

Q1 2015 Results

Landsbankinn hf.

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CEO

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Highlights

Operations

- » The Bank's after-tax profit in Q1 was ISK 6.4 billion, as compared with ISK 4.3 billion for Q1 of 2014
- » Net interest income amounted to ISK 7.3 bn, down by 7% as compared with the same period in 2014
- » Net commission income increases by 8% as compared with the same period the previous year
- » The ratio of interest spread to average capital position was 2.6% in Q1 of 2015 as compared to 2.7% for the same period in 2014
- » After-tax return on equity (ROE) was 10.6% as compared with 7.3% for the same period in 2014
- » Operating costs increase by 3% as compared with the same period in 2014
- » The cost-income ratio decreased between periods, was 48% in Q1 2015 as compared to 72% for Q1 in 2014

Balance sheet

- » Landsbankinn's total assets amounted to ISK 1,172 bn as of the end of March 2015
- » The impact of the merger with Sparisjóður Vestmannaeyja is only evident in the balance sheet towards the end of Q1 2015; the merger did not impact the Bank's operation in Q1 2015
- » Deposits from customers have grown by 13% during the year and lending by 2%
- » The Bank's liquidity position is very strong, both in foreign currency and Icelandic króna
- » Loans 90 days in arrears remain unchanged from the beginning of the year, at 2.3%
- » Landsbankinn paid just under ISK 24 bn in dividends to its owners in Q1 which leads to a decrease in equity and CAR
- » The Bank's equity currently amounts to ISK 233.4 bn and has decreased by 7% since the beginning of the year
- » The Bank's capital adequacy ratio (CAR) is now 26.7%, up from 29.5% at the end of 2014

Main results

Amounts in ISKm

	1F 2015	1F 2014	2014	2013
Profit after taxes	6,412	4,288	29,737	28,759
Return on equity after taxes	10.6%	7.3%	12.5%	12.4%
Interest spread as a ratio of av. total assets	2.6%	2.7%	2.4%	3.1%
Cost-income ratio*	48.0%	72.0%	56.0%	42.9%
Real change in operating expenses	1.3%	3.3%	5.9%	-10.1%
Total assets	1,172,380	1,153,804	1,098,370	1,151,516
Loans to customers	735,479	681,883	718,355	680,468
Deposits from customers	624,063	468,661	551,435	456,662
Capital ratio (CAR)	26.7%	24.8%	29.5%	26.7%
Net stable funding ratio FX NSFR	142%		134%	
Liquidity ratio LCR total	118%	104.0%	131%	102.0%
Liquidity ratio LCR FX	379%	224.0%	614%	208.0%
Net FX position	19,905	18,436	20,320	14,457
Arreas (>90 days)	2.3%	5.0%	2.3%	5.3%
Full-time eqv. postitions	1,102	1,178	1,126	1,183

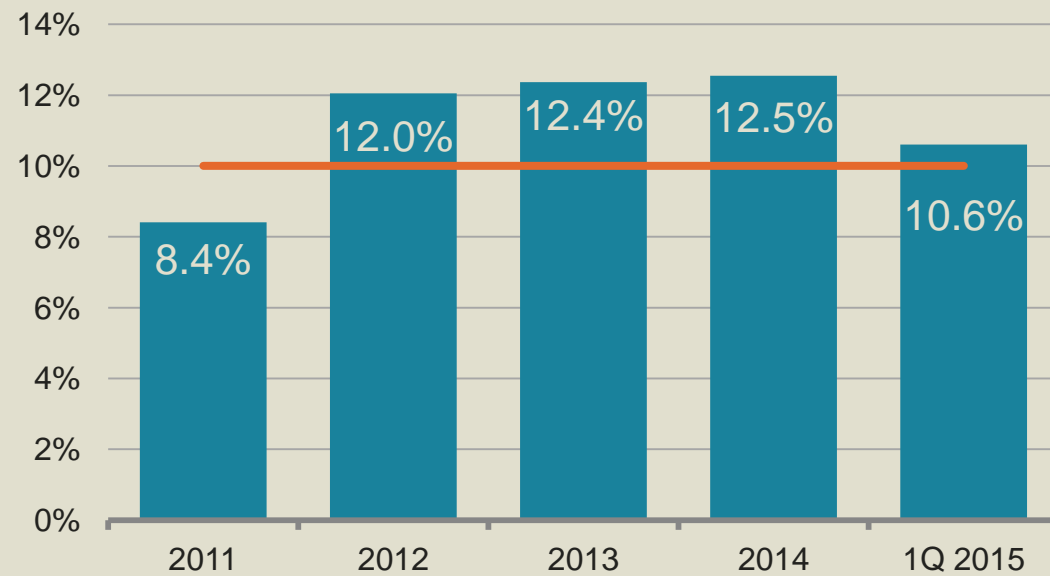
***Cost-income ratio**= Total operating expenses less expensed equity-based wage items/(Net operating revenue-value change of lending)

Development of KPIs

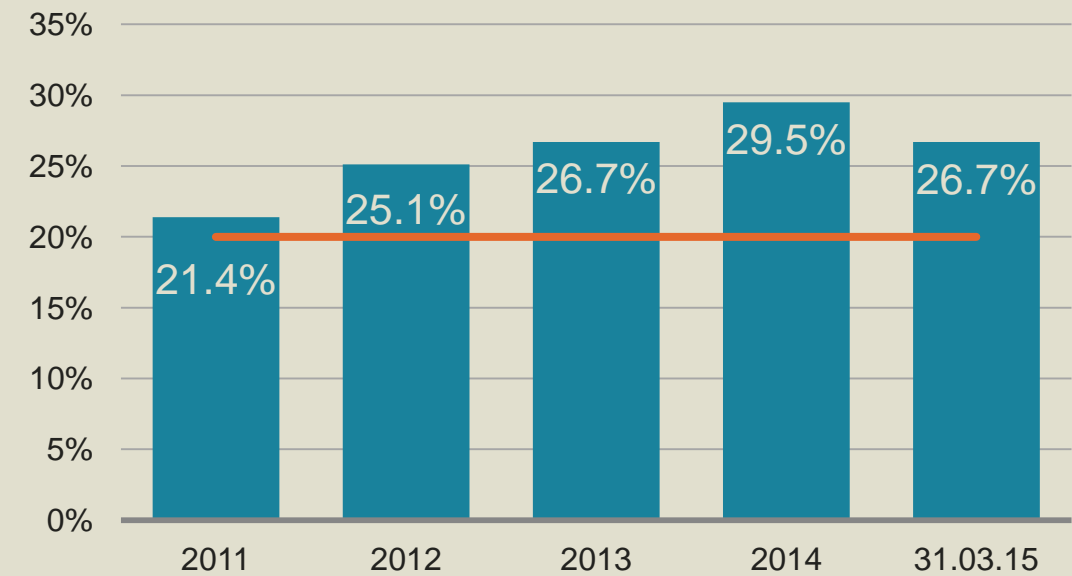
Amounts in ISKm

Landsbankinn target

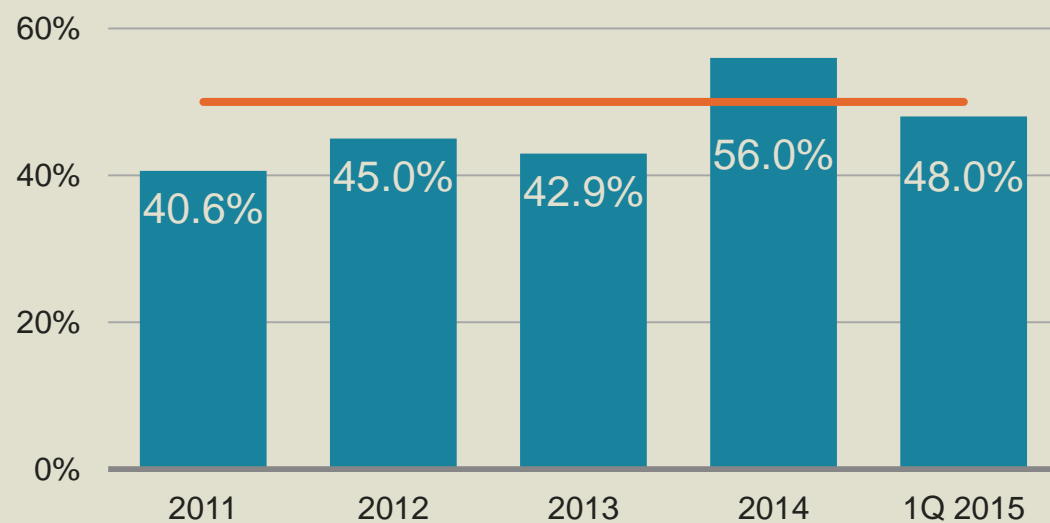
Return on equity



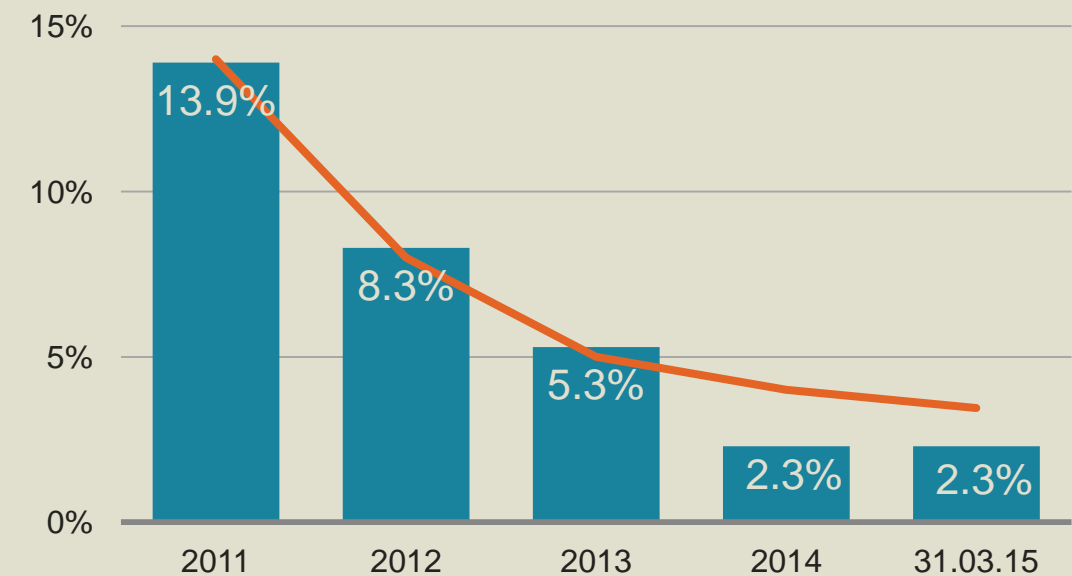
Capital adequacy ratio (CAR)



