation and tax</b>	<b>12,086</b>	<b>19,261</b>	<b>886</b>	<b>4,382</b>	<b>-8,527</b>	<b>0</b>	<b>28,088</b>
Cost allocated from support functions to business segments	-3,953	-2,514	-892	-735	8,094	0	0
<b>Profit (loss) before tax</b>	<b>8,133</b>	<b>16,747</b>	<b>-6</b>	<b>3,647</b>	<b>-433</b>	<b>0</b>	<b>28,088</b>
Total assets	493,460	440,299	25,024	566,478	35,324	-359,338	1,201,247
Total liabilities	443,057	329,873	16,180	495,164	35,324	-359,338	960,260
Allocated capital	50,403	110,426	8,844	71,314	0	0	240,987