



2014 Results

Landsbankinn hf.

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CEO

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CFO

Highlights

Operations

- » The Bank's after-tax profit in 2014 was ISK 29.7 billion
- » Net interest income amounted to ISK 28.1 bn, down by 18% as compared with 2013
- » Net commission income increased by 10% from the previous year
- » The ratio of interest spread to average capital position fell, was 2.4% in 2014 as compared with 3.1% at year-end 2013
- » After-tax return on equity (ROE) was 12.5% as compared with 12.4% for 2013
- » Operating expenses increase by 7% from the previous year*
- » The cost-income ratio increases between years, was 56.0% in 2014 as compared with 42.9% in 2013

Balance sheet

- » Landsbankinn's total assets amounted to ISK 1,098 bn as of the end of 2014
- » Deposits from customers have grown by 21% 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 39% at year-end 2014 as compared with 50% at year-end 2013
- » Loans 90 days in arrears continued to decrease and were 2.3% at the end of December 2014 as compared with 5.3% the previous year
- » The Bank's equity currently amounts to ISK 250.8 bn, growing by ISK 9.4 billion, despite the ISK 20 bn dividend payment to Landsbankinn's owners in Q1
- » The Bank's capital adequacy ratio (CAR) is now 29.5%, up from 26.7% at the end of 2013

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

Main results

Amounts in ISKm

	2014	2013	Q4 2014	Q4 2013
Profit after taxes	29,737	28,759	9,752	6,483
Return on equity after taxes	12.5%	12.4%	15.9%	10.9%
Interest spread as a ratio of av. total assets	2.4%	3.1%	2.0%	3.5%
Cost-income ratio*	56.0%	42.9%	57.7%	44.8%

	31.12.14	31.12.13	30.09.14	30.06.14
Total assets	1,098,370	1,151,516	1,201,247	1,154,598
Loans to customers	718,355	680,468	719,627	699,648
Deposits from customers	551,435	456,662	497,583	473,356
Capital ratio (CAR)	29.5%	26.7%	27.1%	26.8%
Liquidity ratio	39%	50%	49%	47%
Liquidity ratio LCR total	131%	102%	108%	110%
Liquidity ratio LCR FX	614%	208%	222%	208%
Net FX position	20,320	14,457	21,086	18,514
Arrears (>90 days)	2.3%	5.3%	3.3%	4.0%
Full-time eqv. positions	1,126	1,183	1,166	1,162

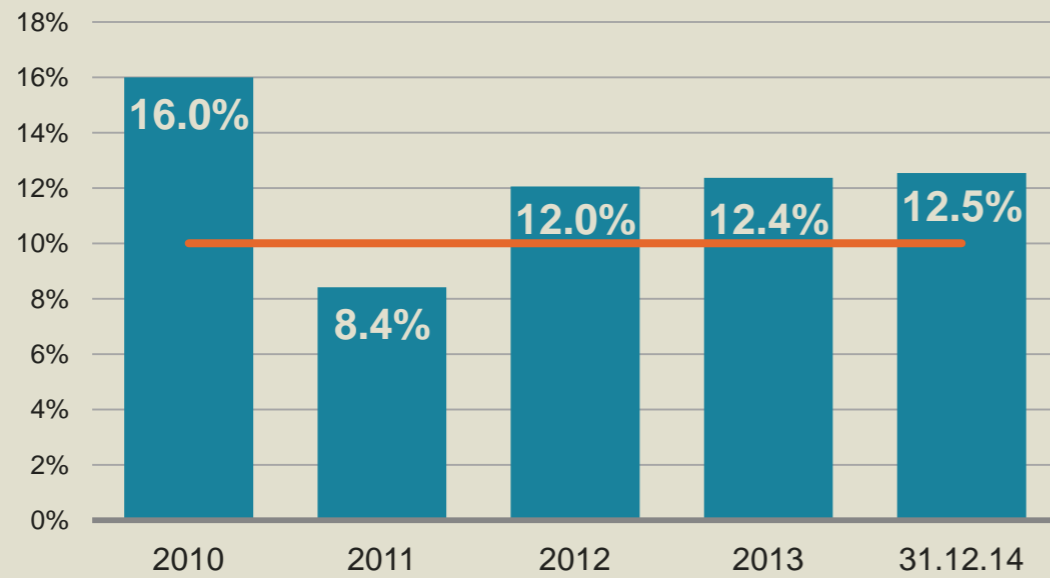
*Cost-income ratio = Total operating expenses less expensed equity-based wage items/(Net operating revenue-value change of lending)

Development of KPIs

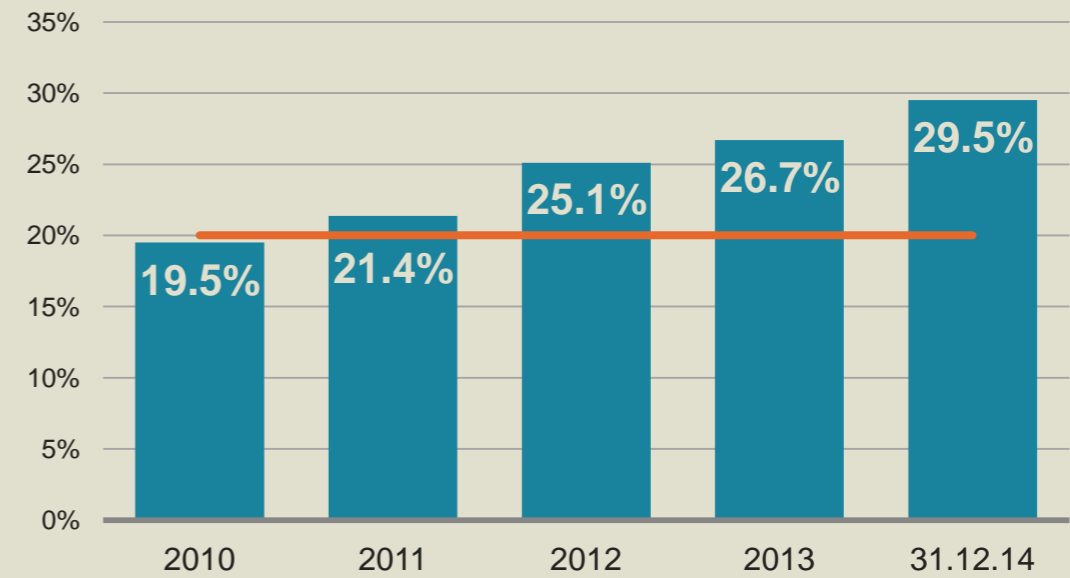
Amounts in ISKm

Landsbankinn target

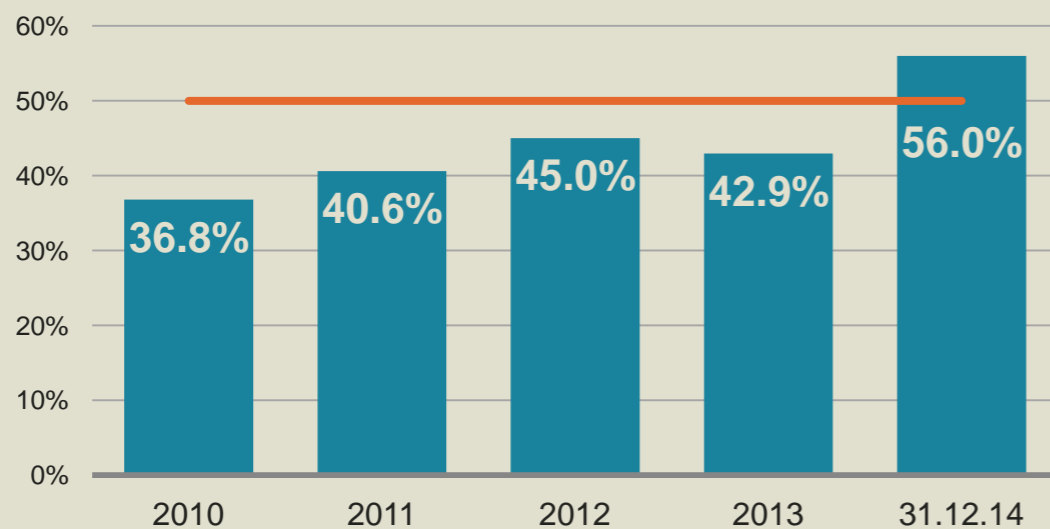
Return on equity



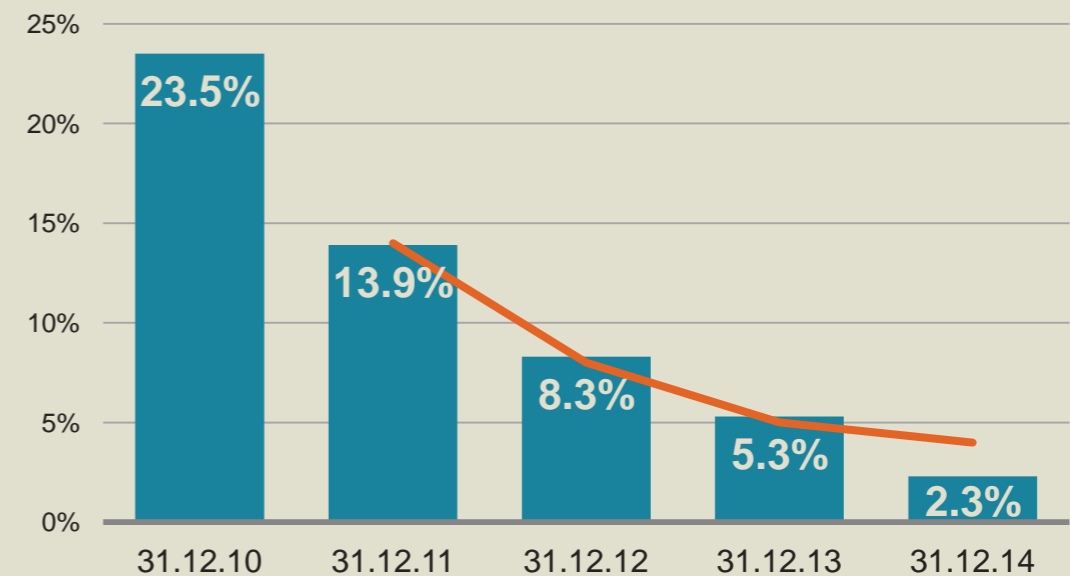
Capital adequacy ratio (CAR)



