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## 2017 Q1 Results

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CFO

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# Highlights

## Operations

- The Group's after-tax profit in Q1 was ISK 7.6 bn, as compared with ISK 3.3 bn for the same period of 2016.
- Net interest income amounted to ISK 8 bn, up by 7% as compared with the same period in 2016.
- Value changes in the credit portfolio in Q1 were positive by ISK 1.8 bn as compared with a positive change in the amount of ISK 311 m in Q1 of 2016.
- Net commission income increased by 7% as compared to the same period last year, first and foremost due to increased activity in capital markets.
- Return on equity (ROE) after taxes was 12.5% in Q1 as compared with a ROE of 5.0% for the same period in 2016.
- Other operating income increased substantially between years, accounted for mostly by positive changes in the fair value of unlisted equities.
- The interest margin on assets and liabilities was 2.2% at the end of Q1 2017, as compared to 1.9% in Q1 2016.
- Operating expenses amounted to ISK 2.4 bn, down by 3% as compared with the same period in 2016.
- The cost-income ratio for the first three months of the year was 42.5%, as compared with 55.8% for the same time last year

## Balance sheet

- Landsbankinn's total assets amounted to ISK 1,182 bn at the end of March 2017.
- Lending increased by just under ISK 19 bn from the beginning of the year, mostly due to an increase in new housing loans.
- In March, Landsbankinn issued bonds in the amount of EUR 300 m, the equivalent of ISK 34 bn. These are 5Y bonds maturing in March 2022.
- The Bank's liquidity position is strong, both in foreign currency and Icelandic króna and is above regulatory limits.
- Landsbankinn's equity at the end of March 2017 amounted to ISK 233.9 bn, down by 7% since the beginning of the year, which is due to an ISK 24.8 bn dividend, paid in two instalments. The earlier instalment was paid out in March and the latter will take place in September.
- The total capital ratio is now 27.4%, down from 30.2% at year-end 2016.

## Main results

	1F 2017	1F 2016	2016	2015
Profit after taxes	7,576	3,315	16,643	36,460
Return on equity after taxes	12.5%	5.0%	6.6%	14.8%
Adjusted return on equity after taxes*	11.7%	5.7%	7.7%	10.6%
Interest spread as a ratio of assets and liabilities	2.2%	1.9%	2.3%	2.2%
Cost-income ratio**	42.5%	55.8%	48.4%	43.8%

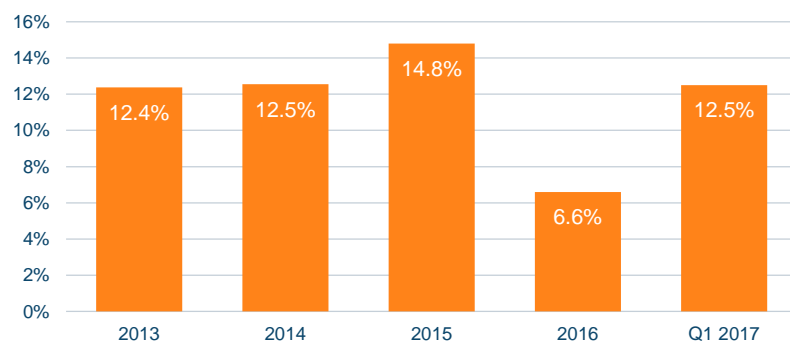
	31.3.2017	31.12.2015	31.12.2016	31.12.2015
Total assets	1,182,467	1,106,700	1,111,157	1,118,658
Loans to customers	872,350	814,669	853,417	811,549
Deposits from customers	594,565	545,208	589,725	559,051
Equity	233,894	267,845	251,231	264,531
Total capital ratio	27.4%	31.2%	30.2%	30.4%
Net stable funding ratio NSFR total	122%		123%	
Net stable funding ratio NSFR FX	159%	133%	154%	136%
Liquidity ratio LCR total	158%	134%	128%	113%
Liquidity ratio LCR FX	153%	496%	743%	360%
Net FX position	1,781	17,071	3,480	23,795
Arrears (>90 days)	1.3%	1.7%	1.5%	1.8%
Full-time eqv. positions	1,000	1,063	1,012	1,063

\*Adjusted ROE after taxes= (Profit after taxes – positive value adjustments after taxes – tax on total liabilities of financial institutions – profit from discontinued operations after taxes) / average equity position

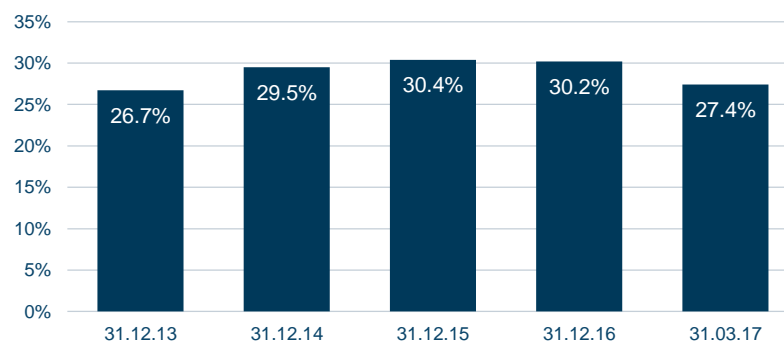
\*\*Cost-income ratio = Total operating expenses / (Net operating revenue-value net adjustments in valuation)

## Development of KPIs

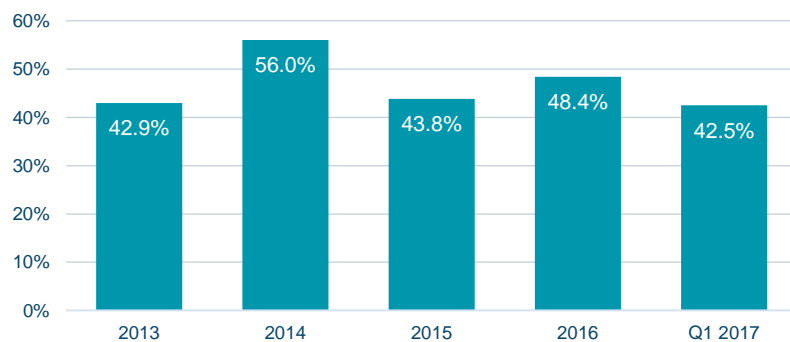
### Return on equity after taxes



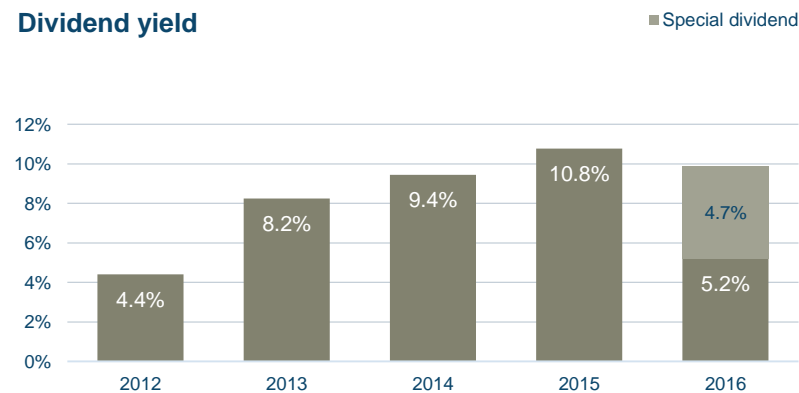
### Total capital ratio



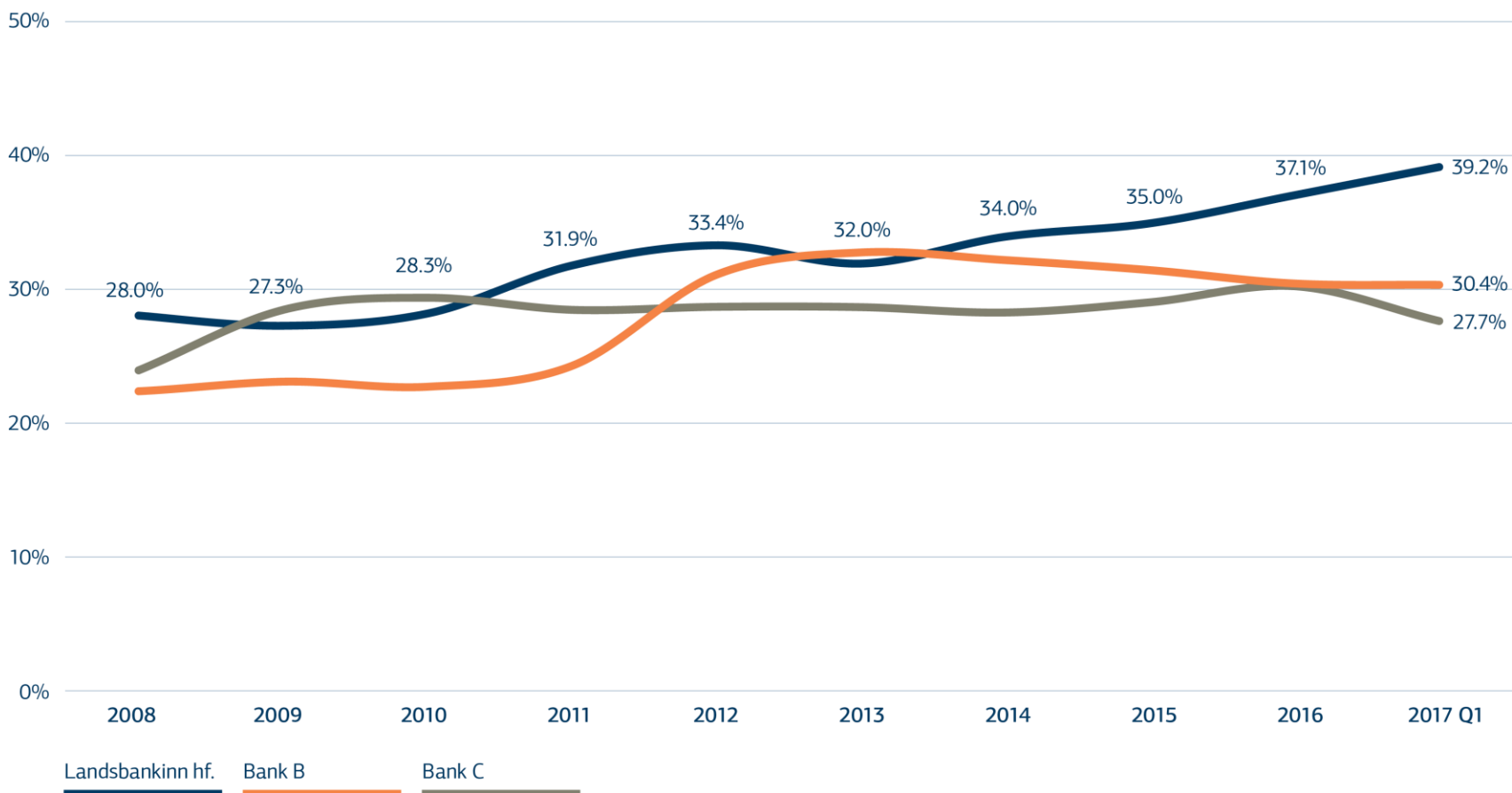
### Cost-income ratio excluding valuation adjustments



