



Results 9M 2016

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Highlights

Income statement

Highlights in Q3 of 2016

- After-tax profit amounted to ISK 5.1 billion in Q3, compared to ISK 12 billion for the same period of 2015
- Net interest income decreased YoY, amounting to ISK 8.6 billion in Q3 2016 compared to ISK 8.8 billion in Q3 2015
- Loan revaluations were positive by around ISK 2.1 billion in Q3 2016, while in Q3 2015 revaluations were positive by ISK 10.5 billion
- Net fees and commissions rose YoY due to increased transactions, totalling ISK 2 billion in Q3 2016 compared to ISK 1.7 billion in the same quarter of 2015, an increase of 15%
- After-tax ROE declined to 8.2% in Q3 2016, compared to 19.5% for the same quarter in 2015

Key income statement figures for the first 9M of 2016

- After-tax profit during the first 9M of 2016 amounted to ISK 16.4 billion, compared to ISK 24.4 billion for the same period of 2015
- Net interest income amounted to ISK 26.2 billion, increasing by 5% over the same period last year
- Loan revaluations during the 9M period were positive by ISK 4.4 billion, compared to positive revaluations of ISK 12.3 billion in 2015
- Net fees and commissions rose by 15% over the same period of 2015, due especially to increased activities in Markets and changes in the payment card market.
- Other operating income decreased substantially YoY, due primarily to lower profits on equities than for the same period of 2015

- Net interest spread at the end of Q3 2016 was 2.3%, as at the end of Q3 2015
- After-tax ROE was 8.5%, compared to 13.5% for the same period in 2015
- If salaries and related expenses are excluded, operating expenses decreased by 2% YoY
- During the first nine months of this year Landsbankinn's cost-income ratio was 47.7% compared to 45.7% during the same period of the previous year

Balance sheet

- Total assets amounted to ISK 1,133.8 billion at the end of September 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 considerably in 2016, as foreign-denominated assets now exceed liabilities in foreign currencies by ISK 2.4 billion, while the balance was positive by ISK 23.8 billion at year-end 2015.
- The bank's liquidity remains very high, both in foreign currency and in ISK.
- As of 30 September 2016 Landsbankinn's equity was ISK 251.1 billion, a decrease of 5% from the beginning of this year due to the bank's payment of a dividend of ISK 28.5 billion. The bank purchased 119.8 million own shares in Q3 for a total of ISK 1.2 billion. As of the end of Q3, the bank's capital adequacy ratio (CAR) was 29.1%, compared to 29.2% at the same time the previous year.



Main results

	9M 2016	9M 2015	Q3 2016	Q3 2015	2015	2014
Profit after taxes	16,400	24,413	5,102	12,008	36,460	29,737
Return on equity after taxes	8.5%	13.5%	8.2%	19.5%	14.8%	12.5%
Adjusted return on equity after taxes*	8.0%	9.8%	6.8%	8.1%	10.6%	7.5%
Interest spread as a ratio of assets and liabilities	2.3%	2.3%	2.4%	2.4%	2.2%	1.9%
Cost-income ratio **	47.7%	45.7%	48.9%	47.9%	43.8%	56.0%

	30.09.16	30.09.15	31.12.15	31.12.14
Total assets	1,133,802	1,175,804	1,118,658	1,098,370
Loans to customers	837,494	807,033	811,549	718,355
Deposits from customers	583,715	624,924	559,051	551,435
Equity	251,146	252,484	264,531	250,803
Total capital ratio (CAR)	29.1%	29.2%	30.4%	29.5%
Liquidity ratio NSFR FX	149%	120%	136%	134%
Liquidity ratio LCR total	140%	109%	113%	131%
Liquidity ratio LCR FX	594%	190%	360%	614%
Net FX position	2,425	22,842	23,795	20,320
Arrears (>90 days)	1.8%	2.0%	1.8%	2.3%
Full-time eqv. positions	1,043	1,092	1,063	1,126

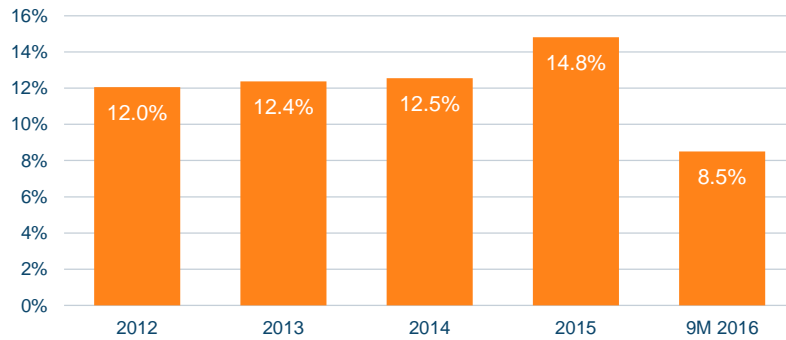
*Adjusted ROE after taxes= (Profit after taxes – positive value adjustments after taxes – tax on total liabilities of financial institutions – profit from discontinued operations after taxes) / average equity position

