



H1 2018 Results

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Highlights

Operations

Highlights of Q2 2018

- After-tax profit for Q2 2018 amounted to ISK 3.5 bn compared to ISK 5.1 bn for the same period in 2017
- Net interest income amounted to ISK 9.8 bn compared to ISK 10.2 bn for the same period in 2017
- Credit value adjustments for the period were positive by ISK 0.7 bn compared to negative value adjustments of ISK 0.5 bn in Q2 2017
- After-tax return on equity was 6.1% in Q2 compared to 8.6% during the same period in 2017

Key figures from the profit and loss account in H1 2018

- The after-tax profit for the first six months of 2018 amounted to ISK 11.6 bn compared to ISK 12.7 bn for the same period in 2017
- Net interest income amounted to ISK 19.5 bn, increasing by 7% compared to the same period in 2017
- Credit value adjustments for the period were positive by ISK 1.7 bn compared to ISK 1.3 bn for the same period in 2017
- Net fee and commission income amounted to ISK 3.9 bn compared to ISK 4.4 bn for the same period in 2017
- Other operating income amounted to ISK 3.9 bn compared to ISK 5.4 bn for the same period in 2017
- Salaries and related expenses increased by 5% between years.

- The interest margin on assets and liabilities was 2.7% at the end of June 2018 compared to 2.5% at the end of June 2017
- After-tax return on equity was 9.9% compared to 10.6% for the same period in 2017
- The cost-income ratio for the first six months of the year was 44.5% compared to 43% in the same period 2017
- The effective tax rate in the first half of 2018 was 23.2%

Balance sheet

- Total assets amounted to ISK 1,250 bn as of the end of June 2018
- Lending grew by ISK 64 bn from the beginning of the year. Lending increased by ISK 45 bn to corporates and by ISK 19 bn to households
- Deposits increased by ISK 50 bn from the beginning of the year. Households finances continued to improve and the increase in households deposits amounts to ISK 20 bn
- Landsbankinn's equity at the end of June 2018 amounted to ISK 232.1 bn, down by 6% 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 equity ratio is now 24.1%, down from 26.7% at year-end 2017. The Bank's liquidity position is strong, overall and in foreign currencies, and well above regulatory requirements

Main results

	H1 2018	H1 2017	Q2 2018	Q2 2017
Profit after taxes	11,613	12,653	3,511	5,077
Return on equity after taxes	9.9%	10.6%	6.1%	8.6%
Adjusted return on equity after taxes*	10.3%	11.1%	6.8%	9.9%
Interest spread as a ratio of assets and liabilities	2.7%	2.5%	2.7%	2.9%
Cost-income ratio**	44.5%	43.0%	53.6%	43.6%

	30.6.2018	30.6.2017	31.12.2017	31.12.2016
Total assets	1,249,853	1,170,628	1,192,870	1,111,157
Loans to customers	989,481	870,483	925,636	853,417
Deposits from customers	654,689	627,954	605,158	589,725
Equity	232,113	238,944	246,057	251,231
Total capital ratio	24.1%	27.6%	26.7%	30.2%
Net stable funding ratio NSFR total	119%	125%	124%	123%
Net stable funding ratio NSFR FX	165%	169%	179%	154%
Liquidity ratio LCR total	164%	183%	157%	128%
Liquidity ratio LCR FX	743%	470%	931%	743%
Arrears (>90 days)	0.6%	1.1%	0.9%	1.5%
Full-time eqv. positions	955	988	997	1,012

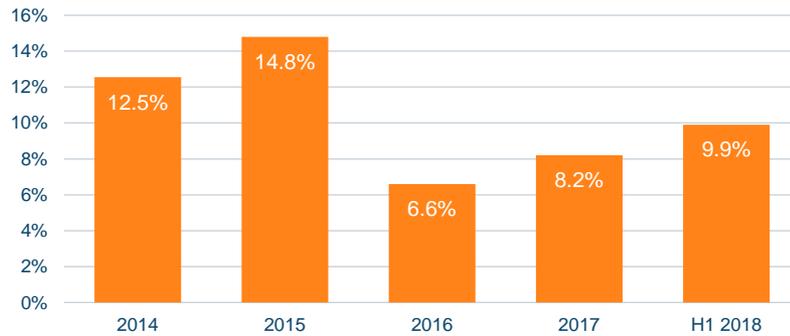
*Adjusted ROE after taxes = (Profit after taxes – positive value adjustments after taxes – tax on total liabilities of financial institutions – profit from discontinued operations after taxes) / average equity position

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

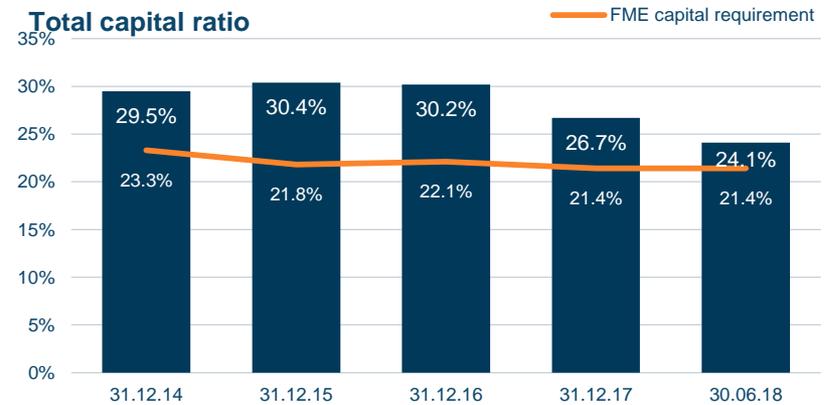


Development of KPIs

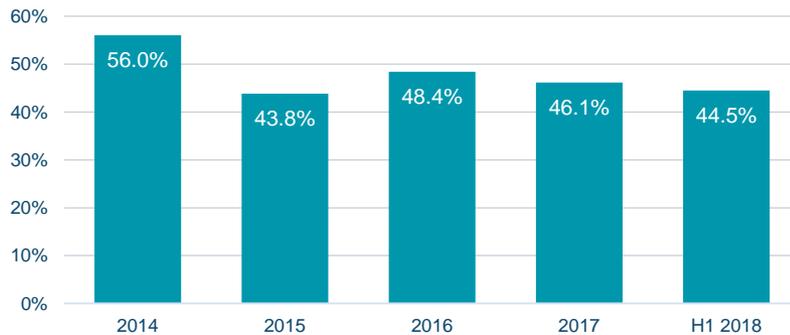
Return on equity after taxes



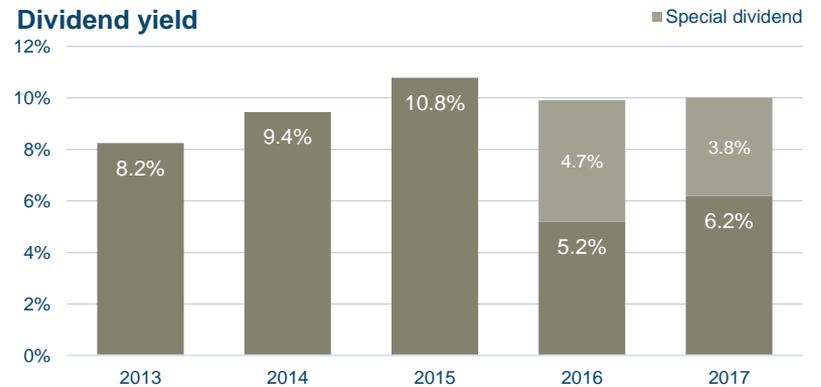
Total capital ratio



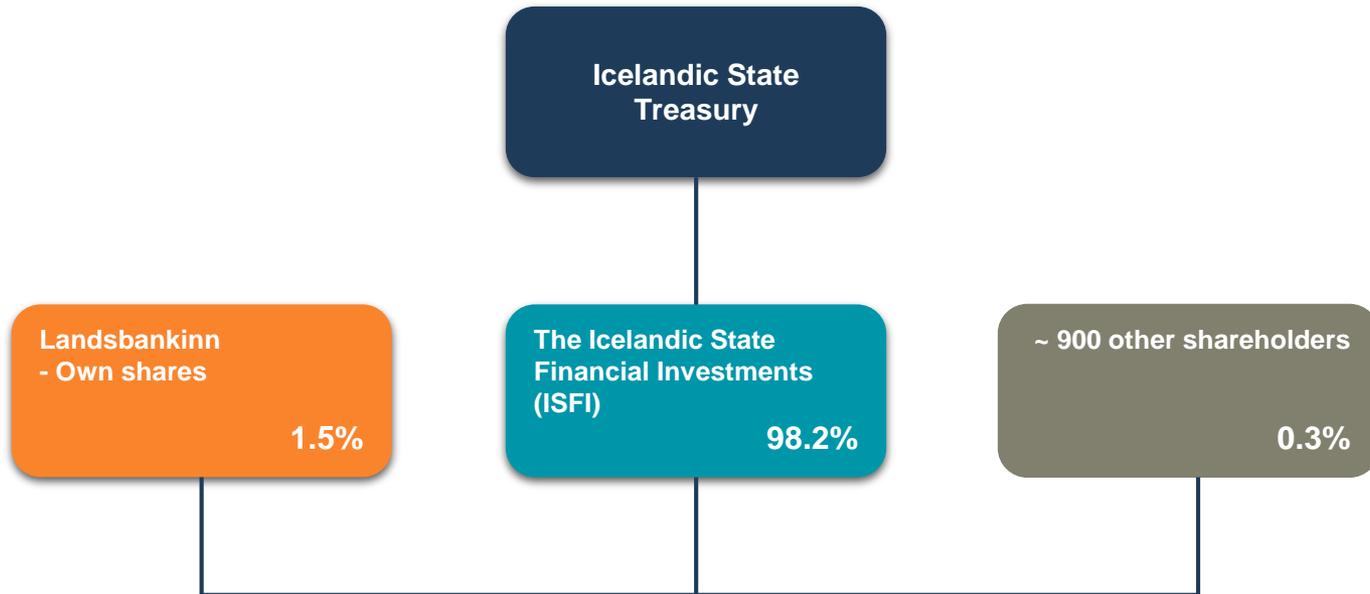
Cost-income ratio excluding valuation adjustments