Cost-income ratio excluding valuation adjustments



Arrears (> 90 days)

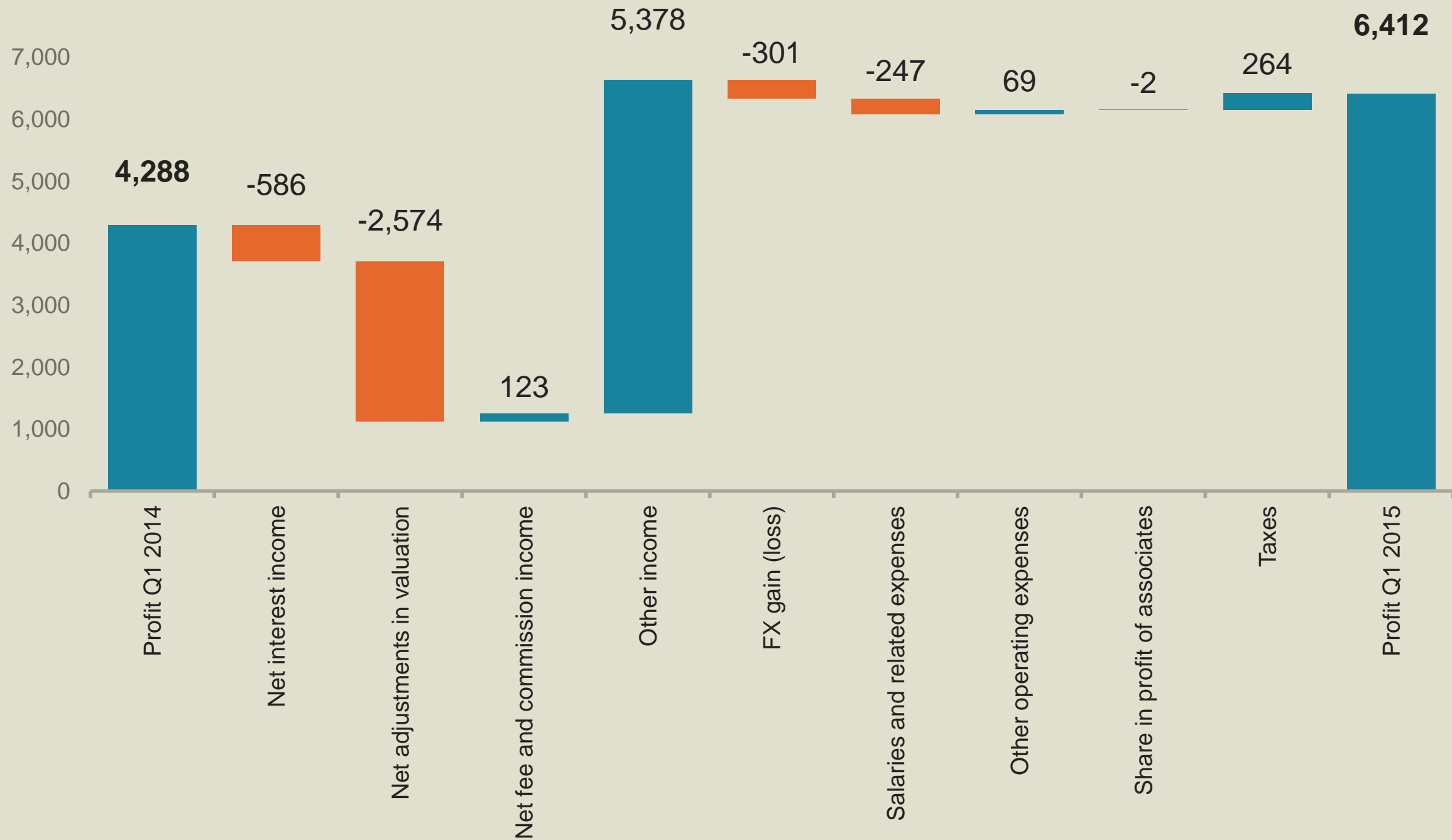


Q1 2015 Results

Income Statement

Amounts in ISKm

Change from Q1 2014 to Q1 2015



Income Statement

Amounts in ISKm

	Q1 2015	Q1 2014	Change	
Net interest income	7,269	7,855	-586	-7%
Net adjustments in valuation	1,596	4,170	-2,574	-62%
Net interest income after adjustments in valuation	8,865	12,025	-3,160	-26%
Net fee and commission income	1,641	1,518	123	8%
Other net operating income	4,177	-900	5,077	564%
Total operating income	14,683	12,643	2,040	16%
Salaries and related expenses	3,702	3,455	247	7%
Other operating expenses	2,580	2,649	-69	-3%
Total operating expenses	6,282	6,104	178	3%
Share in profit of associates, net of income tax	9	11	-2	-18%
Profit before tax	8,410	6,550	1,860	28%
Income tax expense	1,998	2,262	-264	-12%
Profit for the period	6,412	4,288	2,124	50%

- » Net interest income decreases by 7%
- » Valuation adjustments in lending are positive by ISK 1,6 bn
- » Net commission income increases by 8%
- » Other operating income increases mostly due to higher equity prices
- » Wages and related expenses increase by 7% due for the most part to costs from termination of employment expensed during the year
- » Operating costs decreases by 3%
- » Effective tax rate is 15.6%

Net interest income and valuation adjustments

Amounts in ISKm

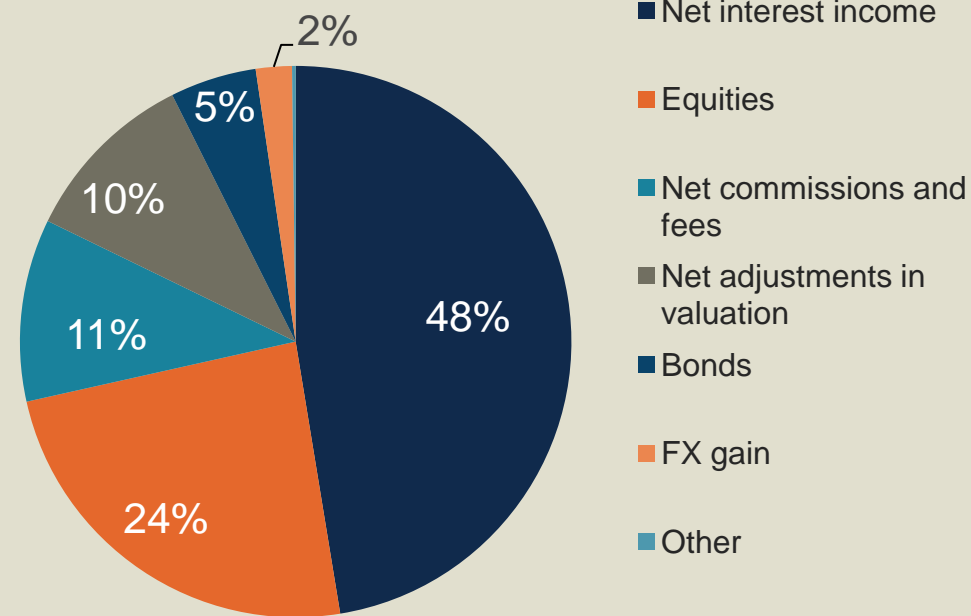
	Q1 2015	Q1 2014	Change	
Interest income	12,738	14,450	-1,712	-12%
Interest expense	-5,469	-6,595	1,126	-17%
Net interest income	7,269	7,855	-586	-7%
Net adjustments to loans and advances acquired at deep discount	0	6,711	-6,711	-100%
Net impairment loss on loans	3,611	-2,541	6,152	242%
Loss from foreign currency linkage of loans and advances to customers	-2,015	0	-2,015	
Net valuation adjustments	1,596	4,170	-2,574	-62%
Net interest income after net valuation adjustments	8,865	12,025	-3,160	-26%

- » Lower inflation has a deciding influence on decreased interest revenues
- » Valuation adjustment in lending result in ISK 1.6bn in revenue in Q1 2015
- » The Bank's net interest spread decreases to 2.6% in Q1 2015, from 2.7% in Q1 2014