### Dividend yield



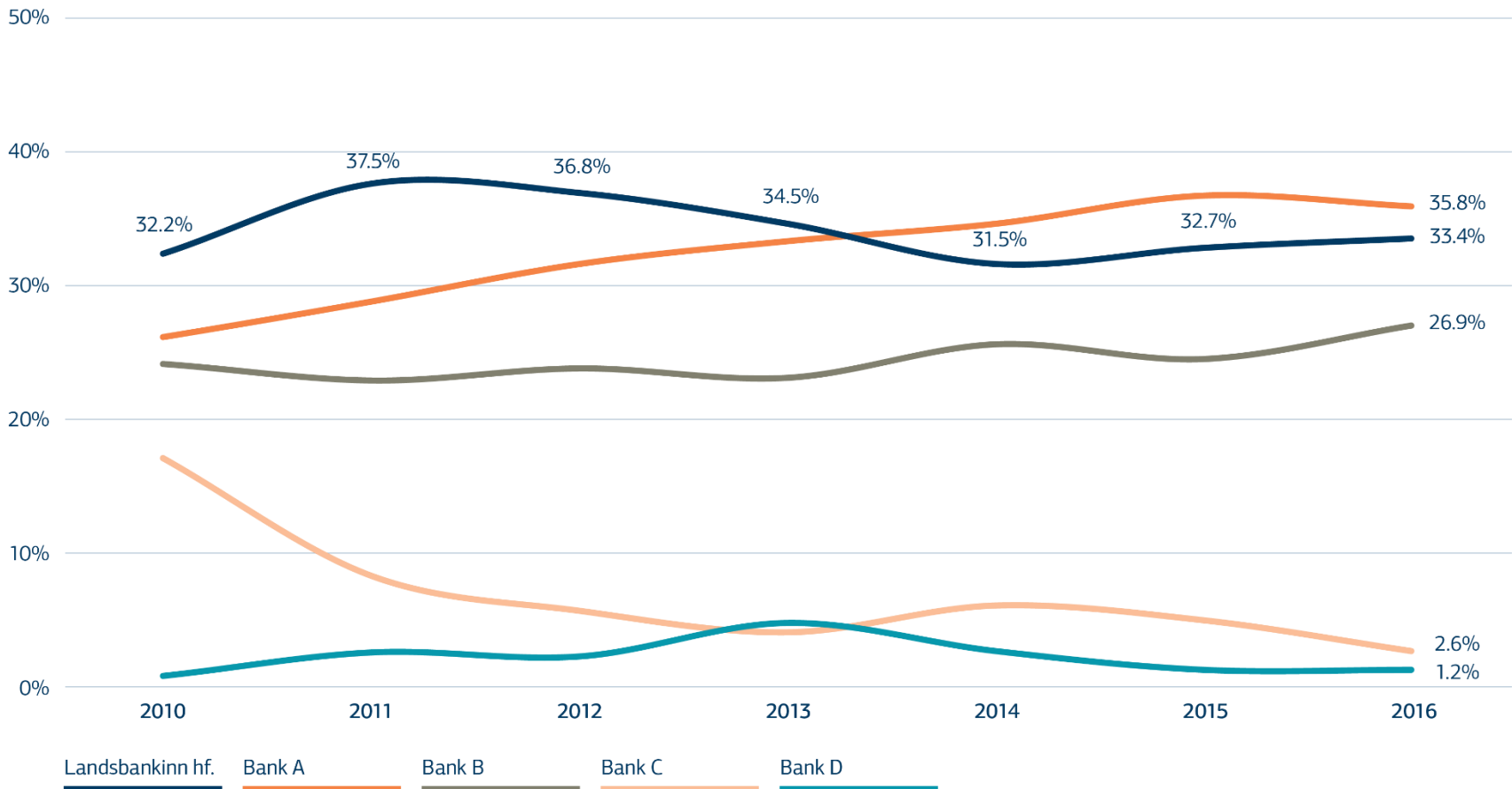
## Marketshare – Retail banking



Source: Gallup



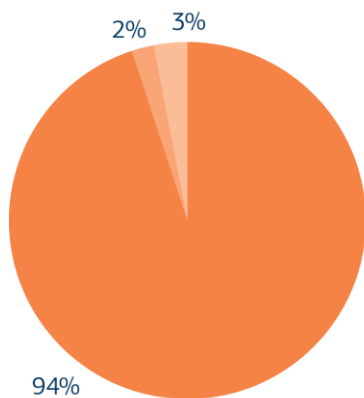
# Marketshare – Corporate banking



Source: Gallup

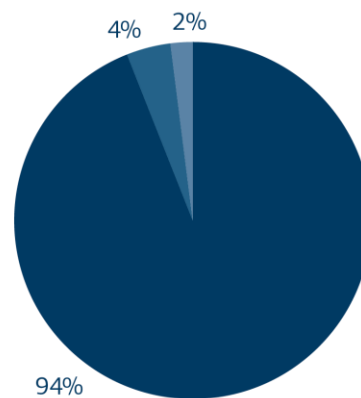


# Landsbankinn's successes



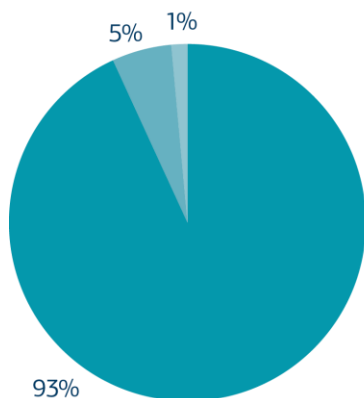
Service in branches

- Satisfied
- Neither nor
- Dissatisfied



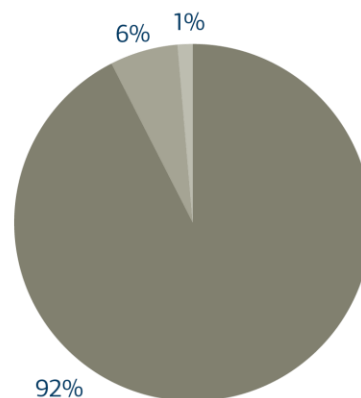
Service in SME Centre

- Satisfied
- Neither nor
- Dissatisfied



Online banking

- Satisfied
- Neither nor
- Dissatisfied



Satisfaction with 360° advice

- Satisfied
- Neither nor
- Dissatisfied



# Landsbankinn's successes

## Most satisfied customers



Customers who have received 360° advice at Landsbankinn are the most satisfied customers in the banking system.

## Credit rating



Standard & Poor's upgraded Landsbankinn's credit rating to BBB/A-2 with a positive outlook.

## Aukakrónur



Aukakronur is the country's most popular benefits system.

## Good governance



Landsbankinn was recognised as a model of good corporate governance in 2015 and 2016.

## CSR



Landsbankinn is a member of the UN Global Compact.

## PwC's Equal Pay Audit



Landsbankinn was awarded the golden seal of PwC's Equal Pay Audit for the second time.

## Strategy

### Vision:

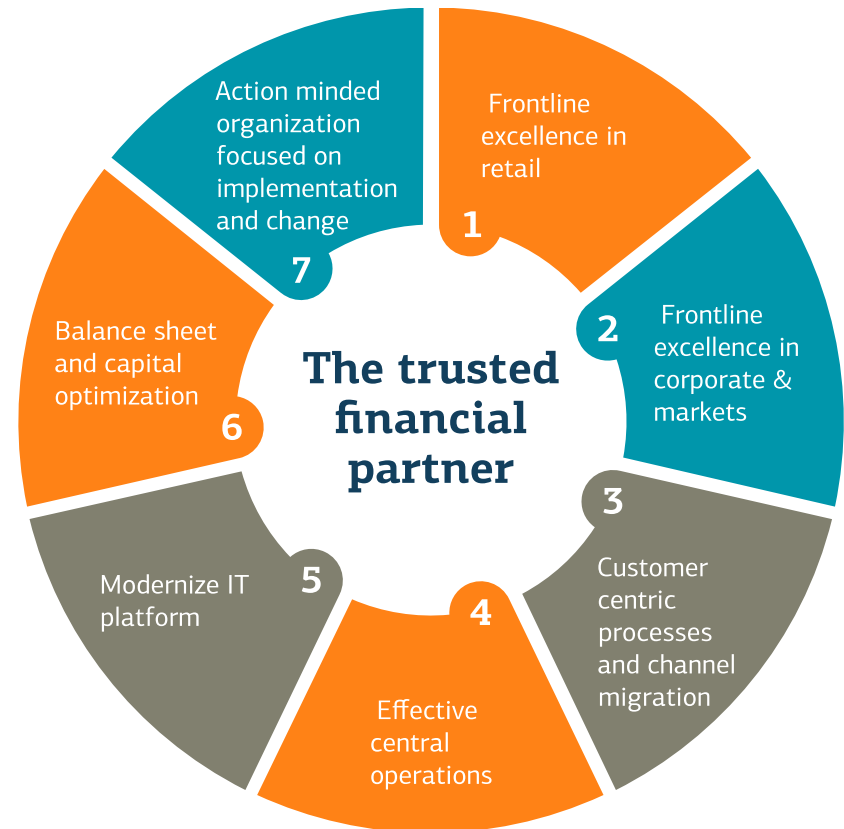
Landsbankinn is to be exemplary

### Mission:

The trusted financial partner

Our relationship with customers is based on mutual benefit. We are a trusted financial partner that supports customers towards success. We aim to tailor our services to fit their needs and to operate in harmony with our environment and society. We want our customers to be able to say...

