

Results H1 2021

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CEO

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CFO



Solid results under a new strategy - Landsbankinn, an ever-smarter bank

- Sound operation and strong financial position.

Profit

- Growing market share, effective and efficient operation combined with a more positive economic outlook lead to good results.
- Profit in the first half of the year amounts to ISK 14.1 billion and ROE is 10.8%.

Operating income

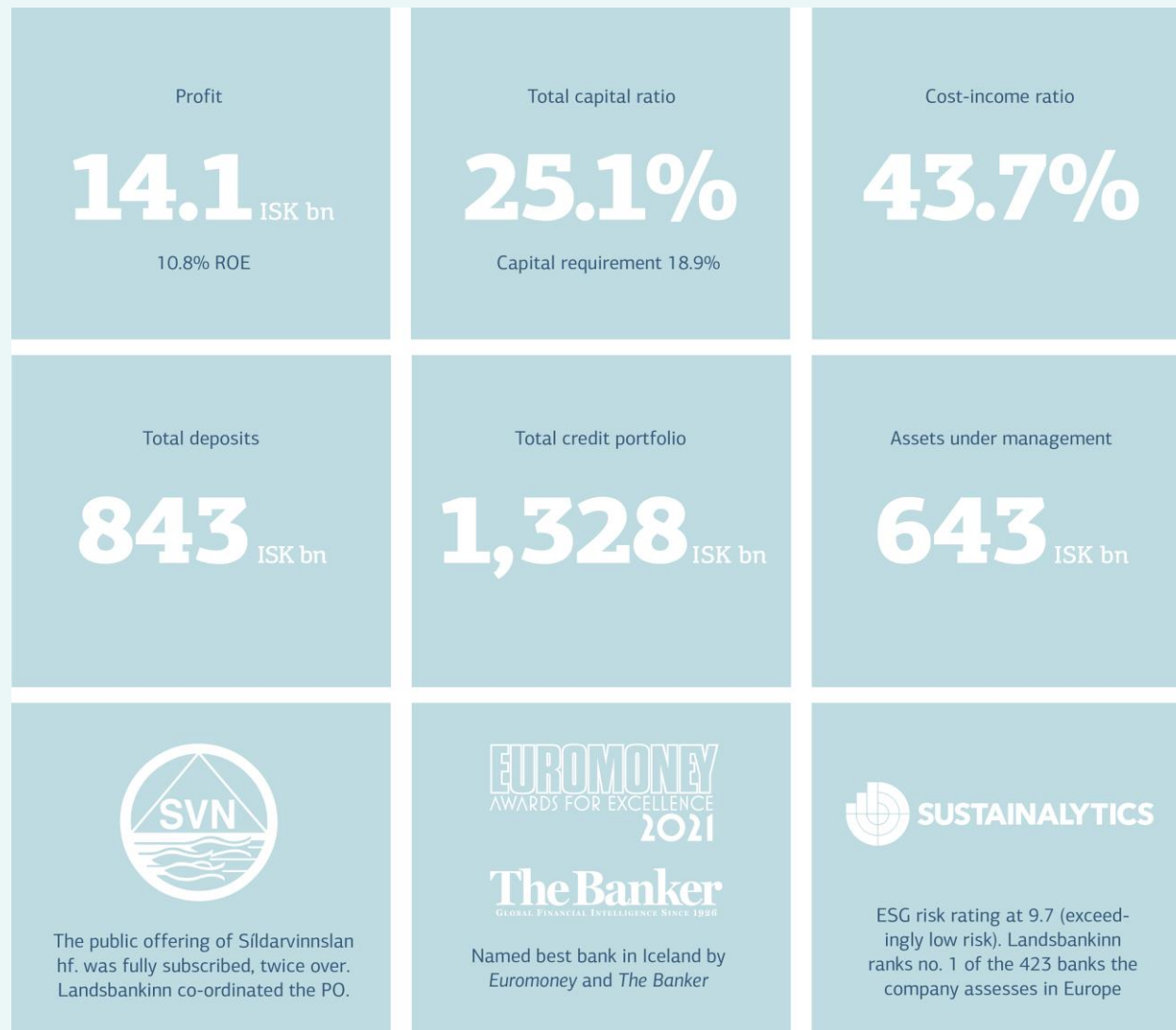
- Net fee and commission income grew by 21% year to date, driven by an increase in new customers and growing activity in asset management and corporate finance.
- The net interest margin as a ratio of total assets was 2.4% in the first half of 2021, compared with 2.5% in the same period the previous year.
- An ISK 2.8 billion reversal in loan impairment between years is the result of less pronounced economic contraction in 2020 than forecasted. The outlook is for a robust economic recovery in the second half of the year.

Growth in mortgage loans and deposits

- There is high activity in mortgage loans which have increased by around 14% since the beginning of the year and the Bank's market share is at a record high.
- Customer deposits increase by ISK 50 billion and account for around half of the Bank's total funding.

Strong equity position

- The Bank's equity as at the end of June was ISK 267.9 billion.
- Core capital is ISK 35 billion higher than the Bank's target and ISK 70 billion higher than the total capital requirement set by the Financial Supervisory Authority of the Central Bank of Iceland.



Individuals

Extensive use of electronic solutions and increased satisfaction

ÍSLENSKA
ÁNÆGJUVOGIN
2019

ÍSLENSKA
ÁNÆGJUVOGIN
2020

Market share in the
consumer market*

39%

*Source: Landsbankinn

Increase in mortgages
first half of the year*

14%

*Source: Landsbankinn

Customers prefer electronic distribution channels**

10,200,000

app logins

5,800,000

online banking logins

212,000

calls to the Customer
Service Centre

121,000

visits to
branches

26,000

financial advice
appointments

**Data from January - June

Our policy is to make life easier for our customers and take the initiative to offer them services that suit each and every one. We do this by developing simple and accessible solutions, and by using data to provide customers with personal and professional advice. We were pleased to be the highest ranked bank in the Icelandic Performance Satisfaction Index for the second year in a row.



Companies

Solid long-term relationships and value creation

Market share in the corporate market *

32%

*Source: Gallup

"We are very pleased with our partnership with Landsbankinn. We feel that we receive tremendous support, and the great interest shown in our project is important to us. The expertise and experience in the tourism industry within the bank has also proved to be highly valuable. We have experienced mutual respect and trust from the very beginning, which is important."

Dagný Pétursdóttir, Managing Director of Sky Lagoon.

Customers prefer digital banking**

143,000

app logins

1,900,000

corporate online banking logins

47,000

actions through Corporate Service

21,000

calls to the Customer Service Centre

**Data from January - June

We do our utmost to develop solid long-term relationships, provide outstanding services and support value creation so companies can achieve success. We maintained a high level of service during the challenging circumstances of Covid-19, and the Bank's customers are the most satisfied customers in the banking market according to Gallup.***

***Source: Gallup May 2021



SKY LAGOON

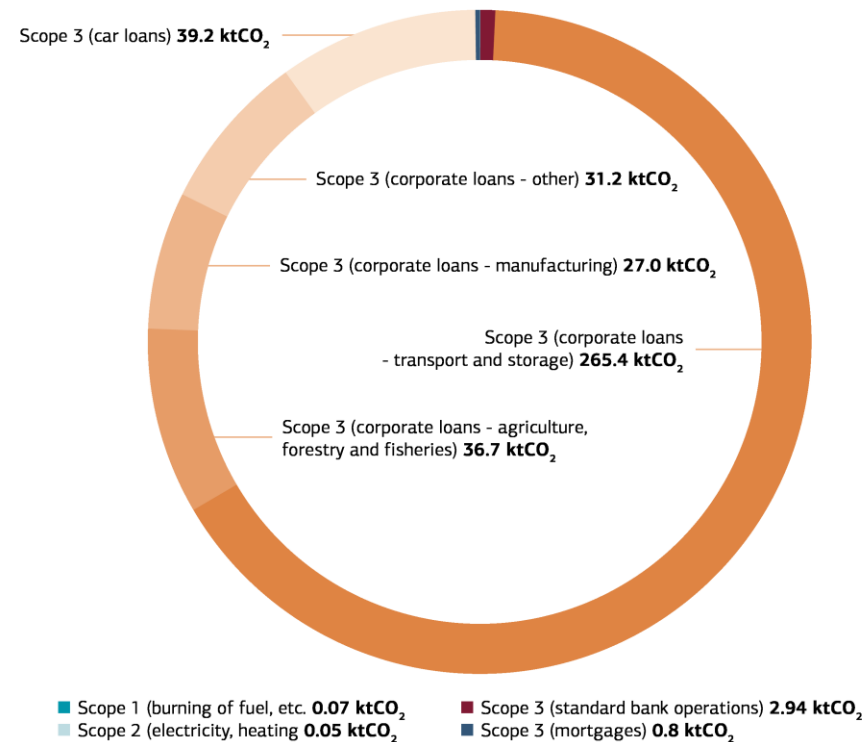


Leading in Sustainability

- A mere 1% of GHG emission is directly from the Bank's operation.

Landsbankinn the first bank to measure carbon emissions from its loan portfolio

Landsbankinn is the first Icelandic financial institution to assess the carbon emissions from its loan portfolio. This marks a turning point, as one of the main challenges for banks in terms of climate change has been to assess the environmental impact of the projects they fund or invest in.



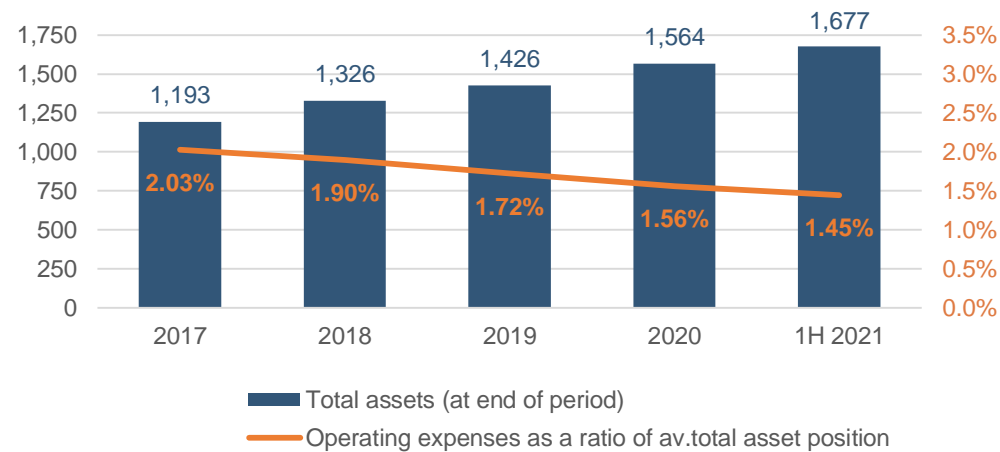
Eventful second quarter

	<p>Sustainable asset distribution</p> <p>A new investment fund was launched. The fund considers ESG factors when investing. Landsbankinn's customers now have more investment options that are in line with the methodology of responsible investments and are part of Landsbankinn and Landsbréf's progress towards responsible investments.</p>
	<p>Sustainable financing of companies</p> <p>Landsbankinn now offers sustainable financing to companies within the Bank's sustainable financial framework. Companies that receive such financing are awarded Landsbankinn's Sustainable Financing Label, which can be used in promotional material.</p>
	<p>Sustainalytics' ESG risk rating</p> <p>In May 2021, Landsbankinn received its highest rating to date in Sustainalytics' updated risk assessment and is now 1st out of the 423 European banks assessed by the company.</p>
	<p>The bank leads the international development of methodology within PCAF</p> <p>Landsbankinn's experts lead the development of methodology for PCAF, a global partnership of financial institutions, in relation to calculations and presentation of the environmental effects of investments in green bonds.</p>
	<p>The first sustainability bond issued in Iceland</p> <p>Landsbankinn worked with the municipality of Árborg to issue Iceland's first sustainability bond. Landsbankinn consulted on the process from the beginning.</p>