Cost-income ratio excluding valuation adjustments



Arrears (> 90 days)

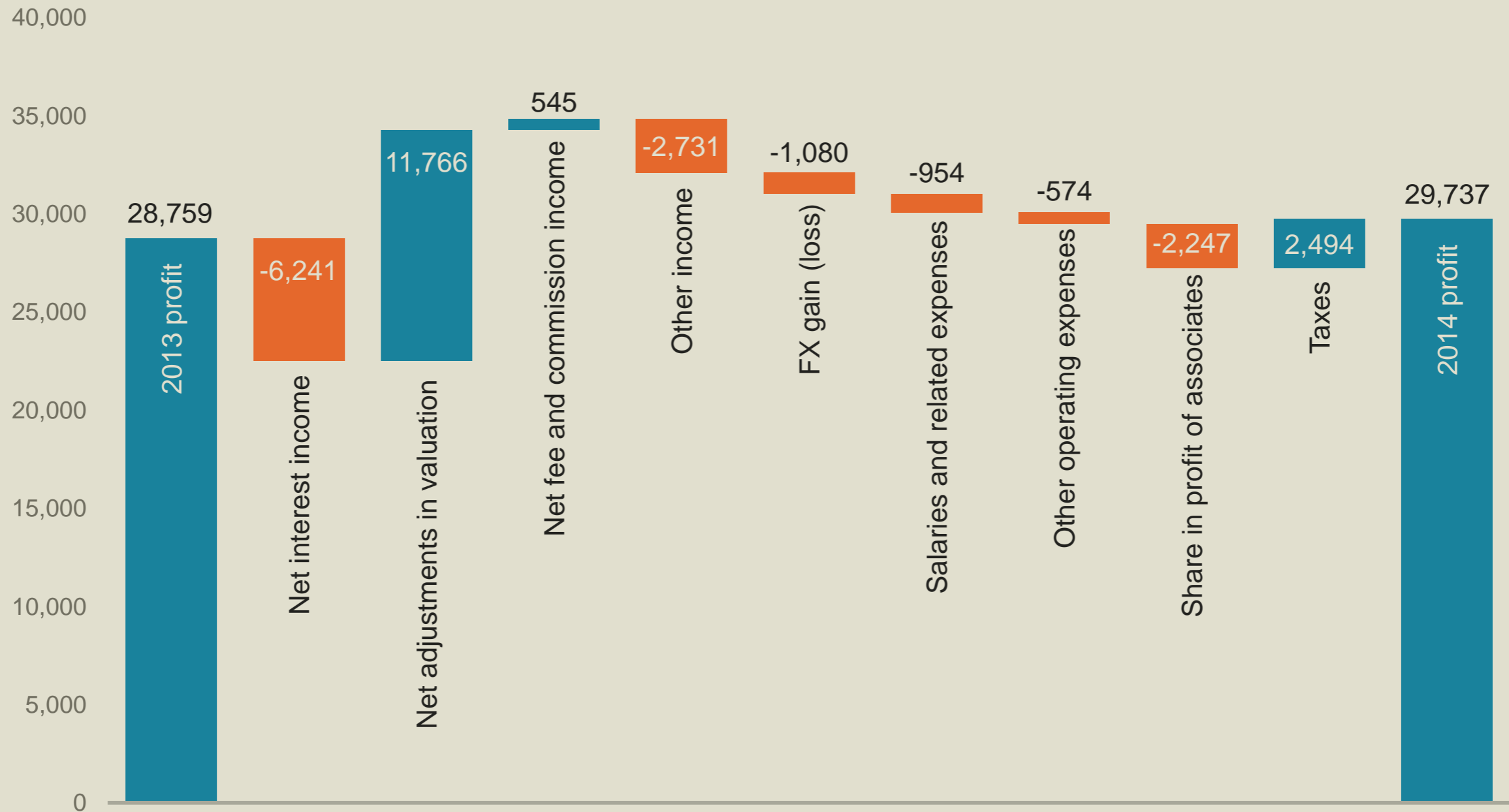


2014 Results

Income Statement

Amounts in ISKm

Change from 2013 to 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

	2014	2013	Change	Q4 2014	Q4 2013	Change	»
Net interest income	28,073	34,314	-18%	5,776	9,977	-42%	» Net interest income decreases by 18%
Net adjustments in valuation	20,128	8,362	141%	6,101	3,932	55%	» Net commission income increases by 10%
Change in contingent bond - liability to purchase own shares	0	4,691		0	0		» Other operating income falls by 29% mostly due to lower equity and bond prices
Net interest income after adjustments in valuation	48,201	47,367	2%	11,877	13,909	-15%	» Valuation adjustments in lending are positive by over ISK 20bn
Net fee and commission income	5,836	5,291	10%	1,640	1,180	39%	» Operating costs decreases by 6%
Other net operating income	9,112	12,923	-29%	4,914	1,971	149%	» Wages and related expenses increase by 8% between years due for the most part to contractual increase and costs from termination of employment expensed during the year
Total operating income	63,149	65,581	-4%	18,431	17,060	8%	» Effective tax rate is 18.7%
Salaries and related expenses	13,567	12,613	8%	3,805	3,508	8%	
Equity-settled employee share-based salaries	0	4,691		0	0		
Other operating expenses	10,521	9,947	6%	3,313	2,372	40%	
Total operating expenses	24,088	27,251	-12%	7,118	5,880	21%	
Share in profit of associates, net of income tax	465	2,712	-83%	125	1,585	-92%	
Profit before tax	39,526	41,042	-4%	11,438	12,765	-10%	
Income tax expense	9,789	12,283	-20%	1,686	6,282	-73%	
Profit for the period	29,737	28,759	3%	9,752	6,483	50%	

Net interest income and valuation adjustments

Amounts in ISKm

	2014	2013	Change	Q4 2014	Q4 2013	Change
Interest income	53,735	63,224	-15%	11,325	17,236	-34%
Interest expense	-25,662	-28,910	-11%	-5,549	-7,259	-24%
Net interest income	28,073	34,314	-18%	5,776	9,977	-42%
Net adjustments to loans and advances acquired at deep discount	22,166	19,440*	-14%	8,623	3,178	171%
Net impairment loss on loans	-2,038	-7,706	74%	-2,522	754	-434%
Change of contingent bond, equity settled employee share	0	1,319		0	0	
Net valuation adjustments	20,128	13,053	54%	6,101	3,932	55%
Net interest income after net valuation adjustments	48,201	47,367	2%	11,877	13,909	-15%

- » Lower inflation has a deciding influence on decreased interest revenues
- » Valuation adjustment in lending result in ISK 20bn in revenue in 2014, up by 54% between years
- » The Bank's net interest spread decreases to 2.4% in year end 2014, from 3.1% in year end 2013

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

Net value adjustments after settlement with LBI hf. Amounts in ISKm

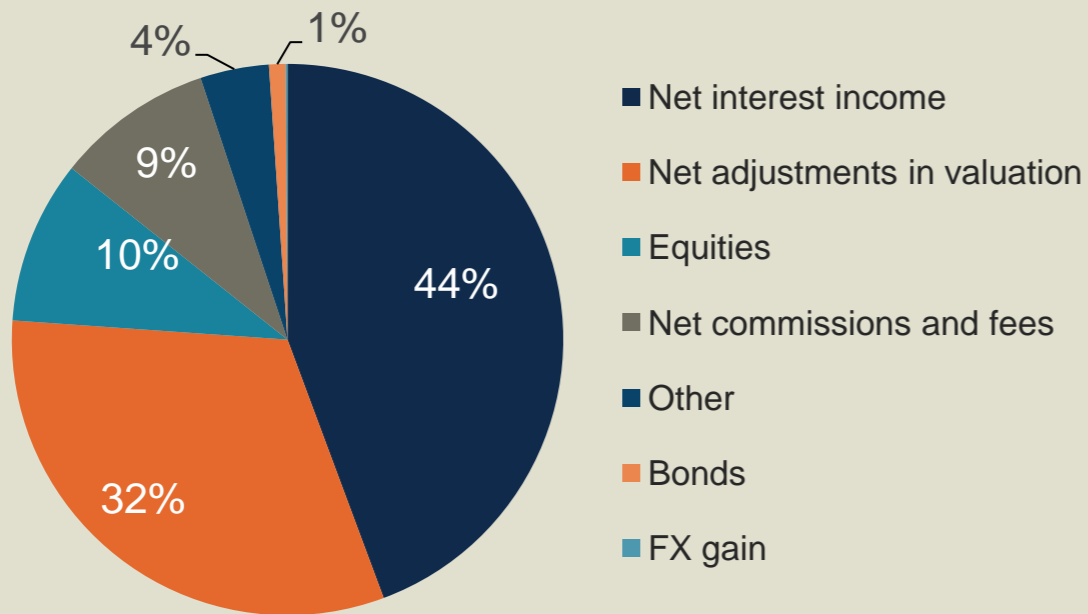
Net valuation adjustments	2014	2013	Change		2009 - 2014
Corporates	15,663	12,572	3,091	25%	24,749
Individuals	4,465	-838	5,303	633%	-12,180
	20,128	11,734	8,394	72%	12,569

- » Net value adjustments of loans to individuals are negative by ISK 12.2 bn from 2009
- » Net value adjustment increase of loans to corporates has been considerable. Large corporates have the greatest impact
- » Since the establishment of the Bank the total net value adjustments have generated profits of ISK 12.6 bn