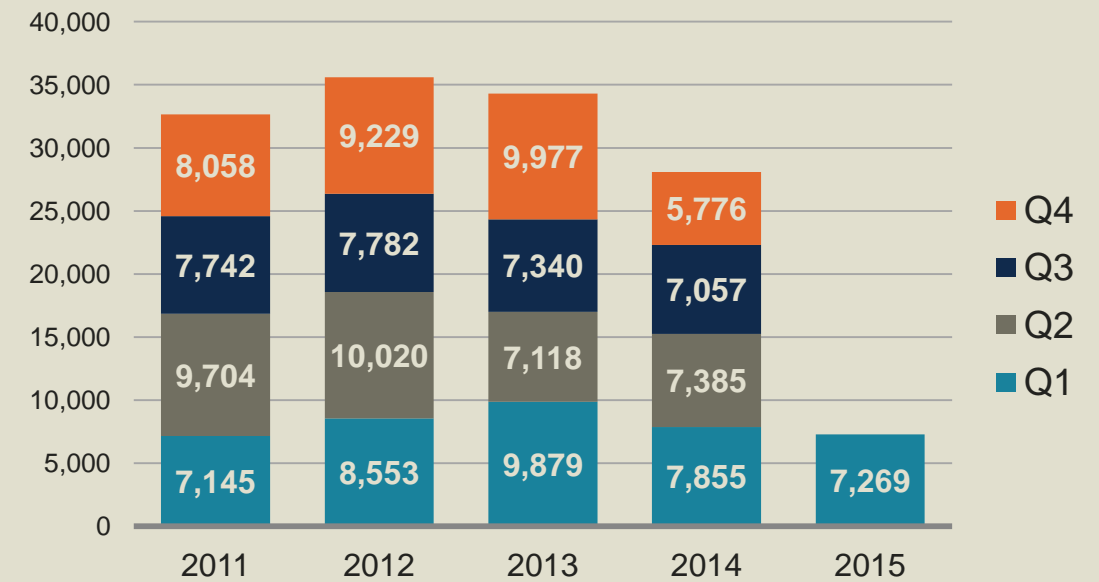
Net operating income

Amounts in ISKm

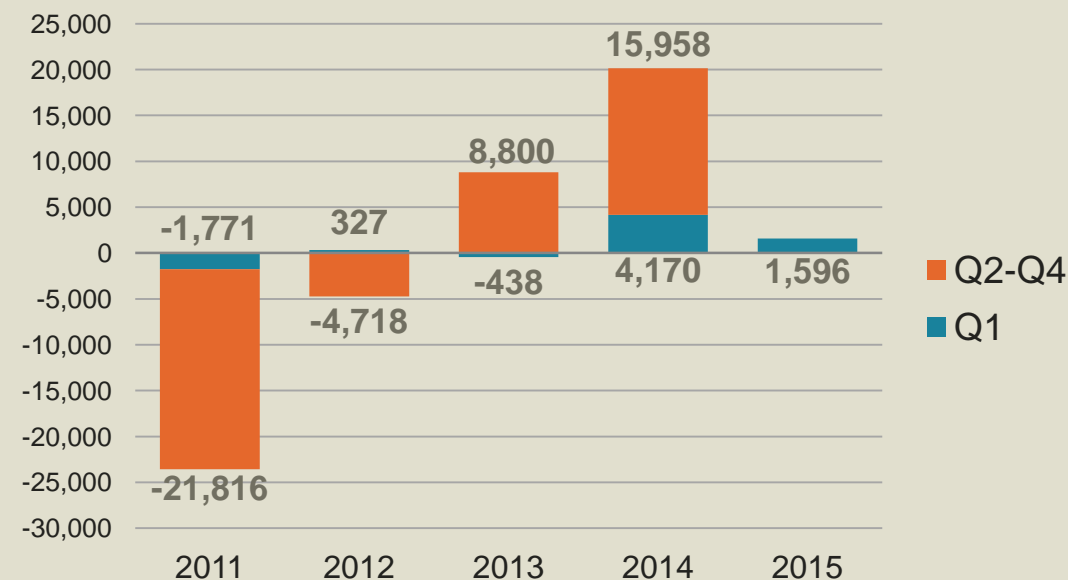
Income mix



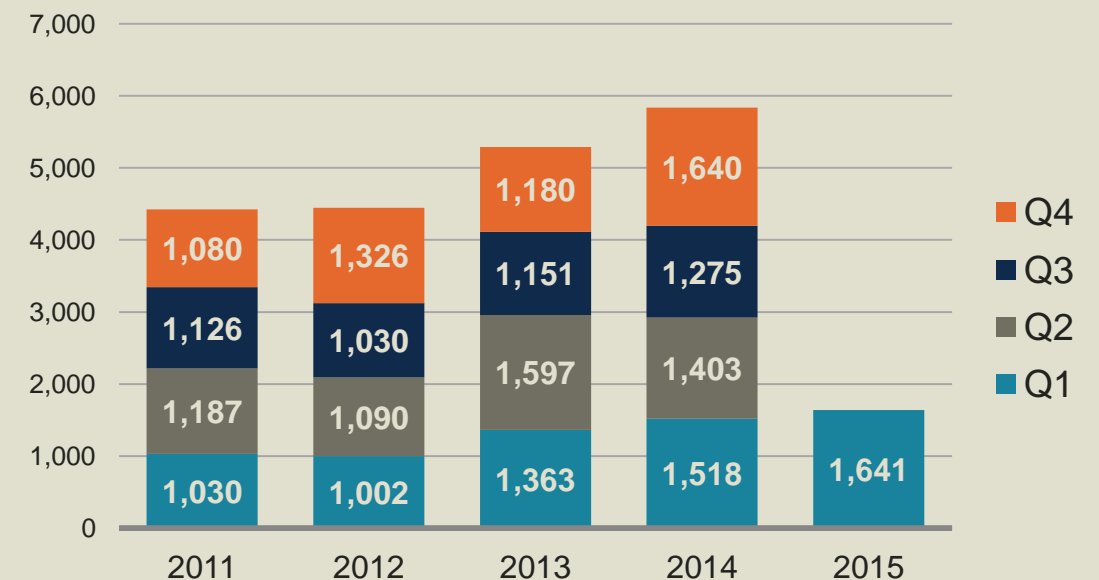
Net interest income



Net adjustments in valuation



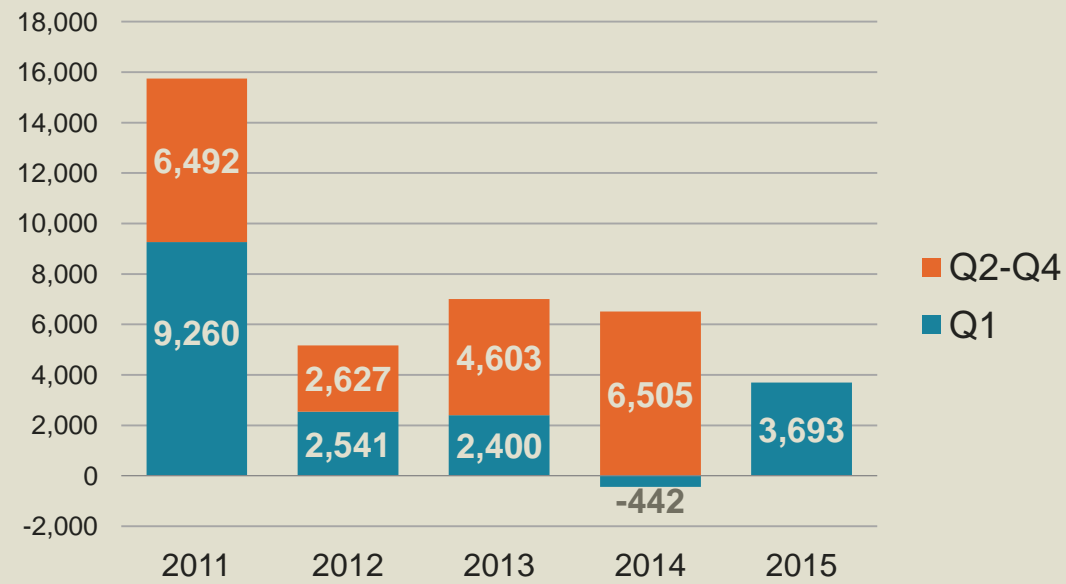
Net commissions and fees



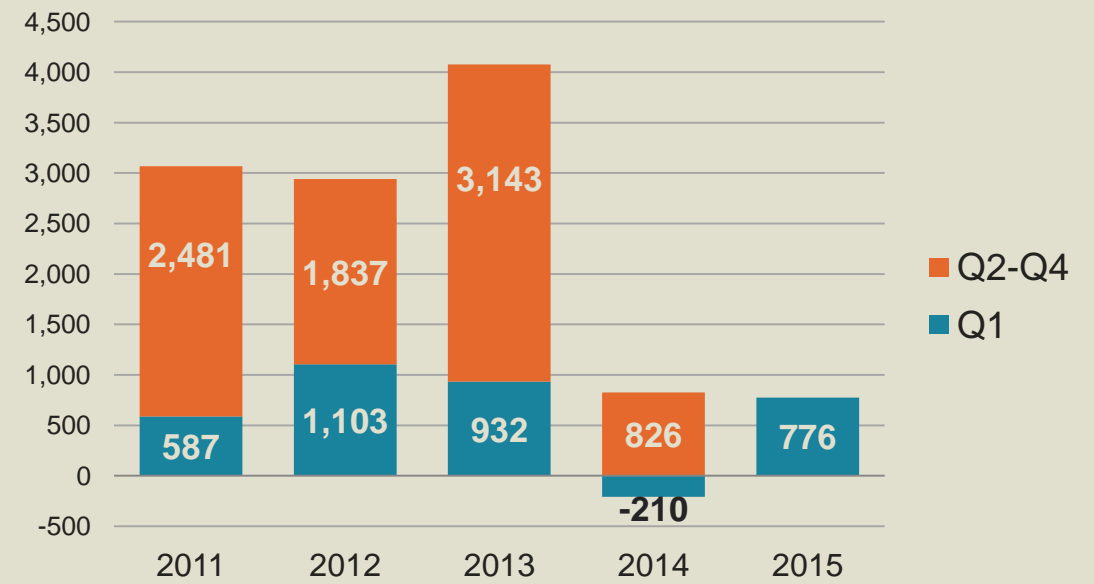
Net operating income

Amounts in ISKm

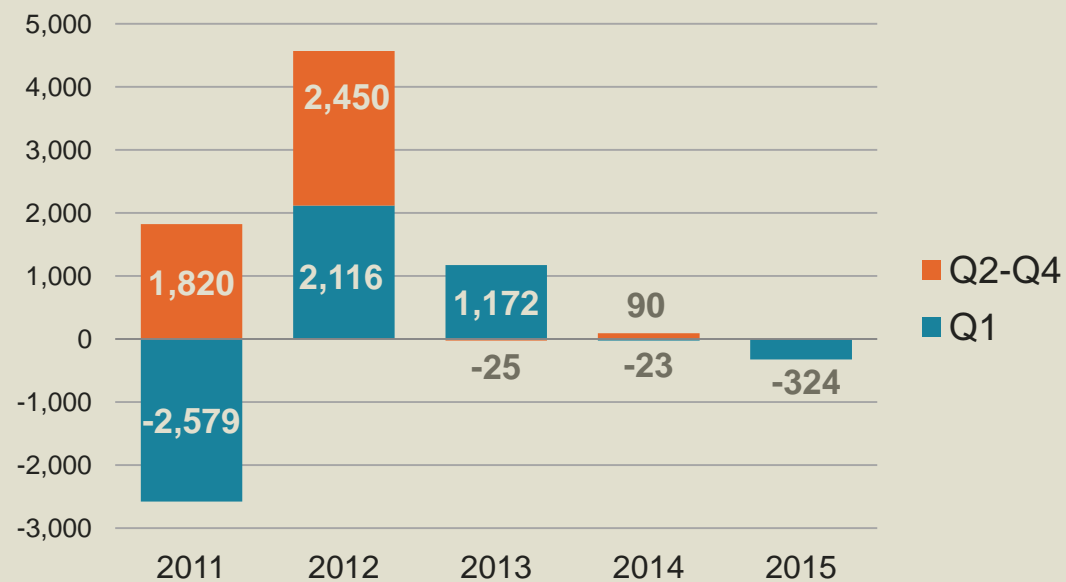
Equities



Bonds



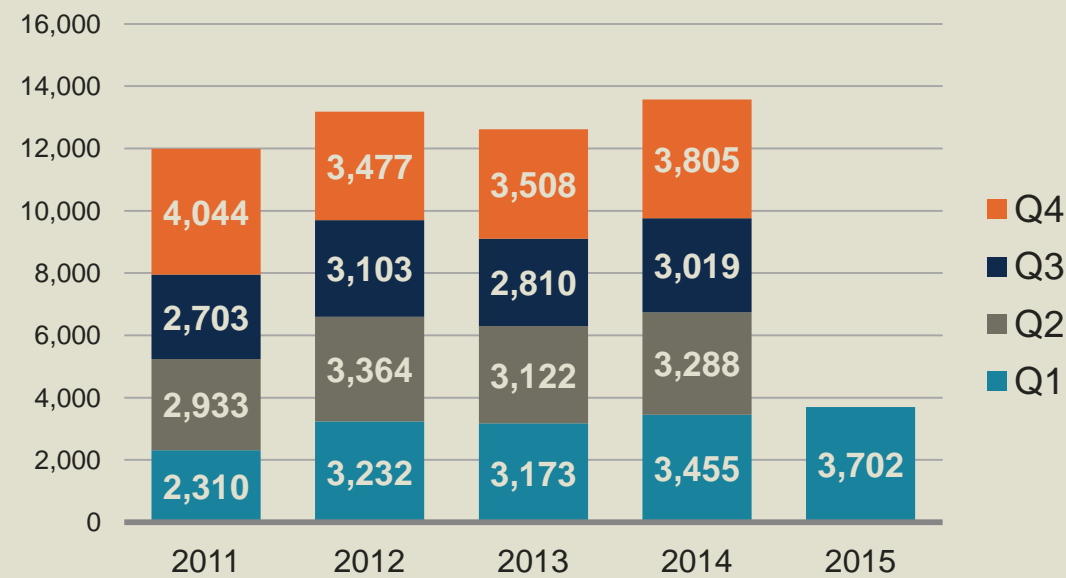
FX gain



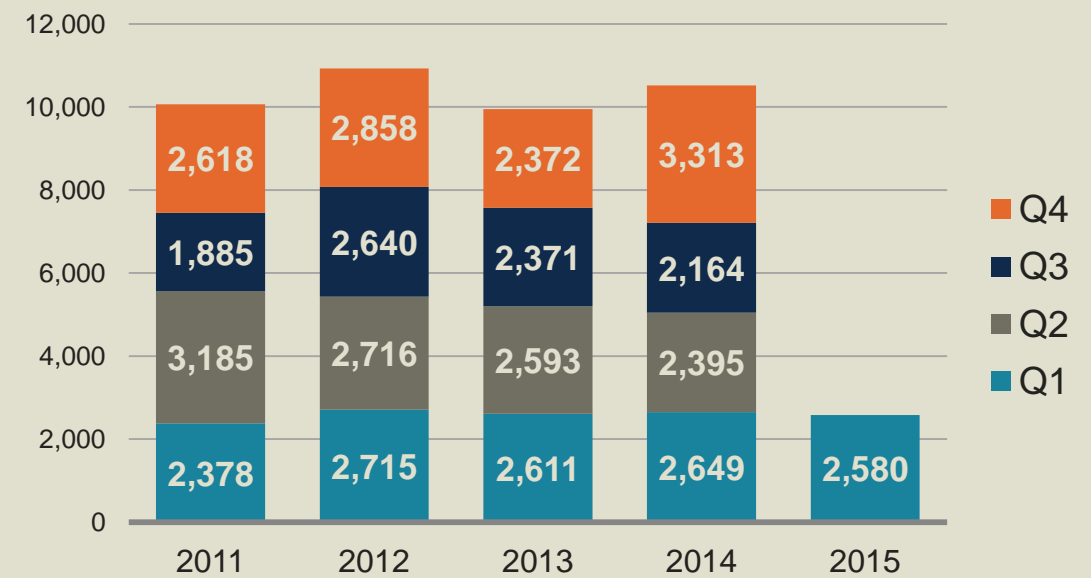
Operating expenses

Amounts in ISKm

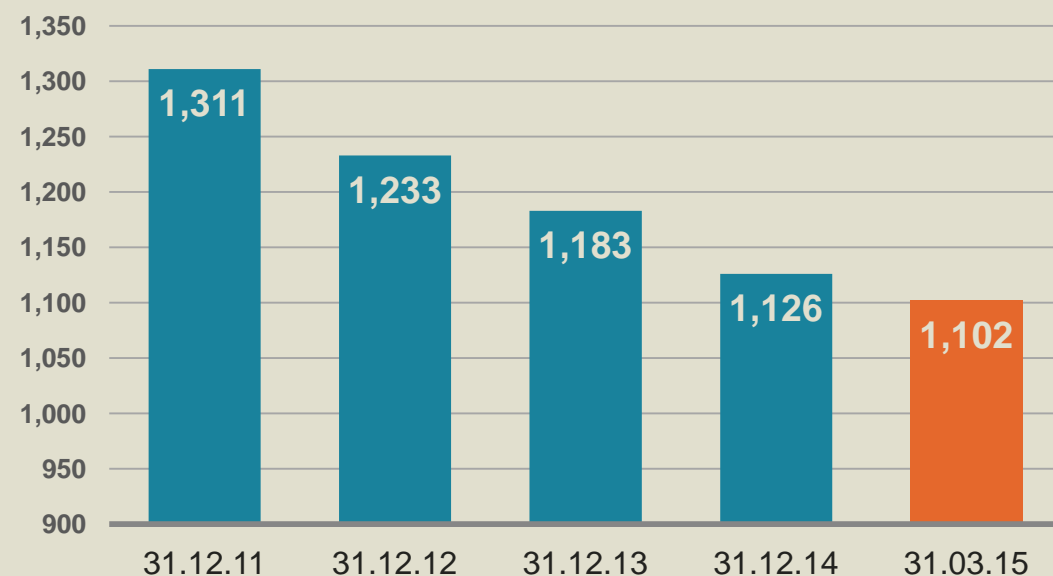
Salaries and related expenses*



Other operating expenses



Full time employees



- » In the first quarter of 2015, all employees of Sparisjóður Vestmannaeyja became employees of Landsbankinn. Upon the merger, full-time equivalent positions increased by 22.
- » Since end of year 2011, full time equivalent positions have decreased by 209

*2013, less expensed equity-based wages

