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# H1 2016 Results

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# Highlights

## Operations

### Highlights in Q2 of 2016

- After-tax profit amounted to ISK 8 billion in Q2, compared to ISK 6 billion for the same period of 2015.
- Net interest income rose YoY, amounting to ISK 10.1 billion in Q2 2016 compared to ISK 8.9 billion in Q2 2015.
- Positive loan revaluations increased over the same period last year, amounting to ISK 2 billion in Q2 2016 compared to ISK 0.2 billion during the same quarter of 2015.
- Net fees and commissions also increased, totalling ISK 1.9 billion in Q2 2016 compared to ISK 1.8 billion in the same quarter of 2015, an increase of 9.2%. This is due primarily to increased trading and asset management.
- After-tax ROE rose to 12.4% in Q2 2016, up from 10.1% for the same quarter in 2015.

### Key income statement figures in H1 2016

- After-tax profit amounted to ISK 11.3 billion in H1 2016, compared to ISK 12.4 billion for the same period of 2015.
- Net interest income amounted to ISK 17.6 billion, increasing by 9% over the same period last year.
- Loan revaluations during H1 were positive by ISK 2.3 billion, compared to positive revaluations of ISK 1.8 billion in H1 2015.
- Net fees and commissions rose by 15% over the same period of 2015, due especially to increased activities in Capital Markets and changes in the payment card market.

- Other operating income decreases substantially YoY, due primarily to lower profits on equities than for the same period of 2015
- Net interest spread at the end of Q2 2016 is 2.3% compared to 2.2% at the end of Q2 2015
- After-tax ROE was 8.6%, compared to 10.4% for the same period in 2015
- If salaries and related expenses are excluded, operating expenses decreased by 4.5% YoY
- During the first six months of this year Landsbankinn's cost-income ratio was 47.3% compared to 44.8% in H1 of the previous year

## Balance sheet

- Total assets amounted to ISK 1,109.8 billion as of the end of June 2016.
- Deposits from financial undertakings have decreased during the year, primarily as a result of the Central Bank's foreign currency auction in June.
- The bank's foreign balance has decreased in 2016, as foreign-denominated assets now exceed liabilities in foreign currencies by ISK 6.5 billion, while the balance was positive by ISK 23.8 billion at year-end 2015.
- The bank's liquidity remains extremely high, both in foreign currency and in ISK.
- As of 30 June 2016 Landsbankinn's equity was ISK 247.3 billion, a decrease of 7% since the beginning of this year, as a result of payment of a dividend of ISK 28.5 billion in two instalments, firstly, on 20 April of this year and, secondly, on 21 September. As of the end of Q2, the bank's capital adequacy ratio (CAR) was 28.9%, compared to 28.0% at the same time the previous year.



## Main results

	H1 2016	H1 2015	Q2 2016	Q2 2015	2015	2014
Profit after taxes	11,298	12,405	7,983	5,993	36,460	29,737
Return on equity after taxes	8.6%	10.4%	12.4%	10.1%	14.8%	12.5%
Adjusted return on equity after taxes*	8.5%	10.6%	10.1%	11.3%	10.6%	7.5%
Interest spread as a ratio of assets and liabilities	2.3%	2.2%	2.8%	2.4%	2.2%	1.9%
Cost-income ratio**	47.3%	44.8%	40.8%	41.7%	43.8%	56.0%

	30.06.16	30.06.15	31.12.15	31.12.14
Total assets	1,109,844	1,172,669	1,118,658	1,098,370
Loans to customers	827,241	761,290	811,549	718,355
Deposits from customers	556,841	621,023	559,051	551,435
Equity	247,291	239,852	264,531	250,803
Total capital ratio (CAR)	28.9%	28.0%	30.4%	29.5%
Liquidity ratio NSFR FX	145%	139%	136%	134%
Liquidity ratio LCR total	123%	119%	113%	131%
Liquidity ratio LCR FX	684%	377%	360%	614%
Net FX position	6,458	19,446	23,795	20,320
Arrears (>90 days)	1.7%	2.3%	1.8%	2.3%
Full-time eqv. positions	1,040	1,088	1,063	1,126

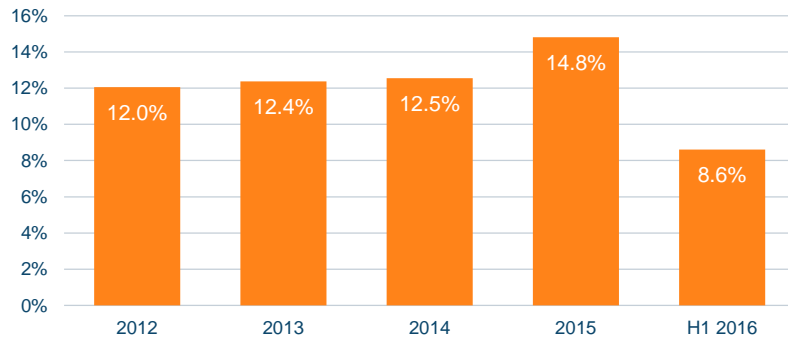
\*Adjusted ROE after taxes= (Profit after taxes – positive value adjustments after taxes – tax on total liabilities of financial institutions – profit from discontinued operations after taxes) / average equity position

\*\*Cost-income ratio = Total operating expenses / (Net operating revenue-value change of lending)