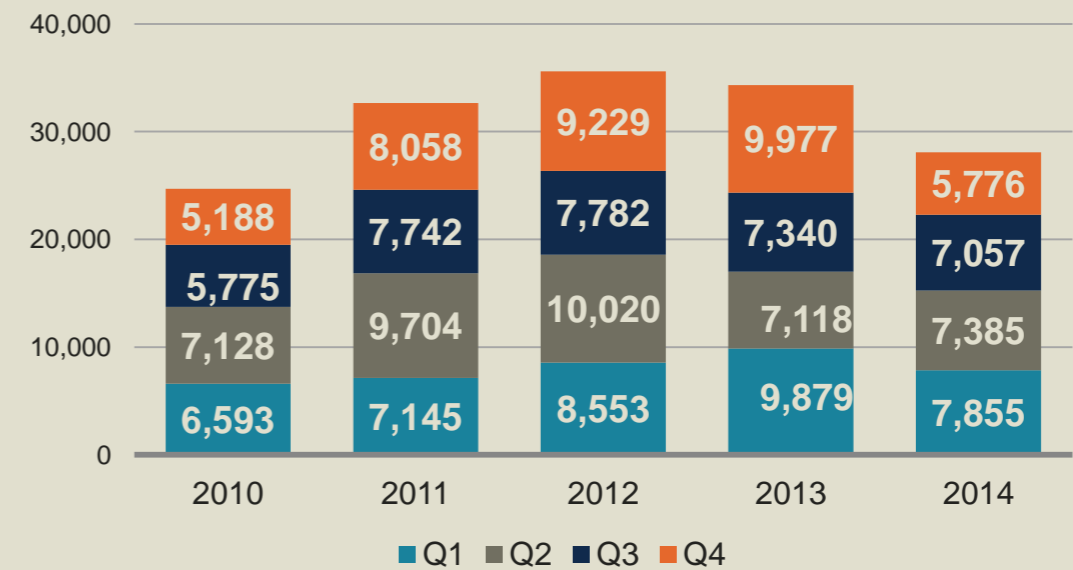
Net operating income

Amounts in ISKm

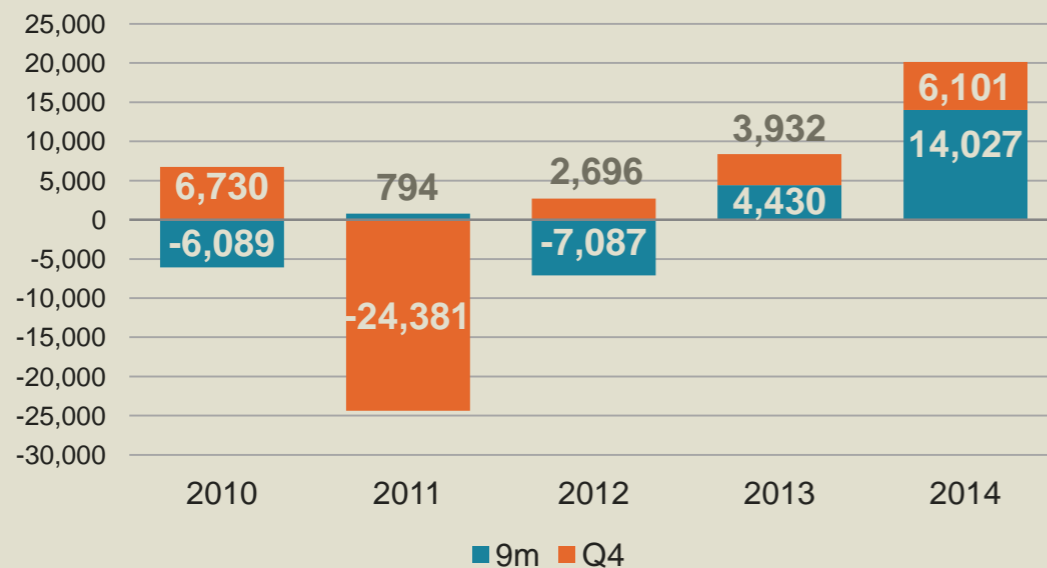
Income mix



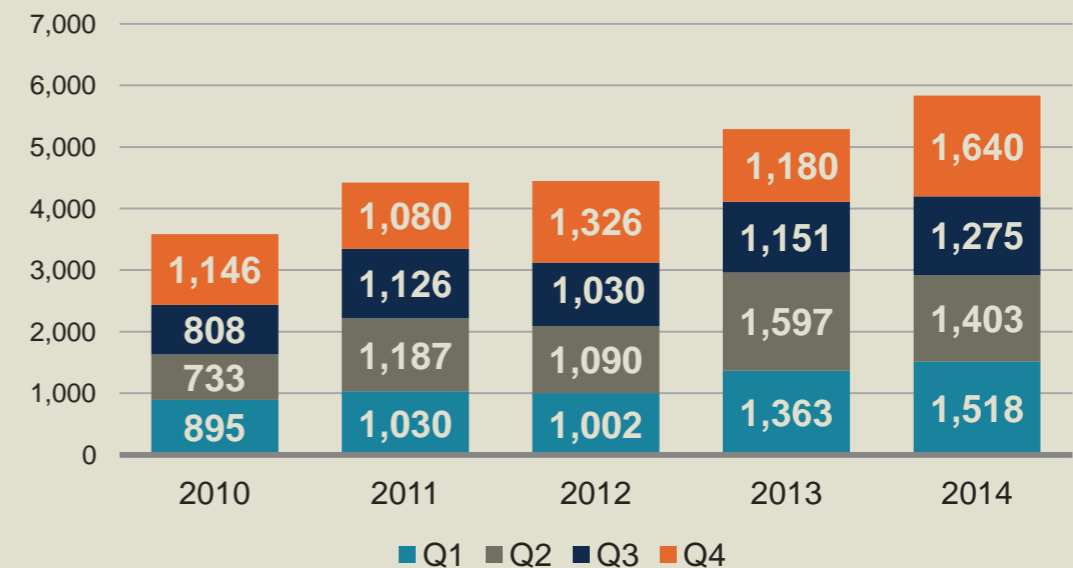
Net interest income



Net adjustments in valuation



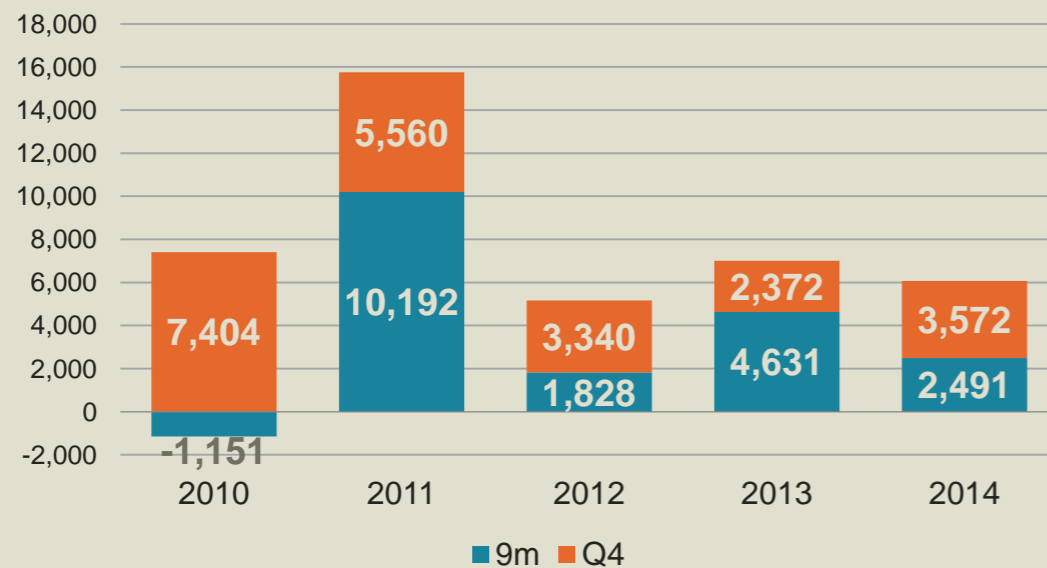
Net commissions and fees



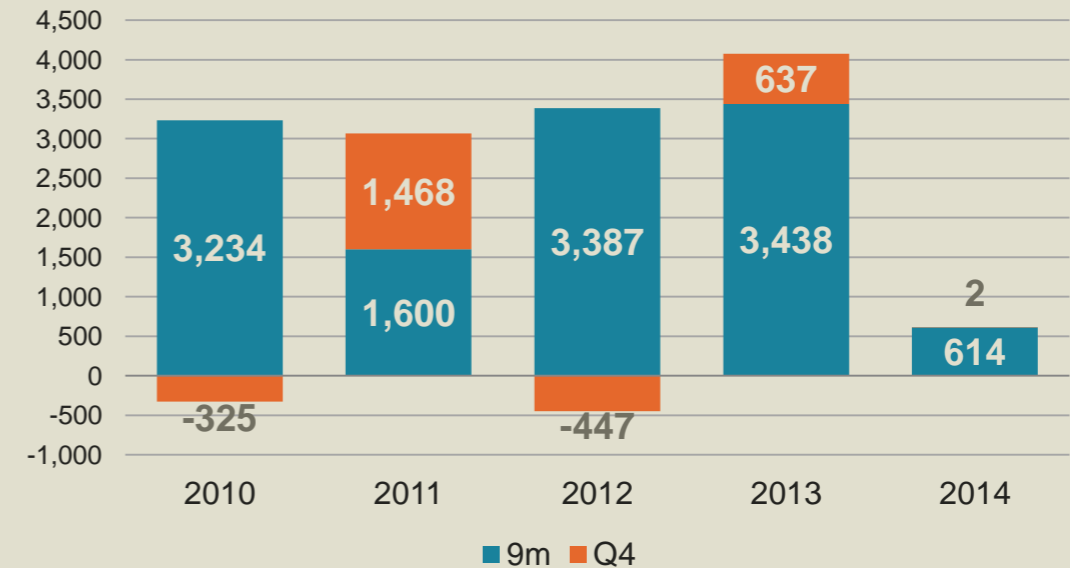
Net operating income

Amounts in ISKm

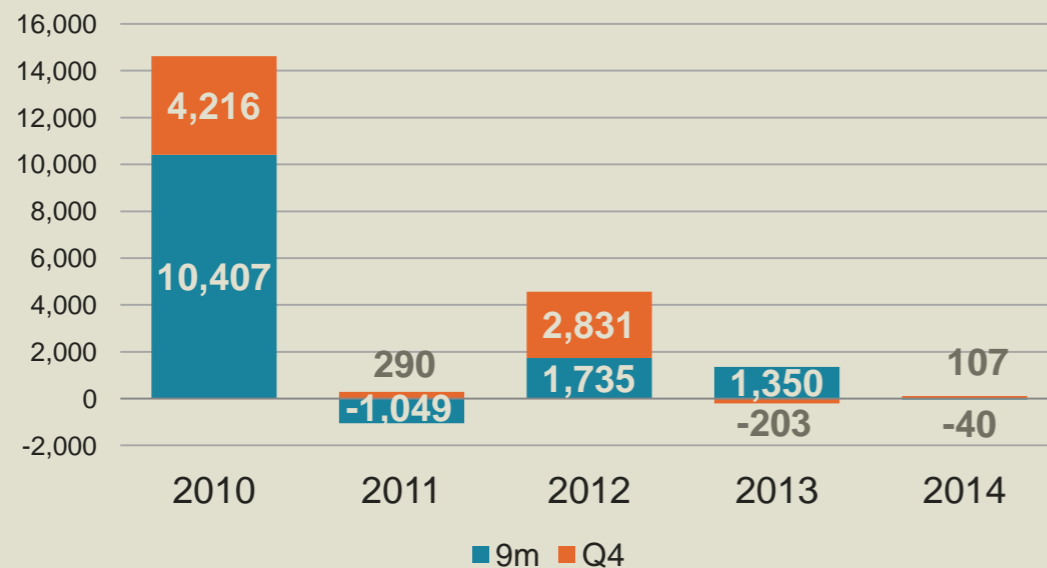
Equities



Bonds



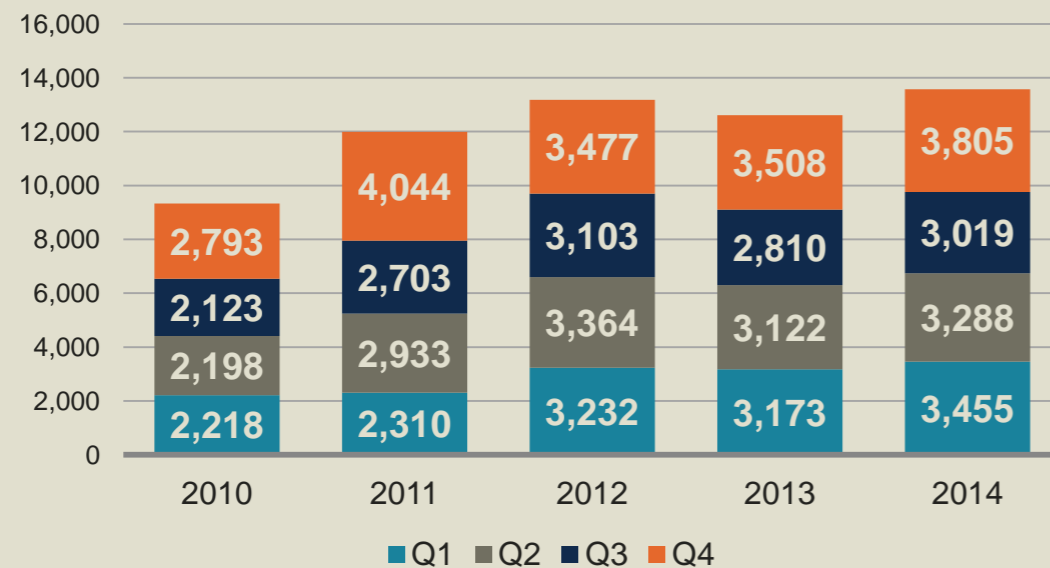
FX gain



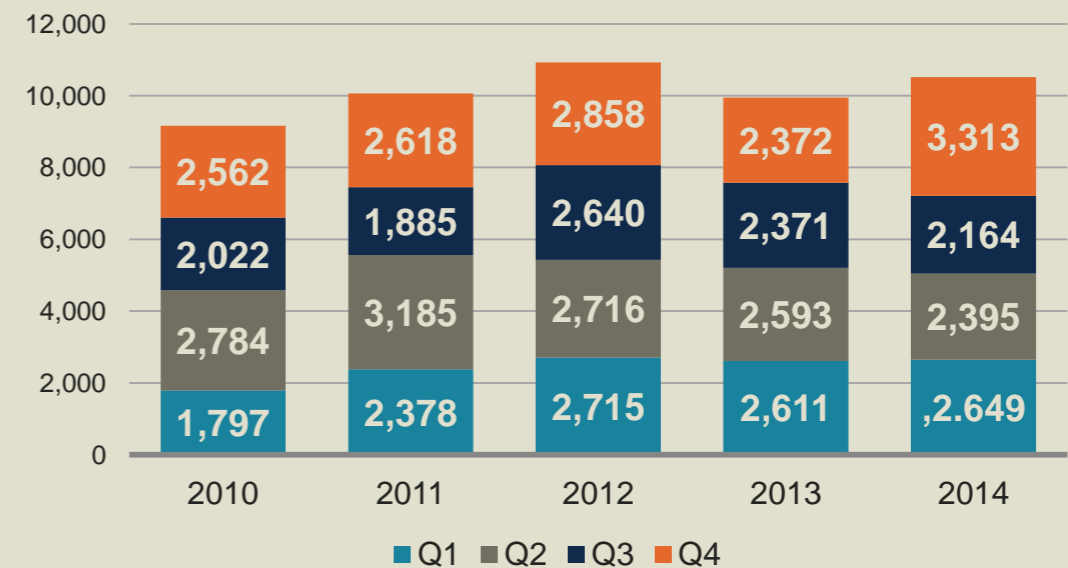
Operating expenses

Amounts in ISKm

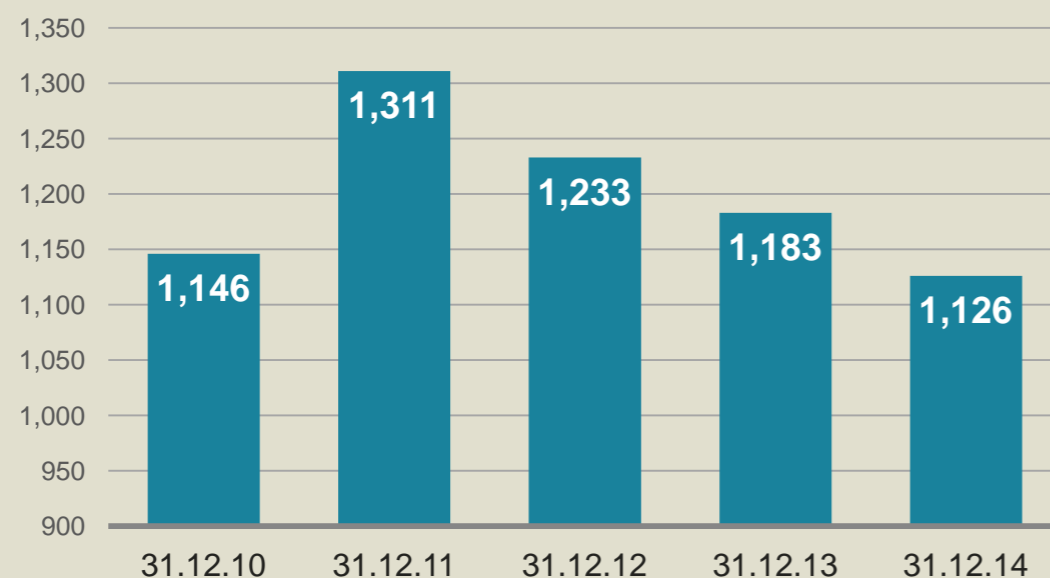
Salaries and related expenses



Other operating expenses



Full time employees



- » The increase in operational cost in Q4 of 2014 is largely due to a ISK 450 million settlement payment, due to a settlement over changes to the payment card market made with the Icelandic Competition Authority by the bank in December.
- » Since 2011, full time equivalent positions have decreased by 185, and the number of branches decreased by 13 during the same time period. The number of branches is now 32.

*2013 að frátöldu gjaldfærslu vegna hlutabréfatengdra launa

Taxes

Amounts in ISKm

	2014	2013	Change	
Income tax	5,050	6,982	-1,932	-28%
