



Q1 2016 Results

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Highlights

Operations

- The Bank's after-tax profit in Q1 2016 amounted to ISK 3.3 bn, as compared with ISK 6.4 bn for Q1 of 2015
- Net interest income amounted to ISK 7.5 bn, an increase of 2,7% compared to the same period in 2015
- Net adjustments in valuation amounted to ISK 311 m, as compared with ISK 1.6 bn in 2015.
- Net commission income increased by 21% as compared with Q1 2015 due to changes in the payment card market and increased activities of Capital Markets
- Other operating income is significantly lower mostly due to lower gains on equities than for Q1 2015
- Interest spread as a ratio of assets and liabilities was 1.9% at the end of Q1 2016, as compared with 2.0 % at the end of Q1 2015
- After-tax return on equity (ROE) was 5.0 % as compared with 10.6% for the same period in 2015
- If salaries and related expenses are excluded, operating expenses decreased by 3.1% as compared with Q1 2015
- The cost-income ratio increased between periods, was 55.8% for Q1 2016 as compared to 48% for Q1 in 2015.

Balance sheet

- Landsbankinn's total assets amounted to ISK 1,106.7 bn as of the end of March 2016
- The Bank's liquidity position is very strong, both in foreign currency and Icelandic króna
- Loans over 90 days in arrears continued to decrease and were 1.7% at the end of March 2016
- The Bank's equity currently amounts to ISK 267.8 bn and has increased by 1% since the beginning of the year
- The Bank's capital adequacy ratio (CAR) is now 31.2%, up from 30.4% at year-end 2015



Main results

| | Q1 2016 | Q1 2015 | 2015 | 2014 |
|--|-----------------|-----------------|-----------------|-----------------|
| Profit after taxes | 3,315 | 6,412 | 36,460 | 29,737 |
| Return on equity after taxes | 5.0% | 10.6% | 14.8% | 12.5% |
| Adjusted return on equity after taxes* | 5.7% | 10.0% | 10.6% | 7.5% |
| Interest spread as a ratio of assets and liabilities | 1.9% | 2.0% | 2.2% | 1.9% |
| Cost-income ratio ** | 55.8% | 48.0% | 43.8% | 56.0% |
| | 31.03.16 | 31.03.15 | 31.12.15 | 31.12.14 |
| Total assets | 1,106,700 | 1,172,380 | 1,118,658 | 1,098,370 |
| Loans to customers | 814,669 | 735,479 | 811,549 | 718,355 |
| Deposits from customers | 545,208 | 624,063 | 559,051 | 551,435 |
| Equity | 267,846 | 233,860 | 264,531 | 250,803 |
| Total capital ratio (CAR) | 31.2% | 26.7% | 30.4% | 29.5% |
| Liquidity ratio NSFR FX | 133% | 142% | 136% | 134% |
| Liquidity ratio LCR total | 134% | 118% | 113% | 131% |
| Liquidity ratio LCR FX | 496% | 379% | 360% | 614% |
| Net FX position | 17,071 | 19,905 | 23,795 | 20,320 |
| Arrears (>90 days) | 1.7% | 2.3% | 1.8% | 2.3% |
| Full-time eqv. positions | 1,063 | 1,102 | 1,063 | 1,126 |

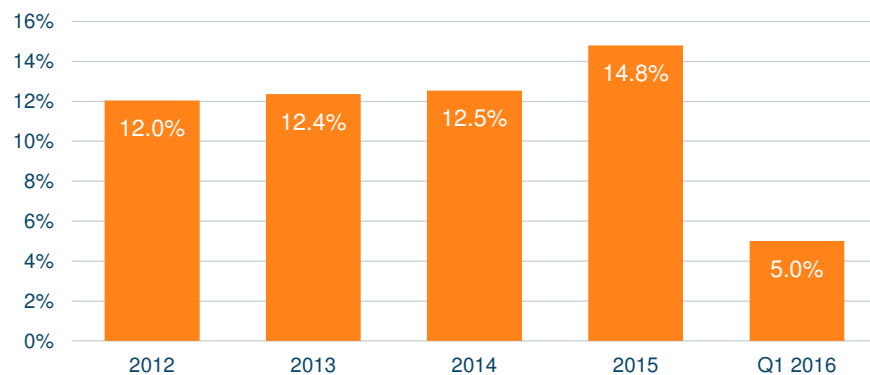
* **Adjusted ROE after taxes** = (Profit after taxes – positive value adjustments after taxes – tax on total liabilities of financial institutions – profit from discontinued operations after taxes) / average equity position

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

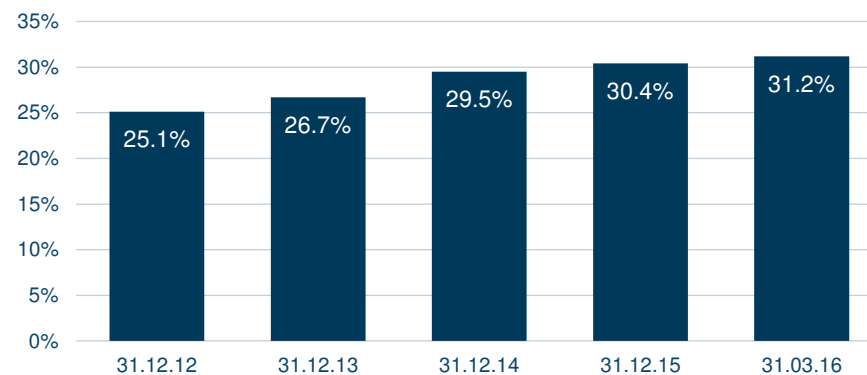


Development of KPIs

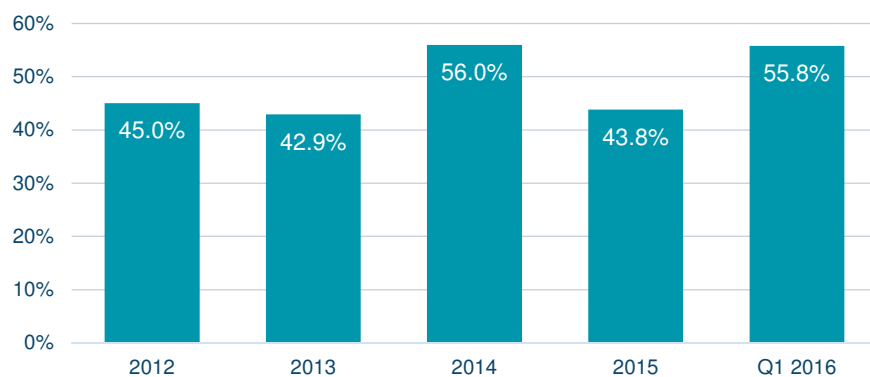
Return on equity



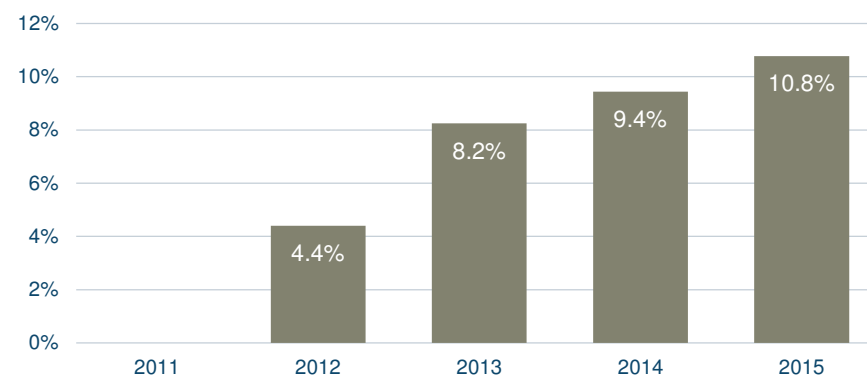
Total capital ratio



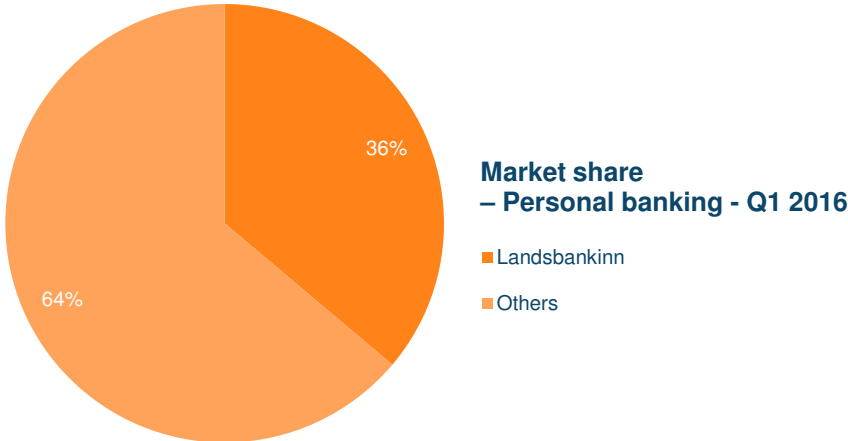
Cost-income ratio excluding valuation adjustments