**“This is how a bank should be”**



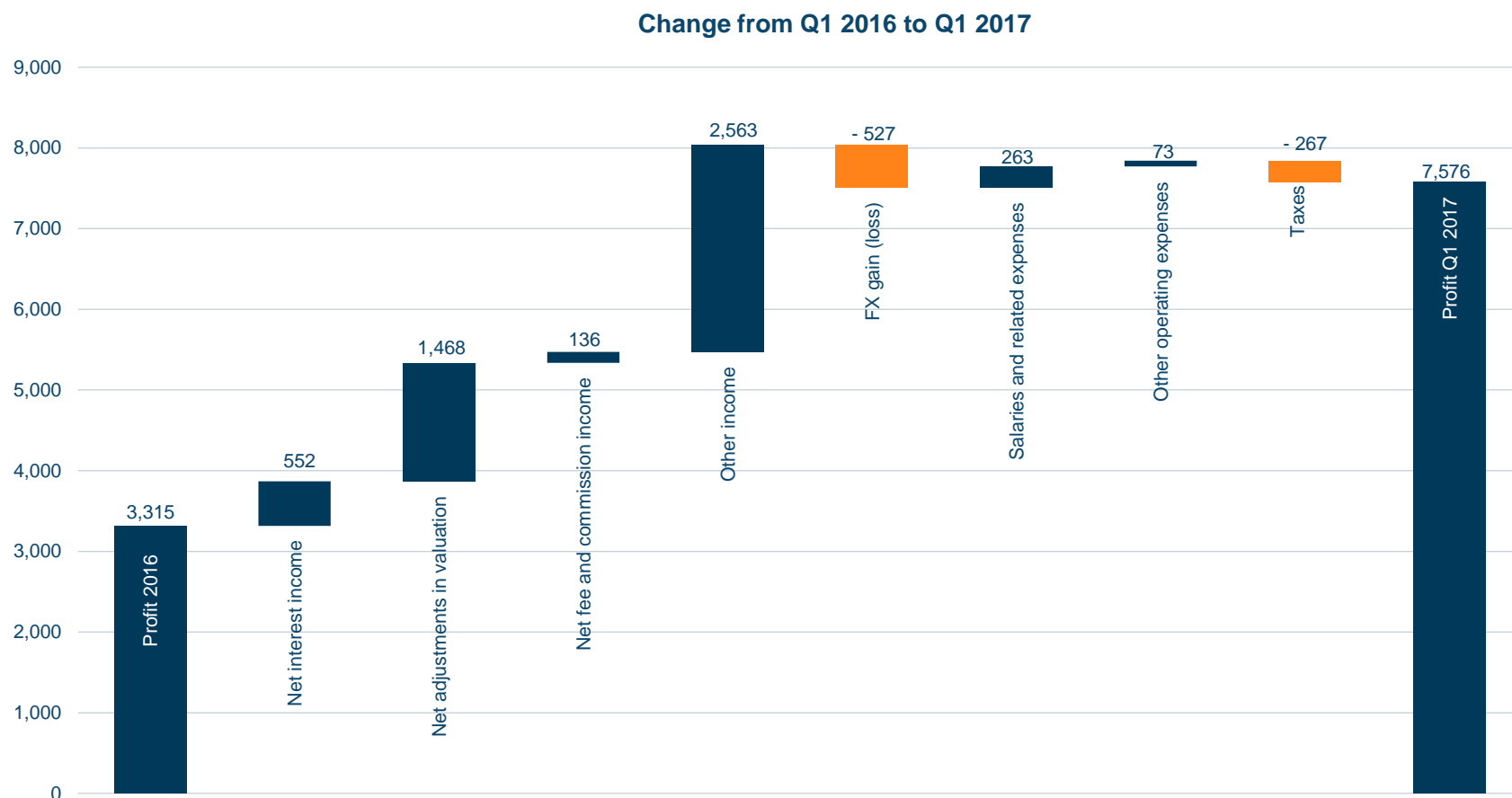
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# Q1 2017 Results

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# Income Statement



## Income Statement

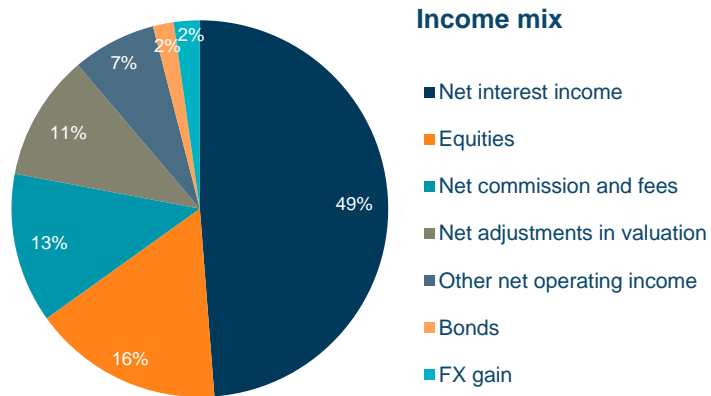
	Q1 2017	Q1 2016	Change	
Net interest income	8,018	7,466	552	7%
Net adjustments in valuation	1,779	311	1,468	471%
<b>Net interest income after adjustments in valuation</b>	<b>9,797</b>	<b>7,777</b>	<b>2,020</b>	<b>26%</b>
Net fee and commission income	2,116	1,980	136	7%
Other net operating income	3,800	1,764	2,036	115%
<b>Total operating income</b>	<b>15,713</b>	<b>11,521</b>	<b>4,192</b>	<b>36%</b>
Salaries and related expenses	3,491	3,754	-263	-7%
Other operating expenses	2,426	2,499	-73	-3%
<b>Total operating expenses</b>	<b>5,917</b>	<b>6,253</b>	<b>-336</b>	<b>-5%</b>
<b>Profit before tax</b>	<b>9,796</b>	<b>5,268</b>	<b>4,528</b>	<b>86%</b>
Income tax expense and tax on liabilities of financial institutions	2,220	1,953	267	14%
<b>Profit for the period</b>	<b>7,576</b>	<b>3,315</b>	<b>4,261</b>	<b>129%</b>

- Value changes in the credit portfolio in Q1 were positive by ISK 1.8 bn as compared with a positive change in the amount of ISK 311 m in Q1 of 2016
- Net commission income increased by 7% as compared to the same period last year, first and foremost due to increased activity in capital markets
- Other operating income increased substantially between years, accounted for mostly by positive changes in the fair value of unlisted equities
- Effective tax rate is 15.6%

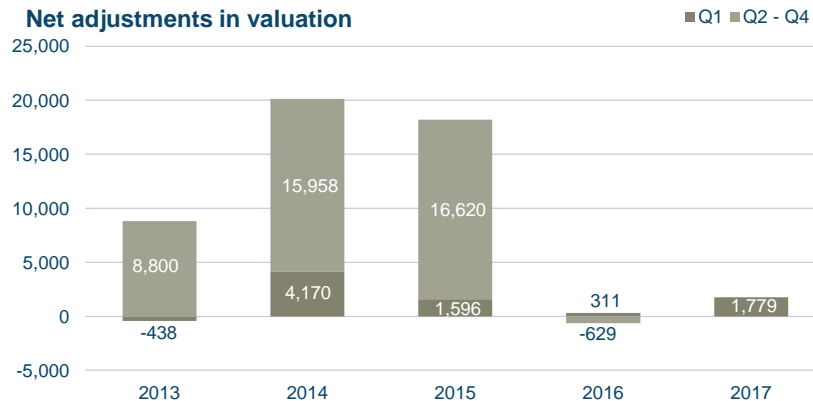
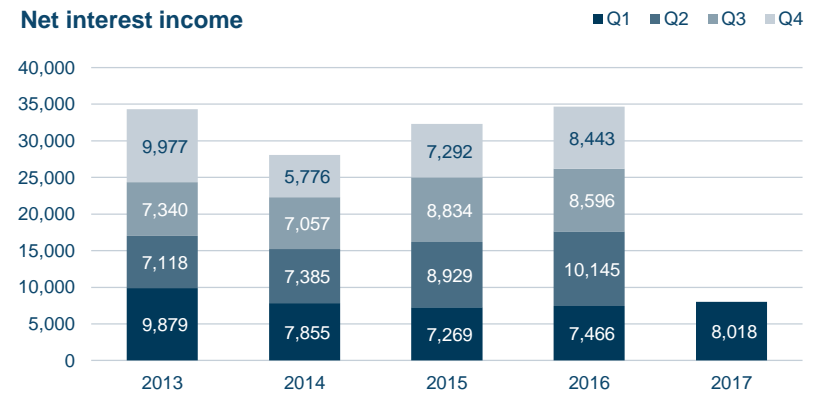
## Net interest income and valuation adjustments

	Q1 2017	Q1 2016	Change	
Interest income	14,545	14,772	-227	-2%
Interest expense	-6,527	-7,306	779	-11%
<b>Net interest income</b>	<b>8,018</b>	<b>7,466</b>	<b>552</b>	<b>7%</b>
Net impairment loss on loans and guarantees	1,024	311	713	229%
Net impairment from foreign currency linkage of loans and advances to customers	755	0	755	
<b>Net valuation adjustments</b>	<b>1,779</b>	<b>311</b>	<b>1,468</b>	<b>471%</b>
<b>Net interest income after net valuation adjustments</b>	<b>9,797</b>	<b>7,777</b>	<b>2,020</b>	<b>26%</b>