Special financial activities tax on profits ¹	1,771	2,018	-247	-12%
	6,821	9,000	-2,179	-24%
Tax on liabilities of financial institutions ²	2,968	3,283	-315	-10%
Special financial activities tax on salaries ³	724	938	-214	-23%
Total	10,513	13,221	-2,708	-20%

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 million

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

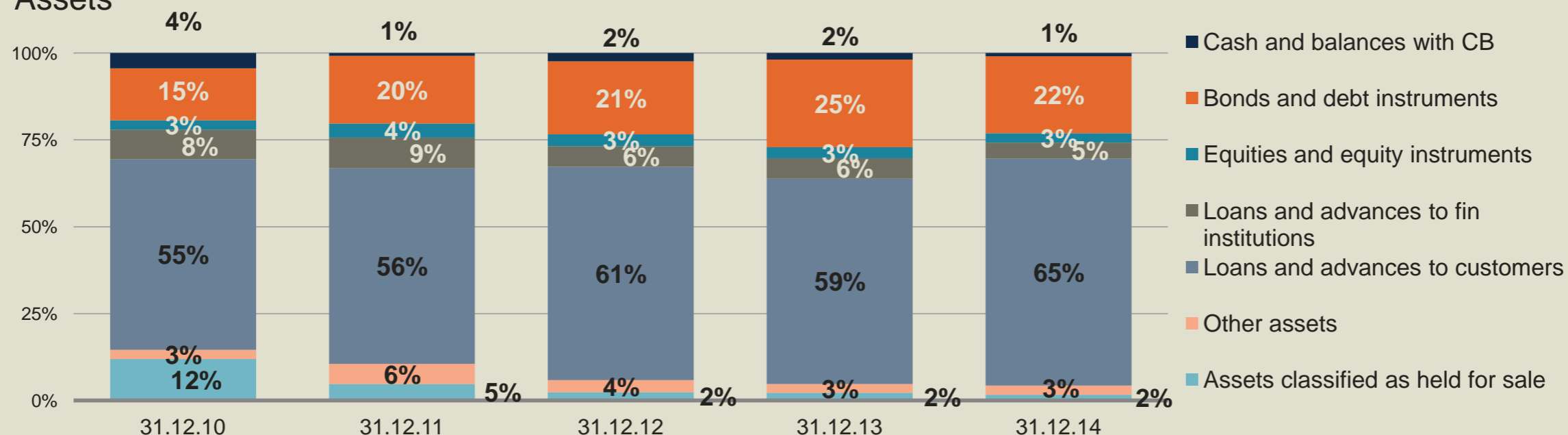
Balance sheet - assets

Amounts in ISKm

	31.12.14	31.12.13	Change	
Cash and balances with CB	10,160	21,520	-11,360	-53%
Bonds and debt instruments	243,589	290,595	-47,006	-16%
Equities and equity instruments	29,433	36,275	-6,842	-19%
Loans and advances to fin institutions	49,789	67,916	-18,127	-27%
Loans and advances to customers	718,355	680,468	37,887	6%
Other assets	28,832	29,719	-887	-3%
Assets classified as held for sale	18,212	25,023	-6,811	-27%
Total	1,098,370	1,151,516	-53,146	-5%

- » Lending to customers amounts to ISK 162 bn in the year 2014 yet installments and other factors contribute to a total increase in lending of ISK 38 bn during the period.
- » The Bank's total assets have decreased by ISK 53 bn during the year, partly because the bank's good liquidity in foreign currencies enabled the bank to prepay about ISK 30 billion on its debt to LBI hf.