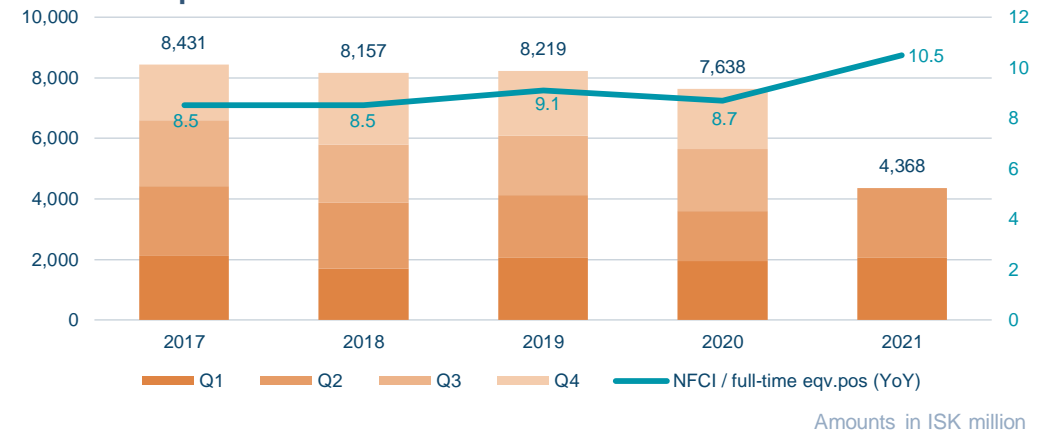
Sound operation and support for customers

- Increased efficiency alongside a growing balance sheet.

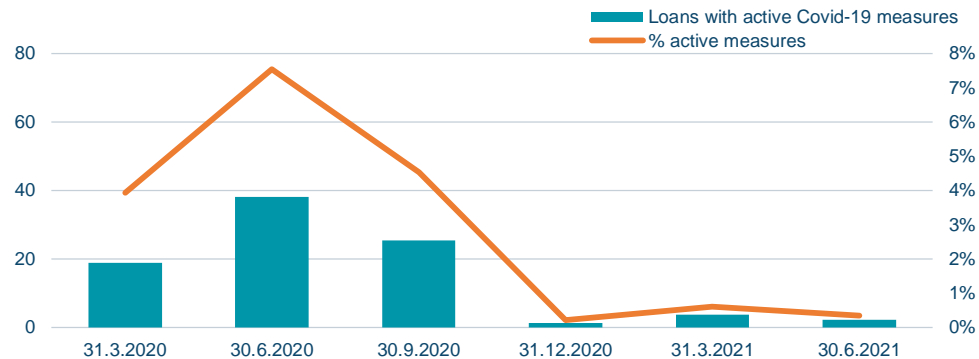
Increased efficiency alongside a growing balance sheet



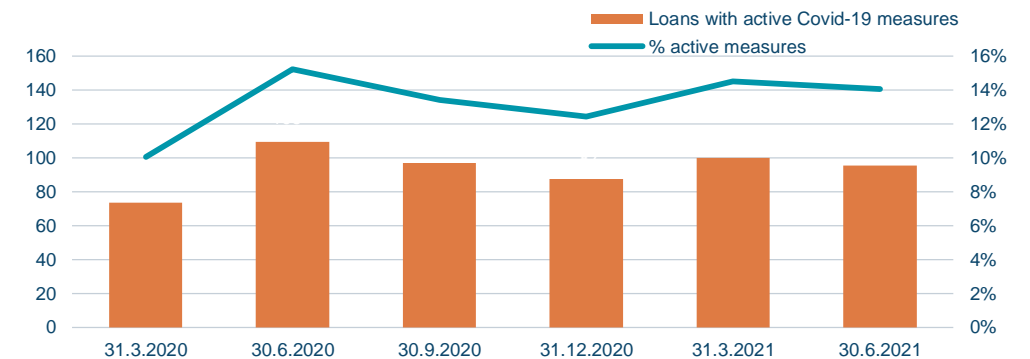
Net income per FTE increases



Individuals - Gross carrying amount of loans with Covid-19 measures



Companies - Gross carrying amount of loans with Covid-19 measures

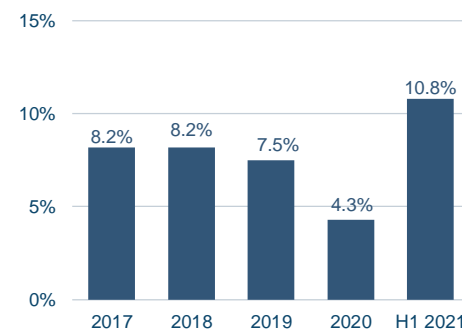


Financial objectives and development of KPIs

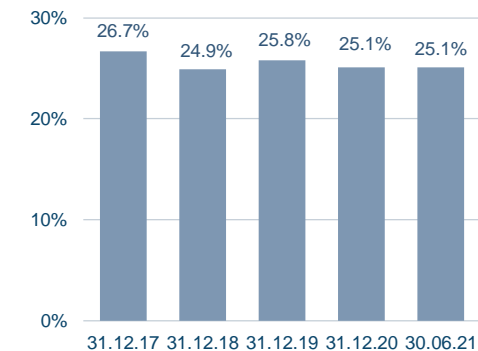
- Increased efficiency alongside a growing balance sheet.

	Targets	H1 2021	Guidelines
Profitability			
Return on equity (ROE)	≥ 10%	10.8%	The Bank's long-term target is for ROE to be around or over 10%. ROE is expected to range between 7.5 - 9% in 2021.
Efficiency			
Cost / Income ratio	≤ 45%	43.7%	Expected ratio is 43 – 47% for the year 2021.
Financial strength			
Dividend payout ratio	~ 50%	42.7%	In addition to regular dividend payments the aim is also to make special dividend payments.
Common equity tier 1 ratio (CET1)	≥ 18%	23.3%	The Bank will seek to issue subordinated funding provided that it is economical and favourable for its funding structure.
Total capital ratio	≥ 22%	25.1%	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.

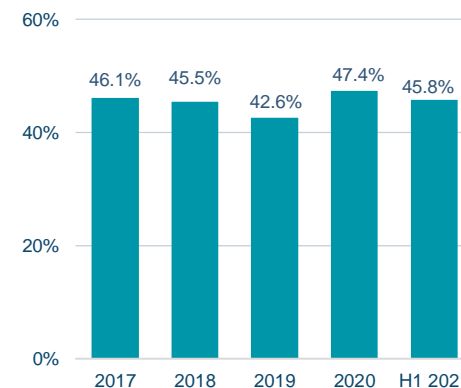
Return on equity



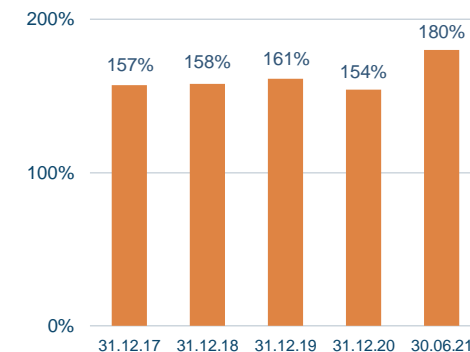
Total capital ratio



Cost / Income ratio



Liquidity coverage ratio total





LANDSBANKINN

AN EVER SMARTER BANK

Income statement



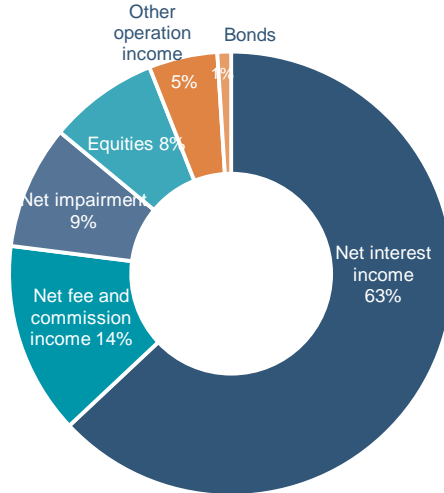
Income statement

	H1 2021	H1 2020	Change		Q2 2021	Q2 2020	Change	
Net interest income	18,958	18,939	19	0%	10,332	9,512	820	9%
Net fee & commission income	4,368	3,598	770	21%	2,314	1,653	661	40%
Net adjustments and impairment	2,782	-13,435	16,217	-121%	293	-8,191	8,484	-104%
Other net operating income	4,159	173	3,986	2309%	1,569	2,901	-1,332	-46%
Total operating income	30,267	9,275	20,992	226%	14,508	5,875	8,633	147%
Salaries and related expenses	7,493	7,646	-153	-2%	3,724	3,802	-78	-2%
Other operating expenses	4,517	4,636	-119	-3%	2,202	2,206	-4	0%
Tax on liabilities of financial institutions	980	875	105	12%	513	425	88	21%
Total operating expenses	12,990	13,157	-167	-1%	6,439	6,433	6	0%
Profit (loss) before tax	17,277	-3,882	21,159	-545%	8,069	-558	8,627	-1,546%
Income tax	3,172	-595	3,767	-633%	1,582	-899	2,481	-276%
Profit (loss) for the period	14,105	-3,287	17,392	-529%	6,487	341	6,146	1,801%

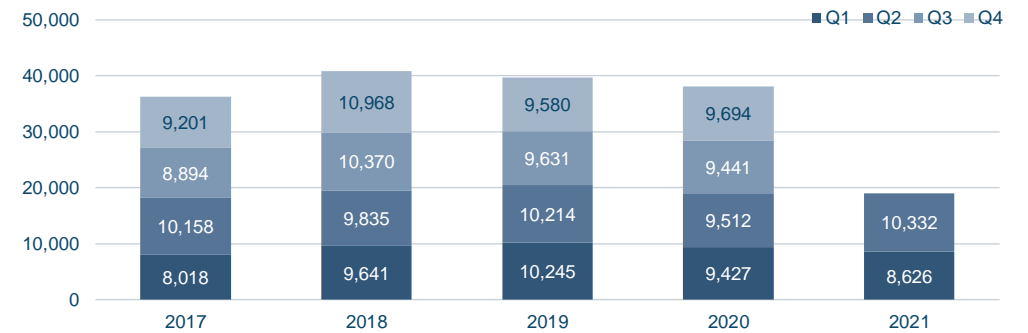
Net operating income

- High activity in securities markets and increased emphasis on fee and commission income yield results.