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

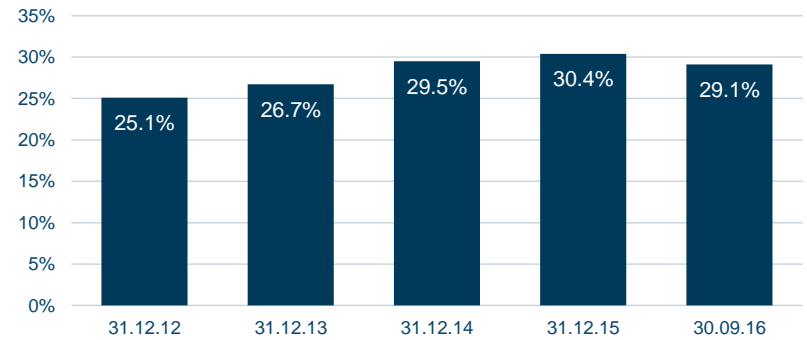


Development of KPIs

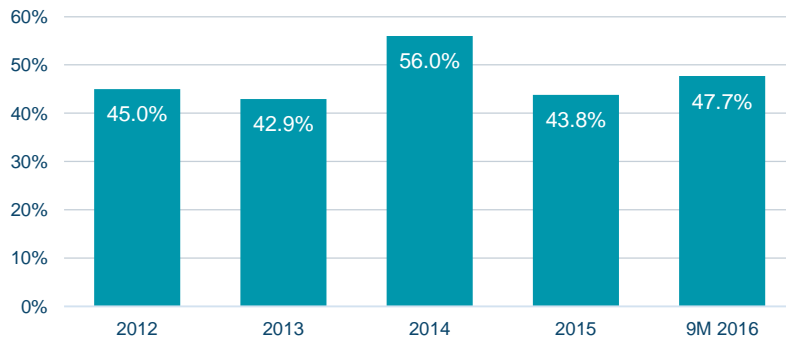
Return on equity after taxes



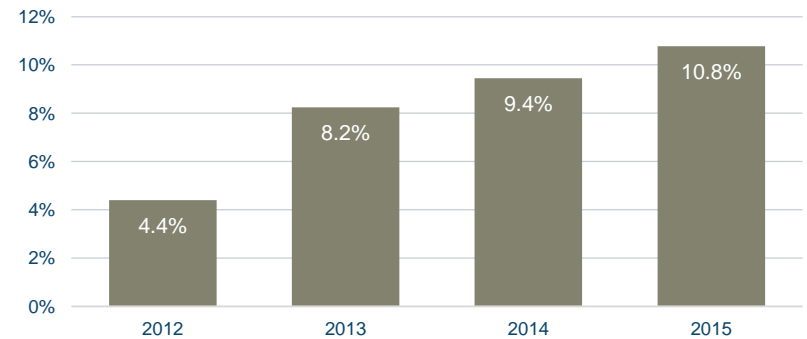
Total capital ratio



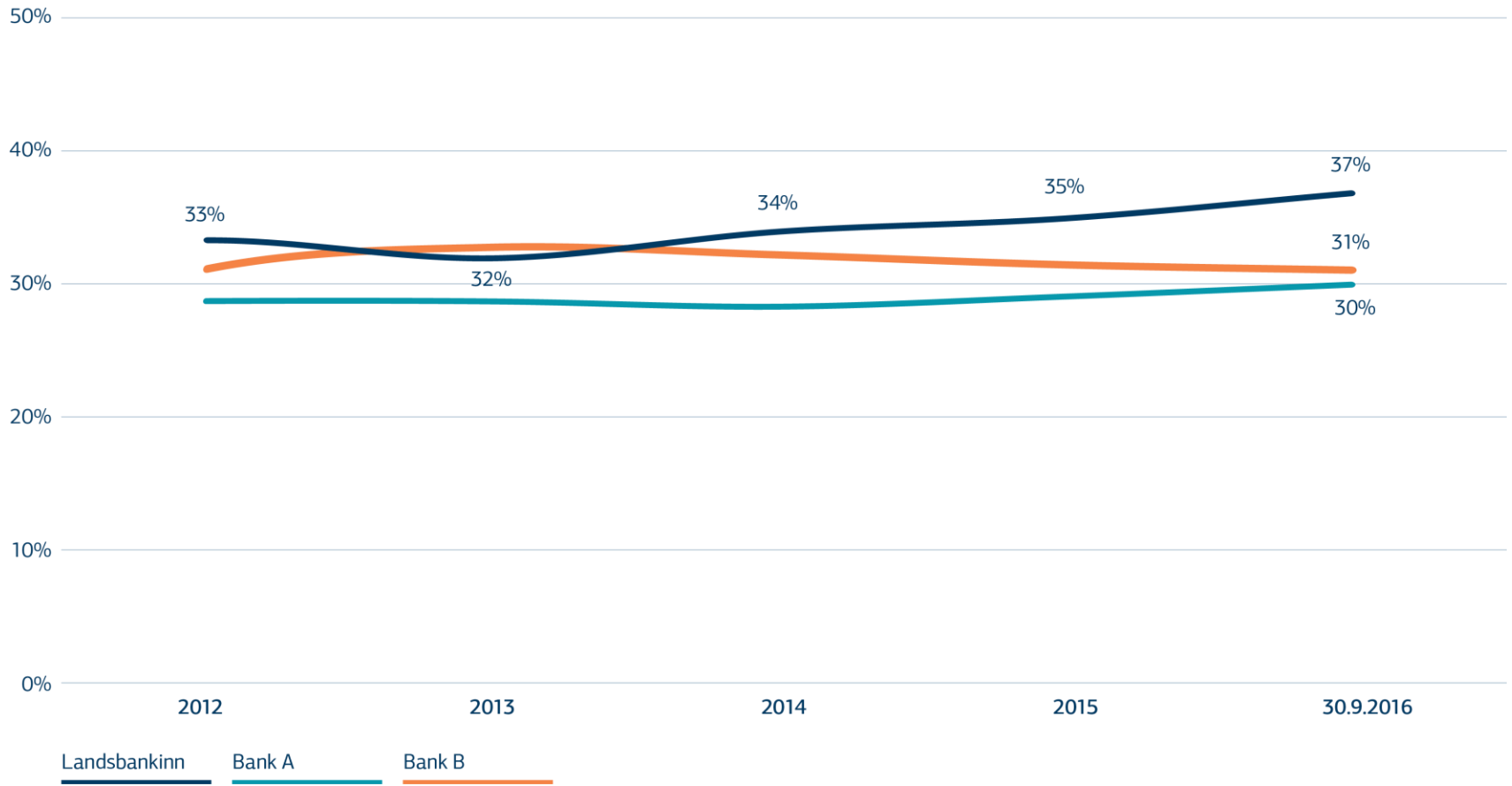
Cost-income ratio excluding valuation adjustments



Divident yield



Marketshare - Retail banking



Source: Gallup Iceland



Performance measurements

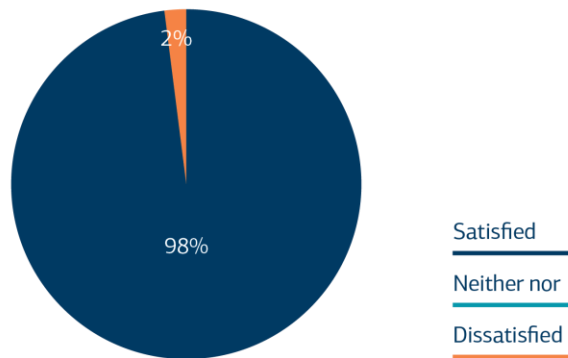
360° Advisory: Satisfaction score



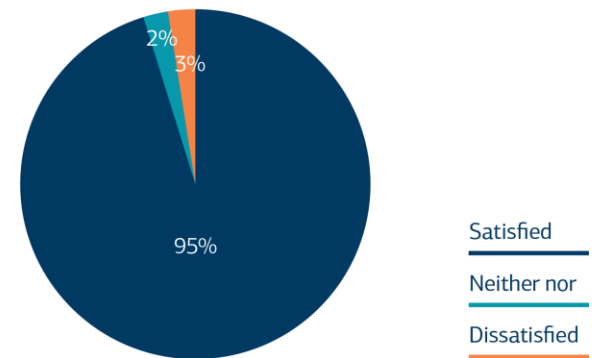
Loyalty programs: Satisfaction score



Service in SME Centre



Service in branches



Source: Gallup Iceland



Strategy

Vision:

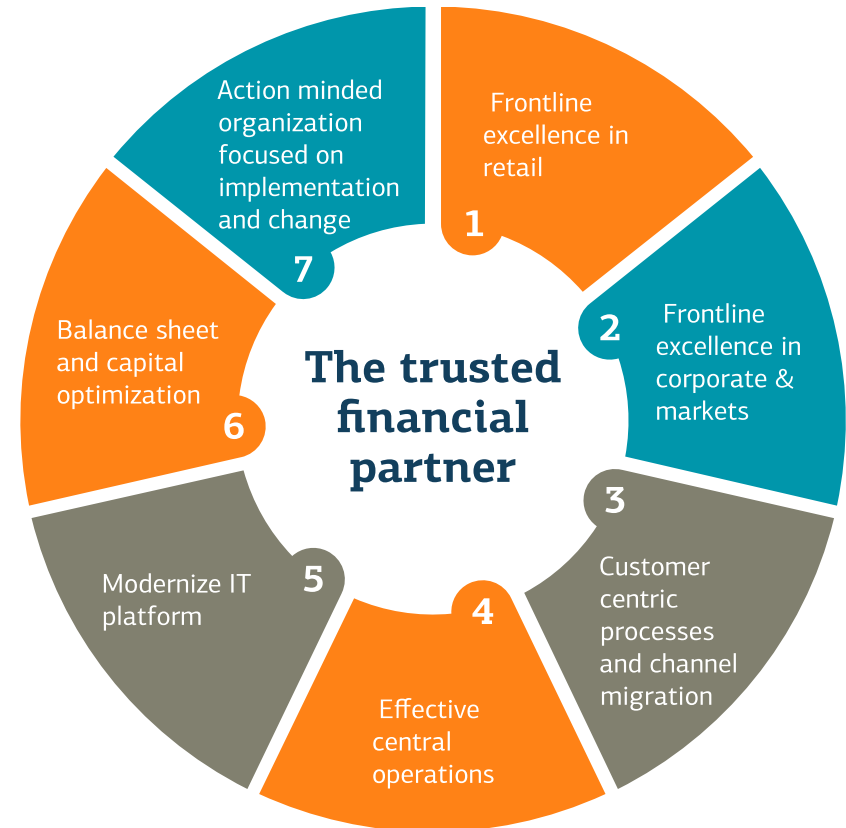
Landsbankinn is to be exemplary

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...