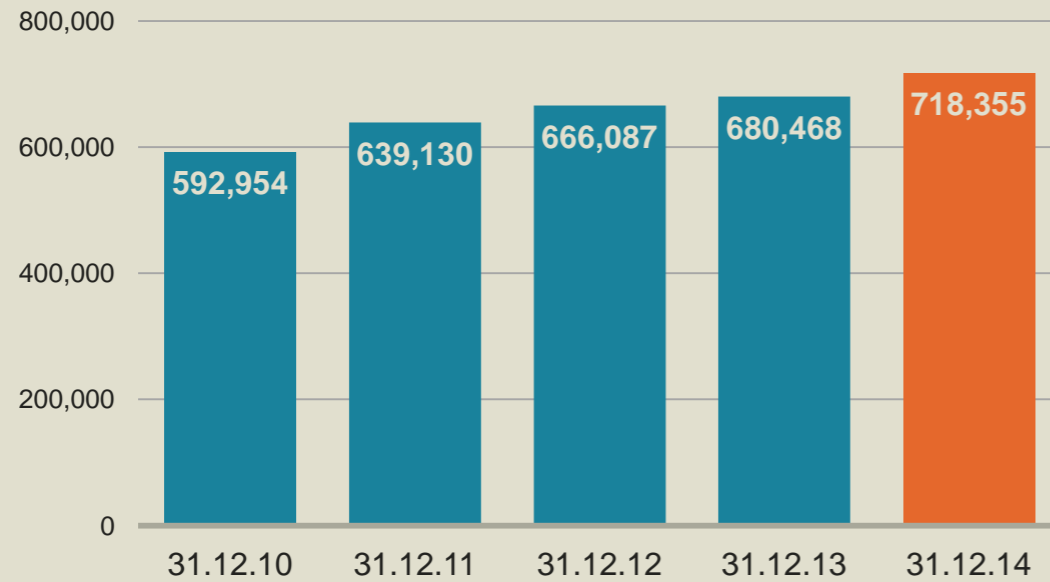
Assets



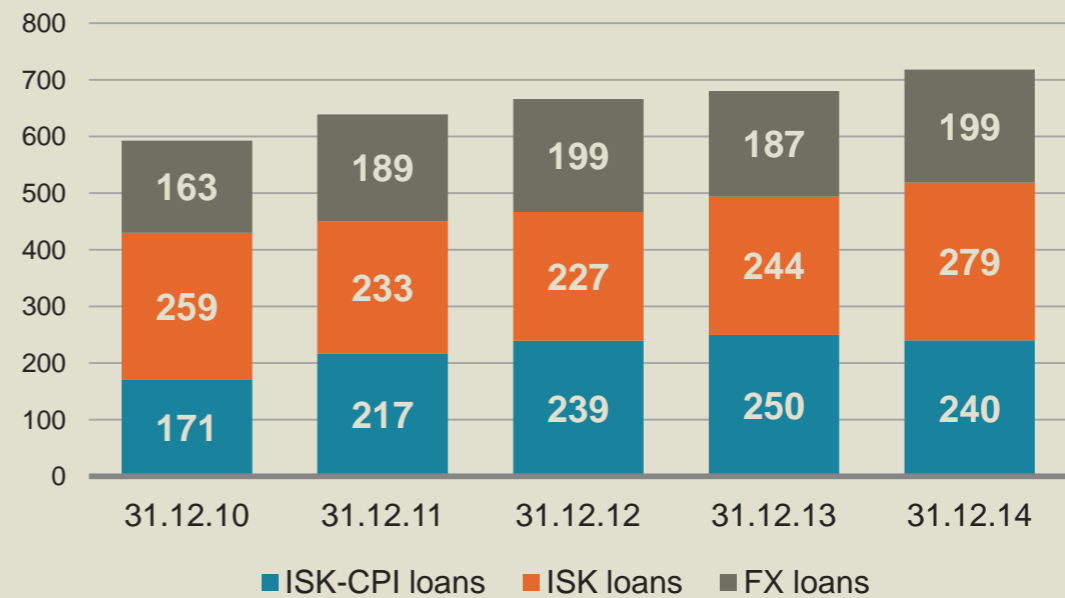
Balance sheet - loans

Amounts in ISKm

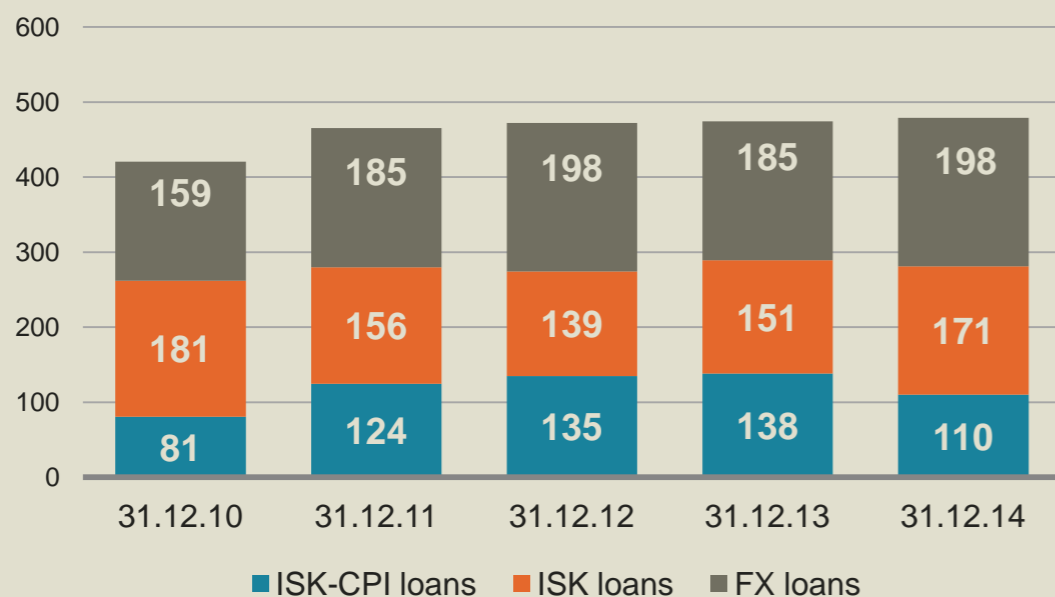
Loans and advances to customers



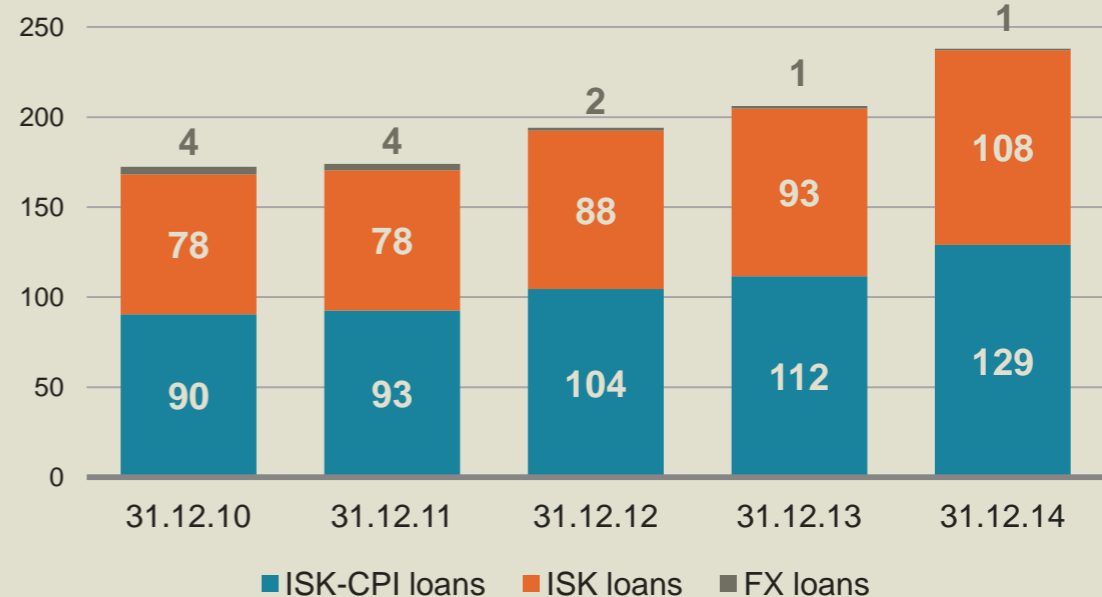
Loans to customers



Loans to corporates



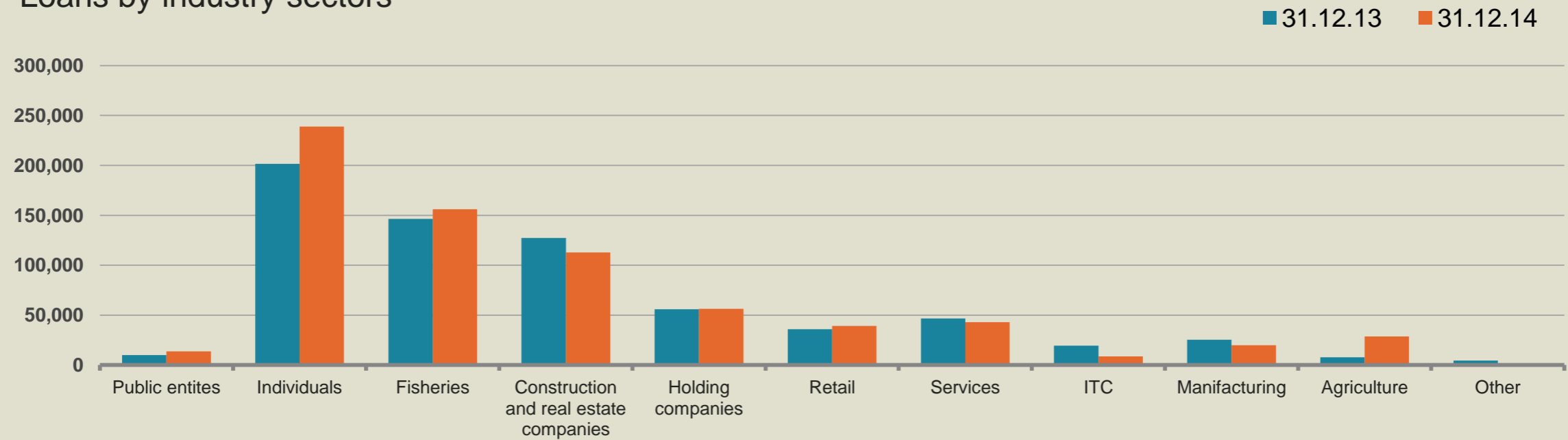
Loans to individuals



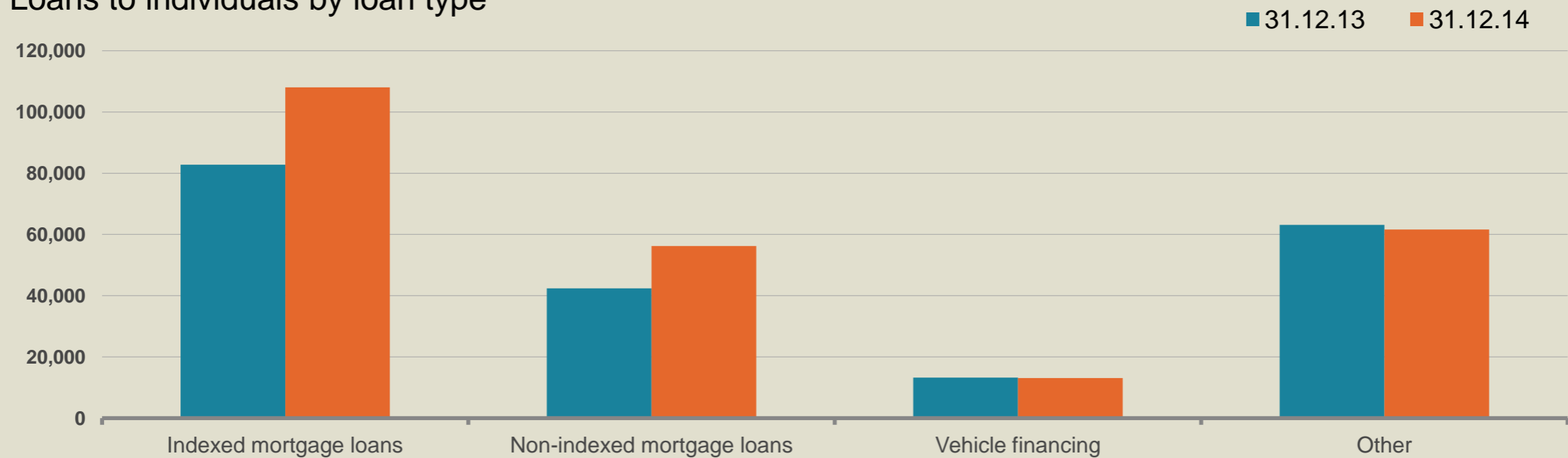
Balance sheet - loans

Amounts in ISKm

Loans by industry sectors

