

Landsbanki magazine

moment

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Icesave launched in the Netherlands

Merrion Landsbanki to acquire Oppenheim • A very credible performance in Q1 • Landsbanki Kepler achieves top 10 ranking in StarMine survey • A representative office in the United Arab Emirates • Significant CDS comeback for Landsbanki • Fitch affirms Landsbanki's credit rating at A • Finances of the Icelandic banks basically sound



Bringing Icesave to the Continent

This month marks a new chapter in Landsbanki's international deposit taking operations with the launch of Icesave in the Netherlands. This is a much anticipated milestone. The success of Icesave in the UK is well documented and is fundamental to our efforts to diversify the bank's funding and ensure further stability in more difficult international capital markets.

We are confident that the appeal of the Icesave products and brand will migrate well into new markets. Competitive interest rates, ease of use, transparent conditions and simplicity are qualities that set our proposition apart from much of the competition. The long term rate guarantee we offer provides savers with real security in depositing their money with Icesave.

On the day of the launch we received close

to 4.000 requests for account openings in the Netherlands. This great response shows that careful planning and extensive product development in the past few months has resulted in a highly competitive and exciting product. The teams involved in the launch of Icesave in the Netherlands did a fantastic job of managing this complex project and they have delivered a superb retail product to a new market.

In the coming months we will further strengthen our retail deposit operations by adding new markets to the Icesave portfolio, as well as nurturing the operations currently in place by boosting marketing and broadening the product offering.

Our existing international deposit businesses, such as Icesave in the UK and various deposit programmes at Heritable Bank and Landsbanki Guernsey Ltd., are constantly developing and growing. The latter have recently introduced new multicurrency facilities.

Rising to the challenge

Landsbanki announced its Q1 financial results on 6 May. Anticipation surrounded the publication of our numbers, as has been the case for the banking sector worldwide. The results reaffirm the strong fundamentals of

our bank. After-tax profit was ISK 17,4 billion, or a 44% after-tax ROE, which is significantly higher than our published target of 15-17% and a 27% increase on Q1 2007. These results are notable in the current environment.

It is no secret that the past few months have been extraordinarily challenging for the world of international finance. A sudden credit crunch and a crisis of confidence have shaken some of the world's largest and most renowned banks to the roots. During this period a disproportionate amount of attention was focused on the Icelandic banks, including Landsbanki, yet the heavy tide of attention and discussion has now mostly receded. A rational and objective analysis of Landsbanki reveals our solid fundamentals and the fact that we are not exposed to the most volatile parts of the credit markets; subprime loans, SIVs, CDOs and the like. Landsbanki's success in building and maintaining its international retail deposit base is also viewed very positively by the market, as well as credit rating agencies.

In the current climate Landsbanki can consider it good news that both Fitch and Moody's announced a confirmation of Landsbanki's strong credit ratings in May. This attests to the sound fundamentals of our bank and gives occasion for optimism going forward.



Sigurjón Th. Árnason and Halldór J. Kristjánsson, CEOs of Landsbanki

Sigurjón Th. Árnason
Sigurjón Th. Árnason

Halldór J. Kristjánsson
Halldór J. Kristjánsson

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Finances of the Icelandic banks

Jón Sigurðsson took over as Chairman of the Board of Directors of the Financial Supervisory Authority (FME) on 1 January 2008. His extensive experience of financial markets includes such distinguished positions as Minister of Banking and Business Affairs and Minister of Industry and Energy 1987-1993, Chairman of the Board of Governors of the Central Bank of Iceland and President and CEO of the Nordic Investment Bank in Helsinki.

"Fortunately," says Jón, "keeping our fingers crossed, we can allow ourselves to hope that the worst turbulence and difficulties surrounding global financial markets recently have blown over. This is the good news. The bad news is that although the state of the financial markets is slowly improving, which results amongst other things in lower CDS

spreads, the outlook is still uncertain as to the final effect of the credit crunch on household and corporate finances. It will no doubt take some time before the full negative impact on the real economy is felt. The important thing is to learn from these difficulties. Restructuring and improving the cost-efficiency of financial companies is a priority. It is imperative for financial firms to place their cards on the table and disclose the full extent of their involvement with US subprime mortgages. Landsbanki, for one, has provided clear and comprehensive information to show that the bank has no exposure to US subprimes."

Jón is cautiously optimistic about the future, provided that the banks and supervisory authorities remain vigilant in staving off further financial problems.

"The finances of the Icelandic banks are

Fitch affirms Landsbanki's credit rating at A



Brynjólfur Helgason

On 9 May, Fitch completed their review of Landsbanki's ratings, affirming the long-term Issuer Default Ratings (IDR) at A, short-term IDR at F1, and individual rating at B/C. A negative outlook was assigned to long-term IDR. Fitch also affirmed the Long- and Short-term IDRs of Landsbanki Heritable in the UK, at A / F1. The agency downgraded Glitnir's and Kaupthing's Long-term Issuer Default Ratings (IDR) to A- (A minus) from A with a negative outlook.

Fitch's rating action followed their announcement on 1 April that the three Icelandic banks had been placed on Negative Ratings Watch due to diminishing confidence in the sector, increased risk of unanticipated calls on liquidity and severely restricted funding options. Moreover, the recent sharp depreciation of the ISK and the heightened risk of a hard landing for the Icelandic economy were considered likely to adversely impact asset quality and performance.

In a report published by Fitch, the ratings of Landsbanki are said to reflect its leading position in its domestic market, the growing diversification of its earnings, its comfortable capitalisation and its sound liquidity position. The ratings also take into account Landsbanki's still large equity portfolio and potential volatility in performance due to more difficult conditions in its domestic market and in capital market related activities.