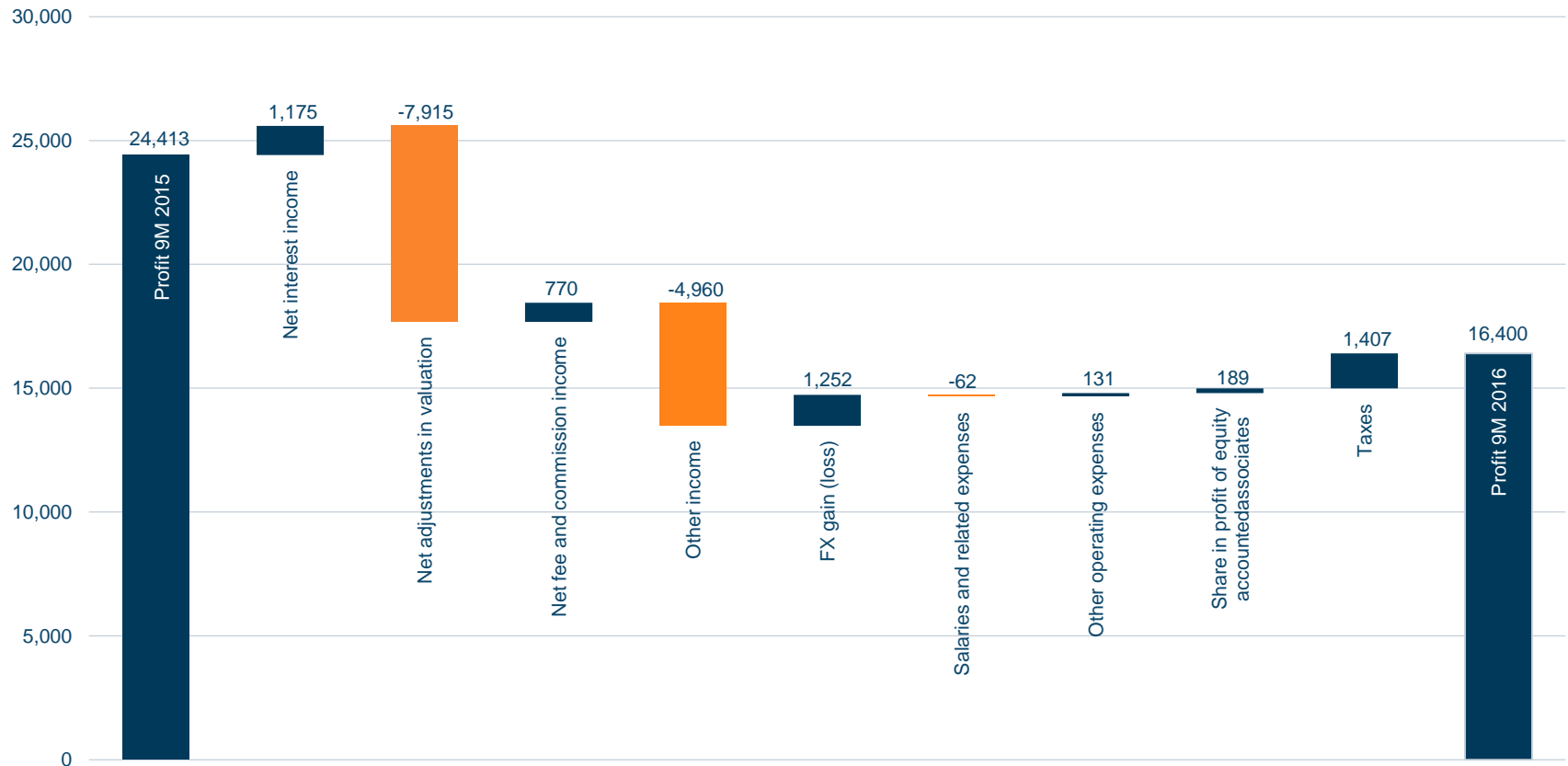
“This is how a bank should be”



Results 9M 2016

Income Statement

Change from 9M 2015 to 9M 2016



Income Statement

	9M 2016	9M 2015	Change	Q3 2016	Q3 2015	Change
Net interest income	26,207	25,032	5%	8,596	8,834	-3%
Net adjustments in valuation	4,419	12,334	-64%	2,144	10,489	-80%
Net interest income after adjustments in valuation	30,626	37,366	-18%	10,740	19,323	-44%
Net fee and commission income	5,909	5,139	15%	2,015	1,745	15%
Other net operating income	4,711	8,419	-44%	284	1,089	-74%
Total operating income	41,246	50,924	-19%	13,039	22,157	-41%
Salaries and related expenses	10,409	10,347	1%	3,096	3,466	-11%
Other operating expenses	7,173	7,304	-2%	2,230	2,127	5%
Total operating expenses	17,582	17,651	0%	5,326	5,593	-5%
Share in profit of equity accounted associates	446	257	74%	71	145	-51%
Profit before tax	24,110	33,530	-28%	7,784	16,709	-53%
Income tax expense and tax on liabilities of financial institutions	7,710	9,117	-15%	2,682	4,701	-43%
Profit for the period	16,400	24,413	-33%	5,102	12,008	-58%

- Net interest income increased by 5% between periods
- Loan revaluations during the 9M period were positive by ISK 4.4 billion, compared to positive revaluations of ISK 12.3 billion 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 24.9%

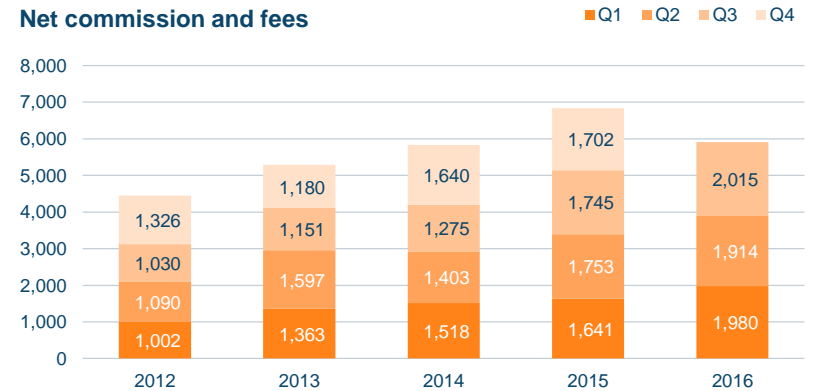
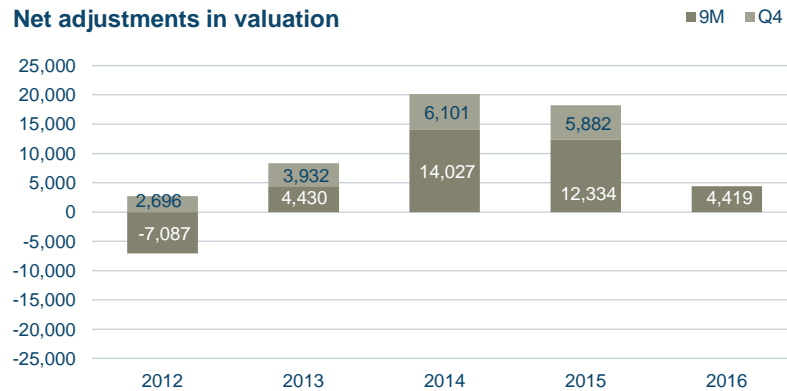
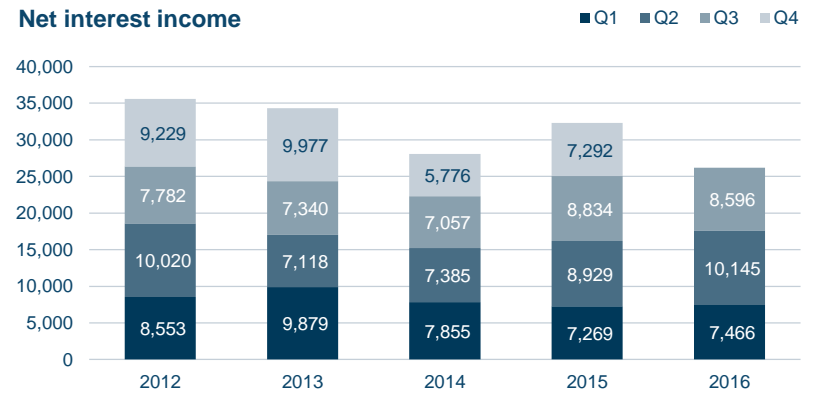
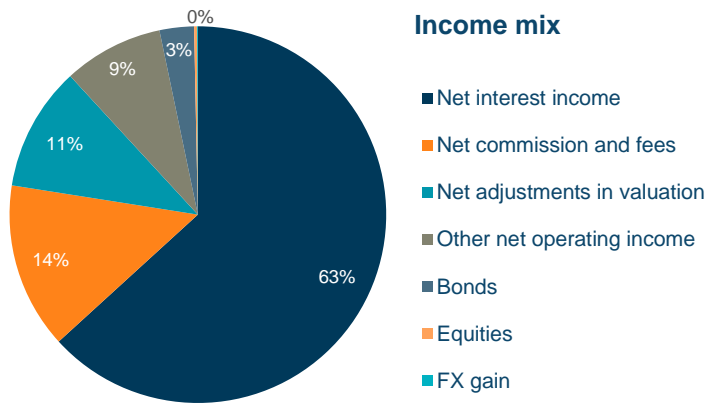