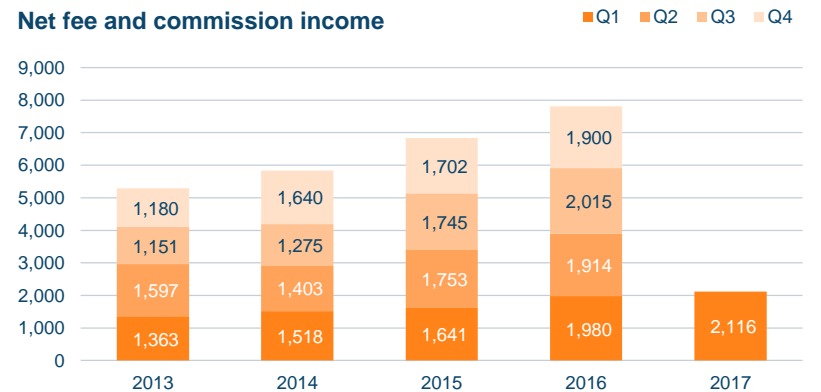
# Net operating income



**Net interest income**

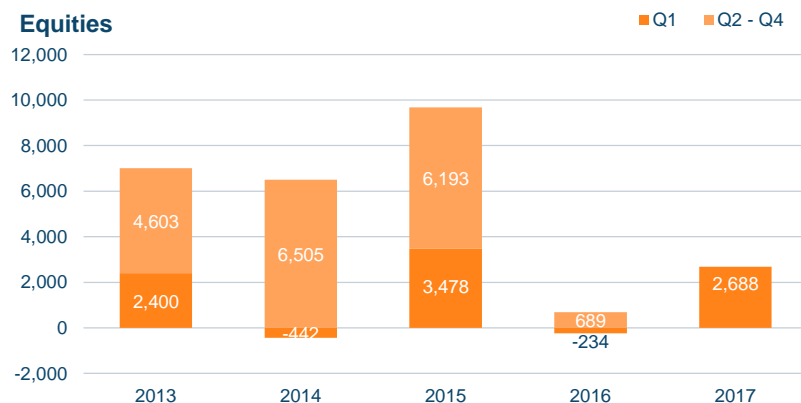


**Net fee and commission income**

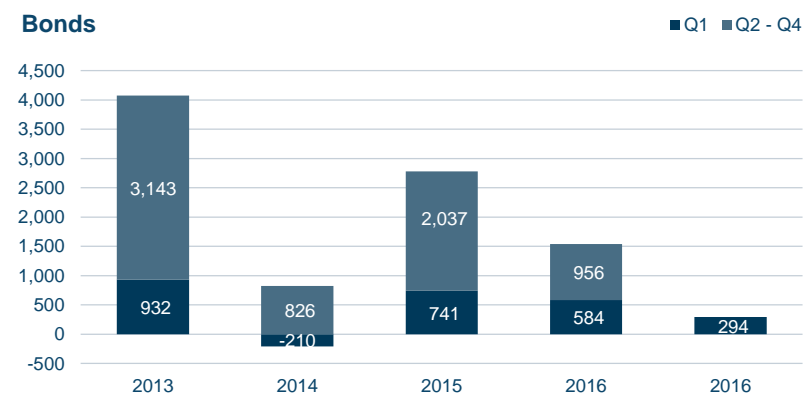


## Net operating income

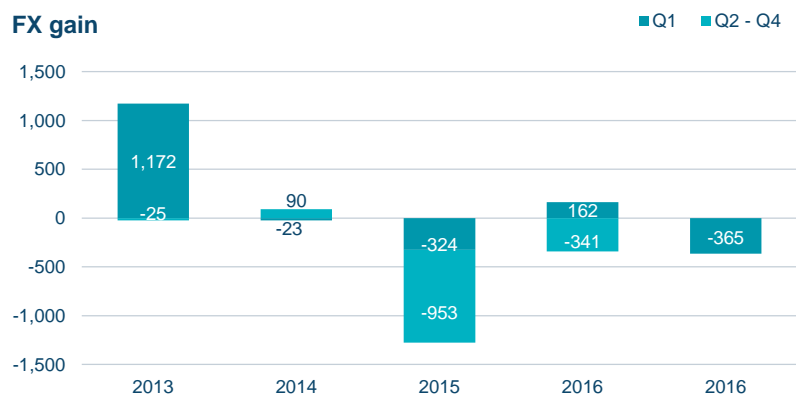
### Equities



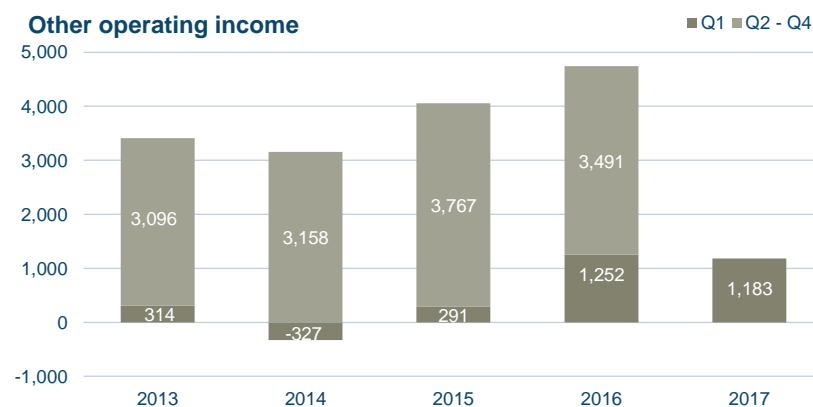
### Bonds



### FX gain



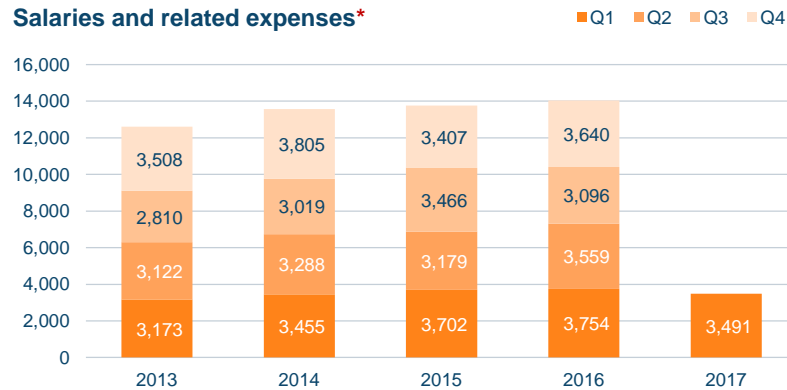
### Other operating income





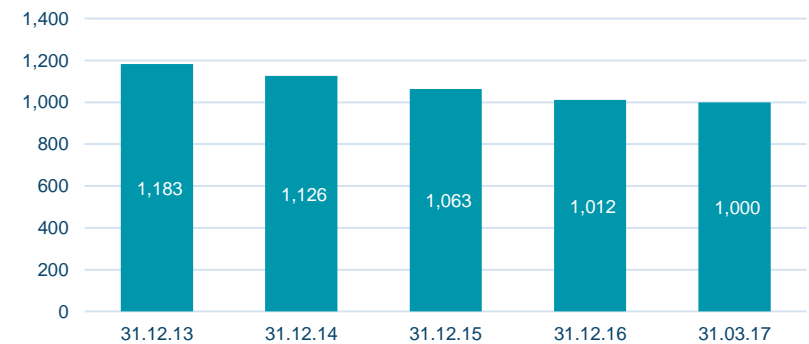
## Operating expenses

Salaries and related expenses\*

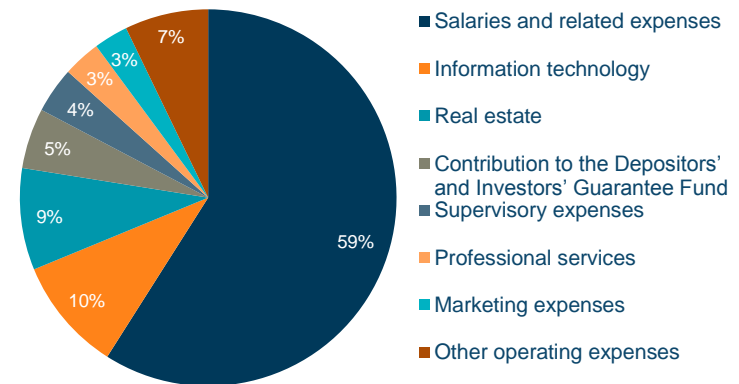
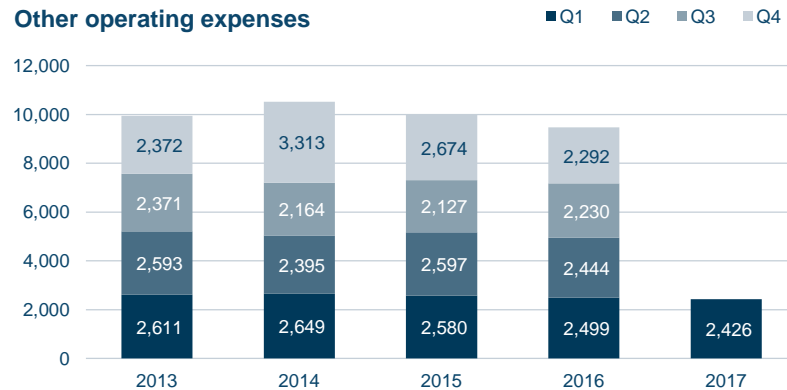