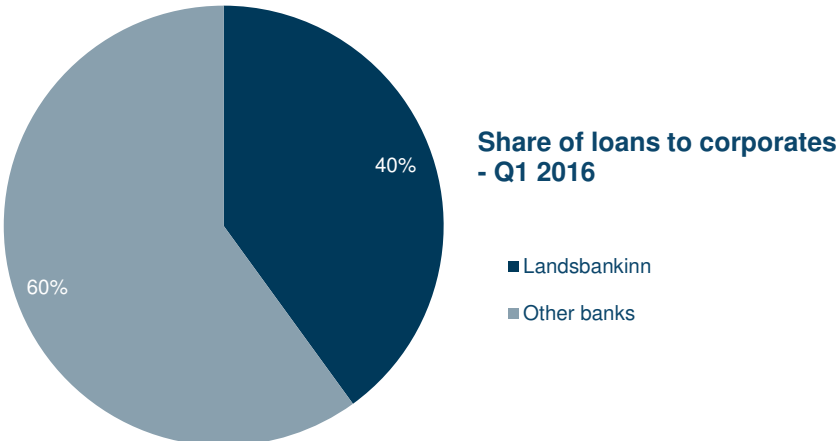
Divident yield



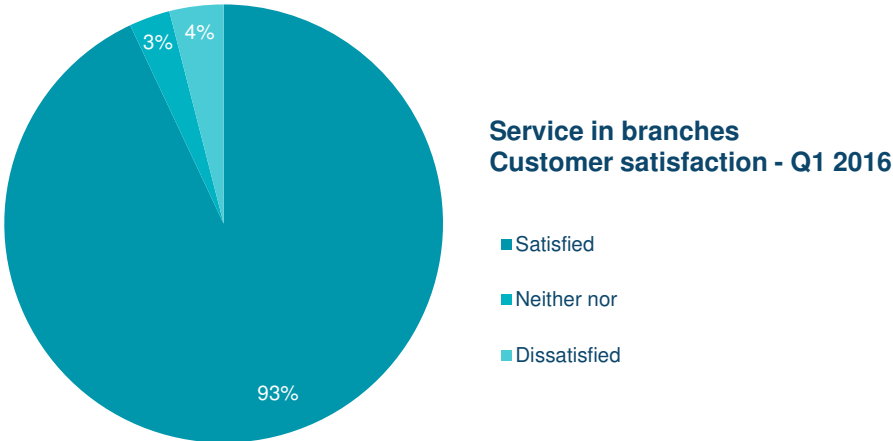
Performance measurements



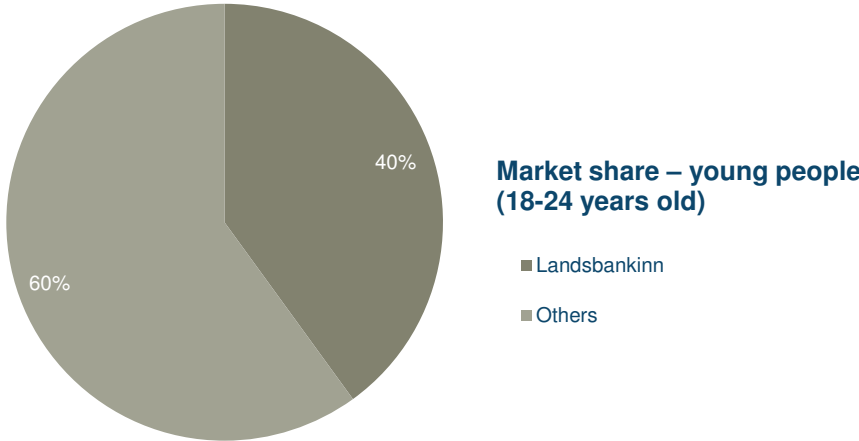
Source: Gallup Iceland



Source: condensed consolidated income statement



Source: Gallup Iceland



Source: Gallup Iceland



Strategy

Vision:

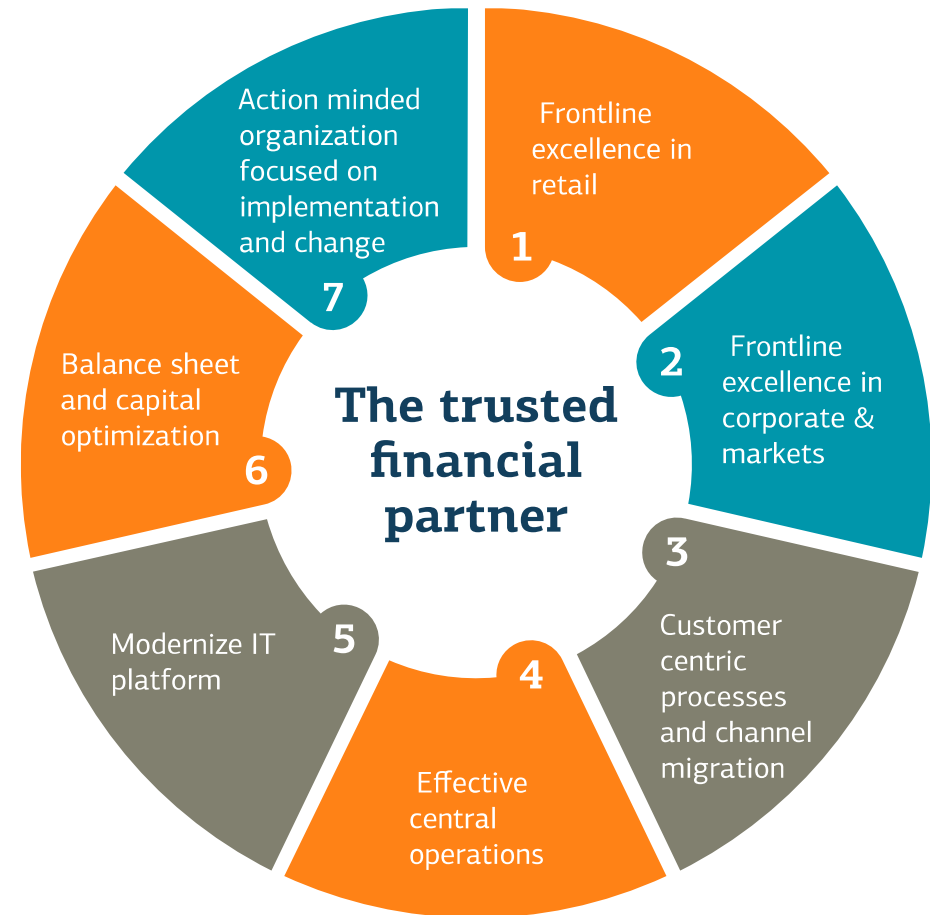
Landsbankinn is to be exemplary

Mission:

The trusted financial partner

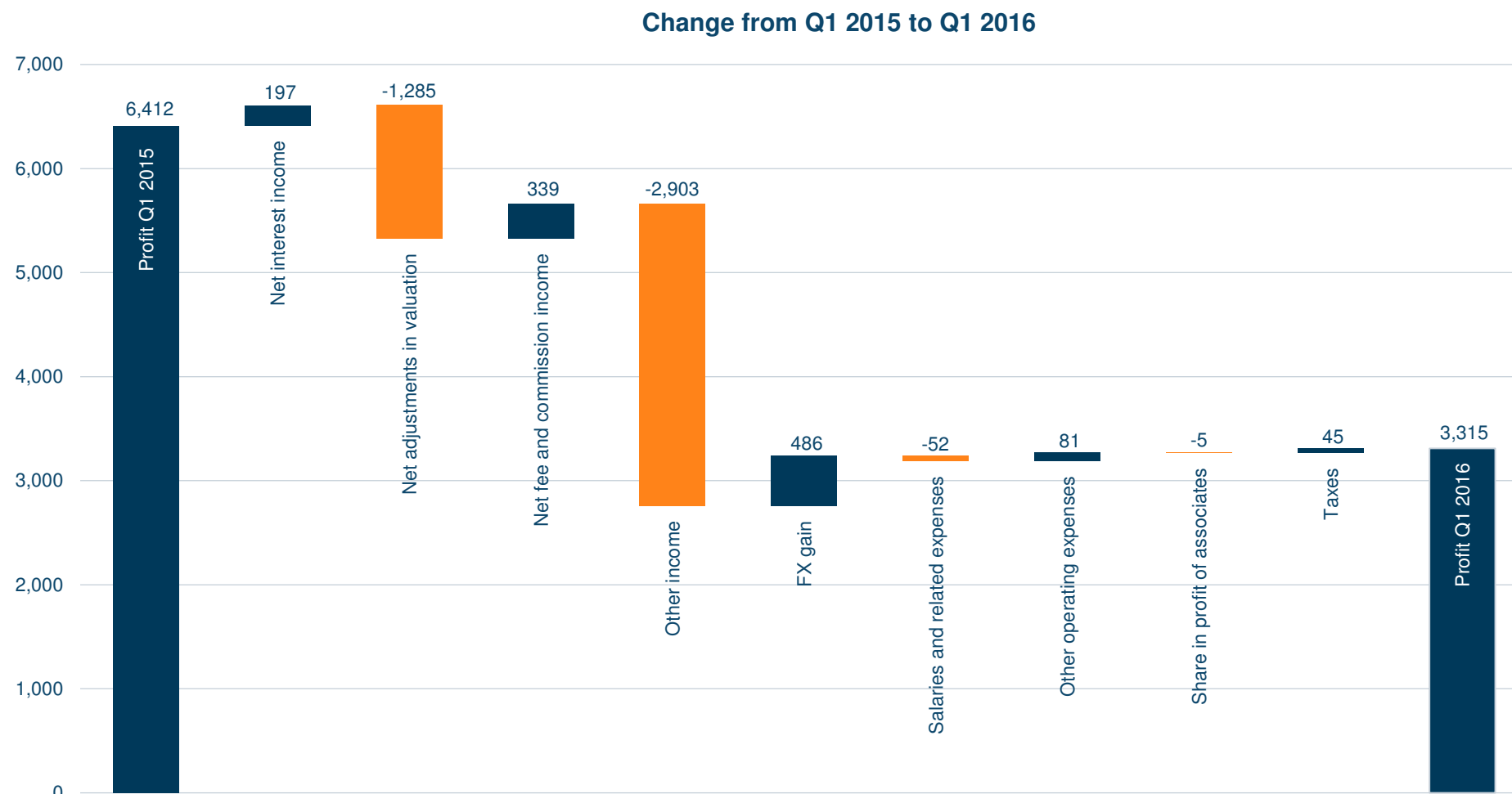
Our relationship with customers is based on mutual benefit. We are a trusted financial partner that supports customers towards success. We aim to tailor our services to fit their needs and to operate in harmony with our environment and society. We want our customers to be able to say...