Taxes

Amounts in ISKm

	Q1 2015	Q1 2014	Change	
Income tax	930	1,076	-146	-14%
Special financial activities tax on profits ¹	248	351	-103	-29%
	1,178	1,427	-249	-17%
Tax on liabilities of financial institutions ²	820	835	-15	-2%
Special financial activities tax on salaries ³	155	149	6	4%
Total	2,153	2,411	-258	-11%

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 on salaries and is expensed in the line item "Salaries and related expenses" in the income statement

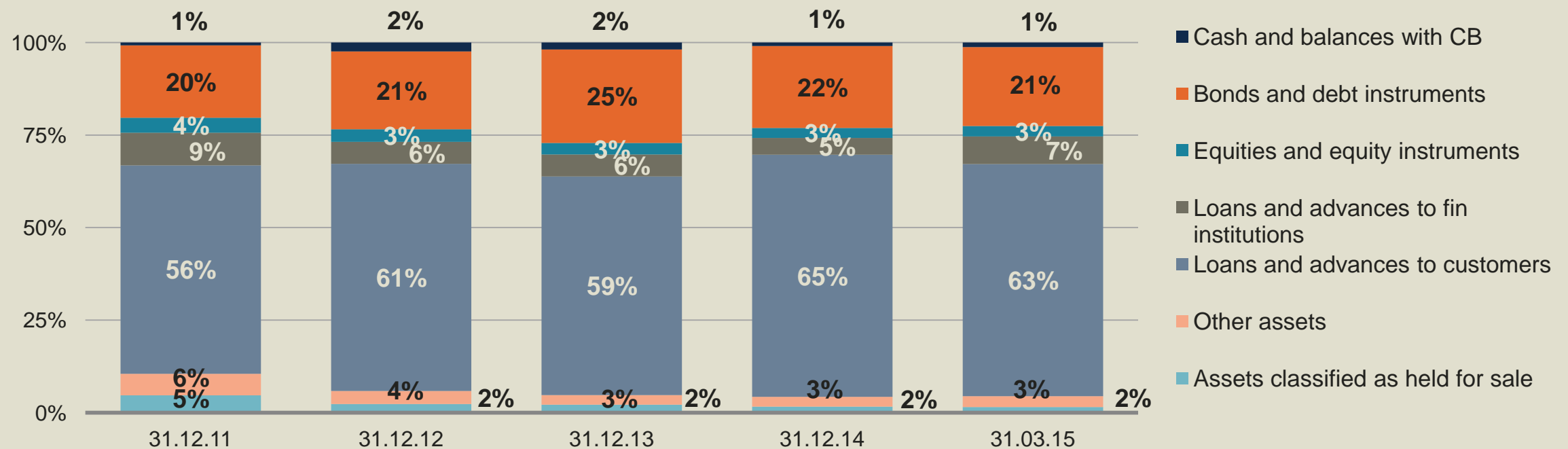
Balance sheet - assets

Amounts in ISKm

	31.03.15	31.12.14	Change	
Cash and balances with CB	14,347	10,160	4,187	41%
Bonds and debt instruments	250,005	243,589	6,416	3%
Equities and equity instruments	33,354	29,433	3,921	13%
Loans and advances to fin institutions	86,951	49,789	37,162	75%
Loans and advances to customers	735,479	718,355	17,124	2%
Other assets	34,638	28,832	5,806	20%
Assets classified as held for sale	17,606	18,212	-606	-3%
Total	1,172,380	1,098,370	74,010	7%