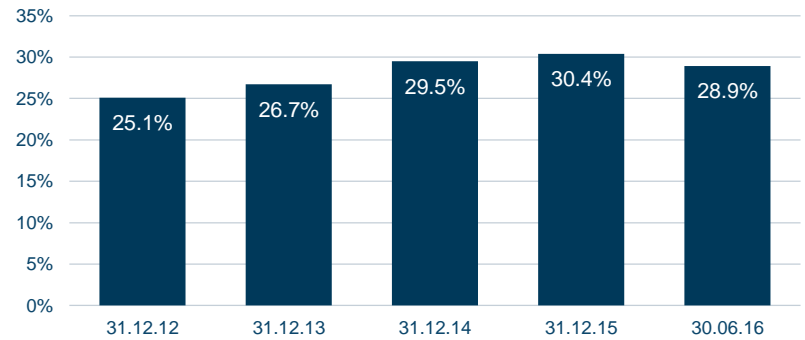


## Development of KPIs

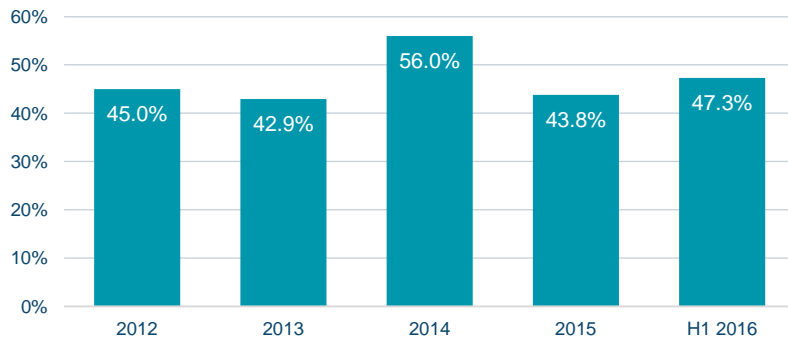
Return on equity after taxes



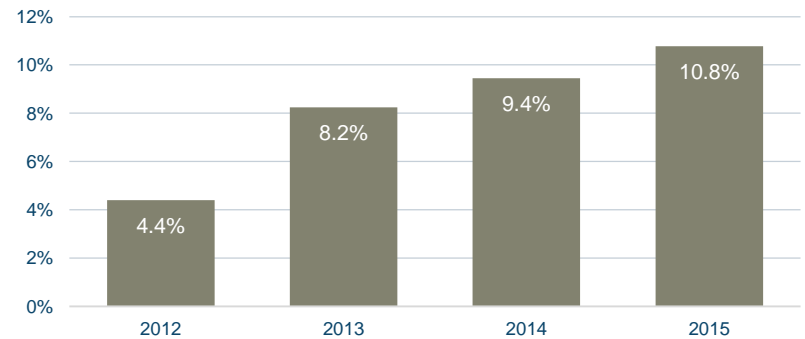
Total capital ratio



Cost-income ratio excluding valuation adjustments

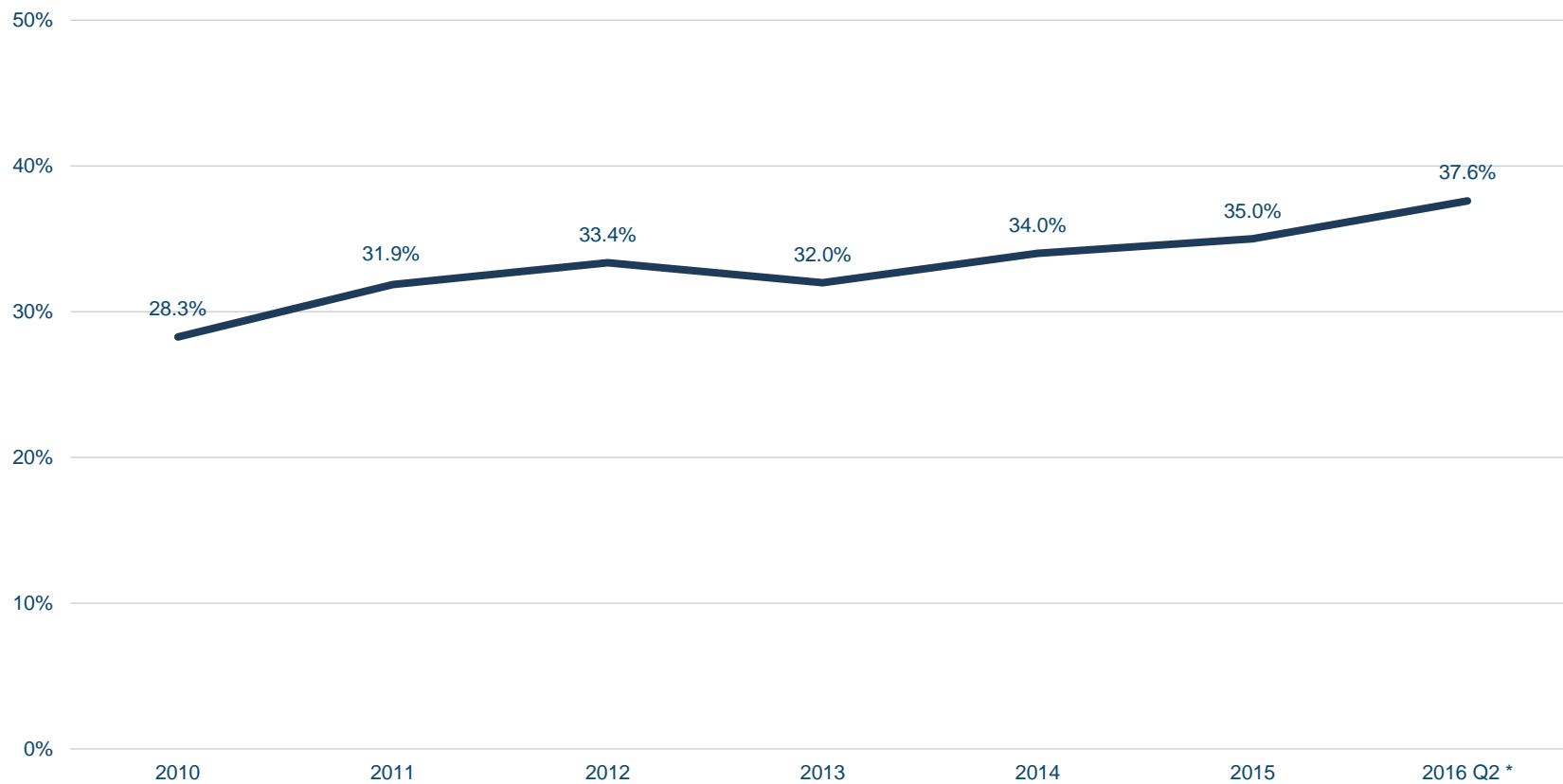


Divident yield



# Performance measurements

## Market share, Personal banking

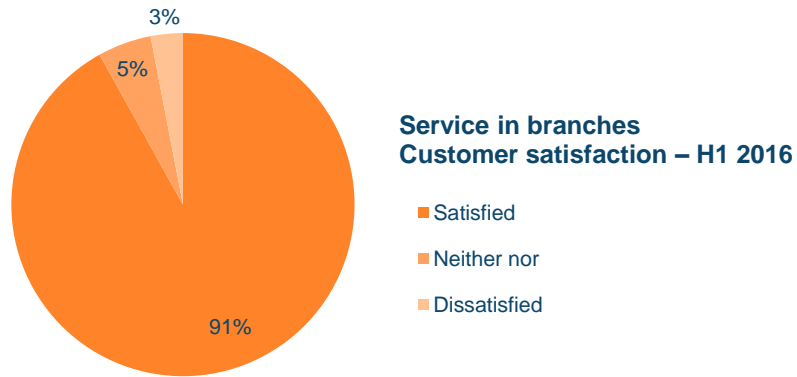


\* Market share 2016 based on measurements in April, May and June

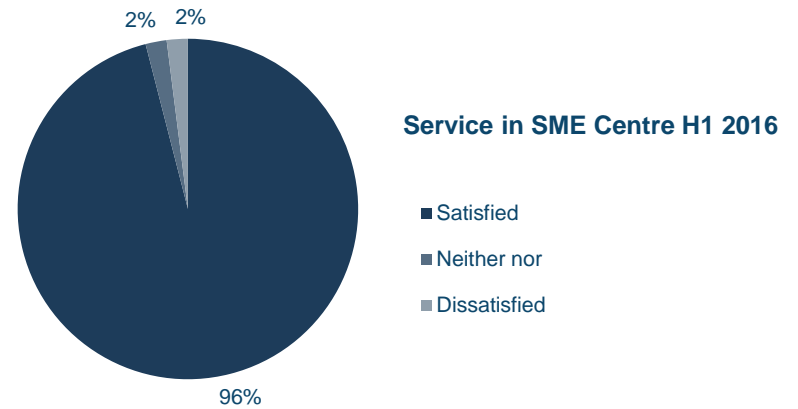
Source: Gallup Iceland



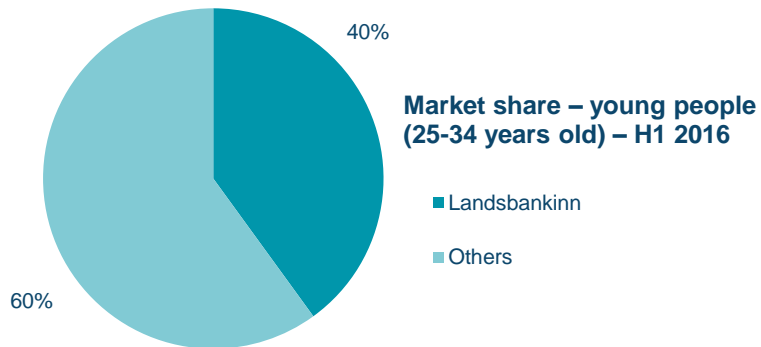
## Performance measurements



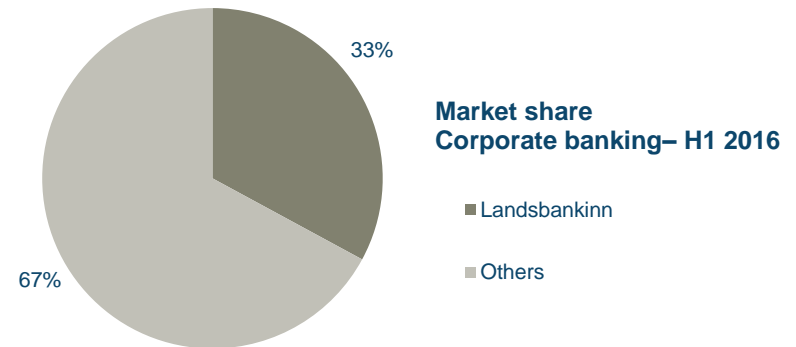
Source: Gallup Iceland



Source: Gallup Iceland



Source: Gallup Iceland



Source: Gallup Iceland



## Strategy

### Vision:

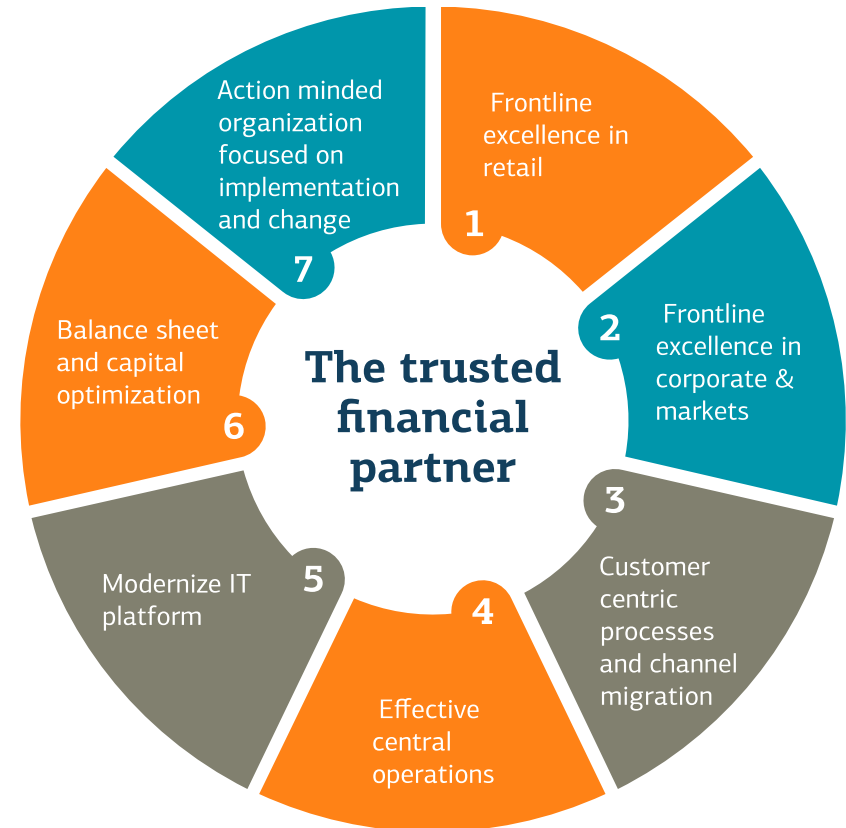
Landsbankinn is to be exemplary

### 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”**



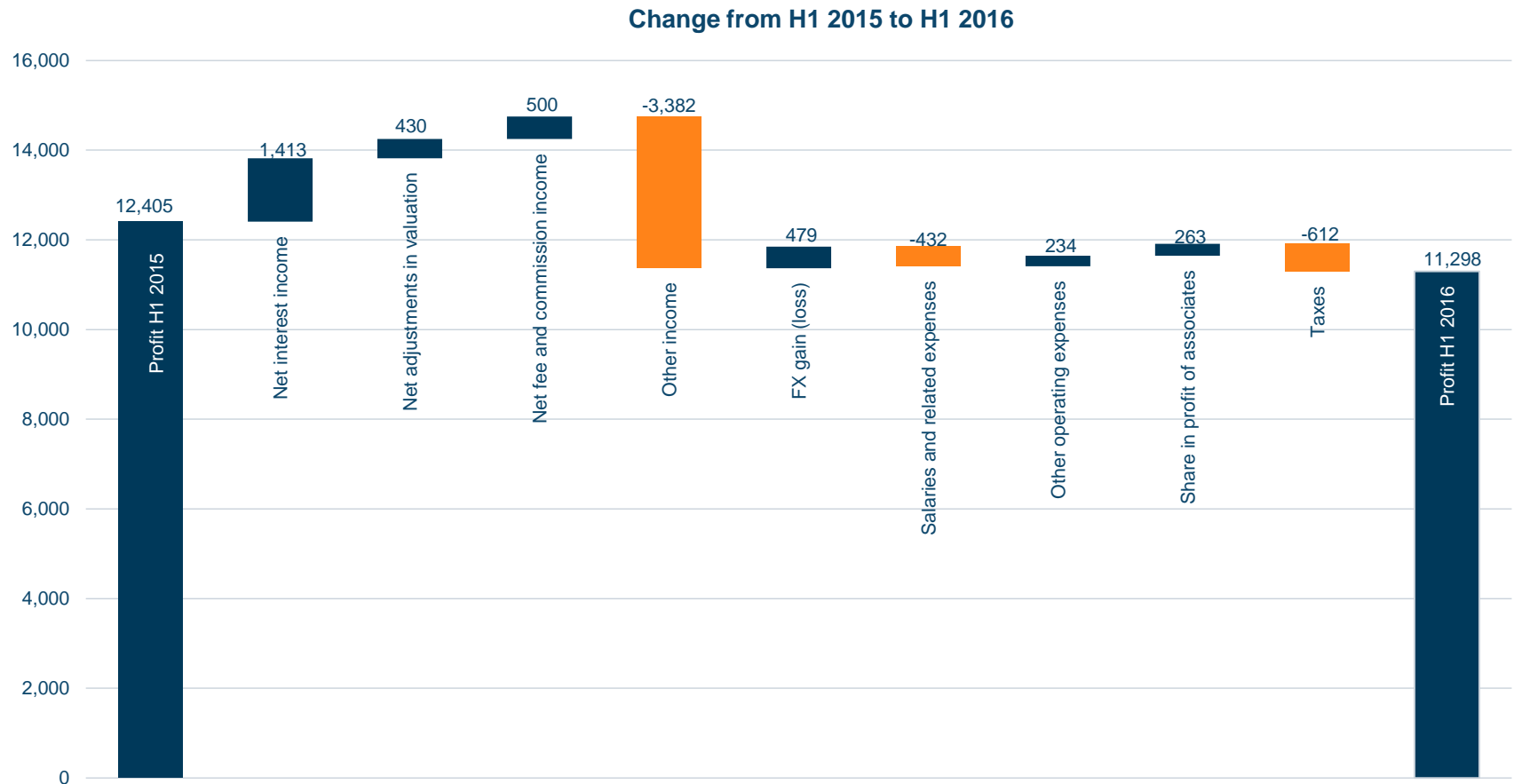


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# H1 2016 Results

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# Income Statement



## Income Statement

	H1 2016	H1 2015	Change	Q2 2016	Q2 2015	Change
Net interest income	17,611	16,198	9%	10,145	8,929	14%
Net adjustments in valuation	2,275	1,845	23%	1,964	249	689%