Net interest income and valuation adjustments

	9M 2016	9M 2015	Change		Q3 2016	Q3 2015	Change	
Interest income	48,371	44,676	3,695	8%	15,528	16,000	-472	-3%
Interest expense	-22,164	-19,644	-2,520	13%	-6,932	-7,166	234	-3%
Net interest income	26,207	25,032	1,175	5%	8,596	8,834	-238	-3%
Net impairment loss on loans and guarantees	4,419	5,070	651	-13%	2,144	1,344	800	60%
Net impairment from foreign currency linkage of loans and advances to customers	0	7,264	-7,264		0	9,145	-9,145	
Net valuation adjustments	4,419	12,334	-7,915	-64%	2,144	10,489	-8,345	-80%
Net interest income after net valuation adjustments	30,626	37,366	-6,740	-18%	10,740	19,323	-8,583	-44%

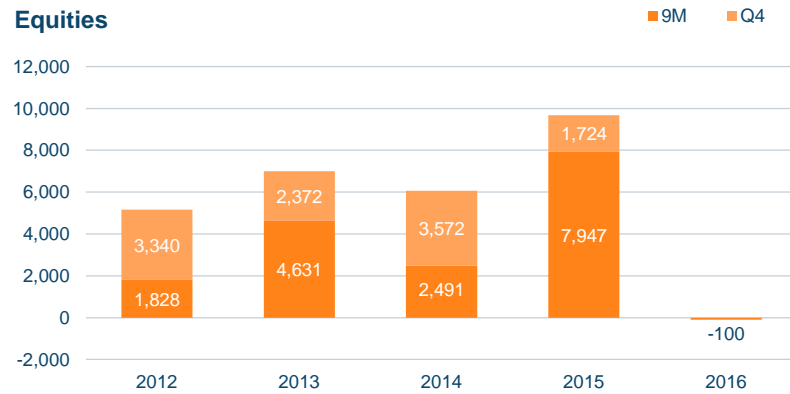


Net operating income

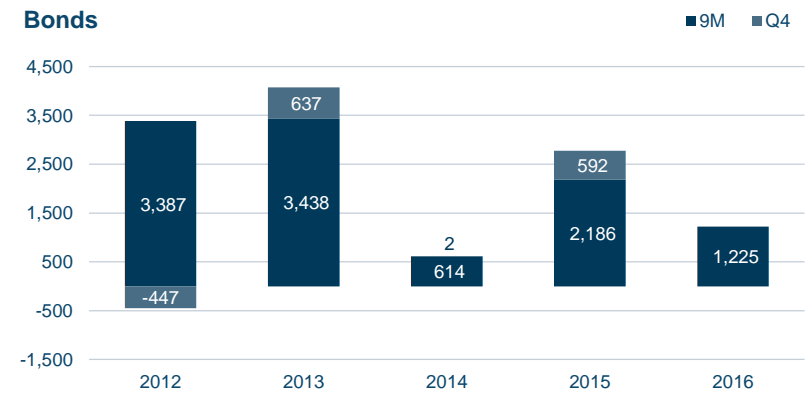


Net operating income

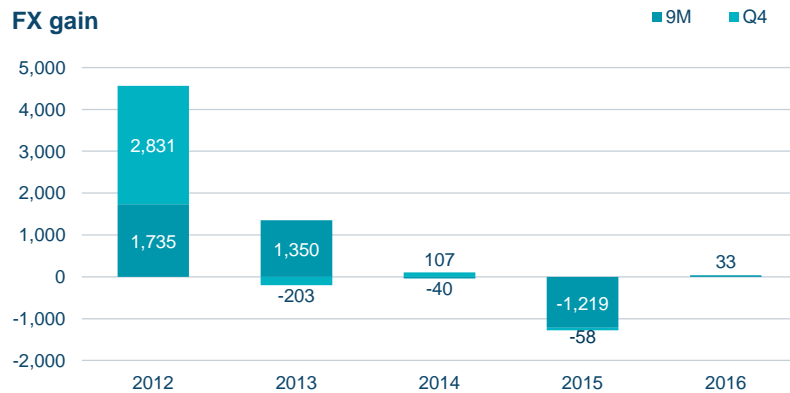
Equities



Bonds

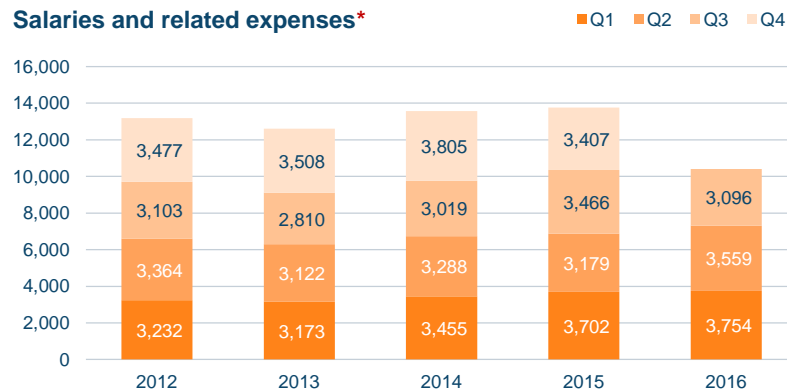


FX gain



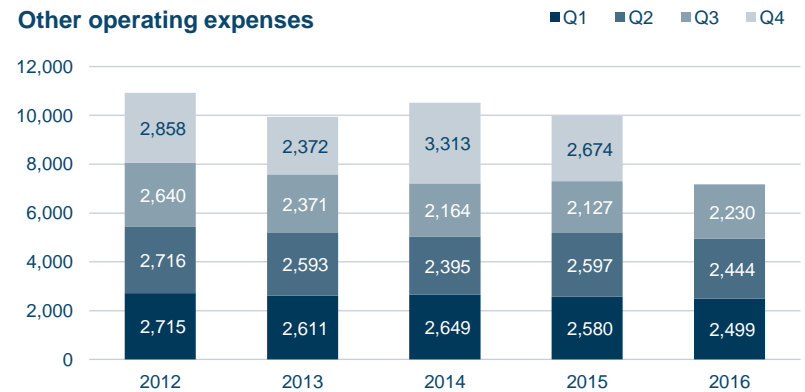
Operating expenses

Salaries and related expenses*

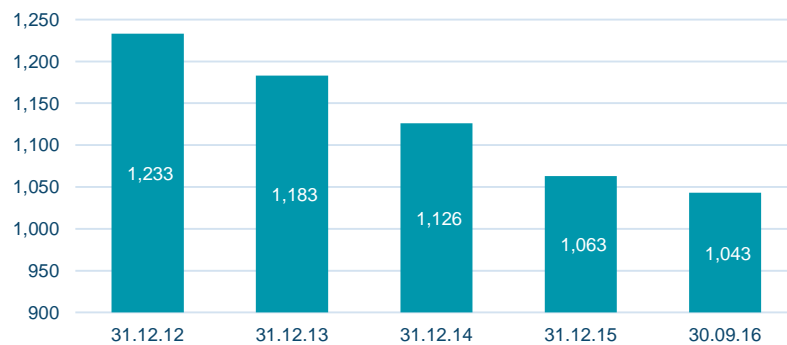


*2013, less expensed equity-based wages

Other operating expenses



Full time employees



Taxes

	9M 2016	9M 2015	Change	
Income tax	4,257	5,180	-923	-18%
Special financial activities tax on profits ¹	1,183	1,497	-314	-21%
Income Tax	5,440	6,677	-1,237	-19%
Tax on liabilities of financial institutions ²	2,270	2,440	-170	-7%
Special financial activities tax on salaries ³	520	497	23	5%
Total	8,230	9,614	-1,384	-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 on the carrying amount of total liabilities in excess of ISK 50 bn