“This is how a bank should be”



Q1 2016 Results

Income Statement



Income Statement

| | Q1 2016 | Q1 2015 | Change | |
|---|---------------|---------------|---------------|-------------|
| Net interest income | 7,466 | 7,269 | 197 | 3% |
| Net adjustments in valuation | 311 | 1,596 | -1,285 | -81% |
| Net interest income after adjustments in valuation | 7,777 | 8,865 | -1,088 | -12% |
| Net fee and commission income | 1,980 | 1,641 | 339 | 21% |
| Other net operating income | 1,760 | 4,177 | -2,417 | -58% |
| Total operating income | 11,517 | 14,683 | -3,166 | -22% |
| Salaries and related expenses | 3,754 | 3,702 | 52 | 1% |
| Other operating expenses | 2,499 | 2,580 | -81 | -3% |
| Total operating expenses | 6,253 | 6,282 | -29 | 0% |
| Share in profit of associates | 4 | 9 | -5 | -56% |
| Profit before tax | 5,268 | 8,410 | -3,142 | -37% |
| Income tax expense | 1,953 | 1,998 | -45 | -2% |
| Profit for the period | 3,315 | 6,412 | -3,097 | -48% |

- Net adjustments in valuation amounted to ISK 311 m, as compared with ISK 1.6 bn in 2015.
- Net commission income increased by 21% 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 26.9%

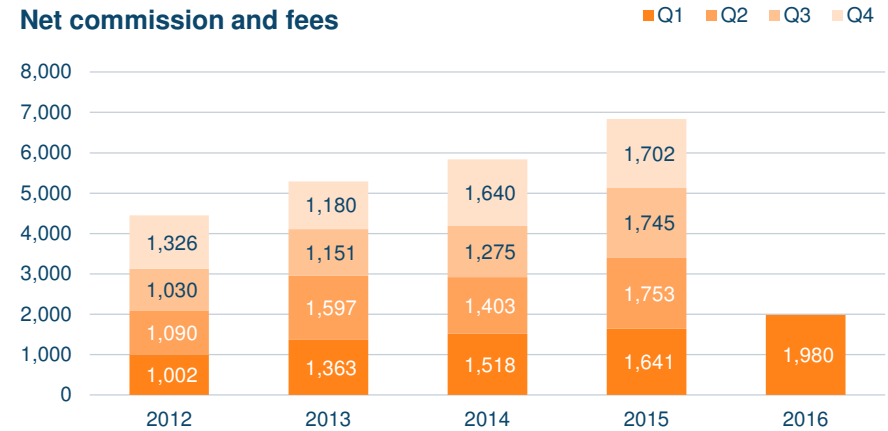
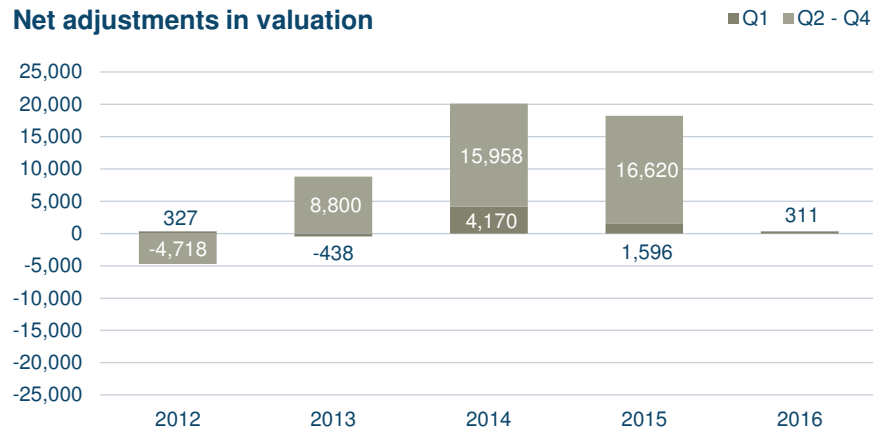
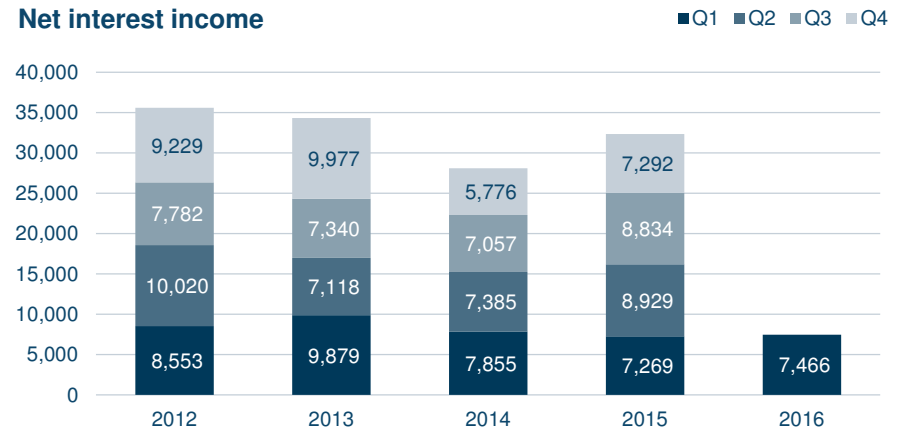
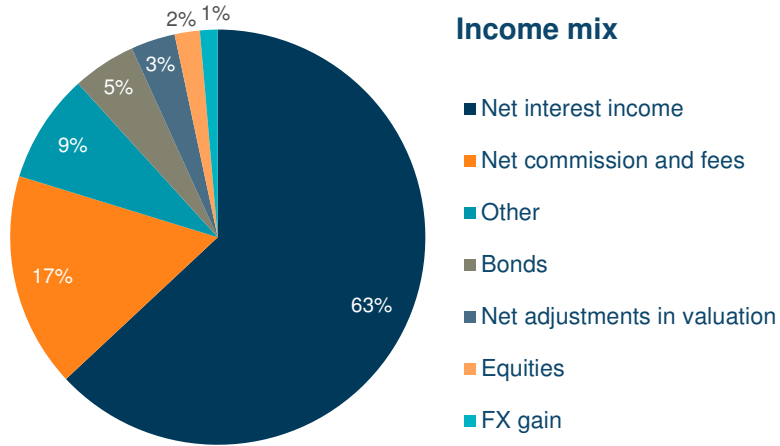


Net interest income and valuation adjustments

| | Q1 2016 | Q1 2015 | Change | |
|---|--------------|--------------|---------------|-------------|
| Interest income | 14,772 | 12,738 | 2,034 | 16% |
| Interest expense | -7,306 | -5,469 | -1,837 | 34% |
| Net interest income | 7,466 | 7,269 | 197 | 3% |
| Net impairment loss on loans and guarantees | 311 | 3,611 | -3,300 | -91% |
| Net impairment from foreign currency linkage of loans and advances to customers | 0 | -2,015 | 2,015 | |
| Net valuation adjustments | 311 | 1,596 | -1,285 | -81% |
| Net interest income after net valuation adjustments | 7,777 | 8,865 | -1,088 | -12% |