<b>Net interest income after adjustments in valuation</b>	<b>19,886</b>	<b>18,043</b>	<b>10%</b>	<b>12,109</b>	<b>9,178</b>	<b>32%</b>
Net fee and commission income	3,894	3,394	15%	1,914	1,753	9%
Other net operating income	4,427	7,330	-40%	2,667	3,153	-15%
<b>Total operating income</b>	<b>28,207</b>	<b>28,767</b>	<b>-2%</b>	<b>16,690</b>	<b>14,084</b>	<b>19%</b>
Salaries and related expenses	7,313	6,881	6%	3,559	3,179	12%
Other operating expenses	4,943	5,177	-5%	2,444	2,597	-6%
<b>Total operating expenses</b>	<b>12,256</b>	<b>12,058</b>	<b>2%</b>	<b>6,003</b>	<b>5,776</b>	<b>4%</b>
Share in profit of associates	375	112	235%	371	103	260%
<b>Profit before tax</b>	<b>16,326</b>	<b>16,821</b>	<b>-3%</b>	<b>11,058</b>	<b>8,411</b>	<b>31%</b>
Income tax expense	5,028	4,416	14%	3,075	2,418	27%
<b>Profit for the period</b>	<b>11,298</b>	<b>12,405</b>	<b>-9%</b>	<b>7,983</b>	<b>5,993</b>	<b>33%</b>

- Net interest income increased by 9% between periods
- Net adjustments in valuation amounted to ISK 2.3 bn, as compared with ISK 1.8 bn in the same period in 2015
- Net commission income increased by 15% as compared with the same period the previous year due to changes in the payment card market and increased activities of Capital Markets
- The significant year-on-year decrease in other operating income is largely attributable to decreased capital gains on equities
- Effective tax rate is 23.7%