Dividend yield



Ownership

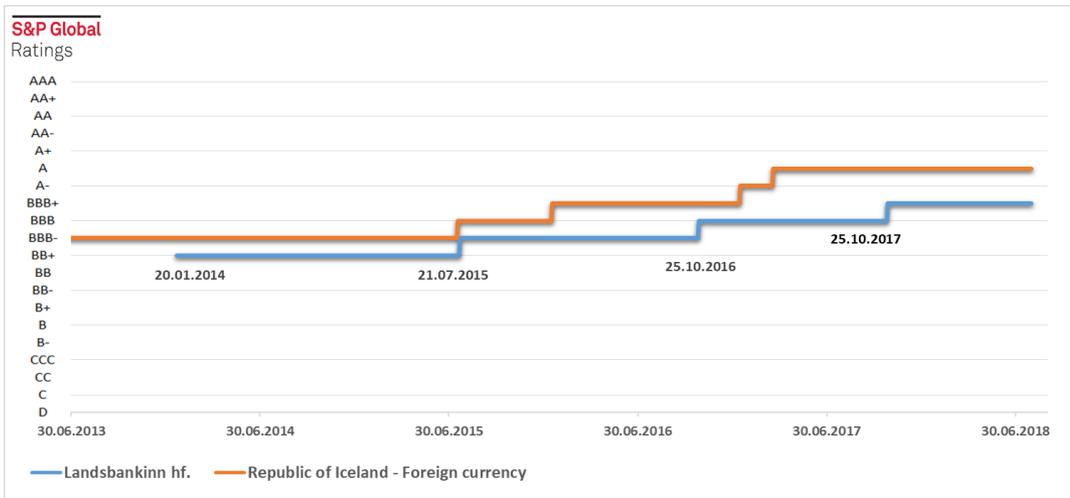


- The Finance Ministry published an ownership policy in July 2017 in regards to equity holdings in financial companies that are supervised by the Icelandic State Financial Investments (ISFI).



- In regards to Landsbankinn the policy states,
 - The government will retain a significant equity stake in the bank (34-40%) to ensure stability in the domestic financial sector.
 - The remaining equity stake will be sold in the next few years given favorable market conditions.
 - Equity in Landsbankinn will be listed on a stock exchange.

Credit rating



S&P Global Ratings

Fundamental factors for Landsbankinn:

- Very strong capital and earnings
- Adequate liquidity position
- Average funding profile
- Adequate business position
- Moderate risk position

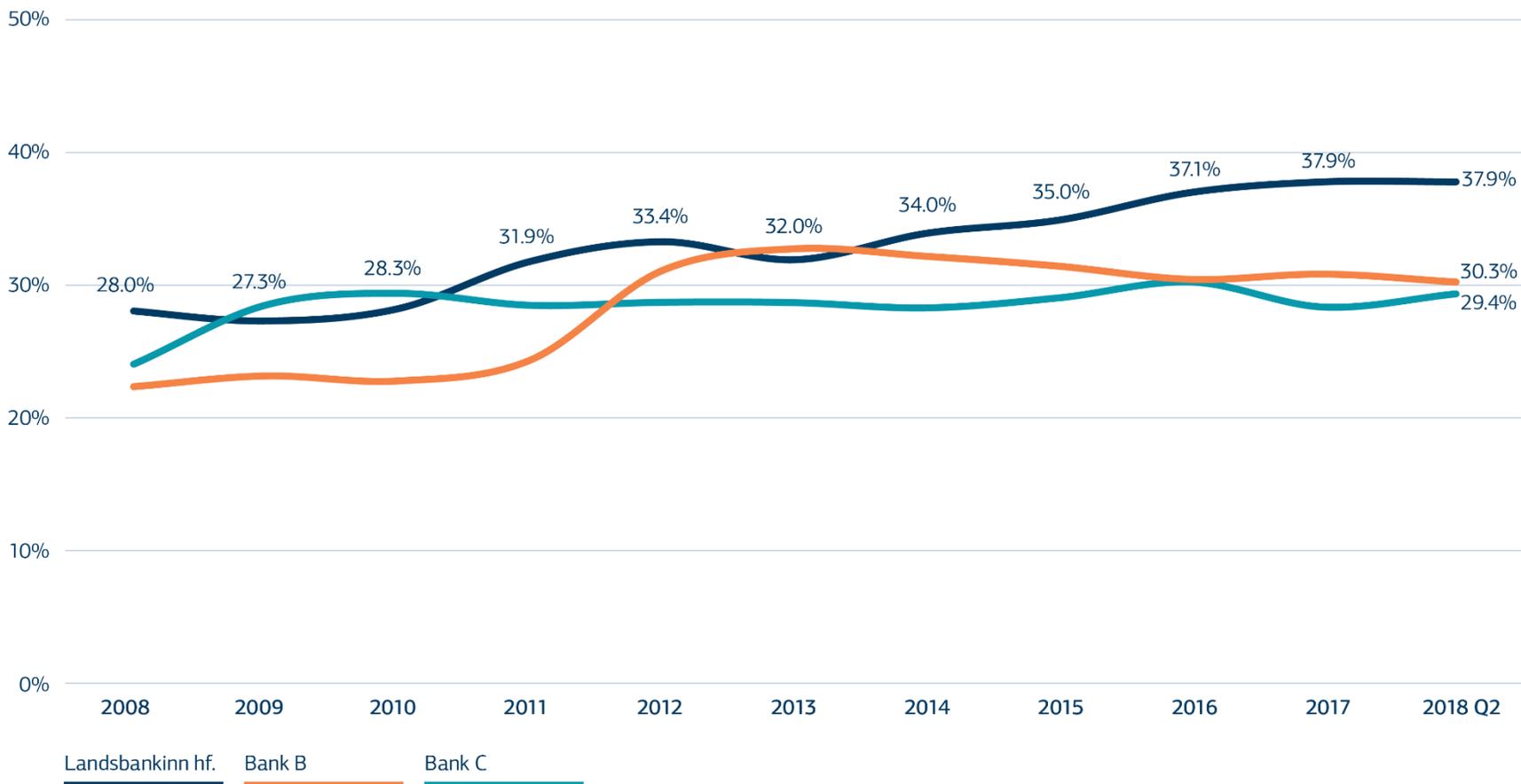
	Icelandic sovereign	Landsbankinn hf.
Long-term rating	A	BBB+
Short-term rating	A-1	A-2
Outlook	Stable	Stable
Last rating action	March 2017	October 2017

Financial objectives

	Objective	H1 2018	Guidelines
Return on equity (ROE)	≥ 10%	9.9%	Long-term objective. Expected ROE in 2018 is 7-8%.
Cost-income ratio (C/I ratio)	≤ 45%	44.5%	Long-term objective. Expected ratio in 2018 is 43-48%.
Total capital ratio (TCR)	≥ 23%	24.1%	The Bank's aim is to maintain capital ratios above the FME's capital requirements at any given time, plus a 1.5-2.5% management buffer. 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. Long-term objective to be reached in stages leading up to 2020.
Common Equity Tier 1 capital (CET1)	≥ 18%	24.1%	
Dividend payout ratio	60 - 80%	78%*	The aim is also to make special dividend payments to further optimise the Bank's capital structure.