» Lending to customers amounts to ISK 37 bn in the first quarter 2015 yet installments and other factors contribute to a total increase in lending of ISK 17 bn during the period

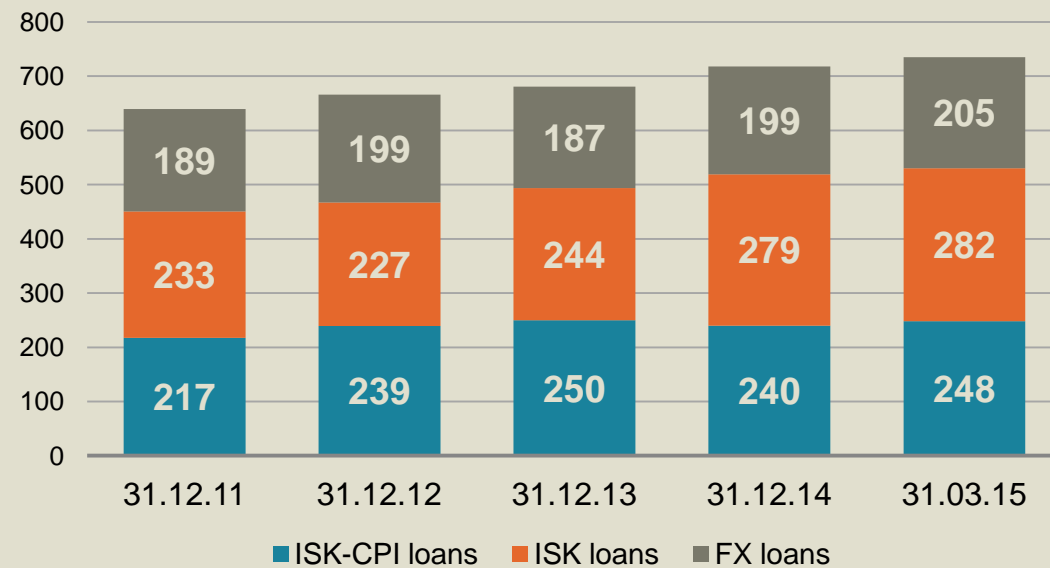
Assets



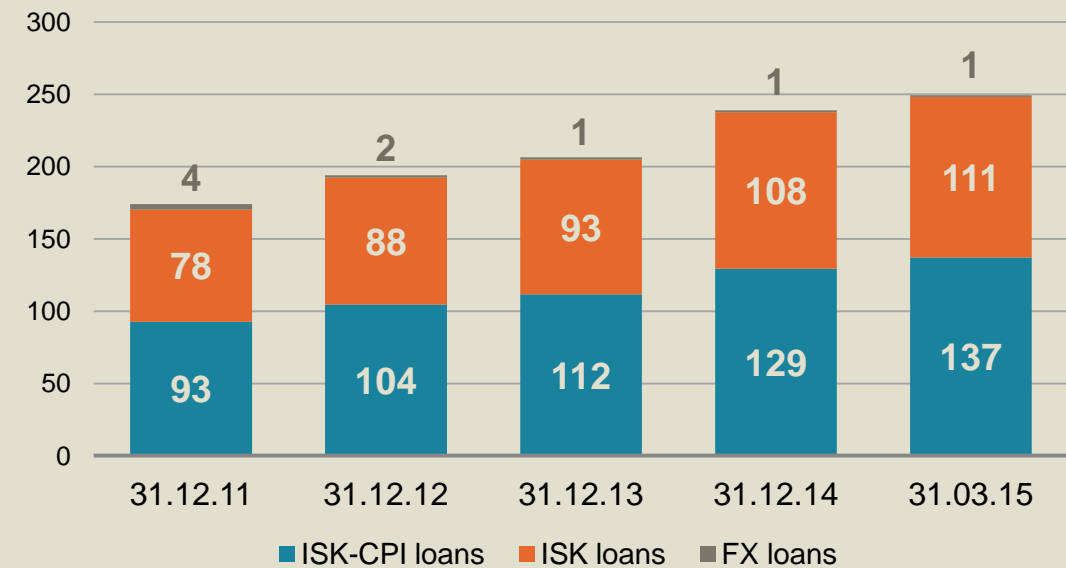
Balance sheet - loans

Amounts in ISKbn

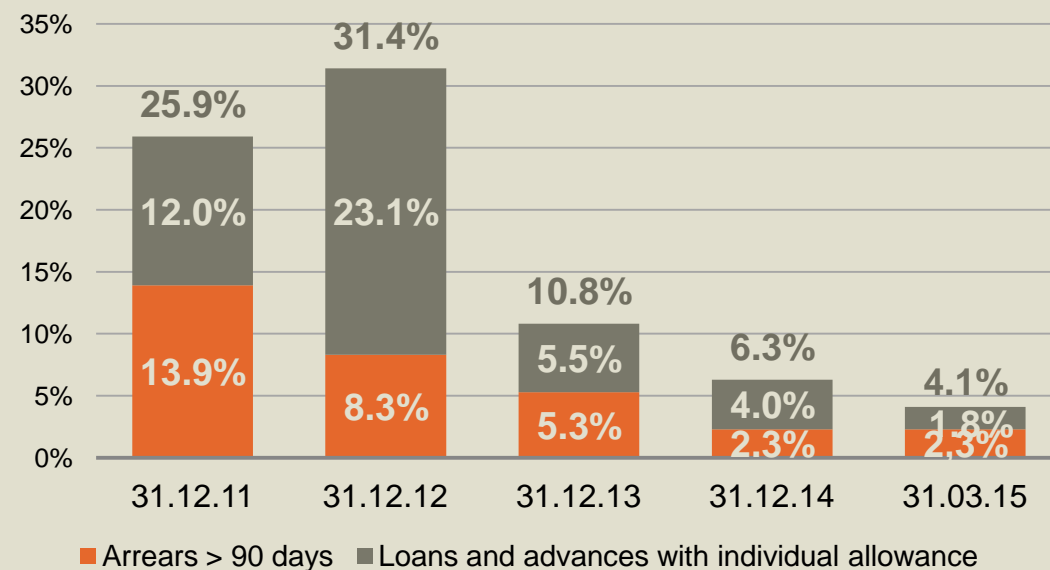
Loans to customers



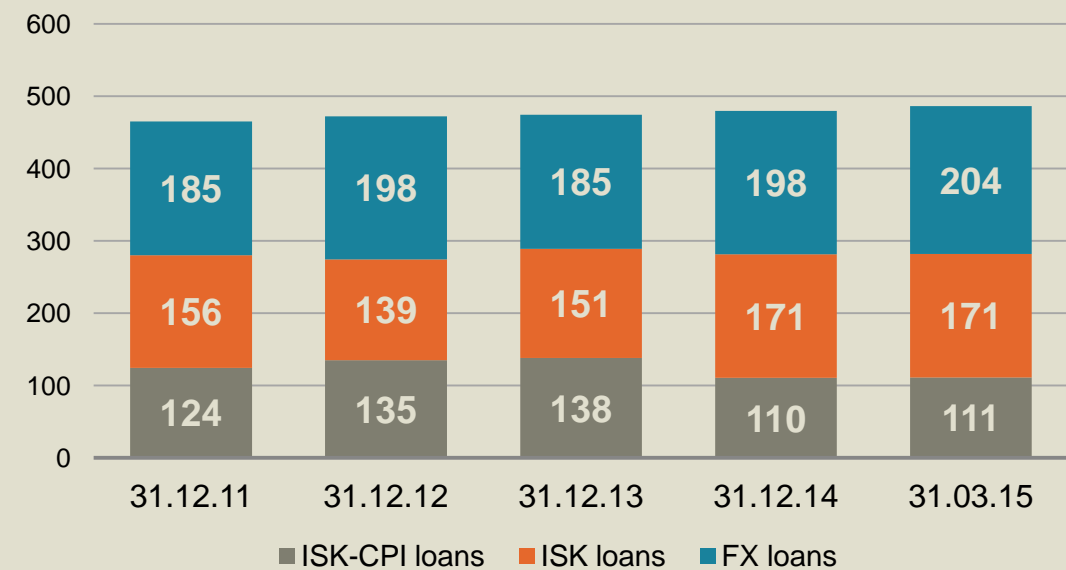
Loans to individuals



Problem loans *



Loans to corporates

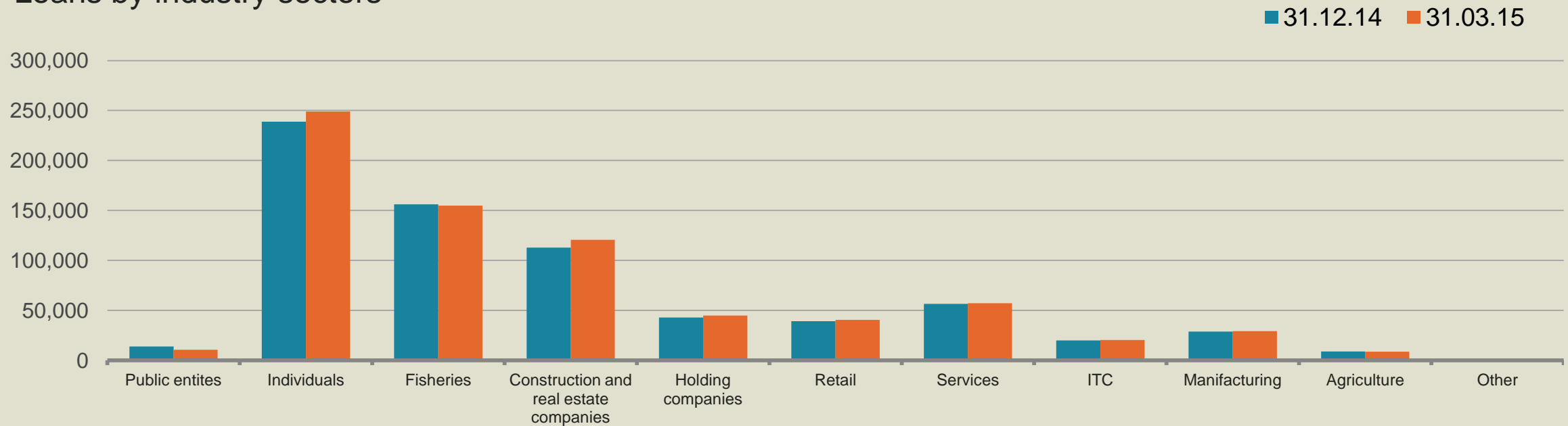


* Problematic loans are defined as loans with ad hoc impairments and / or more than 90 days in arrears