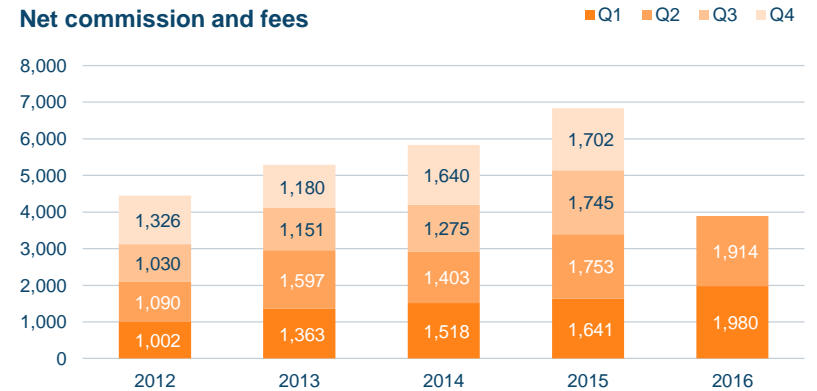
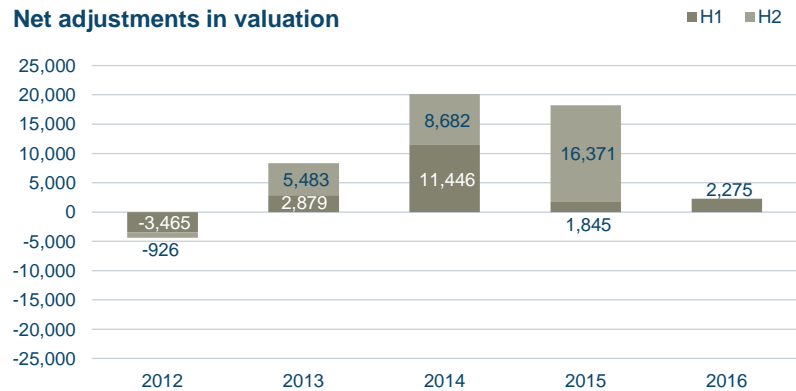
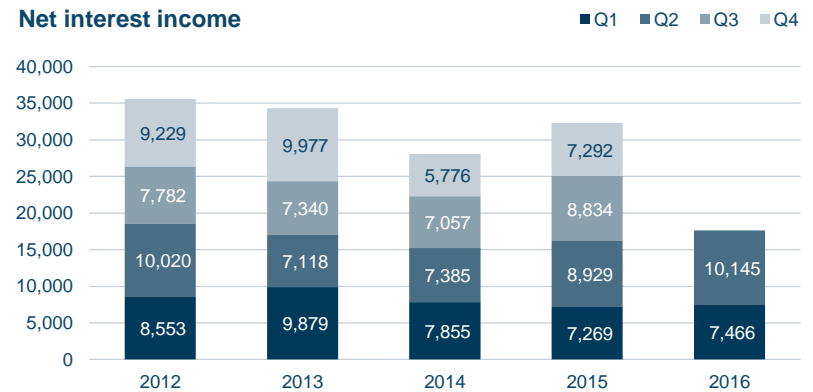
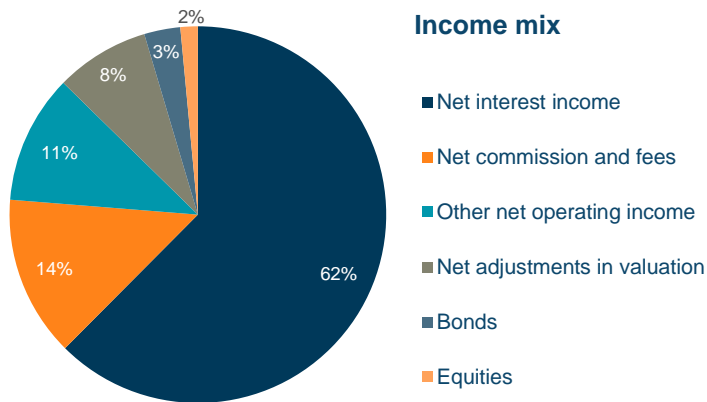


## Net interest income and valuation adjustments

	H1 2016	H1 2015	Change		Q2 2016	Q2 2015	Change	
Interest income	32,843	28,676	4,167	15%	18,071	15,938	2,133	13%
Interest expense	-15,232	-12,478	-2,754	22%	-7,926	-7,009	-917	13%
<b>Net interest income</b>	<b>17,611</b>	<b>16,198</b>	<b>1,413</b>	<b>9%</b>	<b>10,145</b>	<b>8,929</b>	<b>1,216</b>	<b>14%</b>
Net impairment loss on loans	2,275	3,726	-1,451	-39%	1,964	115	1,849	1608%
Net impairment from foreign currency linkage of loans and advances to customers	0	-1,881	1,881		0	134	-134	
<b>Net valuation adjustments</b>	<b>2,275</b>	<b>1,845</b>	<b>430</b>	<b>23%</b>	<b>1,964</b>	<b>249</b>	<b>1,715</b>	<b>689%</b>
<b>Net interest income after net valuation adjustments</b>	<b>19,886</b>	<b>18,043</b>	<b>1,843</b>	<b>10%</b>	<b>12,109</b>	<b>9,178</b>	<b>2,931</b>	<b>32%</b>