\*2013, less expensed equity-based wages

Full time employees



Other operating expenses



## Taxes

	Q1 2017	Q1 2016	Change	
Income tax	1,083	1,031	52	5%
Special financial activities tax on profits <sup>1</sup>	312	185	127	69%
<b>Income Tax</b>	<b>1,395</b>	<b>1,215</b>	<b>179</b>	<b>15%</b>
Tax on liabilities of financial institutions <sup>2</sup>	825	738	87	12%
Special financial activities tax on salaries <sup>3</sup>	162	172	-10	-6%
<b>Total</b>	<b>2,382</b>	<b>2,125</b>	<b>256</b>	<b>12%</b>

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

<sup>2</sup> Special tax on financial institutions of 0.376% is levied of the carrying amount of total liabilities at year-end, excluding tax liabilities, in excess of ISK 50,000 million as determined for tax purposes. The special income tax on financial institutions is a non-deductible expense

<sup>3</sup> A 5.5% tax on salaries which is expensed in the line item "Salaries and related expenses" in the Condensed consolidated income statement



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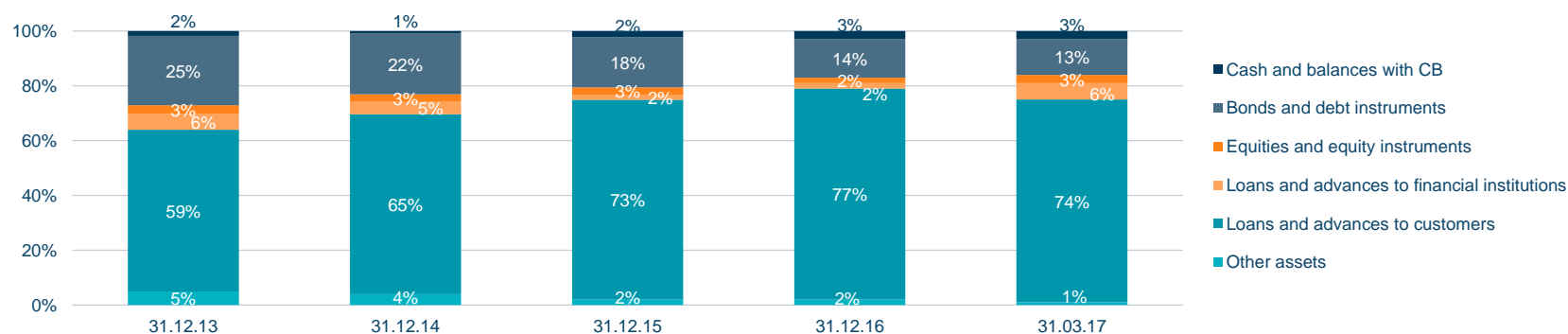
# Balance sheet

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## Balance sheet - assets

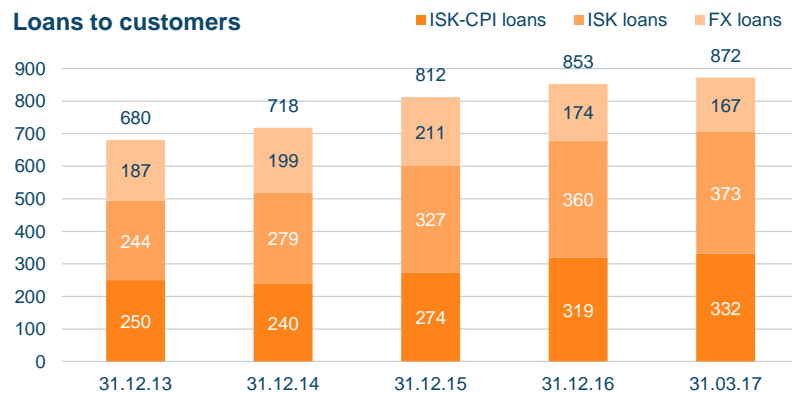
	31.03.17	31.12.16	Change	
Cash and balances with CB	35,826	30,662	5,164	17%
Bonds and debt instruments	147,992	154,892	-6,900	-4%
Equities and equity instruments	30,868	26,688	4,180	16%
Loans and advances to financial institutions	70,230	20,408	49,822	244%
Loans and advances to customers	872,350	853,417	18,933	2%
Other assets	19,009	17,641	1,368	8%
Assets classified as held for sale	6,192	7,449	-1,257	-17%
<b>Total</b>	<b>1,182,467</b>	<b>1,111,157</b>	<b>71,310</b>	<b>6%</b>

### Assets

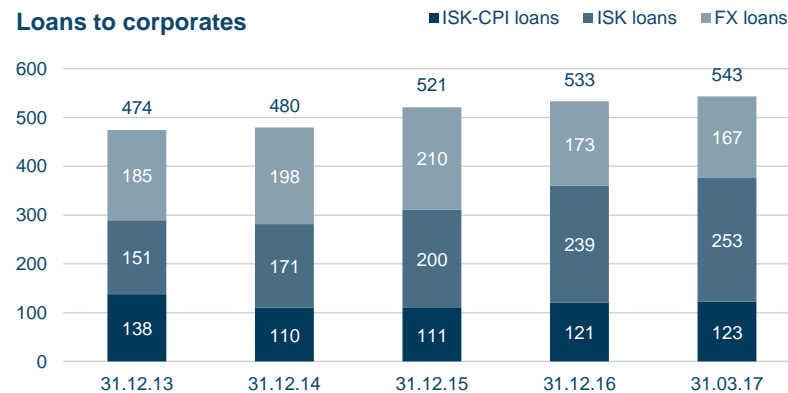


## Balance sheet - loans

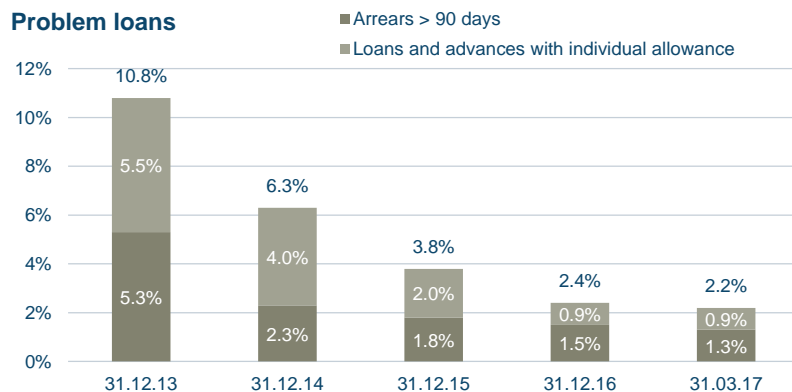
### Loans to customers



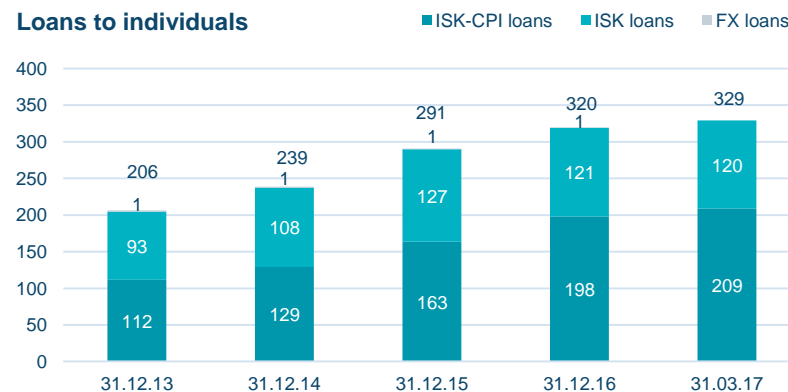
### Loans to corporates



### Problem loans

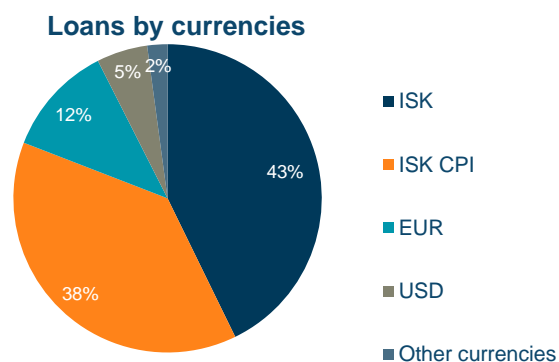
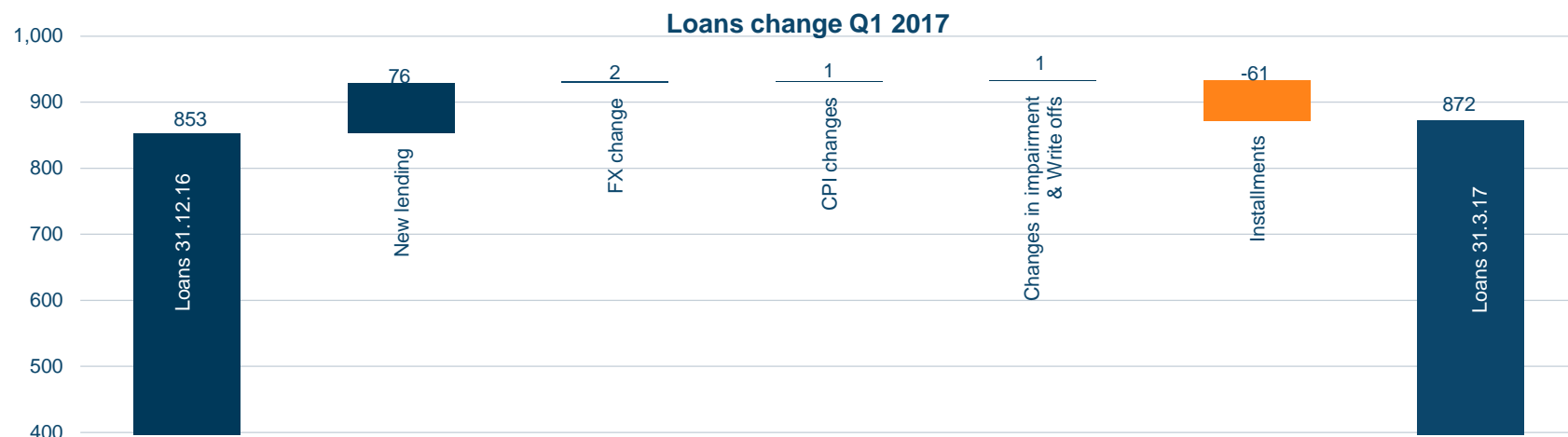