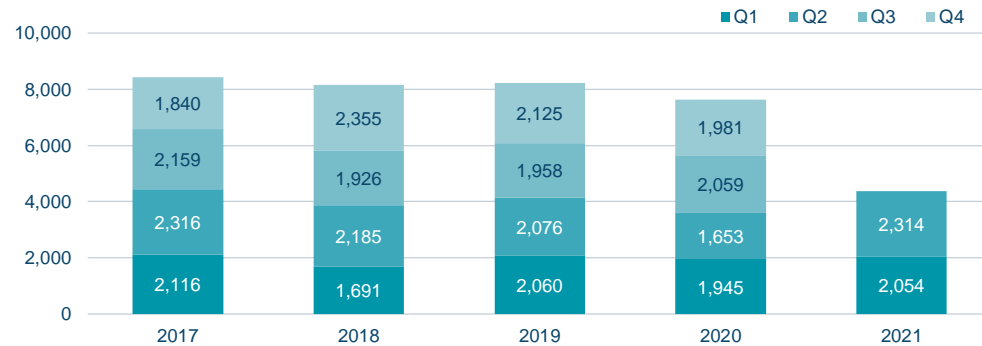
Income breakdown



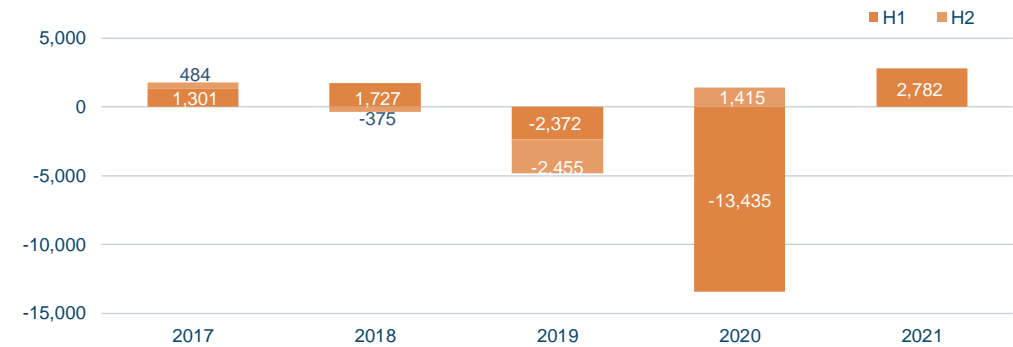
Net interest income



Net fee and commission income



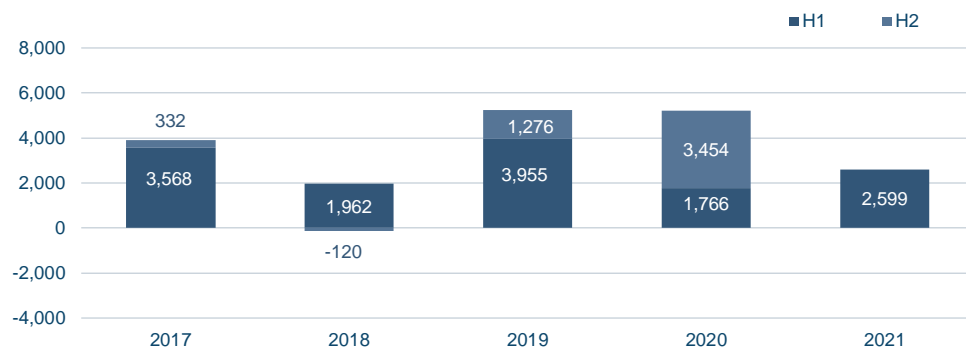
Net adjustments and impairment



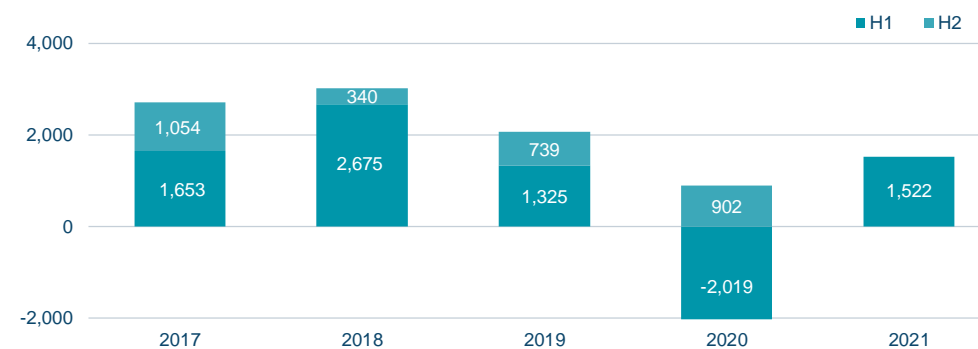
Net operating income

- Equity holdings continue to deliver good returns.

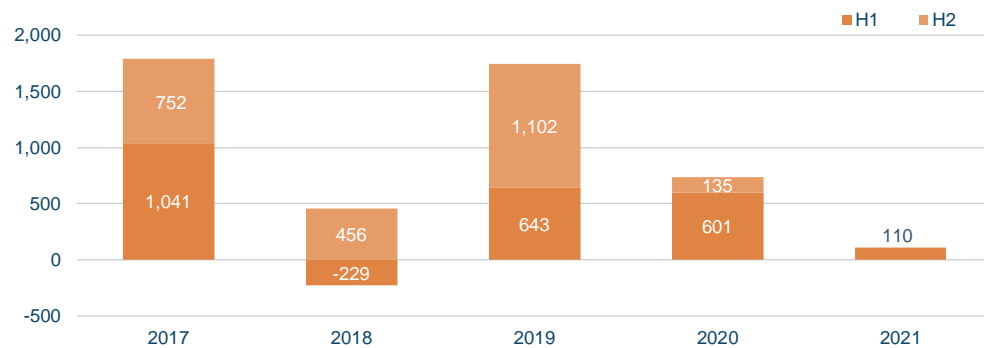
Equity



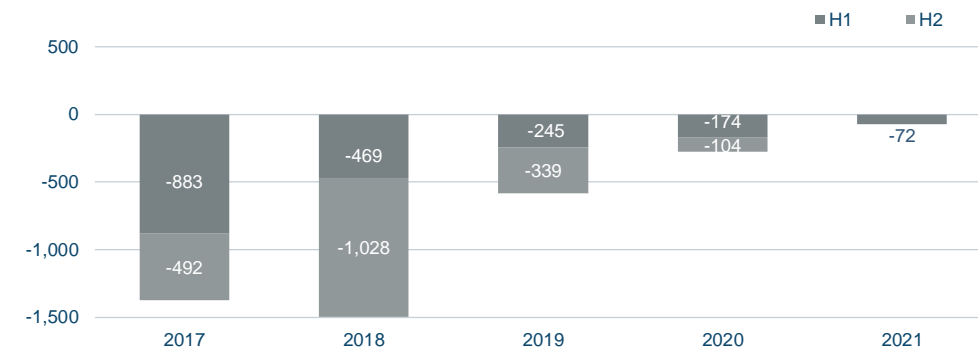
Other operation income (expenses)



Bonds



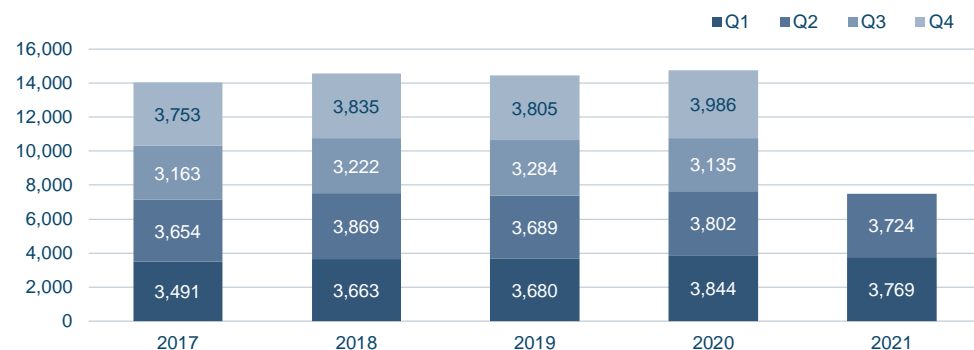
FX gain (loss)



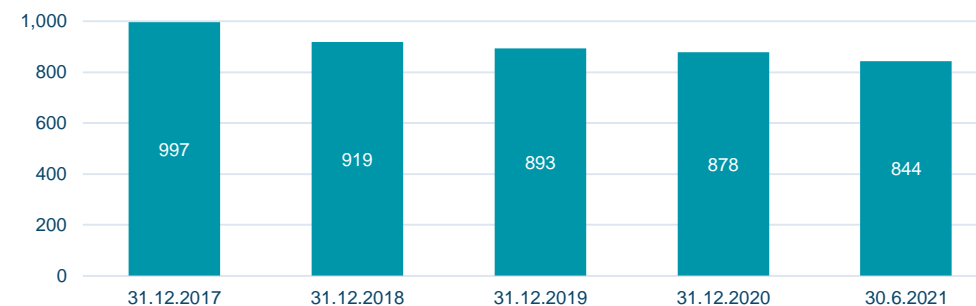
Operating expenses

- Continued cost restraint and reduction in full-time equivalent positions alongside increased automation.