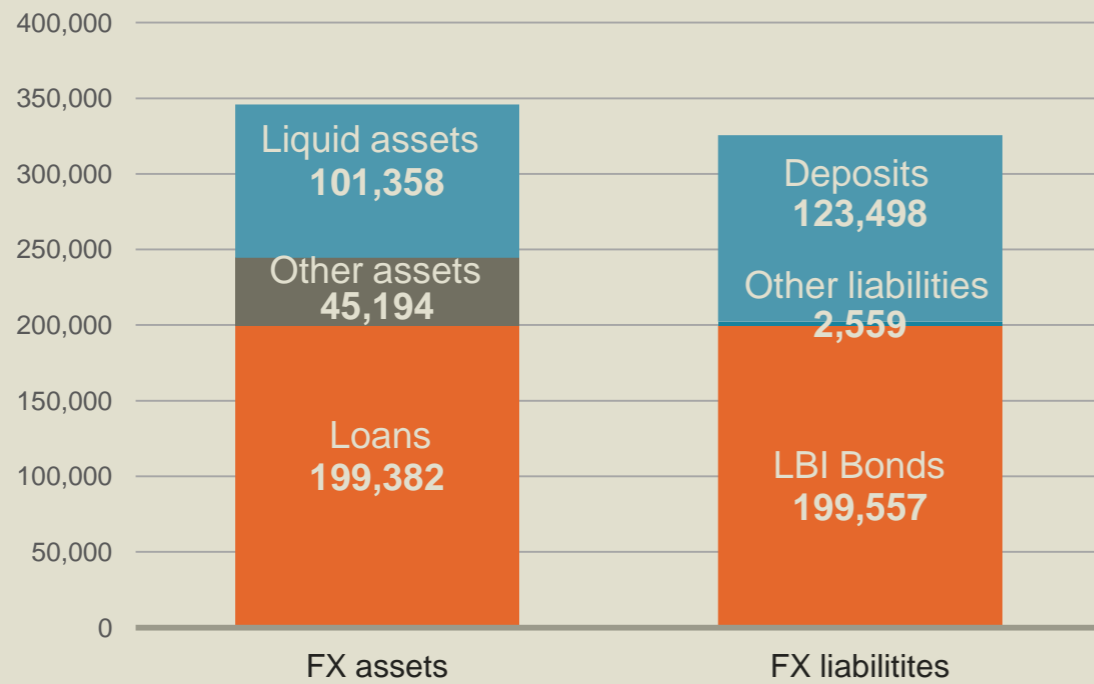


Loans to individuals by loan type

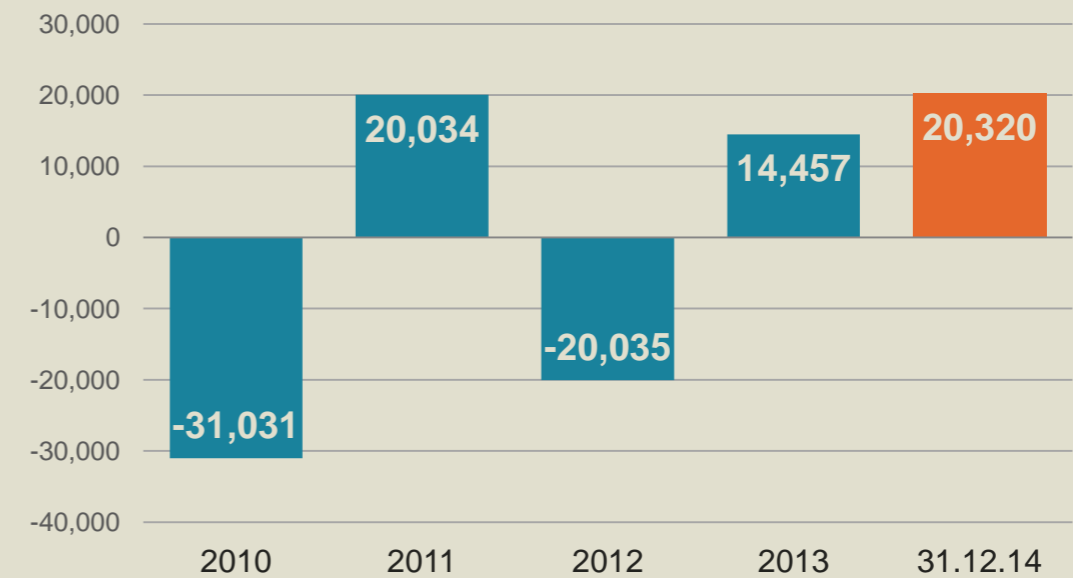


FX assets and liabilities

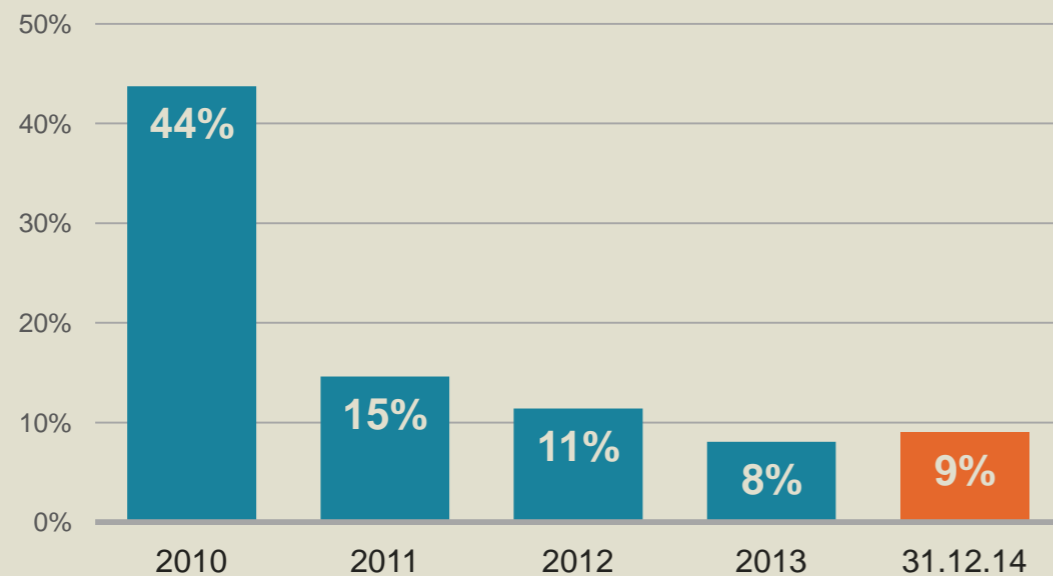
Amounts in ISKm



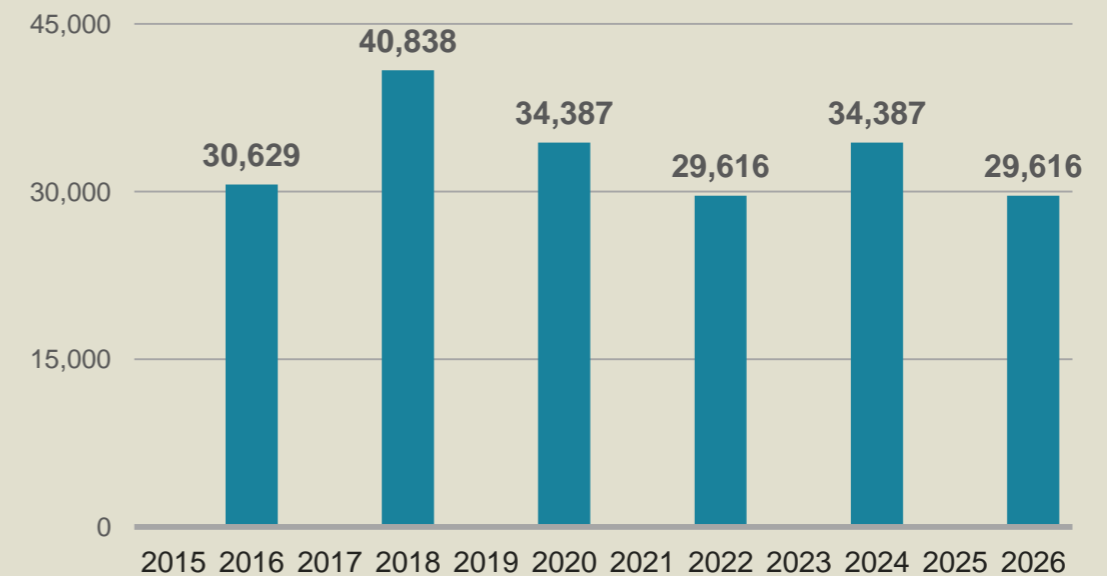
Net FX balance



FX risk / risk-weighted assets



Secured Bonds in FX - Maturity profile

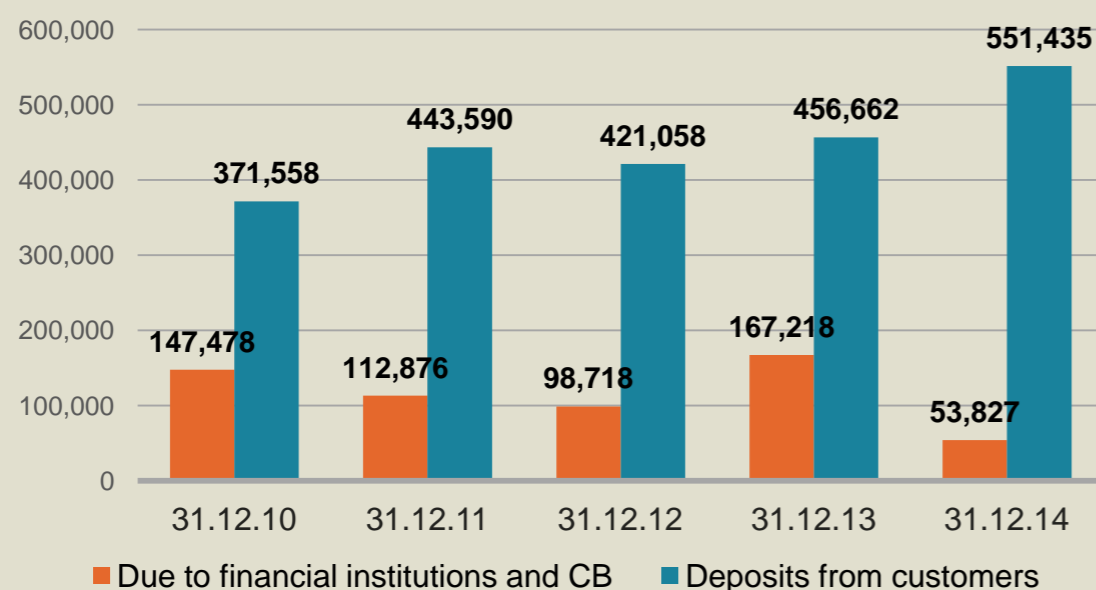


Balance sheet – liabilities and equity

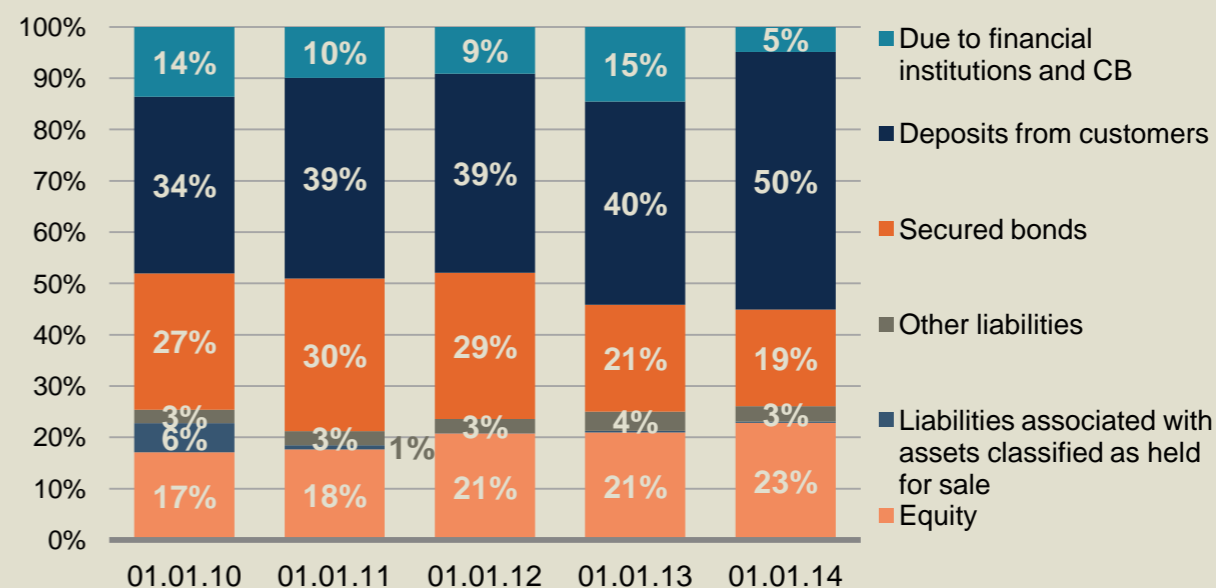
Amounts in ISKm

	31.12.14	31.12.13	2014 change	