* AGM in March 2018 approved special dividend ISK 9,456 bn

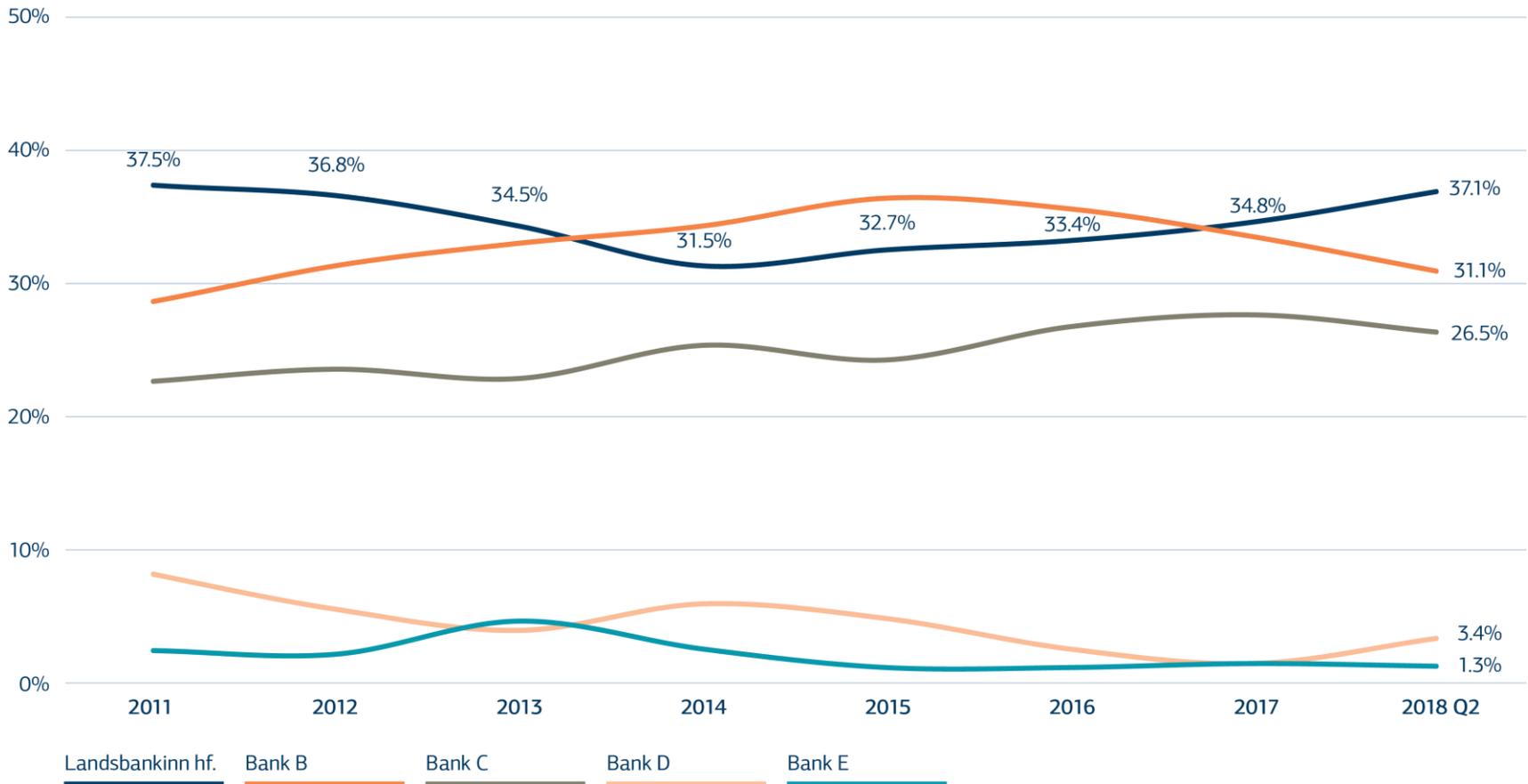
Market share – Retail banking



Source: Gallup



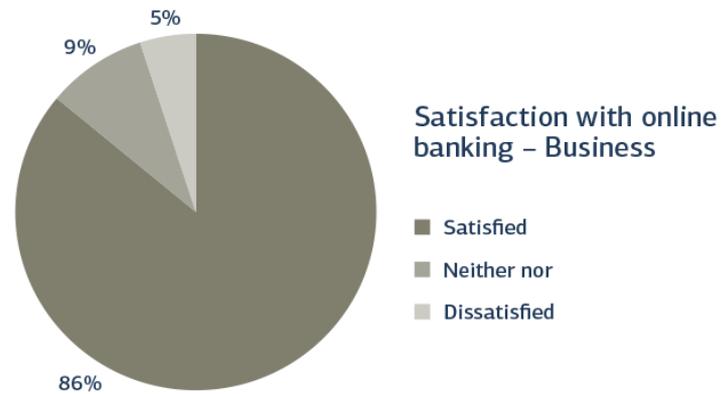
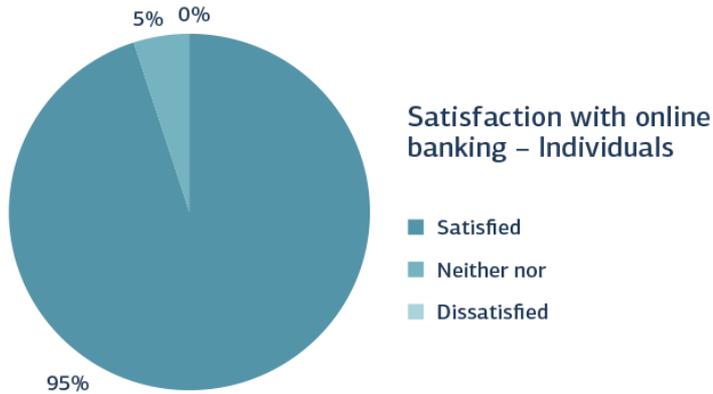
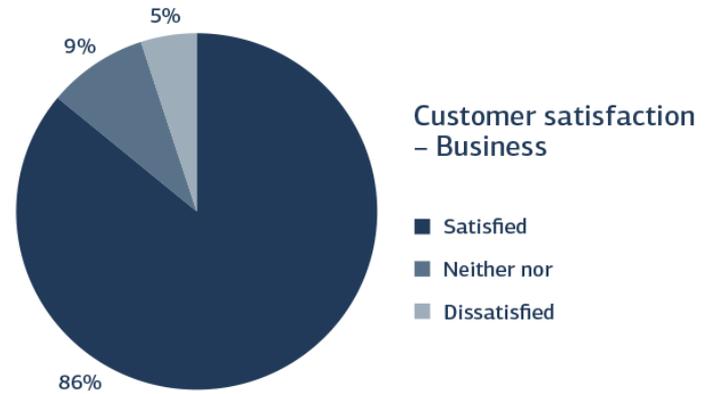
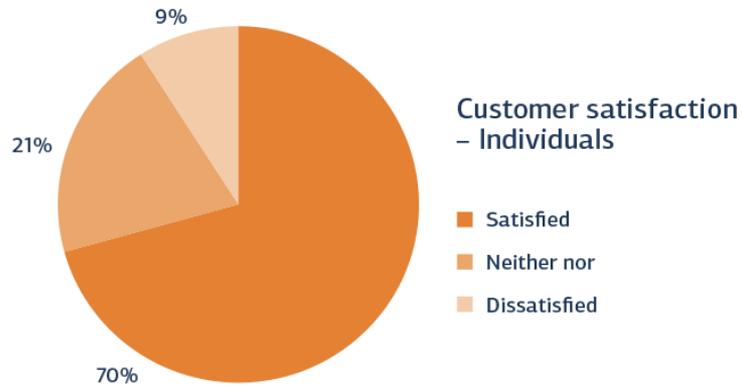
Market share – Corporate banking



Source: Gallup



Landsbankinn's successes



Source: Gallup

Landsbankinn's successes

First to join Nordic collaboration



Nordic Financial CERT

Landsbankinn is the first Icelandic bank to become a member of this Nordic collaboration to boost cyber security.

Credit rating



S&P Global ratings confirmed Landsbankinn's credit ratings, BBB+/A-2 with a stable outlook.

Best CSR report



Festa, Stjórnvísí and the Icelandic Chamber of Commerce have selected Landsbankinn's Report on Social Responsibility as the best CSR report of 2018.

Good governance



Landsbankinn was recognised as a model of good corporate governance in 2015, 2016, 2017 and 2018.

PRI



Landsbankinn is a member of the United Nation's Principles for Responsible Investment (UNPRI)

PwC's Equal Pay Audit



Landsbankinn has twice received the Golden Seal of PwC's Equal pay Audit.