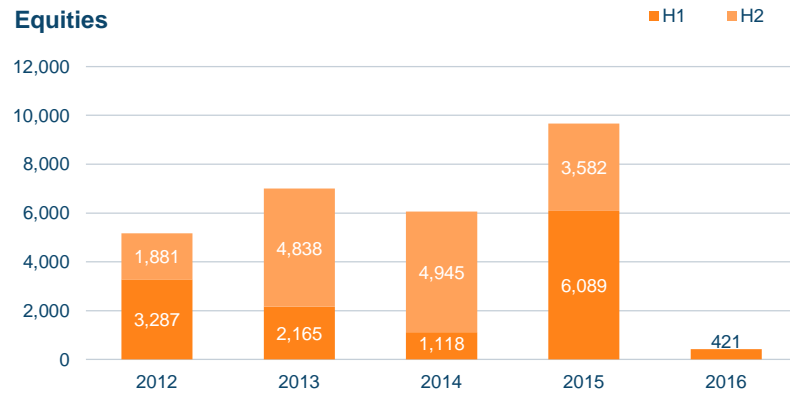


# Net operating income

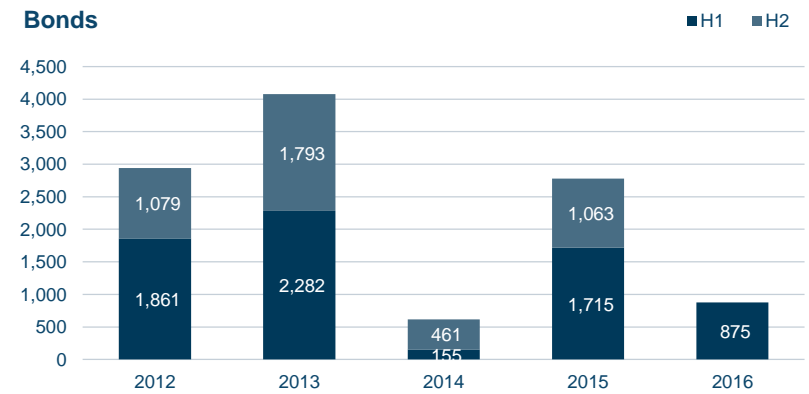


# Net operating income

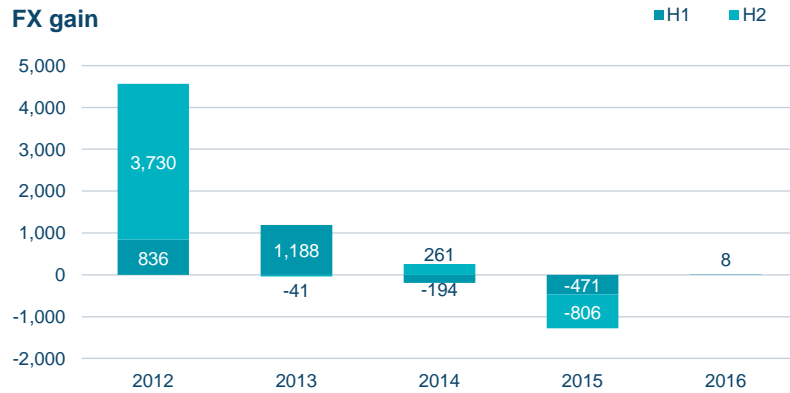
## Equities



## Bonds

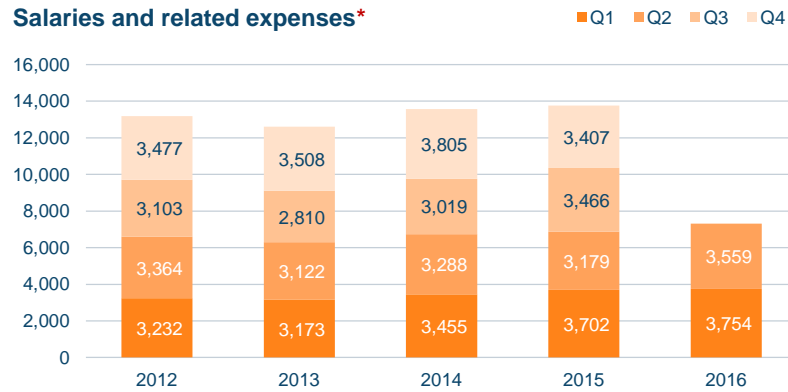


## FX gain



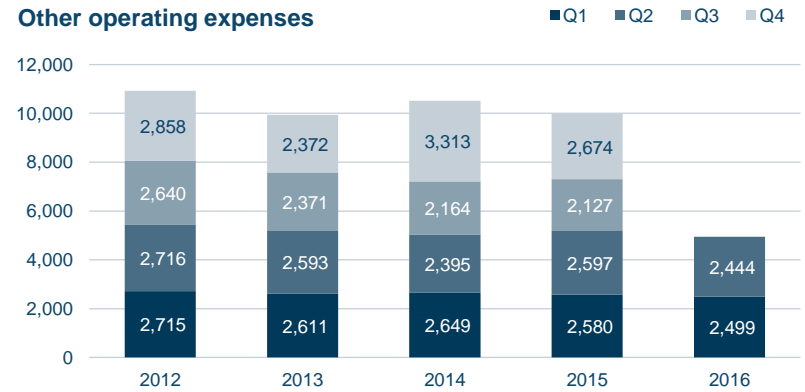
# Operating expenses

Salaries and related expenses\*

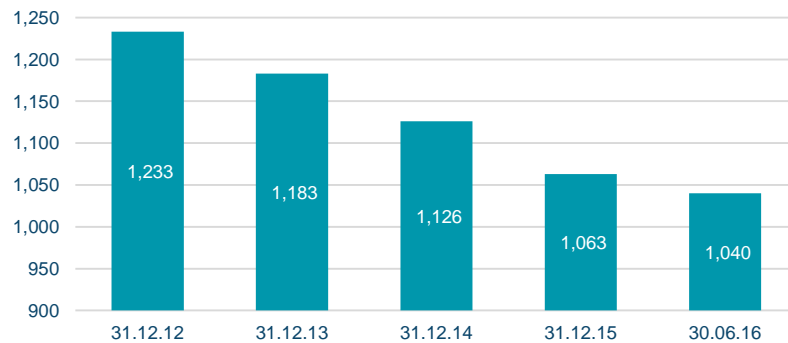


\*2013, less expensed equity-based wages

Other operating expenses



Full time employees



## Taxes

	H1 2016	H1 2015	Change	
Income tax	2,787	2,140	647	30%
Special financial activities tax on profits <sup>1</sup>	716	584	132	23%
<b>Income Tax</b>	<b>3,503</b>	<b>2,724</b>	<b>779</b>	<b>29%</b>
Tax on liabilities of financial institutions <sup>2</sup>	1,525	1,692	-167	-10%
Special financial activities tax on salaries <sup>3</sup>	346	318	28	9%
<b>Total</b>	<b>5,374</b>	<b>4,734</b>	<b>640</b>	<b>14%</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 on the carrying amount of total liabilities in excess of ISK 50 bn

<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

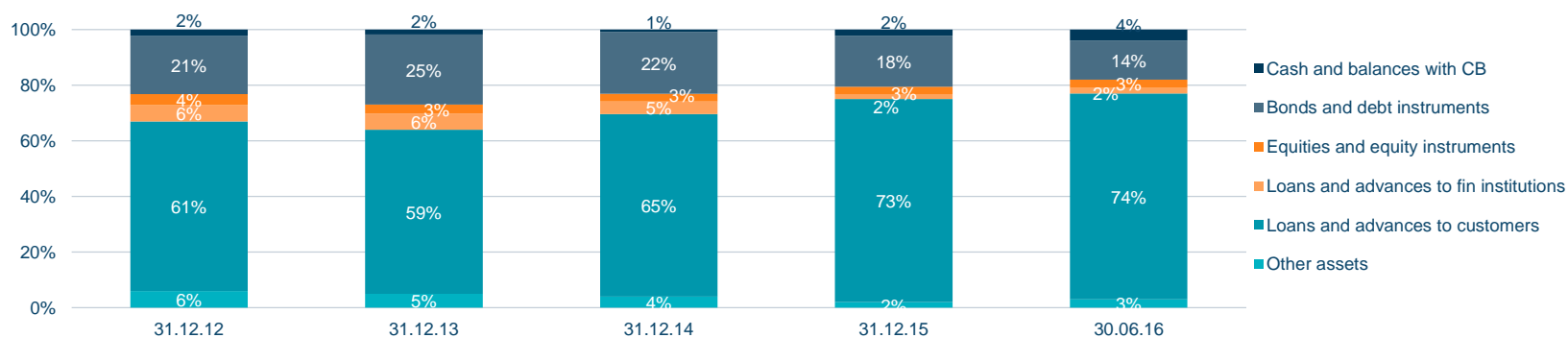




## Balance sheet - assets

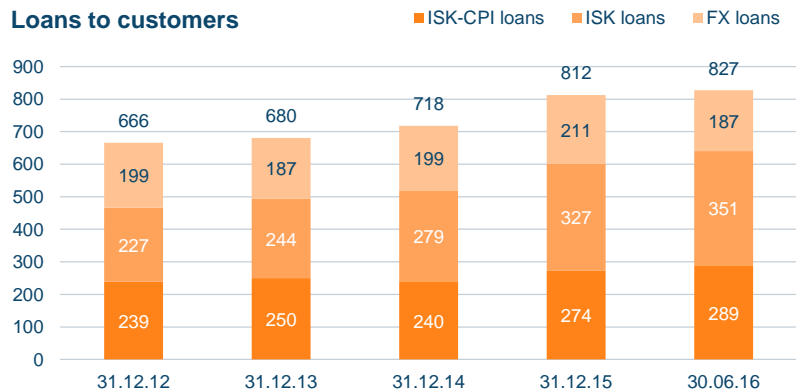
	30.06.16	31.12.15	Change	
Cash and balances with CB	43,997	25,164	18,833	75%
Bonds and debt instruments	157,898	203,684	-45,786	-22%
Equities and equity instruments	29,042	29,192	-150	-1%
Loans and advances to fin institutions	21,885	20,791	1,094	5%
Loans and advances to customers	827,241	811,549	15,692	2%
Other assets	21,523	16,323	5,200	32%
Assets classified as held for sale	8,258	11,955	-3,697	-31%
<b>Total</b>	<b>1,109,844</b>	<b>1,118,658</b>	<b>-8,814</b>	<b>-1%</b>