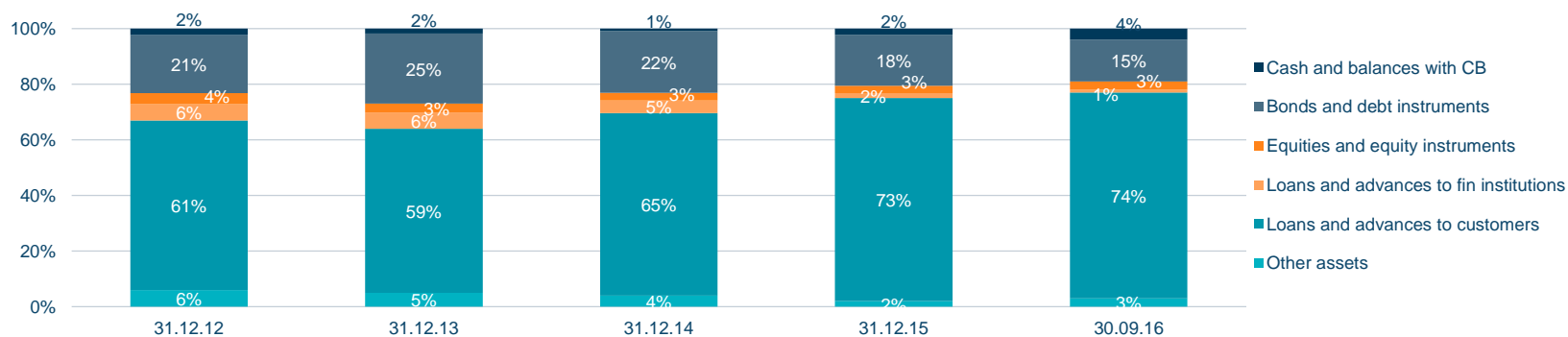
³ A 5.5% tax on salaries which is expensed in the line item "Salaries and related expenses" in the condensed consolidated income statement



Balance sheet - assets

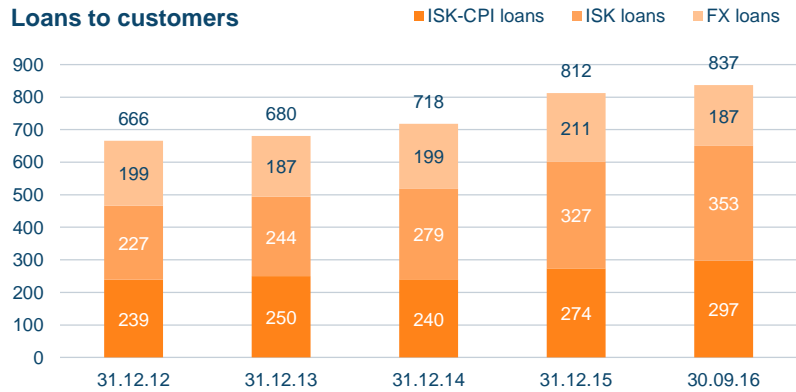
	30.09.16	31.12.15	Change	
Cash and balances with CB	52,822	25,164	27,658	110%
Bonds and debt instruments	168,029	203,684	-35,655	-18%
Equities and equity instruments	30,896	29,192	1,704	6%
Loans and advances to fin institutions	16,835	20,791	-3,956	-19%
Loans and advances to customers	837,494	811,549	25,945	3%
Other assets	19,653	16,323	3,330	20%
Assets classified as held for sale	8,073	11,955	-3,882	-32%
Total	1,133,802	1,118,658	15,144	1%