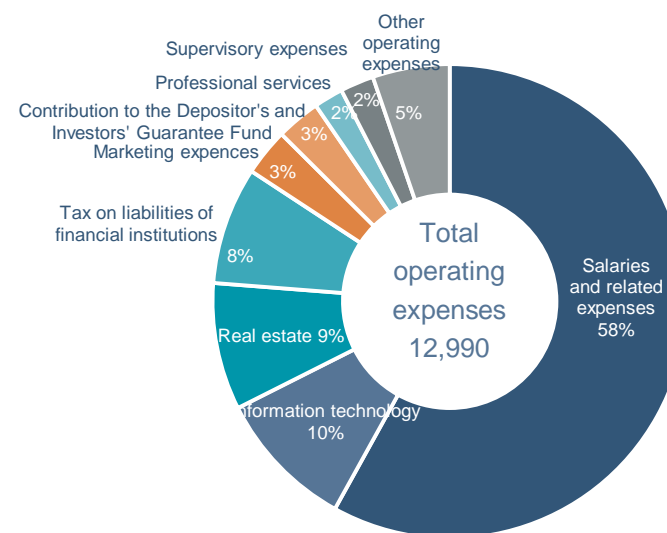
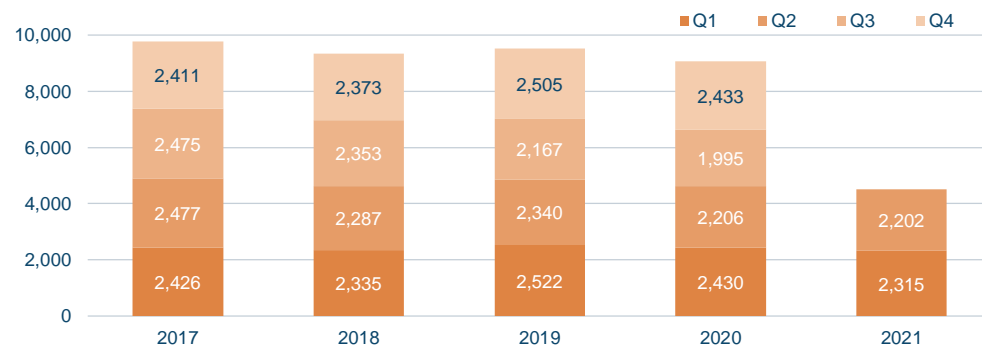
Salaries and related expenses



Full-time equiv. positions



Other operating expenses



Balance sheet

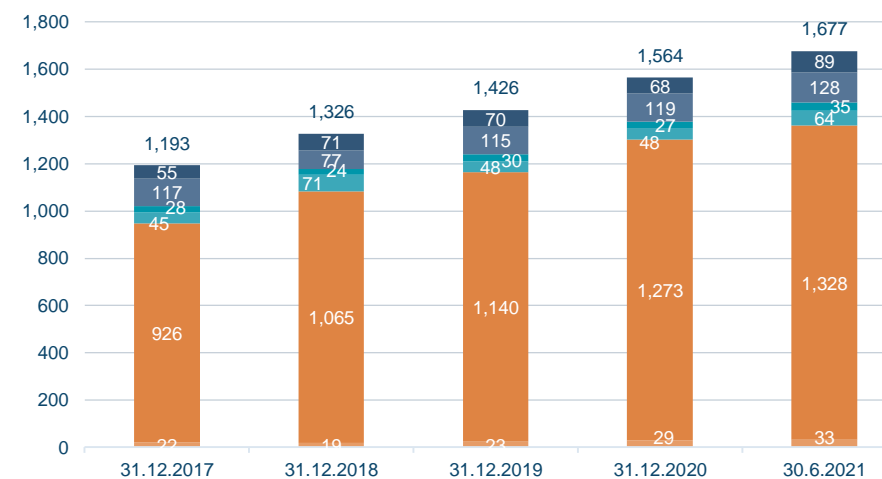
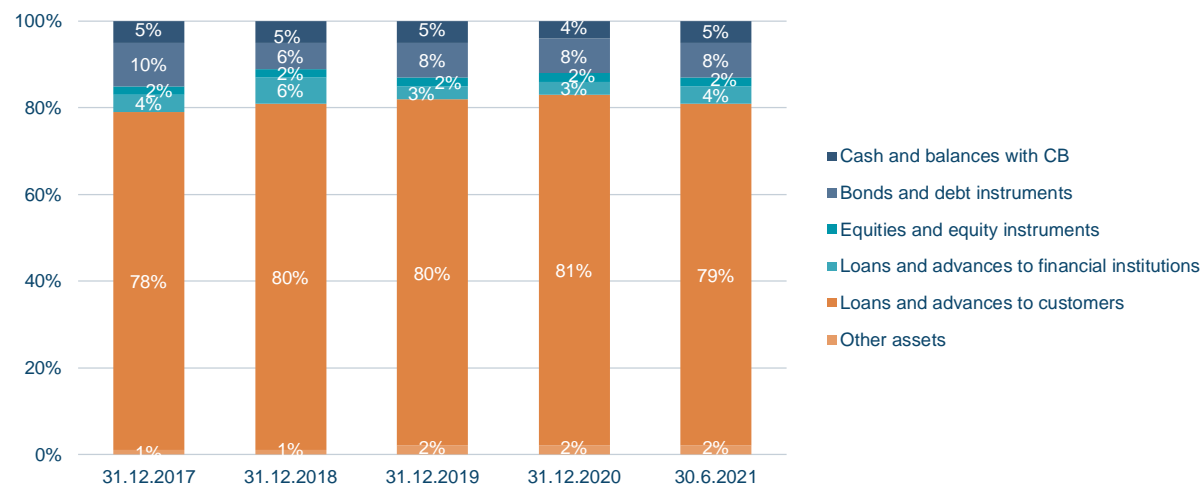


Total assets

- Loans grew by 4%, total assets by 7%.

	30.6.2021	31.12.2020	Change	
Cash and balances with Central Bank	89	68	21	31%
Market bonds	128	119	9	8%
Equities	35	27	8	30%
Loans and receivables to credit institutions	64	48	16	33%
Loans and receivables to customers	1,328	1,273	55	4%
Other assets	33	29	4	14%
Total	1,677	1,564	113	7%

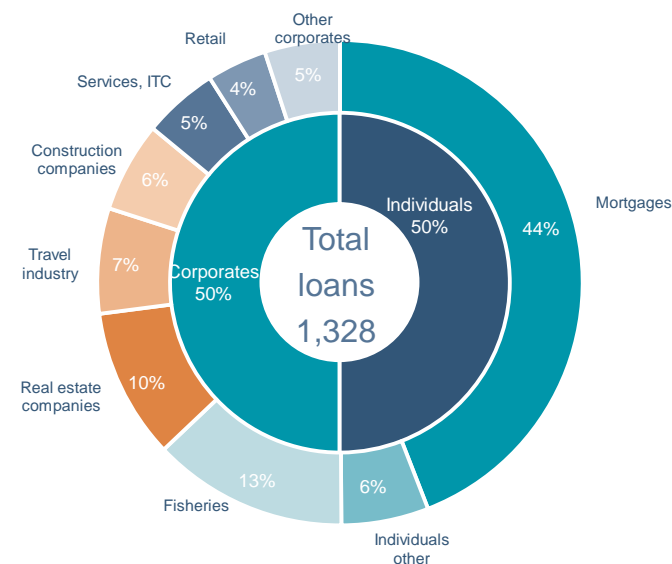
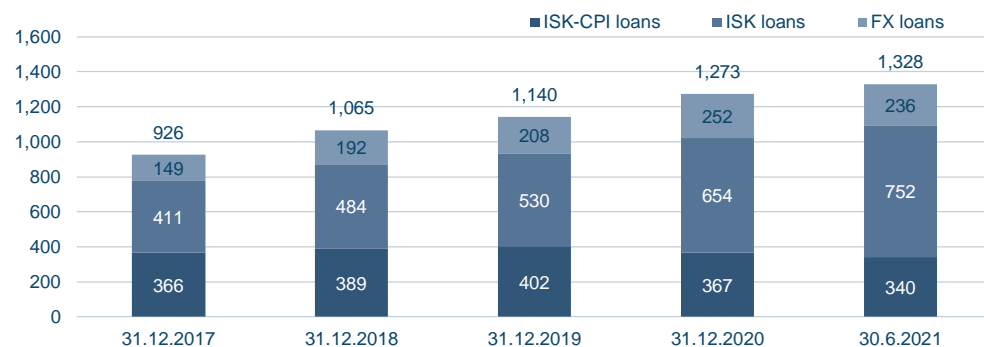
- Lending to individuals increased by ISK 75 billion. Mortgage loans grew by 14%, or around ISK 72 billion.
- Lending to corporates contracted by ISK 20 billion, with exchange rate changes accounting for ISK 13 billion thereof.



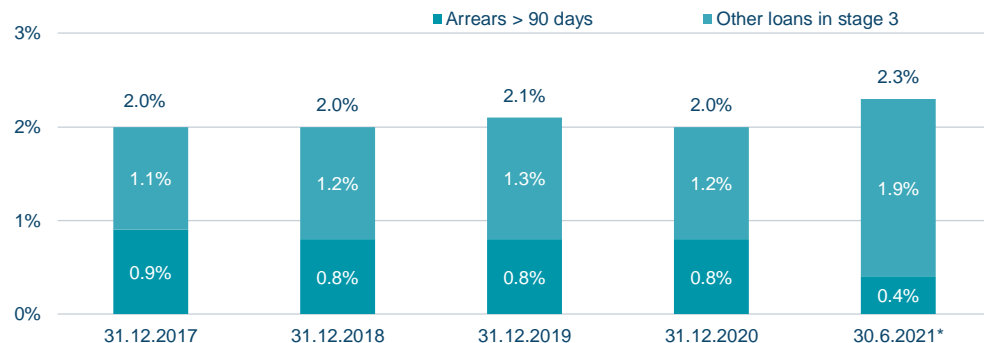
Loans

- Inflation-indexed loans continue to grow in popularity. Contraction in inflation-indexed loans.

Total loan portfolio



Problem loans



*Temporary COVID-19 measures and payment holidays lead to lower values for loans 90 days in arrears

Loan staging

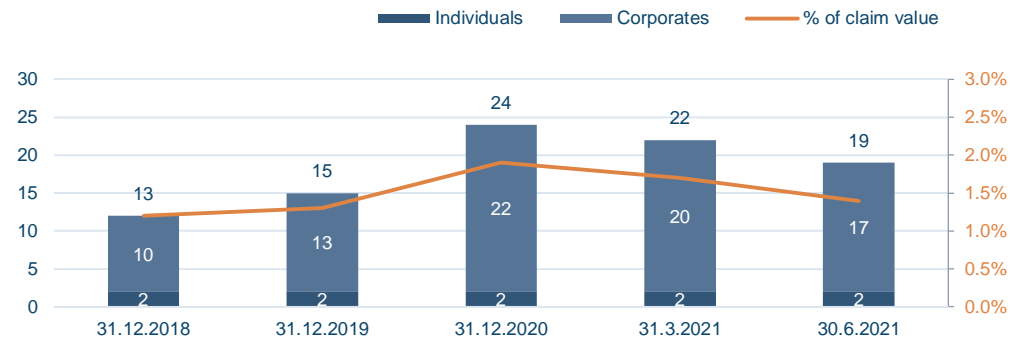
	Gross carrying amount		Allowance for impairment		Carrying amount	
Stage 1	1,144	84.9%	2	0.2%	1,142	86.0%
Stage 2	144	10.7%	6	4.2%	138	10.4%
Stage 3	39	2.9%	11	28.2%	28	2.1%
Fair value	20	1.5%			20	1.5%
Total	1,347	100.0%	19	1.4%	1,328	100.0%



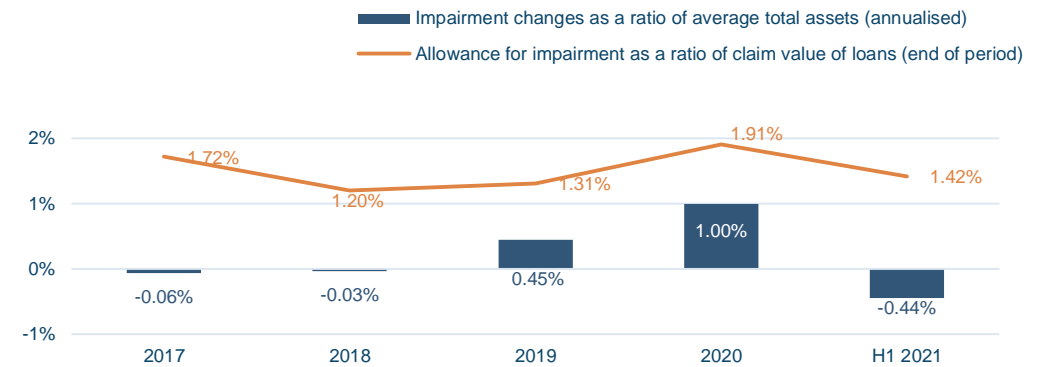
Impairment on loans

- A rapid economic recovery and high resilience of both households and companies leads to a write-back of credit impairments.