Strategy

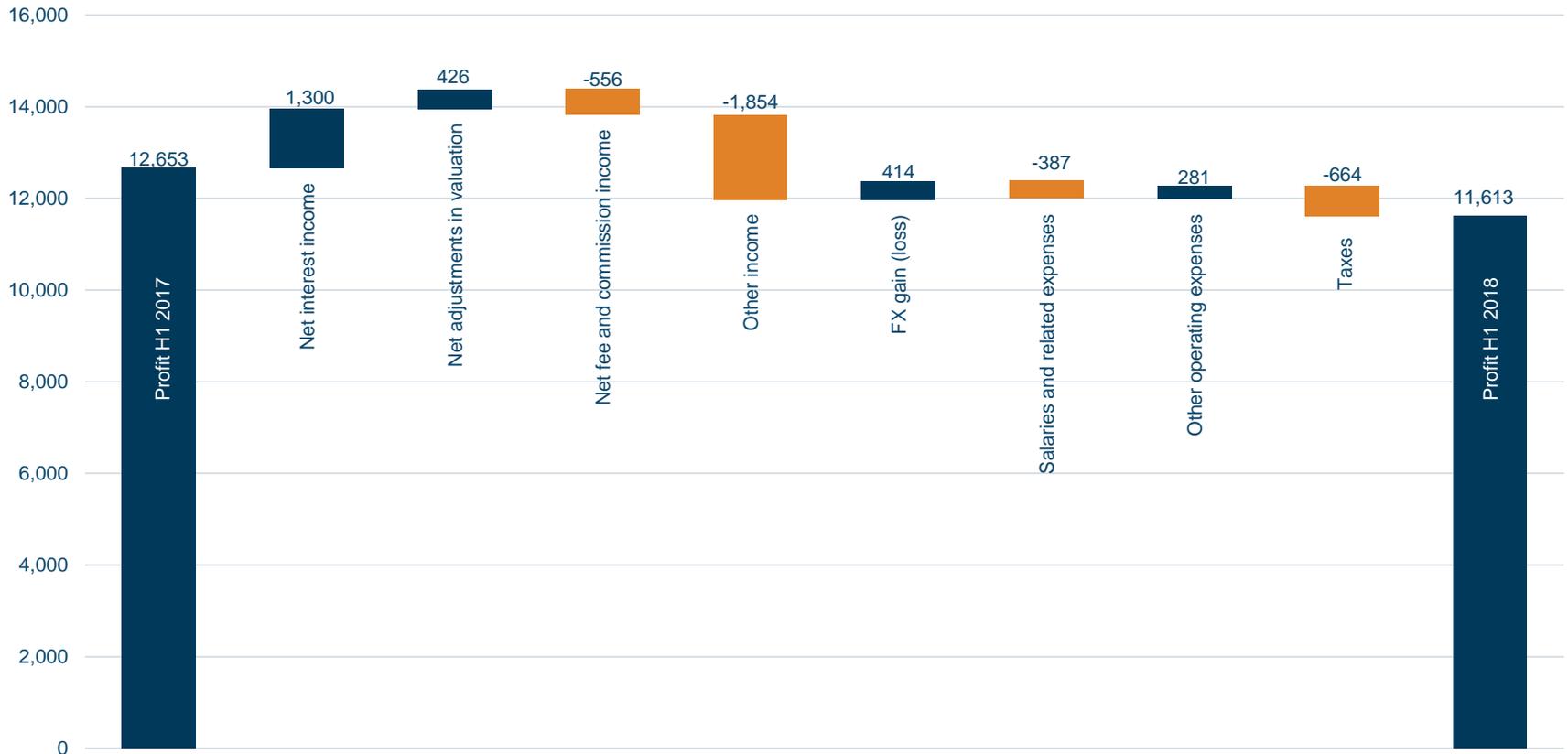


Income Statement



Income Statement

Change from H1 2017 to H1 2018



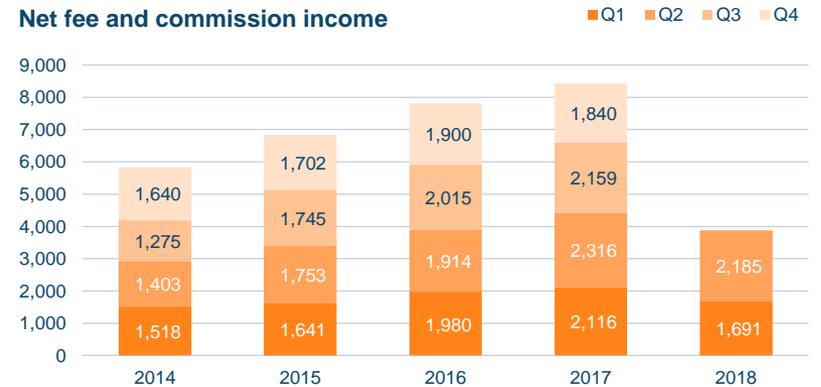
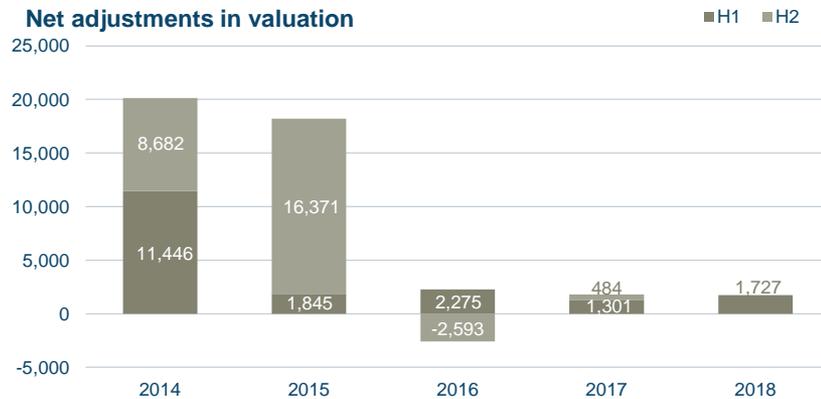
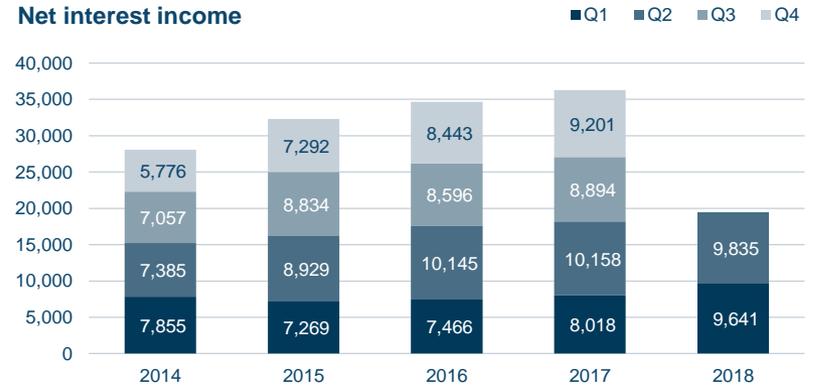
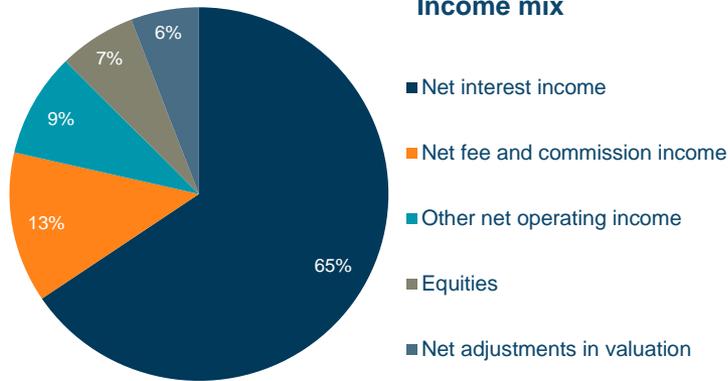
Income Statement

	H1 2018	H1 2017	Change	Q2 2018	Q2 2017	Change
Net interest income	19,476	18,176	7%	9,835	10,158	-3%
Net adjustments in valuation	1,727	1,301	33%	703	-478	-247%
Net interest income after adjustments in valuation	21,203	19,477	9%	10,538	9,680	9%
Net fee and commission income	3,876	4,432	-13%	2,185	2,316	-6%
Other net operating income	3,939	5,379	-27%	-537	1,579	-134%
Total operating income	29,018	29,288	-1%	12,186	13,575	-10%
Salaries and related expenses	7,532	7,145	5%	3,869	3,654	6%
Other operating expenses	4,622	4,903	-6%	2,287	2,477	-8%
Total operating expenses	12,154	12,048	1%	6,156	6,131	0%
Profit before tax	16,864	17,240	-2%	6,030	7,444	-19%
Income tax expense and tax on liabilities of financial institutions	5,251	4,587	14%	2,519	2,367	6%
Profit for the period	11,613	12,653	-8%	3,511	5,077	-31%

Net interest income and valuation adjustments

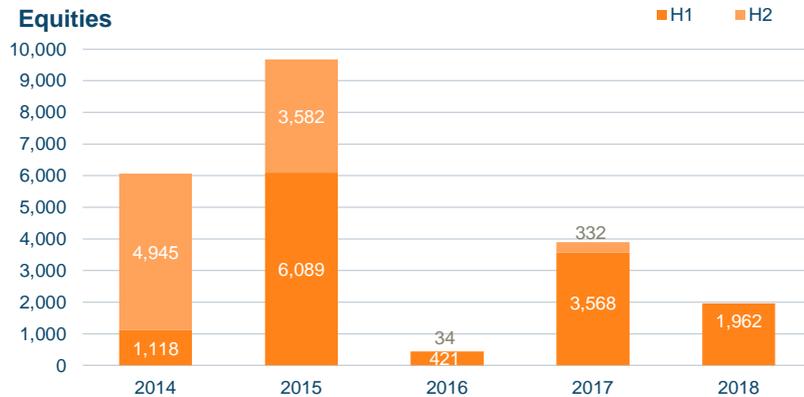
	H1 2018	H1 2017	Change		Q2 2018	Q2 2017	Change	
Interest income	32,375	31,670	705	2%	16,316	17,125	-809	-5%
Interest expense	-12,899	-13,494	595	4%	-6,481	-6,967	486	7%
Net interest income	19,476	18,176	1,300	7%	9,835	10,158	-323	-3%
Net impairment loss on loans and guarantees	598	533	65	12%	-426	-491	65	13%
Net impairment from foreign currency linkage of loans and advances to customers	1,129	768	361	-47%	1,129	13	1,116	8328%
Net valuation adjustments	1,727	1,301	426	33%	703	-477	1,180	-247%
Net interest income after net valuation adjustments	21,203	19,477	1,726	9%	10,538	9,681	857	9%

Net operating income

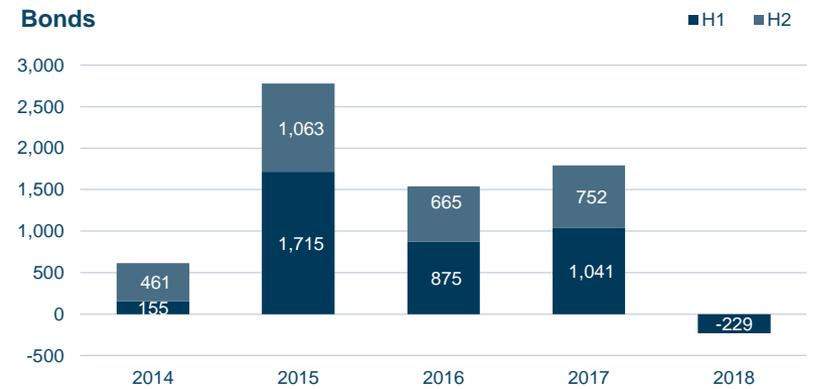


Net operating income

Equities



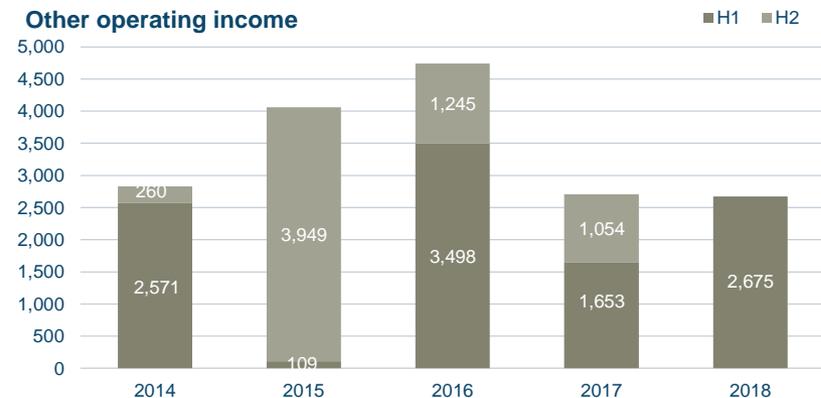
Bonds



FX gain (loss)