### Loans to individuals



\* Problem loans are defined as loans and advances with individual allowance and / or more than 90 days in arrears

## Balance sheet - loans



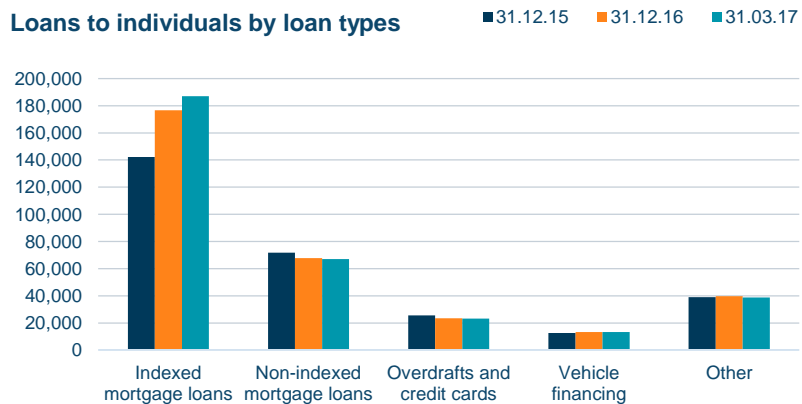
	31.03.2017	31.12.2016	Change	
ISK	373	361	12	3%
ISK CPI	332	319	13	4%
EUR	102	93	9	9%
USD	47	61	-14	-24%
Other currencies	18	19	-1	-3%
<b>Total loans</b>	<b>872</b>	<b>853</b>	<b>19</b>	<b>2%</b>

## Balance sheet - loans

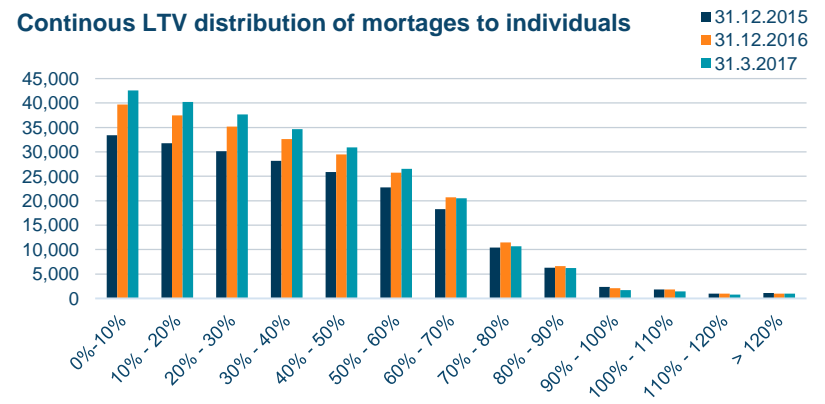
### Loans by industry sectors



### Loans to individuals by loan types



### Continuous LTV distribution of mortgages to individuals

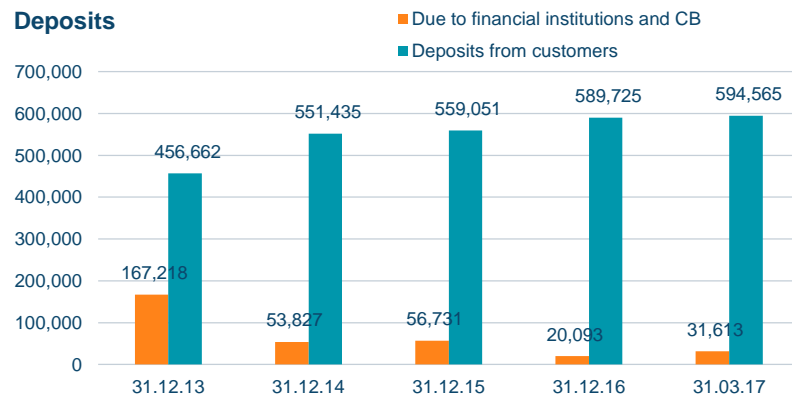


Weighted average LTV 31.03.16 60.1% (62.3% 31.12.16 ; 63.4% 31.12.2015)

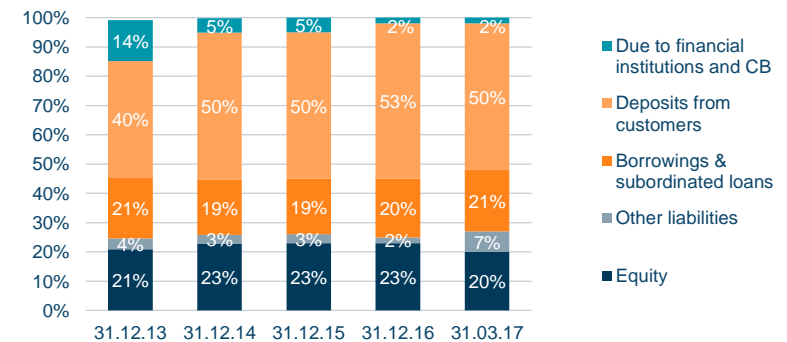
## Balance sheet – liabilities and equity

	31.03.17	31.12.16	Change	
Due to financial institutions and CB	31,613	20,093	11,520	57%
Deposits from customers	594,565	589,725	4,840	1%
Borrowings	244,649	223,944	20,705	9%
Other liabilities	77,356	25,776	51,580	200%
Subordinated liabilities	390	388	2	1%
Equity	233,894	251,231	-17,337	-7%
<b>Total</b>	<b>1,182,467</b>	<b>1,111,157</b>	<b>71,310</b>	<b>6%</b>

### Deposits



### Liabilities and equity

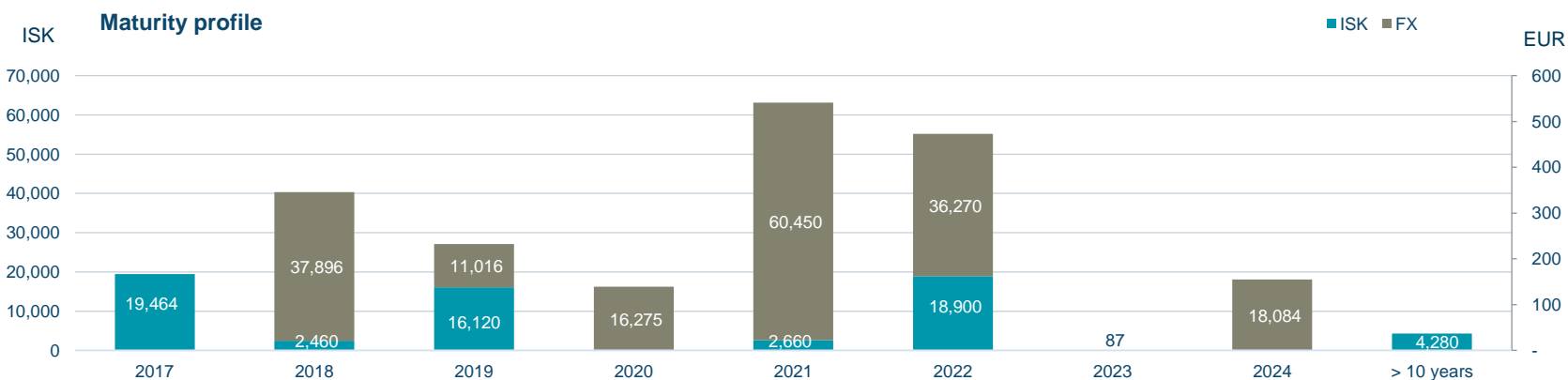
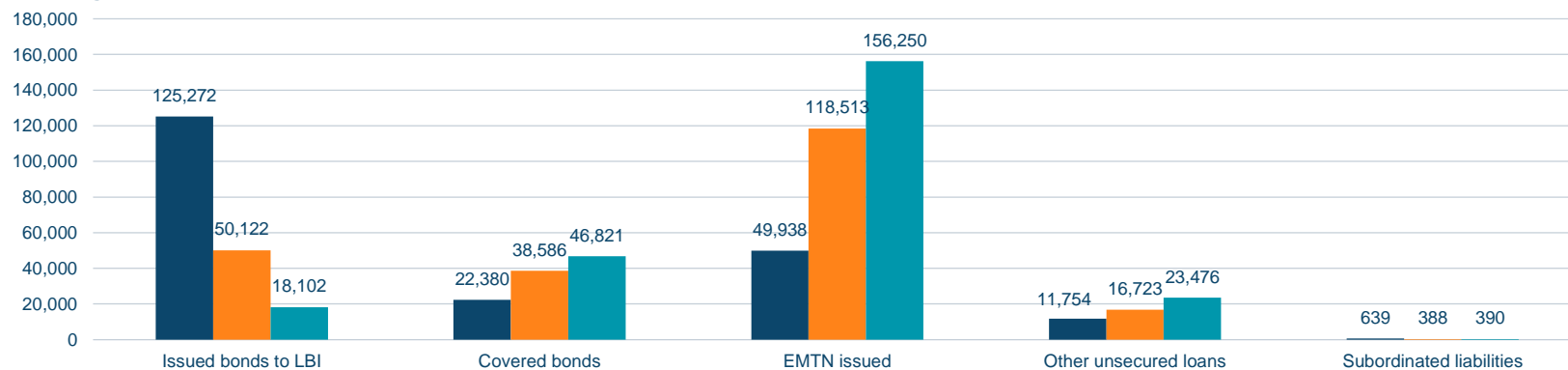