Due to financial institutions and CB	53,827	167,218	-113,391	-68%
Deposits from customers	551,435	456,662	94,773	21%
Secured bonds	207,028	239,642	-32,614	-14%
Other liabilities	35,277	46,635	-11,358	-24%
Equity	250,803	241,359	9,444	4%
Total	1,098,370	1,151,516	-53,146	-5%

Deposits



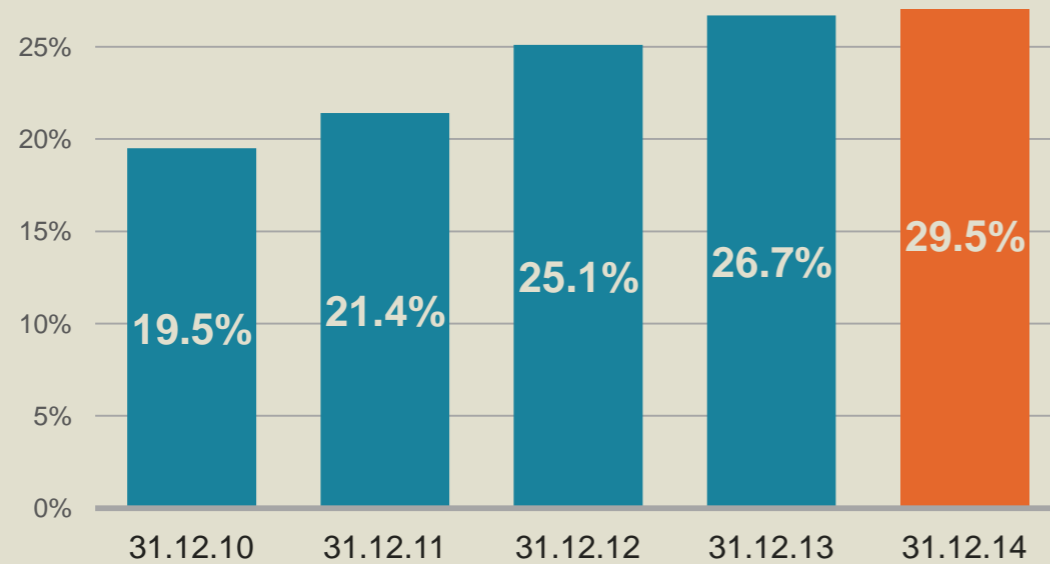
Liabilities and equity



Capital ratio and liquid assets

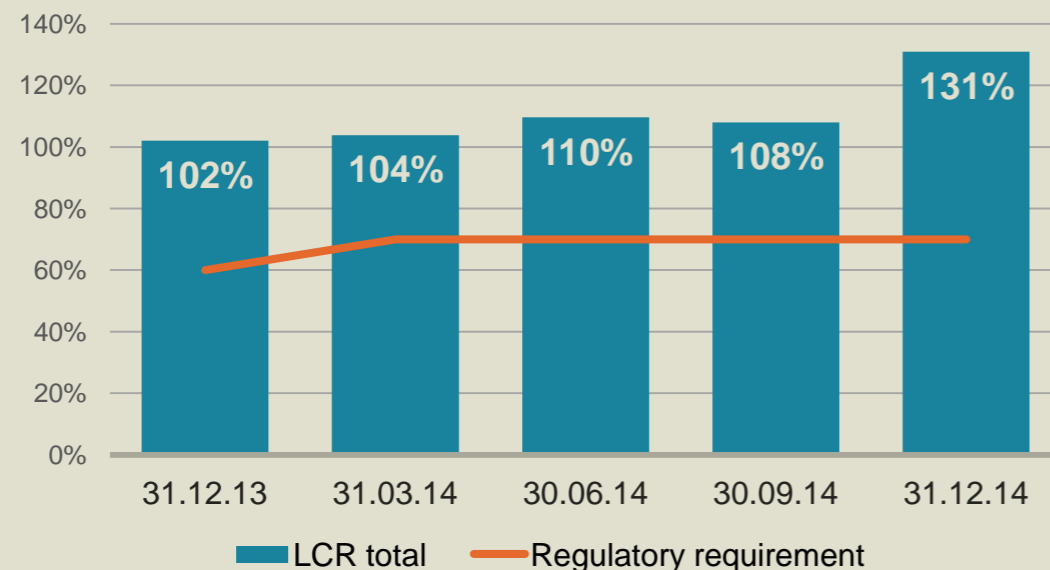
Amounts in ISKm

Capital adequacy ratio (CAR)