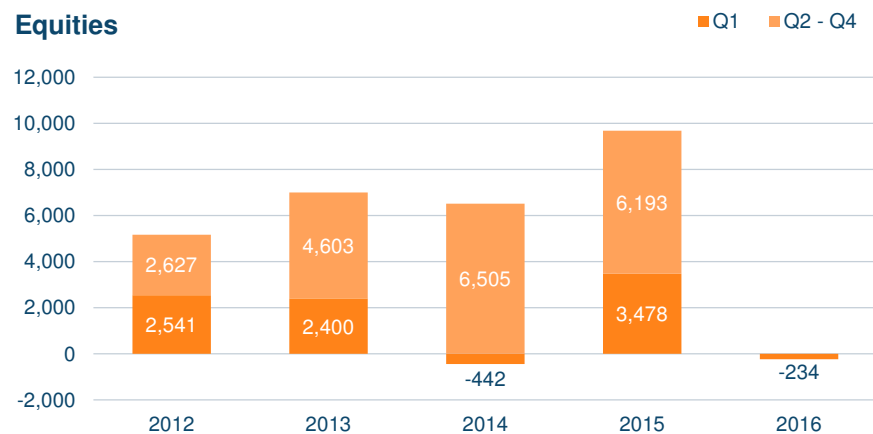


Net operating income

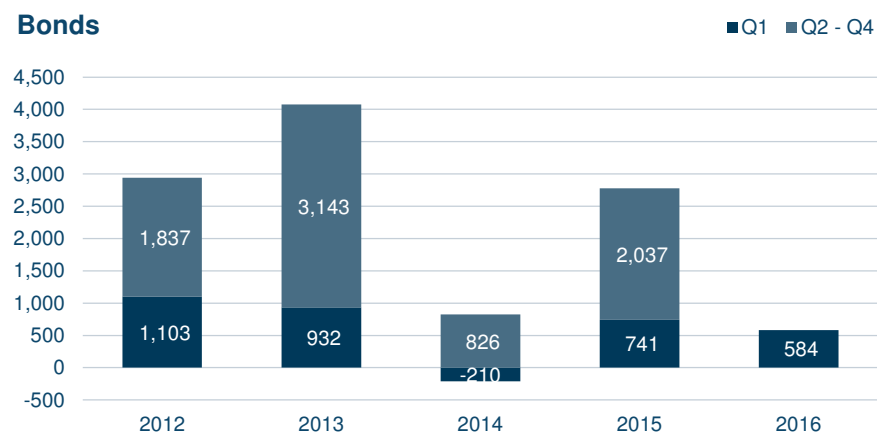


Net operating income

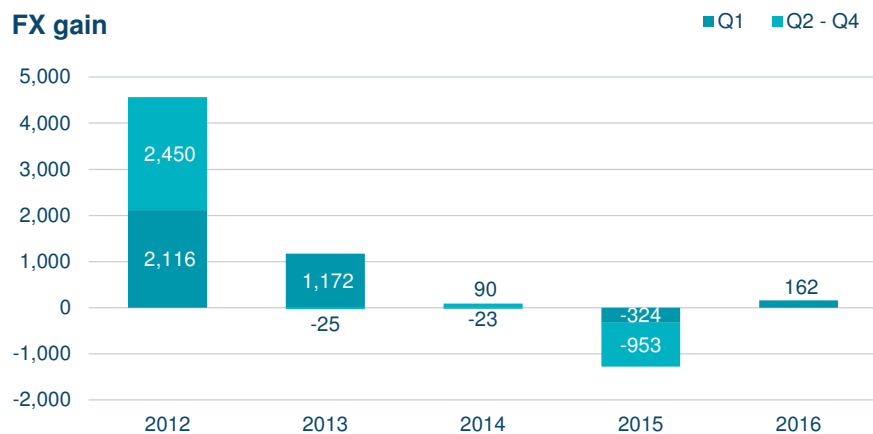
Equities



Bonds

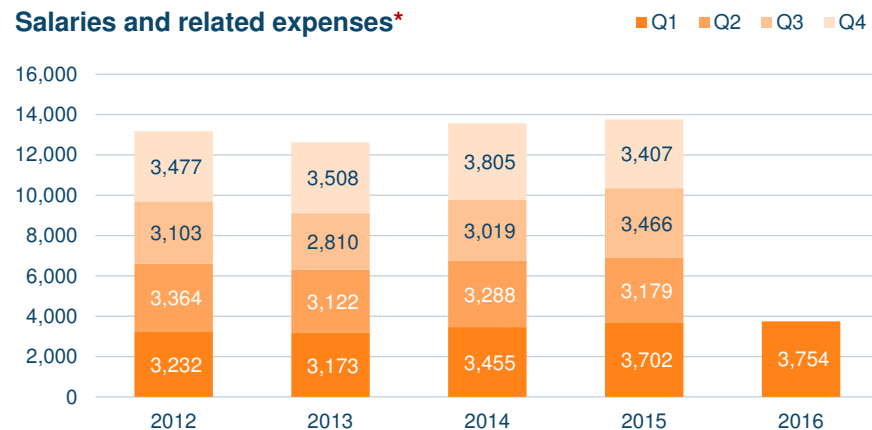


FX gain



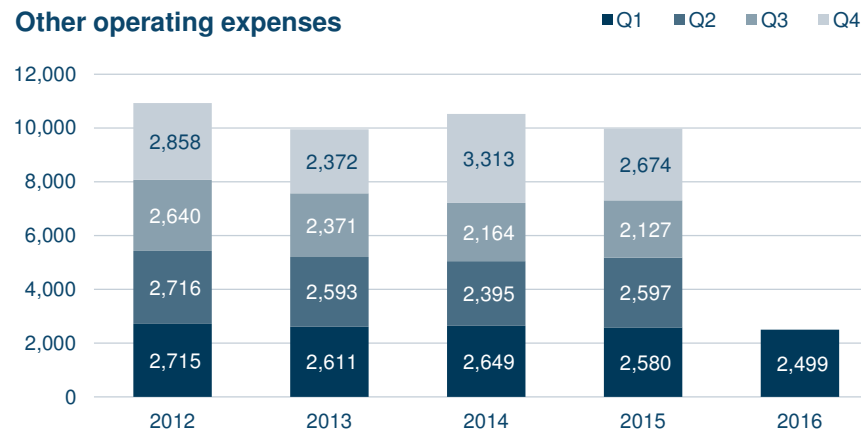
Operating expenses

Salaries and related expenses*

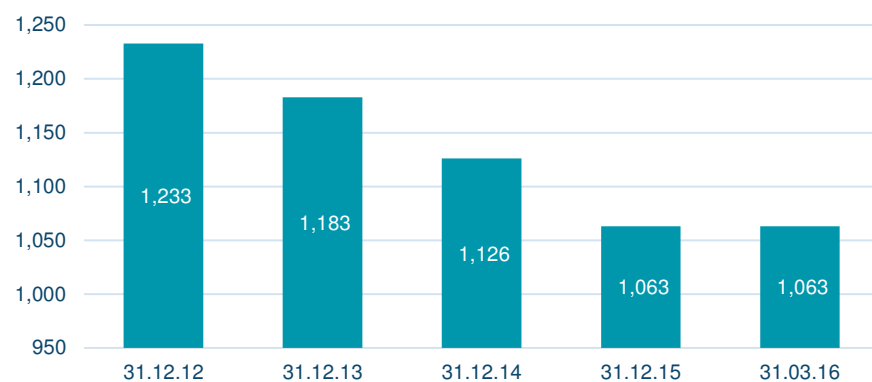


*2013, less expensed equity-based wages

Other operating expenses



Full time employees



Taxes

| | Q1 2016 | Q2 2015 | Change | |
|---|--------------|--------------|------------|------------|
| Income tax | 1,030 | 930 | 100 | 11% |
| Special financial activities tax on profits ¹ | 185 | 248 | -63 | -25% |
| | 1,215 | 1,178 | 37 | 3% |
| Tax on liabilities of financial institutions ² | 738 | 820 | -82 | -10% |
| Special financial activities tax on salaries ³ | 172 | 155 | 17 | 11% |
| Total | 2,125 | 2,153 | -28 | -1% |