Assets

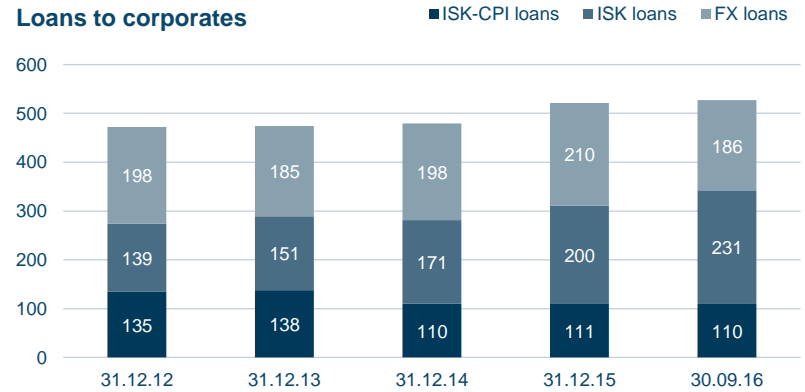


Balance sheet - loans

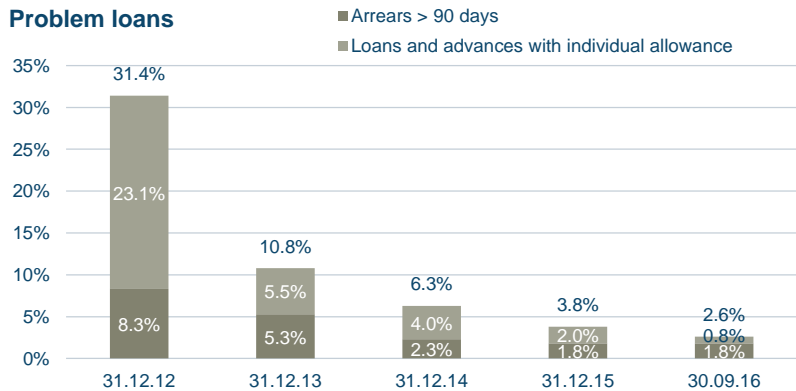
Loans to customers



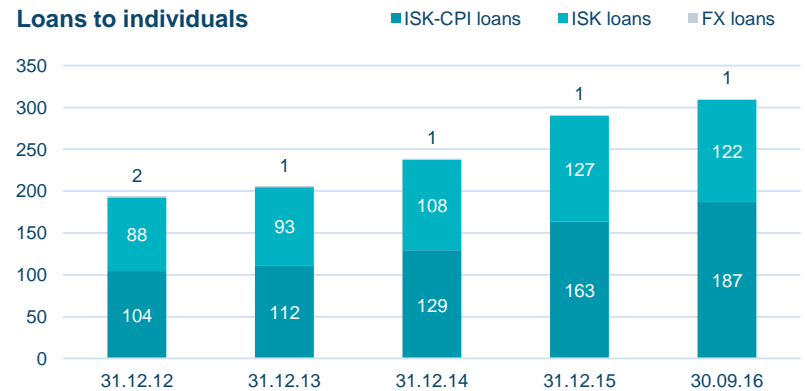
Loans to corporates



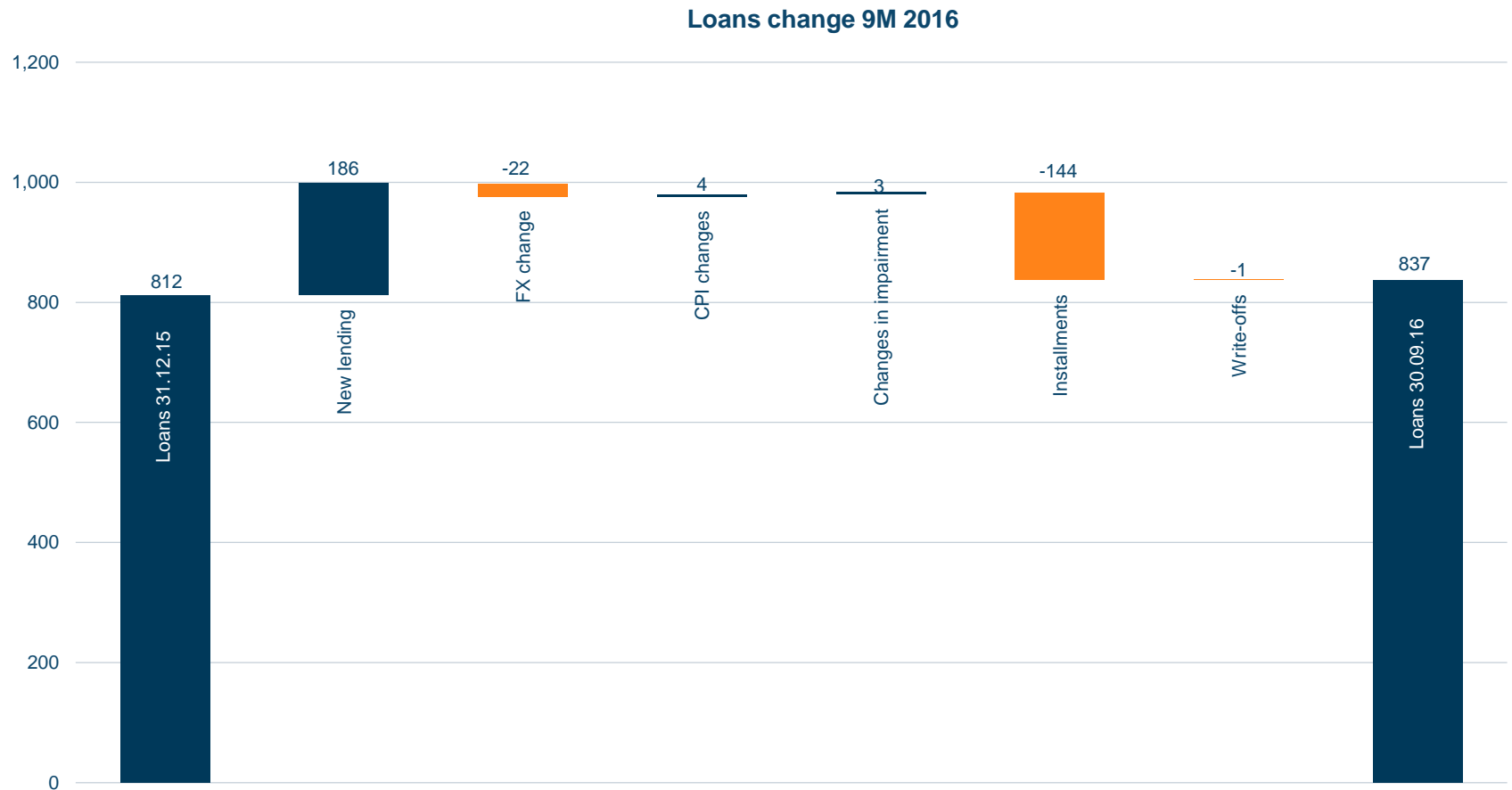
Problem loans



Loans to individuals

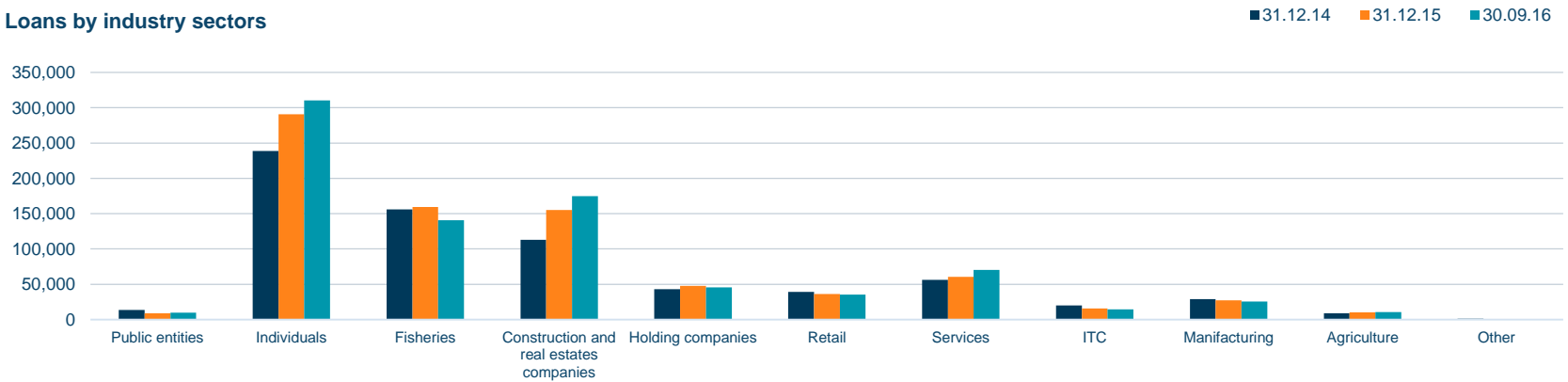


Balance sheet - loans

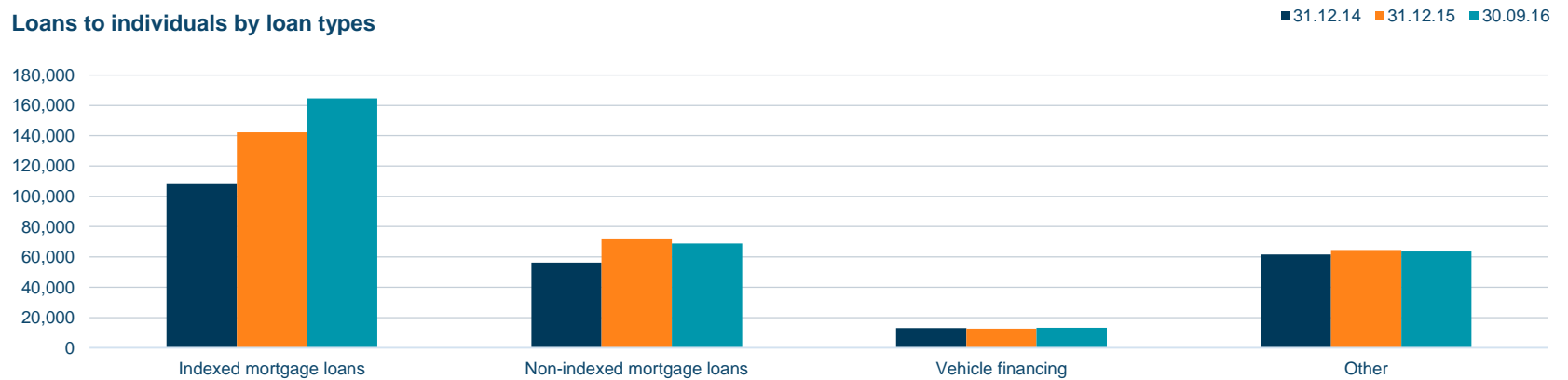


Balance sheet - loans

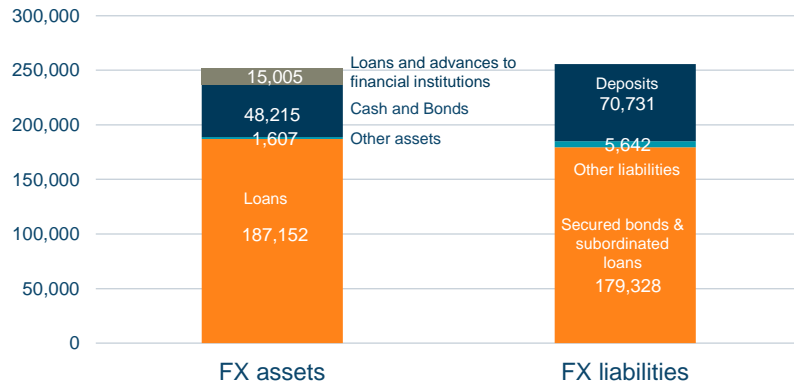
Loans by industry sectors



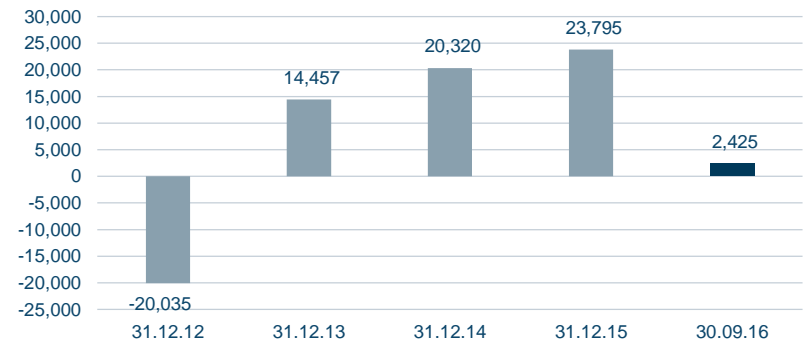
Loans to individuals by loan types



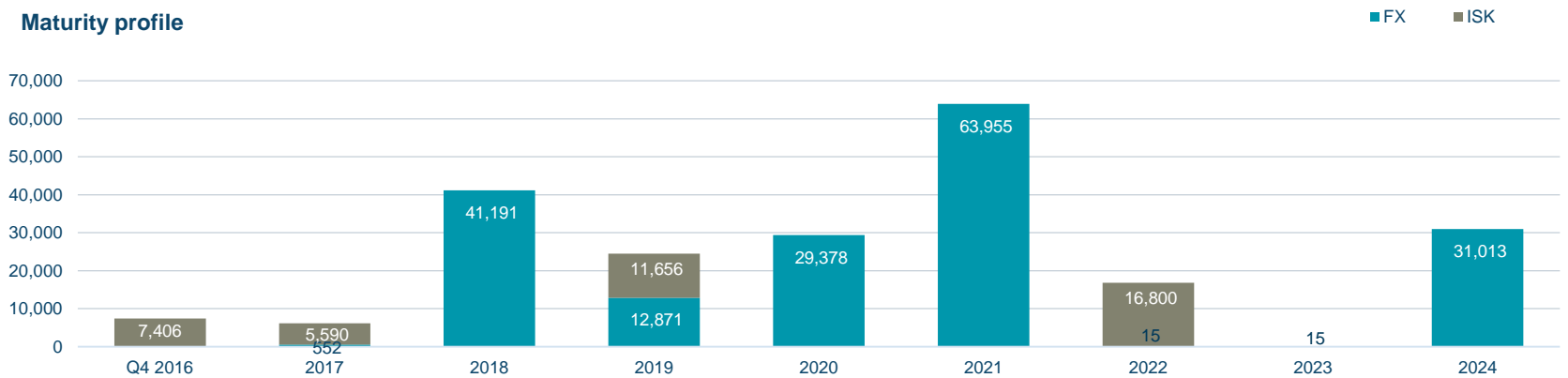
FX assets and liabilities



Net FX balance



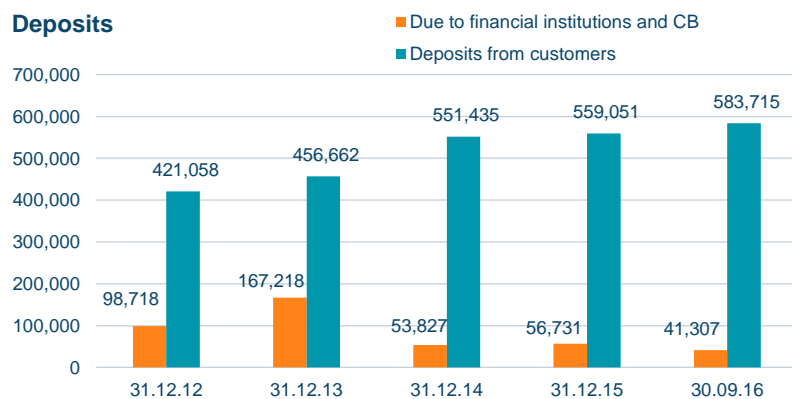
Maturity profile



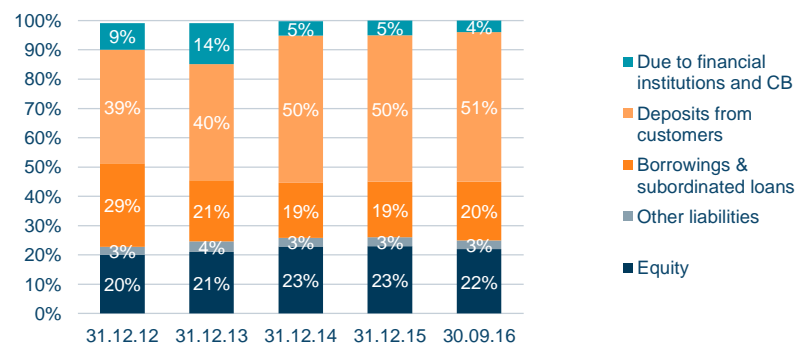
Balance sheet – liabilities and equity

	30.09.16	31.12.15	Change	
Due to financial institutions and CB	41,307	56,731	-15,424	-27%
Deposits from customers	583,715	559,051	24,664	4%
Borrowings	220,800	209,344	11,456	5%