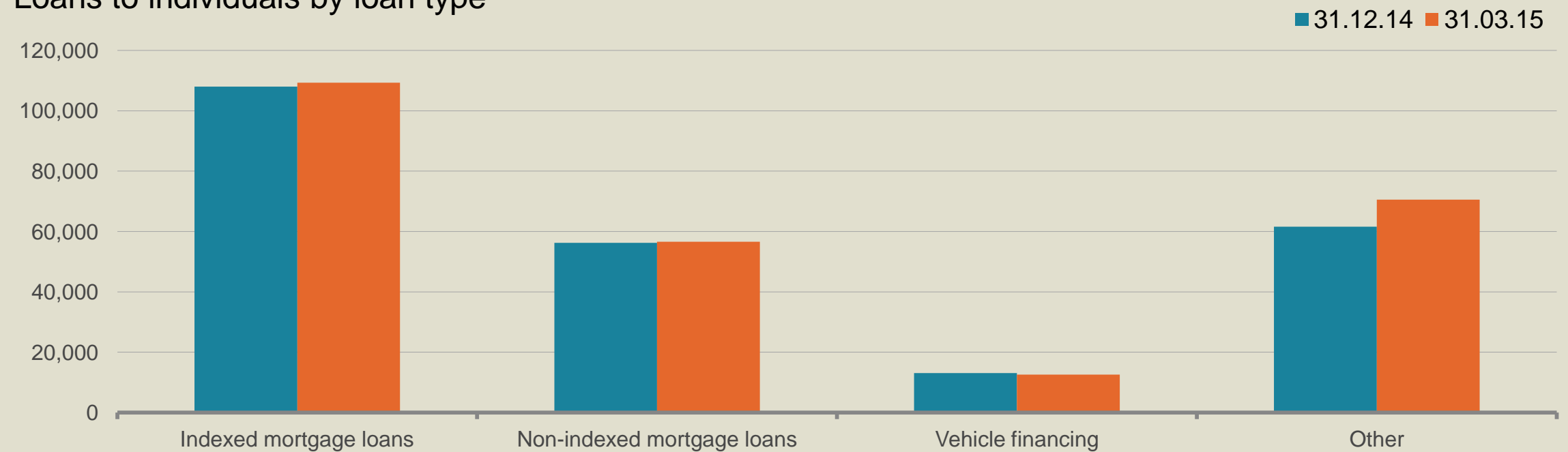
Balance sheet - loans

Amounts in ISKm

Loans by industry sectors

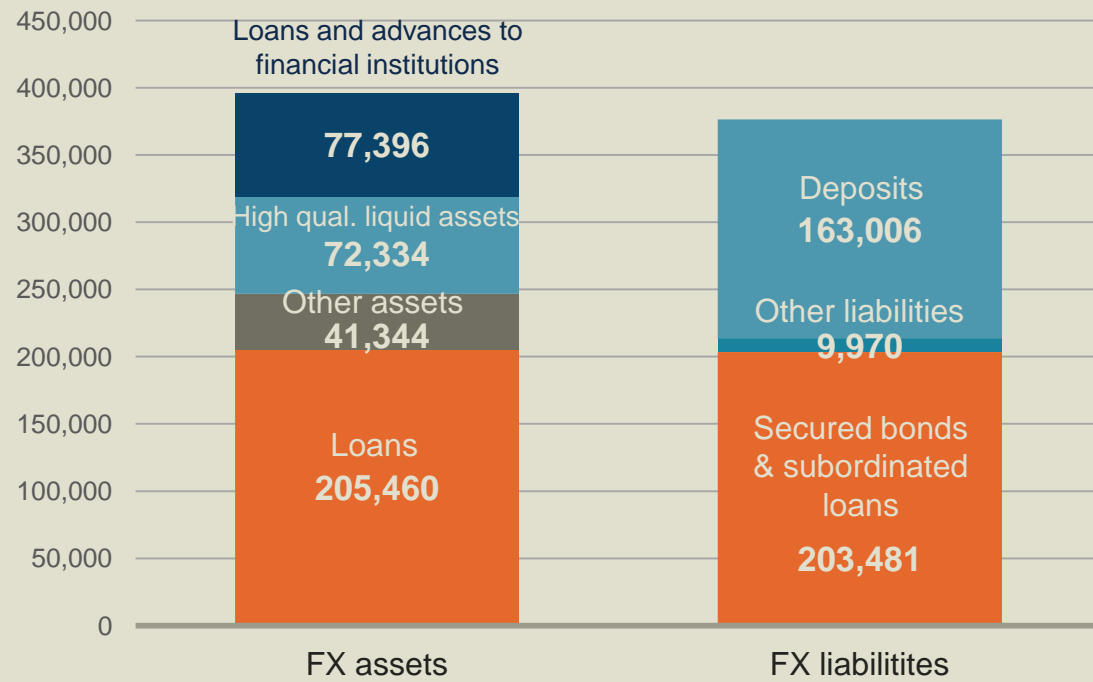


Loans to individuals by loan type

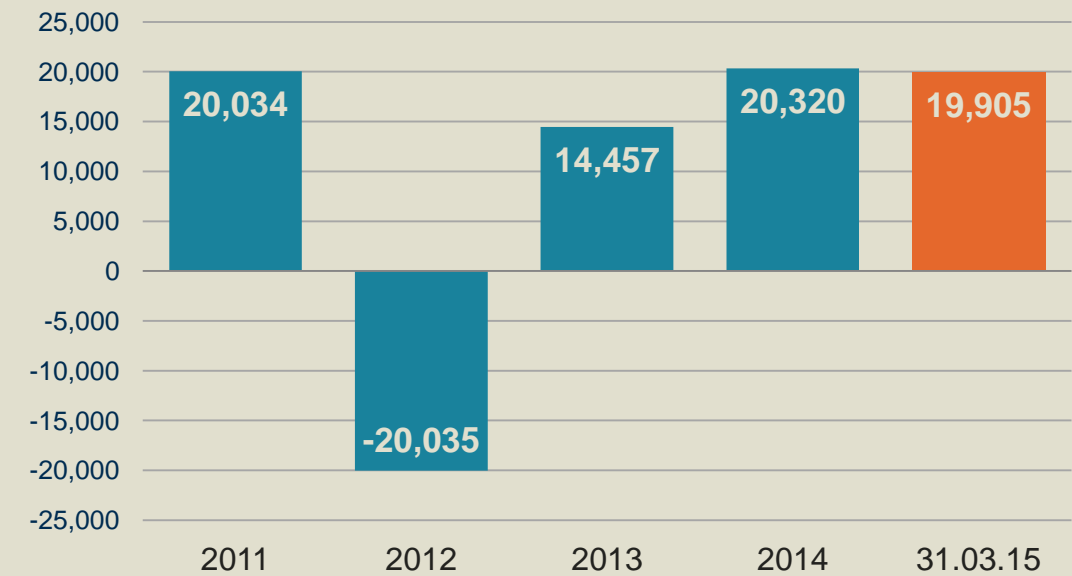


FX assets and liabilities

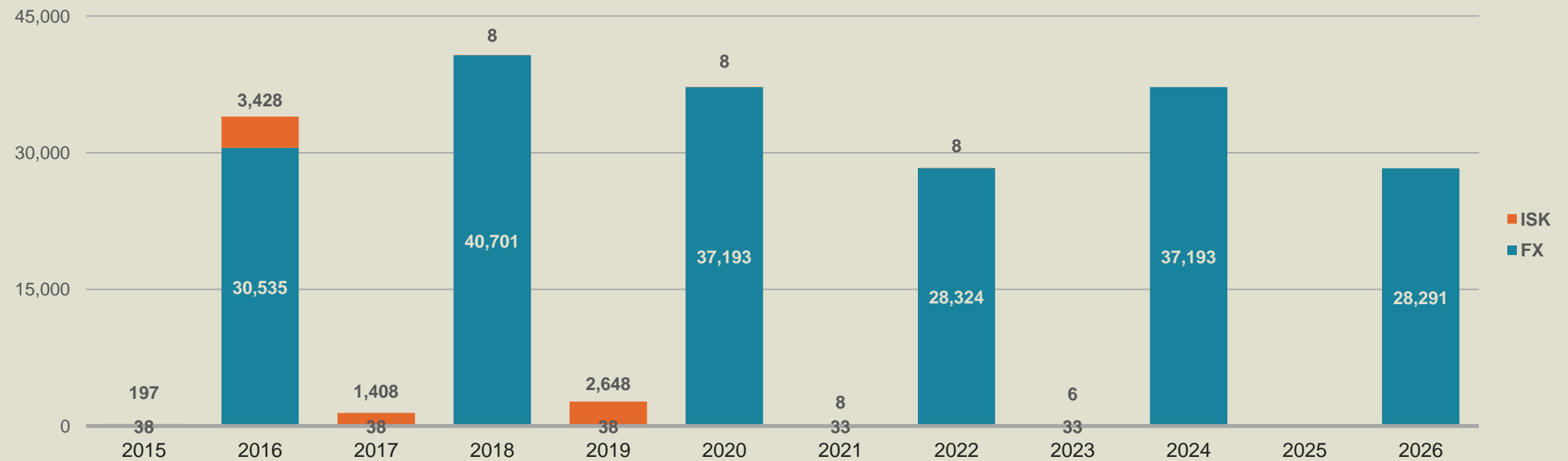
Amounts in ISKm



Net FX balance



Maturity profile

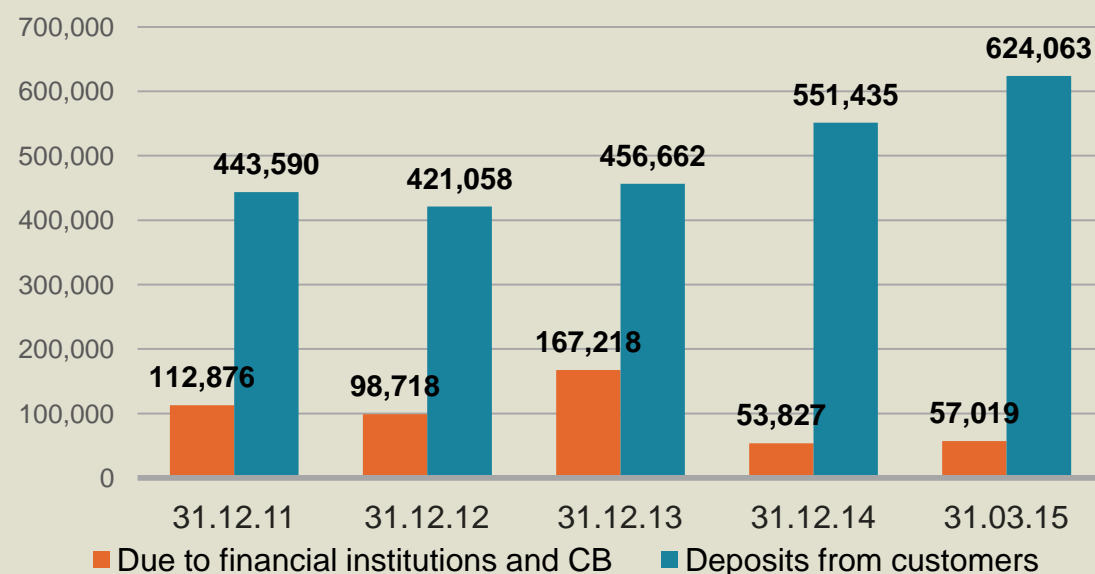


Balance sheet – liabilities and equity

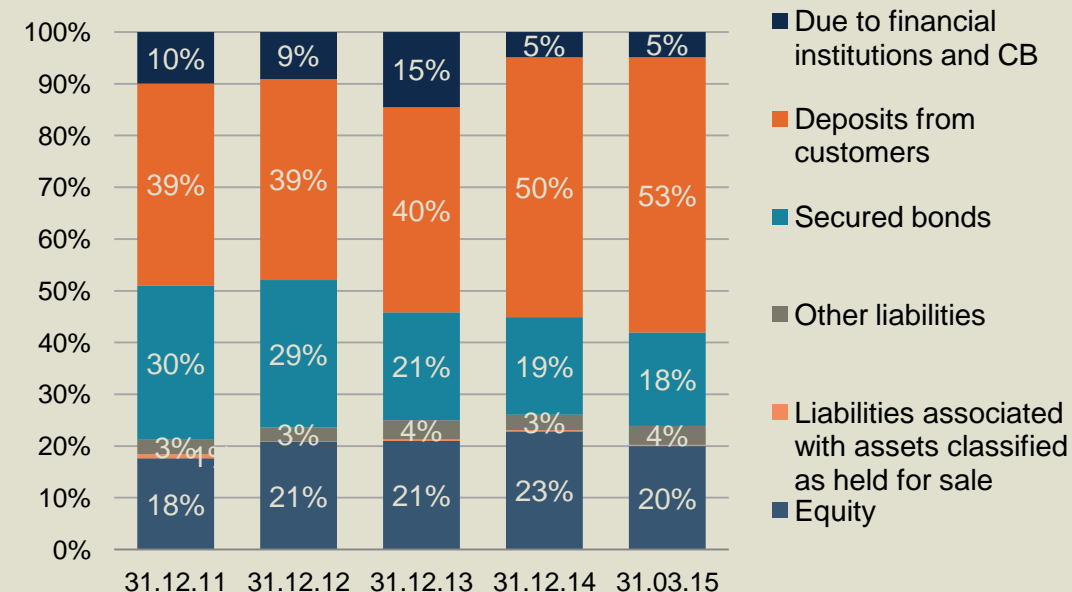
Amounts in ISKm

	31.03.15	31.12.14	Change	