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

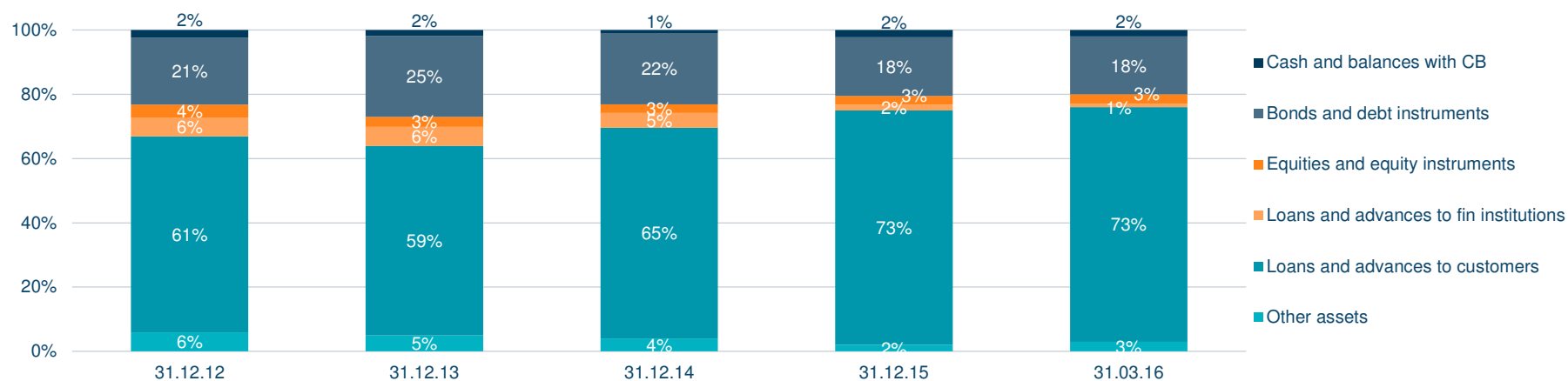
³ A 5.5% tax on salaries which is expensed in the line item "Salaries and related expenses" in the condensed consolidated income statement



Balance sheet - assets

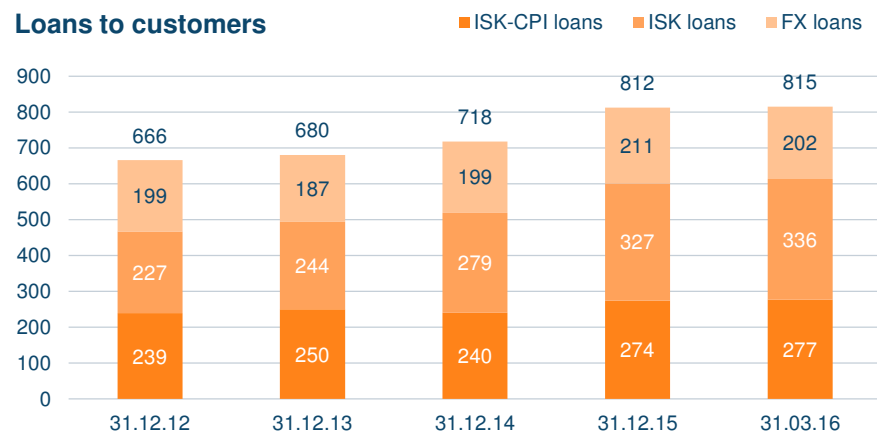
| | 31.03.16 | 31.12.15 | Change | |
|--|------------------|------------------|----------------|------------|
| Cash and balances with CB | 23,228 | 25,164 | -1,936 | -8% |
| Bonds and debt instruments | 195,175 | 203,684 | -8,509 | -4% |
| Equities and equity instruments | 29,381 | 29,192 | 189 | 1% |
| Loans and advances to fin institutions | 15,221 | 20,791 | -5,570 | -27% |
| Loans and advances to customers | 814,669 | 811,549 | 3,120 | 0% |
| Other assets | 21,255 | 16,323 | 4,932 | 30% |
| Assets classified as held for sale | 7,771 | 11,955 | -4,184 | -35% |
| Total | 1,106,700 | 1,118,658 | -11,958 | -1% |