Subordinated loans	407	639	-232	-36%
Other liabilities	36,427	28,362	8,065	28%
Equity	251,146	264,531	-13,385	-5%
Total	1,133,802	1,118,658	15,144	1%

Deposits



Liabilities and equity

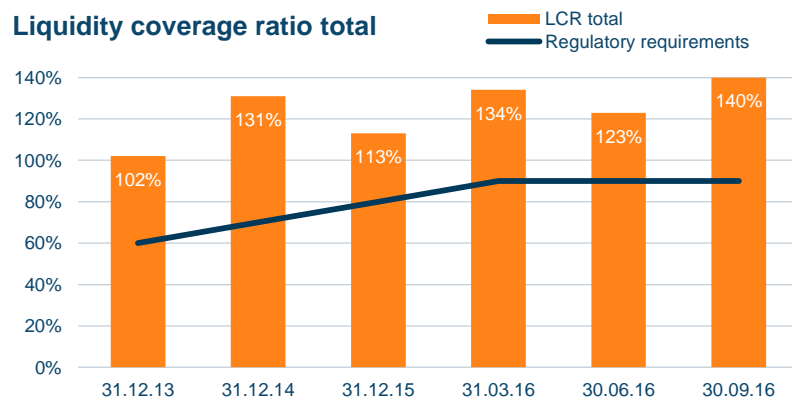


Liquidity

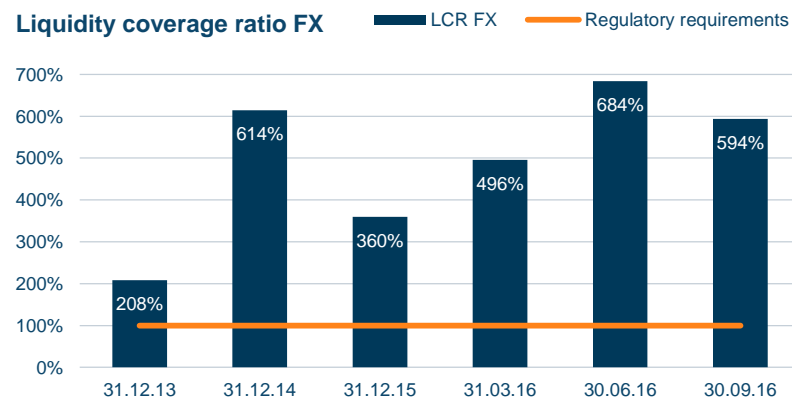
30.09.16	Total*		FX*	
	Unweighted	Weighted	Unweighted	Weighted
Level 1 liquid assets	163,601	163,601	32,046	32,046
Level 2 liquid assets and information items	35,510	8,552	17,158	8,552
A. Total liquid assets	199,111	172,153	49,204	40,598
Deposits	391,505	121,948	48,813	23,246
Borrowing	3,098	3,098	1,501	1,501
Other outflows	172,110	34,899	25,966	2,588
B. Total outflows (0-30 days)	566,713	159,945	76,280	27,335
Loans and advances to financial institutions	15,048	13,806	15,021	13,779
Other inflows	57,802	23,002	24,970	12,503
Limit on inflows	0	0	0	-5,781
B. Total inflows (0-30 days)	72,850	36,808	39,991	20,501
Liquidity coverage A/(B-C)		140%		594%