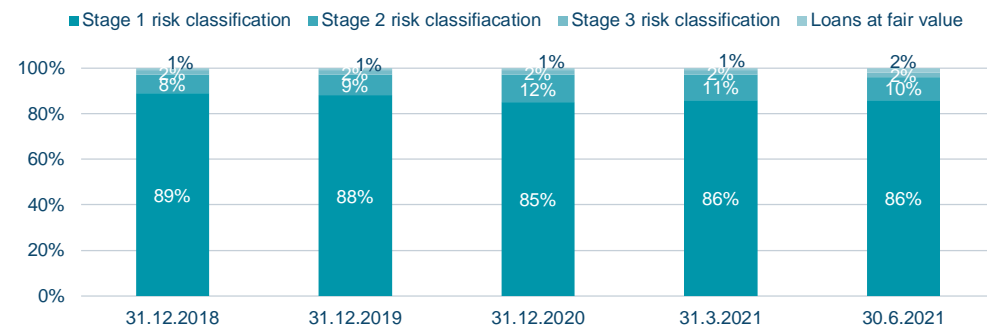
Allowance for impairment on loans and advances to customers



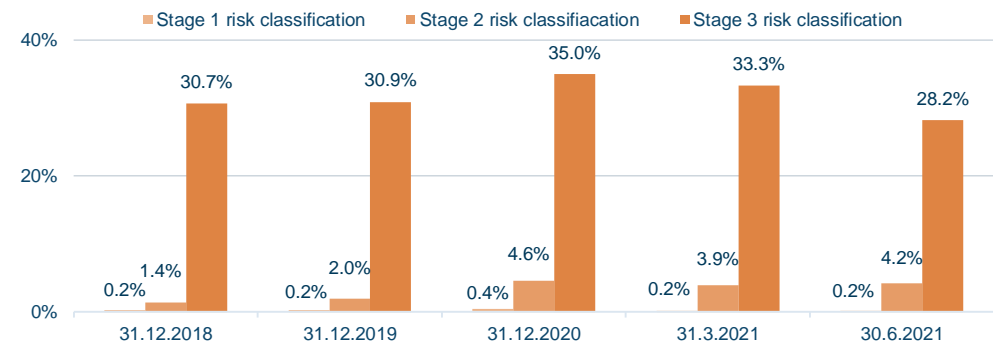
Cost of risk



Loans by allocation to risk classes



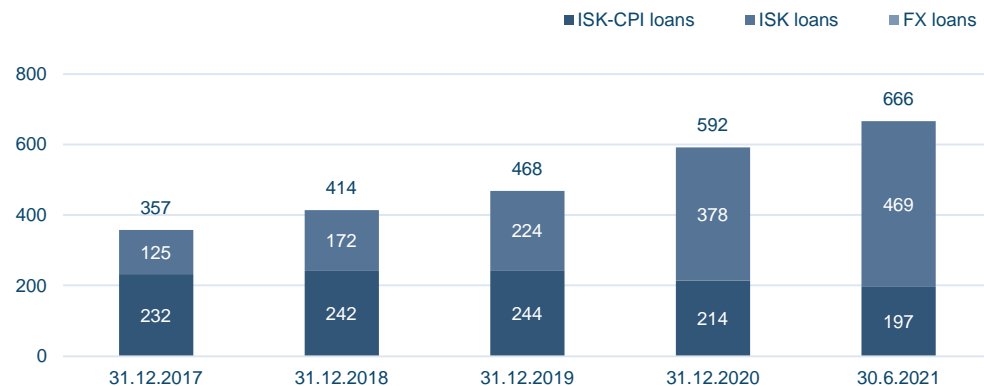
Allowance as percentage of gross carrying amount



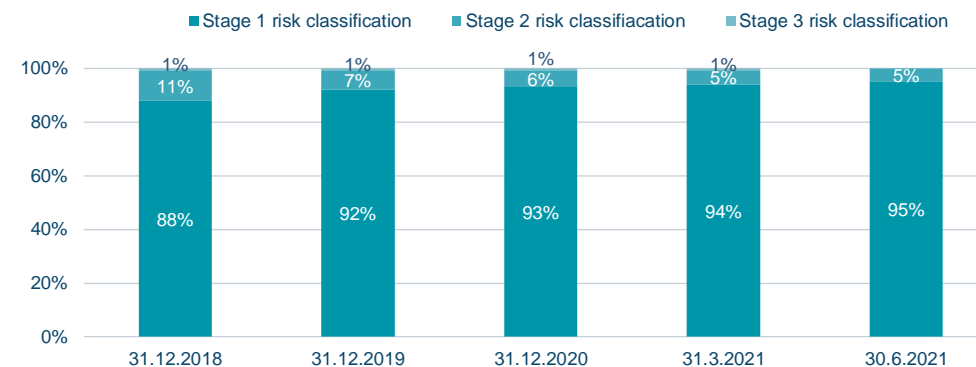
Loans to individuals

- Growth in non-indexed mortgage loans; repayment of CPI-indexed loans continues.

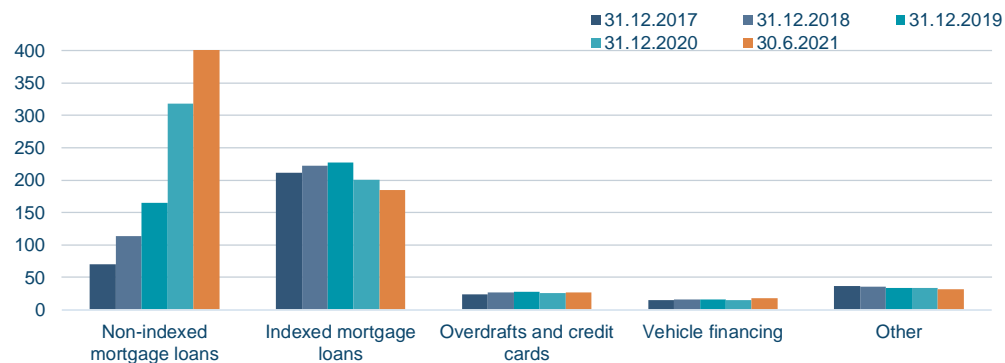
Loans to individuals



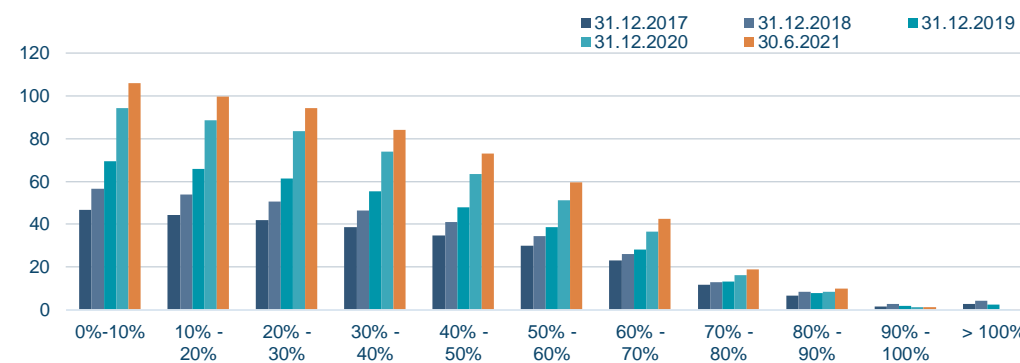
Loans to individuals by allocation to risk classes



Loans to individuals by loan types



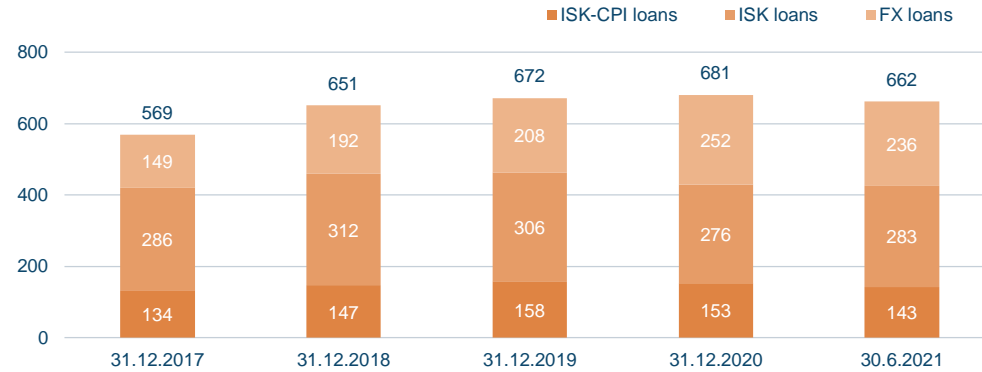
Continuous LTV distribution of mortgages



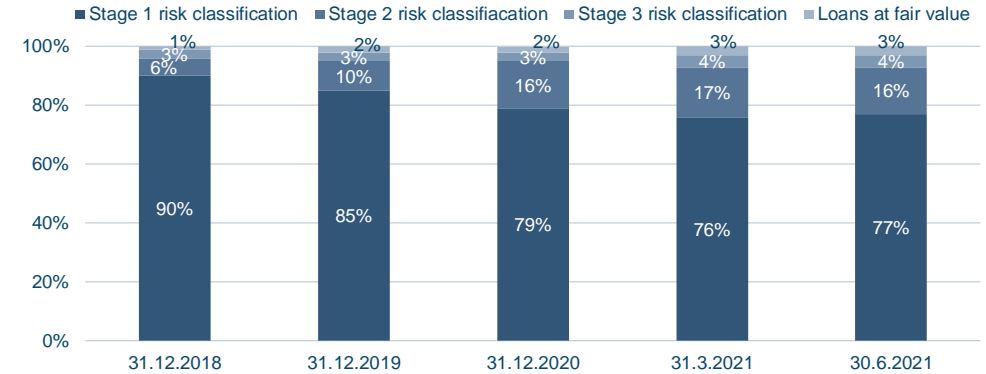
Loans to corporates

- FX changes drive the reduction in loans to corporates.