Assets

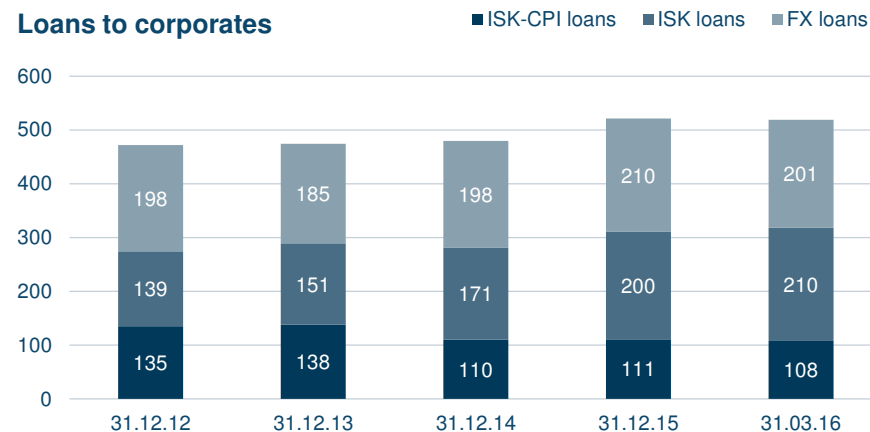


Balance sheet - loans

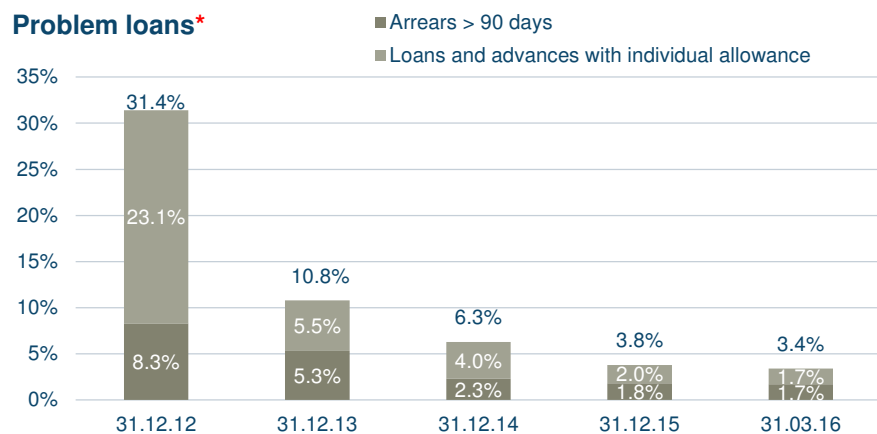
Loans to customers



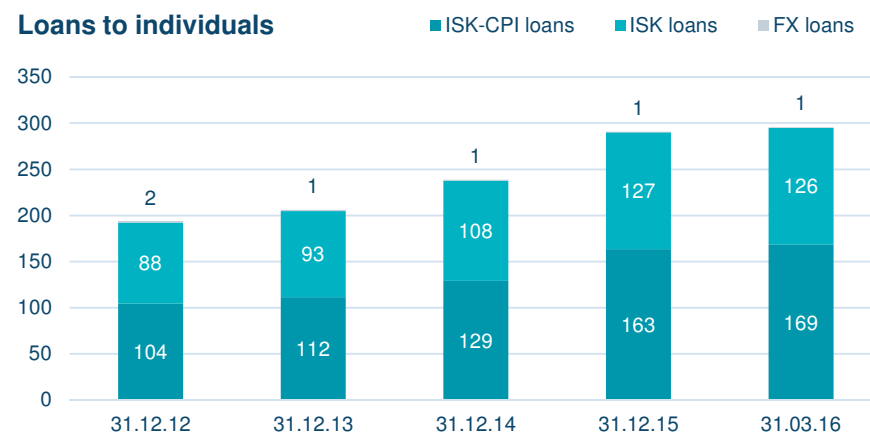
Loans to corporates



Problem loans*



Loans to individuals

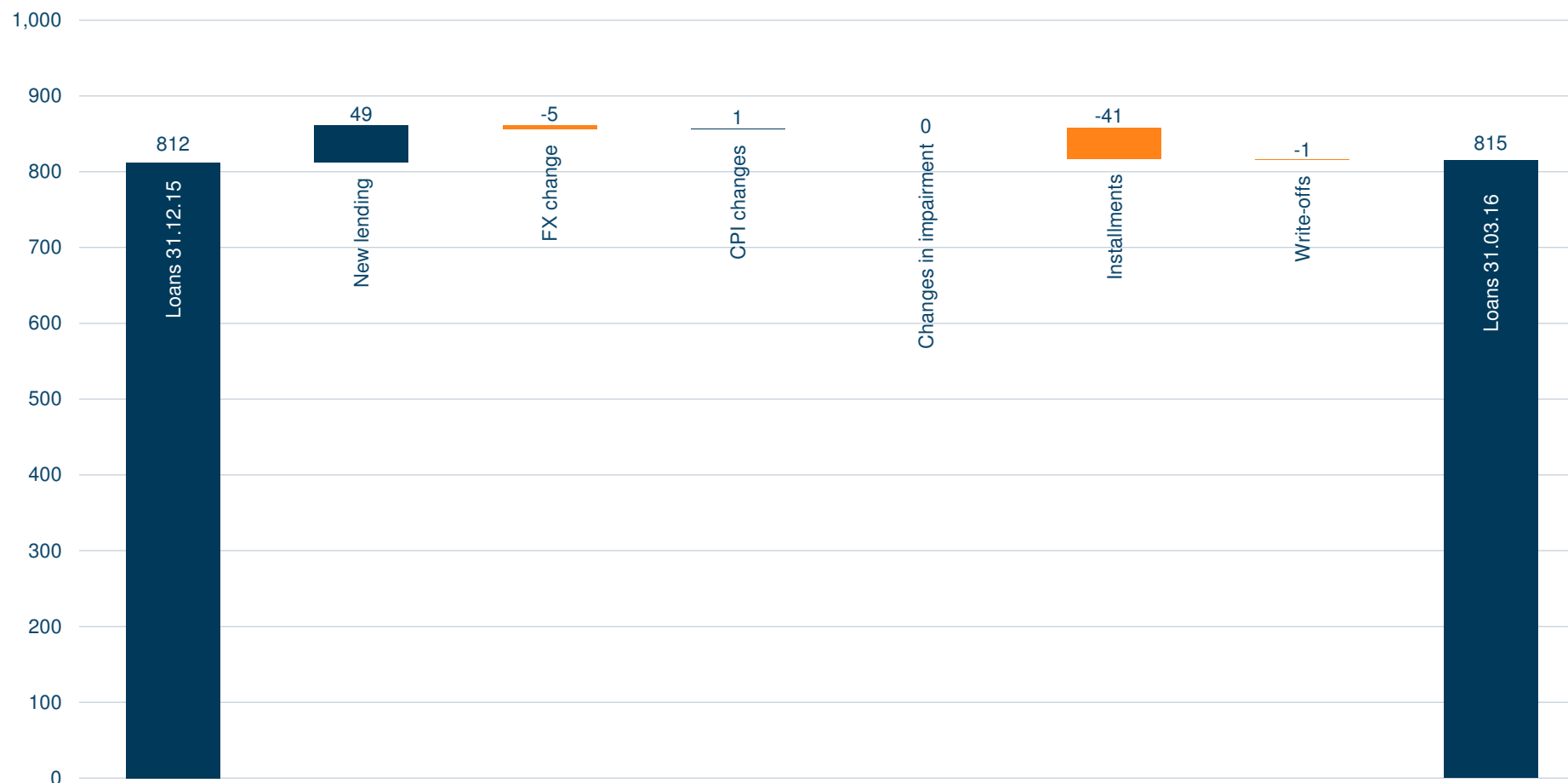


*Problem loans are defined as loans and advances with individual allowance and / or more than 90 days in arrears