Due to financial institutions and CB	57,019	53,827	3,192	6%
Deposits from customers	624,063	551,435	72,628	13%
Secured bonds	210,902	207,028	3,874	2%
Subordinated loans	427	0	427	
Other liabilities	46,109	35,277	10,832	31%
Equity	233,860	250,803	-16,943	-7%
Total	1,172,380	1,098,370	74,010	7%

Deposits



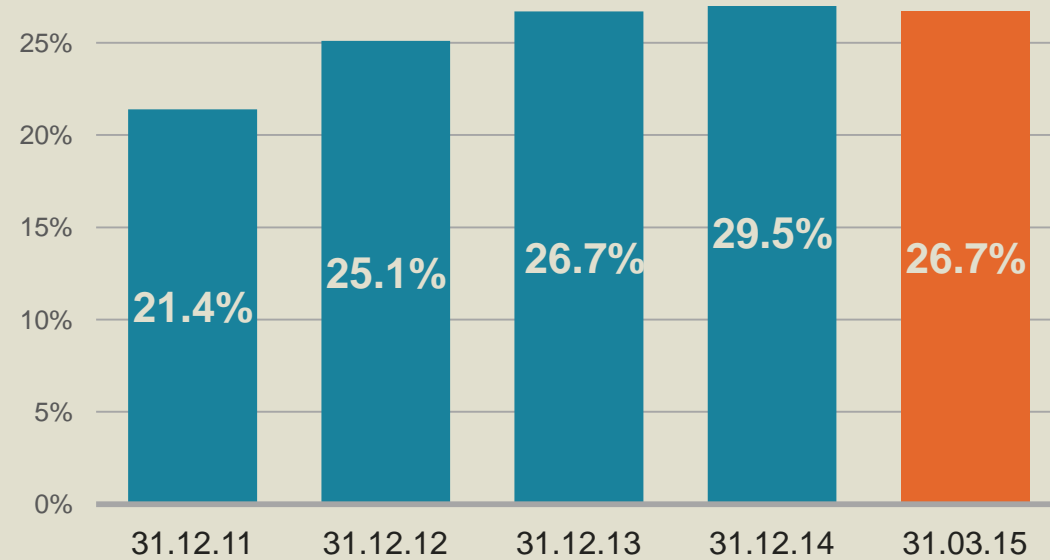
Liabilities and equity



Capital ratio and liquid assets

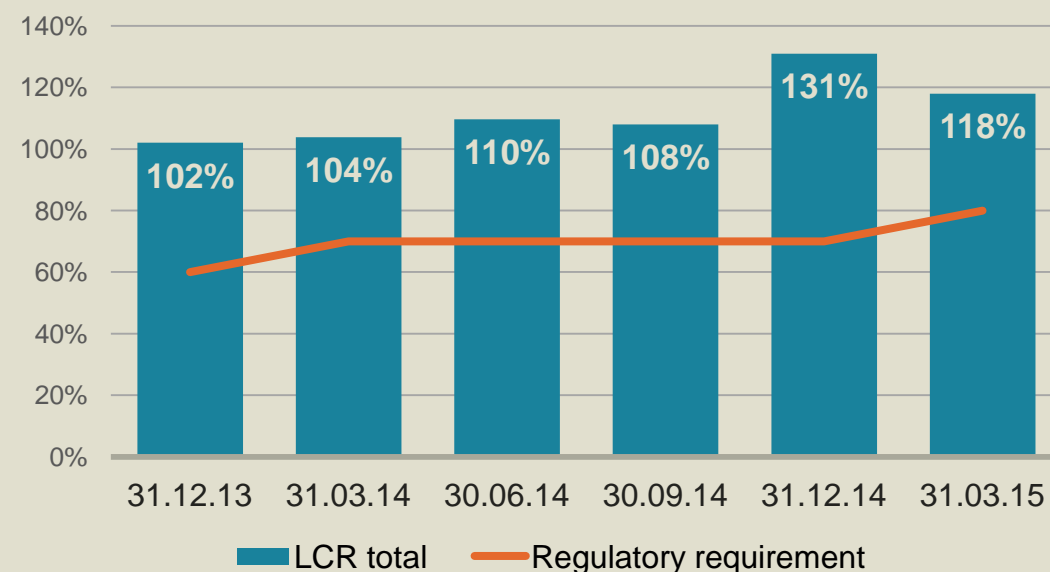
Amounts in ISKm

Capital adequacy ratio (CAR)