*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



Results 9M 2016

Annex – further information

Key financial ratios

	9M 2016	9M 2015	2015	2014	2013	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Profit after taxes	16,400	24,413	36,460	29,737	28,759	5,102	7,983	3,315	12,047	12,008
Return on equity before taxes	12.5%	18.5%	19.9%	16.7%	17.6%	12.5%	17.2%	7.9%	23.8%	27.2%
Return on equity after taxes	8.5%	13.5%	14.8%	12.5%	12.4%	8.2%	12.4%	5.0%	18.6%	19.5%
After tax return on average assets	2.0%	2.8%	3.2%	2.6%	2.6%	1.8%	2.9%	1.2%	4.2%	4.1%
Total capital ratio (CAR)	29.1%	29.2%	30.4%	29.5%	26.7%	29.1%	28.9%	31.2%	30.4%	29.2%
Net interest income	26,207	25,032	32,324	28,073	34,314	8,596	10,145	7,466	7,292	8,834
Interest spread as a ratio of assets and liabilities	2.3%	2.3%	2.2%	1.9%	2.4%	2.4%	2.8%	1.9%	1.9%	2.4%
Cost-income ratio*	47.7%	45.7%	43.8%	56.0%	42.9%	48.9%	40.8%	55.8%	39.1%	47.9%
Net stable funding ratio NSFR FX	149%	120%	136%	134%		149%	145%	133%	136%	120%
Liquidity ratio LCR total	140%	109%	113%	131%	102%	140%	123%	134%	113%	109%
Liquidity LCR FX	594%	190%	360%	614%	208%	594%	684%	496%	360%	190%
Operating expenses as a ratio of average total assets**	2.1%	2.0%	2.1%	2.1%	2.0%	1.9%	2.2%	2.2%	2.1%	1.9%
Total assets	1,133,802	1,175,804	1,118,658	1,098,370	1,151,516	1,133,802	1,109,844	1,106,700	1,118,658	1,175,804
Loans / deposits ratio	143.5%	129.1%	145.2%	130.3%	149.0%	143.5%	148.6%	149.4%	145.2%	129.1%
Full-time eqv.positions	1,043	1,092	1,063	1,126	1,183	1,043	1,040	1,063	1,063	1,092

* Cost-income ratio = Total operating expenses excl. equity settled employee share-based salaries / (Total operating income – net adjustments in valuation)

** Excluding equity settled employee share-based payments



Operations

	9M 2016	9M 2015	Change		2015	2014	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Net interest income	26,207	25,032	1,175	5%	32,324	28,073	8,596	10,145	7,466	7,292	8,834
Net valuation adjustments	4,419	12,334	-7,915	-64%	18,216	20,128	2,144	1,964	311	5,882	10,489
Net interest income after valuation adjustments	30,626	37,366	-6,740	-18%	50,540	48,201	10,740	12,109	7,777	13,174	19,323
Net fee commission income	5,909	5,139	770	15%	6,841	5,836	2,015	1,914	1,980	1,702	1,745
Net foreign exchange gain (loss)	33	-1,219	1,252	103%	-1,277	67	25	-154	162	-58	-748
Other net operating income	4,678	9,638	-4,960	-51%	16,259	9,045	259	2,821	1,598	6,621	1,837
Total operating income	41,246	50,924	-9,678	-19%	72,363	63,149	13,039	16,690	11,517	21,439	22,157
Salaries and related expenses	10,409	10,347	62	1%	13,754	13,567	3,096	3,559	3,754	3,407	3,466
Other operating expenses	5,743	5,838	-95	-2%	8,061	8,545	1,760	1,940	2,043	2,223	1,757
Depreciation and amortisation	459	496	-37	-7%	663	942	165	148	146	167	167
Contribution to Depositors' and Investors' Guarantee Fund	971	970	1	0%	1,254	1,034	305	356	310	284	203
Total operating expenses	17,582	17,651	-69	0%	23,732	24,088	5,326	6,003	6,253	6,081	5,593
Share in profit of associates	446	257	189	74%	248	465	71	371	4	-9	145
Profit before tax	24,110	33,530	-9,420	-28%	48,879	39,526	7,784	11,058	5,268	15,349	16,709
Income tax expense and tax on liabilities of financial institutions	7,710	9,117	-1,407	-15%	12,419	9,789	2,682	3,075	1,953	3,302	4,701
Profit for the period	16,400	24,413	-8,013	-33%	36,460	29,737	5,102	7,983	3,315	12,047	12,008



Balance Sheet

	30.09.16	31.12.15	Change		31.12.14	31.12.13	31.12.12
Cash and balances with CB	52,822	25,164	27,658	110%	10,160	21,520	25,898
Bonds and debt instruments	168,029	203,684	-35,655	-18%	243,589	290,595	228,208
Equities and equity instruments	30,896	29,192	1,704	6%	29,433	36,275	36,881
Loans and advances to fin institutions	16,835	20,791	-3,956	-19%	49,789	67,916	64,349
Loans and advances to customers	837,494	811,549	25,945	3%	718,355	680,468	666,087
Other assets	19,653	16,323	3,330	20%	28,832	29,719	38,044
Assets classified as held for sale	8,073	11,955	-3,882	-32%	18,212	25,023	25,320
Total	1,133,802	1,118,658	15,144	1%	1,098,370	1,151,516	1,084,787
Due to financial institutions and CB	41,307	56,731	-15,424	-27%	53,827	167,218	98,718
Deposits from customers	583,715	559,051	24,664	4%	551,435	456,662	421,058
Borrowings	220,800	209,344	11,456	5%	207,028	239,642	309,265
Subordinated bonds	407	639	-232	-36%	0	0	0
Other liabilities	34,913	26,844	8,069	30%	32,443	42,750	29,687
Liabilities associated with assets classified as held for sale	1,514	1,518	-4	0%	2,834	3,885	893
Equity	251,146	264,531	-13,385	-5%	250,803	241,359	225,166
Total	1,133,802	1,118,658	15,144	1%	1,098,370	1,151,516	1,084,787



Segments

9M 2016	Personal Banking	Corporate Banking	Markets	Treasury	Support functions	Reconciliation	Total
Net interest income (expense)	10,257	11,189	267	4,831	7	-344	26,207
Net valuation adjustments	2,855	1,582	0	-18	0	0	4,419
Net fee and commission income (expense)	2,629	633	3,100	-242	74	-285	5,909
Other net operating income (expense)	908	83	-243	2,130	1,494	339	4,711
Total operating income (expense)	16,649	13,487	3,124	6,701	1,575	-290	41,246
Operating expenses	-4,780	-1,143	-1,613	-1,198	-9,151	303	-17,582
Share in profit of equity-accounted associates, net of income tax	498	0	0	-52	0	0	446
Profit (loss) before cost allocation and tax	12,367	12,344	1,511	5,451	-7,576	13	24,110
Cost allocated from support functions to business segments	-3,732	-2,722	-1,000	-933	8,387	0	0
Profit (loss) before tax	8,635	9,622	511	4,518	811	13	24,110
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Total assets	384,278	475,088	38,469	458,931	16,088	-239,052	1,133,802
Total liabilities	339,191	375,152	33,032	358,245	16,088	-239,052	882,656
Allocated capital	45,087	99,936	5,437	100,686	0	0	251,146