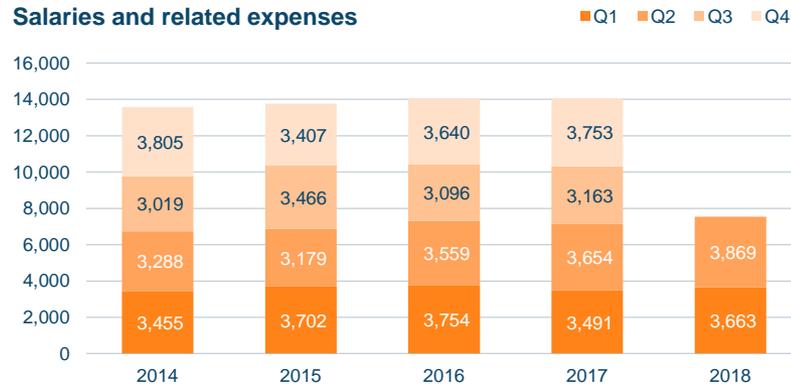


Other operating income



Operating expenses

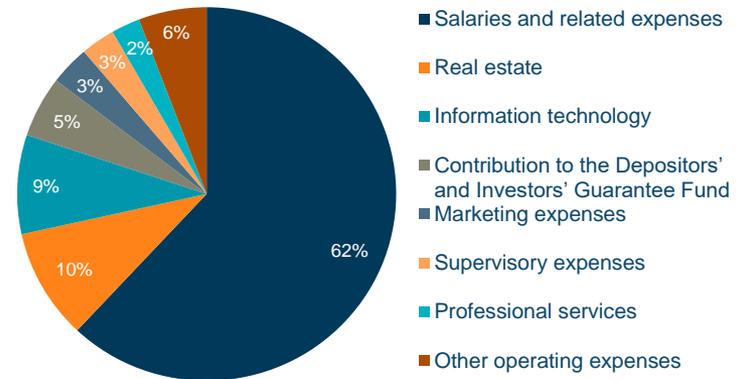
Salaries and related expenses



Full-time eqv. positions



Other operating expenses



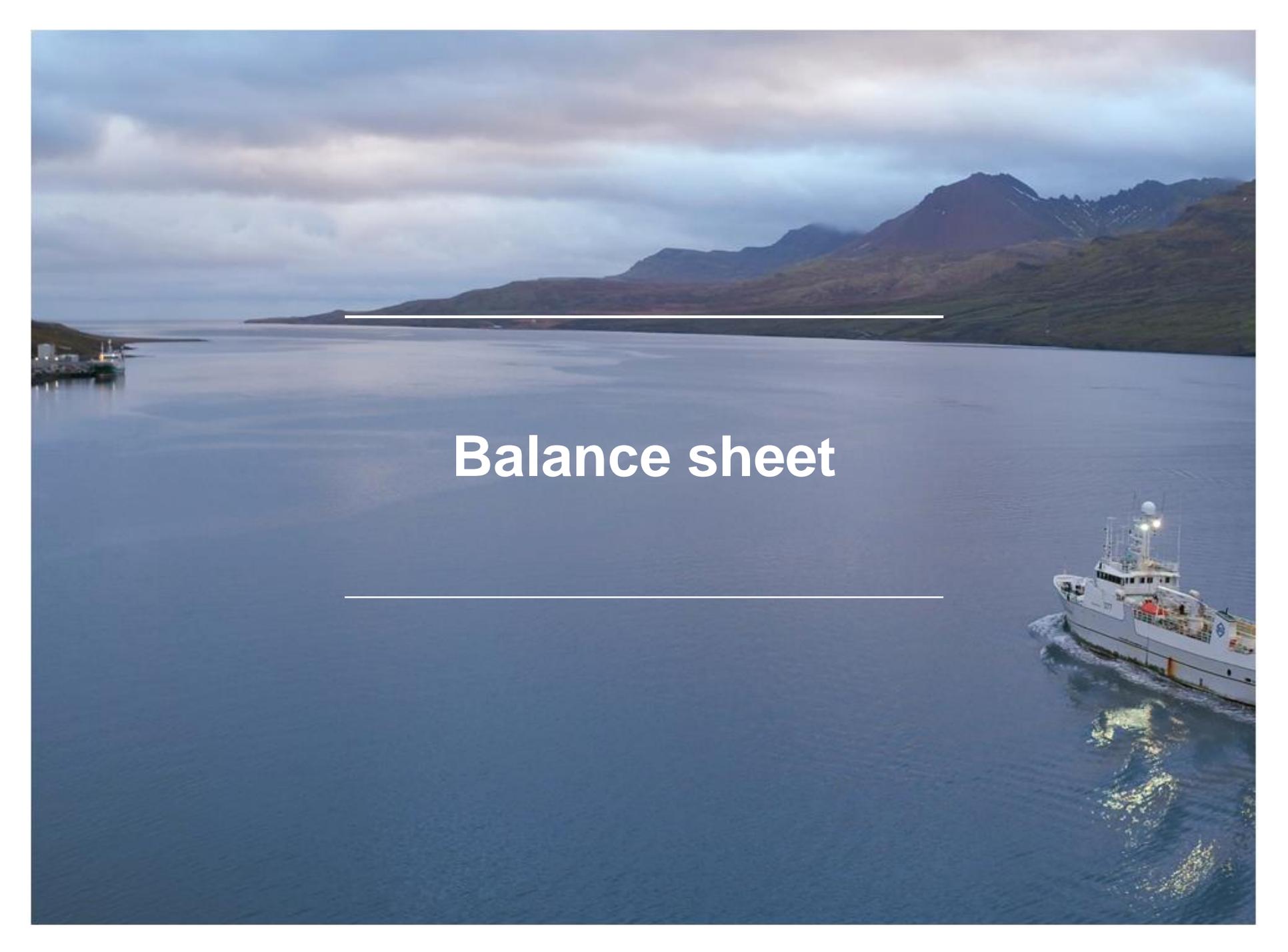
Taxes

	H1 2018	H1 2017	Change	
Income tax	2,835	2,301	534	23%
Special financial activities tax on profits ¹	666	666	0	0%
Income Tax	3,501	2,967	534	18%
Tax on liabilities of financial institutions ²	1,750	1,620	130	8%
Special financial activities tax on salaries ³	347	335	12	3%
Total	5,597	4,923	674	14%

¹ A 6% additional tax on pre-tax profit over ISK 1 bn

² 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

³ A 5.5% tax on salaries which is expensed in the line item "Salaries and related expenses" in the income statement

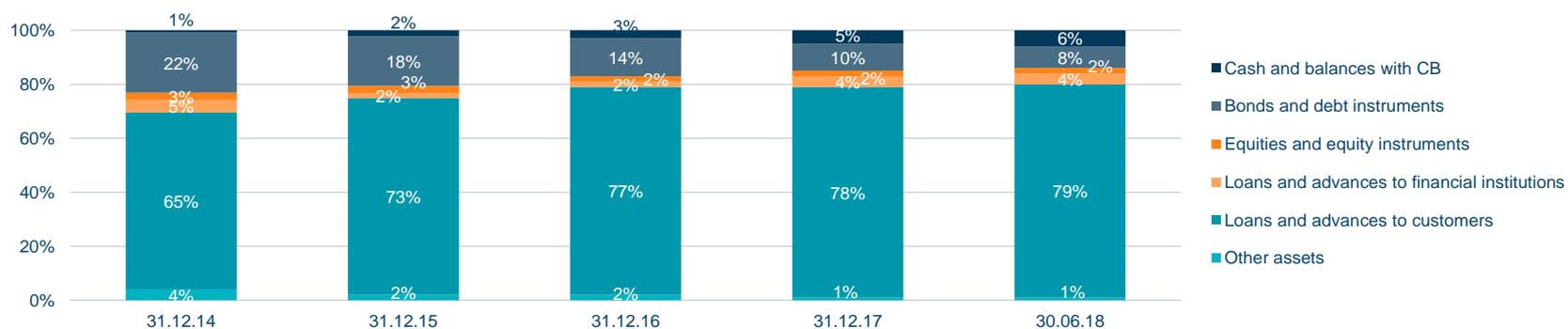


Balance sheet

Assets

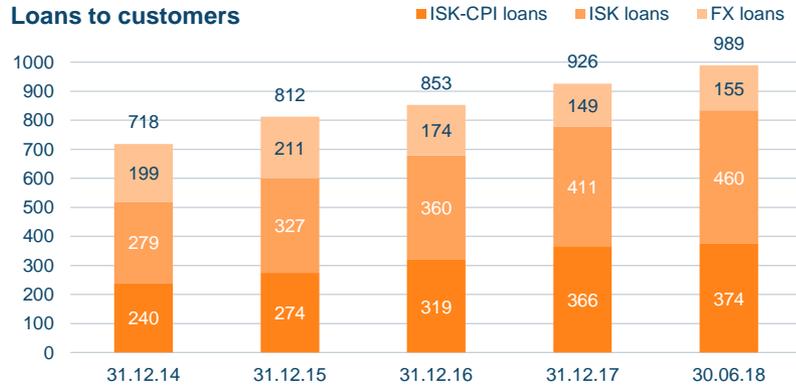
	30.06.2018	31.12.2017	Change	
Cash and balances with CB	68,372	55,192	13,180	24%
Bonds and debt instruments	97,214	117,310	-20,096	-17%
Equities and equity instruments	28,756	27,980	776	3%
Loans and advances to financial institutions	47,937	44,866	3,071	7%
Loans and advances to customers	989,481	925,636	63,845	7%
Other assets	16,261	18,238	-1,977	-11%
Assets classified as held for sale	1,832	3,648	-1,816	-50%
Total	1,249,853	1,192,870	56,983	5%