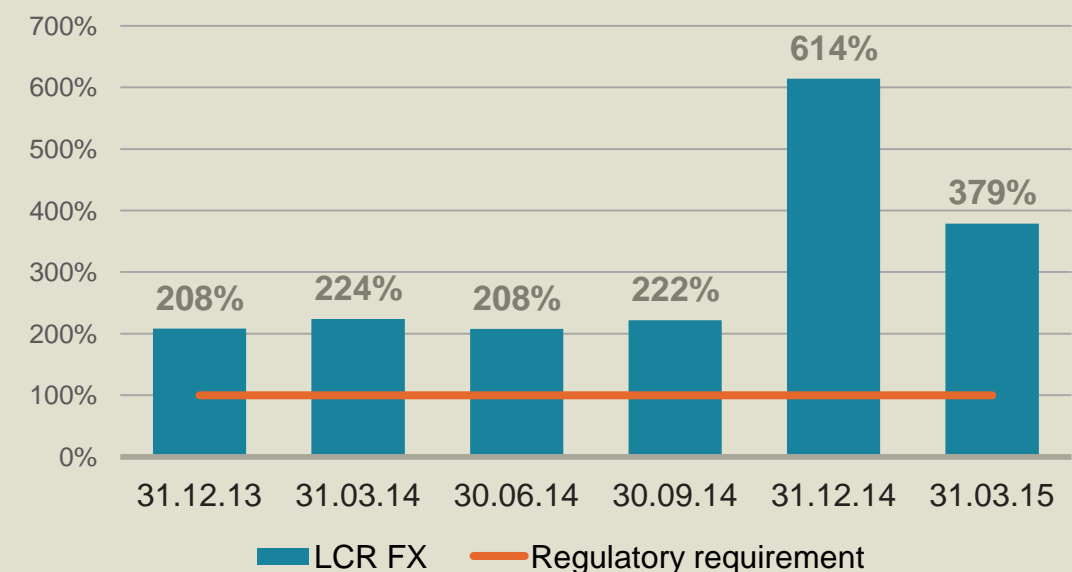


- » Dividend payment in Q1 2015 explains the decrease in Capital adequacy ratio (CAR) from end of year 2014
- » The Bank is well above its 20% CAR benchmark

Liquidity coverage ratio total



Liquidity coverage ratio FX



Other aspects of Landsbankinn's operations

- » Towards the end of March, the Financial Supervisory Authority (FME) decided on the merger of Landsbankinn and Sparisjóður Vestmannaeyja. The merger became effective as of Sunday, 29 March. As of that time, all employees of the savings bank became employees of Landsbankinn and the Bank took over all assets and liabilities of the savings bank.
- » A new version of online banking for individuals was introduced in January. Online banking has been completely redesigned and now sports a new user interface, new structure and new features.
- » In February, the panel of the Icelandic Web Awards named Landsbankinn online banking the best service website.
- » Growth continues in new housing loans, with the increase having reached just over 49% between years.
- » In the first quarter of 2015 Landsbankinn was the largest broker on Nasdaq OMX Iceland in bonds, with 24.2% market share and also the largest broker in stocks with 28.2% market share.
- » The Bank's AGM, held on 18 March, approved an ISK 24 bn dividend payment to the Bank's owners.
- » In March, Landsbankinn was the first bank in Iceland to be awarded the golden seal of PwC's Equal Pay Audit. Landsbankinn is also the largest company to participate in and pass the Equal Pay Audit.
- » For the second year running, the magazine Global Finance has named Landsbankinn the best bank in Iceland.
- » Also for the second year in a row, International Finance magazine named Landsbankinn the best bank in Iceland and Landsbankinn's online bank the best online banking service.
- » For the first time, Landsbankinn's annual report was published in electronic format only, on the Bank's new annual report website.

Annex – further information

Key financial ratios

Amounts in ISKm

	Q1 2015	Q1 2014	2014	2013	2012	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Profit after taxes	6,412	4,288	29,737	28,759	25,494	9,752	5,107	10,590	4,288
Return on equity before taxes	13.9%	11.2%	16.7%	17.6%	14.0%	18.6%	11.1%	25.9%	11.2%
Return on equity after taxes	10.6%	7.3%	12.5%	12.4%	12.0%	15.9%	8.6%	18.4%	7.3%
Capital ratio (CAR)	26.7%	24.8%	29.5%	26.7%	25.1%	29.5%	27.1%	26.8%	24.8%
Net interest income	7,269	7,855	28,073	34,314	35,584	5,776	7,057	7,385	7,855
Interest spread as a ratio of average total assets	2.6%	2.7%	2.4%	3.1%	3.2%	2.0%	2.4%	2.6%	2.7%
Cost-income ratio *	48.0%	72.0%	56.0%	42.9%	45.0%	57.7%	56.2%	43.7%	72.0%
Net stable funding ratio (NSFR)	142%		39%			39%	49%	47%	49%
Liquidity ratio LCR total	118%	104%	131%	102%		131%	108%	110%	104%
Liquidity ratio LCR FX	379%	224%	614%	208%		614%	222%	208%	224%
Operating expenses as a ratio of average total assets**	2.2%	2.1%	2.1%	2.0%	2.2%	2.5%	1.8%	2.0%	2.1%
Total assets	1,172,380	1,153,804	1,098,370	1,151,516	1,084,787	1,098,370	1,201,247	1,154,598	1,153,804
Loans / deposits ratio	117.9%	145.5%	130.3%	149.0%	158.2%	130.3%	144.6%	147.8%	145.5%
Full-time eqv. positions	1,102	1,178	1,126	1,183	1,233	1,126	1,166	1,162	1,178

* 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

	Q1 2015	Q1 2014	Breyting		2014	2013	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest income	7,269	7,855	-586	-7%	28,073	34,314	5,776	7,057	7,385	7,855
Net valuation adjustments	1,596	4,170	-2,574	-62%	20,128	8,362	6,101	2,581	7,276	4,170
Change in contingent bond - liability to purchase own shares	0	0	0			4,691	0	0	0	0
Net interest income after valuation adjustments	8,865	12,025	-3,160	-26%	48,201	47,367	11,877	9,638	14,661	12,025
Net fee and commission income	1,641	1,518	123	8%	5,836	5,291	1,640	1,275	1,403	1,518
Net foreign exchange gain (loss)	-324	-23	-301	-1309%	67	1,147	107	154	-171	-23
Other net operating income	4,501	-877	5,378	613%	9,045	11,776	4,807	734	4,381	-877
Total operating income	14,683	12,643	2,040	16%	63,149	65,581	18,431	11,801	20,274	12,643
Salaries and related expenses	3,702	3,455	247	7%	13,567	12,613	3,805	3,019	3,288	3,455
Equity-settled employee share-based salaries	0	0	0		0	4,691	0	0	0	0
Other operating expenses	2,070	2,205	-135	-6%	8,545	8,050	2,635	1,740	1,965	2,205
Depreciation and amortisation	164	177	-13	-7%	942	818	419	171	175	177
Contribution to the Depositors' and Investors' Guarantee Fund	346	267	79	30%	1,034	1,079	259	253	255	267
Total operating expenses	6,282	6,104	178	3%	24,088	27,251	7,118	5,183	5,683	6,104
Share in profit of associates, net of income tax	9	11	-2	-18%	465	2,712	125	0	329	11
Profit before tax	8,410	6,550	1,860	28%	39,526	41,042	11,438	6,618	14,920	6,550
Income tax expense	1,998	2,262	-264	-12%	9,789	12,283	1,686	1,511	4,330	2,262
Profit for the period	6,412	4,288	2,124	50%	29,737	28,759	9,752	5,107	10,590	4,288

Balance Sheet

Amounts in ISKm

	31.03.15	31.12.14	Change		31.12.13	31.12.12	31.12.11
Cash and balances with CB	14,347	10,160	4,187	41%	21,520	25,898	8,823
Bonds and debt instruments	250,005	243,589	6,416	3%	290,595	228,208	221,848
Equities and equity instruments	33,354	29,433	3,921	13%	36,275	36,881	46,037
Loans and advances to fin institutions	86,951	49,789	37,162	75%	67,916	64,349	100,133
Loans and advances to customers	735,479	718,355	17,124	2%	680,468	666,087	639,130
Other assets	34,638	28,832	5,806	20%	29,719	38,044	65,959
Assets classified as held for sale	17,606	18,212	-606	-3%	25,023	25,320	53,552
Total	1,172,380	1,098,370	74,010	7%	1,151,516	1,084,787	1,135,482
Due to financial institutions and CB	57,019	53,827	3,192	6%	167,218	98,718	112,876
Deposits from customers	624,063	551,435	72,628	13%	456,662	421,058	443,590
Secured bonds	210,902	207,028	3,874	2%	239,642	309,265	337,902
Subordinated bonds	427	0	427		0	0	0
Other liabilities	43,140	32,443	10,697	33%	42,750	29,687	31,485
Liabilities associated with assets classified as held for sale	2,969	2,834	135	5%	3,885	893	9,385
Equity	233,860	250,803	-16,943	-7%	241,359	225,166	200,244
Total	1,172,380	1,098,370	74,010	7%	1,151,516	1,084,787	1,135,482

Segments

Amounts in ISKm

Q1 2015	Personal Banking	Corporate Banking	Markets	Treasury	Support Functions	Support Functions	Total
Net interest income (expense)	2,910	3,493	76	1,013	2	-225	7,269
Net valuation adjustments	1,388	216	0	-8	0	0	1,596
Net fee and commission income	690	166	930	-67	-1	-77	1,641
Other net operating income	-82	-59	160	3,812	144	202	4,177
Total operating income (expense)	4,906	3,816	1,166	4,750	145	-100	14,683
Operating expenses	-1,416	-357	-467	-441	-3,682	81	-6,282
Share in profit of equity-accounted associates, net of income tax	1	0	0	8	0	0	9
Profit (loss) before cost allocation and tax	3,491	3,459	699	4,317	-3,537	-19	8,410
Cost allocated from support functions to business segments	-1,468	-1,036	-325	-233	3,062	0	0
Profit (loss) before tax	2,023	2,423	374	4,084	-475	-19	8,410
Total assets	361,725	455,736	11,393	504,455	31,894	-192,823	1,172,380
Total liabilities	314,530	362,660	5,650	416,609	31,894	-192,823	938,520
Allocated capital	47,195	93,076	5,743	87,846	0	0	233,860