Landsbanki highest of the Icelandic banks

The Negative Outlook is based on Fitch's view that Landsbanki's performance could deteriorate due to market conditions, although they believe its adequate underlying profitability, and if needed comfortable capitalisation, should be sufficient to absorb a sudden material deterioration in lending and equity exposures. "We think that the most important fact here is that Landsbanki is now rated by Fitch, a notch higher than the other Icelandic banks, which is also confirmed by Landsbanki's outperformance on the CDS levels compared to the other Icelandic banks," says Brynjólfur Helgason, Managing Director for International Banking. "It is also worth noting that being put on negative watch in most cases results in a downgrade, so the confirmation of our ratings at the same level as previously, is positively viewed by us," he added.

In further ratings news, Moody's Investors Service recently affirmed the deposit ratings of Landsbanki at A2 with a stable outlook, following the recent downgrade of Iceland's rating to Aa1 (stable) from Aaa (negative), reflecting Moody's view that the probability of systemic support for the Icelandic banks in the event of a stress situation remains very high.

are basically sound

basically sound, as evidenced by their 2007 annual and Q1 2008 statements. Even though the Icelandic banks, not least Landsbanki, have recently managed to increase the share of deposits in their financing, their activities abroad still depend to a great extent on access to loans from international markets. Some problems still remain, but now we can hope for better times. It is clear that the undervaluation of risk which kept interest low in recent years no longer exists. Instead, risk aversion prevails. This increases the importance of strengthening the reputation of the Icelandic financial system through responsible actions, rationalisation and transparent disclosure of its financial position. The Icelandic banks are clearly already overhauling their own affairs in this spirit. They have shown resourcefulness in dealing with the international liquidity squeeze."

Globalisation brings new challenges

According to Jón, there are a number of reasons why financial supervision in general and in Iceland in particular, is becoming increasingly important.

"Effective and reliable financial supervision is an economic necessity," says Jón, "not least because the banks' rapid growth has turned financial services into one of Iceland's most important industries, totalling 10% of the GDP. The sector only accounted for 5-6% of the GDP in 1990; obviously it has expanded dramatically. Financial services are therefore a very large sector in Iceland, compared with other countries. Fluctuations on the global financial market consequently have a direct impact on the national economy, as has become apparent during recent months. The FME follows these developments closely in its domestic market and also collaborates with supervisory authorities in the countries where Icelandic banks operate. In fact, globalisation of financial markets has drastically changed the scope of the FME's tasks."

Investigating alleged market abuse

One of these tasks includes responding to alleged market abuse on an international level.

"Some weeks ago, trading in ISK and



Jón Sigurðsson

financial instruments connected to Iceland gave rise to suspicions of market abuse. International hedge funds, as well as other parties connected to FX and financial markets, were accused of deliberately spreading, or attempting to systematically spread, malicious rumours about the Icelandic economy in order to profit from this. These parties are for instance supposed to have attempted to influence the coverage of respected media and analysts, with the intention of influencing markets to enable them to time their transactions accordingly, taking positions on the basis of privileged information, in this case knowledge of their own forthcoming negative reports or reports influenced by them.

Jón explains that while accusations of such

a serious nature must be investigated, they may be difficult to prove due to the very nature of the suspected offence; that is, malicious rumour mongering and acting upon it in the marketplace.

"The FME is currently involved in an investigation into the matter, in co-operation with supervisory authorities abroad. Hopefully the mere awareness of an investigation into suspected market manipulation will act as a deterrent and decrease the likelihood of similar activities now and in the long term.

There is nothing wrong with taking short positions, but if false rumours are systematically and wilfully spread to influence prices of financial instruments with the intention of commercial gain, this is of course illegal."



Kjartan Gunnarsson, Vice-Chairman of Landsbanki's Board of Directors, Björgólfur Guðmundsson, Chairman of the Board of Directors, Halldór J. Kristjánsson, CEO and Sigurjón Th. Árnason CEO



Halldór cuts the first slice of the anniversary cake

Celebrating his 10th anniversary as Landsbanki's CEO

Landsbanki's CEO Halldór J. Kristjánsson celebrated his 10th anniversary as Chief Executive on 14 April. The decade has been one of far-reaching changes, for Landsbanki as a company and the entire financial environment, both in Iceland and abroad. To celebrate the occasion, Halldór was joined by colleagues who have worked with him for many years, some of them during his entire career with the bank. Expressing his

appreciation of their support and loyal efforts in a brief speech, Halldór recalled some of the highlights of the past ten years. These include Landsbanki's privatisation, its successful expansion abroad and the integration of its acquisitions to form an effective international financial organisation.



Sigrún Sæmundsdóttir

New Senior Manager of Performance Management

Sigrún Sæmundsdóttir is the new Senior Manager of Performance Management, which is a department within the Retail and Branch Development division.

The department partakes in performance management and development of retail banking activities, which incorporates branches, as well as the bank's other distribution channels in Iceland.

"The department is also responsible for formulating and implementing policy for the distribution channels, the department sets goals, defines key performance indicators (KPI) to support policies, undertakes monitoring and measuring (i.e. market surveys) and supplies related feedback," Sigrún says. "Performance Management assists various units in the distribution network, as well as departments within Retail and

Branch Development, in decision-making procedures and provides them with the necessary feedback to implement policy and achieve set goals," she says.

The department supports various units in the distribution network, as well as other departments within Retail and Branch Development, with analyses, statistics, reporting and evaluations of all aspects of activities. Performance Management is responsible for various products, such as interest rates and fees for Landsbanki in Iceland.

Sigrún joined Landsbanki in 2003 but was previously at Búnaðarbanki, where she worked at the Financial Department and later in the Operations division. Her hobbies include travelling and watching good movies.