Assets

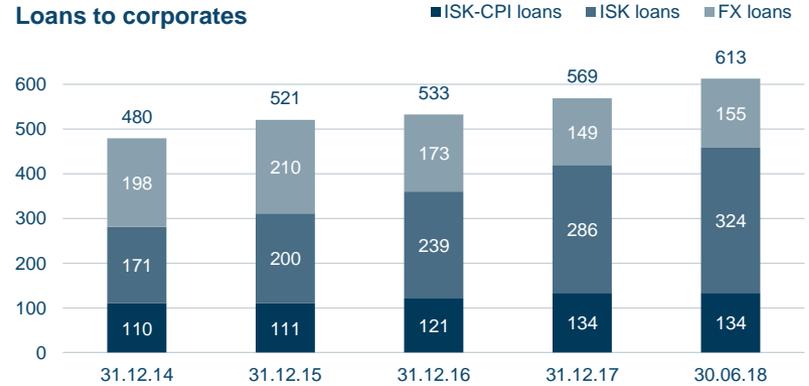


Loans

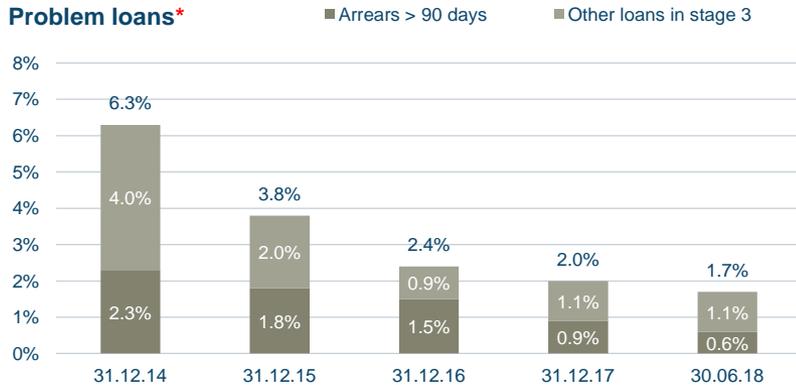
Loans to customers



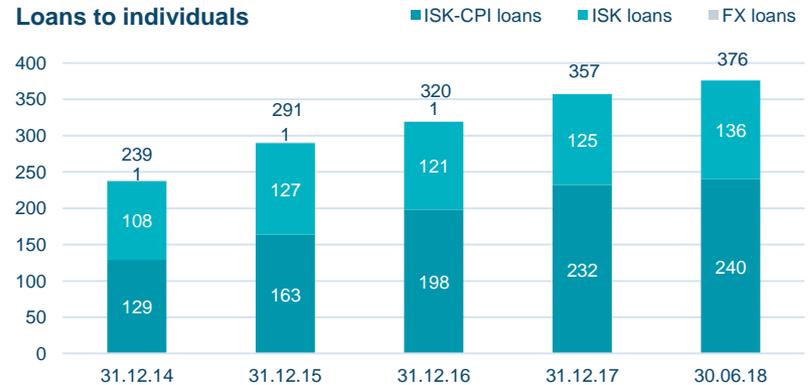
Loans to corporates



Problem loans*

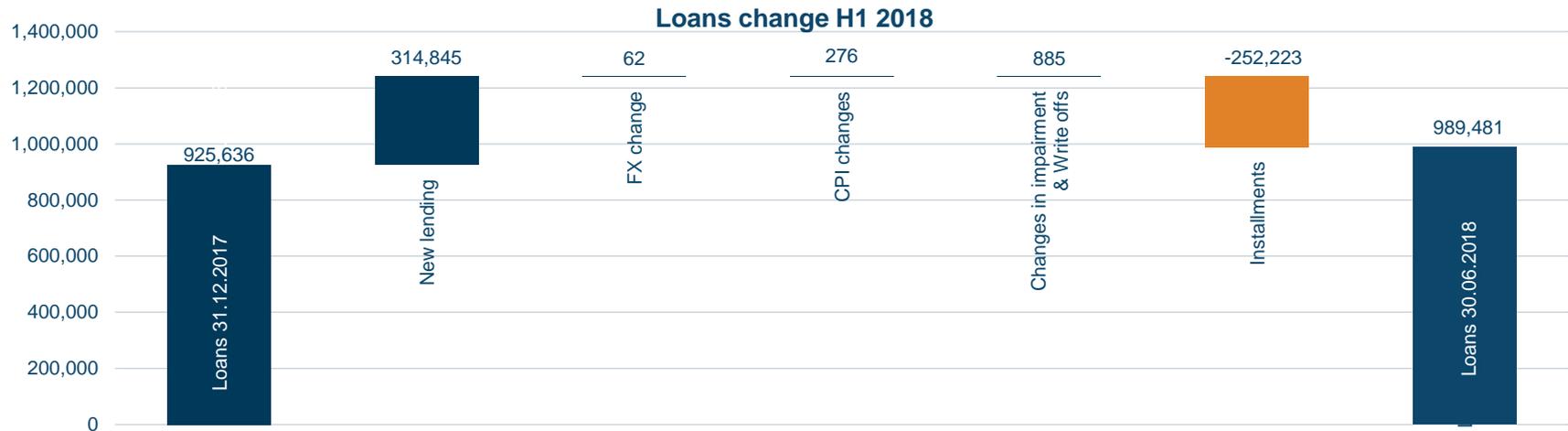


Loans to individuals

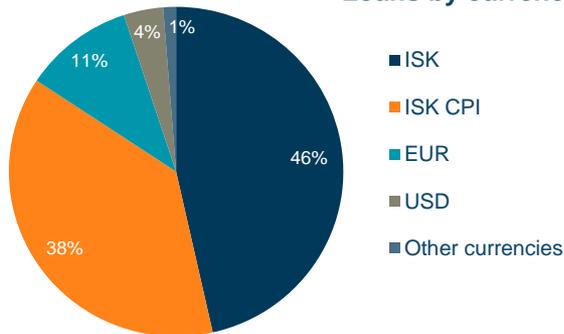


* until 31.12.2017 problem loans were defined as loans and advances with individual allowance and/or more than 90 days in arrears

Loans



Loans by currencies



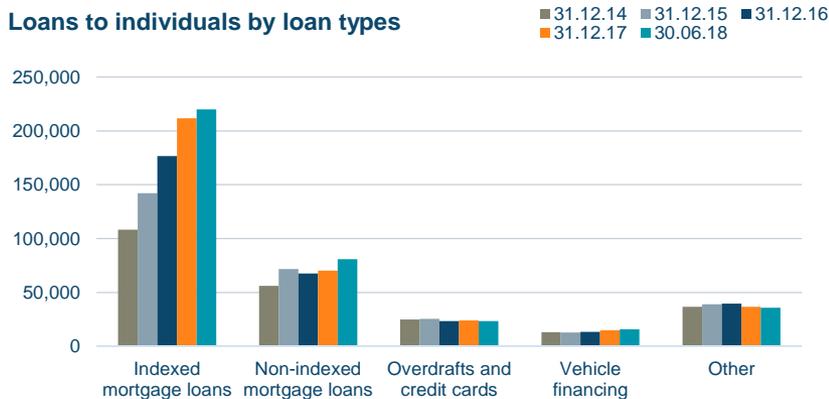
	30.6.2018	31.12.2017	Change	
ISK	459,878	410,550	49,328	12%
ISK CPI	374,354	365,948	8,406	2%
EUR	105,240	99,455	5,785	6%
USD	37,717	38,019	-302	-1%
Other currencies	12,292	11,664	628	5%
Total loans	989,481	925,636	63,845	7%

Loans

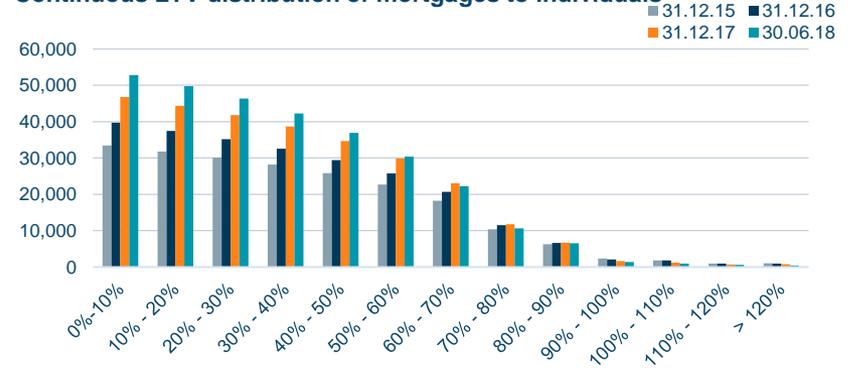
Loans by industry sectors



Loans to individuals by loan types



Continuous LTV distribution of mortgages to individuals



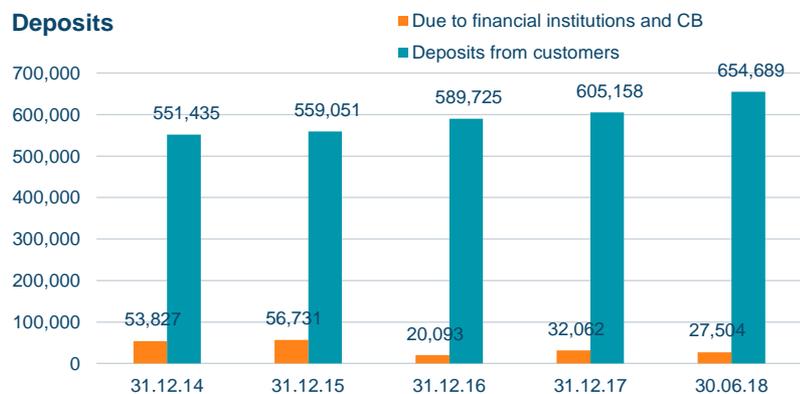
Weighted average LTV 30.06.18 57.3% (62.3% 31.12.17; 62.3% 31.12.16 ; 63.4% 31.12.15)