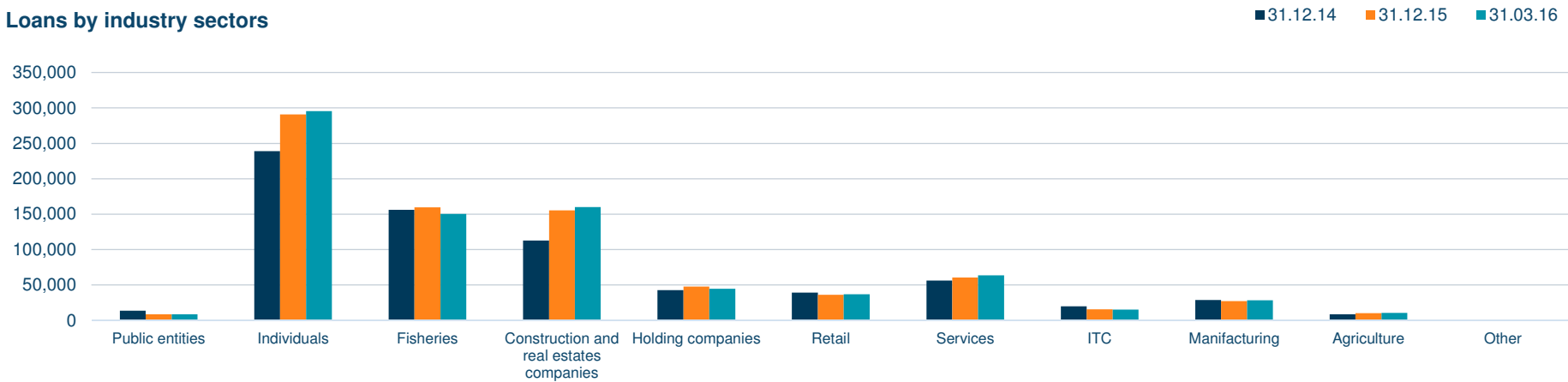
Balance sheet - loans

Loans change Q1 2016

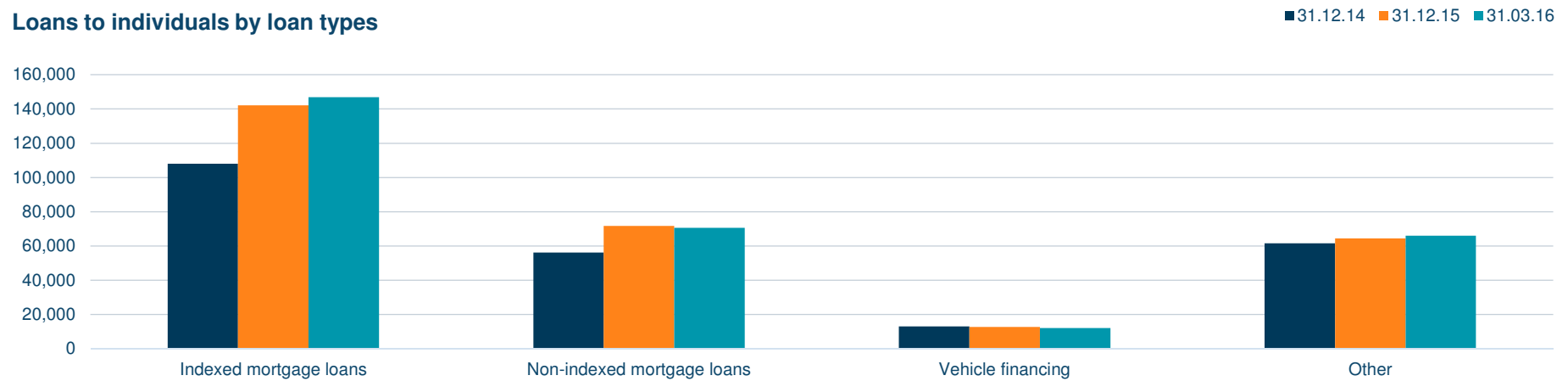


Balance sheet - loans

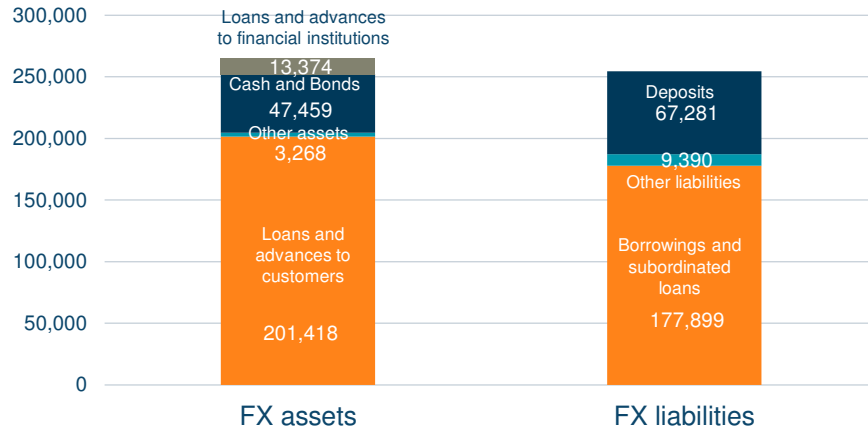
Loans by industry sectors



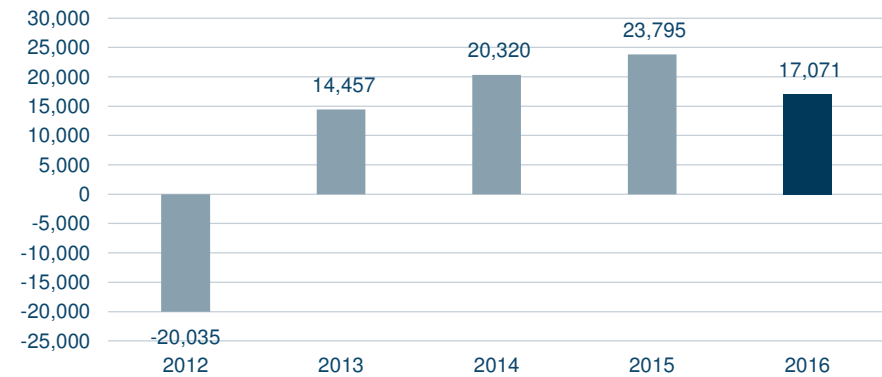
Loans to individuals by loan types



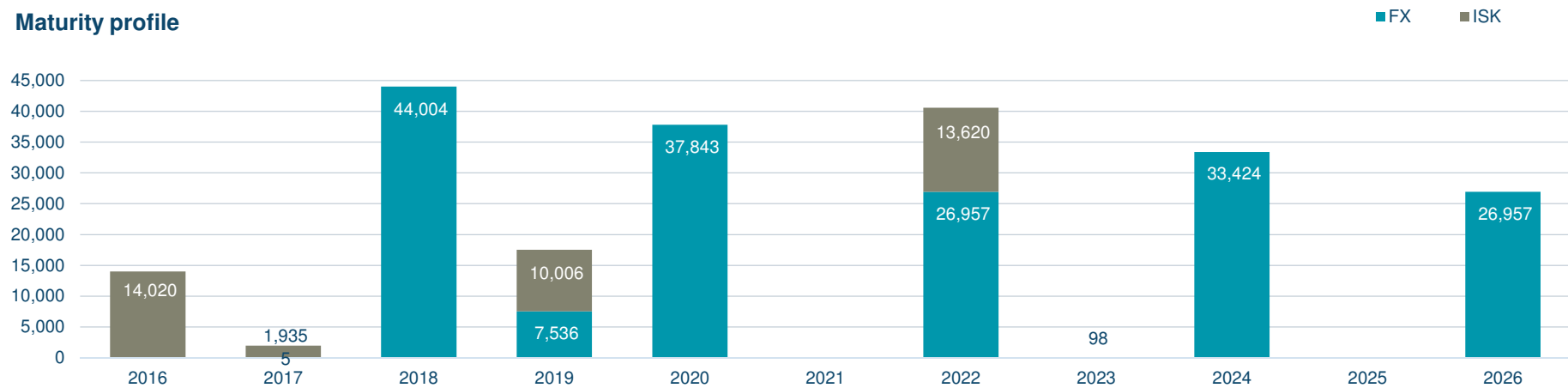
FX assets and liabilities



Net FX balance



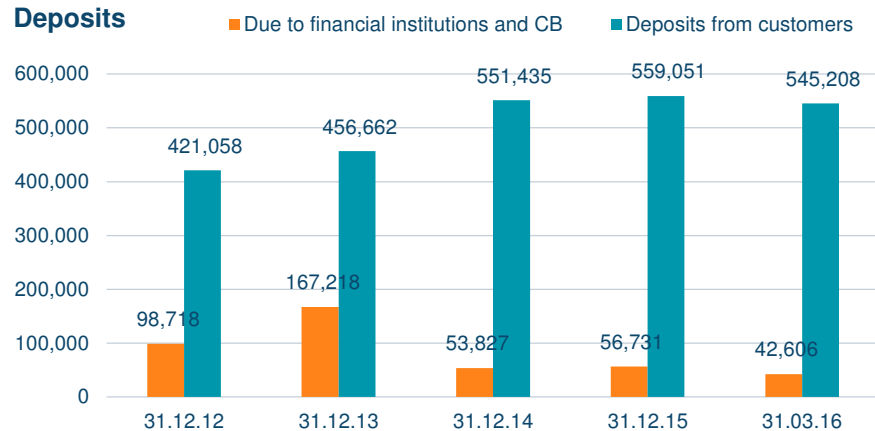
Maturity profile



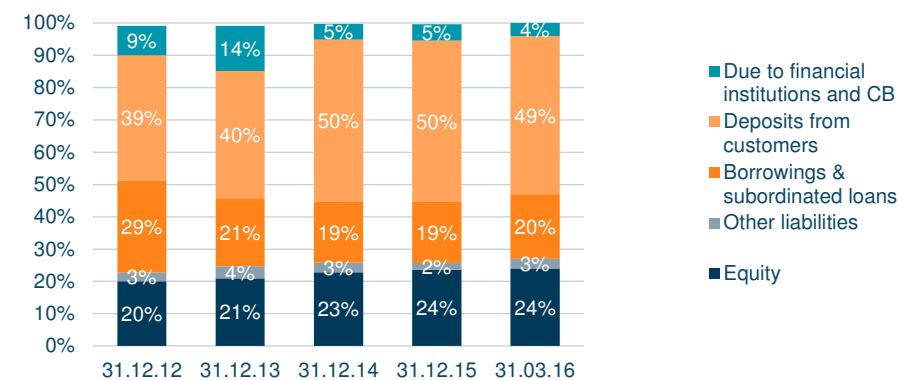
Balance sheet – liabilities and equity

| | 31.03.16 | 31.12.15 | Change | |
|--------------------------------------|------------------|------------------|----------------|------------|
| Due to financial institutions and CB | 42,606 | 56,731 | -14,125 | -25% |
| Deposits from customers | 545,208 | 559,051 | -13,843 | -2% |
| Borrowings | 217,658 | 209,344 | 8,314 | 4% |
| Subordinated loans | 632 | 639 | -7 | -1% |
| Other liabilities | 32,750 | 28,362 | 4,388 | 15% |
| Equity | 267,846 | 264,531 | 3,315 | 1% |
| Total | 1,106,700 | 1,118,658 | -11,958 | -1% |

Deposits



Liabilities and equity

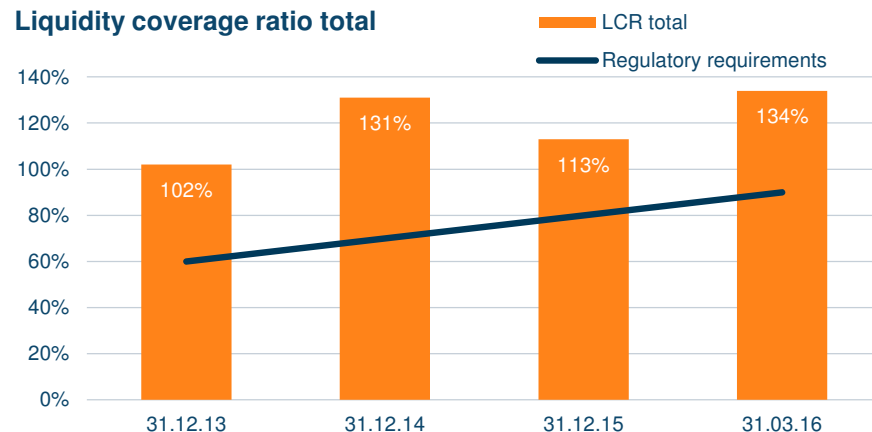


Liquidity

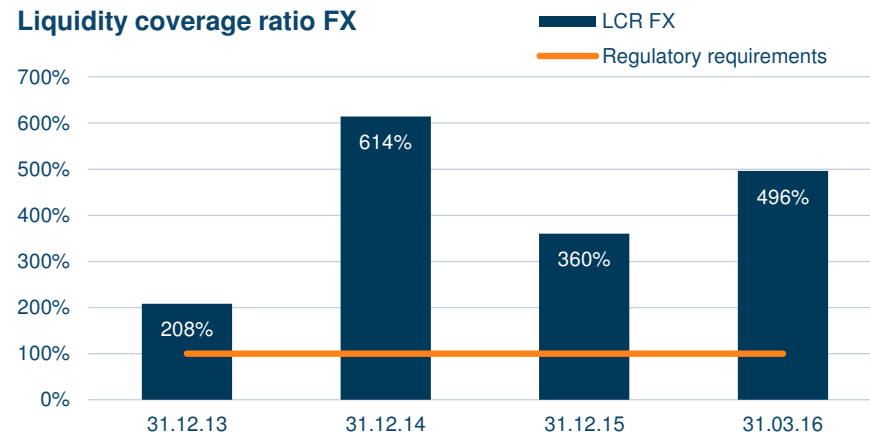
| 31.03.16 | Total* | | FX* | |
|--|----------------|----------------|---------------|---------------|
| | Unweighted | Weighted | Unweighted | Weighted |
| Level 1 liquid assets | 181,241 | 181,241 | 32,641 | 32,641 |
| Level 2 liquid assets and information items | 23,630 | 3,115 | 6,259 | 3,115 |
| A. Total liquid assets | 204,871 | 184,356 | 38,900 | 35,756 |
| Deposits | 377,103 | 128,250 | 46,827 | 18,547 |
| Borrowing | 1,520 | 1,520 | 972 | 972 |
| Other outflows | 177,739 | 36,220 | 35,108 | 3,518 |
| B. Total outflows (0-30 days) | 556,362 | 165,990 | 82,907 | 23,037 |
| Loans and advances to financial institutions | 13,143 | 12,000 | 13,143 | 12,000 |
| Other inflows | 43,466 | 16,390 | 7,204 | 3,822 |
| Limit on inflows | 0 | 0 | 0 | 0 |
| B. Total inflows (0-30 days) | 56,609 | 28,390 | 20,347 | 15,822 |
| Liquidity coverage A/(B-C) | | 134% | | 496% |