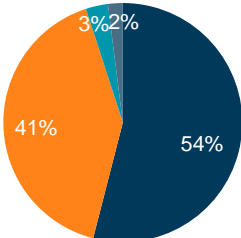
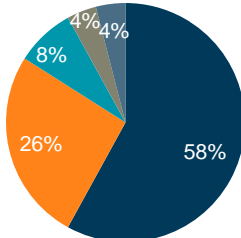
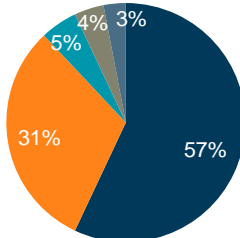
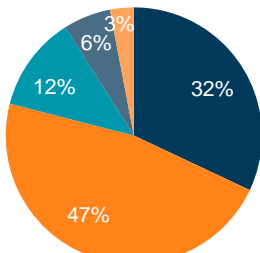
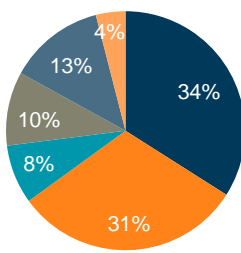
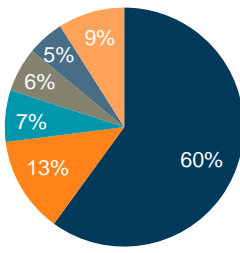
# Borrowings

## Borrowings

■ 31.12.2015 ■ 31.12.2016 ■ 31.3.2017



## Landsbankinn's EUR senior unsecured issuance

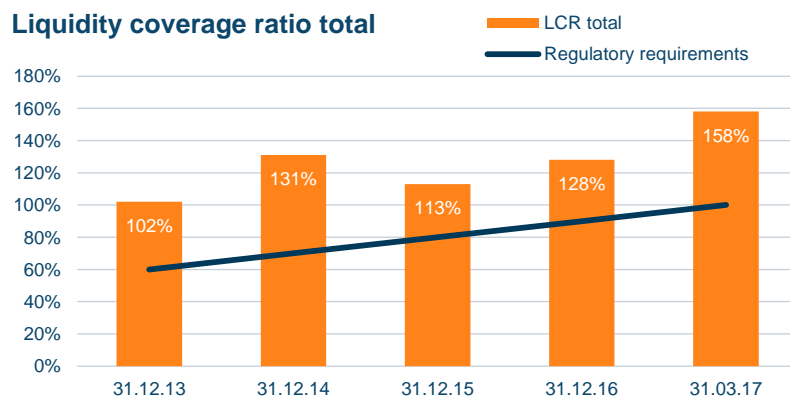
Issue date:	October 2015	September 2016	March 2017
<b>Size:</b>	€ 300 m	€ 500 m	€ 300 m
Issue rating (S&P):	BBB- (positive outlook)	BBB- (positive outlook)	BBB (positive outlook)
Tenor:	3-year	4,5-year	5-year
Maturity date:	October 2018	March 2021	March 2022
<b>Launch spread:</b>	<b>+ 295 bp</b>	<b>+ 190 bp</b>	<b>+ 130 bp</b>
Joint lead managers:	Citi, DB, JP Morgan	Barclays, Citi, DB	Barclays, BAML, Citi, JP Morgan
Roadshow locations:	Copenhagen, Oslo, Helsinki, Stockholm, London	Copenhagen, Helsinki, London, Paris, Holland	London, Paris, Holland
<b>Investors</b>			
- investor types	 <p>● Asset Managers ● Insureres / Pensions ● Banks ● Official Institutions ● Other</p>		
- geography			
	<p>● UK / Ireland ● Nordics ● France ● Ger / Aus / Swiss ● BeNeLux ● Asia / Other</p>		

# Liquidity

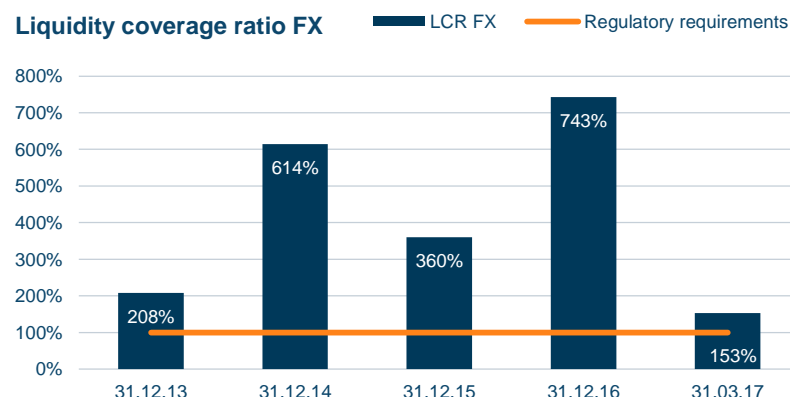
31.03.17	Total*		FX*	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	126,790	126,790	20,194	20,194
Level 2 liquid assets	0	0	0	0
information items	12,627	0	11,606	0
<b>A. Total liquid assets</b>	<b>139,417</b>	<b>126,790</b>	<b>31,800</b>	<b>20,194</b>
Deposits	395,485	107,279	36,245	13,582
Borrowing	2,860	2,860	0	0
Other outflows	178,622	54,686	74,790	39,193
<b>B. Total outflows (0-30 days)</b>	<b>576,967</b>	<b>164,825</b>	<b>111,035</b>	<b>52,775</b>
Loans and advances to financial institutions	69,532	65,622	69,475	65,608
Other inflows	40,716	18,742	15,092	7,778
Limit on inflows	0	0	0	-33,805
<b>C. Total inflows (0-30 days)</b>	<b>110,248</b>	<b>84,364</b>	<b>84,567</b>	<b>39,581</b>
<b>Net outflow 0-30 days (B-C)</b>		<b>80,461</b>		<b>13,194</b>
<b>Liquidity coverage A/(B-C)</b>		<b>158%</b>		<b>153%</b>

\*according to the liquidity and funding rules set by the Central Bank of Iceland, No. 266/2017