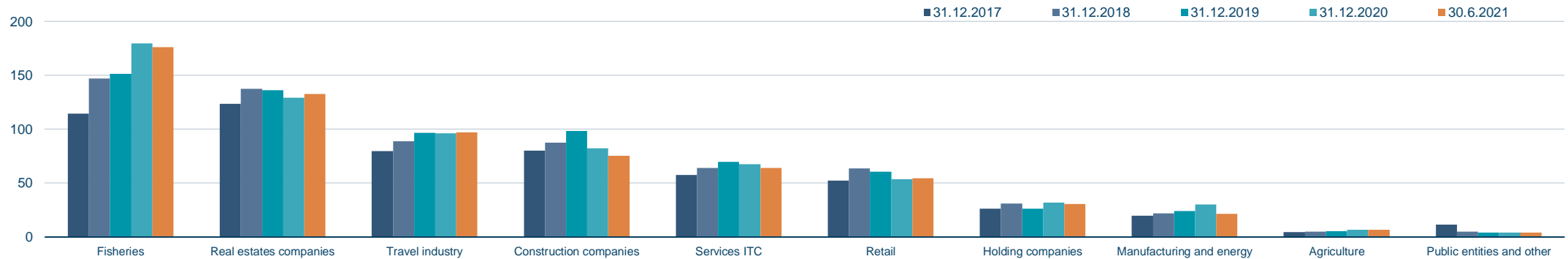
Loans to corporates



Loans to corporates by allocation



Loans to corporates by industry sector



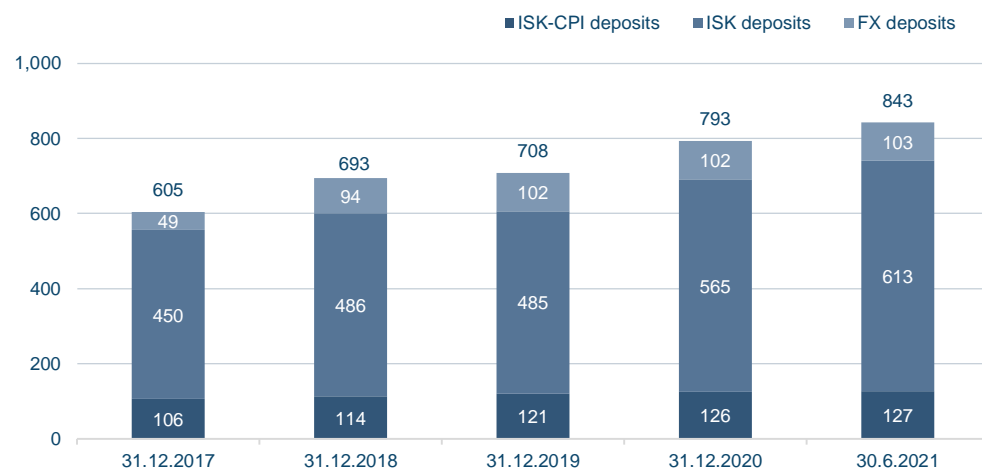
Liabilities and equity

- Well funded bank with substantial equity.

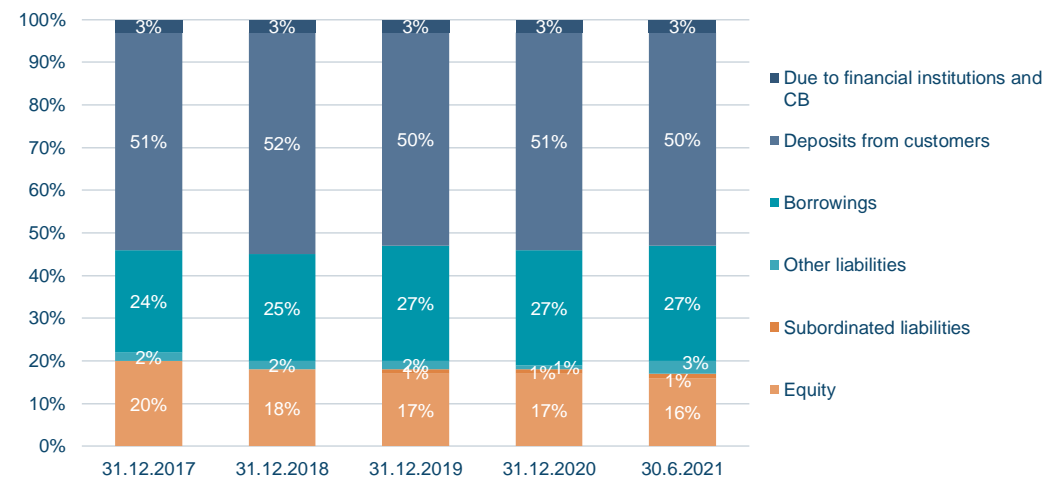
	30.6.2021	31.12.2020	Change	
Due to financial institutions and CB	40	49	-9	-18%
Deposits from customers	843	793	50	6%
Borrowings	457	420	37	9%
Other liabilities	48	23	25	109%
Subordinated liabilities	21	21	0	0%
Equity	268	258	10	4%
Total	1,677	1,564	113	7%

- Customer deposits increased by ISK 50 billion from the beginning of the year
- Further issuance of covered bonds alongside growth in mortgage lending.

Deposits from customers



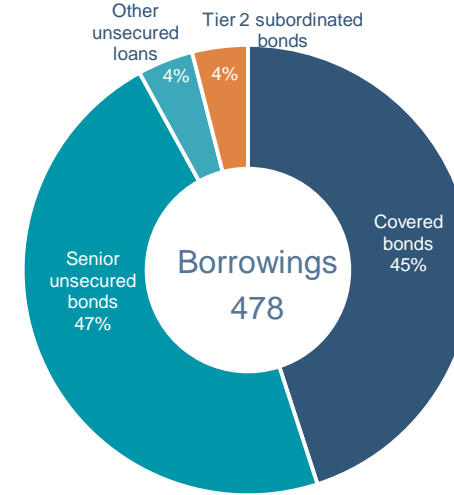
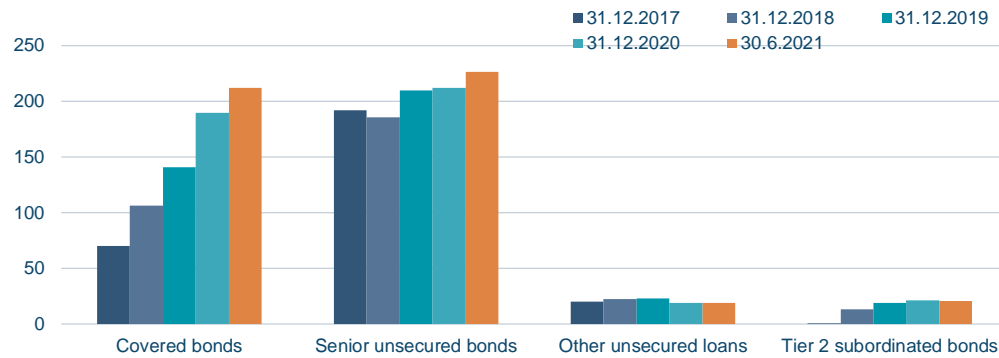
Liabilities and equity



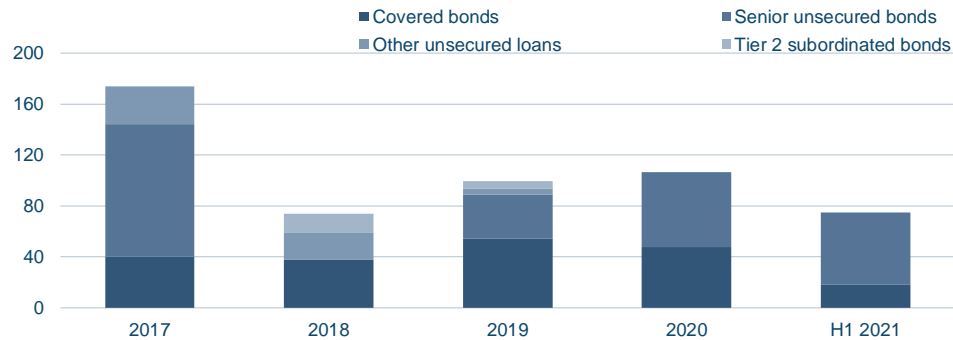
Borrowings

- Steady growth in the issuance of covered bonds in recent years.

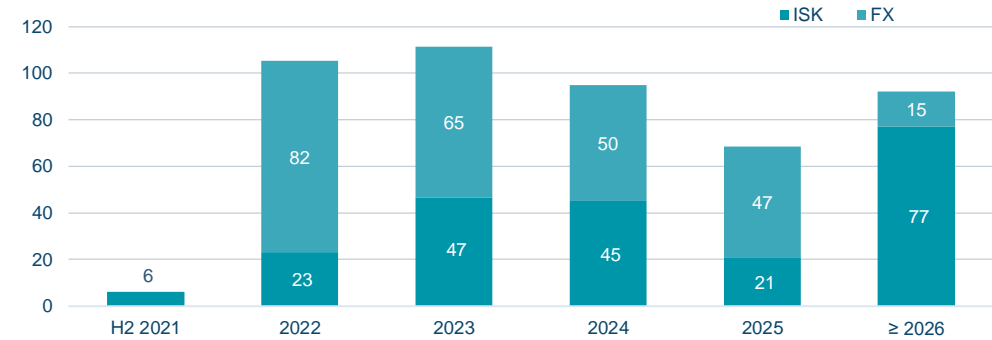
Borrowings



Borrowing issuance



Maturity profile*



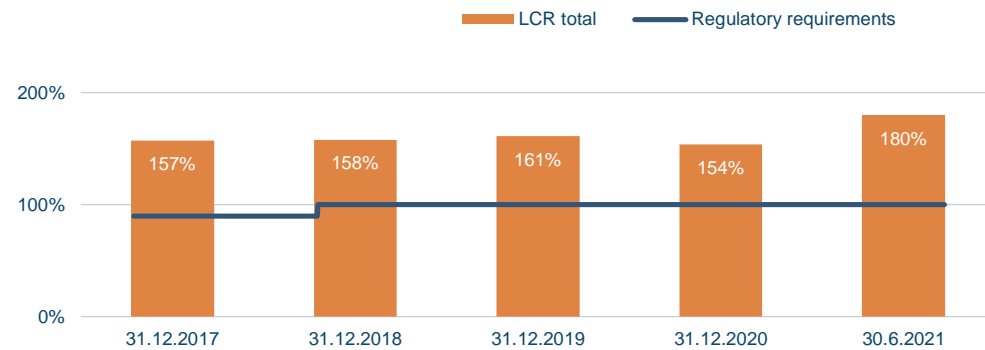
*EUR 100 m subordinated debt matures in 2028 with a 10NC5 structure.
ISK 5.5 bn subordinated debt matures in 2029 with a 10NC5 structure.



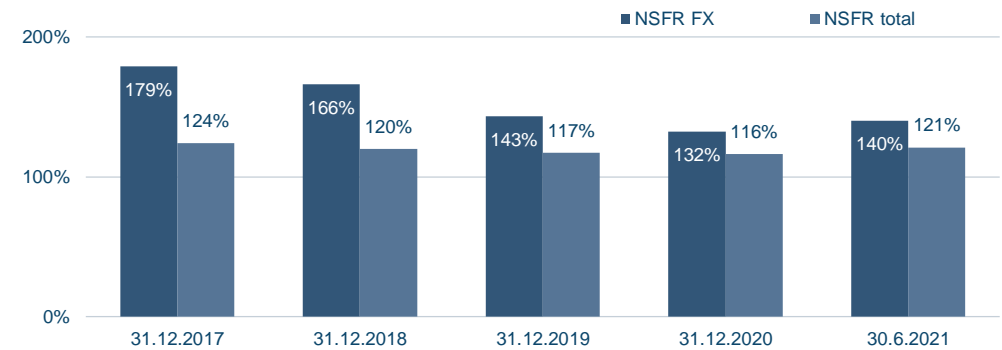
Liquidity ratio and net stable funding ratio

- Strong liquidity and funding ratios.