*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



Q1 2016 Results

Annex – further information

Key financial ratios

| | Q1 2016 | Q1 2015 | 2015 | 2014 | 2013 | Q4 2015 | Q3 2015 | Q2 2015 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Profit after taxes | 3,315 | 6,412 | 36,460 | 29,737 | 28,759 | 12,047 | 12,008 | 5,993 |
| Return on equity before taxes | 7.9% | 13.9% | 19.9% | 16.7% | 17.6% | 23.8% | 27.2% | 14.2% |
| Return on equity after taxes | 5.0% | 10.6% | 14.8% | 12.5% | 12.4% | 18.6% | 19.5% | 10.1% |
| After tax return on average assets | 1.2% | 2.3% | 3.2% | 2.6% | 2.6% | 4.2% | 4.1% | 2.0% |
| Total capital ratio (CAR) | 31.2% | 26.7% | 30.4% | 29.5% | 26.7% | 30.4% | 29.2% | 28.0% |
| Net interest income | 7,466 | 7,269 | 32,324 | 28,073 | 34,314 | 7,292 | 8,834 | 8,929 |
| Interest spread as a ratio of assets and liabilities | 1.9% | 2.0% | 2.2% | 1.9% | 2.4% | 1.9% | 2.4% | 2.4% |
| Cost-income ratio* | 55.8% | 48.0% | 43.8% | 56.0% | 42.9% | 39.1% | 47.9% | 41.7% |
| Net stable funding ratio NSFR FX | 133% | 142% | 136% | 134% | | 136% | 120% | 139% |
| Liquidity ratio LCR total | 134% | 118% | 113% | 131% | 102% | 113% | 109% | 119% |
| Liquidity LCR FX | 496% | 379% | 360% | 614% | 208% | 360% | 190% | 377% |
| Operating expenses as a ratio of average total assets** | 2.2% | 2.2% | 2.1% | 2.1% | 2.0% | 2.1% | 1.9% | 2.0% |
| Total assets | 1,106,700 | 1,172,380 | 1,118,658 | 1,098,370 | 1,151,516 | 1,118,658 | 1,175,804 | 1,172,669 |
| Loans / deposits ratio | 149.4% | 117.9% | 145.2% | 130.3% | 149.0% | 145.2% | 129.1% | 122.6% |
| Full-time eqv.positions | 1,063 | 1,102 | 1,063 | 1,126 | 1,183 | 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

| | Q1 2016 | Q1 2015 | Change | | 2015 | 2014 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | Q4 2014 |
|---|---------------|---------------|---------------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net interest income | 7,466 | 7,269 | 197 | 3% | 32,324 | 28,073 | 7,292 | 8,834 | 8,929 | 7,269 | 5,776 |
| Net valuation adjustments | 311 | 1,596 | -1,285 | -81% | 18,216 | 20,128 | 5,882 | 10,489 | 249 | 1,596 | 6,101 |
| Net interest income after valuation adjustments | 7,777 | 8,865 | -1,088 | -12% | 50,540 | 48,201 | 13,174 | 19,323 | 9,178 | 8,865 | 11,877 |
| Net fee commission income | 1,980 | 1,641 | 339 | 21% | 6,841 | 5,836 | 1,702 | 1,745 | 1,753 | 1,641 | 1,640 |
| Net foreign exchange gain (loss) | 162 | -324 | 486 | -150% | -1,277 | 67 | -58 | -748 | -147 | -324 | 107 |
| Other net operating income | 1,598 | 4,501 | -2,903 | -64% | 16,259 | 9,045 | 6,621 | 1,837 | 3,300 | 4,501 | 4,807 |
| Total operating income | 11,517 | 14,683 | -3,166 | -22% | 72,363 | 63,149 | 21,439 | 22,157 | 14,084 | 14,683 | 18,431 |
| Salaries and related expenses | 3,754 | 3,702 | 52 | 1% | 13,754 | 13,567 | 3,407 | 3,466 | 3,179 | 3,702 | 3,805 |
| Other operating expenses | 2,043 | 2,070 | -27 | -1% | 8,061 | 8,545 | 2,223 | 1,757 | 2,011 | 2,070 | 2,635 |
| Depreciation and amortisation | 146 | 164 | -18 | -11% | 663 | 942 | 167 | 167 | 165 | 164 | 419 |
| Contribution to Depositors' and Investors' Guarantee Fund | 310 | 346 | -36 | -10% | 1,254 | 1,034 | 284 | 203 | 421 | 346 | 259 |
| Total operating expenses | 6,253 | 6,282 | -29 | 0% | 23,732 | 24,088 | 6,081 | 5,593 | 5,776 | 6,282 | 7,118 |
| Share in profit of associates | 4 | 9 | -5 | -56% | 248 | 465 | -9 | 145 | 103 | 9 | 125 |
| Profit before tax | 5,268 | 8,410 | -3,142 | -37% | 48,879 | 39,526 | 15,349 | 16,709 | 8,411 | 8,410 | 11,438 |
| Income tax expense | 1,953 | 1,998 | -45 | -2% | 12,419 | 9,789 | 3,302 | 4,701 | 2,418 | 1,998 | 1,686 |
| Profit for the period | 3,315 | 6,412 | -3,097 | -48% | 36,460 | 29,737 | 12,047 | 12,008 | 5,993 | 6,412 | 9,752 |



Balance Sheet

| | 31.03.16 | 31.12.15 | Change | | 31.12.14 | 31.12.13 | 31.12.12 |
|--|------------------|------------------|----------------|------------|------------------|------------------|------------------|
| Cash and balances with CB | 23,228 | 25,164 | -1,936 | -8% | 10,160 | 21,520 | 25,898 |
| Bonds and debt instruments | 195,175 | 203,684 | -8,509 | -4% | 243,589 | 290,595 | 228,208 |
| Equities and equity instruments | 29,381 | 29,192 | 189 | 1% | 29,433 | 36,275 | 36,881 |
| Loans and advances to fin institutions | 15,221 | 20,791 | -5,570 | -27% | 49,789 | 67,916 | 64,349 |
| Loans and advances to customers | 814,669 | 811,549 | 3,120 | 0% | 718,355 | 680,468 | 666,087 |
| Other assets | 21,255 | 16,323 | 4,932 | 30% | 28,832 | 29,719 | 38,044 |
| Assets classified as held for sale | 7,771 | 11,955 | -4,184 | -35% | 18,212 | 25,023 | 25,320 |
| Total | 1,106,700 | 1,118,658 | -11,958 | -1% | 1,098,370 | 1,151,516 | 1,084,787 |
| Due to financial institutions and CB | 42,606 | 56,731 | -14,125 | -25% | 53,827 | 167,218 | 98,718 |
| Deposits from customers | 545,208 | 559,051 | -13,843 | -2% | 551,435 | 456,662 | 421,058 |
| Borrowings | 217,658 | 209,344 | 8,314 | 4% | 207,028 | 239,642 | 309,265 |
| Subordinated bonds | 632 | 639 | -7 | -1% | 0 | 0 | 0 |
| Other liabilities | 31,445 | 26,844 | 4,601 | 17% | 32,443 | 42,750 | 29,687 |
| Liabilities associated with assets classified as held for sale | 1,305 | 1,518 | -213 | -14% | 2,834 | 3,885 | 893 |
| Equity | 267,846 | 264,531 | 3,315 | 1% | 250,803 | 241,359 | 225,166 |
| Total | 1,106,700 | 1,118,658 | -11,958 | -1% | 1,098,370 | 1,151,516 | 1,084,787 |



Segments

| Q1 2016 | Personal Banking | Corporate Banking | Markets | Treasury | Support functions | Reconciliation | Total |
|---|------------------|-------------------|--------------|--------------|-------------------|----------------|---------------|
| Net interest income (expense) | 3,131 | 3,377 | 90 | 1,054 | 3 | -189 | 7,466 |
| Net valuation adjustments | 954 | -617 | 0 | -26 | 0 | 0 | 311 |
| Net fee and commission income | 873 | 253 | 998 | -71 | 12 | -85 | 1,980 |
| Other net operating income | -116 | -105 | 76 | 359 | 1,387 | 159 | 1,760 |
| Total operating income (expense) | 4,842 | 2,908 | 1,164 | 1,316 | 1,402 | -115 | 11,517 |
| Operating expenses | -1,576 | -377 | -541 | -374 | -3,478 | 93 | -6,253 |
| Share in profit of equity-accounted associates, net of income tax | 78 | 0 | 0 | -74 | 0 | 0 | 4 |
| Profit (loss) before cost allocation and tax | 3,344 | 2,531 | 623 | 868 | -2,076 | -22 | 5,268 |
| Cost allocated from support functions to business segments | -1,317 | -927 | -341 | -318 | 2,903 | 0 | 0 |
| Profit (loss) before tax | 2,027 | 1,604 | 282 | 550 | 827 | -22 | 5,268 |
| Total assets | 355,482 | 467,213 | 36,434 | 472,077 | 17,770 | -242,276 | 1,106,700 |
| Total liabilities | 317,681 | 372,010 | 30,645 | 343,024 | 17,770 | -242,276 | 838,854 |
| Allocated capital | 37,801 | 95,203 | 5,789 | 129,053 | 0 | 0 | 267,846 |