### Assets

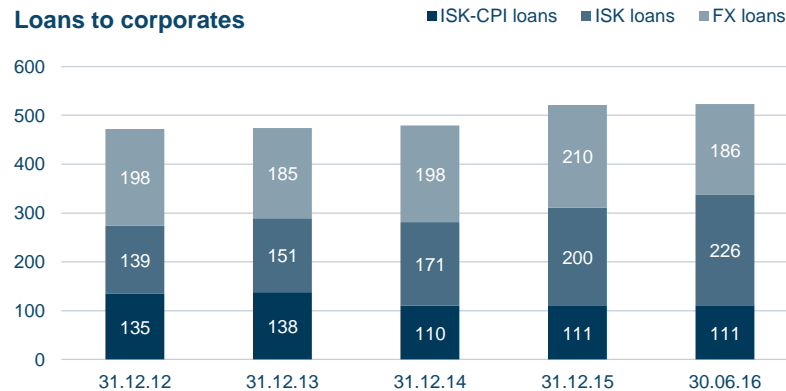


# Balance sheet - loans

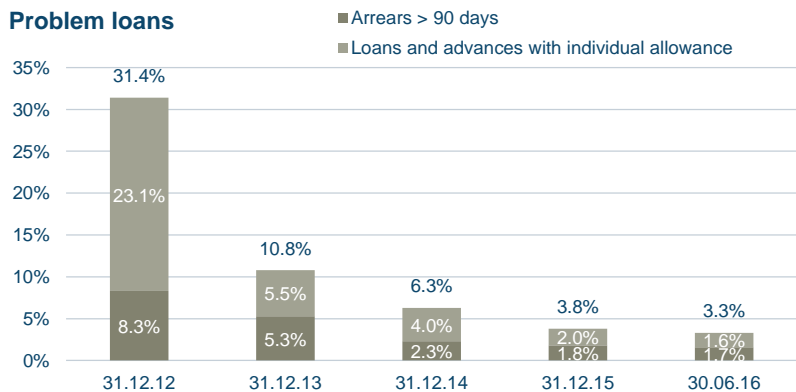
**Loans to customers**



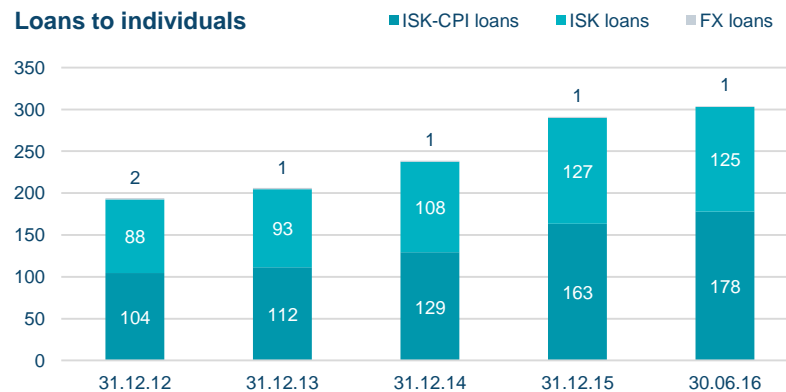
**Loans to corporates**



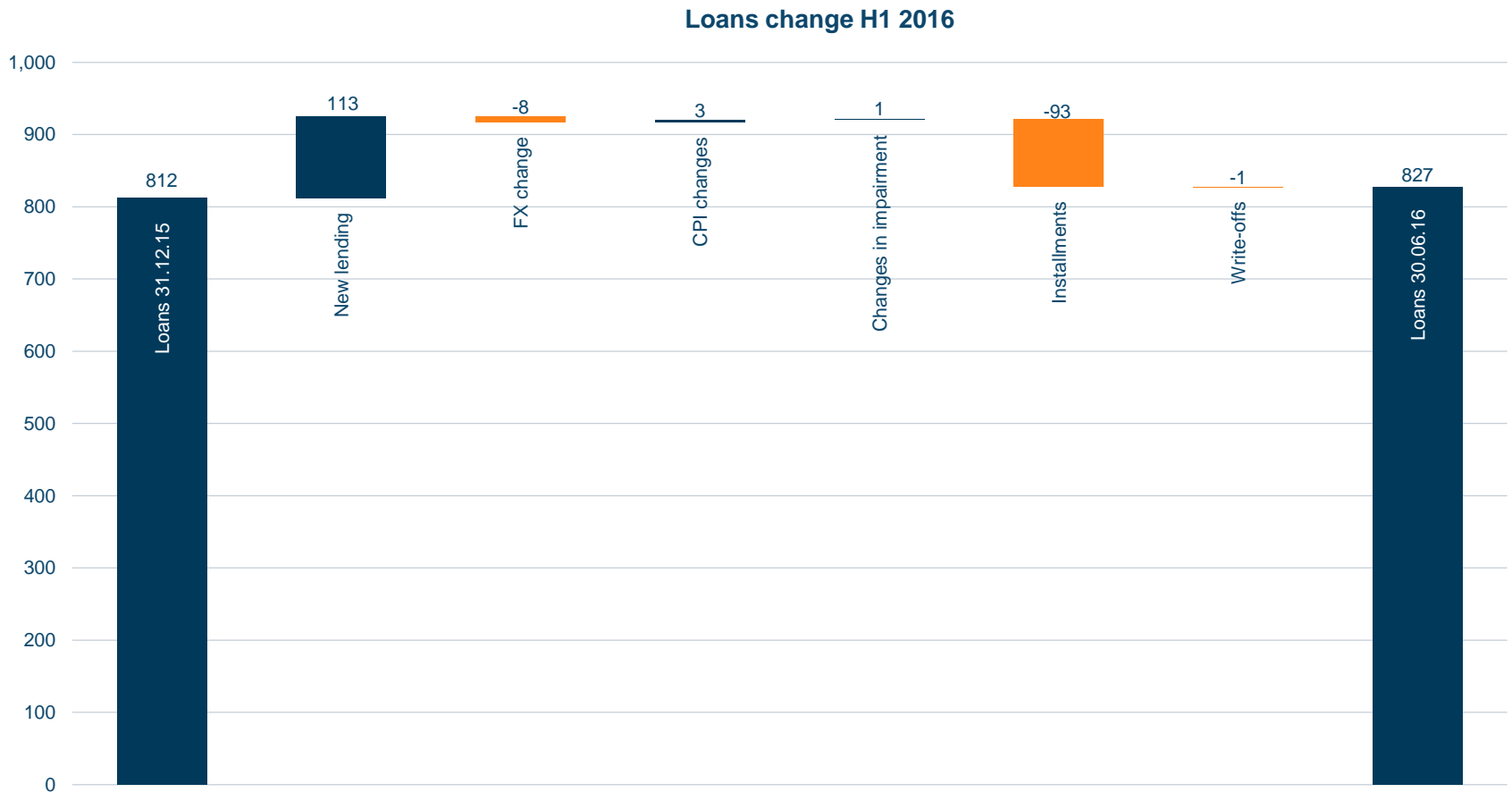
**Problem loans**



**Loans to individuals**

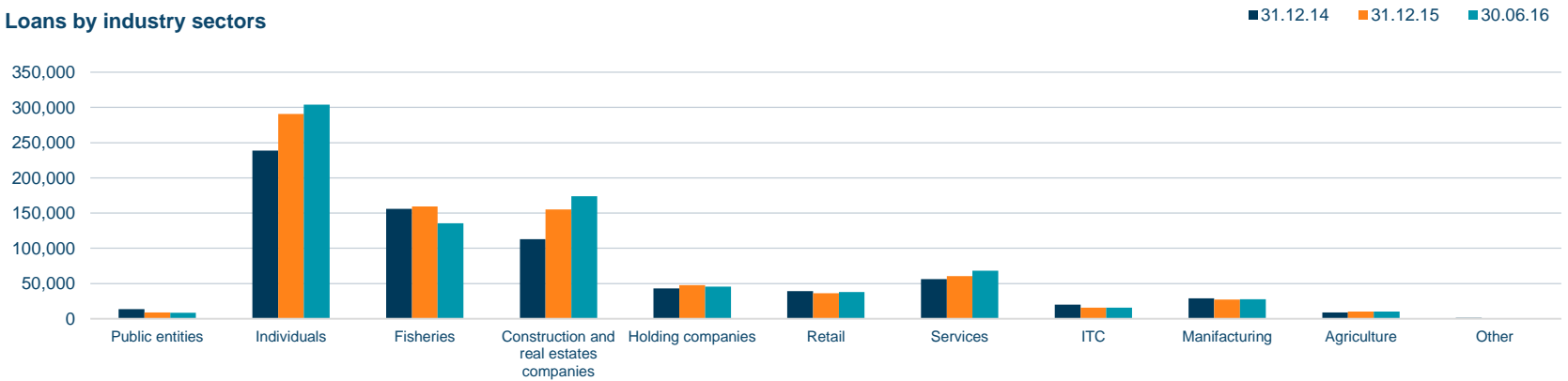


## Balance sheet - loans

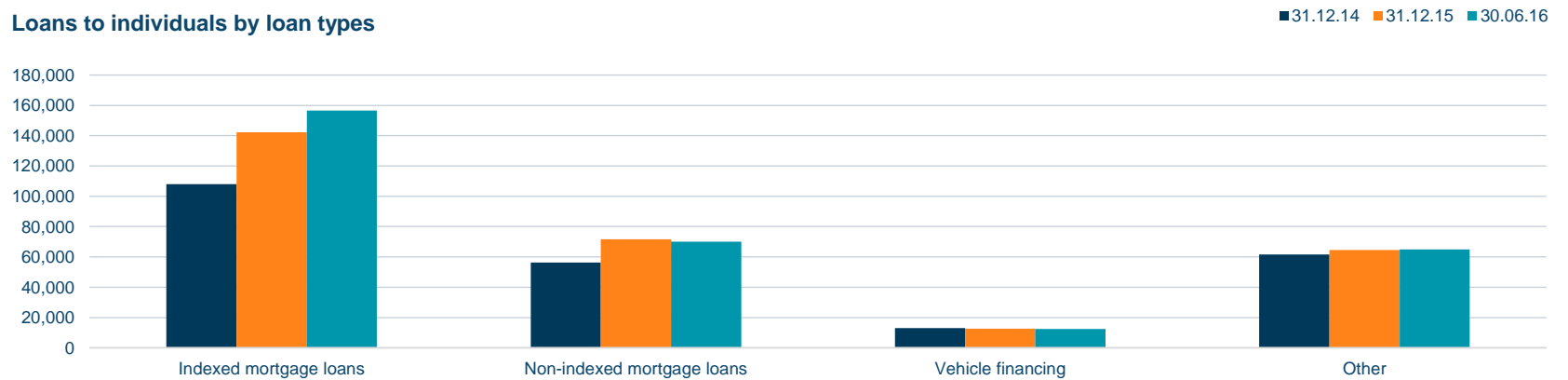


## Balance sheet - loans

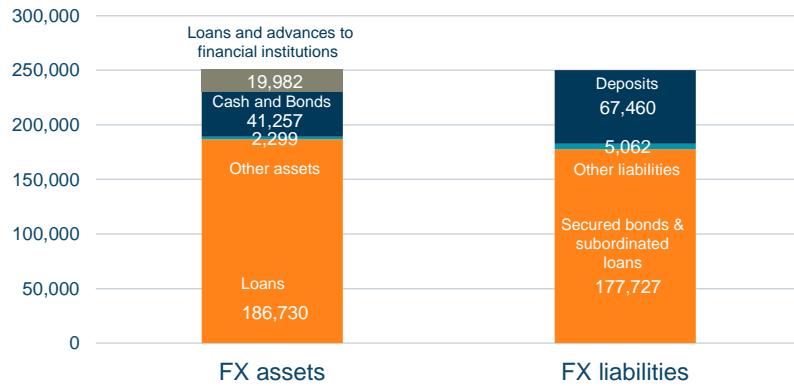
### Loans by industry sectors



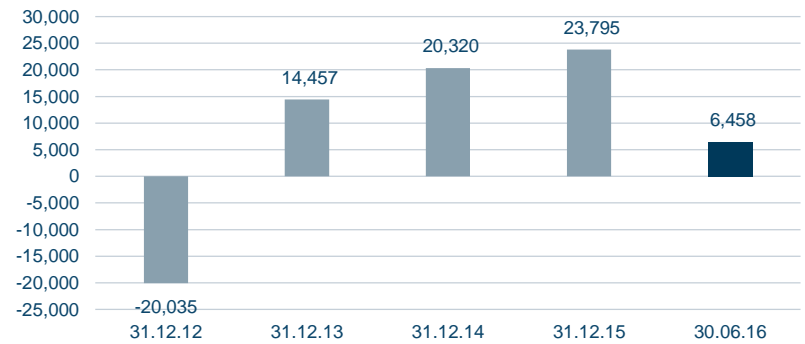
### Loans to individuals by loan types



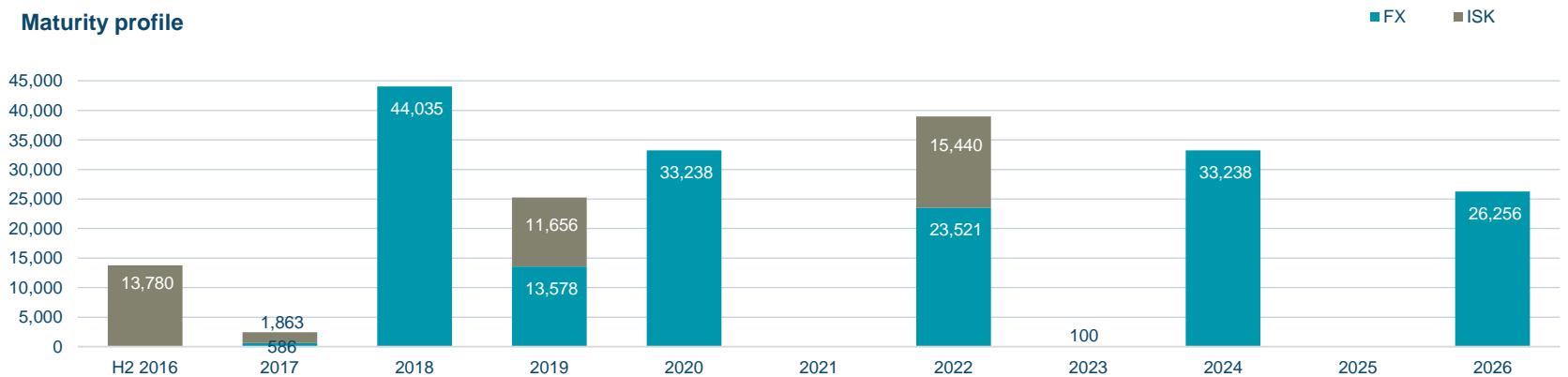
# FX assets and liabilities



Net FX balance



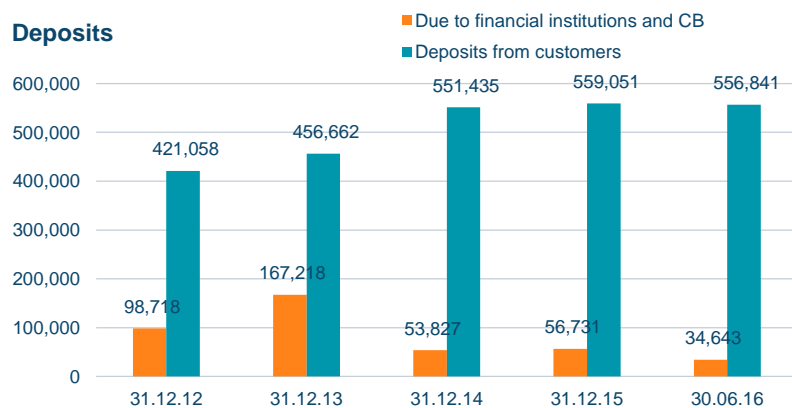
Maturity profile



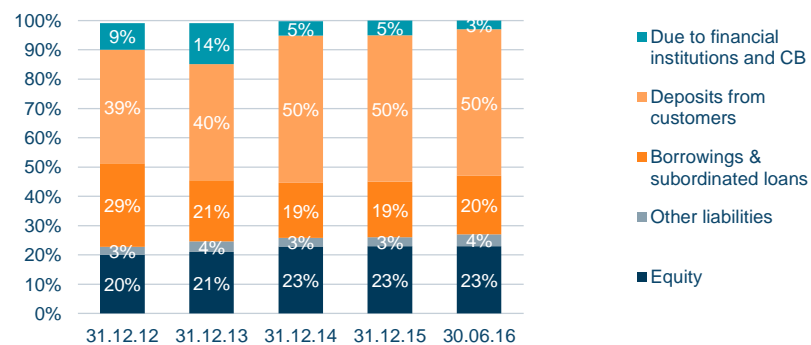
## Balance sheet – liabilities and equity

	30.06.16	31.12.15	Change	
Due to financial institutions and CB	34,643	56,731	-22,088	-39%
Deposits from customers	556,841	559,051	-2,210	0%
Borrowings	220,837	209,344	11,493	5%
Subordinated loans	412	639	-227	-36%