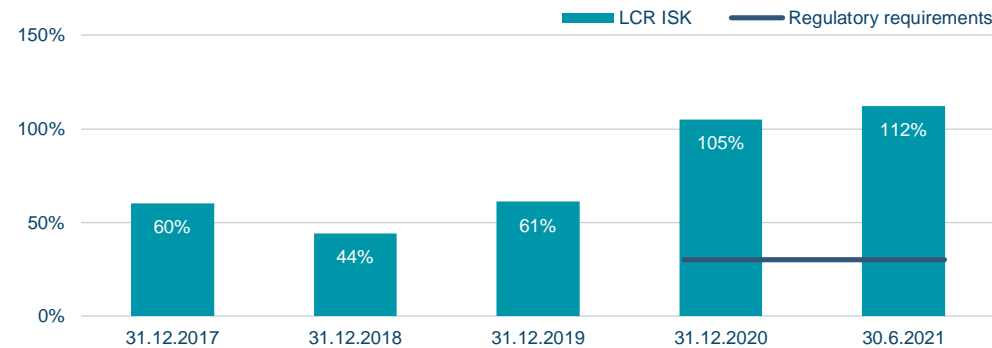
Liquidity coverage ratio total



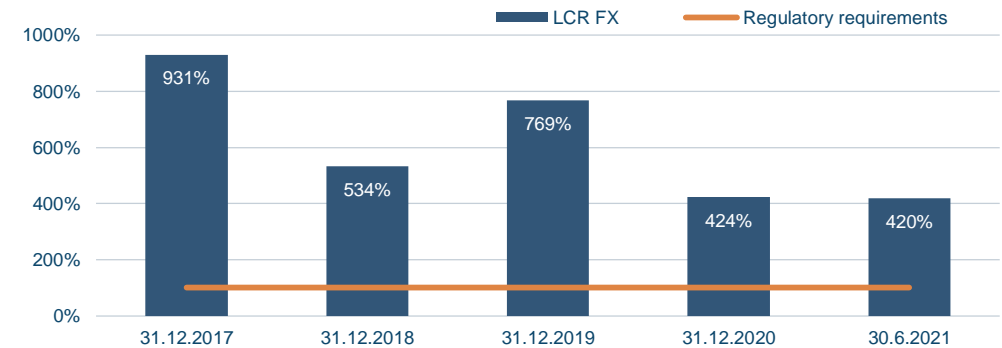
Net stable funding ratio



Liquidity coverage ratio ISK



Liquidity coverage ratio FX

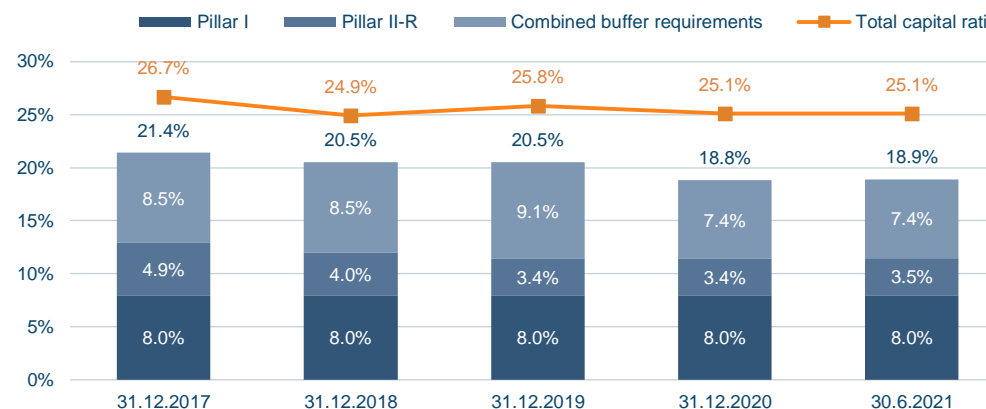


Capital requirements

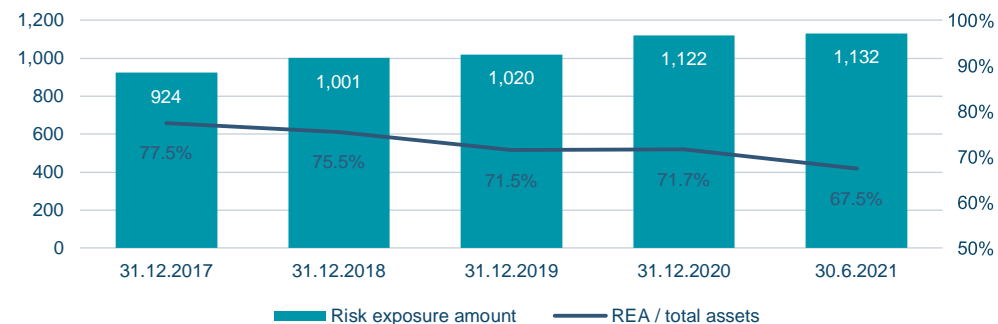
- Dividend paid in 2021 complies with the Central Bank's benchmark. A buyback programme is scheduled.

	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II-R	2.0%	2.6%	3.5%
Minimum requirement under Pillar I and Pillar II-R	6.5%	8.6%	11.5%
Systemic risk buffer	2.9%	2.9%	2.9%
Capital buffer for systematically important institutions	2.0%	2.0%	2.0%
Countercyclical capital buffer	0.0%	0.0%	0.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Combined buffer requirements under Pillar II-G	7.4%	7.4%	7.4%
Total capital requirement	13.9%	16.0%	18.9%
Total capital ratio as at 30.6.2021	23.3%	23.3%	25.1%

Regulatory total capital requirement as a ratio of REA



Risk exposure amount



- The Group basis calculation of Pillar 1 capital requirements for lending and market risk on the standardised approach. The basic indicator approach is used to calculate operational risk. The Bank applies the dynamic approach in terms of the IFRS 9 transitional arrangements.
- At the end of June 2021, the Financial Supervisory Authority of the Central Bank of Iceland (FSA) notified Landsbankinn of the results of the annual Supervisory Review and Evaluation Process (SREP) and its decision on the Group's prudential capital requirements. The Group's total capital requirement is 18.9% of its risk exposure amount (REA) and comprises a minimum capital requirement of 8.0%, a 3.5% additional capital requirement and a total capital buffer requirement of 7.4%.

Dividends and capital ratio

- Dividend policy is to pay around 50% of last year's profit.

Dividend 2021

- The AGM of Landsbankinn, held on 24 March 2021, approved the motion of the Board of Directors to pay a dividend of ISK 0.19 per share to shareholders for the operating year 2020. The total dividend of ISK 4,489 million corresponds to about 43% of the consolidated profit in 2020.
- The dividend payment is in accordance with the maximum guidance for dividend payments set by the Central Bank's Financial Supervision Committee on 13 January 2021.
- The dividend was paid to shareholders on 31. March 2021

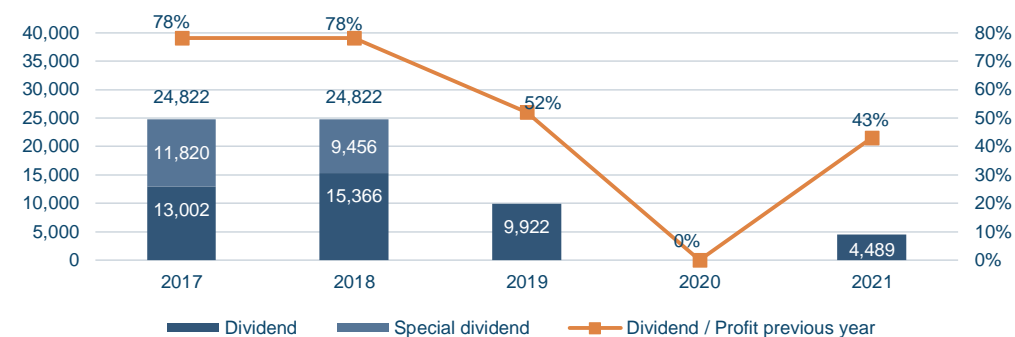
Buyback programme for own shares

- The Bank will offer to purchase own shares from shareholders, based on a resolution of the AGM, in the total maximum amount of ISK 57 million shares, or around 0.24% of issued share capital in the Bank.

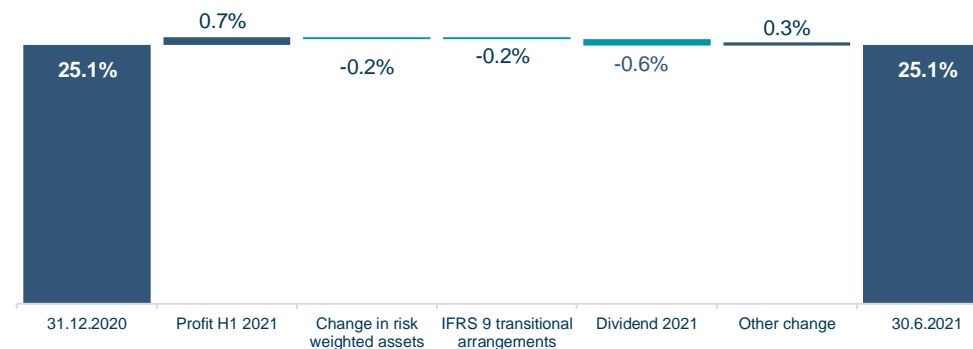
Landsbankinn's dividend policy

- Landsbankinn aims to pay regular dividends to shareholders amounting in general to around 50% of the previous year's profit. To achieve Landsbankinn's target capital ratio, the aim is also to make special dividend payments to optimise the Bank's capital structure.
- In determining the amount of dividend payments, the Bank's continued strong financial position shall be ensured. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

Dividends



Total capital ratio, changes in H1 2021



Appendix

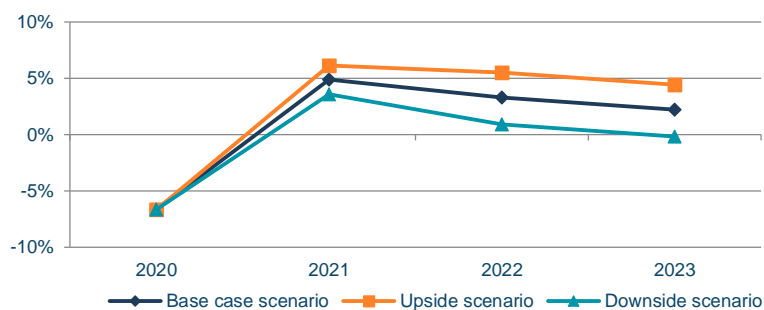
Further information



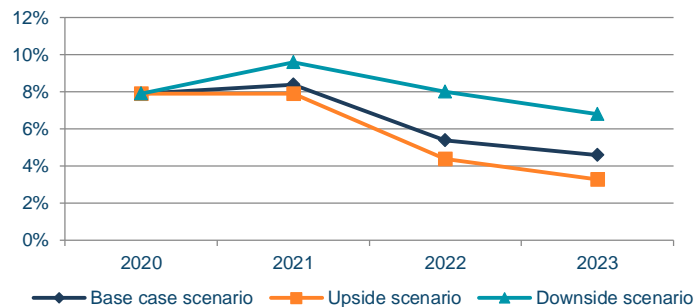
Economic scenarios for expected credit loss

- Landsbankinn Economic Research prepares scenarios to support forecasts for important economic variables.
- These scenarios show key economic variables used to calculate expected credit loss (ECL) for stages 1 and 2.
- The forecasts show averages for the 12-month outlook and to the medium-term forecast horizon.
- In calculating ECL, the optimistic scenario is given 25% weight, the baseline 50% weight and the pessimistic scenario 25% weight.