## Liquidity coverage ratio total

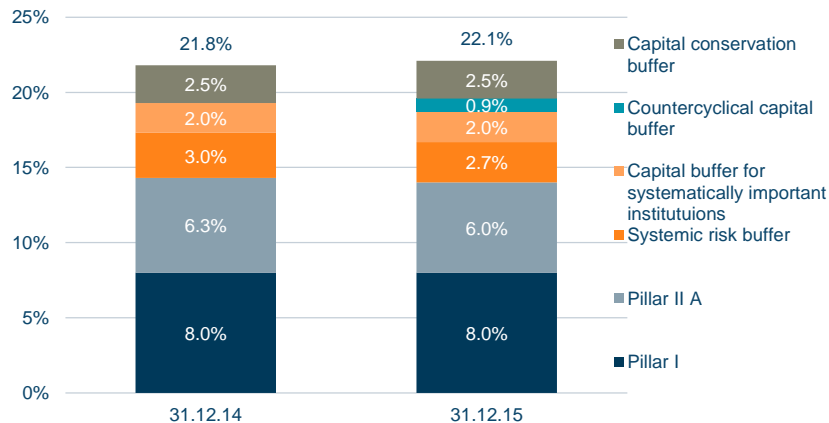


## Liquidity coverage ratio FX

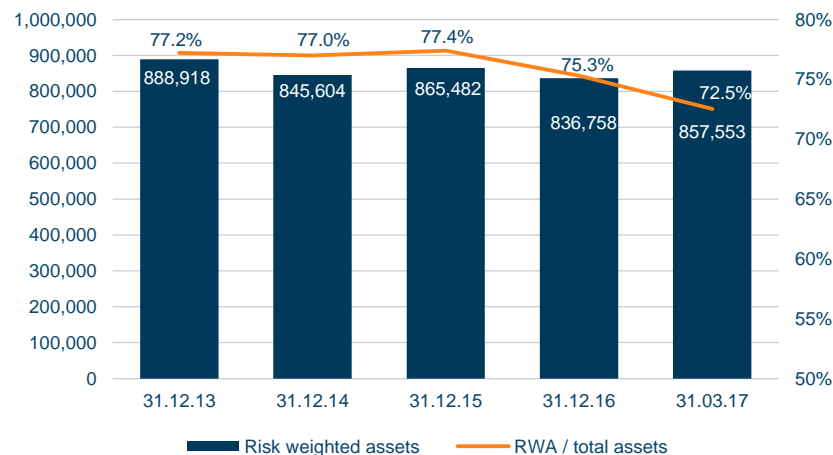


## Capital requirements

Total capital requirements as defined by FME



Risk weighted assets

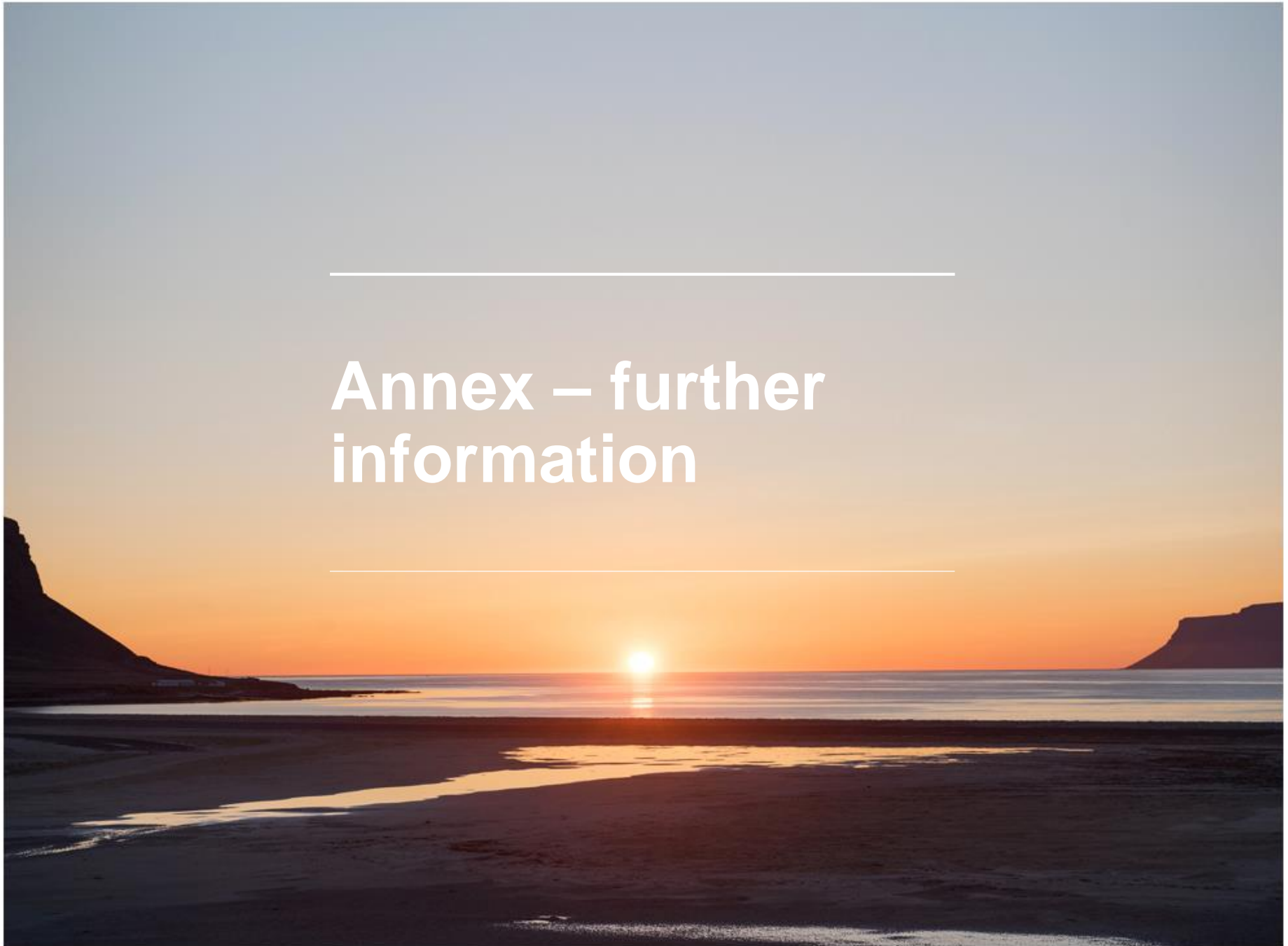


- Total capital ratio was 27.4% end of Q1 2017, as compared with 30.2% at year-end 2016
- In September 2016, the Icelandic parliament Althingi approved a bill of legislation amending the Act on Financial Undertakings to transpose into Icelandic law various provisions from CRD IV / CRR
- Capital requirements pertaining to Landsbankinn as provided for in the Act on Financial Undertakings, guidelines on capital buffers from the Financial Stability Counsel and decisions made by the Financial Supervisory Authority, Iceland (FME), in the yearly ICAAP/SREP are stated in the above table
- The Bank's target is to maintain a capital ratio above the FME's total capital requirement at any given time, plus an administration buffer specified in the Bank's risk appetite. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies

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# Annex – further information

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## Key financial ratios

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	2016	2015	2014
Profit after taxes	7,576	243	5,102	7,983	3,315	16,643	36,460	29,737
Return on equity before taxes	16.2%	1.7%	12.5%	17.2%	7.9%	9.9%	19.9%	16.7%
Return on equity after taxes	12.5%	0.4%	8.2%	12.4%	5.0%	6.6%	14.8%	12.5%
After tax return on average assets	2.7%	0.1%	1.8%	2.9%	1.2%	1.5%	3.2%	2.6%
Total capital ratio	27.4%	30.2%	29.1%	28.9%	31.2%	30.2%	30.4%	29.5%
Net interest income	8,018	8,443	8,596	10,145	7,466	34,650	32,324	28,073
Interest spread as a ratio of assets and liabilities	2.2%	2.2%	2.4%	2.8%	1.9%	2.3%	2.2%	1.9%
Cost-income ratio*	42.5%	50.7%	48.9%	40.8%	55.8%	48.4%	43.8%	56.0%
Net stable funding ratio NSFR total	122%	123%				123%		
Net stable funding ratio NSFR FX	159%	154%	149%	145%	133%	154%	136%	134%
Liquidity ratio LCR total	158%	128%	140%	123%	134%	128%	113%	131%
Liquidity LCR FX	153%	743%	594%	684%	496%	743%	360%	614%
Operating expenses as a ratio of average total assets	2.1%	2.1%	1.9%	2.2%	2.2%	2.1%	2.1%	2.1%
Total assets	1,182,467	1,111,157	1,133,802	1,109,844	1,106,700	1,111,157	1,118,658	1,098,370
Loans / deposits ratio	146.7%	144.7%	143.5%	148.6%	149.4%	144.7%	145.2%	130.3%
Full-time eqv.positions	1,000	1,012	1,043	1,040	1,063	1,012	1,063	1,126

\* Cost-income ratio = total operating expenses / (total operating income – net adjustments in valuation)

# Operations

	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	2016	2015	2014
Net interest income	8,018	8,443	8,596	10,145	7,466	34,650	32,324	28,073
Net valuation adjustments	1,779	-4,737	2,144	1,964	311	-318	18,216	20,128
<b>Net interest income after valuation adjustments</b>	<b>9,797</b>	<b>3,706</b>	<b>10,740</b>	<b>12,109</b>	<b>7,777</b>	<b>34,332</b>	<b>50,540</b>	<b>48,201</b>
Net fee commission income	2,116	1,900	2,015	1,914	1,980	7,809	6,841	5,836
Net foreign exchange gain (loss)	-365	-212	25	-154	162	-179	-1,277	67
Other net operating income	4,165	1,614	330	3,192	1,602	6,738	16,507	9,510
<b>Total operating income</b>	<b>15,713</b>	<b>7,008</b>	<b>13,110</b>	<b>17,061</b>	<b>11,521</b>	<b>48,700</b>	<b>72,611</b>	<b>63,614</b>
Salaries and related expenses	3,491	3,640	3,096	3,559	3,754	14,049	13,754	13,567
Other operating expenses	2,426	2,292	2,230	2,444	2,499	9,465	9,978	10,521
<b>Total operating expenses</b>	<b>5,917</b>	<b>5,932</b>	<b>5,326</b>	<b>6,003</b>	<b>6,253</b>	<b>23,514</b>	<b>23,732</b>	<b>24,088</b>
<b>Profit before tax</b>	<b>9,796</b>	<b>1,076</b>	<b>7,784</b>	<b>11,058</b>	<b>5,268</b>	<b>25,186</b>	<b>48,879</b>	<b>39,526</b>
Income tax expense	2,220	833	2,682	3,075	1,953	8,543	12,419	9,789
<b>Profit for the period</b>	<b>7,576</b>	<b>243</b>	<b>5,102</b>	<b>7,983</b>	<b>3,315</b>	<b>16,643</b>	<b>36,460</b>	<b>29,737</b>

# Balance Sheet

	31.3.2017	31.12.2016	Change		31.12.15	31.12.14	31.12.13
Cash and balances with CB	35,826	30,662	5,164	17%	25,164	10,160	21,520
Bonds and debt instruments	147,992	154,892	-6,900	-4%	203,684	243,589	290,595
Equities and equity instruments	30,868	26,688	4,180	16%	29,192	29,433	36,275
Loans and advances to fin institutions	70,230	20,408	49,822	244%	20,791	49,789	67,916
Loans and advances to customers	872,350	853,417	18,933	2%	811,549	718,355	680,468
Other assets	19,009	17,641	1,368	8%	16,323	28,832	29,719
Assets classified as held for sale	6,192	7,449	-1,257	-17%	11,955	18,212	25,023
<b>Total</b>	<b>1,182,467</b>	<b>1,111,157</b>	<b>71,310</b>	<b>6%</b>	<b>1,118,658</b>	<b>1,098,370</b>	<b>1,151,516</b>

Due to financial institutions and CB	31,613	20,093	11,520	57%	56,731	53,827	167,218
Deposits from customers	594,565	589,725	4,840	1%	559,051	551,435	456,662
Borrowings	244,649	223,944	20,705	9%	209,344	207,028	239,642
Other liabilities	76,261	24,681	51,580	200%	26,844	32,443	42,750
Liabilities associated with assets classified as held for sale	1,095	1,095	0	0%	1,518	2,834	3,885
Subordinated liabilities	390	388	2	0%	639	0	0
Equity	233,894	251,231	-17,337	-7%	264,531	250,803	241,359
<b>Total</b>	<b>1,182,467</b>	<b>1,111,157</b>	<b>71,310</b>	<b>6%</b>	<b>1,118,658</b>	<b>1,098,370</b>	<b>1,151,516</b>



# Segments

Q1 2017	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Recon- ciliation	Total
Net interest income (expense)	3,707	3,754	67	506	6	-22	8,018
Net valuation adjustments	315	1,461	0	3	0	0	1,779
Net fee and commission income (expense)	798	396	1,063	-88	20	-73	2,116
Other net operating income (expense)	96	1	-62	2,930	794	41	3,800
<b>Total operating income (expense)</b>	<b>4,916</b>	<b>5,612</b>	<b>1,068</b>	<b>3,351</b>	<b>820</b>	<b>-54</b>	<b>15,713</b>
Operating expenses	-1,517	-397	-509	-376	-3,186	68	-5,917
<b>Profit (loss) before cost allocation and tax</b>	<b>3,399</b>	<b>5,215</b>	<b>559</b>	<b>2,975</b>	<b>-2,366</b>	<b>14</b>	<b>9,796</b>
Cost allocated from support functions to business segments	-1,234	-847	-370	-239	2,690	0	0
<b>Profit (loss) before tax</b>	<b>2,165</b>	<b>4,368</b>	<b>189</b>	<b>2,736</b>	<b>324</b>	<b>14</b>	<b>9,796</b>
Total assets	408,495	483,722	36,514	474,776	18,560	-239,600	1,182,467
Total liabilities	356,194	375,287	32,508	405,624	18,560	-239,600	948,573
Allocated capital	52,301	108,435	4,006	69,152	0	0	233,894