Other liabilities	49,820	28,362	21,458	76%
Equity	247,291	264,531	-17,240	-7%
<b>Total</b>	<b>1,109,844</b>	<b>1,118,658</b>	<b>-8,814</b>	<b>-1%</b>

### Deposits



### Liabilities and equity

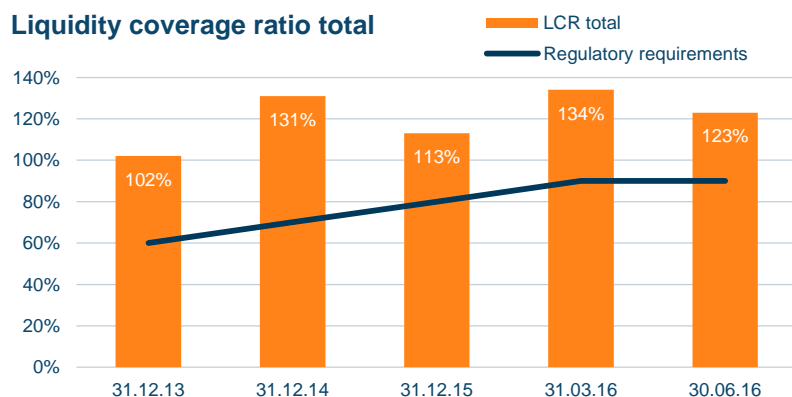


# Liquidity

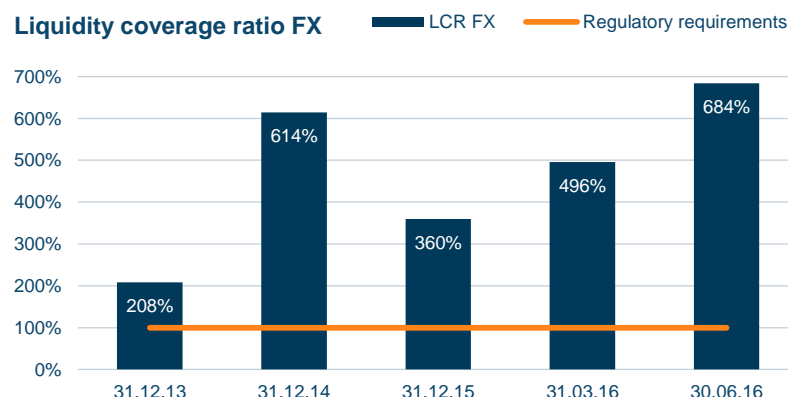
30.06.16	Total*		FX*	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	167,208	167,208	32,784	32,784
Level 2 liquid assets and information items	22,857	3,093	6,245	3,093
<b>A. Total liquid assets</b>	<b>190,065</b>	<b>170,301</b>	<b>39,029</b>	<b>35,877</b>
Deposits	388,623	128,338	42,194	16,904
Borrowing	3,811	3,811	957	957
Other outflows	176,339	34,392	30,083	3,112
<b>B. Total outflows (0-30 days)</b>	<b>568,773</b>	<b>166,541</b>	<b>73,234</b>	<b>20,973</b>
Loans and advances to financial institutions	19,962	18,284	19,962	18,284
Other inflows	30,998	9,747	8,813	4,385
Limit on inflows	0	0	0	-6,939
<b>B. Total inflows (0-30 days)</b>	<b>50,960</b>	<b>28,031</b>	<b>28,775</b>	<b>15,730</b>
<b>Liquidity coverage A/(B-C)</b>		<b>123%</b>		<b>684%</b>