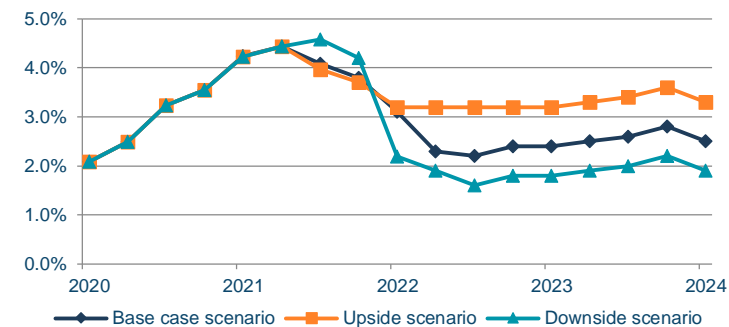
Economic growth



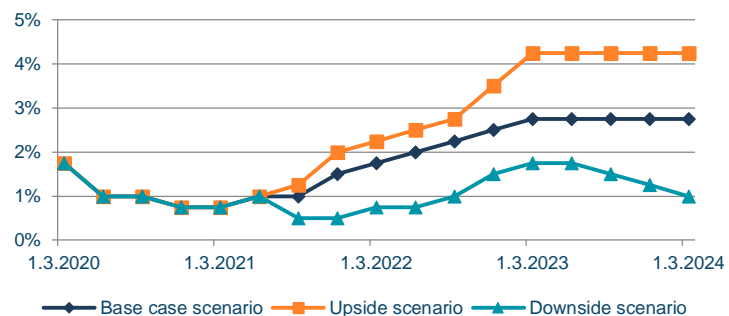
Unemployment



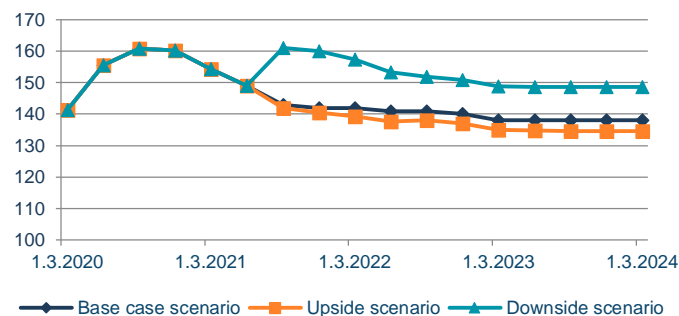
Inflation



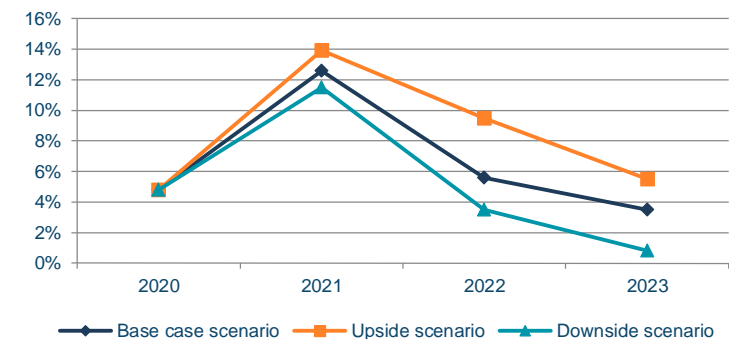
CBI+s key rate (seven-day term deposits)



EUR/ISK



Housing price (YoY change)



Key financial ratios

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	2020	H1 2021	2019	2018	2017
Profit (loss) after taxes	6,487	7,618	9,822	3,986	341	14,105	10,521	18,235	19,260	19,766
Return on equity before taxes	12.2%	14.2%	17.8%	8.5%	-0.9%	13.2%	5.1%	9.6%	11.1%	11.0%
Return on equity after taxes	9.8%	11.7%	15.5%	6.5%	0.6%	10.8%	4.3%	7.5%	8.2%	8.2%
After-tax return on average assets	1.6%	1.9%	2.5%	1.0%	0.1%	1.8%	0.7%	1.3%	1.5%	1.7%
Total capital ratio	25.1%	24.9%	25.1%	24.7%	24.9%	25.1%	25.1%	25.8%	24.9%	26.8%
Net interest income	10,332	8,626	9,694	9,441	9,512	18,958	38,074	39,670	40,814	36,271
Interest spread as a ratio of average total assets	2.5%	2.2%	2.4%	2.4%	2.5%	2.4%	2.5%	2.8%	3.2%	3.1%
Cost-income ratio	41.7%	45.8%	38.8%	46.6%	42.7%	43.7%	47.4%	42.6%	45.5%	46.1%
Liquidity ratio LCR total	180%	202%	154%	186%	191%	180%	154%	161%	158%	157%
Liquidity LCR FX	420%	477%	424%	379%	476%	420%	424%	769%	534%	931%
Liquidity LCR ISK	112%	120%	105%	107%	114%	112%	105%	61%	44%	60%
Net stable funding ratio NSFR total	121%	118%	116%	115%	117%	121%	116%	117%	120%	124%
Net stable funding ratio NSFR FX	140%	140%	132%	116%	121%	140%	132%	143%	166%	179%
Operating expenses as a ratio of average total assets	1.4%	1.5%	1.6%	1.3%	1.6%	1.5%	1.6%	1.7%	1.9%	2.0%
Total assets	1,677,297	1,600,952	1,564,177	1,610,265	1,501,110	1,677,297	1,564,177	1,426,328	1,326,041	1,192,870
Loans / deposits ratio	157.6%	162.1%	160.5%	154.3%	157.9%	157.6%	160.5%	161.1%	153.6%	153.0%
Full-time equiv. positions	844	869	878	884	872	844	878	893	919	997

Operations

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	H1 2021	2020	2019	2018	2017
Net interest income	10,332	8,626	9,694	9,441	9,512	18,958	38,074	39,670	40,814	36,271
Net fee & commission income	2,314	2,054	1,981	2,059	1,653	4,368	7,638	8,219	8,157	8,431
Net valuation adjustments	293	2,489	1,535	-120	-8,191	2,782	-12,020	-4,827	1,352	1,785
Net foreign exchange gain (loss)	-45	-27	-52	-52	-259	-72	-278	-584	-1,497	-1,375
Other net operating income	1,614	2,618	4,919	-427	3,160	4,231	4,839	9,039	5,084	8,400
Total operating income	14,508	15,759	18,077	10,901	5,875	30,267	38,253	51,517	53,910	53,512
Salaries and related expenses	3,724	3,769	3,986	3,135	3,802	7,493	14,767	14,458	14,589	14,061
Other operating expenses	2,202	2,315	2,433	1,995	2,206	4,517	9,064	9,534	9,348	9,789
Tax on liabilities of financial institutions	513	467	400	540	425	980	1,815	4,204	3,860	3,253
Total operating expenses	6,439	6,551	6,819	5,670	6,433	12,990	25,646	28,196	27,797	27,103
Profit (loss) before tax	8,069	9,208	11,258	5,231	-558	17,277	12,607	23,321	26,113	26,409
Income tax	1,582	1,590	1,436	1,245	-899	3,172	2,086	5,086	6,853	6,643
Profit (loss) for the period	6,487	7,618	9,822	3,986	341	14,105	10,521	18,235	19,260	19,766

Balance sheet

	30.6.2021	31.12.2020	Change		31.12.2019	31.12.2018	31.12.2017
Cash and balances with CB	89,342	67,604	21,738	32%	69,824	70,854	55,192
Bonds and debt instruments	128,208	119,330	8,878	7%	115,262	77,058	117,310
Equities and equity instruments	35,111	26,808	8,303	31%	30,019	23,547	27,980
Loans and advances to fin institutions	64,245	48,073	16,172	34%	47,929	71,385	44,866
Loans and advances to customers	1,328,031	1,273,426	54,605	4%	1,140,184	1,064,532	925,636
Other assets	32,360	28,936	3,424	12%	23,110	18,665	21,886
Total assets	1,677,297	1,564,177	113,120	7%	1,426,328	1,326,041	1,192,870
Due to financial institutions and CB	40,312	48,725	-8,413	-17%	48,062	34,609	32,062
Deposits from customers	842,624	793,427	49,197	6%	707,813	693,043	605,158
Borrowing	456,688	420,178	36,510	9%	373,168	314,412	281,874
Other liabilities	48,913	22,227	26,686	120%	30,470	31,027	27,642
Subordinated liabilities	20,889	21,366	-477	-2%	19,081	13,340	77
Equity	267,871	258,255	9,616	4%	247,734	239,610	246,057
Total liabilities and equity	1,677,297	1,564,177	113,120	7%	1,426,328	1,326,041	1,192,870

Operating segments

1.1.2020 - 30.6.2021	Personal Banking	Corporate Banking	Asset Management & Capital Market	Treasury and Market Making	Other segments	Reconciliation	Total
Net interest income	8,230	9,253	227	1,291	-34	-9	18,958
Net fee and commission income	1,245	826	2,603	-154	63	-215	4,368
Net impairment changes	638	2,148	-1	-3	0	0	2,782
Net other operating income (expense)	183	159	196	3,249	380	-8	4,159
Total operating income (expense)	10,296	12,386	3,025	4,383	409	-232	30,267
Operating expenses	-3,396	-1,438	-1,082	-384	-5,934	224	-12,010
Tax on liabilities of financial institutions	-382	-174	-5	-419	0	0	-980
Allocated expenses	-2,144	-1,394	-547	-457	4,542	0	0
Profit (loss) before tax	4,374	9,380	1,391	3,123	-983	-8	17,277
Income tax	-1,114	-2,315	330	-279	206	0	-3,172
Profit (loss) for the period	3,260	7,065	1,721	2,844	-777	-8	14,105
Total assets	714,309	616,024	11,817	692,996	17,118	-374,967	1,677,297
Total liabilities	678,397	497,623	8,170	583,085	17,118	-374,967	1,409,426
Allocated capital	35,912	118,401	3,647	109,911	0		267,871

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