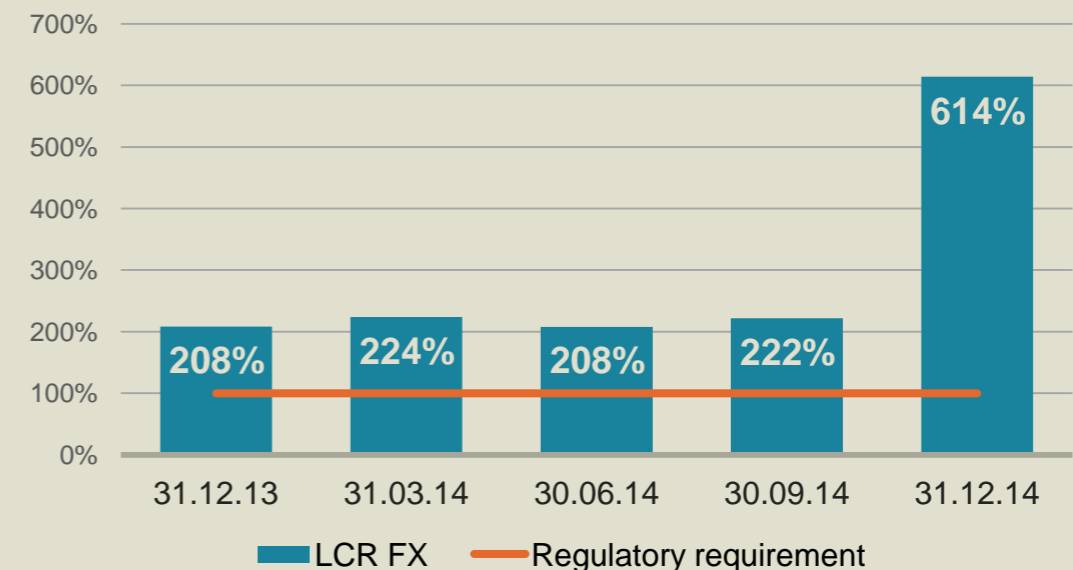


- » The Bank's capital adequacy ratio (CAR) is based solely on Tier 1 capital
- » Growing CAR is attributable to good performance on the one hand and effective risk management on the other
- » The Bank is well above its 20% CAR benchmark

Liquidity coverage ratio total



Liquidity coverage ratio FX



Other aspects of Landsbankinn's operations

- » In December 2014, an agreement between Landsbankinn and the Winding-up Board of LBI hf., providing amendments to the terms of settlement bonds as provided for in an agreement from December 2009 became effective.
 - » 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.
 - » 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.
- » In January 2014, international credit rating agency Standard & Poor's (S&P) gave Landsbankinn a BB+ credit rating and rated its outlook as stable. In October 2014, S&P updated their rating and rated the outlook for Landsbankinn's credit rating as positive. At the same time, the bank's BB+/B long- and short-term ratings were confirmed.
- » In August 2014, the Bank listed a Euro Medium Term Note (EMTN) programme on the Irish Stock Exchange. This EMTN programme enables the Bank to issue notes in the equivalent amount of up to EUR 1,000 million in various currencies and at fixed or floating interest 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.
- » Landsbankinn has determined a long-term strategy with input from international advisors. Strategy development focused, amongst other things, on improving service to customers, increasing efficiency by simplifying work processes and reducing costs and optimising the balance sheet.
- » Work on correcting illegal exchange rate indexed loans and implementing solutions according to the government's debt adjustment plan proceeded according to schedule in 2014.

Annex – further information

Key financial ratios

Amounts in ISKm

	2014	2013	2012	2011	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Profit after taxes	29,737	28,759	25,494	16,957	9,752	5,107	10,590	4,288	6,483
Return on equity before taxes	16.7%	17.6%	14.0%	8.1%	18.6%	11.1%	25.9%	11.2%	21.5%
Return on equity after taxes	12.5%	12.4%	12.0%	8.4%	15.9%	8.6%	18.4%	7.3%	10.9%
Capital ratio (CAR)	29.5%	26.7%	25.1%	21.4%	29.5%	27.1%	26.8%	24.8%	26.7%
Net interest income	28,073	34,314	35,584	32,649	5,776	7,057	7,385	7,855	9,977
Interest spread as a ratio of average total assets	2.4%	3.1%	3.2%	2.9%	2.0%	2.4%	2.6%	2.7%	3.5%
Cost-income ratio *	56.0%	42.9%	45.0%	40.6%	57.7%	56.2%	43.7%	72.0%	44.8%
Liquidity ratio	39%	50%	48%	43%	39%	49%	47%	49%	50%
Liquidity ratio LCR total	131%	102%			131%	108%	110%	104%	102%
Liquidity ratio LCR FX	614%	208%			614%	222%	208%	224%	208%
Operating expenses as a ratio of average total assets **	2.1%	2.0%	2.2%	2.0%	2.5%	1.8%	2.0%	2.1%	2.0%
Total assets	1,098,370	1,151,516	1,084,787	1,135,482	1,098,370	1,201,247	1,154,598	1,153,804	1,151,516
Loans / deposits ratio	130.3%	149.0%	158.2%	144.1%	130.3%	144.6%	147.8%	145.5%	149.0%
Full-time eqv. positions	1,126	1,183	1,233	1,311	1,126	1,166	1,162	1,178	1,183

* 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

	2014	2013	Change		2012	2011	2010
Net interest income	28,073	34,314	-6,241	-18%	35,584	32,649	24,685
Net valuation adjustments	20,128	8,362	11,766	141%	-4,391	-23,587	641
Change in contingent bond - liability to purchase own shares	0	4,691	-4,691		0	0	0
Net interest income after valuation adjustments	48,201	47,367	834	2%	31,193	9,062	25,326
Net fee and commission income	5,836	5,291	545	10%	4,448	4,424	3,582
Net foreign exchange gain (loss)	67	1,147	-1,080	-94%	4,566	-759	14,623
Other net operating income	9,045	11,776	-2,731	-23%	8,934	18,017	7,318
Total operating income	63,149	65,581	-2,432	-4%	49,141	30,743	50,849
Salaries and related expenses	13,567	12,613	954	8%	13,176	11,990	9,331
Equity-settled employee share-based salaries	0	4,691	-4,691		0	0	0
Other operating expenses	8,545	8,005	540	7%	8,878	8,466	7,312
Depreciation and amortisation	942	818	124	15%	719	771	1,311
Contribution to the Depositors' and Investors' Guarantee Fund	1,034	1,079	-45	-4%	1,042	583	0
Acquisition-related costs	0	45	-45		290	245	542
Total operating expenses	24,088	27,251	-3,163	-12%	24,105	22,055	18,496
Share in profit of associates, net of income tax	465	2,712	-2,247	-83%	2,449	1,418	291
Profit before tax	39,526	41,042	-1,516	-4%	27,485	10,105	32,644
Income tax expense	9,789	12,283	-2,494	-20%	4,125	-597	8,182
Profit for the period from continuing operations	29,737	28,759	978	3%	23,360	10,703	24,462
Profit from disc operations, net of income tax	0	0	0		2,134	6,255	2,769
Profit for year	29,737	28,759	978	3%	25,494	16,957	27,231

Balance Sheet

Amounts in ISKm

	31.12.14	31.12.13	2014 change		31.12.12	31.12.11	31.12.10
Cash and balances with CB	10,160	21,520	-11,360	-53%	25,898	8,823	47,777
Bonds and debt instruments	243,589	290,595	-47,006	-16%	228,208	221,848	161,559
Equities and equity instruments	29,433	36,275	-6,842	-19%	36,881	46,037	29,429
Loans and advances to fin institutions	49,789	67,916	-18,127	-27%	64,349	100,133	91,882
Loans and advances to customers	718,355	680,468	37,887	6%	666,087	639,130	592,954
Other assets	28,832	29,719	-887	-3%	38,044	65,959	28,743
Assets classified as held for sale	18,212	25,023	-6,811	-27%	25,320	53,552	128,789
Total	1,098,370	1,151,516	-53,146	-5%	1,084,787	1,135,482	1,081,133
Due to financial institutions and CB	53,827	167,218	-113,391	-68%	98,718	112,876	147,478
Deposits from customers	551,435	456,662	94,773	21%	421,058	443,590	371,558
Secured bonds	207,028	239,642	-32,614	-14%	309,265	337,902	287,822
Other liabilities	32,443	42,750	-10,307	-24%	29,687	31,485	27,800
Liabilities associated with assets classified as held for sale	2,834	3,885	-1,051	-27%	893	9,385	61,609
Equity	250,803	241,359	9,444	4%	225,166	200,244	184,866
Total	1,098,370	1,151,516	-53,146	-5%	1,084,787	1,135,482	1,081,133

Segments

Amounts in ISKm

2014	Personal Banking	Corporate Banking	Markets	Treasury	Support Functions	Reconciliation	Total
Net interest income (expense)	14,820	15,704	772	-1,984	5	-1,244	28,073
Net valuation adjustments	8,985	9,214	0	-54	1,983	0	20,128
Net fee and commission income	2,785	646	3,061	-322	83	-417	5,836
Other net operating income	440	-264	359	9,311	-1,819	1,085	9,112
Total operating income (expense)	27,030	25,300	4,192	6,951	252	-576	63,149
Operating expenses	-6,323	-1,558	-2,050	-1,369	-13,225	437	-24,088
Share in profit of equity-accounted associates, net of income tax	444	0	0	-45	66	0	465
Profit (loss) before cost allocation and tax	21,151	23,742	2,142	5,537	-12,907	-139	39,526
Cost allocated from support functions to business segments	-5,557	-3,886	-1,208	-1,128	11,779	0	0
Profit (loss) before tax	15,594	19,856	934	4,409	-1,128	-139	39,526
Total assets	348,010	453,134	19,350	455,077	31,000	-208,201	1,098,370
Total liabilities	290,139	339,587	10,227	384,815	31,000	-208,201	847,567
Allocated capital	57,871	113,547	9,123	70,262	0	0	250,803