\*according to the liquidity and funding rules set by the Central Bank of Iceland, No. 1031/2014

Liquidity coverage ratio total



Liquidity coverage ratio FX



H1 2016 Results

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# Annex – further information

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## Key financial ratios

	H1 2016	H1 2015	2015	2014	2013	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Profit after taxes	11,298	12,405	36,460	29,737	28,759	7,983	3,315	12,047	12,008	5,993
Return on equity before taxes	12.5%	14.0%	19.9%	16.7%	17.6%	17.2%	7.9%	23.8%	27.2%	14.2%
Return on equity after taxes	8.6%	10.4%	14.8%	12.5%	12.4%	12.4%	5.0%	18.6%	19.5%	10.1%
After tax return on average assets	2.0%	2.2%	3.2%	2.6%	2.6%	2.9%	1.2%	4.2%	4.1%	2.0%
Total capital ratio (CAR)	28.9%	28.0%	30.4%	29.5%	26.7%	28.9%	31.2%	30.4%	29.2%	28.0%
Net interest income	17,611	16,198	32,324	28,073	34,314	10,145	7,466	7,292	8,834	8,929
Interest spread as a ratio of assets and liabilities	2.3%	2.2%	2.2%	1.9%	2.4%	2.8%	1.9%	1.9%	2.4%	2.4%
Cost-income ratio*	47.3%	44.8%	43.8%	56.0%	42.9%	40.8%	55.8%	39.1%	47.9%	41.7%
Net stable funding ratio NSFR FX	145%	139%	136%	134%		145%	133%	136%	120%	139%
Liquidity ratio LCR total	123%	119%	113%	131%	102%	123%	134%	113%	109%	119%
Liquidity LCR FX	684%	377%	360%	614%	208%	684%	496%	360%	190%	377%
Operating expenses as a ratio of average total assets**	2.2%	2.2%	2.1%	2.1%	2.0%	2.2%	2.2%	2.1%	1.9%	2.0%
Total assets	1,109,844	1,172,669	1,118,658	1,098,370	1,151,516	1,109,844	1,106,700	1,118,658	1,175,804	1,172,669
Loans / deposits ratio	148.6%	122.6%	145.2%	130.3%	149.0%	148.6%	149.4%	145.2%	129.1%	122.6%
Full-time eqv.positions	1,040	1,088	1,063	1,126	1,183	1,040	1,063	1,063	1,092	1,088

\* 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

	H1 2016	H1 2015	Change		2015	2014	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Net interest income	17,611	16,198	1,413	9%	32,324	28,073	10,145	7,466	7,292	8,834	8,929
Net valuation adjustments	2,275	1,845	430	23%	18,216	20,128	1,964	311	5,882	10,489	249
<b>Net interest income after valuation adjustments</b>	<b>19,886</b>	<b>18,043</b>	<b>1,843</b>	<b>10%</b>	<b>50,540</b>	<b>48,201</b>	<b>12,109</b>	<b>7,777</b>	<b>13,174</b>	<b>19,323</b>	<b>9,178</b>
Net fee commission income	3,894	3,394	500	15%	6,841	5,836	1,914	1,980	1,702	1,745	1,753
Net foreign exchange gain (loss)	8	-471	479	102%	-1,277	67	-154	162	-58	-748	-147
Other net operating income	4,419	7,801	-3,382	-43%	16,259	9,045	2,821	1,598	6,621	1,837	3,300
<b>Total operating income</b>	<b>28,207</b>	<b>28,767</b>	<b>-560</b>	<b>-2%</b>	<b>72,363</b>	<b>63,149</b>	<b>16,690</b>	<b>11,517</b>	<b>21,439</b>	<b>22,157</b>	<b>14,084</b>
Salaries and related expenses	7,313	6,881	432	6%	13,754	13,567	3,559	3,754	3,407	3,466	3,179
Other operating expenses	3,983	4,081	-98	-2%	8,061	8,545	1,940	2,043	2,223	1,757	2,011
Depreciation and amortisation	294	329	-35	-11%	663	942	148	146	167	167	165
Contribution to Depositors' and Investors' Guarantee Fund	666	767	-101	-13%	1,254	1,034	356	310	284	203	421
<b>Total operating expenses</b>	<b>12,256</b>	<b>12,058</b>	<b>198</b>	<b>2%</b>	<b>23,732</b>	<b>24,088</b>	<b>6,003</b>	<b>6,253</b>	<b>6,081</b>	<b>5,593</b>	<b>5,776</b>
Share in profit of associates	375	112	263	235%	248	465	371	4	-9	145	103
<b>Profit before tax</b>	<b>16,326</b>	<b>16,821</b>	<b>-495</b>	<b>-3%</b>	<b>48,879</b>	<b>39,526</b>	<b>11,058</b>	<b>5,268</b>	<b>15,349</b>	<b>16,709</b>	<b>8,411</b>
Income tax expense	5,028	4,416	612	14%	12,419	9,789	3,075	1,953	3,302	4,701	2,418
<b>Profit for the period</b>	<b>11,298</b>	<b>12,405</b>	<b>-1,107</b>	<b>-9%</b>	<b>36,460</b>	<b>29,737</b>	<b>7,983</b>	<b>3,315</b>	<b>12,047</b>	<b>12,008</b>	<b>5,993</b>



# Balance Sheet

	30.06.16	31.12.15	Change		31.12.14	31.12.13	31.12.12
Cash and balances with CB	43,997	25,164	18,833	75%	10,160	21,520	25,898
Bonds and debt instruments	157,898	203,684	-45,786	-22%	243,589	290,595	228,208
Equities and equity instruments	29,042	29,192	-150	-1%	29,433	36,275	36,881
Loans and advances to fin institutions	21,885	20,791	1,094	5%	49,789	67,916	64,349
Loans and advances to customers	827,241	811,549	15,692	2%	718,355	680,468	666,087
Other assets	21,523	16,323	5,200	32%	28,832	29,719	38,044
Assets classified as held for sale	8,258	11,955	-3,697	-31%	18,212	25,023	25,320
<b>Total</b>	<b>1,109,844</b>	<b>1,118,658</b>	<b>-8,814</b>	<b>-1%</b>	<b>1,098,370</b>	<b>1,151,516</b>	<b>1,084,787</b>
Due to financial institutions and CB	34,643	56,731	-22,088	-39%	53,827	167,218	98,718
Deposits from customers	556,841	559,051	-2,210	0%	551,435	456,662	421,058
Borrowings	220,837	209,344	11,493	5%	207,028	239,642	309,265
Subordinated bonds	412	639	-227	-36%	0	0	0
Other liabilities	48,310	26,844	21,466	80%	32,443	42,750	29,687
Liabilities associated with assets classified as held for sale	1,510	1,518	-8	-1%	2,834	3,885	893
Equity	247,291	264,531	-17,240	-7%	250,803	241,359	225,166
<b>Total</b>	<b>1,109,844</b>	<b>1,118,658</b>	<b>-8,814</b>	<b>-1%</b>	<b>1,098,370</b>	<b>1,151,516</b>	<b>1,084,787</b>



# Segments

H1 2016	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Reconciliation	Total
Net interest income (expense)	6,725	7,433	180	3,562	5	-294	17,611
Net valuation adjustments	2,059	245	0	-26	-3	0	2,275
Net fee and commission income	1,776	432	1,991	-167	60	-198	3,894
Other net operating income	1,008	-62	75	1,618	1,522	266	4,427
<b>Total operating income (expense)</b>	<b>11,568</b>	<b>8,048</b>	<b>2,246</b>	<b>4,987</b>	<b>1,584</b>	<b>-226</b>	<b>28,207</b>
Operating expenses	-3,168	-765	-1,118	-817	-6,601	213	-12,256
Share in profit of equity-accounted associates, net of income tax	458	0	0	-83	0	0	375
<b>Profit (loss) before cost allocation and tax</b>	<b>8,858</b>	<b>7,283</b>	<b>1,128</b>	<b>4,087</b>	<b>-5,017</b>	<b>-13</b>	<b>16,326</b>
Cost allocated from support functions to business segments	-2,536	-1,824	-678	-629	5,667	0	0
<b>Profit (loss) before tax</b>	<b>6,322</b>	<b>5,459</b>	<b>450</b>	<b>3,458</b>	<b>650</b>	<b>-13</b>	<b>16,326</b>
Total assets	366,592	470,676	35,758	456,171	11,296	-230,949	1,109,844
Total liabilities	324,494	371,615	29,954	356,143	11,296	-230,949	862,553
Allocated capital	42,098	99,061	5,804	100,328	0	0	247,291