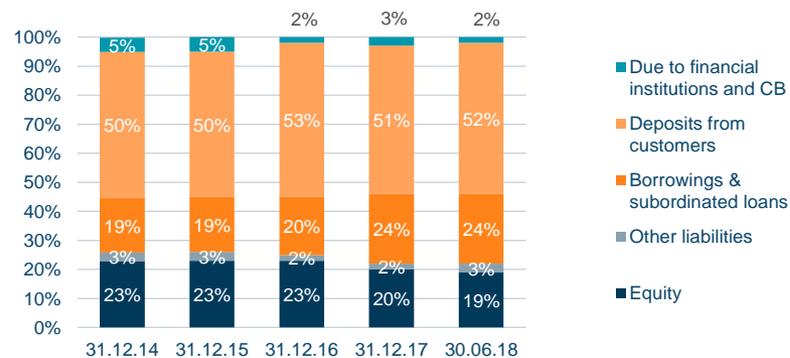
Liabilities and equity

	30.6.2018	31.12.2017	Change	
Due to financial institutions and CB	27,504	32,062	-4,558	-14%
Deposits from customers	654,689	605,158	49,531	8%
Borrowings	297,684	281,874	15,810	6%
Other liabilities	37,791	27,642	10,149	37%
Subordinated liabilities	72	77	-5	-6%
Equity	232,113	246,057	-13,944	-6%
Total	1,249,853	1,192,870	56,983	5%

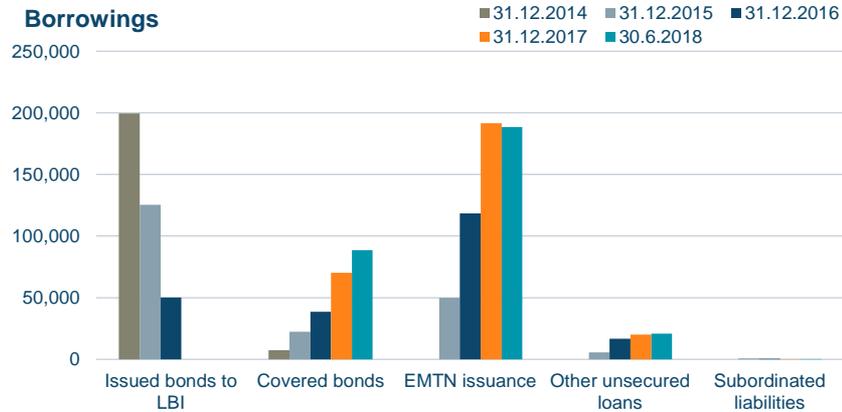
Deposits



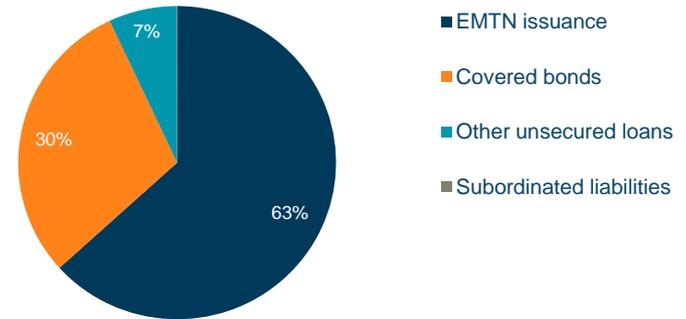
Liabilities and equity



Borrowings



Borrowings 30.06.2018

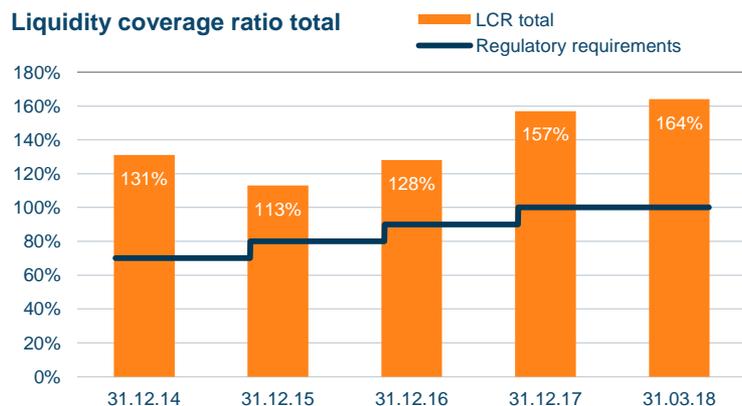


Liquidity

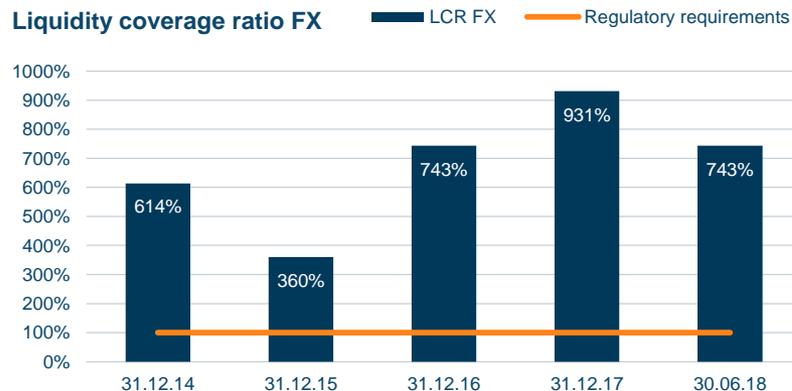
30.06.2018	Total*		FX*	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	104,128	104,128	49,848	49,848
information items	15,481	0	10,570	0
A. Total liquid assets	119,609	104,128	60,418	49,848
Deposits	473,735	111,451	56,325	23,389
Borrowing	766	766	126	126
Other outflows	150,010	17,565	29,866	3,320
B. Total outflows (0-30 days)	624,511	129,782	86,317	26,835
Loans and advances to financial institutions	62,863	46,065	47,883	46,065
Other inflows	43,293	20,183	10,227	5,388
Limit on inflows	0	0	0	-31,327
C. Total inflows (0-30 days)	106,156	66,248	58,110	20,126
Liquidity coverage A/(B-C)		164%		743%

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

Liquidity coverage ratio total

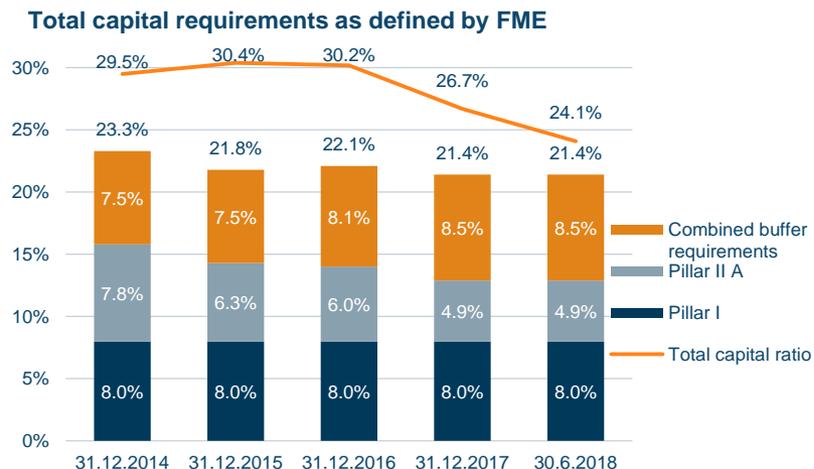


Liquidity coverage ratio FX

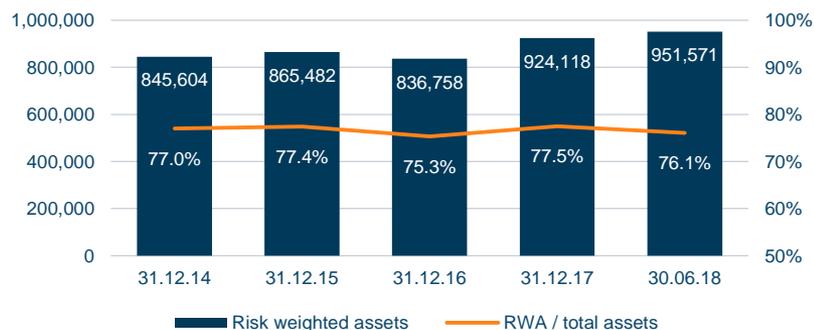


Capital requirements

	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II A	2.8%	3.7%	4.9%
Minimum requirements under Pillar I and Pillar IIA	7.3%	9.7%	12.9%
Systemic risk buffer	2.8%	2.8%	2.8%
Capital buffer for systematically important institutions	2.0%	2.0%	2.0%
Countercyclical capital buffer	1.2%	1.2%	1.2%
Capital conservation buffer	2.5%	2.5%	2.5%
Combined buffer requirements under Pillar II B	8.5%	8.5%	8.5%
Total capital requirements	15.8%	18.2%	21.4%
Total capital ratio 30.06.18	24.1%	24.1%	24.1%



Risk weighted assets



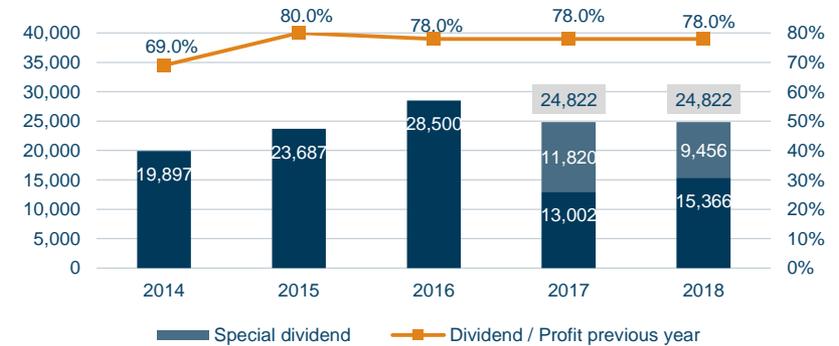
- The final impact of adopting IFRS 9 1 January 2018:
 - Common Equity Tier 1 capital decreased by 0.04 percentage point
 - The total capital ratio decreased by 0.49 percentage points

Dividend payments and change in total capital ratio

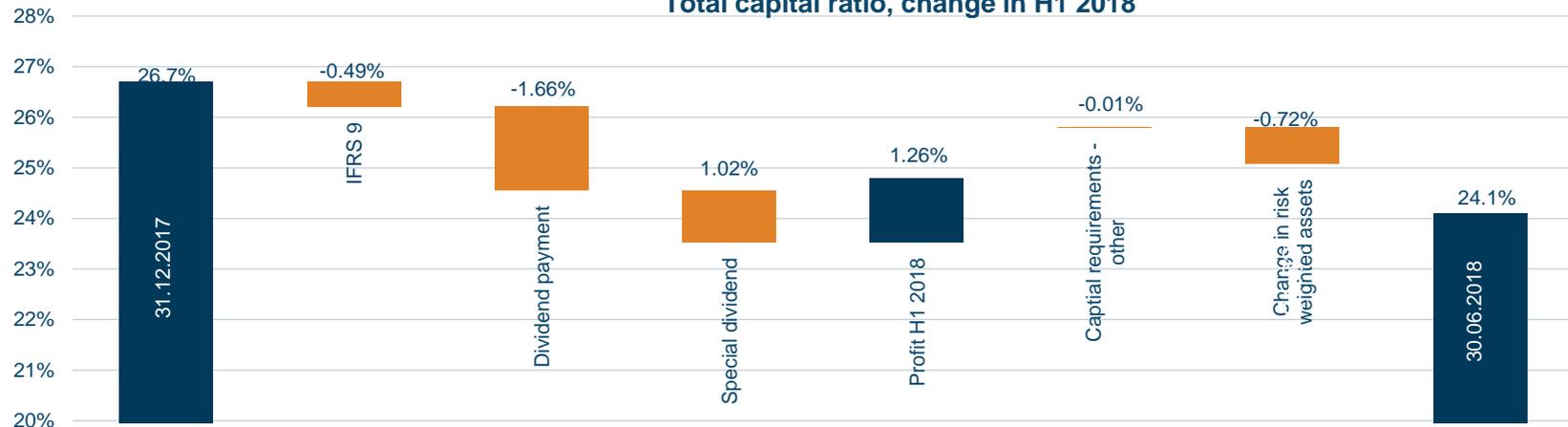
Dividend payments in 2018:

- Regular dividend of ISK 0.65 per share
 - The total amount is ISK 15,366 m
 - This is equivalent to 78% of the previous year's profit.
 - Reduced the Bank's equity ratio by 1.66 percentage points.
- Special dividend of ISK 9,456 bn will be paid in September 2018

Dividend payments



Total capital ratio, change in H1 2018



Annex further information



Key financial ratios

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	2017	2016	2015	2014
Profit after taxes	3,511	8,102	2,925	4,188	5,077	19,766	16,643	36,460	29,737
Return on equity before taxes	10.5%	18.3%	9.3%	11.1%	12.6%	12.3%	9.9%	19.9%	16.7%
Return on equity after taxes	6.1%	13.7%	4.8%	6.9%	8.6%	8.2%	6.6%	14.8%	12.5%
After tax return on average assets	1.1%	2.7%	1.0%	1.4%	1.7%	1.7%	1.5%	3.2%	2.6%
Total capital ratio	24.1%	24.7%	26.7%	26.8%	27.6%	26.7%	30.2%	30.4%	29.5%
Net interest income	9,835	9,641	9,201	8,894	10,158	36,271	34,650	32,324	28,073
Interest spread as a ratio of assets and liabilities	2.7%	2.7%	2.5%	2.5%	2.9%	2.5%	2.3%	2.2%	1.9%
Cost-income ratio	53.6%	37.9%	50.7%	48.7%	43.6%	46.1%	48.4%	43.8%	56.0%
Net stable funding ratio NSFR total	119%	120%	124%	126%	125%	124%	123%		
Net stable funding ratio NSFR FX	165%	168%	179%	185%	169%	179%	154%	136%	134%
Liquidity ratio LCR total	164%	171%	157%	158%	183%	157%	128%	113%	131%
Liquidity LCR FX	743%	751%	931%	873%	470%	931%	743%	360%	614%
Operating expenses as a ratio of average total assets	2.0%	2.0%	2.1%	1.9%	2.1%	2.0%	2.1%	2.1%	2.1%
Total assets	1,249,853	1,206,148	1,192,870	1,198,958	1,170,628	1,192,870	1,111,157	1,118,658	1,098,370
Loans / deposits ratio	151.1%	150.6%	153.0%	141.8%	138.6%	153.0%	144.7%	145.2%	130.3%
Full-time eqv.positions	955	998	997	998	988	997	1,012	1,063	1,126

Operations

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	2017	2016	2015	2014
Net interest income	9,835	9,641	9,201	8,894	10,158	36,271	34,650	32,324	28,073
Net valuation adjustments	703	1,024	-283	766	-478	1,785	-318	18,216	20,128
Net interest income after valuation adjustments	10,538	10,665	8,919	9,660	9,680	38,056	34,332	50,540	48,201
Net fee commission income	2,185	1,691	1,840	2,159	2,316	8,431	7,809	6,841	5,836
Net foreign exchange gain (loss)	-399	-70	-482	-10	-518	-1,375	-179	-1,277	67
Other net operating income	-138	4,547	1,593	545	2,097	8,400	6,738	16,507	9,510
Total operating income	12,186	16,832	11,870	12,354	13,575	53,512	48,700	72,611	63,614
Salaries and related expenses	3,869	3,663	3,753	3,163	3,654	14,061	14,049	13,754	13,567
Other operating expenses	2,287	2,335	2,411	2,475	2,477	9,789	9,465	9,978	10,521
Total operating expenses	6,156	5,998	6,164	5,638	6,131	23,850	23,514	23,732	24,088
Profit before tax	6,030	10,834	5,706	6,716	7,444	29,662	25,186	48,879	39,526
Income tax expense	2,519	2,732	2,782	2,527	2,367	9,896	8,543	12,419	9,789
Profit for the period	3,511	8,102	2,925	4,188	5,077	19,766	16,643	36,460	29,737

Balance Sheet

	30.06.2018	31.12.2017	Change		31.12.2016	31.12.2015	31.12.2014
Cash and balances with CB	68,372	55,192	13,180	24%	30,662	25,164	10,160
Bonds and debt instruments	97,214	117,310	-20,095	-17%	154,892	203,684	243,589
Equities and equity instruments	28,756	27,980	776	3%	26,688	29,192	29,433
Loans and advances to fin institutions	47,937	44,866	3,070	7%	20,408	20,791	49,789
Loans and advances to customers	989,481	925,636	63,845	7%	853,417	811,549	718,355
Other assets	16,261	18,238	-1,976	-11%	17,641	16,323	28,832
Assets classified as held for sale	1,832	3,648	-1,816	-50%	7,449	11,955	18,212
Total	1,249,853	1,192,870	56,982	5%	1,111,157	1,118,658	1,098,370
Due to financial institutions and CB	27,504	32,062	-4,558	-14%	20,093	56,731	53,827
Deposits from customers	654,689	605,158	49,531	8%	589,725	559,051	551,435
Borrowings	297,684	281,874	15,810	6%	223,944	209,344	207,028
Other liabilities	37,764	27,615	10,149	37%	24,681	26,844	32,443
Liabilities associated with assets classified as held for sale	27	27	0	0%	1,095	1,518	2,834
Subordinated liabilities	72	77	-5	-6%	388	639	0
Equity	232,113	246,057	-13,944	-6%	251,231	264,531	250,803
Total	1,249,853	1,192,870	56,983	5%	1,111,157	1,118,658	1,098,370

Segments

H1 2018	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Reconciliation	Total
Net interest income (expense)	7,749	8,788	274	2,628	54	-17	19,476
Net valuation adjustments	545	1,203	0	2	-23	0	1,727
Net fee and commission income (expense)	1,636	377	2,031	-198	141	-111	3,876
Other net operating income (expense)	215	-145	-101	1,519	2,476	-25	3,939
Total operating income (expense)	10,145	10,223	2,204	3,951	2,648	-153	29,018
Operating expenses	-3,232	-969	-1,083	-859	-6,129	118	-12,154
Cost allocated from support functions to business segments	-2,455	-1,476	-732	-413	5,076	0	0
Profit (loss) before tax	4,458	7,778	389	2,679	1,595	-35	16,864
Total assets	448,633	531,942	19,510	513,645	14,057	-277,934	1,249,853
Total liabilities	409,155	432,965	14,025	425,472	14,057	-277,934	1,017,740
Allocated capital	39,478	98,977	5,485	88,173	0	0	232,113